

National Bank reports its results for the Second Quarter of 2020

The financial information reported in this document is based on the unaudited interim condensed consolidated financial statements for the quarter and the six-month period ended April 30, 2020 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 26, 2020 – For the second quarter of 2020, National Bank is reporting net income of \$379 million compared to \$558 million in the second quarter of 2019. Second-quarter diluted earnings per share stood at \$1.01 compared to \$1.51 in the second quarter of 2019. The decrease in net income stems from a considerable increase in provisions for credit losses recorded to reflect a significant deterioration in the macroeconomic outlook caused by COVID-19 and the expected impacts on our clients. However, income before provisions for credit losses and income taxes on a taxable equivalent basis totalled \$991 million in the second quarter of 2020, a 20% year-over-year increase driven by revenue growth across all business segments.

“The world is enduring extremely challenging times, both from a health and financial perspective. Since the onset of the current crisis, we have prioritized the well-being of our employees, clients, and communities. We have deployed exceptional efforts to support clients by way of uninterrupted service, numerous financial relief measures, and an extension of our balance sheet,” said Louis Vachon, President and Chief Executive Officer of National Bank of Canada.

“Despite these unprecedented events, our business has held up well with revenue growth being generated across all business segments, led by Financial Markets and Wealth Management. For the second quarter, we are reporting provisions for credit losses totalling \$504 million, reflecting our most prudent estimate ahead of an uncertain macroeconomic outlook. At the same time, we have maintained strong capital and liquidity levels with a CET1 ratio of 11.4% and a liquidity coverage ratio of 149%,” added Mr. Vachon.

“At this point in time, the severity and duration of the COVID-19 pandemic and its impact on the economy are impossible to predict. I am confident that the resilience of the Bank’s franchise, our defensive positioning, the quality of our credit portfolios, and our strong balance sheet will serve us well as we manage through these uncertain times.”

Highlights

(millions of Canadian dollars)	Quarter ended April 30			Six months ended April 30		
	2020	2019	% Change	2020	2019	% Change
Net income	379	558	(32)	989	1,110	(11)
Diluted earnings per share (<i>dollars</i>)	\$ 1.01	\$ 1.51	(33)	\$ 2.68	\$ 3.01	(11)
Return on common shareholders' equity	10.7 %	17.8 %		14.3 %	17.5 %	
Dividend payout ratio	45.9 %	41.6 %		45.9 %	41.6 %	
				As at April 30, 2020	As at October 31, 2019	
CET1 capital ratio under Basel III				11.4 %	11.7 %	
Leverage ratio under Basel III				4.4 %	4.0 %	

Personal and Commercial

- Net income totalled \$65 million in the second quarter of 2020 compared to \$230 million in the second quarter of 2019, a decrease essentially due to an increase in provisions for credit losses on non-impaired loans recorded to reflect a significant deterioration in the macroeconomic outlook caused by COVID-19 and the expected impacts on clients.
- Income before provisions for credit losses and income taxes totalled \$389 million in the second quarter of 2020, up 3% from \$376 million in the second quarter of 2019.
- At \$848 million, second-quarter total revenues rose \$14 million or 2% year over year.
- Compared to a year ago, personal lending grew 4%, particularly due to mortgage lending, while commercial lending grew 6% from a year ago.
- The net interest margin was 2.22% in the second quarter of 2020 compared to 2.23% in the second quarter of 2019.
- Second-quarter non-interest expenses stood at \$459 million, stable compared to the second quarter of 2019.
- At 54.1%, the second-quarter efficiency ratio improved from 54.9% in the second quarter of 2019.

Wealth Management

- Net income totalled \$141 million in the second quarter of 2020, a 21% increase from \$117 million in the second quarter of 2019.
- Second-quarter total revenues amounted to \$474 million compared to \$426 million in second quarter 2019, a \$48 million or 11% increase driven mainly by growth in transaction-based and other revenues as well as in fee-based revenues.
- Second-quarter non-interest expenses stood at \$278 million, up 4% from \$267 million in the second quarter of 2019.
- At 58.6%, the efficiency ratio improved from 62.7% in the second quarter of 2019.

