SPEAKING NOTES - NATIONAL BANK OF CANADA
FIRST QUARTER EARNINGS CONFERENCE CALL
WEDNESDAY, MARCH 1, 2023

DISCLAIMER

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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 2022 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 16-21 and 122-125 of the Management's Discussion & Analysis in the Bank's 2022 Annual Report and to pages 4-8 and 45-48 of the Report to Shareholders for the First Quarter of 2023, which are available at nbc.ca/investorrelations or at sedar.com. Such explanation is incorporated by reference hereto.

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Linda Boulanger – Senior Vice President, Investor Relations

Thank you operator. Good afternoon everyone and welcome to our first quarter presentation.

Presenting this afternoon are:

- Laurent Ferreira, President and CEO of the Bank;
- Marie Chantal Gingras, Chief Financial Officer; and
- Bill Bonnell, Chief Risk Officer.

Also joining us for the Q&A session are:

- Stéphane Achard and Lucie Blanchet, for Personal and Commercial Banking;
- Martin Gagnon, Head of Wealth Management;
- Denis Girouard & Étienne Dubuc, co-Heads of Financial Markets; and
- Ghislain Parent, Head of International.

Before we begin, I refer you to Slide 2 of our presentation, providing National Bank's caution regarding forward-looking statements. With that, let me now turn the call over to Laurent.

Laurent Ferreira, President & CEO

Merci Linda and thank you everyone for joining us.

The Bank had a good start to the year with strong results across our business segments and robust margin performance. We generated superior return on equity above 18%, highlighting the strategic diversification of our earnings streams.

In a highly uncertain macro environment, we are maintaining a defensive positioning with a disciplined approach to capital, risk and cost management.

Our capital level is strong with a CET1 ratio of 12.6%, well above regulatory requirements. This places us in a very good position to deploy capital in our businesses and drive superior organic growth.

On capital deployment, our priorities are unchanged and in line with our strategy:

- First, maintain strong capital ratios;
- Second, invest in business growth;
- And third: return capital to shareholders, when appropriate.

Our credit portfolios continue to perform well. Underlying credit conditions remain strong in Canada. Nonetheless, given the uncertain macroeconomic outlook, and consistent with our disciplined approach, we are building additional reserves.

Turning now to our business segments.

Personal and Commercial Banking delivered a strong performance in the first quarter. Revenues were up 17% from last year, mainly from deposit margin expansion and balance sheet growth. While our outlook remains positive, we are seeing a slowdown in retail and commercial loan growth, with higher interest rates impacting client demand.

That being said, we are pleased with the sustained momentum on the customer acquisition and satisfaction fronts, with strong digital onboarding and engagement – key drivers to client experience and efficiency. We are also seeing tangible results from our commercial and private banking differentiated model, implemented last year.

Wealth Management delivered a record performance in the first quarter. Net income increased by 16% year over year, reflecting our well-diversified revenue mix. Again this quarter, we delivered very strong NII growth, supported by higher interest rates and a strong retail-based deposit franchise.

Financial Markets generated strong results in Q1, reflecting broad-based strength across the business. Corporate and Investment Banking delivered their second-best performance on record, propelled by robust lending demand, M&A mandates and sustained performance in DCM.

Global Markets performed well, led by strength in our rates, commodities and foreign exchange businesses. This is on the back of an exceptional performance in equities last year.

The performance of our Financial Markets franchise demonstrates its resiliency, earnings diversification, and ability to adapt to market conditions through the cycle.

Turning to our International segment.

ABA Bank had another solid quarter, generating strong balance sheet growth. Strategic investments in business growth are bearing fruit. In the first quarter of 2023, ABA's client base surpassed the 2 million mark, representing a 39% increase over last year. While global economic growth is moderating, the underlying fundamentals of Cambodia are strong and China's reopening is expected to be positive. In this context, we expect double-digit growth for ABA for fiscal 2023. Longer term, the outlook for Cambodia remains very attractive.

Finally, Credigy experienced continued momentum with assets up 5% sequentially. This was driven by the acquisition of high-quality, longer duration, secured assets. The portfolio remains defensively positioned with 92% secured assets. Taking into account the realized pipeline, we are well-positioned to deliver double-digit asset growth for the full fiscal year.

Moving to the macroeconomic environment; While labour markets remain healthy, macroeconomic uncertainties are growing with persistent inflation and rising interest rates. We're also starting to see the impacts of monetary policies on consumer behaviour and business investment. At this point in time, the path of interest rates, inflation and economic growth remain uncertain.

