SPEAKING NOTES - NATIONAL BANK OF CANADA
THIRD QUARTER EARNINGS CONFERENCE CALL
WEDNESDAY, AUGUST 30, 2023

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Assumptions about the performance of the Canadian and U.S. economies in 2023 and how that will affect the Bank's business are among the main factors considered in setting the Bank's strategic priorities and objectives including allowances for credit losses. In determining its expectations for economic conditions, both broadly and in the financial services sector in particular, the Bank primarily considers historical economic data provided by the governments of Canada, the United States and certain other countries in which the Bank conducts business, as well as their agencies. Our statements with respect to the economy, market changes, the Bank's objectives, outlook and priorities for fiscal year 2023 and beyond, are based on a number of assumptions and are subject to a number of factors—many of which are beyond the Bank's control and the effects of which can be difficult to predict—including, among others, the general economic environment and financial market conditions in Canada, the United States, and other countries where the Bank operates; the impact of upheavals in the U.S. banking industry; exchange rate and interest rate fluctuations; inflation; disruptions in global supply chains; 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; 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 long-term strategies and key short-term priorities; the timely development and launch of new products and services; the Bank's ability to recruit and retain key personnel; technological innovation 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, i.e., primarily Canada and the United States; 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; potential disruption to key suppliers of goods and services to the Bank; potential disruptions to the Bank's information technology systems, including evolving cyberattack risk as well as identity theft and theft of personal information; the risk of fraudulent activity; and possible impacts of major events affecting the local and global economies, including international conflicts, natural disasters, and public health crises such as the COVID-19 pandemic, the evolution of which is difficult to predict and could continue to have repercussions on the Bank. 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Additional information about these risk factors is provided in the Risk Management section of the 2022 Annual Report and of the Report to Shareholders for the Third Quarter of 2023. Investors and others who rely on the Bank's forward-looking statements should carefully consider the above factors 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. We caution investors that such forward-looking statements are not guarantees of future performance and that actual events or results may differ materially from these statements due to a number of factors.

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 4-10 and 51-54 of the Report to Shareholders for the Third 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 third 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:
- Lucie Blanchet, Head of Personal Banking
- Michael Denham, Head of Commercial and Private Banking
- Denis Girouard, Head of Wealth Management;
- Étienne Dubuc, Head of Financial Markets, and responsible for Credigy; and
- Stéphane Achard, responsible for international activities.

Before we begin, I refer you to slide 2 of our presentation, providing National Bank's caution regarding forward-looking statements. I would also like to remind listeners that the Bank uses non-GAAP financial measures such as "adjusted" results to measure and better understand its performance. Management will be referring to adjusted results in their remarks unless otherwise noted as reported.

With that, let me now turn the call over to Laurent.

Laurent Ferreira, President & CEO
Merci, Linda, and thank you, everyone, for joining us.

This morning, National Bank reported earnings per share of $2.21 and a return on equity of 15.3%. This solid performance was supported by revenue and pre-tax pre-provision earnings growth in P&C, Wealth and International, partly offset by a less constructive backdrop in Financial Markets.

We continue to operate in a challenging environment. The Canadian economy has yet to absorb the full impact of rate hikes since the start of monetary policy tightening, resulting in lingering uncertainty. While the labour market is showing signs of easing, it remains robust at this point in time. For its part, the housing market is enduring the impact of higher rates amid demographic growth and limited supply. This development is likely to keep inflation higher for longer, and limit the Bank of Canada's ability to offer short-term interest rate relief.

Against this backdrop, our strategic positioning and defensive posture provide us with strength and resilience to face potential headwinds and take advantage of opportunities.

First, the Bank has a diversified business mix and strong earnings power, backed by a disciplined approach to risk and cost management.

Second, we have a solid credit profile. Our credit portfolios continue to perform well, and we are building up prudent reserves in line with business growth and credit normalization.

Third, our capital position is strong with a CET1 ratio of 13.5%. This enables us to invest in organic growth while returning capital to shareholders through sustainable dividend increases. Our dividend payout ratio now stands at the low end of our 40 to 50% target range following the dividend increase announced last quarter. We will review our dividend in the fourth quarter, consistent with usual practice.

