

## National Bank Releases its Results for the Third Quarter of 2011

The financial information in this press release is based on the unaudited interim consolidated financial statements for the third quarter ended July 31, 2011. 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) or on Bank's website at [www.nbc.ca](http://www.nbc.ca).

### Highlights:

- Net income of \$312 million in the third quarter of 2011, up 15% from \$271 million in net income for the same quarter of 2010;
- Diluted earnings per share of \$1.84 for the third quarter of 2011, up 18% from \$1.56 for the same quarter of 2010;
- Finalization of the acquisition of Wellington West Holdings Inc. on July 15, 2011;
- Return on equity of 18.7%;
- Pro forma Core Tier 1 capital ratio under Basel III of 8.0% as at July 31, 2011.

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

- Net income of \$293 million in the third quarter of 2011, up 7% from net income of \$273 million in the same period of 2010;
- Diluted earnings per share of \$1.72 for the third quarter of 2011, up 10% from \$1.57 in the same quarter of 2010;
- Return on equity of 17.5%.

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

**MONTREAL, August 25, 2011** – National Bank reports net income of \$312 million in the third quarter of fiscal 2011, up 15% from \$271 million in the third quarter of 2010. Diluted earnings per share for the quarter ended July 31, 2011 stood at \$1.84, up \$0.28 or 18% from \$1.56 in the same quarter of 2010. Excluding the specified items described on page 5, third quarter net income was \$293 million, up 7% from \$273 million in the same quarter of 2010, and third quarter diluted earnings per share stood at \$1.72, up 10% from \$1.57 in the same quarter of 2010.

The Bank's net income for the first nine months of fiscal 2011 totalled \$919 million, up 23% from \$747 million in the same period of 2010. Diluted earnings per share stood at \$5.12 for the first nine months of 2011, up \$0.84 or 20% from \$4.28 in the same period of 2010. Excluding specified items, nine-month net income was \$900 million, up 12% from \$802 million in the same period of 2010, and nine-month diluted earnings per share stood at \$5.21, up 13% from \$4.62 in the same period in 2010.

"For its third quarter results, National Bank's Personal and Commercial Banking, Financial Markets and Wealth Management segments delivered earnings growth. In this period of global economic uncertainties, the Bank should benefit from its strong capital position and sound credit portfolio. Therefore, the Bank intends to pursue the growth objectives of the *One client, one bank* plan," said President and Chief Executive Officer, Louis Vachon.

### Financial Indicators

Financial Indicators	Results	Results	Results	Results
	Q3 2011	excluding specified items <sup>(1)</sup>	Nine months 2011	excluding specified items <sup>(1)</sup>
Growth in diluted earnings per share	18 %	10 %	20 %	13 %
Return on common shareholders' equity	18.7 %	17.5 %	17.9 %	18.2 %
Tier 1 capital ratio under Basel II	13.9 %	13.9 %	13.9 %	13.9 %
Pro forma Core Tier 1 capital ratio under Basel III	8.0 %	8.0 %	8.0 %	8.0 %
Dividend payout ratio	39 %	38 %	39 %	38 %

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

## Results by Segment

### Personal and Commercial

In the Personal and Commercial segment, net income rose 6% to total \$168 million for the quarter. Total revenues amounted to \$645 million, a \$19 million increase that owes mainly to higher net interest income, which, at \$401 million, rose \$20 million as a result of growth in personal and commercial loan volumes. This growth was tempered by a narrowing of the net interest margin, which was 2.34% in the third quarter of 2011 compared to 2.46% in the same quarter of 2010, mainly due to a decline in spreads on personal loans.

Personal Banking's total revenues amounted to \$429 million, a \$12 million increase that was mainly due to higher loan volumes, especially consumer and mortgage loans, partly offset by a narrowing of net interest margins. At \$160 million, other income grew \$2 million from the same period of 2010. Commercial Banking's total revenues amounted to \$216 million, a \$7 million increase owing mainly to growth in loan and deposit volumes.

