



NATIONAL BANK OF CANADA

ANALYST AND INVESTOR PRESENTATION Q1-2018 CONFERENCE CALL

Wednesday, February 28, 2018 – 1:00 pm



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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



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HIGHLIGHTS

(millions of dollars)

ADJUSTED RESULTS ⁽¹⁾	Q1 18	Q4 17	Q1 17	QoQ	YoY
Revenues	1,868	1,760	1,707	6%	9%
Net Income ⁽²⁾	556	531	502	5%	11%
Diluted EPS	\$1.48	\$1.40	\$1.35	6%	10%
Efficiency ratio	54.6%	55.2%	56.5%	-60 bps	-190 bps
Return on Equity	18.9%	18.0%	18.6%		
Common Equity Tier 1 Ratio Under Basel III	11.2%	11.2%	10.6%		

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

(2) Net income before non-controlling interests

(3) Trailing 4 quarters

HIGHLIGHTS

- ❑ Strong results driven by double digit growth in all business
- ❑ Adjusted diluted EPS up 10% and positive operating leverage of 3%
- ❑ Efficiency ratio improvement of 190 bps
- ❑ Strong ROE of 18.9%
- ❑ Common Equity Tier 1 ratio at 11.2%
- ❑ Credit quality remains strong

SEGMENT SNAPSHOT – Q1 2018

(millions of dollars)

ADJUSTED NET INCOME	Q1 18	Q4 17	Q1 17	QoQ	YoY
P&C Banking	230	234	208	(2%)	11%
Wealth Management	126	115	104	10%	21%
Financial Markets	204	183	179	11%	14%
US Specialty Finance & International	50	55	38	(9%)	32%

HIGHLIGHTS

❑ P&C BANKING

- ❑ Net income up 11%
- ❑ Revenues up 6% due to loan and deposit volume growth
- ❑ NIM up 6 bps YoY to 2.30%

❑ WEALTH MANAGEMENT

- ❑ Net income up 21%
- ❑ Revenues up 11%
- ❑ AUA and AUM up 21% and 15%, respectively

❑ FINANCIAL MARKETS

- ❑ Net income up 14%
- ❑ Revenues up 9%

❑ US SPECIALTY FINANCE & INTERNATIONAL

- ❑ Net income up 32%
- ❑ Revenues up 36%
- ❑ Moratorium on additional significant investments in emerging market

FINANCIAL REVIEW

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



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TRANSFORMATION DRIVING EFFICIENCIES

Excluding specified items
Taxable equivalent basis
(millions of dollars)

Total Bank	Q1 18	Q4 17	Q1 17	YoY
Revenues	1,868	1,760	1,707	9.4%
Expenses	1,020	971	965	5.7%
Operating Leverage				3.7%

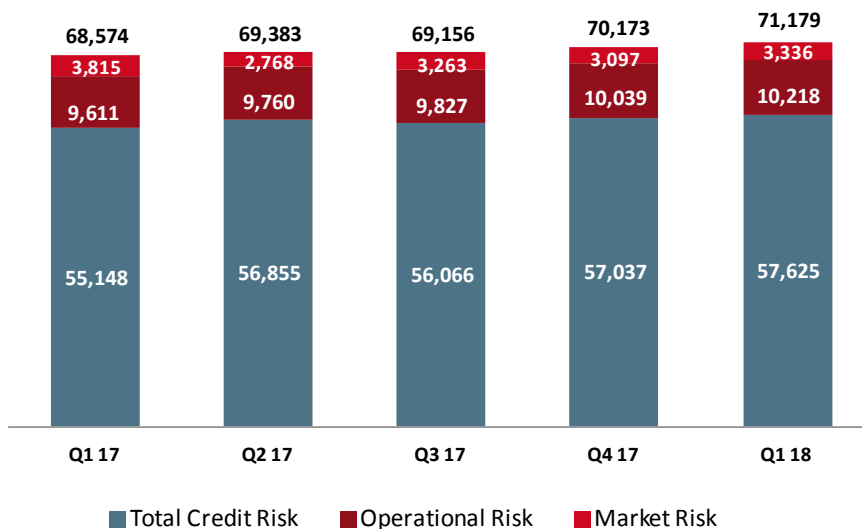
Efficiency Ratio (YTD)	Efficiency Ratio		
	Q1 18	Q1 17	YoY (bps)
Total Bank	54.6%	56.5%	190
Personal & Commercial	53.6%	55.5%	190
Wealth Management	61.5%	64.4%	290
Financial Markets	38.8%	41.3%	250
US Specialty Finance & International	37.3%	47.5%	

HIGHLIGHTS

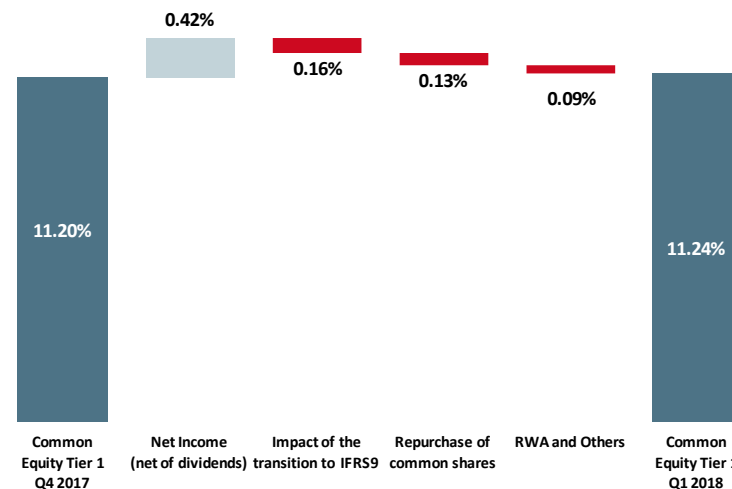
- ❑ Solid cost control
- ❑ Positive operating leverage: +3.7%
 - ❑ P&C: +4%
 - ❑ Wealth Management: +5%
 - ❑ Financial Markets: +7%
- ❑ Efficiency ratio improvement YTD: 190 bps
- ❑ On track to meet P&C efficiency ratio targets of 53% by end of 2018