To summarize, with our capital levels, strong earnings power and discipline on cost and credit, we are well-positioned to navigate the economic uncertainty and grow the Bank.

Turning now to the performance of our business segments.

Personal and Commercial Banking performed well with pre-tax pre-provision earnings up 9% from last year, supported by margin expansion and solid balance sheet growth. As anticipated, we continued to see a slowdown in loan growth as clients adjust to higher borrowing costs.

Earlier this month, we announced the acquisition of the commercial loan portfolio of Silicon Valley Bank's Canadian branch. This acquisition builds upon our 25-year presence in technology across the country and reaffirms our commitment to support the Canadian innovation sector.

Wealth Management had another strong quarter, generating 6% year-over-year growth in both revenue and pre-tax pre-provision earnings, supported by higher interest rates and our deposit base. Asset growth was also strong, coming in at 10% year-over-year, a result of market appreciation and strong net sales.

In **Financial Markets**, Corporate and Investment Banking delivered a strong quarter with revenues up 17% year-over-year, led by ongoing momentum in corporate banking. In Global Markets, Securities Finance had a strong quarter on the back of balance sheet demand and higher rates, which was offset by lower revenues in Structured Products. We also experienced lower trading activity across the franchise amid exceptionally low market volatility and this was compounded by a strong third quarter last year.

Credigy delivered solid results in the third quarter. Despite an uncertain macro environment and with market supply remaining low, the franchise generated asset growth of 3% sequentially, primarily driven by new portfolio purchases. The portfolio remains defensively positioned with continued strong underlying performance. We are pleased with the average asset growth delivered so far this year, in line with our double-digit growth target for fiscal 2023.

ABA Bank's balance sheet growth continued in Q3, with loans and deposits up 25% from last year. The franchise continues to expand its customer base, with the total number of clients up 36% year-over-year. Revenue growth continues to reflect pressure on deposit margin resulting from migration to term products in the context of higher interest rates and a competitive environment for deposits. While global economic growth is moderating, the longer-term outlook for Cambodia remains very attractive.

Before I pass it over to Marie Chantal, I'd like to take a moment to recognize Denis Girouard for his countless contributions to the Bank over his 33-year career with us. In that time, he has been instrumental in growing our Financial Markets franchise and forging its leadership position in key sectors. Over the last few months, Denis has led our Wealth business on an interim basis, which further speaks to his leadership. I am personally very grateful that Denis will be staying on as a strategic advisor to the Bank, so that we can continue to benefit from his deep experience.

Denis will fully transition to his advisory role once Nancy Paquet officially takes over the leadership of Wealth Management starting in Q1. Nancy is a proven leader having made her mark in a range of strategic roles at the Bank since joining in 2007. She is a seasoned financial services professional with a strategic vision and a client-centric mindset. We look forward to welcoming her to the Senior Leadership Team as Head of our Wealth franchise, a key growth driver for the Bank.

Marie-Chantal, over to you.

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

My comments will start on Slide 7. The Bank delivered solid financial results in Q3 despite a challenging macro environment.

Revenues increased 4% year over year. As Laurent mentioned, solid revenue growth in P&C Banking and Wealth Management was partly offset by lower revenues in Financial Markets.

As anticipated and discussed on our last call, operating leverage was negative in Q3, with expenses increasing 7% year over year. A significant proportion of our expense growth was driven by last year's FTE increase, as well as by our annual salary increase, and was partly offset by lower variable compensation.

Over the past few quarters, the entire management team has been focused on prudently managing headcount through attrition while at the same time simplifying our operations to improve the client experience. Notably, our FTE count in Canada has been declining since Q1.

Also contributing to the increase in expenses were investments in technology to support client acquisition, enhance our client experience, and improve efficiency. To delve a little deeper, this expense increase is largely explained by a shift in the investment portfolio mix and higher amortization related to past projects, as well as by business growth. Costs including occupancy, marketing and travel were also higher year over year.

