NATIONAL BANK

PRESS RELEASE
SECOND QUARTER
2014

National Bank reports its results for the Second Quarter of 2014 and raises its quarterly dividend by 4% to 48 cents per share

The financial information reported herein is based on the unaudited interim condensed consolidated financial statements for the second quarter and first six months ended April 30, 2014 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. Additional information about National Bank of Canada, including the Report to shareholders – Second Quarter 2014 and the Annual Information Form, can be obtained from the Bank's website at nbc.ca or on SEDAR website at sedar.com. All amounts are presented in Canadian dollars.

MONTREAL, May 27, 2014 – For the second quarter of fiscal 2014, National Bank is reporting $362 million in net income versus $417 million in the second quarter of 2013 and diluted earnings per share of $1.01 compared to $1.20 in the second quarter of 2013, particularly due to a $102 million rise in the fair value of restructured notes that had been recorded in the second quarter of 2013.

Excluding the specified items described on page 4, second-quarter net income totalled $375 million, up 7% from $352 million in the second quarter of 2013, and second-quarter diluted earnings per share stood at $1.05, up 5% from $1.00 in the same quarter of 2013.

For the first six months of fiscal 2014, the Bank's net income totalled $767 million versus $790 million in the same period of 2013. First-half diluted earnings per share stood at $2.16 compared to $2.25 in the same period of 2013. Excluding the specified items described on page 4, first-half net income totalled $759 million, up 9% from $696 million in the same period of 2013, and first-half diluted earnings per share stood at $2.14, up 9% from $1.97 in the same period of 2013.

"National Bank delivered another good quarter with strong performance from the Wealth Management and P&C Banking segments," said Louis Vachon, President and Chief Executive Officer. "With the quality of our results and our continuous efforts with the *One client, one bank* initiative, we are pleased to increase the quarterly dividend by 4%."

Highlights:

- $362 million in net income for the second quarter of 2014 versus $417 million in the same quarter last year, particularly due to a $102 million rise in the fair value of restructured notes in 2013;
- Diluted earnings per share of $1.01 for the second quarter of 2014 compared to $1.20 in the same quarter of 2013;
- Return on equity of 17.4%;
- The Common Equity Tier 1 (CET1) capital ratio under Basel III was 8.7% as at April 30, 2014, remaining stable versus 8.7% as at October 31, 2013.

Highlights Excluding Specified Items(1):

- $375 million in net income for the second quarter of 2014, up 7% from $352 million in the same quarter of 2013;
- Diluted earnings per share of $1.05 for the second quarter of 2014, up 5% from $1.00 in the same quarter of 2013;
- Return on equity of 18.1%.

Financial Indicators

	Results Q2 2014	Results excluding specified items (1)	Results First half 2014	Results excluding specified items (1)
Growth in diluted earnings per share	(16) %	5 %	(4) %	9 %
Return on common shareholders' equity	17.4 %	18.1 %	18.6 %	18.4 %
Dividend payout ratio	42 %	43 %	42 %	43 %
CET1 capital ratio under Basel III	8.7 %		8.7 %	

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

Personal and Commercial

- Net income totalled $162 million in the second quarter of 2014, up 6% from $153 million in the second quarter of 2013.
- At $649 million, second-quarter total revenues rose $19 million or 3% year over year.
- Rising 7% from a year ago, personal lending experienced sustained growth, with the strongest increases coming from consumer loans and mortgage lending, in addition to 5% growth in commercial lending from a year ago.
- The net interest margin was 2.24% in the second quarter of 2014 versus 2.25% the preceding quarter and 2.31% in the second quarter of 2013.
- Before provisions for credit losses and income taxes, the segment's contribution rose $12 million or 5%.
- At 57.9%, the efficiency ratio improved from 58.6% in the second quarter of 2013.

Wealth Management

- Net income totalled $68 million in the second quarter of 2014, a 39% increase from $49 million in the same quarter of 2013.
- Excluding specified items(1), net income totalled $77 million, up $22 million or 40%.
- Second-quarter total revenues amounted to $330 million versus $288 million in the same quarter of 2013, a $42 million or 15% increase that was driven particularly by growth across all revenue streams and by the TD Waterhouse acquisition.
- Second-quarter non-interest expenses stood at $237 million, up 7% year over year.
- Excluding specified items(1), the efficiency ratio was 68.4%, an improvement from 73.8% in the second quarter of 2013.

