# NATIONAL BANK OF CANADA

## ANALYST AND INVESTOR PRESENTATION
## Q4-2015 CONFERENCE CALL

Wednesday, December 2, 2015 - 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 2016 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 2016 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 55 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.



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# HIGHLIGHTS

| *ADJUSTED RESULTS* [1] | Q4 15 | Q3 15 | Q4 14 | QoQ | YoY |
|---|---|---|---|---|---|
| Net Income[2] | 417 | 444 | 407 | (6%) | 2% |
| Diluted EPS | $1.16 | $1.25 | $1.14 | (7%) | 2% |
| Provision for Credit Losses | 61 | 56 | 57 | 9% | 7% |
| Return on Equity | 16.6% | 18.4% | 17.9% | | |
| Common Equity Tier 1 Ratio Under Basel III | 9.9% | 9.5% | 9.2% | | |
| Leverage ratio | 3.7% | 3.6% | | | |
| Liquidity coverage ratio | 131% | 128% | | | |
| Dividend Payout[3] | 42.9% | 42.3% | 41.5% | | |

- 2015 diluted EPS up 5% YoY
- Quarterly dividend increase of $0.02 to $0.54
- CET1 ratio up 40 bps due to common equity issue

(1) Excluding specified items (see Appendix 1, page 25)
(2) Net income before non-controlling interests
(3) Trailing 4 quarters



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# MID-TERM OBJECTIVES

*Excluding specified items*

| MID-TERM | |
|---|---|
| Growth in diluted earnings per share | 5% to 10% |
| Return on common shareholders' equity | 15% to 20% |
| Common Equity Tier 1 capital ratio | ≥ 9.5% |
| Leverage ratio | ≥ 3.5% |
| Dividend payout ratio | 40% to 50% |

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# FINANCIAL REVIEW

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

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## PERFORMANCE SNAPSHOT – Q4 2015

*(millions of dollars)*

| *ADJUSTED* [(1)] | Q4 15 | Q3 15 | Q4 14 | QoQ | YoY |
|---|---|---|---|---|---|
| Revenues [(2)] | 1,473 | 1,553 | 1,440 | (5%) | 2% |
| Expenses | 869 | 900 | 841 | (3%) | 3% |
| Net Income | 417 | 444 | 407 | (6%) | 2% |
| Diluted EPS | $1.16 | $1.25 | $1.14 | (7%) | 2% |
| ROE | 16.6% | 18.4% | 17.9% | | |

- Adjusted revenues up 2%, YoY
- Adjusted diluted EPS up 2% from Q4 2014
- Solid ROE at 16.6%

| REPORTED | Q4 15 | Q3 15 | Q4 14 | QoQ | YoY |
|---|---|---|---|---|---|
| Specified Items | (70) | 9 | (77) | | |
| Net Income | 347 | 453 | 330 | (23%) | 5% |
| Diluted EPS | $0.95 | $1.28 | $0.91 | (26%) | 4% |
| ROE | 13.6% | 18.8% | 14.3% | | |

- After tax specified items of ($70M) or ($0.21) EPS impact
  - ($86M) before tax restructuring charge
- Reported net income up 5%

(1) Excluding specified items (see Appendix 1, page 25)
(2) Taxable equivalent basis



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# PERFORMANCE SNAPSHOT – FY 2015

*(millions of dollars)*

| *ADJUSTED* [1] | 12M 15 | 12M 14 | YoY |
|---|---|---|---|
| Revenues | 5,982 | 5,638 | 6% |
| Expenses | 3,505 | 3,303 | 6% |
| Net Income | 1,682 | 1,593 | 6% |
| Diluted EPS | \$4.70 | \$4.48 | 5% |
| ROE | 17.6% | 18.5% | |

- Adjusted revenues up 6% YoY
- Adjusted diluted EPS up 5% YoY
- Flat operating leverage, expecting neutral to slightly positive leverage in FY 2016
- Solid ROE at 17.6%

| REPORTED | 12M 15 | 12M 14 | YoY |
|---|---|---|---|
| Specified Items | (63) | (55) | |
| Net Income | 1,619 | 1,538 | 5% |
| Diluted EPS | \$4.51 | \$4.32 | 4% |
| ROE | 16.9% | 17.9% | |