Operating expenses for the Personal and Commercial segment stood at \$367 million in the third quarter of 2011, up \$11 million from the same quarter of 2010. Despite this increase, the efficiency ratio held steady at 57% during the third quarter of 2011. At \$44 million, the segment's provisions for credit losses were \$1 million lower, as the lower provisions for personal and credit card loan losses offset the higher provisions for losses on commercial credit.

For the first nine months of fiscal 2011, the Personal and Commercial segment posted net income of \$474 million, up \$43 million from \$431 million in the same period of 2010. Total revenues for the segment rose 4% to total \$1,896 million. Personal Banking's total revenues were up \$44 million or 4%, mainly due to higher consumer and mortgage loan volumes mitigated by a decline in the spread on deposits, and Commercial Banking's total revenues rose \$35 million or 6%. At \$154 million, the segment's provisions for credit losses were stable. The efficiency ratio for the first nine months of 2011 improved to 57% from 58% in the same period of 2010.

### Wealth Management

In the Wealth Management segment, net income totalled \$37 million in the third quarter of 2011, up \$8 million or 28% from \$29 million in the same quarter of 2010. Third quarter total revenues amounted to \$208 million compared to \$188 million in the third quarter of 2010, an increase that owes mainly to other income, which was up \$17 million or 11%. This increase stems from a greater volume of assets under management and administration, which generated revenue growth from trust services and mutual funds. In addition, commission revenues increased on the strength of greater brokerage activity. Third quarter operating expenses increased \$9 million year-over-year to stand at \$155 million. The increase in salaries and variable compensation is explained by the growth in brokerage activity revenues. Despite the higher operating expense, the efficiency ratio improved to 75% this quarter from 78% in the same quarter of 2010.

For the first nine months of fiscal 2011, the Wealth Management segment posted net income of \$124 million compared to \$81 million in the same period of 2010. Nine-month total revenues amounted to \$648 million versus \$577 million for the same period of 2010. Other income grew by \$54 million or 11% due to higher revenues from trust services, mutual funds, and securities brokerage commissions. Nine-month operating expenses stood at \$472 million compared to \$454 million in the same period of 2010. This 4% increase in expenses, combined with the 12% growth in revenues, improved the efficiency ratio to 73% for this nine-month period of 2011 from 79% in the same nine-month period of 2010.

### Financial Markets

In the Financial Markets segment, net income totalled \$101 million in the third quarter of 2011, up \$7 million from \$94 million in the same quarter of 2010. Third quarter total revenues amounted to \$321 million compared to \$303 million in the third quarter of 2010. On a taxable-equivalent basis and including non-controlling interests related to trading activities, the third quarter revenues were \$327 million compared to \$309 million in the same quarter of 2010. Trading activity revenues on a taxable equivalent basis were \$102 million for the quarter, up \$14 million from the same year-earlier quarter, mainly due to higher revenues from equity securities. Revenues from most other activities were up compared to the same quarter of 2010. The 2% growth in financial market fees came from greater capital issuance activity, and banking service revenues increased by 8%.

Operating expenses for the quarter stood at \$186 million, up \$14 million from the third quarter of 2010. This increase was due in part to a higher salaries and staff benefits expense that stems mostly from increased business at the Credigy Ltd. subsidiary and from a severance pay charge recorded following the acquisition of Wellington West Holdings Inc. No provision for credit losses was recorded for the third quarter of 2011, whereas \$4 million had been recovered in the same quarter of 2010.

For the first nine months of fiscal 2011, net income for the segment totalled \$384 million, up \$26 million or 7% from the same period in 2010. Nine-month total revenues amounted to \$1,081 million compared to \$995 million for the first nine months of 2010. On a taxable equivalent basis and including non-controlling interests related to trading activities, nine-month revenues totalled \$1,082 million, up \$81 million or 8% from the same nine-month period in 2010. All revenue types other than trading were up, except net gains on available-for-sale securities. The segment's nine-month operating expenses were \$546 million, a \$65 million increase from the same period in 2010. For the first nine months of 2011, the segment had a \$5 million recovery of credit losses, while no provision for credit losses had been recorded for the same period in 2010.

