SPEAKING NOTES - NATIONAL BANK OF CANADA
FIRST QUARTER EARNINGS CONFERENCE CALL
WEDNESDAY, FEBRUARY 28, 2024

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this document are forward-looking statements. All such statements are made in accordance with applicable securities legislation in Canada and the United States. The forward-looking statements in this document may include, but are not limited to, statements about the economy, market changes, the Bank's objectives, outlook, and priorities for fiscal year 2024 and beyond, the strategies or actions that will be taken to achieve them, expectations for the Bank's financial condition, its activities, the regulatory environment in which it operates, its environmental, social, and governance targets and commitments, and certain risks to which the Bank is exposed. These forward-looking statements are typically identified by verbs or words such as "outlook", "believe", "foresee", "forecast", "anticipate", "estimate", "project", "expect", "intend" and "plan", in their future or conditional forms, notably verbs such as "will", "may", "should", "could" or "would" as well as similar terms and expressions. Such forward-looking statements are made for the purpose of assisting the holders of the Bank's securities in understanding the Bank's financial position and results of operations as at and for the periods ended on the dates presented, as well as the Bank's vision, strategic objectives, and performance targets, and may not be appropriate for other purposes. These forward-looking statements are based on current expectations, estimates, assumptions and intentions and are subject to uncertainty and inherent risks, many of which are beyond the Bank's control. There is a strong possibility that the Bank's express or implied predictions, forecasts, projections, expectations, or conclusions will not prove to be accurate, that its assumptions may not be confirmed and that its vision, strategic objectives, and performance targets will not be achieved. The Bank cautions investors that these forward-looking statements are not guarantees of future performance and that actual events or results may differ significantly from these statements due to a number of factors. Thus, the Bank recommends that readers not place undue reliance on these forward-looking statements, as a number of factors could cause actual results to differ significantly from the expectations, estimates, or intentions expressed in these forward-looking statements. Investors and others who rely on the Bank's forward-looking statements should carefully consider the factors listed below as well as the uncertainties they represent and the risk they entail. Except as required by law, the Bank does not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time, by it or on its behalf. Assumptions about the performance of the Canadian and U.S. economies in 2024 and how that performance will affect the Bank's business are among the factors considered in setting the Bank's strategic priorities and objectives, including provisions for credit losses. These assumptions appear in the Economic Review and Outlook section and, for each business segment, in the Economic and Market Review sections, and may be updated in the quarterly reports to shareholders. The forward-looking statements made in this document are based on a number of assumptions and are subject to risk factors, many of which are beyond the Bank's control and the impacts of which are difficult to predict. These risk factors include, among others, the general economic environment and financial market conditions in Canada, the United States, and the other countries where the Bank operates; the impact of upheavals in the U.S. banking industry; exchange rate and interest rate fluctuations; inflation; global supply chain disruptions; higher funding costs and greater market volatility; changes made to fiscal, monetary, and other public policies; changes made to regulations that affect the Bank's business; geopolitical and sociopolitical uncertainty; climate change, including physical risks and those related to the transition to a low-carbon economy, and the Bank's ability to satisfy stakeholder expectations on environmental and social issues; significant changes in consumer behaviour; the housing situation, real estate market, and household indebtedness in Canada; the Bank's ability to achieve its key short-term priorities and long-term strategies; the timely development and launch of new products and services; the Bank's ability to recruit and retain key personnel; technological innovation, including advances in artificial intelligence and the open banking system, and heightened competition from established companies and from competitors offering non-traditional services; changes in the performance and creditworthiness of the Bank's clients and counterparties; the Bank's exposure to significant regulatory matters or litigation; changes made to the accounting policies used by the Bank to report financial information, including the uncertainty inherent to assumptions and critical accounting estimates; changes to tax legislation in the countries where the Bank operates; changes made to capital and liquidity guidelines as well as to the presentation and interpretation thereof; changes to the credit ratings assigned to the Bank by financial and extra-financial rating agencies; potential disruptions to key suppliers of goods and services to the Bank; the potential impacts of disruptions to the Bank's information technology systems, including cyberattacks as well as identity theft and theft of personal information; the risk of fraudulent activity; and possible impacts of major events affecting the economy, market conditions, or the Bank's outlook, including international conflicts, natural disasters, public health crises, and the measures taken in response to these events. The foregoing list of risk factors is not exhaustive, and the forward-looking statements made in this document are also subject to credit risk, market risk, liquidity and funding risk, operational risk, regulatory compliance risk, reputation risk, strategic risk, and social and environmental risk as well as certain emerging risks or risks deemed significant. Additional information about these risk factors is provided in the Risk Management section beginning on page 60 of the 2023 Annual Report and may be updated in the quarterly shareholder's reports subsequently published.

