

National Bank reports its results for the Second Quarter of 2016 and raises its quarterly dividend by 2% to 55 cents per share

The financial information reported herein is based on the unaudited interim condensed consolidated financial statements for the quarter and the six months ended April 30, 2016 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, June 1, 2016 – National Bank is reporting net income of \$210 million for the second quarter of 2016, down from \$404 million in the same quarter of 2015, essentially as a result of a sectoral provision for credit losses recorded for producers and service companies in the oil and gas sector. Diluted earnings per share stood at \$0.52 in the second quarter of 2016 compared to \$1.13 in the second quarter of 2015.

Excluding the sectoral provision of \$183 million, net of income taxes, and excluding the specified items described on page 4, the 2016 second-quarter net income totalled \$420 million, up 2% from \$411 million in the second quarter of 2015, and the 2016 second-quarter diluted earnings per share stood at \$1.14, relatively stable compared to \$1.15 in the second quarter of 2015.

For the first six months of fiscal 2016, the Bank's net income totalled \$471 million versus \$819 million in the same period of 2015, and its first-half diluted earnings per share stood at \$1.19 versus \$2.29 in the same period of 2015. Excluding the sectoral provision and specified items, the Bank's first-half net income totalled \$847 million, up 3% from \$821 million in the same period of 2015, and its first-half diluted earnings per share stood at \$2.31, essentially unchanged from \$2.30 in the same period of 2015.

"In the second quarter of 2016, the Bank continued to benefit from good growth in personal and commercial loan and deposit volumes and maintained tight cost control," said Louis Vachon, President and Chief Executive Officer of National Bank. "In addition, the Bank took action, by way of a sectoral provision, to address credit uncertainties in its oil and gas producer and service company loan portfolio. The credit quality of the overall loan portfolio, excluding the oil and gas producer and service company loan portfolio, remains within expectations," added Mr. Vachon.

Highlights

(millions of Canadian dollars)	Quarter ended April 30			Six months ended April 30		
	2016	2015	% Change	2016	2015	% Change
Net income	210	404	(48)	471	819	(42)
Diluted earnings per share (<i>dollars</i>)	\$ 0.52	\$ 1.13	(54)	\$ 1.19	\$ 2.29	(48)
Return on common shareholders' equity	7.7 %	17.6 %		8.6 %	17.7 %	
Dividend payout ratio	61 %	44 %		61 %	44 %	
Excluding specified items⁽¹⁾						
Net income	237	411	(42)	664	821	(19)
Diluted earnings per share (<i>dollars</i>)	\$ 0.60	\$ 1.15	(48)	\$ 1.77	\$ 2.30	(23)
Net income excluding sectoral provision ⁽²⁾	420	411	2	847	821	3
Diluted earnings per share excluding sectoral provision ⁽²⁾ (<i>dollars</i>)	\$ 1.14	\$ 1.15	(1)	\$ 2.31	\$ 2.30	–
Return on common shareholders' equity	8.9 %	17.9 %		12.8 %	17.7 %	
Dividend payout ratio	50 %	42 %		50 %	42 %	
				As at April 30, 2016	As at October 31, 2015	
CET1 capital ratio under Basel III				9.8 %	9.9 %	
Leverage ratio under Basel III				3.7 %	3.7 %	

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

(2) During the second quarter of 2016, a \$250 million (\$183 million net of income taxes) sectoral provision for credit losses was recorded for producers and service companies in the oil and gas sector.

Personal and Commercial

- The segment posted a net loss of \$9 million in the second quarter of 2016 compared to net income of \$164 million in the second quarter of 2015 as a result of the sectoral provision for credit losses recorded for producers and service companies in the oil and gas sector.
- Excluding the sectoral provision of \$183 million, net of income taxes, the segment's 2016 second-quarter net income totalled \$174 million, up \$10 million or 6% from the second quarter of 2015.
- At \$698 million, the segment's 2016 second-quarter total revenues rose \$15 million or 2% year over year.
- Rising 6% from a year ago, personal lending experienced sustained growth, with the most significant increases coming from mortgage lending, and commercial lending grew 6% from a year ago.
- The net interest margin was 2.20% in the second quarter of 2016 versus 2.24% in the second quarter of 2015 and 2.22% in the first quarter of 2016.
- Before provisions for credit losses and income taxes, the segment's second-quarter contribution rose \$23 million or 8% year over year.
- At 56.6%, the efficiency ratio improved from 59.0% in the same quarter of 2015.

Wealth Management

- Net income totalled \$80 million in the second quarter of 2016, down 22% from \$103 million in the same quarter of 2015, as a gain on the disposal of Fiera Capital Corporation shares had been recorded in the second quarter of 2015.
- Excluding specified items⁽¹⁾, the 2016 second-quarter net income totalled \$86 million, up \$2 million or 2% year over year.
- Excluding specified items⁽¹⁾, the 2016 second-quarter total revenues amounted to \$355 million, down \$4 million or 1% from \$359 million in the second quarter of 2015, mainly due to decreases in transaction-based and other revenues, partly offset by growth in net interest income.
- Excluding specified items⁽¹⁾, the 2016 second-quarter non-interest expenses stood at \$238 million, down from \$245 million in the second quarter of 2015.
- Excluding specified items⁽¹⁾, the efficiency ratio was 67.0%, an improvement from 68.2% in the second quarter of 2015.

