ROYAL BANK OF CANADA FIRST QUARTER RESULTS CONFERENCE CALL WEDNESDAY, FEBRUARY 28, 2024

DISCLAIMER

THE FOLLOWING SPEAKERS' NOTES, IN ADDITION TO THE WEBCAST AND THE ACCOMPANYING PRESENTATION MATERIALS, HAVE BEEN FURNISHED FOR YOUR INFORMATION ONLY, ARE CURRENT ONLY AS OF THE DATE OF THE WEBCAST, AND MAY BE SUPERSEDED BY MORE CURRENT INFORMATION. EXCEPT AS REQUIRED BY LAW, WE DO NOT UNDERTAKE ANY OBLIGATION TO UPDATE THE INFORMATION, WHETHER AS A RESULT OF NEW INFORMATION, FUTURE EVENTS OR OTHERWISE.

YOU CAN REPLAY THE ENTIRE WEBCAST UP TO MAY 29, 2024, WHICH INCLUDES A QUESTION AND ANSWER SESSION, BY VISITING THE ROYAL BANK OF CANADA ("RBC", "WE" OR "OUR") WEBSITE AT RBC.COM/INVESTORRELATIONS.

IN NO WAY DO WE ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON OUR WEBSITE OR IN THESE SPEAKERS' NOTES. USERS ARE ADVISED TO REVIEW THE WEBCAST ITSELF AND OUR FILINGS WITH THE CANADIAN SECURITIES REGULATORS AND THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION ("SEC") BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

From time to time, we make written or oral forward-looking statements within the meaning of certain securities laws, including the "safe harbour" provisions of the *United States Private Securities Litigation Reform Act of 1995* and any applicable Canadian securities legislation. We may make forward-looking statements in this document, in other filings with Canadian regulators or the SEC, in reports to shareholders, and in other communications. In addition, our representatives may communicate forward-looking statements orally to analysts, investors, the media and others. Forward-looking statements in this document include, but are not limited to, statements relating to our financial performance objectives, vision and strategic goals, anticipated economic conditions and their anticipated impacts on our business, CapEx investments, mortgage growth, talent, the expected closing of the transaction involving HSBC Bank Canada (HSBC Canada), including plans for the combination of our operations with HSBC Canada and the financial, operational and capital impacts of the transaction, such as expected synergies, City National net income, Basel III floors, net interest margin (NIM), expense growth, effective tax rate, operating leverage, net insurance service result, net investment result, net income growth, the impact of unemployment rates, interest rates and residential and commercial real estate prices on credit outcomes and the regulatory environment in which we operate. The forward-looking statements contained in this document represent the views of management and are presented for the purpose of assisting the holders of our securities and financial analysts in understanding our financial position and results of operations as at and for the periods ended on the dates presented, as well as our financial performance objectives, vision, strategic goals and priorities and anticipated financial performance, and may not be appropriate for other purposes. Forward-looking statements are typically identified by words such as "believe", "expect", "suggest", "seek", "foresee", "forecast", "schedule", "anticipate", "intend", "estimate", "goal", "commit", "target", "objective", "plan", "outlook", "timeline" and "project" and similar expressions of future or conditional verbs such as "will", "may", "might", "should", "could", "can" or "would" or negative or grammatical variations thereof.

By their very nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties, both general and specific in nature, which give rise to the possibility that our predictions, forecasts, projections, expectations or conclusions will not prove to be accurate, that our assumptions may not be correct, that our financial performance, environmental & social or other

objectives, vision and strategic goals will not be achieved, and that our actual results may differ materially from such predictions, forecasts, projections, expectations or conclusions.