Non-GAAP and Other Financial Measures
The quantitative information in this document has been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), unless otherwise indicated, and should be read in conjunction with the Bank's 2023 Annual Report. The Bank uses a number of financial measures when assessing its results and measuring overall performance. Some of these financial measures are not calculated in accordance with GAAP, which are based on IFRS. Presenting non-GAAP financial measures helps readers to better understand how management analyzes results, shows the impacts of specified items on the results of the reported periods, and allows readers to assess results without the specified items if they consider such items not to be reflective of the underlying performance of the Bank's operations. The Bank cautions readers that it uses non-GAAP and other financial measures that do not have standardized meanings under GAAP and therefore may not be comparable to similar measures used by other financial institutions. For additional information relating to the non-GAAP and other financial measures presented in this document and an explanation of their composition, refer to pages 14-19 and 124-127 of the Management's Discussion & Analysis in the Bank's 2023 Annual Report which is available at nbc.ca/investorrelations or at sedarplus.ca.

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Marianne Ratté – Vice President & Head, Investor Relations

Merci, and good afternoon everyone.

We will begin the call with remarks from: Laurent Ferreira, President and CEO; Marie Chantal Gingras, CFO; and Bill Bonnell, Chief Risk Officer.

Also present for the Q&A session are:

- Lucie Blanchet, Head of Personal Banking and Client Experience;
- Michael Denham, Head of Commercial and Private Banking;
- Nancy Paquet, Head of Wealth Management;
- Étienne Dubuc, Head of Financial Markets, also responsible for Credigy; and
- Stéphane Achard, Head of International, responsible for ABA Bank.

Before we begin, I would like to refer you to Slide 2 of our presentation for information on forward-looking statements and non-GAAP financial measures.

The Bank uses non-GAAP measures, such as adjusted results, to assess its performance. Management will be referring to adjusted results unless otherwise noted.

I will now turn the call over to Laurent.

Laurent Ferreira, President & CEO

Merci Marianne, and thank you everyone for joining us.

This morning, National Bank reported strong financial results for the second quarter of 2024, with earnings per share of $2.54, up 9% year-over-year, and a return on equity of 17%.

This performance reflects the disciplined execution of our strategy across business segments and the diversified earnings power of the Bank.

Our capital level is strong, with a CET1 ratio of 13.2%. This allows us to invest in business growth and to return capital to shareholders through sustainable dividend increases. We've announced a 4-cent dividend increase this morning, bringing our quarterly dividend to $1.10 effective Q3 2024.

Looking at the Canadian economy, it continues to show signs of deceleration. We are seeing further normalization in the credit environment and the unemployment rate has been on the rise since monetary tightening began and now stands above 6%. Interest rates have been holding year to date, and housing and rental costs remain high. As core inflation has eased in recent months, we believe the Bank of Canada may now be in a position to offer some interest rate relief in the second half of the year.

With continued uncertainty as to the path of the economy, our discipline, diversified business mix and defensive posture provide us with resiliency and flexibility. This is illustrated by the strong results across our business segments in Q2.

Personal and Commercial Banking delivered solid revenue growth of 6% year over year, supported by concurrent growth in average loans and deposits. Our personal banking loan book grew 3% over last year and we are seeing better volumes within our internal mortgage origination channels. Our commercial banking loan portfolio grew 12% year over year reflecting broad-based growth.

Our Wealth Segment generated net income of $205 million in the second quarter, up 15% over last year, on the back of double-digit revenue growth and positive operating leverage. Net interest income grew 7% over the same period and 3% sequentially, reflecting a strong deposit base. Compared to last year, fee-based revenues were up 13% and transaction revenues were up 12%, benefiting from strong markets and a growing franchise.

Our **Financial Markets** business delivered net income of $322 million for the quarter, up 20% year over year. Global Markets revenues were up 18% from last year, led by continued momentum in Securities Finance and a strong performance in our rates business. Corporate and Investment Banking revenues were up 9% year over year, with a solid performance across the franchise and strong debt underwriting. Our Financial Markets business continues to benefit from a well-diversified business mix and disciplined risk management.

Credigy generated solid results in Q2, with 5% average asset growth sequentially, driving higher revenues and strong returns. Net interest income was up 6% quarter over quarter. Underlying portfolio performance is in line with expectations and the team continues to focus on opportunities with attractive risk-reward profiles, primarily in the secured space.

Finally, **ABA Bank** generated net income growth of 16% year over year. Margins improved sequentially as a result of strong growth in demand deposits. Our customer base expansion translated into year over year growth in loans and deposits of 18% and 20%, respectively. These results reinforce the strength of ABA's financial ecosystem, underpinned by its leading position in digital transactions, deposit gathering, payments and cash management.

