

National Bank reports its results for the Third Quarter of 2018

The financial information reported in this document is based on the unaudited interim condensed consolidated financial statements for the quarter and nine-month period ended July 31, 2018 and is prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), unless otherwise indicated. IFRS represent Canadian generally accepted accounting principles (GAAP). All amounts are presented in Canadian dollars.

MONTREAL, August 29, 2018 – For the third quarter of 2018, National Bank is reporting net income of \$569 million, up 10% from \$518 million in the third quarter of 2017 as well as diluted earnings per share of \$1.52 compared to \$1.37 in the third quarter of 2017. Excluding the specified items described on page 4, third-quarter diluted earnings per share stood at \$1.53, up 10% from \$1.39 in the same quarter last year. These year-over-year increases were driven by net income growth across all the business segments.

For the first nine months of 2018, the Bank's net income totalled \$1,666 million, up 11% from \$1,499 million in the same period of 2017, and its diluted earnings per share stood at \$4.42 versus \$3.99 in the same nine-month period of 2017. These increases were also driven by net income growth across all the business segments. Nine-month diluted earnings per share excluding specified items stood at \$4.46, a 10% increase from \$4.05 in the first nine months of 2017.

Commenting on the third-quarter 2018 results, Louis Vachon, President and Chief Executive Officer of National Bank noted “another quarter of excellent performance in each business segment thanks to sustained revenue growth and effective cost management.”

“I am also pleased to announce the appointment of Laurent Ferreira to the position of Executive Vice-President and Co-Head, Financial Markets, a responsibility he will share with the position's current incumbent, Denis Girouard, effective November 1, 2018. Laurent will become a member of the Office of the President and report to me. Since joining National Bank nearly 20 years ago, Laurent has stood out for his vision, leadership, and commitment to charitable and business initiatives,” said Louis Vachon. Currently Executive Vice-President and Managing Director, Derivatives and Equities within Financial Markets, Mr. Ferreira holds a Bachelor's degree in economics from the Université du Québec à Montréal and a Master's degree in administration with a specialization in finance from HEC Montréal. He has been a member of the board of directors of Hydro-Québec since 2014 and is committed to several charitable causes.

Highlights

(millions of Canadian dollars)	Quarter ended July 31			Nine months ended July 31		
	2018	2017	% Change	2018	2017	% Change
Net income	569	518	10	1,666	1,499	11
Diluted earnings per share (<i>dollars</i>)	\$ 1.52	\$ 1.37	11	\$ 4.42	\$ 3.99	11
Return on common shareholders' equity	18.4 %	18.2 %		18.5 %	18.2 %	
Dividend payout ratio	41 %	47 %		41 %	47 %	
Excluding specified items⁽¹⁾						
Net income excluding specified items	573	524	9	1,680	1,518	11
Diluted earnings per share excluding specified items (<i>dollars</i>)	\$ 1.53	\$ 1.39	10	\$ 4.46	\$ 4.05	10
Return on common shareholders' equity excluding specified items	18.5 %	18.4 %		18.7 %	18.4 %	
Dividend payout ratio excluding specified items	40 %	42 %		40 %	42 %	
				As at July 31, 2018	As at October 31, 2017	
CET1 capital ratio under Basel III				11.6 %	11.2 %	
Leverage ratio under Basel III				4.0 %	4.0 %	

(1) See the Financial Reporting Method section on page 4 for additional information on non-GAAP financial measures.

Personal and Commercial

- Net income totalled \$248 million in the third quarter of 2018, up 6% from \$235 million in the third quarter of 2017.
- At \$832 million, the 2018 third-quarter total revenues rose \$48 million or 6% year over year.
- Personal lending was up 3%, particularly due to mortgage lending, while commercial lending grew 8% from a year ago.
- Net interest margin stood at 2.33% in the third quarter of 2018 versus 2.27% in the third quarter of 2017.
- Third-quarter non-interest expenses were up 3% year over year.
- At 51.9%, the efficiency ratio improved from 53.4% in the third quarter of 2017.

