NATIONAL BANK FINANCIAL

Canada’s Big Six Banks Earnings Preview Q4 f2014

Capital Markets Thesis: A Bump in the Road

Industry Rating (Banking): Overweight

(NBF Economics & Strategy Group)

THEMATIC RESEARCH

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CANADIAN BIG SIX BANK COMPARABLES

Bank	NBF Rating	10/31 Price	NBF Price Target	Div. Yld	BV per Share Current	BV per Share 2015E	P/BV Current	2015E Target P/BV	Core Cash EPS (excl. IFRS dilution) 2013A	2014E	2015E	2016E	2015E Current P/E (1)	2016E Target P/E (2)	NTM Total Return
BMO	SP	$81.73	$86.00	3.8%	46.69	51.74	1.8x	1.7x	$6.22	$6.61	$7.02	$7.42	11.6x	11.6x	9.0%
BNS	OP	$69.02	$78.00	3.8%	36.34	40.86	1.9x	1.9x	$5.10	$5.55	$5.76	$6.23	12.0x	12.5x	16.8%
CM	SP	$102.89	$105.00	3.9%	43.02	50.75	2.4x	2.1x	$8.57	$8.92	$9.32	$9.43	11.0x	11.1x	5.9%
NA	NR	$52.68	N/A	3.6%	25.18	28.60	2.1x	N/A	$4.04	$4.49	$4.76	$5.11	11.1x	N/A	N/A
RY	OP	$80.01	$86.00	3.7%	32.58	37.28	2.5x	2.3x	$5.54	$6.20	$6.62	$6.90	12.1x	12.5x	11.2%
TD	OP	$55.47	$61.00	3.4%	27.48	31.18	2.0x	2.0x	$3.71	$4.35	$4.70	$5.03	11.8x	12.1x	13.4%
Average				**3.7%**			**2.1x**	**2.0x**					**11.6x**	**12.0x**	**11.3%**

Stock Rating: *OP = Outperform, SP = Sector Perform, UP = Underperform.*

Note: All figures in Cdn dollars unless otherwise noted. (1) Today' price to NBF 2015E EPS; (2) NBF Target to NBF 2016E EPS.
Source: Company financials; NBF analysis

In the recently completed quarter, we witnessed intensified volatility in global equity markets, particularly towards the end of September and into October. Since September 18th, the TSX has fallen 6% with the S&P 500 staying flat. That said, equity markets appeared to re-gather momentum in the second half of October. Since hitting their respective troughs on October 15th, the TSX has rallied 5% and the S&P 500 8%.

This volatility tests our thesis, articulated earlier this year, that capital markets revenue growth will stay robust well into f2015. We believe our thesis will withstand this test. As we have written previously, we expect volatility to be a recurring feature of equity markets in the next year and this may mean that strengthening capital markets revenue growth may not follow a linear progression. Nonetheless, for the reasons detailed herein, we believe the environment for advisory and underwriting will remain robust and should continue to underpin substantive y/y growth in capital markets earnings.

In Q4 f2014 we expect total revenue among the capital markets segments of the Big Six banks to decline 4% q/q. This reflects a projected 13% q/q drop in trading revenues, while we anticipate that non-trading revenues will increase 1% sequentially, but remain at cyclically high levels. ***Market volatility in October put a dent in expected q/q revenue growth, but we consider this a transient outcome due to the positive influence of the low interest rate environment and rising economic growth in the U.S.*** In fact, on a year-over-year basis, we forecast capital markets revenue growth at the Big Six banks of 19% and pre-tax earnings growth of 24%. ***Therefore, our thesis that the Big Six banks will realize robust capital markets revenue growth through f2015 remains intact.***

Looking ahead to f2015, we have fairly conservative revenue and earnings growth estimates built into our forecast for this business line across the Big Six banks. ***Contingent on commentary from the heads of the banks’ capital markets segments, we believe our forecasts are more susceptible to upside risk than downside risk.***

Q4 f2014 Core Cash EPS (excl. IFRS dilution)

Bank	4Q-13A	3Q-14A	NBF 4Q-14E	y/y	q/q	Consensus 4Q-14E	Variance (NBF vs. Consensus)
BMO	$1.62	$1.73	**$1.65**	1.6%	(4.6%)	$1.68	(2.2%)
BNS	$1.31	$1.41	**$1.39**	6.8%	(1.2%)	$1.40	(0.6%)
CM	$2.15	$2.23	**$2.26**	5.5%	1.7%	$2.24	1.0%
NA	$1.00	$1.20	**$1.15**	14.5%	(4.5%)	$1.14	0.3%
RY	$1.42	$1.64	**$1.60**	12.6%	(1.9%)	$1.59	1.1%
TD	$0.95	$1.15	**$1.05**	11.4%	(8.1%)	$1.05	0.1%

Source: Company financials, ThomsonReuters; NBF analysis

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BANK SUMMARIES AND FORECASTS

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CANADIAN BANK COMPARABLES

Bank	TSX Ticker	NBF Rating	10/31 Price	Price Target	Rtn to Target	Div. Yld	Mkt Cap ($mln)	Shares O/S (mln)	Book Value[1]	P/BV Current	Core Cash EPS 2013A	Core Cash EPS 2014E	Core Cash EPS 2015E	Core Cash EPS 2016E	P/E 2015E	P/E 2016E	2016 Prem/(Disc) to Big-6 Avg
Bank of Montreal	BMO-T	SP	$81.73	$86.00	5.2%	3.8%	$53,046	649	$46.69	1.75x	$6.22	$6.61	$7.02	$7.42	11.6x	11.0x	0.0x
Bank of Nova Scotia	BNS-T	OP	$69.02	$78.00	13.0%	3.8%	$83,968	1,217	$36.34	1.90x	$5.10	$5.55	$5.76	$6.23	12.0x	11.1x	0.1x
CIBC	CM-T	SP	$102.89	$105.00	2.1%	3.9%	$40,851	397	$43.02	2.39x	$8.57	$8.92	$9.32	$9.43	11.0x	10.9x	(0.1x)
National Bank	NA-T	NR	$52.68	N/A	N/A	3.6%	$17,312	329	$25.18	2.09x	$4.04	$4.49	$4.76	$5.11	11.1x	10.3x	(0.7x)
Royal Bank	RY-T	OP	$80.01	$86.00	7.5%	3.7%	$115,392	1,442	$32.58	2.46x	$5.54	$6.20	$6.62	$6.90	12.1x	11.6x	0.6x
TD Bank	TD-T	OP	$55.47	$61.00	10.0%	3.4%	$102,321	1,845	$27.48	2.02x	$3.71	$4.35	$4.70	$5.03	11.8x	11.0x	0.0x
Big Six Average					**7.5%**	**3.7%**				**2.10x**					**11.6x**	**11.0x**	
Canadian Western Bank	CWB-T	SP	$37.75	$44.00	16.6%	2.1%	$3,034	80	$19.03	1.98x	$2.39	$2.73	$3.10	$3.43	12.2x	11.0x	0.0x
Laurentian Bank	LB-T	SP	$49.58	$51.00	2.9%	4.2%	$1,430	29	$45.10	1.10x	$5.07	$5.43	$5.69	$6.14	8.7x	8.1x	(2.9x)
All Banks Average					**8.2%**	**3.6%**				**1.96x**					**11.3x**	**10.6x**	

Bank	TSX Ticker	52-Week High	52-Week Low	Stock Performance 1 day	5 days	1 mth	3 mths	6 mths	1 year	YTD	Core Cash EPS Growth 2013A	2014E	2015E	2016E	Basel III CET1 Ratio[2]	NBF Risk Rating
Bank of Montreal	BMO-T	$85.71	$67.04	(0.5%)	0.7%	(0.3%)	2.2%	8.5%	12.5%	15.4%	3.3%	6.4%	6.2%	5.6%	9.6%	Below Average
Bank of Nova Scotia	BNS-T	$74.93	$59.92	1.4%	2.0%	(0.9%)	(6.1%)	3.6%	8.9%	3.9%	7.8%	8.8%	3.9%	8.2%	10.9%	Below Average
CIBC	CM-T	$107.37	$85.03	0.8%	2.7%	3.0%	2.7%	5.6%	16.0%	13.4%	6.2%	4.1%	4.4%	1.3%	10.1%	Below Average
National Bank	NA-T	$53.97	$41.26	(0.4%)	1.5%	4.5%	9.0%	15.7%	16.4%	19.2%	4.8%	11.2%	6.2%	7.3%	9.1%	Below Average
Royal Bank	RY-T	$83.20	$67.65	1.1%	0.9%	0.5%	0.8%	9.7%	14.3%	12.0%	10.6%	11.8%	6.8%	4.3%	9.5%	Below Average
TD Bank	TD-T	$58.20	$46.87	2.0%	2.0%	2.1%	(1.9%)	6.1%	16.0%	10.8%	(20.6%)	17.1%	8.1%	7.0%	9.3%	Below Average
Big Six Average				**1.1%**	**1.6%**	**0.9%**	**(0.5%)**	**7.3%**	**13.6%**	**11.0%**	**2.0%**	**9.9%**	**5.9%**	**5.6%**	**9.8%**	
Canadian Western Bank	CWB-T	$43.30	$32.61	0.9%	0.9%	(3.5%)	(8.8%)	2.0%	12.9%	(2.4%)	3.9%	14.0%	13.4%	n/a	8.0%	Below Average
Laurentian Bank	LB-T	$51.92	$44.34	1.0%	1.2%	2.9%	(2.9%)	5.3%	6.5%	5.7%	1.5%	7.2%	4.8%	n.a	7.6%	Below Average
All Banks Average				**1.1%**	**1.6%**	**0.9%**	**(0.6%)**	**7.2%**	**13.6%**	**10.8%**	**2.2%**	**10.1%**	**6.7%**	**5.6%**	**9.3%**	

Notes
1. Book value per share as at the end of the last reported quarter
2. Capital ratios as of the last reported quarter.

Source: Company financials; Thomson Reuters; NBF analysis

Canada’s Big Six Banks Earnings Preview

Reporting Schedule

Canada’s banks start reporting their Q4 f2014 results December 2 on the following schedule (according to date of the conference call):

Tuesday, December 2: Bank of Montreal
Wednesday, December 3: Royal Bank of Canada
Thursday, December 4: Canadian Imperial Bank of Commerce
Thursday, December 4: Toronto-Dominion Bank
Friday, December 5: Bank of Nova Scotia
Friday, December 5: National Bank of Canada

Please see the individual bank pages (beginning on page 17) for detailed conference call information.

Capital Markets Thesis: A Bump in the Road

Last quarter, we wrote in our bank earnings preview that we believed the tone within Canadian bank capital markets segments had improved rather materially through the first half of the year. Moreover, we argued that a cyclical upturn in equity underwriting and M&A pipelines would power greater demand for corporate credit which, in turn, would accelerate capital markets revenue growth.

In Q3 f2014, this thesis proved accurate. While the Big Six Canadian banks exceeded our trading revenue estimates entering the quarter by only 2%, net income outperformed our forecast by 14%, speaking to the strength in origination and advisory activities.

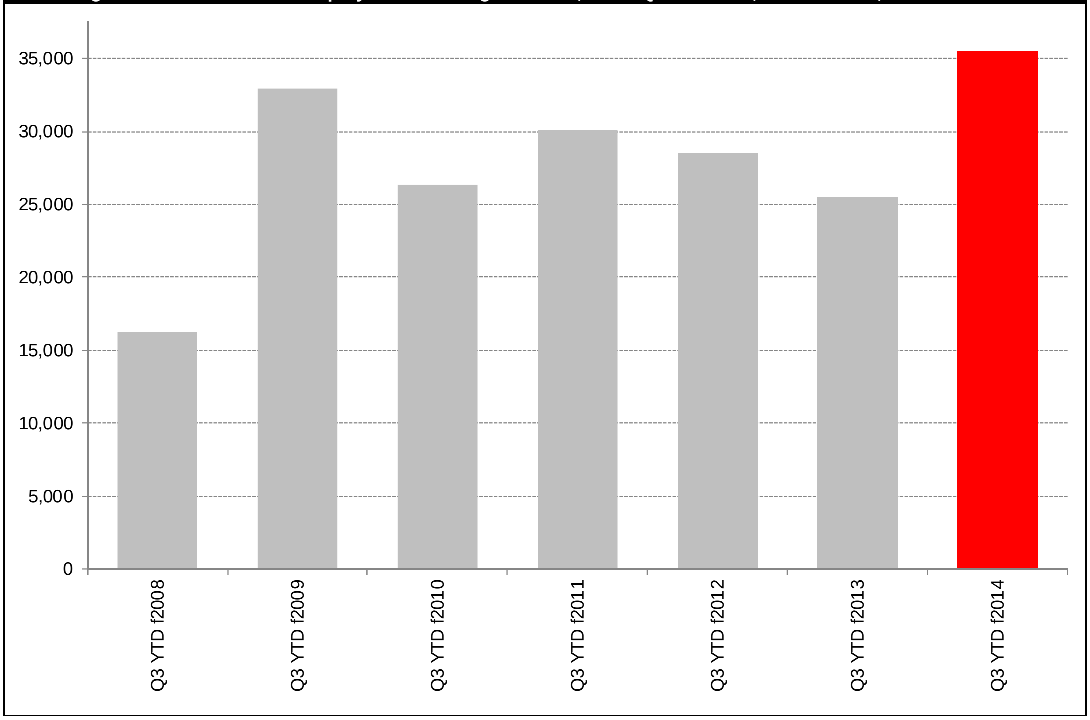
In the recently completed quarter, we witnessed intensified volatility in global equity markets, particularly towards the end of September and into October. Since September 18th, the TSX has fallen 6% with the S&P 500 staying flat. That said, equity markets appeared to re-gather momentum in the second half of October. Since hitting their respective troughs on October 15th, the TSX has rallied 5% and the S&P 500 8%.

This volatility tests our thesis, articulated earlier this year, that capital markets revenue growth will stay robust well into f2015. We believe our thesis will withstand this test. As we have written previously, we expect volatility to be a recurring feature of equity markets in the next year and this may mean that strengthening capital markets revenue growth may not follow a linear progression. Nonetheless, for the reasons detailed below, we believe the environment for advisory and underwriting will remain robust and should continue to underpin substantive y/y growth in capital markets earnings.

Based on data provided by Bloomberg, equity underwriting activity remained robust through September. As demonstrated in Figure 1, equity and equity-linked issuances through the first three calendar quarters of 2014 increased 39% (based on total dollar volume) over the same period in 2013. In fact, underwriting activity in the third calendar quarter exceeded the average rate of the prior two quarters.

Obviously, October’s equity market volatility had a dampening effect on underwriting – perhaps, so too did the understandable incentive for investment banks to delay issuances into the new fiscal year (beginning in November). As we argue below, we believe a still-accommodative monetary policy environment, combined with healthy economic growth in the U.S., will fuel the underwriting cycle throughout f2015.

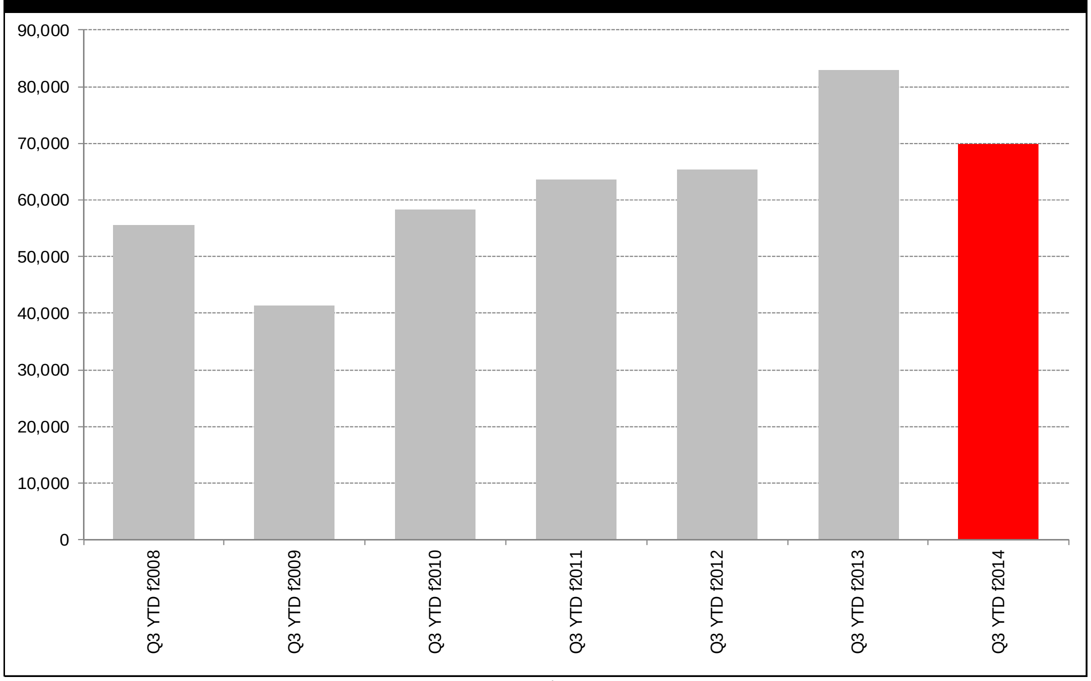
Figure 1 - Total Canadian Equity Underwriting Volumes, Third Quarter YTD, US$ millions; f2008 to f2014



Note: Underwriting volume data reflects the prevailing US$ exchange rate at the date the transaction is announced.
Source: Bloomberg; NBF Analysis

Furthermore, as we note above, we expect a cyclical upturn in equity underwriting and M&A pipelines would also power greater demand for corporate credit. Looking at fixed income, we find that volumes for Canadian corporates are down somewhat y/y, but remain elevated relative to the levels observed since 2008 (see Figure 2). The aforementioned data is largely consistent with the results reported by the major U.S. investment banks (e.g., GS, MS, JPM, etc.) in the most recently completed quarter (Q3 f2014). While showing a y/y decline in fixed income underwriting of 5%, advisory and equity underwriting revenues improved by 42% and 48% y/y, respectively.

Figure 2 - Total Canadian Corporate Fixed Income Underwriting Volumes, Third Quarter YTD, US$ millions; f2008 to f2014



Note: Underwriting volume data reflects the prevailing US$ exchange rate at the date the transaction is announced.
Source: Bloomberg; NBF Analysis

Foundation for Continuing Origination Growth Remains in Place

In a recent publication, our colleagues at the NBF Economics and Strategy Group assessed the earnings prospects for the TSX Composite in the upcoming quarter, concluding that earnings were set to rise 9.3% y/y across the index. From this we gather that the underlying earnings power of Canadian corporates continues to grow at a robust pace. Accordingly, we hypothesize that companies will continue their demand for financing and provide a foundation for ongoing advisory and underwriting activity across the capital markets segments of the Big Six Canadian banks.

We also point out that the interest rate environment remains extremely favourable for borrowing. The accommodative monetary policy stances at the world's major central banks should keep interest rates at very low levels globally. For example, our colleagues at the NBF Economics and Strategy Group do not forecast an increase in the Bank of Canada's policy rate until the fourth quarter of 2015. In the U.S., they forecast the Federal Reserve will delay rate hikes until June 2015.

We anticipate that the low interest rate environment will be conducive to continued fixed income origination activity as corporates capitalize on the low cost of borrowing. Furthermore, we expect dovish monetary policy and improving economic conditions in the U.S. to support asset prices and encourage consumption, which should provide a degree of downside protection to equity markets, and thus, equities origination.

In last quarter's bank preview, we demonstrated that there exists a positive correlation between lending growth and underwriting revenue growth. Looking at loan activity across Canadian capital markets through the first nine-months of the year, results appear promising. As illustrated in Figure 3, year-to-date through the first three calendar quarters of the year, syndicated loan underwriting sits at the highest level in the last three years.

Figure 3 - Total Canadian Syndicated Loan Underwriting Volumes, Third Quarter YTD, US$ millions; f2012 to f2014

Period	Total Underwriting Volumes	Total Underwriting Volumes - New Money	New Money Growth Rate
Q3 YTD 2014	$154,967.93	$40,799.98	16.9%
Q3 YTD 2013	$147,121.61	$34,905.94	(8.3%)
Q3 YTD 2012	$146,510.51	$38,065.55	n/a

Note: Underwriting volume data reflects the prevailing US$ exchange rate at the date the transaction is announced.
Source: Bloomberg; NBF Analysis

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Looking ahead to f2015, we have fairly conservative revenue and earnings growth estimates built into our forecast for this business line across the Big Six banks. Contingent on commentary from the heads of the banks' capital markets segments, we believe our forecasts are more susceptible to upside risk than downside risk.

Eurozone Bank Stress Tests – Beware the Deflation Monster

On Sunday, October 26, 2014, the European Central Bank released the results of a comprehensive assessment of the Eurozone banking system; an assessment made up of (1) an asset quality review, and (2) a stress test applied to 130 Eurozone credit institutions that account for 82% of the Eurozone's banking assets. Of the 130 tested institutions, the ECB found that 25 of them had a capital shortfall measured at the end of f2013. Of those 25 credit institutions, the ECB reported that, in the interim time period, 17 of them had filled their capital gaps via capital raises, retained earnings, and balance sheet reductions (one, Dexia, was freed from capital raising obligations by its orderly resolution plan and its state guarantee from Belgium).

Thus, eight banks in the Eurozone must raise €6.4 billion capital over the next nine months to bring their capitalization levels in line with that required by the ECB's stress test; four of those banks hail from Italy while none, interestingly, come from Spain.

By our read, the stress test seems reasonably pessimistic. The ECB forces banks to calculate revenues, expenses, and credit losses in a scenario in which GDP in 2016 falls 7% below the ECB's baseline level with unemployment 2.2% higher than the baseline and inflation at 0.3%. In addition, the ECB progressively phases-in the deductions from CET1 capital mandated by the Basel Committee of Banking Supervision (BCBS). Although, at present, Eurozone measurements of bank capital benefit from the phase-in of certain capital deductions – in contrast to Canada where OSFI has imposed all BCBS deductions since the start of f2013 – this subsidy recedes rather considerably throughout the course of the ECB stress test's timeframe.

On balance, then, the results from the ECB stress tests appear reassuring – a €6.4 billion capital raise over the next nine months seems quite manageable for the system. But we resist the temptation to relax. As many observers have noted, the Eurozone faces a very real risk that a period of persistently falling prices – i.e., deflation – takes hold. The ECB's stress testing exercise did not incorporate this nightmare scenario for the banking sector. If deflation truly sets in in Europe, then bank capital will not be as resilient as suggested by the stress tests.

Although this remains a very low probability outcome, we think it wise for Canadian bank investors to understand European net counterparty risk at each of the Big Six Canadian banks, which we summarize in Figure 4 below. We note that nearly all of the Canadian banks' European counterparties reside outside the periphery (Greece, Italy, Ireland, Spain, Portugal).

