

National Bank reports its results for the Second Quarter of 2018 and raises its quarterly dividend by 2 cents to 62 cents per share

The financial information reported in this document is based on the unaudited interim condensed consolidated financial statements for the quarter and six-month period ended April 30, 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, May 30, 2018 – For the second quarter of 2018, National Bank is reporting net income of \$547 million, up 13% from \$484 million in the second quarter of 2017, as well as diluted earnings per share of \$1.44 compared to \$1.28 in the second quarter of 2017. Excluding the specified items described on page 4, second-quarter diluted earnings per share stood at \$1.45, up 12% from \$1.30 in the same quarter last year. The year-over-year increase in the Bank's second-quarter net income was attributable to the contributions made by each business segment.

For the first six months of 2018, the Bank's net income totalled \$1,097 million, up 12% from \$981 million in the same period of 2017, and its diluted earnings per share stood at \$2.90 versus \$2.62 in the same period of 2017. These increases were driven by net income growth across all the business segments. As for first-half diluted earnings per share excluding specified items, it stood at \$2.93, up 11% from \$2.65 in the same period of 2017.

"The Bank delivered excellent results in the second quarter of 2018," said Louis Vachon, President and Chief Executive Officer of National Bank. "Both business growth and improved efficiency were major contributors to this performance."

Highlights

(millions of Canadian dollars)	Quarter ended April 30			Six months ended April 30		
	2018	2017	% Change	2018	2017	% Change
Net income	547	484	13	1,097	981	12
Diluted earnings per share (<i>dollars</i>)	\$ 1.44	\$ 1.28	13	\$ 2.90	\$ 2.62	11
Return on common shareholders' equity	18.6 %	17.9 %		18.6 %	18.1 %	
Dividend payout ratio	41 %	47 %		41 %	47 %	
Excluding specified items⁽¹⁾						
Net income excluding specified items	551	492	12	1,107	994	11
Diluted earnings per share excluding specified items (<i>dollars</i>)	\$ 1.45	\$ 1.30	12	\$ 2.93	\$ 2.65	11
Return on common shareholders' equity excluding specified items	18.7 %	18.2 %		18.8 %	18.4 %	
Dividend payout ratio excluding specified items	41 %	42 %		41 %	42 %	
				As at April 30, 2018	As at October 31, 2017	
CET1 capital ratio under Basel III				11.3 %	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 \$213 million in the second quarter of 2018, down 6% from \$226 million in the second quarter of 2017. This decrease stems mainly from the fact that, in the second quarter of 2017, the Bank had partially reversed a sectoral provision on non-impaired loans recorded for the oil and gas producer and service company loan portfolio.
- At \$213 million, the 2018 second-quarter net income was up \$16 million or 8% when compared to the \$197 million in net income excluding the impact of the sectoral provision⁽¹⁾ in the second quarter of 2017.
- At \$777 million, second-quarter total revenues rose \$45 million or 6% year over year.
- Rising 3% from a year ago, personal lending experienced growth, particularly due to mortgage lending, while commercial lending grew 6% from a year ago.
- Net interest margin was 2.31% in the second quarter of 2018 versus 2.23% in the second quarter of 2017.
- Second-quarter non-interest expenses were up 3% year over year.
- At 55.2%, the efficiency ratio improved from 57.0% in the second quarter of 2017.

Wealth Management

- Net income totalled \$119 million in the second quarter of 2018, a 23% increase from \$97 million in the second quarter of 2017.
- Second-quarter total revenues amounted to \$431 million compared to \$393 million in second quarter 2017, a \$38 million or 10% increase driven by growth in net interest income and in fee-based revenues.
- Second-quarter non-interest expenses stood at \$269 million compared to \$261 million in the second quarter of 2017.
- At 61.4%, the efficiency ratio excluding specified items⁽²⁾ improved from 64.8% in the second quarter of 2017.

Financial Markets

- Net income totalled \$190 million in the second quarter of 2018, an 11% increase from \$171 million in the same quarter of 2017.
- Total revenues on a taxable equivalent basis amounted to \$437 million, a \$37 million or 9% year-over-year increase driven by trading activity revenues and banking service revenues.
- Second-quarter non-interest expenses stood at \$176 million, a \$10 million year-over-year increase associated primarily with revenue growth.
- At 40.3%, the efficiency ratio on a taxable equivalent basis improved from 41.5% in the second quarter of 2017.

U.S. Specialty Finance and International

- Net income totalled \$63 million in the second quarter of 2018, a 58% increase from \$40 million in the same quarter of 2017.
- Second-quarter total revenues amounted to \$174 million, a \$52 million or 43% increase driven by net interest income growth at the Credigy and ABA Bank subsidiaries.
- Second-quarter non-interest expenses stood at \$62 million, a \$7 million year-over-year increase attributable mainly to business growth at the ABA Bank subsidiary.

Other

- The *Other* heading posted a net loss of \$38 million in the second quarter of 2018 versus a \$50 million net loss in the same quarter of 2017. This change stems mainly from the fact that, in the second quarter of 2017, the Bank increased its collective allowance for credit risk on non-impaired loans by \$40 million to reflect growth in its overall credit portfolio.

