SPEAKING NOTES - NATIONAL BANK OF CANADA
FOURTH QUARTER EARNINGS CONFERENCE CALL
WEDNESDAY, DECEMBER 4, 2024

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this document and made orally are forward-looking statements. These 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 set out in the messages from our management, as well as other statements made about the economy, market changes, the Bank's objectives, outlook, and priorities for fiscal year 2025 and beyond, the strategies or actions that will be taken to achieve them, expectations for the Bank's financial condition and operations, the regulatory environment in which it operates, its environmental, social, and governance targets and commitments, the anticipated acquisition of Canadian Western Bank (CWB) and the impacts and benefits of the transaction, and certain risks to which the Bank is exposed. The Bank may also make forward-looking statements in various other documents and regulatory filings, as well as orally. 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. These forward-looking statements are intended to assist the security holders of the Bank in understanding the Bank's financial position and results of operations as of the dates indicated and for the periods having 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. 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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 filed thereafter. The forward-looking statements made in this document are based on a number of assumptions and their future outcome is subject to a variety of 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, risks and uncertainties related to the expected regulatory processes and outcomes in connection with the proposed acquisition of CWB (the proposed transaction), such as the possible delay or failure to close the proposed transaction, the potential failure to obtain the required approvals to the proposed transaction in a timely manner or at all, the Bank's ability to successfully integrate CWB upon completion of the proposed transaction, the potential failure to realize anticipated synergies and benefits from the proposed transaction, and potential undisclosed costs or liability associated with the proposed transaction; the general economic environment and business and financial market conditions in Canada, the United States, and the other countries where the Bank operates; 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; regulatory oversight and 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; the Bank's ability to satisfy stakeholder expectations on environmental and social issues, the need for active and continued participation of stakeholders; the availability of comprehensive and accurate data from customers and other third parties, including greenhouse gas emissions; the ability of the Bank to develop indicators to effectively monitor our advancements; the development and deployment of new technologies and sustainable products; the ability of the Bank to identify climate-related opportunities as well as to assess and manage climate-related risks; 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 the open banking system and the utilization of artificial intelligence; heightened competition from established companies and from competitors offering non-traditional services; model risk; 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; third-party risk, including failure of third parties to comply with their obligations to the Bank; the potential impacts of disruptions to the Bank's information technology systems, including cyberattacks as well as identity theft and theft or disclosure of data, including 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; and the Bank's ability to anticipate and successfully manage risks arising from all of the foregoing factors. 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 factors is provided in the Risk Management section of the 2024 Annual Report, and may be updated in the quarterly reports to shareholders filed thereafter.

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 2024 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 14-20 and 130-133 of the Bank's 2024 Annual Report which is 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 Jean-Sébastien Grisé, 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 earnings per share of $2.58 for the last quarter of 2024, and $10.39 for the full year.

With disciplined execution, strong organic growth and resilient credit performance in a complex environment, the Bank met all of its medium-term financial objectives for 2024.

We delivered EPS growth of 10%, ROE of 17%, and a CET1 ratio of 13.7%. We increased our common share dividend by close to 9% in 2024, and this morning, we announced a 4-cent increase to our quarterly dividend effective Q1 2025.

Our proposed acquisition of Canadian Western Bank will be a key pillar in our domestic growth in 2025 and for the years to come. We look forward to bringing together two strong teams and highly complementary platforms to accelerate our growth.

The approval process is progressing well. CWB common shareholders approved the transaction in early September and all approvals to complete the reorganization of CWB's Tier 1 Capital were obtained late November.

On the regulatory front, we received clearance from the Competition Bureau in late September and the federal Department of Finance completed its public consultation in November. We have also completed and submitted regulatory documentation to OSFI as part of the application review process. After OSFI completes its review, the final step will be the decision of the Minister of Finance.

Before turning to our business segments, let me make a few comments on the broader macroeconomic context in Canada.

