



NATIONAL BANK OF CANADA

**ANALYST AND INVESTOR PRESENTATION
Q3-2018 CONFERENCE CALL**

Wednesday, August 29, 2018 – 1:00 pm

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

From time to time, the Bank makes written and oral forward-looking statements, such as those contained in the Outlook for National Bank and the Major Economic Trends sections of this Annual Report, in other filings with Canadian securities regulators, and in other communications, for the purpose of describing the economic environment in which the Bank will operate during fiscal 2018 and the objectives it hopes to achieve for that period. These forward-looking statements are made in accordance with current securities legislation in Canada and the United States. They include, among others, statements with respect to the economy—particularly the Canadian and U.S. economies—market changes, observations regarding the Bank’s objectives and its strategies for achieving them, Bank-projected financial returns and certain risks faced by the Bank. 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 similar terms and expressions.

By their very nature, such forward-looking statements require assumptions to be made and involve inherent risks and uncertainties, both general and specific. Assumptions about the performance of the Canadian and U.S. economies in 2018 and how that will affect the Bank’s business are among the main factors considered in setting the Bank’s strategic priorities and objectives and in determining its financial targets, including provisions for credit losses. In determining its expectations for economic growth, both broadly and in the financial services sector in particular, the Bank primarily considers historical economic data provided by the Canadian and U.S. governments and their agencies.

There is a strong possibility that express or implied projections contained in these forward-looking statements will not materialize or will not be accurate. The Bank recommends that readers not place undue reliance on these statements, as a number of factors, many of which are beyond the Bank’s control, could cause actual future results, conditions, actions or events to differ significantly from the targets, expectations, estimates or intentions expressed in the forward-looking statements. These factors include credit risk, market risk, liquidity and funding risk, operational risk, regulatory compliance risk, reputation risk, strategic risk and environmental risk, all of which are described in more detail in the Risk Management section beginning on page 51 of this Annual Report; general economic environment and financial market conditions in Canada, the United States and certain other countries in which the Bank conducts business, including regulatory changes affecting the Bank’s business, capital and liquidity; changes in the accounting policies the Bank uses to report its financial condition, including uncertainties associated with assumptions and critical accounting estimates; tax laws in the countries in which the Bank operates, primarily Canada and the United States (including the U.S. Foreign Account Tax Compliance Act (FATCA)); changes to capital and liquidity guidelines and to the manner in which they are to be presented and interpreted; changes to the credit ratings assigned to the Bank; and potential disruptions to the Bank’s information technology systems, including evolving cyber attack risk.

The foregoing list of risk factors is not exhaustive. Additional information about these factors can be found in the Risk Management section of this Annual Report. 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.

The forward-looking information contained in this document is presented for the purpose of interpreting the information contained herein and may not be appropriate for other purposes.

OVERVIEW

Louis Vachon
President & Chief Executive Officer

STRONG RESULTS WITH EPS UP 10%

(millions of dollars)

ADJUSTED RESULTS ⁽¹⁾	Q3 18	Q2 18	Q3 17	QoQ	YoY
Revenues	1,856	1,820	1,743	2%	6%
Net Income ⁽²⁾	573	551	524	4%	9%
Diluted EPS	\$1.53	\$1.45	\$1.39	6%	10%
Efficiency ratio	54.4%	54.3%	55.4%	+10 bps	-100 bps
Return on Equity	18.5%	18.7%	18.4%		
Common Equity Tier 1 Ratio Under Basel III	11.6%	11.3%	11.2%		

(1) Excluding specified items (see Appendix 12), taxable equivalent basis

HIGHLIGHTS

- ❑ Strong performance in all sectors
- ❑ Continued efficiency improvements
- ❑ Industry leading ROE of 18.5%
- ❑ Strong capital levels
- ❑ Balance between prudent risk management and sustainable growth
- ❑ Favorable economic conditions in core Québec economy

SOLID GROWTH IN ALL BUSINESS SEGMENTS

(millions of dollars)

ADJUSTED NET INCOME	Q3 18	Q2 18	Q3 17	QoQ	YoY
P&C Banking	248	213	235	16%	6%
<i>P&C Banking Pre-provisions / Pre-tax</i>	400	348	365	15%	10%
Wealth Management	130	123	109	6%	19%
Financial Markets	178	190	165	(6%)	8%
US Specialty Finance & International	54	63	51	(14%)	6%

SEGMENT HIGHLIGHTS

- ❑ **P&C BANKING – Net income up 6% / PTPP up 10%**
 - ❑ Strong momentum in Retail and Commercial with net income up 16% sequentially
 - ❑ Continued efficiency improvements
 - ❑ Disciplined pricing and risk management

- ❑ **WEALTH MANAGEMENT – Net income up 19%**
 - ❑ Strong performance in all business lines
 - ❑ Volume growth and margin increase from higher interest rates
 - ❑ Record earnings of \$130 million

- ❑ **FINANCIAL MARKETS – Net income up 8%**
 - ❑ Strong momentum in corporate banking and M&A
 - ❑ Consistent performance overtime

- ❑ **USSFI – Net income up 6%**
 - ❑ Disciplined growth at Credigy
 - ❑ Strong growth in ABA Bank

FINANCIAL REVIEW

Ghislain Parent
Chief Financial Officer and
Executive Vice-President, Finance and Treasury

TRANSFORMATION DRIVING EFFICIENCIES

Excluding specified items
Taxable equivalent basis
(millions of dollars)

Total Bank	Q3 18	Q2 18	Q3 17	YoY
Revenues	1,856	1,820	1,743	6%
Expenses	1,009	989	966	4%
Operating Leverage				2%

