ROYAL BANK OF CANADA SECOND QUARTER RESULTS CONFERENCE CALL THURSDAY, MAY 29, 2025

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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 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, priorities, vision and strategic goals, anticipated economic conditions and their anticipated impacts on our business, the expected cost synergies related to the acquisition of HSBC Bank Canada (HSBC Canada), the expected run-off of benefits from the purchase accounting accretion of fair value adjustments from the acquisition of HSBC Canada, Bank of Canada and Federal Reserve monetary policy, housing resale activity, mortgage growth, credit card spending and revolver balances, Commercial Banking loan growth, the uncertainty and potential impacts of trade policy and tariffs, CET1 ratio, net interest income, core expense growth, operating leverage, expected net losses in Corporate Support, the expected impacts of reduced interest rates in Canada and the U.S. and the expected impacts of higher unemployment. 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 acquisition of HSBC Canada are not realized, credit, market, liquidity and funding, insurance, operational, 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 and systemic risks, risks associated with escalating trade tensions, including protectionist trade policies such as the imposition of tariffs, and other risks discussed in the risk sections of our annual report for the fiscal year ended October 31, 2024 (2024 Annual Report) and the Risk management section of our Q2 2025 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, 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 2024 Annual Report and the Risk management section of our Q2 2025 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 headings in our 2024 Annual Report, as updated by the Economic, market and regulatory review and outlook section of our Q2 2025 Report to Shareholders. Such sections may be updated by subsequent quarterly reports. Assumptions about expected cost synergies (and timing to achieve) were considered in making the forward-looking statements in this document. Any forward-looking statements contained in this document represent the views of management only as of the date hereof, and 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 2024 Annual Report and the Risk management section of our Q2 2025 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, Katherine Gibson, Chief Financial Officer, and Graeme Hepworth, Chief Risk Officer. Also joining us today for your questions: Erica Nielsen, Group Head, Personal Banking, Sean Amato-Gauci, Group Head, Commercial Banking, Neil McLaughlin, Group Head, Wealth Management, Derek Neldner, Group Head, Capital Markets and Jennifer Publicover, Group Head, Insurance. As noted on slide 2, our comments may contain forward-looking statements, which involve assumptions, and have inherent risks and uncertainties. Actual results could differ materially. 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.

May 29, 2025/ 8:30 AM EST, RBC Second Quarter 2025 Results Conference Call

DAVE MCKAY, PRESIDENT & CHIEF EXECUTIVE OFFICER

Good morning everyone, and thank you for joining us.

Today, we reported second quarter earnings of $4.4 billion. Adjusted earnings were $4.5 billion included $260 million of earnings from the acquisition of HSBC Bank Canada.

This quarter, we generated strong pre-provision, pre-tax earnings of nearly $7 billion as we continued to execute the strategies we shared at our Investor Day. Adjusted PPPT growth was up 16 percent or $971 million from last year, more than offsetting a prudent reserve build of $568 million dollars this quarter. Revenue growth of 11 percent year-over-year was underpinned by strong average volume growth in Personal Banking and Commercial Banking, as well as higher spreads in Personal Banking. We also reported robust fee-based revenue growth in Wealth Management and strong Global Markets revenue in Capital Markets. Our results demonstrate the strength of our diversified business model and earnings power, as well as the value of the insights and advice we deliver for our clients as they navigate the uncertain macro environment. Our revenue growth is noteworthy considering the evolving market conditions. This strong performance was generated from a position of balance sheet strength, which continues to be through-the-cycle competitive and strategic advantage for RBC.

We continue to grow our core deposit franchises across our segments, including in Canadian Banking where the loan to deposit ratio improved to 97 percent, helping fund loan growth in an efficient and stable manner. We ended the quarter with a common equity tier 1 ratio of 13.2 percent, well above regulatory minimums; translating into excess capital of approximately $5 billion relative to a mid-12 percent range. Underpinned by our robust capital and earnings power, this morning, we announced a 6 cent or 4 percent increase in our quarterly dividend. We also announced our intention, subject to relevant approvals, to commence a normal course issuer bid to repurchase for cancellation up to 35 million common shares. We also remain disciplined with respect to our risk management framework and risk appetite. The allowance for credit loss ratio increased to 74 basis points (bps), following a prudent reserve build, which included increasing weightings to our downside scenarios amidst heightened economic uncertainty. Our through-the-cycle approach to managing risk takes into consideration elevated market volatility. We did not have any trading loss days this quarter. Furthermore, over the last 4 years we have only seen 5 days where we generated a trading loss. Our strong balance sheet creates a resilient foundation that allows us to navigate uncertainty while creating value for clients and shareholders