- After tax specified items of (\$63M) or (\$0.19) EPS impact (Appendix 1)
- Reported net income up 5% YoY

(1) Excluding specified items (see Appendix 1, page 25)
(2) Taxable equivalent basis

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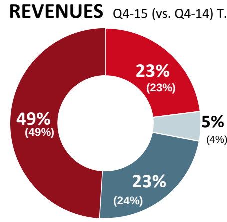
# INCOME STATEMENT OVERVIEW – Q4 2015 (Excluding specified items)

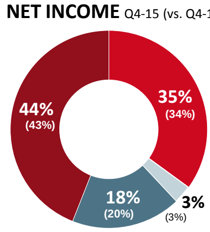
| *(millions of dollars)* | Q4 15 | Q3 15 | Q4 14 | QoQ | YoY |
|---|---|---|---|---|---|
| **Revenues** [1] | **1,473** | **1,553** | **1,440** | **(5%)** | **2%** |
| P&C Banking | 717 | 728 | 690 | (2%) | 4% |
| Wealth Management | 340 | 347 | 339 | (2%) | - |
| Financial Markets | 404 | 470 | 380 | (14%) | 6% |
| Other Segment | 12 | 8 | 31 | | |
| **Net Income** | **417** | **444** | **407** | **(6%)** | **2%** |
| P&C Banking | 187 | 197 | 174 | (5%) | 7% |
| Wealth Management | 76 | 84 | 80 | (10%) | (5%) |
| Financial Markets | 162 | 202 | 151 | (20%) | 7% |
| Other Segment | (8) | (39) | 2 | | |

(1) Taxable equivalent basis

**REVENUES** Q4-15 (vs. Q4-14) T.E.B.




**NET INCOME** Q4-15 (vs. Q4-14) T.E.B.




- Personal and Commercial Banking
- Financial Markets (excluding Credigy)
- Credigy
- Wealth Management

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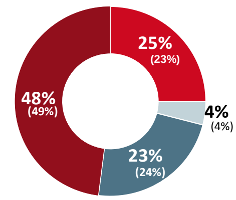
# INCOME STATEMENT OVERVIEW – FY 2015 (Excluding specified items)

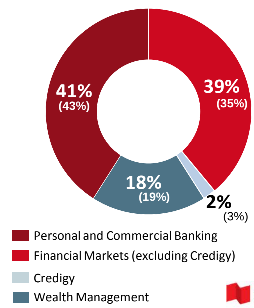
| *(millions of dollars)* | 12M 15 | 12M 14 | YoY |
|---|---|---|---|
| **Revenues** [1] | **5,982** | **5,638** | **6%** |
| P&C Banking | 2,816 | 2,689 | 5% |
| Wealth Management | 1,391 | 1,330 | 5% |
| Financial Markets | 1,720 | 1,527 | 13% |
| Other Segment | 55 | 92 | |
| **Net Income** | **1,682** | **1,593** | **6%** |
| P&C Banking | 725 | 683 | 6% |
| Wealth Management | 327 | 310 | 5% |
| Financial Markets | 718 | 611 | 18% |
| Other Segment | (88) | (11) | |

(1) Taxable equivalent basis

**REVENUES** 12M-15 (vs. 12M-14) T.E.B.




**NET INCOME** 12M-15 (vs. 12M-14) T.E.B.

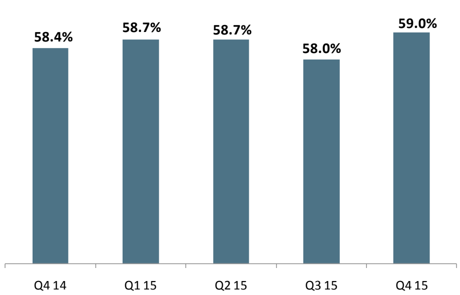





# NON INTEREST EXPENSES (Excluding specified items)

| *(millions of dollars)* | Q4 15 | Q3 15 | Q4 14 | QoQ | YoY | 12M 15 | 12M 14 | YoY |
|---|---|---|---|---|---|---|---|---|
| Salaries and Staff Benefits | 513 | 554 | 506 | (7%) | 1% | 2,147 | 2,032 | 6% |
| Technology and Professional Fees | 191 | 181 | 184 | 5% | 4% | 720 | 668 | 8% |
| Other Expenses | 165 | 165 | 151 | 0% | 10% | 638 | 603 | 6% |
| **Non Interest Expense** | **869** | **900** | **841** | **(3%)** | **3%** | **3,505** | **3,303** | **6%** |