We caution readers not to place undue reliance on our forward-looking statements as a number of risk factors could cause our actual results to differ materially from the expectations expressed in such forward-looking statements. These factors –many of which are beyond our control and the effects of which can be difficult to predict –include, but are not limited to: the possibility that the proposed transaction does not close when expected or at all because of the occurrence of any event, change or other circumstances, the possibility that the business of RBC and HSBC Canada may not perform as expected or in a manner consistent with historical performance, the ability to promptly and effectively integrate HSBC Canada, our ability to achieve our capital targets, credit, market, liquidity and funding, insurance, operational, regulatory compliance (which could lead to us being subject to various legal and regulatory proceedings, the potential outcome of which could include regulatory restrictions, penalties and fines), strategic, reputation, legal and regulatory environment, competitive, model, systemic risks and other risks discussed in the risk sections of our annual report for the fiscal year ended October 31, 2023 (the 2023 Annual Report) and the Risk management section of our Q1 2024 Report to Shareholders, including business and economic conditions in the geographic regions in which we operate, Canadian housing and household indebtedness, information technology, cyber and third-party risks, geopolitical uncertainty, environmental and social risk (including climate change), digital disruption and innovation, privacy and data related risks, regulatory changes, culture and conduct risks, the effects of changes in government fiscal, monetary and other policies, tax risk and transparency, and our ability to anticipate and successfully manage risks arising from all of the foregoing factors. Additional factors that could cause actual results to differ materially from the expectations in such forward-looking statements can be found in the risk sections of our 2023 Annual Report and the Risk management section of our Q1 2024 Report to Shareholders, as may be updated by subsequent quarterly reports.

We caution that the foregoing list of risk factors is not exhaustive and other factors could also adversely affect our results. When relying on our forward-looking statements to make decisions with respect to us, investors and others should carefully consider the foregoing factors and other uncertainties and potential events, as well as the inherent uncertainty of forward-looking statements. Material economic assumptions underlying the forward-looking statements contained in this document are set out in the Economic, market and regulatory review and outlook section and for each business segment under the Strategic priorities and Outlook sections in our 2023 Annual Report, and the outlook section of our Q1 2024 Report to Shareholders, as such sections may be updated by subsequent quarterly reports. Assumptions about RBC's and HSBC Canada's current and expected financial performance, expected closing date of the proposed transaction, expected expense synergies (and timing to achieve) and future regulatory capital requirements were considered in making the forward-looking statements in this document including the expected capital impact to RBC. Except as required by law, we do not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by us or on our behalf.

Additional information about these and other factors can be found in the risk sections of our 2023 Annual Report and the Risk management section of our Q1 2024 Report to Shareholders, as may be updated by subsequent quarterly reports.

Information contained in or otherwise accessible through the websites mentioned does not form part of this document. All references in this document to websites are inactive textual references and are for your information only.

ASIM IMRAN, VICE PRESIDENT, HEAD OF INVESTOR RELATIONS

Thank you, and good morning everyone.

Speaking today will be: Dave McKay, President and Chief Executive Officer, Nadine Ahn, Chief Financial Officer, and, Graeme Hepworth, Chief Risk Officer. Also joining us today for your questions: Neil McLaughlin, Group Head, Personal & Commercial Banking, Doug Guzman, Group Head, Wealth Management and Insurance and Derek Neldner, Group Head, Capital Markets. As noted on slide 1, our comments may contain forward-looking statements, which involve assumptions, and have inherent risks and uncertainties. Actual results could differ materially. I would also remind listeners that the bank assesses its performance on a reported and adjusted basis and considers both to be useful in assessing underlying business performance. To give everyone a chance to ask questions, we ask that you limit your questions and then re-queue. With that, I'll turn it over to Dave.

DAVE MCKAY, PRESIDENT & CHIEF EXECUTIVE OFFICER

Good morning everyone, and thank you for joining us. Today, we reported first quarter earnings of $3.6 billion, or adjusted earnings of $4.1 billion. Our results benefited from higher fee-based revenue in Wealth Management, including strong flows in our advisory businesses and solid performance in asset management. Broad-based, client-driven volume growth in Canadian Banking more than offset escalating competitive pricing pressures. Capital Markets reported strong pre-provision, pre-tax earnings of $1.3 billion as we continued to gain market share. Importantly, core expense growth continued to decelerate, demonstrating our ongoing discipline, which Nadine will speak to shortly.

