

National Bank reports its results for the Third Quarter of 2015

The financial information reported herein is based on the unaudited interim condensed consolidated financial statements for the third quarter and first nine months ended July 31, 2015 and prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB) and set out in the CPA Canada Handbook. All amounts are presented in Canadian dollars.

MONTREAL, August 26, 2015 – For the third quarter of 2015, National Bank is reporting net income of \$453 million, up 3% from \$441 million in the third quarter of 2014, and third-quarter diluted earnings per share of \$1.28, up 3% from \$1.24 in the third quarter of 2014.

Excluding specified items, net income was a record \$444 million in the third quarter of 2015, up 4% from \$427 million in the third quarter of 2014, and third-quarter diluted earnings per share stood at \$1.25, a 4% increase from \$1.20 in the same quarter of 2014. The specified items are described on page 4.

For the first nine months of fiscal 2015, the Bank's net income totalled \$1,272 million, an increase of 5% from \$1,208 million in the same nine-month period of 2014. Nine-month diluted earnings per share stood at \$3.56 versus \$3.41 in the same period of 2014. Excluding specified items, nine-month net income totalled \$1,265 million, up 7% from \$1,186 million in the same period of 2014, and nine-month diluted earnings per share stood at \$3.54, up 6% from \$3.34 in the same period of 2014.

"For the third quarter of 2015, National Bank turned in excellent results stemming from sound performance in its three main business segments. Personal and Commercial Banking recorded solid loan growth and stable margins, net income from Wealth Management posted double-digit growth, and Financial Markets performed very well thanks to revenues from client-driven activity," said Louis Vachon, President and Chief Executive Officer. "These results, combined with the strength of our credit portfolio and the investments we are making to better serve customers, give us confidence for the coming quarters in spite of a slowdown in the global economic environment."

Highlights

(millions of Canadian dollars)	Quarter ended July 31			Nine months ended July 31		
	2015	2014	% Change	2015	2014	% Change
Net income	453	441	3	1,272	1,208	5
Diluted earnings per share (<i>dollars</i>)	\$ 1.28	\$ 1.24	3	\$ 3.56	\$ 3.41	4
Return on common shareholders' equity	18.8 %	20.1 %		18.1 %	19.1 %	
Dividend payout ratio	44 %	42 %		44 %	42 %	
Excluding specified items⁽¹⁾						
Net income	444	427	4	1,265	1,186	7
Diluted earnings per share (<i>dollars</i>)	\$ 1.25	\$ 1.20	4	\$ 3.54	\$ 3.34	6
Return on common shareholders' equity	18.4 %	19.4 %		17.9 %	18.8 %	
Dividend payout ratio	42 %	42 %		42 %	42 %	
				As at July 31, 2015	As at October 31, 2014	
CET1 capital ratio under Basel III				9.5 %	9.2 %	
Leverage ratio under Basel III ⁽²⁾				3.6 %		

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

(2) The ratio came into effect on January 1, 2015.

Personal and Commercial

- Net income totalled \$197 million in the third quarter of 2015, up 6% from \$186 million in the third quarter of 2014.
- At \$728 million, third-quarter total revenues rose \$32 million or 5% year over year.
- Rising 6% from a year ago, personal lending experienced sustained growth, with the most significant increases coming from consumer loans and mortgage loans, and commercial lending also grew 7% from a year ago.
- The net interest margin was 2.18% in the third quarter of 2015 versus 2.19% the preceding quarter and 2.24% in the third quarter of 2014.
- Before provisions for credit losses and income taxes, the segment's contribution was up \$21 million or 7%.
- At 55.5%, the efficiency ratio improved from 56.5% in the same quarter of 2014.

Wealth Management

- Net income totalled \$78 million in the third quarter of 2015, a 20% increase from \$65 million in the same quarter of 2014.
- Excluding specified items⁽¹⁾, third-quarter net income totalled \$84 million, up \$8 million or 11%.
- Excluding specified items⁽¹⁾, third-quarter total revenues amounted to \$347 million versus \$335 million in the third quarter of 2014, a \$12 million or 4% year-over-year increase mainly driven by growth in fee-based revenues, tempered by a decrease in transaction-based revenues.
- Excluding specified items⁽¹⁾, third-quarter non-interest expenses stood at \$233 million, stable when compared to the third quarter of 2014.
- Excluding specified items⁽¹⁾, the efficiency ratio was 67.1%, an improvement from 69.3% in the third quarter of 2014.

