Canadian Credit Card Trust II

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the quarter and the nine months ended September 30, 2024

November 7, 2024

TABLE OF CONTENTS

Management’s Discussion and Analysis

NOTES TO READERS

November 7, 2024 – The following text presents Management’s Discussion and Analysis of the results of Canadian Credit Card Trust II (the **‘‘Trust’’** or **‘‘CCCT II’’**) for the quarter and the nine months ended September 30, 2024. Additional information about the Trust may be found on SEDAR+ at www.sedarplus.ca.

Forward-Looking Information

This document may include “forward-looking statements”, within the meaning of securities legislation, that are based on certain estimates and expectations. Statements that are not historical facts, including statements about assumptions and expectations, are forward-looking statements. Forward-looking statements are based on a number of assumptions and are subject to a number of risks and uncertainties, many of which are beyond the Trust’s control, which could cause actual results to differ materially from those that are explicitly expressed or implied by such forward-looking statements. Consequently, even if the forward-looking statements contained in this report are based on what the Trust’s management believes are reasonable assumptions, investors are cautioned against placing undue reliance on these statements since actual results may differ from the forward-looking statements. These forward-looking statements are typically identified by future or conditional verbs or words such as “outlook”, “believe”, “anticipate”, “estimate”, “project”, “expect”, “intend”, “plan”, and words and expressions of similar import. The forward-looking statements contained in this document are presented for the purpose of interpreting the information contained herein and may not be appropriate for other purposes. The Trust’s management does not undertake to publicly update any forward-looking statements to account for any new information, future events or other factors, unless required to do so under applicable securities legislation.

GENERAL INFORMATION

The Trust was created as a special-purpose entity to acquire and manage financial assets backed by Mastercard credit card receivables (the **“receivables’’**) from the National Bank of Canada (the **“Transferor’’** or **“Bank’’** or **“Servicer’’**) portfolio and to fund these financial assets by issuing notes in the asset-backed securities market. The Trust has not and will not engage in any business activity other than acquiring and managing Trust assets; issuing notes, the Bank Note, and any additional securities; and making payments thereon and related activities, including investing in eligible investments. Consequently, the Trust does not and is not expected to have any resources other than the Trust assets.

The Trust prepares its unaudited interim condensed financial statements in accordance with International Financial Reporting Standards (IFRS) as published by the International Accounting Standards Board (IASB). IFRS represent Canadian generally accepted accounting principles (GAAP).

The Trust distributes all its earnings to its beneficiary; consequently, its equity capital remains nil. For the quarter and the nine months ended September 30, 2024, there were no amortization events or any missed payments on any notes.

All amounts presented in this report are expressed in millions of Canadian dollars.

ASSETS OF THE TRUST

(in millions of Canadian dollars)

	As at September 30, 2024	As at December 31, 2023
Total assets	**2,982**	2,333

The assets of the Trust include Bank receivables, i.e., receivables of the Bank consisting of consumer revolving Mastercard credit card receivables. These receivables were transferred to the Trust pursuant to the Second Amended and Restated Receivables Purchase Agreement dated April 15, 2015, as amended, between the Bank and the Trust (the **"Receivables Purchase Agreement"**). The Bank services these accounts at its offices in Montreal. The receivables and related assets transferred to the Trust are expected to change over time as the receivables are transferred, collected, written-off or sold. As at September 30, 2024 and December 31, 2023, the Trust had Bank receivables totalling $2,402 million and $2,322 million, respectively.

Cash and cash equivalents consist of the cash collected and held by the Trust to pay interest on notes, principal upon note maturities, and its own expenses. As at September 30, 2024 and December 31, 2023, cash and cash equivalents totalled $571 million and $2 million, respectively. Interest receivable and other consist of interest earned but not yet received by the Servicer.