Wealth Management

- Net income totalled \$126 million in the third quarter of 2018, a 22% increase from \$103 million in the third quarter of 2017.
- The 2018 third-quarter total revenues amounted to \$442 million compared to \$402 million in the same quarter of 2017, a \$40 million or 10% year-over-year increase driven by growth in net interest income and fee-based revenues.
- Third-quarter non-interest expenses stood at \$270 million compared to \$261 million in the third quarter of 2017.
- The efficiency ratio excluding specified items⁽¹⁾ was 60.4%, an improvement from 63.2% in the third quarter of 2017.

Financial Markets

- Net income totalled \$178 million in the third quarter of 2018, an 8% increase from \$165 million in the third quarter of 2017.
- Total revenues on a taxable equivalent basis amounted to \$416 million, a \$27 million or 7% year-over-year increase driven mainly by banking service revenues.
- Third-quarter non-interest expenses stood at \$171 million, a \$7 million year-over-year increase associated with revenue growth.
- At 41.1%, the efficiency ratio on a taxable equivalent basis improved from 42.2% in the third quarter of 2017.

U.S. Specialty Finance and International

- Net income totalled \$54 million in the third quarter of 2018, a 6% increase from \$51 million in the same quarter of 2017.
- At \$146 million, the 2018 third-quarter total revenues remained relatively stable year over year.
- Third-quarter non-interest expenses stood at \$64 million, a \$6 million year-over-year increase attributable mainly to business growth at the ABA Bank subsidiary.

Other

- The *Other* heading posted a net loss of \$37 million in the third quarter of 2018 versus a \$36 million net loss in the same quarter of 2017.

Capital Management

- As at July 31, 2018, the Common Equity Tier 1 (CET1) capital ratio under Basel III was 11.6%, an increase from 11.2% as at October 31, 2017.
- As at July 31, 2018, the Basel III leverage ratio was 4.0%, unchanged from October 31, 2017.

Dividends

- On August 28, 2018, the Board of Directors declared regular dividends on the various series of first preferred shares and a dividend of 62 cents per common share, payable on November 1, 2018 to shareholders of record on September 24, 2018.

(1) See the Financial Reporting Method section on page 4 for additional information on non-GAAP financial measures.

HIGHLIGHTS

(millions of Canadian dollars, except per share amounts)	Quarter ended July 31			Nine months ended July 31		
	2018	2017	% Change	2018	2017	% Change
Operating results						
Total revenues	1,792	1,675	7	5,352	4,905	9
Net income	569	518	10	1,666	1,499	11
Net income attributable to the Bank's shareholders	546	494	11	1,595	1,434	11
Return on common shareholders' equity	18.4 %	18.2 %		18.5 %	18.2 %	
Earnings per share						
Basic	\$ 1.54	\$ 1.39	11	\$ 4.48	\$ 4.04	11
Diluted	1.52	1.37	11	4.42	3.99	11
Operating results on a taxable equivalent basis⁽¹⁾ and excluding specified items⁽²⁾						
Total revenues on a taxable equivalent basis and excluding specified items	1,856	1,743	6	5,544	5,104	9
Net income excluding specified items	573	524	9	1,680	1,518	11
Return on common shareholders' equity excluding specified items	18.5 %	18.4 %		18.7 %	18.4 %	
Efficiency ratio on a taxable equivalent basis and excluding specified items	54.4 %	55.4 %		54.4 %	56.2 %	
Earnings per share excluding specified items⁽²⁾						
Basic	\$ 1.55	\$ 1.41	10	\$ 4.52	\$ 4.09	11
Diluted	1.53	1.39	10	4.46	4.05	10
Common share information						
Dividends declared	\$ 0.62	\$ 0.58		\$ 1.82	\$ 1.70	
Book value				33.91	30.84	
Share price						
High	64.29	56.44		65.35	58.75	
Low	61.26	51.77		58.69	46.83	
Close	63.77	56.15		63.77	56.15	
Number of common shares (<i>thousands</i>)	337,441	341,580		337,441	341,580	
Market capitalization	21,519	19,180		21,519	19,180	

