

National Bank reports its results for the First Quarter of 2015

The financial information reported herein is based on the unaudited interim condensed consolidated financial statements for the quarter ended January 31, 2015 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, February 25, 2015 – For the first quarter of 2015, National Bank is reporting net income of \$415 million, up 2% from \$405 million in the first quarter of 2014, and diluted earnings per share of \$1.16, up from \$1.15 in the first quarter of 2014.

Excluding specified items, net income totalled \$410 million for the first quarter of 2015, up 7% from \$384 million in the first quarter of 2014, and first-quarter diluted earnings per share stood at \$1.14, up 5% from \$1.09 in the same quarter of 2014. The specified items are described on page 4.

“National Bank posted solid results in the first quarter of 2015, reflecting sustained growth across its three main business segments and the quality of its credit portfolio. Financial Markets turned in an especially noteworthy performance on the strength of its trading business and banking services,” said Louis Vachon, President and Chief Executive Officer. “Given the drop in oil prices and interest rates in recent months, we’re continuing to prudently manage our operations while staying apprised of opportunities.”

Highlights

	Quarter ended January 31		
	2015	2014	% Change
Net income (<i>millions of dollars</i>)	415	405	2
Diluted earnings per share (<i>dollars</i>)	1.16	1.15	1
Return on common shareholders' equity	17.8 %	19.8 %	
Dividend payout ratio	44 %	39 %	
Excluding specified items⁽¹⁾			
Net income (<i>millions of dollars</i>)	410	384	7
Diluted earnings per share (<i>dollars</i>)	1.14	1.09	5
Return on common shareholders' equity	17.5 %	18.8 %	
Dividend payout ratio	42 %	42 %	
	As at January 31, 2015	As at October 31, 2014	
CET1 capital ratio under Basel III	9.3 %	9.2 %	
Leverage ratio under Basel III ⁽²⁾	3.6 %		

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

(2) The ratio came into effect on January 1, 2015.

Personal and Commercial

- Net income totalled \$175 million in the first quarter of 2015, a 5% increase from \$166 million in the first quarter of 2014.
- At \$691 million, the 2015 first-quarter total revenues rose \$33 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, and commercial lending also grew 7% from a year ago.
- The net interest margin was 2.20% in the first quarter of 2015 versus 2.21% the preceding quarter and 2.25% in the first quarter of 2014.
- Before provisions for credit losses and income taxes, the segment's contribution was up \$17 million or 6%.
- At 57.5%, the efficiency ratio improved from 57.9% in the same quarter of 2014.

Wealth Management

- Net income totalled \$76 million in the first quarter of 2015, a 12% increase from \$68 million in the same quarter of 2014.
- Excluding specified items⁽¹⁾, first-quarter net income totalled \$83 million, up \$7 million or 9% year over year.
- The segment's 2015 first-quarter total revenues amounted to \$342 million versus \$323 million in the first quarter of 2014, a \$19 million or 6% year-over-year increase that was mainly driven by growth in fee-based revenues and net interest income, tempered somewhat by a decrease in transaction-based revenues.
- First-quarter non-interest expenses stood at \$239 million, up 4% year over year.
- Excluding specified items⁽¹⁾, the efficiency ratio was 67.5%, an improvement from 68.2% in the first quarter of 2014.

Financial Markets

- Net income totalled \$178 million in the first quarter of 2015, a 23% increase from \$145 million in the same quarter of 2014.
- The segment's 2015 first-quarter total revenues amounted to \$418 million, a \$53 million or 15% year-over-year increase owing to higher trading activity revenues and banking service revenues.
- At \$175 million, the 2015 first-quarter non-interest expenses increased by \$8 million year over year, mainly because variable compensation was higher given the revenue growth.
- At 41.9%, the efficiency ratio improved from 45.8% in the first quarter of 2014.

Other

- For the first quarter of 2015, there was a net loss of \$14 million compared to net income of \$26 million in the same quarter of 2014. This decrease came essentially from the revenues recorded to reflect a rise in the fair value of restructured notes, which were higher in the first quarter of 2014, and from an increase in non-interest expenses.

Capital Management

- As at January 31, 2015, the Common Equity Tier 1 (CET1) capital ratio under Basel III was 9.3% compared to 9.2% as at October 31, 2014 due to internally generated capital, partly offset by the increase in risk-weighted assets.
- The leverage ratio under Basel III was 3.6% as at January 31, 2015.

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

HIGHLIGHTS

(millions of Canadian dollars)

