

NBC highlights

NBC capped its 10th consecutive year of record results in 2012 with an adjusted net income of CA\$1.396 billion, up CA\$91 million or 7% from 2011 (reported net income of CA\$1.63 billion, up CA\$338 million or 26%). Total revenues were CA\$5.3 billion, an increase of CA\$647 million or 14% from 2011. NBC also continued its trend of dividend increases, with increases for Q1 and Q3 2012 and a further increase for Q1 2013. Dividends per share were CA\$3.08 in 2012, up from CA\$2.74 in 2011—a 34% increase. Dividends to common shareholders were 39% of net income, excluding specific items, and just shy of its 40% to 50% target payout ratio. NBC's ROE was 24.5%, up from 20.2% in 2011 (20.7% and 20.9% respectively excluding specified items).

NBC has three business segments – Personal and Commercial Banking, Wealth Management and Financial Markets.

Personal and Commercial Banking's adjusted net income rose CA\$66 million or 11% to CA\$693 million. Revenues totalled CA\$2.59 billion, up CA\$80 million or 3% from 2011. Growth in net interest income was a contributing factor thanks to increases in personal and commercial loan volumes. This growth counteracted margin pressure, as net interest margins fell from 2.35% to 2.18%. Earnings were further boosted by a 14% reduction in provisions for credit losses.

NBC has acquired a number of wealth management entities over the past five years. In 2011, the bank completed the acquisition of Wellington West Holdings and in Q1 2012 it completed the acquisition of the full-service investment advisory business of HSBC Securities

(Canada) Inc. These acquisitions contributed to the CA\$84 million or 9% increase in Wealth Management total revenues to CA\$986 million. The HSBC Securities (Canada) Inc. acquisition contributed CA\$54 million or 6% of this increase. However, these acquisitions also contributed to higher operating expenses and adjusted net earnings were CA\$166 million, down CA\$21 million or 11% from 2011.

Financial Markets lead earnings and revenue growth for NBC in the year. Adjusted net earnings were CA\$501 million in 2012, an increase of CA\$71 million or 19% from 2011. Adjusted total revenues rose CA\$108 million or 9% from 2011. Revenue growth came from most core areas, particularly fixed income trading activities (contributing CA\$63 million revenue growth), and financial market fees, banking services and other revenues from associate companies. Adjusted earnings grew more than revenues due to controlled operating expenses, which grew only 2%.

On an adjusted basis, provisions for credit losses improved from CA\$199 million in 2011 to CA\$180 million in 2012, a 10% reduction. The reduction was primarily due to lower provisions for credit card receivables and commercial loans, partially offset by increases for personal and corporate loans.

Although NBC did not announce any new acquisitions in the year, it did dispose of the operations of Natcan Investment Management Inc. (Natcan) to Fiera Capital Corporation (Fiera) on April 2, 2012, in exchange for a 35% interest in Fiera. This resulted in a CA\$212 million gain net of income taxes. This also caused a decrease of

4% in assets under administration and management for Wealth Management to CA\$233 billion, as institutional clients were transferred to Fiera.

During 2012, NBC issued CA\$1 billion in new medium-term notes and redeemed CA\$500 million in previous notes, for a net CA\$500 million increase to Tier 2 capital. NBC's Tier 1 capital ratio declined in the year, from 13.6% in 2011 to 12% in 2012, and the total capital ratio decreased from 16.9% to 15.9%. These decreases were due to IFRS adoption, the 35% interest obtained in Fiera and the repurchase of common shares. Ahead of year end, NBC was among several institutions that Moody's placed under review for potential downgrade for its long-term rating, due to rising consumer debt levels. NBC was also among the institutions that S&P downgraded one level in December 2012 and Moody's downgraded in January 2013, due to the softening economy.

NBC is the smallest of the Big Six with a regional focus, as 65% of its revenues are from Quebec. The percentage of revenue from Quebec is down 4% from 2011, emphasizing NBC's continued business focus in the rest of Canada and internationally. NBC's outlook for 2013 is to continue this trend, but also maintain its regional footprint in Quebec. This will be through continued streamlining of operations and enhancing client service. Wealth Management expects to increase profitability through cost management, integration and optimization of recent acquisitions and a broadened product offering. Financial Markets plans to continue to build on its leadership position in Quebec and focus on mid-market Canadian companies.