Turning to the macro environment. Changes to longstanding U.S. and international trade policies have resulted in a volatile and uncertain operating environment given the potential for structural disruptions to global supply chains and capital flows. These changes are taking place concurrently with other large, secular forces of change, including the increased role of artificial intelligence and private capital, magnifying the complexity that businesses are facing. We saw market volatility through much of the quarter, evidenced by movements in credit spreads, the VIX and bond market volatility indices. However, as the US administration implemented a 90-day pause on reciprocal tariffs, the volatility of outcomes, sentiment and markets narrowed significantly. While we can’t say for certain where global trade policies will settle, we are cautiously optimistic about the path forward. Reciprocal tariffs imposed on Canada are currently at the lowest end of the global scale, reflecting strong bilateral trade and the CUSMA agreement. Although we are not projecting a recession in either Canada or the U.S., the prevailing uncertainty is dampening confidence, sentiment and client activity in certain parts of the North American economy, including housing. North American consumers have remained resilient. They are continuing to spend, albeit less so on discretionary items, and savings are growing. Businesses are in a holding pattern on large CapEx, but have built inventory and shored up supply chains, moving consumption forward. It is under these complex circumstances that policymakers are looking to navigate the options to solve for inflation, unemployment and growth. We expect the Bank of Canada will continue to take a more dovish stance to shore up consumer sentiment and growth. Furthermore, we hope to see the increased political certainty in Canada drive structural improvements in the country’s productivity and competitiveness, including more effectively leveraging our abundant natural resources and skilled workforce. With the Federal Reserve signalling a holding pattern on interest rates given opposing forces, we similarly expect a more dovish stance in U.S. monetary policy, albeit on a lagged timeline.

To reiterate what I said earlier, we believe we are in a strong position to navigate this period of uncertainty given the strength of our balance sheet, our diversified business model, and our strong risk culture. With this context, I will now speak to the trends we are seeing across our businesses as we continue to focus on delivering advice, insights, and value to our clients. Starting with our leadership position in Canada.

We have the leading distribution network in Canada with a full suite of award-winning products and solutions. Average deposits increased 13 percent year-over-year, or 8 percent excluding the acquisition of HSBC Canada, led by outsized growth in our lower cost, core banking and saving products. As noted at our Investor Day, growing core deposits remains a priority. This provides us with data to support personalization, underpin risk models, and our interest rate hedging strategy while being an important source of funding. Residential mortgage growth was largely supported by stronger client renewals, higher origination volumes driven by strong mortgage switch-in activity, partly offset by higher paydowns. We expect housing resale activity and mortgage growth to remain contained in the near-term as the uncertainty around tariffs outweighs lower debt servicing costs from lower interest rates. Amidst ongoing intense competition, we will maintain the disciplined mortgage growth strategy we articulated over the past year. In our credit card business, spending remained relatively resilient despite low consumer sentiment. Going forward, we expect spending to soften and revolver balances to increase year-over-year should the current environment persist.

Turning to Commercial Banking, where we have leading market share across all client segments. Average deposit growth remained strong, up 15 percent year-over-year, or 10 percent excluding deposits acquired through the acquisition of HSBC Canada. This growth continues to be supported by investments in our people and capabilities, including digital client onboarding and transaction banking. Average net loans & acceptances were up 22 percent year-over-year, or up 9 percent excluding loans acquired through HSBC Canada. Adjusting for these acquired loans, larger Commercial & Corporate loans and Small Business loans grew at a similar rate. Utilization rates have remained largely unchanged. While the lending pipeline and client activity remain solid across many parts of our diversified portfolio, we continue to see signs of cautious business sentiment in certain areas as clients assess how global tariffs could impact their strategies and investment plans. Loan demand was notably softer for companies in the automotive, consumer discretionary and transportation sectors. Going forward, we continue to expect Commercial Banking loan growth in the high single-digit range for the year, but moderate to the mid-to-high single digits range in the back half.

