

Royal Bank of Canada

# About Governance and Integrity

Programs, policies and practices



# About Governance and Integrity

## Programs, policies and practices

This backgrounder is part of a series of documents that provide additional information on the programs, policies and practices related to the environmental, social and governance (ESG) strategic priorities of, and includes information about, Royal Bank of Canada and certain of its subsidiaries, as appropriate and as stated herein (referred to as “RBC”, “we”, “us” or “our” in this backgrounder). The series supplements our ESG reporting, including our **ESG Performance Report**, which provides an overview of our focus areas, key performance indicators and annual highlights of ESG issues relevant to financial services companies in general, and to RBC in particular. It complements the information on our operations and financial results provided in our Annual Report and governance and executive compensation information disclosed in our **Management Proxy Circular** (both available at [rbc.com](http://rbc.com)).

Governance and integrity are the foundation of a responsible business. We are committed to high standards of governance that are consistent with regulatory expectations and evolving best practices and are aligned with our strategy and risk appetite. We believe good governance is not just about overseeing RBC and its practices, but doing so in a way that is transparent, accountable and ethical. It involves an independent board of directors (board, directors) at the Royal Bank of Canada, and actively engaging with stakeholders, knowing the business and its risks, constructively challenging management, understanding the opportunities and challenges of a changing industry and economy, and setting robust standards and principles that will guide RBC in delivering on our stated Purpose of helping clients thrive and communities prosper while enhancing value for our shareholders.



## Our focus areas

- Responsible governance practices
- Conduct and trust
- Risk management
- Human rights

---

## Responsible governance practices

We are committed to the ongoing pursuit of strong and effective governance practices. Corporate governance broadly refers to the way a company is controlled and directed. A company's governance structures identify "who does what". A corporation exhibits responsible governance not only by operating with fairness, transparency and accountability, but also by setting out the rights and responsibilities of the board, management and shareholders. For more resources and information on our corporate governance practices, visit our [Corporate Governance](#) website.

### Board of Directors

The strength of our governance starts at the top, with an independent board chair and experienced and well-informed directors. They work to continually improve our governance practices and ensure we have, and enforce, standards of ethical behaviour throughout RBC. For more information on our board and its structure, please visit our [Corporate Governance](#) website.

### Executive compensation

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

At RBC, our approach and the transparency of our disclosure in the area of executive compensation evolves with best practices. The board, supported by the human resources committee, pays particular attention to the governance and controls in place for executive compensation, and continues to monitor regulatory developments in Canada, the United States (U.S.) and internationally. We continue to monitor developments to maintain progressive practices in executive compensation and disclosure that both are transparent and enhance value for shareholders.

In support of our Purpose, the board, the human resources committee and our leadership team are fully committed to growing sustainable, vibrant and inclusive communities. Within our short-term incentive program, executives are evaluated against risk and strategic objectives, which also include ESG practices. Our approach is aligned with our ESG strategic priority pillars, including youth success, climate change, diversity and inclusion, and financial

wellbeing, with the goal of building vibrant, socially inclusive and environmentally sustainable communities. We continue to manage and monitor our performance against our strategic ESG priorities, which we review annually to ensure we are concentrating on areas that are increasingly important to our stakeholders and where we can deliver the highest impact and influence.

For more information about executive compensation at RBC, including a detailed description of our approach to executive compensation and the philosophy and principles it is based on, please see our [Management Proxy Circular](#).

### Stakeholder engagement

Accountability is one of our key Values that underpin our purpose-driven organization. We believe we are accountable to our stakeholders regarding ESG, diversity and inclusion, and culture matters and should provide relevant disclosure on these topics.

Shareholders and potential investors are among our key stakeholders. Common shareholders are invited to attend the annual meeting of common shareholders of Royal Bank of Canada. At this meeting, they vote on matters including:

- Election of directors
- Appointment of our auditor
- Executive compensation
- Shareholder proposals

For more information about annual meetings and shareholder engagement, please visit [rbc.com/investorrelations](http://rbc.com/investorrelations).

