

THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

RY.TO - Q3 2018 Royal Bank of Canada Earnings Call

EVENT DATE/TIME: AUGUST 22, 2018 / 12:00PM GMT

OVERVIEW:

Co. reported 3Q18 earnings of CAD3.1b and diluted EPS of CAD2.10.



CORPORATE PARTICIPANTS

A. Douglas McGregor *Royal Bank of Canada - Group Head of Capital Markets, Investor & Treasury Services*

Dave Mun *Royal Bank of Canada - SVP, Performance Management & Investor Relations*

David I. McKay *Royal Bank of Canada - President, CEO & Director*

Graeme Hepworth *Royal Bank of Canada - Chief Risk Officer*

Neil McLaughlin *Royal Bank of Canada - Group Head of Personal & Commercial Banking*

Rod Bolger *Royal Bank of Canada - CFO*

Douglas A. Guzman *Royal Bank of Canada - Group Head, Wealth Management & Insurance*

CONFERENCE CALL PARTICIPANTS

Doug Young *Desjardins Securities Inc., Research Division - Diversified Financials and Insurance Analyst*

Ebrahim Huseini Poonawala *BofA Merrill Lynch, Research Division - Director*

Gabriel Dechaine *National Bank Financial, Inc., Research Division - Analyst*

John Aiken *Barclays Bank PLC, Research Division - Director & Senior Analyst*

Mario Mendonca *TD Securities Equity Research - MD and Research Analyst*

Meny Grauman *Cormark Securities Inc., Research Division - MD & Head of Institutional Equity Research*

Robert Sedran *CIBC Capital Markets, Research Division - MD & Head of Research*

Scott Chan *Canaccord Genuity Limited, Research Division - Director of Research of Financials & Financial Services Analyst*

Sohrab Movahedi *BMO Capital Markets Equity Research - Analyst*

Stephen Gordon Theriault *Eight Capital, Research Division - Principal & Co-Head of Research*

Sumit Malhotra *Scotiabank Global Banking and Markets, Research Division - MD of Canadian Financial Services*

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to RBC's Conference Call for the Third Quarter 2018 Financial Results. Please be advised that this call is being recorded.

I would now like to turn the meeting over to Dave Mun, SVP -- Performance Management & Investor Relations (corrected by company after the call). Please go ahead, Mr. Mun.

Dave Mun - *Royal Bank of Canada - SVP, Performance Management & Investor Relations*

Thanks, and good morning.

Speaking today will be Dave McKay, President and Chief Executive Officer; Rod Bolger, Chief Financial Officer; and Graeme Hepworth, Chief Risk Officer. Then, we'll open the call for questions. (Operator Instructions) We also have us -- have with us in the room Neil McLaughlin, Group Head of Personal & Commercial Banking; Doug Guzman, Group Head, Wealth Management and Insurance; and Doug McGregor, Group Head, Capital Markets and Investor & Treasury Services.



As noted on Slide 2, our comments may contain forward-looking statements, which involve assumptions and have inherent risks and uncertainties. Actual results could differ materially.

With that, I'll turn it over to Dave.

David I. McKay - Royal Bank of Canada - President, CEO & Director

Thanks, Dave, and good morning, everyone, and thank you for joining us.

We reported record earnings and record revenues in the third quarter against a strong economic backdrop. We've been investing to grow organically in our key markets and our investments are paying off. All of our large businesses saw strong earnings growth in the third quarter and we had market share gains in our core franchises. Our focus on risk and cost control is leading to strong credit quality as well as efficiency improvements in our Retail Banking and Wealth Management businesses. We're also managing capital efficiently to drive a premium ROE and long-term shareholder value. Our capital ratios grew in the quarter even as we invested to grow client relationships and our CET1 ratio is now over 11%. I'm pleased to announce a \$0.04 increase to our dividend this morning, bringing our quarterly dividend to \$0.98 per share.

Before expanding on our results, I'd like to touch on the macro environment. Globally, we're seeing rising protectionism and trade uncertainty, which is translating into some volatility in financial markets as well as instability in countries like Turkey and Venezuela where we do not have any material direct exposure. Although geopolitical and trade risks have risen, our core markets remain stable. GDP growth remains healthy and employment trends remains strong in North America, which bodes well for our near-term outlook. Against this solid economic backdrop, our Canadian Banking business generated record revenue this quarter, surpassing \$4 billion.

We're leveraging our unique assets such as scale in distribution and payments to drive client activity and market share growth. For example, we service our clients holistically across our broad product suite, including deposits and investments which are growing over 7%. We're seeing strong industry demand for commercial credit and the investments we have made in commercial banking continue to support double-digit business loan growth.

There has been a lot of discussion on the recent disruption in the rewards and loyalty space, including the reduction of average interchange fees by 10 basis points starting in May 2020. We believe that having control over our proprietary loyalty program, along with leading scale and partnerships, makes RBC Rewards a unique and privileged asset. Given the depth and breadth of our leading program, we have the flexibility to offset much of the potential impact from the reduction in interchange fees.

We offer a comprehensive and superior value proposition to our 5 million RBC Rewards customers with significant scale and partnerships. This includes being able to use points to pay for virtually anything at the point of purchase, the first loyalty program in the country to provide this level of value and flexibility. With card purchase volumes up 11%, we are growing organically and at a premium to the market.

In Wealth Management, we achieved another record quarter for AUM and revenue. We increased our advisor base again this quarter, which is one of the industry's largest and most productive advisor bases. Advisor trust, a strong distribution network and strong product performance are the key -- are key to driving net sales, and RBC Global Asset Management continued to capture outsized market share. We generated positive mutual fund inflows in a very tough quarter for the industry, which saw net redemptions in many Canadian asset classes. In recognition of its advisor services and innovation, RBC Global Asset Management was awarded Fund Provider of the Year by Wealth Professional Canada.

In U.S. Wealth Management, our strong momentum continued. This business now represents almost 60% of total U.S. revenue and we expect a higher contribution from this business to overall earnings in the future. We added commercial and private bankers to our growing teams in Nashville and Atlanta and we further diversified our commercial banking portfolio by adding to our professional services and aerospace teams and we expect strong loan growth to continue at City National.

During the quarter, City National also announced the acquisition of Exactuals, based in Los Angeles. The company is a unique payments provider for the entertainment industry, leveraging artificial intelligence tools to provide innovative payment solutions to clients of all sizes. Our 2 companies have had strong -- has strong partnership over the years and we look forward to helping the firm continue its growth.