Financial Markets

- Net income totalled $128 million in the second quarter of 2014, down 9% from $141 million in the same quarter of 2013.
- At $337 million, second-quarter revenues decreased $26 million or 7% year over year, mainly because trading activity revenues were down, in particular the revenues generated by fixed-income trading activities and commodities and foreign exchange trading activities.
- At $162 million, the second-quarter non-interest expenses decreased $7 million year over year, particularly because variable compensation was lower given the revenue decline.
- The efficiency ratio was 48.1% in the second quarter of 2014 versus 46.6% in the second quarter of last year.

Other

- Net income totalled $4 million for the second quarter of 2014 versus $74 million in the same quarter of 2013, a decrease that stems mainly from the following amounts, net of income taxes, that had been recorded in the second quarter of 2013: a $102 million rise in the fair value of the restructured notes partly offset by $29 million in intangible asset impairment losses.

Capital Management

- As at April 30, 2014, the Common Equity Tier 1 (CET1) capital ratio under Basel III was 8.7%, remaining stable versus 8.7% as at October 31, 2013, as internally generated capital was offset by the Wealth Management acquisition and the coming into force of the credit valuation adjustment.

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

HIGHLIGHTS

(millions of Canadian dollars)

	Quarter ended April 30			Six months ended April 30		
	2014	2013 [1]	% Change	2014	2013 [1]	% Change
Operating results						
Total revenues	$ 1,276	$ 1,383	(8)	$ 2,640	$ 2,615	1
Net income	362	417	(13)	767	790	(3)
Net income attributable to the Bank's shareholders	345	402	(14)	734	758	(3)
Return on common shareholders' equity	17.4 %	23.4 %		18.6 %	22.1 %	
Earnings per share[2] *(dollars)*						
Basic	$ 1.02	$ 1.21	(16)	$ 2.19	$ 2.27	(4)
Diluted	1.01	1.20	(16)	2.16	2.25	(4)
EXCLUDING SPECIFIED ITEMS[3]						
Operating results						
Total revenues	$ 1,283	$ 1,248	3	$ 2,609	$ 2,470	6
Net income	375	352	7	759	696	9
Net income attributable to the Bank's shareholders	358	337	6	726	664	9
Return on common shareholders' equity	18.1 %	19.6 %		18.4 %	19.3 %	
Earnings per share[2] *(dollars)*						
Basic	$ 1.06	$ 1.01	5	$ 2.16	$ 1.99	9
Diluted	1.05	1.00	5	2.14	1.97	9
Per common share[2] *(dollars)*						
Dividends declared	$ 0.46	$ 0.41		$ 0.92	$ 0.82	
Book value				24.43	21.57	
Stock trading range						
High	45.73	39.76		46.86	40.02	
Low	41.60	36.18		41.60	36.18	
Close	45.49	38.08		45.49	38.08	

	As at April 30, 2014	As at October 31, 2013 [1]	% Change
Financial position			
Total assets	$ 194,289	$ 188,219	3
Loans and acceptances	101,555	97,338	4
Deposits	110,794	102,111	9
Equity attributable to common shareholders	8,005	7,487	7
Capital ratios under Basel III[4]			
Common Equity Tier 1 (CET1)	8.7 %	8.7 %	
Tier 1	11.6 %	11.4 %	
Total	14.6 %	15.0 %	
Impaired loans, net of total allowances	(175)	(183)	
As a % of average loans and acceptances	(0.2) %	(0.2) %	
Assets under administration and under management	327,125	258,010	27
Total personal savings	168,329	157,515	7
Interest coverage	13.03	11.18	
Asset coverage	4.79	3.76	
Other information			
Number of employees	19,831	19,691	1
Number of branches in Canada	451	453	–
Number of banking machines	935	937	–

(1) Certain amounts have been adjusted to reflect changes in accounting standards. See Note 2 to the unaudited interim condensed consolidated financial statements in the Report to Shareholders for the second quarter and six-month period ended April 30, 2014.
(2) Reflecting the stock dividend paid on February 13, 2014. See Note 13 to the unaudited interim condensed consolidated financial statements in the Report to Shareholders for the second quarter and six-month period ended April 30, 2014.
(3) See the Financial Reporting Method section on page 4.
(4) The ratios have been calculated using the "all-in" methodology, and the October 31, 2013 ratios have not been adjusted to reflect changes in accounting standards.