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 11.2%
- ❑ Total capital ratio at 15.5% (16.6% pro forma including subordinated debt issued on February 1, 2018)
- ❑ Leverage ratio at 4.0%
- ❑ Liquidity coverage ratio at 135%

RISK MANAGEMENT

William Bonnell

Executive Vice-President, Risk Management



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PROVISION FOR CREDIT LOSSES

(millions of dollars)

		IFRS 9				
<i>PCL (millions of dollars)</i>	Q1 18	Q4 17	Q3 17	Q2 17*	Q1 17	
	Total	Stage 3				
Personal	44	36	36	39	37	
Commercial	13	8	14	6	15	
Wealth Management	1	-	1	1	1	
Credigy	26	27	18	11	6	
ABA Bank	3	2	1	1	1	
Financial Markets	-	-	-	-	-	
Total Provisions	87	73	70	58	60	

		IFRS 9				
<i>PCL (bps)</i>	Q1 18	Q4 17	Q3 17	Q2 17*	Q1 17	
	Total	Stage 3				
Personal	26	21	22	24	23	
Commercial	16	9	17	8	20	
Wealth Management	3	-	4	3	2	
Credigy	167	179	117	81	69	
ABA Bank	92	61	39	32	23	
Financial Markets	-	-	-	-	-	
Total Provisions	25	21	21	18	19	

* Excluding changes in the sectoral provision and the increase of the collective allowance.

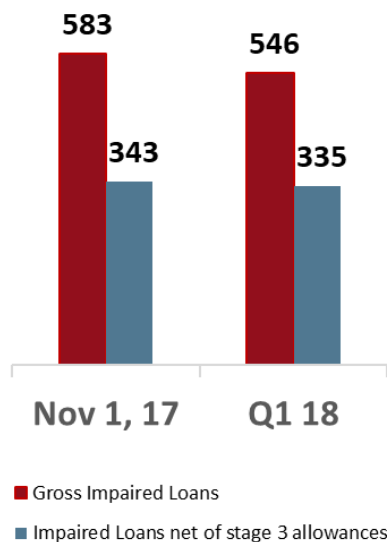
HIGHLIGHTS

- ❑ With the introduction of IFRS 9, total provisions for credit losses of 25 bps
- ❑ PCL for impaired loans of 21bps (14bps excluding Credigy), similar to Q4 17 PCL under IAS 39
- ❑ Credigy's portfolio, PCL, and profitability continue to meet expectations
- ❑ 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				
	Q1 18	Q4 17	Q3 17	Q2 17	Q1 17
Personal	29	17	13	18	23
Commercial	8	(5)	36	14	(43)
Corporate Banking	-	-	-	-	-
Wealth Management	1	2	1	1	-
Credigy	27	-	-	-	-
ABA Bank	4	(8)	10	2	1
Total	69	6	60	35	(19)

HIGHLIGHTS

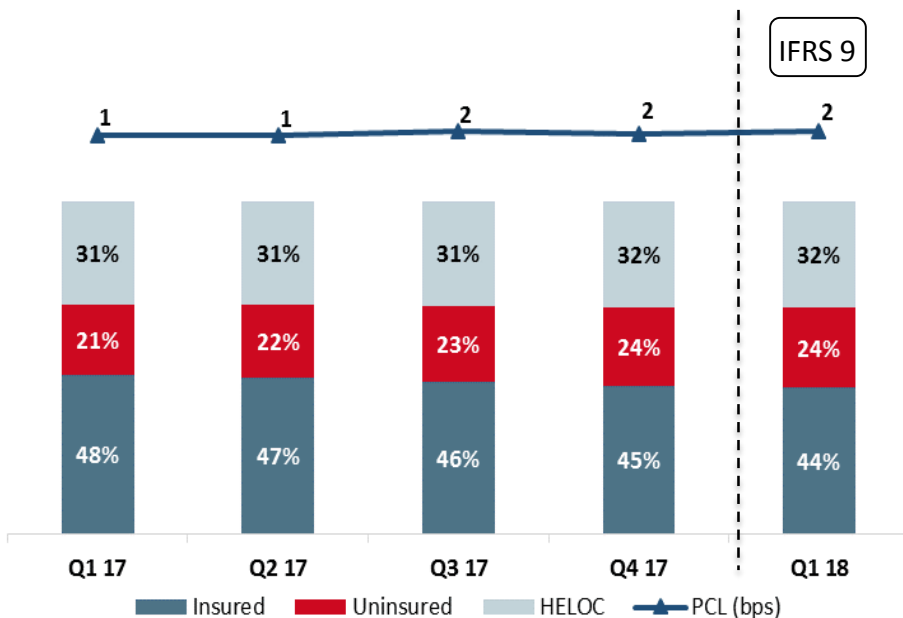
- ❑ The implementation of IFRS 9 definitions increased reported Impaired Loans and Formations
- ❑ GIL ratio of 40bps, a decline of 3bps during the quarter
- ❑ Underlying trends across both retail and wholesale loan portfolios remained positive

(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.