Our Capital Markets business generated very strong results this quarter. We supported our clients' financing needs across the globe and generate record revenue in corporate and investment banking. We've been hiring top caliber bankers to expand our presence in the U.S. and in Europe while leveraging past investments in these growing regions. This has led to more relationships with larger global investment-grade clients.

For example, this quarter, we acted as a joint book runner on Vodafone's \$11.5 billion bond offering, one of the largest U.S. high-grade offerings this year. We were also appointed as joint lead arranger on Walt Disney's \$36 billion debt financing to support its acquisition of select assets of 21st Century Fox.

Our trading businesses also performed well and we generated higher revenue in equities trading. This was underpinned by strong client engagement in a constructive environment, award-winning equity research content and an innovative trading platform.

In conclusion, we continue to execute on our strategy to invest prudently for sustainable growth and strong returns for shareholders. I'm very proud of our continued innovation across the organization.

At our Investor Day in June, we introduced our RBC Ventures platform, which is focused on reimagining the role we play in our clients' lives. To-date, we launched 9 ventures and have already registered over 200,000 users, even with limited marketing, in its early stages.

Another successful initiative is our RBC Amplify student program, which provides students with real-world business challenges to solve and allows us to build a talent pipeline around the world. This summer, the program generated 15 patent applications, which is up 50% (corrected by company after the call) from last year.

Overall, I'm pleased with how our progress is paying off with record results this quarter. We've met our financial objectives year-to-date. We're well-positioned to meet those objectives for the full year.

Before I conclude, I'd like to comment on the wildfires impacting a number of regions, including British Columbia and California. It's a devastating situation for many communities across North America and we are committed to supporting our clients and employees who are being impacted. The efforts of first responders and the acts of kindness from local teams and neighbors speak volumes about the difference we can make when we pull together to support our communities.

And with that, I'll now pass it over to Rod.

Rod Bolger - Royal Bank of Canada - CFO

Thanks, Dave, and good morning, everyone.

Starting on Slide 6, we had strong third quarter earnings of \$3.1 billion, up 11% from last year. Diluted EPS of \$2.10 was up 14%. We had higher than normal severance costs last year, which provided a lift to earnings growth this quarter. This was mostly offset by a \$90 million increase in PCL on performing loans, which I'll touch on shortly.

Revenue from retail banking was bolstered by strong client volumes and rising rates. And our Wealth Management franchise continued to benefit from strong net sales and market appreciation.

Our expenses were up 6% from a year ago or 8% excluding the severance we took last year. While we've been investing strategically in technology and ventures, we have delivered strong operating leverage this quarter in both Canadian Banking and Wealth Management. Our investment

discipline is leading to revenue growth opportunities in our core franchises and we expect to drive efficiencies as we set out at our Investor Day in June.

The increase in PCL on performing loans largely reflects accounting rules as well as solid volume growth. Cautionary elements were reflected in our Stage 1 and 2 provisions as external risks to the macroeconomic outlook have risen. The complex nature of IFRS 9 accounting creates quarterly volatility despite strong underlying fundamentals. And I would point to our year-to-date PCL on performing loans, which was just \$79 million or 2 basis points. Our credit quality remains strong as evidenced by lower impaired loans, continued low PCL on impaired loans and overall favorable credit trends.

Our effective tax rate was slightly above 20% in Q3. Given our business mix outlook, we expect our total effective tax rate to be near the low end of a 21% to 23% range over the course of a year.

Turning to Slide 7. We've added U.S. disclosure to reflect the importance of this geography as a key driver to our growth strategy. Earnings in the U.S. were up 30% from last year on a U.S. dollar basis as we continued to invest in top talent and win business.

Turning to Slide 8. Our CET1 ratio grew to 11.1%, up 20 bps from last quarter. Our strong internal capital generation in the quarter was partly offset by higher RWA, reflecting improved growth in client relationships, while maintaining our strong risk profile.

Moving to our business segments on Slide 9. Personal & Commercial Banking reported earnings of \$1.5 billion and Canadian Banking net income of nearly \$1.5 billion was up 11% year-over-year. This was driven by an 8% increase in revenue from higher spreads, reflecting rising rates as well as solid volume growth across most products, including strong card purchase growth as well as higher investment in AUA.

As Dave mentioned, we've seen a healthy normalization in Canadian housing and our mortgage portfolio continues to grow. We saw mortgage growth of nearly 6% year-over-year and increased renewals of nearly 92%.

Net interest margins of 2.74% increased 13 basis points year-over-year and were flat quarter-over-quarter. We had expected some NIM improvement in the back half of this year. And although this is still possible, mortgage pricing competition has increased and if this persists, then the benefit from a Q4 rate hike could be realized in Q1 instead. For now, we expect NIM expansion of up to 3 basis points over the next 2 quarters.

And recall that we typically see prime bankers' acceptance spread compression in the weeks ahead of an expected Bank of Canada rate increase, putting temporary downward pressure on margins. This happened in Q3 and may happen again in Q4.

Turning to expenses. We continued to make thoughtful investments in talent and technology to support digital investments and long-term growth in our Canadian Banking business. Our noninterest expense growth of 3% year-over-year was partially offset by higher severance in the prior year.

We recorded positive operating leverage of 5% or 3.7% if you exclude severance. On a year-to-date basis, our reported operating leverage was 1.3% or 2.7% excluding severance, the Moneris gain last year and the Interac gain this year. And we continue to expect our operating leverage to be at the high end of the 2% to 3% range in the near-term.

Turning to Slide 10. Wealth Management reported earnings of \$578 million, up 19% year-over-year, driven by growth in both our U.S. and non-U.S. businesses. Cash earnings were \$626 million. This quarter also included a gain related to the sale of a mutual fund product and the transfer of its associated team, which was mostly offset by a loss on an investment in an international asset management joint venture. And excluding the Joint Venture loss, Global Asset Management revenues were up 5% due to higher AUM, driven by capital appreciation and net sales.

Canadian Wealth Management revenue was up 10% as a result of higher fee-based revenue. This was driven by higher fee-based assets due to capital appreciation and solid net sales from referrals as well as continued momentum from strategic hiring. And we continue to drive down the efficiency ratio of our non-U.S. Wealth Management business to 68.5% this quarter, down from over 70% a year ago. We focus on positive operating leverage in every segment and operating leverage for total Wealth Management was 2% in the quarter and 3.8% year-to-date.

In U.S. Wealth Management, including City National, revenue was up 14% year-over-year in U.S. dollars due to strong 15% loan growth and double-digit loan originations at City National. We also saw benefits from higher U.S. interest rates and the U.S. Tax Reform as well as higher fee-based revenue. Excluding the gain mentioned earlier, revenue was up 11% and net income from this business was about \$200 million. And you could see this disclosure on Slide 23.

