



## National Bank releases its third quarter 2008 results

---

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, 2008. 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:

- Record net income of \$286 million, up 18%
- Diluted earnings per share of \$1.73, up 17%
- Return on equity of 23.7%
- Tier 1 capital ratio of 10.0%

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

- Record net income of \$253 million, up 4%
- Diluted earnings per share of \$1.52, up 3%
- Return on equity of 20.9%

*(1) The financial reporting method is explained in detail on page 4.*

**MONTREAL, August 28, 2008** – National Bank today announced net income of \$286 million for the third quarter of 2008, up 18% compared to net income of \$243 million in the third quarter of 2007. Diluted earnings per share stood at \$1.73, as against \$1.48 for the corresponding quarter of 2007. Results for the quarter included a loss of \$37 million (\$24 million after taxes), or \$0.15 per share, attributable to the impact of asset-backed commercial paper (ABCP), and a gain of \$88 million (\$57 million after taxes), or \$0.36 per share, on the combination of Montréal Exchange Inc. with TSX Group Inc. Excluding the impact of ABCP, net income for the third quarter of 2008 was \$310 million, for an increase of 28%, while diluted earnings per share were \$1.88, up 27%. Excluding all specified items, net income for the third quarter of 2008 was \$253 million, for an increase of 4%, while diluted earnings per share were \$1.52, up 3%.

The Bank's net income for the first nine months of the fiscal year was \$706 million, compared to \$716 million for the corresponding period of 2007. Excluding the impact of ABCP, net income totalled \$808 million for the first nine months of 2008, an increase of 13% from the year-earlier period. Moreover, excluding all specified items, net income was \$719 million for the first nine months of fiscal 2008, up \$3 million. Diluted earnings per share were \$4.30 for the first nine months of fiscal 2008, as against \$4.31 for the corresponding period of 2007. Excluding the impact of ABCP, diluted earnings per share were \$4.95, for an increase of \$0.64 or 15%. Finally, excluding all specified items, diluted earnings per share were \$4.39, up 2%.

"The Bank turned in a solid performance this quarter, driven in particular by a strong contribution from the Financial Markets segment and good growth in business volumes at Personal and Commercial. Moreover, our financial health remains excellent, as evidenced by the good credit quality of the loan portfolio and our high regulatory capital ratios," said Louis Vachon, President and Chief Executive Officer.

## Results by Segment

---

### *Personal and Commercial*

Personal and Commercial contributed \$239 million for the third quarter of 2008, an increase of 8% compared to the corresponding quarter of 2007. Net income for the quarter grew 2% to \$127 million, despite the increase in the provision for credit losses, mainly on the Commercial side. The segment's total revenues advanced \$9 million, or 2%, to \$562 million. Loan volumes at Personal and Commercial increased 7% from the third quarter of 2007 to the third quarter of 2008. This growth was tempered by the narrowing of the net interest margin, which was mainly due to the decrease in the spread on deposits.

Total revenues at Personal Banking rose \$8 million owing to the \$2.7 billion growth in the volume of average assets stemming from the increase in consumer loans and residential mortgage loans. The narrower net interest margin on deposits and credit products was partially offset by the wider net interest margin on credit cards. At Commercial Banking, total revenues rose by \$1 million, as growth in business loan and deposit volumes was offset by the narrower net interest margin.

Operating expenses for Personal and Commercial were \$323 million in the third quarter 2008, down \$9 million from the corresponding quarter of 2007. This decrease, attributable to cost controls, translated into an improved efficiency ratio of 58% for the quarter versus 60% for the year-earlier period. The segment's provision for credit losses was up \$13 million to \$46 million, due mainly to higher credit losses at Commercial Banking.

For the first nine months of 2008, Personal and Commercial posted net income of \$370 million, an increase of \$11 million over the \$359 million recorded for the same period in 2007. The segment's total revenues rose 2% to \$1,642 million on growth of \$19 million or 2% at Personal Banking and \$7 million or 1% at Commercial Banking. The efficiency ratio moved down to 58% for the first nine months of 2008, for a 2% improvement from the same period in 2007.

