

National Bank announces record net income for the third quarter of 2009

The financial information in this press release is based on the unaudited interim consolidated financial statements for the third quarter and the nine-month period ended July 31, 2009. Additional information about National Bank of Canada, including the Annual Information Form, can be obtained from the SEDAR website at www.sedar.com and the Bank's website at www.nbc.ca.

HIGHLIGHTS FOR THE THIRD QUARTER OF 2009:

- Record net income of \$303 million for the third quarter of 2009, up 6% from the \$286 million in net income for the third quarter of 2008
- Diluted earnings per share of \$1.78 for the third quarter, an increase of 3% over the diluted earnings per share of \$1.73 for the same quarter of 2008
- Return on equity of 22.1%
- Tier 1 capital ratio of 10.5% as at July 31, 2009 compared to 9.4% as at October 31, 2008

HIGHLIGHTS EXCLUDING SPECIFIED ITEMS FOR THE THIRD QUARTER OF 2009⁽¹⁾:

- Record net income of \$304 million for the third quarter of 2009, up 20% from the \$253 million in net income for the third quarter of 2008
- Diluted earnings per share of \$1.79 for the third quarter of 2009, an increase of 18% over the diluted earnings per share of \$1.52 for the same quarter of 2008
- Return on equity of 21.3%

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

MONTREAL, August 27, 2009 – National Bank today announced net income of \$303 million for the third quarter of fiscal 2009, up 6% from the \$286 million in net income posted in the third quarter of 2008. Diluted earnings per share were \$1.78 versus \$1.73 for the same quarter of 2008. The results for this quarter include \$1 million in after-tax costs related to holding asset-backed commercial paper (ABCP). In the third quarter of 2008, the Bank had recorded \$24 million in after-tax ABCP-related charges, including a provision for credit losses related to holding ABCP, an ABCP impairment charge, a gain on economic hedge transactions, financing costs, and professional fees. In addition, the Bank had recorded a \$57 million after-tax gain as a result of the merger between the Montréal Exchange Inc. and TSX Group Inc. Excluding specified items, third quarter net income would have been \$304 million compared to \$253 million in the third quarter of 2008, for an increase of 20%. Diluted earnings per share would have been \$1.79, up 18% from \$1.52 in the same quarter of 2008.

For the first nine months of fiscal 2009, the Bank's net income stood at \$613 million compared to \$706 million for the same period of 2008. Excluding specified items, all related to the impact of ABCP in the first nine months of fiscal 2009, net income would have stood at \$818 million compared to \$719 million, a 14% increase over the same period of 2008 excluding a gain on the sale of the Bank's subsidiary in Nassau, a gain resulting from the merger between the Montréal Exchange Inc. and TSX Group Inc., and the charges related to holding ABCP. Diluted earnings per share stood at \$3.55 for the first nine months compared to \$4.30 for the same period of 2008. Excluding specified items, diluted earnings per share stood at \$4.83, up \$0.44 or 10% compared to the first nine months of 2008.

“Excellent performance in the Financial Markets segment and the quality of our credit portfolios contributed greatly to these exceptional results for the third quarter of 2009. As planned, the Bank continued to invest significantly in its ‘One client, one bank’ program, which will enhance the network in the Personal and Commercial and Wealth Management segments, among other things. The Bank also hired new employees in its branch network,” stated the Bank's President and Chief Executive Officer, Louis Vachon.

Results by Segment

Personal and Commercial

The Personal and Commercial segment contributed \$251 million in the third quarter of 2009, an increase of \$6 million over the same quarter of 2008. Net income posted a slight 1% increase, totalling \$134 million for the quarter, and total revenues advanced \$20 million to reach \$588 million. Loan volumes at Personal and Commercial rose 8% between the third quarter of 2008 and the third quarter of 2009. This growth was tempered by a narrowing of the net interest margin, which was mainly due to smaller spreads on deposits.

Total revenues at Personal Banking rose \$11 million to total \$396 million, mainly due to growth in fees collected on loan prepayments. Loan and deposit volumes posted strong growth that was offset by a narrowing of net interest margins. The reduced net interest margin on deposits was partially offset by a wider net interest margin on credit cards. At Commercial Banking, total revenues rose \$9 million and were mostly generated by greater financing activity among clients.

Operating expenses for Personal and Commercial amounted to \$337 million in the third quarter of 2009, up \$14 million from the same quarter of 2008, mainly due to substantial investments in sales force improvements, including branch hirings, deployments of new banking machines and the introduction of smart cards. The efficiency ratio remained unchanged at 57% for the third quarter of 2009 compared to the same quarter of 2008. The segment's provision for credit losses was up \$7 million to total \$54 million, mainly because of higher credit losses on personal loans and credit card receivables, tempered by lower losses on credit granted to enterprises.