We are also responsible for engaging with a range of other stakeholders who are interested in more topic-specific issues, depending on the business or function in question. These stakeholders include current and prospective clients, proxy advisory firms, employees, rating agencies, suppliers, governments, regulators, non-governmental organizations and community organizations.

---

We describe our approach to engaging with specific stakeholders in our [ESG Performance Report](#) and other ESG disclosures.

- **Clients:** How we involve clients and other stakeholders in the development of products and services is in our [ESG Performance Report](#) and in our [Public Accountability Statement](#).
- **Employees:** How we involve employees and other stakeholders in the development of workplace programs is in our [ESG Performance Report](#) and our [About Value for Employees](#) backgrounder.
- **Communities:** How we involve our communities in decisions on our community investment and environmental programs is in our [ESG Performance Report](#) and on our [Community and Social Impact](#) website.

## Conduct and trust

As a financial services company, we have an obligation to serve our clients with integrity and safeguard the trust they put in us. We define conduct as the manifestation of culture through the behaviours, judgments, decisions and actions of the organization and its employees. Strong governance principles, systems and control processes underpin our employees' shared expectations of each other, and are key to maintaining our culture of integrity.

One of our priorities is to uphold principles, policies and procedures that promote integrity and ensure we remain compliant with the applicable laws and regulatory requirements. We believe in transparency and accountability, cornerstones of responsible governance, and will continue to enhance our practices and reporting in response to both regulatory changes and emerging best practices.

The board sets and expects the highest standards of conduct at RBC to build and maintain the trust of our clients, shareholders, employees and communities. Additionally, the board, with management, sets the tone from above and promotes an open and transparent culture at RBC. We recognize that the board's responsibility to oversee culture and conduct is broad and demands that we adopt a continuous-improvement mindset towards our practices.

The governance committee oversees the management of culture and conduct in relation to RBC Values, the [Code of Conduct](#), the [Supplier Code of Conduct](#) and the Enterprise Culture and Conduct Risks Framework. The governance committee monitors emerging trends and best practices through enhanced board and committee reporting on culture and conduct matters such as client complaint handling and outcomes, organizational and employee conduct, and risk culture, as well as the impact on the integrity of financial markets and on our reputation.

For more information on the committee's oversight of conduct at the Royal Bank of Canada, please see the [Governance Committee Mandate](#).

### Code of Conduct

RBC is a values-based organization. Our respect for our commitments to our clients, shareholders, communities and each other is rooted in our Values. RBC's [Code of Conduct](#) ("Code") incorporates RBC's Values, and in particular our Value of Integrity, to guide our day-to-day actions and decisions so we can strive to do the right thing. The board approves the Code annually.

Our Code is the roadmap we follow to serve our clients with the highest standards of integrity. It also lays the foundation for how we work together in a respectful, transparent and fair environment. The Code applies to directors, senior management, all employees and contract workers.

The Code is integral to the way we do business at RBC. The spirit and intent of the Code fosters a culture that's built on trust, dignity and respect for all. All employees<sup>1</sup> and contract workers must successfully complete RBC's Code of Conduct training program, commit to and acknowledge the Code of Conduct within 30 days of their start date, and annually thereafter. Directors must acknowledge each year that they have read and understand the Code of Conduct and certify that they are in compliance with it. RBC tracks compliance with an automated learning management system.

<sup>1</sup> Completion of the Code of Conduct training program is based on the definition of employees pursuant to our internal policies, which includes full-time and part-time employees.

---

At RBC, overall performance is assessed based on results and behaviours. Inappropriate behaviour that is a breach of the Code and non-completion of mandated responsibilities are considered when assessing an employee's performance. Non-adherence to the Code may result in termination of employment or disciplinary action and can negatively impact an employee's performance evaluation and associated remuneration.