Figure 4 - Estimated Canadian Bank Net Counterparty Exposure to European Counterparties; as at Q3 f2014

Bank	Common Equity Tier 1 (CET1) capital	Peripheral European Exposure	Other European Exposure	Total European Exposure	Peripheral European Exposure % CET1	Other European Exposure % CET1	Total European Exposure % CET1
BMO	21,596	292	8,869	9,161	1.4%	41.1%	42.4%
BNS	33,670	1,979	27,451	29,430	5.9%	81.5%	87.4%
CM	14,153	217	8,491	8,708	1.5%	60.0%	61.5%
NA	5,876	146	6,574	6,720	2.5%	111.9%	114.4%
RY	34,967	1,461	68,102	69,563	4.2%	194.8%	198.9%
TD	29,591	717	38,033	38,750	2.4%	128.5%	131.0%
Total	**139,853**	**4,812**	**157,520**	**162,332**	**3.4%**	**112.6%**	**116.1%**

Note: European periphery includes the following countries: Greece, Italy, Ireland, Spain, Portugal. Other European countries include those within the Eurozone (e.g., Germany) and those outside of it (e.g., United Kingdom). We have included undrawn commitments in our exposures but not letters of credit or other guarantees. We have also excluded the future credit expense add-on for derivative exposure. We give credit for collateral held against repo-style transactions.

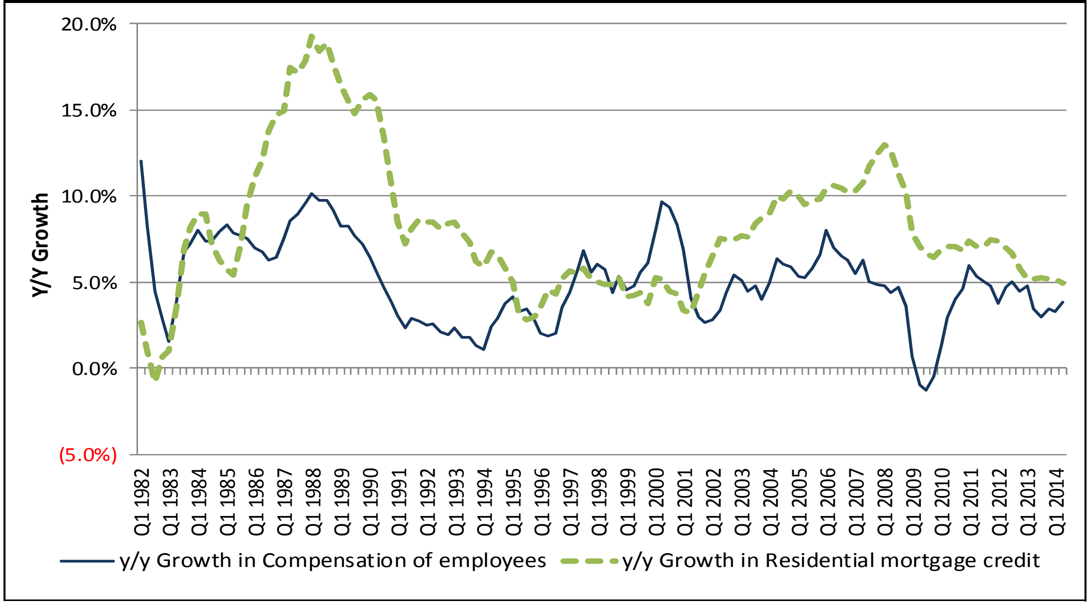
Source: Company financials; NBF analysis

Canadian Household Credit – Beware Confirmation Bias

Even the best analysts can fall prey to the tendency to interpret information in a way that confirms his or her pre-conceived views. Psychologists call this confirmation bias, a phenomenon that can intensify in significance when the analyst studies emotionally charged issues.

The risk of making a mistake as a result of this bias remains our greatest concern in covering the Big Six Canadian banks. These institutions have benefited from a 15 to 20 year "golden age" during which household debt rose at rates well in excess of the growth household income or nominal GDP. Given that household debt to disposable income remains at historic highs (based on available data), some analysts have posited that doom awaits just around the corner and a U.S. style calamity will arrive imminently. Others, more recently, cite other data and argue that the situation has improved because Canadian households have grown more prudent in recent years.

Figure 5 - Growth in Nominal Income (Compensation of Employees) vs. Residential Mortgage Credit; 1982 - 2014YTD



Note: We use the "Compensation of employees" account – from Statistics Canada's Table 380-0063 Gross domestic product, income based – as a proxy for household income.

Source: Statistics Canada; NBF analysis

Recently, we read media accounts that Canadian households have responded prudently to historically low interest rates by repaying their mortgages at accelerated rates. Thus, the argument goes, the risk of a disruptive de-leveraging of the Canadian household has receded … don't worry, be happy.

While we acknowledge the data that indicates faster principal repayments of residential mortgages, we reject the notion that this points to diminishing tail risk in the Canadian household credit sector. To consider faster principal repayments as unequivocally good news, we would need to see residential mortgage credit growing more slowly than household income. As shown in Figure 5, that has not occurred. In fact, y/y growth in residential credit has outstripped household income growth (as measured by compensation of employees in Statistics Canada's nominal GDP data) since 2001.

Therefore, we believe higher rates of mortgage principal repayment indicate that ***some*** Canadian households have prudently responded to slowing income growth (quite evident in Figure 1) by reducing financial leverage. But since residential mortgage growth ***still*** outpaces income growth, the financial system has replaced the repaid mortgage credit with new mortgage lending … or, perhaps, expanded HELOC (home equity line of credit) lending.

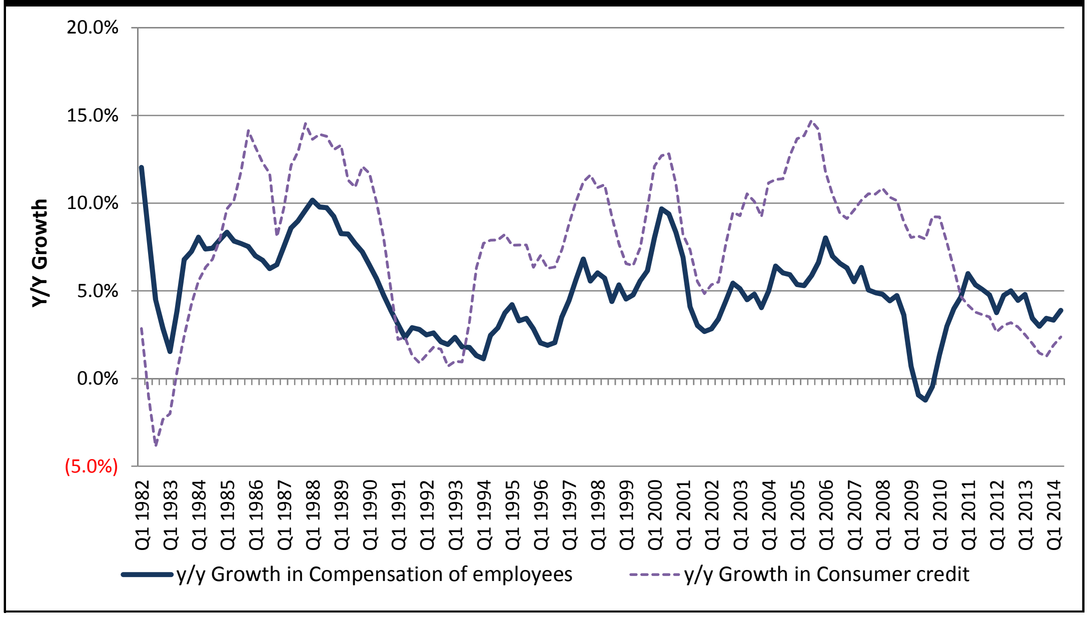
We do ***not*** assume that homebuyers with newly underwritten mortgage credit are more creditworthy than those homeowners who have prudently chosen to respond to slower income growth by reducing the size of their outstanding mortgages. In fact, we think the expected loss of newly underwritten residential mortgages well exceeds the expected loss of the mortgages experiencing faster principal repayments.

In fact, data from the Canada Mortgage and Housing Corporation's (CMHC's) second quarter 2014 report lends some support to this hypothesis. We start by examining data from the first six months of 2014. During that timeframe, the CMHC insured 82,000 mortgages with loan-to-value (LTV) ratios of greater than 80% (high-LTV mortgages): a total insured volume of $19 billion. Home buyers with gross debt service (GDS) ratios greater than 30% accounted for approximately one-third of that $19 billion in new mortgage loans.

By contrast, through the first six months of 2013, just 26% of newly insured high LTV mortgage loans were made to home buyers with GDS ratios above 30%. In fact, in the first half of 2014 the CMHC insured $6.1 billion in high-LTV mortgages vs. $5.1 billion in the first half of 2013. Simply put, this year's CMHC-insured home buyers are less creditworthy than last year's cohort, at least as measured by GDS ratios.

We do find more encouraging signs elsewhere in the Canadian household credit system. Consumer credit growth has lagged household income growth since the start of 2011, as illustrated in Figure 6. This indicates to us that Canadian households, in aggregate, have managed down their more expensive debt in response to slowing income growth.

Figure 6 - Growth in Nominal Income (Compensation of Employees) vs. Consumer (Non-mortgage) Credit; 1982 - 2014YTD



Note: We use the "Compensation of employees" account – from Statistics Canada's Table 380-0063 Gross domestic product, income based – as a proxy for household income.

Source: Statistics Canada; NBF analysis

Returning to our opening paragraphs, we caution investors to beware of confirmation bias when thinking about the creditworthiness of the Canadian household. Given the calamity that befell the U.S. housing market and the understandable desire for many Canadians (including bank analysts) to reassure ourselves that that calamity could never occur here, we see the tendency to confirm this bias as quite unsurprising. Moreover, because the household debt issue affects so many people's everyday lives, we regard the issue as emotionally charged. Therefore, we consistently remind ourselves that we could quite easily fall prey to this confirmation bias.

Ultimately, we believe that the level of household debt relative to income will fall from its historic highs. That may occur if household income growth outpaces household credit growth for a sustained period of time. And this outcome would be relatively benign for the Canadian financial system. Alternatively, the level of household debt could fall relative to income via the default avenue. That is, Canadian household de-leveraging may come about via an increased rate of default – an outcome that would strain, but not permanently damage, the Canadian financial system.

At present, we hope for the former outcome but prepare for the latter. We close this article by reminding ourselves that ***although the state of Canadian household creditworthiness is stable, it remains very fragile.***

Bank Commodities Exposure: Not a Threat

As readers are, no doubt, aware, commodity price indices have fallen precipitously through the summer and early fall. The S&P GSCI Index – the benchmark for investments in commodities – has fallen nearly 19% since mid-June (source: Bloomberg). Last year (in the NBF Financial Services Weekly published on April 22, 2013), we examined the potential threat posed by commodities and related lending to the profitability of the Big Six Canadian banks. To measure this threat, we focused on loan balances in Mining and Oil & Gas and discovered that those loan categories accounted for just 9% of the banks' total business & government loan portfolios (on average) and 115% of pre-provision income (PPI).

We return to this analysis today, given the recent plunge in commodity prices and ask:

- Has absolute and relative exposure to commodities lending shifted materially at the Big Six banks since Q1 f2013? And …
- Has our assessment of the commodities risk faced by the Big Six banks changed?

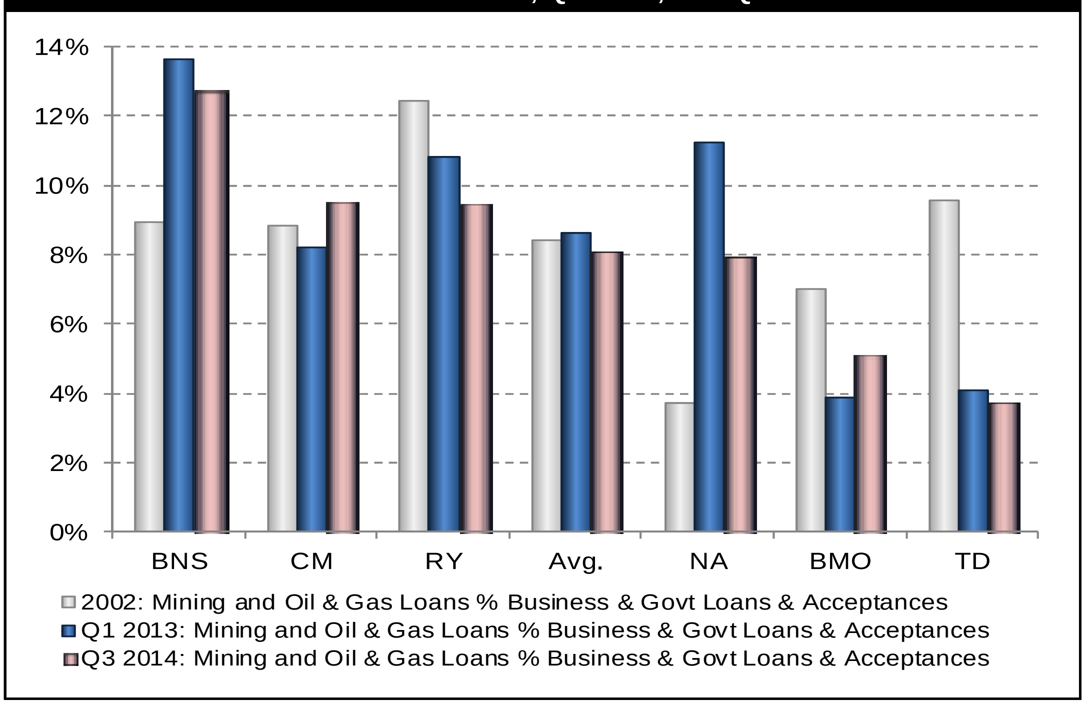
We answer "no" to both questions. In aggregate, the proportional commodities lending exposure of the Big Six banks has not changed materially over the past year and a half, although relative concentration has shifted marginally amongst the peers. As a consequence, we do not change our point-of-view on these questions.

Therefore, we reaffirm our position that commodities lending concentration risk does not pose a material threat to the capital or long-term profitability of the Big Six banks. That said, some banks have greater relative exposure that investors would do well to monitor. We also would like the Big Six banks to provide enhanced disclosure on single-name lending concentrations, as that would yield a much clearer view into an institution's underlying corporate & commercial credit quality.

In absolute terms, the Big Six banks continue to maintain low absolute exposure with Mining and Oil & Gas loans accounting for 8%, on average, of total business and government loans in Q3 f2014. This is down from 9%, on average, in Q1 f2013 (see Figure 7).

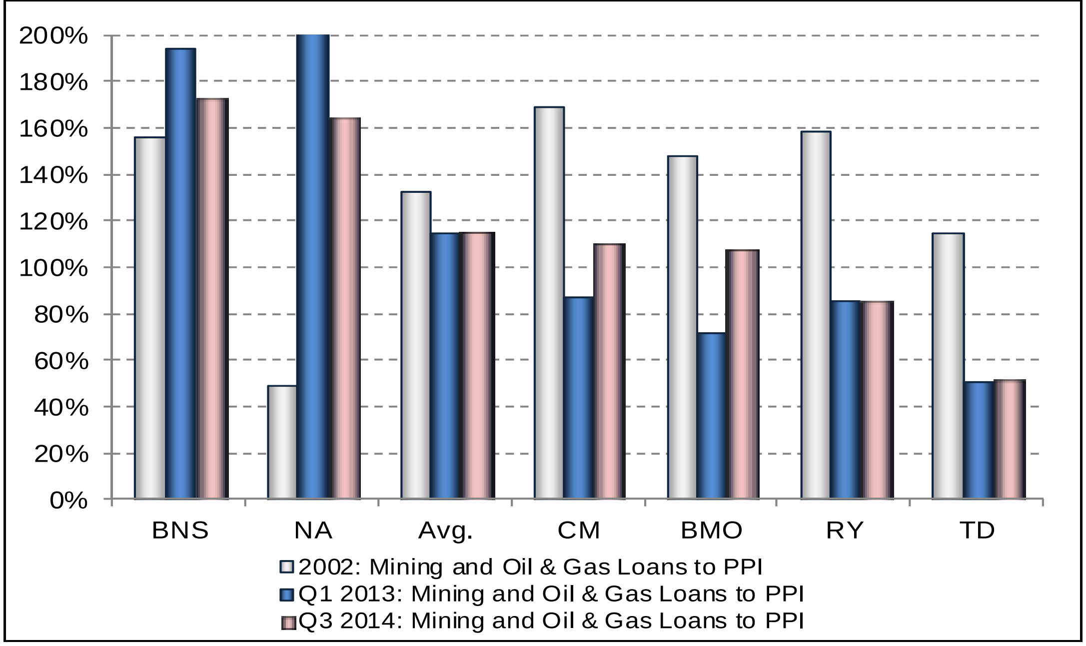
We observe the same disparity (as in Q1 f2013) between banks in terms of commodities exposure relative to pre-provision income (PPI). For the Big Six overall, Mining and Oil & Gas loans relative to PPI now totals 115% of PPI, unchanged from Q1 f2013. BNS and NA continue to have the most significant commodities concentrations on this metric, but have pared them down since Q1 f2013 (see Figure 8). Conversely, CM and BMO have expanded their relative exposure, although not quite as high as 2002 levels.

Figure 7: Mining and Oil & Gas Loans and BAs % Business and Government Loans and BAs - f2002, Q1 f2013, and Q3 f2014



Note: RY reported gross loans whereas RY's peers reported loans net of specific allowances, but before general allowances. In 2002, TD reported loans net of specific and general allowances, but only net of specific allowances in Q1 f2013 and Q3 f2014.
Source: Company financials; NBF analysis

Figure 8: Mining and Oil & Gas Loans and BAs % Pre-Provision Profitability (PPI) - f2002, Q1 f2013, and Q3 f2014



Note: RY reported gross loans whereas RY's peers reported loans net of specific allowances, but before general allowances. In 2002, TD reported loans net of specific and general allowances, but only net of specific allowances in Q1 f2013 and Q3 f2014. In terms of pre-provision profitability we made the following adjustments:
BNS – In 2002, we excluded charges of $340 million pre-tax from PPI related to sale of Scotiabank Quilmes. In Q3 f2012, we excluded a pre-tax gain of $727 million from PPI related to the sale of Scotia Plaza. In Q3 f2014, we excluded a pre-tax gain of $750 million from PPI related to the sale of CI Financial.
CM – We adjusted 2002 PPI, for net charges of $849 million primarily related to restructuring and CM's investment in Amicus. Between Q4 f2013 and Q3 f2014, we added back to PPI, pre-tax net charges of $432 million resulting from charges related to FirstCaribbean and the sale of Aimia.
NA – We excluded from PPI, an impairment charge of $137 million in 2002 related to COGNICASE and a net gain of $227 million related to the sale of Natcan in Q2 f2012.
RY – We adjusted PPI, in Q1 f2014 for pre-tax net charges of $123 million related to RBC Jamaica sale.
TD – In Q4 f2013, we added back to PPI, $173 million pre-tax charges related to restructuring. In Q1 f2014, we excluded from PPI, a pre-tax net gain of $92 million related to the purchase of Aimia and the sale of TDWIS.
Source: Company financials; NBF analysis

In summary, the Big Six Canadian banks have manageable lending exposures to commodity-related companies. Should commodity prices continue to fall and force some resource companies into delinquency or default, the Big Six banks may face a few tough quarterly earnings reports given their lending exposures relative to pre-provision profitability. Nonetheless, we re-assert our opinion that this risk concentration does not pose a material threat to long-term profitability, nor bank capital, because the concentration is small on an absolute basis.

Importantly, the adverse impact could be more idiosyncratic than the gross exposures depicted above suggest. We think investors should differentiate the banks on the basis of loan granularity – i.e., the degree to which loan portfolios are bulky with large, single name exposures, versus granular with many small exposures to single names. Banks with highly granular loan portfolios in the commodities sector have less concentration risk than those banks with bulky portfolios characterized by a smaller number of large exposures to single corporate groups. We think investors should demand that the Big Six banks disclose their Top 10 or 20 single-name loans (without names, of course) as a percent of total loans, and do so by loan category (e.g., oil & gas, mining, etc.). This would provide investors and analysts with a better view into underlying credit quality at each bank.

Big Six Bank Trading Revenue: October Blues

As our regular readers know, we utilize a regression model to forecast Canadian bank capital markets trading revenues. We also complement this analysis with a critical look at U.S. investment banking results. In Q3 f2014, the five largest U.S. investment banks reported total capital markets trading revenue of US$17.8 billion (excluding DVA and CVA adjustments), up 5% y/y and down 1% q/q (see Table 1).

Table 1a: Canadian Bank Trading Revenues (TEB)							
Bank	**4Q-13**	**1Q-14**	**2Q-14**	**3Q-14**	**4Q-14E**	**Y/Y**	**Q/Q**
TD	343	408	365	325	326	(5%)	0%
CM	221	266	274	221	246	12%	12%
RY	661	733	810	935	653	(1%)	(30%)
BNS	407	402	425	347	363	(11%)	5%
BMO	311	344	378	370	331	6%	(11%)
NA	158	168	153	192	166	5%	(13%)
Total	**$ 2,101**	**$ 2,321**	**$ 2,405**	**$ 2,390**	**$ 2,086**	**(1%)**	**(13%)**

Table 1b: U.S. Bank Trading Revenues (Reported)							
Bank	**3Q-13**	**4Q-13**	**1Q-14**	**2Q-14**	**3Q-14**	**Y/Y**	**Q/Q**
JP Morgan	4,279	1,964	4,858	4,772	4,983	16%	4%
Citigroup	3,176	2,694	4,726	3,623	3,428	8%	(5%)
Goldman Sachs	2,863	3,406	4,446	3,830	3,772	32%	(2%)
Morgan Stanley	2,216	1,597	3,241	2,646	2,912	31%	10%
Bank of America	2,998	2,973	4,099	3,402	3,273	9%	(4%)
Total	**$15,532**	**$12,634**	**$21,370**	**$18,273**	**$18,368**	**18%**	**1%**
Total (excl. DVAs/CVAs)	**$16,947**	**$16,026**	**$21,154**	**$17,957**	**$17,825**	**5%**	**(1%)**

Note: Our forecasted trading revenue by bank includes adjustments for structured credit and other trading revenue items.

