

National Bank releases its results for the second quarter of 2009

The financial information in this press release is based on the unaudited interim consolidated financial statements for the second quarter ended April 30 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 SECOND QUARTER OF 2009:

- Net income of \$241 million for the second quarter of 2009, up 46% from the \$165 million in net income for the second quarter of 2008
- Diluted earnings per share of \$1.41 for the second quarter, an increase of 41% over the diluted earnings per share of \$1.00 for the same quarter of 2008
- Return on equity of 18.5%
- Tier 1 capital ratio of 10.3% as at April 30, 2009 compared to 9.4% as at October 31, 2008

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

- Net income of \$261 million for the second quarter of 2009, up 14% from the same period in 2008, once the specified items related to the holding of asset-backed commercial paper (ABCP) are excluded
- Diluted earnings per share of \$1.53 for the second quarter of 2009, up 9% from \$1.41 for the same quarter of 2008
- Return on equity of 19.4%

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

MONTREAL, May 28, 2009 – National Bank today announced net income of \$241 million for the second quarter of fiscal 2009, a 46% increase over the \$165 million in net income posted in the second quarter of 2008. Diluted earnings per share were \$1.41 compared to diluted earnings per share of \$1.00 for the same quarter of 2008. The results for this quarter include \$20 million in after-tax charges related to holding ABCP and consisting mainly of losses on economic hedge transactions. In the second quarter of 2008, the Bank had recorded \$64 million in after-tax charges related to ABCP; those charges consisted of losses on economic hedge transactions, financing costs, and professional fees. Excluding the specified items, net income for the second quarter would have totalled \$261 million compared to \$229 million in the second quarter of 2008, for an increase of 14%. Diluted earnings per share would have been \$1.53, up 9% from \$1.41 in the second quarter of 2008.

The Bank's net income for the first six months of fiscal 2009 totalled \$310 million compared to \$420 million for the same period of 2008. Excluding specified items, all related to the impact of ABCP in the first half of fiscal 2009, net income would have totalled \$514 million compared to \$466 million, a 10% increase over the same period of 2008 excluding a gain on the sale of the Bank's subsidiary in Nassau as well as the charges related to holding ABCP. Diluted earnings per share stood at \$1.77 for the first six months compared to \$2.58 for the same period in 2008. Excluding specified items, diluted earnings per share stood at \$3.04, up \$0.17 or 6% compared to the first six months of 2008.

"The Bank has managed to do well thanks to the relatively good performance of the Quebec economy. The Personal and Commercial segment posted a slight increase in revenues in the second quarter of 2009 compared to the same period in 2008. The Wealth Management segment was affected by a decline in assets under management but continued to successfully implement the centralization and integration plan for several of its business units. The Financial Markets segment showed excellent performance across most of its activities, especially in fixed-income securities transactions," stated Louis Vachon, President and Chief Executive Officer.

Results by Segment

Personal and Commercial

The Personal and Commercial segment contributed \$222 million in the second quarter of 2009, an increase of \$4 million from the same quarter of 2008. Net income posted a slight 2% increase, totalling \$118 million for the quarter, and total revenues advanced \$9 million to reach \$548 million. Loan volumes at Personal and Commercial rose 8% between the second quarter of 2008 and the second 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 \$5 million to total \$369 million. 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 \$4 million and were mostly generated by greater financing activity among clients.

Operating expenses for Personal and Commercial amounted to \$326 million in the second quarter of 2009, up \$5 million from the same quarter of 2008. The segment's provision for credit losses was up \$4 million to total \$49 million, mainly because of higher credit losses on credit card receivables and tempered by lower losses on credit granted to small and medium-sized enterprises (SMEs).

For the first six months of fiscal 2009, net income for the Personal and Commercial segment totalled \$258 million, a \$9 million increase over the \$249 million in net income recorded during the same period in 2008. Total revenues for the segment rose 2% to total \$1,119 million. Total revenues for Personal Banking grew \$11 million or 1%. Total revenues for Commercial Banking rose \$15 million or 4%. The segment's provision for credit losses was \$7 million higher than in the same six-month period of 2008. This increase was attributable to the \$11 million loss on credit card receivables and personal loans of \$6 million offset by lower losses in Commercial Banking of \$10 million. The efficiency ratio for the first half of 2009 was 58%, unchanged from the same six-month period of 2008.

Wealth Management

Net income for the Wealth Management segment totalled \$32 million in the second quarter of 2009, down \$6 million from \$38 million in the same quarter of 2008. Total revenues stood at \$184 million, as against \$204 million in the second quarter of 2008. This decrease was due mainly to the decline in the value of assets under management and administration. Operating expenses fell by \$6 million to stand at \$140 million in the second quarter of 2009, mainly due to a decrease in variable compensation.

For the first six months of fiscal 2009, net income for Wealth Management totalled \$64 million compared to \$77 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 \$379 million, as against \$418 million for the first six months of 2008. Operating expenses amounted to \$286 million, a \$13 million improvement when compared to the \$299 million in operating expenses recorded during the first half of 2008.

