

National Bank reports its results for the Second Quarter of 2021

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, 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, May 28, 2021 – For the second quarter of 2021, National Bank is reporting net income of \$801 million compared to \$379 million in the second quarter of 2020. Second-quarter diluted earnings per share stood at \$2.25 compared to \$1.01 in the second quarter of 2020. This strong growth was driven by increases in total revenues across most business segments and by a substantial reduction in provisions for credit losses in the second quarter of 2021, whereas, in the second quarter of 2020, significant provisions had been recorded to reflect a deterioration in macroeconomic conditions caused by the COVID-19 pandemic. Income before provisions for credit losses and income taxes⁽¹⁾ totalled \$1,039 million in the second quarter of 2021 compared to \$915 million in the second quarter of 2020, a 14% increase arising from good performance in most of the business segments.

For the six month-period ended April 30, 2021, the Bank's net income totalled \$1,562 million compared to \$989 million in the same period of 2020. First-half diluted earnings per share stood at \$4.40 compared to \$2.68 in the same period of 2020. This significant increase was driven by net income increases across all the business segments, i.e., increases that were notably due to lower provisions for credit losses recorded in the first half of 2021 given an improved macroeconomic outlook compared to the same period of 2020. Income before provisions for credit losses and income taxes⁽¹⁾ totalled \$2,083 million for the six-month period ended April 30, 2021, a 19% year-over-year increase driven by revenue growth across all business segments.

“For the second quarter 2021, the Bank delivered another strong performance. We continue to operate in an improving economic environment more conducive to business growth, with our Q1 momentum carrying over into Q2. Our solid results once again reflect the fact that we have made the right strategic choices and have built a strong, diversified and agile franchise,” commented Louis Vachon, President and Chief Executive Officer of the National Bank of Canada. “With an industry-leading ROE, strong capital levels and prudent allowances for credit losses, we are well-positioned to selectively seize growth opportunities as we gradually exit the pandemic,” added Mr. Vachon.

Highlights

(millions of Canadian dollars)	Quarter ended April 30			Six months ended April 30		
	2021	2020	% Change	2021	2020	% Change
Net income	801	379	111	1,562	989	58
Diluted earnings per share (<i>dollars</i>)	\$ 2.25	\$ 1.01	123	\$ 4.40	\$ 2.68	64
Income before provisions for credit losses and income taxes ⁽¹⁾	1,039	915	14	2,083	1,747	19
Return on common shareholders' equity ⁽¹⁾	22.0 %	10.7 %		21.6 %	14.3 %	
Dividend payout ratio	38.0 %	45.9 %		38.0 %	45.9 %	
				As at April 30, 2021	As at October 31, 2020	
CET1 capital ratio under Basel III				12.2 %	11.8 %	
Leverage ratio under Basel III				4.4 %	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 \$321 million in the second quarter of 2021 compared to \$56 million in the second quarter of 2020, strong growth that was due essentially to higher provisions for credit losses on non-impaired loans recorded in the second quarter of 2020 to reflect a significant deterioration in the macroeconomic outlook caused by COVID-19.
- Income before provisions for credit losses and income taxes⁽¹⁾ totalled \$423 million in the second quarter of 2021, up 12% from \$377 million in the second quarter of 2020.
- At \$902 million, the second-quarter total revenues were up \$56 million or 7% year over year, due to an increase in net interest income driven by growth in loan and deposit volumes as well as to an increase in non-interest income.
- Compared to a year ago, personal lending grew 7% and commercial lending grew 5%.
- The net interest margin was 2.16% in the second quarter of 2021 compared to 2.22% in the second quarter of 2020.
- Second-quarter non-interest expenses stood at \$479 million, up 2% from the second quarter of 2020.
- At 53.1%, the efficiency ratio⁽¹⁾ improved from 55.4% in the second quarter of 2020.

Wealth Management

- Net income totalled \$165 million in the second quarter of 2021, a 17% increase from \$141 million in the second quarter of 2020.
- Second-quarter total revenues amounted to \$541 million compared to \$475 million in second quarter 2020, a \$66 million or 14% increase driven by growth in fee-based revenues as well as in transaction-based and other revenues.
- Second-quarter non-interest expenses stood at \$315 million compared to \$280 million in the second quarter of 2020, a 13% increase related to revenue growth.
- At 58.2%, the second-quarter efficiency ratio⁽¹⁾ improved from 58.9% in the second quarter of 2020.