### Wealth Management

Net income for Wealth Management totalled \$37 million in the third quarter of 2008, compared to \$40 million for the corresponding quarter of 2007, a decrease of \$3 million. The segment's total revenues were \$211 million, as against \$221 million a year earlier. This decrease is mainly attributable to a slowdown in securities brokerage activities owing to more difficult market conditions during the quarter. Operating expenses were down \$2 million to \$158 million in the third quarter of 2008. The efficiency ratio was 75% this quarter versus 72% in the third quarter of 2007.

For the first nine months of fiscal 2008, net income for Wealth Management amounted to \$124 million, compared to \$131 million for the same period in 2007. Total revenues for the segment were \$646 million versus \$682 million for the first nine months of fiscal 2007. Operating expenses were \$464 million, down \$19 million from the \$483 million recorded for the first nine months of fiscal 2007.

### Financial Markets

Financial Markets posted net income of \$163 million in the third quarter of 2008, \$70 million more than in the corresponding quarter of 2007. Total revenues for the segment were \$359 million, as against \$302 million in the third quarter of 2007. Taking into account non-controlling interest, revenues for the quarter were \$388 million, up \$78 million from the corresponding quarter of 2007. This increase stemmed from the gains on available for sale securities that resulted from the combination of Montréal Exchange Inc. with TSX Group Inc. Other revenues rose \$39 million owing to the increased contribution of a significantly influenced company Maple Financial Group Inc. Operating expenses for the quarter were \$159 million, down \$17 million from the third quarter of 2007, due to lower variable compensation. No credit losses were recorded during the quarter.

For the first nine months of fiscal 2008, the segment's net income totalled \$314 million, an increase of \$51 million from the same period in 2007. Total revenues were \$854 million, as against \$915 million for the first nine months of fiscal 2007. Taking into account non-controlling interest in trading activities, revenues for the Financial Markets segment were \$931 million, compared to \$899 million for the first nine months of fiscal 2007. This increase is comprised primarily of higher gains on available for sale securities and growth in other revenues. At \$484 million, operating expenses were down \$24 million from the first nine months of fiscal 2007.

### Other

The *Other* heading of segment results posted a net loss of \$41 million in the third quarter of 2008, compared to a net loss of \$14 million in the corresponding quarter of 2007. The results for the quarter take into account a \$24 million net loss for specified items related to ABCP, namely, ABCP financing costs (net loss of \$9 million), professional fees (net loss of \$2 million), gain on economic hedge transactions (net gain of \$10 million), a general allowance on loans secured by ABCP (net loss of \$15 million) and a charge for impairment of a trust not covered under the Pan-Canadian restructuring plan (net loss of \$8 million). The recovery of corporate credit losses also resulted in a net gain of \$19 million for the quarter. For the first nine months of 2008, the net loss was \$102 million, as against a net loss of \$37 million for the same period of 2007.

## Capital

Tier 1 and total capital ratios according to the new rules of the Bank for International Settlements (BIS) – Basel II – stood at 10.0% and 13.9%, respectively, as at July 31, 2008. If these ratios had been calculated using the old BIS rules – Basel I – they would have been 10.6% and 14.8% as at July 31, 2008, respectively, compared to 9.0% and 12.4% as at October 31, 2007.

The Tier 1 capital ratio rose during the quarter owing to the issuance of \$500 million of subordinated debentures, the issuance of first preferred shares with non-cumulative preferential dividends for a consideration of \$201 million and the issuance of \$350 million in NBC CapS II – Series 2 securities. The Bank did not include \$308 million in innovative instruments issued by NB Capital Corporation after it was announced that these securities would be repurchased for cancellation.

Furthermore, as at July 31, 2008, risk-weighted assets under Basel I would have been \$52.7 billion, compared to \$55.6 billion under the new rules, an increase of 13% from October 31, 2007. This increase mitigated the rise in the ratios and was primarily due to the impact of including operational risk in the calculation of risk-weighted assets.

Other information on capital is provided in Table 8 in the Additional Financial Information section at the end of Management's Discussion and Analysis, and in Note 4 to the unaudited interim consolidated financial statements.

