

National Bank reports its results for the First Quarter of 2016

The financial information reported herein is based on the unaudited interim condensed consolidated financial statements for the quarter ended January 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, February 23, 2016 – For the first quarter of 2016, National Bank is reporting \$261 million in net income, down from \$415 million recorded in the same quarter of 2015 given the write-off of its equity interest in associate Maple Financial Group Inc. Diluted earnings per share stood at \$0.67 in the first quarter of 2016 compared to \$1.16 in the same quarter of 2015.

Excluding the specified items described on page 4, the 2016 first-quarter net income totalled \$427 million, up 4% from \$410 million in the first quarter of 2015, and first-quarter diluted earnings per share stood at \$1.17, up 3% from \$1.14 in the same quarter of 2015.

“The Bank delivered sound performance in each of its three business segments during the first quarter of 2016,” said Louis Vachon, President and Chief Executive Officer of National Bank. “Loans and deposits from the Personal and Commercial segment were up while Wealth Management benefited from the initiatives of Private Banking 1859 and Intermediary Business Solutions. The economies of Quebec and Ontario maintained their steady performance and continued to have a positive impact on our credit portfolio,” added Mr. Vachon.

Highlights

| (millions of Canadian dollars) | Quarter ended January 31 | | |
|--|-------------------------------|------------------------|----------|
| | 2016 | 2015 | % Change |
| Net income | 261 | 415 | (37) |
| Diluted earnings per share (<i>dollars</i>) | \$ 0.67 | \$ 1.16 | (42) |
| Return on common shareholders' equity | 9.5 % | 17.8 % | |
| Dividend payout ratio | 51 % | 44 % | |
| Excluding specified items⁽¹⁾ | | | |
| Net income | 427 | 410 | 4 |
| Diluted earnings per share (<i>dollars</i>) | \$ 1.17 | \$ 1.14 | 3 |
| Return on common shareholders' equity | 16.4 % | 17.5 % | |
| Dividend payout ratio | 44 % | 42 % | |
| | As at January 31, 2016 | As at October 31, 2015 | |
| CET1 capital ratio under Basel III | 9.7 % | 9.9 % | |
| Leverage ratio under Basel III | 3.8 % | 3.7 % | |

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

Personal and Commercial

- Net income totalled \$184 million in the first quarter of 2016, an 8% increase from \$171 million in the first quarter of 2015.
- At \$724 million, the 2016 first-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 mortgage loans, and commercial lending grew 8% from a year ago.
- The net interest margin was 2.22% in the first quarter of 2016 versus 2.24% in the first quarter of 2015 and 2.25% in the preceding quarter.
- Before provisions for credit losses and income taxes, the segment's contribution was up \$26 million or 9%.
- At 56.6%, the efficiency ratio improved from 58.4% in the same quarter of 2015.

Wealth Management

- Net income totalled \$77 million in the first quarter of 2016, a 4% increase from \$74 million in the same quarter of 2015.
- Excluding specified items⁽¹⁾, first-quarter net income totalled \$84 million, up \$3 million or 4%.
- Excluding specified items⁽¹⁾, first-quarter total revenues amounted to \$358 million versus \$346 million in the first quarter of 2015, a \$12 million or 3% increase driven mainly by growth in fee-based revenues, tempered by a decrease in transaction-based revenues.
- Excluding specified items⁽¹⁾, first-quarter non-interest expenses stood at \$243 million, an increase from \$236 million posted in the first quarter of 2015.
- Excluding specified items⁽¹⁾, the efficiency ratio was 67.9%, an improvement from 68.2% in the first quarter of 2015.

Financial Markets

- Net income totalled \$41 million in the first quarter of 2016 versus \$177 million in the same quarter of 2015, a decrease resulting from the write-off of the equity interest in associate Maple Financial Group Inc.
- Excluding specified items⁽¹⁾, the segment's first-quarter net income totalled \$186 million, a 5% increase from \$177 million in the first quarter of 2015.
- Excluding specified items⁽¹⁾, the segment's total revenues amounted to \$451 million, a \$33 million or 8% increase that was notably due to higher revenues from the Credigy Ltd. subsidiary.
- At \$190 million, the first-quarter non-interest expenses increased \$14 million year over year.
- At 42.1%, the efficiency ratio remained stable compared to the first quarter of 2015.

Other

- The *Other* heading posted a first-quarter net loss of \$41 million versus a net loss of \$7 million in the same quarter of 2015. This higher net loss came from the Bank's share in the charges related to its interest in TMX Group Limited, particularly goodwill and intangible asset impairment losses, and from a rise in the fair value of restructured notes that had been recorded in the first quarter of 2015.

Capital Management

- As at January 31, 2016, the Common Equity Tier 1 (CET1) capital ratio under Basel III was 9.7% compared to 9.9% as at October 31, 2015 due to the write-off of the equity interest in associate Maple Financial Group Inc. and the increase in risk-weighted assets.
- The leverage ratio under Basel III was 3.8% as at January 31, 2016 compared to 3.7% as at October 31, 2015.