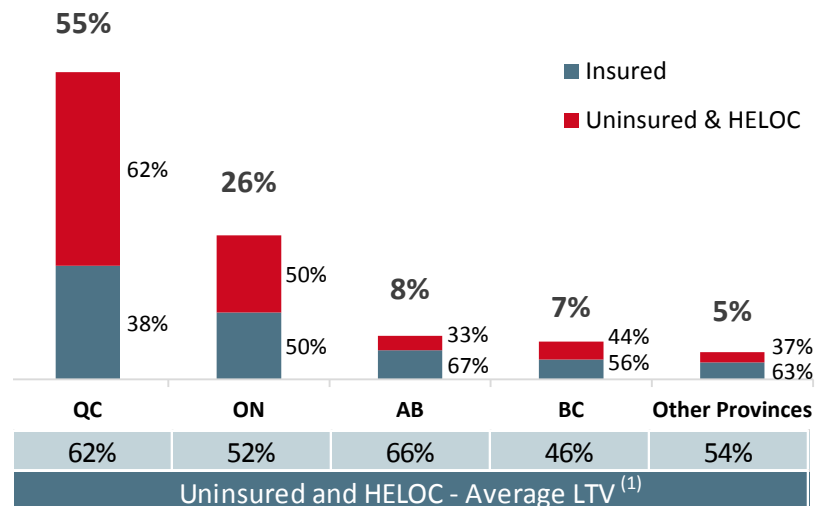
RETAIL MORTGAGE AND HELOC PORTFOLIO

CANADIAN RETAIL MORTGAGE PORTFOLIO DISTRIBUTION



DISTRIBUTION BY CANADIAN PROVINCE

As at January 31, 2018



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

HIGHLIGHTS

- ❑ Insured mortgages represent 44% of the total portfolio
- ❑ Outside Central Canada, greater than 60% of the portfolio is insured mortgages
- ❑ The average LTV⁽¹⁾ on the uninsured mortgages and HELOC portfolio was approximately 58%
- ❑ Uninsured mortgages and HELOC in GTA and GVA represent 8% and 2% of the total portfolio and have an average LTV⁽¹⁾ of 50% and 44% respectively.

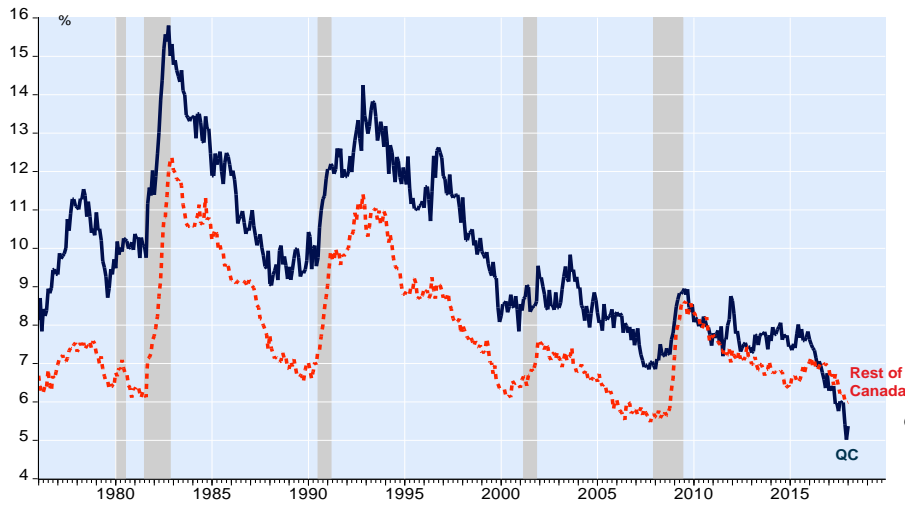
APPENDIX



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APPENDIX 1 | STRONG FUNDAMENTALS IN QUEBEC ECONOMY

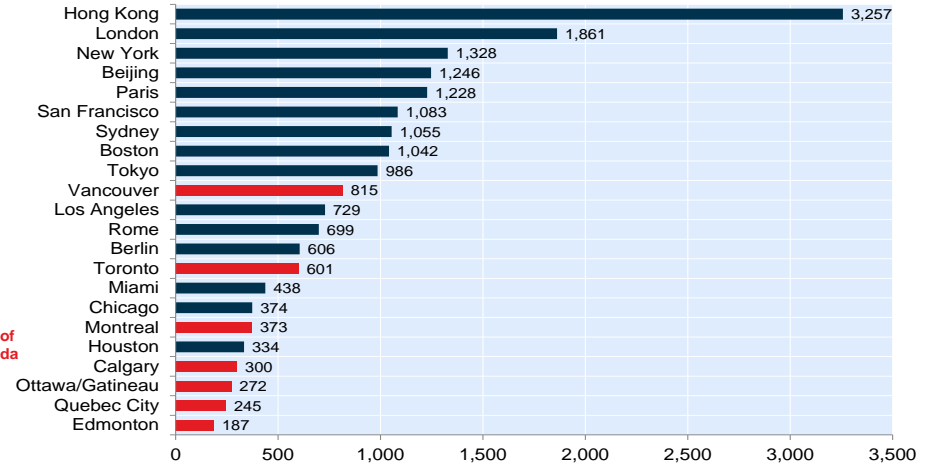
QUÉBEC: JOBLESS RATE STANDS AT 5.4% IN JANUARY 2018



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

HOUSING AFFORDABILITY IN CANADA

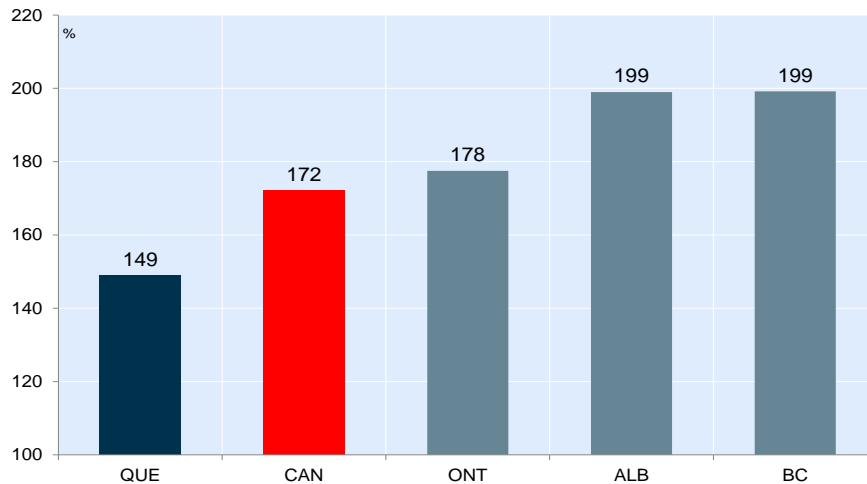
Price per square feet in USD for downtown living* (summer 2017)



