SPEAKING NOTES - NATIONAL BANK OF CANADA
THIRD QUARTER EARNINGS CONFERENCE CALL
WEDNESDAY, AUGUST 28, 2024

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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 possible delay or failure to close the acquisition of Canadian Western Bank, the potential failure to obtain the required approvals to the transaction in a timely manner or at all; the Bank's ability to complete the integration within anticipated time periods and at expected cost levels, the realization of the expected strategic, financial and other benefits of the transaction, such as achieving synergies, in the timeframe anticipated; 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 sections beginning on p. 62 of the 2023 Annual Report and on p. 30 of the Report to Shareholders for the Third Quarter of 2024.

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 and subsequent reports to shareholders. 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 Bank's 2023 Annual Report and to pages 4-10 and 49-52 of the Report to Shareholders for the Third Quarter of 2024 which are available at nbc.ca/investorrelations or at sedarplus.ca. Such explanation is incorporated by reference hereto.

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Marianne Ratté – Vice President & Head, Investor Relations
Merci, and welcome, 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; and
- Stéphane Achard, Head of International.

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 third quarter, with earnings per share of $2.68 and a return on equity of 17%.

These results reflect our diversified earnings mix and solid credit profile. Moreover, they underline the performance of our team and disciplined execution across the Bank in balancing revenue growth, costs and investments, as well as credit performance in a complex environment.

Looking at the Canadian economy, monetary policy remains restrictive, as evidenced by further normalization in the credit environment and a rising unemployment rate across the country. Recent rate cuts are a step in the right direction in providing relief for consumers and supporting business investment.

Looking at our performance year to date, we are pleased with our progress in executing our growth strategy, supported by our strong capital levels, with a CET1 ratio of 13.5%.

First, we are generating strong organic growth and have been growing our balance sheet across our businesses.

We are also returning capital to our shareholders through sustainable dividend increases. We ended Q3 with a payout ratio of 41.2%, reflecting last quarter's dividend increase and robust earnings growth. We will review our dividend next quarter, consistent with usual practice.
Finally, this past June, we announced that we entered into an agreement to acquire Canadian Western Bank to accelerate our pan-Canadian growth. We will be bringing together two strong teams and highly complementary banks. The combination will strengthen our western presence and national reach and it will also provide more choices to individuals, entrepreneurs and businesses across the country.

The regulatory approval process is underway, and our integration roadmap is progressing in partnership with CWB leadership.

Turning now to the Q3 performance of our segments.

Personal and Commercial Banking delivered solid revenue growth of 7% year over year. As anticipated, personal mortgage growth picked up, increasing 2.4% year over year, driven by strong originations in our internal channels. Our commercial loan portfolio grew 14% year over year, underlying continued momentum in insured residential real estate and broad-based growth across our industries.

Wealth Management delivered a strong performance in the third quarter. Net interest income was up 14% year over year, with strong deposit inflows in our full-service brokerage and private banking channels. Benefitting from strong markets, fee-based revenues were up 12% while transaction revenues were up 21% year over year. With a strong top-line and operating leverage of nearly 3%, net income grew 19% from last year. AUM also grew 20% year over year as the franchise continues to experience strong organic growth.

Financial Markets generated net income of $318 million in Q3, reflecting a well-diversified business mix and the benefits of our strategic investments. Favourable market conditions also contributed positively across most sectors. Revenues for Global Markets exceeded $450 million again this quarter, supported by momentum in our Securities Finance and Interest Rates businesses. Corporate and Investment Banking revenues were up 16% year over year, with a solid performance across the platform.

Credigy delivered another solid performance in Q3 with average assets up 13% year over year and strong investment volumes year-to-date. Net interest income was up 12% over last year and 2% sequentially. Credigy's portfolio continues to generate a strong underlying performance while maintaining a defensive position. The team also remains disciplined as it pursues opportunities with attractive risk-reward profiles.

Finally, ABA Bank generated net income growth of 24% year over year. ABA loans and deposits were up 17% and 21% respectively, and its client base up 29% year over year. ABA's performance once again reflects its unique strengths, including its digital payments and cash management capabilities.