## 2008 Financial Objectives

	Objectives	Results Q3 2008	Results excluding specified items	Results Nine months 2008	Results excluding specified items
Growth in diluted earnings per share	3% – 8%	17%	3%	–%	2%
Return on common shareholders' equity	16% – 21%	23.7%	20.9%	20.4%	20.8%
Tier 1 capital ratio	More than 8.0%	10.0%	10.0%	10.0%	10.0%
Dividend payout ratio	40% – 50%		43%		43%

**HIGHLIGHTS***(unaudited)**(millions of dollars)*

	Quarter ended			Nine months ended		
	July 31, 2008	July 31, 2007	% Change	July 31, 2008	July 31, 2007	% Change
<b>Operating results</b>						
Total revenues	\$ 1,056	\$ 1,008	5	\$ 2,872	\$ 3,018	(5)
Total revenues adjusted for non-controlling interest <sup>(1)</sup>	1,085	1,016	7	2,949	3,002	(2)
Net income	286	243	18	706	716	(1)
Return on common shareholders' equity	23.7%	20.6%		20.4%	20.6%	
<b>Per common share (dollars)</b>						
Earnings – basic	\$ 1.73	\$ 1.49	16	\$ 4.32	\$ 4.36	(1)
Earnings – diluted	1.73	1.48	17	4.30	4.31	–
<b>EXCLUDING SPECIFIED ITEMS<sup>(2)</sup></b>						
<b>Operating results</b>						
Total revenues	\$ 980	\$ 1,008	(3)	\$ 2,871	\$ 3,018	(5)
Total revenues adjusted for non-controlling interest <sup>(1)</sup>	1,009	1,016	(1)	2,948	3,002	(2)
Net income	253	243	4	719	716	–
Return on common shareholders' equity	20.9%	20.6%		20.8%	20.6%	
<b>Per common share (dollars)</b>						
Earnings – basic	\$ 1.52	\$ 1.49	2	\$ 4.41	\$ 4.36	1
Earnings – diluted	1.52	1.48	3	4.39	4.31	2
<b>Per common share (dollars)</b>						
Dividends declared	\$ 0.62	\$ 0.60	3	\$ 1.86	\$ 1.68	11
Book value				29.44	28.70	3
Stock trading range						
High	54.63	66.14		54.63	66.59	
Low	45.75	60.61		44.39	60.61	
Close	50.00	60.93		50.00	60.93	

	July 31, 2008	October 31, 2007	% Change
<b>Financial position</b>			
Total assets	\$ 121,931	\$ 113,085	8
Loans and acceptances	54,896	52,045	5
Deposits	68,668	70,798	(3)
Subordinated debentures and shareholders' equity	7,640	6,242	22
Capital ratios – BIS under Basel II <sup>(3)</sup>			
Tier 1	10.0 %		
Total	13.9 %		
Capital ratios – BIS under Basel I <sup>(3)</sup>			
Tier 1	10.6 %	9.0 %	
Total	14.8 %	12.4 %	
Impaired loans, net of specific and general allowances	(189)	(179)	
as a % of loans and acceptances	(0.3)%	(0.3)%	
Assets under administration/management	234,714	239,028	
Total personal savings	106,484	106,288	
Interest coverage	4.41	7.27	
Asset coverage	4.19	3.89	
<b>Other information</b>			
Number of employees	17,232	16,863	2
Number of branches in Canada	445	447	–
Number of banking machines	857	835	3

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

(2) See "Financial Reporting Method" on page 4.

(3) Excluding \$308 million in innovative instruments issued by NB Capital Corporation