We expect the Canadian economy to experience slower growth in the first half of 2025 as interest rates remain restrictive. The labour market, consumer spending, business investments and the credit environment will continue to reflect this softness.

The Canadian economy will also face uncertainties with regards to the path of monetary policy and a possible divergence between the Bank of Canada and the FED as well as trade policies in North America. These will potentially have an impact on the term structure of interest rates, the Canadian dollar and Canadian businesses.

Turning now to the performance of our segments.

P&C Banking generated a solid performance in the quarter and throughout the year, with 2024 earnings up 5%. The franchise benefited from strong balance sheet growth, partly offset by an evolving credit cycle.

Growth in personal mortgages picked up over the course of 2024, ending Q4 up 3% year-over-year. We expect momentum in our client channels to continue at the current pace.

Commercial loan growth was robust, up 14% for Q4 and 13% for the year, reflecting strength in insured residential real estate and broad-based growth across our industries and geographies. We expect commercial loan growth to be in the low teens next year, before factoring in CWB.

Wealth Management delivered 12% net earnings growth in 2024 with a strong performance in all businesses. This included strong deposit growth volumes and asset growth supported by significant market appreciation and continued client acquisition momentum.

Our Wealth Management franchise is well positioned for continued growth next year.

Financial Markets capped off the year generating net income of $306 million in Q4. Global Markets delivered a strong performance from Equities driven by good market activity and structured products origination. Corporate and Investment Banking results were strong performance from DCM and Corporate Banking, offset by lower fees from M&A and ECM. For the full year, Financial Markets grew net earnings by 18%, leveraging our expertise in select areas, while maintaining a disciplined risk management approach.

Looking at 2025, the impact of Pillar 2 on our European activities and a credit environment that remains challenging are expected to temper net income growth for this segment, particularly against a record year. However, our strategy remains unchanged, and we continue to target net income growth in 2025.

Credigy had a strong year, with net income growth of 10%. Investment volumes exceeding $3 billion US resulted in average asset growth of 14% for the year.

In 2025, we expect to generate investment volumes and average asset growth in line with 2024. The U.S. market remains competitive, and the team will maintain its usual discipline as it pursues opportunities with attractive risk-reward profiles.

Shifting to ABA Bank, the local economy is operating below potential and tourism spend remains lower, which impact the businesses we serve there. However, the economic long-term fundamentals remain highly attractive, including favourable demographics, the diversification of the economy, and strong GDP growth potential.

Against this backdrop, ABA continues to grow its balance sheet, with loans up 11% year-over-year in Q4. It also continues to grow its client base, up 29% year-over-year, translating into deposit growth of 19% year-over-year. This reflects ABA's unique strengths, including its digital payments and cash management capabilities.

2024 was a year of significant progress in the execution of our growth strategy. I wish to recognize our employees and the senior leadership team for their contributions; our growing number of customers for their trust; and our shareholders for their continued support.

Looking ahead to 2025, the economy continues to remain uncertain and complex. In this context, our approach and our discipline in credit, capital and cost management remains unchanged. As we pursue the growth of our Bank, long-term value for our stakeholders is our most important priority.

Marie Chantal, over to you.

Marie Chantal Gingras, CFO & EVP, Finance

Thank you, Laurent, and good morning, everyone.

My comments will begin on Slide 8. In 2024, the Bank achieved record revenues, pre-tax pre-provision earnings and net income, each representing double digit growth year-over-year. All business segments contributed significantly to this strong performance. We maintained our cost discipline across the Bank and expenses were in line with our growth. We were pleased with the overall efficiency of our businesses. Operating leverage was positive in every quarter this year.

Fourth quarter results were solid. Revenues increased by 10% and, with continued cost discipline, PTPP grew by 11%. Operating leverage was positive at 1.5%. Wealth Management generated particularly strong revenue and PTPP growth of 14% and 16% respectively year-over-year. P&C, as well as ABA and Credigy, delivered solid balance sheet growth.

