

National Bank reports record results for the Third Quarter of 2014

The financial information reported herein is based on the unaudited interim condensed consolidated financial statements for the third quarter and nine months ended July 31, 2014 and prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB) and set out in the CPA Canada Handbook. All amounts are presented in Canadian dollars.

MONTREAL, August 27, 2014 – National Bank is reporting record net income, excluding specified items, of \$427 million for the third quarter of fiscal 2014, up 14% from \$374 million in the third quarter of 2013. Excluding specified items, diluted earnings per share stood at \$1.20 for the quarter ended July 31, 2014, a 12% increase from \$1.07 in the same quarter of 2013. The specified items are described on page 4.

Net income for the third quarter of 2014 totalled \$441 million, up 10% from \$402 million in the same quarter of 2013, and third-quarter diluted earnings per share stood at \$1.24, up 7% from \$1.16 in the same quarter of 2013.

Excluding specified items, the Bank's net income for the nine months ended July 31, 2014 totalled \$1,186 million, up 11% from \$1,070 million in the same period of 2013, and its nine-month diluted earnings per share stood at \$3.34 versus \$3.04 in the same period of 2013. Nine-month net income totalled \$1,208 million, up 1% from \$1,192 million in the same period of 2013, and nine-month diluted earnings per share was \$3.41, unchanged from \$3.41 in the same period of fiscal 2013.

"National Bank's third-quarter results have shown steady year-over-year growth across all business segments, particularly in the Wealth Management and Financial Markets segments. Furthermore, the Personal and Commercial segment achieved sustained growth in loan volume, and our credit portfolio continues to be of excellent quality," said Louis Vachon, President and Chief Executive Officer. "The Quebec economy remains stable and signs of accelerated growth are in sight."

Highlights Excluding Specified Items⁽¹⁾:

- \$427 million in net income for the third quarter of 2014, up 14% from \$374 million in the same quarter of 2013;
- Diluted earnings per share of \$1.20 for the third quarter of 2014, up 12% from \$1.07 in the same quarter of 2013;
- Return on equity of 19.4%.

Highlights:

- \$441 million in net income for the third quarter of 2014, up 10% from \$402 million in the same quarter of 2013;
- Diluted earnings per share of \$1.24 for the third quarter of 2014 compared to \$1.16 in the same quarter of 2013;
- Return on equity of 20.1%;
- The Common Equity Tier 1 (CET1) capital ratio under Basel III was 9.1% as at July 31, 2014 versus 8.7% as at October 31, 2013.

Financial Indicators

	Results excluding specified items ⁽¹⁾	Results Q3 2014	Results excluding specified items ⁽¹⁾	Results First nine months 2014
Growth in diluted earnings per share	12 %	7 %	10 %	– %
Return on common shareholders' equity	19.4 %	20.1 %	18.8 %	19.1 %
Dividend payout ratio	42 %	42 %	42 %	42 %
CET1 capital ratio under Basel III		9.1 %		9.1 %

(1) See the Financial Reporting Method section on page 4.

Personal and Commercial

- Net income totalled \$190 million in the third quarter of 2014, up 6% from \$179 million in the third quarter of 2013.
- At \$696 million, third-quarter total revenues rose \$31 million or 5% year over year.
- Rising 7% from a year ago, personal lending experienced sustained growth, with the strongest increases coming from consumer loans and mortgage lending, while commercial lending grew 5% from a year ago.
- Third-quarter net interest margin stood at 2.24%, stable compared to the preceding quarter and down from 2.27% in the third quarter of 2013.
- Before provisions for credit losses and income taxes, the segment's contribution rose \$17 million or 6%.
- At 55.7%, the efficiency ratio improved from 56.2% in the third quarter of 2013.

Wealth Management

- Net income totalled \$64 million in the third quarter of 2014, a 31% increase from \$49 million in the same quarter of 2013.
- Excluding specified items⁽¹⁾, net income totalled \$75 million, up \$20 million or 36%.
- Third-quarter total revenues amounted to \$333 million versus \$289 million in the same quarter of 2013, a \$44 million or 15% increase that was driven particularly by growth across all revenue streams and by the TD Waterhouse acquisition.
- Third-quarter non-interest expenses stood at \$246 million, up 11% year over year.
- Excluding specified items⁽¹⁾, the efficiency ratio was 69.6%, an improvement from 73.9% in the third quarter of 2013.