Moving on to Insurance on Slide 11. Net income of \$158 million was down 2% from last year, reflecting increased expenses supporting sales growth and client service activities and partly offset by improved international claims experience.

On Slide 12, Investor & Treasury Services earnings of \$155 million were down 13% year-over-year. This was largely driven by lower funding and liquidity earnings as the prior year benefited from interest rate movements. Our investments in technology also grew in order to drive growth and efficiency. Revenues in our asset services business continued to benefit from improved margins, strong sales and growth in client deposits.

In Capital Markets on Slide 13, earnings of \$698 million were up 14% year-over-year, marking our second highest quarter. In addition to higher revenues in our equity trading business, we saw higher loan syndication in the U.S. and higher volumes on higher equity origination activity in North America despite a declining global fee pool. There was also moderate growth in our North American corporate loan book after a period of portfolio optimization. Looking ahead, we have strong RWA growth with a robust deal pipeline as we hire new bankers, win business and gain share with no change in risk appetite.

In conclusion, we are pleased with our results this quarter as we continue to invest in future growth for our clients.

And with that, I'll now turn the call over to Graeme.

Graeme Hepworth - Royal Bank of Canada - Chief Risk Officer

Thank you, Rod, and good morning.

During the quarter, we continued to see a strong macroeconomic backdrop in Canada and the United States as both economies exhibited low unemployment, steady inflation and solid GDP growth. This macroeconomic backdrop continued to deliver a positive and stable credit environment and our basic expectation is that it will continue in the near-term.

However, as Dave mentioned earlier, there is some uncertainty related to trade and other geopolitical events. As such, we've taken this uncertainty into account in our credit provisions on performing loans this quarter. We're actually monitoring our exposure to trade-related developments and remain confident that we can manage within our risk appetite.

Overall, our credit quality remains strong as evidenced by PCL on impaired loans as shown on Slide 15.

Slide 16 shows our PCL on impaired and performing loans by business line. In Canadian Banking, PCL on impaired loans remained relatively flat quarter-over-quarter, but lower PCL on commercial offset by personal lending and HELOC. Caribbean banking also had lower PCL on impaired loans. In Wealth Management, PCL on impaired loans decreased \$10 million from last quarter, primarily reflecting recoveries associated with loans returning to performing status at City National. In Capital Markets, the quarter-over-quarter decline was driven by recoveries on a few accounts as well as low levels of new impaired loans.

As mentioned earlier, the increase in PCL on performing loans reflects both volume growth as well as the greater uncertainty in the macroeconomic outlook. Year-to-date, PCL on performing loans is \$79 million or 2 basis points, which is largely in line with the growth of our portfolio.

Turning to Slide 17. Gross impaired loans have declined to a relatively low level of \$2.3 billion. This was largely driven by our wholesale portfolio with repayments, loans returning to performing status and low levels of new formations all contributing to the decline in the quarter. Our gross impaired loan ratio of 40 basis points was down 7 basis points from last quarter.

On Slide 18 and 19, we have more detail on our Canadian Banking portfolio. Consumer debt levels have made households more vulnerable in the event of an economic downturn. However, rising rates and the cooling housing market have tempered growing consumer debt, leading to a slight improvement in consumer debt-to-income levels. We continue to focus on consistent and prudent underwriting standards and portfolio monitoring practices, ensuring resilience through all phases of a credit cycle.

Overall, we are pleased with the credit performance of our lending portfolio. We expect PCL on impaired loans to largely be in line with our ratios year-to-date, although we may not see the same level of recoveries in our wholesale book that we saw this quarter. The baseline for PCL on performing loans should be aligned with portfolio growth and we may experience some volatility on a quarterly basis. Together, we expect our PCL ratio in the near-term to be at the low end of our typical 25 to 30 basis point range.

With that, operator, let's open the line for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question is from Ebrahim Poonawala from BoA Merrill Lynch Bank of America.

Ebrahim Huseini Poonawala - BofA Merrill Lynch, Research Division - Director

I just want to follow-up on your comments on the Canadian net interest margin outlook. And one, in terms of -- you mentioned some pressure on the mortgage lending front. If you can help us understand as we look out over the next year, kind of do we need overall volume growth for the economy to pick up where there's less competition and spreads both on the asset and the funding side get better? Or do we need a change in sort of the yield curve to get sort of margin back to kind of what we previously expected? And does your update today change the disclosure you provided at the Investor Day where you kind of laid out your NII expectations to 2021 from exit -- current and future rate hikes?

Rod Bolger - Royal Bank of Canada - CFO

Thanks, Ebrahim. On the last question, no, our outlook is not changed and that is partially because the outlook for interest rate increases in Canada is a little bit higher than it was in June. And I would say that there's a partial offset given the pressures that I outlined, which are twofold. And you asked if it was pricing and/or yield curve and it's both.

So on the pricing side, certainly the competitive pricing is there, but part of that is driven by the yield curve. If you look back 3 months when we gave the prior guidance, the overnight rate is up 25 basis points. The 3-year swap rate is down 4 basis points. The 5-year swap rate is down 16 basis points. As a result, the 5-year fixed rate mortgage pricing in the market has not changed over that 3 months. So while you had an increase in the overnight rate, the mortgage pricing did not increase. Part of that is competitiveness and volume-driven and part of that is the yield curve.

So as you look out and try to anticipate what's going to happen in the future, I would look at the relationships between that overnight rate, the 3-year and the 5-year to look towards that. I would also say that the deposit betas have not behaved differently than what we would have expected.

Ebrahim Huseini Poonawala - BofA Merrill Lynch, Research Division - Director

Understood. And just as a follow-up to that, anything on the commercial loan spreads? Obviously, all banks have seen strong growth there. But sort of tying it to Dave's comments around business investment, NAFTA overhang, et cetera, do we start seeing pressure on commercial loan spreads? Have they behaved differently from mortgage over the last year?



Rod Bolger - Royal Bank of Canada - CFO

They behaved better. That's a competitive market as all these markets are, so there's always pressure there, but they've held up better in terms of spreads than the mortgage side.

Operator

The next question is from John Aiken from Barclays.

John Aiken - Barclays Bank PLC, Research Division - Director & Senior Analyst

I appreciate the disclosure that you added in on the U.S. side of the equation in terms of the total revenues and earnings. But it begs the question, does Royal actually have an optimal mix that you're looking out towards, call it, longer term 5 years down the road in terms of contribution from the U.S.? And then within that, do you see any shifting of the components within Wealth Management and Capital Markets within that contribution?

David I. McKay - Royal Bank of Canada - President, CEO & Director

Thanks, John. It's Dave. I'll start with that question and maybe Rod wants to chime in.