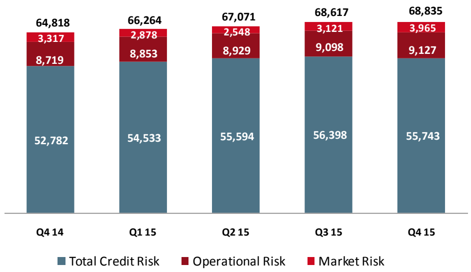
**EFFICIENCY RATIO**



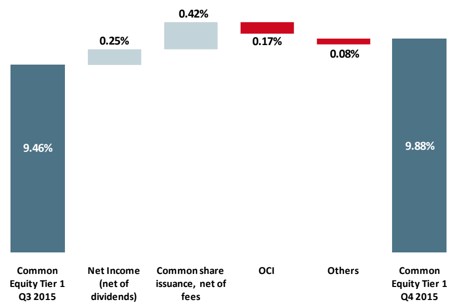

- Higher expenses resulting from technology investments, business development and higher employee benefits and tax on salaries
- FY 2015 efficiency ratio at 58.6%
- FY 2015 flat operating leverage, expecting neutral to slightly positive operating leverage in FY 2016
- Current pace of technology investments will continue in 2016
- $35 million of ongoing pretax cost savings expected in 2016 due to restructuring initiatives

# STRONG CAPITAL POSITION

**TOTAL RISK-WEIGHTED ASSETS UNDER BASEL III**




**COMMON EQUITY TIER 1 UNDER BASEL III EVOLUTION (QoQ)**




- Common Equity Tier 1 ratio at 9.9%
- $300M common equity issuance in Q4
- 0.3% risk-weighted assets increase
- Leverage ratio at 3.7%



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# RISK MANAGEMENT

William Bonnell
Executive Vice-President, Risk Management

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# LOAN PORTFOLIO OVERVIEW

| *(billions of dollars)* | Q4 15 | % of Total |
|---|---|---|
| Retail mortgages & HELOC | 54.0 | 46% |
| Secured by non real estate | 4.9 | 4% |
| Credit cards | 1.9 | 2% |
| Other retail | 6.8 | 6% |
| **Total Retail** | **67.6** | **58%** |

| *(billions of dollars)* | Q4 15 | % of Total |
|---|---|---|
| Real Estate | 8.1 | 7% |
| Retail & Wholesale Trade | 4.9 | 5% |
| Agriculture | 4.4 | 4% |
| Manufacturing | 3.8 | 3% |
| Mining and Oil & Gas | 3.6 | 3% |
| Education & Health Care | 2.6 | 2% |
| Other (1) | 20.8 | 18% |
| **Total Wholesale** | **48.2** | **42%** |
| **Total Gross Loans and Acceptances** | **115.8** | **100%** |

| Mining and Oil & Gas *(billions of dollars)* | Q4 15 | % of total |
|---|---|---|
| Mining | 0.4 | 0.4% |
| O&G Corporate | 0.8 | 0.7% |
| O&G Commercial | 2.2 | 1.9% |
| O&G Services | 0.2 | 0.1% |
| **Total** | **3.6** | **3.1%** |

(1) Includes Utilities, Transportation, Financial, Prof. Services, Construction, Communication, Government, and Other Services

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# REGIONAL DISTRIBUTION OF CANADIAN LOANS