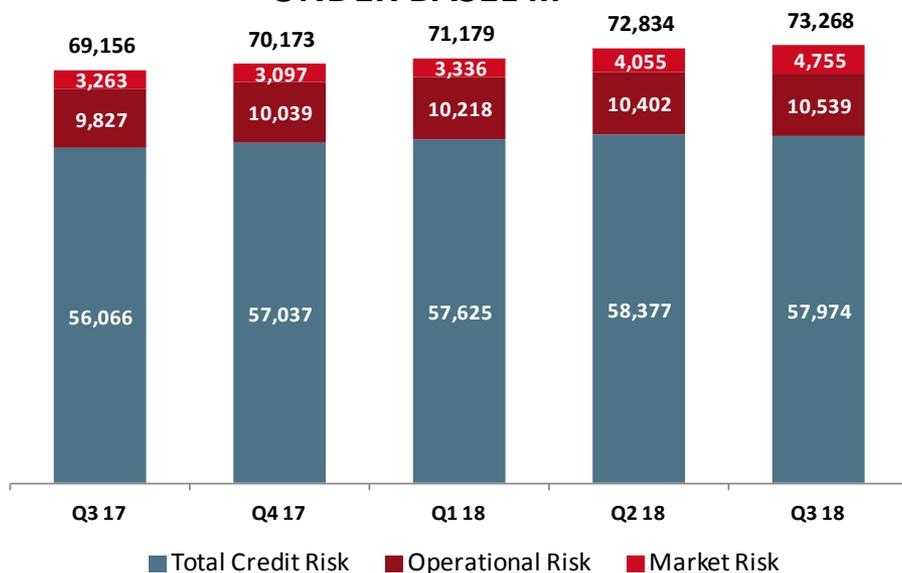
Efficiency Ratio (YTD)	Efficiency Ratio		
	9M 18	9M 17	YoY (bps)
Total Bank	54.4%	56.2%	-180
Personal & Commercial	53.5%	55.3%	-180
Wealth Management	61.1%	64.1%	-300
Financial Markets	40.0%	41.7%	-170
US Specialty Finance & International	38.7%	43.7%	-500

HIGHLIGHTS

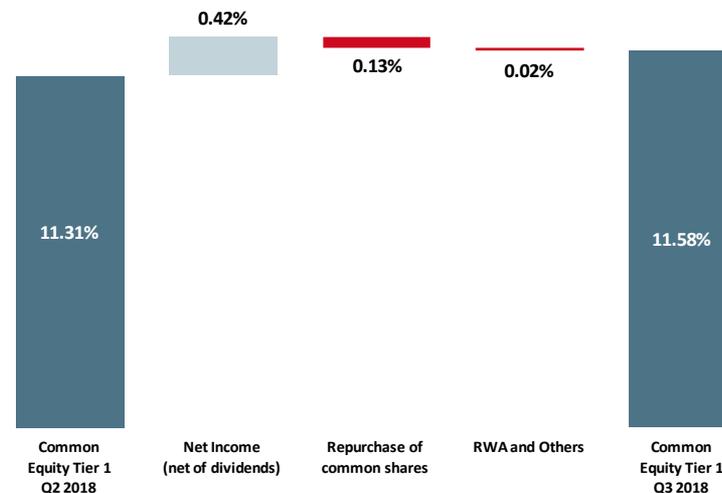
- ❑ Solid cost control
- ❑ Positive operating leverage YoY: +2%
 - ❑ P&C: +3%
 - ❑ Wealth Management: +5%
 - ❑ Financial Markets: +3%
- ❑ Efficiency ratio improvement YTD: 180 bps
- ❑ On track to meet P&C efficiency ratio target of 53% by end of 2018
- ❑ On track to exceed our target operating leverage of close to 2% for F2018

STRONG CAPITAL POSITION

TOTAL RISK-WEIGHTED ASSETS UNDER BASEL III



COMMON EQUITY TIER 1 UNDER BASEL III EVOLUTION (QoQ)



HIGHLIGHTS

- ❑ Common Equity Tier 1 ratio at 11.6%
- ❑ Total capital ratio at 16.7%
- ❑ Leverage ratio at 4.0%
- ❑ Liquidity coverage ratio at 147%
- ❑ 1.5 million common shares repurchased

RISK MANAGEMENT

William Bonnell

Executive Vice-President, Risk Management

PROVISION FOR CREDIT LOSSES

IFRS 9

<i>PCL (millions of dollars)</i>	Q3 18		Q2 18		Q1 18	Q3 17
	Total	Stage 3	Total	Total		
Personal	35	39	45	44		39
Commercial	26	17	13	13		6
Wealth Management	-	-	-	1		1
Credigy	9	33	28	26		11
ABA Bank	3	1	3	3		1
Financial Markets	2	-	2	-		-
Other	1	-	-	-		-
Total Provisions	76	90	91	87		58

IFRS 9

<i>PCL (bps)</i>	Q3 18		Q2 18		Q1 18	Q3 17
	Total	Stage 3	Total	Total		
Personal	21	23	28	26		24
Commercial	30	20	16	16		8
Wealth Management	-	-	-	3		3
Credigy	61	223	186	167		81
ABA Bank	66	34	63	92		32
Financial Markets	4	-	3	-		-
Other	-	-	-	-		-
Total Provisions	21	25	27	25		17

