



# NATIONAL BANK OF CANADA

## ANALYST AND INVESTOR PRESENTATION Q1-2016 CONFERENCE CALL

Tuesday, February 23, 2016 – 11:30 am



## 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.



## HIGHLIGHTS

ADJUSTED RESULTS <sup>(1)</sup>	Q1 16	Q4 15	Q1 15	QoQ	YoY
Net Income <sup>(2)</sup>	427	417	410	2%	4%
Diluted EPS	\$1.17	\$1.16	\$1.14	1%	3%
Provision for Credit Losses	63	61	54	3%	17%
Return on Equity	16.4%	16.6%	17.5%		
Common Equity Tier 1 Ratio Under Basel III	9.7%	9.9%	9.3%		
Leverage ratio	3.8%	3.7%	3.6%		
Liquidity coverage ratio	135.0%	131.0%			
Dividend Payout <sup>(3)</sup>	43.5%	42.9%	41.9%		

- Net income up 4% YoY
- CET1 at 9.7% after Maple write-off

(1) Excluding specified items (see Appendix 1, page 22)  
(2) Net income before non-controlling interests  
(3) Trailing 4 quarters

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# FINANCIAL REVIEW

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



## PERFORMANCE SNAPSHOT – Q1 2016

(millions of dollars)

ADJUSTED <sup>(1)</sup>	Q1 16	Q4 15	Q1 15	QoQ	YoY
Revenues <sup>(2)</sup>	1,530	1,473	1,459	4%	5%
Expenses	896	869	857	3%	5%
Net Income	427	417	410	2%	4%
Diluted EPS	\$1.17	\$1.16	\$1.14	1%	3%
ROE	16.4%	16.6%	17.5%		

□ Adjusted revenues up 5%, YoY

□ Net income up 4%, YoY

□ Diluted EPS up 3% from Q1 2015

REPORTED	Q1 16	Q4 15	Q1 15	QoQ	YoY
Specified Items	(166)	(70)	5		
Net Income	261	347	415	(25%)	(37%)
Diluted EPS	\$0.67	\$0.95	\$1.16	(29%)	(42%)
ROE	9.5%	13.6%	17.8%		

(1) Excluding specified items (see Appendix 1, page 22)

(2) Taxable equivalent basis

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## INCOME STATEMENT OVERVIEW – Q1 2016 (Excluding specified items)

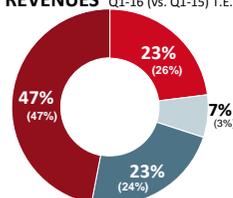
(millions of dollars)	Q1 16	Q4 15	Q1 15	QoQ	YoY
Revenues <sup>(1)</sup>	1,530	1,473	1,459	4%	5%
P&C Banking	724	721	692	-	5%
Wealth Management	358	340	346	5%	3%
Financial Markets	451	404	418	12%	8%
Other Segment	(3)	8	3		

Net Income	427	417	410	2%	4%
P&C Banking	184	183	171	1%	8%
Wealth Management	84	75	81	12%	4%
Financial Markets	186	162	177	15%	5%
Other Segment	(27)	(3)	(19)		

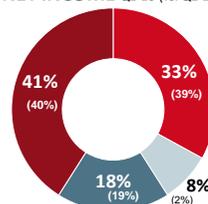
(1) Taxable equivalent basis

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REVENUES Q1-16 (vs. Q1-15) T.E.B.



NET INCOME Q1-16 (vs. Q1-15) T.E.B.



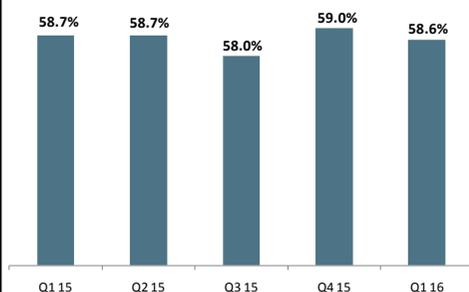
■ Personal and Commercial Banking  
■ Financial Markets (excluding Credigy)  
■ Credigy  
■ Wealth Management



