Royal Bank of Canada (NYSE:RY) Q1 2024 Earnings Conference Call February 28, 2024 8:00 AM ET

Company Participants

Asim Imran - Head, Investor Relations

Dave McKay - President & Chief Executive Officer

Nadine Ahn - Chief Financial Officer

Graeme Hepworth - Chief Risk Officer

Neil McLaughlin - Group Head, Personal & Commercial Banking

Doug Guzman - Group Head, Wealth Management & Insurance

Conference Call Participants

Meny Grauman - Scotiabank

Ebrahim Poonawala - Bank of America

Doug Young - Desjardins Capital Markets

Gabriel Dechaine - National Bank Financial

Mario Mendonca - TD Securities

Paul Holden - CIBC

Sohrab Movahedi - BMO Capital Markets

Lemar Persaud - Cormark Securities

Nigel D'Souza - Veritas Investments Research

Operator

Good morning, ladies and gentlemen. Welcome to RBC's Conference Call for the First Quarter 2024 Financial Results. Please be advised that this call is being recorded.

I would now like to turn the meeting over to Asim Imran, Head of Investor Relations. Please go ahead, Mr. Imran.

Asim Imran

Thank you, and good morning, everyone.

Speaking today will be Dave McKay, President & 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 & 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

Thanks, Asim. Good morning, and thank you for joining us today.

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 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 stream more than mitigated the increase in provisions from credit loss in our commercial real estate and Canadian unsecured retail portfolios.

As Graeme will speak to later, we expect PCL and 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%, up 220 basis points from last year. Additionally, our liquidity coverage ratio was 132% 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've 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 in Canadian economic backdrop. In contrast, the U.S. is showing continued strength in labor 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 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. Bifurcation and trends suggest 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 a transitional year as markets consider the impact of interest rate trajectories and rising geopolitical tensions on equity markets, credit quality, capital market revenues, and client preferences.

With this context, I will now speak to Q1 revenue growth drivers and an outlook across our franchises, where we continue to gain share in key areas. Starting in 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% 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 continue to support our clients' preference for shifting their assets into term deposits, especially within the higher net worth cohorts.

Commercial loan growth remains strong, up 14% 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% year-over-year as higher revolver balances significantly outpaced increases in transactor balances.

In contrast, mortgage growth declined to 3% year-over-year as a strong retention rate offset continued pressure on home prices. While we anticipate some continued recovery of housing resell 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% from last year, increasing to a record level of nearly $600 billion. Assets under administration in our U.S. Wealth Management platform, including the sixth largest wealth advisor in the U.S., increased 12% year-over-year to nearly US$600 billion or over C$800 billion, which is a record.

While higher markets are a key driver of client asset growth, our Canadian/U.S. wealth advisory businesses generated $16 billion and $12 billion of net sales, respectively, over the last 12 months. We believe there's 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% from last year, benefiting from higher markets. Canadian retail net outflows this quarter were less than 1% of opening AUM, outperforming the industry, which has faced a challenging backdrop over the last 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 was also strong as 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 second highest since 2021 and well above our $1.1 billion run rate guidance. Corporate investment banking revenues were up 3% from last year. Our investment banking business ranked eighth globally in the first quarter with a market share of 2.3%, 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 and talent, combined with a focus on increasing banker productivity. Our pipeline remains healthy, and we're 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 this uncertain macro and regulatory environment, it's hard to predict when deal completions will sustainably rebuild.

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 this 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 the recent developments at City National Bank 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 28th close. Following this close, we expect our CET1 ratio to be approximately 12.5% 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 client relationships.

We continue to expect approximately $740 million of expense synergies. And given the nature of the concurrent financial and operational close and convert transaction, we expect nearly 25% of the expense synergies to be realized in the second half of 2024 and 60% by the end of year one of the transaction, largely related to shared service and IT systems. Given the timing of the close, we now expect nearly 80% 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've 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 as well to continue driving a premium ROE and organic capital generation throughout the economic cycle.

Nadine, over to you.

Nadine Ahn

Thanks, Dave, and good morning, everyone.

Starting on Slide 10, we reported earnings per share of $2.50 this quarter. Adjusted diluted earnings per share of $2.85 was down 6% from last year. Results benefited from higher rates, solid volume growth, increased non-interest 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 continued 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%, 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 unfavorable 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% 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'll provide updates on next quarter.

Moving to Slide 12. All-bank net interest income was up 2% year-over-year or largely flat excluding trading revenue. These results benefited 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 favorable 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 offsetting corporate support as well as lower levels of FHLB funding. Higher deposit pricing continued to be a headwind this quarter.