Turning to HSBC Canada. We are continuing to bring new capabilities to market as we've now completed the migration of the largest and most complex commercial clients acquired through the acquisition of HSBC Canada pursuant to the Transition Services Agreement. As we exit Q2, the execution of cost synergy initiatives is largely complete, and we are increasingly confident of achieving our targeted annualized cost synergies by next quarter. Now to segments in which we are expanding our reach in global fee pools.

Starting with Capital Markets, which reported strong pre-provision, pre-tax earnings of $1.4 billion or a record $3.1 billion for the first half of the year, reflecting its diversified business model. Global Markets had a strong quarter driven by increased client activity amidst market volatility, which largely benefited our equities and broader macro trading businesses. This was partly offset by the impact of a challenging market backdrop on credit trading. The strong performance in both cash equities and equity derivatives was particularly notable as they are a key area of focus for market share gains over the medium-term. Like Commercial Banking, utilization in the Corporate Banking loan book remained relatively steady. We continue to pursue our strategy to moderately grow lending activity, with average loan balances up mid-single digits year to date. In contrast, Investment Banking activity was muted this quarter given the volatility in markets. Going forward, policy uncertainty could continue to impact activity as clients wait on the sidelines for clarity. While the 2nd half of the year is seasonally slower than the first half, client dialogue is robust, and we are well positioned to deliver as deal making momentum improves.

Moving to Wealth Management where we reported Assets Under Administration growth of 11 percent in Canada and 9 percent in the U.S. Our clients remain engaged, and we had solid net sales and transactional activity in our Canadian platforms, including in RBC Direct Investing. RBC Global Asset Management Assets Under Management increased by 11 percent to $694 billion. Net sales were robust across asset classes with client flows shifting from fixed income and equity mandates earlier in the quarter to more balanced funds in April, highlighting our clients' confidence in our wide range of investment strategies across geographies. As a leading asset manager, RBC GAM consistently delivers strong performance through our leading distribution network. This point was underscored with RBC GAM yet again being named the *TopGun Investment Team of the Year* in Canada for 2025.

To close, this quarter builds on the strong start we've had to Fiscal 2025 amidst an evolving operating environment. While macro-related uncertainty remains, we are confident in our ability to pursue the ambitions and medium-term targets outlined at our Investor Day in March. This includes our OneRBC approach to extending our leadership in Canada, growing in global fee pools, and leveraging our strong balance sheet, data scale and AI investments to create more value for clients. The key strategic initiatives designed to *Accelerate our Ambitions* are expected to continue to deliver leading risk-adjusted returns and long-term value for our shareholders through a wide range of economic cycles.

Katherine, over to you.

KATHERINE GIBSON, CHIEF FINANCIAL OFFICER

Thanks Dave, and good morning everyone.

This quarter, we reported diluted Earnings Per Share of $3.02. Adjusted diluted Earnings Per Share of $3.12, was up 7 percent from last year, driven by strong revenue momentum across our businesses and prudent cost management. The acquisition of HSBC Canada, and foreign exchange translation impacts also benefitted results.

Turning to Capital on slide 10. We demonstrated our through-the-cycle capital strength and resilience despite the market disruption. Our CET1 ratio came in at 13.2 percent, flat sequentially. Solid internal capital generation, net of dividends, was partly offset by net credit migration, primarily in our wholesale portfolio. We also continued deploying organic capital across our businesses toward trading-related activities, as well as wholesale and Personal lending. A key part of our capital deployment strategy is returning capital to our shareholders. This quarter, we repurchased 3 million shares for $488 million, an increase from the 2.3 million shares repurchased over the last two quarters. We will continue to be tactical with the cadence of share repurchases, while operating with a strong CET1 ratio. Next quarter, we expect a modest negative impact to our CET1 ratio as a result of changes to our retail capital parameters.

Moving to slide 11. All-bank net interest income was up 22 percent year-over-year, or up 14 percent excluding trading revenue and HSBC Canada. All-bank net interest margin, excluding trading revenue, was down 2 bps from last quarter, partly due to the impact of higher investment securities balances in Capital Markets. Lower rates on our funding and securities portfolio in Corporate Support also impacted all bank NIM as the benefit of certain hedging transactions this quarter was recorded in non-interest income with a related offset reported in net interest income. These factors were mostly offset by a favourable product mix in Personal Banking. Canadian Banking NIM was up 5 bps from last quarter, benefitting from a favourable product mix, higher mortgage spreads and continued benefits related to our tractor strategy, which provides protection in a declining rate environment. Benefits from changes in product mix were driven by strong growth in chequing and savings accounts and seasonally higher credit card revolve rates; the latter of which we expect to reverse next quarter. In addition to our client acquisition strategies, declining interest rates and uncertainty in the markets are driving clients to hold cash in non-maturity deposits as shorter-duration term deposits mature. While we expect to continue benefitting from these tailwinds in the near future, we don't anticipate this level of margin expansion to continue. Looking forward, we are maintaining our 2025 all-bank net interest income growth guidance of high-single-digit to low double-digit net interest income, ex-trading.