## NON INTEREST EXPENSES (Excluding specified items)

<small>(millions of dollars)</small>	Q1 16	Q4 15	Q1 15	QoQ	YoY
Salaries and Staff Benefits	540	513	545	5%	(1%)
Technology and Professional Fees	194	191	173	2%	12%
Other Expenses	162	165	139	(2%)	17%
<b>Non Interest Expense</b>	<b>896</b>	<b>869</b>	<b>857</b>	<b>3%</b>	<b>5%</b>

### EFFICIENCY RATIO



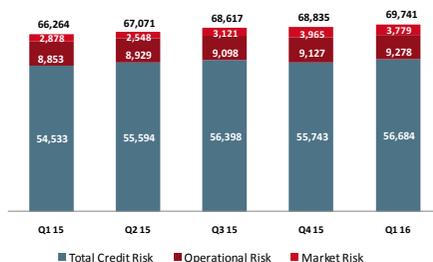
- Higher expenses resulting from technology investments, servicing fees related to Credigy, higher tax on salaries and other fees, partly offset by lower compensation and employee benefits
- Salaries and Staff Benefits: decrease mainly due to lower pension plan & other employee benefits
- Expecting neutral to slightly positive operating leverage in FY 2016

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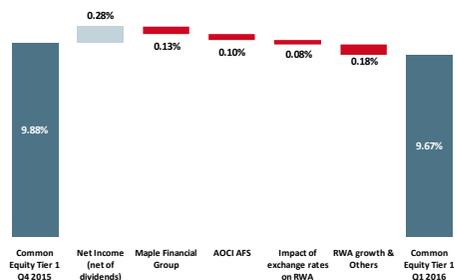


## STRONG CAPITAL POSITION

### TOTAL RISK-WEIGHTED ASSETS UNDER BASEL III



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



- Common Equity Tier 1 ratio at 9.7% after write-off of Maple Financial Group
- AFS impact due to spread volatility on provincial bonds: 10 bps
- Impact of weaker Canadian dollar on RWA: 8 bps
- Risk-weighted assets increase by 1.3% during the first quarter due to business growth
- Leverage ratio at 3.8%

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# RISK MANAGEMENT

**William Bonnell**  
Executive Vice-President, Risk Management



## LOAN PORTFOLIO OVERVIEW

<i>(billions of dollars)</i>	Q1 16	% of Total
Retail mortgages & HELOC	54.8	46%
Secured by non real estate	4.9	4%
Credit cards	1.9	2%
Other retail	6.9	6%
<b>Total Retail</b>	<b>68.5</b>	<b>58%</b>

<i>(billions of dollars)</i>	Q1 16	% of Total
Real Estate	8.0	7%
Retail & Wholesale Trade	5.1	4%
Agriculture	4.5	4%
Manufacturing	4.0	3%
Oil & Gas	3.2	3%
Education & Health Care	2.9	2%
Other <sup>(1)</sup>	22.8	19%
<b>Total Wholesale</b>	<b>50.5</b>	<b>42%</b>
<b>Total Gross Loans and Acceptances</b>	<b>119.0</b>	<b>100%</b>

<i>(billions of dollars)</i>	Q1 16	% of total
O&G Corporate	0.9	0.7%
O&G Commercial	2.1	1.8%
O&G Services	0.2	0.2%
<b>Total</b>	<b>3.2</b>	<b>2.7%</b>

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



## REGIONAL DISTRIBUTION OF CANADIAN LOANS

As at January 31, 2016

REGION	RETAIL			WHOLESALE			TOTAL
	RM + HELOC	Other Retail	Other Wealth Mgt	Oil & Gas Sector	Commercial	Other	
QC / ON	39.2%	8.1%	2.5%	0.1%	22.4%	10.3%	82.6%
Oil Regions (AL/SK/NL)	2.9%	0.4%	0.4%	2.6%	0.8%	2.5%	9.6%
BC / MB	2.3%	0.3%	0.6%	0.0%	0.6%	1.3%	5.1%
Maritimes (NB/NS/PE)	1.0%	0.4%	0.1%	0.0%	0.5%	0.7%	2.7%

- ❑ Direct lending to Oil and Gas sector represents approximately 2.7% of total loans
- ❑ Limited small commercial or unsecured retail lending in the oil regions
- ❑ Loan portfolio concentrated in regions with stronger job growth