LIABILITIES OF THE TRUST

(in millions of Canadian dollars)

	As at September 30, 2024	As at December 31, 2023
Total liabilities	**2,982**	2,333

The Trust issued its first series of Investor Notes backed by credit card receivables on April 29, 2015. On that date, the Trust issued a note (the **''Bank Note''**) to the Transferor once the receivables were transferred to the Trust. The Transferor holds the Bank Note, which constitutes a debt obligation of the Trust that ranks pari passu with the Investor Notes. The proceeds from each issuance of Investor Notes were paid to the Transferor as payment of the redemption price of a portion of the Bank Note. The Bank Note increased by $645 million, going from $1,474 million as at December 31, 2023 to $2,119 million as at September 30, 2024. This change was attributable to a $565 million deposit account required for the reimbursement of short-term maturity Series 2021-1 Notes and to a $80 million increase in Bank receivables.

As at September 30, 2024 and December 31, 2023, the Bank held all the Series 2021-1 Class A Notes.

As at September 30, 2024 and December 31, 2023, distributions and interest payable stood at $15 million and $11 million, respectively.

As at September 30, 2024 and December 31, 2023, the Investor Notes balance stood at $849 million, representing total Investor Notes outstanding at $849 million, net of unamortized debt issuance costs.

Bank Note
As at September 30, 2024 and December 31, 2023, the Bank Note outstanding stood at $2,119 million and $1,474 million, respectively.

Investor Notes Outstanding

Investor Notes represent limited recourse debt obligations backed by credit card receivables of the Trust. The Trust has the following series of notes:

(in millions of Canadian dollars)

Series	Notes	Date of issuance	Expected date of final payment	Interest rate per annum	Payment dates	**As at September 30, 2024**	As at December 31, 2023
2021-1	Class A	October 15, 2021	November 24, 2024	1.369%	Semi-annually, May 24 and November 24	**800**	800
	Class B	October 15, 2021	November 24, 2024	1.869%	Semi-annually, May 24 and November 24	**26**	26
	Class C	October 15, 2021	November 24, 2024	2.719%	Semi-annually, May 24 and November 24	**23**	23
Total Series						**849**	849
Unamortized debt issuance costs						**-**	-
						849	849

FINANCIAL RESULTS

(in millions of Canadian dollars)

	Quarter ended		Nine months ended	
	September 30, 2024	September 30, 2023	**September 30, 2024**	September 30, 2023
Revenues				
Interests	**2**	-	**2**	5
Income from Bank receivables	**145**	139	**421**	397
	147	139	**423**	402
Expenses				
Interest on Investor Notes	**3**	3	**9**	12
Distributions on Bank Note	**144**	136	**414**	390
	147	139	**423**	402

Revenues of the Trust

The Trust's primary source of revenue is derived from Bank receivables. In addition, the Trust maintains bank accounts with the Bank and also receives interest income. Revenues are recognized when earned. For the quarter ended September 30, 2024, the Trust generated total revenues of $147 million ($423 million for the nine months ended September 30, 2024), compared to $139 million for the quarter ended September 30, 2023 ($402 million for the nine months ended September 30, 2023).

Expenses of the Trust

The Trust's expenses consist of the interest expense on Investor Notes as well as administrative and other expenses.

The Trust also pays distributions on the Bank Note equal to the excess revenues of the Trust less amounts paid to the beneficiary of the Trust; these distributions are payable to the Transferor on a monthly basis. For the quarter ended September 30, 2024, the Trust had total expenses of $147 million ($423 million for the nine months ended September 30, 2024), compared to $139 million for the quarter ended September 30, 2023 ($402 million for the nine months ended September 30, 2023).

Summary of Quarterly Results

The following table provides a summary of the Trust's revenues and expenses for the quarters ended as indicated:

(in millions of Canadian dollars)

	Sept. 30 2024	June 30 2024	March 31 2024	Dec. 31 2023	Sept. 30 2023	June 30 2023	March 31 2023	Dec. 31 2022
Revenues								
Interests	**2**	-	-	-	-	4	1	-
Income from Bank receivables	**145**	142	135	140	139	132	126	131
	147	142	135	140	139	136	127	131
Expenses								
Interest on Investor Notes	**3**	3	3	4	3	4	5	5
Distributions on Bank Note	**144**	139	132	136	136	132	122	126
	147	142	135	140	139	136	127	131

Cash Flows of the Trust

For the nine months ended September 30, 2024, interest payments on Investor Notes Series 2021-1 totalled $6 million and were paid May 24, 2024 ($6 million paid on May 24, 2023 for the nine months ended September 30, 2023). For the quarters ended September 30, 2024 and September 30, 2023, there were no interest payments on Investor Notes.