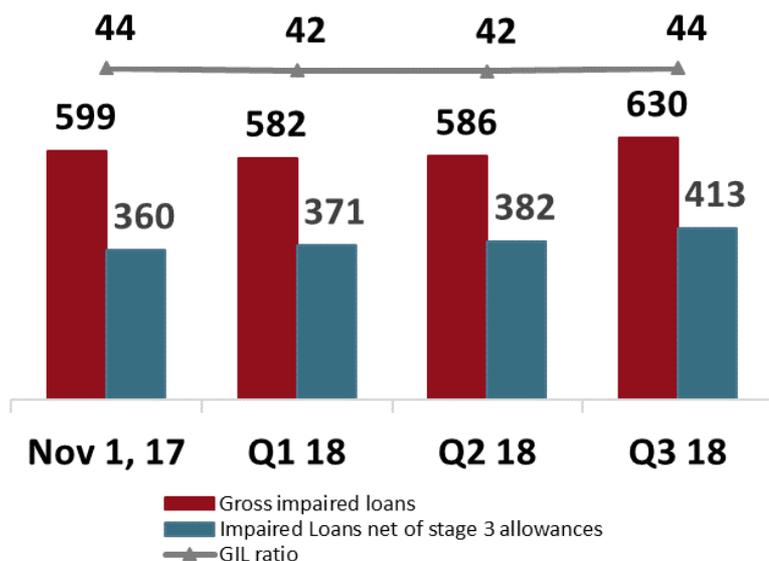
HIGHLIGHTS

- ❑ Total provisions for credit losses of 21 bps (\$76 million):
 - ❑ Improved by 6 bps QoQ primarily due to Credigy's lower provisions on performing loans and POCI recovery
- ❑ Provisions on impaired loans of 25 bps (\$90 million):
 - ❑ Up 2 bps QoQ, largely due to a single account in the commercial lending
 - ❑ Excluding Credigy, PCLs on impaired loans remained low at 17 bps
- ❑ Credigy's performance continues to meet expectations and as expected, provisions declined this quarter
- ❑ Credit conditions remain benign and we maintain target range of 20-30 bps for 2018

IMPAIRED LOANS AND BA'S⁽¹⁾ AND FORMATION

(millions of dollars)

IMPAIRED LOANS AND BA'S



IMPAIRED LOANS AND BA'S FORMATION⁽²⁾

(millions of dollars)	IFRS 9			
	Q3 18	Q2 18	Q1 18	Q3 17
Personal	43	36	48	13
Commercial	48	30	8	36
Financial Markets	-	-	-	-
Wealth Management	1	2	2	1
Credigy	36	20	27	-
ABA Bank	4	-	4	10
Total	132	88	89	60

HIGHLIGHTS

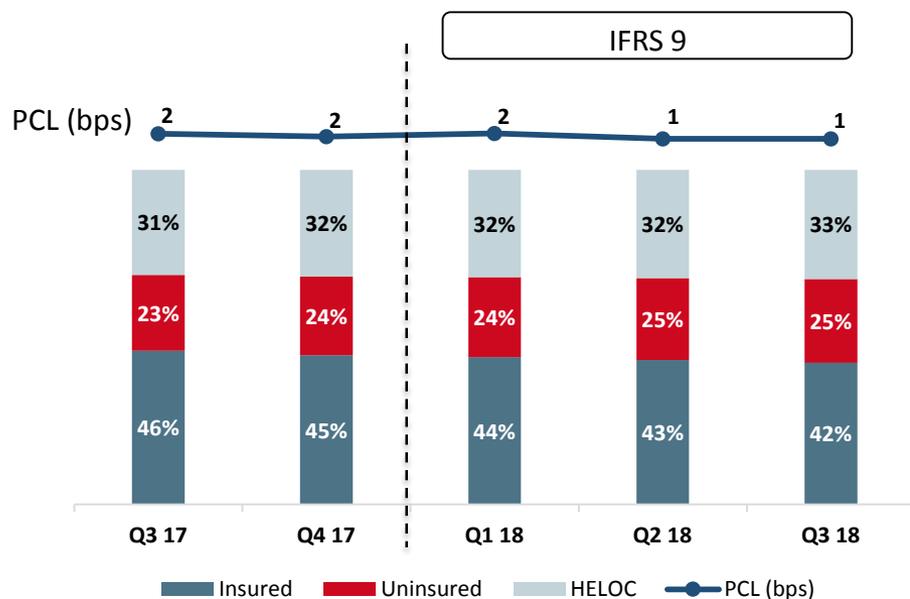
- ❑ GIL ratio of 44 bps, an increase of 2 bps QoQ, primarily due to Commercial banking
- ❑ Higher formations primarily due to Credigy and Commercial banking

(1) Under IFRS 9, impaired loans are all loans classified in stage 3 of the expected credit loss model. Those loans do not take into account purchased or originated credit-impaired loans.

(2) Formations include new accounts, disbursements, principal repayments, and exchange rate fluctuation and exclude write-offs.

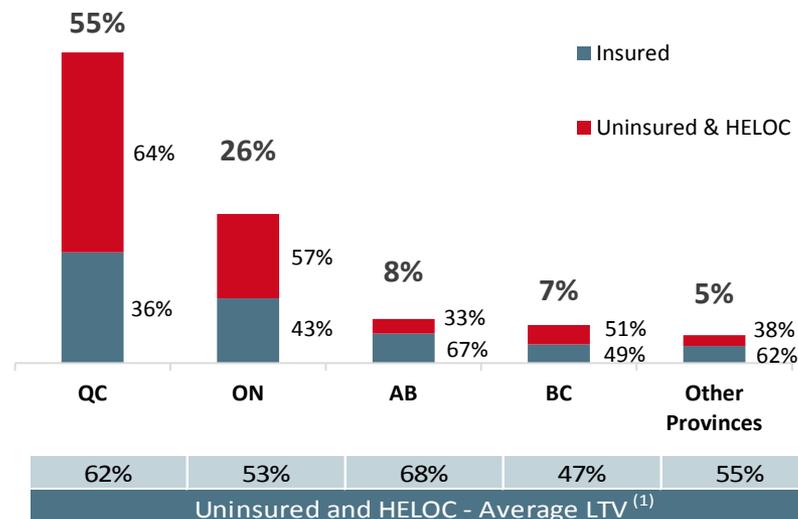
RETAIL MORTGAGE AND HELOC PORTFOLIO

CANADIAN RETAIL MORTGAGE PORTFOLIO DISTRIBUTION



DISTRIBUTION BY CANADIAN PROVINCE

As at July 31, 2018



⁽¹⁾ Average LTV are updated using Teranet-National Bank sub-indices by area and property type.

