

National Bank reports its results for the First Quarter of 2021

The financial information reported in this document is based on the unaudited interim condensed consolidated financial statements for the quarter ended January 31, 2021 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 24, 2021 – For the first quarter of 2021, National Bank is reporting net income of \$761 million compared to \$610 million in the first quarter of 2020, an increase of 25%. First-quarter diluted earnings per share stood at \$2.15 compared to \$1.67 in the first quarter of 2020, an increase of 29%. These year-over-year increases were driven by net income growth across all the business segments.

Commenting on the Bank's financial results for the first quarter of 2021, Louis Vachon, President and Chief Executive Officer of National Bank of Canada, stated: "I am very satisfied with our performance, which was driven by strong momentum in all of our businesses. The Bank generated a strong ROE for the quarter, while maintaining robust capital levels and significant reserves for credit losses. This speaks to the adaptability of our franchise and sound diversification of our earnings stream."

Highlights

(millions of Canadian dollars)	Quarter ended January 31		
	2021	2020	% Change
Net income	761	610	25
Diluted earnings per share (<i>dollars</i>)	\$ 2.15	\$ 1.67	29
Return on common shareholders' equity ⁽¹⁾	21.2 %	18.0 %	
Dividend payout ratio	45.7 %	41.4 %	
Excluding specified items⁽¹⁾			
Net income excluding specified items	761	620	23
Diluted earnings per share excluding specified items (<i>dollars</i>)	\$ 2.15	\$ 1.70	26
Return on common shareholders' equity excluding specified items	21.2 %	18.3 %	
Dividend payout ratio excluding specified items	43.4 %	41.1 %	
	As at January 31, 2021	As at October 31, 2020	
CET1 capital ratio under Basel III	11.9 %	11.8 %	
Leverage ratio under Basel III	4.3 %	4.4 %	

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

Personal and Commercial

- Net income totalled \$262 million in the first quarter of 2021 compared to \$242 million in the first quarter of 2020, an increase of 8%.
- Income before provisions for credit losses and income taxes⁽¹⁾ totalled \$412 million in the first quarter of 2021, up 3% from \$400 million in the first quarter of 2020.
- At \$902 million, the 2021 first-quarter total revenues were up \$23 million or 3% year over year, mainly due to the increase in net interest income driven by growth in loan and deposit volumes.
- Compared to a year ago, personal lending grew 6% and commercial lending grew 3%.
- Net interest margin stood at 2.18% in the first quarter of 2021 versus 2.21% in the first quarter of 2020.
- First-quarter non-interest expenses stood at \$490 million, up 2% from the first quarter of 2020.
- At 54.3%, the efficiency ratio⁽¹⁾ improved from 54.5% in the first quarter of 2020.

Wealth Management

- Net income totalled \$160 million in the first quarter of 2021, a 20% increase from \$133 million in the first quarter of 2020.
- First-quarter total revenues amounted to \$519 million compared to \$466 million in the first quarter of 2020, a \$53 million or 11% increase driven mainly by growth in transaction-based and other revenues as well as in fee-based revenues.
- First-quarter non-interest expenses stood at \$303 million, up 6% from \$285 million in the first quarter of 2020.
- At 58.4%, the efficiency ratio⁽¹⁾ improved from 61.2% in the first quarter of 2020.

Financial Markets

- Net income totalled \$250 million in the first quarter of 2021, a 37% increase from \$183 million in the first quarter of 2020.
- Total revenues on a taxable equivalent basis⁽¹⁾ amounted to \$577 million, a \$119 million or 26% year-over-year increase.
- First-quarter non-interest expenses stood at \$228 million compared to \$200 million in the first quarter of 2020, an increase in part attributable to variable compensation.
- At 39.5%, the first-quarter efficiency ratio on a taxable equivalent basis⁽¹⁾ improved from 43.7% in the first quarter of 2020.

U.S. Specialty Finance and International

- Net income totalled \$136 million in the first quarter of 2021, a 60% increase from \$85 million in the same quarter of 2020.
- First-quarter total revenues amounted to \$274 million, a 41% year-over-year increase driven by revenue growth at the Credigy and ABA Bank subsidiaries.
- First-quarter non-interest expenses stood at \$83 million, an increase of 6%.
- At 30.3%, the first-quarter efficiency ratio⁽¹⁾ improved by almost 10 percentage points compared to the same quarter in 2020.