Source: NBF Economy and Strategy, data from Conference Board of Canada

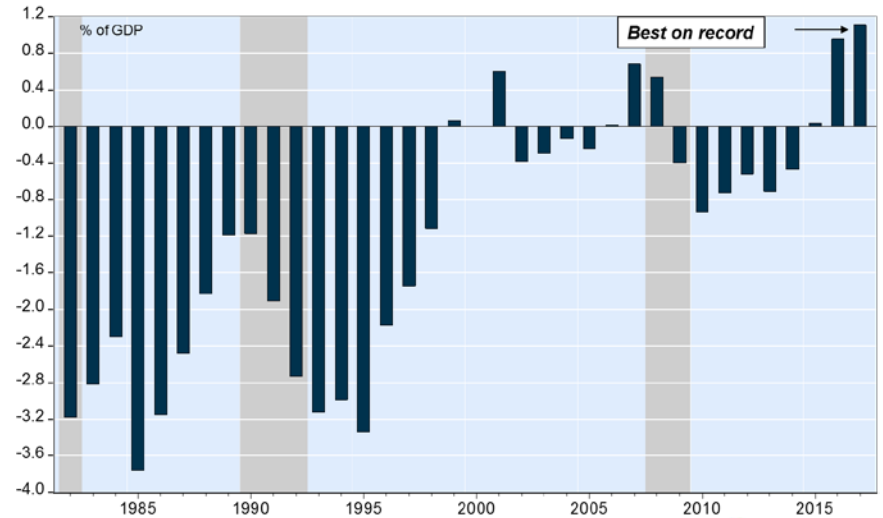
QUEBEC: HOUSEHOLD LEVERAGE REMAINS BELOW NATIONAL AVERAGE

Household debt as a % of disposable income, 2016 (Data does not include NPISH)



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

QUEBEC'S BEST BUDGET BALANCE ON RECORD



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



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APPENDIX 2 | PERSONAL AND COMMERCIAL BANKING

<i>(millions of dollars)</i>	Q1 18	Q4 17	Q1 17	QoQ	YoY
Revenues	799	786	755	2%	6%
Personal Banking	366	363	349	1%	5%
Commercial excl. Oil & Gas sector	283	283	253	-	12%
Oil & Gas sector	12	11	14	9%	(14%)
Credit Card	106	103	96	3%	10%
Insurance	32	26	43	23%	(26%)
Operating Expenses	428	417	419	3%	2%
Pre-provisions / Pre-tax	371	369	336	1%	10%
Provisions for Credit Losses	57	50	52	14%	10%
Net Income	230	234	208	(2%)	11%

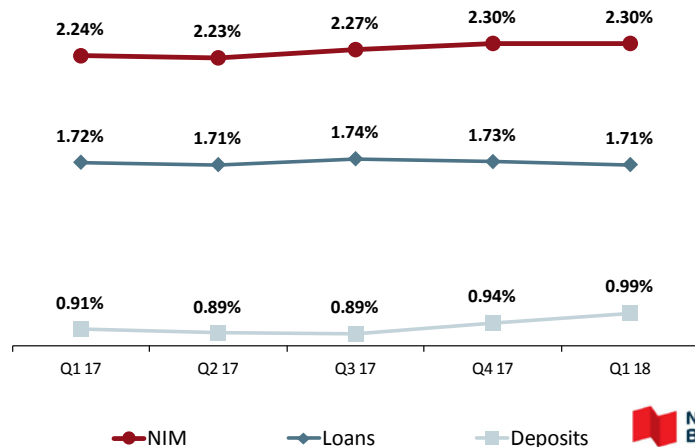
<i>(billions of dollars)</i>	Q1 18	Q4 17	Q1 17	QoQ	YoY
Loans & BAs - Personal (avg vol.)	66.2	65.6	64.0	1%	3%
Loans & BAs - Commercial excluding Oil & Gas sector (avg vol.)	31.0	30.6	29.4	1%	5%
Loans & BAs - Oil & Gas sector (avg vol.)	1.3	1.2	1.3	8%	1%
Loans & BAs - Total (avg vol.)	98.5	97.5	94.7	1%	4%
Deposits (avg vol.)	56.2	56.6	51.7	(1%)	9%
Efficiency Ratio (%)	53.6%	53.1%	55.5%		

(1) NIM is on Earning Assets

HIGHLIGHTS

- Net income up 11% YoY due to strong revenue growth, and good cost control
- Good loan and deposit volume growth
- Net interest margin up 6 bps YoY
- Insurance down 26% due to a 12M gain at Q1-17
- Operating leverage at 4%
- Efficiency ratio improved by 190 bps

P&C MARGINS EVOLUTION (1)



APPENDIX 3 | WEALTH MANAGEMENT⁽¹⁾

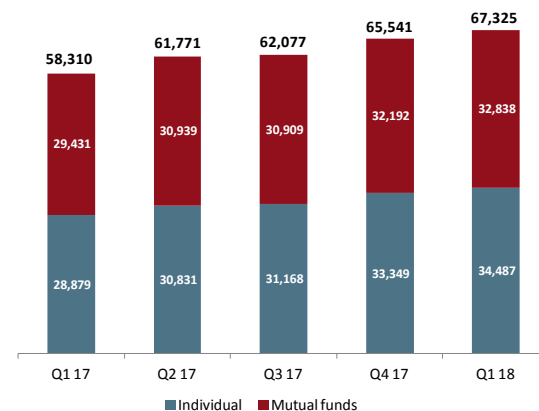
<i>(millions of dollars)</i>	Q1 18	Q4 17	Q1 17	QoQ	YoY
Revenues	444	414	399	7%	11%
Fee-based	247	233	219	6%	13%
Transaction & Others	73	63	76	16%	(4%)
Net Interest Income	124	118	104	5%	19%
Operating Expenses	273	258	257	6%	6%
Provision for Credit Losses	1	1	1	-	-
Net Income	126	115	104	10%	21%
<i>Key Metrics (billions of dollars)</i>	Q1 18	Q4 17	Q1 17	QoQ	YoY
Loans & BAs (avg vol.)	10.6	10.4	9.6	2%	11%
Deposits (avg vol.)	31.3	30.1	31.7	4%	(1%)
Asset Under Administration	428	412	353	4%	21%
Asset Under Management	67	66	58	3%	15%
Efficiency Ratio (%)	61.5%	62.3%	64.4%		

