PRESS RELEASE
THIRD QUARTER
2013

National Bank posts record results for the Third Quarter of 2013

The financial information in this press release is based on the unaudited interim consolidated financial statements for the third quarter ended July 31, 2013. Additional information about National Bank of Canada, including the Annual Information Form, can be obtained from the SEDAR website at **sedar.com** or on Bank's website at **nbc.ca**.

Highlights:

- $419 million in net income for the third quarter of 2013, up 11% from $379 million in the same quarter of 2012;
- Diluted earnings per share of $2.39 for the third quarter of 2013, up 12% from $2.14 in the same quarter of 2012;
- Return on equity of 21.9%;
- Common Equity Tier 1 (CET1) capital ratio under Basel III was 8.6% as at July 31, 2013 versus a pro forma CET1 ratio under Basel III of 7.3% as at October 31, 2012.

Highlights Excluding Specified Items(1):

- Record net income of $391 million in the third quarter of 2013, up 11% from $353 million in the same quarter of 2012;
- Record diluted earnings per share of $2.22 in the third quarter of 2013, up 12% from $1.98 in the same quarter of 2012;
- Return on equity of 20.3%.

MONTREAL, August 28, 2013 – National Bank reported $419 million in net income for the third quarter of 2013 versus $379 million in the third quarter of 2012. Diluted earnings per share for the quarter ended July 31, 2013 stood at $2.39 compared to $2.14 in the same quarter of 2012.

Excluding the specified items described on page 5, the third quarter net income was a record amount of $391 million, up 11% from $353 million in the third quarter of 2012, and the quarter's diluted earnings per share stood at $2.22, up 12% from $1.98 in the same quarter of 2012.

For the first nine months of fiscal 2013, the Bank's net income totalled $1,217 million versus $1,283 million in the same period of 2012. Nine-month diluted earnings per share stood at $6.91 compared to $7.35 in the same nine-month period of 2012. Excluding the specified items described on page 5, nine-month net income totalled $1,121 million, up 6% from $1,053 million in the same period of 2012, and nine-month diluted earnings per share stood at $6.32, up 7% from $5.93 in the same period of 2012.

"Thanks to sustained growth across its three business segments, National Bank reported record net income in the third quarter of 2013. Our credit quality and financial strength remain excellent, and our Pan-Canadian growth strategy has paid off with strong performance in the Wealth Management and Financial Markets segments. Furthermore, the Bank continues to seek out opportunities, as was the case for the acquisition of TD Waterhouse Institutional Services announced on August 1, 2013," said Louis Vachon, President and Chief Executive Officer of the Bank.

Financial Indicators

	Results Q3 2013	Results excluding specified items (1)	Results First nine months 2013	Results excluding specified items (1)
Growth in diluted earnings per share	12 %	12 %	(6) %	7 %
Return on common shareholders' equity	21.9 %	20.3 %	22.1 %	20.2 %
Dividend payout ratio	37 %	40 %	37 %	40 %
CET1 capital ratio under Basel III	8.6 %		8.6 %	

(1) See the Financial Reporting Method section on page 5.

Results by Segment

The Bank's segment reporting is consistent with that adopted for the fiscal year beginning November 1, 2012, with the following changes having been made to better reflect how management monitors performance. The distribution of banking products through independent networks has been reclassified from the Personal and Commercial segment to the Wealth Management segment. Banking activities with energy sector companies have been transferred from the Financial Markets segment to the Personal and Commercial segment. These changes had no impact on the Bank's consolidated results.

Personal and Commercial

In the Personal and Commercial segment, net income totalled $192 million in the third quarter of 2013, up 2 % from $189 million in the third quarter of 2012. Third-quarter total revenues increased by $18 million year over year owing to higher net interest income, which rose $8 million, and to a $10 million increase in non-interest income. The higher net interest income came mainly from growth in personal loan volume, tempered by a narrowing of the net interest margin, which was 2.26 % in the third quarter of 2013 compared to 2.39 % in the same quarter of 2012, mainly due to a decline in loan spreads.

Personal Banking's total revenues rose $12 million, mainly due to higher loan volumes, especially consumer and mortgage loans, partly offset by a narrowing of net interest margins. Commercial Banking's total revenues rose $6 million, owing mainly to higher credit fees, particularly on acceptances.

