

National Bank reports its results for the Third Quarter of 2019

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, 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, August 28, 2019 – For the third quarter of 2019, National Bank is reporting net income of \$608 million, a 7% increase from \$569 million in the third quarter of 2018. Third-quarter diluted earnings per share stood at \$1.66, up 9% from \$1.52 in the same quarter of 2018. These increases were driven by net income growth across all the business segments. At \$606 million, third-quarter net income excluding specified items rose 7% from \$569 million in the same quarter of 2018. The specified items are described on page 5.

For the first nine months of 2019, the Bank's net income totalled \$1,718 million, up \$52 million or 3% from \$1,666 million in the same period of 2018, and its diluted earnings per share stood at \$4.67 versus \$4.42 in the same nine-month period of 2018, a 6% increase owing essentially to growth across most of the business segments, tempered by a slowdown in the Financial Markets segment during the first six months of 2019.

"Each business segment contributed to earnings growth, helping the Bank to post solid performance in the third quarter of fiscal 2019," said Louis Vachon, President and Chief Executive Officer of National Bank of Canada. "In an environment of economic and geopolitical uncertainty, the Bank will maintain its disciplined approach to managing costs, credit and capital."

Highlights

(millions of Canadian dollars)	Quarter ended July 31			Nine months ended July 31		
	2019	2018	% Change	2019	2018	% Change
Net income	608	569	7	1,718	1,666	3
Diluted earnings per share (<i>dollars</i>)	\$ 1.66	\$ 1.52	9	\$ 4.67	\$ 4.42	6
Return on common shareholders' equity	18.7 %	18.4 %		17.9 %	18.5 %	
Dividend payout ratio	42 %	41 %		42 %	41 %	
Excluding specified items⁽¹⁾						
Net income excluding specified items	606	569	7	1,716	1,666	3
Diluted earnings per share excluding specified items (<i>dollars</i>)	\$ 1.66	\$ 1.52	9	\$ 4.67	\$ 4.42	6
Return on common shareholders' equity excluding specified items	18.6 %	18.4 %		17.9 %	18.5 %	
Dividend payout ratio excluding specified items	42 %	41 %		42 %	41 %	
				As at July 31, 2019	As at October 31, 2018	
CET1 capital ratio under Basel III				11.7 %	11.7 %	
Leverage ratio under Basel III				4.0 %	4.0 %	

(1) See the Financial Reporting Method section on pages 4 and 5 for additional information on non-GAAP financial measures.

Personal and Commercial

- Net income totalled \$277 million in the third quarter of 2019, up 11% from \$250 million in the third quarter of 2018.
- At \$891 million, the 2019 third-quarter total revenues rose \$41 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 7% from a year ago.
- Net interest margin stood at 2.23% in the third quarter of 2019 versus 2.26% in the third quarter of 2018.
- Third-quarter non-interest expenses were up 2% year over year.
- At 51.2%, the third-quarter efficiency ratio improved from 52.7% in the third quarter of 2018.

Wealth Management

- Net income totalled \$126 million in the third quarter of 2019, a 5% increase from \$120 million in the third quarter of 2018.
- Third-quarter total revenues amounted to \$437 million compared to \$425 million in third quarter 2018, a \$12 million or 3% increase driven mainly by growth in fee-based revenues.
- Third-quarter non-interest expenses stood at \$267 million, up 2% from \$262 million in the third quarter of 2018.
- At 61.1%, the efficiency ratio improved from 61.6% in the third quarter of 2018.

Financial Markets

- Net income totalled \$182 million in the third quarter of 2019, a 2% increase from \$178 million in the third quarter of 2018.
- Third-quarter total revenues on a taxable equivalent basis⁽¹⁾ amounted to \$441 million, a \$25 million or 6% year-over-year increase attributable mainly to the global markets revenue category.
- Third-quarter non-interest expenses stood at \$183 million compared to \$171 million in the third quarter of 2018.
- At 41.5%, the third-quarter efficiency ratio on a taxable equivalent basis⁽¹⁾ compares to 41.1% in the third quarter of 2018.