(1) Excluding specified items

HIGHLIGHTS

- ❑ Strong momentum continues in every business lines
- ❑ Fee-based revenues growth of 13% due to favorable market conditions and sales momentum in every business lines
- ❑ NII growth of 19% mainly driven by rate increase
- ❑ Operating leverage of 5%
- ❑ Efficiency ratio of 61.5%, an improvement of 290 bps
- ❑ AUA and AUM up 21% and 15% respectively due to favorable markets conditions and to the onboarding of an important client at NBIN in the last quarter

ASSETS UNDER MANAGEMENT (\$M)



APPENDIX 4 | FINANCIAL MARKETS⁽¹⁾

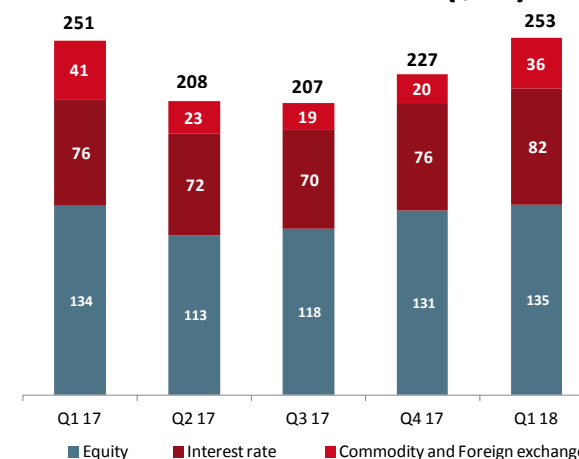
<i>(millions of dollars)</i>	Q1 18	Q4 17	Q1 17	QoQ	YoY
Revenues	454	413	416	10%	9%
Trading	253	227	251	11%	1%
Banking Services	85	90	78	(6%)	9%
Financial Market Fees	90	65	72	38%	25%
Gains on Investments	18	24	9	(25%)	100%
Other	8	7	6	14%	33%
Operating Expenses	176	163	172	8%	2%
Provision for Credit Losses	-	-	-	-	-
Net Income	204	183	179	11%	14%
<i>Other Metrics (millions of dollars)</i>	Q1 18	Q4 17	Q1 17	QoQ	YoY
Proprietary Trading	-	4	(1)	-	-
Loans & BAs (avg vol.) Corporate banking	14,025	13,931	12,739	1%	10%
Efficiency Ratio (%)	38.8%	39.5%	41.3%		

(1) Excluding specified items

HIGHLIGHTS

- Higher trading revenues quarter-over-quarter in all major asset classes
- Solid performance in M&A, ECM and DCM
- Higher revenues in Corporate Banking driven by both volume and margin

TRADING REVENUES (\$M)



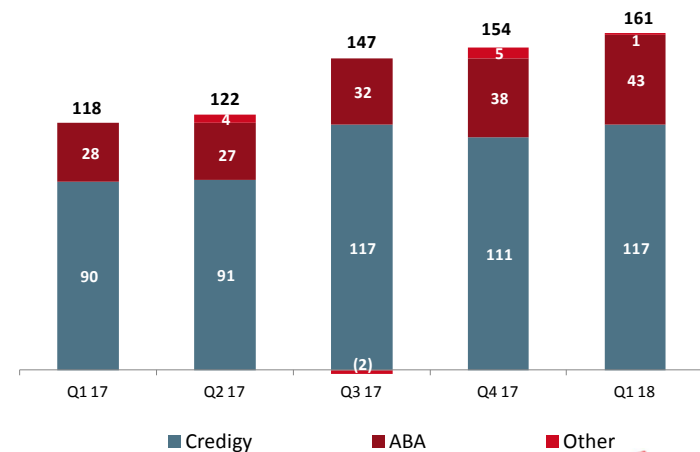
APPENDIX 5 | US SPECIALTY FINANCE & INTERNATIONAL

(millions of dollars)	Q1 18	Q4 17	Q1 17	QoQ	YoY
Revenues	161	154	118	5%	36%
Credigy	117	111	90	5%	30%
ABA	43	38	28	13%	54%
Other	1	5	-	(80%)	-
Operating Expenses	60	56	56	7%	7%
Credigy	39	38	43	3%	(9%)
ABA	20	17	13	18%	54%
Other	1	1	-	-	-
Provision for Credit Losses	29	19	7	53%	314%
Net Income	50	55	38	(9%)	32%
Other Metrics (millions of dollars)	Q1 18	Q4 17	Q1 17	QoQ	YoY
Loans & Receivables and revenue bearing assets (avg vol.)	6,243	6,315	4,498	(1%)	39%
Credigy					
Loans (avg vol.)					
ABA	1,487	1,335	1,010	11%	47%
Deposits (avg vol.)					
ABA	1,532	1,418	1,122	8%	37%
Efficiency Ratio (%)	37.3%	36.4%	47.5%		

HIGHLIGHTS

- ❑ Credigy's revenues up 30% due to:
 - ❑ Strong performance across all products
 - ❑ Strong asset growth since Q1-17
 - ❑ Higher PCLs inline with expectations
- ❑ ABA's revenues up 54% due to strong loan and deposit volume growth
- ❑ Moratorium on significant investments in emerging markets for all of 2018

QUARTERLY REVENUES (\$M)