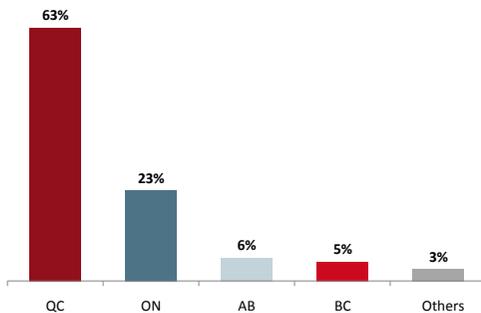
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## RETAIL MORTGAGE AND HELOC PORTFOLIO

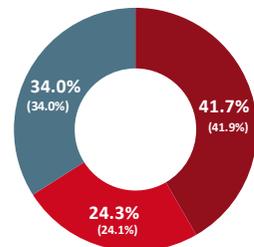
### DISTRIBUTION BY PROVINCE

As at January 31, 2016



### MORTGAGE PORTFOLIO COMPOSITION

As at January 31, 2016  
(vs. October 31, 2015)



■ Insured ■ Uninsured ■ HELOC

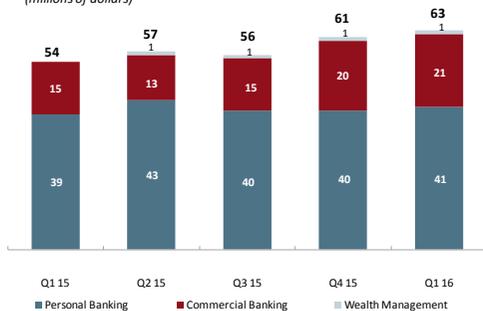
- ❑ The average Loan to Value on the HELOC and uninsured mortgage portfolio was approximately 59%
- ❑ Less than \$300 million of second lien mortgages

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## SPECIFIC PROVISION FOR CREDIT LOSSES

(millions of dollars)



### HIGHLIGHTS

- Q1 2016: 21 bps of specific provisions
- Strong performance from Central Canada portfolio
- Expect PCLs from direct exposure to O&G producers to increase
- PCL revised target of 25 – 35 bps for FY2016

PCLs (in bps)	Q1 16	Q4 15	Q3 15	Q2 15	Q1 15
Personal Banking	27	27	27	31	27
Commercial Banking	28	26	21	19	21
Wealth Management	5	3	5	4	-
Corporate Banking	-	-	-	-	-
<b>TOTAL</b>	<b>21</b>	<b>21</b>	<b>20</b>	<b>22</b>	<b>20</b>

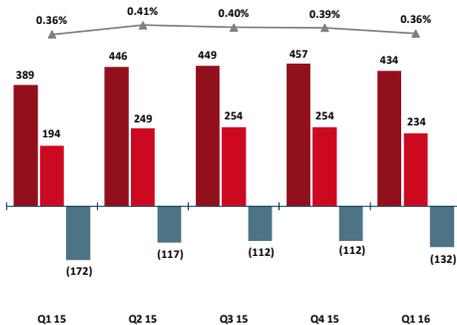
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## IMPAIRED LOANS AND BA'S AND FORMATION

(millions of dollars)

### IMPAIRED LOANS AND BA'S



### IMPAIRED LOANS AND BA'S FORMATION<sup>(1)</sup>

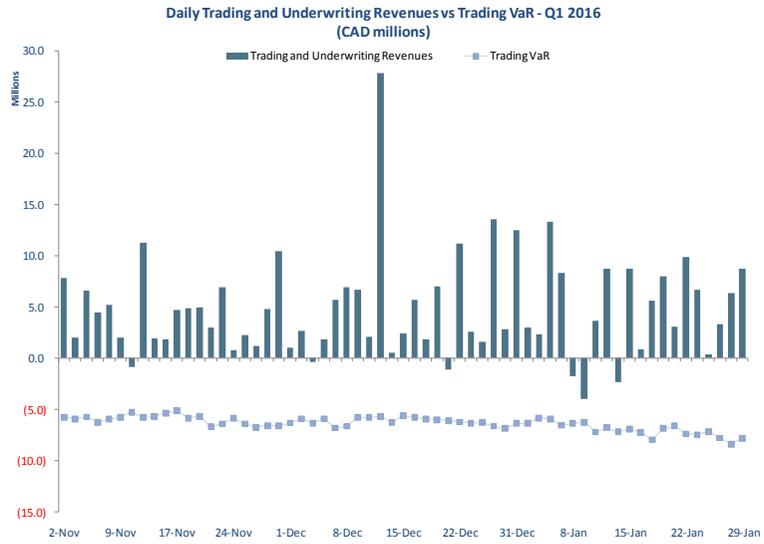
(millions of dollars)	Q1 16	Q4 15	Q3 15	Q2 15	Q1 15
Retail	23	23	16	28	22
Commercial	(5)	19	24	65	(37)
Corporate Banking	-	-	-	-	-
Wealth Management	4	1	4	1	2
<b>Total</b>	<b>22</b>	<b>43</b>	<b>44</b>	<b>94</b>	<b>(13)</b>