Periodically, human resources and risk management provide reporting for inclusion in the Enterprise Culture and Conduct Risks Report, a holistic view of conduct across RBC that is presented to the governance committee of the board. Reporting may include:

- Code training completion rates
- Analysis of Code breaches and remedial actions taken
- Description of any waivers granted in respect of the Code
- Description of initiatives relating to the Code

For more information, please see our [Code of Conduct](#) and our [About Value for Employees](#) backgrounder.

### **Reporting suspected irregularities**

Directors, senior management, all employees and contract workers have a duty to report actual or possible misconduct that we become aware of. This includes speaking up about conduct that is, or may be, in violation of the Code, policies and law, or is otherwise unethical and could put RBC at risk of loss or harm. We have long-established processes that enable employees to do so, and the Code protects employees from retaliation for reports made in good faith.

The RBC Conduct Hotline is a global hotline open to directors, senior management, employees, contract workers and third parties to report misconduct that may violate the Code, policies and laws, or is otherwise unethical and could put RBC at risk. The hotline is secure, fully accessible, available 24/7, administered by a third party, and reports may be made anonymously.

### **Supporting policies**

We support the Code 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.

#### **Identification and management of conflicts of interest**

The Bank Act (Canada) and other governing legislation, regulations and guidelines require us to maintain appropriate controls and processes to identify, assess, manage and monitor any conflicts between the interests of RBC or its employees/contract workers and the interests of RBC's suppliers, clients, public officials/external auditors or other third parties. Where a conflict exists, or appears to exist, the parties involved must take appropriate steps 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.

The governance committee establishes and monitors procedures to resolve conflicts of interest as part of its oversight of conduct review. Where the personal or business interests of directors and executive officers may conflict with those of RBC, they must disclose the nature and extent of the conflict of interest as soon as possible, in writing or by requesting to have it entered in the minutes of the applicable board meeting. In the event of a conflict of interest, the director or executive officer subject to the conflict of interest will leave the meeting when the issue is discussed and, in the case of a director, will not vote or participate in the decision. For all other employees, management of conflicts of interest is covered in the Code.

The audit committee of our board has a policy that requires its pre-approval of audit 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, which include services that provide for a contingency or commission fee arrangement or otherwise could compromise the auditor's independence, such as bookkeeping services, actuarial services, internal audit outsourcing, etc.

### **Anti-bribery/anti-corruption policies**

RBC's Enterprise Anti-Bribery Anti-Corruption (ABAC) Policy supports the efforts of governments and other groups around the world that are working to fight corruption through legislation that prohibits corrupt and other payments, such as facilitation payments. To support these efforts and our commitment to operating with integrity, we continue to enhance our ABAC Policy. The policy sets consistent enterprise-wide standards, which address, among other things, corruption and bribery of both government officials and private persons, requirements for books and records and internal controls to identify and manage areas of bribery and corruption risk, and measures to address the specific ABAC requirements of the jurisdictions where RBC conducts business. The policy prohibits RBC entities, employees and any party acting on behalf of an RBC entity from ordering, authorizing, assisting, giving or receiving an offer, gift, payment, authorization of payment, item of value, excess hospitality (or the promise of any of these items) with the intent of assisting RBC in obtaining an unfair advantage; influencing a person to act or not to act with the corrupt intent of obtaining or retaining business; or directing business to any person, either directly or indirectly, including but not limited to a public official. Under no circumstances may a member of the board, employee or contractor provide, offer or promise to provide, or approve a request to offer or provide, any facilitation payment.<sup>1</sup>

RBC is committed to conducting business ethically and is an active member of a globally recognized anti-bribery business organization.

The "Integrity in How We Do Business" section of the [Code of Conduct](#) governs every aspect of our business and supports our anti-bribery and anti-corruption measures. In addition, applicable designated employees must successfully complete RBC's Anti-Bribery and Anti-Corruption training every year.

