ROYAL BANK OF CANADA SECOND QUARTER RESULTS CONFERENCE CALL THURSDAY, MAY 30, 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MATERIALS, HAVE BEEN FURNISHED FOR YOUR INFORMATION ONLY, ARE CURRENT ONLY AS OF THE DATE OF THE WEBCAST, AND MAY BE SUPERSEDED BY MORE CURRENT INFORMATION.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 AUGUST 27, 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, capital impacts of the HSBC Bank Canada (HSBC Canada) acquisition, including expected synergies and related timelines, Basel III impact, net interest margin (NIM), expense growth, operating leverage, talent 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 anticipated benefits from the HSBC Canada acquisition are not realized, 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 Q2 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 Q2 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 Q2 2024 Report to Shareholders, as such sections may be updated by subsequent quarterly reports. Assumptions about expected financial performance and expected expense synergies (and timing to achieve) were considered in making the forward-looking statements in this document. 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 Q2 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 second quarter earnings of $4 billion, or adjusted earnings of $4.2 billion. ROE which is the key pillar of our shareholder value creation framework – increased to 14.5 percent this quarter. Adjusted ROE increased to 15.5 percent as we successfully executed our strategic priorities, including client-driven organic growth, expense discipline, maintaining a strong balance sheet, and accretive capital allocation, including the acquisition of HSBC Bank Canada.

This quarter, we saw strong growth across diversified revenue streams. Capital Markets reported record revenue of $3.2 billion as we gained market share in key areas of focus such as Advisory & Origination. Canadian Banking revenue growth was driven by strong volume growth and higher interest rates, reflecting benefits of our structurally advantaged balance sheet. Asset management and North American wealth management advisory revenue benefited from double-digit fee-based asset growth.

Our increasing scale advantages and disciplined cost management helped drive all-bank operating leverage of 1.4 percent, or a strong 4.5 percent, adjusting for specified items. Canadian Banking reported a 39 percent efficiency ratio. While we are focused on creating efficiencies, we continue to invest in improving the client experience. RBC was the first Canadian bank to be awarded the *Digital CX Award for Excellence in Omni-Channel Customer Experiences* by *The Digital Banker*, along with being awarded *the Celent Model Bank Award* for *Digital Onboarding*. We are also actively investing in Artificial Intelligence beyond retail banking and risk management. In U.S. Wealth Management, we are using the power of AI to help financial advisors identify and act on new opportunities to provide even more value to clients. And in Capital Markets, we are seeing continued success with *Aiden*, our well-established AI-powered trading platform.

Our balance sheet remains strong, even after successfully closing the largest acquisition in our 155-year history. We reported a Common Equity Tier 1 ratio of 12.8 percent. Our Canadian Banking loan-to-deposit ratio improved to 98 percent as we continued to attract new clients through our client value proposition. Furthermore, we diversified our funding profile with the launch of our U.S. cash management business, which I will speak to shortly. And we continued to prudently add to our reserves, with PCL on Performing Loans of $244 million. Our results continue to demonstrate our ability to generate long-term value. Our premium ROE drove gross internal capital generation of over 70 basis points and book value growth of 8 percent. This morning we announced a 4 cent or 3 percent increase in our quarterly dividend. We also announced our intention to repurchase up to 30 million common shares under a normal course issuer bid as we look to offset the dilution from shares issued under the dividend reinvestment plan.

I will now speak to the acquisition of HSBC Bank Canada, which we completed on March 28th. This was a pivotal milestone as we continue to focus on driving a premium, long-term ROE and growth. We are excited to welcome 780 thousand clients from HSBC Canada, which added approximately $75 billion of both loans and relation-based deposits to our balance sheet. I would like to thank our employees who made an extremely complex close-and-convert integration possible – all within a single weekend. This smooth integration also demonstrates the power of the technology investments we've made in recent years. The level of employee engagement is high, and we are excited about the journey ahead. As a combined organization, we are well-positioned as the bank of choice for commercial clients with international needs, newcomers to Canada and retail clients who need global capabilities. A significant percentage of the acquired retail accounts are affluent clients. Through HSBC Canada, we also acquired a well-established, premier commercial bank with a leading trade finance value proposition, and one which skews to a larger client segment than where we have historically competed.

We are pleased that the client base and acquired loan portfolio, which can be seen on slide 28, is largely within levels forecasted when we announced the transaction 18 months ago. These loans continue to be supported by a high-quality, low-cost deposit franchise, which is largely within forecasted levels. This included the expected repayment of non-interest bearing CEBA deposits. Similar to our own experience, net interest margins were impacted by a shift in deposit mix towards term products, and more intense competition for mortgages and deposits than we had initially assumed.

