

National Bank reports its results for the First Quarter of 2017

The financial information reported herein is based on the unaudited interim condensed consolidated financial statements for the quarter ended January 31, 2017 and prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). All amounts are presented in Canadian dollars.

MONTREAL, March 1, 2017 – National Bank is reporting net income of \$497 million for the first quarter of 2017 compared to \$261 million in the same quarter of 2016, a \$236 million increase that is explained by the Bank's write-off of its equity interest in associate Maple Financial Group Inc. during the first quarter of 2016 and by net income growth generated by its main business segments. Diluted earnings per share stood at \$1.34 in the first quarter of 2017 compared to \$0.67 in the same quarter of 2016.

The Bank's 2017 first-quarter net income excluding specified items totalled \$502 million, up 18% from \$427 million in the first quarter of 2016, and first-quarter diluted earnings per share excluding specified items stood at \$1.35, up 15% from \$1.17 in the same quarter of 2016. The specified items are described on page 4.

"For the first quarter of 2017, the Bank's excellent performance was driven by strong revenue growth in both the Wealth Management and Financial Markets segments and by efficiency initiatives undertaken in the Personal and Commercial segment," said Louis Vachon, President and Chief Executive Officer of National Bank. "Furthermore, our credit quality remains solid and our Common Equity Tier 1 (CET1) capital ratio stood at 10.6%."

Highlights

(millions of Canadian dollars)	Quarter ended January 31		
	2017	2016	% Change
Net income	497	261	90
Diluted earnings per share (<i>dollars</i>)	\$ 1.34	\$ 0.67	100
Return on common shareholders' equity	18.4 %	9.5 %	
Dividend payout ratio	55 %	51 %	
Excluding specified items⁽¹⁾			
Net income excluding specified items	502	427	18
Diluted earnings per share excluding specified items (<i>dollars</i>)	\$ 1.35	\$ 1.17	15
Return on common shareholders' equity excluding specified items	18.6 %	16.6 %	
Dividend payout ratio excluding specified items	48 %	44 %	
	As at January 31, 2017	As at October 31, 2016	
CET1 capital ratio under Basel III	10.6 %	10.1 %	
Leverage ratio under Basel III	3.8 %	3.7 %	

(1) See the Financial Reporting Method section on page 4 for additional information on non-IFRS financial measures.

Personal and Commercial

- Net income totalled \$213 million in the first quarter of 2017, up 18% from \$180 million in the first quarter of 2016.
- At \$755 million, the 2017 first-quarter total revenues rose \$31 million or 4% year over year.
- Rising 6%, personal lending experienced sustained growth, largely due to mortgage lending, while commercial lending grew 3% from a year ago.
- The segment's net interest margin was 2.24% in the first quarter of 2017 versus 2.25% in the first quarter of 2016 as well as the preceding quarter.
- The segment recorded first-quarter provisions for credit losses of \$52 million, \$10 million less than in the first quarter of 2016.
- The 2017 first-quarter non-interest expenses were down 1% year over year.
- At 54.6%, the efficiency ratio improved from 57.5% in the first quarter of 2016.

Wealth Management

- Net income totalled \$101 million in the first quarter of 2017, a 31% increase from \$77 million in the same quarter of 2016.
- The 2017 first-quarter total revenues amounted to \$397 million compared to \$356 million in the first quarter of 2016, a \$41 million or 12% increase owing to growth across all of the segment's revenue categories.
- The 2017 first-quarter non-interest expenses stood at \$259 million compared to \$251 million in the first quarter of 2016.
- The efficiency ratio excluding specified items⁽¹⁾ was 63.9%, an improvement from 68.2% in the first quarter of 2016.

Financial Markets

- Net income totalled \$183 million in the first quarter of 2017 compared to \$4 million in the same quarter of 2016, an increase explained by the write-off of the Bank's equity interest in associate Maple Financial Group Inc. during the first quarter of last year.
- The segment's first-quarter net income excluding specified items⁽¹⁾ totalled \$183 million, up 23% from \$149 million in the first quarter of 2016.
- Total revenues on a taxable equivalent basis and excluding specified items⁽¹⁾ amounted to \$419 million, a \$71 million year-over-year increase driven primarily by trading activity revenues and financial market fees.
- The 2017 first-quarter non-interest expenses stood at \$170 million, a \$26 million year-over-year increase associated with revenue growth.
- The efficiency ratio was 40.6% compared to 41.4% in the first quarter of 2016.

