

National Bank reports record results for the Third Quarter of 2016

The financial information reported herein is based on the unaudited interim condensed consolidated financial statements for the quarter and the nine months ended July 31, 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, August 31, 2016 – National Bank is reporting net income of \$478 million for the third quarter of 2016, up 6% from \$453 million in the same quarter of 2015. Diluted earnings per share stood at \$1.31 in the third quarter of 2016 compared to \$1.28 in the third quarter of 2015.

Excluding specified items, net income was a record \$486 million in the third quarter of 2016, up 9% from \$444 million in the third quarter of 2015, and third-quarter diluted earnings per share stood at \$1.33, up 6% from \$1.25 in the same quarter of 2015. The specified items are described on page 4.

For the first nine months of 2016, the Bank's net income totalled \$949 million compared to \$1,272 million in the same nine-month period of 2015, and its nine-month diluted earnings per share stood at \$2.51 versus \$3.56 in the same period of 2015, essentially as a result of a \$183 million, net of income taxes, sectoral provision for credit losses recorded for oil and gas producers and service companies in the second quarter of 2016. Excluding the sectoral provision and specified items, the Bank's net income for the nine months ended July 31, 2016 totalled \$1,333 million, up 5% from \$1,265 million in the same period of 2015, and its nine-month diluted earnings per share stood at \$3.65, a 3% increase from \$3.54 in the first nine months of 2015.

"National Bank's 2016 third-quarter net income showed good growth, mainly in the Wealth Management and Personal and Commercial segments, the latter benefiting from the good credit quality of its loan portfolio," said Louis Vachon, President and Chief Executive Officer of National Bank. "Furthermore, at 9.9% as at July 31, 2016, the Common Equity Tier 1 capital ratio rose towards the Bank's target."

Highlights

| (millions of Canadian dollars) | Quarter ended July 31 | | | Nine months ended July 31 | | |
|-------------------------------------------------------------------------------------------|-----------------------|---------|----------|----------------------------|------------------------|----------|
| | 2016 | 2015 | % Change | 2016 | 2015 | % Change |
| Net income | 478 | 453 | 6 | 949 | 1,272 | (25) |
| Diluted earnings per share (<i>dollars</i>) | \$ 1.31 | \$ 1.28 | 2 | \$ 2.51 | \$ 3.56 | (29) |
| Return on common shareholders' equity | 18.7 % | 18.8 % | | 12.0 % | 18.1 % | |
| Dividend payout ratio | 62 % | 44 % | | 62 % | 44 % | |
| Excluding specified items⁽¹⁾ | | | | | | |
| Net income | 486 | 444 | 9 | 1,150 | 1,265 | (9) |
| Diluted earnings per share (<i>dollars</i>) | \$ 1.33 | \$ 1.25 | 6 | \$ 3.11 | \$ 3.54 | (12) |
| Net income excluding sectoral provision ⁽²⁾ | | | | 1,333 | 1,265 | 5 |
| Diluted earnings per share excluding sectoral provision ⁽²⁾ (<i>dollars</i>) | | | | \$ 3.65 | \$ 3.54 | 3 |
| Return on common shareholders' equity | 19.0 % | 18.4 % | | 14.9 % | 17.9 % | |
| Dividend payout ratio | 50 % | 42 % | | 50 % | 42 % | |
| | | | | As at July 31, 2016 | As at October 31, 2015 | |
| CET1 capital ratio under Basel III | | | | 9.9 % | 9.9 % | |
| Leverage ratio under Basel III | | | | 3.7 % | 3.7 % | |

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

(2) During the nine months ended July 31, 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

- Net income was a record \$203 million in the third quarter of 2016 versus \$193 million in the third quarter of 2015.
- At \$739 million, the segment's 2016 third-quarter total revenues rose \$8 million or 1% year over year.
- Rising 5% from a year ago, personal lending experienced sustained growth, with the most significant increases coming from mortgage lending, and commercial lending grew 3% from a year ago.
- The net interest margin was 2.25% in the third quarter of 2016 versus 2.24% in the third quarter of 2015 and 2.20% in the second quarter of 2016.
- At 56.4%, the third-quarter efficiency ratio was unchanged from the same quarter of 2015.

Wealth Management

- Net income totalled \$80 million in the third quarter of 2016, a 5% increase from \$76 million in the third quarter of 2015.
- Excluding specified items⁽¹⁾, the 2016 third-quarter net income totalled \$86 million, up \$4 million or 5% year over year.
- Excluding specified items⁽¹⁾, third-quarter total revenues amounted to \$362 million compared to \$347 million in the third quarter of 2015, a \$15 million or 4% increase owing mainly to growth in net interest income.
- Excluding specified items⁽¹⁾, third-quarter non-interest expenses stood at \$245 million versus \$236 million in the third quarter of 2015.
- Excluding specified items⁽¹⁾, the efficiency ratio was 67.7%, an improvement from 68.0% in the third quarter of 2015.