For the first nine months of fiscal 2009, net income for the Personal and Commercial segment stood at \$392 million, a \$10 million increase over the \$382 million in net income recorded during the same nine months in 2008. Total revenues for the segment rose 3% to total \$1,707 million, mainly due to higher loan and deposit volumes. Total revenues at Personal Banking grew \$23 million or 2%. Total revenues at Commercial Banking rose \$23 million or 4%. The segment's provision for credit losses was \$14 million higher than in the same nine-month period of 2008. This increase was attributable to losses of \$18 million on credit card receivables and \$9 million on personal loans, offset by a \$13 million decrease in Commercial Banking losses. The efficiency ratio for the first nine months of 2009 was 58%, unchanged from the same nine-month period of 2008.

Wealth Management

Net income for the Wealth Management segment totalled \$25 million in the third quarter of 2009, down \$6 million from \$31 million in the same quarter of 2008. Total revenues for the segment stood at \$187 million, as against \$203 million in the third quarter of 2008. This decrease was due to lower transaction volume, the narrower spread on deposits, and assets under management and administration that remained lower than in the same period of 2008. Operating expenses fell by \$6 million to stand at \$149 million in the third quarter of 2009, mainly due to a decrease in variable compensation.

For the first nine months of fiscal 2009, net income for Wealth Management totalled \$89 million compared to \$108 million in the same period of 2008, for a decrease that is explained by the same factors provided for the quarter. Total revenues stood at \$566 million, as against \$621 million for the first nine months of 2008. Operating expenses amounted to \$435 million, a \$19 million improvement when compared to the \$454 million in operating expenses recorded during the first nine months of 2008.

Financial Markets

The Financial Markets segment posted net income of \$167 million in the third quarter of 2009, up \$2 million from the same quarter of 2008. Total revenues for the segment stood at \$404 million compared to \$362 million in the third quarter of 2008. Including non-controlling interest, third quarter revenues totalled \$409 million compared to \$391 million for the same quarter of 2008. Trading activity revenues were \$166 million for the quarter, up \$72 million from the third quarter of 2008, mainly due to higher revenues from fixed-income securities. The \$65 million decrease in gains on available-for-sale securities reflects the gain recorded as a result of the merger between the Montréal Exchange Inc. and TSX Group Inc. recorded in the third quarter of 2008. Revenues from banking services increased \$22 million from the same quarter of 2008. The decline in other revenues was partially due to a \$25 million lower contribution from Maple Financial Group Inc. Third quarter operating expenses stood at \$163 million, up \$4 million from the year-earlier quarter due to the increase in variable compensation. For the third quarter of 2009, the segment recorded a provision for credit losses of \$8 million, owing primarily to certain manufacturing sector loans, whereas no charge had been recorded in 2008.

For the first nine months of fiscal 2009, net income for the segment totalled \$363 million, up \$44 million from the same period in 2008. Total revenues stood at \$1,018 million compared to \$859 million for the first nine months of 2008. Including non-controlling interest related to trading activities, revenues from Financial Markets totalled \$1,032 million, up \$96 million from the same period of 2008. This increase consisted mainly of higher trading activity revenues from fixed-income securities and higher revenues from banking service, partially offset by lower financial market fees, gains on securities as explained above, and other revenues. Operating expenses stood at \$502 million, up \$18 million when compared to the first nine months of fiscal 2008, due mainly to variable compensation. For the first nine months of 2009, the segment recorded a provision for credit losses of \$18 million versus recoveries of \$2 million recorded in the same period of 2008.

Other

The *Other* heading of segment results posted a net loss of \$23 million in the third quarter of 2009 versus a net loss of \$43 million in the same quarter of 2008. Charges related to holding ABCP were negligible in the third quarter of 2009, whereas the 2008 results included a \$24 million net loss related to ABCP. This loss consisted of a provision for credit losses related to holding ABCP, an ABCP impairment charge, a gain on economic hedge transactions, financing costs, and professional fees. Excluding specified items, the third quarter net loss for the *Other* heading was \$22 million compared to a net loss of \$19 million for the third quarter of 2008. This difference was mainly attributable to the significant increase in revenues from securitization activities and to the decrease in technology expenses offset by the recovery of corporate credit losses recorded in the third quarter of 2008. For the first nine months of 2009, the net loss was \$231 million compared to a net loss of \$103 million in the same period one year earlier. This was mainly due to ABCP-related charges, including the cost of holding ABCP and the charge related to commitments to extend credit to clients holding ABCP offset by higher securitization revenues in 2009. Excluding specified items, the net loss for the first nine months of fiscal 2009 was \$26 million compared to a \$33 million net loss for the same period of 2008.