U.S. Specialty Finance and International

- Net income totalled \$38 million in the first quarter of 2017 compared to \$40 million in the same quarter of 2016.
- The 2017 first-quarter total revenues amounted to \$118 million, a \$10 million year-over-year increase owing mainly to the revenues generated by the Advanced Bank of Asia Limited subsidiary.
- At \$56 million, the 2017 first-quarter non-interest expenses rose \$8 million year over year.

Other

- The *Other* heading posted a 2017 first-quarter net loss of \$38 million versus a net loss of \$40 million in the same quarter of 2016. This change essentially reflects a greater contribution by treasury activities, partly offset by higher non-interest expenses.

Capital Management

- As at January 31, 2017, the Common Equity Tier 1 (CET1) capital ratio under Basel III was 10.6% compared to 10.1% as at October 31, 2016, an increase resulting essentially from net income, net of dividends, common share issuances under the stock option plan and remeasurements of the pension plans.
- As at January 31, 2017, the Basel III leverage ratio was 3.8%, essentially unchanged from October 31, 2016.

(1) See the Financial Reporting Method section on page 4 for additional information on non-IFRS financial measures.

HIGHLIGHTS

(millions of Canadian dollars, except per share amounts)

Quarter ended January 31

	2017	2016	% Change
Operating results			
Total revenues	1,633	1,289	27
Net income	497	261	90
Net income attributable to the Bank's shareholders	478	239	100
Return on common shareholders' equity	18.4 %	9.5 %	
Earnings per share			
Basic	\$ 1.35	\$ 0.68	99
Diluted	1.34	0.67	100
Operating results on a taxable equivalent basis⁽¹⁾ and excluding specified items⁽²⁾			
Total revenues on a taxable equivalent basis and excluding specified items	1,707	1,530	12
Net income excluding specified items	502	427	18
Return on common shareholders' equity excluding specified items	18.6 %	16.6 %	
Efficiency ratio on a taxable equivalent basis and excluding specified items	56.5 %	58.6 %	
Earnings per share excluding specified items⁽²⁾			
Basic	\$ 1.37	\$ 1.18	16
Diluted	1.35	1.17	15
Common share information			
Dividends declared	\$ 0.56	\$ 0.54	
Book value	29.51	27.77	
Share price			
High	56.60	44.11	
Low	46.83	35.83	
Close	56.17	39.97	
Number of common shares (<i>thousands</i>)	340,810	337,535	
Market capitalization	19,143	13,491	

(millions of Canadian dollars)	As at January 31, 2017	As at October 31, 2016	% Change
Balance sheet and off-balance-sheet			
Total assets	234,119	232,206	1
Loans and acceptances	126,881	126,178	1
Impaired loans, net of total allowances	(344)	(289)	
As a % of average loans and acceptances	(0.3) %	(0.2) %	
Deposits ⁽³⁾	144,729	142,066	2
Equity attributable to common shareholders	10,058	9,642	4
Assets under administration and under management	411,236	397,342	3
Earnings coverage	9.30	7.84	
Asset coverage	10.50	10.04	
Regulatory ratios under Basel III			
Capital ratios ⁽⁴⁾			
Common Equity Tier 1 (CET1)	10.6 %	10.1 %	
Tier 1	14.1 %	13.5 %	
Total	15.9 %	15.3 %	
Leverage ratio ⁽⁴⁾	3.8 %	3.7 %	
Liquidity coverage ratio (LCR)	139 %	134 %	
Other information			
Number of employees	21,298	21,770	(2)
Number of branches in Canada	448	450	-
Number of banking machines in Canada	941	938	-

(1) See the Consolidated Results section on page 6 of the Report to Shareholders for the quarter ended January 31, 2017.

(2) See the Financial Reporting Method section on page 4 for additional information on non-IFRS financial measures.