The strength of our diversified earnings streams more than mitigated the increase in provisions for credit loss in our Commercial Real Estate and Canadian unsecured retail portfolios. As Graeme will speak to later, we expect PCL on impaired loans to remain within the guidance we provided last quarter. We remain confident in our risk management framework, including our prudent and consistent underwriting, and our rigorous monitoring and stress testing processes. Furthermore, our strong capital position and prudent allowances position us well for any further deterioration in credit quality. We added $133 million of PCL on Performing Loans this quarter, increasing our ratio of Allowance for Credit Losses to 64 basis points, up 11 basis points from pre-pandemic levels. The strength of our balance sheet is further underscored by our robust CET1 ratio of 14.9 percent, up 220 basis points from last year. Additionally, our Liquidity Coverage Ratio was 132 percent this quarter, translating to a $94 billion surplus above the regulatory minimum.

Our balance sheet strength, diversified business model, and franchise scale position us to continue delivering value for our clients and shareholders through a wide range of monetary and economic scenarios. Slowing inflation suggests central banks are close to achieving the soft landing they have been aiming for. However, trends are diverging across geographies. Canada is lagging peers in growth in GDP per capita, partly due to a slowdown in spending on discretionary goods and services, including on an inflation-adjusted basis. RBC's card transaction data suggests average growth in our non-auto retail sales has continued to moderate. Slowing consumer demand and rising unemployment points to a softening Canadian economic backdrop. In contrast, the U.S. is showing continued strength in labour markets, above average wage growth, a resilient U.S. consumer, and higher corporate profits – suggesting the Effective Federal Funds Rate may remain higher for slightly longer. Nonetheless, we expect a more sustained decline in inflation measures to push both U.S. and Canadian central banks to follow recent global examples, and pivot to a more dovish stance this year. The bifurcation in trends suggests the Bank of Canada should move on rate cuts earlier than the U.S. Fed. The uncertainty around monetary policy points to 2024 being somewhat of a transitional year as markets consider the impact of interest rate trajectories and rising geopolitical tensions on equity markets, credit quality, capital markets revenues, and client preferences.

With this context, I will now speak to Q1 revenue growth drivers and the outlook across our franchises, where we continued to gain share in key areas.

Starting with Canadian Banking, where we continue to benefit from our long-term scale advantages. We reported strong growth in our high-quality deposit franchise, which is the foundation for building premium loan growth and deepening existing client relationships. Q1 / 2024 was a record quarter with net new-to-bank clients up 29 percent year-over -year due to our distribution strength, technology investments and innovative client value propositions, including RBC Vantage and partnerships with Canadian industry leaders. With interest rates remaining higher than pre-pandemic levels, we continued to support our client's preference for shifting their assets into term deposits, especially within the higher net worth cohorts. Commercial loan growth remained strong, up 14 percent from last year, with balanced growth across sectors, particularly amongst our existing clients. While our clients remain optimistic, we expect lower CapEx investments in anticipation of slower economic growth. Growth in our leading Canadian credit card franchise was up 13 percent year-over-year as higher revolver balances significantly outpaced increases in transactor balances. In contrast, mortgage growth declined to 3 percent year-over-year as a strong retention rate offset continued pressure on home prices. While we anticipate some continued recovery of housing resale activity, we expect mortgage growth to remain in the low-single digits through 2024 as we remain disciplined on pricing and spreads amidst intense competition.

Turning to our Wealth Management segment where combined Assets Under Administration across our Canadian, U.S. and International wealth advisory businesses have grown to nearly $1.6 trillion. Assets Under Administration in our leading Canadian Wealth Management business were up 12 percent from last year, increasing to a record level of nearly $600 billion. Assets Under Administration in our U.S. Wealth Management platform, including the 6th largest wealth advisor in the U.S., increased 12 percent year-over-year to nearly US$600 billion or over C$800 billion which is a record. While higher markets were a key driver of client asset growth, our Canadian and U.S. wealth advisory businesses generated $16 billion and $12 billion of net sales, respectively, over the last 12 months. We believe there is significant opportunity for continued growth, and we will continue to invest in advisor recruitment across North America. In contrast, net interest income in our wealth management businesses were impacted by similar trends seen in Canadian Banking, namely a shift from deposits into higher-yielding products. RBC Global Asset Management's AUM increased 6 percent from last year, benefiting from higher markets. Canadian retail net outflows this quarter were less than 1 percent of opening AUM, outperforming the industry, which has faced a challenging backdrop over the past year. We are confident that our leading franchises are well-positioned to capture money-in-motion back into investment products following a shift in the interest rate outlook and risk sentiment, particularly when it comes to fixed income strategies, which is one of our core strengths. There are early signs of these trends, with RBC's retail long-term net flows turning positive in January for the first time since February last year, led by fixed income mandates. Furthermore, RBC GAM delivered over $4 billion of long-term institutional flows this quarter, which is a testament to our deep client relationships. Demand for ETF products is also strong as our RBC iShares alliance led the industry with long-term net sales of $5 billion for calendar Q4.