So certainly, one of the reasons we made the acquisition of City National was the ability to lever our existing wealth platform for growth. And we're very excited about the growth opportunities. You saw outstanding growth in City National, not only the balance sheet growth, but also the P&L growth margin expansion. A very exciting story and a very exciting growth opportunity.

So the answer is yes, we do see increasingly a shift as we scale that operation in the United States as we move into new markets. As I talked about, whether it's Nashville, Washington, expanding in New York, we see a geographic expansion in that market. So I would see the overall mix at the bank level, as you see strong Capital Markets and U.S. Wealth opportunities for growth. And I would also say, within the U.S. market, you should see accelerated growth opportunities in U.S. Wealth on the organic side. So yes to both at the top of the house and within the U.S.

John Aiken - Barclays Bank PLC, Research Division - Director & Senior Analyst

But Dave, no specific target that you're looking to achieve within a sustained period of time? And the flip side to that is then if the U.S. continues to grow, there is no concern of being, on a relative basis, overweight to U.S. relative to the Canadian contribution?

David I. McKay - Royal Bank of Canada - President, CEO & Director

No. I think we don't set targets in the context of changing our strategy. We're trying to grow long-term client franchises with deep client relationships with multiproduct cross-sell from Capital Markets through to our commercial and high net worth customers and we see strong growth opportunities.

But given that, it's a good return on investment for us. It represents a deep and attractive marketplace. We don't balance the growth there from that perspective. They're quality clients, quality assets, good credit risk. We like that customer franchise and we want to grow it and it's a deep market.

Operator

The next question is from Meny Grauman from Cormark Securities.

Meny Grauman - *Cormark Securities Inc., Research Division - MD & Head of Institutional Equity Research*

I just want to go back to the Canadian margin. And in Q2, you mentioned that if mortgages -- mortgage balances grow at half your expected rate, that the impact on 2019 revenue would be less than the benefit from one BOC rate hike. I'm wondering whether that -- you'd still stand by that statement or that changes in light of sort of discussion on margin pressure that you mentioned.

Rod Bolger - *Royal Bank of Canada - CFO*

Yes. I'd say that still holds. I mean, if you look at the margin expansion over the course of the year, year-over-year is 13 basis points. So that's given us quite a lift in net interest margin and revenue. And I would expect continued upward pressure on that, which is a good pressure to have.

And as I also mentioned, our mortgage growth rate has held up, just shy of 6%. We had talked about if that had fallen by half, the impact on revenue in the year would have been less than the benefits from the rate increase and that still holds.

Meny Grauman - *Cormark Securities Inc., Research Division - MD & Head of Institutional Equity Research*

And then, if I could just ask about Capital Markets. U.S. financial regulators are proposing changes to the Volcker Rule, to ease the Volcker Rule. Some U.S. banks have come out opposed to that. I'm wondering what your view is and this potential change creates an opportunity for Royal or is it a headwind? What's your view?

A. Douglas McGregor - *Royal Bank of Canada - Group Head of Capital Markets, Investor & Treasury Services*

Well, I don't think any of the contemplated changes, at least the ones that I've read about and heard about, are -- would cause a problem. I think the Volcker Rule's complicated and it's difficult to manage because of the issue of inventories and client demand and really just being compliant. I would say there's a significant expense in the compliance around Volcker. And hopefully, we're going to get some relief from that. I don't think we'd go all the way back to prop trading. We had a significant business before the Volcker Rule came in, but I don't see that happening. But I think any of the changes that are contemplated will probably just give us some relief on some of the compliance costs.

Operator

The next question is from Steve Theriault from Eight Capital.

Stephen Gordon Theriault - *Eight Capital, Research Division - Principal & Co-Head of Research*

A couple for me. First question on the capital schedule and capital accretion. When I look through the schedule on the slide, it looks like Capital Markets drove a lot of the RWA increase in the quarter. And then the supplement, was it on Page 30, it looks like Capital Markets drives about \$6 billion of the -- closer to \$10 billion increase in RWA this quarter. When I look in the division, loans are up a couple of billion dollars. So can I just get a better sense, is the rest trading RWA? Is it currencies? Is it a bunch of things? Can you help reconcile that for me a bit?

A. Douglas McGregor - *Royal Bank of Canada - Group Head of Capital Markets, Investor & Treasury Services*

Yes. It's Doug. The biggest other contributor to that RWA increase is underwriting. So in our U.S. business, we've been quite active as the markets have been very active, both on the M&A side and the buyout side. And so our leverage finance business has a number of mandates where we have put on underwriting risk and will sell down over the next couple of quarters and receive -- we expect significant piece for that. So that's the largest other contributor away from the core growth in the loan book, which has been growing more than it has the previous couple of years.

Stephen Gordon Theriault - *Eight Capital, Research Division - Principal & Co-Head of Research*

Is that more on the debt side?

A. Douglas McGregor - *Royal Bank of Canada - Group Head of Capital Markets, Investor & Treasury Services*

Yes.

David I. McKay - *Royal Bank of Canada - President, CEO & Director*

Yes.

A. Douglas McGregor - *Royal Bank of Canada - Group Head of Capital Markets, Investor & Treasury Services*

It's financed for private equity customers principally and some M&A -- some underwriting for corporates and M&A transactions.

David I. McKay - *Royal Bank of Canada - President, CEO & Director*

As I referenced in my comments, right around Disney and others.

A. Douglas McGregor - *Royal Bank of Canada - Group Head of Capital Markets, Investor & Treasury Services*

Yes.

Stephen Gordon Theriault - *Eight Capital, Research Division - Principal & Co-Head of Research*

Okay. And then just a follow-up for -- probably for Rod. In your comments, Rod, you mentioned accounting rules as the driver of the \$90 million of Stage 1 and then Stage 2 PCLs. I think just a little more detail. I'm wondering how, as you went through the process and the Stage 1 and Stage 2 numbers came out as they did, like how prescriptive was that process? We're early days here in terms of understanding the new PCL standards and testing it through time, but how much of that comes through judgment versus sort of a prescriptive approach to how the PCLs pull through?

Rod Bolger - *Royal Bank of Canada - CFO*

Yes, that's a great question. And as you look at the \$90 million increase on the Stage 1 and 2 for performing loans, we wouldn't have had that last year. And I would think that as you compare performances globally, that you will see inconsistency there because there is a lot of judgment. And the ways -- the way that certain banks would interpret some of the tariffs and global trade risks as well as the fact that many economists are calling that we're at full employment or below full employment in the U.S. and Canada. With the addition of the cycle being so long, with the addition of interest rates moving up, there is heightened risk. It's not to say that we're in the ninth inning of a 9-inning game. Maybe we're in the eighth inning of a 13-inning game. And who's to say, right?