Financial Markets

- Net income totalled \$174 million in the third quarter of 2016, a 13% decrease from \$201 million in the same quarter of 2015.
- At \$440 million, third-quarter total revenues were down \$30 million year over year, essentially due to decreases in trading activity revenues and revenues from the segment's other activities.
- At \$198 million, the 2016 third-quarter non-interest expenses increased \$4 million year over year.
- The efficiency ratio was 45.0% compared to 41.3% in the third quarter of 2015.

Other

- The acquisition of Advanced Bank of Asia Limited (ABA) was completed on May 16, 2016.
- The *Other* heading posted net income of \$21 million in the third quarter of 2016 versus a \$17 million net loss in the same quarter of 2015. This change came mainly from a \$41 million gain on a revaluation of the previously held equity interest in ABA and from a higher contribution from treasury activities that more than offset the revenues related to the restructured notes that had been recorded during the third quarter of 2015.

Capital Management

- As at July 31, 2016, the Common Equity Tier 1 (CET1) capital ratio under Basel III was 9.9%, unchanged from October 31, 2015.
- As at July 31, 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 July 31 | | | Nine months ended July 31 | | |
|----------------------------------------------------|-----------------------|---------|----------|---------------------------|---------|----------|
| | 2016 | 2015 | % Change | 2016 | 2015 | % Change |
| Operating results | | | | | | |
| Total revenues | 1,557 | 1,510 | 3 | 4,271 | 4,341 | (2) |
| Net income | 478 | 453 | 6 | 949 | 1,272 | (25) |
| Net income attributable to the Bank's shareholders | 460 | 436 | 6 | 892 | 1,221 | (27) |
| Return on common shareholders' equity | 18.7 % | 18.8 % | | 12.0 % | 18.1 % | |
| Earnings per share | | | | | | |
| Basic | \$ 1.32 | \$ 1.29 | 2 | \$ 2.52 | \$ 3.61 | (30) |
| Diluted | 1.31 | 1.28 | 2 | 2.51 | 3.56 | (29) |
| Excluding specified items⁽¹⁾ | | | | | | |
| Operating results | | | | | | |
| <i>(taxable equivalent basis)⁽²⁾</i> | | | | | | |
| Total revenues | 1,610 | 1,553 | 4 | 4,647 | 4,509 | 3 |
| Net income | 486 | 444 | 9 | 1,150 | 1,265 | (9) |
| Net income attributable to the Bank's shareholders | 468 | 427 | 10 | 1,093 | 1,214 | (10) |
| Return on common shareholders' equity | 19.0 % | 18.4 % | | 14.9 % | 17.9 % | |
| Efficiency ratio | 57.9 % | 58.0 % | | 58.1 % | 58.5 % | |
| Earnings per share | | | | | | |
| Basic | \$ 1.35 | \$ 1.27 | 6 | \$ 3.13 | \$ 3.58 | (13) |
| Diluted | 1.33 | 1.25 | 6 | 3.11 | 3.54 | (12) |
| Common share information | | | | | | |
| Dividends declared | \$ 0.55 | \$ 0.52 | | \$ 1.63 | \$ 1.52 | |
| Book value | | | | 28.39 | 27.60 | |
| Share price | | | | | | |
| High | 46.65 | 50.01 | | 46.65 | 55.06 | |
| Low | 40.98 | 43.78 | | 35.83 | 43.78 | |
| Close | 44.71 | 45.74 | | 44.71 | 45.74 | |
| Number of common shares (thousands) | 336,826 | 330,001 | | 336,826 | 330,001 | |
| Market capitalization | 15,059 | 15,094 | | 15,059 | 15,094 | |

| (millions of Canadian dollars) | As at July 31, 2016 | As at October 31, 2015 | % Change |
|--------------------------------------------------|---------------------|------------------------|----------|
| Balance sheet and off-balance-sheet | | | |
| Total assets | 229,896 | 216,090 | 6 |
| Loans and acceptances | 124,789 | 115,238 | 8 |
| Impaired loans, net of total allowances | (328) | (112) | |
| As a % of average loans and acceptances | (0.3) % | (0.1) % | |
| Deposits | 138,875 | 128,830 | 8 |
| Equity attributable to common shareholders | 9,563 | 9,531 | - |
| Assets under administration and under management | 387,743 | 358,139 | 8 |
| Earnings coverage | 8.06 | 10.49 | |
| Asset coverage | 10.01 | 6.78 | |
| Regulatory ratios under Basel III | | | |
| Capital ratios⁽³⁾ | | | |
| Common Equity Tier 1 (CET1) | 9.9 % | 9.9 % | |
| Tier 1 ⁽⁴⁾ | 13.3 % | 12.5 % | |
| Total ⁽⁴⁾⁽⁵⁾ | 15.1 % | 14.0 % | |
| Leverage ratio ⁽³⁾ | 3.7 % | 3.7 % | |
| Liquidity coverage ratio (LCR) | 137 % | 131 % | |
| Other information | | | |
| Number of employees ⁽⁶⁾ | 21,731 | 20,189 | 8 |
| Number of branches in Canada | 453 | 452 | - |
| Number of banking machines | 937 | 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 July 31, 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.