(3) An amount of \$2.2 billion classified in *Due to clients, dealers and brokers* on the Consolidated Balance Sheet as at October 31, 2016 is now reported in *Deposits*.

(4) The ratios are calculated using the "all-in" methodology.

FINANCIAL REPORTING METHOD

The Bank's unaudited interim condensed consolidated financial statements have been prepared in accordance with IFRS, as issued by the IASB. 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 not to be reflective of the underlying financial performance of its 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.

The presentation of segment disclosures is consistent with the presentation adopted by the Bank for the fiscal year beginning November 1, 2016. This presentation reflects the fact that the activities of subsidiary Credigy Ltd., which had previously been presented in the Financial Markets segment, and that the activities of subsidiary Advanced Bank of Asia Limited (ABA Bank) and of other international investments, which had previously been presented in the *Other* heading, are now presented in the U.S. Specialty Finance and International (USF&I) segment. The Bank made this change to better align the monitoring of its activities with its management structure.

Financial Information

(millions of Canadian dollars, except per share amounts)	Quarter ended January 31		
	2017	2016	% Change
Net income excluding specified items			
Personal and Commercial	213	180	18
Wealth Management	106	84	26
Financial Markets	183	149	23
U.S. Specialty Finance and International	38	40	(5)
Other	(38)	(26)	
Net income excluding specified items	502	427	18
Items related to holding restructured notes ⁽¹⁾	–	(1)	
Acquisition-related items ⁽²⁾	(5)	(20)	
Write-off of an equity interest in an associate ⁽³⁾	–	(145)	
Net income	497	261	90
Diluted earnings per share excluding specified items	\$ 1.35	\$ 1.17	15
Acquisition-related items ⁽²⁾	(0.01)	(0.06)	
Write-off of an equity interest in an associate ⁽³⁾	–	(0.43)	
Premium paid on preferred shares redeemed for cancellation ⁽⁴⁾	–	(0.01)	
Diluted earnings per share	\$ 1.34	\$ 0.67	100
Return on common shareholders' equity			
Including specified items	18.4 %	9.5 %	
Excluding specified items	18.6 %	16.6 %	

(1) During the quarter ended January 31, 2016, the Bank recorded \$2 million in financing costs (\$1 million net of income taxes) related to holding restructured notes.

(2) During the quarter ended January 31, 2017, the Bank recorded \$6 million in acquisition-related charges (\$5 million net of income taxes) (2016: \$27 million, \$20 million net of income taxes). These charges consisted mostly of retention bonuses and also included the Bank's share in the integration costs incurred by Fiera Capital Corporation (Fiera Capital) as well as the Bank's share in the charges related to its equity interest in TMX Group Limited (TMX), particularly goodwill and intangible asset impairment losses of \$18 million (\$13 million net of income taxes) recorded during the quarter ended January 31, 2016.

(3) During the quarter ended January 31, 2016, the Bank had written off its equity interest in associate Maple Financial Group Inc. (Maple) in an amount of \$164 million (\$145 million net of income taxes) following the February 6, 2016 event described in the Analysis of the Consolidated Balance Sheet section on page 35 of the *2016 Annual Report*.

(4) During the quarter ended January 31, 2016, a \$3 million premium was paid on the Series 20 First Preferred Shares redeemed for cancellation.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

From time to time, the Bank makes written and oral forward-looking statements, such as those contained in the Outlook for National Bank and the Major Economic Trends sections of the *2016 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 2017 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 2017 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 credit risk, market risk, liquidity and funding risk, operational risk, regulatory compliance risk, reputation risk, strategic risk and environmental risk, all of which are described in more detail in the Risk Management section beginning on page 48 of the *2016 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; 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 section of the *2016 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 2017 RESULTS

Conference Call

- A conference call for analysts and institutional investors will be held on Wednesday, March 1, 2017 at 1:00 p.m. EST.
- Access by telephone in listen-only mode: 1-866-862-3930 or 416-695-7806. The access code is 6710780#.
- A recording of the conference call can be heard until March 30, 2017 by dialing 1-800-408-3053 or 905-694-9451. The access code is 4525841#.

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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