The segment's third-quarter non-interest expenses increased by $5 million or 1 % year over year. At 54 %, the efficiency ratio for the third quarter of 2013 improved by 1 % when compared to the same quarter last year. Provisions for credit losses were up $10 million, as recoveries of credit losses had been recorded in the same quarter of 2012.

For the first nine months of 2013, the Personal and Commercial segment posted net income of $536 million, up $15 million or 3 % from $521 million in the same period of 2012. The segment's total revenues grew 2 %. Personal Banking's total revenues rose mainly on higher consumer and mortgage loan volumes, and the 2 % increase in Commercial Banking's total revenues came mainly from financing activity revenues. The segment's nine-month provisions for credit losses were $13 million higher than in the same period of 2012. At 55 %, the efficiency ratio for the first nine months of fiscal 2013 improved by 1 % when compared to the same period of 2012.

Wealth Management

In the Wealth Management segment, net income totalled $52 million in the third quarter of 2013 versus $39 million in the same quarter last year. The segment's total revenues grew 8 % and were mainly due to an increase in deposit volume and the higher fee-based revenues resulting from growth in assets under administration and under management.

Excluding specified items, all of which are related to the past two years' acquisitions, third-quarter non-interest expenses stood at $209 million compared to $202 million in the same quarter of 2012, rising mainly on increases in compensation and employee benefits and in professional fees resulting from greater segment activity.

Excluding specified items, essentially the $246 million gain on the sale of Natcan's operations recorded in the second quarter of 2012, the Wealth Management segment posted net income of $172 million for the first nine months of 2013 compared to $139 million in the same period of 2012. This net income growth came mainly from greater retail brokerage activity, higher sales of managed solutions and growth in net interest income.

Financial Markets

In the Financial Markets segment, net income totalled $158 million for the third quarter of 2013, up $47 million from $111 million in the same quarter of 2012. On a taxable equivalent basis, the segment's third-quarter total revenues amounted to $382 million compared to $322 million in the third quarter of 2012, mainly attributable to increases in all types of trading activity revenues. Banking service revenues rose 12 %, particularly on greater financing needs of clients. The segment's other income was up $8 million, mainly due to sustained growth in revenues from the Credigy Ltd. subsidiary.

At $168 million, the segment's third-quarter non-interest expenses saw a slight $2 million year-over-year increase that was particularly due to higher variable compensation associated with revenue growth. Provisions for credit losses were nil this third quarter versus $3 million recorded in the same quarter of 2012.

For the first nine months of 2013, the segment's net income totalled $416 million, up $79 million from the same period in 2012. Excluding specified items, the segment's net income rose $68 million or 20 % from the same period in 2012. On a taxable equivalent basis, total nine-month revenues amounted to $1,048 million versus $981 million in the same period last year, a year-over-year increase of $67 million that was mainly due to higher trading activity revenues and higher banking service revenues. Other income was down, mainly because of a lower contribution from associate Maple Financial Group Inc., partly offset by higher revenues from the Credigy Ltd. subsidiary. Nine-month non-interest expenses stood at $494 million, down $23 million year over year, as severance pay had been recorded in the second quarter of 2012. As for provisions for credit losses, the segment recorded $12 million in recoveries of credit losses in the first nine months of 2013, whereas in the same period of 2012, the Bank had taken $3 million in provisions for credit losses.

Other

For the *Other* heading of segment results, net income totalled $17 million in the third quarter of 2013 compared to $40 million in the same quarter of 2012. Excluding specified items, there was a net loss of $17 million this third quarter versus net income of $7 million in the third quarter of 2012. The decrease in net income came mainly from a higher payroll tax, costs incurred for process improvement and regulatory projects, and marketing expenses for advertising campaigns.

For the first nine months of 2013, net income totalled $110 million versus $106 million in the same period of 2012. Excluding specified items, there was a net loss of $3 million for the first nine months of 2013 versus net income of $45 million in the same period of 2012. The difference is attributable to the same reasons provided for the quarter and to a lower contribution from Treasury.

Capital Management

The Bank's capital management policy sets out the principles and practices that the Bank incorporates into its capital management strategy and the basic criteria it adopts to ensure that it has sufficient capital at all times and is prudently managing such capital to satisfy any future capital requirements. The Bank has maintained adequate capital ratios through internal capital generation, balance sheet management and issuances and repurchases of shares and subordinated debt securities.

