

National Bank reports its results for the First Quarter of 2020

The financial information reported in this document is based on the unaudited interim condensed consolidated financial statements for the quarter ended January 31, 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, February 27, 2020 – For the first quarter of 2020, National Bank is reporting net income of \$610 million, an 11% increase from \$552 million in the first quarter of 2019. First-quarter diluted earnings per share stood at \$1.67, up 11% from \$1.50 in the first quarter of 2019. These increases were driven by sound net income growth across all the business segments. At \$620 million, first-quarter net income excluding specified items grew 12% from \$552 million in the same quarter of 2019. First-quarter diluted earnings per share excluding specified items stood at \$1.70, a 13% increase from \$1.50 in the same quarter of 2019. The specified items are described on page 4.

Commenting on the Bank's financial results for the first quarter of 2020, Louis Vachon, President and Chief Executive Officer of National Bank of Canada, highlighted "the solid performance of each business segment." He added, "the Bank is maintaining its strategy of balancing volume growth with disciplined cost management and prudent risk management."

Highlights

(millions of Canadian dollars)	Quarter ended January 31		
	2020	2019	% Change
Net income	610	552	11
Diluted earnings per share (<i>dollars</i>)	\$ 1.67	\$ 1.50	11
Return on common shareholders' equity	18.0 %	17.2 %	
Dividend payout ratio	41.4 %	41.2 %	
Excluding specified items⁽¹⁾			
Net income excluding specified items	620	552	12
Diluted earnings per share excluding specified items (<i>dollars</i>)	\$ 1.70	\$ 1.50	13
Return on common shareholders' equity excluding specified items	18.3 %	17.2 %	
Dividend payout ratio excluding specified items	41.1 %	41.2 %	
	As at January 31, 2020	As at October 31, 2019	
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 page 4 for additional information on non-GAAP financial measures.

Personal and Commercial

- Net income totalled \$251 million in the first quarter of 2020, up 4% from \$242 million in the first quarter of 2019.
- At \$880 million, the 2020 first-quarter total revenues rose \$29 million or 3% year over year.
- Rising 4% from a year ago, personal lending experienced growth, particularly due to mortgage lending, while commercial lending grew 6% from a year ago.
- The net interest margin stood at 2.21% in the first quarter of 2020 compared to 2.22% in the first quarter of 2019.
- First-quarter non-interest expenses were up 1% year over year.
- At 53.2%, the first-quarter efficiency ratio improved from 54.4% in the first quarter of 2019.

Wealth Management

- Net income totalled \$135 million in the first quarter of 2020, up 10% from \$123 million in the same quarter of 2019.
- First-quarter total revenues amounted to \$465 million compared to \$434 million in first quarter 2019, a \$31 million or 7% increase driven mainly by growth in fee-based revenues.
- First-quarter non-interest expenses stood at \$282 million, up 6% from \$267 million in the first quarter of 2019.
- At 60.6%, the first-quarter efficiency ratio improved from 61.5% in the first quarter of 2019.

Financial Markets

- Net income totalled \$184 million in the first quarter of 2020, a 10% increase from \$168 million in the same quarter of 2019.
- First-quarter total revenues on a taxable equivalent basis⁽¹⁾ amounted to \$458 million, a \$48 million or 12% year-over-year increase attributable mainly to the global markets revenue category.
- First-quarter non-interest expenses stood at \$199 million compared to \$178 million in the first quarter of 2019.
- At 43.4%, the efficiency ratio on a taxable equivalent basis⁽¹⁾ remained stable compared to the first quarter of 2019.

U.S. Specialty Finance and International

- Net income totalled \$85 million in the first quarter of 2020, a 42% increase from \$60 million in the first quarter of 2019.
- The 2020 first-quarter total revenues amounted to \$195 million, a 14% year-over-year increase owing to revenue growth at the ABA Bank subsidiary.
- First-quarter non-interest expenses stood at \$78 million, a \$10 million year-over-year increase attributable to expansion of ABA Bank's banking network.

Other

- The *Other* heading posted a net loss of \$45 million in the first quarter of 2020 versus a \$41 million net loss in the same quarter of 2019.