<sup>1</sup>Facilitation payment refers to a payment of any item or value to a public official in order to expedite or secure the performance of regular government services to which the payer is already entitled (for example, expediting issuing a customs clearance, work permit or driving licence).

### **Anti-money laundering (AML) and anti-terrorist financing (ATF) program**

RBC is committed to maintaining an effective enterprise-wide AML program designed to deter, detect and report suspicious activity, including the misuse of its products, services and delivery channels related to money laundering or terrorist financing, bribery, corruption or other activities that may violate applicable economic sanctions.

A Chief Anti-Money Laundering Officer is appointed to oversee the design, content and implementation of RBC's global AML program, which covers money laundering, terrorist financing, bribery, corruption and applicable economic sanctions (collectively known as the "AML program"). The AML program is designed to maintain compliance with the laws and regulations across the multiple jurisdictions in which RBC operates. In support of the program, AML policies and control standards have been documented and set out the minimum AML/ATF requirements with which directors, all employees and contract workers must comply.

To supplement the Code, RBC has a mandatory online AML and ATF training program that all employees must complete annually. In addition, RBC provides annual targeted online ABAC and economic sanctions training to those employees who have a higher risk of exposure to bribery and corruption, taking into account the geographical location of the business/employee, type of business and employee role/position.

Functional groups and lines of business that are exposed to money laundering (ML) and terrorist financing (TF) risk or are responsible for AML/ATF controls must establish policies, procedures, processes, and systems to ensure AML/ATF requirements are met and ML/TF risks are adequately mitigated.

For more information on RBC's global approach to AML/ATF, please visit [rbc.com/aboutus/amlc-index.html](http://rbc.com/aboutus/amlc-index.html).

### **Anti-competitive behaviour**

Our enterprise-wide anti-trust and competition law policy and control standards apply to all RBC employees and contract workers globally and address common elements in anti-trust and competition laws that apply in the major jurisdictions where we do business.

### **Fiduciary risk**

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. Controls must include effective oversight and monitoring.

### **Privacy policy and information-safeguarding practices**

RBC is dedicated to safeguarding the privacy and confidentiality of personal information. For information about our policies on privacy and security, visit [rbc.com/privacysecurity/ca/index.html](https://www.rbc.com/privacysecurity/ca/index.html).

### **Economic sanctions**

RBC's enterprise-wide Economic Sanctions Policy establishes the minimum standards that all business, operational and functional units of RBC and its subsidiaries must follow to comply with economic sanctions globally. RBC maintains a robust sanctions compliance program to manage sanctions risk. Canadian and U.S. sanctions lists are considered during client and payment screening. Additional jurisdictional sanctions lists are considered as required by applicable law.

Directors, all employees and contract workers must comply with applicable economic sanctions obligations imposed by the country where they are located, or that otherwise apply to them because of their nationality, place of incorporation or currency in which the services are provided. We also keep pace with industry best practices and regulatory expectations with respect to economic sanctions requirements. Further, it is the enterprise-wide policy of RBC not to process or otherwise engage in activity directly or indirectly (regardless of currency) for, on behalf of or for the benefit of a sanctioned individual, entity, territory or organization targeted by Canadian or U.S. governments, or other applicable sanctions regimes.

### **Lobbying and political contributions**

Please see the [RBC Statement on Lobbying and Political Contributions](#) for information on our governance structures, responsibilities and approach, the public policy positions we have taken and a list of memberships and associations.

### **Tax governance**

The audit committee oversees RBC's financial reporting, which includes reporting on income and other tax expenses and tax risk and transparency. We discuss our tax strategy with the audit committee annually and provide them with updates on our tax position on a regular basis.

Oversight of our tax policy and the management of tax risk is the responsibility of the group executive, the chief financial officer and the senior vice president, taxation.