In December 2012, OSFI released the final version of the *Capital Adequacy Requirements (CAR) Guideline*, which came into effect in January 2013. The guideline reflects the changes to capital requirements adopted by the Basel Committee on Bank Supervision (BCBS), which are commonly referred to as Basel III. These changes, along with global liquidity standards, seek to strengthen the resiliency of the banking sector and financial system.

The new Basel III regulatory framework sets out transitional arrangements for the period of 2013 to 2019. OSFI has introduced two methodologies for determining capital. The "all-in" methodology includes all of the regulatory adjustments that will be required by 2019 while retaining the phase-out rules for non-qualifying capital instruments. The "transitional" methodology, in addition to applying the phase-out rules for non-qualifying capital instruments, also applies a more flexible and steady phasing in of the required regulatory adjustments. The Bank will disclose its capital ratios calculated according to both methodologies in each quarter until the start of 2019. Nevertheless, OSFI has been requiring Canadian banks to meet the 2019 minimum "all-in" requirements since the first quarter of 2013 for Common Equity Tier 1 (CET1) and is requiring them to do the same by the first quarter of 2014 for Tier 1 capital and total capital. Furthermore, given delays in Basel III implementation in the United States and European Union countries, OSFI has decided to postpone, until January 1, 2014, application of the capital requirements for Credit Valuation Adjustment (CVA) charge.

As such, since the first quarter of 2013, the Bank must now maintain a CET1 capital ratio of at least 7.0 %, i.e., 4.5 % for common equity and 2.5 % for a capital conservation reserve. In March 2013, OSFI designated Canada's six largest banks, which include National Bank, as Domestic Systemically Important Banks (D-SIBs). For these banks, a 1 % surcharge will apply to their capital ratios as of January 1, 2016. Consequently, as of that date, the Bank and all other major Canadian banks will have to maintain a CET1 capital ratio of at least 8.0 %, a Tier 1 capital ratio of at least 9.5 % and a total capital ratio of at least 11.5 %, all ratios determined using the "all-in" methodology.

In addition to regulatory capital ratios, OSFI also requires Canadian banks to meet a maximum leverage test. Leverage or the assets-to-capital multiple is calculated by dividing the Bank's total assets, including certain off-balance-sheet items, by its regulatory capital in accordance with the transitional provisions.

New Pillar III disclosure requirements have come into force in the third quarter of 2013. Canadian financial institutions must use a disclosure template for their "all-in" regulatory capital and must present a reconciliation of all regulatory capital elements back to the balance sheet. These two requirements are presented in the document *Supplementary Financial Information for the Third Quarter Ended July 31, 2013,* which is available on the Bank's website at **nbc.ca**. Furthermore, a complete list of capital instruments and their main features is now available on the Bank's website at **nbc.ca** under *Investor Relations › Capital & Debt Information › Regulatory Capital › Main Features of Regulatory Capital Instruments*.

As at July 31, 2013, the Bank was in compliance with all of OSFI's regulatory capital requirements. The CET1 capital ratio under Basel III, determined using the "all-in" methodology, was 8.6 % as at July 31, 2013 versus a pro forma CET1 capital ratio under Basel III of 7.3 % as at October 31, 2012. The higher CET1 capital ratio was essentially due to net income, net of dividends, to the delay in implementing the new CVA charge, which had been included as at October 31, 2012, and to the common share issuance related primarily to exercised stock options. The Tier 1 capital ratio and the total capital ratio, determined using the Basel III "all-in" methodology, were 11.5 % and 15.1 %, respectively, as at July 31, 2013 versus 10.1 % and 14.1 %, respectively, for the pro forma Tier 1 capital ratio and the pro forma total capital ratio as at October 31, 2012.

The risk-weighted assets (RWA), calculated under the Basel III rules, decreased and amounted to $60.9 billion as at July 31, 2013 compared to a pro forma Basel III RWA of $62.2 billion as at October 31, 2012. This decrease was primarily attributable to the delay in implementing the CVA. At 18.0 as at July 31, 2013, the assets-to-capital multiple slightly decreased from 18.3 as at October 31, 2012.