HIGHLIGHTS

- Distribution across product and geography remained stable. Insured mortgages account for 42% of the total
- The average LTV⁽¹⁾ on the uninsured mortgages and HELOC portfolio was approximately 59%
- Uninsured mortgages and HELOC in GTA and GVA represent 9% and 2% of the total portfolio and have an average LTV⁽¹⁾ of 51% and 45% respectively

APPENDIX

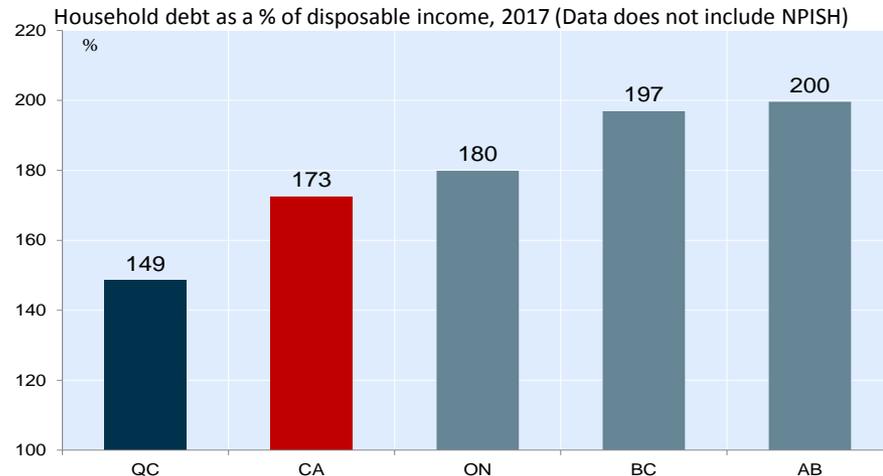
APPENDIX 1 | Strong Fundamentals In Québec Economy

QUÉBEC: JOBLESS RATE STANDS AT 5.6% IN JULY 2018



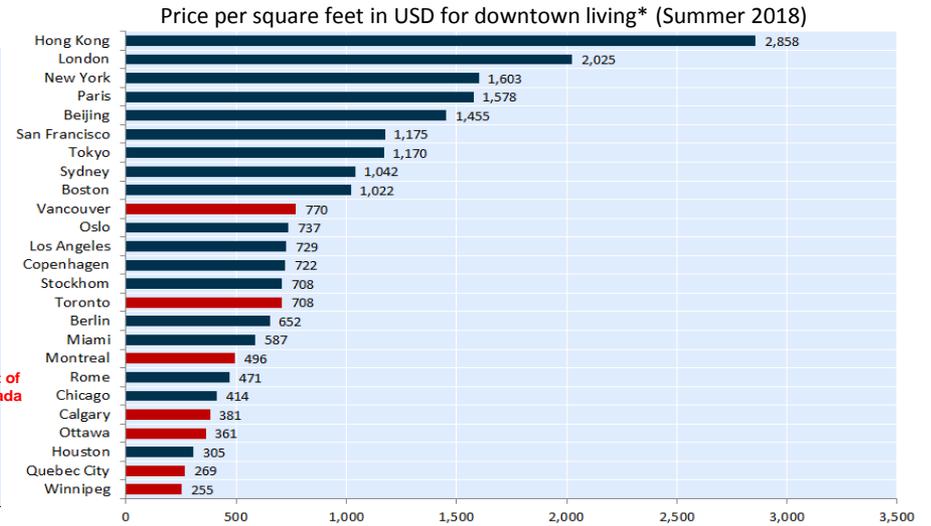
Source: NBF Economics and Strategy (data via Statistics Canada)

QUEBEC: HOUSEHOLD LEVERAGE REMAINS BELOW NATIONAL AVERAGE



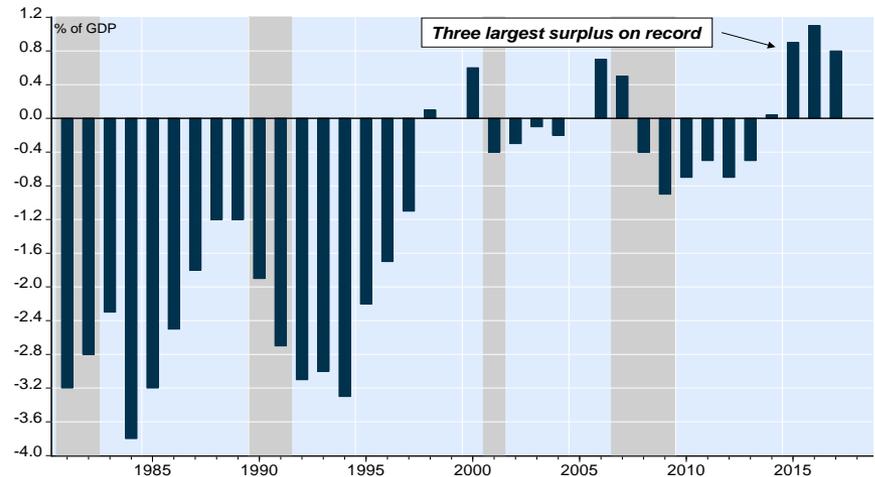
Source: NBF Economics and Strategy (data via Statistics Canada)

GLOBAL PERSPECTIVE ON HOME PRICES



* For a 645 sq.ft. apartment / Source: NBF Economics and Strategy (as of May 14, 2018)

QUEBEC HAS SOUND PUBLIC FINANCES



Source: NBF Economics and Strategy (data via Statistics Canada)

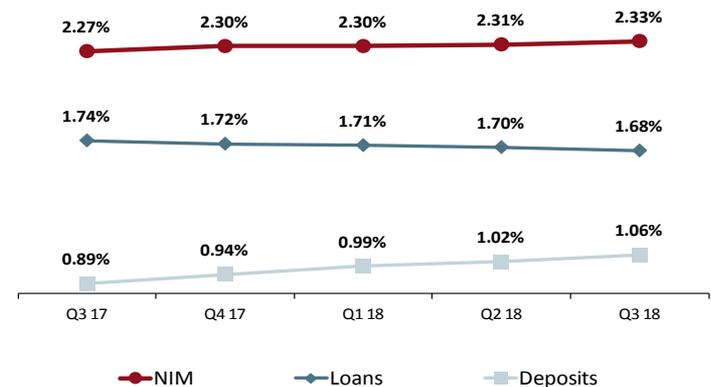
APPENDIX 2 | PERSONAL AND COMMERCIAL BANKING