Financial Markets

- Net income totalled \$238 million in the second quarter of 2021, a 50% increase from \$159 million in the second quarter of 2020.
- Income before provisions for credit losses and income taxes on a taxable equivalent basis⁽¹⁾ totalled \$342 million in the second quarter of 2021, down 10% from \$378 million in the second quarter of 2020.
- Total revenues on a taxable equivalent basis⁽¹⁾ amounted to \$567 million, a \$31 million or 5% decrease attributable to lower global markets revenues in the second quarter of 2021.
- Second-quarter non-interest expenses stood at \$225 million compared to \$220 million in the second quarter of 2020, an increase in part attributable to operations support charges.
- The segment recorded \$18 million in provisions for credit losses in the second quarter of 2021 versus \$162 million in the second quarter of 2020. This decrease is attributable to the significant deterioration in the macroeconomic outlook caused by COVID-19 during the second quarter of 2020.
- At 39.7%, the second-quarter efficiency ratio on a taxable equivalent basis⁽¹⁾ compares to 36.8% in the second quarter of 2020.

U.S. Specialty Finance and International

- Net income totalled \$129 million in the second quarter of 2021, a 74% increase from \$74 million in the second quarter of 2020.
- Second-quarter total revenues amounted to \$237 million, a 30% year-over-year increase driven by revenue growth at both the Credigy and ABA Bank subsidiaries.
- Second-quarter non-interest expenses stood at \$77 million, down 6%.
- At 32.5%, the second-quarter efficiency ratio⁽¹⁾ improved by 12.3 percentage points compared to the same quarter in 2020.
- \$1 million in provisions for credit losses were recovered in the second quarter of 2021, reflective of improving macroeconomic conditions in the United States, whereas, in the second quarter of 2020, \$32 million in provisions for credit losses had been recorded.

Other

- For the *Other* heading of segment results, there was a net loss of \$52 million in the second quarter of 2021 compared to a net loss of \$51 million in the second quarter of 2020. An increase in non-interest expenses associated with variable compensation and technology investments was partly offset by an increase in total revenues.

Capital Management

- As at April 30, 2021, the Common Equity Tier 1 (CET1) capital ratio under Basel III stood at 12.2%, up from 11.8% as at October 31, 2020.
- As at April 30, 2021, the Basel III leverage ratio was 4.4%, unchanged from October 31, 2020.

Dividends

- On May 27, 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 August 1, 2021 to shareholders of record on June 28, 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 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 of 2020 forced authorities in a number of countries, including Canada, to reintroduce some lockdown measures, effectively shutting down parts of the economy again. Although the 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. Certain measures by the public health authorities in Canada are expected to 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 on pages 16 to 21 of the *2020 Annual Report* and the Regulatory Developments section of the *Report to Shareholders – Second Quarter 2021* applicable to capital management as well as to credit risk and, liquidity and funding risk.

A number of relief measures offered to the Bank's clients ended at the end of 2020, although some new measures are being offered as part of government programs in which the Bank continues to participate. These new measures mainly consist of loans subject to government guarantees, particularly for businesses operating in sectors hit hardest 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 April 30			Six months ended April 30		
	2021	2020	% Change	2021	2020	% Change
Operating results						
Total revenues	2,238	2,036	10	4,462	3,959	13
Income before provisions for credit losses and income taxes ⁽¹⁾	1,039	915	14	2,083	1,747	19
Net income	801	379	111	1,562	989	58
Net income attributable to the Bank's shareholders and holders of other equity instruments	801	368	118	1,562	962	62
Return on common shareholders' equity ⁽¹⁾	22.0 %	10.7 %		21.6 %	14.3 %	
Earnings per share						
Basic	\$ 2.28	\$ 1.01	126	\$ 4.44	\$ 2.70	64
Diluted	2.25	1.01	123	4.40	2.68	64
Operating results on a taxable equivalent basis and excluding specified items⁽¹⁾						
Total revenues on a taxable equivalent basis	2,282	2,112	8	4,563	4,122	11
Income before provisions for credit losses and income taxes on a taxable equivalent basis and excluding specified items	1,083	991	9	2,184	1,923	14
Net income excluding specified items	801	379	111	1,562	999	56
Return on common shareholders' equity excluding specified items	22.0 %	10.7 %		21.6 %	14.5 %	
Efficiency ratio on a taxable equivalent basis and excluding specified items	52.5 %	53.1 %		52.1 %	53.3 %	
Earnings per share excluding specified items⁽¹⁾						
Basic	\$ 2.28	\$ 1.01	126	\$ 4.44	\$ 2.73	63
Diluted	2.25	1.01	123	4.40	2.71	62
Common share information						
Dividends declared	\$ 0.71	\$ 0.71		\$ 1.42	\$ 1.42	
Book value	43.59	38.74		43.59	38.74	
Share price						
High	89.42	74.79		89.42	74.79	
Low	72.30	38.73		65.54	38.73	
Close	89.36	56.14		89.36	56.14	
Number of common shares (<i>thousands</i>)	337,372	335,400		337,372	335,400	
Market capitalization	30,148	18,829		30,148	18,829	