Financial Markets

- Net income totalled \$159 million in the second quarter of 2020 compared to \$158 million in the second quarter of 2019.
- Income before provisions for credit losses and income taxes on a taxable equivalent basis⁽¹⁾ totalled \$378 million in the second quarter of 2020, up 70% from \$223 million in the second quarter of 2019.
- Total revenues on a taxable equivalent basis⁽¹⁾ amounted to \$598 million, a \$193 million or 48% year-over-year increase attributable essentially to the global markets revenue category.
- Second-quarter non-interest expenses stood at \$220 million compared to \$182 million in the second quarter of 2019.
- The segment recorded \$162 million in provisions for credit losses in the second quarter of 2020 versus \$7 million in the second quarter of 2019, with the increase stemming from a significant deterioration in the macroeconomic outlook caused by COVID-19 and the expected impacts on clients.
- At 36.8%, the second-quarter efficiency ratio on a taxable equivalent basis⁽¹⁾ improved from 44.9% in the second quarter of 2019.

U.S. Specialty Finance and International

- Net income totalled \$74 million in the second quarter of 2020, a 3% increase from \$72 million in the second quarter of 2019.
- Second-quarter total revenues amounted to \$183 million, a 3% year-over-year increase driven by revenue growth at the ABA Bank subsidiary.
- Second-quarter non-interest expenses stood at \$82 million, an \$8 million year-over-year increase attributable to the expansion of ABA Bank's banking network.

Other

- The *Other* heading of segment results posted a net loss of \$60 million in the second quarter of 2020 compared to a net loss of \$19 million in the second quarter of 2019. This change came mainly from an increase in non-interest expenses, in particular expenses incurred to implement health and safety measures for employees and clients in response to the pandemic.

Capital Management

- As at April 30, 2020, the Common Equity Tier 1 (CET1) capital ratio under Basel III was 11.4%, compared to 11.7% as at October 31, 2019.
- As at April 30, 2020, the Basel III leverage ratio was 4.4%, an increase from October 31, 2019.

Dividends

- On May 26, 2020, 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, 2020 to shareholders of record on June 29, 2020.

(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 WHO declared that the COVID-19 outbreak constituted a pandemic, requiring important protective measures be taken to prevent overcrowding at intensive care units and also to strengthen preventive hygiene (limiting physical contact, prohibiting gatherings and major events as well as unnecessary travel and movement, promoting handwashing, enforcing lockdown, etc.). The global pandemic prompted many countries, including Canada, to implement lockdown and social distancing measures designed to slow the development of new contagion hotbeds. Those measures included the closing of borders in many countries and the cancellation of sporting and cultural events around the world, triggering a sudden and widespread drop in market capitalizations on all major stock exchanges around the world arising from the uncertainty and fears about the global economy.

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 period of uncertainty.

To protect its clients and employees, the Bank has implemented measures to prevent the spread of COVID-19. It has temporarily adjusted the number of open service points and modified the business hours of its branches while ensuring safe access to banking services, with particular attention being paid to banking machines. In addition, since March 13, 2020, the Bank has asked all employees whose tasks allow them to work from home to do so until further notice. Employees who were required to work on site received clear health guidelines, and some have used alternate sites in order to comply with the requested social distancing.

The Bank's Financial Performance

In light of COVID-19 and its impact on global and local economies, Canadian banks are facing a difficult situation. This exceptional situation has led to significant changes in the overall market, such as business closures and temporary layoffs, low interest rates, declining and volatile stock markets, declining oil prices, and government measures implemented in response to COVID-19.

Impact on Results

Major disruptions in the global environment in which the Bank operates have affected its financial results, in particular its provisions for credit losses, which were increased considerably to reflect a significant deterioration in the macroeconomic outlook caused by COVID-19 and the expected impacts on our clients. However, income before provisions for credit losses and income taxes increased, as revenue was up across all business segments, especially in the Financial Markets segment, which experienced strong growth. Non-interest expenses were also affected by measures taken to protect the health and safety of employees serving clients in these exceptional circumstances as well as by decreases in certain variable expenses and other discretionary costs.

