

National Bank reports its results for the First Quarter of 2018

The financial information reported in this document is based on the unaudited interim condensed consolidated financial statements for the quarter ended January 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, February 28, 2018 – For the first quarter of 2018, National Bank is reporting net income of \$550 million compared to \$497 million in the first quarter of 2017 as well as diluted earnings per share of \$1.46 compared to \$1.34 in the same quarter of 2017. Both increases were driven by net income growth across all business segments.

Net income excluding specified items totalled \$556 million in the first quarter of 2018, up 11% from \$502 million in the first quarter of 2017. Diluted earnings per share excluding specified items stood at \$1.48 in the first quarter of 2018, up 10% from \$1.35 in the same quarter of 2017. The specified items are described on page 4.

Commenting on the Bank's results for the first quarter of 2018, Louis Vachon, President and Chief Executive Officer of National Bank pointed to "excellent performance in each business segment, particularly sustained revenue growth and effective cost management."

Highlights

(millions of Canadian dollars)	Quarter ended January 31		
	2018	2017	% Change
Net income	550	497	11
Diluted earnings per share (<i>dollars</i>)	\$ 1.46	\$ 1.34	9
Return on common shareholders' equity	18.7 %	18.4 %	
Dividend payout ratio	42 %	55 %	
Excluding specified items⁽¹⁾			
Net income excluding specified items	556	502	11
Diluted earnings per share excluding specified items (<i>dollars</i>)	\$ 1.48	\$ 1.35	10
Return on common shareholders' equity excluding specified items	18.9 %	18.6 %	
Dividend payout ratio excluding specified items	41 %	48 %	
	As at January 31, 2018	As at October 31, 2017	
CET1 capital ratio under Basel III	11.2 %	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 \$230 million in the first quarter of 2018, up 11% from \$208 million in the first quarter of 2017.
- At \$799 million, the 2018 first-quarter total revenues rose \$44 million or 6% year over year.
- Rising 3% from a year ago, personal lending experienced sustained growth, particularly due to mortgage lending, while commercial lending grew 5% from a year ago.
- Net interest margin stood at 2.30% in the first quarter of 2018 compared to 2.24% in the first quarter of 2017.
- First-quarter non-interest expenses were up 2% year over year.
- At 53.6%, the efficiency ratio improved from 55.5% in the first quarter of 2017.

Wealth Management

- Net income totalled \$120 million in the first quarter of 2018, a 21% increase from \$99 million in the same quarter of 2017.
- The 2018 first-quarter total revenues amounted to \$441 million compared to \$397 million in the same quarter of 2017, a \$44 million or 11% increase driven by growth in net interest income and in fee-based revenues.
- First-quarter non-interest expenses stood at \$277 million compared to \$261 million in the same quarter last year.
- At 61.5%, the efficiency ratio excluding specified items⁽¹⁾ improved from 64.4% in the first quarter of 2017.

Financial Markets

- Net income totalled \$204 million in the first quarter of 2018, a 14% increase from \$179 million in the first quarter of 2017.
- First-quarter total revenues on a taxable equivalent basis amounted to \$454 million, a \$38 million or 9% year-over-year increase driven particularly by financial markets commissions.
- First-quarter non-interest expenses stood at \$176 million, a \$4 million year-over-year increase associated with revenue growth.
- At 38.8%, the efficiency ratio on a taxable equivalent basis improved from 41.3% in the first quarter of 2017.

U.S. Specialty Finance and International

- Net income totalled \$50 million in the first quarter of 2018, a 32% increase from \$38 million in the same quarter of 2017.
- The 2018 first-quarter total revenues amounted to \$161 million, a \$43 million or 36% increase driven by net interest income growth at the Credigy and ABA Bank subsidiaries.
- First-quarter non-interest expenses stood at \$60 million, a \$4 million year-over-year increase attributable mainly to business growth at the ABA Bank subsidiary.

Other

- The *Other* heading posted a net loss of \$54 million in the first quarter of 2018 versus a \$27 million net loss in the same quarter of 2017, mainly a result of higher non-interest expenses.

Capital Management

- As at January 31, 2018, the Common Equity Tier 1 (CET1) capital ratio under Basel III was 11.2%, stable when compared to October 31, 2017.
- As at January 31, 2018, the Basel III leverage ratio was 4.0%, unchanged from October 31, 2017.