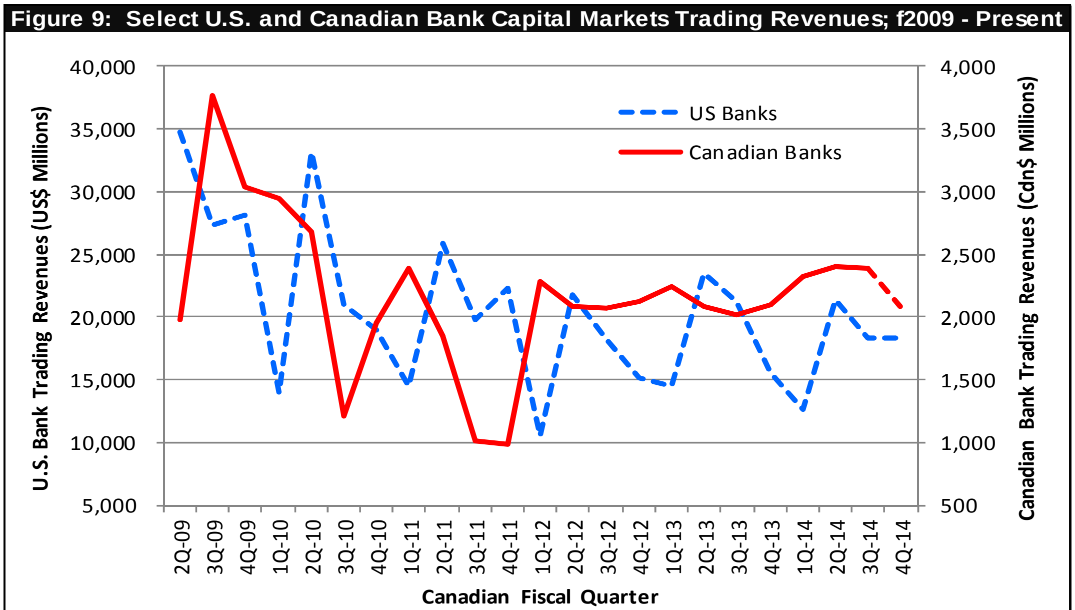
Source: Company financials; NBF analysis

What does this mean for Canadian banks? The y/y improvement in trading revenue amongst the U.S. investment banks would seem to bode well for the Canadian banks. However, as we have noted in the past, Canadian banks have demonstrated remarkably stable trading revenues for the past three years – even in instances where volatility was observed in U.S. investment bank trading results, positive or negative (see Figure 9).

In fact, for the upcoming quarter, our regression model predicts trading revenue for the Big Six Canadian banks of Cdn$2.1 billion, the twelfth consecutive quarter above Cdn$2 billion. This represents a 1% drop y/y and a 13% decline q/q (although we note that last quarter RY benefitted from outsized trades that boosted trading revenue).

While this forecast may seem counterintuitive, the small difference in reporting periods may mitigate some of the predictive value of the U.S. investment bank figures this quarter. We discuss this in further detail below.

Figure 9: Select U.S. and Canadian Bank Capital Markets Trading Revenues; f2009 - Present



Source: Company financials; NBF analysis

In Q4 f2014, we anticipate trading revenues from equities to weaken q/q owing to the performance of the TSX composite, which has declined 5% q/q. We further add that BMO and RY both reported very strong equity trading revenue last quarter. BMO benefitted from another quarter of large client-related transactions. Meanwhile, RY saw increased activity in its ex-Canada platform, although the aforementioned outsized trades helped results as well. Thus, we foresee some moderation from the prior quarter's figures given the drop in the TSX and the withdrawal of non-recurring gains.

Commodities trading revenues should improve materially q/q, we expect, reflecting significant volatility in natural gas and crude oil prices relative to the prior quarter, with gold prices also showing moderate sequential movement. In our regression model, the size of the absolute change in average commodity prices (either higher or lower) drives commodity trading revenue (i.e., larger absolute changes in commodity prices equate to a higher trading revenue forecast). The greater volatility in prices (in either direction) drives increased trading which translates into higher commissions and bid-ask spread for the banks.

Much of the y/y improvement in U.S. investment bank results in their most recent quarter reflects a rebound in fixed income trading revenues, with results essentially flat on a sequential basis. ***Conversely, the drivers underpinning our trading revenue regression suggest that fixed income trading revenue will be lower for the Canadian banks in Q4 f2014 q/q.*** Notably, Credit Default Swap (CDS) spreads widened 5% q/q in Q4 f2014. A widening of CDS spreads indicates a weakening of corporate credit quality, which correlates strongly with lower fixed income trading revenue in our regression model. We remind our readers that we measure CDS spreads by combining into one variable the Markit CDX Investment Grade and High Yield Indices with a 50% weighting for each.

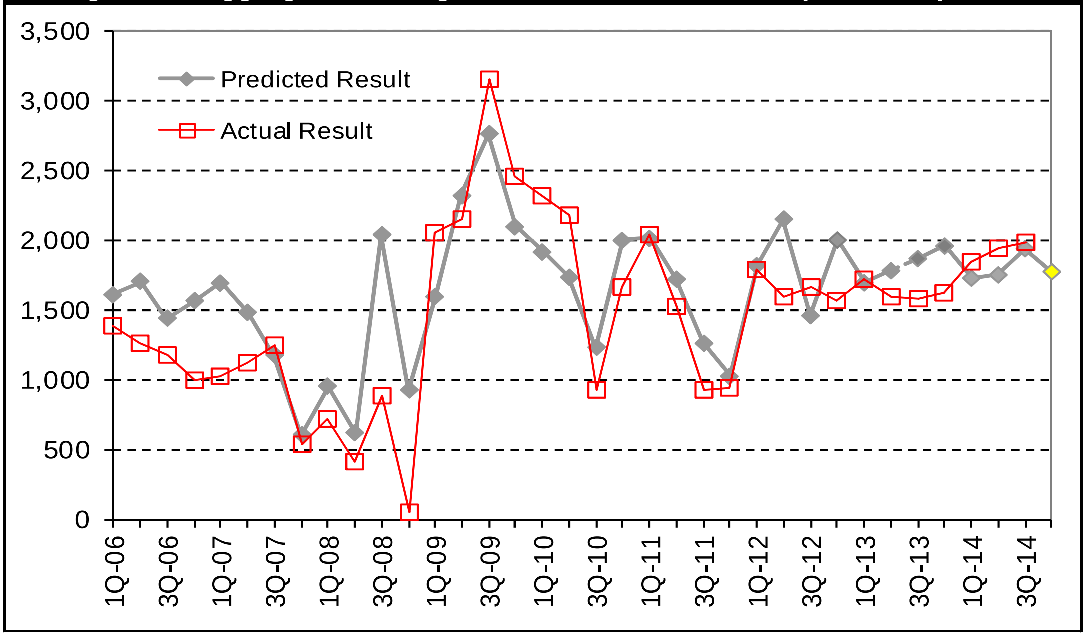
Meanwhile, average daily volatility, as represented by the Chicago Board Options Exchange Market Volatility Index (i.e., VIX), has risen to over 15, from 12 in the prior quarter. This serves to act as a partial offset to widening CDS spreads, as higher volatility drives increased activity and revenues for similar reasons as noted above.

In trying to understand the discrepancy between our projected fixed income revenues for the Big Six banks and the performance of their U.S. investment banking peers, we focus on the measurement period. As noted above, the third quarter of the U.S. investment banks represents the three months ending September 30 (whereas the Big Six end their fourth quarter on October 31). Over that period, the aforementioned CDS spreads narrowed by 4% (a stark contrast to widening average CDS spreads in October).

We attribute the divergence in projected performance to the tumult observed in October in fixed income spreads. In October, average CDS spreads widened by 11% over the prior two months (note we employ a daily average over the course of the quarter in our regression model). However, toward the end of October spreads narrowed and ended the month at lower levels than at the end of September.

In conclusion, the decline in equity markets and wider CDS spreads, particularly in October, should weigh on the trading results of the Big Six banks and helps to explain why our regression has returned a less optimistic outcome than U.S. investment bank results may have initially suggested.

Figure 10: Aggregate Trading Revenue Model Forecast (excl. BNS); Mln$



Note: BNS only began disaggregating trading revenues on a basis similar to its peers at the start of f2009, thus we omitted that bank from our regression analysis as we lack sufficient historic data to obtain a statistically valid result. Until we obtain sufficient statistical data, we intend to predict BNS' trading revenue as a percentage of the total of its five peer banks in the given quarter. The trading revenues plotted above also exclude CIBC's structured credit trading losses / revenues and the "other" category at each of the Big Six banks. We exclude these categories as we found no statistically significant independent variables related to them.

Source: Company financials; Bloomberg; NBF analysis

Outrunning the Bear: The Canadian D-SIB Recapitalization Regime and Bail-in Debt

Recently, we published a thematic report discussing the implications of the proposed bail-in debt recapitalization regime for Canada's domestic, systemically important banks (i.e. the Big Six Canadian banks). The following are the highlights from the report:

The Canadian Department of Finance's consultation paper on bank recapitalization signifies the most profound change in the Canadian bank regulatory framework since the 1980s Estey Commission. In effect, the government proposes replacing the current recapitalization regime, which ultimately relies on public sector provision of contingent bank capital, with a new regime that relies, first and foremost, on private sector provision of contingent capital. While this shift will have implications across the right-hand side of the Canadian banks' balance sheets, we believe this new recapitalization regime will impact common shareholders more than any other bank stakeholder.

How will the Recapitalization Regime Work?

- To answer this question, we present a simple model for how the regulatory authorities might resolve a domestic, systemically important bank (D-SIB) under the framework outlined in the Department of Finance's consultation paper.

Canadian D-SIBs Will Have to Adjust Their Capital Structures Materially as a Result of the Recapitalization Regime

- During the financial crisis, the public sector provision of contingent bank capital gave the Canadian D-SIBs the licence to issue new equity to bolster their balance sheets.
- The new recapitalization regime, which brings into existence a new capital instrument called bail-in debt, makes a D-SIB's common equity valuation much more volatile during the most malignant phases of the credit cycle. Therefore, the market for secondary common equity issuances in the next down cycle may not be available when needed.

- We think the susceptibility of bank equity valuations to speculative trading (the "death spiral" trade) will cause D-SIB boards to view bail-in debt as expensive and thereby minimize it in their capital structures. As a consequence, we view contemporary Total Capital ratios as too low for the D-SIB recapitalization regime.

Higher Capital Ratios on the Horizon

- Assuming the Department of Finance ultimately mandates that high loss absorbency (HLA) capital must be at least 23%, we foresee Total Capital ratios moving towards the mid- to high-teens from today's 13.6% average.
- By implication, we think the Canadian D-SIBs may elect to carry more than today's 180 bps cushion to the minimum acceptable CET1 ratio. Based on our scenario testing, we judge 11% (plus or minus 50 bps) to be a reasonable assumption for CET1 ratios after the D-SIB recapitalization regime comes into force.
- To CET1 capital, we expect the D-SIBs to add another 5% to 7% of risk-weighted assets to their capital bases in the form of non-common Tier 1 and Tier 2 NVCC instruments (versus 3.9% today).
- The imposition of a new D-SIB recapitalization regime would have an immediate impact of 1% to 7% on Canadian D-SIB valuations. The real cost of the regime will impose itself when credit market uncertainty once again roars. In the interim, the key valuation differentiator for the D-SIBs will be their ability to generate regulatory capital via retained earnings.

Dividend Forecast & Share Buybacks

Share Buybacks

This quarter, based on data from sedi.ca, we observe a material reduction in share repurchase activity. As noted above in our discussion regarding the forthcoming bail-in debt regime, we judge 11% (plus or minus 50 bps) to be a reasonable assumption for CET1 ratios after the D-SIB recapitalization regime comes into force. Accordingly, we suspect the lack of repurchase activity as representative of efforts made the Big Six banks to build their capital positions accordingly. BNS and CM stand out as exceptions as their CET1 ratios already exceed 10% entering the quarter, allowing them flexibility to continue share repurchases, at least at the present time.

According to sedi.ca:

- BNS continued to execute on its normal course issuer bid (NCIB) for up to 12 million common shares, representing 1% of common shares outstanding. In Q4 f2014, BNS repurchased 1.2 million shares for $88 million comprising just 0.1% of its common shares.
- CM repurchased 0.25 million shares for $26 million pursuant to its normal course issuer bid (NCIB) for approximately 2% of its issued and outstanding common shares, representing approximately 8 million shares. In Q4 f2014, CM repurchased just 0.06% of its common shares.
- BMO, NA, RY and TD did not undertake any share buybacks in Q4 f2014 according to sedi. We further note that TD and NA did not renew their respective normal course issuer bids following their expiry in June of this year.

Dividends

Table 2: Forecasted Dividend Raises for Big Six Canadian Banks

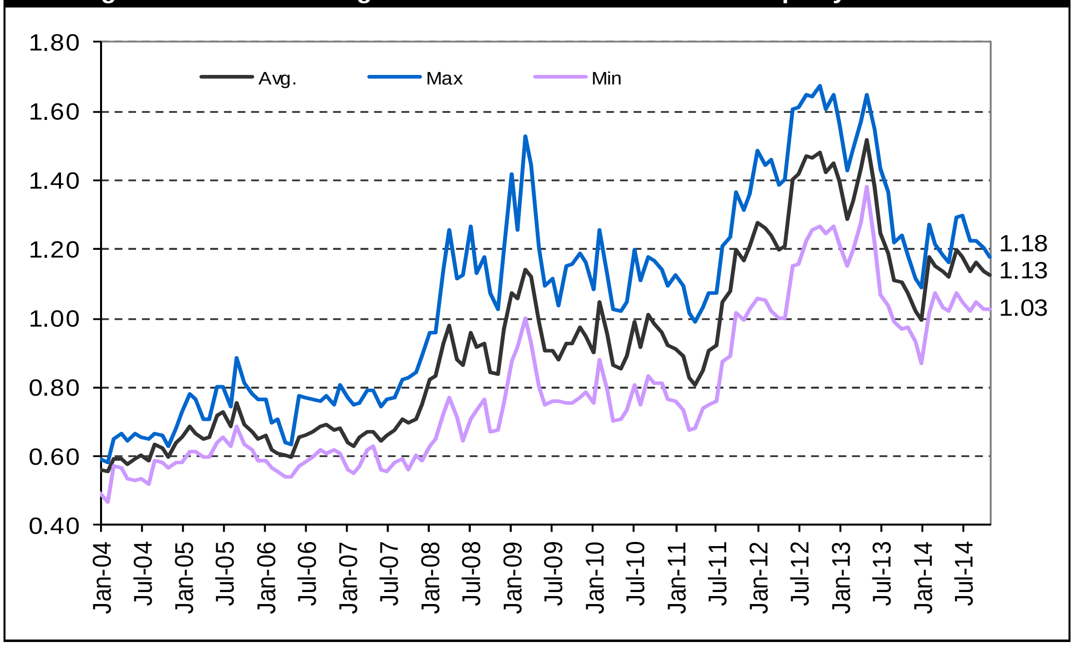
			Target Range		*Forecasted Next Dividend Raise*			
Bank	4Q-14E Dividend	4Q-14E Payout Ratio	Low	High	Qtr Dividend Announced	Qtr Dividend Raised	Amount per share	Percentage Increase
BMO	$0.78	49%	40%	50%	4Q-14	1Q-15	$0.02	3%
NA	$0.48	41%	40%	50%	4Q-14	1Q-15	$0.02	4%
CM	$1.00	45%	40%	50%	4Q-14	1Q-15	$0.02	2%
TD	$0.47	46%	40%	50%	1Q-15	2Q-15	$0.04	9%
BNS	$0.66	47%	40%	50%	1Q-15	2Q-15	$0.02	3%
RY	$0.75	47%	40%	50%	1Q-15	2Q-15	$0.02	3%

Source: Company financials; NBF analysis

As illustrated in Table 2, we anticipate that BMO, NA and CM will announce dividend increases this quarter, to take effect in Q1 f2015. These increases reflect a pattern of expected semi-annual dividend raises.

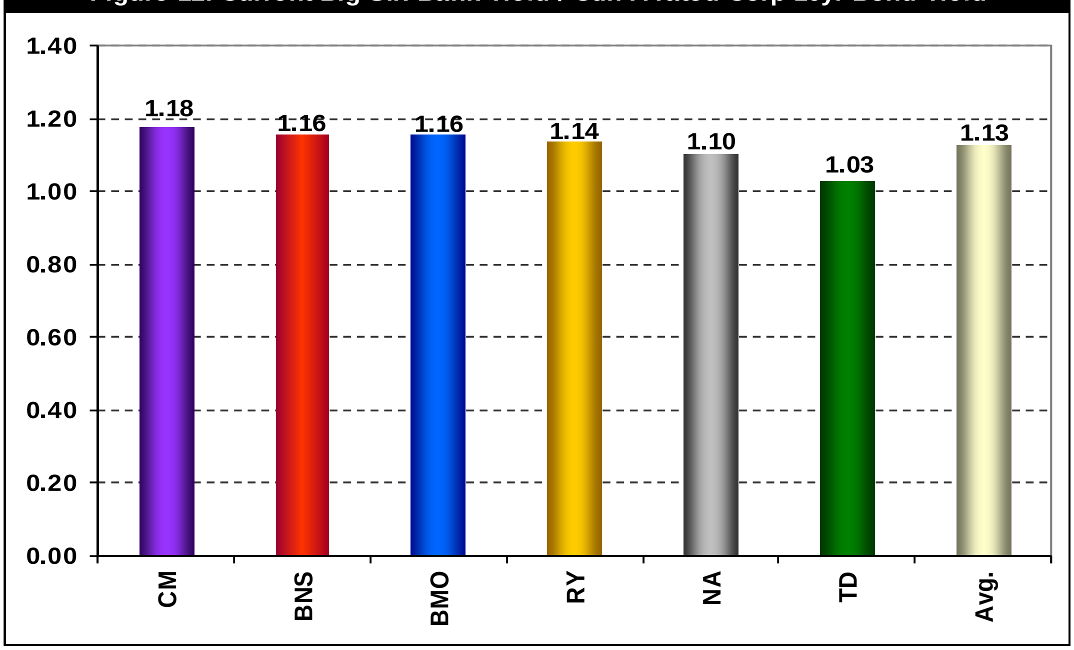
While corporate yields increased modestly q/q, dividend yields remain reasonably attractive. The average Big Six bank yield continues to exceed the Canadian A-rated corporate 10-year bond yield (See Figures 11 and 12). In our view, dividend yields at the Big Six banks will be supportive of their valuations, at least over the near term.

Figure 11: Historical Big Six Bank Yield / Cdn A-rated Corp 10yr Bond Yield



Source: Thomson Reuters; Bloomberg; NBF analysis

Figure 12: Current Big Six Bank Yield / Cdn A-rated Corp 10yr Bond Yield



Source: Thomson Reuters; Bloomberg; NBF analysis

Bank of Montreal (BMO)	Sector Perform	Target: $86
Earnings Report Release:		*December 2, 2014; TBD*
Earnings Call:		*December 2, 2014 at 2PM EDT*
Dial-In Number:		*TBD; Prior Quarter's Details: 416-695-9753 (Toronto Area) or 1-888-789-0089*
Investor Relations:		*www.bmo.com/investorrelations*

LOB Net Income Summary (C$ millions)	4Q-13A	3Q-14A	4Q-14E	q/q	y/y	2013A	2014E	2015E	2016E
Canadian P&C	458	526	529	0.5%	15.5%	1,812	2,019	2,160	2,159
U.S. P&C	102	159	164	3.4%	61.2%	581	644	710	810
Wealth Management	311	189	198	4.5%	(36.5%)	830	756	858	976
BMO Capital Markets	217	306	291	(4.9%)	34.2%	1,044	1,179	1,217	1,293
Corporate Services	(27)	(70)	(119)	nmf	nmf	(137)	(315)	(466)	(521)
Net Income to Equity Holders	**$1,061**	**$1,110**	**$1,063**	**(4.2%)**	**0.2%**	**$4,130**	**$4,283**	**$4,479**	**$4,718**
Core Cash EPS	**$ 1.62**	**$ 1.73**	**$ 1.65**	**(4.6%)**	**1.6%**	**$ 6.22**	**$ 6.61**	**$ 7.02**	**$ 7.42**
NI to Common EPS (IFRS)	**$ 1.60**	**$ 1.67**	**$ 1.59**	**(4.8%)**	**(0.6%)**	**$ 6.17**	**$ 6.44**	**$ 6.72**	**$ 7.17**

Source: Company financials; NBF analysis

Investment Thesis: BMO's relative valuation has improved haltingly since early 2012 (see page 42) on, we believe, the market's varying degree of optimism towards the bank's prospects in the United States, particularly in U.S. P&C Banking. Until BMO accelerates pre-provision income growth in that business, and does so on a credibly sustainable basis, we do not see a break-out in the bank's relative valuation. Therefore, we await a "prove-it" quarter – that is, a quarter when BMO avoids material disappointments in its major U.S. earnings drivers (NIM, loan growth, efficiency, PCLs) – one that gives us confidence that the U.S. P&C segment's earnings trajectory has permanently steepened. Until we arrive at this confidence level, BMO's rating is likely to remain at Sector Perform.

We expect Q4 f2014 earnings to fall modestly q/q as increased Corporate Services costs offset modest sequential improvement in BMO's Canadian P&C, U.S. P&C, PCG, and Capital Markets segments. Notably, we expect slower loan growth in BMO's P&C segments on both sides of the border to blunt earnings growth. The larger loss in the Corporate Services segment reflects lower recoveries on the legacy M&I impaired loan portfolio.