Since the acquisition date, the HSBC Canada a reported a loss of $51 million, or a loss of $33 million adjusting for amortization of intangibles. As seen on the bottom of slide 6, underlying HSBC Canada net income of $63 million represented approximately one month of earnings. This quarter's results further benefited from the the accretion of purchase price accounting marks, which Katherine will speak to shortly. In addition, we realized $30 million of before-tax expense synergies this quarter, equating to annualized run-rate savings of $360 million, or approximately 50 percent of our stated target. In contrast, results were negatively impacted this quarter by the recognition of Day 1 PCL, which Graeme will speak

to shortly, as well as the cost of a short-term special welcome offer for qualifying HSBC Canada *High Interest Savings Account* clients.
We continue to expect approximately $740 million of expense synergies within the 2-year timeline we provided last quarter. Following the uncertainty of a long approval, which led to a slowdown in new sales, the re-energized sales force is rebuilding pipelines with clients with whom they have long-standing relationships. They are also leveraging the added benefits that come with RBC's technology ecosystem and Aa1 balance sheet. Furthermore, we believe our combined product and service offerings should drive compelling cross-sell revenue synergies across retail and business banking. While it's early, we are seeing positive signs. We continue to estimate the transaction will generate $1.4 billion of fully synergized adjusted earnings, excluding the accretion of purchase price accounting marks. However, the initial lower than expected margins will push out the realization of our previously stated 2-year target by a couple of quarters. Should we see mortgage and deposit spreads recover, we expect that the realization timeline will accelerate.

Before discussing the expanding client value proposition in our businesses, I will provide my perspective on the macro environment. The relative strength of the U.S. economy, including a tighter labour market and healthy consumer spending, has kept U.S. inflation persistently above the targeted range. In contrast, Canada continues to lag its peers in GDP growth per capita as the impact of higher interest rates and rising unemployment begins to weigh on households, which Graeme will speak to in his remarks. Canadian inflation metrics are now within the 1 to 3 percent target range. The bifurcation in trends suggests the Bank of Canada should move earlier than the Fed and start lowering interest rates over the coming months. The expectation of central bank rate cuts has led to strong equity market returns this year and should also have positive implications for loan growth and M&A deal flow, while also providing relief for Canadians.

With this context, we are executing on our growth strategy across our largest franchises, starting with Canadian Banking. Deposits were up double-digits from last year, or a strong 9 percent, excluding the benefit of the HSBC Canada acquisition. We welcomed a record number of newcomer clients this quarter, reflecting a 30 percent increase year-over-year. More broadly, New-to-RBC account acquisition was approximately 40 percent higher than last year due to our innovative client value propositions, which now includes the expansion of our partnership with *METRO* and its *Moi Rewards* program in Ontario. This partnership will continue to build on the successful launch of our co-brand credit card in Quebec. Additionally, RBC announced the launch of a new loyalty partnership with *Pattison Food Group* and its *More Rewards* loyalty program, which has more than 3.5 million household members in Western Canada. Furthermore, since launching our *Avion Select* tier for non-clients, we've registered nearly half a million new members. We remain focused on attracting new primary client deposits, which provide a foundation for profitable loan growth, credit insights, deepening relationships, and earnings stability through the cycle. Commercial loans were up 25 percent, or up 14 percent excluding HSBC Canada loans. Our growth strategy remains focused amongst a diversified set of existing clients we know well.

Turning to our record results in Capital Markets. Investment Banking revenue grew 45 percent from last year. Our market share is up 40 basis points over the last 12 months, reflecting gains across all major products. We continue to focus on multi-product mandates and improved sector diversification. While geopolitical risk and an evolving regulatory environment creates uncertainty, the market backdrop is creating opportunities for increased dialogue with clients and a healthy M&A pipeline that continues to build. Global Markets reported $1.5 billion in revenue largely due to higher debt and equity origination and higher fixed income trading revenue. We also recently launched *RBC Clear,* our cloud-native, next-generation U.S. Cash Management business, with a digital end-to-end onboarding platform and ability to offer enriched insights to corporate treasurers. Our initial focus is to increasingly diversify our U.S. funding sources to reduce reliance on costlier wholesale funding, and in turn, improve the ROE.