Moving to Slide 13. Noninterest expenses were up 10% from last year. Expenses were up 6% adjusting for acquisition and integration-related costs 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% year-over-year, reflecting our ongoing focus on cost reduction. Core year-over-year expense growth was driven by higher base salaries, higher pension and 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%, which was down 180 basis points from last year, reflecting favorable changes in earnings mix. Looking forward, we expect the non-TEB effective tax rate to be in the 19% to 21% 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% year-over-year. Canadian Banking net interest income was up 5% from last year, mainly reflecting solid volume growth. Noninterest income was up 4% year-over-year as higher client activity contributed to increased service revenue and credit fees. Operating leverage was negative 1% 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 at the higher end of our historical 1% to 2% target.

Turning to Slide 15. Wealth Management earnings were down 27% 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%, 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 & Investment banking revenue was up 3% 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% from a strong prior year, which benefited from more favorable 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 favorable investment performance as we repositioned our portfolio for the transition to IFRS 17. The current period also benefited from favorable 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 know 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

Great. Thank you, Nadine, and good morning, everyone.

Starting on Slide 19, I'll 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 continue to increase, with delinquencies and impairments above pre-pandemic levels. In our wholesale portfolio, we continue 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 seventh consecutive quarter where we added reserves on performing loans, translating into a $1.2 billion or 37% increase in our ACL on performing loans over this period.

Our provisioning of the 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 macroeconomic signals and, to a lesser extent, deteriorating credit performance, as clients started to feel the impact of higher rates and slow economic growth. This quarter, an improving macroeconomic outlook drove releases of provisions. However, these were more than offset by reserve additions or 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] (ph) total ACL loans of $5.6 billion is over 2.5 times our PCL and 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 and 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 the loan in the automotive sector, where borrowing 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% of our PCL and impaired loans this quarter was in the commercial real estate sector, which I'll 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 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% of our total loans and acceptances, as 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 formations 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% of our total loans and acceptances, and our cumulative PCL and impaired loans represents just 1% of our pre-provision pre-tax earnings, demonstrating the benefit and strength of our diversified business model.

Additionally, we have been prudently and consistently increasing our allowances for the credit losses in the sector. Our downside provisioning scenarios account for a reduction in commercial real estate prices of 25% to 40%. As a result, our ACL ratio on performing commercial real estate loans is approximately 3 times higher than pre-pandemic levels, and our reserves are significantly higher in the U.S., where we've 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 continue 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.

And with that, operator, let's open the lines for Q&A.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] Our first question is from Meny Grauman from Scotiabank. Please go ahead.

Meny Grauman

Hi, good morning. Just maybe a question for Graeme to start off. Just in terms of impaired PCL ratio came in higher than expected. We're seeing that trend at some peers as well. It looks like definitely there's more stress in the unsecured book across the sector. From your commentary, it sounded like it's basically in line with your expectations. But I want to clarify that if there is anything that you're seeing that is different than what you would have expected when you spoke to us in Q4?

Graeme Hepworth

Yeah. Thanks, Meny, for the question. In terms of what we saw kind of play out this quarter, maybe I always divide it kind of into wholesale and retail. On the wholesale this quarter, we probably were on the elevated side of what we were expecting in a quarter, but wholesale tends to be lumpy quarter to quarter.

We had three specific names, two in the commercial real estate sector and one in the automotive where we took fairly significant reserves. So, those three names themselves accounted for quite a significant tick up in the quarter-on-quarter Stage 3 PCL. We expect wholesale will kind of continue at more elevated levels, but that probably doesn't persist at this level quarter to quarter.

On the retail side, again, it was pretty broad based. I think we'd indicated in previous meetings that we do expect retail to tick up through the year and we saw that kind of coming in play this quarter. Much of what we saw pull-through is what was happening in 2023, the rising rate environment and some of the increase in unemployment was now flowing through into the retail side as well as insolvencies were ticking up. And so that is playing out in products like we expected like cards, and then to a lesser extent, but it is starting to flow through into products like mortgage as well.

So, in aggregate, probably a little bit on the higher side than we would have planned for, but I think in the aggregate for what we're expecting in 2024, reasonably in line.

Meny Grauman

And just TransUnion recently published a report highlighting fraud as being a particularly big issue in Canada. I'm wondering how much of a driver is fraud in your impaired performance. Do you see that as a big issue or growing issue maybe?

Graeme Hepworth

From a PCL perspective, these would be fairly peer credit numbers, not fraud numbers, if you will. Certainly, fraud is a risk vector that we're very focused on and we do invest a lot to mitigate those risks to the bank, but that wouldn't be what's showing up in PCL, no.

Meny Grauman

And then finally just in terms of...

Asim Imran

Meny, we'll go to -- we said one question. So, can you re-queue? Thanks.