Capital Markets reported pre-tax, pre-provision earnings of $1.3 billion, the 2nd highest since 2021, and well above our $1.1 billion run rate guidance. Corporate & Investment Banking revenues were up 3 percent from last year. Our Investment Banking business ranked 8th globally in the first quarter with a market share of 2.3 percent, up 30 basis points from where we ended fiscal 2023, with share gains across all our products. We are benefiting from the successful execution of past strategic investments in talent, combined with a focus on increasing banker productivity. Our pipeline remains healthy and we are engaging in increased dialogue with corporate clients. Furthermore, we expect private equity activity to ramp up as sponsors sit on significant levels of uninvested client funds. That said, due to evolving market conditions, including an uncertain macro and regulatory environment, it is hard to predict when deal completions will sustainably rebound. Global Markets also had a solid quarter. While overall revenues were down compared to a very strong prior year quarter, we grew origination and secondary client volumes consistent with our strategic focus for the business. We also did not experience any trading loss days this quarter, a reflection of the strong market risk management culture. We also recently launched our U.S. Cash Management business, and we will look to provide a progress update at the end of the year on the value provided to both clients and to RBC's funding profile.

I will now speak to two areas of interest, namely our planned acquisition of HSBC Canada and recent developments at City National in the U.S.. Starting on slide 7. We are excited to have received approval from the Finance Minister, and we have targeted a March 28 close. Following the close, we expect our CET1 ratio to be approximately 12.5 percent by the end of the quarter. With this transaction, RBC will be better positioned to be the bank of choice for commercial clients with international needs, affluent clients needing wealth management capabilities, and newcomers to Canada. Furthermore, we look to deepen existing client relationships and build new clients relationships. We continue to expect approximately $740 million of expense synergies. Given the nature of ~~a~~ the concurrent financial and operational close-and-convert transaction, we expect nearly 25 percent of the expense synergies to be realized in the 2nd half of 2024 and 60 percent by the end of Year 1 of the transaction, largely related to shared service and IT systems. Given the timing of the close, we now expect nearly 80 percent of the cumulative expense synergies to be realized in 2025, with the remainder in the first half of 2026. We expect to provide further updates on the earnings power of the combined platform on our Q2 earnings call, after the expected close.

On to slide 8. City National has grown considerably since we acquired the bank in early-2016. One of our top priorities over the last couple of years has been to execute against extensive and detailed action plans, including investing in the appropriate risk and control infrastructure, as well as new leadership. Looking forward, our focus at City National is to deliver a more normalized level of net income in 2025, including costs associated with an enhanced operational infrastructure. This includes optimizing its

balance sheet to enhance spreads, enhancing its funding profile, creating efficiencies, and redeploying capital to focus on multi-product clients.

To close, we have had a strong start to fiscal 2024 as we continue to execute on our client-focused strategies, including welcoming new clients and colleagues in a few weeks time from the planned acquisition of HSBC Canada. Amidst ongoing macroeconomic uncertainty, our balance sheet remains strong. At the same time, our diversified revenue streams across businesses and geographies and prudent cost control position us well to continue driving a premium Return on Equity (ROE) and organic capital generation throughout the economic cycle.

Nadine, over to you.

NADINE AHN, CHIEF FINANCIAL OFFICER

Thanks Dave, and good morning everyone. Starting on slide 10. We reported Earnings Per Share (EPS) of $2.50 this quarter. Adjusted diluted EPS of $2.85 was down 6 percent from last year. Results benefited from higher rates, solid volume growth, increased noninterest revenue and a lower effective tax rate. These tailwinds, however, were more than offset by higher expenses including the cost of the FDIC special assessment. Increases in impaired PCL were also a headwind, as provisions continue to trend upwards, reflecting the impact of higher interest rates and rising unemployment. I will first highlight the continued strength of our balance sheet before focusing on more detailed drivers of our earnings.