Moving to our Wealth Management segment. RBC Global Asset Management's AUM increased 11 percent from last year, particularly in Canadian strategies, benefiting both from higher markets and inflows from institutional mandates. An easing of monetary policy may also start a shift away from term deposits and cash ETFs towards fixed income opportunities, which is one of the core strengths of *RBC Global Asset Management*. In Europe, *RBC BlueBay* has been recognized by *Morningstar's Excellence Awards*, and the *Lipper Awards* for its fixed income strategies. RBC GAM was also named the *TopGun Investment Team of the Year* in Canada for the 9th time in 11 years.

Assets Under Administration in our leading Canadian Wealth Management business were up 15 percent or nearly $80 billion from last year, increasing to a record level of nearly $620 billion, benefiting from higher equity markets and net sales of $16 billion over the last 12 months. Assets Under Administration in our U.S. Wealth Management platform, including the 6th largest wealth advisor in the U.S., also increased 12 percent year-over-year to over US$610 billion – another record. One of our ongoing key strategic objectives for our Wealth Management businesses is to attract and retain top performing financial advisors.

To close, our premium ROE reflects efficient capital deployment, diversified funding, prudent risk management, disciplined expense control, and the execution of our client-focused strategies, including the acquisition of HSBC Canada. In turn, our strong internal capital generation through economic cycles allows us to invest in organic growth while also returning capital to shareholders.

Now I would like to turn it over to Katherine Gibson, our Interim CFO and welcome her to her first quarterly call. Katherine brings deep financial sector experience and knowledge of RBC.
Katherine, over to you!

KATHERINE GIBSON, INTERIM CHIEF FINANCIAL OFFICER

Thanks Dave, and good morning, everyone. Overall, our results benefited from strong revenue momentum across our segments underscoring the bank's diversified business model. Disciplined cost management also drove robust operating leverage. Starting on slide 8, we reported Earnings Per Share (EPS) of $2.74 this quarter. Adjusted diluted EPS was $2.92, up 9 percent from last year. These adjusted results included a net loss from HSBC Canada of $33 million, reflecting the Day 1 PCL impact of $145 million after-tax. We are excited by the earnings power from this transaction as it will provide yet another source of internal capital generation.

Turning to capital on slide 9. We reported a CET1 ratio of 12.8 percent, down 210 basis points from last quarter, reflecting the impact of the HSBC Canada transaction and strong client-driven volume growth. This was partly offset by ongoing strength in internal capital generation. We do not expect Basel III floors to be binding in fiscal 2024 and anticipate a minimal impact in the second half of 2025 absent optimization actions.

Moving to slide 10. All-bank net interest income was up 9 percent year-over-year, or up 10 percent excluding trading revenue. These results were largely driven by higher spreads and average volume growth in Canadian Banking, as well as the addition of HSBC Canada. We also recognized purchase accounting fair value adjustments on HSBC Canada loans, which will accrete to net interest income over time. This quarter, the benefit was $45 million. All-bank NIM excluding trading revenue was up 3 basis points from last quarter driven by tailwinds in Canadian Banking. This was partly offset by the dilutive impact of HSBC Canada's lower yielding $21 billion securities portfolio that has been consolidated into our existing portfolios in Corporate Support.

Canadian Banking NIM was up 4 basis points from last quarter. HSBC Canada added 2 basis points to NIM this quarter, as the benefit from the accretion of purchase accounting fair value adjustments was partly offset by modest dilution from the HSBC Canada portfolio. Core Canadian Banking NIM was up 2 basis points sequentially. The structural advantage of our tractored core personal banking deposit portfolio continued to come through tis quarter, reflecting the latent benefit of interest rate hikes. Additionally, we saw benefits from changes in asset mix associated with seasonally higher credit card revolve rates, which we anticipate will come off next quarter. These benefits were partly offset by ongoing intense competition for deposits.

Going forward, with five-year swap rates up approximately 200 basis points from five years ago, our core deposit portfolio is well positioned for continued benefits from tractored maturities rolling on at higher yields. We expect this benefit to be partly offset by ongoing market competition, and a moderating client-driven shift into higher yielding deposits. While the migration of Bankers Acceptances to CORRA-based loans may be marginally dilutive to NIM, we expect the impact will be net neutral to total revenue. In addition, the benefit of HSBC Canada purchase price marks will continue to accrete into net interest income, adding approximately $135 million per quarter in 2024 followed by a $110 million benefit per quarter in 2025. This will partially offset modest dilution from a relatively lower spread HSBC Canada portfolio. Taken all together, we anticipate Canadian Banking net interest margin to be slightly higher in the back half of the year.