As at October 31, 2015

| | RETAIL | | | WHOLESALE | | | |
|---|---|---|---|---|---|---|---|
| REGION | RM + HELOC | Other Retail | Other Wealth Mgt | Oil & Gas Sector | Commercial | Other | TOTAL |
| QC / ON | 39.6% | 8.2% | 2.5% | 0.1% | 22.6% | 10.4% | **83.4%** |
| Oil Regions (AL/SK/NL) | 2.9% | 0.4% | 0.4% | 2.6% | 0.8% | 1.9% | **9.0%** |
| BC / MB | 2.3% | 0.3% | 0.6% | 0.0% | 0.5% | 1.2% | **4.9%** |
| Maritimes (NB/NS/PE) | 1.1% | 0.4% | 0.1% | 0.0% | 0.6% | 0.5% | **2.7%** |

- Limited total exposure in the oil regions
- Direct lending to Oil and Gas sector represents approximately 2.7% of total loans

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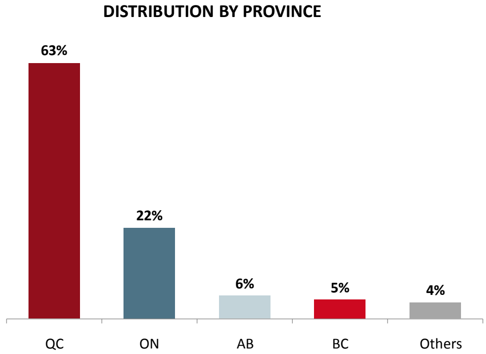
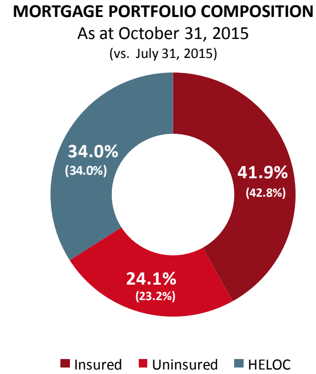
# RETAIL MORTGAGE AND HELOC PORTFOLIO



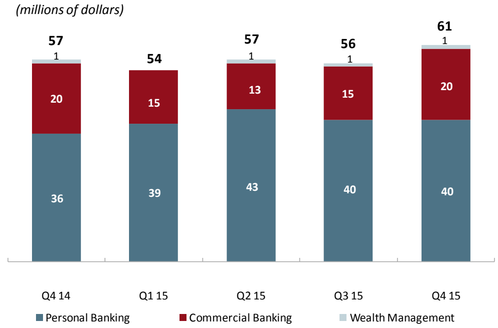




- The average Loan to Value on the HELOC and uninsured mortgage portfolio was approximately 59%
- Mortgage loans with second lien amounted to $300 million approximately and accounted for less than 1% of the outstanding mortgage and HELOC portfolio



# SPECIFIC PROVISION FOR CREDIT LOSSES

*(millions of dollars)*




## HIGHLIGHTS

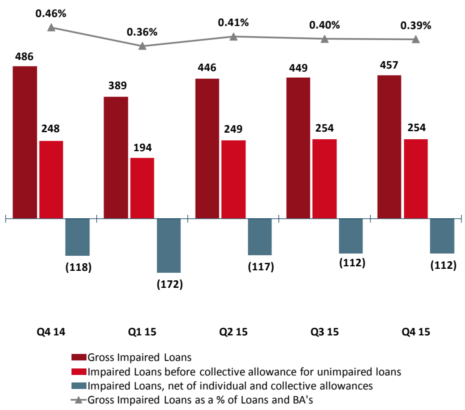
- Q4 2015: 21 bps
- FY 2015: 21 bps
- Next 2 quarters target: 20-30 bps

| *PCLs (in bps)* | Q4 15 | Q3 15 | Q2 15 | Q1 15 | Q4 14 |
|---|---|---|---|---|---|
| Personal Banking | 27 | 27 | 31 | 27 | 26 |
| Commercial Banking | 26 | 21 | 19 | 21 | 29 |
| Wealth Management | 3 | 5 | 4 | - | 3 |
| Corporate Banking | - | - | - | - | - |
| **TOTAL** | **21** | **20** | **22** | **20** | **22** |

# IMPAIRED LOANS AND BA'S AND FORMATION

*(millions of dollars)*

## IMPAIRED LOANS AND BA'S




## IMPAIRED LOANS AND BA'S FORMATION[1]

| *(millions of dollars)* | Q4 15 | Q3 15 | Q2 15 | Q1 15 | Q4 14 |
|---|---|---|---|---|---|
| Retail | 23 | 16 | 28 | 22 | 29 |
| Commercial | 19 | 24 | 65 | (37) | 79 |
| Corporate Banking | - | - | - | - | - |
| Wealth Management | 1 | 4 | 1 | 2 | 2 |
| **Total** | **43** | **44** | **94** | **(13)** | **110** |