Capital

Tier 1 and total capital ratios, according to the rules of the Bank for International Settlements (BIS) – Basel II, stood at 10.5% and 14.1%, respectively, as at July 31, 2009, compared to 9.4% and 13.2% as at October 31, 2008. The increase in the capital ratios was attributable to the issuance of two series of first preferred shares during the first quarter of 2009 in an amount of \$315 million, mitigated by the repurchase of \$250 million in subordinated debentures in the second quarter of 2009. If these ratios had been calculated using the former BIS rules (Basel I), they would have been 11.3% and 14.8%, respectively, as at July 31, 2009.

As at July 31, 2009, the risk-weighted assets calculated under the rules of Basel II were stable and amounted to \$58.3 billion compared to \$58.1 billion as at October 31, 2008. Risk-weighted assets calculated under Basel I would have been \$56.3 billion as at July 31, 2009.

Financial Indicators

	Results Q3 2009	Results excluding specified items ⁽¹⁾	Results Nine months 2009	Results excluding specified items ⁽¹⁾
Growth in diluted earnings per share	3%	18%	(17)%	10%
Return on common shareholders' equity	22.1%	21.3%	15.2%	20.0%
Tier 1 capital ratio under Basel II			10.5%	10.5%
Dividend payout ratio			63%	40%

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

HIGHLIGHTS

(unaudited) (millions of dollars)

	Quarter ended			Nine months ended		
	July 31, 2009	July 31, 2008	% Change	July 31, 2009	July 31, 2008	% Change
Operating results						
Total revenues	\$ 1,132	\$ 1,057	7	\$ 3,039	\$ 2,872	6
Total revenues adjusted for non-controlling interest ⁽¹⁾	1,137	1,086	5	3,053	2,949	4
Net income	303	286	6	613	706	(13)
Return on common shareholders' equity	22.1%	23.7%		15.2%	20.4%	
Per common share (dollars)						
Earnings – basic	\$ 1.79	\$ 1.73	3	\$ 3.56	\$ 4.32	(18)
Earnings – diluted	1.78	1.73	3	3.55	4.30	(17)
EXCLUDING SPECIFIED ITEMS⁽²⁾						
Operating results						
Total revenues	\$ 1,138	\$ 981	16	\$ 3,216	\$ 2,871	12
Total revenues adjusted for non-controlling interest ⁽¹⁾	1,143	1,010	13	3,230	2,948	10
Net income	304	253	20	818	719	14
Return on common shareholders' equity	21.3%	20.9%		20.0%	20.8%	
Per common share (dollars)						
Earnings – basic	\$ 1.80	\$ 1.52	18	\$ 4.84	\$ 4.41	10
Earnings – diluted	1.79	1.52	18	4.83	4.39	10
Per common share (dollars)						
Dividends declared	\$ 0.62	\$ 0.62		\$ 1.86	\$ 1.86	
Book value				32.51	29.44	
Stock trading range						
High	58.11	54.63		58.11	54.63	
Low	43.36	45.75		25.62	44.39	
Close	58.11	50.00		58.11	50.00	
Financial position						
Total assets	\$ 134,589	\$ 129,332	4			
Loans and acceptances ⁽³⁾	57,761	56,015	3			
Deposits	76,236	76,022	–			
Subordinated debentures and shareholders' equity	8,333	7,764	7			
Capital ratios – BIS under Basel II						
Tier 1	10.5 %	9.4 %				
Total	14.1 %	13.2 %				
Capital ratios – BIS under Basel I						
Tier 1	11.3 %	10.1 %				
Total	14.8 %	14.1 %				
Impaired loans, net of specific and general allowances	(114)	(162)				
As a % of loans and acceptances	(0.2)%	(0.3)%				
Assets under administration/management	191,814	204,998				
Total personal savings	103,568	97,207				
Interest coverage	5.57	5.21				
Asset coverage	4.21	3.89				
Other information						
Number of employees	17,772	17,146	4			
Number of branches in Canada	446	446	–			
Number of banking machines	855	857	–			

(1) Adjusted for gains or losses mainly attributable to third parties using the Innocap platform.