Moving to slide 11. Non-interest expenses were up 12 percent from last year. Adjusted expense growth was 8 percent, excluding HSBC Canada transaction and integration costs, as well as the impact of amortization of intangibles. Further, excluding macro-driven factors such as FX and share-based compensation, and the addition of HSBC Canada run-rate expenses, core expense growth was 6 percent year-over-year. Higher variable compensation, driven by strong results in Capital Markets and Wealth Management, made up 4 percent of the core expense growth. Looking forward, all-bank core expense growth, inclusive of HSBC Canada business costs, is expected to come in at the top of the mid-single digit range for fiscal 2024.

Turning now to our Q2 segment results beginning on slide 12. Personal & Commercial Banking reported earnings of $2.1 billion. Canadian Banking net income was up 7 percent year-over-year including the Day 1 PCL of $181 million. My following comments will now exclude any impact to Canadian Banking from HSBC Canada. Canadian Banking earnings were up a strong 11 percent year-over-year. Net interest income was up 11 percent from last year. Non-interest income was up 5 percent year-over-year, as increased client activity underpinned higher service revenue and FX revenue, while market appreciation drove higher mutual fund distribution fees. Expenses were up 3 percent from last year, helping to drive 6 percent operating leverage. For the full year, including the benefit from the HSBC Canada transaction, we now expect Canadian Banking operating leverage to come in above our historical 1 to 2 percent target range.

Turning to slide 13. Wealth Management earnings were up 7 percent from last year. 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 market appreciation and net sales. These factors were partly offset by higher variable compensation and lower net interest income in our Canadian and International Wealth Management businesses. City National generated $73 million USD in adjusted earnings this quarter, or $86 million USD excluding the impact of the FDIC Special Assessment. Looking forward, our efforts to enhance expense and capital efficiency, and deepen client relationships should allow CNB to achieve more normalized profitability as we exit 2025. However, the path to normalized profitability may not be linear from quarter-to-quarter.

Turning to our Capital Markets results on slide 14. Pre-provision, pre-tax earnings of $1.4 billion increased 24 percent from last year. Corporate and Investment Banking revenue was up 23 percent from last year, reflecting record investment banking fees underpinned by market share gains across all major products and a recovery in fee pools. Global Markets revenue was up 8 percent from last year, including higher fixed income trading revenue, led mortgages and secured financing. This was partially offset by a normalization in rates trading from a very robust quarter last year. Strong results year to date benefitted from very robust Investment Banking activity and higher volumes in Global Markets. While we continue to see good client activity levels and momentum in our business performance, we expect results in the second half to be seasonally lower.

Turning to Insurance on slide 15. Net income of $177 million was up 4 percent from last year, driven by higher insurance investment result from favourable investment related experience. It is important to note that the results in the prior year period are not fully comparable as we were not managing our asset and liability portfolios under IFRS 17.

Turning to slide 33, this quarter we included additional details on our Corporate Support segment. Results for Corporate Support mainly reflect enterprise-level activities which are not allocated to business segments, and therefore represent a modest 3 percent of all-bank average assets. Results in the first half of the year included slightly elevated earnings on excess capital we were holding ahead of the the HSBC Canada transaction close. As we look to the rest of the year, we expect Corporate Support to generate a net loss of approximately $100 to $150 million per quarter.

To conclude, our focus on thoughtful capital allocation and ongoing discipline around cost containment contributed to this quarter's strong results and remains a key priority going forward.

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

GRAEME HEPWORTH, CHIEF RISK OFFICER

Thank you, Katherine, and good morning, everyone. Starting on *slide 17*, I will discuss our allowances in the context of both the macroeconomic environment, and the HSBC Canada acquisition. As Dave noted earlier, the economies of Canada and the US continue to diverge. In Canada, relatively weaker consumer demand, higher unemployment rates, and the impact of almost two years of elevated interest rates are continuing to weigh on consumers and businesses. In the US, more persistent inflation means borrowers may have to cope with a more prolonged period of higher interest rates. With this backdrop, we saw credit quality continue to weaken this quarter, with net credit downgrades, additions to our watchlist, and elevated delinquency rates. These outcomes are in-line with our expectations for where we are in the credit cycle.

Consistent with last quarter, we added reserves on performing loans, reflecting weaker credit quality, partially offset by a release of reserves, reflecting an improving macroeconomic outlook. During the quarter, we also added reserves for the performing loans we acquired from HSBC Canada. As a reminder, the acquired impaired loans came onto our balance sheet at their fair value, net of any credit impairments. Additionally, under IFRS-9 accounting rules, we are required to take provisions on the acquired performing portfolio. These initial provisions are over and above the credit mark embedded in the fair value adjustment established for the purchase. This resulted in an initial provision on performing loans of $193 million this quarter. As this portfolio is all deemed to be stage 1 at acquisition, provisions in the coming quarters will reflect credit migration moving more of the portfolio into stage 2.