U.S. Specialty Finance and International

- Net income totalled \$69 million in the third quarter of 2019, a 28% increase from \$54 million in the same quarter of 2018.
- Third-quarter total revenues amounted to \$174 million, a \$28 million year-over-year increase driven by revenue growth at the ABA Bank subsidiary.
- Third-quarter non-interest expenses stood at \$69 million, a \$5 million year-over-year increase attributable to the expansion of ABA Bank's banking network.

Other

- The *Other* heading posted a net loss of \$46 million in the third quarter of 2019 versus a \$33 million net loss in the same quarter of 2018.

Capital Management

- As at July 31, 2019, the Common Equity Tier 1 (CET1) capital ratio under Basel III was 11.7%, stable compared to October 31, 2018.
- As at July 31, 2019, the Basel III leverage ratio was 4.0%, stable compared to October 31, 2018.

Dividends

- On August 27, 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 payable on November 1, 2019 to shareholders of record on September 30, 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 July 31			Nine months ended July 31		
	2019	2018	% Change	2019	2018	% Change
Operating results						
Total revenues	1,948	1,792	9	5,517	5,352	3
Net income	608	569	7	1,718	1,666	3
Net income attributable to the Bank's shareholders	591	546	8	1,666	1,595	4
Return on common shareholders' equity	18.7 %	18.4 %		17.9 %	18.5 %	
Earnings per share						
Basic	\$ 1.68	\$ 1.54	9	\$ 4.71	\$ 4.48	5
Diluted	1.66	1.52	9	4.67	4.42	6
Operating results on a taxable equivalent basis and excluding specified items⁽¹⁾						
Total revenues on a taxable equivalent basis and excluding specified items	1,946	1,854	5	5,658	5,537	2
Net income excluding specified items	606	569	7	1,716	1,666	3
Return on common shareholders' equity excluding specified items	18.6 %	18.4 %		17.9 %	18.5 %	
Efficiency ratio on a taxable equivalent basis and excluding specified items	53.5 %	54.5 %		54.7 %	54.7 %	
Earnings per share excluding specified items⁽¹⁾						
Basic	\$ 1.67	\$ 1.54	8	\$ 4.70	\$ 4.48	5
Diluted	1.66	1.52	9	4.67	4.42	6
Common share information						
Dividends declared	\$ 0.68	\$ 0.62		\$ 1.98	\$ 1.82	
Book value	36.12	33.91		36.12	33.91	
Share price						
High	64.16	64.29		64.16	65.35	
Low	60.71	61.26		54.97	58.69	
Close	63.88	63.77		63.88	63.77	
Number of common shares (<i>thousands</i>)	334,210	337,441		334,210	337,441	
Market capitalization	21,349	21,519		21,349	21,519	

(millions of Canadian dollars)	As at July 31, 2019	As at October 31, 2018	% Change
Balance sheet and off-balance-sheet			
Total assets	276,312	262,471	5
Loans and acceptances, net of allowances	151,348	146,082	4
Deposits	187,219	170,830	10
Equity attributable to common shareholders	12,070	11,526	5
Assets under administration and under management	557,858	485,080	15
Regulatory ratios under Basel III			
Capital ratios			
Common Equity Tier 1 (CET1)	11.7 %	11.7 %	
Tier 1	15.2 %	15.5 %	
Total	16.3 %	16.8 %	
Leverage ratio	4.0 %	4.0 %	
Liquidity coverage ratio (LCR)	154 %	147 %	
Other information			
Number of employees – Worldwide	24,881	23,450	6
Number of branches in Canada	429	428	–
Number of banking machines in Canada	940	937	–

(1) See the Financial Reporting Method section on pages 4 and 5 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 standardized meanings 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 nine-month period ended July 31, 2018 reflect this change.