For additional information, refer to the Financial Analysis and Business Segment Analysis sections of the MD&A of the Report to Shareholders of the second quarter of 2020.

Relief Measures for Clients

In response to the economic and financial environment resulting from COVID-19, the Bank announced a series of support measures for the clients of its main business segments during March and April 2020. Some of these measures were initiated by the Canadian government and regulatory authorities, together with the Canadian banks, and were implemented quickly to come to the assistance of individuals and businesses. These measures are designed to provide financial support to clients facing the economic consequences of COVID-19. The main relief measures are described on pages 6 and 7 in the MD&A of the Report to Shareholders of the second quarter of 2020.

Key Measures Introduced by the Regulatory Authorities

Like all Canadian financial institutions, the Bank is facing regulatory changes that are being implemented at an increasing rate. As part of a coordinated effort by Government of Canada agencies, OSFI and other regulatory authorities governing the Bank's activities have taken a number of actions to reinforce the resilience of Canadian banks and improve the stability of the Canadian financial system and economy in response to challenges posed by COVID-19 and current market conditions. Regulatory authorities are also stepping up their oversight activities and focusing on the effects of the pandemic on the activities, capital strength, and liquidity of regulated entities. The main key measures are described on pages 7 to 9 in the MD&A of the Report to Shareholders of the second quarter of 2020.

Highlights

(millions of Canadian dollars, except per share amounts)

	Quarter ended April 30			Six months ended April 30		
	2020	2019	% Change	2020	2019	% Change
Operating results						
Total revenues	2,036	1,770	15	3,959	3,569	11
Income before provisions for credit losses and income taxes	915	744	23	1,747	1,517	15
Net income	379	558	(32)	989	1,110	(11)
Net income attributable to the Bank's shareholders	368	539	(32)	962	1,075	(11)
Return on common shareholders' equity	10.7 %	17.8 %		14.3 %	17.5 %	
Earnings per share						
Basic	\$ 1.01	\$ 1.52	(34)	\$ 2.70	\$ 3.03	(11)
Diluted	1.01	1.51	(33)	2.68	3.01	(11)
Operating results on a taxable equivalent basis and excluding specified items⁽¹⁾						
Total revenues on a taxable equivalent basis	2,112	1,850	14	4,122	3,712	11
Income before provisions for credit losses and income taxes on a taxable equivalent basis and excluding specified items	991	824	20	1,923	1,660	16
Net income excluding specified items	379	558	(32)	999	1,110	(10)
Return on common shareholders' equity excluding specified items	10.7 %	17.8 %		14.5 %	17.5 %	
Efficiency ratio on a taxable equivalent basis and excluding specified items	53.1 %	55.5 %		53.3 %	55.3 %	
Earnings per share excluding specified items⁽¹⁾						
Basic	\$ 1.01	\$ 1.52	(34)	\$ 2.73	\$ 3.03	(10)
Diluted	1.01	1.51	(33)	2.71	3.01	(10)
Common share information						
Dividends declared	\$ 0.71	\$ 0.65		\$ 1.42	\$ 1.30	
Book value	38.74	35.49		38.74	35.49	
Share price						
High	74.79	63.82		74.79	63.82	
Low	38.73	60.31		38.73	54.97	
Close	56.14	63.82		56.14	63.82	
Number of common shares (<i>thousands</i>)	335,400	335,116		335,400	335,116	
Market capitalization	18,829	21,387		18,829	21,387	

(millions of Canadian dollars)	As at April 30, 2020	As at October 31, 2019	% Change
Balance sheet and off-balance-sheet			
Total assets	316,950	281,458	13
Loans and acceptances, net of allowances	162,728	153,251	6
Deposits	201,445	189,566	6
Equity attributable to common shareholders	12,995	12,328	5
Assets under administration and under management	548,677	565,396	(3)
Regulatory ratios under Basel III⁽²⁾			
Capital ratios			
Common Equity Tier 1 (CET1)	11.4 %	11.7 %	
Tier 1	14.4 %	15.0 %	
Total	15.5 %	16.1 %	
Leverage ratio	4.4 %	4.0 %	
Liquidity coverage ratio (LCR)	149 %	146 %	
Regulatory ratios under Basel III (adjusted)⁽³⁾			
Capital ratios			
CET1	11.2 %		
Tier 1	14.2 %		
Total	15.5 %		
Leverage ratio	4.3 %		
Other information			
Number of employees – Worldwide	26,589	25,487	4
Number of branches in Canada	413	422	(2)
Number of banking machines in Canada	933	939	(1)