Financial Markets

- Net income totalled \$169 million in the second quarter of 2016, a 7% increase from \$158 million in the same quarter of 2015.
- Excluding specified items⁽¹⁾, net income was \$169 million, down \$5 million or 3% year over year.
- Excluding specified items⁽¹⁾, total revenues amounted to \$429 million, a \$1 million year-over-year increase owing to revenues from banking services and the operations of the Credigy Ltd. subsidiary, tempered by decreases in trading activity revenues, financial market fees, and gains on investments.
- At \$195 million, the 2016 second-quarter non-interest expenses increased \$6 million year over year.
- Excluding specified items⁽¹⁾, the efficiency ratio was 45.5%, increasing by 1.3 percentage points when compared to the second quarter of 2015.

Other

- The *Other* heading posted a net loss of \$30 million in the second quarter of 2016 versus a \$21 million net loss in the same quarter of 2015. The higher net loss stems mainly from a tax provision recorded to reflect the impact of changes to tax measures.

Capital Management

- As at April 30, 2016, the Common Equity Tier 1 (CET1) capital ratio under Basel III was 9.8%, relatively stable compared to 9.9% as at October 31, 2015.
- As at April 30, 2016, the Basel III leverage ratio was 3.7%, unchanged from October 31, 2015.

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

HIGHLIGHTS

	Quarter ended April 30			Six months ended April 30		
	2016	2015	% Change	2016	2015	% Change
Operating results						
Total revenues	1,425	1,421	-	2,714	2,831	(4)
Net income	210	404	(48)	471	819	(42)
Net income attributable to the Bank's shareholders	193	388	(50)	432	785	(45)
Return on common shareholders' equity	7.7 %	17.6 %		8.6 %	17.7 %	
Earnings per share						
Basic	\$ 0.52	\$ 1.14	(54)	\$ 1.20	\$ 2.32	(48)
Diluted	0.52	1.13	(54)	1.19	2.29	(48)
Excluding specified items⁽¹⁾						
Operating results						
<i>(taxable equivalent basis)⁽²⁾</i>						
Total revenues	1,507	1,497	1	3,037	2,956	3
Net income	237	411	(42)	664	821	(19)
Net income attributable to the Bank's shareholders	220	395	(44)	625	787	(21)
Return on common shareholders' equity	8.9 %	17.9 %		12.8 %	17.7 %	
Efficiency ratio	57.8 %	58.7 %		58.2 %	58.7 %	
Earnings per share						
Basic	\$ 0.61	\$ 1.16	(47)	\$ 1.78	\$ 2.32	(23)
Diluted	0.60	1.15	(48)	1.77	2.30	(23)
Common share information						
Dividends declared	\$ 0.54	\$ 0.50		\$ 1.08	\$ 1.00	
Book value				27.75	27.01	
Share price						
High	45.56	49.15		45.56	55.06	
Low	35.95	45.02		35.83	44.21	
Close	44.84	48.75		44.84	48.75	
Number of common shares <i>(thousands)</i>	337,418	330,141		337,418	330,141	
Market capitalization	15,130	16,094		15,130	16,094	

	As at April 30, 2016	As at October 31, 2015	% Change
Balance sheet and off-balance-sheet			
Total assets	220,734	216,090	2
Loans and acceptances	121,116	115,238	5
Impaired loans, net of total allowances	(316)	(112)	
As a % of average loans and acceptances	(0.3) %	(0.1) %	
Deposits	130,271	128,830	1
Equity attributable to common shareholders	9,364	9,531	(2)
Assets under administration and under management	368,168	358,139	3
Earnings coverage	8.75	10.49	
Asset coverage	9.59	6.78	
Regulatory ratios under Basel III			
Capital ratios⁽³⁾			
Common Equity Tier 1 (CET1)	9.8 %	9.9 %	
Tier 1 ⁽⁴⁾	12.9 %	12.5 %	
Total ⁽⁴⁾⁽⁵⁾	14.8 %	14.0 %	
Leverage ratio ⁽³⁾	3.7 %	3.7 %	
Liquidity coverage ratio (LCR)	135 %	131 %	
Other information			
Number of employees	19,717	19,764	-
Number of branches in Canada	453	452	-
Number of banking machines	935	930	1

(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 April 30, 2016.

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

(4) The ratios as at October 31, 2015 include the redemption of the Series 20 preferred shares on November 15, 2015.

(5) The ratio as at October 31, 2015 includes the \$500 million redemption of notes on November 2, 2015.