With the environment expected to remain challenging in the near-term, we continue to be strategic in prioritizing and managing expenses. By being proactive and disciplined in an inflationary environment, we have been able to contain our expense growth to within the mid to high single digit range. We remain very focused on controlling costs and as such, while expense growth may vary from quarter to quarter, we expect the overall trend in non-interest expense growth to moderate. Our dynamic approach to balancing business growth and investments contributes to our efficient businesses and the resiliency of the Bank.

Now turning to Slide 8 - Total net interest income, excluding trading, increased by 17% from last year, benefitting from higher rates and strong balance sheet growth.

For P&C Banking, net interest income was up by 13% year over year, mainly driven by deposit margin expansion and growth in loans and deposits.

For Wealth Management, NII increased by 19% year over year. This was supported by higher interest rates and a strong deposit base of 40 billion dollars, resulting from the diversification of our underlying businesses.

In Q3, we reclassified Other Income to NII. The reclassification had no impact on the Bank's total revenue. Excluding this item, non-trading NII grew 14% year over year.

In Q3, All Bank NIM excluding trading reached 2.18%. The revenue reclassification represented a favorable impact to NIM of 6 basis points sequentially.

Excluding this element, non-trading NIM was up 3 basis points from last quarter. Of this increase, 2 basis points related to Corporate Banking, primarily driven by a payment recovery, while asset and liability management activity accounted for one basis point.

P&C NIM was stable from last quarter's strong level. The segment benefited from a more favorable business mix, mainly offset by lower asset spreads.

As always, our objective is to grow the franchise and we remain disciplined in managing our balance sheet…balancing growth, margin and credit quality.

Slide 9 highlights our balance sheet. Loans were up 9% year over year and growth was broad-based. There was particular strength in Corporate Banking, reflecting growing working capital needs, acquisition financings and relatively subdued origination activity within capital markets. Strong performance in USSF&I reflected ABA's expanded client base and Credigy's growing portfolio.

Commercial loans grew by 7% year over year, in part driven by opportunities in the residential insured segment. Personal mortgages grew by 2%, reflecting current housing market conditions and our strategic decision to focus on our proprietary channels. Sequentially, loans grew by 2% at the all-bank level.

Deposits, excluding wholesale funding, grew by 13% year over year and 1% quarter over quarter, with personal deposits growing by 16% year over year and 1% sequentially. Personal clients continue to favor term products in a high interest rate environment. While the rate of migration has been slowing down, clients have continued to deploy some of their accumulated savings.

Non-retail deposits also grew sequentially by 1.5 billion dollars or more than 1%. This was primarily driven by Commercial Banking, including an increase in Government and Public Sector deposits.

Our deposit franchise demonstrates the strength of our diversified model and focus on growing our deposit base across all business segments.

Slide 10 presents our strong liquidity position and sound funding profile. Our core banking activities are well-funded through diversified, strong and stable sources, while we remain disciplined around funding costs.

We maintain prudent liquidity metrics and consistently operate at levels that are well above regulatory minimum requirements. At the end of Q3, our Liquidity Coverage Ratio was 146% and our Net Stable Funding Ratio was 118%.

Now turning to capital on Slide 11 - Our CET1 ratio improved by 15 basis points from last quarter to reach 13.5%. Third quarter earnings net of dividends contributed 34 basis points to our ratio, underscoring our strong internal capital generation capacity.

On November 1, 2023, the Basel III reforms related to the Fundamental Review of the Trading Book and a revised Credit Valuation Adjustment framework will be adopted. Based on what we are seeing today, and keeping in mind that the exact level of market risk at implementation is difficult to predict, we estimate that the reforms would have a combined impact of 35 to 40 basis points of capital. As we transition from an internal-model-based-approach towards a standardized market risk approach, the unfavourable impact is primarily explained by the loss of diversification benefits between various risk factors.

Our capital position is strong and will remain strong, on a pro forma basis, upon the reform implementation in Q1 2024. It provides us with flexibility to deploy capital across our segments and take advantage of opportunities that arise to support growth. It also allows us to return capital to shareholders.

In conclusion, the Bank delivered solid Q3 results with an ROE of over 15% and a strong balance sheet. Our resilient business model and disciplined approach to cost, capital and risk management have contributed to our solid track record and position us well to execute our strategy.