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

(2) The ratios as at April 30, 2020 do not include the transitional measures granted by OSFI. For additional information, see the section entitled COVID-19 Pandemic – Key Measures Introduced by the Regulatory Authorities on pages 7 to 9 in the MD&A of the Report to Shareholders of the second quarter of 2020.

(3) The adjusted ratios as at April 30, 2020 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 7 to 9 in the MD&A of the Report to Shareholders of the second quarter of 2020.

Financial Reporting Method

As stated in Note 2 to its audited annual consolidated financial statements for the year ended October 31, 2019, the Bank adopted IFRS 16 on November 1, 2019. As permitted by the IFRS 16 transitional provisions, the Bank elected to apply IFRS 16 using the modified retrospective basis, with no restatement of comparative periods. Note 2 to the unaudited interim condensed consolidated financial statements for the quarter and six-month period ended April 30, 2020 presents the impacts of IFRS 16 adoption on the Bank's Consolidated Balance Sheet as at November 1, 2019 and additional information on adoption of IFRS 16. 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, 2019.

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. 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.

Financial Information

(millions of Canadian dollars, except per share amounts)	Quarter ended April 30			Six months ended April 30		
	2020	2019	% Change	2020	2019	% Change
Net income excluding specified items⁽¹⁾						
Personal and Commercial	65	230	(72)	316	472	(33)
Wealth Management	141	117	21	276	240	15
Financial Markets	159	158	1	343	326	5
U.S. Specialty Finance and International	74	72	3	159	132	20
Other	(60)	(19)		(95)	(60)	
Net income excluding specified items	379	558	(32)	999	1,110	(10)
Charge related to Maple ⁽²⁾	–	–		(10)	–	
Net income	379	558	(32)	989	1,110	(11)
Diluted earnings per share excluding specified items	\$ 1.01	\$ 1.51	(33)	\$ 2.71	\$ 3.01	(10)
Charge related to Maple ⁽²⁾	–	–		(0.03)	–	
Diluted earnings per share	\$ 1.01	\$ 1.51	(33)	\$ 2.68	\$ 3.01	(11)
Return on common shareholders' equity						
Including specified items	10.7 %	17.8 %		14.3 %	17.5 %	
Excluding specified items	10.7 %	17.8 %		14.5 %	17.5 %	

(1) For the quarter and six-month period ended April 30, 2019, certain amounts have been reclassified.

(2) During the six-month period ended April 30, 2020, the Bank recorded a charge of \$13 million (\$10 million net of income taxes) related to Maple Financial Group Inc. (Maple) in the *Other* heading of segment results following the event that occurred in December 2019, as described in the Contingent Liabilities section on page 23 in the MD&A of the Report to Shareholders of the second quarter 2020.

Caution Regarding Forward-Looking Statements

From time to time, the Bank makes written and oral forward-looking statements such as those contained in this document, in other filings with Canadian securities regulators, and in other communications. 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 2020 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 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 financial performance objectives, vision and strategic goals, 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 2020, 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 and, 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 correct and that its financial performance objectives, vision and strategic goals 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 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 58 of the Bank’s *2019 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 uncertainty; important changes in consumer behaviour; Canadian housing and household indebtedness; 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 (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; 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; 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, corporate 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 Risk Management section of the Bank’s *2019 Annual Report* and in the COVID-19 Pandemic section of the Report to Shareholders for the Second Quarter of 2020. 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 2020 results

Conference Call

- A conference call for analysts and institutional investors will be held on Tuesday, May 26, 2020 at 5:30 p.m. EDT.
- Access by telephone in listen-only mode: 1-800-806-5484 or 416-340-2217. The access code is 2025893#.
- A recording of the conference call can be heard until June 27, 2020 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 at the close of the stock markets on the day of the conference call.

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