

National Bank reports its results for the Second Quarter of 2019 and raises its quarterly dividend by 3 cents to 68 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, 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, May 30, 2019 – For the second quarter of 2019, National Bank is reporting net income of \$558 million, a 2% increase from \$547 million in the second quarter of 2018. Its diluted earnings per share stood at \$1.51 in the second quarter of 2019 compared to \$1.44 in the same quarter of 2018, a 5% increase driven essentially by growth in most business segments, tempered by a slowdown in the Financial Markets segment.

For the first six months of 2019, the Bank's net income totalled \$1,110 million, a \$13 million increase from \$1,097 million in the same period of 2018. Diluted earnings per share stood at \$3.01 for the first six months of 2019, up 4% from \$2.90 in the same period of 2018.

"In the second quarter of fiscal 2019, the Bank delivered solid performance with earnings of \$558 million and earnings per share of \$1.51, up 5% from last year," said Louis Vachon, President and Chief Executive Officer of National Bank of Canada. "On the strength of favourable economic fundamentals, our performance was driven by positive momentum in our businesses, disciplined cost management, strong credit quality and solid capital ratios."

Highlights

(millions of Canadian dollars)	Quarter ended April 30			Six months ended April 30		
	2019	2018	% Change	2019	2018	% Change
Net income	558	547	2	1,110	1,097	1
Diluted earnings per share (<i>dollars</i>)	\$ 1.51	\$ 1.44	5	\$ 3.01	\$ 2.90	4
Return on common shareholders' equity	17.8 %	18.6 %		17.5 %	18.6 %	
Dividend payout ratio	42 %	41 %		42 %	41 %	
				As at April 30, 2019	As at October 31, 2018	
CET1 capital ratio under Basel III				11.5 %	11.7 %	
Leverage ratio under Basel III				4.0 %	4.0 %	

Personal and Commercial

- Net income totalled \$234 million in the second quarter of 2019, up 9% from \$215 million in the second quarter of 2018.
- At \$833 million, second-quarter total revenues rose \$38 million or 5% year over year.
- Rising 4% from a year ago, personal lending experienced growth, particularly due to mortgage lending, while commercial lending grew 9% from a year ago.
- Net interest margin was 2.23% in the second quarter of 2019, stable when compared to the second quarter of 2018.
- Second-quarter non-interest expenses were up 2% year over year.
- At 54.3%, the second-quarter efficiency ratio improved from 56.0% in the second quarter of 2018.

Wealth Management

- Net income totalled \$118 million in the second quarter of 2019, a 5% increase from \$112 million in the second quarter of 2018.
- Second-quarter total revenues amounted to \$426 million compared to \$413 million in second quarter 2018, a \$13 million increase driven by growth in net interest income and in fee-based revenues.
- Second-quarter non-interest expenses stood at \$266 million, up 2% from \$260 million in the second quarter of 2018.
- At 62.4%, the efficiency ratio improved from 63.0% in the second quarter of 2018.

Financial Markets

- Net income totalled \$160 million in the second quarter of 2019, down 16% from \$190 million in the same quarter of 2018.
- Second-quarter total revenues on a taxable equivalent basis⁽¹⁾ amounted to \$404 million, a \$33 million or 8% year-over-year decrease attributable mainly to lower revenues from the global markets revenue category.
- Second-quarter non-interest expenses stood at \$179 million compared to \$176 million in the second quarter of 2018.
- At 44.3%, the second-quarter efficiency ratio on a taxable equivalent basis⁽¹⁾ compares to 40.3% in the second quarter of 2018.

U.S. Specialty Finance and International

- Net income totalled \$72 million in the second quarter of 2019, a 14% increase from \$63 million in the same quarter of 2018.
- Second-quarter total revenues amounted to \$178 million, a \$4 million year-over-year increase driven by revenue growth at the ABA Bank subsidiary, partly offset by lower revenues at the Credigy subsidiary.
- Second-quarter non-interest expenses stood at \$74 million, a \$12 million year-over-year increase attributable to the expansion of ABA Bank's banking network.