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

HIGHLIGHTS

(millions of Canadian dollars, except per share amounts)

| | Quarter ended January 31 | | |
|--|--------------------------|---------|----------|
| | 2016 | 2015 | % Change |
| Operating results | | | |
| Total revenues | 1,289 | 1,410 | (9) |
| Net income | 261 | 415 | (37) |
| Net income attributable to the Bank's shareholders | 239 | 397 | (40) |
| Return on common shareholders' equity | 9.5 % | 17.8 % | |
| Earnings per share | | | |
| Basic | \$ 0.68 | \$ 1.17 | (42) |
| Diluted | 0.67 | 1.16 | (42) |
| Excluding specified items⁽¹⁾ | | | |
| Operating results | | | |
| <i>(taxable equivalent basis)⁽²⁾</i> | | | |
| Total revenues | 1,530 | 1,459 | 5 |
| Net income | 427 | 410 | 4 |
| Net income attributable to the Bank's shareholders | 405 | 392 | 3 |
| Return on common shareholders' equity | 16.4 % | 17.5 % | |
| Efficiency ratio | 58.6 % | 58.7 % | |
| Earnings per share | | | |
| Basic | \$ 1.18 | \$ 1.15 | 3 |
| Diluted | 1.17 | 1.14 | 3 |
| Common share information | | | |
| Dividends declared | \$ 0.54 | \$ 0.50 | |
| Book value | 27.77 | 26.33 | |
| Share price | | | |
| High | 44.11 | 55.06 | |
| Low | 35.83 | 44.21 | |
| Close | 39.97 | 44.21 | |
| Number of common shares <i>(thousands)</i> | 337,535 | 329,860 | |
| Market capitalization | 13,491 | 14,583 | |

| (millions of Canadian dollars) | As at January 31, 2016 | As at October 31, 2015 | % Change |
|--|---------------------------|---------------------------|----------|
| Balance sheet and off-balance-sheet | | | |
| Total assets | 219,301 | 216,090 | 1 |
| Loans and acceptances | 118,510 | 115,238 | 3 |
| Impaired loans, net of total allowances | (132) | (112) | |
| As a % of average loans and acceptances | (0.1) % | (0.1) % | |
| Deposits | 131,064 | 128,830 | 2 |
| Equity attributable to common shareholders | 9,375 | 9,531 | (2) |
| Assets under administration and under management | 352,729 | 358,139 | (2) |
| Earnings coverage | 9.89 | 10.49 | |
| Asset coverage | 9.59 | 6.78 | |
| Regulatory ratios under Basel III | | | |
| Capital ratios⁽³⁾ | | | |
| Common Equity Tier 1 (CET1) | 9.7 % | 9.9 % | |
| Tier 1 ⁽⁴⁾ | 12.8 % | 12.5 % | |
| Total ⁽⁴⁾⁽⁵⁾ | 14.2 % | 14.0 % | |
| Leverage ratio ⁽³⁾ | 3.8 % | 3.7 % | |
| Liquidity coverage ratio (LCR) | 135 % | 131 % | |
| Other information | | | |
| Number of employees | 19,696 | 19,764 | – |
| Number of branches in Canada | 453 | 452 | – |
| Number of banking machines | 932 | 930 | – |

(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 January 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.

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 January 31 | | |
|---|--------------------------|----------------|-------------|
| | 2016 | 2015 | % Change |
| Net income excluding specified items | | | |
| Personal and Commercial | 184 | 171 | 8 |
| Wealth Management | 84 | 81 | 4 |
| Financial Markets | 186 | 177 | 5 |
| Other | (27) | (19) | |
| Net income excluding specified items | 427 | 410 | 4 |
| Items related to holding restructured notes ⁽¹⁾ | (1) | 13 | |
| Acquisition-related items ⁽²⁾ | (20) | (8) | |
| Write-off of an equity interest in an associate ⁽³⁾ | (145) | – | |
| Net income | 261 | 415 | (37) |
| Diluted earnings per share excluding specified items | \$ 1.17 | \$ 1.14 | 3 |
| Items related to holding restructured notes ⁽¹⁾ | – | 0.04 | |
| Acquisition-related items ⁽²⁾ | (0.06) | (0.02) | |
| Write-off of an equity interest in an associate ⁽³⁾ | (0.43) | – | |
| Premium paid on preferred shares redeemed for cancellation ⁽⁴⁾ | (0.01) | – | |
| Diluted earnings per share | \$ 0.67 | \$ 1.16 | (42) |
| Return on common shareholders' equity | | | |
| Including specified items | 9.5 % | 17.8 % | |
| Excluding specified items | 16.4 % | 17.5 % | |

(1) During the quarter ended January 31, 2016, the Bank recorded \$2 million in financing costs (\$1 million net of income taxes) related to holding restructured notes (2015: \$5 million, \$4 million net of income taxes). During the quarter ended January 31, 2015, the Bank had recorded \$23 million in revenues (\$17 million net of income taxes) to reflect a rise in the fair value of those notes.

(2) During the quarter ended January 31, 2016, the Bank recorded \$27 million in acquisition-related charges (\$20 million net of income taxes) (2015: \$10 million, \$8 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).

(3) During the quarter ended January 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 Event After the Consolidated Balance Sheet Date section on page 13 of the Report to Shareholders for the quarter ended January 31, 2016.

(4) During the quarter ended January 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*), 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 FIRST QUARTER 2016 RESULTS

Conference Call

- A conference call for analysts and institutional investors will be held on Tuesday, February 23, 2016 at 11:30 a.m. EST.
- Access by telephone in listen-only mode: 1-866-862-3930 or 416-695-7806. The access code is 8789158#.
- A recording of the conference call can be heard until March 23, 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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