Moving to slide 12. Reported non-interest expenses were up 5 percent from last year. Core expense growth was up 8 percent year-over-year. As a reminder, core expense growth includes run rate costs related to the acquisition of HSBC Canada, which contributed 1 percent to expense growth, but excludes the impact of foreign exchange translation and share-based compensation, which are largely driven by macro variables. The main drivers of growth were higher staff-related costs, including higher than average severance, targeted amendments to our defined benefit pensions and higher variable compensation, commensurate with strong results in Wealth Management. Going forward, we continue to expect all-bank core expense growth, which is off a base of reported 2024 expenses, to be at the upper end of our mid-single-digit guidance range for 2025. We remain prudent in managing our cost base amidst an uncertain macroeconomic backdrop and have proactively identified levers to do so. Higher-than-expected core expense growth outside our guidance range for this year will likely reflect higher-than-expected variable compensation, commensurate with higher revenues in our market-sensitive businesses. Consequently, we continue to expect positive operating leverage for the year.

On taxes, the adjusted non-TEB effective tax rate was 20.6 percent this quarter, up from 19.8 percent last year. The increase reflects the impact of changes in earnings mix and Pillar II tax legislation, partly offset by the net impact of tax adjustments.

Turning to our Q2 segment results beginning on slide 13. Personal Banking reported earnings of $1.6 billion. Focusing on Personal Banking – Canada, net income was up 15 percent year-over-year. Ex-HSBC Canada, Personal Banking – Canada net income rose 8 percent year-over-year, as strong operating leverage of approximately 6 percent was partly offset by higher provisions for credit loss. Personal Banking's efficiency ratio improved to 41 percent this quarter underpinned by strong revenue growth. Higher year-over-year revenues ex-HSBC Canada benefitted from a 14 percent increase in net interest income and an 8 percent increase in non-interest income. We are maintaining the sub-40 percent efficiency ratio target noted at our Investor Day. However, as a reminder, benefits from the purchase accounting accretion of fair value adjustments from the HSBC Canada transaction are expected to largely run-off by Q2 / 2026.

Turning to slide 14. Commercial Banking net income of $597 million rose 3 percent from a year ago. Results were impacted this quarter by an increase in Stage 1 and 2 provisions. On a pre-provision, pre-tax basis, earnings were up 25 percent or 11 percent, ex-HSBC Canada, driven by solid average volume growth, offset by lower credit fees and higher expenses, mainly reflecting higher staff-related costs. Ex-HSBC Canada, average deposit and loans growth were strong at 10 percent and 9 percent year-over-year, respectively.

Turning to Wealth Management on slide 15. Net income of $929 million rose 11 percent from a year ago, driven by strong growth in fee-based client assets across our businesses, benefitting from market appreciation and net new assets. We added $6.5 billion in net new assets across our Canadian wealth advisory business reflecting the benefits of the holistic strategies we highlighted at our Investor Day. Global Asset Management net sales were slightly negative this quarter as a result of net outflows from institutional clients, largely due to one client mandate. These outflows, however, were partly offset by a fifth consecutive quarter in positive retail fund inflows as we continue to grow our leading market share in Canada. Higher segment revenue was partly offset by higher variable compensation, commensurate with increased results and higher staff-related costs. City National generated US$88 million in adjusted earnings, up 21 percent from last year. We are encouraged by the momentum we are seeing and remain focused on enhancing City National's profitability.