Other

- The *Other* heading posted a net loss of \$26 million in the second quarter of 2019 versus a \$33 million net loss in the same quarter of 2018.

Capital Management

- As at April 30, 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 April 30, 2019, the Basel III leverage ratio was 4.0%, stable compared to October 31, 2018.

Dividends

On May 29, 2019, the Board of Directors declared regular dividends on the various series of first preferred shares and a dividend of 68 cents per common share, up 3 cents or 4.6%, payable on August 1, 2019 to shareholders of record on June 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 April 30			Six months ended April 30		
	2019	2018	% Change	2019	2018	% Change
Operating results						
Total revenues	1,770	1,754	1	3,569	3,560	–
Total revenues on a taxable equivalent basis ⁽¹⁾	1,850	1,818	2	3,712	3,683	1
Net income	558	547	2	1,110	1,097	1
Net income attributable to the Bank's shareholders	539	522	3	1,075	1,049	2
Return on common shareholders' equity	17.8 %	18.6 %		17.5 %	18.6 %	
Efficiency ratio on a taxable equivalent basis ⁽¹⁾	55.5 %	54.6 %		55.3 %	54.7 %	
Earnings per share						
Basic	\$ 1.52	\$ 1.46	4	\$ 3.03	\$ 2.94	3
Diluted	1.51	1.44	5	3.01	2.90	4
Common share information						
Dividends declared	\$ 0.65	\$ 0.60		\$ 1.30	\$ 1.20	
Book value				35.49	32.64	
Share price						
High	63.82	64.08		63.82	65.35	
Low	60.31	58.69		54.97	58.69	
Close	63.82	60.98		63.82	60.98	
Number of common shares (<i>thousands</i>)	335,116	339,348		335,116	339,348	
Market capitalization	21,387	20,693		21,387	20,693	

(millions of Canadian dollars)	As at April 30, 2019	As at October 31, 2018	% Change
Balance sheet and off-balance-sheet			
Total assets	269,106	262,471	3
Loans and acceptances, net of allowances	148,742	146,082	2
Deposits	179,419	170,830	5
Equity attributable to common shareholders	11,892	11,526	3
Assets under administration and under management	549,391	485,080	13
Regulatory ratios under Basel III			
Capital ratios			
Common Equity Tier 1 (CET1)	11.5 %	11.7 %	
Tier 1	15.1 %	15.5 %	
Total	16.2 %	16.8 %	
Leverage ratio	4.0 %	4.0 %	
Liquidity coverage ratio (LCR)	141 %	147 %	
Other information			
Number of employees – worldwide	24,137	23,450	3
Number of branches in Canada	428	428	–
Number of banking machines in Canada	940	937	–

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

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 and six-month period ended April 30, 2018 reflect this change.

Financial Information

(millions of Canadian dollars, except per share amounts)	Quarter ended April 30			Six months ended April 30		
	2019	2018	% Change	2019	2018	% Change
Net income⁽¹⁾						
Personal and Commercial	234	215	9	480	445	8
Wealth Management	118	112	5	243	226	8
Financial Markets	160	190	(16)	330	394	(16)
U.S. Specialty Finance and International	72	63	14	132	113	17
Other	(26)	(33)		(75)	(81)	
Net income	558	547	2	1,110	1,097	1
Diluted earnings per share	\$ 1.51	\$ 1.44	5	\$ 3.01	\$ 2.90	4
Return on common shareholders' equity	17.8 %	18.6 %		17.5 %	18.6 %	

(1) For the quarter and six-month period ended April 30, 2018, certain amounts have been reclassified, 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 – Second 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*, and more 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 Second Quarter 2019 Results

Conference Call

- A conference call for analysts and institutional investors will be held on Thursday, May 30, 2019 at 1:00 p.m. EDT.
- Access by telephone in listen-only mode: 1-800-806-5484 or 416-340-2217. The access code is 9386188#.
- A recording of the conference call can be heard until June 27, 2019 by dialing 1-800-408-3053 or 905-694-9451. The access code is 8176842#.

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 the morning of the conference call.

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