(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		
	2018	2017	% Change
Operating results			
Total revenues	1,806	1,633	11
Net income	550	497	11
Net income attributable to the Bank's shareholders	527	478	10
Return on common shareholders' equity	18.7 %	18.4 %	
Earnings per share			
Basic	\$ 1.48	\$ 1.35	10
Diluted	1.46	1.34	9
Operating results on a taxable equivalent basis⁽¹⁾ and excluding specified items⁽²⁾			
Total revenues on a taxable equivalent basis and excluding specified items	1,868	1,707	9
Net income excluding specified items	556	502	11
Return on common shareholders' equity excluding specified items	18.9 %	18.6 %	
Efficiency ratio on a taxable equivalent basis and excluding specified items	54.6 %	56.5 %	
Earnings per share excluding specified items⁽²⁾			
Basic	\$ 1.50	\$ 1.37	9
Diluted	1.48	1.35	10
Common share information			
Dividends declared	\$ 0.60	\$ 0.56	
Book value	31.75	29.51	
Share price			
High	65.35	56.60	
Low	62.33	46.83	
Close	63.84	56.17	
Number of common shares (<i>thousands</i>)	340,390	340,810	
Market capitalization	21,730	19,143	

(millions of Canadian dollars)	As at January 31, 2018	As at October 31, 2017	% Change
Balance sheet and off-balance-sheet			
Total assets	251,065	245,827	2
Loans and acceptances, net of allowances	136,352	136,457	-
Gross impaired loans ⁽³⁾ as a % of loans and acceptances	0.4 %	0.3 %	
Deposits	156,779	156,671	-
Equity attributable to common shareholders	10,808	10,700	1
Assets under administration and under management	495,702	477,358	4
Earnings coverage	13.45	13.61	
Regulatory ratios under Basel III			
Capital ratios ⁽⁴⁾			
Common Equity Tier 1 (CET1)	11.2 %	11.2 %	
Tier 1 ⁽⁵⁾	15.3 %	14.9 %	
Total ⁽⁵⁾	15.5 %	15.1 %	
Leverage ratio ⁽⁴⁾	4.0 %	4.0 %	
Liquidity coverage ratio (LCR)	135 %	132 %	
Other information			
Number of employees – worldwide	21,868	21,635	1
Number of branches in Canada	429	429	-
Number of banking machines in Canada	932	931	-

(1) See the Consolidated Results section on page 6 of the Report to Shareholders for the quarter ended January 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 the unaudited interim condensed 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 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 January 31		
	2018	2017	% Change
Net income excluding specified items⁽¹⁾			
Personal and Commercial	230	208	11
Wealth Management	126	104	21
Financial Markets	204	179	14
U.S. Specialty Finance and International	50	38	32
Other	(54)	(27)	
Net income excluding specified items	556	502	11
Acquisition-related items ⁽²⁾	(6)	(5)	
Net income	550	497	11
Diluted earnings per share excluding specified items	\$ 1.48	\$ 1.35	10
Acquisition-related items ⁽²⁾	(0.02)	(0.01)	
Diluted earnings per share	\$ 1.46	\$ 1.34	9
Return on common shareholders' equity			
Including specified items	18.7 %	18.4 %	
Excluding specified items	18.9 %	18.6 %	

(1) For the quarter ended January 31, 2017, certain amounts have been reclassified.

(2) During the quarter ended January 31, 2018, the Bank recorded \$7 million in charges (\$6 million net of income taxes) related to the acquisitions carried out by the Wealth Management segment (2017: \$6 million, \$5 million net of income taxes).

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 FIRST QUARTER 2018 RESULTS

Conference Call

- A conference call for analysts and institutional investors will be held on Wednesday, February 28, 2018 at 1:00 p.m. EST.
- Access by telephone in listen-only mode: 1-800-898-3989 or 416-406-0743. The access code is 7203614#.
- A recording of the conference call can be heard until March 29, 2018 by dialing 1-800-408-3053 or 905-694-9451. The access code is 8202895#.

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 *Press Release* (which includes the quarterly consolidated financial statements) is available at all times on National Bank's website at nbc.ca/investorrelations.
- The *Press Release*, 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
514-394-8644

Linda Boulanger
Vice-President
Investor Relations
514-394-0296