APPENDIX 6 | LOAN PORTFOLIO OVERVIEW

<i>(billions of dollars)</i>	Q1 18	% of Total
Secured - Mortgage & HELOC	67.2	49%
Secured - Other	5.0	4%
Unsecured	9.2	7%
Credit Cards	2.0	1%
Total Retail	83.4	61%

<i>(billions of dollars)</i>	Q1 18	% of Total
Real Estate	9.4	7%
Retail & Wholesale Trade	5.2	4%
Agriculture	5.0	4%
Other services	4.6	3%
Finance and Insurance	4.4	3%
Oil & Gas	2.1	2%
Other ⁽¹⁾	21.6	15%
Total Wholesale	52.3	38%
Purchased or originated credit-impaired	1.3	1%
Total Gross Loans and Acceptances	137.0	100%

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

HIGHLIGHTS

- ❑ Modest exposure to unsecured retail lending
- ❑ Secured retail lending accounts for 53% of total loans
- ❑ Wholesale portfolio is well-diversified across industries

APPENDIX 7 | REGIONAL DISTRIBUTION OF CANADIAN LOANS

As at January 31, 2018

REGION	RETAIL			WHOLESALE			TOTAL
	Secured Mortgages & HELOC	Secured Others	Unsecured and Credit Card	Oil & Gas Sector	Commercial	Corporate Banking and Other ⁽¹⁾	
Quebec	28.0%	2.0%	5.4%	0.0%	18.1%	4.9%	58.4%
Ontario	13.1%	0.9%	1.1%	0.1%	3.4%	4.4%	23.0%
Oil Regions (AL/SK/NL)	4.9%	0.3%	0.4%	1.6%	0.9%	1.5%	9.6%
BC / MB	3.8%	0.5%	0.3%	0.0%	0.9%	0.7%	6.2%
Maritimes (NB/NS/PE) and Territories	1.2%	0.1%	0.5%	0.0%	0.5%	0.5%	2.8%

⁽¹⁾ Includes Corporate, Other FM and Government portfolios

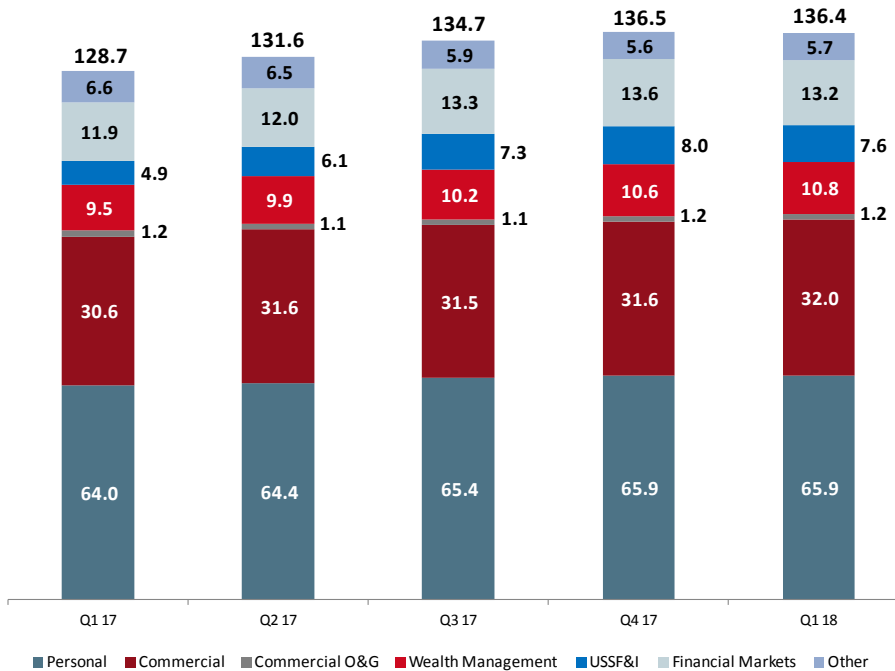
HIGHLIGHTS

- ❑ Limited real estate secured lending exposure in regions with high home price growth
- ❑ Modest unsecured consumer exposure outside Quebec (<2.5% of total loans)

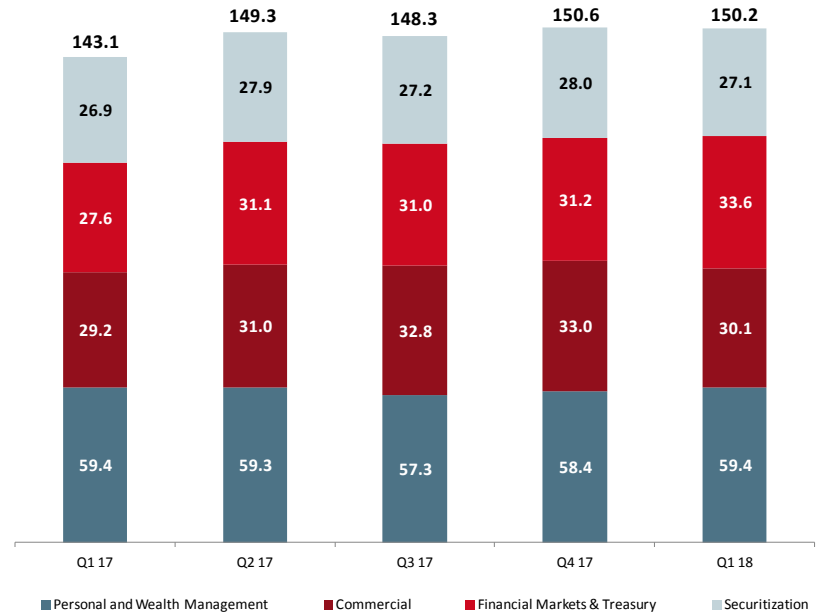
APPENDIX 8 | BALANCE SHEET OVERVIEW (Banking Book & Other)

(billions of dollars)

LENDING – LOANS AND BAS (MONTH END BALANCE)



FUNDING – DEPOSITS AND BAS (MONTH END BALANCE)