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

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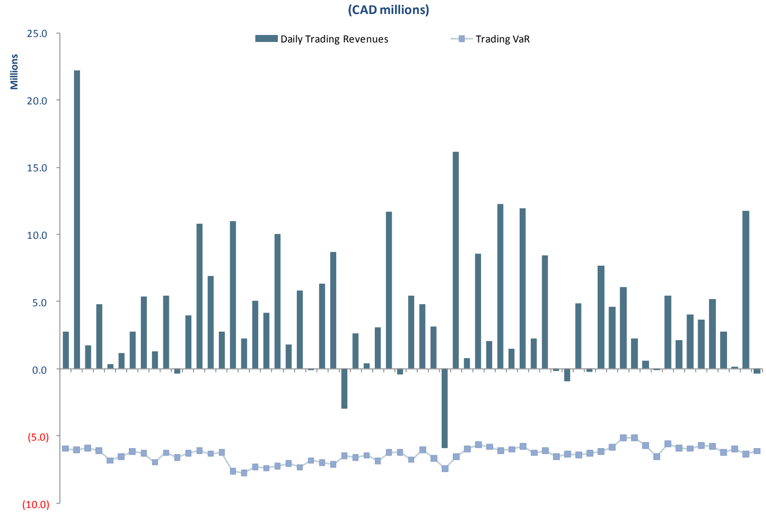
# DAILY TRADING REVENUES vs VaR

**Daily Trading Revenues vs Trading VaR - Q4 2015**
**(CAD millions)**

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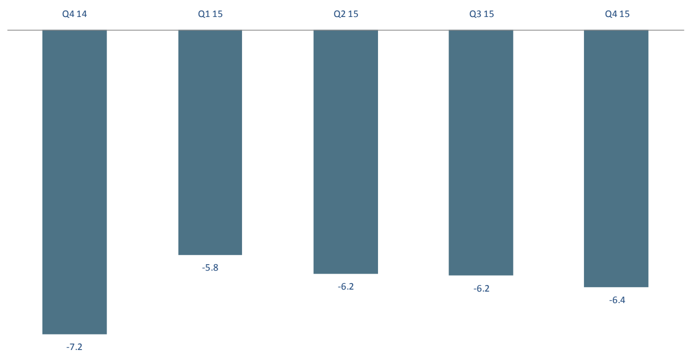
# VaR TREND

Trading VaR Quarterly Average




$ millions



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# BUSINESS SEGMENT REVIEW

Jean Dagenais
Senior Vice-President, Finance

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# PERSONAL AND COMMERCIAL BANKING(1)

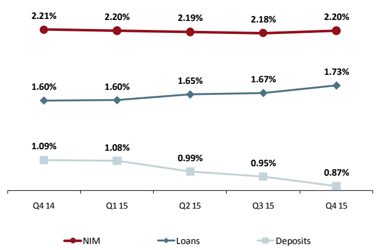
| *(millions of dollars)* | Q4 15 | Q3 15 | Q4 14 | QoQ | YoY |
|---|---|---|---|---|---|
| **Revenues** | **717** | **728** | **690** | **(2%)** | **4%** |
| Personal Banking | 348 | 344 | 324 | 1% | 7% |
| Commercial Banking | 257 | 259 | 250 | (1%) | 3% |
| Credit Card | 88 | 91 | 90 | (3%) | (2%) |
| Insurance | 24 | 34 | 26 | (29%) | (8%) |
| **Operating Expenses** | **402** | **404** | **395** | **-** | **2%** |
| **Pre-provisions / Pre-tax** | **315** | **324** | **295** | **(3%)** | **7%** |
| **Provisions for Credit Losses** | **60** | **55** | **56** | **9%** | **7%** |
| **Net Income** | **187** | **197** | **174** | **(5%)** | **7%** |
| **Key Metrics** *(billions of dollars)* | **Q4 15** | **Q3 15** | **Q4 14** | **QoQ** | **YoY** |
| Loans & BAs (avg vol.) | 88.6 | 87.2 | 83.2 | 2% | 6% |
| Deposits (avg vol.) | 45.7 | 45.1 | 44.0 | 1% | 4% |
| Efficiency Ratio (%) | 56.1% | 55.5% | 57.2% | | |