<i>(millions of dollars)</i>	Q3 18	Q2 18	Q3 17	QoQ	YoY
Revenues	832	777	784	7%	6%
Personal	516	484	498	7%	4%
Commercial	316	293	286	8%	10%
Operating Expenses	432	429	419	1%	3%
Pre-provisions / Pre-tax	400	348	365	15%	10%
Provisions for Credit Losses	61	58	45	5%	36%
Net Income	248	213	235	16%	6%
Key Metrics <i>(millions of dollars)</i>	Q3 18	Q2 18	Q3 17	QoQ	YoY
Loans & BAs - Personal (avg vol.)	67,119	66,327	64,981	1%	3%
Loans & BAs - Commercial (avg vol.)	34,146	33,356	31,508	2%	8%
Loans & BAs - Total (avg vol.)	101,265	99,683	96,489	2%	5%
Deposits (avg vol.)	58,904	56,333	55,253	5%	7%
Efficiency Ratio (%)	51.9%	55.2%	53.4%		

HIGHLIGHTS

- Net income up 6% YoY and 16% QoQ due to higher volume, cost control and margin expansion
 - Pre-provisions, pre-tax earnings up 10% YoY and 15% QoQ
 - Higher PCLs in Q3 18 due to a single account in Commercial Lending
- Good loan and deposit volume growth
- NIM up 2 bps QoQ and 6 bps YoY
- Operating leverage at 3%
- Efficiency ratio improved by 150 bps YoY

P&C MARGINS EVOLUTION⁽¹⁾



(1) NIM is on Earning Assets

APPENDIX 3 | WEALTH MANAGEMENT⁽¹⁾

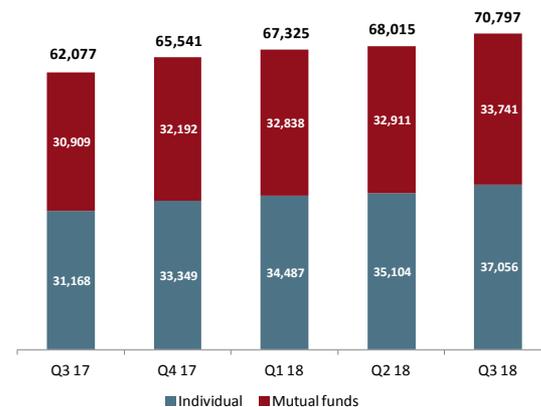
<i>(millions of dollars)</i>	Q3 18	Q2 18	Q3 17	QoQ	YoY
Revenues	444	433	405	3%	10%
Fee-based	249	243	232	2%	7%
Transaction & Others	65	65	66	0%	(2%)
Net Interest Income	130	125	107	4%	21%
Operating Expenses	268	266	256	1%	5%
Provision for Credit Losses	-	-	1	-	-
Net Income	130	123	109	6%	19%
<i>Key Metrics (billions of dollars)</i>	Q3 18	Q2 18	Q3 17	QoQ	YoY
Loans & BAs (avg vol.)	11.2	10.9	10.1	3%	11%
Deposits (avg vol.)	31.4	31.4	31.0	-	1%
Asset Under Administration	425	427	366	-	16%
Asset Under Management	71	68	62	4%	14%
Efficiency Ratio (%)	60.4%	61.4%	63.2%		

(1) Excluding specified items

HIGHLIGHTS

- Net income up 19% driven by all business lines and strong operating leverage
- Fee-based revenues growth driven by good market performance and sales momentum in all business lines
- NII growth driven by interest rate increase and higher loan volumes
- AUA and AUM up 16% and 14% due to strong sales momentum and the onboarding of an important client at NBIN in Q4 of last year

ASSETS UNDER MANAGEMENT (\$M)



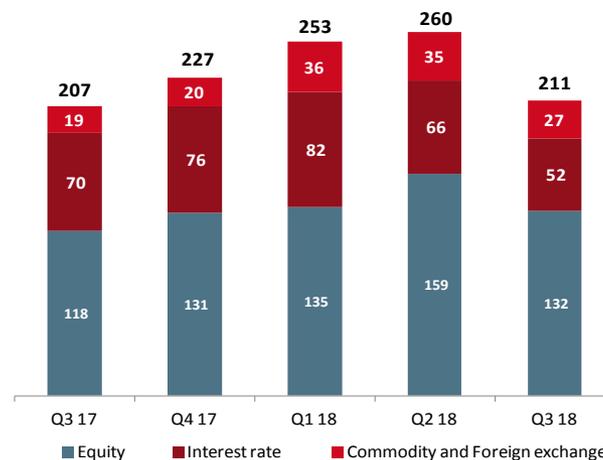
APPENDIX 4 | FINANCIAL MARKETS

<i>(millions of dollars)</i>	Q3 18	Q2 18	Q3 17	QoQ	YoY
Revenues	416	437	389	(5%)	7%
Global Markets	211	260	207	(19%)	2%
Corporate Banking	97	94	81	3%	20%
Financial Market Fees	95	69	90	38%	6%
Gains on Investments & Other	13	14	11	(7%)	18%
Operating Expenses	171	176	164	(3%)	4%
Provision for Credit Losses	2	2	-	-	-
Net Income	178	190	165	(6%)	8%
<i>Other Metrics (millions of dollars)</i>	Q3 18	Q2 18	Q3 17	QoQ	YoY
Loans & BAs (avg vol.) Corporate banking	15,667	14,756	13,236	6%	18%
Efficiency Ratio (%)	41.1%	40.3%	42.2%		