Other

- Net loss of \$47 million in the first quarter of 2021 compared to a net loss of \$33 million in the first quarter of 2020. This change came from a lower contribution from Treasury activities and from an increase in non-interest expenses due to higher variable compensation, COVID-19 expenses, and technology investment expenses.

Capital Management

- As at January 31, 2021, the Common Equity Tier 1 (CET1) capital ratio under Basel III stood at 11.9%, up from 11.8% as at October 31, 2020.
- As at January 31, 2021, the Basel III leverage ratio was 4.3%, a decrease from 4.4% as at October 31, 2020.

Dividends

- On February 23, 2021, the Board of Directors declared regular dividends on the various series of first preferred shares and a dividend of 71 cents per common share, payable on May 1, 2021 to shareholders of record on March 29, 2021.

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

COVID-19 Pandemic

On March 11, 2020, the World Health Organization (WHO) declared that the COVID-19 outbreak constituted a pandemic, requiring that important protective measures be taken to prevent overcrowding of health services and to strengthen preventive hygiene. The global pandemic prompted many countries, including Canada, to implement lockdown and social distancing measures designed to slow down new outbreaks. Those measures included the closing of borders in many countries. This exceptional situation has led to significant changes in the overall market environment, including business closures, temporary layoffs, low interest rates and the government measures implemented in response to COVID-19.

Certain restrictions imposed at the start of the pandemic were eased during the summer of 2020, but a second wave of COVID-19 in early fall forced authorities in a number of countries, including Canada, to reintroduce some lockdown measures, effectively shutting down parts of the economy again. Although the recent introduction of several vaccines against COVID-19 constitutes an encouraging development, uncertainty remains as to their effectiveness, their distribution, their acceptance by the public and the reduction of the anticipated infection rates, in particular following the multiplication of cases linked to COVID-19 variants that appear to be more contagious. Authorities in a number of countries, including Canada, are working actively to ensure that vaccines are administered as quickly as possible. It is anticipated that certain measures by the public health authorities in Canada will remain in place until extensive immunization is achieved in order to continue to limit the spread of COVID-19 and its variants.

In Canada, banking services are considered essential services and are therefore being maintained despite the lockdown and social distancing measures. Given the current economic and social conditions, the Bank is committed to supporting its employees, clients, and communities. The Bank has ensured the continuity of all its activities since the beginning of this unprecedented crisis. All of its experts have been mobilized to guide and support clients and answer their questions during this ongoing period of uncertainty.

In addition to the impacts of the COVID-19 pandemic on the global economy and in the countries where the Bank conducts business, the pandemic has affected and may continue to affect the Bank, the way it conducts business, and its clients. The Bank continues to closely monitor the effects and potential consequences of the COVID-19 pandemic. The actual impacts will depend on future events that are highly uncertain, including the extent, severity and duration of the COVID-19 pandemic and its variants, as well as the effectiveness of actions and measures taken by governments, monetary authorities and regulators over the long term.

For additional information on the impact of the COVID-19 risk factor, on relief measures offered to the Bank's clients and on the measures introduced by regulators, see the COVID-19 Pandemic section of the *2020 Annual Report*, on pages 16 to 21.

A number of relief measures offered to the Bank's clients ended at the end of 2020, although some new measures are being offered in connection with various government programs in which the Bank continues to participate. These new measures mainly consist of loans subject to government guarantees, particularly for businesses in sectors that were among the hardest hit by the pandemic. The Bank is continuing to address the specific needs of its clients in the normal course of business to support them during this unprecedented crisis.

Highlights

(millions of Canadian dollars, except per share amounts)

	Quarter ended January 31		
	2021	2020	% Change
Operating results			
Total revenues	2,224	1,923	16
Income before provisions for credit losses and income taxes ⁽¹⁾	1,044	832	25
Net income	761	610	25
Net income attributable to the Bank's shareholders and holders of other equity instruments	761	594	28
Return on common shareholders' equity ⁽¹⁾	21.2 %	18.0 %	
Earnings per share			
Basic	\$ 2.16	\$ 1.69	28
Diluted	2.15	1.67	29
Operating results on a taxable equivalent basis and excluding specified items⁽¹⁾			
Total revenues on a taxable equivalent basis	2,281	2,010	13
Income before provisions for credit losses and income taxes on a taxable equivalent basis and excluding specified items	1,101	932	18
Net income excluding specified items	761	620	23
Return on common shareholders' equity excluding specified items	21.2 %	18.3 %	
Efficiency ratio on a taxable equivalent basis and excluding specified items	51.7 %	53.6 %	
Earnings per share excluding specified items⁽¹⁾			
Basic	\$ 2.16	\$ 1.72	26
Diluted	2.15	1.70	26
Common share information			
Dividends declared	\$ 0.71	\$ 0.71	–
Book value	41.48	37.58	
Share price			
High	73.81	74.22	
Low	65.54	68.25	
Close	71.87	73.43	
Number of common shares (<i>thousands</i>)	336,770	335,818	
Market capitalization	24,204	24,659	