Bank of Montreal – Quarterly Earnings Drivers by Line of Business

Notes:

Wealth Management: *Efficiency ratio calculation in Q4 f2013 includes a gain from a change from the equity to available-for-sale accounting treatment as a result of the dilution of an investment. Efficiency ratio in calculation of Q3 f2014 includes charges related to actuarial changes in the insurance business.*

Key Earnings Driver Assumptions	4Q-13A	1Q-14A	2Q-14A	3Q-14A	4Q-14E
Canadian P&C					
Average loan growth q/q	3.0%	1.7%	0.9%	1.3%	1.0%
Net interest margin (% average earning assets)	2.60%	2.61%	2.58%	2.59%	2.59%
U.S. P&C					
Average loan growth q/q (US$)	1.0%	0.8%	4.2%	1.5%	1.5%
Net interest margin (% average earning assets; Cdn$)	3.82%	3.83%	3.76%	3.73%	3.72%
Wealth Management					
Assets under administration growth q/q	4.6%	9.1%	2.2%	0.8%	1.2%
Efficiency ratio	57.9%	74.3%	71.8%	75.4%	75.3%
BMO Capital Markets					
Trading revenue (TEB; C$ millions)	311	344	378	370	331
Efficiency ratio	66.0%	62.5%	61.0%	59.7%	61.4%

Source: Company financials; NBF analysis

Bank of Montreal – Income Statement and Earnings Drivers by Line of Business

CANADIAN P&C (C$ millions)	4Q-13A	3Q-14A	4Q-14E	2013A	2014E	2015E
Income Statement						
Net Interest Income	1,166	1,207	1,221	4,526	4,772	5,040
Non Interest Revenue	400	453	455	1,580	1,726	1,838
Total Revenue	**1,566**	**1,660**	**1,676**	**6,106**	**6,498**	**6,878**
Non-Interest Expense	791	825	829	3,126	3,251	3,360
Pre-Provision Income	**775**	**835**	**847**	**2,980**	**3,247**	**3,517**
Provisions for Credit Losses	166	134	139	572	547	626
Net Income Before Tax	**609**	**701**	**708**	**2,408**	**2,700**	**2,891**
Provisions for Income Taxes	151	175	179	596	681	731
Net Income	**458**	**526**	**529**	**1,812**	**2,019**	**2,160**
Key Drivers						
Average earning assets	178,247	185,253	187,121	171,260	184,111	193,893
Growth rate of average earning assets (q/q)	2.8%	1.3%	1.0%	2.4%	2.4%	1.5%
Net interest margin on average earning assets	2.60%	2.59%	2.59%	2.64%	2.59%	2.60%
Non-interest revenue % Average earning assets	0.89%	0.97%	0.96%	0.92%	0.94%	0.95%
NIX % Average earning assets	1.76%	1.77%	1.76%	1.83%	1.77%	1.73%
Efficiency Ratio	51%	50%	49%	51%	50%	49%
PCL % Average earning assets (annualized)	0.37%	0.29%	0.30%	0.33%	0.30%	0.32%

U.S. P&C (US$ millions)	4Q-13A	3Q-14A	4Q-14E	2013A	2014E	2015E
Income Statement						
Net Interest Income	554	581	589	2,274	2,288	2,444
Non Interest Revenue	134	126	131	567	523	561
Total Revenue	**688**	**707**	**720**	**2,841**	**2,811**	**3,004**
Non-Interest Expense	458	458	469	1,826	1,842	1,940
Pre-Provision Income	**230**	**249**	**251**	**1,015**	**969**	**1,065**
Provisions for Credit Losses	92	49	50	217	162	208
Net Income Before Tax	**138**	**200**	**201**	**798**	**807**	**857**
Provisions for Income Taxes	40	53	54	228	220	231
Net Income	**98**	**147**	**147**	**570**	**587**	**625**
Net Income (CAD)	**102**	**159**	**164**	**581**	**644**	**710**
Key Drivers						
Average earning assets (US$ millions)	57,489	61,795	62,716	57,021	60,821	65,773
Growth rate of average earning assets (q/q; USD)	0.6%	1.8%	1.5%	0.8%	0.8%	1.9%
Net interest margin on average earning assets	3.82%	3.73%	3.72%	3.99%	3.76%	3.72%
Non-interest revenue % Average earning assets	0.92%	0.82%	0.83%	0.99%	0.86%	0.85%
NIX % Average earning assets	3.16%	2.97%	2.97%	3.20%	3.03%	2.95%
Efficiency Ratio	67%	65%	65%	64%	66%	65%
PCL % Average earning assets (annualized)	0.63%	0.32%	0.32%	0.38%	0.27%	0.32%

WEALTH MANAGEMENT (C$ millions)	4Q-13A	3Q-14A	4Q-14E	2013A	2014E	2015E
Income Statement						
Net Interest Income	145	141	144	558	560	600
Non Interest Revenue	895	847	869	2,890	3,186	3,736
Total Revenue	**1,040**	**988**	**1,012**	**3,448**	**3,745**	**4,336**
Non-Interest Expense	602	745	759	2,347	2,778	3,238
Pre-Provision Income	**438**	**243**	**253**	**1,101**	**967**	**1,098**
Provisions for Credit Losses	1	(3)	-	3	(2)	0
Net Income Before Tax	**437**	**246**	**253**	**1,098**	**969**	**1,098**
Provisions for Income Taxes	126	56	54	268	211	236
Net Income	**311**	**189**	**198**	**830**	**756**	**858**
Key Drivers						
Average earnings assets	19,819	21,369	21,693	19,399	21,099	22,657
Growth rate of average earning assets (q/q)	1.0%	1.9%	1.5%	1.6%	1.6%	1.7%
Assets under administration	357,594	401,917	406,780	357,594	406,780	442,891
Growth rate of AUA (q/q)	4.62%	0.81%	1.2%	3.4%	3.4%	2.1%
Net interest income % Average earning assets (annualized)	2.89%	2.62%	2.63%	2.88%	2.65%	2.65%
Non-interest revenue % AUA (annualized)	0.99%	0.84%	0.85%	0.81%	0.78%	0.84%
NIX % AUA (annualized)	0.67%	0.74%	0.74%	0.66%	0.68%	0.73%
Efficiency Ratio	58%	75%	75%	68%	74%	75%

BMO CAPITAL MARKETS (C$ millions)	4Q-13A	3Q-14A	4Q-14E	2013A	2014E	2015E
Income Statement						
Net Interest Income	279	328	320	1,202	1,237	1,313
Non-interest Revenue	518	658	639	2,190	2,635	2,597
Total Revenue	**797**	**986**	**959**	**3,392**	**3,872**	**3,910**
Non-interest Expense	526	589	589	2,084	2,368	2,345
Pre-Provision Income	**271**	**397**	**370**	**1,308**	**1,504**	**1,565**
Provision for Credit Losses	(17)	(6)	(1)	(36)	(12)	15
Net Income Before Tax	**288**	**403**	**371**	**1,344**	**1,516**	**1,550**
Provisions for Income Taxes	71	97	80	300	337	333
Net Income	**217**	**306**	**291**	**1,044**	**1,179**	**1,217**
Key Drivers						
Average assets (C$ millions)	240,268	258,916	262,261	247,637	260,382	271,177
Growth rate of average assets (q/q)	0.6%	(1.5%)	1.3%	(1.0%)	2.2%	1.4%
Non-trading revenue % Average assets	0.80%	0.94%	0.95%	0.83%	0.94%	0.91%
Trading revenue (C$ millions)	311	370	331	1,335	1,335	1,449
Efficiency Ratio	66%	60%	61%	61%	61%	60%

Bank of Montreal – Snapshot – C$ Millions Unless Otherwise Stated

	Prior Four Quarters				Last	Next Four Quarters				Years Ending			
Segment Net Income Summary	3Q-13A	4Q-13A	1Q-14A	2Q-14A	3Q-14A	4Q-14E	1Q-15E	2Q-15E	3Q-15E	2013A	2014E	2015E	2016E
Canadian P&C	**486**	**458**	**484**	**480**	**526**	**529**	**534**	**525**	**552**	**1,812**	**2,019**	**2,160**	**2,159**
U.S. P&C	**149**	**102**	**166**	**155**	**159**	**164**	**169**	**172**	**180**	**581**	**644**	**710**	**810**
Wealth Management	**217**	**311**	**175**	**194**	**189**	**198**	**205**	**206**	**221**	**830**	**756**	**858**	**976**
BMO Capital Markets	**268**	**217**	**277**	**305**	**306**	**291**	**302**	**302**	**304**	**1,044**	**1,179**	**1,217**	**1,293**
Corporate Services	**(13)**	**(27)**	**(54)**	**(72)**	**(70)**	**(119)**	**(114)**	**(114)**	**(117)**	**(137)**	**(315)**	**(466)**	**(521)**
Net Income to Equity Holders	**$ 1,107**	**$ 1,061**	**$ 1,048**	**$ 1,062**	**$ 1,110**	**$ 1,063**	**$ 1,096**	**$ 1,089**	**$ 1,139**	**$ 4,130**	**$ 4,283**	**$ 4,479**	**$ 4,718**

	Prior Four Quarters				Last	Next Four Quarters				Years Ending			
Enterprise Income Statement	3Q-13A	4Q-13A	1Q-14A	2Q-14A	3Q-14A	4Q-14E	1Q-15E	2Q-15E	3Q-15E	2013A	2014E	2015E	2016E
Net Interest income	2,183	2,117	2,113	2,063	2,107	2,195	2,238	2,223	2,332	8,677	8,478	9,187	9,981
Non-Interest Income	1,817	2,021	2,009	1,978	2,108	2,139	2,183	2,162	2,272	7,386	8,234	8,930	9,560
Non-Interest Expense	(2,477)	(2,520)	(2,684)	(2,594)	(2,756)	(2,823)	(2,856)	(2,818)	(2,950)	(9,975)	(10,857)	(11,629)	(12,355)
Integration Costs: M&I	(49)	(60)	-	-	-	-	-	-	-	(251)	-	-	-
Pre-Provision Profitability	**1,474**	**1,558**	**1,438**	**1,447**	**1,459**	**1,512**	**1,565**	**1,566**	**1,654**	**5,837**	**5,856**	**6,488**	**7,185**
Provision for Credit Losses	(76)	(189)	(99)	(162)	(130)	(198)	(205)	(207)	(223)	(587)	(589)	(885)	(1,233)
Net Income Before Tax	**1,398**	**1,369**	**1,339**	**1,285**	**1,329**	**1,313**	**1,360**	**1,359**	**1,431**	**5,250**	**5,266**	**5,603**	**5,953**
Provision for Income Taxes	(275)	(295)	(278)	(209)	(203)	(236)	(250)	(255)	(278)	(1,055)	(926)	(1,068)	(1,179)
Net Income (NI)	**1,123**	**1,074**	**1,061**	**1,076**	**1,126**	**1,077**	**1,110**	**1,103**	**1,153**	**4,195**	**4,340**	**4,535**	**4,774**
Non-Controlling Interests	(16)	(13)	(13)	(14)	(16)	(14)	(14)	(14)	(14)	(65)	(57)	(56)	(56)
Net Income to Equity Holders	**1,107**	**1,061**	**1,048**	**1,062**	**1,110**	**1,063**	**1,096**	**1,089**	**1,139**	**4,130**	**4,283**	**4,479**	**4,718**
Preferred Share Dividends	(30)	(29)	(28)	(27)	(28)	(33)	(33)	(33)	(32)	(120)	(116)	(130)	(130)
Net Income to Common	**1,077**	**1,032**	**1,020**	**1,035**	**1,082**	**1,030**	**1,063**	**1,056**	**1,107**	**4,010**	**4,167**	**4,349**	**4,588**
Amortization	23	22	22	21	29	29	28	28	28	89	101	111	106
One-Time Items (incl. integration)	44	22	-	-	7	8	19	15	14	189	15	81	47
Credit Mark Impact (performing loans)	(68)	(30)	-	-	-	-	-	-	-	(250)	-	-	-
Core Cash Net Income	**$ 1,076**	**$ 1,046**	**$ 1,042**	**$ 1,056**	**$ 1,118**	**$ 1,066**	**$ 1,110**	**$ 1,099**	**$ 1,149**	**$ 4,038**	**$ 4,282**	**$ 4,541**	**$ 4,741**
Core Cash EPS	$1.66	$1.62	$1.61	$1.63	$1.73	$1.65	$1.71	$1.70	$1.78	$6.22	$6.61	$7.02	$7.42
y/y % Growth	*13%*	*(1%)*	*8%*	*13%*	*4%*	*2%*	*6%*	*4%*	*3%*	*4%*	*6%*	*6%*	*6%*
NI to Common EPS (IFRS)	$1.66	$1.60	$1.58	$1.60	$1.67	$1.59	$1.64	$1.63	$1.71	$6.17	$6.44	$6.72	$7.17
y/y % Growth	*18%*	*2%*	*5%*	*14%*	*1%*	*(1%)*	*4%*	*2%*	*2%*	*1%*	*4%*	*4%*	*7%*
Annualized Core Cash ROE	16%	15%	14%	15%	15%	14%	14%	14%	14%	15%	15%	14%	14%
Dividends / Share	$0.74	$0.74	$0.76	$0.76	$0.78	$0.78	$0.80	$0.80	$0.82	$2.94	$3.08	$3.24	$3.40
Common Div. Payout Ratio	44%	46%	48%	47%	47%	49%	49%	49%	48%	47%	48%	48%	47%
F/D Avg. Shares (excl. IFRS dilution)	648	646	647	647	649	648	648	648	646	650	648	647	639
F/D Avg. Shares O/S (IFRS)	648	646	647	647	649	648	648	648	646	650	648	647	639
Avg. Earnings Assets ($bln)	487	496	516	531	529	540	547	555	566	485	529	561	598
Avg. RWA ($bln) - Basel III after 4Q-12	211	215	228	237	230	228	231	235	238	211	229	237	252
Book Value per Share	$ 41.96	$ 43.22	$ 45.60	$ 45.94	$ 46.69	$ 48.08	$ 48.92	$ 49.84	$ 50.78	$ 43.22	$ 48.08	$ 51.74	$ 55.11
Basel III - Com. Equity Tier 1 Ratio	9.6%	9.9%	9.3%	9.7%	9.6%	9.8%	9.9%	10.0%	10.0%	9.9%	9.8%	10.1%	10.2%
NIM (% Avg. Earning Assets)	1.78%	1.69%	1.62%	1.59%	1.58%	1.61%	1.62%	1.64%	1.63%	1.79%	1.60%	1.64%	1.67%
Effective Tax Rate	20%	22%	21%	16%	15%	18%	18%	19%	19%	20%	18%	19%	20%
Efficiency Ratio	63%	62%	65%	64%	65%	65%	65%	64%	64%	64%	65%	64%	63%

Source: Company financials; NBF analysis

Royal Bank of Canada (RY) — Outperform — Target: $86

Earnings Report Release: ***December 3, 2014; TBD***

Earnings Call: ***December 3, 2014, at 8:00AM EDT***

Dial-In Number: ***TBD; Prior Quarter's Details: 416-340-2217 (Toronto Area) or 1-866-696-5910 Passcode: 5921388#***

Investor Relations: ***www.rbc.com/investorrelations/index.html***

LOB Net Income Summary (C$ millions)	4Q-13A	3Q-14A	4Q-14E	q/q	y/y	2013A	2014E	2015E	2016E
Canadian Banking	1,087	1,185	1,178	(0.6%)	8.3%	4,352	4,610	4,813	4,950
U.S. & Caribbean Banking	(18)	(49)	(5)	nmf	nmf	24	(119)	2	41
Investor & Treasury Services	91	110	118	7.1%	29.4%	338	445	492	535
Wealth Management	203	284	292	3.0%	44.1%	886	1,089	1,225	1,334
Insurance	107	214	157	(26.6%)	46.8%	595	682	666	712
Capital Markets	469	641	547	(14.7%)	16.6%	1,700	2,200	2,300	2,359
Corporate and Other	138	(33)	54	nmf	(1)	349	28	189	147
Net Income (Cont. Ops)	**$2,077**	**$2,352**	**$2,341**	**(0.5%)**	**12.7%**	**$8,244**	**$8,935**	**$9,686**	**$ 10,078**
Core Cash EPS (excl. IFRS dilution)	**$ 1.42**	**$ 1.64**	**$ 1.60**	**(1.9%)**	**12.6%**	**$ 5.54**	**$ 6.20**	**$ 6.62**	**$ 6.90**
Net Income to Common EPS (IFRS)	**$ 1.39**	**$ 1.59**	**$ 1.58**	**(0.6%)**	**13.7%**	**$ 5.49**	**$ 6.02**	**$ 6.55**	**$ 6.83**

Source: Company financials; NBF analysis

Investment Thesis: Three key reasons support our Outperform rating on RY: (1) we believe RBC Capital Markets will continue its impressive run in the United States; (2) we think the Canadian Banking segment will continue to outperform peers if and when the credit cycle turns; and (3) RY has ample capital flexibility to reward shareholders with dividend increases.

That said, we expect one day to shift to a more bearish view on the Canadian household and that shift will harm our outlook on RY, given that the bank generates over half of its earnings from the Canadian Banking segment.

Capital Markets results should continue to improve y/y on the back of a robust origination environment, however, earnings will fall from last quarter due to a normalization of trading revenue (which benefitted from the impact of outsized trades last quarter). We expect Canadian Banking to report steady sequential results as slightly higher PCLs offset faster business loan growth. We anticipate Wealth Management to earn more sequentially on steady growth in assets under administration largely reflecting U.S. currency appreciation, while the insurance segment should see earnings normalize after recording a favourable actuarial adjustment last quarter.

Royal Bank of Canada – Quarterly Earnings Drivers by Line of Business

Notes:

Capital Markets – Trading Revenue includes a $100 million contribution from (1) a gain on sale from the restructuring a previously written-down asset, and (2) an outsized client trade.

Key Earnings Driver Assumptions	4Q-13A	1Q-14A	2Q-14A	3Q-14A	4Q-14E
Canadian Banking					
Average loan growth q/q	1.0%	0.6%	0.4%	1.1%	1.3%
Net interest margin (% average earning assets)	2.70%	2.73%	2.74%	2.73%	2.72%
Investor & Treasury Services					
Assets under administration growth q/q	3.7%	6.8%	1.7%	1.8%	1.7%
Revenue % AUA	0.055%	0.052%	0.056%	0.054%	0.055%
Insurance					
Premiums % policyholder liabilities	55.7%	56.7%	55.6%	52.8%	54.7%
Policyholder liabilities growth q/q	2.8%	1.0%	0.6%	3.8%	0.8%
Wealth Management					
Assets under administration growth q/q	3.8%	5.6%	2.3%	1.4%	3.2%
Efficiency ratio	77.0%	77.6%	75.5%	75.1%	75.1%
Capital Markets					
Trading revenue (TEB; C$ millions)	661	733	810	935	653
Efficiency ratio	57.0%	58.8%	59.3%	58.1%	58.1%

Source: Company financials; NBF analysis

Royal Bank of Canada – Income Statement and Earnings Drivers by Line of Business

CANADIAN BANKING (C$ millions)	4Q-13A	3Q-14A	4Q-14E	2013A	2014E	2015E
Income Statement						
Net Interest Income	2,265	2,331	2,355	8,875	9,218	9,729
Non Interest Revenue	844	913	905	3,345	3,557	3,716
Total Revenue	**3,109**	**3,244**	**3,261**	**12,220**	**12,776**	**13,446**
Non-Interest Expense	1,398	1,418	1,433	5,464	5,633	5,866
Pre-Provision Income	**1,711**	**1,826**	**1,828**	**6,756**	**7,143**	**7,580**
Provisions for Credit Losses	249	230	241	908	933	1,093
Net Income Before Tax	**1,462**	**1,596**	**1,587**	**5,848**	**6,210**	**6,486**
Provisions for Income Taxes	375	411	409	1,496	1,600	1,673
Net Income	**1,087**	**1,185**	**1,178**	**4,352**	**4,610**	**4,813**
Key Drivers						
Average loans and acceptances (C$ millions)	337,700	344,800	349,166	330,375	343,642	362,100
Growth rate of Loans & Acceptances (q/q)	1.05%	1.11%	1.27%	1.65%	0.84%	1.51%
Net interest margin on average loans & acceptances	2.66%	2.68%	2.68%	2.69%	2.68%	2.69%
Non-interest revenue % loans & acceptances	0.99%	1.05%	1.03%	1.01%	1.04%	1.03%
Efficiency ratio	45%	44%	44%	45%	44%	44%
Non-interest expense % loans & acceptances	1.64%	1.63%	1.63%	1.65%	1.64%	1.62%
PCL % loans & acceptances	0.29%	0.26%	0.27%	0.27%	0.27%	0.30%

INVESTOR & TREASURY SERVICES (C$ millions)	4Q-13A	3Q-14A	4Q-14E	2013A	2014E	2015E
Income Statement						
Net Interest Income	165	182	186	671	735	764
Non-Interest Revenue	281	298	309	1,133	1,168	1,280
Total Revenue	**446**	**480**	**496**	**1,804**	**1,904**	**2,044**
Non-Interest Expense	324	330	338	1,348	1,303	1,384
Pre-Provision Income	**122**	**150**	**158**	**456**	**601**	**660**
Provisions for Credit Losses	-	-	-	-	-	-
Net Income Before Tax	**122**	**150**	**158**	**456**	**601**	**660**
Provisions for Income Taxes	31	40	40	117	155	168
Net Income	**91**	**110**	**118**	**338**	**445**	**492**
Key Drivers						
Average total assets (C$ millions)	82,000	91,200	92,423	83,100	92,206	95,532
Growth rate of average total assets (q/q)	(4.65%)	(0.98%)	1.33%	0.18%	3.04%	1.33%
Assets under administration (C$ millions)	3,208,800	3,546,100	3,606,879	3,208,800	3,606,879	3,858,472
AUA Growth (q/q)	3.70%	1.82%	1.70%	2.68%	2.97%	1.70%
Net interest margin on average total assets	0.80%	0.79%	0.80%	0.81%	0.80%	0.80%
Non-interest revenue % AUA	0.03%	0.03%	0.03%	0.04%	0.03%	0.03%
Efficiency Ratio	73%	69%	68%	75%	68%	68%

INSURANCE (C$ millions)	4Q-13A	3Q-14A	4Q-14E	2013A	2014E	2015E
Income Statement						
Total Revenue	**1,100**	**1,383**	**1,222**	**3,928**	**5,012**	**5,007**
Non-interest expense	1,021	1,152	1,057	3,335	4,308	4,307
Provisions for Income Taxes	(28)	17	8	(2)	22	35
Net Income	**107**	**214**	**157**	**595**	**682**	**666**
Key Drivers						
Insurance claims and policy benefit liabilities (C$ M)	8,034	8,473	8,537	8,034	8,537	8,796
Growth rate of total liabilities (q/q)	2.80%	3.80%	0.75%	0.35%	1.53%	0.75%
Revenue (excl. fair value changes on investments backing liab.) % Total liabilities	55.70%	52.82%	54.65%	55.00%	53.53%	54.81%

WEALTH MANAGEMENT (C$ millions)	4Q-13A	3Q-14A	4Q-14E	2013A	2014E	2015E
Income Statement						
Net Interest Income	103	117	119	396	465	495
Non-interest Revenue	1,312	1,468	1,512	5,091	5,840	6,327
Total Revenue	**1,415**	**1,585**	**1,632**	**5,487**	**6,306**	**6,822**
Non-Interest Expense	1,089	1,191	1,226	4,219	4,781	5,122
Pre-Provision Income	**326**	**394**	**406**	**1,268**	**1,525**	**1,700**
Provisions for Credit Losses	42	-	-	51	19	-
Net Income Before Tax	**284**	**394**	**406**	**1,217**	**1,506**	**1,700**
Provisions for Income Taxes	82	109	112	331	414	471
Non-Controlling Interest	(1)	1	1	-	2	4
Net Income	**203**	**284**	**292**	**886**	**1,089**	**1,225**
Key Drivers						
Assets under administration (C$ millions)	639,200	700,600	723,093	639,200	723,093	785,155
Growth rate of AUA (q/q)	3.80%	1.42%	3.21%	2.56%	3.13%	2.08%
Deposits (C$ millions)	33,200	35,900	36,624	33,200	36,624	39,643
Growth rate of deposits (q/q)	4.08%	(0.83%)	2.00%	3.26%	2.48%	2.00%
Net interest income % Total deposits	1.23%	1.29%	1.29%	1.19%	1.27%	1.25%
Non-interest revenue % AUA	0.81%	0.83%	0.83%	0.80%	0.81%	0.81%
Efficiency Ratio	77.0%	75.1%	75.1%	76.9%	75.8%	75.1%