Meny Grauman

Sure.

Asim Imran

We'll get to you.

Operator

Thank you. Our following question is from Ebrahim Poonawala from Bank of America. Please go ahead.

Ebrahim Poonawala

Good morning. I guess maybe just, Graeme, sticking with you on credit, you mentioned two things around PCL being sensitive to the outlook for unemployment rate. Tell us what you are assuming if even looking out into '25 where you think unemployment rate goes, higher or lower in '25? And then, just the importance of the yield curve staying where it is, does a five year at 3.5% plus still create pressure on PCLs and impaired PCLs as we look into next year? Thank you.

Graeme Hepworth

Yeah. Thanks, Ebrahim. So, I think as we look forward, I think you hit on some of the key variables. I think some of the key drivers that we're focused on and that will drive kind of our view of how credit losses will play out in the coming year and into 2025 really are, as you said, the trajectory of unemployment, the kind of trajectory of rates and I would maybe add the kind of the third big one into that is valuations, particularly around HPI and commercial real estate prices.

Our current forecast on unemployment is we have that ticking up fairly significantly from where we are now to about 6.6% mid-year 2024. That's -- we'll see if that plays out like that. Certainly, in kind of recent months here, unemployment in Canada has kind of proven to be a little bit more resilient than we'd anticipated. But then, as to how that plays out in PCL, you think about something like unemployment, there's definitely a lag factor that comes on the back of that. And so that's kind of take that -- take the pressure of interest rates and the refinancing cycle that'll play out. So, either way, certainly on the retail side, we do expect that the Stage 3 credit losses will kind of continue to build and kind of peak out more as we get into the latter half of 2024 into the earlier half of 2025.

Again, on the wholesale side, we're seeing some of the benefit of rates maybe coming into play earlier that maybe plays out a bit sooner, particularly on the large corporate side. We've been running at more elevated kind of Stage 3 losses there. So, I don't say we would trend that the same way. But on the wholesale side, on the smaller side, say, under that small business under $10 million commercial is where we would expect to see kind of similar pressures and similar building overall.

So that's kind of the total picture there, Ebrahim. Again, I think you hit some of the key factors in terms of how we see them and kind of the timeline of how we see that playing out a little bit.

Ebrahim Poonawala

Got it. And as a follow-up, maybe Dave for you, it looks like CNB is back on track in terms of the actions you outlined and what you've already done. Just give us a sense of, I think in January you talked about appetite for Wealth Management, commercial M&A in the U.S. Just where we are in terms of growth strategy? There's a lot of disruption going in the U.S. across capital markets wealth. Just -- are we playing offense? What the thought process there is? Thank you.

Dave McKay

Yeah. certainly, I think our focus is on profitability at City National. I think there's a real opportunity for us to continue to operate this business and build this business out and make more money doing it even with the existing balance sheet. We'll continue to talk about that. I think to continue to grow sustainably in the U.S., you need deposits. So, our focus is on growing deposits. We have an 85% loan-to-deposit ratio, which is good. But to continue to grow, we want to maintain that and lower that if we can. So, it's very much from a product perspective, push perspective, you'll see good deposit growth, which will add to profitability.

We are well positioned with our Wealth Management franchise to capture the move out of treasury bills into equities and into investments. So, I think our very strong wealth platform will capture that flow of business, as well as continuing to grow our advisor base. So, we're still adding teams. We're still being very successful in growth and productivity per advisor, expanding the product line within the wealth platform. All those are strong growth drivers for us. And on the Capital Markets side, we continue to enhance our team, grow our team, compete very well. You saw the market share we gained on a fee basis up to 8% in Q1. So, very,

very strong organic opportunities to grow, very strong profitability enhancements that will be a nice tailwind for us that we're happy about.

And when it comes to M&A, to the last part of your question, we are continuing to think through how do we scale each of our franchises, notwithstanding we would very unlikely to make an acquisition in the Capital Market space. But as I said before, really focused on the wealth space and the commercial space over time. Nothing imminent, obviously. We're focused on profitability and strengthening our platform, but we continue to think through that space. We rebuild our capital from HSBC acquisition, which we gave you some more color on this morning. And therefore, we think we're well positioned to continue to grow our U.S. franchise from a scale and profitability perspective. So, no change in strategy and always kind of focused on what's the right play over time, but nothing imminent as well.

Ebrahim Poonawala

Got it. Thank you, Dave.

Operator

Thank you. Our following question is from Doug Young from Desjardins Capital Markets. Please go ahead.

Doug Young

Hi, good morning. Just on your Slide 7, HSBC Canada, obviously, you look at Q4 results for that business and they deteriorated a bit. Just trying to see if -- and it doesn't look like your accretion or cost synergy expectations has changed. I know you're going to get more of an update with Q2, but just talk about why you're still confident with that.