Looking ahead, our capital deployment strategy and delivering superior returns remain key priorities for the Bank. With our strong execution, diversified earnings streams and prudent approach to capital, credit and costs, we remain well-positioned in the current environment, and for the growth opportunities ahead.

Marie Chantal, over to you.

Marie Chantal Gingras, CFO & EVP, Finance

Thank you, Laurent, and good morning everyone.

My comments will begin on slide 7 - The bank delivered strong results in the third quarter and year to date, underpinned by consistent execution, a balanced approach to growth and investments and continued cost discipline.

PTPP reached $1.4 billion dollars in Q3, with all businesses achieving double-digit growth year over year. Organic growth was broad-based and revenues were well diversified.
Operating leverage was strong at 6% in Q3 and 3% year to date. Our highly efficient business segments generated an all-bank efficiency ratio below 52% in both Q3 and year to date.

We remain disciplined around expense management which continues to yield results. Revenue growth of 17% year over year led to higher variable compensation, particularly in Financial Markets and in Wealth Management. Excluding variable compensation, expenses rose 6% year over year, mainly reflecting the annual salary increase and investments. Our investments contribute to simplifying our businesses, gaining efficiency, and building for the future.

Again this quarter, we are pleased with the performance of the business segments and the bank as a whole. These results underscore our resilient and diversified business model.

Now turning to slide 8 - Sequentially, non-trading NII was up 9%, or 6% excluding the impact of the conversion of BA's to CORRA loans. At the all-bank level, this conversion has minimal impact.

The all-bank non-trading NIM stood at 2.22% and rose 5 basis points sequentially, largely reflecting higher NII from treasury activities. As a reminder, ALM results can be lumpy from quarter to quarter, particularly against the current backdrop of high interest rate volatility.

As anticipated, NIM in P&C Banking was down sequentially. This reflects, in part, the conversion of BA's to CORRA loans, as well as lower deposit margins stemming from lower rates, and lower loan margin reflecting the current market environment. Based on what we are seeing today, we expect the P&C margin in Q4 to be relatively stable.

We are pleased with the healthy volumes and broad-based growth that we are generating within this segment.

And, as always, we remain committed to growing with the right balance between margins, returns and credit quality.

Moving to slide 9 - We achieved significant growth on both sides of the balance sheet in Q3.

Loans were up 9% year over year and 2% quarter over quarter.

Deposits, excluding wholesale funding, were up 6% year over year and 3% quarter over quarter, and we are pleased with this momentum. In particular, personal demand deposits increased by 1.4 billion dollars, up 3% sequentially, while non-retail deposits increased by 5.7 billion dollars, up 4% from last quarter.

With strong organic growth, our loan-to-deposit ratio stood at 97% as at Q3.

Now turning to capital on slide 10 - We ended Q3 with a robust CET1 ratio at 13.5%. Third quarter earnings, net of dividends, contributed 40 basis points to our ratio, again underscoring our internal capital generation capacity. Strong growth in credit risk RWA was primarily driven by organic growth in Commercial and Corporate Banking and, to a lesser extent, from credit migration in non-retail portfolios. A reduction in market risk RWA, driven by lower underlying market volatility and exposure at quarter end, added 15 basis points of CET1.

Moving to slide 11 - Following the announcement regarding our intention to acquire CWB, we have taken actions to protect our capital position against the impact of potential interest rate fluctuations.

Recall that under purchase accounting, we are required to fair value CWB's assets and liabilities at close. Changes in interest rates impact fair value, which in turn will impact the amount of goodwill and level of capital at closing. Based on our current estimates, our CET1 sensitivity to interest rates is limited. If we had taken no action, the projected impact at closing from a variation of 100 basis points in term interest rates would be about 100 million dollars in fair value, representing approximately 7 basis points of CET1.

However, we are proactively mitigating this exposure by implementing an economically neutral hedging strategy to minimize the impact of interest rate fluctuations on capital. As such, the impact on CET1 after the implementation of that hedge is expected to be nil. The hedge will be adjusted progressively until the closing date.

To conclude, having delivered strong performance in Q3 and year to date, we are well positioned for the final quarter of 2024. Moreover, our strong balance sheet and diversified business model put us on a solid footing to continue to execute our strategy, as we lay the groundwork for the approval of the CWB transaction.