CAPITAL MARKETS (C$ millions)	4Q-13A	3Q-14A	4Q-14E	2013A	2014E	2015E
Income Statement						
Net Interest Income	694	999	885	2,872	3,493	3,791
Non-interest Revenue	989	1,186	1,041	3,708	4,300	4,361
Total Revenue	**1,683**	**2,185**	**1,925**	**6,580**	**7,792**	**8,152**
Non-interest Expense	960	1,269	1,118	3,856	4,563	4,732
Pre-Provision Income	**723**	**916**	**807**	**2,724**	**3,229**	**3,420**
Provision for Credit Losses	11	1	3	188	15	38
Net Income Before Tax	**712**	**915**	**804**	**2,536**	**3,214**	**3,382**
Provisions for Income Taxes	243	274	257	836	1,014	1,082
Non-Controlling Interest	-	-	-	-	-	-
Net Income	**469**	**641**	**547**	**1,700**	**2,200**	**2,300**
Key Drivers						
Average earning assets (C$ millions)	276,600	308,000	313,631	279,375	304,408	328,532
Growth rate of average earning assets (quarterly)	(3.3%)	1.8%	1.8%	1.9%	3.2%	1.9%
Efficiency ratio	57%	58%	58%	59%	59%	58%
Non-trading revenue % AEA	1.47%	1.61%	1.61%	1.43%	1.53%	1.52%
Trading revenue (C$ millions)	661	935	653	2,578	3,131	3,168

Royal Bank of Canada – Snapshot – C$ Millions Unless Otherwise Stated

	Prior Four Quarters				Last	Next Four Quarters				Years Ending			
LOB Net Income Summary	3Q-13A	4Q-13A	1Q-14A	2Q-14A	3Q-14A	4Q-14E	1Q-15E	2Q-15E	3Q-15E	2013A	2014E	2015E	2016E
Canadian Banking	**1,151**	**1,087**	**1,137**	**1,110**	**1,185**	**1,178**	**1,183**	**1,168**	**1,230**	**4,352**	**4,610**	**4,813**	**4,950**
U.S. & Caribbean Banking	**14**	**(18)**	**(68)**	**3**	**(49)**	**(5)**	**(3)**	**(1)**	**2**	**24**	**(119)**	**2**	**41**
Investor & Treasury Services	**103**	**91**	**106**	**111**	**110**	**118**	**120**	**119**	**125**	**338**	**445**	**492**	**535**
Wealth Management	**233**	**203**	**235**	**278**	**284**	**292**	**298**	**295**	**312**	**886**	**1,089**	**1,225**	**1,334**
Global Insurance	**160**	**107**	**157**	**154**	**214**	**157**	**161**	**159**	**168**	**595**	**682**	**666**	**712**
Capital Markets	**386**	**469**	**505**	**507**	**641**	**547**	**560**	**579**	**587**	**1,700**	**2,200**	**2,300**	**2,359**
Corporate and Other	**213**	**138**	**(5)**	**12**	**(33)**	**54**	**52**	**48**	**46**	**349**	**28**	**189**	**147**
Net Income to Equity Holders	**$ 2,260**	**$ 2,077**	**$ 2,067**	**$ 2,175**	**$ 2,352**	**$ 2,341**	**$ 2,371**	**$ 2,366**	**$ 2,470**	**$ 8,244**	**$ 8,935**	**$ 9,686**	**$10,078**
Enterprise Income Statement	3Q-13A	4Q-13A	1Q-14A	2Q-14A	3Q-14A	4Q-14E	1Q-15E	2Q-15E	3Q-15E	2013A	2014E	2015E	2016E
Net Interest Income	3,392	3,351	3,460	3,449	3,647	3,652	3,695	3,690	3,869	13,249	14,208	15,167	16,331
Non-Interest Income	3,776	4,568	4,994	4,821	5,330	5,073	5,151	5,115	5,336	17,413	20,218	21,013	22,195
Non-Interest Expenses	(3,991)	(4,151)	(4,381)	(4,326)	(4,589)	(4,477)	(4,549)	(4,531)	(4,727)	(16,194)	(17,773)	(18,566)	(19,664)
Insur. Policyholder Expense	(263)	(878)	(982)	(830)	(1,009)	(905)	(914)	(893)	(932)	(2,784)	(3,726)	(3,706)	(3,882)
Pre-Provision Profitability	**2,914**	**2,890**	**3,091**	**3,114**	**3,379**	**3,344**	**3,383**	**3,381**	**3,547**	**11,684**	**12,928**	**13,909**	**14,980**
Provision for Credit Losses	(267)	(334)	(292)	(244)	(283)	(267)	(279)	(283)	(308)	(1,237)	(1,086)	(1,217)	(1,743)
Net Income Before Tax	**2,647**	**2,556**	**2,799**	**2,870**	**3,096**	**3,076**	**3,104**	**3,098**	**3,239**	**10,447**	**11,841**	**12,693**	**13,237**
Provision for Income Taxes	(362)	(455)	(707)	(669)	(718)	(711)	(708)	(707)	(743)	(2,105)	(2,805)	(2,906)	(3,059)
Net Income	**2,285**	**2,101**	**2,092**	**2,201**	**2,378**	**2,366**	**2,396**	**2,391**	**2,495**	**8,342**	**9,037**	**9,787**	**10,178**
Non-Controlling Interest	(25)	(24)	(25)	(26)	(26)	(25)	(25)	(25)	(25)	(98)	(102)	(100)	(100)
Net Income to Equity Holders	**2,260**	**2,077**	**2,067**	**2,175**	**2,352**	**2,341**	**2,371**	**2,366**	**2,470**	**8,244**	**8,935**	**9,686**	**10,078**
Preferred Share Dividends	(63)	(61)	(62)	(52)	(55)	(55)	(54)	(54)	(54)	(253)	(224)	(217)	(223)
Net Income to Common	**2,197**	**2,016**	**2,005**	**2,123**	**2,297**	**2,285**	**2,317**	**2,312**	**2,416**	**7,991**	**8,710**	**9,469**	**9,855**
Amortization of Intangibles	31	30	33	31	31	31	27	27	26	117	126	106	104
Cash Net Income	**2,228**	**2,046**	**2,038**	**2,154**	**2,328**	**2,316**	**2,344**	**2,338**	**2,442**	**8,108**	**8,836**	**9,575**	**9,959**
One-Time Items	(90)	25	92	-	40	-	-	-	-	(34)	132	-	-
Core Cash Net Income	**$ 2,138**	**$ 2,071**	**$ 2,130**	**$ 2,154**	**$ 2,368**	**$ 2,316**	**$ 2,344**	**$ 2,338**	**$ 2,442**	**$ 8,074**	**$ 8,968**	**$ 9,575**	**$ 9,959**
Core Cash EPS (excl. IFRS dilution)	$1.47	$1.42	$1.47	$1.49	$1.64	$1.60	$1.62	$1.62	$1.69	$5.54	$6.20	$6.62	$6.90
y/y % Growth	*11%*	*13%*	*8%*	*15%*	*11%*	*13%*	*10%*	*9%*	*3%*	*12%*	*12%*	*7%*	*4%*
Net Income to Common EPS (IFRS)	$1.51	$1.39	$1.38	$1.47	$1.59	$1.58	$1.60	$1.60	$1.67	$5.49	$6.02	$6.55	$6.83
y/y % Growth	*2%*	*12%*	*3%*	*18%*	*5%*	*14%*	*16%*	*9%*	*5%*	*12%*	*10%*	*9%*	*4%*
Annualized Core Cash ROE	21%	19%	19%	19%	20%	19%	19%	19%	19%	20%	20%	19%	18%
Dividends / Share	$0.63	$0.67	$0.67	$0.71	$0.71	$0.75	$0.75	$0.77	$0.77	$2.53	$2.84	$3.08	$3.24
Common Div. Payout Ratio	41%	48%	48%	48%	45%	47%	47%	48%	46%	46%	47%	47%	47%
F/D Avg. Shares O/S (IFRS)	1,466	1,463	1,459	1,450	1,449	1,452	1,456	1,455	1,454	1,467	1,453	1,455	1,450
Avg. Earning Assets ($bln)	717	711	740	751	762	774	786	799	814	704	757	807	863
Avg. RWA ($bln)	313	317	330	345	359	372	380	388	398	300	348	393	424
Book Value per Share	$ 29.05	$ 29.87	$ 31.29	$ 31.85	$ 32.58	$ 33.68	$ 34.53	$ 35.40	$ 36.35	$ 29.87	$ 33.68	$ 37.28	$ 40.74
Basel III - Com. Equity Tier 1 Ratio	9.2%	9.6%	9.7%	9.7%	9.5%	9.7%	9.9%	10.0%	10.0%	9.6%	9.7%	10.2%	10.6%
NIM (% Avg. Earning Assets)	1.88%	1.87%	1.86%	1.88%	1.90%	1.87%	1.87%	1.89%	1.89%	1.88%	1.88%	1.88%	1.89%
Effective Tax Rate	13.7%	17.8%	25.3%	23.3%	23.2%	23.1%	22.8%	22.8%	23.0%	20.1%	23.7%	22.9%	23.1%
Efficiency Ratio	59%	64%	63%	62%	62%	62%	62%	62%	61%	62%	62%	62%	61%

Source: Company financials; NBF analysis

Canadian Imperial Bank of Commerce (CM) — Sector Perform — Target: $105

Earnings Report Release:	*December 4, 2014; TBD*
Earnings Call:	*December 4, 2014 at 8:00AM EDT*
Dial-In Number:	*TBD; Prior Quarter's Details: 416-340-2217 (Toronto Area) or 1-888-789-9572; Passcode: 4000010#*
Investor Relations:	*www.cibc.com/ca/investor-relations/quarterly-results.html*

LOB Net Income Summary (C$ millions)	4Q-13A	3Q-14A	4Q-14E	q/q	y/y	2013A	2014E	2015E	2016E
Retail & Business Banking	613	589	601	2.1%	(1.9%)	2,377	2,482	2,452	2,358
Wealth Management	103	121	123	1.6%	19.4%	385	473	509	545
Wholesale Banking	209	282	248	(12.0%)	18.7%	699	1,007	945	992
Corporate and Other	(93)	(74)	(64)	nmf	nmf	(109)	(645)	(123)	(106)
Net Income to Equity Holders	**$ 832**	**$ 918**	**$ 908**	**(1.1%)**	**9.2%**	**$ 3,352**	**$ 3,317**	**$ 3,784**	**$ 3,789**
Core Cash EPS	**$ 2.15**	**$ 2.23**	**$ 2.26**	**1.7%**	**5.5%**	**$ 8.57**	**$ 8.92**	**$ 9.32**	**$ 9.43**
Net Income to Common EPS (IFRS)	**$ 2.02**	**$ 2.26**	**$ 2.24**	**(1.0%)**	**10.7%**	**$ 8.11**	**$ 8.10**	**$ 9.33**	**$ 9.45**

Source: Company financials; NBF analysis

Investment Thesis: We rate CM Sector Perform because, in our view, it would be hit the hardest by a "soft" deleveraging of the Canadian household given its peer high reliance on domestic households for its earnings. In thinking about CM's earnings outlook and valuation, we remind ourselves that the assumption one makes about the course of loan losses within the RBB segment stands out as the most influential swing factor. That said, the impressive operating performance of its RBB segment gives us comfort in this regard and we believe CM's valuation fairly reflects this risk.

We expect Retail & Business Banking's performance to continue its momentum from the last quarter driven primarily by sequentially improved loan growth. Wealth Management is projected to be relatively flat q/q. Meanwhile, Wholesale Banking earnings should fall sequentially as Q3 f2014 results were bolstered by the $30 million one-time gain on the merchant banking portfolio.

In Q4 f2014, we expect Retail & Business Banking's performance to continue its rebound from the last quarter driven primarily by modestly higher loan growth and net interest margin q/q. Meanwhile, Wholesale Banking earnings fall sequentially as a one-time $30 million after-tax gain within an equity-accounted investment in the merchant banking portfolio bolstered Q3 f2014 earnings.

CIBC – Quarterly Earnings Drivers by Line of Business

Notes:

Wholesale Banking: *Efficiency ratio calculation excludes pre-tax gains / (losses) from the structured credit run-off portfolio and gains within an equity-accounted investment in the merchant banking portfolio.*

Key Earnings Driver Assumptions	4Q-13A	1Q-14A	2Q-14A	3Q-14A	4Q-14E
Retail & Business Banking					
Average loan growth q/q	0.6%	(0.0%)	(0.2%)	1.2%	1.3%
Net interest margin (% average earning assets)	2.63%	2.61%	2.56%	2.55%	2.56%
Wealth Management					
Assets under administration growth q/q	4.1%	16.7%	4.8%	2.9%	1.0%
Efficiency ratio	71.3%	69.9%	72.1%	71.8%	71.8%
Wholesale Banking					
Trading revenue (TEB; C$ millions)	221	266	274	221	246
Efficiency ratio	53.7%	49.2%	52.8%	41.8%	51.0%

Source: Company financials; NBF analysis

CIBC – Income Statement and Earnings Drivers by Line of Business

CIBC RETAIL & BUSINESS BANKING (C$ millions)	4Q-13A	3Q-14A	4Q-14E	2013A	2014E	2015E
Income Statement						
Net Interest Income	1,445	1,411	1,433	5,656	5,638	5,868
Non Interest Revenue (incl. intersegment revenue)	642	621	628	2,493	2,649	2,550
Total Revenue	**2,087**	**2,032**	**2,061**	**8,149**	**8,287**	**8,419**
Non-Interest Expense	1,055	1,067	1,081	4,051	4,243	4,394
Pre-Provision Income	**1,032**	**965**	**980**	**4,098**	**4,044**	**4,024**
Provisions for Credit Losses	215	177	179	930	739	754
Net Income Before Tax	**817**	**788**	**802**	**3,168**	**3,306**	**3,270**
Provisions for Income Taxes	204	199	200	791	823	817
Net Income	**613**	**589**	**601**	**2,377**	**2,482**	**2,452**
Key Drivers						
Average loans and acceptances	228,505	230,651	233,630	227,235	230,160	239,549
Growth rate of average loans and acceptances (q/q)	0.6%	1.2%	1.3%	0.0%	0.6%	1.0%
Average earning assets	217,980	219,529	222,388	217,479	219,436	228,006
Growth rate of average earning assets (q/q)	0.5%	1.0%	1.3%	(0.1%)	0.5%	1.0%
Net interest margin on Average Loans & Acceptances	2.51%	2.43%	2.43%	2.49%	2.45%	2.45%
Non-interest revenue % Average earning assets	0.29%	0.28%	0.28%	1.15%	1.21%	1.12%
Non-interest expense % Average loans and acceptances	1.83%	1.84%	1.84%	1.78%	1.84%	1.83%
Efficiency ratio	51%	53%	52%	50%	51%	52%
PCL % Average loans and acceptances	0.37%	0.30%	0.30%	0.41%	0.32%	0.31%
Effective Tax Rate	25.0%	25.3%	25.0%	25.0%	24.9%	25.0%

WEALTH MANAGEMENT (C$ millions)	4Q-13A	3Q-14A	4Q-14E	2013A	2014E	2015E
Income Statement						
Net Interest Income	47	50	50	186	198	204
Non Interest Revenue	514	623	630	1,960	2,397	2,611
Intersegment Revenue	(91)	(105)	(106)	(343)	(403)	(437)
Total Revenue	**470**	**568**	**574**	**1,803**	**2,192**	**2,378**
Non-Interest Expense	335	408	412	1,301	1,566	1,707
Pre-Provision Income	**135**	**160**	**162**	**502**	**626**	**670**
Provisions for Credit Losses	1	-	-	1	-	-
Net Income Before Tax	**134**	**160**	**162**	**501**	**626**	**670**
Provisions for Income Taxes	31	39	39	116	151	161
Non-Controlling Interest						
Net Income	**103**	**121**	**123**	**385**	**473**	**509**
Key Drivers						
Assets under administration (C$ millions)	233,860	294,207	297,149	233,860	297,149	316,937
Growth rate of AUA (q/q)	4.1%	2.9%	1.0%	1.9%	6.2%	1.6%
Net interest income % AUA (annualized)	0.08%	0.07%	0.1%	0.08%	0.07%	0.06%
Non-interest revenue % AUA (annualized)	0.87%	0.84%	0.8%	0.84%	0.81%	0.82%
Non-interest expense % AUA (annualized)	0.57%	0.55%	0.6%	0.56%	0.53%	0.54%
Efficiency Ratio	71%	72%	72%	72%	71%	72%
Effective Tax Rate	23.1%	24.4%	24.0%	23.2%	24.1%	24.0%

WHOLESALE BANKING (C$ millions)	4Q-13A	3Q-14A	4Q-14E	2013A	2014E	2015E
Income Statement						
Net Interest Income	349	400	447	1,403	1,634	1,721
Non-interest revenue	171	270	224	837	993	860
Total Revenue	**520**	**670**	**671**	**2,240**	**2,627**	**2,581**
Non-interest Expense	271	279	342	1,317	1,268	1,316
Pre-Provision Income	**249**	**391**	**329**	**923**	**1,359**	**1,265**
Provision for Credit Losses	(1)	6	8	44	37	45
Net Income Before Tax	**250**	**385**	**320**	**879**	**1,321**	**1,220**
Provisions for Income Taxes	41	103	72	180	314	274
Net Income	**209**	**282**	**248**	**699**	**1,007**	**945**
Key Drivers						
Efficiency ratio	52%	42%	51%	59%	48%	51%
Average loans and acceptances (C$ millions)	23,113	25,080	25,586	21,607	24,935	26,889
Growth rate of average loans & acceptances (quarterly)	4.4%	0.6%	2.0%	3.8%	2.6%	2.0%
Non-trading revenue (C$ millions)	299	449	424	1,244	1,619	1,594
Trading revenue (C$ millions)	221	221	246	996	1,007	987
Effective Tax Rate	16.4%	26.8%	22.5%	20.5%	23.8%	22.5%

NATIONAL BANK FINANCIAL

CIBC – Snapshot – C$ Millions Unless Otherwise Stated

	Prior Four Quarters				Last	Next Four Quarters				Years Ending			
LOB Net Income Summary	**3Q-13A**	**4Q-13A**	**1Q-14A**	**2Q-14A**	**3Q-14A**	**4Q-14E**	**1Q-15E**	**2Q-15E**	**3Q-15E**	**2013A**	**2014E**	**2015E**	**2016E**
Retail & Business Banking	**612**	**613**	**746**	**546**	**589**	**601**	**609**	**598**	**629**	**2,377**	**2,482**	**2,452**	**2,358**
Wealth Management	**102**	**103**	**113**	**116**	**121**	**123**	**125**	**123**	**129**	**385**	**473**	**509**	**545**
Wholesale Banking	**212**	**209**	**264**	**213**	**282**	**248**	**247**	**223**	**236**	**699**	**1,007**	**945**	**992**
Corporate and Other	**(49)**	**(93)**	**51**	**(558)**	**(74)**	**(64)**	**(22)**	**(34)**	**(34)**	**(109)**	**(645)**	**(123)**	**(106)**
Net Income to Equity Holders	**$ 877**	**$ 832**	**$1,174**	**$ 317**	**$ 918**	**$ 908**	**$ 959**	**$ 910**	**$ 960**	**$ 3,352**	**$ 3,317**	**$ 3,784**	**$ 3,789**
Enterprise Income Statement	**3Q-13A**	**4Q-13A**	**1Q-14A**	**2Q-14A**	**3Q-14A**	**4Q-14E**	**1Q-15E**	**2Q-15E**	**3Q-15E**	**2013A**	**2014E**	**2015E**	**2016E**
Net Interest Income	1,883	1,893	1,905	1,798	1,875	1,950	1,967	1,899	2,001	7,453	7,528	7,906	8,479
Non-Interest Income	1,366	1,287	1,729	1,369	1,483	1,455	1,514	1,439	1,516	5,265	6,036	6,004	6,341
Non-Interest Expense	(1,878)	(1,930)	(1,979)	(2,412)	(2,047)	(2,085)	(2,096)	(2,028)	(2,129)	(7,621)	(8,523)	(8,407)	(8,817)
Pre-Provision Profitability	**1,371**	**1,250**	**1,655**	**755**	**1,311**	**1,320**	**1,385**	**1,310**	**1,387**	**5,097**	**5,041**	**5,503**	**6,003**
Provision for Credit Losses	(320)	(271)	(218)	(330)	(195)	(214)	(216)	(213)	(224)	(1,121)	(957)	(915)	(1,387)
Net Income Before Tax	**1,051**	**979**	**1,437**	**425**	**1,116**	**1,106**	**1,169**	**1,097**	**1,163**	**3,976**	**4,084**	**4,588**	**4,616**
Provision for Income Taxes	(173)	(154)	(260)	(119)	(195)	(197)	(209)	(187)	(203)	(626)	(771)	(801)	(823)
Net Income (NI)	**878**	**825**	**1,177**	**306**	**921**	**909**	**960**	**911**	**961**	**3,350**	**3,313**	**3,787**	**3,792**
Non-Controlling Interest	(1)	7	(3)	11	(3)	(1)	(1)	(1)	(1)	2	4	(4)	(4)
Net Income to Equity Holders	**877**	**832**	**1,174**	**317**	**918**	**908**	**959**	**910**	**960**	**3,352**	**3,317**	**3,784**	**3,789**
Preferred Share Dividends	(25)	(24)	(25)	(25)	(19)	(20)	(23)	(23)	(23)	(99)	(89)	(92)	(94)
Net Income to Common	**852**	**808**	**1,149**	**292**	**899**	**888**	**936**	**887**	**937**	**3,253**	**3,228**	**3,692**	**3,695**
Amortization	4	6	6	7	8	6	6	6	6	19	27	22	22
Cash Net Income	**856**	**814**	**1,155**	**299**	**907**	**894**	**941**	**892**	**942**	**3,272**	**3,255**	**3,714**	**3,718**
One-Time Items	34	45	(251)	564	(21)	6	(28)	-	-	167	298	(28)	(28)
Core Cash Net Income	**$ 890**	**$ 859**	**$ 904**	**$ 863**	**$ 886**	**$ 899**	**$ 913**	**$ 892**	**$ 942**	**$ 3,439**	**$ 3,552**	**$ 3,686**	**$ 3,690**
Core Cash EPS	$2.22	$2.15	$2.26	$2.17	$2.23	$2.26	$2.30	$2.25	$2.38	$8.57	$8.92	$9.32	$9.43
y/y % Growth	*9%*	*7%*	*7%*	*4%*	*0%*	*5%*	*2%*	*4%*	*7%*	*7%*	*4%*	*4%*	*1%*
Net Income to Common EPS (IFRS)	$2.13	$2.02	$2.88	$0.73	$2.26	$2.24	$2.36	$2.24	$2.37	$8.11	$8.10	$9.33	$9.45
y/y % Growth	*8%*	*1%*	*53%*	*(65%)*	*6%*	*11%*	*(18%)*	*205%*	*5%*	*5%*	*(0%)*	*15%*	*1%*
Annualized Core Cash ROE	23%	22%	22%	21%	21%	20%	20%	19%	19%	22%	21%	19%	18%
Dividends / Share	$0.96	$0.96	$0.96	$0.98	$1.00	$1.00	$1.02	$1.02	$1.04	$3.80	$3.94	$4.13	$4.28
Common Div. Payout Ratio	45%	48%	33%	134%	44%	45%	43%	45%	44%	47%	49%	44%	45%
F/D Avg. Shares (excl. IFRS dilution)	400	400	399	399	398	397	397	396	395	401	398	396	391
F/D Avg. Shares O/S (IFRS)	400	400	399	399	398	397	397	396	395	401	398	396	391
Average Assets ($bln)	403	405	410	406	411	417	422	427	433	404	411	430	450
Book Value per Share	38.93	40.36	42.59	42.04	43.02	45.92	47.21	48.30	49.52	40.36	45.92	50.75	55.29
Basel III - Com. Equity Tier 1 Ratio	9.3%	9.4%	9.5%	10.0%	10.1%	10.4%	10.6%	10.7%	10.7%	9.4%	10.4%	10.8%	11.1%
NIM (% Avg. Assets)	1.86%	1.85%	1.84%	1.81%	1.81%	1.86%	1.85%	1.83%	1.84%	1.85%	1.83%	1.84%	1.88%
Effective Tax Rate	16%	16%	18%	28%	17%	18%	18%	17%	17%	16%	19%	17%	18%
Efficiency Ratio	58%	61%	54%	76%	61%	61%	60%	61%	61%	60%	63%	60%	59%