Starting with our strong capital ratios on slide 11. Our CET1 ratio improved to 14.9 percent, up 40 basis points from last quarter, mainly reflecting our strong internal capital generation net of dividends, unrealized gains on OCI securities and benefits of share issuances under the DRIP. This was partly offset by a modest impact from net regulatory changes, including the impact of IFRS 17.

RWA growth excluding FX was largely flat this quarter. Higher RWA, primarily driven by operational risk from continued revenue growth as well as unfavourable wholesale credit migration, was offset by lower market risk RWA in Capital Markets and net regulatory changes. Going forward, the close of the planned HSBC Canada transaction is expected to reduce the CET1 ratio by approximately 250 basis points. In light of our projected capital position, we have elected to cease the current 2 percent discount on our DRIP following the delivery of our February 23rd dividend. Furthermore, we do not expect Basel III floors to be binding in 2024. The revenue and expense guidance provided in my remarks hereafter do not incorporate impact from the planned acquisition of HSBC Canada which we will provide updates on next quarter.

Moving to slide 12. All-bank net interest income was up 2 percent year-over-year, or largely flat excluding trading revenue. These results benefitted from solid volume growth in Canadian Banking, partly offset by lower treasury services revenue in Capital Markets. On a sequential basis, all-bank NIM excluding trading revenue was down 7 basis points. The prior quarter included a favourable accounting adjustment in Corporate Support which increased NII and lowered other income. This adjustment was reversed in the current quarter. Excluding this quarter over quarter adjustment, since Q3/2023 NIM excluding trading revenue is up 5 basis points. Canadian Banking NIM was up 1 basis point from last quarter. As expected, the embedded advantages of our structural, low-beta core personal banking deposit franchise continued to come through this quarter, underpinned by the latent benefit of recent interest rate hikes. We also continued to benefit from changes in asset mix, largely reflecting strong growth in credit card balances. These benefits were partly offset by intense competition for term deposits. Quarterly movements in Canadian Banking NIM will be impacted by the continued benefit from our core deposit franchise as well as ongoing pricing competition for deposits. Furthermore, there is added uncertainty from the impact of other factors such as interest rate movements, the shape of the yield curve, and changes in balance sheet mix. Turning to City National, NIM was up 20 basis points from last quarter. The increase mainly reflected the full quarter benefit of last quarter's intercompany sale of certain City National debt securities, partly offset in Corporate Support, as well as lower levels of FHLB funding. Higher deposit pricing continued to be a headwind this quarter.

Moving to slide 13. Non-interest expenses were up 10 percent from last year. Expenses were up 6 percent adjusting for acquisition and integration related costs related to HSBC Canada. Excluding the cost of the FDIC Special Assessment, as well as macro driven factors such as FX and share-based compensation,

core expense growth decelerated to 2 percent year-over-year reflecting our ongoing focus on cost reduction. Core year-over-year expense growth was driven by higher base salaries, higher pension & benefits expenses, and increased professional fees, including ongoing investments to enhance City National's operational infrastructure. Looking forward, we continue to expect all-bank core expense growth to come in the low-to-mid single digit range in 2024, with revenue-related expenses, such as variable compensation, fluctuating within this range commensurate with market activity levels. Results this quarter benefited from a lower adjusted effective tax rate of 18.3 percent which was down 180 basis points from last year reflecting favourable changes in earnings mix. Looking forward, we expect the non-TEB effective tax rate to be in the 19-to-21 percent range for the remainder of the year.

Moving to our segment performance beginning on slide 14. Personal & Commercial Banking reported earnings of $2.1 billion. Canadian Banking pre-provision, pre-tax earnings were up 4 percent year-over-year. Canadian Banking net interest income was up 5 percent from last year, mainly reflecting solid volume growth. Non-interest income was up 4 percent year-over-year, as higher client activity contributed to increased service revenue and credit fees. Operating leverage was negative 1 percent for the quarter, partly reflecting higher marketing costs associated with new client acquisition campaigns. For the full year, we now expect Canadian Banking operating leverage to come in at the higher end of our historical 1 to 2 percent target.