Having said that, the Bank is on solid footing. While NII tailwinds from interest rates are subsiding, and growth in some sectors is normalizing, we continue to see attractive opportunities across our business.

With our strong capital position, the quality of our credit portfolio, and the diversification of our business model, we are well-positioned to weather the uncertainty ahead and generate continued profitable growth.

Let me now speak to the recently announced senior leadership changes made in support of our strategic priorities and as part of our succession planning process.

Martin Gagnon is retiring from the Bank on April 1st. Under his leadership, our Wealth Management business experienced significant growth, cementing this segment as a key growth pillar for the Bank. Upon Martin's retirement, Denis Girouard will be taking the interim leadership.

Ghislain Parent will also retire later this year, after 13 years at the Bank, including 10 as Chief Financial Officer. Ghislain has played an invaluable role in the Bank's performance through the years, notably in the achievement of solid financial results. In the context of Ghislain's retirement, Credigy will return under the leadership of Financial Markets and, Stéphane Achard will transition to a new role to lead our international activities, namely ABA Bank.

I am pleased to welcome Michael Denham to the Senior Leadership Team as Executive Vice President and Head of Commercial and Private Banking. Michael joined the Bank a year and a half ago as Vice-Chairman, Commercial Banking and Financial Markets. Previously, Michael was President and CEO of BDC, where he was instrumental in doubling the commercial franchise in Quebec and across Canada. I look forward to working with Michael on growing our position in Quebec, and in Canada.

We have a strong bench and leadership team at the Bank and these changes underpin our vision for the Bank.

I would like to sincerely thank Martin and Ghislain for their outstanding contributions during their respective tenures. I wish them both the very best.

With that, I will pass it over to Marie Chantal.

Marie Chantal Gingras, CFO & EVP, Finance

Thank you, Laurent, and good afternoon, everyone.

Turning to Slide 7, the Bank delivered a solid performance in Q1. Revenues increased 7% year over year, with a strong top line in all business segments, continued balance sheet growth and strong margin expansion excluding trading.

Pre-tax pre-provision earnings grew 5% year over year, with continued organic growth in all business segments.

Expenses increased by approximately 120 million dollars year over year. Part of the increase is attributable to the reversal of a 20-million-dollar provision in the same quarter last year related to a provincial salary tax. Excluding the reversal, expenses grew by approximately 100 million dollars, or 8% year over year. This was largely driven by talent acquisition and inflation in 2022, as well as higher technology expenses related to past and new investments, supporting continued growth across the Bank.

Our balanced approach to business growth and investments continues to generate a strong all-bank efficiency ratio, which came in at 51.7%, with best-in-class ratios in select business segments.

For Fiscal 2023, we continue to work towards achieving positive operating leverage and mid-to-high single-digit PTPP growth. For the second quarter however, we foresee continued pressure. In this context, we will be strategic and selective in managing expenses, notably related to new hirings, technology investments and discretionary spending.

Now turning to Slide 8, total net interest income excluding trading was strong, coming in at 1.4 billion dollars this quarter and up 29% from last year, reflecting solid volume growth and margin expansion.

For P&C, net interest income was up 23% year over year, mainly driven by higher deposit margin and balance sheet growth.

Wealth Management continued to benefit from a strong deposit base in the context of increasing interest rates, with net interest income up 75% from last year.

Net interest income increased 11% year over year for USSF&I. Balance sheet growth and prepayment revenue at Credigy contributed to the increase, partly offset by lower margin.

Total bank NIM, excluding trading, was up 15 basis points on a sequential basis, reflecting higher deposit margin following interest rate increases, and partly offset by lower loan spread. Total bank NIM of 2.19% reflects non-recurring revenues representing approximately 4 basis points. These include a pre-payment revenue at Credigy as well as an interest recovery on a previously impaired loan in Corporate Banking. Excluding these elements, Total Bank NIM was 2.15%.

We are pleased with the strength of our margin profile. It is underpinned by our long-standing balanced approach to managing volume growth, profitability, and credit quality.

Moving on to our balance sheet on Slide 9. Loans were up 12% year over year. Asset growth was strong in Corporate Banking and USSF&I while loan growth is moderating in Commercial Banking. Demand for retail mortgages continues to slow down, driven by real estate market conditions.

Deposits, excluding wholesale funding, grew 16% year over year, a good reflection of our diversified model and focus on deposits in all segments. Term deposits grew significantly in light of client preferences in a higher interest rate environment.

Looking forward, we remain disciplined on both sides of the balance sheet, balancing growth and margin.