Looking ahead, we remain committed to our disciplined approach to capital, credit and costs, and to generating long-term value to our shareholders.

Before I turn it over to Marie-Chantal, a few weeks ago, we announced that Bill Bonnell will be retiring from his CRO role at the end of the fiscal year, and that Jean-Sébastien Grisé will be appointed his successor, effective November 1.

JS has been a key member of the risk management and compliance team since he joined the Bank in 2015. He quickly rose through the ranks since that time thanks to both his technical expertise but also his vision and leadership qualities. Having worked closely with him and Bill through those years, he brings deep experience and understanding of our risk landscape to the role. I look forward to welcoming him to the Senior Leadership Team this fall.

As for Bill, it goes without saying that he has made an indelible mark on the Bank as the steward of our risk culture over the last 12 years. I am very happy and fortunate to count on him for a little while longer as our CRO, and then as a strategic advisor before a well-deserved retirement.

Marie Chantal, over to you.

Marie Chantal Gingras, CFO & EVP, Finance
Thank you, Laurent, and good afternoon, everyone.

My comments will begin on **Slide 7.**
The bank delivered strong results in the second quarter. PTPP grew 12% year over year, driven by solid organic growth across all business segments and underpinned by diversified revenue streams.

Our balanced approach to growth and cost management across the bank contributes to our performance. Operating leverage was positive at 2%. Our highly efficient businesses generated an all-bank efficiency ratio below 52%.

We remain disciplined around expense management. Revenue growth of 10% year over year generated higher variable compensation, particularly in Financial Markets and in Wealth Management. Excluding variable compensation, expenses rose 5% year over year as we dynamically balance business growth and investments to gain efficiency and improve the client experience.

Salaries and benefits increased 5% year over year, mainly due to the annual salary increase. We continue to prudently manage the FTE count in Canada which remained relatively stable compared to last quarter. Our actions towards simplifying and optimizing our products, processees and channels continue to pay off.

Now, in the Other segment, total revenue from treasury activities was lower in the second quarter. This was primarily driven by the impact of interest rate volatility on ALM and, to a lesser extent, from some pre-funding opportunities in the first half of the year, aligned with our prudent approach to liquidity and funding management. Higher expenses from variable compensation and a temporary overlap in occupancy costs as we transition to our new head office, also lowered earnings for this segment in the second quarter.

For the remainder of the year, we do not expect PTPP in the Other segment to improve from Q2 levels.

Looking at the results of the business segments and the bank as a whole, we are pleased with the performance in the first half of the year. Our balanced approach to growth and investments continues to serve us well, particularly in an economic environment that remains uncertain.

Now turning to **Slide 8**.
Sequentially, non-trading NII was down approximately 1%, and was up:

- in Wealth Management, supported by its diversified deposit base;
- at Credigy, driven by robust asset growth year to date, and
- at ABA, benefitting from balance sheet growth and a favorable deposit mix.

The all-bank non-trading NIM fell 4 basis points sequentially to 2.17%, largely reflecting lower NII from treasury. Our margin in P&C Banking remained stable again this quarter at 2.36%.

As a management team, our primary focus is to grow the franchise with the right balance between volume growth, margins and credit quality. We are pleased with our margin performance and expansion since the beginning of this rate cycle.

Moving to **Slide 9.**
Loans were up 9% year over year and 2% quarter over quarter. In Commercial Banking, loans increased 3% sequentially, in part driven by continued opportunities in the residential insured segment. In Personal Banking, loans increased 1% while Corporate Banking volumes were up 1% quarter over quarter, following several quarters of strong drawings.

At Credigy, the sale of a loan portfolio offset organic growth this quarter, but bear in mind that the overall asset growth has been strong year to date. At ABA, loans grew 3% sequentially, mainly driven by net client acquisition.

Deposits, excluding wholesale funding, grew 4% year over year and 2% quarter over quarter. Personal deposits rose 2% sequentially, with growth in term deposits across retail businesses and in demand deposits at ABA. In Personal Banking, demand deposits increased modestly over the quarter. Non-retail deposits were up two billion dollars sequentially, primarily driven by commercial banking.

We maintained a strong loan-to-deposit ratio of 98% as at Q2. Our ratio is aligned with our diversified business model.

Now turning to capital on **Slide 10**.
We ended Q2 with a CET1 ratio at 13.2%. Second quarter earnings net of dividends contributed 38 basis points to our ratio, underscoring our internal capital generation capacity. Robust organic business growth contributed to an increase of 29 basis points of RWA, excluding FX. Credit risk RWA was up representing 30 basis points of CET1, mainly from strong balance sheet growth and, to a lesser extent, from credit migration in non-retail portfolios.

