

## National Bank releases its results for the first quarter of 2010

The financial information in this press release is based on the unaudited interim consolidated financial statements for the first quarter ended January 31, 2010. Additional information about National Bank of Canada, including the Annual Information Form, can be obtained from the SEDAR website at [www.sedar.com](http://www.sedar.com) and the Bank's website at [www.nbc.ca](http://www.nbc.ca).

### Highlights:

- Net income of \$215 million in the first quarter of 2010 compared to net income of \$69 million in the first quarter of 2009;
- Diluted earnings per share of \$1.22 in the first quarter compared to diluted earnings per share of \$0.36 in the same quarter of 2009;
- A \$75 million settlement as part of an agreement affecting the entire asset-backed commercial paper industry;
- Tier 1 capital ratio of 12.5% as at January 31, 2010 compared to 10.7% as at October 31, 2009.

### Highlights excluding specified items<sup>(1)</sup>:

- Net income of \$268 million in the first quarter of 2010, up 6% from net income of \$253 million in the same quarter of 2009;
- Diluted earnings per share of \$1.55 in the first quarter of 2010, up 3% from \$1.51 in the same quarter of 2009;
- Return on shareholders' equity of 18.0%.

(1) The financial reporting method is explained in detail on page 5.

**MONTREAL, February 25, 2010** – National Bank reports net income of \$215 million in the first quarter of 2010 compared to net income of \$69 million in the same quarter of 2009. Diluted earnings per share stood at \$1.22 versus \$0.36 for the same quarter of 2009. The quarterly results include a \$75 million administrative penalty related to asset-backed commercial paper (ABCP), \$3 million in after-tax charges related to holding ABCP, as well as a \$25 million reversal of a provision for income tax contingencies. In the first quarter of 2009, the Bank had recorded \$184 million in after-tax ABCP-related charges.

Excluding specified items, first quarter 2010 net income would have totalled \$268 million compared to \$253 million in the first quarter of 2009, for a 6% increase. Diluted earnings per share would have been \$1.55, up 3% from \$1.51 in the same quarter of 2009.

“The first quarter results for 2010 reveal sound growth in loan volumes, the quality of the credit portfolio, and a sustained contribution from the Financial Markets segment. With a capital base ratio of 12.5% as at January 31, 2010, we have more than sufficient capital to pursue the One client, one bank transformation plan at a steady pace. Many new employees were hired this past year, and we are continuing to deploy numerous initiatives to improve our operational systems and branch network,” said the Bank's President and Chief Executive Officer, Louis Vachon.

## Results by Segment

### Personal and Commercial

The contribution from the Personal and Commercial segment was \$256 million in the first quarter of 2010, a \$10 million or 4% increase from the same quarter of 2009. Net income rose 2% to stand at \$139 million for the quarter. The segment's total revenues advanced \$24 million to reach \$593 million, and net interest income advanced \$16 million to total \$372 million for the quarter. This growth came from a solid increase in loan volumes, especially consumer loans, and was tempered by a narrowing of the net interest margin, which was 2.52% in the first quarter of 2010 compared to 2.59% in the same quarter last year. The decrease was mainly due to a lower spread on deposits. Nonetheless, the net interest margin was up from the previous quarter, when it was 2.46%.

Total revenues at Personal Banking were \$405 million, a \$26 million increase arising mainly from higher loan and deposit volumes, partly offset by a narrowing of net interest margins. The reduced net interest margin on deposits was partly offset by a wider net interest margin on credit cards. Growth in other income resulted mainly from fees collected on loan prepayments and trailer commissions related to wealth management products. Total revenues at Commercial Banking decreased by \$2 million, mainly due to lower foreign exchange revenues tempered by higher loan and acceptance fees.

Operating expenses for the Personal and Commercial segment stood at \$337 million in the first quarter of 2010, up \$14 million from the same quarter of 2009, mainly due to substantial investments in sales force improvements, in particular branch hirings. The efficiency ratio, at 57% for the first quarter of 2010, nevertheless remained unchanged from the same quarter last year. The segment's provision for credit losses stood at \$54 million, a \$9 million increase due mainly to higher credit losses on personal loans and credit card receivables.