I will now turn the call over to Bill.

William (Bill) Bonnell, Executive Vice-President, Risk Management

Merci Marie Chantal, and good morning, everyone.

I'll begin on slide 13 with comments on the macro environment and our credit performance in the third quarter. The main trends in the Canadian economy that we discussed on prior calls persisted through the third quarter. Employment conditions continued to weaken, particularly for the younger age cohort. GDP growth remained muted as the lagged impact of higher interest rates continued to slow the economy. And, inflation further decelerated, enabling the central bank to begin reducing interest rates. Against this complex macro backdrop, our credit portfolios performed very well with total provisions for credit losses of $149 million or 25 basis points, just 1 basis point higher than last quarter.

Impaired provisions also increased 1 basis point sequentially to 21 bps or $122 million. Retail impaired PCLs were stable QoQ at $49 million, while Commercial PCLs declined significantly QoQ to $17 million. In Financial Markets, a $20 million provision was due primarily to one newly impaired loan in the mining sector. In the USSF&I segment, performance continued to meet our expectations. Credigy saw normal seasoning of portfolios and, as expected, impaired provisions remained elevated at ABA.

Provisions on performing loans increased to $25 million or 4 basis points, with the primary driver being portfolio growth.

Looking ahead, we expect the current trends of rising unemployment and sluggish growth to continue in the coming quarters which should generate further increases in delinquencies and impaired provisions. Taking into account our defensive business, product and geographic mix, we remain confident in our guidance for the full year 2024 impaired provisions of 15-25 bps and still expect to end up around the middle of that range.

Turning to slide 14. We continue to prudently build our total allowances for credit losses which reached more than $1.5 billion, representing a strong coverage of 4.6 times our last 12 months net charge offs. Performing ACLs increased for the ninth consecutive quarter and represent 2.7 times the last 12 months impaired PCLs. Additional metrics on our allowances are provided in appendix 10.

Turning to slide 15. Our gross impaired loan ratio increased to 59 basis points. As you can see on the slide, the main driver of higher GILs throughout the year has been ABA due to elevated formations combined with a longer collection cycle. I'll share a few additional insights on ABA's impaired loans - they have an average size of about $70k and an average LTV around 50%. When a loan becomes impaired we take prudent stage 3 provisions that are in excess of our historical charge-off experience. And finally, about two-thirds of the impaired loans which were resolved in Q3 experienced $0 loss, which supports our expectation that ABA's net charge-off rate should remain low.

Formations in the third quarter declined to $226 million. In the commercial portfolio, formations were significantly lower QoQ and spread across a few sectors including wholesale trade, transportation and real estate. In the Financial Markets portfolio net formations of $17 million related to one file in the mining sector that was partially offset by repayments in other sectors. As discussed, ABA's formations remain elevated due to a slow recovery in tourism and softer external demand.

On slide 16, 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 on uninsured mortgages and HELOCs remain low at 14 basis points and 10 basis points, respectively.

You can find additional details on our Canadian mortgages on slide 17. I'll note that 60% of our mortgage portfolio has now been repriced at higher interest rates and 90-day delinquencies remain below the pre-pandemic level.

We've included additional insights on trends in 90-day delinquencies for the entire Canadian retail portfolio in Appendix 9 and the trends discussed on prior calls remain.

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

Before I turn the call back to the operator, I'd like to share a few comments as this is my last investor call. First, I want to sincerely thank Laurent and the exceptional team of colleagues around the table. It's been a true pleasure working with you very very closely for more than 20 years. I also want to express a deep gratitude to all my excellent colleagues in the Risk team and in particular Jean-Sébastien. I take great comfort for knowing that our risk management is in very good heads. And, finally, thanks to the investor community for your great questions and conversations over the years.

And with that, I'll turn the call back to the operator for the Q&A.

*** Closing remarks ***

Laurent Ferreira, President & CEO

Thank you operator and before we disconnect; Bill, on behalf of the entire Bank, thank you for your leadership over the past 12 years. You were key in the growth of our Bank, so we thank you.

Thank you everyone for joining us today.