So each bank is going to apply judgment against those risk factors differently. There's no central clearinghouse for providing these sorts of assumptions. So we might have a \$90 million increase and another bank might have a \$20 million decrease. So I would encourage you to maybe look past some of that and look at the core underlying trends.

And our trends are quite strong. We did feel that it was prudent this quarter to build some of that Stage 2 because of potential storm class that aren't there now, but could be there in the future. And if you -- also if you bifurcate it between Stage 1 and Stage 2, think of it about a 1/3 of it being growth in the portfolio and 2/3 of it being that prudent element that I mentioned.

Operator

The next question is from Gabriel Dechaine from National Bank Financial.

Gabriel Dechaine - *National Bank Financial, Inc., Research Division - Analyst*

I actually want to follow-up on the Stage 1 and 2 stuff. Is there any additional granularity you can provide on which portfolios received the increase? We can see that P&C -- Canadian P&C took about 2/3 of the \$90 million. Just wondering if that gets like filtered out into small business loans or commercial loans or anything or credit card and stuff like that.

Rod Bolger - *Royal Bank of Canada - CFO*

Yes. I mean, you can probably see a little bit of it in page -- in Footnote 5 of our report to shareholders. You can see just kind of the flow of that across the different portfolios. And so you'll see some -- but there is some movement there between Stage 2 -- Stage 1 and then Stage 2 over to Stage 3. So it's not a simple chart to understand, but I would say that it is across the board and it was applied ratably or evenly across the portfolio, both on a commercial and a retail basis as well as on a secured and unsecured basis.

Gabriel Dechaine - *National Bank Financial, Inc., Research Division - Analyst*

Okay. And is there any merit to looking at the -- these allowances in relation to your loan book, about 40 basis points or so of gross loans? Is there any metric? Or I guess, it's cycle-dependent, but is there a target of some sort that you guys have?

Rod Bolger - *Royal Bank of Canada - CFO*

There's no target because it will change over the course of a cycle. You looked at coverage ratio. I would also encourage you to add in the expected loss Basel deduction that we have as part of our Tier 1 capital, which is over a common equity, which is over \$600 million in addition to what we have in our GAAP books, and look at the coverage ratios.

And an interesting way to look at that is that you would expect the coverage ratio to move up. In terms of versus your trailing 12 months write-offs, you would expect that to move up as the unemployment rate moves down and there would be an inverse relationship because as unemployment moves up, your write-offs will also move up. So you could -- there's a couple of tools that you can employ to kind of look at that, but I would say our coverage ratios are quite strong on a historical basis right now.

Gabriel Dechaine - *National Bank Financial, Inc., Research Division - Analyst*

Got you. And then if I can ask about the cards. Your growth in the cards business has been phenomenal, both in the fees and the -- well, phenomenal, maybe that's an overstatement, but strong. Let's put it that way.

Rod Bolger - *Royal Bank of Canada - CFO*

Probably.



Gabriel Dechaine - *National Bank Financial, Inc., Research Division - Analyst*

Yes. Okay. Is there -- are you seeing anything on the consumer behavior side like substitution, using more credit card balances that they have available as opposed to HELOC? Are they carrying higher balances than they normally would, making minimum payments? Or is this really net new customer growth that's driving that?

Neil McLaughlin - *Royal Bank of Canada - Group Head of Personal & Commercial Banking*

Yes. I think the -- there's a couple of primary drivers for the performance we are seeing. We're not really seeing any trends away or trends I would point to in terms of product substitution from HELOCs and that sort of thing. What we're really seeing is gaining -- growing our customer base, actually acquiring more customers, and then we are seeing customers consolidate their spending onto a couple of value propositions that we think are quite strong.

So our Avion value proposition continues to lead the marketplace, really powering our growth. Our RBC Rewards program gives those consumers an incentive to consolidate that spend. And then the third value proposition in our WestJet Mastercard. We're seeing great growth there. Customers, especially out west, are finding that a really attractive product and we have a great partner helping us to originate those new customers. So those would be the primary drivers.

Operator

The next question is from Sumit Malhotra from Scotia Capital.

Sumit Malhotra - *Scotiabank Global Banking and Markets, Research Division - MD of Canadian Financial Services*

A couple on credit to get started and probably for Neil originally. Rate hikes over the last year for the bank account, there has now been 4 of them. And we've spent a lot of time talking about the benefit to net interest margin. There is some risk that the longer we go in a tightening cycle, we start to see more pressure for consumers in terms of their ability to manage debt loads. Frankly, we're not seeing any sign of that in your numbers. Maybe more qualitatively, what if -- what are the ratios or what are the metrics that you look at internally in terms of the ability of your customers to handle the increased interest rate expense that they face with Bank of Canada hikes?

Neil McLaughlin - *Royal Bank of Canada - Group Head of Personal & Commercial Banking*

Yes. There's a couple of things we would look at. Obviously, the traditional metrics like delinquency and roll rates and terms of severity of delinquency, of which I think we're feeling really, really confident about.

Qualitatively, we get a lot of feedback from our frontline sales advisors that these changes in interest rates in the housing market have been really well-telegraphed, that consumers are adjusting proactively. So we were expecting to see customers be a little bit caught off guard and our frontline sales advisors really aren't sharing that. The customers are thinking about either extending Ms if they need to, to manage the payments on mortgages. They're thinking about, frankly, just buying less expensive homes and actually moving down. And in terms of our renewal rates, we're actually seeing a real nice increase in our renewal rates on our mortgages and that's been a real positive.

Sumit Malhotra - *Scotiabank Global Banking and Markets, Research Division - MD of Canadian Financial Services*

And is there -- it seems a little too simplistic to ask this, but is there an interest rate level in terms of number of hikes where you start to have more concern about the ability of customers to finance? Because as I say, I mean, we've put on 100 basis points over the last year and it doesn't look like your metrics are any different. If at all, they seem to be getting stronger.



Neil McLaughlin - *Royal Bank of Canada - Group Head of Personal & Commercial Banking*

Yes. I mean, we do look at our TDS ratios and we are seeing some pressure there. The pressure on TDS ratios wasn't as high as we were expecting. And again, we attribute that back to customers really self-adjusting, but it's something we keep an eye on and we have our advisors out there talking to clients, reaching out and making sure they can manage the credit we provide to them.