We commit to:

- Act with integrity and in a straightforward, open and honest manner in all tax matters
- Ensure our tax strategy aligns with our business strategy, supporting only bona fide transactions with a business purpose and economic substance
- Ensure all intercompany transactions are conducted in accordance with applicable transfer pricing requirements
- Ensure our full compliance and full disclosure to tax authorities of our statutory obligations
- Endeavour to work with the tax authorities to build positive long-term relationships and, where disputes occur, address them constructively

Taxation group and Group Risk Management (GRM) regularly review the activities of RBC and its subsidiaries to validate we are compliant with tax and other regulations.

For more information on taxes paid globally, please refer to our [Annual Report](#), the [ESG Performance Report](#) and the [Public Accountability Statement](#).

## **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. The ability to manage risk dynamically is a core competency of RBC, and is supported by our strong risk-aware culture and

an effective risk management approach. The risk committee of the board requires management to have policies, processes and procedures in place to manage the significant risks RBC is exposed to, including compliance with applicable laws and regulations. The risk committee reviews significant risks under RBC's risk frameworks and the policies, procedures and controls management uses to evaluate and manage these risks, and reviews actions taken to ensure a sound and consistent risk profile. For more information, please see the [Risk Committee Mandate](#).

Our ability to manage risk well is supported by our strong conduct and risk culture. Our overall culture influences how, individually and collectively, we take and manage risks. Our risk awareness helps us identify and understand risks, openly discuss them and act on the organization's current and future risks. Our risk culture practices are grounded in our existing risk management and human resources disciplines and protocols. We seek to ensure business activities and transactions provide an appropriate balance of return for the risks assumed, and have implemented a number of measures to determine and manage our risk capacity; establish, confirm and adhere to our self-imposed constraints; set risk limits and tolerances; and regularly measure our risk profile.

Please see our [Annual Report](#) for information on our:

- Risk drivers
- Risk governance
- Risk appetite
- Risk measurement (including stress testing)
- Risk control (including the Enterprise Risk Management Framework)
- Culture and conduct risk
- Approach to a variety of risk factors including credit risk, market risk, liquidity and funding risk, insurance risk, operational risk, regulatory compliance risk, strategic risk, reputation risk, legal and regulatory environment risk, competitive risk, systemic risk, and other risks

### **Business continuity and crisis management**

Our business continuity management program helps ensure our businesses are prepared to deal with any disruption in operations or service to clients.

We conduct regular testing to ensure our readiness and practice timely and coordinated responses to emergency situations, including operational disruptions, and external events such as building, city-wide and regional disruptions, cyber attacks and environmental disasters. We also conduct regular recovery exercises to validate our business continuity plans, as well as contact exercises to confirm our ability to reach employees during emergency situations.

Our Enterprise Crisis Management Team (CMT), which comprises senior executives from across the organization, is responsible for maintaining continued service to our clients during a crisis or major service interruption. The CMT is supported by a global network of regional, business-line and local-incident management teams. These teams are on call around the clock to address situations that may pose significant risk to our employees, our reputation or our ability to serve clients.

### **Environmental and social risk (E&S) (including climate change) management**

RBC clients have a broad array of financial needs, from traditional financing to debt and equity underwriting and other services. As a global financial institution with a diversified business model, we actively manage a variety of risks to help protect and enable our businesses. We regard environmental and social risks (including climate change) as unique and transverse risks impacting our principal risk types in different ways and to varying degrees, and requiring us to consider how financial and non-financial factors may impact us and our clients. In entering into transactions with our clients, we work to identify, assess and mitigate the actual and potential environmental and social (E&S) risks associated with their business activities. Throughout this process, we provide valuable advice to clients to help reduce their risk while promoting environmental and social interests.