HIGHLIGHTS

- ❑ Solid performance in Corporate Banking and Financial Market Fees (M&A)
- ❑ Lower Global Markets revenues QoQ, due to lower client activity and record levels last quarter

GLOBAL MARKETS REVENUES (\$M)



APPENDIX 5 | US SPECIALTY FINANCE & INTERNATIONAL

<i>(millions of dollars)</i>	Q3 18	Q2 18	Q3 17	QoQ	YoY
Revenues	146	174	147	(16%)	(1%)
Credigy	100	129	117	(22%)	(15%)
ABA	47	45	32	4%	47%
Other	(1)	-	(2)	-	-
Operating Expenses	64	62	58	3%	10%
Credigy	40	39	43	3%	(7%)
ABA	24	22	15	9%	60%
Other	-	1	-	-	-
Provision for Credit Losses	12	31	12	(61%)	-
Credigy	9	28	11	(68%)	(18%)
ABA	3	3	1	-	200%
Net Income	54	63	51	(14%)	6%
Credigy	38	48	40	(21%)	(5%)
ABA	17	16	13	6%	31%
Other	(1)	(1)	(2)	-	-
Other Metrics (millions of dollars)	Q3 18	Q2 18	Q3 17	QoQ	YoY
Loans & Receivables and revenue bearing assets (avg vol.)	5,746	6,160	5,727	(7%)	-
Credigy					
Loans (avg vol.)	1,893	1,706	1,210	11%	56%
ABA					
Deposits (avg vol.)	2,007	1,795	1,294	12%	55%
ABA					
Efficiency Ratio (%)	43.8%	35.6%	39.5%		
Number of branches ABA Bank	59	54	48	9%	23%

HIGHLIGHTS

- ❑ Credigy's revenues down 15% due to portfolio maturity and repayment of loans
- ❑ Disciplined growth Credigy
- ❑ ABA's revenues up 47% due to strong loan and deposit volume growth
- ❑ ABA was recognized by Euromoney as the best bank in Cambodia for a 5th consecutive year
- ❑ Moratorium on significant investments in emerging markets until the end of 2020

APPENDIX 6 | LOAN PORTFOLIO OVERVIEW

<i>(billions of dollars)</i>	Q3 18	% of Total
Secured - Mortgage & HELOC	69.2	48%
Secured - Other ⁽²⁾	8.9	7%
Unsecured	5.3	4%
Credit Cards	2.1	1%
Total Retail	85.5	60%

<i>(billions of dollars)</i>	Q3 18	% of Total
Real Estate	9.4	7%
Agriculture	5.6	4%
Manufacturing	5.4	4%
Retail & Wholesale Trade	5.2	3%
Finance and Insurance	4.9	3%
Oil & Gas	2.4	2%
Other ⁽¹⁾	23.8	16%
Total Wholesale	56.7	39%
Purchased or originated credit-impaired	1.3	1%
Total Gross Loans and Acceptances	143.5	100%

(1) Includes Mining, Other Services, Utilities, Transportation, Prof. Services, Construction, Communication, Government and Education & Health Care

(2) Includes indirect lending and other lending secured by assets other than real estate.

HIGHLIGHTS

- ❑ Secured lending accounts for 91% of Retail loans
- ❑ Modest exposure to unsecured consumer lending (5% of total loans)
- ❑ Wholesale portfolio is well-diversified across industries

APPENDIX 7 | REGIONAL DISTRIBUTION OF CANADIAN LOANS

As at July 31, 2018

REGION	RETAIL			WHOLESALE		
	Secured Mortgages & HELOC	Secured Others	Unsecured and Credit Card	Oil & Gas Sector	Commercial	Corporate Banking and Other ⁽¹⁾
Quebec	27.3%	3.5%	3.6%	0.0%	17.9%	4.7%
Ontario	13.1%	1.4%	0.6%	0.1%	3.7%	5.0%
Oil Regions (AL/SK/NL)	4.8%	0.5%	0.2%	1.7%	0.9%	1.5%
BC / MB	3.8%	0.6%	0.1%	0.0%	1.1%	1.1%
Maritimes (NB/NS/PE) and Territories	1.1%	0.4%	0.2%	0.0%	0.6%	0.5%
Total	50.1%	6.4%	4.7%	1.8%	24.2%	12.8%

⁽¹⁾ Includes Corporate, Other FM and Government portfolios

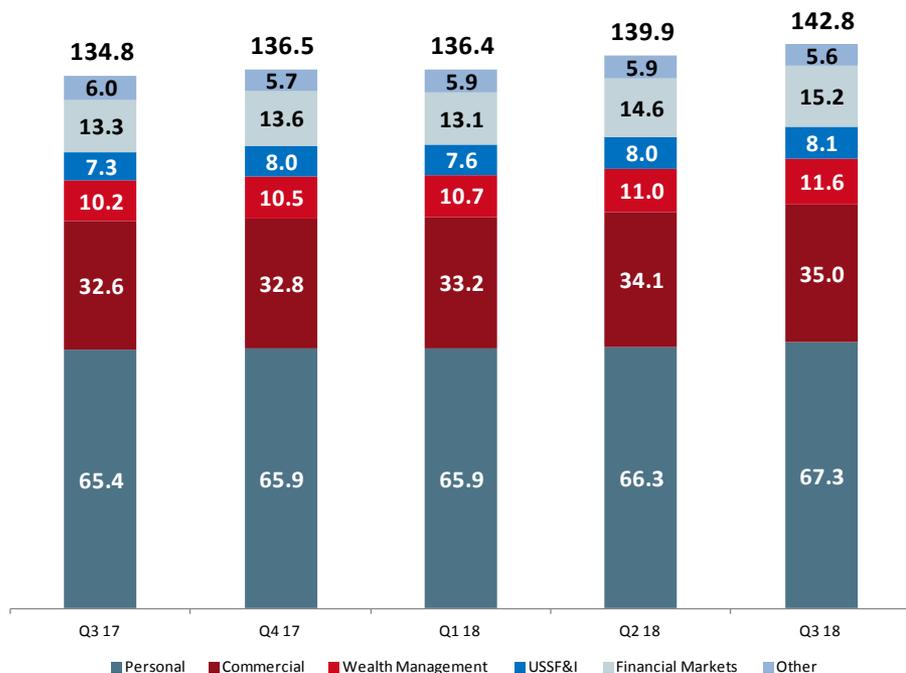
HIGHLIGHTS

- ❑ Limited real estate secured lending exposure in regions with high home price growth
- ❑ Modest unsecured consumer exposure outside Quebec (1.1% of total loans)