Expenses were up 8% year-over-year. This was primarily driven by total compensation which also increased by 10%. As well, technology costs and professional fees were higher year-over-year in support of our business growth and our investments.

Now turning to Slide 9. Non-trading NII in Q4 was up 6% sequentially, or 4% excluding the remaining impact of the conversion of BA's to CORRA loans. This increase was mainly driven by solid asset growth in P&C, Credigy and ABA; improved NII from corporate activities; and a favourable impact of $12 million in Credigy's fair value portfolios.

The all-bank NIM, excluding trading, was 2.26%, up 4 basis points quarter-over-quarter. The over performance of Credigy's fair value portfolios accounted for about half of this increase. As expected, the P&C NIM was relatively stable quarter-over-quarter at 2.30%.

Turning to Slide 10 which highlights the continued broad-based growth on both sides of our balance sheet. Loans were up 8% year-over-year and 1.5% quarter-over-quarter.

Deposits, excluding wholesale funding, grew 9% year-over-year and 3% quarter-over-quarter.

Personal demand deposits increased by $2 billion, up 5% sequentially, while non-retail deposits grew 4% quarter-over-quarter. Deposit trends are evolving as short-term interest rates are declining. Within Personal Banking, growth in term deposits has been slowing, while demand deposits have been growing at a solid pace over the past two quarters.

Furthermore, our customers' appetite for investment solutions has been strong given the favorable market performance in 2024 and this resulted in solid growth.

Now turning to capital on Slide 11. We ended the year with a robust CET1 ratio at 13.7%, up 25 basis points sequentially. Fourth quarter earnings, net of dividends, contributed 37 basis points to our ratio, again underscoring our internal capital generation capacity. Excluding FX, growth in risk-weighted-assets accounted for 17 basis points of CET1, driven by organic growth in our businesses.

Before offering some comments on our outlook for 2025, I would like to mention that effective November 1st, we will be discontinuing the presentation of revenues on a taxable equivalent basis. The TEB presentation is less relevant following the introduction of the Pillar 2 tax rules in Q1 2025, and of Bill C-59 regarding the taxation of Canadian dividends earlier this year. The change will have no impact on the net income previously reported. We will publish results revised on this basis for fiscal 2023 and 2024 shortly.

As well, please note that comments relating to our outlook exclude the impact of our pending acquisition of CWB.

With that said, operating leverage will be positive next year. We continue to be disciplined around costs, and strategic around investments to simplify operations and gain efficiency as we pursue our growth.

Looking at the all-bank non-trading NIM, we expect modest quarterly fluctuations, with our P&C NIM remaining relatively stable in 2025, on the back of improving loan margin mitigated by lower deposit margin as term deposits renew at lower spread.

As for Pillar 2, it will impact the taxation of our activities in Europe within our Financial Markets segment, beginning in the first quarter of 2025.

At this stage, the Bank estimates that the impact from the implementation of the Pillar 2 rules should increase the effective tax rate, all things being equal, by approximately 1 to 2 percent. However, the effective tax rate for any particular period may also be impacted by other factors, including changes in our business mix.

Finally, as we take into consideration the interest rate environment, the implementation of Pillar 2, and a credit environment that remains uncertain, we expect mid-single digit EPS growth in 2025, backed by strong execution.

In conclusion, we are pleased with the Bank's performance in Q4 and in 2024 and are excited about the opportunities that lie ahead. With a robust balance sheet and a proven business model, we are well positioned entering the new year and as we prepare to welcome the CWB clients and teams.

I will now turn the call over to Jean-Sébastien.

Jean-Sébastien Grisé, CRO & EVP, Risk Management

Merci Marie-Chantal and good morning everyone.

I'll start on slide 13 looking back at our credit performance over the full year. Throughout 2024, the Canadian economy continued to show signs of softness, including slower growth and rising unemployment rate.