Since transaction close, our analysis has confirmed the credit quality of the acquired portfolio is strong and in-line with our expectations from due-diligence. Relative to our Canadian Banking commercial portfolio, the acquired commercial loans have a similar ratings profile, are skewed towards larger exposures, and are more diversified by sector. Compared to our Canadian Banking retail portfolio, the acquired retail loans are more concentrated in residential mortgages. However, the acquired mortgages have a lower average loan-to-value ratio and are supported by clients with relatively higher incomes and better FICO scores. Across the acquired loans, and our existing portfolio, we took a total of $244 million of provisions on performing loans this quarter. Our total ACL on loans and acceptances increased by $444 million to $6.1 billion and represents over 2.8 times our PCL on impaired loans over the last 12 months.

Moving to *slide 18*, gross impaired loans were up $1.1 billion or 7 basis points this quarter, primarily due to increases in Capital Markets and Canadian Banking. In Capital Markets, new formations[1] of $809 million were largely a function of two loans. One loan was in the Commercial Real Estate sector, which I will speak to shortly. The other loan was a securitization transaction related to a corporate borrower that defaulted last quarter in the automotive sector. While this was a relatively large impaired loan, securitization facilities are structured to minimize loss in the event of default. In Canadian Banking, new formations were lower compared to last quarter, but remain elevated, reflecting both the macroeconomic environment that I noted earlier, and the impaired loans we acquired from HSBC Canada.

Despite higher formations of gross impaired loans this quarter, you can see on *slide 19* that provisions on impaired loans were down $13 million or 1 basis point relative to last quarter. Modestly higher provisions in Canadian Banking and Wealth Management, were more than offset by lower provisions in Capital Markets. In our Canadian Banking retail portfolio, provisions were up $24 million, driven by higher provisions on Credit Cards. In our Canadian Banking commercial portfolio, provisions were down $9 million compared to last quarter but remain above pre-pandemic levels. Credit outcomes in the commercial portfolio are in-line with our expectations, with stress in the portfolio skewed to: smaller

[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.

borrowers; borrowers in sectors that are closely tied to consumer spending; and borrowers still recovering from the impacts of the pandemic. In Capital Markets, provisions were down $46 million compared to last quarter, primarily due to a reversal on a previously impaired loan in the Oil and Gas Sector. This quarter, nearly three quarters of our Capital Markets provisions were taken on a multifamily commercial real estate loan backed by a portfolio of rent-controlled properties in San Francisco.

We have now had two large impairments and provisions in our U.S. multifamily commercial real estate portfolio, so we have provided some additional details on our exposure on *slide 20*. The sector has generally been performing well, supported by strong demand for housing. However, pockets of geographic weakness have surfaced on rent-controlled properties in places like New York and San Francisco. Our exposure to US multifamily commercial real estate loans of $8.3 billion represents less than 1 percent of our total loans and acceptances. Almost two-thirds of our exposure is in Wealth Management, where loans typically benefit from amortization and additional recourse outside of the properties held as collateral. To date, impairments and losses have been in our Capital Markets portfolio, on rent-controlled properties in San Francisco. Following a deep dive into our remaining $1.9 billion performing Capital Markets exposure to the sector, we remain comfortable with the risk and we are not expecting any additional impairments at this time. Stepping back from the multifamily sector, and looking at Commercial Real Estate more broadly, as I noted last quarter, impairments and losses have been consistent with our expectations and are well within our risk appetite. We remain prudently provisioned for our exposure to the sector, with our downside provisioning scenarios accounting for a reduction in Commercial Real Estate prices of 25 to 40 percent.

To conclude, credit performance this quarter remained in-line with our expectations, and we continue to expect provisions on impaired loans between 30 and 35 basis points for the year. We are pleased with the quality of the loans we acquired from HSBC Canada, and as Dave noted earlier, we are thrilled with how well the integration has gone. Alongside provisions we took on the acquired loans, we continued to prudently build reserves on performing loans, reflecting the credit outcomes of the softer macroeconomic environment we are currently experiencing. Moving forward, credit outcomes will continue to be dependent on: the magnitude of change 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 Q2 2024 Report to Shareholders and 2023 Annual Report.

Definitions can be found under the “Glossary” sections in our Q2/2024 Supplementary Financial Information and our 2023 Annual Report.