To conclude, I am pleased that for the past few quarters, we have successfully been able to navigate a challenging backdrop and report solid financial performance. Our diversified business model, strong balance sheet and disciplined execution provide a firm foundation for the bank to generate profitable growth.

I will now turn the call over to Bill.

William (Bill) Bonnell, Executive Vice-President, Risk Management
Merci Marie-Chantal and good afternoon everyone.

I'll begin on **Slide 12** with comments on the macro-environment and our credit performance in the second quarter. While core inflation has eased in recent months, significant uncertainties remain in the forward path of interest rates, economic growth, and unemployment. To echo Laurent's comments, the Canadian economy continues to show signs of deceleration.

Against this macro backdrop, our credit portfolios have continued to demonstrate resilience in the second quarter with total provisions for credit losses of $138 million or 24 basis points versus 21 basis points in Q1.

Impaired provisions increased 3 basis points sequentially to 20 basis points or $114 million. Retail impaired provisions increased as normalization trends continued. Non-retail impaired provisions increased QoQ due primarily to a couple of files in the wholesale trade sector. At Credigy, continued seasoning of acquired portfolios generated stable impaired provisions. At ABA, impaired provisions declined QoQ. However, as we discussed on prior calls, we think they could remain elevated for a few more quarters.

Provisions on performing loans declined to $22 million or 4 basis points. The primary drivers this quarter were portfolio growth and migration.

Looking ahead, we expect delinquencies and impaired provisions to continue their upward path. The retail book should continue its normalization and the non-retail book is subject to periodic lumpiness as we saw this quarter. With these factors in mind, we maintain our 15-25 basis points guidance for full year impaired provisions, and still expect to end up around the middle of that range.

Turning to **Slide 13**, we continued to prudently build our total allowances for credit losses which reached more than $1.4 billion and represents a strong coverage of 4.5 times our last 12 months net charge-offs. Performing ACLs increased for the 8th consecutive quarter and now represent 2.9 times the last 12 months impaired PCL. In appendix 10, additional metrics on our allowances are provided which demonstrate our prudent coverage levels.

Turning to **Slide 14**, our gross impaired loan ratio increased 6 basis points to 54 basis points. As we call out on the slide, the GIL ratio in our domestic loan portfolios was 36 basis points, still below pre-pandemic levels. Formations were higher QoQ with the main drivers being the Commercial and Corporate portfolios. As I've mentioned on prior calls, formations and recoveries in wholesale portfolios can be lumpy from quarter to quarter and Q2 was unusually lumpy. The new formations were spread across a handful of regions and sectors including Wholesale Trade, Transportation, and Real-Estate. I'll point out here that for a couple of those files we took only a small or no specific provision reflecting the quality of the collateral and loan structure.

At ABA, formations were stable QoQ in C$ terms due the currency impact but in US$ terms declined to 28 million from 44 million dollars last quarter.

On **Slide 15**, we present highlights from our Canadian RESL portfolio. The geographic and product mix remained stable with Quebec accounting for 54% and insured mortgages accounting for 29% of total RESL. Higher Risk uninsured borrowers represent around 50 basis points of the total RESL portfolio. 90 day delinquencies in uninsured mortgages and HELOCs remain low at 13 basis points and 10 basis points respectively.

You can find additional details on our Canadian mortgages on Slide 16. I'll note that more than half of our mortgage portfolio has now been repriced at higher interest rates, and 90 day delinquencies remain well below the pre-pandemic level.

We've included additional insights on trends in 90 day delinquencies for the entire Canadian retail portfolio in Appendix 26 and I'll take a moment to share a few comments on the trends across different products and segments or regions. First, delinquencies in Credit Cards, which is a relatively small portfolio for us, have increased the most since the 2022's lows, having exceeded pre-pandemic levels early this year. And, diving deeper into that portfolio, we find that the segments most impacted are non-home owners and clients outside Quebec. Second, Variable Rate Mortgage delinquencies have also seen a significant increase over this period, with the insured segment and the outside Quebec regions showing the largest relative increase. And finally, diving deeper into the Uninsured Variable Rate Mortgage portfolio, we see that delinquencies in the Quebec region still remain below their prepandemic level.

In conclusion, we are pleased with the strong credit performance again this quarter which reflects our defensive positioning, resilient mix and prudent provisioning.

With that I'll turn the call back to the operator for the Q&A.

*** Closing remarks ***

Laurent Ferreira, President & CEO

Thank you, operator.

Thank you to all employees and shareholders on the call today for your support.

Have a great summer!