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

DISCLAIMER
The following speakers' notes, in addition to the webcast and the accompanying presentation materials, are provided for your information only, are current only as of the date of the webcast, and may be superseded by more current information. except as required by law. National Bank of Canada does not undertake any obligation to update the information, whether as a result of new information, future events or otherwise. The entire webcast replay, which includes a question and answer session, can be accessed via the Bank's website at https://www.nbc.ca/about-us/investors/quarterly-results.html. In no way does National Bank of Canada assume any responsibility for any investment or other decisions made based upon the information provided on its website or in these speakers' notes. Users are advised to review the webcast itself and the Bank's filings with the Canadian Securities regulators before making any investment or other decisions.

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.

****

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. Also, in light of the proposed legislation with respect to Canadian dividends, the Bank did not either recognize an income tax deduction - or use the taxable equivalent basis method - to adjust revenues related to affected dividends received after January 1, 2024.

I will now turn the call over to Laurent.

Laurent Ferreira, President & CEO

Merci Marianne, and thank you everyone for joining us.

The Bank delivered a strong performance for the first quarter, reporting EPS of $2.59, with strong momentum and execution across business segments. The Bank generated ROE in excess of 17%, and maintained a CET1 ratio of 13.1%.

Our results reflect:

- Effective capital deployment to generate profitable, long-term growth;
- Active cost management and simplification efforts to generate efficiencies;
- As well as our commitment to maintaining a prudent credit profile, both in terms of mix and reserves.

Our discipline across these fronts is serving us well in an uncertain macro landscape and normalizing credit environment. As anticipated, 2024 is shaping up to be a challenging year for consumers and businesses. Interest rates remain high and inflationary pressures are still at play. The housing supply imbalance is further pressuring Canadians, while we continue to see signs of a softening labour market. As we look ahead, economic growth could prove challenging, which could translate into lower inflation and interest rate relief.

In this context, we enter the second quarter on solid footing with prudent reserves and strong capital ratios. This enables us to support business growth and return capital to shareholders through sustainable dividend increases. Our dividend payout ratio stands at 42.4% following the dividend increase announced last quarter. We will review our dividend in Q2, consistent with usual practice. The earnings power of our diversified business mix and defensive posture provide us with resiliency and flexibility, as demonstrated by the performance of our business segments.

Personal and Commercial Banking continued to perform well in the first quarter, generating 5% year over year growth in pre-tax pre-provision earnings. This was supported by concurrent growth in average loans and deposits while maintaining resilient margins. Our commercial book grew 4% sequentially. Growth in personal loans remained slower, reflecting a lower level of mortgage originations. We will continue to be disciplined across our portfolio, balancing volume growth with margin and credit quality.

Wealth Management delivered a strong first quarter, with record revenues of $660 million and a net income of $196 million. Momentum in fee-based revenues held, with assets up 10% sequentially, in part driven by market appreciation. Net interest income grew 5% over the same period, benefiting from a strong deposit base.

Financial Markets continues to grow and diversify its activities, delivering record net income of $308 million for the quarter, up 3% year over year. Revenues were up 14% from last year for Global Markets, with a solid performance across the franchise. This includes robust activity in Securities Finance and strong performance from our rates and commodities business. Corporate and Investment Banking maintained a strong top line in the quarter. Revenues of $304 million were up 4% year over year, driven by net interest income growth, partly offset by lower M&A activity. Our Financial Markets business remains focused on delivering net income growth for 2024.

Credigy delivered a solid performance in Q1, generating 6% asset growth sequentially. With strong momentum in investment volumes, the business deployed 1.3 billion U.S. dollars in the quarter. Revenues were down year over year and sequentially, as comparative periods benefited from favourable items, including significant prepayment revenues. Excluding these items, net interest income was up 6% sequentially. Credigy's underlying performance remains strong and our portfolios are diversified and primarily secured. With sustained momentum in deal flow and a disciplined investment approach, Credigy is well-placed to continue delivering high-quality risk-adjusted returns.