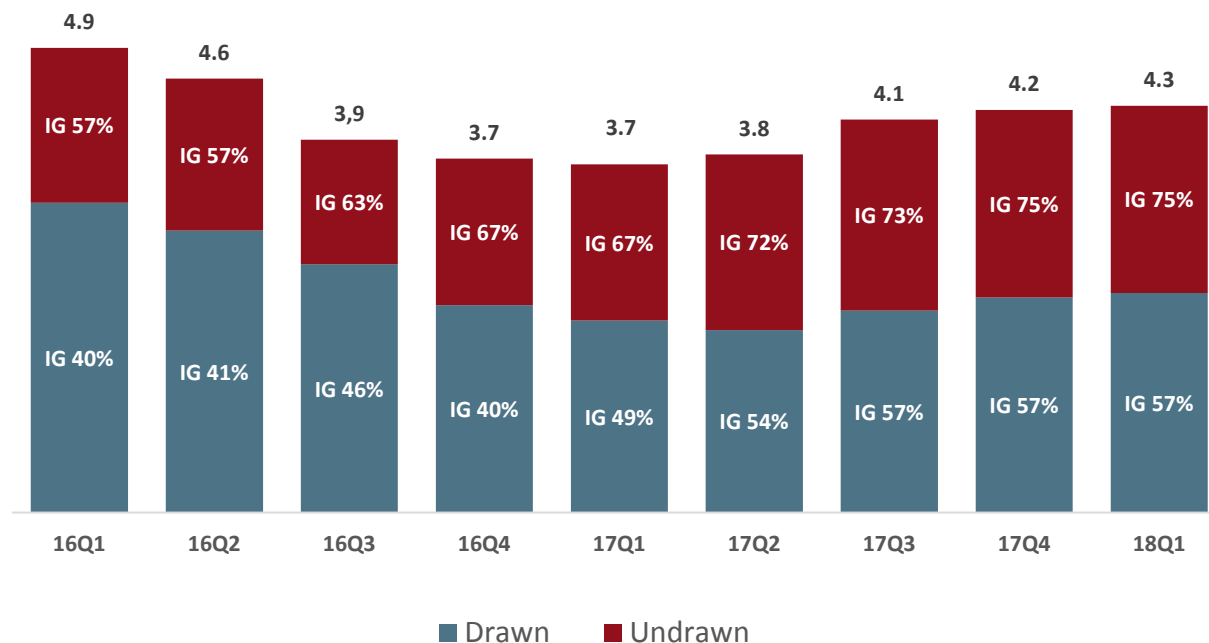


- YoY growth:
 - Personal and Wealth Management 4%
 - Commercial and Financial Markets 6%
 - Commercial O&G 6%
 - USSF&I 54%

- YoY growth:
 - Personal and Wealth Management 0%
 - Commercial, Financial Markets & Treasury 12%
 - Securitization 1%

APPENDIX 9 | PRODUCERS & SERVICES

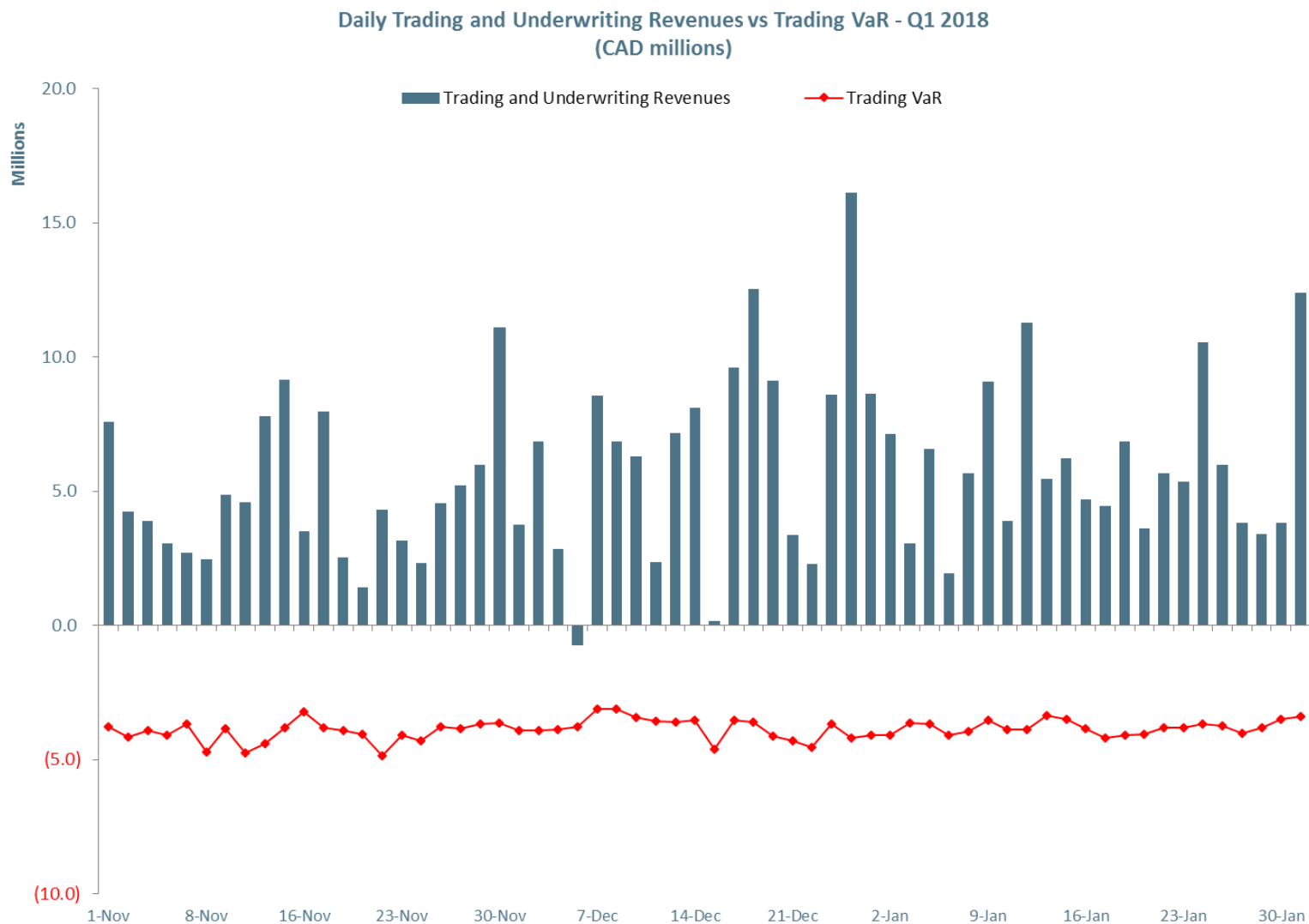
HISTORICAL TREND IN EXPOSURES AT DEFAULT (\$B)