(millions of Canadian dollars)	As at July 31, 2018	As at October 31, 2017	% Change
Balance sheet and off-balance-sheet			
Total assets	257,637	245,827	5
Loans and acceptances, net of allowances	142,836	136,457	5
Gross impaired loans ⁽³⁾ as a % of loans and acceptances, net of allowances	0.4 %	0.3 %	
Deposits	166,595	156,671	6
Equity attributable to common shareholders	11,441	10,700	7
Assets under administration and under management	496,096	477,358	4
Earnings coverage	13.11	13.61	
Regulatory ratios under Basel III			
Capital ratios⁽⁴⁾			
Common Equity Tier 1 (CET1)	11.6 %	11.2 %	
Tier 1 ⁽⁵⁾	15.4 %	14.9 %	
Total ⁽⁵⁾	16.7 %	15.1 %	
Leverage ratio ⁽⁴⁾	4.0 %	4.0 %	
Liquidity coverage ratio (LCR)	147 %	132 %	
Other information			
Number of employees – worldwide	23,029	21,635	6
Number of branches in Canada	428	429	–
Number of banking machines in Canada	934	931	–

- (1) See the Consolidated Results section on page 6 of the Report to Shareholders for the quarter ended July 31, 2018.
- (2) See the Financial Reporting Method section on page 4 for additional information on non-GAAP financial measures.
- (3) Excluding purchased or originated credit-impaired loans.
- (4) The ratios are calculated using the "all-in" methodology.
- (5) The ratios as at October 31, 2017 include the redemption of the Series 28 preferred shares on November 15, 2017.

FINANCIAL REPORTING METHOD

As stated in Note 2 to its audited annual consolidated financial statements for the year ended October 31, 2017, the Bank early adopted IFRS 9 on November 1, 2017. As permitted by IFRS 9, the Bank did not restate comparative consolidated financial statements. Note 4 to these consolidated financial statements presents the impacts of IFRS 9 adoption on the Bank's Consolidated Balance Sheet as at November 1, 2017. Since interim consolidated financial statements do not include all of the annual financial statement disclosures required under IFRS, they should be read in conjunction with the audited annual consolidated financial statements and accompanying notes for the year ended October 31, 2017.

Non-GAAP Financial Measures

The Bank uses a number of financial measures when assessing its results and overall performance. Some of these financial measures are not calculated in accordance with GAAP, which are based on IFRS. Presenting non-GAAP financial measures 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 not to be reflective of the underlying performance of the Bank's operations. Securities regulators require companies to caution readers that non-GAAP financial measures do not have a standardized meaning under GAAP and therefore may not be comparable to 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		
	2018	2017	% Change	2018	2017	% Change
Net income excluding specified items⁽¹⁾						
Personal and Commercial	248	235	6	691	669	3
Wealth Management	130	109	19	379	316	20
Financial Markets	178	165	8	572	515	11
U.S. Specialty Finance and International	54	51	6	167	129	29
Other	(37)	(36)		(129)	(111)	
Net income excluding specified items	573	524	9	1,680	1,518	11
Acquisition-related items ⁽²⁾	(4)	(6)		(14)	(19)	
Net income	569	518	10	1,666	1,499	11
Diluted earnings per share excluding specified items	\$ 1.53	\$ 1.39	10	\$ 4.46	\$ 4.05	10
Acquisition-related items ⁽²⁾	(0.01)	(0.02)		(0.04)	(0.06)	
Diluted earnings per share	\$ 1.52	\$ 1.37	11	\$ 4.42	\$ 3.99	11
Return on common shareholders' equity						
Including specified items	18.4 %	18.2 %		18.5 %	18.2 %	
Excluding specified items	18.5 %	18.4 %		18.7 %	18.4 %	

(1) For the quarter and nine-month period ended July 31, 2017, certain amounts have been reclassified.

(2) During the quarter ended July 31, 2018, the Bank recorded \$4 million (\$4 million net of income taxes) in charges related to the acquisitions (2017: \$8 million, \$6 million net of income taxes). For the nine-month period ended July 31, 2018, these charges were \$16 million (\$14 million net of income taxes) compared to \$23 million (\$19 million net of income taxes) in the same nine-month period of 2017.

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 *2017 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 2018 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 2018 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 51 of the *2017 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 *2017 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 THE THIRD QUARTER 2018 RESULTS

Conference Call

- A conference call for analysts and institutional investors will be held on Wednesday, August 29, 2018 at 1:00 p.m. EDT.
- Access by telephone in listen-only mode: 1-800-898-3989 or 416-406-0743. The access code is 5732368#.
- A recording of the conference call can be heard until September 27, 2018 by dialing 1-800-408-3053 or 905-694-9451. The access code is 5031183#.

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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