Finally, **ABA Bank** delivered a solid overall performance in Q1. Momentum in client acquisition persists, with client count up 28% year over year, translating into double-digit growth on both sides of the balance sheet. Revenues were up 8% year over year and 4% sequentially. Deposit margins have been improving lately, with a more favourable mix in deposit growth. The business is focused on balanced growth in the near term, while continuing to benefit from a very attractive longer-term outlook.

In conclusion, and mindful of the uncertain environment, we remain committed to our prudent and disciplined approach to capital, credit and cost management.

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 first quarter, with PTPP growth of 5% year over year and an efficiency ratio of 51.4%.

Revenues increased 5% compared to last year. In particular, the top-line grew 10% in Financial Markets, 5% in P&C Banking, and fee-based revenues within Wealth Management rose 8%.

Our cost discipline is yielding results, with total expense growth of 4% year over year. Our actions towards simplifying our products, processees, and services are paying off.

Growth in salaries and benefits moderated to 3% year over year. Variable compensation rose 6%, in line with both strong fee-based performance in Wealth Management, and revenues in Financial Markets.

On the technology front, costs increased 4% as we continue to invest by accelerating automation and simplification. This is partly offset by a lower amortization expense.

In Q1, strong revenue growth and continuous expense management resulted in positive operating leverage of 0.6%. Lingering economic uncertainty continues to make revenue growth difficult to predict. In this context, we remain prudent and focus on managing expense growth.

Now turning to **Slide 8**. Non-trading net interest income in Q1 grew 5% quarter over quarter and was broad-based. Most business segments benefited from strong balance sheet growth and higher margins. The all-bank non-trading NIM increased 7 basis points sequentially to reach 2.21%. P&C NIM was stable from last quarter's strong level, as wider asset and deposit spreads were mainly offset by balance sheet mix. We are pleased with our Q1 NIM. Predicting NIM in the current environment also remains challenging. Based on what we're seeing today, we expect all-bank non-trading NIM to remain relatively stable from Q1, but may fluctuate up or down by a few basis points from quarter to quarter. As always, we maintain our balanced approach in managing NII with respect to volume growth, margins and credit quality.

Moving to our balance sheet on **Slide 9.** Loans were up 9% year over year and 2% quarter over quarter. All business segments contributed to this growth.

Deposits, excluding wholesale funding, grew 4% year over year and 1% sequentially. Personal deposits rose 4% quarter over quarter, with continued growth in term deposits and a 1 billion dollar increase in demand deposits. Non-retail deposits were relatively stable over the same period.

We maintained a strong loan-to-deposit ratio of 98% as at Q1. Our ratio is aligned with our diversified business model and supports continued growth across all operating segments.

Slide 10 highlights our sound liquidity position and diversified funding profile. Our core banking activities continue to be well-funded through diversified and resilient sources. The bank has a holistic view on deposits, and we remain disciplined around funding costs. This strategy contributes to a well-diversified deposit base and to the bank's strong overall performance. LCR remains strong at 145%. It now reflects the implementation of OSFI's new regulatory liquidity treatment of cash ETF's. Cash ETF balances were up 1.5% over the quarter. We prudently and consistently operate at liquidity levels that are well above regulatory minimum requirements.

Now turning to capital on **Slide 11**. We ended Q1 with a strong CET1 ratio at 13.1% while generating robust asset growth. The adoption of FRTB and a revised Credit Valuation Adjustment framework on November 1st, reduced the CET1 ratio by 38 basis points, in line with our guidance. This amount was partly offset by methodology refinements representing 15 basis points.

First quarter earnings net of dividends contributed 41 basis points to our ratio, underscoring our strong internal capital generation capacity. Organic RWA growth, mainly driven by strong momentum in Credigy's investment volumes and solid growth in our Commercial and Corporate Banking books, represented 58 basis points of capital.

With lingering macro uncertainty, our prudent approach across the Bank remains a focus. The Bank's performance in Q1 was strong and 2024 is off to a good start. Our revenue diversification, our expense discipline and our strong capital continue to position us well to deliver profitable, long-term 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 13**. Since the end of last fiscal year, there has been some improvement in the macro context with stronger equity markets and lower bond yields reflecting increased optimism about inflation and growth. However, significant uncertainties still remain in the forward path of economic growth and interest rates. Certain components of inflation may remain sticky, which could complicate the job of central banks, and unemployment rates are likely to rise. Our base case economic forecast has the unemployment rate in Canada increasing to about 7% by early 2025. Against this macro backdrop, our credit portfolios have continued to perform very well in the first quarter with total provisions for credit losses of $120 million or 21 basis points, relatively stable QoQ.