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

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## DAILY TRADING and UNDERWRITING REVENUES vs VaR



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## VaR TREND



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# BUSINESS SEGMENT REVIEW

Jean Dagenais  
Senior Vice-President, Finance



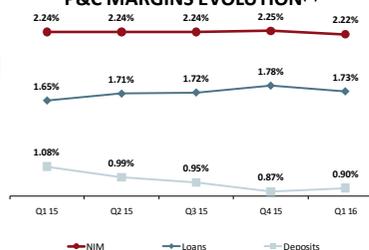
## PERSONAL AND COMMERCIAL BANKING<sup>(1)</sup>

(millions of dollars)	Q1 16	Q4 15	Q1 15	QoQ	YoY
<b>Revenues</b>	<b>724</b>	<b>721</b>	<b>692</b>	-	<b>5%</b>
Personal Banking	341	348	323	(2%)	6%
Commercial Banking	265	261	252	2%	5%
Credit Card	91	87	89	5%	2%
Insurance	27	25	28	8%	(4%)
<b>Operating Expenses</b>	<b>410</b>	<b>411</b>	<b>404</b>	-	<b>1%</b>
<b>Pre-provisions / Pre-tax</b>	<b>314</b>	<b>310</b>	<b>288</b>	1%	<b>9%</b>
<b>Provisions for Credit Losses</b>	<b>62</b>	<b>60</b>	<b>54</b>	3%	<b>15%</b>
<b>Net Income</b>	<b>184</b>	<b>183</b>	<b>171</b>	1%	<b>8%</b>
<b>Key Metrics (billions of dollars)</b>	<b>Q1 16</b>	<b>Q4 15</b>	<b>Q1 15</b>	<b>QoQ</b>	<b>YoY</b>
Loans & BAs (avg vol.)	90.1	88.6	84.5	2%	7%
Deposits (avg vol.)	46.4	45.7	43.8	2%	6%
Efficiency Ratio (%)	56.6%	57.0%	58.4%		

### HIGHLIGHTS

- Revenues up 5% YoY due to strong volume growth from loans and deposits
- Net Interest Margin down 3 bps QoQ due to market conditions
- Operating leverage ratio at 4% YoY
- Efficiency ratio improved by 180 bps

### P&C MARGINS EVOLUTION<sup>(2)</sup>



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

## WEALTH MANAGEMENT<sup>(1)</sup>

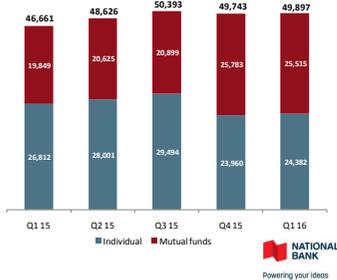
(millions of dollars)	Q1 16	Q4 15	Q1 15	QoQ	YoY
<b>Revenues</b>	<b>358</b>	<b>340</b>	<b>346</b>	<b>5%</b>	<b>3%</b>
Fee-based	196	195	179	1%	9%
Transaction & Others	73	64	84	14%	(13%)
Net Interest Income	89	81	83	10%	7%
<b>Operating Expenses</b>	<b>243</b>	<b>238</b>	<b>236</b>	<b>2%</b>	<b>3%</b>
Provision for Credit Losses	1	1	-		
<b>Net Income</b>	<b>84</b>	<b>75</b>	<b>81</b>	<b>12%</b>	<b>4%</b>
<b>Key Metrics (billions of dollars)</b>	<b>Q1 16</b>	<b>Q4 15</b>	<b>Q1 15</b>	<b>QoQ</b>	<b>YoY</b>
Loans & BAs (avg vol.)	9.3	9.1	8.6	2%	8%
Deposits (avg vol.)	26.2	24.9	24.5	5%	7%
Asset Under Administration	303	308	313	(2%)	(3%)
Asset Under Management	50	50	47	-	7%
Efficiency Ratio (%)	67.9%	70.0%	68.2%		