### Wealth Management

Net income for the Wealth Management segment totalled \$23 million in the first quarter of 2010, down \$8 million from \$31 million in the same quarter of 2009. Total revenues were \$193 million compared to \$195 million in the same year-earlier quarter, mainly due to a lower net interest margin on deposits, partly offset by revenues generated from an increase in assets under management and administration. Excluding net interest income, other revenues were up \$11 million or 7%, mostly as a result of robust brokerage activities and mutual fund revenues. First quarter operating expenses increased \$9 million to stand at \$155 million. The increase recorded in salaries, variable compensation and professional fees is explained by the growth in securities brokerage commission revenues as brokerage activity rebounded.

### Financial Markets

The Financial Markets segment posted net income of \$144 million in the first quarter of 2010, up \$70 million from the same quarter of 2009. Total revenues for the segment stood at \$366 million compared to \$258 million in the same quarter last year. Including non-controlling interest, first quarter revenues totalled \$371 million compared to \$269 million for the same quarter of 2009. Trading activity revenues on a taxable equivalent basis were \$150 million for the quarter, up \$16 million from the same year-earlier quarter, mainly due to higher revenues from equity securities and fixed-income securities offset by lower revenues from commodity and foreign exchange contracts. Revenues from all other activities were up compared to the same quarter of 2009, when difficult conditions prevailed on the financial markets. The growth in *Other* revenues came from an increase in the revenues of Credigy Ltd. and from asset and liability management, partly offset by a lower contribution from Maple Financial Group Inc. Operating expenses for the quarter stood at \$160 million, a slight \$3 million decline from the first quarter of 2009 due to strict cost control. For the first quarter of 2010, the segment recorded a provision for credit losses of \$5 million, up \$1 million year over year.

## Other

The *Other* heading of segment results posted a net loss of \$91 million in the first quarter of 2010 versus a net loss of \$172 million in the same quarter of 2009. Charges related to holding ABCP were \$78 million in the first quarter of 2010 and consisted mainly of a \$75 million administrative penalty. The 2009 results included \$184 million in after-tax ABCP-related charges consisting of the following: a \$129 million net loss on available-for-sale securities, \$41 million in interest income resulting from the restructuring plan, and \$10 million for financing costs, professional fees, and a loss on economic hedge transaction. Furthermore, in the first quarter of 2009, an \$86 million net loss related to commitments to extend credit to clients holding ABCP had been recorded. Besides ABCP-related items, a \$25 million reversal of a provision for income tax contingencies was recorded in the first quarter of 2010. Excluding specified items, the net loss of the *Other* heading for the first quarter of 2010 was \$38 million compared to a net gain of \$12 million for the first quarter of 2009. The difference owes mainly to the decrease in revenues from securitization activities.

## Capital

As of November 1, 2009, the Bank has adopted the Advanced Internal Rating-Based Approach (AIRB Approach) for credit risk; before that date, it was using the Standardized Approach. For operational risk, the Bank is using the Standardized Approach and, for market risk, it continues to use the models and the Standardized Approach in accordance with the Basel II Accord.

According to the rules of the Bank for International Settlements (BIS) – Basel II – and using the AIRB Approach for credit risk, the Tier 1 capital ratio and the total capital ratio stood at 12.5% and 16.1%, respectively, as at January 31, 2010. As at October 31, 2009, using the Standardized Approach of Basel II, these same ratios were 10.7% and 14.3%, respectively. This increase in the capital ratios is largely due to the Bank's adoption of the AIRB Approach as well as to growth in retained earnings.

As at January 31, 2010, the risk-weighted assets calculated under the rules of Basel II decreased and amounted to \$51.3 billion compared to \$58.6 billion as at October 31, 2009.

### Financial Indicators

	Results Q1 2010	Results excluding specified items <sup>(1)</sup>
Growth in diluted earnings per share		3%
Return on common shareholders' equity	14.3%	18.0%
Tier 1 capital ratio under Basel II	12.5%	12.5%
Dividend payout ratio	43%	40%

(1) See "Financial Reporting Method" on page 5.