(millions of Canadian dollars)	As at January 31, 2021	As at October 31, 2020	% Change
Balance sheet and off-balance-sheet			
Total assets	343,637	331,625	4
Loans and acceptances, net of allowances	167,690	164,740	2
Deposits	227,677	215,878	5
Equity attributable to common shareholders	13,970	13,430	4
Assets under administration and under management	656,263	596,656	10
Regulatory ratios under Basel III⁽²⁾			
Capital ratios			
Common Equity Tier 1 (CET1)	11.9 %	11.8 %	
Tier 1	14.9 %	14.9 %	
Total	16.0 %	16.0 %	
Leverage ratio	4.3 %	4.4 %	
Liquidity coverage ratio (LCR)	154 %	161 %	
Net stable funding ratio (NSFR)	124 %		
Regulatory ratios under Basel III (adjusted)⁽³⁾			
Capital ratios			
CET1	11.7 %	11.5 %	
Tier 1	14.8 %	14.6 %	
Total	16.0 %	16.0 %	
Leverage ratio	4.3 %	4.3 %	
Other information			
Number of employees – Worldwide	26,231	26,517	(1)
Number of branches in Canada	402	403	–
Number of banking machines in Canada	935	940	(1)

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

(2) The ratios include the transitional measures granted by the Office of the Superintendent of Financial Institutions (Canada) (OSFI). For additional information, see the section entitled COVID-19 Pandemic – Key Measures Introduced by the Regulatory Authorities on pages 20 and 21 of the *2020 Annual Report*.

(3) The adjusted ratios do not include the transitional measure applicable to expected credit loss provisioning. For additional information, see the section entitled COVID-19 Pandemic – Key Measures Introduced by the Regulatory Authorities on pages 20 and 21 of the *2020 Annual Report*.

Financial Reporting Method

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 performance of the Bank's operations. The Bank cautions readers that it uses non-GAAP financial measures that 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 Bank also uses the return on common shareholders' equity, which is a financial performance measure calculated by dividing net income attributable to common shareholders by the average value of common shareholders' equity for the period. Finally, the efficiency ratio is also used to assess the Bank's consolidated results and results by segment. The efficiency ratio is calculated by dividing non-interest expenses by total revenues.

Fiscal 2020 was marked by the effects of the COVID-19 pandemic on macroeconomic factors, which resulted in a significant increase in the Bank's provisions for credit losses. Given the materiality of the provisions for credit losses recorded in accordance with IFRS, the Bank believes it is useful to show income before provisions for credit losses and income taxes, income before provisions for credit losses and income taxes on a taxable equivalent basis as well as income before provisions for credit losses and income taxes on a taxable equivalent basis and excluding specified items (as presented in the Consolidated Results table on page 8 and in the Results by Segment tables on pages 10 to 14 of the *Report to Shareholders for the First Quarter of 2021*), thereby providing readers with additional information to help them better understand the main components of the financial results of the Bank and its business segments.

Financial Information

(millions of Canadian dollars, except per share amounts)

	Quarter ended January 31		
	2021	2020	% Change
Net income excluding specified items⁽¹⁾			
Personal and Commercial	262	242	8
Wealth Management	160	133	20
Financial Markets	250	183	37
U.S. Specialty Finance and International	136	85	60
Other	(47)	(23)	
Net income excluding specified items	761	620	23
Charge related to Maple ⁽²⁾	–	(10)	
Net income	761	610	25
Diluted earnings per share excluding specified items	\$ 2.15	\$ 1.70	26
Charge related to Maple ⁽²⁾	–	(0.03)	
Diluted earnings per share	\$ 2.15	\$ 1.67	29
Return on common shareholders' equity			
Including specified items	21.2 %	18.0 %	
Excluding specified items	21.2 %	18.3 %	

(1) For the quarter ended January 31, 2020, certain amounts have been reclassified.