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 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

(millions of Canadian dollars, except per share amounts)		Quarter ended April 30			Six months ended April 30		
	2016	2015	% Change	2016	2015	% Change	
Net income excluding specified items							
Personal and Commercial	(9)	164		175	335	(48)	
Wealth Management	86	84	2	170	165	3	
Financial Markets	169	174	(3)	355	351	1	
Other	(9)	(11)		(36)	(30)		
Net income excluding specified items	237	411	(42)	664	821	(19)	
Items related to holding restructured notes ⁽¹⁾	(3)	23		(4)	36		
Acquisition-related items ⁽²⁾	(6)	(6)		(26)	(14)		
Write-off of an equity interest in an associate ⁽³⁾	-	-		(145)	-		
Impact of changes to tax measures ⁽⁴⁾	(18)	-		(18)	-		
Gain on disposal of Fiera Capital shares ⁽⁵⁾	-	25		-	25		
Share of current tax asset write-down of an associate ⁽⁶⁾	-	(16)		-	(16)		
Impairment losses on intangible assets ⁽⁷⁾	-	(33)		-	(33)		
Net income	210	404	(48)	471	819	(42)	
Diluted earnings per share excluding specified items	\$ 0.60	\$ 1.15	(48)	\$ 1.77	\$ 2.30	(23)	
Items related to holding restructured notes ⁽¹⁾	(0.01)	0.07		(0.01)	0.11		
Acquisition-related items ⁽²⁾	(0.02)	(0.02)		(0.08)	(0.05)		
Write-off of an equity interest in an associate ⁽³⁾	-	-		(0.43)	-		
Impact of changes to tax measures ⁽⁴⁾	(0.05)	-		(0.05)	-		
Premium paid on preferred shares redeemed for cancellation ⁽⁸⁾	-	-		(0.01)	-		
Gain on disposal of Fiera Capital shares ⁽⁵⁾	-	0.08		-	0.08		
Share of current tax asset write-down of an associate ⁽⁶⁾	-	(0.05)		-	(0.05)		
Impairment losses on intangible assets ⁽⁷⁾	-	(0.10)		-	(0.10)		
Diluted earnings per share	\$ 0.52	\$ 1.13	(54)	\$ 1.19	\$ 2.29	(48)	
Return on common shareholders' equity							
Including specified items	7.7 %	17.6 %		8.6 %	17.7 %		
Excluding specified items	8.9 %	17.9 %		12.8 %	17.7 %		

- (1) During the quarter ended April 30, 2016, the Bank recorded \$3 million in financing costs (\$3 million net of income taxes) related to holding restructured notes (2015: \$4 million, \$4 million net of income taxes). In addition, for the quarter ended April 30, 2015, the Bank had recorded a gain of \$37 million (\$27 million net of income taxes) upon the disposal of the restructured notes of the MAV III conduits. During the six-month period ended April 30, 2016, the Bank recorded \$5 million in financing costs (\$4 million net of income taxes) related to holding restructured notes (2015: \$9 million, \$8 million net of income taxes). In the same six-month period of 2015, the Bank had recorded \$23 million in revenues (\$17 million net of income taxes) to reflect a rise in the fair value of these notes as well as a gain of \$37 million (\$27 million net of income taxes) upon the disposal of the restructured notes of the MAV III conduits.
- (2) During the quarter ended April 30, 2016, the Bank recorded \$7 million (\$6 million net of income taxes) in acquisition-related charges (2015: \$8 million, \$6 million net of income taxes). For the six months ended April 30, 2016, these charges amounted to \$34 million (\$26 million net of income taxes) compared to \$18 million (\$14 million net of income taxes) for the same six-month period of 2015. 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 six-month period ended April 30, 2016, the Bank wrote 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 Consolidated Balance Sheet section on page 14 of the Report to Shareholders for the quarter ended April 30, 2016.
- (4) During the quarter ended April 30, 2016, an \$18 million tax provision was recorded to reflect the impact of substantively enacted changes to tax measures.
- (5) During the quarter ended April 30, 2015, the Bank had recorded a \$29 million gain (\$25 million net of income taxes), net of underwriting fees, on the disposal of Fiera Capital shares through one of its subsidiaries.
- (6) During the quarter ended April 30, 2015, a loss of \$18 million (\$16 million net of income taxes) had been recorded following a write-down of an associate's current tax assets.
- (7) During the quarter ended April 30, 2015, the Bank had recorded \$46 million (\$33 million net of income taxes) in intangible asset impairment losses on technological developments.
- (8) During the six-month period ended April 30, 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 *2015 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 2016 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 2016 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 55 of the *2015 Annual Report*), the 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 *2015 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 SECOND QUARTER 2016 RESULTS

Conference Call

- A conference call for analysts and institutional investors will be held on Wednesday, June 1, 2016 at 1:00 p.m. EDT.
- Access by telephone in listen-only mode: 1-866-862-3930 or 416-340-2217. The access code is 5882795#.
- A recording of the conference call can be heard until June 30, 2016 by dialing 1-800-408-3053 or 905-694-9451. The access code is 4441499#.

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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