Sumit Malhotra - *Scotiabank Global Banking and Markets, Research Division - MD of Canadian Financial Services*

And I'll wrap up a similar credit trend with Doug. Given the global scale of your business, you're probably the best person to talk to about this. In conversations with investors, there seems to be this emerging view that we're in a later cycle from a credit quality perspective. And, I guess, it has been a decade since the last real credit cycle and it's fair to say that a lot of that weakness originated in the U.S. capital market space before spreading into the broader economy.

At least in terms of some of the transactions that you've seen, maybe that you've passed on, are you seeing what I'll call more stretching on the part of banks to get transactions done or have things been still relatively sanguine in terms of the risk appetite that investment banks are participating in and maybe more specifically to bring that to RBC?

A. Douglas McGregor - *Royal Bank of Canada - Group Head of Capital Markets, Investor & Treasury Services*

I would say in the investment grade space that I'm not seeing significant credit deterioration. We obviously saw some problems going back over a year ago in the energy space when the commodity price came off significantly, but we've kind of worked through that and so things are back in line there.

There's a lot of talk about the leverage finance space and EBITDA multiples and financing leverage multiples on these deals. I would say there's a lot of scrutiny around that. The regulators have been very vocal about it and have been communicating with us regularly and looking at the deals we're doing. So I would say I don't think that's out of hand right now. Clearly, valuations are up in the leverage space and leverage multiples are up, but we look at each transaction one at a time.

We sell that risk. We underwrite risk that we like. If we don't like the risk, we don't do it. And so the book right now is really quite good and we'll just continue to be careful and do what we do.

Operator

The next question is from Robert Sedran from CIBC Capital Markets.

Robert Sedran - *CIBC Capital Markets, Research Division - MD & Head of Research*

Just, first, one quick follow-up on the domestic margin. The renewal rates have been mentioned a couple of times. And I've been wondering if you are seeing the better margin that was anticipated on some of those renewals considering some of the changes under the revised B20.

Neil McLaughlin - *Royal Bank of Canada - Group Head of Personal & Commercial Banking*

It's Neil. We have seen better margin on the renewals. I think the bigger driver in terms of the performance of the book has been we've seen an over 200 basis point increase in those renewal rates. Some of the competitiveness, I'd say, we're seeing now starts to make us question if we continue to see the trend, but we're quite happy with the 92% -- of the over 90% that Rod had mentioned.

Robert Sedran - CIBC Capital Markets, Research Division - MD & Head of Research

So when you talk about the pricing pressure, it's more on the client acquisition front then?

Neil McLaughlin - Royal Bank of Canada - Group Head of Personal & Commercial Banking

It is.

Robert Sedran - CIBC Capital Markets, Research Division - MD & Head of Research

Okay. And then just a quick one for Doug. When I look at the -- or maybe it's for Rod. When I look at the average daily trading, I see a pretty big spike on the last day of the quarter. And I don't know if that's accounting timing or just a really good day. And then I also see through the quarter, just kind of eyeballing it, a pretty meaningful drop in VaR over the period. Could I get maybe a bit of an explanation on both of those, please?

A. Douglas McGregor - Royal Bank of Canada - Group Head of Capital Markets, Investor & Treasury Services

It's Doug. The trading on that last day was a trade in our equity derivatives business with a significant counterparty in Europe. And it's just a structured trade that was -- had a significant payoff. And so that was much of the results for that day. And we work months to get those trades positioned and discussed with the client and it just really happened to occur on that day.

In terms of VaR, I mean, the -- part of the reason for the VaR coming down this much was 2 things. One, we just got less complex trading books than we ever had and less risk really in our trading books. The second thing is the data set that you're using to calculate VaR has moved through the financial crisis period and so you're getting calculations that are just lower as a result of that.

Operator

The next question is from Scott Chan from Canaccord Genuity.

Scott Chan - Canaccord Genuity Limited, Research Division - Director of Research of Financials & Financial Services Analyst

Just a few questions. There's been a lot of questions on the Canadian margin. And I was just wondering about the U.S. margin, which continues to be robust looking at the sequential increase in NIM. And maybe talk about the near-term outlook there and what we can kind of expect on the U.S. front.

Rod Bolger - Royal Bank of Canada - CFO

Yes. It's Rod. I'll take that. You could see that -- you could see the NIM movement on Page 23 of the slides as you pointed out. And it has been strong and the outlook in the U.S. is for continued increases despite the tweets that are out there. And if that continues, we would expect there to be continued upward pressure on industry beta on deposit pricing in the U.S., which has impacted us a little bit less than some of our peers, and then continued improvement on the loan margin. So we would expect to see a continued benefit from that. We included that in our Investor Day expectation and nothing has changed on that front.



David I. McKay - Royal Bank of Canada - President, CEO & Director

Scott, what I would add -- it's Dave here -- is that one of the reasons we acquired Exactuals is to continue to build out our payments franchise, defend and grow value for our entertainment clients, but also create a source of lower cost, lower beta deposits in the future. So investing in payments in Canada and the U.S. has been a big part of the strategy. And therefore, the deposit growth we're looking for is at a lower beta deposit. And I think that's been City National's success is that they are a strong core payments bank and core franchise bank. And therefore, we've seen lower betas to-date than maybe some of the industry.

Having said that, you're seeing a little bit lower growth in our deposit side because high net worth customers and ultra-high net worth customers are putting their money to work in different ways. And we're seeing that across competitors in the industry.

Scott Chan - Canaccord Genuity Limited, Research Division - Director of Research of Financials & Financial Services Analyst

And is the payments acquisition driving the employee increase? If I look at the FTE, it was up 4% quarter-over-quarter in both Canada and the U.S. If I look back at last quarter, it's been pretty much flattish for the past 2 years. So maybe just some explanation just on maybe if it's organic or inorganic growth on the FTE line.

David I. McKay - Royal Bank of Canada - President, CEO & Director

City National has not made acquisitions other than Exactuals. So it has not closed, so it would not include FTE numbers in this quarter.

I would say, if you look at FTE growth, that's on 2 fronts. First is on we're hiring private bankers. We're hiring commercial bankers. We're expanding into new markets. We're growing our existing footprint. But we're also beefing up the back office for future growth, particularly on the mortgage side as we have a new mortgage team and we're building up the capability to accelerate our mortgage growth. I don't know if you noticed, but our mortgage growth is 19% this quarter year-over-year and so you're starting to see the strategy just play out now. And we have strong ambition to increase customer acquisition using jumbo mortgage strategies. So we had to build the back office to create the type of high-touch, high net worth experience that our target customers expect. That's part of the cost structure. And obviously, as we went through the CCAR process for the first time, public CCAR, there is some expense base that had to go into that to build on regulatory compliance for that CCAR process.