Financial Markets

- Net income totalled \$202 million in the third quarter of 2015, an 8% increase from \$187 million in the same quarter of 2014.
- Total revenues amounted to \$470 million, a year-over-year increase of \$25 million or 6% owing mainly to higher trading activity revenues and banking service revenues.
- At \$193 million, third-quarter non-interest expenses increased \$5 million year over year.
- At 41.1%, the efficiency ratio improved from 42.2% in the third quarter of 2014.

Other

- For the third quarter of 2015, there was a net loss of \$24 million compared to net income of \$3 million in the third quarter of 2014. This decrease came essentially from the fact that, in the third quarter of 2014, a higher amount of revenues had been recorded to reflect capital repayments and a rise in the fair value of restructured notes, as well as from a year-over-year increase in non-interest expenses.

Capital Management

- As at July 31, 2015, the Common Equity Tier 1 (CET1) capital ratio under Basel III was 9.5% compared to 9.2% as at October 31, 2014 due to internally generated capital, partly offset by an increase in risk-weighted assets.
- The leverage ratio under Basel III was 3.6% as at July 31, 2015.

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

HIGHLIGHTS

(millions of Canadian dollars, except per share amounts)	Quarter ended July 31			Nine months ended July 31		
	2015	2014	% Change	2015	2014	% Change
Operating results						
Total revenues	1,510	1,460	3	4,341	4,100	6
Net income	453	441	3	1,272	1,208	5
Net income attributable to the Bank's shareholders	436	423	3	1,221	1,157	6
Return on common shareholders' equity	18.8 %	20.1 %		18.1 %	19.1 %	
Earnings per share						
Basic	\$ 1.29	\$ 1.26	2	\$ 3.61	\$ 3.44	5
Diluted	1.28	1.24	3	3.56	3.41	4
Excluding specified items⁽¹⁾						
Operating results						
<i>(taxable equivalent basis)⁽²⁾</i>						
Total revenues	1,553	1,484	5	4,509	4,198	7
Net income	444	427	4	1,265	1,186	7
Net income attributable to the Bank's shareholders	427	409	4	1,214	1,135	7
Return on common shareholders' equity	18.4 %	19.4 %		17.9 %	18.8 %	
Efficiency ratio	58.0 %	58.4 %		58.5 %	58.6 %	
Earnings per share						
Basic	\$ 1.27	\$ 1.22	4	\$ 3.58	\$ 3.38	6
Diluted	1.25	1.20	4	3.54	3.34	6
Common share information						
Dividends declared	\$ 0.52	\$ 0.48		\$ 1.52	\$ 1.40	
Book value				27.60	25.18	
Share price						
High	50.01	49.15		55.06	49.15	
Low	43.78	45.19		43.78	41.60	
Close	45.74	48.80		45.74	48.80	
Number of common shares (thousands)	330,001	328,469		330,001	328,469	
Market capitalization	15,094	16,029		15,094	16,029	

(millions of Canadian dollars)	As at July 31, 2015	As at October 31, 2014	% Change
Balance sheet and off-balance-sheet			
Total assets	215,560	205,429	5
Loans and acceptances	112,790	106,169	6
Impaired loans, net of total allowances	(112)	(118)	
As a % of average loans and acceptances	(0.1) %	(0.1) %	
Deposits	127,606	119,883	6
Equity attributable to common shareholders	9,109	8,484	7
Assets under administration and under management	365,326	345,332	6
Earnings coverage	10.48	8.98	
Asset coverage	6.45	5.24	
Regulatory ratios under Basel III			
Capital ratios ⁽³⁾			
Common Equity Tier 1 (CET1)	9.5 %	9.2 %	
Tier 1 ⁽⁴⁾	12.3 %	12.3 %	
Total ⁽⁴⁾	14.5 %	15.1 %	
Leverage ratio ⁽³⁾⁽⁵⁾	3.6 %		
Liquidity coverage ratio ⁽⁵⁾	128 %		
Other information			
Number of employees	20,067	19,955	1
Number of branches in Canada	452	452	–
Number of banking machines	931	935	–

(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, 2015.

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

(4) The ratios as at October 31, 2014 include the redemption of the Series 16 preferred shares on November 15, 2014.

