

## National Bank posts record results for the First Quarter of 2014

The financial information reported herein is based on the unaudited interim condensed consolidated financial statements for the first quarter ended January 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. The figures for the year ended October 31, 2013 have been adjusted to reflect changes in accounting standards and the impact of the stock dividend of one common share on each issued and outstanding common share declared on December 3, 2013. The effect of this dividend was the same as a two-for-one split of common shares. A financial information supplement issued on January 31, 2014, entitled “*Supplementary Financial Information – Adjusted to Reflect Changes in Accounting Standards and the Common Stock Split*” is available at [nbc.ca](http://nbc.ca). Additional information about National Bank of Canada, including the Report to shareholders – First Quarter 2014 and the Annual Information Form, can be obtained from the Bank’s website at [nbc.ca](http://nbc.ca) or on SEDAR website at [sedar.com](http://sedar.com).

**MONTREAL, February 24, 2014** – National Bank is reporting \$405 million in net income for the first quarter of 2014 versus \$373 million in the first quarter of 2013. Diluted earnings per share for the quarter ended January 31, 2014 stood at \$1.15, up 10% from \$1.05 in the same quarter of 2013.

Excluding the specified items described on page 4, this quarter’s net income was a record amount of \$384 million, up 12% from \$344 million in the first quarter of 2013, and the quarter’s diluted earnings per share was a record \$1.09, up 12% from \$0.97 in the same quarter of 2013.

“First quarter results are showing strong momentum for National Bank,” said Louis Vachon, President and Chief Executive Officer. “In Personal and Commercial Banking, loan and deposit growth remained strong and net interest margins improved on a sequential basis. Also, credit quality remained excellent. Wealth Management benefited from good organic growth and the contribution from newly acquired TD Waterhouse Institutional Services. Financial Markets also did well with solid client-driven activities and good cost control.”

### Highlights:

- \$405 million in net income for the first quarter of 2014, up 9% from \$373 million in the same quarter of 2013;
- Diluted earnings per share of \$1.15 for the first quarter of 2014, up 10% from \$1.05 in the same quarter of 2013;
- Return on equity of 19.8%;
- As at January 31, 2014, the Common Equity Tier 1 (CET1) capital ratio under Basel III was 8.3% versus 8.7% as at October 31, 2013.

### Highlights Excluding Specified Items<sup>(1)</sup>:

- \$384 million in net income for the first quarter of 2014, up 12% from \$344 million in the same quarter of 2013;
- Diluted earnings per share of \$1.09 for the first quarter of 2014, up 12% from \$0.97 in the same quarter of 2013;
- Return on equity of 18.8%.

### Financial Indicators

	Results Q1 2014	Results excluding specified items <sup>(1)</sup>
Growth in diluted earnings per share	10 %	12 %
Return on common shareholders' equity	19.8 %	18.8 %
Dividend payout ratio	39 %	42 %
CET1 capital ratio under Basel III	8.3 %	

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

## Personal and Commercial

- Net income totalled \$168 million in the first quarter of 2014, up 3% from \$163 million in the first quarter of 2013. The segment's contribution rose \$13 million or 5%.
- At \$658 million, first-quarter total revenues rose \$19 million or 3% 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, and commercial lending grew 5% from a year ago.
- The net interest margin was 2.25% in the first quarter of 2014 versus 2.24% the preceding quarter and 2.32% in the first quarter of 2013.
- At 57.5%, the efficiency ratio improved from 58.2% in the first quarter of 2013.

## Wealth Management

- The acquisition of TD Waterhouse Institutional Services (TD Waterhouse) was completed on November 12, 2013.
- First-quarter net income totalled \$68 million, a 42% increase from \$48 million in the same quarter of 2013.
- First-quarter total revenues amounted to \$324 million versus \$277 million in the same quarter of 2013, a \$47 million or 17% increase that was driven particularly by growth across all revenue streams and by the TD Waterhouse acquisition.
- First-quarter non-interest expenses stood at \$231 million, up 9% year over year.
- Excluding specified items<sup>(1)</sup>, the efficiency ratio was 68.3%, an improvement from 73.7% in the first quarter of 2013.

## Financial Markets

- Net income totalled \$144 million in the first quarter of 2014, up 27% from \$113 million in the same quarter of 2013.
- At \$365 million, revenues increased \$62 million or 20% owing mainly to growth in trading activity revenues, gains on available-for-sale securities and other revenues.
- At \$168 million, non-interest expenses increased slightly in the first quarter of 2014, rising \$7 million year over year, particularly due to higher variable compensation associated with revenue growth.
- At 46.0%, the efficiency ratio improved from 53.1% in the first quarter of 2013.

## Other

- Net income totalled \$25 million for the first quarter of 2014 versus \$49 million in the same quarter of 2013, a decrease that stems particularly from a lower contribution from Corporate Treasury. During the first quarter of 2014, a \$33 million rise in the value of restructured notes was recorded, whereas a \$26 million decrease in past services costs had been recorded in the first quarter of 2013 to reflect changes to the provisions in pension plans and other post-retirement plans subsequent to changes in accounting standards.