And then on the integration timeline, thanks for this. Figured the expense reductions would be more -- I guess would be faster given it's an end market, lots of overlap. Just I'm wondering if there's anything I should be thinking about or anything I'm missing on that front.

Neil McLaughlin

Thanks for the question, Doug. It's Neil. Yeah, in terms of the cost synergies, we still remain really confident in terms of the $740 million of cost synergies. The closing convert is part of why we have so much confidence around it. The first synergies that will come out will really be technology related. So, those will be towards the front end.

In terms of the timing, the timing delays, we really haven't really, I'd say, changed the sort of the calendar timing of when the cumulative cost synergies will roll in. It's really from the delay we had in terms of regulatory approval and then having to slide back that closing convert date. So that's really the driver of the timing.

Doug Young

Okay. And then, if I could just follow-up? Dave, on City National, it was obviously profitable. Excluding FDIC charges, I think it was $88 million. The NIM was up. I know you're investing a lot. You've got a new management team in place. Can you talk about the timeline? I think you talked in your prepared remarks about a normalized net income in 2025. Can you talk about the timeline of some of -- I guess, like in terms of how you get back to profitability or appropriate profitability? And what is that appropriate profitability for City National?

Dave McKay

We'll go through kind of our targets later on the year as far as each of our businesses and their potential. But for us there, we do believe that City National is at its kind of full run rate this year to complete its platform build-out, and we'll continue that through the year. And then, as you come through 2025, we expect that to start to moderate and create some tailwinds for P&L.

So, as we come through that year, there are other areas where we're taking out costs in the platform to accommodate profitability growth. We have repositioning, as I said in my prepared comments, of the balance sheet around more multi-product clients and getting a better ROE out of our existing balance sheet as well, which I think you've seen me create the analogy with Capital Markets. We had very rapid growth in 2013 to 2016. We spent a lot of time extracting more return out of that balance sheet. We're doing something very similar now in CNB given the 2.5-fold increase was so quick. We're not getting the return we want in all our client franchise there. So, we're focused on that. So that enhancement, you saw the securities that's -- higher-yielding securities that we're able to put on the balance sheet has helped as well.

So, all of that, as we look at our trajectory, gives us the confidence that we're going to get back to more normalized ROA in '25 and a tailwind from there. So, we'll provide kind of a more of a waterfall to that. But when we look at our cost trajectory, revenue opportunities, repositioning of assets, we feel confident of generating strong returns out of this business again in 2025.

Doug Young

Appreciate it. Thank you.

Operator

Thank you. Our following question is from Gabriel Dechaine from National Bank Financial. Please go ahead.

Gabriel Dechaine

Good morning. First question on the RWA output floor. My math agrees with yours that it won't become effect -- hit you until 2025. How do you plan for that eventuality? Do you just eat it? Do you go after more standardized? Do you curb balance sheet growth or de-banking customers, something along those lines?

And then, my second question is for Doug. The wealth business, the non-CNB stuff that is, I'm looking at what's going on in the UK, and one of your peers there is facing some difficulties cutting the dividend and refunding customers and regulator scrutiny is an issue. Wondering what, if any, impact has been on your business. You've acquired BlueBay and Brewin Dolphin over the past years. And was there any reason for me to be thinking about that as a potential top-line hit or cost hit, something like that?

Nadine Ahn

Well, thanks Gabriel. I'll start off with the first question around the floor. And it is something that we do closely monitor. I think with every 2.5% increase, you do see a buffer drop by about $20 billion. But we've done about over $30 billion of optimization since 2023. And when we talk about optimization, what we're really focused on is around the data cleanup, because a lot of what you see as it relates to some differential between standardized [and ARB] (ph) comes in part as it relates to getting better clarity on data, whether you're on collateral or when you're looking at rated companies et cetera.

So, we continue to think that we've got more optimization as it relates to that going into 2025 to help benefit and create some room. But we do recognize the fact that it will become binding at a point as it relates to and you just have to continue to manage your optimization across your balance sheet ensuring that you're profiling your capital out to those business segments to generate where our focus on is really on our strong ROE.

Gabriel Dechaine

Okay. Well, probably worth more of a fulsome discussion offline. Anyhow, wealth?

Doug Guzman

Yeah. Hopefully, you won't need a more fulsome discussion on this. I mean, it's pretty -- so you're talking about the consumer duty focus in the UK, which is similar to many jurisdictions where regulators over time have taken a higher interest in making sure that customers are treated fairly. And the competitor you're pointing to is a very decentralized model. They had fee scales that were very diverse across customer bases, and they're having to adjust because of that. We don't have that.