(6) Number of employees now includes employees from Credigy Ltd. and Advanced Bank of Asia Limited.

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 July 31 | | | Nine months ended July 31 | | |
|---------------------------------------------------------------------------|-----------------------|----------------|----------|---------------------------|----------------|-------------|
| | 2016 | 2015 | % Change | 2016 | 2015 | % Change |
| Net income excluding specified items | | | | | | |
| Personal and Commercial | 203 | 193 | 5 | 378 | 528 | (28) |
| Wealth Management | 86 | 82 | 5 | 256 | 247 | 4 |
| Financial Markets | 174 | 201 | (13) | 529 | 552 | (4) |
| Other | 23 | (32) | | (13) | (62) | |
| Net income excluding specified items | 486 | 444 | 9 | 1,150 | 1,265 | (9) |
| Items related to holding restructured notes ⁽¹⁾ | (1) | 16 | | (5) | 52 | |
| Acquisition-related items ⁽²⁾ | (7) | (7) | | (33) | (21) | |
| Write-off of an equity interest in an associate ⁽³⁾ | – | – | | (145) | – | |
| Impact of changes to tax measures ⁽⁴⁾ | – | – | | (18) | – | |
| Gain on disposal of Fiera Capital shares ⁽⁵⁾ | – | – | | – | 25 | |
| Share of current tax asset write-down of an associate ⁽⁶⁾ | – | – | | – | (16) | |
| Impairment losses on intangible assets ⁽⁷⁾ | – | – | | – | (33) | |
| Net income | 478 | 453 | 6 | 949 | 1,272 | (25) |
| Diluted earnings per share excluding specified items | \$ 1.33 | \$ 1.25 | 6 | \$ 3.11 | \$ 3.54 | (12) |
| Items related to holding restructured notes ⁽¹⁾ | – | 0.05 | | (0.01) | 0.16 | |
| Acquisition-related items ⁽²⁾ | (0.02) | (0.02) | | (0.10) | (0.07) | |
| 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 ⁽⁸⁾ | – | – | | (0.01) | – | |
| Gain on disposal of Fiera Capital shares ⁽⁵⁾ | – | – | | – | 0.08 | |
| Share of current tax asset write-down of an associate ⁽⁶⁾ | – | – | | – | (0.05) | |
| Impairment losses on intangible assets ⁽⁷⁾ | – | – | | – | (0.10) | |
| Diluted earnings per share | \$ 1.31 | \$ 1.28 | 2 | \$ 2.51 | \$ 3.56 | (29) |
| Return on common shareholders' equity | | | | | | |
| Including specified items | 18.7 % | 18.8 % | | 12.0 % | 18.1 % | |
| Excluding specified items | 19.0 % | 18.4 % | | 14.9 % | 17.9 % | |

- (1) During the quarter ended July 31, 2016, the Bank recorded \$2 million in financing costs (\$1 million net of income taxes) related to holding restructured notes (2015: \$5 million, \$3 million net of income taxes). In addition, during the quarter ended July 31, 2015, it had recorded \$26 million in revenues (\$19 million net of income taxes) to reflect capital repayments and a rise in the fair value of these notes. During the nine months ended July 31, 2016, the Bank recorded \$7 million in financing costs (\$5 million net of income taxes) related to holding restructured notes (2015: \$14 million, \$11 million net of income taxes). In the same nine-month period of 2015, the Bank had recorded \$49 million in revenues (\$36 million net of income taxes) to reflect capital repayments and 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 July 31, 2016, the Bank recorded \$8 million (\$7 million net of income taxes) in acquisition-related charges (2015: \$9 million, \$7 million net of income taxes). For the nine months ended July 31, 2016, these charges stood at \$42 million (\$33 million net of income taxes) and, for the same period in 2015, they were \$27 million (\$21 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 months ended July 31, 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 July 31, 2016.
- (4) During the nine months ended July 31, 2016, an \$18 million tax provision was recorded to reflect the impact of substantively enacted changes to tax measures.
- (5) During the nine months ended July 31, 2015, a gain of \$29 million (\$25 million net of income taxes), net of underwriting fees, had been recorded upon a disposal of Fiera Capital shares through one of the Bank's subsidiaries.
- (6) During the nine months ended July 31, 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 nine months ended July 31, 2015, the Bank had recorded \$46 million (\$33 million net of income taxes) in intangible asset impairment losses on technology developments.
- (8) During the nine months ended July 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 *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 THIRD QUARTER 2016 RESULTS

Conference Call

- A conference call for analysts and institutional investors will be held on Wednesday, August 31, 2016 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 6303175#.
- A recording of the conference call can be heard until September 29, 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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