(1) Excluding specified items
(2) NIM is on Earning Assets

## HIGHLIGHTS

- Revenues up 4% YoY due to strong volume growth from loans, deposits and mutual funds
- Net Interest Margin up 2 bps QoQ
- Operating leverage ratio at 2% YoY
- Efficiency ratio improved by 110 bps

### P&C MARGINS EVOLUTION(2)

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# WEALTH MANAGEMENT(1)

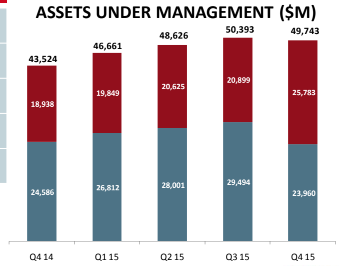
| *(millions of dollars)* | Q4 15 | Q3 15 | Q4 14 | QoQ | YoY |
|---|---|---|---|---|---|
| **Revenues** | **340** | **347** | **339** | **(2%)** | **-** |
| Fee-based | 195 | 195 | 178 | - | 10% |
| Transaction & Others | 64 | 73 | 82 | (12%) | (22%) |
| Net Interest Income | 81 | 79 | 79 | 3% | 3% |
| **Operating Expenses** | **237** | **233** | **230** | **2%** | **3%** |
| **Provision for Credit Losses** | **1** | **1** | **1** | | |
| **Net Income** | **76** | **84** | **80** | **(10%)** | **(5%)** |
| **Key Metrics** *(billions of dollars)* | **Q4 15** | **Q3 15** | **Q4 14** | **QoQ** | **YoY** |
| Loans & BAs (avg vol.) | 9.0 | 8.8 | 8.4 | 3% | 7% |
| Deposits (avg vol.) | 24.9 | 24.2 | 24.2 | 3% | 3% |
| Asset Under Administration | 308 | 315 | 302 | (2%) | 2% |
| Asset Under Management | 50 | 50 | 44 | - | 14% |
| Efficiency Ratio (%) | 69.7% | 67.1% | 67.8% | | |

(1) Excluding specified items

## YOY HIGHLIGHTS

- Revenues up 1 million, with 10% growth in fee-based revenues , offset by lower transactional revenues due to market downturn
- Expenses were up 3% mainly due to project costs and IT expenses
- National Bank Investment launched two Smart-Beta funds managed by Rothschild Asset Management showing our committment to the open architecture concept
- Good growth in our Partnership channels, gross sales have tripled representing close to $300 million of volumes

### ASSETS UNDER MANAGEMENT ($M)

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# FINANCIAL MARKETS[1]

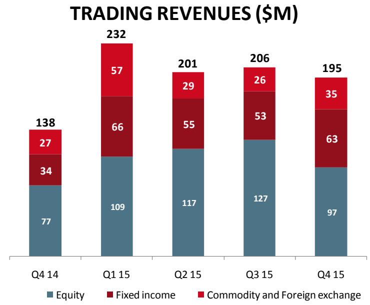
| *(millions of dollars)* | Q4 15 | Q3 15 | Q4 14 | QoQ | YoY |
|---|---|---|---|---|---|
| **Revenues** | **404** | **470** | **380** | **(14%)** | **6%** |
| Trading | 195 | 206 | 138 | (5%) | 41% |
| Banking Services | 79 | 75 | 67 | 5% | 18% |
| Financial Market Fees | 57 | 90 | 80 | (37%) | (29%) |
| Gains on AFS Securities | (10) | 15 | 15 | | |
| Credigy | 70 | 63 | 60 | 11% | 17% |
| Other | 13 | 21 | 20 | (38%) | (35%) |
| **Operating Expenses** | **184** | **193** | **173** | **(5%)** | **6%** |
| **Net Income** | **162** | **202** | **151** | **(20%)** | **7%** |

| Other Metrics (*in millions*) | Q4 15 | Q3 15 | Q4 14 | QoQ | YoY |
|---|---|---|---|---|---|
| CVA / DVA | 6.5 | 2.1 | 6.6 | | |
| Proprietary Trading | 0.9 | 0.1 | (18.6) | | |
| Efficiency Ratio (%) | 45.5% | 41.1% | 45.5% | | |