(1) Excluding specified items

### YOY HIGHLIGHTS

- Despite difficult market conditions, revenue diversification delivers good results
- Revenues up \$12M thanks to higher NII (margins and volumes)
- Efficiency ratio at 67.9%, an improvement of 30 bps
- Average deposits up \$1.7B or 7% with investor flight to safety
- Private Banking 1859 branch opened in Calgary; Vancouver to follow in April

### ASSETS UNDER MANAGEMENT (\$M)



## FINANCIAL MARKETS<sup>(1)</sup>

(millions of dollars)	Q1 16	Q4 15	Q1 15	QoQ	YoY
<b>Revenues</b>	<b>451</b>	<b>404</b>	<b>418</b>	<b>12%</b>	<b>8%</b>
Trading	216	195	232	11%	(7%)
Banking Services	72	79	69	(9%)	4%
Financial Market Fees	50	57	58	(12%)	(14%)
Gains on AFS Securities	(1)	(10)	(7)		
Credigy	103	70	41	47%	151%
Other	11	13	25		
<b>Operating Expenses</b>	<b>190</b>	<b>184</b>	<b>176</b>	<b>3%</b>	<b>8%</b>
<b>Net Income</b>	<b>186</b>	<b>162</b>	<b>177</b>	<b>15%</b>	<b>5%</b>
<b>Other Metrics (in millions)</b>	<b>Q1 16</b>	<b>Q4 15</b>	<b>Q1 15</b>	<b>QoQ</b>	<b>YoY</b>
CVA / DVA	(6,7)	6,5	10,6		
Proprietary Trading	9,0	0,9	19,8		
Efficiency Ratio (%)	42,1%	45,5%	42,1%		

(1) Excluding specified items

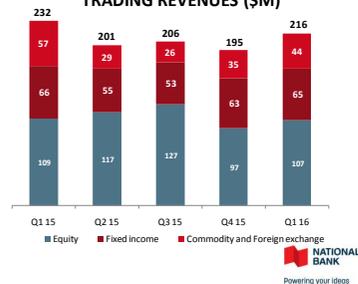
### YOY HIGHLIGHTS

- Lower trading revenues driven mostly by lower proprietary trading revenues and negative CVA/DVA
- Lower Financial Markets Fees due to slower new issue activity in Fixed Income
- Strong performance by Credigy

### QOQ HIGHLIGHTS

- Higher trading revenues driven by increased hedging activity by clients in Equity Derivatives, Interest Rate Derivatives and Foreign Exchange, partly offset by negative CVA/DVA
- Lower Financial Markets Fees due to slower new issue activity in Fixed Income
- Strong performance by Credigy

### TRADING REVENUES (\$M)



# APPENDIX



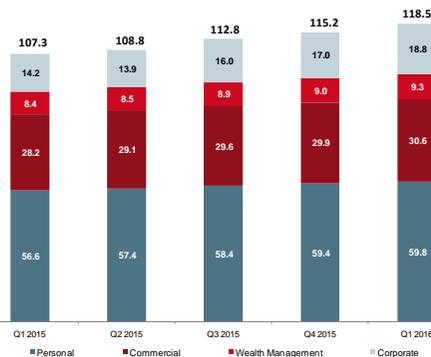
## APPENDIX 1 | DETAIL OF SPECIFIED ITEMS