HIGHLIGHTS

(millions of Canadian dollars)

	Quarter ended			Nine months ended		
	July 31, 2013	July 31, 2012	% Change	July 31, 2013	July 31, 2012	% Change
Operating results						
Total revenues	$ 1,288	$ 1,221	5	$ 3,909	$ 3,963	(1)
Net income	419	379	11	1,217	1,283	(5)
Net income attributable to the Bank's shareholders	401	360	11	1,161	1,228	(5)
Return on common shareholders' equity	21.9 %	21.7 %		22.1 %	26.2 %	
Earnings per share *(dollars)*						
Basic	$ 2.41	$ 2.16	12	$ 6.96	$ 7.41	(6)
Diluted	2.39	2.14	12	6.91	7.35	(6)
EXCLUDING SPECIFIED ITEMS[(1)]						
Operating results						
Total revenues	$ 1,294	$ 1,217	6	$ 3,770	$ 3,675	3
Net income	391	353	11	1,121	1,053	6
Net income attributable to the Bank's shareholders	373	334	12	1,065	998	7
Return on common shareholders' equity	20.3 %	20.2 %		20.2 %	21.2 %	
Earnings per share *(dollars)*						
Basic	$ 2.23	$ 2.00	12	$ 6.37	$ 5.99	6
Diluted	2.22	1.98	12	6.32	5.93	7
Per common share *(dollars)*						
Dividends declared	$ 0.87	$ 0.79		$ 2.53	$ 2.29	
Book value				45.07	39.60	
Stock trading range						
High	79.35	77.39		80.04	81.27	
Low	72.66	71.05		72.35	63.27	
Close	79.01	74.68		79.01	74.68	

	As at July 31, 2013	As at October 31, 2012	% Change
Financial position			
Total assets	$ 187,179	$ 177,903	5
Loans and acceptances	96,957	90,922	7
Deposits	100,165	93,249	7
Subordinated debt and equity	11,515	10,710	8
Capital ratios under Basel III [(2)]			
Common Equity Tier 1 (CET1)	8.6 %	7.3 %	
Tier 1	11.5 %	10.1 %	
Total	15.1 %	14.1 %	
Capital ratios under Basel I			
Tier 1	11.6 %	11.0 %	
Total	15.1 %	14.6 %	
Impaired loans, net of individual and collective allowances	(194)	(190)	
As a % of loans and acceptances	(0.2) %	(0.2) %	
Assets under administration and under management	247,077	232,027	
Total personal savings	155,923	149,774	
Interest coverage	11.69	12.23	
Asset coverage	3.84	3.45	
Other information			
Number of employees	19,817	19,920	(1)
Number of branches in Canada	453	451	–
Number of banking machines	934	923	1

(1) See the Financial Reporting Method section on page 5.
(2) The ratios are calculated using the “all-in” methodology and the October 31, 2012 ratios are presented on a pro forma basis.

FINANCIAL REPORTING METHOD

(millions of Canadian dollars, except per share amounts)

When assessing its results, the Bank uses certain measures that do not comply with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB) and set out in the Canadian Institute of Chartered Accountants Handbook. 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			Nine months ended		
	July 31, 2013	July 31, 2012	% Change	**July 31, 2013**	July 31, 2012	% Change
Excluding specified items						
Personal and Commercial	**192**	189	2	**536**	521	3
Wealth Management	**58**	46	26	**172**	139	24
Financial Markets	**158**	111	42	**416**	348	20
Other	**(17)**	7		**(3)**	45	
Net income excluding specified items	**391**	353	11	**1,121**	1,053	6
Plus: Items related to holding restructured notes(1)	**(3)**	4		**106**	32	
Plus: Reversal of provisions for income tax contingencies(2)	**37**	29		**37**	29	
Less: Impairment of intangible assets(3)	**–**	–		**(29)**	–	
Less: Acquisition-related items(4)	**(4)**	(6)		**(14)**	(17)	
Less: Items related to the Natcan transaction(5)	**(2)**	(1)		**(4)**	197	
Less: Severance pay(6)	**–**	–		**–**	(11)	
Net income	**419**	379	11	**1,217**	1,283	(5)
Diluted earnings per share excluding specified items	**$ 2.22**	$ 1.98	12	**$ 6.32**	$ 5.93	7
Plus: Items related to holding restructured notes(1)	**(0.02)**	0.02		**0.66**	0.20	
Plus: Reversal of provisions for income tax contingencies(2)	**0.23**	0.18		**0.23**	0.18	
Less: Impairment of intangible assets(3)	**–**	–		**(0.18)**	–	
Less: Acquisition-related items(4)	**(0.03)**	(0.03)		**(0.09)**	(0.10)	
Less: Items related to the Natcan transaction(5)	**(0.01)**	(0.01)		**(0.03)**	1.21	
Less: Severance pay(6)	**–**	–		**–**	(0.07)	
Diluted earnings per share	**$ 2.39**	$ 2.14	12	**$ 6.91**	$ 7.35	(6)
Return on common shareholders' equity						
Including specified items	**21.9 %**	21.7 %		**22.1 %**	26.2 %	
Excluding specified items	**20.3 %**	20.2 %		**20.2 %**	21.2 %	