(5) The ratios came into effect on January 1, 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 and set out in the CPA Canada Handbook. 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		
	2015	2014	% Change	2015	2014	% Change
Excluding specified items						
Personal and Commercial	197	186	6	538	509	6
Wealth Management	84	76	11	251	230	9
Financial Markets	202	187	8	556	460	21
Other	(39)	(22)		(80)	(13)	
Net income excluding specified items	444	427	4	1,265	1,186	7
Items related to holding restructured notes ⁽¹⁾	16	30		52	57	
Acquisition-related items ⁽²⁾	(7)	(16)		(21)	(35)	
Gain on disposal of Fiera Capital shares ⁽³⁾	–	–		25	–	
Share of current tax asset write-down of an associate ⁽⁴⁾	–	–		(16)	–	
Impairment losses on intangible assets ⁽⁵⁾	–	–		(33)	–	
Net income	453	441	3	1,272	1,208	5
Diluted earnings per share excluding specified items	\$ 1.25	\$ 1.20	4	\$ 3.54	\$ 3.34	6
Items related to holding restructured notes ⁽¹⁾	0.05	0.09		0.16	0.17	
Acquisition-related items ⁽²⁾	(0.02)	(0.05)		(0.07)	(0.10)	
Gain on disposal of Fiera Capital shares ⁽³⁾	–	–		0.08	–	
Share of current tax asset write-down of an associate ⁽⁴⁾	–	–		(0.05)	–	
Impairment losses on intangible assets ⁽⁵⁾	–	–		(0.10)	–	
Diluted earnings per share	\$ 1.28	\$ 1.24	3	\$ 3.56	\$ 3.41	4
Return on common shareholders' equity						
Including specified items	18.8 %	20.1 %		18.1 %	19.1 %	
Excluding specified items	18.4 %	19.4 %		17.9 %	18.8 %	

- (1) During the quarter ended July 31, 2015, the Bank recorded \$5 million in financing costs (\$3 million net of income taxes) related to holding restructured notes (2014: \$5 million, \$4 million net of income taxes). It also 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 (2014: \$47 million, \$34 million net of income taxes). During the nine months ended July 31, 2015, the Bank recorded \$14 million in financing costs (\$11 million net of income taxes) related to holding restructured notes (2014: \$14 million, \$10 million net of income taxes), \$49 million in revenues (\$36 million net of income taxes) to reflect capital repayments and a rise in the fair value of these notes (2014: \$92 million, \$67 million net of income taxes) and a gain of \$37 million (\$27 million net of income taxes) upon the disposal of the restructured notes of the MAV III conduits (2014: nil).
- (2) During the quarter ended July 31, 2015, the Bank recorded \$9 million in charges (\$7 million net of income taxes) related to the Wealth Management acquisitions (2014: \$22 million, \$16 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 interest in TMX. For the nine months ended July 31, 2015, these charges stood at \$27 million (\$21 million net of income taxes) and, for the same period in 2014, they stood at \$46 million (\$35 million net of income taxes).
- (3) During the nine months ended July 31, 2015, a gain, net of underwriting fees, of \$29 million (\$25 million net of income taxes) was recorded upon a disposal of Fiera Capital shares through one of the Bank's subsidiaries. After the transaction, the Bank's ownership percentage in Fiera Capital stood at 22%.
- (4) During the nine months ended July 31, 2015, a loss of \$18 million (\$16 million net of income taxes) was recorded following a write-down of an associate's current tax asset.
- (5) During the nine months ended July 31, 2015, the Bank recorded \$46 million (\$33 million net of income taxes) in intangible asset impairment losses on technology developments.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

From time to time, 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 *2014 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 2015 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 2015 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 strategic risk, credit risk, market risk, liquidity risk, operational risk, regulatory risk, reputation risk, and environmental risk (all of which are described in more detail in the Risk Management section beginning on page 61 of the *2014 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; 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 (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 and Other Risk Factors sections of the *2014 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 2015 RESULTS

Conference Call

- A conference call for analysts and institutional investors will be held on Wednesday, August 26, 2015 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 1937377#.
- A recording of the conference call can be heard until September 23, 2015 by dialing 1-800-408-3053 or 905-694-9451. The access code is 4796186#.

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.

For more information:

Ghislain Parent
Chief Financial Officer and
Executive Vice-President
Finance and Treasury
514-394-6807

Jean Dagenais
Senior Vice-President
Finance
514-394-6233

Claude Breton
Vice-President
Public Affairs and
Investor Relations
514-394-8644

Hélène Baril
Senior Director
Investor Relations
514-394-0296