On May 24, 2023, all Series 2020-1 Notes had matured and the capital of $500 million and interest of $4 million had been paid.

As at September 30, 2024 and December 31, 2023, the accrued interest payable on the Series 2021-1 Notes stood at $4 million and $1 million, respectively.

No events occurred that would have required the Trust to begin to accumulate funds in the cash collateral account for any series of notes issued by the Trust.

CREDIT RISK, INTEREST RATE RISK, AND LIQUIDITY RISK

Credit Risk

Credit risk is the risk of financial loss in the event an obligor fails to meet its contractual obligations to the Trust. Credit risk arises predominantly on Bank receivables secured by credit card receivables. If the obligors of the underlying credit card receivables default on their financial obligations to the Bank, the resulting credit losses will reduce the amount of income from the Bank receivables. Credit risk concentration on credit card receivables exists if a number of clients carry out similar activities, are located in a same geographic region, or have similar economic characteristics such that changes in economic, political, or other conditions have a similar impact on their ability to meet their contractual obligations. The contractual amount of the Bank receivables represents the maximum undiscounted potential credit risk in the event the counterparty to credit card receivables does not perform according to the terms of the contract, before possible recoveries under recourse.

As at September 30, 2024, the Trust's maximum exposure to credit risk was $2,982 million ($2,333 million as at December 31, 2023), reflecting cash and cash equivalents, interest receivable and other, and Bank receivables.

The Servicer is responsible for servicing and administering credit card receivables and collecting the related payments. Credit risk is managed through the Servicer's review of applications for Mastercard accounts, including the use of credit reports issued by independent credit reporting agencies and the application of credit scoring systems using models that incorporate the Servicer's credit policy. Delinquent credit card receivables are subject to the collection policy and collection efforts of the Servicer's personnel, supplemented by the use of collection agencies and counsel retained by the Servicer.

Credit risk is mitigated by priority claims on balances in the cash collateral account. The Transferor is required to fund the cash collateral account from the excess spread generated by the underlying credit card receivables if a cash reserve event occurs. These amounts are held by a custodian and returned to the Trust to satisfy payments of interest, principal and other expenses if collections and other amounts received are insufficient to meet the Trust's obligations. In the event losses exceed these distributions, an amortization event would occur, causing an early redemption of a series of notes, and the investors would absorb the losses.

Interest Rate Risk

Interest rate risk is the risk of a potential negative impact of interest rate fluctuations on annual interest income. As at September 30, 2024, the Investor Notes bear interest at fixed rates, and the credit card receivables have a high and relatively stable return. To mitigate the risk to which the Trust would be exposed if the Transferor were to reduce the interest rate charged on credit card receivables, under the Receivables Purchase Agreement, the Transferor agreed, with certain exceptions, to not take actions that would reduce the portfolio yield on the credit card receivables below an amount corresponding to the highest interest rate attributed to a series or class of Investor Notes.

Liquidity Risk

Liquidity risk is the risk that the Trust will be unable to honour daily cash and financial obligations without resorting to costly and untimely measures. The primary obligations of the Trust are to make interest payments on outstanding Investor Notes; these payments stood at $6 million for Investor Notes Series 2021-1 for the nine months ended September 30, 2024. For the remaining quarter of 2024, $849 million will be required to redeem the Series 2021-1 Notes maturing on November 24, 2024, and $6 million will be required to pay the interest on the Series 2021-1 Notes.

The Trust recovers sufficient Bank receivables to meet its interest payment obligations on the Investor Notes.