## YOY HIGHLIGHTS

- Strong Trading Revenues driven by hedging activity by clients particularly in foreign exchange, interest rates and commodities, and improved Prop Trading
- Higher Banking Services revenues on solid balance sheet growth
- Lower Financial Markets Fees because of lower new equity issue activity
- Solid quarter for Credigy as a result of growing asset purchases during the fiscal year

## TRADING REVENUES ($M)




(1) Excluding specified items



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# APPENDIX

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# APPENDIX 1 | DETAIL OF SPECIFIED ITEMS

| *(millions of dollars)* | Q4 14 | Q1 15 | Q2 15 | Q3 15 | Q4 15 |
|---|---|---|---|---|---|
| Wealth Management and other acquisitions | (14) | (10) | (8) | (9) | (7) |
| Gain on disposal of equity interest in Fiera Capital | - | - | 29 | - | - |
| Share of current tax asset write-down of an associated company | - | - | (18) | - | - |
| Funding Valuation Adjustments | (13) | - | - | - | - |
| MAV and Other Notes | (4) | 18 | 33 | 21 | (2) |
| Litigation provisions | (14) | - | - | - | - |
| Write-off of Intangible Assets | (62) | - | (46) | - | - |
| Restructuring charge | - | - | - | - | (86) |
| Income Before Income Taxes | (107) | 8 | (10) | 12 | (95) |
| Income Taxes | 30 | (3) | 3 | (3) | 25 |
| **Net Income** | **(77)** | **5** | **(7)** | **9** | **(70)** |
| **EPS Impact** | **(0.23)** | **0.01** | **(0.02)** | **0.03** | **(0.21)** |



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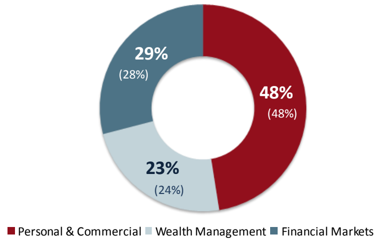
# APPENDIX 2 | 2015 INCOME STATEMENT(1)

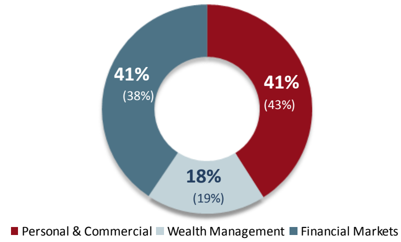
*(taxable equivalent basis)*

| | Personal & Commercial | | | Wealth Management | | | Financial Markets | | |
|---|---|---|---|---|---|---|---|---|---|
| *(millions of dollars)* | 2015 | 2014 | YoY | 2015 | 2014 | YoY | 2015 | 2014 | YoY |
| **Revenues** | 2,816 | 2,689 | 4.7% | 1,391 | 1,330 | 4.6% | 1,720 | 1,527 | 12.6% |
| **Operating Expenses** | 1,599 | 1,548 | 3.3% | 947 | 909 | 4.2% | 739 | 690 | 7.1% |
| **PCLs** | 225 | 205 | 9.8% | 3 | 3 | - | - | - | - |
| **Net Income** | 725 | 683 | 6.1% | 327 | 310 | 5.5% | 718 | 611 | 17.5% |