What we liked about Brewin Dolphin, frankly, is the direction of travel for the business model is one that fits with consumer duty. It's very much advice focused, planning focused with the client. We'll make some tweaks around fee scales to make absolutely certain that everyone is getting consistent treatment across the different channels, the different target market segments, but we're quite comfortable.

And from an asset management perspective, on the BlueBay side, there's less acute focus there. It's now fully integrated with the rest of Global Asset Management. So, over the last 12 to 18 months, there's been a fair amount of heavy lifting, which we haven't really highlighted externally to get systems integrated, to get teams integrated, to create a more scalable, leverageable infrastructure around both operations and distribution. And so, that's really been the focus at BlueBay and it's a -- the consumer duty piece is much more on the distribution side on the advice side.

Gabriel Dechaine

All right. Thank you.

Operator

Thank you. Our following question is from Mario Mendonca from TD Securities. Please go ahead.

Mario Mendonca

Good morning. This question might be appropriate for Graeme. There's this evolving narrative I'm hearing from our banks that PCLs could move a little higher here in the near term, there would be a transition and then they would start to decline perhaps by early '25 or mid-'25. What I'm asking about is this, while rates were moving higher, it took some time before it had the effect of causing PCLs to move higher. In fact, we're only seeing a meaningful increase in PCLs, it seems like, this quarter. That's quite a long lag from when rates started to rise to when we saw the PCLs. Why would it be the case then that declining rates late this year would lead to such an abbreviated cycle, a period of declining PCLs following shortly thereafter? Why wouldn't there be a meaningful lag where we see higher PCLs before the effect of lower rates have the desired outcome?

Graeme Hepworth

Yeah. Thanks, Mario. It's a good question. And again, I would just maybe start by saying rates is certainly one critical factor that drives PCL, but it's not the sole critical factor that's driving PCL, right? And when you look at a portfolio like ours, it's very diversified both geographically, sector, consumer, wholesale. Rates plays out differently in each of those segments. And so, in certain rate-sensitive products, whether it be in RCL, in retail, there's going to be a more concurrent effect, if you will, with rates going up and down than in other products. But likewise, factors like unemployment we talked about previously are certainly a big indicator of where our PCL will go.

And so that's kind of what drives. We bring all those into the mix and we're kind of considering our forecast and thinking about it going forward. As you said, we're seeing some of that lag effect happen on rates. That's why we do and I as indicated earlier between that and unemployment, why we see this kind of grading out kind of through 2024 into 2025. Certainly, what happens kind of beyond that, I mean, we're starting to get into a forecast period that is highly dependent on how all this plays out. But again, it's a combination of all these factors and not just rates by itself that I think will ultimately define our trajectory at PCL.

Mario Mendonca

Okay. Somewhat related question, it would appear that the Canadian consumer is slowing. Dave, I think you made the point in your opening comments. We're seeing Canadian consumer slowdown somewhat more abruptly than in the U.S. The contrast, however, is the 3.7% sequential growth in commercial loans this quarter. That confuses me. It confuses me to see the Canadian consumer slowdown somewhat abruptly, but yet Royal and others showing such robust growth in commercial. How do those two things happen simultaneously?

Neil McLaughlin

Yeah, I'll start, Mario. It's Neil. I mean, if you look at it, we've talked about this for a number of quarters. In our commercial strategy, we've made quite a pivot to restructure our front office to get our most senior bankers lined up against our larger commercial clients, and that's where we've been adding FTE. So, that has been a multi-year strategy. And the re-segmentation, we'd say, we feel really good. It's paying off in the way we intended. We're seeing the growth come from the larger clients, and we also set out in that strategy to make sure we really like the diversification. And we're seeing that growth across multiple sectors, things like agriculture, things like our auto business is seeing very good growth. So that's where we would really look at it.

We've not expanded our risk appetite in that business. In fact, where we look, we've -- Dave mentioned it, 80%-plus of our growth is coming from existing clients. And where we've added new clients, these are actually as good or better rated clients than we would have had in previous years. So, in our business, we would say this is around a purposeful strategy, and it's led with a front office and it's led with advice and capability.

Mario Mendonca

Okay. Sounds like a Royal thing. Thank you.

Dave McKay

Mario, it's Dave. Just to add...

Mario Mendonca

Hey, David.

Dave McKay

...a macro color to it, I did also say in my comments as you probably picked up that we do expect CapEx to slow as well as some businesses anticipate in the manufacturing and logistics sector slowing goods and potentially service demand in the economy. Now the one variable -- so we are seeing kind of equivalency and macro impact there. One of the dimensions that we all struggle to predict is what's going to happen with the $350 billion of consumer deposits that largely sit in GICs right now. Some will flow, as we expect, back into equities and back into investment products. Some will create stimulative demand.