Capital Management

- As at April 30, 2018, the Common Equity Tier 1 (CET1) capital ratio under Basel III was 11.3%, an increase from 11.2% as at October 31, 2017.
- As at April 30, 2018, the Basel III leverage ratio was 4.0%, unchanged from October 31, 2017.

(1) For additional information on the impact of the sectoral provision, refer to the Personal and Commercial segment's results on page 9 of the Report to shareholders for the quarter ended April 30, 2018.

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

HIGHLIGHTS

	Quarter ended April 30			Six months ended April 30		
	2018	2017	% Change	2018	2017	% Change
Operating results						
Total revenues	1,754	1,597	10	3,560	3,230	10
Net income	547	484	13	1,097	981	12
Net income attributable to the Bank's shareholders	522	462	13	1,049	940	12
Return on common shareholders' equity	18.6 %	17.9 %		18.6 %	18.1 %	
Earnings per share						
Basic	\$ 1.46	\$ 1.30	12	\$ 2.94	\$ 2.65	11
Diluted	1.44	1.28	13	2.90	2.62	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	1,820	1,654	10	3,688	3,361	10
Net income excluding specified items	551	492	12	1,107	994	11
Return on common shareholders' equity excluding specified items	18.7 %	18.2 %		18.8 %	18.4 %	
Efficiency ratio on a taxable equivalent basis and excluding specified items	54.3 %	56.6 %		54.5 %	56.6 %	
Earnings per share excluding specified items⁽²⁾						
Basic	\$ 1.47	\$ 1.32	11	\$ 2.97	\$ 2.69	10
Diluted	1.45	1.30	12	2.93	2.65	11
Common share information						
Dividends declared	\$ 0.60	\$ 0.56		\$ 1.20	\$ 1.12	
Book value				32.64	29.97	
Share price						
High	64.08	58.75		65.35	58.75	
Low	58.69	52.94		58.69	46.83	
Close	60.98	53.05		60.98	53.05	
Number of common shares (<i>thousands</i>)	339,348	341,524		339,348	341,524	
Market capitalization	20,693	18,118		20,693	18,118	

(millions of Canadian dollars)	As at April 30, 2018	As at October 31, 2017	% Change
Balance sheet and off-balance-sheet			
Total assets	256,259	245,827	4
Loans and acceptances, net of allowances	139,864	136,457	2
Gross impaired loans ⁽³⁾ as a % of loans and acceptances, net of allowances	0.4 %	0.3 %	
Deposits	164,774	156,671	5
Equity attributable to common shareholders	11,077	10,700	4
Assets under administration and under management	495,422	477,358	4
Earnings coverage	12.29	13.61	
Regulatory ratios under Basel III			
Capital ratios⁽⁴⁾			
Common Equity Tier 1 (CET1)	11.3 %	11.2 %	
Tier 1 ⁽⁵⁾	15.3 %	14.9 %	
Total ⁽⁵⁾	16.6 %	15.1 %	
Leverage ratio ⁽⁴⁾	4.0 %	4.0 %	
Liquidity coverage ratio (LCR)	137 %	132 %	
Other information			
Number of employees – worldwide	22,359	21,635	3
Number of branches in Canada	428	429	–
Number of banking machines in Canada	933	931	–

- (1) See the Consolidated Results section on page 6 of the Report to Shareholders for the quarter ended April 30, 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 April 30			Six months ended April 30		
	2018	2017	% Change	2018	2017	% Change
Net income excluding specified items⁽¹⁾						
Personal and Commercial	213	226	(6)	443	434	2
Wealth Management	123	103	19	249	207	20
Financial Markets	190	171	11	394	350	13
U.S. Specialty Finance and International	63	40	58	113	78	45
Other	(38)	(48)		(92)	(75)	
Net income excluding specified items	551	492	12	1,107	994	11
Acquisition-related items ⁽²⁾	(4)	(8)		(10)	(13)	
Net income	547	484	13	1,097	981	12
Diluted earnings per share excluding specified items	\$ 1.45	\$ 1.30	12	\$ 2.93	\$ 2.65	11
Acquisition-related items ⁽²⁾	(0.01)	(0.02)		(0.03)	(0.03)	
Diluted earnings per share	\$ 1.44	\$ 1.28	13	\$ 2.90	\$ 2.62	11
Return on common shareholders' equity						
Including specified items	18.6 %	17.9 %		18.6 %	18.1 %	
Excluding specified items	18.7 %	18.2 %		18.8 %	18.4 %	

(1) For the quarter and six-month period ended April 30, 2017, certain amounts have been reclassified.

(2) During the quarter ended April 30, 2018, the Bank recorded \$5 million (\$4 million net of income taxes) in charges related to the acquisitions (2017: \$9 million, \$8 million net of income taxes). For the six-month period ended April 30, 2018, these charges were \$12 million (\$10 million net of income taxes) compared to \$15 million (\$13 million net of income taxes) for the same six-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 SECOND QUARTER 2018 RESULTS

Conference Call

- A conference call for analysts and institutional investors will be held on Wednesday, May 30, 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 8726648#.
- A recording of the conference call can be heard until June 28, 2018 by dialing 1-800-408-3053 or 905-694-9451. The access code is 4648574#.

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.

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

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

Claude Breton
Vice-President
Public Affairs
514-394-8644