Turning to slide 15. Wealth Management earnings were down 27 percent from last year, including the $115 million after-tax cost of the FDIC special assessment incurred in the quarter. The segment was also impacted by the partial sale of RBC Investor Services operations. The underlying performance of our wealth management advisory and asset management business benefited from higher fee-based client assets across each of our businesses, largely reflecting the benefit from market appreciation and net sales. Higher transactional revenue in Canadian Wealth Management and stronger RBC GAM performance fees also contributed. These factors were partly offset by lower net interest income in our wealth management businesses reflecting lower deposit volumes and spreads, as well as lower sweep deposit revenue in U.S. Wealth Management. The segment efficiency ratio increased to 83 percent, largely due to higher expenses at City National, including the cost of the FDIC special assessment and the ongoing investments in its operational infrastructure.

Turning to slide 16. Capital Markets results were robust this quarter and generated pre-provision, pre-tax earnings of $1.3 billion which more than offset the impact of higher PCL. Corporate and Investment Banking revenue was up 3 percent from last year due to higher securitization financing revenue, improved margins in our transaction banking business and higher M&A activity across most regions. Global Markets revenue was down 8 percent from a strong prior year which benefited from more favourable market conditions and stronger client activity in equity trading.

Turning to Insurance on slide 17. This quarter we adopted the IFRS 17 accounting standard. Net income was $220 million, driven by favourable investment performance as we repositioned our portfolio for the transition to IFRS 17. The current period also benefitted from favourable market conditions. It is important to note that the results in the prior period are not fully comparable as we were not managing our asset and liability portfolios under IFRS 17.

Going forward, we anticipate net insurance service result will be more stable under IFRS 17. However, we do note that net investment result was outsized this quarter and do not expect that magnitude of performance to persist. We anticipate net income growth to be mid-single digits in 2024 off of restated 2023 IFRS 17 levels.

To conclude, we generated a mid-teen ROE while holding excess capital related to the planned acquisition of HSBC Canada. Our strong results were underpinned by the depth of our leading Canadian deposit franchise, and the strong positioning of our Wealth Management and Capital Markets franchises. Our ongoing progress on cost containment was another key contributor to our performance this quarter.

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

GRAEME HEPWORTH, CHIEF RISK OFFICER

Thank you, Nadine, and good morning, everyone.

Starting on slide 19, I will discuss our allowances in the context of the macroeconomic environment. As Dave outlined earlier, the market continues to gain confidence that interest rates have peaked for the current cycle, and the probability of a “hard landing” for the economy is decreasing. Notwithstanding an improving macroeconomic outlook, we continue to see credit outcomes deteriorating, as the lagging impact of interest rate increases takes hold for more clients. In our retail portfolio, delinquencies, insolvencies, and impairments continued to increase, with delinquencies and impairments above pre-pandemic levels. In our wholesale portfolio, we continued to see growth in watchlist exposure, net credit downgrades, and more names being transferred to our Special Loans team. As a result, and as Dave noted earlier, we added $133 million of provisions on performing loans this quarter. This marks the 7th consecutive quarter where we added reserves on performing loans, translating into a $1.2 billion or 37 percent increase in our ACL on performing loans over this period. Our provisioning on performing loans has been consistent with the expected outcomes of a traditional credit cycle. When we started adding reserves in the second half of 2022, provisions were largely driven by a deteriorating macroeconomic outlook, while credit performance remained strong. Through 2023, reserve additions reflected further deterioration in macro-economic signals, and to a lesser extent, deteriorating credit performance, as clients started to feel the impact of higher rates and slower economic growth. This quarter, an improving macroeconomic outlook drove releases of provisions, however, these were more than offset by reserve additions for deteriorating credit performance. This quarter’s provisions on performing loans were primarily in Canadian Banking, driven by increasing delinquencies and a lower Canadian housing price forecast, partially offset by a release in Wealth Management, reflecting the strength in the U.S. macroeconomic outlook. As Dave highlighted earlier, we remain prudently provisioned, noting our total ACL on loans of $5.6 billion is over two-and-a-half times our PCL on impaired loans over the last 12 months.