(1) During the quarter ended July 31, 2013, $4 million in financing costs ($3 million net of income taxes) was recorded related to holding restructured notes (2012: a $5 million gain ($4 million net of income taxes) following capital repayments of restructured notes classified as *Available-for-sale securities*). During the nine months ended July 31, 2013, the Bank recorded $145 million in revenues ($106 million net of income taxes) related to holding restructured notes and arising mainly from an increase in fair value (2012: $44 million, $32 million net of income taxes).

(2) During the quarter ended July 31, 2013, $37 million in income tax provisions was reversed (2012: $29 million) following a revaluation of contingent income tax liabilities.

(3) During the nine months ended July 31, 2013, the Bank recognized a $39 million impairment loss ($29 million net of income taxes) on technological developments.

(4) During the quarter ended July 31, 2013, the Bank recognized $6 million in charges ($4 million net of income taxes), consisting mainly of retention bonuses, related to the Wealth Management acquisitions (2012: $8 million, $6 million net of income taxes). For the nine-month period ended July 31, 2013, the acquisition-related items consisted of $20 million in charges ($14 million net of income taxes), consisting mainly of retention bonuses, related to the Wealth Management acquisitions (2012: $24 million, $17 million net of income taxes) and the Bank's $1 million share ($1 million net of income taxes) in integration charges and intangible asset amortization related to its interest in TMX.

(5) During the quarter ended July 31, 2013, the Bank recorded $2 million ($2 million net of income taxes) for its share of the integration costs incurred by Fiera (2012: $1 million, $1 million net of income taxes). During the nine months ended July 31, 2013, the Bank recorded $5 million ($4 million net of income taxes) for its share of the integration costs incurred by Fiera (2012: a $246 million gain ($212 million net of income taxes) had been recorded on the sale of Natcan's operations. This gain had consisted of a $275 million sale price, from which $29 million in goodwill, intangible assets and direct charges was deducted. A total of $18 million ($13 million net of income taxes) in other charges related to this transaction had been recorded. Lastly, the Bank had also recorded $2 million ($2 million net of income taxes) for its share of the integration costs incurred by Fiera).

(6) During the nine months ended July 31, 2012, the Bank had recognized $15 million ($11 million net of income taxes) in severance pay related to streamlining measures undertaken in certain financial markets activities.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

From time to time, National Bank of Canada (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 2012 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 2013 and the objectives it has set for itself for that period. These forward-looking statements are made in accordance with current securities legislation. 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 2013 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 risk, operational risk, regulatory risk, reputation risk, and environmental risk (all of which are described in greater detail in the Risk Management section that begins on page 57 of the 2012 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 the effects of the debt crisis in certain European countries; the lowering of the U.S. long-term sovereign debt rating by Standard & Poor's; the lowering of the sovereign debt rating of certain European countries and the impact of changes that affect the Bank's credit ratings; 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; and changes to capital and liquidity guidelines and to the manner in which they are to be presented and interpreted.

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 2012 Annual Report. Investors and others who base themselves 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. The Bank also cautions readers not to place undue reliance on these forward-looking statements.

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 2013 RESULTS

Conference Call

– A conference call for analysts and institutional investors will be held on Wednesday, August 28, 2013 at 1:30 p.m. EDT.
– Access by telephone in listen-only mode: 1-866-862-3930 or 416-695-7806. The access code is 3390539#.
– A recording of the conference call can be heard until September 6, 2013 by dialing 1-800-408-3053 or 905-694-9451. The access code is 5955220#.

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 quarterly financial statements are available at all times on National Bank's website at **nbc.ca/investorrelations**.
– The Report to Shareholders, Supplementary Financial Information 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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