So, that's different than the United States where the large part of the surplus deposits of $3.5 trillion have been spent already. Canada sits on that buffer and it's helped absorb some cash flow challenges from higher rates, but largely remains particularly in the top 40% of Canadians, largely intact from where it was last year. So, we're watching that carefully to see how that gets deployed. But it can serve all those purposes, right? A buffer for risk, a stimulant for growth and a higher yield into investment product.

Mario Mendonca

That's helpful. Thank you.

Operator

Thank you. Following question is from Paul Holden from CIBC. Please go ahead.

Paul Holden

Yes, thank you. Two questions. First one is with respect to funding cost pressures. You've highlighted funding cost pressures, and I think some of the other banks have as well. It seems to be lasting longer than we would have expected, let's call it, last quarter. What's your recent view on when this might abate and what would be, I guess, the key catalysts or triggers for those funding cost pressures to abate?

Neil McLaughlin

Yeah. Hi, Paul. It's Neil. I'll start us off. So, I think the factors there within the retail business, I would point to two of them. One is the mix of deposits. So, we're seeing in our core noninterest-bearing consumer deposits, those are marginally down year-over-year. Our savings accounts are, again, while they pay interest, it's still a very valuable deposit for us. Those are also down modestly year-over-year. In stark contrast, it's the GIC book Dave referenced. We were up about $10 billion quarter-over-quarter in GICs, and it's the same trend we've commented on for a couple of quarters, which is excess liquidity, still not having mass retail investor confidence to step it to, in our case, the fund business or in Doug's wealth business into more equities or securities. And so, there -- while some of those client rates are off, they're still quite attractive. So that continues to be a rotation that we've commented on before.

The second part of that I would say is, the spreads within the GIC book, while still very strong, are -- they have come down over the last year as we've seen a lot more competition for those term deposits. So, it's both rotation and mix and then competitive pricing on the consumer book. It's basically the same trend as we get into our commercial deposits. We're seeing a larger growth at the upper end in our larger commercial and corporates. There is -- those are lower-margin deposits and really point to a mix. And there has been on, again, steep price competition for the term product amongst those commercial and corporate. So, very much mirrors, I'd say, the same themes on both sides of consumer and then corporate and commercial.

Nadine Ahn

Yeah. And I would just add to that, I mean, they, obviously, are still a very strong good source of funding, right? So, it drives down the overall wholesale funding requirement. But in addition, I think given when we talk about with Dave's comments earlier, where that flow of funds may be given the dominance that when Neil mentioned around the Wealth Management business, while we may not capture that through as a funding source, it does actually look to come back in from a fee revenue standpoint.

Neil McLaughlin

Yeah. Just to provide some context on Nadine's comment, in the quarter, about half of that flow into GICs would be coming outside of the Canadian retail business, with the majority of that coming from outside the institution.

Paul Holden

Got it. And I mean that kind of leads to my second question, the point that Dave raised just previously. Is at some point in time when rates go down, you'd expect these GIC deposits, these term deposits to flow into other savings vehicles, mutual funds or what have you. What kind of then becomes a liquidity solution at that point in time? Obviously, those deposits have to be replaced by something. Is it what Nadine referred to maybe it's wholesale funding or how do you think that plays out?

Nadine Ahn

Well, I think that's one of the reasons we're so focused on our deposit franchise and have been in a lot of the client acquisition that Neil has spoken to in the past and particularly our record client acquisition last year and into this year and our newcomer to Canada. And you think about

HSBC, that's just giving us a more opportunity to grow on our demand deposit book. While there is an expectation that when markets come down that the -- or some markets improve and rates come down that those deposits could flow into things like mutual funds. I think there's also the growth that we continue to have overall in our client franchise that will help stem that. And then, we also do have a leading -- from our wholesale funding, we do price quite lower than the rest of the peer group on that. But I think that we've got opportunities also in cash management that we've discussed in the U.S. to help supplement our asset growth.

Paul Holden

Got it. Thank you.

Operator

Thank you. Our following question is from Sohrab Movahedi from BMO Capital Markets. Please go ahead.

Sohrab Movahedi

Okay. Thank you. I also have hopefully two questions not too long. Dave, number one on this City National, I'm just curious what's the lesson learned here? Is it that if it grows like [weed, it's weed] (ph), or how do you -- what -- I mean at some stage you will do another acquisition in the U.S. What are the lessons learned from this one?

Dave McKay

No, I think it's a good question. I think our growth outstripped our operational capability. We emphasize maybe growth over the profitability of the growth a little too strongly. Certainly, the franchise was tested to see if it could grow geographically. It was important part of our investment thesis, which it has done. We wanted to see how it could scale.