I will now turn the call over to Bill.

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

I'll begin on slide 13. The trends in our credit portfolios remain consistent with the complex macroeconomic environment we've discussed in recent quarters. Employment conditions have softened modestly, but unemployment rates remain low compared to historic averages. Inflation has declined from its peak but is likely to remain sticky. The future path of interest rates remains uncertain, but rates are likely to remain high for longer than what was forecast earlier this year. And elevated geopolitical risks persist.

Against that macro backdrop, we remain very comfortable with our defensive positioning and were pleased with our credit performance last quarter, with total PCLs of 20 basis points or $111 million.

Provisions on impaired loans increased to $85 million or 15 basis points. In retail portfolios, impaired provisions continue to rise from last year's lows, but remain below pre-pandemic levels. In wholesale portfolios an increase in impaired provisions was driven by 2 new impairments in commercial banking partially offset by a recovery in corporate banking. As you know, wholesale impairments and recoveries can be lumpy from quarter to quarter. In the international sector, impaired provisions rose to $25 million reflecting normal seasoning in Credigy's portfolios and, at ABA, reflecting a moderating global economy particularly impacting the recovery in tourism and trade related sectors.

Provisions on performing loans were $38 million or 7 basis points, as we continued to build allowances. In our domestic portfolios, performing provisions were stable QoQ and due primarily to portfolio growth. In the International Sector, performing provisions were driven by portfolio growth, model calibrations and migration.

Please turn to slide 14 - Total Allowances for Credit Losses increased by 5% to $1.3 billion and now represent 1.7 times the Q1 2020 level. Performing ACLs grew to more than $1 billion, just 5% below its pandemic peak. On slide 29, in the appendix, you'll find details of our allowance coverage ratios which remain very strong. Performing allowances cover 4.5 times our LTM impaireds, and Total allowances cover 7.8 times our LTM Net Charge Offs. In this complex macro environment, we are very comfortable with this prudent level of allowances.

Turning to slide 15, our Gross Impaired Loan ratio increased to 41 basis points which remains below pre-pandemic levels. Net formations rose to $153 million last quarter. In retail banking recent trends in delinquencies and formations persisted with delinquencies rising faster in unsecured portfolios than in RESL, and more slowly in Quebec portfolios vs the Rest of Canada. In the wholesale portfolios, formations rose in the quarter driven by two new commercial formations in the manufacturing sector partially offset by a net recovery in corporate banking.

In the International sector, formations increased due to seasoning in Credigy portfolios and higher impairments at ABA. In the context of moderating global growth, the Cambodian economy is adjusting to recent softness in external demand and a slower than anticipated recovery in tourism. In this context, we expect formations to remain elevated. However, given the low LTVs of the loans, we expect the realized net charge-off rate to remain low.

On slides 16 and 17, we present the highlights of our Canadian RESL portfolio. The geographic and product mix remained stable with Quebec accounting for 55% and Insured mortgages accounting for 29% of total RESL. Supported by favorable employment and savings rates, borrowers continue to demonstrate resiliency as they absorb the impacts of higher interest rates. Uninsured RESL 90+ day deliquencies remained low at 7 basis points and credit scores remain high.

As you know, payments on our Variable Rate Mortgages have adjusted upwards with central bank rate increases, so these are the customers who have had to adapt most quickly to higher rates. While we have seen early delinquencies rise past pre-pandemic levels for insured VRM mortgages, they remain low for uninsured VRM as customers have prudently adjusted discretionary spending. You'll also see in the supp pack that the remaining amortizations have not extended with the portion over 30 years remaining low at 1% of the portfolio.

To conclude, we were pleased with the good credit performance again this quarter. Looking ahead, we expect further normalization with increasing levels of delinquencies and impaired PCLs in the coming quarters. The speed of normalization will be heavily influenced by the path of unemployment and interest rates, and impacts should be somewhat mitigated by our defensive positioning, our resilient mix, and our prudent level of allowances. We maintain our full year target for impaired PCLs at 10-20 basis points and continue to expect to end up in the bottom part of that range.

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