Impaired provisions increased 1 basis point sequentially to 17 basis points or $99 million. Retail impaired provisions increased as normalization trends continued. Non-retail impaired provisions were stable QoQ and due primarily to a few files in Commercial Banking in the healthcare and agriculture sectors. Continued seasoning of acquired portfolios generated stable impaired provisions at Credigy. ABA's impaired provisions remained elevated, as we expected and discussed on last quarter's call.

Provisions on performing loans declined to $30 million or 5 basis points. The primary drivers this quarter were portfolio growth and an increase in overlays, partially offset by more favorable macro indicators and model calibrations.

Looking ahead, we expect delinquencies and impaired provisions to continue their upward path. We maintain our target range for full-year impaired PCLs at 15-25 basis points and still expect to end up around the middle of that range.

Turning to **Slide 14**, we continued to prudently build our total allowances for credit losses which reached more than $1.4 billion and represents a strong coverage of 6.6 times our last 12 months net charge-offs. Performing ACLs increased for the 7th consecutive quarter and now represent 3.4 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 15**, our gross impaired loan ratio increased 3 basis points sequentially to 48 basis points. As we call out on the slide, the GIL ratio in our domestic loan portfolios was stable QoQ at 31 basis points and has risen just 2 basis points from the same period last year, a good demonstration of our defensive positioning. The main driver of the increase in GILs was ABA, and we expected this. We began speaking about our expectations for higher impaired back in Q3 last year, based on trends we saw in softer trade and tourism. As we expect the same trend to continue for another few quarters, I want to take a minute to share a few insights on ABA's impaired loans that we believe are important to remember:

1) First, similar to the performing portfolio, the avg impaired loan size is about $65,000 and is well-secured with average LTVs in the mid 40s.
2) Second, Retail Trade and Other Services are the two sectors with largest GILs as these sectors have been most impacted by lower discretionary spending and slower tourism recovery.

3) Third, ABA's collections staff work closely with borrowers, many of whom continue to make periodic interest and partial capital repayments. For example in the past quarter about 36% of outstanding impaired loans received interest payments and more than 25% received partial capital payments.
4) And finally, when a loan becomes impaired, ABA prudently takes stage 3 provisions which are significantly greater than the actual charge-offs rates it has historically experienced.

So although the economic context and the much longer collection cycle in Cambodia mean that we expect the growth in ABAs GILs to continue and formations to remain elevated for a few more quarters, we remain very comfortable with the prudent level of provisioning and expect net charge-off rates to remain low.

Now looking at net formations - at $173 million, formations were flat quarter over quarter and reflect the ongoing normalization trends we discussed last year. ABA's formations, reported in Canadian dollars, declined in the quarter, however remained elevated on a constant currency basis, as expected.

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 less than 50 basis points of the total RESL portfolio. 90 day deliquencies in uninsured mortgages and HELOCs remain very low at 9 basis points and 8 basis points respectively.

You can find additional details on our Canadian mortgages on **Slide 17**. I'll note that more than half of the portfolio has now been repriced at higher interest rates, and clients continue to demonstrate their resilience. We have provided more insights on trends in 90 day delinquencies for the Canadian retail portfolio in appendix 9. As discussed on previous calls, we have observed differences in the pace of normalization across products and geographies and there are two trends that I'll call out from that deliquencies table:

- First, credit card delinquencies now exceed their pre-pandemic level. Within this population, we find the client segment most impacted has been non-home owners - a segment that has been absorbing significant increases in rental costs. I should also remind you that we have a relatively small card portfolio that represents less than 1% of total loans.
- Second, variable rate mortgage delinquencies have continued to normalize, as borrowers have absorbed the significant increase in interest rates. Within this population, it is only the segment of insured variable rate mortgage that has delinquencies above their pre-pandemic level. Uninsured variable rate mortgage delinquencies remain relatively low at 17 basis points.

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.