(2) During the quarter ended January 31, 2020, the Bank had recorded a charge of \$13 million (\$10 million net of income taxes) related to the company Maple Financial Group Inc. (Maple) following the event in December 2019, as described in the Contingent Liabilities section on page 111 of the *2020 Annual Report*.

Caution Regarding Forward-Looking Statements

From time to time, the Bank makes written forward-looking statements such as those contained in this document, in other filings with Canadian securities regulators, and in other communications. In addition, representatives of the Bank may make forward-looking statements orally to analysts, investors, the media and others. All such statements are made in accordance with applicable securities legislation in Canada and the United States. Forward-looking statements in this document may include, but are not limited to, statements with respect to the economy—particularly the Canadian and U.S. economies—market changes, the Bank’s objectives, outlook and priorities for fiscal year 2021 and beyond, its strategies or future actions for achieving them, expectations for the Bank’s financial condition, the regulatory environment in which it operates, the potential impacts of—and the Bank’s response to—the COVID-19 pandemic, and certain risks it faces. These forward-looking statements are typically identified by future or conditional verbs or words such as “outlook”, “believe”, “foresee”, “forecast”, “anticipate”, “estimate”, “project”, “expect”, “intend”, “plan”, and similar expressions of future or conditional verbs such as “will”, “may”, “should”, “could” or “would”. Such forward-looking statements are made for the purpose of assisting the holders of the Bank’s securities in understanding the Bank’s financial position and results of operations as at and for the periods ended on the dates presented, as well as the Bank’s vision, strategic objectives and its financial performance targets, and may not be appropriate for other purposes.

By their very nature, these 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 2021, including in the context of the COVID-19 pandemic, and how that will affect the Bank’s business are among the main factors considered in setting the Bank’s strategic priorities and objectives, including provisions for credit losses. In determining its expectations for economic conditions, both broadly and in the financial services sector in particular, the Bank primarily considers historical economic data provided by the governments of Canada, the United States and certain other countries in which the Bank conducts business, as well as their agencies.

There is a strong possibility that the Bank’s express or implied predictions, forecasts, projections, expectations or conclusions will not prove to be accurate, that its assumptions may not be confirmed and that its vision, strategic objectives and financial performance targets will not be achieved. The Bank recommends that readers not place undue reliance on forward-looking statements, as a number of factors, many of which are beyond the Bank’s control, including the impacts of the COVID-19 pandemic, could cause actual results to differ significantly from the expectations, estimates or intentions expressed in these 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 and social risk, all of which are described in more detail in the Risk Management section beginning on page 68 of the Bank’s *2020 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; regulatory changes affecting the Bank’s business; geopolitical and sociopolitical uncertainty; important changes in consumer behaviour; the housing and household indebtedness situation and real estate market in Canada; changes in the Bank’s customers’ and counterparties’ performance and creditworthiness; 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; 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; potential disruption to key suppliers of goods and services to the Bank; potential disruptions to the Bank’s information technology systems, including evolving cyberattack risk as well as identity theft and theft of personal information; and possible impacts of catastrophic events affecting local and global economies, including natural disasters and public health emergencies such as the COVID-19 pandemic. Statements about the expected impacts of the COVID-19 pandemic on the Bank’s business, results of operations, reputation, financial position and liquidity, and on the global economy may be inaccurate and differ, possibly materially, from what is currently expected as they depend on future developments that are highly uncertain and cannot be predicted. The foregoing list of risk factors is not exhaustive. Additional information about these factors can be found in the COVID-19 Pandemic and Risk Management sections of the Bank’s *2020 Annual Report* and in the Report to Shareholders for the First Quarter of 2021, especially in the COVID-19 Pandemic section. 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 risks 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.

Disclosure of the First Quarter 2021 results

Conference Call

- A conference call for analysts and institutional investors will be held on Wednesday, February 24, 2021 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 1995846#.
- A recording of the conference call can be heard until March 24, 2021 by dialing 1-800-408-3053 or 905-694-9451. The access code is 1381684#.

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 on the morning of the day of the conference call.

For more information:

Ghislain Parent
Chief Financial Officer and
Executive Vice-President –
Finance
514-394-6807

Jean Dagenais
Senior Vice-President –
Finance
514-394-6233

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

Claude Breton
Vice-President –
Communications
and Corporate
Social Responsibility
514-394-8644