Turning to our Capital Markets results on slide 16. Net income of $1.2 billion decreased 5 percent from last year, reflecting a 1 percent decline in pre-provision, pre-tax earnings off a strong second quarter last year and a higher effective tax rate this year. Global Markets revenue was up 23 percent year-over-year as a volatile market backdrop drove higher client activity, particularly in our equity and FX trading businesses across all regions. Corporate and Investment Banking revenue was down 7 percent from last year. Investment Banking revenue was down 22 percent reflecting lower M&A activity across all regions. The second quarter of last year was very strong due to the timing of several large M&A deals that closed in the quarter. Lending and Transaction Banking revenue was up 8 percent underpinned by higher lending revenue, primarily in Europe.

Turning to slide 17. Insurance net income of $211 million was up 19 percent from last year, mainly due to higher insurance service results from improved claims experience. Results also benefitted from higher insurance investment results on lower capital funding costs and favourable investment-related experience.

Lastly, results for Corporate Support in the quarter included higher than normal severance costs, representing approximately half of the total severance incurred this quarter. As we look forward, we continue to expect Corporate Support to generate a net loss of $100 to $150 million per quarter.

Before closing, I want to note a couple of disclosure updates in our analyst slides. We have provided new disclosures related to the performance of our U.S. Region, which we highlighted as a key geography at our Investor Day. Secondly, while we commit to providing updates on synergies related to the acquisition of HSBC Canada, this is the last quarter we'll provide detailed financials as the acquired business becomes fully integrated into comparable periods. Lastly, we will look to provide annual updates on our Investor Day targets every fourth quarter. To conclude, despite the market and macroeconomic uncertainty, we delivered strong results this quarter. We are maintaining the annualized guidance provided last quarter on net interest income and core expense growth, while continuing to drive toward the medium-term targets we outlined at our Investor Day. Our performance reflects the resilience of our diversified earning streams and financial strength, all of which position us to navigate the quarters ahead.

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

GRAEME HEPWORTH, CHIEF RISK OFFICER

Thank you, Katherine, and good morning everyone.

I will now discuss our allowances in the context of the current macroeconomic environment and ongoing trade uncertainty. After a stronger than expected start to the year, Canadian and U.S. economic indicators softened over the second quarter, with momentum stalled by global trade uncertainty. U.S. trade policy and bouts of market volatility are creating uncertain conditions, increasing the odds of a recession in North America. Although tariffs imposed on Canada were not as severe and broad-based as initially expected, global and sector-specific impacts are creating economic risks including, reduced trade, higher input costs and supply chain disruptions. The final form of tariffs is still unknown, and it is too soon to know how they will work through the economy. Against this backdrop, we continued to lean on our robust credit provisioning process to inform our allowances. As a reminder, we are not managing to one scenario or forecast – within our IFRS-9 framework, we employ five separate scenarios: a Base Case, an Optimistic and three Downside Scenarios of varying severity. This allows us to better handle forecasting uncertainty and incorporate a larger range of potential risks.

Compared to last quarter, our Base Case reflects a greater slowdown in the North American economy from tariffs already known and imposed, which we expect will be in place for at least six months before easing. We expect Canada and the U.S. will narrowly avoid a recession, as higher inflation and unemployment are expected to be offset by interest rate reductions in both countries, providing relief to borrowers and stimulating investment. Given the trade-related uncertainty, we implemented a new Trade Disruption Downside Scenario this quarter, which replaces our previous Oil & Gas Downside Scenario. The new scenario reflects the potential for a severe North American recession driven by an escalating global trade war and rising geopolitical risks, reflecting a rapid rise in unemployment, higher inflation, disruptions in supply chains and a sharp decrease in asset prices. The Trade Disruption Scenario and other Downside Scenarios help us evaluate risks that we have not yet observed. Given the high degree of geopolitical and economic uncertainty, we have reduced the weighting on our Base Case and re-allocated it to our Trade Disruption Scenario. We would expect to decrease the weighting on our Downside Scenarios as and when there is greater certainty of tariff-related outcomes and those are captured in our Base Case scenario.

In the Retail portfolio, clients continue to demonstrate resilience, with credit performance improving as interest rate cuts and wage growth have made it easier to service debt. Mortgage renewal repricing and refinancing risk have played out better than we anticipated. Housing prices have also generally held up well. While we are seeing more balanced conditions in the Canadian housing market, with improving home affordability due to lower interest rates and rising inventory levels, we are monitoring risks - including risks of further slowdown in the condo segment and certain regions harder hit by economic slowdown. We remain well provisioned on performing loans in the Home Equity Finance portfolio and we have built higher allowances in segments of the housing market where we see higher risk. We also continue to monitor our Condo Developer portfolio, as new condo sales cool off. For context, our exposure to high-rise condo developers represents only about 1 percent of total loans and acceptances. This portfolio has a very strong credit profile that reflects our focus on top-tier developers supported by prudent underwriting standards such as minimum pre-sales backed by buyer deposits, minimum borrower equity and outside recourse carrying sufficient liquidity to support the project.

