

National Bank reports its results for the Third Quarter of 2017

The financial information reported in this document is based on the unaudited interim condensed consolidated financial statements for the quarter and nine-month period ended July 31, 2017 and is prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), unless otherwise indicated. IFRS represent Canadian generally accepted accounting principles (GAAP). All amounts are presented in Canadian dollars.

MONTREAL, August 30, 2017 – For the third quarter of 2017, National Bank is reporting net income of \$518 million compared to \$478 million in the third quarter of 2016, a \$40 million year-over-year increase driven by net income growth in its main business segments. Diluted earnings per share stood at \$1.37 in the third quarter of 2017 compared to \$1.31 in the same quarter last year.

Net income excluding specified items totalled \$524 million in the third quarter of 2017, up 8% from \$486 million in the third quarter of 2016. Diluted earnings per share excluding specified items stood at \$1.39 in the third quarter of 2017 compared to \$1.33 in the same quarter of 2016. The specified items are described on page 4.

For the first nine months of 2017, the Bank's net income totalled \$1,499 million compared to \$949 million in the same nine-month period of 2016, and its nine-month diluted earnings per share stood at \$3.99 versus \$2.51 in the same period of 2016. These increases were generated by the net income growth across all the business segments, the sectoral provision that had been recorded in the second quarter of 2016, and the write-off of the Bank's equity interest in associate Maple Financial Group Inc. in the first quarter of 2016. Net income excluding specified items for the nine months ended July 31, 2017 totalled \$1,518 million, up 32% from \$1,150 million in the same period of 2016. Nine-month diluted earnings per share excluding specified items stood at \$4.05 compared to \$3.11 in the first nine months of 2016.

“For the third quarter of 2017, the Bank posted excellent results owing to solid performance across all its business segments,” said Louis Vachon, President and Chief Executive Officer of National Bank. “Sustained revenue growth and cost control also contributed to this performance.”

Highlights

(millions of Canadian dollars)	Quarter ended July 31			Nine months ended July 31		
	2017	2016	% Change	2017	2016	% Change
Net income	518	478	8	1,499	949	58
Diluted earnings per share (<i>dollars</i>)	\$ 1.37	\$ 1.31	5	\$ 3.99	\$ 2.51	59
Return on common shareholders' equity	18.2 %	18.7 %		18.2 %	12.0 %	
Dividend payout ratio	47 %	62 %		47 %	62 %	
Excluding specified items⁽¹⁾						
Net income excluding specified items	524	486	8	1,518	1,150	32
Diluted earnings per share excluding specified items (<i>dollars</i>)	\$ 1.39	\$ 1.33	5	\$ 4.05	\$ 3.11	30
Return on common shareholders' equity excluding specified items	18.4 %	19.0 %		18.4 %	14.9 %	
Dividend payout ratio excluding specified items	42 %	50 %		42 %	50 %	
				As at July 31, 2017	As at October 31, 2016	
CET1 capital ratio under Basel III				11.2 %	10.1 %	
Leverage ratio under Basel III				4.0 %	3.7 %	

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

Personal and Commercial

- Net income totalled \$240 million in the third quarter of 2017, up 21% from \$199 million in the third quarter of 2016.
- At \$785 million, the segment's third-quarter total revenues rose \$46 million or 6% year over year.
- Rising 5% from a year ago, personal lending experienced sustained growth, particularly due to mortgage lending, while commercial lending (excluding oil and gas producers and service companies) grew 6% from a year ago.
- The net interest margin stood at 2.27% in the third quarter of 2017 versus 2.26% in the third quarter of 2016.
- The 2017 third-quarter non-interest expenses were down 2% year over year.
- At 52.6%, the efficiency ratio improved from 57.1% in the third quarter of 2016.

Wealth Management

- Net income totalled \$106 million in the third quarter of 2017, a 31% increase from \$81 million in the third quarter of 2016.
- The 2017 third-quarter total revenues amounted to \$403 million compared to \$361 million in the same quarter of 2016, a \$42 million or 12% increase driven by growth in net interest income and fee-based revenues.
- The 2017 third-quarter non-interest expenses stood at \$259 million compared to \$249 million in the third quarter of 2016.
- The efficiency ratio excluding specified items⁽¹⁾ was 62.6%, an improvement from 67.2% in the third quarter of 2016.