	Quarter ended January 31		
	2015	2014	% Change
Operating results			
Total revenues	1,410	1,364	3
Net income	415	405	2
Net income attributable to the Bank's shareholders	397	389	2
Return on common shareholders' equity	17.8 %	19.8 %	
Earnings per share (dollars)			
Basic	\$ 1.17	\$ 1.16	1
Diluted	1.16	1.15	1
Excluding specified items⁽¹⁾			
Operating results			
<i>(taxable equivalent basis)⁽²⁾</i>			
Total revenues	1,459	1,370	7
Net income	410	384	7
Net income attributable to the Bank's shareholders	392	368	7
Return on common shareholders' equity	17.5 %	18.8 %	
Efficiency ratio	58.7 %	58.9 %	
Earnings per share (dollars)			
Basic	\$ 1.15	\$ 1.10	5
Diluted	1.14	1.09	5
Per common share (dollars)			
Dividends declared	\$ 0.50	\$ 0.46	
Book value	26.33	23.68	
Share price			
High	55.06	46.86	
Low	44.21	41.72	
Close	44.21	41.72	
	As at January 31, 2015	As at October 31, 2014	% Change
Financial position			
Total assets	214,474	205,429	4
Loans and acceptances	107,323	106,169	1
Deposits	119,239	119,883	(1)
Equity attributable to common shareholders	8,684	8,484	2
Capital ratios⁽³⁾			
Common Equity Tier 1 (CET1)	9.3 %	9.2 %	
Tier 1 ⁽⁴⁾	12.3 %	12.3 %	
Total ⁽⁴⁾	14.6 %	15.1 %	
Leverage ratio ⁽³⁾⁽⁵⁾	3.6 %		
Impaired loans, net of total allowances	(172)	(118)	
As a % of average loans and acceptances	(0.2) %	(0.1) %	
Earnings coverage	10.39	8.98	
Asset coverage	6.13	5.24	
Other information			
Number of common shares (thousands)	329,860	329,297	
Number of common shareholders on record	22,370	22,394	
Market capitalization	14,583	17,347	
Assets under administration and under management	359,356	345,332	4
Total personal savings	177,582	172,414	3
Number of employees	20,118	19,955	1
Number of branches in Canada	452	452	–
Number of banking machines	931	935	–

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

(2) See the Consolidated Results section on page 6 of the Report to Shareholders for the quarter ended January 31, 2015.

(3) The ratios are calculated using the "all-in" methodology in accordance with Basel III.

(4) The ratios as at October 31, 2014 include the redemption of the Series 16 preferred shares on November 15, 2014.

(5) The ratio came into effect on January 1, 2015.

FINANCIAL REPORTING METHOD

(millions of Canadian dollars, except per share amounts)

The Bank's unaudited interim condensed consolidated financial statements have been prepared in accordance with IFRS, as issued by the IASB and set out in the CPA Canada Handbook. The Bank also uses non-IFRS financial measures when assessing its results and measuring Bank-wide performance. Presenting such information helps readers to better understand how management analyzes results, shows the impacts of specified items on the results of the reported periods, and allows readers to assess results without the specified items if they consider such items to not be reflective of ordinary operations. 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		
	2015	2014	% Change
Excluding specified items			
Personal and Commercial	175	166	5
Wealth Management	83	76	9
Financial Markets	178	145	23
Other	(26)	(3)	
Net income excluding specified items	410	384	7
Items related to holding restructured notes ⁽¹⁾	13	30	
Acquisition-related items ⁽²⁾	(8)	(9)	
Net income	415	405	2
Diluted earnings per share excluding specified items	\$ 1.14	\$ 1.09	5
Items related to holding restructured notes ⁽¹⁾	0.04	0.09	
Acquisition-related items ⁽²⁾	(0.02)	(0.03)	
Diluted earnings per share	\$ 1.16	\$ 1.15	1
Return on common shareholders' equity			
Including specified items	17.8 %	19.8 %	
Excluding specified items	17.5 %	18.8 %	

(1) During the quarter ended January 31, 2015, the Bank recorded \$5 million in financing costs (\$4 million net of income taxes) related to holding restructured notes (2014: \$5 million, \$3 million net of income taxes). It also recorded \$23 million in revenues (\$17 million net of income taxes) to reflect a rise in the fair value of these notes (2014: \$45 million, \$33 million net of income taxes).

(2) During the quarter ended January 31, 2015, the Bank recorded \$10 million in charges (\$8 million net of income taxes) related to the Wealth Management acquisitions (2014: \$11 million, \$9 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 and intangible asset amortization related to the Bank's interest in TMX.

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 *2014 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 2015 and the objectives it hopes to achieve for that period. These forward-looking statements are made in accordance with current securities legislation in Canada and the United States. They include, among others, statements with respect to the economy—particularly the Canadian and U.S. economies—market changes, observations regarding the Bank’s objectives and its strategies for achieving them, Bank-projected financial returns and certain risks faced by the Bank. These forward-looking statements are typically identified by future or conditional verbs or words such as “outlook,” “believe,” “anticipate,” “estimate,” “project,” “expect,” “intend,” “plan,” and similar terms and expressions.

By their very nature, such forward-looking statements require assumptions to be made and involve inherent risks and uncertainties, both general and specific. Assumptions about the performance of the Canadian and U.S. economies in 2015 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 (all of which are described in more detail in the Risk Management section beginning on page 61 of the *2014 Annual Report*), general economic environment and financial market conditions in Canada, the United States and certain other countries in which the Bank conducts business, including regulatory changes affecting the Bank’s business, capital and liquidity; 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 *U.S. Foreign Account Tax Compliance Act (FATCA)*); changes to capital and liquidity guidelines and to the manner in which they are to be presented and interpreted; changes to the credit ratings assigned to the Bank; and potential disruptions to the Bank’s information technology systems, including evolving cyber attack risk.

The foregoing list of risk factors is not exhaustive. Additional information about these factors can be found in the Risk Management and Other Risk Factors sections of the *2014 Annual Report*. Investors and others who rely on the Bank’s forward-looking statements should carefully consider the above factors as well as the uncertainties they represent and the risk they entail. Except as required by law, the Bank does not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time, by it or on its behalf.

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

DISCLOSURE OF FIRST QUARTER 2015 RESULTS

Conference Call

- A conference call for analysts and institutional investors will be held on Wednesday, February 25, 2015 at 1:00 p.m. EST.
- Access by telephone in listen-only mode: 1-866-862-3930 or 416-340-2217. The access code is 1937377#.
- A recording of the conference call can be heard until March 25, 2015 by dialing 1-800-408-3053 or 905-694-9451. The access code is 4796186#.

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.

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