Turning to slide 19, we took a total of $568 million or 23 bps of provisions on performing loans this quarter, an increase of $500 million from the prior quarter, mainly reflecting unfavourable changes to our scenario weights, macroeconomic forecasts and credit quality. The significant increase in provisions on performing loans is meant to capture a broad range of potential outcomes due to the heightened uncertainty I spoke to earlier. As a reference point, the ratio of ACL to total Loans & Acceptances is 74 bps, while we reached a COVID peak of 89 bps in 2020. This marks the 12th consecutive quarter where we added reserves on performing loans, resulting in a total ACL of $7.5 billion.

Moving to slide 20, gross impaired loans of $8.9 billion were up $1.1 billion or 10 bps from last quarter, primarily driven by Commercial Banking and Capital Markets. In Capital Markets, we saw new formations[11] in the U.S. Commercial Real Estate Office portfolio reflecting continued softness in U.S. Office market conditions. In Commercial Banking, while new formations increased $512 million quarter-over-quarter, the majority of this increase was driven by administrative factors that have subsequently been resolved. The largest ongoing impairment this quarter was related to the insolvency of a large retailer in Canada, where we had related Commercial Real Estate exposure.

Turning to slide 21, PCL on impaired loans of 35 bps was down 4 bps or $133 million quarter-over-quarter, with lower provisions across most segments. In Personal Banking, provisions were down $17 million, driven by lower provisions in Other Personal Lending and Residential Mortgages. Consumer clients continue to show resilience, but higher unemployment is expected to lead to higher losses in our unsecured portfolios. In our Commercial Banking portfolio, provisions were down $22 million reflecting a moderation in PCL from the HSBC Canada Commercial portfolio as we had anticipated. Overall, the Commercial portfolio continues to be impacted by softer economic conditions and consumer spending in Canada. We expect PCL in the Commercial segment to remain elevated in the coming quarters, considering the added uncertainty from tariffs. In Capital Markets, provisions were down $100 million, as we had a large provision on one account in the Other Services sector in Q1, partially offset by a few new impairments in U.S. Office Real Estate this quarter. Within our broader Commercial Real Estate portfolio, headwinds still exist and will continue to play out over an extended period. As we have seen, impairments can be uneven and less predictable on a quarterly basis. However, realized losses have been well contained on the back of our strong client base and underwriting standards.

To conclude, despite the uncertainty in the macroeconomic and policy environment, we are pleased with the overall diversification and performance of our portfolios. While sustained trade uncertainty could create recessionary conditions, the range of outcomes are well within the stressed and downside scenarios we currently consider, giving us confidence in our financial resilience through the cycle. We are navigating this uncertainty from a position of strength, with PCL expected to be manageable under multiple scenarios. While lower PCL on impaired loans this quarter was positive and within our expectations, we are prudently building reserves to account for the uncertainty ahead. To date, we are seeing some slight pull forward of losses because of trade-related uncertainty which, if sustained, may push full-year losses to the higher end of our previous guidance. However, we expect the impact of tariffs to play out mostly in 2026, potentially pushing peak stage 3 credit losses into fiscal 2026. Moving forward, the likelihood, timing and direction of allowances and peak PCL will continue to be dependent on the extent and duration of tariffs; retaliatory measures; availability of fiscal support measures; magnitude of change in unemployment rates; the direction and magnitude of changes in interest rates; and commercial and residential real estate prices. As always, we continue to proactively manage risk through the cycle, and we remain well capitalized to withstand a broad range of macroeconomic and geopolitical outcomes.

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

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[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.

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 and ratios, including pre-provision, pre-tax earnings, adjusted basis measures and measures excluding adjusting and 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 and ratios 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 and ratios can be found under the “Key performance and non-GAAP measures” section of our Q2 2025 Report to Shareholders and 2024 Annual Report.

Definitions can be found under the “Glossary” sections in our Q2/2025 Supplementary Financial Information and our 2024 Annual Report.