Capital Management

- As at January 31, 2020, the Common Equity Tier 1 (CET1) capital ratio under Basel III was 11.7%, stable compared to October 31, 2019.
- As at January 31, 2020, the Basel III leverage ratio was 4.0%, stable compared to October 31, 2019.

Dividends

- On February 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 May 1, 2020 to shareholders of record on March 30, 2020.

(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 January 31		
	2020	2019	% Change
Operating results			
Total revenues	1,923	1,799	7
Net income	610	552	11
Net income attributable to the Bank's shareholders	594	536	11
Return on common shareholders' equity	18.0 %	17.2 %	
Earnings per share			
Basic	\$ 1.69	\$ 1.51	12
Diluted	1.67	1.50	11
Operating results on a taxable equivalent basis and excluding specified items⁽¹⁾			
Total revenues on a taxable equivalent basis	2,010	1,862	8
Net income excluding specified items	620	552	12
Return on common shareholders' equity excluding specified items	18.3 %	17.2 %	
Efficiency ratio on a taxable equivalent basis and excluding specified items	53.6 %	55.1 %	
Earnings per share excluding specified items⁽¹⁾			
Basic	\$ 1.72	\$ 1.51	14
Diluted	1.70	1.50	13
Common share information			
Dividends declared	\$ 0.71	\$ 0.65	
Book value	37.58	34.85	
Share price			
High	74.22	61.80	
Low	68.25	54.97	
Close	73.43	61.80	
Number of common shares (<i>thousands</i>)	335,818	335,500	
Market capitalization	24,659	20,734	

	As at January 31, 2020	As at October 31, 2019	% Change
(millions of Canadian dollars)			
Balance sheet and off-balance-sheet			
Total assets	289,191	281,458	3
Loans and acceptances, net of allowances	156,151	153,251	2
Deposits	197,504	189,566	4
Equity attributable to common shareholders	12,621	12,328	2
Assets under administration and under management	606,804	565,396	7
Regulatory ratios under Basel III			
Capital ratios			
Common Equity Tier 1 (CET1)	11.7 %	11.7 %	
Tier 1	14.9 %	15.0 %	
Total	16.0 %	16.1 %	
Leverage ratio	4.0 %	4.0 %	
Liquidity coverage ratio (LCR)	144 %	146 %	
Other information			
Number of employees – Worldwide	26,314	25,487	3
Number of branches in Canada	416	422	(1)
Number of banking machines in Canada	933	939	(1)

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

Financial Reporting Method

As stated in Note 2 to its audited annual consolidated financial statements for the year ended October 31, 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 ended January 31, 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 January 31		
	2020	2019	% Change
Net income excluding specified items⁽¹⁾			
Personal and Commercial	251	242	4
Wealth Management	135	123	10
Financial Markets	184	168	10
U.S. Specialty Finance and International	85	60	42
Other	(35)	(41)	
Net income excluding specified items	620	552	12
Charge related to Maple ⁽²⁾	(10)	–	
Net income	610	552	11
Diluted earnings per share excluding specified items	\$ 1.70	\$ 1.50	13
Charge related to Maple ⁽²⁾	(0.03)	–	
Diluted earnings per share	\$ 1.67	\$ 1.50	11
Return on common shareholders' equity			
Including specified items	18.0 %	17.2 %	
Excluding specified items	18.3 %	17.2 %	

(1) For the quarter ended January 31, 2019, certain amounts have been reclassified.

(2) During the quarter ended January 31, 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 16 of the Report to Shareholders for the first quarter of 2020.

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 – First quarter 2020* and in the *2019 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 2020 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 2020 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 58 of the *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, 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; 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 public health emergencies and natural disasters.

The foregoing list of risk factors is not exhaustive. Additional information about these factors can be found in the Risk Management section of the *2019 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 First Quarter 2020 results

Conference Call

- A conference call for analysts and institutional investors will be held on Thursday, February 27, 2020 at 1:00 p.m. EST.
- Access by telephone in listen-only mode: 1-800-806-5484 or 416-340-2217. The access code is 1995846#.
- A recording of the conference call can be heard until March 27, 2020 by dialing 1-800-408-3053 or 905-694-9451. The access code is 1511461#.

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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