## 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 earnings 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)

	Quarter ended			Nine months ended		
	July 31, 2008	July 31, 2007	%	July 31, 2008	July 31, 2007	%
Personal and Commercial	127	124	2	370	359	3
Wealth Management	37	40	(8)	124	131	(5)
Financial Markets	163	93	75	314	263	19
Other	(41)	(14)	–	(102)	(37)	–
<b>Net income</b>	<b>286</b>	<b>243</b>	<b>18</b>	<b>706</b>	<b>716</b>	<b>(1)</b>
Plus: Provision for credit losses relating to ABCP	15	–		15	–	
Plus: Charge for impairment of ABCP <sup>(1)</sup>	8	–		8	–	
Plus: Losses (gains) on economic hedge transactions	(10)	–		39	–	
Plus: ABCP financing costs <sup>(2)</sup> and professional fees	11	–		40	–	
<b>Net income excluding the impact of ABCP</b>	<b>310</b>	<b>243</b>	<b>28</b>	<b>808</b>	<b>716</b>	<b>13</b>
Less: Gain on available for sale securities	(57)	–		(57)	–	
Less: Gain on the sale of the Bank's subsidiary in Nassau	–	–		(32)	–	
<b>Net income excluding specified items</b>	<b>253</b>	<b>243</b>	<b>4</b>	<b>719</b>	<b>716</b>	<b>–</b>
<b>Diluted earnings per common share</b>	<b>\$ 1.73</b>	<b>\$ 1.48</b>	<b>17</b>	<b>\$ 4.30</b>	<b>\$ 4.31</b>	<b>–</b>
Plus: Impact of ABCP	\$ 0.15	–		\$ 0.65	–	
<b>Diluted earnings per common share excluding the impact of ABCP</b>	<b>\$ 1.88</b>	<b>\$ 1.48</b>	<b>27</b>	<b>\$ 4.95</b>	<b>\$ 4.31</b>	<b>15</b>
Less: Gain on available for sale securities	(0.36)	–		(0.36)	–	
Less: Gain on the sale of the Bank's subsidiary in Nassau	–	–		(0.20)	–	
<b>Diluted earnings per common share excluding specified items</b>	<b>\$ 1.52</b>	<b>\$ 1.48</b>	<b>3</b>	<b>\$ 4.39</b>	<b>\$ 4.31</b>	<b>2</b>
<b>Return on common shareholders' equity</b>						
<b>Including specified items</b>	<b>23.7%</b>	<b>20.6%</b>		<b>20.4%</b>	<b>20.6%</b>	
<b>Excluding specified items</b>	<b>20.9%</b>	<b>20.6%</b>		<b>20.8%</b>	<b>20.6%</b>	

(1) ABCP not included in the Pan-Canadian restructuring plan

(2) No interest was recorded on the ABCP.

### 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 "2008 Objectives" in the "Overview" section of the 2007 Annual Report, in the "2008 Financial Objectives" section of this Report to Shareholders, in other filings with Canadian securities regulators or the U.S. Securities and Exchange Commission and in other communications, for the purpose of describing the economic environment in which the Bank will operate during fiscal 2008 and the objectives it has set for itself for that period. Such statements are made pursuant to Canadian securities regulations and the provisions of the United States Private Securities Litigation Reform Act of 1995. These forward-looking statements include, among others, statements with respect to the economy (in particular, the Canadian and U.S. economies), market changes, the achievement of strategic priorities and objectives, future strategies and actions, the price of Bank shares, certain risks as well as statements with respect to our beliefs, plans, expectations, estimates and intentions. These forward-looking statements are typically identified by the words "may," "could," "should," "would," "suspect," "outlook," "believe," "anticipate," "estimate," "expect," "intend," "plan," and words and expressions of similar import.

By their very nature, such forward-looking statements require us to make assumptions and involve inherent risks and uncertainties, both general and specific. Assumptions about the performance of the Canadian and U.S. economies in 2008 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. Key assumptions include that economic growth in Canada and the United States will be modest in 2008 and that inflation will remain low in North America. The Bank has also assumed that interest rates in Canada and the United States will decline slightly in 2008 and that the Canadian dollar will likely trade at parity with the U.S. dollar at the end of the year. In determining its expectation 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 material factors it considers when establishing its sustainable 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 United States 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; 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 or regulatory judgments and legal proceedings; developments with respect to the restructuring proposal relating to asset-backed commercial paper (ABCP) and liquidity in the ABCP market; 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; operational and infrastructure risks; 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.

Additional information about these factors can be found under "Risk Management" and "Factors That Could Affect Future Results" in the 2007 Annual Report.

The Bank cautions that the foregoing list of important factors is not exhaustive. 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. Moreover, these forward-looking statements may not be suitable for establishing strategic priorities and objectives, future strategies or actions, financial objectives and projections other than those mentioned above.

## 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.

## Disclosure of Third Quarter 2008 Results

---

### Conference Call

- A conference call for analysts and institutional investors will be held on August 28, 2008 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 4, 2008 by calling 416-695-5800 or 1-800-408-3053. The access code is 3268439#.

### 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.

---

### For more information:

Patricia Curadeau-Grou  
Executive Vice-President  
Finance, Risk and Treasury  
514-394-6619

Jean Dagenais  
Senior Vice-President and  
Chief Financial Officer  
514-394-6233

Denis Dubé  
Director  
Public Relations  
514-394-8644

Hélène Baril  
Director  
Investor Relations  
514-394-0296

---