If, at a pre-determined date prior to the maturity or at the commencement of an amortization event of a series of Investor Notes, the Trust is unable to recover sufficient Bank receivables, as specified in the provisions applicable to the series in question, a portion of the monthly principal collections on the Bank receivables and certain other amounts forming part of such series' entitlements will be deposited into the related principal funding account and used to make payments on such series of Investor Notes when due.

The Trust is exposed to liquidity risk arising from the collection turnover on the credit card receivables. The payment rate on the credit card receivables is an indication of the Trust's liquidity risk exposure. It is essential to mitigate this risk to ensure that the average payment rate on the credit card receivables remains equal to or greater than 10% over specified periods. If the average payment rate over any three consecutive due periods is less than or equal to 10%, an amortization event will occur. For the nine months ended September 30, 2024, the average monthly payment rate for the credit card receivables was 66.62%. The average monthly payment rate by obligors within the Canadian credit card industry has generally increased in recent years.

An increase in monthly payment rates by an obligor result in a smaller balance being carried by such obligor over successive monthly periods. If the Transferor is unable to generate sufficient new receivables within the portfolio in order to maintain the required minimum principal balance, it may be necessary for the Transferor to add additional accounts to the portfolio of receivables or deposit funds into the excess funding account in order to ensure the required minimum principal balance is maintained. A failure by the Transferor to take one or both of these measures could result in the occurrence of an amortization event.

CREDIT ENHANCEMENT

The Series 2021-1 Investor Notes were issued in the form of Class A senior Notes and Class B and Class C subordinated Notes; the Class B Notes are subordinated to the entitlements of the Class A Notes, and the Class C Notes are subordinated to the entitlements of the Class A Notes and of the Class B Notes. Repayment of the principal amount of any subordinated notes will not be made until all principal and interest owing on any senior notes have been fully paid.

The Trust does not maintain a line of credit but is required to maintain a cash collateral account for each series of notes to provide an additional, limited source of funds for payment of interest and expenses attributable to the debt obligations of each series in certain circumstances where collections are below specified thresholds.

The balance of the Series 2021-1 cash collateral account was nil as of September 30, 2024 and December 31, 2023, as the collections were sufficient to meet all of the Trust's obligations.

OFF-BALANCE-SHEET ARRANGEMENTS

The Trust does not currently engage in any off-balance-sheet arrangements.

TRENDS, COMMITMENTS, EVENTS, AND UNCERTAINTIES

The Trust participates in the Canadian asset securitization market. The Bank, which has a wide range of expertise in the financial services industry, has agreed to carry out certain servicing and administrative activities for and on behalf of the Trust.

The Bank assesses securitization market conditions continually and will, from time to time, structure and bring to market new issuances of asset-backed securities. The type of securities offered and number of issuances depend on various factors, including market demand, the availability of sufficient and appropriate pools of credit card receivables to back the securities, overall financial market conditions, the activities of competitors and the cost of related services.

The Trust does not operate any other business and is restricted from doing so. Any securities issued are and will be secured solely by the receivables in the accounts. While these restrictions limit the Trust's business risk, the Trust remains subject to all ordinary business risks, including the risk of fraud related to the assets, the risk of fraud committed by the participants in the securitization transactions, and the risk of a failure to perform under any relevant agreements.

Additional factors can impact the future performance of the Trust, including social, legal and economic conditions which can change credit card use, payment patterns by cardholders, the level of interest rates and fees, and competitive conditions affecting the credit card industry.

The Trust's performance is also dependent on the Bank's ability to generate new Canadian-dollar Mastercard receivables and to manage credit losses under changing conditions.

In its 2023 Spring Budget Statement, the Government of Canada announced that it has secured commitments from Visa and Mastercard to lower fees for small businesses starting in October 2024. Therefore, more than 90% of credit card-accepting businesses see, since October 2024, their interchange fees reduced by up to 27% from the existing weighted average rate.

The Trust estimates the impact of the reduction in transaction fees as not significant.