Financial Markets

The Financial Markets segment posted net income of \$123 million in the second quarter of 2009, up \$41 million from the same quarter of 2008. Total revenues for the segment stood at \$355 million compared to \$281 million in the second quarter of 2008. Including revenues on a taxable equivalent basis and adjusted for non-controlling interest, the second quarter revenues totalled \$354 million compared to \$267 million for the same quarter of 2008. Income from trading activities were \$188 million for the quarter, up \$119 million from the second quarter of 2008, mainly due to higher revenues from fixed-income securities and partly offset by lower revenues from equity securities. Financial market fees and other revenues were down by amounts of \$16 million and \$56 million, respectively, when compared to the same quarter of 2008. The decrease in financial market fees was attributable to a slowdown in business caused by uncertainty in the capital markets. The decrease in other revenues was due in part to a \$20 million lower contribution from Maple Financial Group Inc., a company subject to significant influence. Gains on available for sale securities were up \$28 million, and revenues from banking services increased \$12 million compared to the same quarter of 2008. Second quarter operating expenses stood at \$171 million, up \$15 million from the year-earlier quarter due to a \$21 million increase in variable compensation and offset by a \$4 million decrease in salaries and staff benefits. For the second quarter of 2009, the segment recorded \$7 million in provision for credit losses versus the \$2 million recovered in the second quarter of 2008.

For the first six months of fiscal 2009, net income for the segment totalled \$196 million, up \$42 million from the same period in 2008. Total revenues stood at \$614 million compared to \$497 million for the first six months of 2008. Including revenues on a taxable equivalent basis and adjusted for non-controlling interest related to trading activities, the revenues from Financial Markets totalled \$623 million, up \$78 million from the first half of 2008. This increase consisted mainly of higher trading activity revenues from fixed-income securities offset by lower financial market fees and other income. Operating expenses stood at \$339 million, a \$14 million increase when compared to the first six months of 2008. For the first half of 2009, the segment recorded \$10 million in provision for credit losses versus the \$2 million recovered in the same period of 2008.

Other

The *Other* heading of segment results posted a net loss of \$32 million in the second quarter of 2009 versus a net loss of \$71 million in the same quarter of 2008. The results for the quarter include a net amount of \$20 million in charges related to holding ABCP and consisting mainly of losses on economic hedge transactions. In the second quarter of 2008, the after-tax charges related to ABCP were \$64 million and consisted of losses on economic hedge transactions, financing costs, and professional fees. Excluding the specified items, the second quarter total revenues for the *Other* heading was a negative amount of \$28 million compared to a negative amount of \$49 million for the second quarter of 2008. This difference was mainly attributable to higher revenues from securitization activities. For the first six months of 2009, the net loss under this heading was \$208 million, as compared to a net loss of \$60 million in the corresponding period of 2008. This was mainly due to ABCP-related charges, including the cost of holding ABCP and a charge related to commitments to extend credit to clients holding ABCP. Excluding the specified items, the net loss for the first six months of 2009 was \$4 million, as compared to a \$14 million loss posted for the same six-month 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 10.3% and 13.8%, respectively, as at April 30, 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 and to a slight decrease in risk-weighted assets. Furthermore, the repurchase of \$250 million in subordinated debentures in the second quarter of 2009 reduced the total capital ratio. If these ratios had been calculated using the former BIS rules (Basel I), they would have been 11.0% and 14.6%, respectively, as at April 30, 2009.

As at April 30, 2009, the risk-weighted assets calculated under the rules of Basel II were \$56.7 billion compared to \$58.1 billion as at October 31, 2008, down slightly by 2%. Risk-weighted assets calculated under Basel I would have been \$55.0 billion as at April 30, 2009.

Financial Indicators

	Results Q2 2009	Results excluding specified items ⁽¹⁾	Results first half 2009	Results excluding specified items ⁽¹⁾
Growth in diluted earnings per share	41%	9%	(31)%	6%
Return on common shareholders' equity	18.5%	19.4%	11.5%	19.3%
Tier 1 capital ratio under Basel II	10.3%	10.3%	10.3%	10.3%
Dividend payout ratio			64%	42%

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

HIGHLIGHTS

(unaudited) (millions of dollars)

	Quarter ended			Six months ended		
	April 30, 2009	April 30, 2008	% Change	April 30, 2009	April 30, 2008	% Change
Operating results						
Total revenues	\$ 1,031	\$ 887	16	\$ 1,907	\$ 1,816	5
Total revenues adjusted for non-controlling interest ⁽¹⁾	1,030	873	18	1,916	1,864	3
Net income	241	165	46	310	420	(26)
Return on common shareholders' equity	18.5%	14.3%		11.5%	18.6%	
Per common share (dollars)						
Earnings – basic	\$ 1.41	\$ 1.01	40	\$ 1.77	\$ 2.59	(32)
Earnings – diluted	1.41	1.00	41	1.77	2.58	(31)
EXCLUDING SPECIFIED ITEMS⁽²⁾						
Operating results						
Total revenues	\$ 1,059	\$ 975	9	\$ 2,077	\$ 1,891	10
Total revenues adjusted for non-controlling interest ⁽¹⁾	1,058	961	10	2,086	1,939	8
Net income	261	229	14	514	466	10
Return on common shareholders' equity	19.4%	20.2%		19.3%	20.7%	
Per common share (dollars)						
Earnings – basic	\$ 1.53	\$ 1.42	8	\$ 3.04	\$ 2.89	5
Earnings – diluted	1.53	1.41	9	3.04	2.87	6
Per common share (dollars)						
Dividends declared	\$ 0.62	\$ 0.62		\$ 1.24	\$ 1.24	
Book value				31.88	28.76	
Stock trading range						
High	46.43	53.73		46.43	54.25	
Low	30.71	44.39		25.62	44.39	
Close	43.65	53.73		43.65	53.73	