Source: Company financials; NBF analysis

Toronto-Dominion Bank (TD)	Outperform	Target: $61
Earnings Report Release:		*December 4, 2014; TBD*
Earnings Call:		*December 4, 2014 at 3PM EDT*
Dial-In Number:		*TBD; Prior Quarter's Details: 416-260-0113 (Toronto Area) or 1-800-524-8950*
Investor Relations:		*www.td.com/investor/index.jsp*

LOB Net Income Summary (C$ millions)	4Q-13A	3Q-14A	4Q-14E	q/q	y/y	2013A	2014E	2015E	2016E
Canadian P&C Banking	914	1,063	1,031	(3.0%)	12.8%	3,654	3,993	4,363	4,581
U.S. Retail	448	561	506	(9.7%)	13.0%	1,752	2,107	2,433	2,622
Canadian Wealth & Insurance	323	337	327	nmf	1.2%	915	1,295	1,433	1,596
Wholesale Banking	122	216	197	(9.0%)	61.2%	650	850	862	875
Corporate Segment	(218)	(97)	(165)	nmf	nmf	(436)	(292)	(524)	(454)
Net Income to Equity Holders	**$ 1,589**	**$ 2,080**	**$ 1,896**	**(8.8%)**	**19.3%**	**$ 6,535**	**$ 7,953**	**$ 8,567**	**$ 9,221**
Core Cash EPS (excl. IFRS dilution)	**$ 0.95**	**$ 1.15**	**$ 1.05**	**(8.1%)**	**11.4%**	**$ 3.71**	**$ 4.35**	**$ 4.70**	**$ 5.03**
Net Income to Common EPS (IFRS)	**$ 0.84**	**$ 1.11**	**$ 1.01**	**(8.8%)**	**20.5%**	**$ 3.45**	**$ 4.23**	**$ 4.57**	**$ 4.91**

Source: Company financials; NBF analysis

Investment Thesis: TD faces revenue pressures in both the Canadian and U.S. P&C Banking segments. Net interest margins are tight in both countries and loan growth has slowed in Canada. Through fairly impressive cost control, TD continues to manage these headwinds as best it can. In addition, the credit environment, particularly for households in Canada and the U.S., appears to be exceptionally benign, a condition unlikely to change until the latter half of f2015, at the earliest.

We think the bank has a good opportunity to offset the P&C banking revenue headwinds that it faces by expanding its risk appetite for, and capital allocation to, its Wholesale Banking segment. Loan growth in that segment was promising in Q3 f2014 and we hope this performance heralds an intensified focus by the board on growing TD's capital markets operations. Finally, we re-emphasize the bank's gearing to a rising interest rate environment in the United States.

In Q4 f2014 we forecast a sequential earnings decline in P&C banking on both sides of the border, owing to higher seasonal expenses and PCLs (particularly in the U.S. which had unusually high recoveries last quarter). Earnings are further weighed down by lower insurance revenues in Canadian Wealth & Insurance q/q and greater losses in the Corporate segment.

Toronto-Dominion Bank – Quarterly Earnings Drivers by Line of Business

Notes:

Wealth & Insurance: *Efficiency ratio calculation includes charges relating to severe weather events and increasing provisions for auto-insurance claims. The decline in AUA in Q1 f2014 reflects the sale of TD Waterhouse Institutional Services.*

Key Earnings Driver Assumptions	4Q-13A	1Q-14A	2Q-14A	3Q-14A	4Q-14E
Canadian P&C Banking					
Average loan growth q/q	1.8%	1.5%	1.0%	1.2%	1.6%
Net interest margin (% average earning assets)	2.81%	2.83%	2.87%	2.87%	2.88%
U.S. Retail					
Average loan growth q/q (US$)	2.3%	2.1%	0.7%	2.5%	2.0%
Net interest margin (% average earning assets, Cdn$)	3.89%	3.83%	3.77%	3.76%	3.77%
Canadian Wealth & Insurance					
Assets under administration growth q/q	5.6%	(7.4%)	5.3%	2.5%	1.3%
Efficiency ratio	78.2%	79.4%	76.2%	78.4%	78.5%
Wholesale Banking					
Trading revenue (TEB; C$ million)	343	408	365	325	326
Efficiency ratio	70.1%	57.2%	59.7%	57.6%	62.0%

Source: Company financials; NBF analysis

Toronto-Dominion Bank – Income Statement and Earnings Drivers by Line of Business

CANADIAN P&C BANKING (C$ millions)	4Q-13A	3Q-14A	4Q-14E	2013A	2014E	2015E
Income Statement						
Net Interest Income	2,151	2,285	2,321	8,345	8,979	9,535
Non Interest Revenue	680	739	753	2,695	2,944	3,093
Total Revenue	**2,831**	**3,024**	**3,074**	**11,040**	**11,923**	**12,628**
Non-Interest Expense	1,362	1,350	1,426	5,136	5,547	5,627
Pre-Provision Income	**1,469**	**1,674**	**1,648**	**5,904**	**6,376**	**7,001**
Provisions for Credit Losses	224	228	245	929	941	1,065
Net Income Before Tax	**1,245**	**1,446**	**1,403**	**4,975**	**5,435**	**5,936**
Provisions for Income Taxes	331	383	372	1,321	1,442	1,573
Net Income (Reported)	**914**	**1,063**	**1,031**	**3,654**	**3,993**	**4,363**
Key Drivers						
Average loans & acceptances	313,700	325,700	330,832	307,075	324,183	340,513
Growth rate of loans and acceptances (q/q)	1.8%	1.2%	1.6%	1.1%	1.3%	1.2%
Net interest income % of Avg. loans and acceptances	2.72%	2.78%	2.78%	2.72%	2.77%	2.80%
Non interest revenue % of Avg. loans and acceptances	0.86%	0.90%	0.90%	0.88%	0.91%	0.91%
Non-interest expense % Avg. loans & acceptances	1.72%	1.64%	1.71%	1.67%	1.71%	1.65%
Efficiency Ratio	48%	45%	46%	47%	47%	45%
PCL % of Avg. loans and acceptances	0.28%	0.28%	0.29%	0.30%	0.29%	0.31%

U.S. RETAIL (US$ millions)	4Q-13A	3Q-14A	4Q-14E	2013A	2014E	2015E
Income Statement						
Net Interest Income	1,381	1,387	1,413	5,070	5,546	5,808
Non Interest Revenue	515	504	511	2,103	2,090	2,125
Total Revenue	**1,896**	**1,891**	**1,924**	**7,173**	**7,636**	**7,934**
Non-Interest Expense	1,297	1,220	1,309	4,671	4,967	4,988
Pre-Provision Income	**599**	**671**	**616**	**2,502**	**2,670**	**2,946**
Provision for credit losses - loans	203	116	149	795	639	689
Provision for credit losses - debt securities classified as loans	(26)	2	-	(31)	6	-
Net Income Before Tax	**422**	**553**	**467**	**1,738**	**2,025**	**2,257**
Provisions for Income Taxes	65	104	86	264	372	400
Net Income excluding Ameritrade (US$ millions, Reported)	**357**	**449**	**380**	**1,474**	**1,652**	**1,856**
Equity in net income of an investment in associate, net of income taxes	73	69	71	241	275	325
Net Income (US$, Reported)	**430**	**518**	**451**	**1,715**	**1,927**	**2,182**
Net Income (C$, Reported)	**448**	**561**	**506**	**1,752**	**2,107**	**2,433**
Key Drivers (US$)						
Average earning assets (US$ millions)	139,898	145,948	148,891	138,179	146,414	154,455
Growth Rate in Avg. Earning Assets (q/q)	0.6%	(1.9%)	2.0%	1.3%	1.6%	1.6%
Net interest income % Avg. Earning Assets	3.92%	3.77%	3.77%	3.67%	3.79%	3.76%
Non interest revenue % Avg. Earning Assets	1.47%	1.36%	1.36%	1.52%	1.43%	1.38%
Efficiency Ratio	68%	65%	68%	65%	65%	63%
Non-interest expense % Avg. Earning Assets	3.68%	3.32%	3.49%	3.38%	3.39%	3.23%

CANADIAN WEALTH & INSURANCE (C$ millions)	4Q-13A	3Q-14A	4Q-14E	2013A	2014E	2015E
Income Statement						
Net Interest Income	147	151	152	577	597	629
Wealth-related non-interest income	634	704	717	2,449	2,750	3,092
Insurance revenue	968	1,036	972	3,734	3,854	3,960
Income (loss) from financial instruments designated at fair value through profit and loss	17	19	-	(18)	32	-
Total Revenue	**1,766**	**1,910**	**1,841**	**6,742**	**7,233**	**7,681**
Wealth-related non-interest expenses	670	726	734	2,618	2,827	3,047
Insurance claims and related expenses	711	771	711	3,056	2,824	2,897
Net Income Before Tax	**385**	**413**	**396**	**1,068**	**1,582**	**1,737**
Provisions for Income Taxes	62	76	69	153	287	304
Net Income (Reported)	**323**	**337**	**327**	**915**	**1,295**	**1,433**
Key Drivers						
Average Assets (C$ millions)	27,500	28,813	29,249	27,170	28,305	30,198
Growth rate of average assets (q/q)	(1.1%)	2.0%	1.5%	1.3%	1.6%	1.6%
Assets Under Administration (C$ millions)	285,000	285,000	288,592	266,600	280,118	300,349
Assets Under Management (C$ millions)	204,000	230,000	232,899	199,800	220,180	247,259
Insurance Liabilities (C$ millions)	5,586	5,591	5,633	5,114	5,629	5,718
Growth rate of AUA (q/q)	5.6%	2.5%	1.3%	3.3%	0.3%	2.0%
Net interest income % Avg. assets	2.12%	2.08%	2.08%	2.12%	2.11%	2.08%
Wealth Management non interest revenue % AUM	1.23%	1.21%	1.22%	1.23%	1.25%	1.25%
Insurance Revenue % Insurance Liabilities	17.3%	18.5%	17.3%	18.3%	17.1%	17.3%
Efficiency Ratio	78%	78%	78%	84%	78%	77%

WHOLESALE BANKING (C$ millions)	4Q-13A	3Q-14A	4Q-14E	2013A	2014E	2015E
Income Statement						
Net Interest Income	509	589	568	1,982	2,241	2,316
Non Interest Revenue	94	91	128	428	531	522
Total Revenue	**603**	**680**	**696**	**2,410**	**2,772**	**2,838**
Non-interest Expense	423	392	431	1,542	1,639	1,674
Pre-Provision Income	**180**	**288**	**264**	**868**	**1,132**	**1,163**
Provision for credit losses	5	5	6	26	18	29
Net Income Before Tax	**175**	**283**	**259**	**842**	**1,115**	**1,134**
Provisions for Income Taxes	53	67	62	192	265	272
Net Income	**122**	**216**	**197**	**650**	**850**	**862**
Key Drivers						
Total assets (C$ millions)	261,800	289,750	293,402	262,200	293,238	302,670
Growth rate of total assets (quarterly)	1.4%	(2.7%)	1.3%	0.0%	2.9%	1.2%
Non-trading revenue % Total assets	0.39%	0.49%	0.50%	0.43%	0.46%	0.48%
Trading revenue	343	325	326	1,273	1,424	1,399
Efficiency ratio	70%	58%	62%	64%	59%	59%

Toronto-Dominion Bank – Snapshot – C$ Millions Unless Otherwise Stated

TORONTO-DOMINION BANK	Prior Four Quarters				Last	Next Four Quarters				Years Ending			
LOB Net Income Summary	**3Q-13A**	**4Q-13A**	**1Q-14A**	**2Q-14A**	**3Q-14A**	**4Q-14E**	**1Q-15E**	**2Q-15E**	**3Q-15E**	**2013A**	**2014E**	**2015E**	**2016E**
Canadian P&C Banking	**973**	**914**	**914**	**985**	**1,063**	**1,031**	**1,076**	**1,057**	**1,110**	**3,654**	**3,993**	**4,363**	**4,581**
U.S. Retail	**513**	**448**	**492**	**548**	**561**	**506**	**584**	**580**	**627**	**1,752**	**2,107**	**2,433**	**2,622**
Canadian Wealth & Insurance	**(63)**	**323**	**290**	**341**	**337**	**327**	**338**	**349**	**369**	**915**	**1,295**	**1,433**	**1,596**
Wholesale Banking	**148**	**122**	**230**	**207**	**216**	**197**	**211**	**211**	**218**	**650**	**850**	**862**	**875**
Corporate Segment	**(74)**	**(218)**	**89**	**(119)**	**(97)**	**(165)**	**(135)**	**(140)**	**(127)**	**(436)**	**(292)**	**(524)**	**(454)**
Net Income to Equity Holders	**$ 1,497**	**$ 1,589**	**$ 2,015**	**$ 1,962**	**$ 2,080**	**$ 1,896**	**$ 2,074**	**$ 2,056**	**$ 2,197**	**$ 6,535**	**$ 7,953**	**$ 8,567**	**$ 9,221**
Enterprise Income Statement	**3Q-13A**	**4Q-13A**	**1Q-14A**	**2Q-14A**	**3Q-14A**	**4Q-14E**	**1Q-15E**	**2Q-15E**	**3Q-15E**	**2013A**	**2014E**	**2015E**	**2016E**
Net Interest Income	4,145	4,183	4,301	4,391	4,435	4,563	4,608	4,535	4,777	16,074	17,690	18,816	20,450
Non-Interest Income	2,940	2,817	3,264	3,044	3,074	3,083	3,132	3,121	3,264	11,185	12,465	12,840	13,756
Non-Interest Expense	(4,911)	(4,875)	(4,779)	(4,688)	(4,811)	(5,034)	(4,901)	(4,831)	(5,021)	(18,125)	(19,312)	(19,863)	(21,043)
Pre-Provision Profitability	**2,174**	**2,125**	**2,786**	**2,747**	**2,698**	**2,612**	**2,838**	**2,825**	**3,019**	**9,134**	**10,843**	**11,793**	**13,163**
Provision for Credit Losses	(477)	(352)	(456)	(392)	(338)	(397)	(415)	(420)	(458)	(1,631)	(1,583)	(1,794)	(2,393)
Net Income Before Tax	**1,697**	**1,773**	**2,330**	**2,355**	**2,360**	**2,214**	**2,423**	**2,405**	**2,561**	**7,503**	**9,259**	**9,999**	**10,770**
Provision for Income Taxes	(249)	(238)	(365)	(447)	(330)	(378)	(405)	(403)	(430)	(1,135)	(1,520)	(1,678)	(1,840)
Net Income	**1,448**	**1,535**	**1,965**	**1,908**	**2,030**	**1,836**	**2,018**	**2,002**	**2,132**	**6,368**	**7,739**	**8,321**	**8,930**
Non-Controlling Interest	(26)	(27)	(27)	(26)	(27)	(27)	(27)	(27)	(27)	(105)	(107)	(106)	(107)
Equity in NI of an Assoc. Corp.	75	81	77	80	77	86	83	81	92	272	320	352	397
Net Income to Equity Holders	**1,497**	**1,589**	**2,015**	**1,962**	**2,080**	**1,896**	**2,074**	**2,056**	**2,197**	**6,535**	**7,953**	**8,567**	**9,221**
Preferred Share Dividends	(38)	(49)	(46)	(40)	(25)	(25)	(25)	(25)	(25)	(185)	(136)	(99)	(118)
Net Income to Common	**1,459**	**1,540**	**1,969**	**1,922**	**2,055**	**1,871**	**2,049**	**2,031**	**2,173**	**6,350**	**7,817**	**8,468**	**9,103**
Amortization	59	59	61	63	60	60	61	60	59	232	244	238	225
Cash Net Income	**1,518**	**1,599**	**2,030**	**1,985**	**2,115**	**1,931**	**2,110**	**2,091**	**2,232**	**6,582**	**8,061**	**8,706**	**9,328**
One-time Items	2	140	(79)	23	-	15	-	-	-	264	(41)	-	-
Core Cash Net Income	**$ 1,520**	**$ 1,739**	**$ 1,951**	**$ 2,008**	**$ 2,115**	**$ 1,947**	**$ 2,110**	**$ 2,091**	**$ 2,232**	**$ 6,846**	**$ 8,021**	**$ 8,706**	**$ 9,328**
Core Cash EPS (excl. IFRS dilution)	$0.82	$0.95	$1.06	$1.09	$1.15	$1.05	$1.14	$1.13	$1.20	$3.71	$4.35	$4.70	$5.03
% Growth	*(13%)*	*15%*	*12%*	*3%*	*5%*	*(8%)*	*8%*	*(1%)*	*7%*	*0%*	*17%*	*8%*	*7%*
Net Income to Common EPS (IFRS)	$0.79	$0.84	$1.07	$1.04	$1.11	$1.01	$1.11	$1.10	$1.17	$3.45	$4.23	$4.57	$4.91
% Growth	*(11%)*	*6%*	*27%*	*(3%)*	*7%*	*(9%)*	*9%*	*(1%)*	*7%*	*2%*	*23%*	*8%*	*7%*
Annualized Core Cash ROE	13%	15%	16%	17%	17%	15%	16%	16%	16%	15%	16%	16%	15%
Dividends / Share	$0.40	$0.43	$0.43	$0.47	$0.47	$0.47	$0.47	$0.51	$0.51	$1.62	$1.84	$2.00	$2.16
Common Div. Payout Ratio	51%	51%	40%	45%	42%	46%	42%	46%	43%	47%	43%	44%	44%
F/D Avg. Shares (excl. IFRS dilution)	1,848	1,839	1,841	1,845	1,847	1,849	1,851	1,853	1,853	1,844	1,845	1,853	1,856
F/D Avg. Shares O/S (IFRS)	1,848	1,839	1,841	1,845	1,847	1,849	1,851	1,853	1,853	1,845	1,845	1,853	1,856
Avg. Earning Assets ($bln)	742	748	787	795	806	815	825	836	850	731	801	844	898
Avg. RWA ($bln) - Basel III after 4Q-12	283	285	300	313	315	317	322	328	333	274	309	330	354
Book Value per Share	$ 24.60	$ 25.33	$ 26.91	$ 27.14	$ 27.48	$ 28.30	$ 28.96	$ 29.63	$ 30.40	$ 25.33	$ 28.30	$ 31.18	$ 33.98
Basel III - Com. Equity Tier 1 Ratio	8.9%	9.0%	8.9%	9.2%	9.3%	9.8%	10.0%	10.2%	10.5%	9.0%	9.8%	10.7%	11.4%
NIM (% Avg. Earning Assets)	2.22%	2.22%	2.17%	2.26%	2.18%	2.22%	2.22%	2.22%	2.23%	2.20%	2.21%	2.23%	2.28%
Effective Tax Rate	15%	13%	16%	19%	14%	17%	17%	17%	17%	15%	16%	17%	17%
Efficiency Ratio	69%	70%	63%	63%	64%	66%	63%	63%	62%	66%	64%	63%	62%

Source: Company financials; NBF analysis

Bank of Nova Scotia (BNS)	Outperform	Target: $78
Earnings Report Release:		*December 5, 2014; TBD*
Earnings Call:		*December 5, 2014 at 8AM EDT*
Dial-In Number:		*TBD; Prior Quarter's Details: 416-849-1847 (Toronto Area) or 1-866-530-1554*
Investor Relations:		*www.scotiabank.com/cda/eventdetail/0,1005,LIDen_SID108,00.html*

LOB Net Income Summary (C$ millions)	4Q-13A	3Q-14A	4Q-14E	q/q	y/y	2013A	2014E	2015E	2016E
Canadian Banking	555	565	573	1.4%	3.2%	2,151	2,278	2,342	2,404
International Banking	410	410	415	1.2%	1.2%	1,726	1,642	1,834	2,154
Global Wealth & Insurance	302	846	297	(64.9%)	(1.8%)	1,207	1,815	1,250	1,367
Global Banking and Markets	337	408	423	3.6%	25.4%	1,455	1,555	1,605	1,628
Other	16	72	26	(1)	1	(160)	142	113	126
Net Income to Equity Holders	$1,620	$2,301	$1,732	(24.7%)	6.9%	$6,379	$7,430	$7,144	$7,679
Core Cash EPS (excl. IFRS dilution)	$ 1.31	$ 1.41	$ 1.39	(1.2%)	6.8%	$ 5.10	$ 5.55	$ 5.76	$ 6.23
Net Income to Common EPS (IFRS)	$ 1.29	$ 1.85	$ 1.38	(25.2%)	7.2%	$ 5.11	$ 5.94	$ 5.72	$ 6.19

Source: Company financials; NBF analysis

Investment Thesis: Over the long haul, we prefer BNS' operating platform to those of its domestic peers. BNS has added more geographic diversity to its earnings base than any other Canadian bank and that diversity comes with enduring growth potential. BNS did not diversify into highly competitive U.S. personal & commercial banking markets, but rather built an array of very attractive P&C banking franchises within fast growing economies. This strategy will pay off long term and our disappointment with this quarter's results was not severe enough to cause us to reject that thesis.