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 CPA Canada 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 April 30			Six months ended April 30		
	2014	2013 (1)	% Change	2014	2013 (1)	% Change
Excluding specified items						
Personal and Commercial	**162**	153	6	**330**	316	4
Wealth Management	**77**	55	40	**153**	108	42
Financial Markets	**128**	141	(9)	**272**	254	7
Other	**8**	3		**4**	18	
Net income excluding specified items	**375**	352	7	**759**	696	9
Items related to holding restructured notes(2)	**(3)**	100		**27**	109	
Acquisition-related items(3)	**(10)**	(6)		**(19)**	(12)	
Impairment losses on intangible assets(4)	**–**	(29)		**–**	(29)	
Item related to employee benefits(5)	**–**	–		**–**	26	
Net income	**362**	417	(13)	**767**	790	(3)
Diluted earnings per share excluding specified items(6)	**$ 1.05**	$ 1.00	5	**$ 2.14**	$ 1.97	9
Items related to holding restructured notes(2)	**(0.01)**	0.31		**0.08**	0.34	
Acquisition-related items(3)	**(0.03)**	(0.02)		**(0.06)**	(0.05)	
Impairment losses on intangible assets(4)	**–**	(0.09)		**–**	(0.09)	
Item related to employee benefits(5)	**–**	–		**–**	0.08	
Diluted earnings per share(6)	**$ 1.01**	$ 1.20	(16)	**$ 2.16**	$ 2.25	(4)
Return on common shareholders' equity						
Including specified items	**17.4 %**	23.4 %		**18.6 %**	22.1 %	
Excluding specified items	**18.1 %**	19.6 %		**18.4 %**	19.3 %	

(1) Certain amounts have been adjusted to reflect changes in accounting standards. See Note 2 to the unaudited interim condensed consolidated financial statements in the Report to Shareholders for the second quarter and six-month period ended April 30, 2014.

(2) During the quarter ended April 30, 2014, the Bank recorded $4 million in financing costs ($3 million net of income taxes) related to holding restructured notes (2013: $2 million, $2 million net of income taxes). In addition, during the quarter ended April 30, 2013, the Bank had recorded $139 million in revenues ($102 million net of income taxes) to reflect a rise in the fair value of those notes. During the six months ended April 30, 2014, the Bank recorded $9 million in financing costs ($6 million net of income taxes) related to holding restructured notes (2013: $2 million, $2 million net of income taxes) and $45 million in revenues ($33 million net of income taxes) to reflect a rise in the fair value of those notes (2013: $151 million, $111 million net of income taxes).

(3) During the quarter ended April 30, 2014, the Bank recorded $13 million in charges ($10 million net of income taxes) related to the Wealth Management acquisitions (2013: $9 million, $6 million net of income taxes) and consisting mostly of retention bonuses and TD Waterhouse integration charges; they also include the Bank's share in the integration costs incurred by Fiera and its share in the integration costs and intangible asset amortization related to the Bank's interest in TMX. For the six months ended April 30, 2014, the charges amounted to $24 million ($19 million net of income taxes) compared to $17 million ($12 million net of income taxes) for the same period of 2013.

(4) During the quarter ended April 30, 2013, the Bank had recorded $39 million ($29 million net of income taxes) in intangible asset impairment losses on internal technology developments.

(5) During the quarter ended January 31, 2013, the Bank had recorded a $35 million decrease in past service costs ($26 million net of income taxes) to reflect changes to the provisions of its pension plans and other post-retirement plans subsequent to changes in accounting standards.

(6) Reflecting the stock dividend paid on February 13, 2014. See Note 13 to the unaudited interim condensed consolidated financial statements in the Report to Shareholders for the second quarter and six-month period ended April 30, 2014.

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 2013 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 2014 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 2014 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, which are described in more detail in the “Risk Management” section beginning on page 60 of the 2013 Annual Report, and in particular 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 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 new reporting regime set out in sections 1471 to 1474 of the *U.S. Internal Revenue Code of 1986* (FATCA)); and changes to capital adequacy 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 2013 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. 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 SECOND QUARTER 2014 RESULTS

Conference Call

- A conference call for analysts and institutional investors will be held on Wednesday, May 28, 2014 at 11 a.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 June 6, 2014 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 consolidated 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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