Financial Information

(millions of Canadian dollars, except per share amounts)

	Quarter ended July 31			Nine months ended July 31		
	2019	2018	% Change	2019	2018	% Change
Net income excluding specified items⁽¹⁾						
Personal and Commercial	277	250	11	757	695	9
Wealth Management	126	120	5	369	346	7
Financial Markets	182	178	2	512	572	(10)
U.S. Specialty Finance and International	69	54	28	201	167	20
Other	(48)	(33)		(123)	(114)	
Net income excluding specified items	606	569	7	1,716	1,666	3
Gain on disposal of Fiera Capital shares ⁽²⁾	68	–		68	–	
Gain on disposal of premises and equipment ⁽³⁾	43	–		43	–	
Remeasurement at fair value of an investment ⁽⁴⁾	(27)	–		(27)	–	
Impairment losses on premises and equipment and on intangible assets ⁽⁵⁾	(42)	–		(42)	–	
Provisions for onerous contracts ⁽⁶⁾	(33)	–		(33)	–	
Other ⁽⁷⁾	(7)	–		(7)	–	
Net income	608	569	7	1,718	1,666	3
Diluted earnings per share excluding specified items	\$ 1.66	\$ 1.52	9	\$ 4.67	\$ 4.42	6
Gain on disposal of Fiera Capital shares ⁽²⁾	0.20	–		0.20	–	
Gain on disposal of premises and equipment ⁽³⁾	0.12	–		0.12	–	
Remeasurement at fair value of an investment ⁽⁴⁾	(0.08)	–		(0.08)	–	
Impairment losses on premises and equipment and on intangible assets ⁽⁵⁾	(0.12)	–		(0.12)	–	
Provisions for onerous contracts ⁽⁶⁾	(0.10)	–		(0.10)	–	
Other ⁽⁷⁾	(0.02)	–		(0.02)	–	
Diluted earnings per share	\$ 1.66	\$ 1.52	9	\$ 4.67	\$ 4.42	6
Return on common shareholders' equity						
Including specified items	18.7 %	18.4 %		17.9 %	18.5 %	
Excluding specified items	18.6 %	18.4 %		17.9 %	18.5 %	

- (1) For the quarter and nine-month period ended July 31, 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.
- (2) During the quarter ended July 31, 2019, following the Bank's disposal of a portion of its investment in Fiera Capital Corporation (Fiera Capital), a gain on disposal of \$79 million (\$68 million net of income taxes), including a gain of \$31 million (\$27 million net of income taxes) upon remeasurement at fair value of the retained interest, was recorded in the *Other* heading of segment results.
- (3) During the quarter ended July 31, 2019, the Bank completed the sale of its head office land and building located at 600 De La Gauchetière West, Montreal, Quebec, Canada, for gross proceeds of \$187 million, and a gain on disposal of premises and equipment of \$50 million (\$43 million net of income taxes) was recorded in the *Other* heading of segment results.
- (4) During the quarter ended July 31, 2019, the Bank remeasured at fair value its investment in NSIA Participations (NSIA) and recorded a loss of \$33 million (\$27 million net of income taxes) in the *Other* heading of segment results.
- (5) During the quarter ended July 31, 2019, the Bank recorded \$57 million (\$42 million net of income taxes) in impairment losses on premises and equipment and on intangible assets related to computer equipment and technology developments in the *Other* heading of segment results.
- (6) During the quarter ended July 31, 2019, the Bank reviewed all of its corporate building leases and recorded a provision for onerous contracts of \$45 million (\$33 million net of income taxes) in the *Other* heading of segment results.
- (7) During the quarter ended July 31, 2019, following an optimization of certain organizational structures, the Bank recorded \$10 million (\$7 million net of income taxes) in severance pay in the *Other* heading of segment results.

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 – Third 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 the Third Quarter 2019 results

Conference Call

- A conference call for analysts and institutional investors will be held on Wednesday, August 28, 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 4562088#.
- A recording of the conference call can be heard until September 25, 2019 by dialing 1-800-408-3053 or 905-694-9451. The access code is 9430421#.

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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