The major economies in the International Banking segment (Chile, Peru, Mexico) have slowed – some in greater magnitudes than others – while several minor economies (e.g., Puerto Rico and elsewhere in the Caribbean) pose the near-term prospect of rising provisions for credit losses. In fact, if we remained narrowly focused on the near-term headwinds in the International Banking segment (combined with disappointing results in Canadian Banking and Global Wealth & Insurance), we might well be tempted to drop our rating to Sector Perform.

If we did that, however, we would ignore the benefit of BNS' exceptionally strong level of capitalization. As a result of the bank's divestiture of most of its stake in CI Financial Corp., the bank has approximately Cdn$3 billion in tangible common equity in excess of that required to maintain a 10% CET1 ratio. Moreover, BNS internally generates about Cdn$800-850 million per quarter in CET1 capital (average over the past seven quarters, excluding the impact of the CIX divestiture).

If we assume BNS can generate a 6% after-tax return on its surplus capital in future quarters, then this adds approximately $3 per share to our target price (which is incorporated into our present price target). We also remind ourselves that BNS' management team has generated returns on its invested capital well in excess of 6% and that a slowdown in some or all of the Latin American economies may actually spawn more compelling acquisition opportunities.

We expect earnings to decline slightly q/q (excluding the gain on sale from the divestment of most of BNS' investment in CI Financial Corp.), as lower earnings q/q in Global Wealth & Insurance and a smaller contribution from the Other segment offsets sequential improvement in Canadian Banking, International Banking and Global Banking and Markets. In particular, we expect increased commodities-related trading in light of recent volatility to bolster Global Banking and Markets earnings.

Bank of Nova Scotia – Quarterly Earnings Drivers by Line of Business

Notes:

Global Wealth Management: *efficiency in Q3 f2014 includes the impact from the gain on sale of the partial divestment of BNS' stake in CI Financial Corp.*

International Banking: *Historical avg. loan growth q/q includes benefit of acquisitions.*

Key Earnings Driver Assumptions	4Q-13A	1Q-14A	2Q-14A	3Q-14A	4Q-14E
Canadian Banking					
Average loan growth q/q	1.0%	0.4%	0.5%	1.1%	1.1%
Net interest margin (% average earning assets)	2.06%	2.07%	2.10%	2.10%	2.10%
International Banking					
Average loan growth q/q	2.4%	5.8%	4.5%	(1.5%)	1.0%
Net interest margin (% average earning assets)	3.90%	3.93%	4.00%	4.05%	4.05%
Global Wealth Management					
Assets under administration growth q/q	4.8%	3.7%	7.1%	0.8%	1.2%
Efficiency ratio	61.0%	60.4%	59.0%	63.5%	64.2%
Global Banking & Markets					
Trading revenue (TEB; C$ millions)	407	402	425	347	363
Efficiency ratio	46.8%	48.7%	41.2%	43.6%	45.0%

Source: Company financials; NBF analysis

Bank of Nova Scotia – Income Statement and Earnings Drivers by Line of Business

CANADIAN BANKING (C$ millions)	4Q-13A	3Q-14A	4Q-14E	2013A	2014E	2015E
Income Statement						
Net Interest Income	1,402	1,450	1,463	5,419	5,704	6,005
Non Interest Revenue	389	433	448	1,554	1,753	1,838
Total Revenue	**1,791**	**1,883**	**1,911**	**6,973**	**7,457**	**7,843**
Non-Interest Expense	923	968	977	3,583	3,789	3,947
Pre-Provision Income	**868**	**915**	**934**	**3,390**	**3,668**	**3,895**
Provisions for Credit Losses	116	151	159	478	584	724
Net Income Before Tax	**752**	**764**	**775**	**2,912**	**3,084**	**3,171**
Provisions for Income Taxes	197	199	203	761	807	829
Non-Controlling Interest	-	-	-	-	-	-
Net Income to Equityholders	**555**	**565**	**573**	**2,151**	**2,278**	**2,342**
Key Drivers						
Average loans & acceptances (C$ millions)	273,200	278,700	281,764	268,175	277,591	288,836
Growth rate of average loans & acceptances	1.0%	1.1%	1.1%	4.2%	0.8%	1.0%
Average earning assets (C$ millions)	270,014	273,939	276,968	266,096	272,713	283,909
Growth rate of average earning assets	0.95%	1.43%	1.11%	4.36%	0.64%	0.98%
Net interest margin on average loans	2.04%	2.06%	2.06%	2.02%	2.05%	2.08%
Net Fee and Commission Revenues % Average earning assets	0.56%	0.61%	0.61%	0.58%	0.64%	0.65%
PCL % Average earning assets	0.17%	0.22%	0.23%	0.18%	0.21%	0.26%
Efficiency ratio	52%	51%	51%	51%	51%	50%

INTERNATIONAL BANKING (C$ millions)	4Q-13A	3Q-14A	4Q-14E	2013A	2014E	2015E
Income Statement						
Net Interest Income	1,223	1,363	1,378	4,923	5,382	5,796
Non Interest Revenue	598	528	527	2,498	2,141	2,217
Total Revenue	**1,821**	**1,891**	**1,906**	**7,421**	**7,524**	**8,013**
Non-Interest Expense	1,032	1,064	1,056	4,138	4,229	4,372
Pre-Provision Income	**789**	**827**	**850**	**3,283**	**3,295**	**3,641**
Provisions for Credit Losses	207	244	262	781	955	1,063
Net Income Before Tax	**582**	**583**	**588**	**2,502**	**2,340**	**2,579**
Provisions for Income Taxes	127	131	132	584	527	577
Non-controlling Interest	45	42	42	192	172	168
Net Income to Equityholders	**410**	**410**	**415**	**1,726**	**1,642**	**1,834**
Key Drivers						
Average earning assets (C$ millions)	124,413	133,520	134,866	119,828	134,277	142,530
Growth rate of average earning assets	3.0%	(2.7%)	1.0%	3.1%	2.0%	2.3%
Net interest margin on Average earning assets	3.90%	4.05%	4.05%	4.11%	4.01%	4.07%
Net Fee and Commission Revenues % Average earning assets	1.24%	1.05%	1.04%	50.74%	39.79%	38.25%
Non-interest expense % Average earning assets	3.29%	3.16%	3.11%	3.45%	3.15%	3.07%
PCL % Average earning assets	0.66%	0.73%	0.77%	0.65%	0.71%	0.75%
Efficiency ratio	57%	56%	55%	56%	56%	55%

GLOBAL WEALTH & INSURANCE (C$ millions)	4Q-13A	3Q-14A	4Q-14E	2013A	2014E	2015E
Income Statement						
Net Interest Income	100	114	116	409	443	485
Non Interest Revenue	925	1,601	979	3,587	4,574	4,059
Total Revenue	**1,025**	**1,715**	**1,095**	**3,996**	**5,017**	**4,544**
Non-Interest Expense	625	699	704	2,411	2,720	2,896
Pre-Provision Income	**400**	**1,016**	**392**	**1,585**	**2,298**	**1,648**
Provisions for Credit Losses	-	2	1	3	3	4
Net Income Before Tax	**400**	**1,014**	**391**	**1,582**	**2,295**	**1,644**
Provisions for Income Taxes	87	159	85	336	439	359
Non-controlling Interest	11	9	9	39	41	36
Net Income	**302**	**846**	**297**	**1,207**	**1,815**	**1,250**
Key Drivers						
Average assets (C$ millions)	15,200	14,000	14,282	14,375	15,046	15,010
Growth rate of average assets	4.8%	(11.9%)	2.0%	2.4%	(1.5%)	2.0%
Assets under administration (C$ millions)	326,000	365,000	369,416	326,000	369,416	399,868
Growth rate of AUA	4.8%	0.8%	1.2%	3.6%	3.2%	2.0%
Net interest income % of Average assets	2.61%	3.23%	3.23%	2.85%	2.95%	3.23%
Non-interest revenue % of AUA	0.92%	0.92%	0.92%	1.10%	1.24%	1.02%
Non-interest expense % of AUA	0.76%	0.76%	0.76%	0.74%	0.74%	0.72%
Efficiency ratio	61%	64%	64%	60%	54%	64%

Note: A $534 million gain due to the partial divestiture of BNS' stake in CI Financial Corp explains the $846 million in Global Wealth & Insurance earnings in Q3 f2014.

GLOBAL BANKING AND MARKETS (C$ millions)	4Q-13A	3Q-14A	4Q-14E	2013A	2014E	2015E
Income Statement						
Net Interest Income	175	183	200	787	747	761
Non-interest revenue	679	827	851	2,793	3,216	3,245
Total Revenue	**854**	**1,010**	**1,050**	**3,580**	**3,962**	**4,006**
Non-interest Expense	400	440	473	1,589	1,766	1,803
Pre-Provision Income	**454**	**570**	**578**	**1,991**	**2,197**	**2,204**
Provision for Credit Losses	(2)	1	3	26	12	20
Net Income Before Tax	**456**	**569**	**575**	**1,965**	**2,185**	**2,184**
Provisions for Income Taxes	119	161	152	510	630	579
Non-controlling Interest	-	-	-	-	-	-
Net Income	**337**	**408**	**423**	**1,455**	**1,555**	**1,605**
Key Drivers						
Average business loans & acceptances (C$ millions)	38,400	41,200	41,927	39,050	41,482	43,790
Growth rate of avg. bus. & govt loans & acceptances (quarterly)	(1.5%)	(3.7%)	1.8%	1.1%	2.2%	1.7%
Non-trading revenue % Avg. bus. & govt loans & acceptances	4.62%	6.38%	6.50%	5.08%	5.85%	5.67%
Efficiency ratio	47%	44%	45%	44%	45%	45%
Trading revenue (C$ millions)	407	347	363	1,597	1,537	1,522

NATIONAL BANK FINANCIAL

Bank of Nova Scotia – Snapshot – C$ Millions Unless Otherwise Stated

	Prior Four Quarters				Last	Next Four Quarters				Years Ending			
Segment Net Income Summary	3Q-13A	4Q-13A	1Q-14A	2Q-14A	3Q-14A	4Q-14E	1Q-15E	2Q-15E	3Q-15E	2013A	2014E	2015E	2016E
Canadian Banking	550	555	575	565	565	573	582	571	595	2,151	2,278	2,342	2,404
International Banking	490	410	401	416	410	415	438	437	469	1,726	1,642	1,834	2,154
Global Wealth & Insurance	310	302	327	345	846	297	304	301	319	1,207	1,815	1,250	1,367
Global Banking and Markets	378	337	339	385	408	423	409	405	395	1,455	1,555	1,605	1,628
Other	(37)	16	13	31	72	26	27	28	29	(160)	142	113	126
Net Income to Equity Holders	$ 1,691	$ 1,620	$ 1,655	$ 1,742	$ 2,301	$ 1,732	$ 1,759	$ 1,741	$ 1,807	$ 6,379	$ 7,430	$ 7,144	$ 7,679
Enterprise Income Statement	3Q-13A	4Q-13A	1Q-14A	2Q-14A	3Q-14A	4Q-14E	1Q-15E	2Q-15E	3Q-15E	2013A	2014E	2015E	2016E
Net Interest Income	2,930	2,874	3,005	3,051	3,150	3,186	3,229	3,182	3,338	11,350	12,392	13,148	14,260
Non-Interest Income	2,585	2,526	2,640	2,674	3,337	2,718	2,725	2,690	2,773	9,949	11,369	11,005	11,743
Non-Interest Expense	(3,003)	(2,977)	(3,105)	(2,995)	(3,140)	(3,195)	(3,211)	(3,155)	(3,278)	(11,664)	(12,435)	(12,962)	(13,721)
Pre-Provision Profitability	2,512	2,423	2,540	2,730	3,347	2,709	2,743	2,717	2,833	9,635	11,326	11,190	12,283
Provision for Credit Losses	(314)	(321)	(356)	(375)	(398)	(425)	(427)	(430)	(463)	(1,288)	(1,554)	(1,811)	(2,248)
Net Income Before Tax	2,198	2,102	2,184	2,355	2,949	2,285	2,316	2,288	2,371	8,347	9,773	9,380	10,035
Provision for Income Taxes	(451)	(426)	(475)	(555)	(598)	(503)	(507)	(496)	(513)	(1,737)	(2,131)	(2,036)	(2,156)
Net Income	1,747	1,676	1,709	1,800	2,351	1,782	1,809	1,791	1,857	6,610	7,642	7,344	7,879
Non-Controlling Interest	(56)	(56)	(54)	(58)	(50)	(50)	(50)	(50)	(50)	(231)	(212)	(200)	(200)
Capital Instruments' share NI	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income to Equity Holders	1,691	1,620	1,655	1,742	2,301	1,732	1,759	1,741	1,807	6,379	7,430	7,144	7,679
Preferred Share Dividends	(54)	(53)	(48)	(43)	(34)	(38)	(38)	(37)	(37)	(217)	(163)	(149)	(143)
Net Income to Common	1,637	1,567	1,607	1,699	2,267	1,694	1,721	1,704	1,770	6,162	7,267	6,996	7,535
Amortization	20	17	17	15	15	14	14	14	14	75	61	55	55
Cash Net Income	1,657	1,584	1,624	1,714	2,282	1,708	1,735	1,718	1,784	6,237	7,328	7,051	7,590
One-Time Items	(90)	-	-	-	(555)	-	-	-	-	(90)	(555)	-	-
Core Cash Net Income	$ 1,567	$ 1,584	$ 1,624	$ 1,714	$ 1,727	$ 1,708	$ 1,735	$ 1,718	$ 1,784	$ 6,147	$ 6,773	$ 7,051	$ 7,590
Core Cash EPS (excl. IFRS dilution)	$1.30	$1.31	$1.34	$1.40	$1.41	$1.39	$1.42	$1.40	$1.46	$5.10	$5.55	$5.76	$6.23
% y/y Growth	*12%*	*10%*	*6%*	*14%*	*9%*	*7%*	*6%*	*(0%)*	*3%*	*10%*	*9%*	*4%*	*8%*
Net Income to Common EPS (IFRS)	$1.36	$1.29	$1.32	$1.39	$1.85	$1.38	$1.41	$1.39	$1.45	$5.11	$5.94	$5.72	$6.19
% y/y Growth	*(19%)*	*9%*	*6%*	*14%*	*36%*	*7%*	*6%*	*0%*	*(22%)*	*(2%)*	*16%*	*(4%)*	*8%*
Annualized Core Cash ROE	16%	16%	16%	16%	16%	15%	15%	15%	15%	17%	16%	15%	15%
Dividends / Share	$0.60	$0.62	$0.62	$0.64	$0.64	$0.66	$0.66	$0.68	$0.68	$2.39	$2.56	$2.72	$2.89
Common Div. Payout Ratio	44%	48%	47%	46%	34%	47%	47%	49%	47%	46%	43%	47%	46%
F/D Avg. Shares (excl. IFRS dilution)	1,198	1,204	1,209	1,215	1,217	1,217	1,217	1,217	1,216	1,195	1,215	1,216	1,211
F/D Avg. Shares O/S (IFRS)	1,207	1,210	1,217	1,222	1,225	1,225	1,225	1,224	1,223	1,209	1,222	1,223	1,217
Avg. Earning Assets ($bln)	687	676	704	723	728	733	742	752	763	673	722	757	803
Avg. RWA ($bln) - Basel III after 4Q-12	282	285	295	301	304	312	319	325	334	277	303	330	355
Book Value per Share	$ 32.12	$33.23	$34.87	$35.33	$ 36.34	$ 37.57	$ 38.32	$ 39.13	$ 39.99	$ 33.23	$ 37.57	$ 40.86	$ 44.05
Basel III - Com. Equity Tier 1 Ratio	8.9%	9.1%	9.4%	9.8%	10.9%	11.3%	11.4%	11.4%	11.4%	9.1%	11.3%	11.5%	11.8%
NIM (% Avg. Earning Assets)	1.69%	1.69%	1.69%	1.73%	1.72%	1.72%	1.73%	1.74%	1.74%	1.69%	1.72%	1.74%	1.78%
Effective Tax Rate	21%	20%	22%	24%	20%	22%	22%	22%	22%	21%	22%	22%	21%
Efficiency Ratio	54%	55%	55%	52%	48%	54%	54%	54%	54%	55%	52%	54%	53%

Note: A $534 million gain due to the partial divestiture of BNS' stake in CI Financial Corp explains the $846 million in Global Wealth & Insurance earnings in Q3 f2014.

Source: Company financials; NBF analysis

National Bank of Canada (NA)	No Rating	No Target
Earnings Report Release:		*December 5, 2014; TBD*
Earnings Call:		*December 5, 2014; TBD*
Dial-In Number:		*TBD; Prior Quarter's Details: 416-695-7806 (Toronto Area) or 1-866-862-3930 Passcode: 3390539#*
Investor Relations:		*www.nbc.ca/investorrelations*

LOB Net Income Summary (C$ millions)	4Q-13A	3Q-14A	4Q-14E	q/q	y/y	2013A	2014E	2015E	2016E
P&C Banking	166	190	181	(4.6%)	9.2%	661	701	748	758
Wealth Management	55	64	68	6.6%	24.1%	201	268	298	355
Financial Markets	122	182	156	(14.4%)	27.7%	525	605	617	639
Other	(39)	(13)	(9)	nmf	nmf	62	(21)	(27)	(29)
Net Income to Equity Holders	**$ 304**	**$ 423**	**$ 397**	**(6.2%)**	**30.5%**	**$ 1,449**	**$ 1,554**	**$ 1,636**	**$ 1,722**
Core Cash EPS	**$ 1.00**	**$ 1.20**	**$ 1.15**	**(4.5%)**	**14.5%**	**$ 4.04**	**$ 4.49**	**$ 4.76**	**$ 5.11**
Net Income to Common EPS	**$ 0.90**	**$ 1.24**	**$ 1.17**	**(6.3%)**	**29.4%**	**$ 4.31**	**$ 4.57**	**$ 4.82**	**$ 5.13**

Source: Company financials; NBF analysis

Investment Thesis (Note: We do not rate NA): Following NA's Wealth Management investor day, we argued that the Wealth Management segment offers investors a promising avenue for earnings growth. In fact, we forecasted that the Wealth Management segment will contribute more to NA's incremental earnings than either of NA's other operating segments, P&C Banking and Financial Markets, through f2016.

Given that the Wealth Management segment only contributes about one-fifth of the bank's earnings, we cannot argue that the prospect of attractive earnings growth will transform NA's relative valuation. But it will not hurt it … and, if the market grows more comfortable with the stability of Financial Markets' earnings, then NA's relative valuation could improve materially. Last quarter's outperformance in these segments demonstrates this potential. At present, NA trades at a 5% discount to peers which compares to an average discount of 12% over the last two and a half years. Should NA continue to build on the momentum displayed last quarter, then we would not be surprised if the bank's improvement in relative valuation persisted, with its relative discount to peers staying in the mid-to-high single digit range.

We estimate that NA will experience a sequential earnings drop in Q4 f2014, primarily driven by a normalization of earnings in the Financial Markets segment following a one-time gain related to the sale of a Caribbean portfolio by Credigy, the bank's consumer finance investment subsidiary. In addition, we expect P&C Banking earnings to fall modestly q/q due to seasonally lower non-interest revenue. Meanwhile, Wealth Management earnings should see a healthy q/q rise owing to improved efficiency.