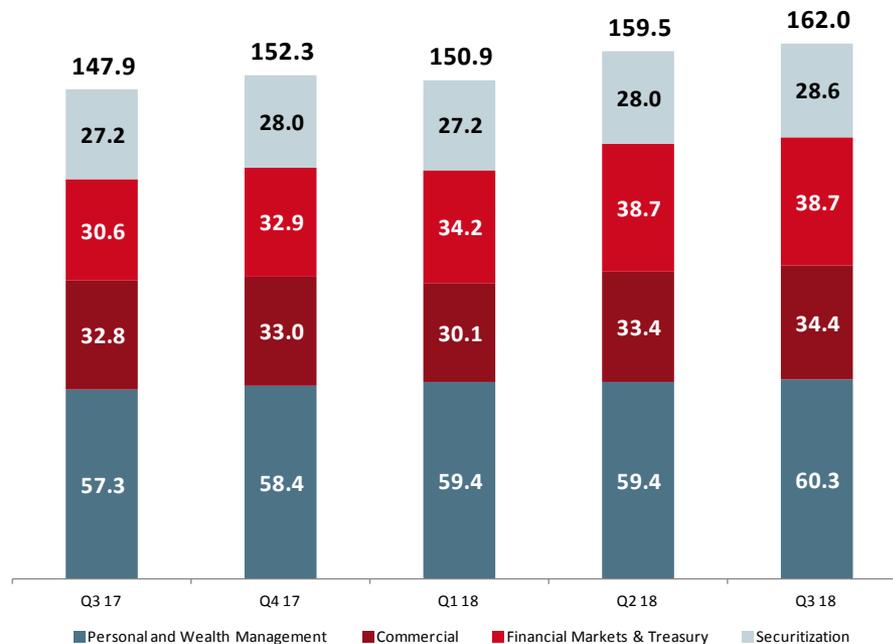
APPENDIX 8 | BALANCE SHEET OVERVIEW (Banking Book & Other)

(billions of dollars)

LENDING – LOANS AND BAS (MONTH END BALANCE)



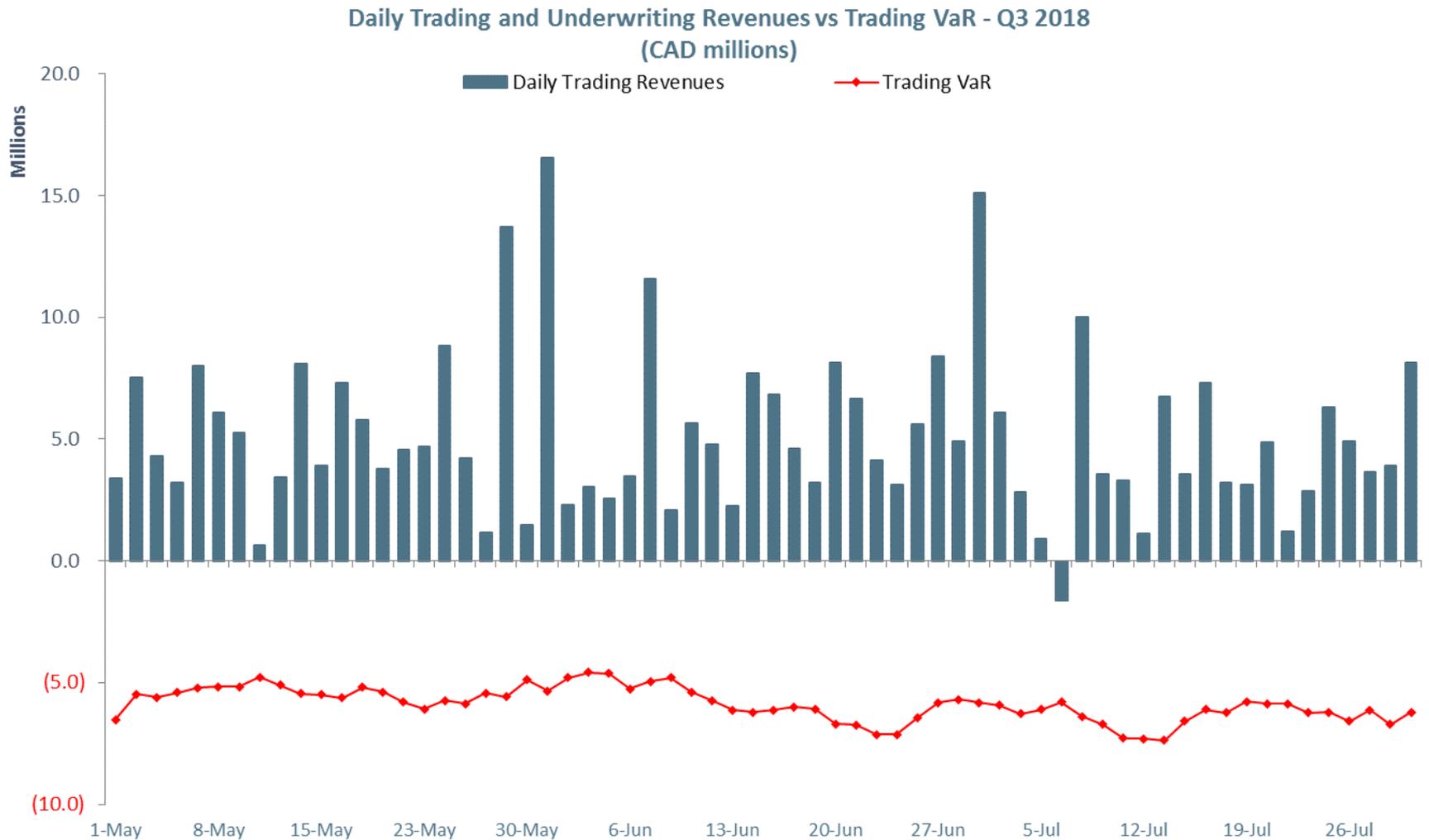
FUNDING – DEPOSITS AND BAS (MONTH END BALANCE)