Financial Markets

- Net income totalled \$187 million in the third quarter of 2014, up 21% from \$155 million in the same quarter of 2013.
- Third-quarter revenues amounted to \$445 million, a \$64 million or 17% year-over-year increase owing to increases in trading activity revenues, financial market fees, banking services and other revenues.
- At \$188 million, third-quarter non-interest expenses increased \$18 million year over year, particularly because variable compensation was higher given the growth in revenues.
- The efficiency ratio was 42.2% in the third quarter of 2014 versus 44.6% in the third quarter of 2013.

Other

- Net income was nil for the third quarter of 2014 versus \$19 million in the same quarter of 2013. This decrease came mainly from higher variable compensation and from the fact that, in the third quarter of 2013, there was a reversal of provisions for income tax contingencies that was only partly offset by the rise in fair value of the restructured notes this quarter.

Capital Management

- As at July 31, 2014, the Common Equity Tier 1 (CET1) capital ratio under Basel III was 9.1% compared to 8.7% as at October 31, 2013 due to internally generated capital, partly offset by the Wealth Management acquisition and the coming into force of the credit valuation adjustment.

(1) See the Financial Reporting Method section on page 4.

HIGHLIGHTS

(millions of Canadian dollars)

	Quarter ended July 31			Nine months ended July 31		
	2014	2013 ⁽¹⁾	% Change	2014	2013 ⁽¹⁾	% Change
Operating results						
Total revenues	\$ 1,460	\$ 1,285	14	\$ 4,100	\$ 3,900	5
Net income	441	402	10	1,208	1,192	1
Net income attributable to the Bank's shareholders	423	387	9	1,157	1,145	1
Return on common shareholders' equity	20.1 %	21.0 %		19.1 %	21.7 %	
Earnings per share⁽²⁾ (dollars)						
Basic	\$ 1.26	\$ 1.16	9	\$ 3.44	\$ 3.43	–
Diluted	1.24	1.16	7	3.41	3.41	–
EXCLUDING SPECIFIED ITEMS⁽³⁾						
Operating results						
Total revenues	\$ 1,427	\$ 1,291	11	\$ 4,036	\$ 3,761	7
Net income	427	374	14	1,186	1,070	11
Net income attributable to the Bank's shareholders	409	359	14	1,135	1,023	11
Return on common shareholders' equity	19.4 %	19.5 %		18.8 %	19.4 %	
Efficiency ratio ⁽⁴⁾	58.4 %	59.3 %		58.6 %	60.0 %	
Earnings per share⁽²⁾ (dollars)						
Basic	\$ 1.22	\$ 1.07	14	\$ 3.38	\$ 3.06	10
Diluted	1.20	1.07	12	3.34	3.04	10
Per common share⁽²⁾ (dollars)						
Dividends declared	\$ 0.48	\$ 0.44		\$ 1.40	\$ 1.26	
Book value				25.18	22.60	
Share price						
High	49.15	39.68		49.15	40.02	
Low	45.19	36.33		41.60	36.18	
Close	48.80	39.51		48.80	39.51	

	As at July 31, 2014	As at October 31, 2013 ⁽¹⁾	% Change
Financial position			
Total assets	\$ 198,822	\$ 188,219	6
Loans and acceptances	103,399	97,338	6
Deposits	114,944	102,111	13
Equity attributable to common shareholders	8,272	7,487	10
Capital ratios under Basel III⁽⁵⁾			
Common Equity Tier 1 (CET1)	9.1 %	8.7 %	
Tier 1	12.0 %	11.4 %	
Total	14.8 %	15.0 %	
Impaired loans, net of total allowances	(182)	(183)	
As a % of average loans and acceptances	(0.2) %	(0.2) %	
Assets under administration and under management	337,379	258,010	31
Total personal savings	171,489	157,515	9
Earnings coverage	9.73	8.72	
Asset coverage	4.92	3.76	
Other information			
Number of employees	20,014	19,691	2
Number of branches in Canada	452	453	–
Number of banking machines	939	937	–

- (1) Certain amounts have been adjusted to reflect changes in accounting standards. See Note 2 to the unaudited interim condensed consolidated financial statements in the Report to Shareholders for the third quarter and nine-month period ended July 31, 2014.
- (2) Reflecting the stock dividend paid on February 13, 2014. See Note 13 to the unaudited interim condensed consolidated financial statements in the Report to Shareholders for the third quarter and nine-month period ended July 31, 2014.
- (3) See the Financial Reporting Method section on page 4.
- (4) The efficiency ratio is presented on a taxable equivalent basis. For additional information, see Note 22 to the unaudited interim condensed consolidated financial statements in the Report to Shareholders for the third quarter and nine-month period ended July 31, 2014.
- (5) The ratios have been calculated using the "all-in" methodology, and the October 31, 2013 ratios have not been adjusted to reflect changes in accounting standards.