Moving to slide 20, provisions on impaired loans were up $146 million or 6 basis points relative to last quarter, with higher provisions in Canadian Banking and Capital Markets. In our Canadian Banking commercial portfolio, PCL on impaired loans of 45 basis points increased by 20 basis points compared to last quarter and was above pre-pandemic levels. This quarter, we took a large provision on a loan in the automotive sector, where our borrower has been impacted by lower demand for trucking, post-pandemic. In our Canadian Banking retail portfolio, provisions on impaired loans were higher across all products, led by credit cards. The increases in unemployment rates we observed through 2023 and the impact of higher interest rates are now translating into losses. The Canadian Banking retail Stage 3 PCL ratio of 29 basis points has largely returned to our average historical loss rate of 30 basis points. In Capital Markets and Wealth Management, over 80 percent of our PCL on impaired loans this quarter was in the Commercial Real Estate sector, which I will discuss further in a moment.

Moving to slide 21, gross impaired loans were up $494 million or 6 basis points this quarter, and our GIL ratio of 48 basis points is now slightly above pre-pandemic levels. New formations[1] were also higher this quarter, primarily in Canadian Banking. In our retail portfolio new formations were higher across all products, consistent with the trends we’ve observed in delinquencies and insolvencies. In our wholesale portfolio, higher new formations were driven by the impairment of the loan in the Automotive Sector that I noted earlier, as well as higher new formations in the Commercial Real Estate sector.

Given the ongoing headwinds in Commercial Real Estate, as well as the impairments and provisions we took in the sector this quarter, we provided some context on our exposure on slide 22. Our Commercial Real Estate exposure represents less than 10 percent of our total Loans and Acceptances and is originated to sound lending standards. Following a prolonged period of strength in the sector, we have seen impairments and losses increase since the start of the current rate hiking cycle in Q3 of 2022. However, these higher impairments and losses have been consistent with our expectations and well within our risk appetite. Since the start of the rate-hiking cycle, our cumulative new formations of impaired loans in the sector represent less than 0.2 percent of our total loans and acceptances, and our cumulative PCL on impaired loans represent just 1 percent of our pre-provision pre-tax earnings,

[1] New formations for collectively assessed portfolios in Canadian Banking and Caribbean Banking are net of amounts returned to performing, repayments, sales, FX, and other movements, as amounts are not reasonably determinable.

demonstrating the benefit and strength of our diversified business model. Additionally, we have been prudently and consistently increasing our allowances for credit losses in the sector. Our downside provisioning scenarios account for a reduction in commercial real estate prices of 25 to 40 percent. As a result, our ACL ratio on performing Commercial Real Estate loans is approximately three times higher than pre-pandemic levels, and our reserves are significantly higher in the U.S., where we have seen the large majority of impairments and losses to date.

To conclude, while credit performance was weaker this quarter, it has trended in-line with the guidance I provided last quarter. We continued to prudently build reserves on performing loans, while provisions on impaired loans of 31 basis points have returned to historical averages. Moving forward, credit outcomes will continue to be dependent on the magnitude of changes in unemployment rates; the direction and magnitude of changes in interest rates; and residential and commercial real estate prices. As always, we continue to proactively manage risk through the cycle, and we remain well capitalized to withstand plausible, yet more severe macroeconomic outcomes.

With that, operator, let’s open the lines for Q&A.

Note to users:

We measure and evaluate the performance of our consolidated operations and each of our segments based on a variety of financial measures, such as net income, ROE and non-GAAP measures, including pre-provision, pre-tax earnings, adjusted basis measures and measures excluding various items. Certain financial metrics, including ROE and pre-provision, pre-tax earnings do not have a standardized meaning under GAAP and may not be comparable to similar measures disclosed by other financial institutions. We believe that certain non-GAAP measures are more reflective of our ongoing operating results and provide readers with a better understanding of management's perspective on our performance.

Additional information about our key performance measures and non-GAAP measures can be found under the “Key performance and non-GAAP measures” section of our Q1 2024 Report to Shareholders and 2023 Annual Report.

Definitions can be found under the “Glossary” sections in our Q1/2024 Supplementary Financial Information and our 2023 Annual Report.