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

(3) Net of securitized assets

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 any 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			Nine months ended		
		July 31, 2009	July 31, 2008	%	July 31, 2009	July 31, 2008	%
Personal and Commercial		134	133	1	392	382	3
Wealth Management		25	31	(19)	89	108	(18)
Financial Markets		167	165	1	363	319	14
Other		(23)	(43)		(231)	(103)	
Net income		303	286	6	613	706	(13)
Plus: Charges related to holding ABCP	1	1	9		119	87	
Plus: Charge related to commitments to extend credit to clients holding ABCP	2	–	15		86	15	
Net income excluding the impact of ABCP		304	310	(2)	818	808	1
Less: Gain on available-for-sale securities	3	–	(57)		–	(57)	
Less: Gain on the sale of the Bank's subsidiary in Nassau	4	–	–		–	(32)	
Net income excluding specified items		304	253	20	818	719	14
Diluted earnings per common share		\$ 1.78	\$ 1.73	3	\$ 3.55	\$ 4.30	(17)
Plus: Charges related to holding ABCP	1	0.01	0.06		0.74	0.56	
Plus: Charge related to commitments to extend credit to clients holding ABCP	2	–	0.09		0.54	0.09	
Diluted earnings per common share excluding the impact of ABCP		\$ 1.79	\$ 1.88	(5)	\$ 4.83	\$ 4.95	(2)
Less: Gain on available-for-sale securities	3	–	(0.36)		–	(0.36)	
Less: Gain on the sale of the Bank's subsidiary in Nassau	4	–	–		–	(0.20)	
Diluted earnings per common share excluding specified items		\$ 1.79	\$ 1.52	18	\$ 4.83	\$ 4.39	10
Return on common shareholders' equity							
Including specified items		22.1%	23.7%		15.2%	20.4%	
Excluding specified items		21.3%	20.9%		20.0%	20.8%	

All amounts below, except Note (4), are presented net of income taxes:

- (1) During the third quarter ended July 31, 2009, the \$1 million cost related to holding ABCP included a loss on economic hedge transactions, ABCP financing costs, and a recovery of professional fees related to the ABCP file. During the quarter ended July 31, 2008, the following items were recognized with respect to ABCP: a \$10 million gain on economic hedge transactions, an \$8 million loss on available-for-sale securities, and \$11 million in ABCP financing costs and professional fees.
During the nine months ended July 31, 2009, the following items were recognized related to holding ABCP: a \$129 million loss on available-for-sale securities related to ABCP (2008: \$8 million), losses on economic hedge transactions of \$19 million (2008: \$39 million), \$41 million in interest received or receivable on ABCP held (2008: nil) and ABCP financing costs and professional fees of \$12 million (2008: \$40 million).
- (2) During the quarter ended July 31, 2008, a \$15 million provision for credit losses related to holding ABCP was recorded.
During the nine months ended July 31, 2009, an \$86 million provision for credit losses related to commitments to extend credit to clients holding ABCP was recorded (2008: \$15 million).
- (3) During the quarter ended July 31, 2008, a \$57 million gain on available-for-sale securities was recorded as a result of the merger between the Montréal Exchange Inc. and TSX Group Inc.
- (4) During the nine months ended July 31, 2008, a net gain of \$32 million was recorded on the sale of the Bank's subsidiary in Nassau, Bahamas.

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 Challenges” section and under the heading “Medium-term objectives” in the “Overview” section of the 2008 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 2009 and the objectives it has set for itself for that period. All such statements are made pursuant to the “safe harbour” provisions of Canadian and U.S. securities legislation. These forward-looking statements 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 words 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 2009 and how that will affect the Bank’s business are material factors considered in setting the Bank’s strategic priorities and objectives and in determining its financial targets, including provisions for credit losses. Given the current financial and credit crisis, fiscal 2009 is characterized by an overall slowdown in the world economy, although some signs of recovery have been observed, and this is affecting the United States, Canada’s largest trading partner. The financial crisis may result in lower levels of activity on capital markets and a higher cost of funds for financial institutions. There is a strong possibility that personal and commercial bankruptcies could increase in the coming quarters. In determining its expectations for economic growth, both broadly and in the financial services sector, 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 significant risk that express or implied projections contained in such statements will not materialize or will not be accurate. A number of factors 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. Such differences may be caused by factors, many of which are beyond the Bank’s control, which include, but are not limited to, 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 provide components of 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 other 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 2008 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 Third Quarter 2009 Results

Conference Call

- A conference call for analysts and institutional investors will be held on August 27, 2009 at 1:30 p.m. EDT.
- Access by telephone in listen-only mode: 1-866-862-3908 or 416-641-6130.
- A recording of the conference call can be heard until September 3, 2009 by calling 1-800-408-3053 or 416-695-5800. The access code is 6733150#.

Webcast

- The conference call will be webcast live at 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.
- 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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