So, I think from all those perspectives, and I equated that back to some of the growth we've seen in other parts of our businesses historically have exhibited similar trends. So, I think now there's opportunity to really push the profitability of the existing balance sheet and I think that's a nice tailwind for investors. And it's really important for us to build a really solid technology and operational foundation, so in the future, we can continue to roll up within our strategy.

So I think that is the objective. It's an important outlet for capital in the long term for RBC and it's an important part of the franchise. And we've got an outstanding leadership team there that has done this before in a large regional bank led by Greg Carmichael. So, we're very fortunate. Greg has built a strong team very quickly there that have done this before and led a bank to sustainable growth with a strong infrastructure. So, we're feeling really good about things. It was a tough year last year, I admit. And those are kind of -- it's a fair question. Those are the learnings.

Sohrab Movahedi

Perfect. And just, I guess, it's for you, maybe just for the broader team, if I can maybe even start with Derek. Just trying to get a feel for what's the revenue environment you envision over the next, call it, four to six quarters? And what sort of growth? Where do you think it's going to come from? Is it going to be volumes? Is it going to be fees? Which business maybe might be contributing more or less than the other businesses given the diversified mix? If I can just get some commentary around the revenue outlook?

Dave McKay

I think your last part of the question there was is part of the investment thesis for RY that we have such strong diversified NII and noninterest income capabilities. And I think where you can see a lot of excitement building in our comments is around the other fee income, noninterest income, particularly around Capital Markets and the pipelines that will start to convert and our ability to leverage our growth there and drive fee-based business. We've talked about it a couple of times already in the call and the flow from fixed income into other higher-yielding equity investments and managed investments within our franchise in the United States, Canada and the UK now, which is an emerging strength for RY that's starting to differentiate itself from some of our peers, which we're getting more and more excited about.

While we may see some NII pressure from rates, we're seeing strong growth. We're seeing strong growth in commercial, which is a higher-yielding product for us. We're seeing the leverage that comes from our market-leading deposit franchise, which should help mitigate some of that more than maybe some of our competitors, I think is a strong support of that. So, volume, other income strength is certainly a big part of that. And there's an opportunity. We're hopeful, there's, as I said in my words, intense competition in a number of markets, including mortgages. We're probably at historic lows. I would think there, and there's always hope that we come off the floor of historic lows into some more normalized margin environment for some of our secured lending products in Canada as well. So, I think all that pertains to we're feeling generally quite positive.

Sohrab Movahedi

Thank you.

Operator

Thank you. Our following question is from Lemar Persaud from Cormark Securities. Please go ahead.

Lemar Persaud

Yeah. I kind of want to bolt on to Mario's question on the divergence in growth and commercial versus retail. But I wonder if you -- I'm wondering if you could talk about how long this cross-sell to existing clients can last? Like, is this a 2024 phenomenon, but then largely abating it to 2025? Or is this something that could persist into the future? It just feels like anytime we talk about commercial, we typically thinking about -- we typically think about this as having some element of persistence where it could last for even a few years, whereas on the retail side, you see some banks turn on and off the taps depending on competitive factors and spreads in the market. Thanks.

Neil McLaughlin

Yeah, thanks. It's Neil. I mean, I think for the most part, on our commercial business, I mean, our strategy has been, for quite some time to grow with our best clients. So, as clients continue to invest and grow their franchise, we continue to be there with them and the majority of our growth has come from our existing clients for exceptionally long time. I think what you're hearing is, we have pivoted to a more profitable client segment with just broader needs where we can put in more products, and that is something we're feeling quite good about.

And maybe the last thing I would say is that we touched on the timing of HSBC, but we do see that as, obviously, a very profitable and a very attractive client set that we continue to be impressed with the capabilities HSBC has brought, but we do see opportunities to bring products to the table that they don't have. And so, I think that is another vector of cross-sell we probably haven't talked that much about. And maybe on the consumer side, you heard Nadine and Dave both comment on our new client origination of consumers. And that's something that has been on a very steep trajectory, and we're starting these new relationships and we'll continue to grow with our consumers as well. So, I do think on both sides, we feel it does have staying power.

Lemar Persaud

Got you. And then maybe for my second question, turning to Graeme. What do you -- I'm wondering if you could flush out what you mean by the implied loss rates on impaired loans of 28% on your Slide 28. Is that intended to suggest that on the impaired CRE, 72% is covered by tangible collateral and guarantees, so you reserve to 28%? Is that the way I should be looking at that? Or is there some risk that maybe if collateral on these guarantees aren't as good as you're expecting that maybe that implied loss rate couldn't move higher? Any thoughts there would be helpful.