Against this macro context, the performance of our credit portfolios proved resilient, benefiting from our defensive positioning and disciplined risk management.

Total provisions for credit losses for the full year were 24 basis points versus 18 basis points a year ago.

We took 4 basis points of performing provisions as we prudently built additional allowances.

As expected, impaired PCLs rose throughout 2024 and reached 20 basis points for the full year. This was in line with the guidance we had provided in 2023.

Now turning to the fourth quarter results, total PCLs were $162 million, or 27 basis points, an increase of 2 basis points compared to the last quarter.

The primary drivers of performing provisions this quarter were model calibration and portfolio growth, partially offset by more favourable macroeconomic scenario impacts.

PCLs on impaired loans were $145 million or 24 basis points, which was 3 basis points higher quarter-over-quarter.

Personal and Commercial impaired PCLs increased quarter-over-quarter and stood at $55 million and $22 million respectively. In Financial Markets, a $16 million provision was due primarily to one newly impaired account in the manufacturing sector.

At Credigy, we saw a normal seasoning of portfolios.

At ABA, impaired provisions remained elevated, as we've seen for several quarters now.

Looking ahead to 2025, we expect the current trends of a rising unemployment rate and slower GDP growth to persist. Interest rates remain restrictive, and there remains significant uncertainties in the forward path of economic growth.

In our domestic portfolio, we expect further increases in delinquencies and impaired PCLs both in our retail and wholesale portfolios. As previously discussed, our wholesale book remains subject to periodic lumpiness.

At Credigy, as in prior years, we expect provisions to be primarily driven by portfolio growth and mix.

At ABA, with the local economy operating below potential, we expect impaired PCLs to remain elevated.

At the total bank level, we expect impaired PCLs to be in the range of 25 to 30 basis points for the full year 2025.

Turning to slide 14. Our total allowances for credit losses reached $1.6 billion, representing 4.1x times coverage of our Last Twelve Months net charge-offs.

Our performing allowances grew 1% Quarter-over-quarter to reach almost $1.2 billion, representing 2.4x times our last 12 months' impaired PCLs. Additional metrics on our allowances are provided in Appendix 12. We remain comfortable with the prudent level we've built over the past several quarters.

Turning to slide 15. Our gross impaired loan ratio increased to 68 basis points, up 9 basis points quarter-over-quarter.

The main driver of higher GILs throughout the year has been ABA, due to elevated formations and a longer resolution process. With the current trends we are observing, the levels of net formations we have experienced this quarter would likely represent the higher end of what we expect going forward.

ABA's gross impaired loans have an average LTV in the 50s, and an average size of about $80,000 U.S.

When a loan becomes impaired, we take prudent stage 3 provisions that are in excess of our historical net charge-off experience. Over the past few years, we continued to build our Impaired allowances which now reach $155 million. Our coverage of GILs from Impaired allowances is strong at 24%, a level we have maintained along with the increases in GILs over the past few years.

And finally, about two-thirds of the impaired loans which were resolved in Q4 and in 2024 experienced no loss.

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. Average LTVs for our HELOCs and uninsured mortgages remained in the 50s, and higher risk uninsured borrowers remained stable at around 50 bais points of the total RESL portfolio.

On slide 17, we provide additional details on our Canadian mortgage portfolio. Of note, 65% of our mortgage portfolio has now been repriced at higher interest rates, and 90-day delinquencies remain below the pre-pandemic level.

90-day delinquencies for the entire Canadian retail portfolio can be found in Appendix 11 and the trends discussed on prior calls remain.

In conclusion, we are pleased with the credit performance in 2024. We remain well positioned given our defensive attributes, resilient mix, and prudent level of allowances.

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

*** Closing remarks ***

Laurent Ferreira, President & CEO

Thank you, operator, and thank you everyone for joining us today. On behalf of the National Bank team, we wish you all the best for the holiday season, and we look forward to seeing you in 2025.