FINANCIAL REPORTING METHOD

(millions of Canadian dollars, except per share amounts)

When assessing its results, the Bank uses certain measures that do not comply with IFRS, as issued by the IASB and set out in the CPA Canada Handbook. Securities regulators require companies to caution readers that net income and other measures adjusted using non-IFRS criteria are not standard under IFRS and cannot be easily compared with similar measures used by other companies.

Financial Information

	Quarter ended July 31			Nine months ended July 31		
	2014	2013 ⁽¹⁾	% Change	2014	2013 ⁽¹⁾	% Change
Excluding specified items						
Personal and Commercial	190	179	6	520	495	5
Wealth Management	75	55	36	228	163	40
Financial Markets	187	155	21	459	409	12
Other	(25)	(15)		(21)	3	
Net income excluding specified items	427	374	14	1,186	1,070	11
Items related to holding restructured notes ⁽²⁾	30	(3)		57	106	
Acquisition-related items ⁽³⁾	(16)	(6)		(35)	(18)	
Reversal of provisions for income tax contingencies ⁽⁴⁾	–	37		–	37	
Impairment losses on intangible assets ⁽⁵⁾	–	–		–	(29)	
Item related to employee benefits ⁽⁶⁾	–	–		–	26	
Net income	441	402	10	1,208	1,192	1
Diluted earnings per share excluding specified items⁽⁷⁾	\$ 1.20	\$ 1.07	12	\$ 3.34	\$ 3.04	10
Items related to holding restructured notes ⁽²⁾	0.09	(0.01)		0.17	0.33	
Acquisition-related items ⁽³⁾	(0.05)	(0.01)		(0.10)	(0.06)	
Reversal of provisions for income tax contingencies ⁽⁴⁾	–	0.11		–	0.11	
Impairment losses on intangible assets ⁽⁵⁾	–	–		–	(0.09)	
Item related to employee benefits ⁽⁶⁾	–	–		–	0.08	
Diluted earnings per share⁽⁷⁾	\$ 1.24	\$ 1.16	7	\$ 3.41	\$ 3.41	–
Return on common shareholders' equity						
Including specified items	20.1 %	21.0 %		19.1 %	21.7 %	
Excluding specified items	19.4 %	19.5 %		18.8 %	19.4 %	

- (1) Certain amounts have been adjusted to reflect accounting changes. See Note 2 to the unaudited interim condensed consolidated financial statements in the Report to Shareholders for the third quarter and nine-month period ended July 31, 2014.
- (2) During the quarter ended July 31, 2014, the Bank recorded \$5 million in financing costs (\$4 million net of income taxes) related to holding restructured notes (2013: \$4 million, \$3 million net of income taxes). In addition, during the quarter ended July 31, 2014, the Bank recorded \$47 million in revenues (\$34 million net of income taxes) to reflect a rise in the fair value of those notes (2013: nil). During the nine months ended July 31, 2014, the Bank recorded \$14 million in financing costs (\$10 million net of income taxes) related to holding restructured notes (2013: \$6 million, \$5 million net of income taxes) and \$92 million in revenues (\$67 million net of income taxes) to reflect a rise in the fair value of those notes (2013: \$151 million, \$111 million net of income taxes).
- (3) During the quarter ended July 31, 2014, the Bank recorded \$22 million in charges (\$16 million net of income taxes) related to the Wealth Management acquisitions (2013: \$8 million, \$6 million net of income taxes) and consisting mostly of retention bonuses and TD Waterhouse integration charges; these charges also include the Bank's share in the integration costs incurred by Fiera and its share in the integration costs, impairment losses and intangible asset amortization related to the Bank's interest in TMX. For the nine months ended July 31, 2014, these charges stood at \$46 million (\$35 million net of income taxes) and, for the same period in 2013, they stood at \$25 million (\$18 million net of income taxes).
- (4) During the quarter ended July 31, 2013, \$37 million in income tax provisions had been reversed following a revaluation of contingent income tax liabilities.
- (5) During the nine months ended July 31, 2013, the Bank had recorded \$39 million (\$29 million net of income taxes) in intangible asset impairment losses on technology developments.
- (6) During the nine months ended July 31, 2013, the Bank had recorded a \$35 million decrease in past service costs (\$26 million net of income taxes) to reflect changes to the provisions of its pension plans and other post-retirement plans subsequent to changes in accounting standards.
- (7) Reflecting the stock dividend paid on February 13, 2014. See Note 13 to the unaudited interim condensed consolidated financial statements in the Report to Shareholders for the third quarter and nine-month period ended July 31, 2014.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