Graeme Hepworth

Yeah, sure. I appreciate that. To be clear, what we're providing you there is just an indication of what our actual outcomes have been on those commercial real estate accounts of default.

We're just highlighting that while this catches a lot of headlines and valuations are hard, on average, we're still realizing an amount there that's still quite strong and consistent with kind of expectations. And so, in any given account, we've seen kind of worse outcomes in that, but we've seen lots of accounts where we kind of get fully repaid as well. So overall, in this even more distressed and difficult environment, we're still realizing at relatively healthy levels.

Lemar Persaud

Appreciate the time.

Operator

Thank you. Our last question is from Nigel D'Souza from Veritas Investments Research. Please go ahead.

Nigel D'Souza

Good morning. Thank you. Thanks for taking my questions. Just two for you, if I could squeeze them in. The first on HSBC Canada. The first line of defense is underwriting the portfolio ahead of a more challenging environment and RBC didn't underwrite HSBC Canada's portfolio. So, I'm wondering if you could share any thoughts on what you're seeing in terms of the credit performance metrics for HSBC Canada. How are you thinking about their commercial book as well, which has automotive, manufacturing and real estate exposures? And how does that tie into the credit mark on purchase price accounting on [disclosures] (ph)?

Graeme Hepworth

All right. There's a number of pieces there, but -- it's Graeme, Nigel. Maybe I'll start and turn it over to Neil. Certainly, you go back to the diligence we did at the inception of transaction, credit was a huge part of our focus there and it's where our kind of size and scale comes into play. We brought a lot of people into the room on that from the risk management side and the business side to go very deep on their portfolios, really understand their mortgage portfolio, their commercial portfolios. We did that from both an aggregate portfolio view as well as right down to reviewing and understanding the underwriting they did on sample portfolios there.

So, through that process, we got very comfortable with their portfolio that if anything it skews a little bit better than some of our portfolios. The nature of their retail client base is a fairly high net worth one and so that tends to skew well. And likewise, in commercial and particularly in this environment, their commercial portfolio, again skews to a larger commercial accounts, which in this environment is performing better than as I noted earlier, kind of the smaller commercial and smaller business piece.

So overall, I think we felt really good about the diligence we did at the time. Obviously, we'll get the full details as this transitions across on March 28 as Dave indicated. But I don't think at this point in time, we've seen anything that was new there that would cause us concern. But maybe Neil can talk to some of the performance and discussions he's been having.

Neil McLaughlin

Yeah. I think very much aligned with Graeme's comments. I mean, maybe start with the consumer. These are generally more affluent consumers. They have FICO scores that actually skew higher than our overall portfolio. And to Graeme's point, it's hard to do due diligence and do extensive file reviews to really understand their processes and their policies. I think all of that really took away and mapped us to the experience we saw in the data room and everything in their performance.

Very similar, I'd say, on commercial. Higher -- larger clients, they do skew very much to the highest segment that we serve. They don't really participate that much in the sort of under $10 million, under $5 million credit segment. So, larger clients, better rated.

And the last part of that we'd say is, we did go through an extensive exercise to really just [indiscernible] and do a deep analytical exercise to get comfort, all to say extensive due diligence and we feel quite good about the book.

Operator

Thank you. We have no further questions registered at this time. I would now like to turn the meeting over to Mr. McKay.

Dave McKay

Thank you, everyone, for attending today, and thank you for your questions.

Maybe I'll just kind of summarize the themes that we hoped came out from our comments and your questions. One, I would say a very strong start to the year characterized by really good client flow across all our businesses. Our compete level was very high from global markets and investment banking to Wealth Management, asset management and distribution to the majority of our sectors, particularly commercial and in the retail bank and insurance, very, very strong compete levels and quality of business that we brought in, I think, drove the story today, matched by very good cost control.

So, as you see our focus on cost in the face of good volume control, good cost control and we are very focused on that for the rest of the year into 2025, producing us a strong fortress balance sheet of 14.9%. We gave you a glimpse forward into where we think we're going to close the HSBC transaction and very strong capital levels, which gives us a lot of flexibility given the power -- capital generation power of this franchise going forward will be even enhanced.

Great progress on HSBC, albeit we lost three months in the approval process. We're on track, again, for that March 28 close. Kind of reaffirmed our synergies, gave you greater clarity around the timing.

And then, obviously, as we've signaled a lot of great work at CNB, we have a path forward there. We're at full run rate to strengthen this platform. We have an opportunity to create more profitability from the existing platform and position ourselves for strong integrated growth across the United -- all our businesses in the United States.

So, thank you very much. Look forward to see you in Q2, and have a great day.

Operator

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