## Revenues
2015 vs. 2014




## Net Income
2015 vs. 2014




(1) Excluding specified items



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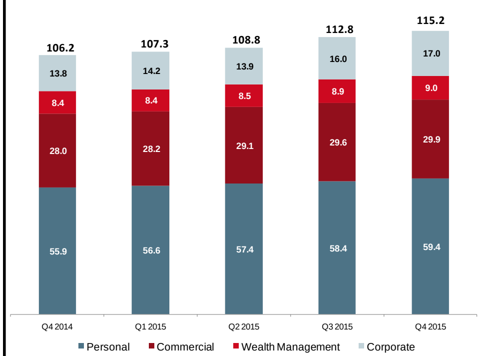
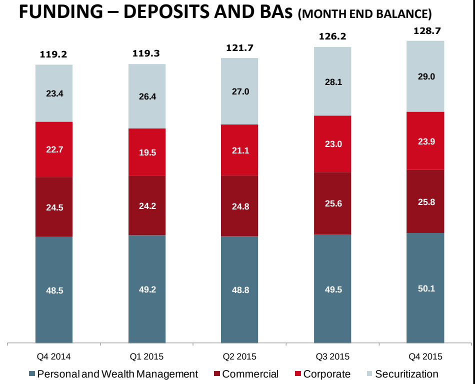
# APPENDIX 3 | BALANCE SHEET OVERVIEW (Banking Book & Other)

*(billions of dollars)*

**LENDING – LOANS AND BAs (MONTH END BALANCE)**




**FUNDING – DEPOSITS AND BAs (MONTH END BALANCE)**




- <u>YoY growth</u>:

| | |
|---|---|
| Personal and Wealth Management | 6% |
| Commercial and Corporate | 12% |
| Total | 8.5% |

- <u>YoY growth</u>:

| | |
|---|---|
| Personal and Wealth Management | 3% |
| Commercial and Corporate | 5% |
| Securitization | 24% |
| Total | 8.0% |

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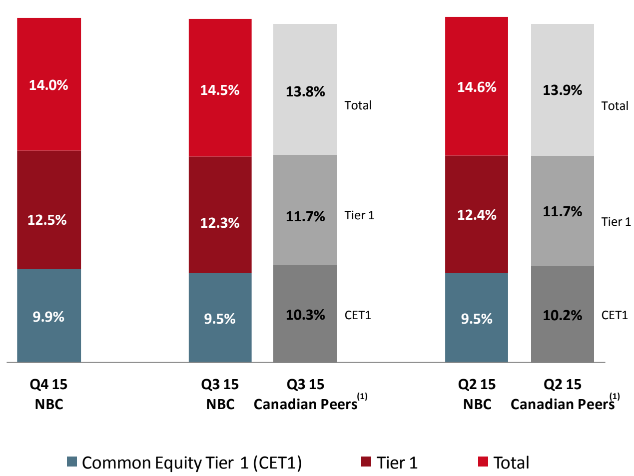
# APPENDIX 4 | COMPARATIVE PERFORMANCE – Capital Ratios

**CAPITAL RATIOS UNDER BASEL III**




(1) Weighted average ratios of Royal Bank of Canada, Toronto-Dominion Bank, Bank of Nova Scotia, Bank of Montreal and Canadian Imperial Bank of Commerce

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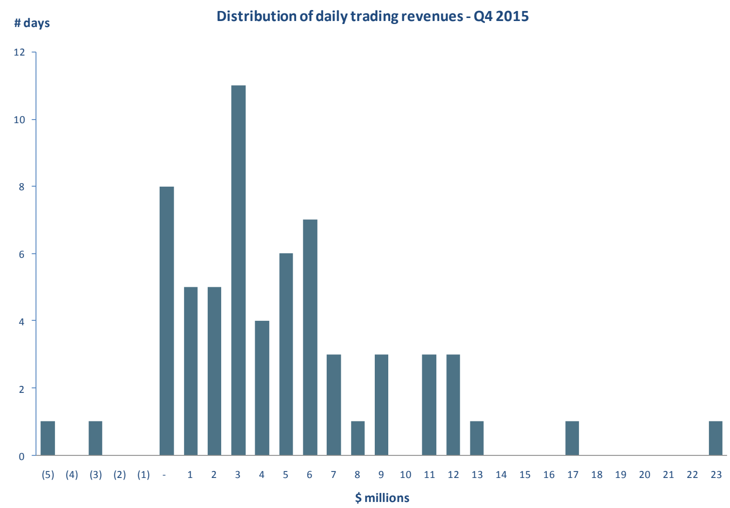
# APPENDIX 5 | TRADING P&L RESULTS



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# 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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