

National Bank reports its results for the First Quarter of 2019

The financial information reported in this document is based on the unaudited interim condensed consolidated financial statements for the quarter ended January 31, 2019 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, February 27, 2019 – For the first quarter of 2019, National Bank is reporting net income of \$552 million, an increase from \$550 million in the first quarter of 2018. Its diluted earnings per share stood at \$1.50 in the first quarter of 2019 compared to \$1.46 in the same quarter of 2018, a 3% increase driven essentially by growth in most business segments, tempered by a slowdown in the Financial Markets segment.

Commenting on the Bank’s financial results for the first quarter of 2019, Louis Vachon, President and Chief Executive Officer noted that “National Bank delivered good performance despite challenging markets.” “We continue to benefit from the diversification of our business, a strong Quebec economy and our prudent approach to risk. Credit quality remains excellent, and the Bank posted solid capital ratios,” added Mr. Vachon.

Highlights

(millions of Canadian dollars)	Quarter ended January 31		
	2019	2018	% Change
Net income	552	550	–
Diluted earnings per share (<i>dollars</i>)	\$ 1.50	\$ 1.46	3
Return on common shareholders’ equity	17.2 %	18.7 %	
Dividend payout ratio	41 %	42 %	
	As at January 31, 2019	As at October 31, 2018	
CET1 capital ratio under Basel III	11.5 %	11.7 %	
Leverage ratio under Basel III	4.1 %	4.0 %	

Personal and Commercial

- Net income totalled \$246 million in the first quarter of 2019, up 7% from \$230 million in the first quarter of 2018.
- At \$852 million, the 2019 first-quarter total revenues rose \$37 million or 5% year over year.
- Personal lending was up 5%, particularly due to mortgage lending, while commercial lending grew 10% from a year ago.
- Net interest margin stood at 2.22% in the first quarter of 2019 compared to 2.24% in the first quarter of 2018.
- First-quarter non-interest expenses were up 3% year over year.
- At 53.8%, the first-quarter efficiency ratio improved from 54.4% in the first quarter of 2018.

Wealth Management

- Net income totalled \$125 million in the first quarter of 2019, a 10% increase from \$114 million in the same quarter of 2018.
- The 2019 first-quarter total revenues amounted to \$434 million compared to \$424 million in the same quarter of 2018, a \$10 million increase driven by growth in net interest income.
- First-quarter non-interest expenses stood at \$265 million compared to \$269 million in the first quarter of 2018, a decrease owing to lower variable compensation and management fees associated with lower fee-based revenues.
- At 61.1%, the first-quarter efficiency ratio improved from 63.4% in the first quarter of 2018.

Financial Markets

- Net income totalled \$170 million in the first quarter of 2019, down 17% from \$204 million in the same quarter of 2018.
- The 2019 first-quarter total revenues on a taxable equivalent basis⁽¹⁾ amounted to \$410 million, a \$44 million or 10% year-over-year decrease attributable mainly to lower investment banking revenues and lower gains on investments.
- First-quarter non-interest expenses stood at \$175 million, stable when compared to the first quarter of 2018.
- At 42.7%, the first-quarter efficiency ratio on a taxable equivalent basis compares to 38.8% in the first quarter of 2018.

U.S. Specialty Finance and International

- Net income totalled \$60 million in the first quarter of 2019, a 20% increase from \$50 million in the first quarter of 2018.
- The 2019 first-quarter total revenues amounted to \$171 million, a \$10 million year-over-year increase owing to revenue growth at the ABA Bank subsidiary.
- First-quarter non-interest expenses stood at \$68 million, an \$8 million year-over-year increase attributable to expansion of ABA Bank's banking network.

Other

- The *Other* heading posted a net loss of \$49 million in the first quarter of 2019 versus a \$48 million net loss in the same quarter of 2018.

Capital Management

- As at January 31, 2019, the Common Equity Tier 1 (CET1) capital ratio under Basel III was 11.5%, down when compared to 11.7% as at October 31, 2018.
- As at January 31, 2019, the Basel III leverage ratio was 4.1%, up from 4.0% as at October 31, 2018.

Dividends

On February 26, 2019, the Board of Directors declared regular dividends on the various series of first preferred shares and a dividend of 65 cents per common share, payable on May 1, 2019 to shareholders of record on March 25, 2019.