	April 30, 2009	October 31, 2008	% Change
Financial position			
Total assets	\$ 137,935	\$ 129,332	7
Loans and acceptances ⁽³⁾	56,732	56,015	1
Deposits	79,870	76,022	5
Subordinated debentures and shareholders' equity	8,281	7,764	7
Capital ratios – BIS under Basel II			
Tier 1	10.3%	9.4%	
Total	13.8%	13.2%	
Capital ratios – BIS under Basel I			
Tier 1	11.0%	10.1%	
Total	14.6%	14.1%	
Impaired loans, net of specific and general allowances	(155)	(162)	
As a % of loans and acceptances	(0.3)%	(0.3)%	
Assets under administration/management	198,552	204,998	
Total personal savings	98,725	95,893	
Interest coverage	4.80	5.21	
Asset coverage	4.01	3.89	
Other information			
Number of employees	17,343	17,146	1
Number of branches in Canada	446	446	–
Number of banking machines	856	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			Six months ended		
		April 30, 2009	April 30, 2008	%	April 30, 2009	April 30, 2008	%
Personal and Commercial		118	116	2	258	249	4
Wealth Management		32	38	(16)	64	77	(17)
Financial Markets		123	82	50	196	154	27
Other		(32)	(71)		(208)	(60)	
Net income		241	165	46	310	420	(26)
Plus: Charges related to holding ABCP	1	20	64		118	78	
Plus: Charge related to commitments to extend credit to clients holding ABCP	2	–	–		86	–	
Net income excluding the impact of ABCP		261	229	14	514	498	3
Less: Gain on the sale of the Bank's subsidiary in Nassau	3	–	–		–	(32)	
Net income excluding specified items		261	229	14	514	466	10
Diluted earnings per common share		\$ 1.41	\$ 1.00	41	\$ 1.77	\$ 2.58	(31)
Plus: Charges related to holding ABCP	1	0.12	0.41		0.73	0.49	
Plus: Charge related to commitments to extend credit to clients holding ABCP	2	–	–		0.54	–	
Diluted earnings per common share excluding the impact of ABCP		\$ 1.53	\$ 1.41	9	\$ 3.04	\$ 3.07	(1)
Less: Gain on the sale of the Bank's subsidiary in Nassau	3	–	–		–	(0.20)	
Diluted earnings per common share excluding specified items		\$ 1.53	\$ 1.41	9	\$ 3.04	\$ 2.87	6
Return on common shareholders' equity							
Including specified items		18.5%	14.3%		11.5%	18.6%	
Excluding specified items		19.4%	20.2%		19.3%	20.7%	

- (1) During the quarter ended April 30, 2009, the following items, net of income taxes, were recorded to reflect the holding of ABCP: \$17 million in losses on economic hedge transactions (2008: \$49 million), ABCP financing costs of \$2 million (2008: \$10 million), and \$1 million in professional fees related to the ABCP file (2008: \$5 million). During the six months ended April 30, 2009, the following items, net of income taxes, were recorded to reflect the holding of ABCP: a \$129 million loss on available for sale securities related to ABCP (2008: nil), \$18 million in losses on economic hedge transactions (2008: \$49 million), \$41 million in interest received or receivable on ABCP held (2008: nil), ABCP financing costs of \$9 million (2008: \$23 million), and \$3 million in professional fees related to the ABCP file (2008: \$6 million).
- (2) During the six months ended April 30, 2009, an \$86 million after-tax provision for credit losses related to commitments to extend credit to clients holding ABCP was recorded (2008: nil).
- (3) During the six months ended April 30, 2008, the Bank recorded a net gain of \$32 million on the sale of its 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 could be characterized by an overall slowdown in the world economy that could affect 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 or regulatory judgments and legal proceedings; developments with respect 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; 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 Second Quarter 2009 Results

Conference Call

- A conference call for analysts and institutional investors will be held on May 28, 2009 at 1:00 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 June 4, 2009 by calling 1-800-408-3053 or 416-695-5800. The access code is 8331441#.

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.

For more information:

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

Jean Dagenais
Senior Vice-President
Finance, Taxation and
Investor Relations
514-394-6233

Denis Dubé
Senior Director
Public Relations
514-394-8644

Hélène Baril
Senior Director
Investor Relations
514-394-0296