Financial Markets

- Net income totalled \$168 million in the third quarter of 2017, an 8% increase from \$156 million in the same quarter of 2016.
- Total revenues on a taxable equivalent basis amounted to \$392 million, a \$22 million or 6% year-over-year increase driven primarily by trading activity revenues, particularly revenues from equity securities.
- Non-interest expenses for the third quarter of 2017 stood at \$162 million, a \$6 million year-over-year increase associated with revenue growth.
- The efficiency ratio was 41.3%, an improvement from 42.2% in the third quarter of 2016.

U.S. Specialty Finance and International

- Net income totalled \$51 million in the third quarter of 2017 compared to \$64 million in the same quarter of 2016, due to a \$41 million non-taxable gain on revaluation of the previously held equity interest in ABA Bank that had been recorded in the third quarter of 2016, partly offset by significant growth in net interest income.
- The segment's 2017 third-quarter total revenues amounted to \$147 million, up \$22 million or 18%.
- Third-quarter non-interest expenses stood at \$58 million, a \$6 million year-over-year increase attributable essentially to business growth at the ABA Bank subsidiary.

Other

- The *Other* heading posted a net loss of \$47 million in the third quarter of 2017 versus a \$22 million net loss in the same quarter of 2016, primarily because of higher non-interest expenses.

Capital Management

- As at July 31, 2017, the Common Equity Tier 1 (CET1) capital ratio under Basel III was 11.2%, an increase from 10.1% as at October 31, 2016 resulting essentially from net income, net of dividends.
- As at July 31, 2017, the Basel III leverage ratio was 4.0%, an increase from 3.7% as at October 31, 2016.

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

HIGHLIGHTS

(millions of Canadian dollars, except per share amounts)	Quarter ended July 31			Nine months ended July 31		
	2017	2016	% Change	2017	2016	% Change
Operating results						
Total revenues	1,675	1,557	8	4,905	4,271	15
Net income	518	478	8	1,499	949	58
Net income attributable to the Bank's shareholders	494	460	7	1,434	892	61
Return on common shareholders' equity	18.2 %	18.7 %		18.2 %	12.0 %	
Earnings per share						
Basic	\$ 1.39	\$ 1.32	5	\$ 4.04	\$ 2.52	60
Diluted	1.37	1.31	5	3.99	2.51	59
Operating results on a taxable equivalent basis⁽¹⁾ and excluding specified items⁽²⁾						
Total revenues on a taxable equivalent basis and excluding specified items	1,743	1,610	8	5,104	4,647	10
Net income excluding specified items	524	486	8	1,518	1,150	32
Return on common shareholders' equity excluding specified items	18.4 %	19.0 %		18.4 %	14.9 %	
Efficiency ratio on a taxable equivalent basis and excluding specified items	55.4 %	57.9 %		56.2 %	58.1 %	
Earnings per share excluding specified items⁽²⁾						
Basic	\$ 1.41	\$ 1.35	4	\$ 4.09	\$ 3.13	31
Diluted	1.39	1.33	5	4.05	3.11	30
Common share information						
Dividends declared	\$ 0.58	\$ 0.55		\$ 1.70	\$ 1.63	
Book value				30.84	28.39	
Share price						
High	56.44	46.65		58.75	46.65	
Low	51.77	40.98		46.83	35.83	
Close	56.15	44.71		56.15	44.71	
Number of common shares (<i>thousands</i>)	341,580	336,826		341,580	336,826	
Market capitalization	19,180	15,059		19,180	15,059	

(millions of Canadian dollars)	As at July 31, 2017	As at October 31, 2016	% Change
Balance sheet and off-balance-sheet			
Total assets	240,072	232,206	3
Loans and acceptances, net of allowances	133,167	126,178	6
Impaired loans, net of total allowances	(307)	(289)	
As a % of average loans and acceptances	(0.2) %	(0.2) %	
Deposits ⁽³⁾	152,310	142,066	7
Equity attributable to common shareholders	10,536	9,642	9
Assets under administration and under management	427,663	397,342	8
Earnings coverage	12.00	7.84	
Regulatory ratios under Basel III			
Capital ratios ⁽⁴⁾			
Common Equity Tier 1 (CET1)	11.2 %	10.1 %	
Tier 1	15.2 %	13.5 %	
Total	15.5 %	15.3 %	
Leverage ratio ⁽⁴⁾	4.0 %	3.7 %	
Liquidity coverage ratio (LCR)	134 %	134 %	
Other information			
Number of employees	21,526	21,770	(1)
Number of branches in Canada	443	450	(2)
Number of banking machines in Canada	932	938	(1)

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

(2) See the Financial Reporting Method section on page 4 for additional information on non-GAAP 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 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 (USSF&I) segment. The Bank made this change to better align the monitoring of its activities with its management structure.