- YoY growth:
 - Personal and Wealth Management 4%
 - Mortgages and HELOC 5%
 - Commercial and Financial Markets 9%
 - USF&I 11%

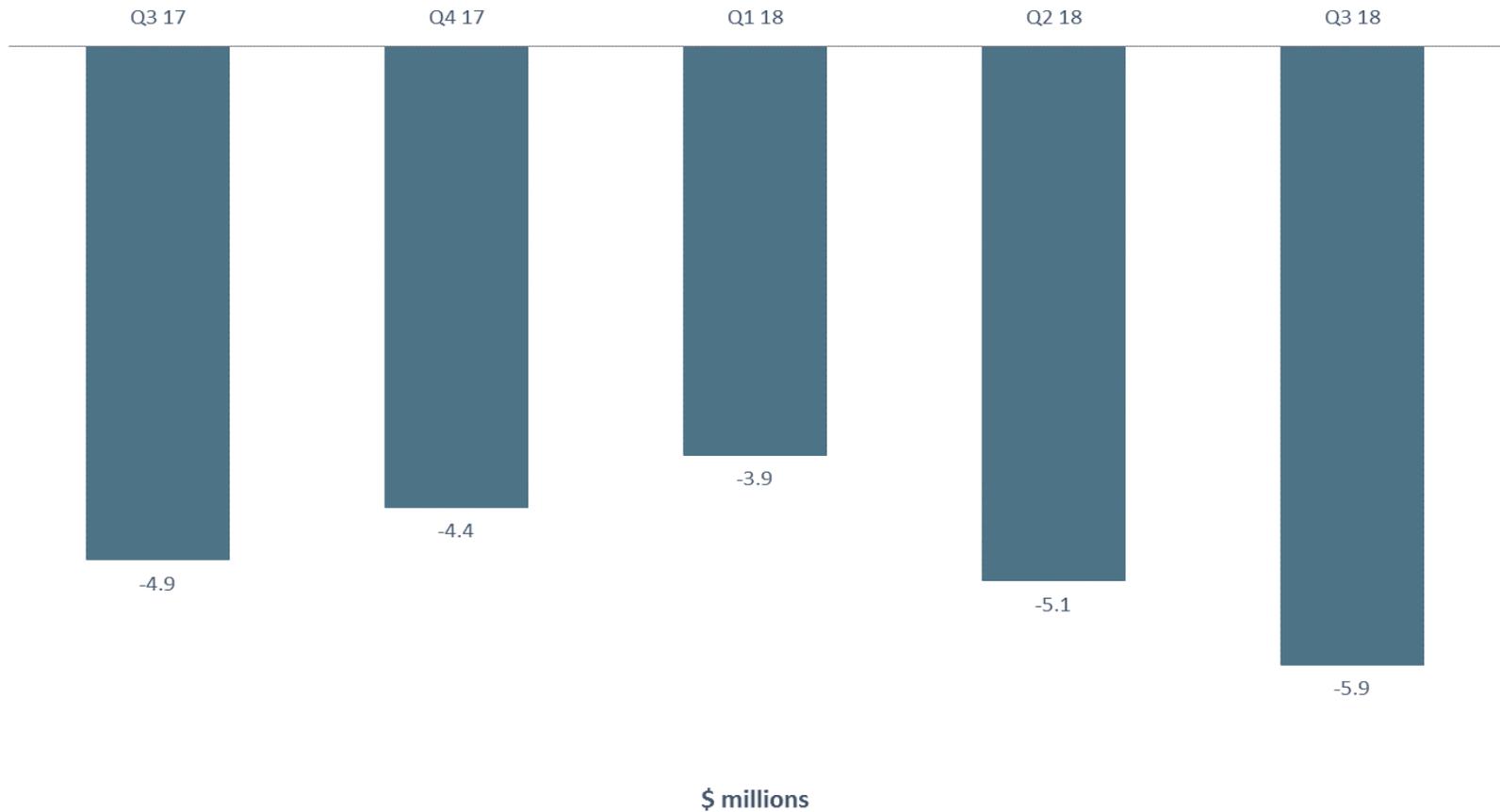
- YoY growth:
 - Personal and Wealth Management 5%
 - Commercial, Financial Markets & Treasury 15%
 - Securitization 5%

APPENDIX 9 | DAILY TRADING and UNDERWRITING REVENUES vs VAR



APPENDIX 10 | VaR TREND

Trading VaR Quarterly Average



APPENDIX 11 | DETAIL OF SPECIFIED ITEMS

<i>(millions of dollars)</i>	Q3 17	Q4 17	Q1 18	Q2 18	Q3 18
Wealth Management acquisitions	(8)	(7)	(7)	(5)	(4)
Items related to TMX	-	-			
Income Before Income Taxes	(8)	(7)	(7)	(5)	(4)
Income Taxes	2	1	1	1	-
Net Income	(6)	(6)	(6)	(4)	(4)
EPS Impact	(0.02)	(0.02)	(0.02)	(0.01)	(0.01)



INVESTOR RELATIONS

Financial analysts and investors who want to obtain financial information on the Bank are asked to contact the Investor Relations Department.

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