(millions of Canadian dollars)	As at April 30, 2021	As at October 31, 2020	% Change
Balance sheet and off-balance-sheet			
Total assets	350,742	331,625	6
Loans and acceptances, net of allowances	171,632	164,740	4
Deposits	231,320	215,878	7
Equity attributable to common shareholders	14,706	13,430	10
Assets under administration and under management	702,167	596,656	18
Regulatory ratios under Basel III⁽²⁾			
Capital ratios			
Common Equity Tier 1 (CET1)	12.2 %	11.8 %	
Tier 1 ⁽³⁾	15.2 %	14.9 %	
Total ⁽³⁾	16.4 %	16.0 %	
Leverage ratio	4.4 %	4.4 %	
Liquidity coverage ratio (LCR)	150 %	161 %	
Net stable funding ratio (NSFR)	125 %		
Regulatory ratios under Basel III (adjusted)⁽⁴⁾			
Capital ratios			
CET1	12.0 %	11.5 %	
Tier 1 ⁽³⁾	15.1 %	14.6 %	
Total ⁽³⁾	16.4 %	16.0 %	
Leverage ratio	4.4 %	4.3 %	
Other information			
Number of employees – Worldwide	26,211	26,517	(1)
Number of branches in Canada	401	403	–
Number of banking machines in Canada	929	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) Ratios as at April 30, 2021 include the redemption of the Series 34 preferred shares on May 15, 2021.

(4) 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 11 to 15 of the *Report to Shareholders* for the second 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 April 30			Six months ended April 30		
	2021	2020	% Change	2021	2020	% Change
Net income excluding specified items⁽¹⁾						
Personal and Commercial	321	56	473	583	298	96
Wealth Management	165	141	17	325	274	19
Financial Markets	238	159	50	488	342	43
U.S. Specialty Finance and International	129	74	74	265	159	67
Other	(52)	(51)		(99)	(74)	
Net income excluding specified items	801	379	111	1,562	999	56
Charge related to Maple ⁽²⁾	–	–		–	(10)	
Net income	801	379	111	1,562	989	58
Diluted earnings per share excluding specified items	\$ 2.25	\$ 1.01	123	\$ 4.40	\$ 2.71	62
Charge related to Maple ⁽²⁾	–	–		–	(0.03)	
Diluted earnings per share	\$ 2.25	\$ 1.01	123	\$ 4.40	\$ 2.68	64
Return on common shareholders' equity						
Including specified items	22.0 %	10.7 %		21.6 %	14.3 %	
Excluding specified items	22.0 %	10.7 %		21.6 %	14.5 %	

(1) For the quarter and six-month period ended April 30, 2020, certain amounts have been reclassified.

(2) During the six-month period ended April 30, 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, the strategies or actions that will be taken to achieve 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 verbs or words such as “outlook”, “believe”, “foresee”, “forecast”, “anticipate”, “estimate”, “project”, “expect”, “intend” and “plan”, in their future or conditional forms, notably verbs such as “will”, “may”, “should”, “could” or “would” as well as similar terms and expressions. 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 allowances 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 as well as 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 and its results of operations, reputation, financial position and liquidity, as well as 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 Second Quarter of 2021, notably 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 Second Quarter 2021 results

Conference Call

- A conference call for analysts and institutional investors will be held on Friday, May 28, 2021 at 11:00 a.m. EDT.
- 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 June 25, 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.

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