<i>(millions of dollars)</i>	Q1 15	Q2 15	Q3 15	Q4 15	Q1 16
Wealth Management acquisitions	(9)	(8)	(7)	(6)	(9)
Items related to TMX	(1)	-	(2)	(1)	(18)
Gain on disposal of equity interest in Fiera Capital	-	29	-	-	-
Share of current tax asset write-down of an associated company	-	(18)	-	-	-
MAV and Other Notes	18	33	21	(2)	(2)
Write-off of Intangible Assets	-	(46)	-	-	-
Restructuring charge	-	-	-	(86)	-
Write-off of an equity interest in an associate	-	-	-	-	(164)
Income Before Income Taxes	8	(10)	12	(95)	(193)
Income Taxes	(3)	3	(3)	25	27
<b>Net Income</b>	<b>5</b>	<b>(7)</b>	<b>9</b>	<b>(70)</b>	<b>(166)</b>
<b>EPS Impact</b>	<b>0.02</b>	<b>(0.02)</b>	<b>0.03</b>	<b>(0.21)</b>	<b>(0.50)</b>

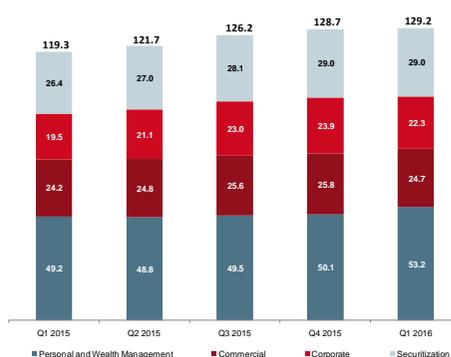
## APPENDIX 2 | BALANCE SHEET OVERVIEW (Banking Book & Other)

(billions of dollars)

### LENDING – LOANS AND BAS (MONTH END BALANCE)



### FUNDING – DEPOSITS AND BAS (MONTH END BALANCE)

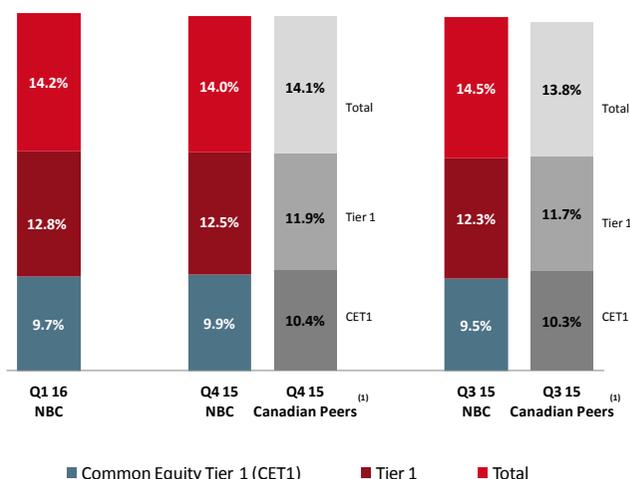


□ **YoY growth:**  
 Personal and Wealth Management 6%  
 Commercial and Corporate 17%

□ **YoY growth:**  
 Personal and Wealth Management 8%  
 Commercial and Corporate 8%  
 Securitization 10%

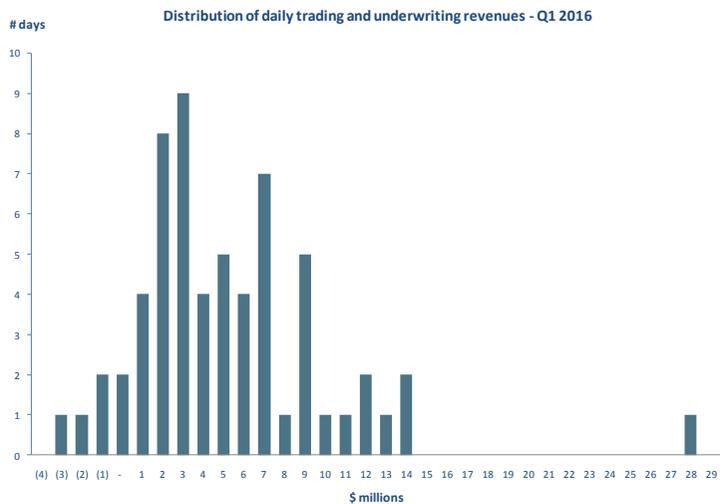
## APPENDIX 3 | COMPARATIVE PERFORMANCE – Capital Ratios

### 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

## APPENDIX 4 | 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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Fax: 514-394-6196

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Website: [www.nbc.ca/investorrelations](http://www.nbc.ca/investorrelations)



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