Non-GAAP Measures

The Bank uses a number of financial measures when assessing its results and measuring Bank-wide performance. Some of these financial measures are not calculated in accordance with GAAP, which are based on IFRS. Presenting non-GAAP financial measures 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 performance of the Bank's operations. Securities regulators require companies to caution readers that non-GAAP measures do not have a standardized meaning under GAAP and therefore may not be comparable to similar measures used by other companies.

Financial Information

(millions of Canadian dollars, except per share amounts)	Quarter ended July 31			Nine months ended July 31		
	2017	2016	% Change	2017	2016	% Change
Net income excluding specified items						
Personal and Commercial	240	199	21	686	366	87
Wealth Management	112	87	29	323	255	27
Financial Markets	168	156	8	526	454	16
U.S. Specialty Finance and International	51	64	(20)	129	126	2
Other	(47)	(20)		(146)	(51)	
Net income excluding specified items	524	486	8	1,518	1,150	32
Items related to holding restructured notes ⁽¹⁾	–	(1)		–	(5)	
Acquisition-related items ⁽²⁾	(6)	(7)		(19)	(33)	
Write-off of an equity interest in an associate ⁽³⁾	–	–		–	(145)	
Impact of changes to tax measures ⁽⁴⁾	–	–		–	(18)	
Net income	518	478	8	1,499	949	58
Diluted earnings per share excluding specified items	\$ 1.39	\$ 1.33	5	\$ 4.05	\$ 3.11	30
Items related to holding restructured notes ⁽¹⁾	–	–		–	(0.01)	
Acquisition-related items ⁽²⁾	(0.02)	(0.02)		(0.06)	(0.10)	
Write-off of an equity interest in an associate ⁽³⁾	–	–		–	(0.43)	
Impact of changes to tax measures ⁽⁴⁾	–	–		–	(0.05)	
Premium paid on preferred shares redeemed for cancellation ⁽⁵⁾	–	–		–	(0.01)	
Diluted earnings per share	\$ 1.37	\$ 1.31	5	\$ 3.99	\$ 2.51	59
Return on common shareholders' equity						
Including specified items	18.2 %	18.7 %		18.2 %	12.0 %	
Excluding specified items	18.4 %	19.0 %		18.4 %	14.9 %	

(1) During the quarter ended July 31, 2016, the Bank had recorded \$2 million in financing costs (\$1 million net of income taxes) related to holding restructured notes. During the nine months ended July 31, 2016, the Bank had recorded \$7 million in financing costs (\$5 million net of income taxes).

(2) During the quarter ended July 31, 2017, the Bank recorded \$8 million (\$6 million net of income taxes) in acquisition-related charges (2016: \$8 million, \$7 million net of income taxes). For the nine months ended July 31, 2017, these charges stood at \$23 million (\$19 million net of income taxes) and, for the same period in 2016, they were \$42 million (\$33 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 in the first quarter of 2016.

(3) During the nine-month period ended July 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 nine months ended July 31, 2016, an \$18 million tax provision had been recorded to reflect the impact of substantively enacted changes to tax measures.

(5) During the nine months ended July 31, 2016, a \$3 million premium had been 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 THE THIRD QUARTER 2017 RESULTS

Conference Call

- A conference call for analysts and institutional investors will be held on Wednesday, August 30, 2017 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 5481709#.
- A recording of the conference call can be heard until September 28, 2017 by dialing 1-800-408-3053 or 905-694-9451. The access code is 8316104#.

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 *Press Release* (which includes the quarterly consolidated financial statements) is available at all times on National Bank's website at nbc.ca/investorrelations.
- The *Press Release*, 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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