# HIGHLIGHTS

(unaudited) (millions of dollars)

Quarter ended	January 31, 2010	January 31, 2009	% Change
<b>Operating results</b>			
Total revenues	\$ 1,077	\$ 876	23
Total revenues adjusted for non-controlling interest <sup>(1)</sup>	1,082	887	22
Net income	215	69	
Return on common shareholders' equity	14.3 %	4.6 %	
<b>Per common share (dollars)</b>			
Earnings – basic	\$ 1.23	\$ 0.36	
Earnings – diluted	1.22	0.36	
<b>EXCLUDING SPECIFIED ITEMS<sup>(2)</sup></b>			
<b>Operating results</b>			
Total revenues	\$ 1,082	\$ 1,019	6
Total revenues adjusted for non-controlling interest <sup>(1)</sup>	1,087	1,030	6
Net income	268	253	6
Return on common shareholders' equity	18.0 %	19.3 %	
<b>Per common share (dollars)</b>			
Earnings – basic	\$ 1.56	\$ 1.51	
Earnings – diluted	1.55	1.51	
<b>Per common share (dollars)</b>			
Dividends declared	\$ 0.62	\$ 0.62	
Book value	34.63	30.54	
Stock trading range			
High	64.62	45.95	
Low	56.51	25.62	
Close	56.51	34.22	

	As at January 31, 2010	As at October 31, 2009	% Change
<b>Financial position</b>			
Total assets	\$ 134,125	\$ 132,138	2
Loans and acceptances <sup>(3)</sup>	60,100	58,370	3
Deposits	75,892	75,170	1
Subordinated debentures and shareholders' equity	8,715	8,494	3
Capital ratios – BIS under Basel II			
Tier 1	12.5 % <sup>(4)</sup>	10.7 % <sup>(5)</sup>	
Total	16.1 % <sup>(4)</sup>	14.3 % <sup>(5)</sup>	
Capital ratios – BIS under Basel I			
Tier 1	11.7 %	11.5 %	
Total	15.5 %	15.2 %	
Impaired loans, net of specific and general allowances	(199)	(233)	
As a % of loans and acceptances	(0.3)%	(0.4)%	
Assets under administration/management	211,693	192,551	
Total personal savings	109,247	106,458	
Interest coverage	8.56	7.99	
Asset coverage	4.29	4.19	
<b>Other information</b>			
Number of employees	17,946	17,747	1
Number of branches in Canada	444	445	–
Number of banking machines	855	855	–

(1) Adjusted for gains or losses mainly attributable to third parties.

(2) See "Financial Reporting Method" on page 5.

(3) Net of securitized assets.

(4) Calculated using the AIRB Approach.

(5) Calculated using the Standardized Approach.

## FINANCIAL REPORTING METHOD

The Bank uses certain measurements that do not comply with generally accepted accounting principles (GAAP) to assess results. Securities regulators require companies to caution readers that net income and other measurements adjusted using non-GAAP criteria are not standard under GAAP and cannot be easily compared with similar measurements used by other companies.

### Financial Information

(unaudited) (millions of dollars)

	Notes	Quarter ended		
		January 31, 2010	January 31, 2009	%
Personal and Commercial		139	136	2
Wealth Management		23	31	(26)
Financial Markets		144	74	95
Other		(91)	(172)	
<b>Net income</b>		<b>215</b>	<b>69</b>	
Plus: Charges related to holding ABCP	1	3	98	
Plus: Administrative penalty related to ABCP	2	75	–	
Plus: Charge related to commitments to extend credit to clients holding ABCP	3	–	86	
<b>Net income excluding the impact of ABCP</b>		<b>293</b>	<b>253</b>	<b>16</b>
Less: Reversal of a provision for income tax contingencies	4	(25)	–	
<b>Net income excluding specified items</b>		<b>268</b>	<b>253</b>	<b>6</b>
<b>Diluted earnings per common share</b>		<b>\$ 1.22</b>	<b>\$ 0.36</b>	
Plus: Charges related to holding ABCP	1	0.02	0.61	
Plus: Administrative penalty related to ABCP	2	0.46	–	
Plus: Charge related to commitments to extend credit to clients holding ABCP	3	–	0.54	
<b>Diluted earnings per common share excluding the impact of ABCP</b>		<b>\$ 1.70</b>	<b>\$ 1.51</b>	<b>13</b>
Less: Reversal of a provision for income tax contingencies	4	(0.15)	–	
<b>Diluted earnings per common share excluding specified items</b>		<b>\$ 1.55</b>	<b>\$ 1.51</b>	<b>3</b>
<b>Return on common shareholders' equity</b>				
<b>Including specified items</b>		<b>14.3 %</b>	<b>4.6 %</b>	
<b>Excluding specified items</b>		<b>18.0 %</b>	<b>19.3 %</b>	

- (1) During the quarter ended January 31, 2010, the following items, net of income taxes, were recognized in relation to the holding of ABCP: a \$1 million loss on economic hedge transactions (2009: \$1 million) and financing costs of \$2 million (2009: \$7 million). During the quarter ended January 31, 2009, the Bank had also recognized the following ABCP-related items, net of income taxes: a \$129 million loss on available-for-sale securities, \$41 million in interest received or receivable and \$2 million in professional fees.
- (2) During the quarter ended January 31, 2010, a \$75 million administrative penalty was recognized as part of a settlement of an ABCP industry-wide agreement.
- (3) During the quarter ended January 31, 2009, an \$86 million provision, net of income taxes, for credit losses related to commitments to extend credit to clients holding ABCP was recognized.
- (4) During the quarter ended January 31, 2010, an income tax provision was reversed as a result of a revaluation of future income tax liabilities.