So those are kind of the 3 fronts where we've been investing heavily in this franchise for growth, for strong infrastructure, and yet we still delivered almost a 60-plus percent growth year-over-year. So very, very happy with the progress of the U.S. Wealth franchise.

Rod Bolger - Royal Bank of Canada - CFO

Yes, Scott. It's Rod. I'll just add. If you look at this up on Page 11, you will just see 2 things. One is the growth year-over-year, Q3 to Q3, '16 to '17 and '17 to '18 has been fairly consistent. A lot of that growth appears to take place in Q3 because of summer seasons. So there is some seasonality to it. So I'd encourage you to look more year-over-year. And the growth, I think, over most of those time frames has been more consistent and not inorganic.

Operator

The next question is from Sohrab Movahedi from BMO Capital Markets.

Sohrab Movahedi - BMO Capital Markets Equity Research - Analyst

Neil, you talked about -- I think you basically mentioned there's a little bit of money in motion in Canada. You talked about that service ratio being helped a little bit or not as bad as you had anticipated. Your deposit growth, probably one of the better deposit franchises, but it's kind of a little

bit below your loan growth, at least outside of your -- outside of the commercial space. Can you talk a little bit about the dynamics in retail deposits and what you see happening there over the next, call it, 4 or 6 quarters?

Neil McLaughlin - *Royal Bank of Canada - Group Head of Personal & Commercial Banking*

Sure. Maybe start on personal, we've shared that our personal core banking product is critical to us. We're seeing good growth there. Our new client acquisition in the personal market space is up over 10% year-over-year and benefiting from more activity this year. We are seeing quite a marked shift in terms of personal savings going from our high interest savings account into one year cashable GICs as customers look for a substitution there. And the trade-off in terms of the expected growth has been almost one for one. So we're seeing that as a real substitution effect. In terms of -- on the business side, we feel quite good about business deposits, continue to see growth across all the segments from small business up into our larger business customers. Spreads, we have had a little bit of more competition than expected for our largest interest-bearing deposits on the business side. Other than that, pretty much as expected. In terms of growth, I think one of the things we're focused on is, is that core checking account growth and that will be our focus for the next 4 quarters. Likely expect to see, at least in the near-term, that continued substitution effect on personal savings into GICs.

Sohrab Movahedi - *BMO Capital Markets Equity Research - Analyst*

And are -- and what about on the credit side? Are people paying down debt at a bit of a higher rate than they would have in the past?

Neil McLaughlin - *Royal Bank of Canada - Group Head of Personal & Commercial Banking*

I wouldn't say that we've seen that trend in any material way, no.

Sohrab Movahedi - *BMO Capital Markets Equity Research - Analyst*

Okay. And if I can just sneak one more in for -- on the PCL side, the Stage 1, 2 kind of build up, if you will, in anticipation of some macro or geopolitical type stuff that you mentioned. I mean, if you had to think about where the needle is on that geopolitical factor alone, you mentioned Turkey, you mentioned Venezuela, I guess, tweets and all of that stuff is part of it. But just to try and gauge it, given what we know today, is the direction now -- or is that factor at a 9 out of 10 or at 5 out of 10?

Rod Bolger - *Royal Bank of Canada - CFO*

I'll start and Graeme can also add in. I'd say it's much lower than that. I'd say the economic outlook is strong. It's favorable. It's robust across Canada, across the U.S., which is a larger market. We're seeing a little bit of slowdown in Europe, but in the core European markets, it's still seeing growth. So I would not say that it is at a high rate.

I'd say people always worry about things. Last 10 years of bull market, people worry about it every year. And it's consistent and it's natural. So I would not say...

Sohrab Movahedi - *BMO Capital Markets Equity Research - Analyst*

Just to clarify, I wanted to try and disaggregate your credit cycle from the geopolitical factor. I know they're probably both one and the same as you talked to us about it, but I think you've made a good case that the credit cycle has still some room to run. So with that said, you've still increased because of, I think, ultimately, some geopolitical concerns, the Stage 1 and 2. And I think you specifically mentioned Venezuela, Turkey. And I'm just trying to get a sense for if that's as bad as it gets on the geopolitical factor or it could get way worse, I guess, with North Korea and a variety of other factors. That's what I'm trying to figure out. Where are we on that tail risk-type metric on the geopolitical scale?



David I. McKay - Royal Bank of Canada - President, CEO & Director

Well, I would say -- I would also add NAFTA in there as probably more of a primary driver of the Stage 1, Stage 2. And when we kind of sat down and think about the impacts of macro drivers on our portfolio, on our credit quality, we talk about more like things like NAFTA and trade agreements and auto tariffs, which were still, at the time of this cycle, now recently in the last couple of days, seems to ease off. So there's volatility around these macro factors. And at the time we made these judgments, there was uncertainty around things like NAFTA.

I would say things like Venezuela and Turkey had nominal impact. As I said, we don't have direct exposure to those countries. I mentioned sources of volatility in the market, but not weighing heavily on our decision around Stage 1 and 2. It's more what are the direct geopolitical and macro drivers that have impact on our core markets of North America and Europe. And those really more are NAFTA-driven, those types of uncertainty and just where are you in the credit cycle.

So out of prudence, we use some judgment to take a bit of Stage 1 and 2. It's as simple as that. It's not that we've lost the money. It goes into an ACL reserve. And if those judgments change, it will be released.

Sohrab Movahedi - BMO Capital Markets Equity Research - Analyst

I'll take it offline, Dave, but I'm actually pleasantly surprised that given everything you said, the number is only \$90 million. That's it for me.

Operator

The next question is from Mario Mendonca from TD Securities.

Mario Mendonca - TD Securities Equity Research - MD and Research Analyst

One of the bigger issues or concerns expressed from accounts sort of in the quarter was related to commercial loan growth, specifically how long it's been, how long and strong a run it's been with very good commercial loan growth. And when I look through your supplement, I don't really see any individual category that's dominating the growth. It does look well-diversified. But maybe this is for Neil or Doug. Can you just speak to the sustainability of this commercial or wholesale loan growth that we've seen? What's driving it? And how long do you expect for this to continue?

Neil McLaughlin - Royal Bank of Canada - Group Head of Personal & Commercial Banking

Yes, Mario. It's Neil, I'll start.

To your point, the growth has been well-diversified. So we have targeted a couple of sectors that we wanted to grow because we thought they had really strong risk-adjusted returns in the retail bank. Those are moving. Those are the ones that we're really investing time and energy into, but we're seeing good diversification across all sectors. We're seeing good diversification across the geography in Canada.