National Bank of Canada – Quarterly Earnings Drivers by Line of Business

Notes: *AUA stands for Assets under Administration.*

Key Earnings Driver Assumptions	4Q-13A	1Q-14A	2Q-14A	3Q-14A	4Q-14E
P&C Banking					
Average loan growth q/q	1.8%	1.1%	1.4%	1.8%	1.5%
Net interest margin (% average total assets)	2.07%	2.09%	2.09%	2.09%	2.09%
Wealth Management					
AUA growth q/q	4.4%	23.2%	5.4%	2.7%	1.0%
Efficiency ratio	74.1%	71.3%	71.8%	73.9%	72.3%
Financial Markets					
Trading revenue (TEB; C$ millions)	158	168	153	192	166
Efficiency ratio	49.5%	46.0%	48.1%	42.2%	46.8%

Source: Company financials; NBF analysis

National Bank of Canada – Income Statement and Earnings Drivers by Line of Business

P&C BANKING (C$ millions)	4Q-13A	3Q-14A	4Q-14E	2013A	2014E	2015E
Income Statement						
Net Interest Income	410	433	439	1,615	1,702	1,808
Non Interest Revenue	248	263	256	977	996	1,056
Total Revenue	**658**	**696**	**695**	**2,592**	**2,698**	**2,863**
Non-Interest Expense	382	388	398	1,497	1,540	1,622
Pre-Provision Income	**276**	**308**	**298**	**1,095**	**1,159**	**1,242**
Provisions for Credit Losses	50	48	50	192	199	220
Net Income Before Tax	**226**	**260**	**248**	**903**	**960**	**1,022**
Provisions for Income Taxes	60	70	67	242	259	273
Net Income	**166**	**190**	**181**	**661**	**701**	**748**
Key Drivers						
Average loans and BA's (C$ millions)	78,332	81,755	82,991	76,340	81,058	86,266
Growth rate of average loans and BA's (q/q)	1.8%	1.8%	1.5%	1.8%	1.5%	1.6%
Net interest margin on average loans and BA's	2.08%	2.10%	2.10%	2.12%	2.10%	2.10%
Non-interest revenue % average loans & BA's	1.26%	1.28%	1.23%	1.28%	1.23%	1.22%
Non-interest expense % Average loans and BA's	1.93%	1.88%	1.90%	1.96%	1.90%	1.88%
Efficiency Ratio	58%	56%	57%	58%	57%	57%
PCL % Average loans and BA's	0.25%	0.23%	0.24%	0.25%	0.25%	0.26%

WEALTH MANAGEMENT (C$ millions)	4Q-13A	3Q-14A	4Q-14E	2013A	2014E	2015E
Income Statement						
Net Interest Income	70	79	80	272	315	329
Non Interest Revenue	220	254	258	872	1,010	1,076
Total Revenue	**290**	**333**	**338**	**1,144**	**1,325**	**1,405**
Non-Interest Expense	215	246	244	868	958	996
Pre-Provision Income	**75**	**87**	**94**	**276**	**367**	**408**
Provisions for Credit Losses	1	1	1	3	3	4
Net Income Before Tax	**74**	**86**	**93**	**273**	**364**	**404**
Provisions for Income Taxes	19	22	24	72	95	106
Net Income	**55**	**64**	**68**	**201**	**268**	**298**
Key Drivers						
AUA and AUM (C$ millions)	258,010	337,379	340,753	258,010	340,753	374,293
Growth rate of AUA and AUM (q/q)	4.4%	3.1%	1.0%	2.7%	7.2%	2.4%
Net interest income % Average loans & BAs	3.47%	3.76%	3.76%	1.27%	1.30%	1.27%
Non-interest revenue % AUA and AUM	0.34%	0.30%	0.30%	0.34%	0.30%	0.29%
Efficiency ratio	74%	74%	72%	76%	72%	71%

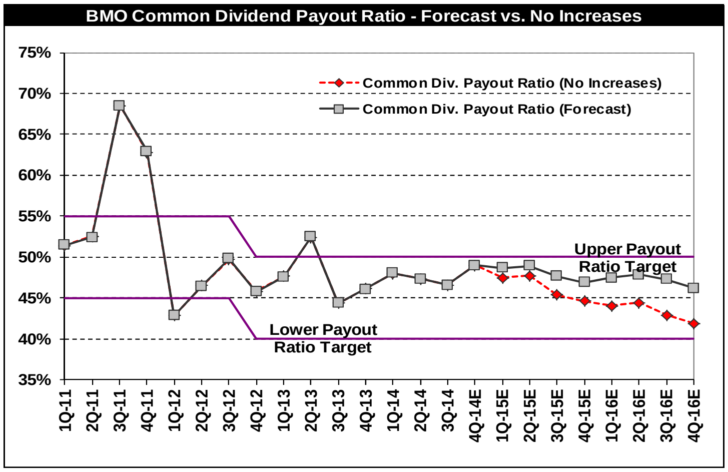
FINANCIAL MARKETS (C$ millions)	4Q-13A	3Q-14A	4Q-14E	2013A	2014E	2015E
Income Statement						
Net Interest Income	156	209	195	784	808	766
Non-interest Revenue	175	236	217	594	751	853
Total Revenue	**331**	**445**	**412**	**1,378**	**1,559**	**1,619**
Non-interest Expense	164	188	193	664	711	752
Pre-Provision Income	**167**	**257**	**219**	**714**	**848**	**867**
Provision for Credit Losses	(2)	-	-	(14)	-	-
Net Income Before Tax	**169**	**257**	**219**	**728**	**848**	**867**
Provisions for Income Taxes	45	70	58	195	228	230
Non-Controlling Interest	2	5	5	8	15	20
Net Income	**122**	**182**	**156**	**525**	**605**	**617**
Key Drivers						
Average loans and BA's (C$ millions)	7,252	7,965	8,106	7,080	7,977	8,466
Efficiency ratio	50%	42%	47%	48%	46%	46%
Growth rate of average loans & BA's (quarterly)	(0.9%)	(2.7%)	1.8%	2.8%	2.8%	1.7%
Non-trading revenue % Avg. loans & acceptances	9.5%	12.6%	12.0%	9.9%	11.0%	10.7%
Trading revenue (C$ millions)	158	192	166	674	679	709

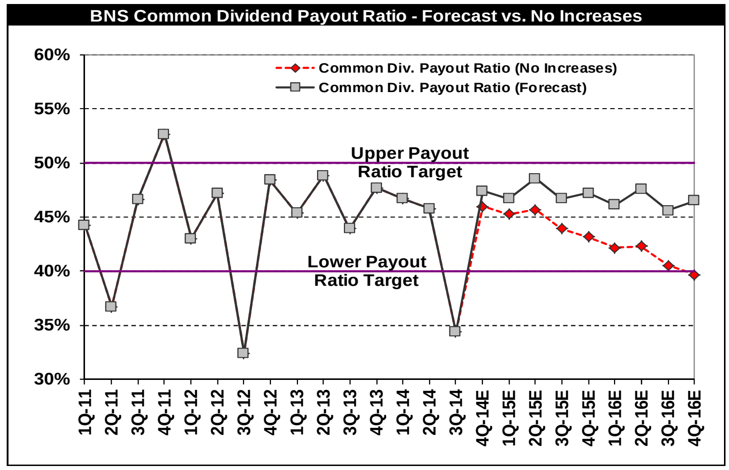
National Bank of Canada – Snapshot – C$ Millions Unless Otherwise Stated

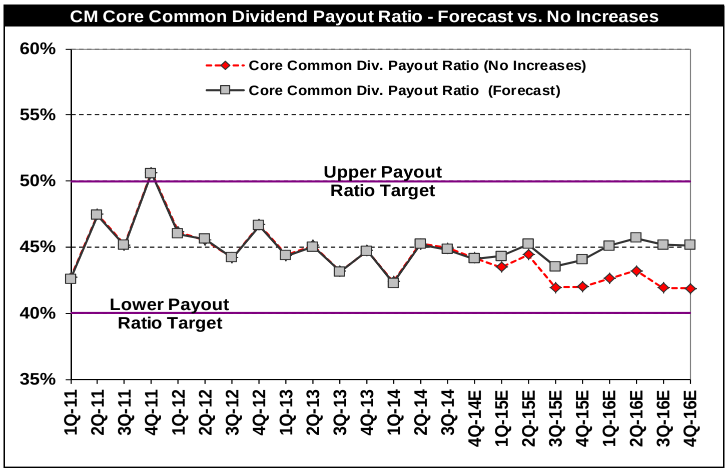
	Prior Four Quarters				Last	Next Four Quarters				Years Ending			
LOB Net Income Summary	**3Q-13A**	**4Q-13A**	**1Q-14A**	**2Q-14A**	**3Q-14A**	**4Q-14E**	**1Q-15E**	**2Q-15E**	**3Q-15E**	**2013A**	**2014E**	**2015E**	**2016E**
P&C Banking	**179**	**166**	**168**	**162**	**190**	**181**	**183**	**180**	**197**	**661**	**701**	**748**	**758**
Wealth Management	**49**	**55**	**68**	**68**	**64**	**68**	**71**	**71**	**76**	**201**	**268**	**298**	**355**
Financial Markets	**154**	**122**	**142**	**125**	**182**	**156**	**155**	**153**	**154**	**525**	**605**	**617**	**639**
Other	**5**	**(39)**	**11**	**(10)**	**(13)**	**(9)**	**(8)**	**(7)**	**(6)**	**62**	**(21)**	**(27)**	**(29)**
Net Income to Equity Holders	**$ 387**	**$ 304**	**$ 389**	**$ 345**	**$ 423**	**$ 397**	**$ 401**	**$ 398**	**$ 421**	**$ 1,449**	**$ 1,554**	**$ 1,636**	**$ 1,722**
Enterprise Income Statement	**3Q-13A**	**4Q-13A**	**1Q-14A**	**2Q-14A**	**3Q-14A**	**4Q-14E**	**1Q-15E**	**2Q-15E**	**3Q-15E**	**2013A**	**2014E**	**2015E**	**2016E**
Net Interest Income	629	592	614	649	640	640	645	632	661	2,437	2,543	2,609	2,782
Non-Interest Income	656	659	750	627	820	781	786	774	815	2,714	2,978	3,190	3,369
Non-Interest Expense	(808)	(827)	(816)	(799)	(879)	(868)	(872)	(854)	(887)	(3,206)	(3,362)	(3,507)	(3,639)
Pre-Provision Profitability	**477**	**424**	**548**	**477**	**581**	**553**	**560**	**552**	**589**	**1,945**	**2,159**	**2,292**	**2,512**
Provision for Credit Losses	(48)	(48)	(51)	(51)	(49)	(51)	(52)	(52)	(56)	(181)	(202)	(225)	(333)
Net Income Before Tax	**429**	**376**	**497**	**426**	**532**	**503**	**508**	**500**	**533**	**1,764**	**1,958**	**2,067**	**2,179**
Provision for Income Taxes	(27)	(56)	(92)	(64)	(91)	(88)	(89)	(84)	(94)	(252)	(335)	(359)	(385)
Net Income (NI)	**402**	**320**	**405**	**362**	**441**	**415**	**419**	**416**	**439**	**1,512**	**1,623**	**1,708**	**1,794**
Non-Controlling Interest	(15)	(16)	(16)	(17)	(18)	(18)	(18)	(18)	(18)	(63)	(69)	(72)	(72)
Net Income to Equity Holders	**387**	**304**	**389**	**345**	**423**	**397**	**401**	**398**	**421**	**1,449**	**1,554**	**1,636**	**1,722**
Preferred Share Dividends	(10)	(8)	(9)	(10)	(11)	(11)	(11)	(11)	(11)	(40)	(41)	(42)	(44)
Net Income to Common	**377**	**296**	**380**	**335**	**412**	**386**	**390**	**387**	**411**	**1,409**	**1,513**	**1,594**	**1,678**
Amortization	-	-	-	-	-	-	-	-	-	-	-	-	-
Cash Net Income	**377**	**296**	**380**	**335**	**412**	**386**	**390**	**387**	**411**	**1,409**	**1,513**	**1,594**	**1,678**
One-Time Items	(28)	33	(21)	13	(14)	(6)	(5)	(5)	(4)	(89)	(28)	(18)	(5)
Core Cash Net Income	**$ 349**	**$ 329**	**$ 359**	**$ 348**	**$ 398**	**$ 380**	**$ 385**	**$ 382**	**$ 406**	**$ 1,320**	**$ 1,485**	**$ 1,576**	**$ 1,673**
Core Cash EPS	$1.07	$1.00	$1.09	$1.05	$1.20	$1.15	$1.16	$1.15	$1.23	$4.04	$4.49	$4.76	$5.11
y/y % Growth	*10%*	*6%*	*13%*	*5%*	*13%*	*15%*	*7%*	*10%*	*2%*	*5%*	*11%*	*6%*	*7%*
Net Income to Common EPS	$1.16	$0.90	$1.15	$1.01	$1.24	$1.17	$1.18	$1.17	$1.24	$4.31	$4.57	$4.82	$5.13
y/y % Growth	*10%*	*(7%)*	*9%*	*(15%)*	*8%*	*29%*	*2%*	*15%*	*(0%)*	*(6%)*	*6%*	*5%*	*6%*
Annualized Core Cash ROE	19%	18%	19%	18%	19%	18%	18%	18%	18%	19%	19%	18%	17%
Dividends / Share	$0.44	$0.44	$0.46	$0.46	$0.48	$0.48	$0.50	$0.50	$0.52	$1.70	$1.88	$2.04	$2.20
Common Div. Payout Ratio	37%	48%	39%	45%	38%	41%	42%	42%	41%	39%	41%	42%	42%
F/D Avg. Shares O/S	327	329	330	331	331	331	332	332	331	327	331	331	327
Average Assets ($bln)	196	197	206	202	206	212	215	218	221	194	207	219	231
Avg. RWA ($bln)	60	61	63	64	64	65	65	66	67	59	63	67	70
Book Value per Share EOP	$ 22.60	$ 22.97	$ 23.68	$ 24.43	$ 25.18	$ 25.94	$ 26.66	$ 27.27	$ 27.94	$ 22.97	$ 25.94	$ 28.60	$ 31.26
Basel III - Com. Equity Tier 1 Ratio	8.6%	8.7%	8.3%	8.7%	9.1%	9.3%	9.6%	9.7%	9.9%	8.7%	9.3%	10.0%	10.6%
NIM (% Average Assets)	1.27%	1.19%	1.18%	1.32%	1.23%	1.20%	1.19%	1.19%	1.19%	1.26%	1.23%	1.19%	1.20%
Effective Tax Rate (Non-TEB)	6%	15%	19%	15%	17%	17%	18%	17%	18%	14%	17%	17%	18%
Efficiency Ratio (Non-TEB)	63%	66%	60%	63%	60%	61%	61%	61%	60%	62%	61%	60%	59%

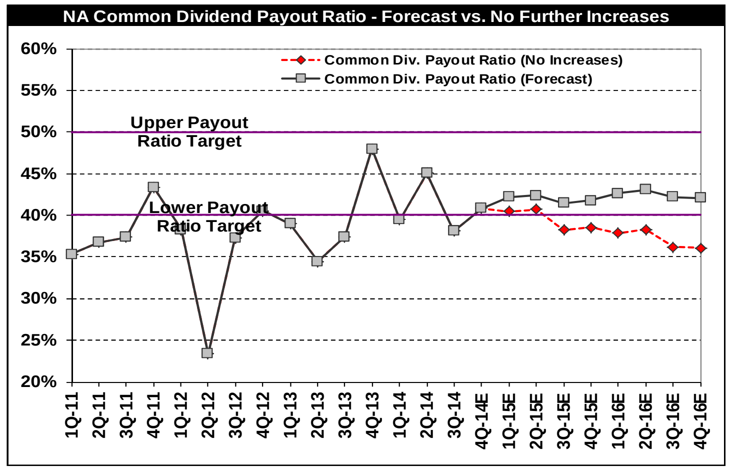
Source: Company financials; NBF analysis

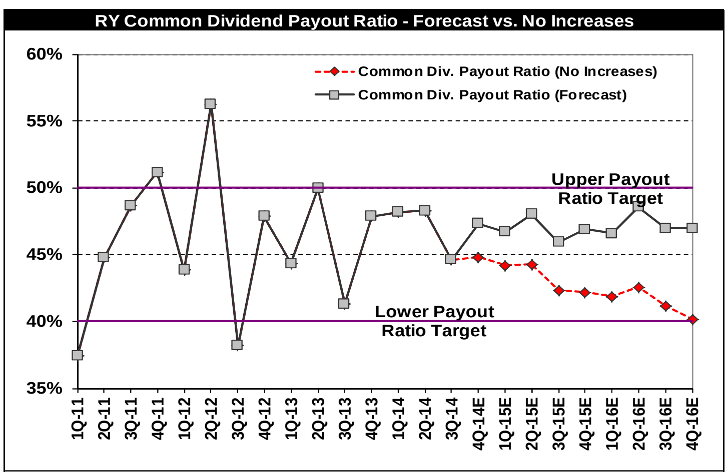
Appendix 1 - Dividend Forecast

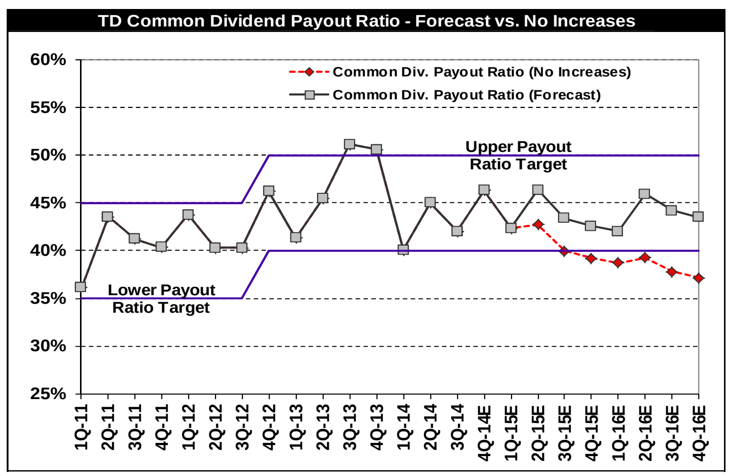








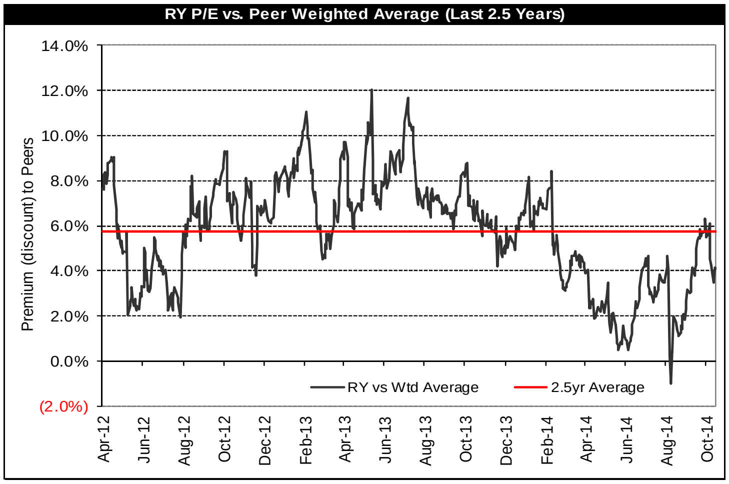




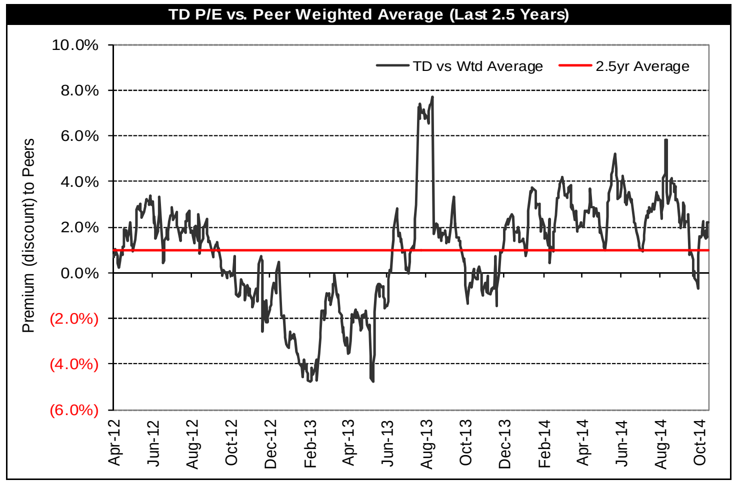
Source: Company financials; NBF analysis

Appendix 2 - Relative Valuations for the Big Six Banks

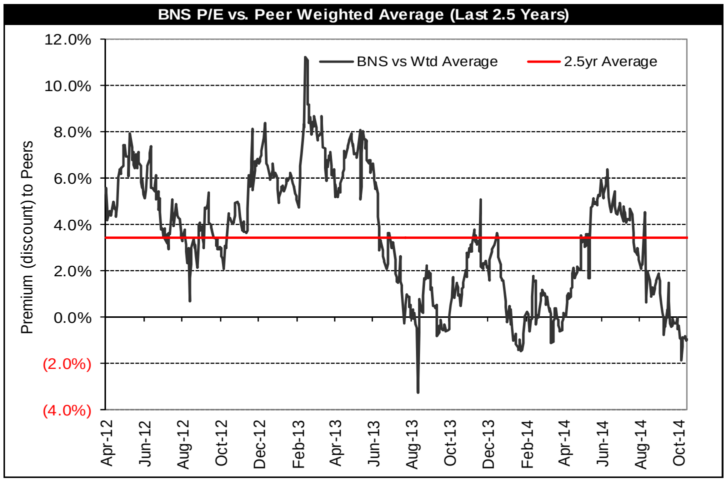
RY P/E vs. Peer Weighted Average (Last 2.5 Years)



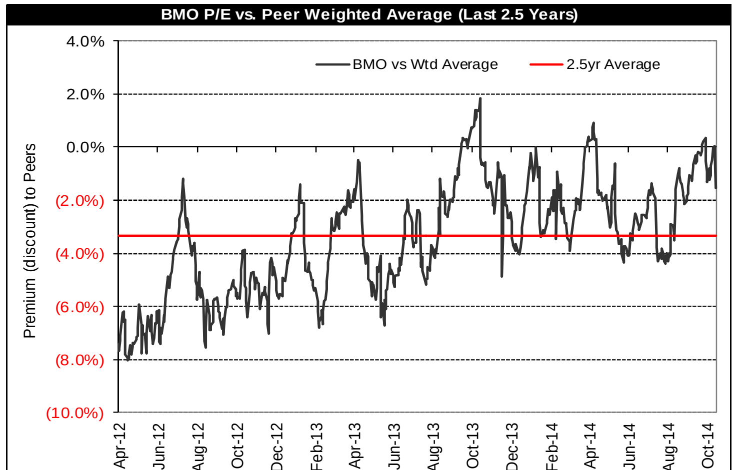
TD P/E vs. Peer Weighted Average (Last 2.5 Years)



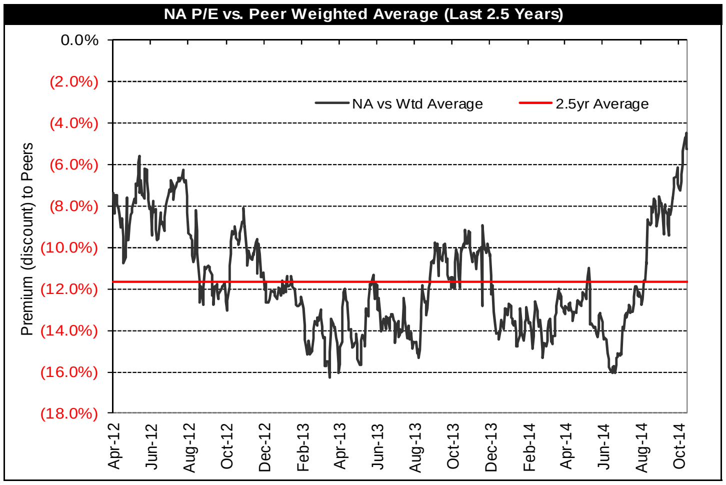
BNS P/E vs. Peer Weighted Average (Last 2.5 Years)



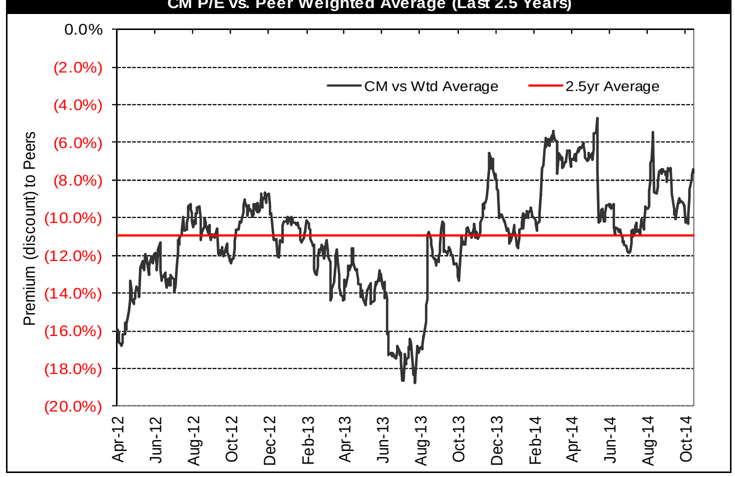
BMO P/E vs. Peer Weighted Average (Last 2.5 Years)



NA P/E vs. Peer Weighted Average (Last 2.5 Years)



CM P/E vs. Peer Weighted Average (Last 2.5 Years)



Source: Company financials; NBF analysis