Our enterprise policy on environmental (including climate) and social risk (E&S Risk Policy) serves as the foundation for our approach to managing E&S risks arising from our activities. It outlines our principles for E&S risk management, as well as the minimum requirements for how E&S risks arising from our activities are identified, assessed, measured, managed, mitigated, monitored and reported. Our E&S Risk Policy applies to our own operations, any acquisitions or projects, and the development of new financial products or services, to name a few.

For more information, please see our [Environmental and Social Risk Management](#) website.

### Restricted transactions

There are certain types of borrowers and lending transactions that RBC attempts to avoid. These include, but are not necessarily limited to:

- Companies involved in the design, manufacturing, export or sale of equipment or material for chemical or biological warfare, landmines or cluster bombs
- Companies involved in private sector internet gambling
- Entities subject to economic sanctions or on our “no business” lists
- Companies operating unsustainably in national/regional protected wildlife areas, tropical rainforests and High Conservation Value Forests
- Any project or transaction that involves exploration or development in UNESCO World Heritage Sites
- Any project or transaction that involves exploration or development in the Arctic National Wildlife Refuge
- Transactions where the proceeds will be primarily used to develop a new greenfield coal-fired power plant, thermal coal mine, or mountain-top removal coal mining projects
- Companies involved in illegal activities such as child pornography, human trafficking and drug trafficking

- Transactions with the appearance of illegal activity, or misleading financial statements or regulatory reporting
- Tobacco manufacturers and vaping companies<sup>1</sup>
- Transactions involving undocumented agreements, disbursements or funds transfers
- A business or individual engaged in activities inconsistent with generally accepted standards of ethical behaviour in the community
- Situations where it is clear that RBC would be providing implicit or indirect lending support for transactions involving any of the above activities

In addition to the restrictions listed above, our risk principles guide our decisions. We avoid activities that are inconsistent with our Values, Code or policies. RBC’s Enterprise Reputation Risk Management Framework, which is reviewed and approved by the risk committee of the board, provides an overview of our approach to identifying, assessing, managing, monitoring and reporting on reputation risk. Matters that potentially expose RBC to significant reputation risk are subject to senior management review, including potential escalation to the reputation risk oversight committee, which can lead us to restrict or decline a particular transaction, product, business activity or client relationship.

We review and update our Enterprise Credit Risk Management Framework and supporting policies regularly to ensure our financing activities are consistent with industry best practices. This includes using country control lists, where a country’s record on human rights is one of the critical factors evaluated. Separately, as part of our regular update of the Enterprise Risk Management Framework and its supporting frameworks and policies, we continue to review existing guidance on human rights so it accurately articulates RBC’s Values and culture of integrity.

For additional details on our risk management policies, please see our [Annual Report](#).

<sup>1</sup> This restriction does not include tobacco farmers and municipal finance securitization transactions involving tobacco settlement payments from tobacco companies to U.S. states and local government under the Tobacco Master Settlement Agreement (MSA).

---

### Responsible lending

As a financial institution focused on the needs of our clients, we strive to provide products and services tailored to our clients' investment priorities. One of our priorities is to develop products and services responsibly. For instance, when we provide credit, we strive to ensure that clients are able to manage and service their debt comfortably; we believe this is not just a sound risk management practice, but also an integral part of responsible lending practices.

### Development of products and services

RBC has an enterprise-wide policy that sets out a process for assessing the risks of the financial products and services we develop, and lays out a clear approval process for all product and service development.

Approval levels correspond to the level of risk identified, and we evaluate products for a range of risks to ensure they align with our risk appetite and applicable laws and regulations. We also strive to ensure that products are reviewed regularly following their initial approval.

## Human rights

Our Human Rights Position Statement, adopted at the highest levels of our organization, sets out our commitment to respecting internationally recognized human rights in line with the United Nations Guiding Principles on Business and Human Rights, and to striving to avoid causing or contributing to adverse human rights impacts through our own business activities and being directly linked to adverse impacts through our business relationships. For more information, please see our [Human Rights Position Statement](#) and our [2022 ESG Performance Report](#).