From time to time, the Bank makes written and oral forward-looking statements, such as those contained in the “Major Economic Trends” and the “Outlook for National Bank” sections of the 2013 Annual Report, in other filings with Canadian securities regulators, and in other communications, for the purpose of describing the economic environment in which the Bank will operate during fiscal 2014 and the objectives it has set for itself for that period. These forward-looking statements are made in accordance with current securities legislation. They include, among others, statements with respect to the economy—particularly the Canadian and U.S. economies—market changes, observations regarding the Bank’s objectives and its strategies for achieving them, Bank-projected financial returns and certain risks faced by the Bank. These forward-looking statements are typically identified by future or conditional verbs or words such as “outlook,” “believe,” “anticipate,” “estimate,” “project,” “expect,” “intend,” “plan,” and similar terms and expressions.

By their very nature, such forward-looking statements require assumptions to be made and involve inherent risks and uncertainties, both general and specific. Assumptions about the performance of the Canadian and U.S. economies in 2014 and how that will affect the Bank’s business are among the main factors considered in setting the Bank’s strategic priorities and objectives and in determining its financial targets, including provisions for credit losses. In determining its expectations for economic growth, both broadly and in the financial services sector in particular, the Bank primarily considers historical economic data provided by the Canadian and U.S. governments and their agencies.

There is a strong possibility that express or implied projections contained in these forward-looking statements will not materialize or will not be accurate. The Bank recommends that readers not place undue reliance on these statements, as a number of factors, many of which are beyond the Bank’s control, could cause actual future results, conditions, actions or events to differ significantly from the targets, expectations, estimates or intentions expressed in the forward-looking statements. These factors include strategic risk, credit risk, market risk, liquidity risk, operational risk, regulatory risk, reputation risk, and environmental risk, which are described in more detail in the “Risk Management” section beginning on page 60 of the 2013 Annual Report, and in particular the general economic environment and financial market conditions in Canada, the United States and certain other countries in which the Bank conducts business, including the regulatory changes affecting the Bank’s business, capital and liquidity; the situation with respect to the restructured notes of the master asset vehicle (MAV) conduits, in particular the realizable value of underlying assets; changes in the accounting policies the Bank uses to report its financial condition, including uncertainties associated with assumptions and critical accounting estimates; tax laws in the countries in which the Bank operates, primarily Canada and the United States (including the new reporting regime set out in sections 1471 to 1474 of the *U.S. Internal Revenue Code of 1986* (FATCA)); and changes to capital adequacy and liquidity guidelines and to the manner in which they are to be presented and interpreted.

The foregoing list of risk factors is not exhaustive. Additional information about these factors can be found in the “Risk Management” and “Other Risk Factors” sections of the 2013 Annual Report. Investors and others who rely on the Bank’s forward-looking statements should carefully consider the above factors as well as the uncertainties they represent and the risk they entail. Except as required by law, the Bank does not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time, by it or on its behalf. The Bank also cautions readers not to place undue reliance on these forward-looking statements.

The forward-looking information contained in this document is presented for the purpose of interpreting the information contained herein and may not be appropriate for other purposes.

DISCLOSURE OF THIRD QUARTER 2014 RESULTS

Conference Call

- A conference call for analysts and institutional investors will be held on Wednesday, August 27, 2014 at 1:00 p.m. EDT.
- Access by telephone in listen-only mode: 1-866-862-3930 or 416-695-7806. The access code is 3390539#.
- A recording of the conference call can be heard until September 6, 2014 by dialing 1-800-408-3053 or 905-694-9451. The access code is 5955220#.

Webcast

- The conference call will be webcast live at nbc.ca/investorrelations.
- A recording of the webcast will also be available on National Bank's website after the call.

Financial Documents

- The Report to Shareholders (which includes the quarterly consolidated financial statements) is available at all times on National Bank's website at nbc.ca/investorrelations.
- The Report to Shareholders, the Supplementary Financial Information, the Supplementary Regulatory Capital Disclosure, and a slide presentation will be available on the Investor Relations page of National Bank's website shortly before the start of the conference call.

For more information:

Ghislain Parent
Chief Financial Officer and
Executive Vice-President
Finance and Treasury
514-394-6807

Jean Dagenais
Senior Vice-President
Finance, Taxation and
Investor Relations
514-394-6233

Claude Breton
Vice-President
Public Affairs and
Investor Relations
514-394-8644

Hélène Baril
Senior Director
Investor Relations
514-394-0296