In terms of when we look out and how long we'll continue to go, we're connecting with business owners. There's still, I would say, a very positive and optimistic sense from our entrepreneurs. They continue to see good demand for the products they're selling. I think what we're monitoring is -- Dave mentioned trade uncertainty. We think that would be a limiter. And then interest rates would be the other limiter over time. But as we look for the next -- in the near-term, at least for the next few quarters, we continue to expect strong growth in the commercial franchise.

Mario Mendonca - TD Securities Equity Research - MD and Research Analyst

And when you said there were 2 areas you were targeting, what were those?



Neil McLaughlin - Royal Bank of Canada - Group Head of Personal & Commercial Banking

There's a few areas. So one of them was supply chain. We're doing some work in agriculture and also in health care and seeing good strong momentum in each of those.

Mario Mendonca - TD Securities Equity Research - MD and Research Analyst

And could you just sort of help me think through, just philosophically, why would commercial loan growth be running so much faster than nominal GDP growth for -- I can understand it over a short period of time, but over a long period of time. What supports that?

Neil McLaughlin - Royal Bank of Canada - Group Head of Personal & Commercial Banking

It is something we have talked about. I think we come back to what is our risk appetite, what type of credit are we putting into the portfolio. And we haven't deviated from our risk appetite. We continue to revisit policies and continue to have confidence, but it is something, Mario, we have debated over time.

David I. McKay - Royal Bank of Canada - President, CEO & Director

And, Mario, if you look at the Bank of Canada report and if you look at over the last 6 or 7 years, business investment has lagged the cycle, right? So you're starting to see a bit of that catch up right now. On equipment and machinery, you're seeing a fairly bullish outlook. As far as future growth goes and any opportunities to grow, notwithstanding some of the uncertainty around trade, it's having a little bit of a mitigating impact. But business investment has lagged the cycle a little bit and you're saying that catch up. So I think that -- kind of those macro drivers do support healthy growth and prudent growth in our commercial segment.

Mario Mendonca - TD Securities Equity Research - MD and Research Analyst

That's helpful. The -- Neil, the final thing and/or Dave, is this -- what do you -- when you look out now, is now a time when you want to take market share in mortgage and commercial loan growth in Canada? Does this feel like the right time to be doing that?

Neil McLaughlin - Royal Bank of Canada - Group Head of Personal & Commercial Banking

Mario, it's Neil. Yes, I mean, our strategy -- we'll start with commercial. Our strategy within commercial has been very purposeful. So we sat down a couple of years ago, looked at each of those sectors. I mentioned 3. We actually looked at quite a few more. We looked out at our policies. We looked at our sales power and distribution and set on a very purposeful path to actually restart what we looked at as an underperforming franchise at the time. So the commercial results you're seeing are our execution on a very deliberate strategy. So yes, the answer is the intention is to take market share in commercial. And we're -- we believe we understand the risks we're taking on and we like the performance and the return on those risks.

In terms of return to the mortgage market, we would look at that over, say, over the last 36 months and we have really maintained our discipline around risk. We haven't deviated from the deals that we should be putting on the books. We saw some competitive pressures to make the overall market bigger and start to originate deals that, frankly, we didn't have appetite for. And we're not growing the mortgage book -- we're growing the mortgage book. We're not growing the market share in the same way we're seeing some competitors do that. So again, prudence in maintaining our risk appetite in the mortgage business. And what we're really doing is we're competing on distribution. Competitive pricing, but leading with distribution.

David I. McKay - Royal Bank of Canada - President, CEO & Director

We don't change our credit strategy through a cycle. So we're looking for a consistent customer franchise and risk profile. And therefore, you don't have to worry about the timing as much because you're consistent through the cycle. It's not like you turn something off that you've been aggressive with. And that investment cords our lower volatility and high-performance through a cycle on our credit book.

Mario Mendonca - TD Securities Equity Research - MD and Research Analyst

Okay. And then just really quickly, was there anything you can highlight in the Caribbean from a credit perspective that was worrisome or just status quo?

Neil McLaughlin - Royal Bank of Canada - Group Head of Personal & Commercial Banking

In the Caribbean, there was slightly higher PCL. We had some expenses that came through in the quarter that -- a number of them were onetime non-repeatable expenses. And we'd really expect that to return to more normalized levels in Q4.

David I. McKay - Royal Bank of Canada - President, CEO & Director

I think we have time to take one more question and then that will be it and I'll wrap.

Operator

That will be Doug Young from Desjardins Capital.

Doug Young - Desjardins Securities Inc., Research Division - Diversified Financials and Insurance Analyst

I'll keep this quick. So Wealth Management, obviously, quite strong. I think we've covered off City National. But if I exclude City National out of Wealth Management, and correct me if I'm wrong, it looks like earnings was up 5%, but your assets under management up 14%, AUA up 13%. I'm just wondering if there's some unusual items in there. Why the divergence?

Douglas A. Guzman - Royal Bank of Canada - Group Head, Wealth Management & Insurance

Yes, that's just pretty straightforward actually. So Rod mentioned the accounting adjustment we made on one of our joint ventures internationally. That was flowed through Global Asset Management. So if you reverse that back out of the Asset Management segment, what you'll see is fee-based income growth or revenue and earnings growing in a logical fashion in relation to assets under management. And so the derivative of that is that we have not seen earn rate pressure or fee pressure on our Asset Management business. So the piece that's not made perhaps obvious is that, that accounting adjustment on the joint venture went through the revenue line in Global Asset Management.

Doug Young - Desjardins Securities Inc., Research Division - Diversified Financials and Insurance Analyst

But I'm talking more earnings because both of the adjustments went through Wealth Management and both were outside of City National. I can take it offline if it's...

Rod Bolger - Royal Bank of Canada - CFO

The offsetting gain wasn't City National.

Doug Young - *Desjardins Securities Inc., Research Division - Diversified Financials and Insurance Analyst*

It wasn't City National? Okay.

Rod Bolger - *Royal Bank of Canada - CFO*

Yes. So the one gain was in City National and the loss was in Asset Management.

David I. McKay - *Royal Bank of Canada - President, CEO & Director*

Well, thank you for your questions and your participation in today's call.

I think, to characterize our quarter, we're very happy with the results. As you saw, strong core growth across our core businesses in Capital Markets and retail, commercial and in Wealth Management, both in Canada and in the United States. And so we're very happy with our customer franchise growth, market share gains and good cost control, strong capital levels and ROE. So overall, we're feeling good about the momentum and looking very positively towards Q4.

So thank you and we'll see you next quarter.

Operator

The conference has now ended. Please disconnect your lines at this time and we thank you for your participation.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2018, Thomson Reuters. All Rights Reserved.