## CAUTION REGARDING FORWARD-LOOKING STATEMENTS

From time to time, National Bank of Canada (the Bank) makes written and oral forward-looking statements, such as those contained in the “Major Economic Trends and Outlook” section and under the “Medium-term objectives” heading in the “Overview” section of the 2009 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 2010 and the objectives it has set for itself for that period. These forward-looking statements are made pursuant to the “safe harbour” provisions of Canadian and U.S. securities legislation. 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 terms and expressions of similar import.

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 2010 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. There is a likelihood that personal and commercial bankruptcies will increase in the coming quarters, a consequence of the financial and credit crisis that marked 2009. 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. Tax laws in the countries in which the Bank operates, primarily Canada and the United States, are major factors it considers when establishing its effective tax rate. There is a strong possibility that express or implied projections contained in such 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 materially from the targets, expectations, estimates or intentions expressed in the forward-looking statements. These factors include the management of credit, market and liquidity risks; the strength of the Canadian and U.S. economies and the economies of other countries in which the Bank conducts business; the impact of the movement of the Canadian dollar relative to other currencies, particularly the U.S. dollar; the effects of changes in monetary policy, including changes in interest rate policies of the Bank of Canada and the U.S. Federal Reserve; the effects of competition in the markets in which the Bank operates; the impact of changes in the laws and regulations regulating financial services and enforcement thereof (including banking, insurance and securities); judicial proceedings, regulatory proceedings or claims, class actions or other recourses of various nature; the situation with respect to asset-backed commercial paper (ABCP), in particular the realizable value of underlying assets; the Bank’s ability to obtain accurate and complete information from or on behalf of its clients or counterparties; the Bank’s ability to successfully realign its organization, resources and processes; its ability to complete strategic acquisitions and integrate them successfully; changes in the accounting policies and methods the Bank uses to report its financial condition, including uncertainties associated with critical accounting assumptions and estimates; the Bank’s ability to recruit and retain key officers; operational risks, including risks related to the Bank’s reliance on third parties to ensure access to the infrastructure essential to the Bank’s business as well as other factors that may affect future results, including changes in trade policies; timely development of new products and services; changes in estimates relating to reserves; changes in tax laws; technological changes; unexpected changes in consumer spending and saving habits; natural disasters; the possible impact on the business from public health emergencies, conflicts, other international events and developments, including those relating to the war on terrorism; and the Bank’s success in anticipating and managing the foregoing risks. A substantial amount of the Bank’s business involves making loans or otherwise committing resources to specific companies, industries or countries. Unforeseen events affecting such borrowers, industries or countries could have a material adverse effect on the Bank’s financial results, businesses, financial condition, or liquidity.

The foregoing list of risk factors is not exhaustive. Additional information about these factors can be found under “Risk Management” and “Factors That Could Affect Future Results” in the 2009 Annual Report. Investors and others who base themselves 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. The Bank also cautions readers not to place undue reliance on these forward-looking statements. 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 First Quarter 2010 Results

### Conference Call

- A conference call for analysts and institutional investors will be held on February 25, 2010 at 1:30 p.m. ET.
- Access by telephone in listen-only mode: 1-866-233-7781 or 416-340-8018.
- A recording of the conference call can be heard until March 4, 2010 by calling 1-800-408-3053 or 416-695-5800. The access code is 7824042#.

### Webcast

- The conference call will be webcast live at [www.nbc.ca/investorrelations](http://www.nbc.ca/investorrelations).
- A recording of the webcast will also be available on the Internet after the call.

### Financial Documents

- The quarterly financial statements are available at all times on National Bank's website at [www.nbc.ca/investorrelations](http://www.nbc.ca/investorrelations).
- The Report to Shareholders, Supplementary Financial Information and a slide presentation will be available on the Investor Relations page of National Bank's website shortly before the start of the conference call.

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