HIGHLIGHTS

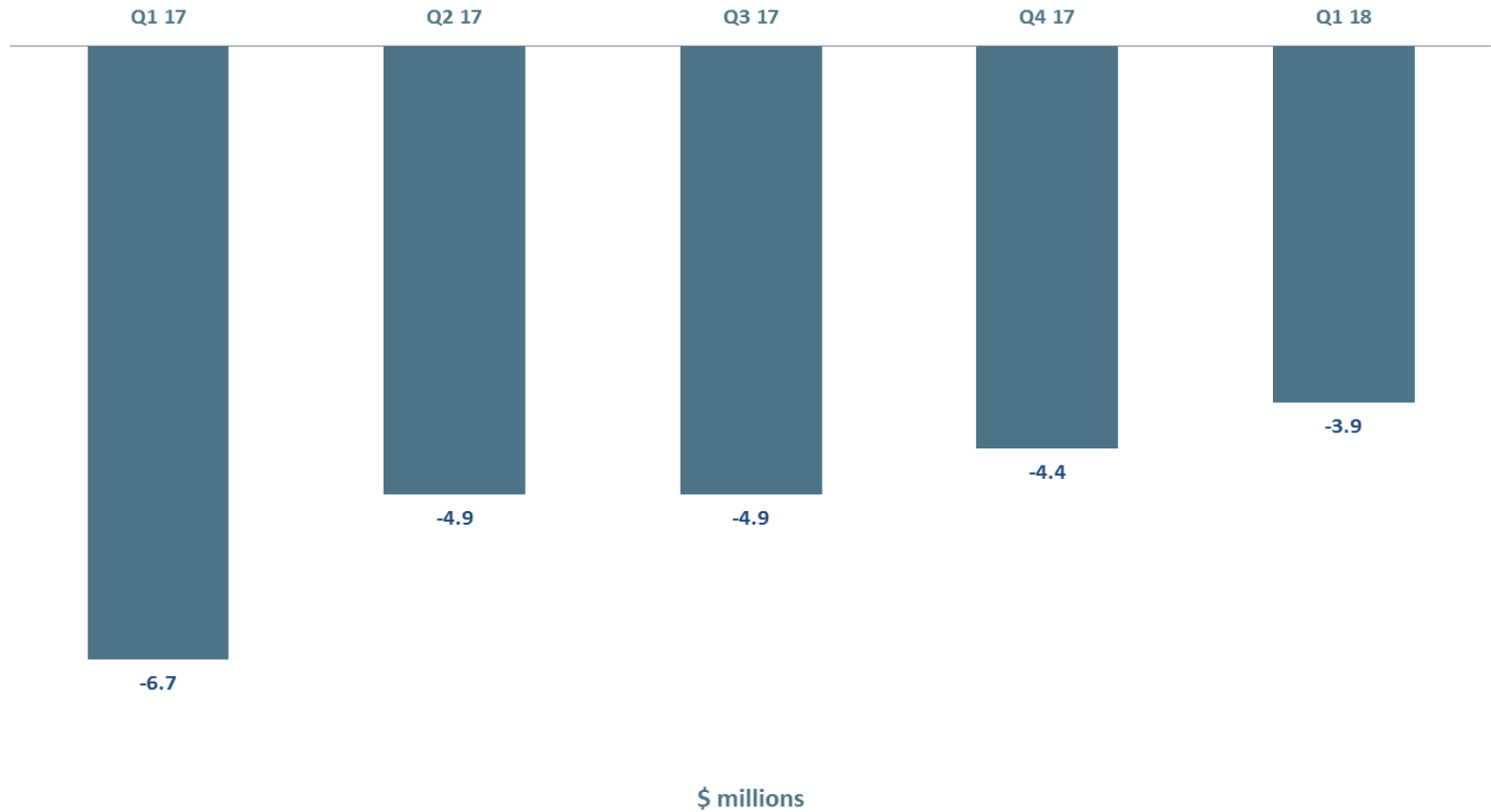
- 57% of drawn and 75% of undrawn exposures to Producers and Services sector rated IG
- 94% of drawn loans (\$1.1bln) to Midstream and Integrated sectors rated IG

APPENDIX 10 | DAILY TRADING and UNDERWRITING REVENUES vs VAR



APPENDIX 11 | VaR TREND

Trading VaR Quarterly Average



APPENDIX 12 | DETAIL OF SPECIFIED ITEMS

<i>(millions of dollars)</i>	Q1 17	Q2 17	Q3 17	Q4 17	Q1 18
Wealth Management acquisitions	(6)	(7)	(8)	(7)	(7)
Items related to TMX	-	(2)	-	-	
Income Before Income Taxes	(6)	(9)	(8)	(7)	(7)
Income Taxes	1	1	2	1	1
Net Income	(5)	(8)	(6)	(6)	(6)
EPS Impact	(0.01)	(0.02)	(0.02)	(0.02)	(0.02)



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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Toll-free: 1-866-517-5455

Fax: 514-394-6196

E-mail: investorrelations@nbc.ca

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