(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 January 31

	2019	2018	% Change
Operating results			
Total revenues	1,799	1,806	–
Total revenues on a taxable equivalent basis ⁽¹⁾	1,862	1,865	–
Net income	552	550	–
Net income attributable to the Bank's shareholders	536	527	2
Return on common shareholders' equity	17.2 %	18.7 %	
Efficiency ratio on a taxable equivalent basis ⁽¹⁾	55.1 %	54.9 %	
Earnings per share			
Basic	\$ 1.51	\$ 1.48	2
Diluted	1.50	1.46	3
Common share information			
Dividends declared	\$ 0.65	\$ 0.60	
Book value	34.85	31.75	
Share price			
High	61.80	65.35	
Low	54.97	62.33	
Close	61.80	63.84	
Number of common shares (<i>thousands</i>)	335,500	340,390	
Market capitalization	20,734	21,730	

(millions of Canadian dollars)	As at January 31, 2019	As at October 31, 2018	% Change
Balance sheet and off-balance-sheet			
Total assets	263,355	262,471	–
Loans and acceptances, net of allowances	146,710	146,082	–
Net impaired loans ⁽²⁾ as a % of loans and acceptances	0.3 %	0.3 %	
Deposits	172,930	170,830	1
Equity attributable to common shareholders	11,693	11,526	1
Assets under administration and under management	510,036	485,080	5
Regulatory ratios under Basel III			
Capital ratios			
Common Equity Tier 1 (CET1)	11.5 %	11.7 %	
Tier 1	15.1 %	15.5 %	
Total	16.3 %	16.8 %	
Leverage ratio	4.1 %	4.0 %	
Liquidity coverage ratio (LCR)	139 %	147 %	
Other information			
Number of employees – worldwide	23,960	23,450	2
Number of branches in Canada	428	428	–
Number of banking machines in Canada	938	937	–

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

(2) Net impaired loans are presented net of allowances for credit losses on Stage 3 loan amounts drawn and do not include purchased or originated credit-impaired (POCI) loans.

Financial Reporting Method

As stated in Note 2 to its audited annual consolidated financial statements for the year ended October 31, 2018, the Bank adopted IFRS 15 on November 1, 2018. As permitted by IFRS 15, the Bank did not restate comparative consolidated financial statements, and Note 2 to these consolidated financial statements presents the impact of IFRS 15 adoption on the Bank's Consolidated Balance Sheet as at November 1, 2018. 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, 2018.

The presentation of segment disclosures is consistent with the presentation adopted by the Bank for the year beginning November 1, 2018. This presentation reflects the fact that advisor banking service activities, which had previously been presented in the Wealth Management segment, are now presented in the Personal and Commercial segment. The Bank made this change to better align the monitoring of its activities with its management structure.

Non-GAAP Financial Measures

The Bank uses a number of financial measures when assessing its results and measuring 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 financial 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.

Like many other financial institutions, the Bank uses the taxable equivalent basis to calculate net interest income, non-interest income and income taxes. This calculation method consists of grossing up certain tax-exempt income (particularly dividends) by the income tax that would have been otherwise payable. An equivalent amount is added to income taxes. This adjustment is necessary in order to perform a uniform comparison of the return on different assets regardless of their tax treatment.

The specified items related to the acquisitions of recent years (mainly those of the Wealth Management segment) are no longer presented as specified items as of November 1, 2018, since the amounts are not considered significant. The figures for the quarter ended January 31, 2018 reflect this change.

Financial Information

(millions of Canadian dollars, except per share amounts)	Quarter ended January 31		
	2019	2018	% Change
Net income⁽¹⁾			
Personal and Commercial	246	230	7
Wealth Management	125	114	10
Financial Markets	170	204	(17)
U.S. Specialty Finance and International	60	50	20
Other	(49)	(48)	
Net income	552	550	-
Diluted earnings per share	\$ 1.50	\$ 1.46	3
Return on common shareholders' equity	17.2 %	18.7 %	

(1) For the quarter ended January 31, 2018, certain amounts have been reclassified from those previously reported, mainly amounts related to advisor banking service activities, which have been transferred from the Wealth Management segment to the Personal and Commercial segment.

Caution Regarding Forward-Looking Statements

From time to time, the Bank makes written and oral forward-looking statements, such as those contained in the Economic Review and Outlook section of the *Report to Shareholders – First Quarter 2019* and in the Major Economic Trends section of the *2018 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 2019 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 2019 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 52 of the *2018 Annual Report*; specifically, 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; 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 *2018 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 First Quarter 2019 results

Conference Call

- A conference call for analysts and institutional investors will be held on Wednesday, February 27, 2019 at 1:00 p.m. EST.
- Access by telephone in listen-only mode: 1-800-806-5484 or 416-340-2217. The access code is 8475074#.
- A recording of the conference call can be heard until March 27, 2019 by dialing 1-800-408-3053 or 905-694-9451. The access code is 1511461#.

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 and Pillar 3 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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