Now turning to capital on Slide 10. We maintained a strong CET1 ratio, ending Q1 at 12.6%, while generating solid balance sheet growth across the franchise.

First quarter earnings net of dividends added a solid 44 basis points to our ratio. This highlights the capital generation capacity of our diversified business mix.

Excluding foreign exchange, RWA growth represented 61 basis points of capital. This was largely driven by balance sheet growth in Corporate Banking, Commercial Banking and USSF&I, partly offset by a reduction in counterparty credit risk.

During the quarter, we recognized unfavourable credit migration representing 7 basis points, largely due to declining housing prices impacting LTVs. Model, and methodology updates represented 3 basis points of RWA increase.

We are pleased with our current capital position. It provides us with the flexibility to deploy capital across our segments and return capital to shareholders.

In conclusion, the Bank delivered a strong Q1, supported by organic growth across our businesses, solid balance sheet growth and margin expansion. With high capital levels, a diversified earnings stream and a resilient business, we enter the second quarter in a solid position.

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

William Bonnell – EVP, Risk Management

Merci Marie-Chantal and good afternoon all.

I'll begin on slide 12. While the future path of inflation and interest rates continue to add to uncertainties in the macro environment, strong employment and savings levels supported another period of solid performance across our credit portfolios.

In the first quarter, provisions on impaired loans declined to 20 million dollars or 4 basis points. Retail impaired provisions were stable at $24 million, remaining well below pre-pandemic levels. In the non-retail portfolios we benefited from net recoveries, which can be lumpy from quarter to quarter. And provisions declined QoQ in the international segment, as ABA's moratorium-related impairments peaked, as we had expected, in the 4th quarter of last year.

Our provisions on performing loans totaled $58 million or 11 basis points. The primary drivers of the allowance build this quarter were portfolio growth, updates to our forward looking scenarios, and we increased the weight of our pessimistic scenario again this quarter, to reflect heightened macro uncertainties.

Looking ahead, we've maintained our FY 2023 guidance on impaired PCLs at 15-25 basis points and currently expect to be in the bottom end of that range. Current underlying conditions, particularly the strong level of employment and consumer savings, are supporting a slower rate of normalization of impaired PCLs than we had expected and the normalization we are seeing in the retail credit portfolio is occuring at different speeds across products and geographies. The same factors we discussed last year - inflationary pressures, geopolitical risks, and the direction and timing of interest rate changes – are still present and all contribute to a less certain outlook.

In these uncertain times, we are very comfortable with our defensive geographic and business mix as well as our prudent level of allowances.

Turning to slide 13 , total allowances for credit losses increased to almost 1.2 billion dollars. Performing allowances increased to $946 million which is just 11% below its pandemic peak. This improves our coverage of LTM impaired PCLs to 7.1 times and our coverage of our pre-pandemic level of impaired PCLs to 3 times. In the current macro context, we believe it is prudent to hold these significant levels of credit allowances.

Now on Slide 14, Gross Impaired Loans declined QoQ to 793 million dollars or 38 basis points. Net formations declined significantly to 21 million dollars, benefiting from net repayments in the Corporate loan portfolio and stable retail formations. In prior quarters, I mentioned that we expected ABA's formations to peak at the end of last year. Actual performance in the 1st quarter was better than expected leading to negative net formations of $13 million. Credigy formations increased in the quarter primarily due to normal seasoning in the consumer unsecured portfolios, in line with our expectations. Consummer unsecured account now for only 8% of Credigy's assets.

On slides 15 and 16, we provide details on our RESL portfolio. The geographic and product mix remained stable with Quebec accounting for 54% and insured mortgages accounting for 29% of total RESL. House price declines caused an increase in LTVs on uninsured mortgages and Helocs to 57% and 51% respectively. About one third of mortgages have variable rates, and investors account for about 11% of all RESL borrowers. When looking across the portfolio for tail risks, we see that uninsured borrowers with a credit bureau score of less than 650 and LTVs greater than 75% represent less than 50 basis points of total RESL.

While higher rates have already impacted the housing markets through lower volumes and easing prices, the resilience in our RESL portfolio remains strong. Delinquency rates remain well below pre-pandemic. This is particularly the case in our Quebec portfolio, as the province is benefiting from better than national average rates of unemployment and savings. This resilience is translating into mortgage delinquencies increasing at a slower rate in Quebec than in tother regions of our Canadian portfolio.

In summary…we are pleased with the credit performance again this quarter and remain very comfortable with our defensive positioning, our resilient mix, and our prudent level of allowances.

With that I will turn it back to the operator for the Q&A.