## Capital Management

- The Common Equity Tier 1 (CET1) capital ratio under Basel III was 8.3% as at January 31, 2014 versus 8.7% as at October 31, 2013.
- The decrease came essentially from the Wealth Management acquisition and from 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 January 31	2014	2013 <sup>(1)</sup>	% Change
<b>Operating results</b>			
Total revenues	\$ 1,364	\$ 1,232	11
Net income	405	373	9
Net income attributable to the Bank's shareholders	389	356	9
Return on common shareholders' equity	19.8 %	20.7 %	
<b>Earnings per share<sup>(2)</sup> (dollars)</b>			
Basic	\$ 1.16	\$ 1.06	9
Diluted	1.15	1.05	10
<b>EXCLUDING SPECIFIED ITEMS<sup>(3)</sup></b>			
<b>Operating results</b>			
Total revenues	\$ 1,326	\$ 1,222	9
Net income	384	344	12
Net income attributable to the Bank's shareholders	368	327	13
Return on common shareholders' equity	18.8 %	19.0 %	
<b>Earnings per share<sup>(2)</sup> (dollars)</b>			
Basic	\$ 1.10	\$ 0.98	12
Diluted	1.09	0.97	12
<b>Per common share<sup>(2)</sup> (dollars)</b>			
Dividends declared	\$ 0.46	\$ 0.41	
Book value	23.68	20.76	
Stock trading range			
High	46.86	40.02	
Low	41.72	37.53	
Close	41.72	39.66	

	As at January 31, 2014	As at October 31, 2013 <sup>(1)</sup>	% Change
<b>Financial position</b>			
Total assets	\$ 195,300	\$ 188,219	4
Loans and acceptances	99,722	97,338	2
Deposits	111,248	102,111	9
Subordinated debt and equity	11,098	11,379	(2)
<b>Capital ratios under Basel III<sup>(4)</sup></b>			
Common Equity Tier 1 (CET1)	8.3 %	8.7 %	
Tier 1	10.7 %	11.4 %	
Total	13.6 %	15.0 %	
Impaired loans, net of total allowances	(172)	(183)	
As a % of average loans and acceptances	(0.2) %	(0.2) %	
Assets under administration and under management	309,653	258,010	20
Total personal savings	161,827	157,515	3
Interest coverage	13.58	11.18	
Asset coverage	3.45	3.76	
<b>Other information</b>			
Number of employees	19,784	19,691	–
Number of branches in Canada	451	453	–
Number of banking machines	938	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 first quarter ended January 31, 2014.

(2) Reflecting the impact of the common stock split. See Note 13 to the unaudited interim condensed consolidated financial statements in the Report to Shareholders for the first quarter ended January 31, 2014.

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

(4) 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 International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (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 January 31	2014	2013 <sup>(1)</sup>	% Change
<b>Excluding specified items</b>			
Personal and Commercial	168	163	3
Wealth Management	76	53	43
Financial Markets	144	113	27
Other	(4)	15	
<b>Net income excluding specified items</b>	<b>384</b>	<b>344</b>	<b>12</b>
Items related to holding restructured notes <sup>(2)</sup>	30	9	
Acquisition-related items <sup>(3)</sup>	(9)	(6)	
Item related to employee benefits <sup>(4)</sup>	–	26	
<b>Net income</b>	<b>405</b>	<b>373</b>	<b>9</b>
<b>Diluted earnings per share excluding specified items<sup>(5)</sup></b>	<b>\$ 1.09</b>	<b>\$ 0.97</b>	<b>12</b>
Items related to holding restructured notes <sup>(2)</sup>	0.09	0.03	
Acquisition-related items <sup>(3)</sup>	(0.03)	(0.03)	
Item related to employee benefits <sup>(4)</sup>	–	0.08	
<b>Diluted earnings per share<sup>(5)</sup></b>	<b>\$ 1.15</b>	<b>\$ 1.05</b>	<b>10</b>
<b>Return on common shareholders' equity</b>			
<b>Including specified items</b>	<b>19.8 %</b>	<b>20.7 %</b>	
<b>Excluding specified items</b>	<b>18.8 %</b>	<b>19.0 %</b>	

(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 first quarter ended January 31, 2014.

(2) During the quarter ended January 31, 2014, the Bank recorded \$5 million in financing costs (\$3 million net of income taxes) related to holding restructured notes. It also recorded \$45 million in revenues (\$33 million net of income taxes) to reflect the rise in the fair value of these notes (2013: \$12 million in revenues (\$9 million net of income taxes) to reflect the rise in the fair value of the commercial paper not included in the Pan-Canadian restructuring plan).

(3) During the quarter ended January 31, 2014, the Bank recorded \$11 million in charges (\$9 million net of income taxes) related mainly to the Wealth Management acquisitions and consisting mostly of retention bonuses (2013: \$8 million, \$6 million net of income taxes) in addition to the Bank's share in the integration costs incurred by Fiera and its share in the integration costs and intangible asset amortization related to the Bank's interest in TMX.

(4) During the quarter ended January 31, 2013, the Bank recorded a \$35 million decrease (\$26 million net of income taxes) in past service costs to reflect changes to the provisions of its pension plans and other post-retirement plans subsequent to changes in accounting standards.

(5) Reflecting the impact of the common stock split. See Note 13 to the unaudited interim condensed consolidated financial statements in the Report to Shareholders for the first quarter ended January 31, 2014.

## CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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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. 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 FIRST QUARTER 2014 RESULTS

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## Conference Call

- A conference call for analysts and institutional investors will be held on Tuesday, February 25, 2014 at 11 a.m. EST.
- 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 March 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](http://nbc.ca/investorrelations).
- A recording of the webcast will also be available on National Bank's website after the call.

## Financial Documents

- The quarterly consolidated financial statements are available at all times on National Bank's website at [nbc.ca/investorrelations](http://nbc.ca/investorrelations).
- The Report to Shareholders, Supplementary Financial Information 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.

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