## Other

The *Other* heading of segment results posted third quarter net income of \$6 million versus a net loss of \$11 million in the same quarter of 2010. The specified items recorded in the third quarter of 2011, net of income taxes, include \$8 million in litigation provisions and an \$11 million reversal of allowances for credit losses taken for loans and credit facilities secured by restructured notes of the MAV conduits. In addition, a \$21 million reversal of the provision for income tax contingencies was recorded in the third quarter of 2011. The specified items of \$2 million, net of income taxes, for the third quarter of 2010 are related to the holding of restructured notes of the MAV conduits. Excluding specified items, total revenues were down by \$14 million from the third quarter of 2010 due to gains on the sale of equity securities recorded in the third quarter of 2010, mitigated by higher securitization revenues in the third quarter of 2011. Year-over-year, third quarter operating expenses were unchanged.

For the first nine months of fiscal 2011, the net loss was \$63 million compared to a \$123 million net loss for the same period of fiscal 2010. This difference was due to specified items recorded in the third quarter of 2011, offset by the recording of specified items in the first quarter of 2010.

## Capital

The Bank uses the Advanced Internal Rating-Based Approach for credit risk. For operational risk, the Bank uses the Standardized Approach and, for market risk, it continues to use the models and the Standardized Approach in accordance with the Basel II Accord. Detailed information is provided in the "Capital Management" section on pages 58 to 60 of the 2010 Annual Report. The new Basel III capital standards will gradually come into force from January 1, 2013 to January 1, 2019. The Bank expects that it will be able to achieve compliance with these new standards without resorting to the regulatory event redemption clause included in the capital instruments in question. As at July 31, 2011, the pro forma Core Tier 1 capital ratio under Basel III stood at 8.0%.

According to the rules of the Bank for International Settlements (BIS) – Basel II, the Tier 1 capital ratio and the total capital ratio stood at 13.9% and 17.2%, respectively, as at July 31, 2011; as at October 31, 2010, these same ratios were 14.0% and 17.5%, respectively. The capital ratios remained relatively stable. Net income growth net of dividends and the common shares issued for the acquisition of Wellington West Holdings Inc. were offset by the added goodwill resulting from this acquisition and by the repurchase of preferred shares and common shares for cancellation.

The risk-weighted assets calculated under the rules of Basel II decreased and amounted to \$48.9 billion as at July 31, 2011 compared to \$49.8 billion as at October 31, 2010.

# HIGHLIGHTS

(unaudited) (millions of dollars)

	Quarter ended			Nine months ended		
	July 31, 2011	July 31, 2010	% Change	July 31, 2011	July 31, 2010	% Change
<b>Operating results</b>						
Total revenues	\$ 1,103	\$ 1,057	4	\$ 3,402	\$ 3,191	7
Total revenues adjusted for non-controlling interests <sup>(1)</sup>	1,109	1,063	4	3,403	3,197	6
Net income	312	271	15	919	747	23
Return on common shareholders' equity	18.7 %	17.7 %		17.9 %	16.6 %	
<b>Per common share (dollars)</b>						
Earnings – Basic	\$ 1.86	\$ 1.57	18	\$ 5.18	\$ 4.32	20
Earnings – Diluted	1.84	1.56	18	5.12	4.28	20
<b>EXCLUDING SPECIFIED ITEMS<sup>(2)</sup></b>						
<b>Operating results</b>						
Total revenues	\$ 1,103	\$ 1,060	4	\$ 3,402	\$ 3,199	6
Total revenues adjusted for non-controlling interests <sup>(1)</sup>	1,109	1,066	4	3,403	3,205	6
Net income	293	273	7	900	802	12
Return on common shareholders' equity	17.5 %	17.7 %		18.2 %	17.8 %	
<b>Per common share (dollars)</b>						
Earnings – Basic	\$ 1.74	\$ 1.58	10	\$ 5.27	\$ 4.66	13
Earnings – Diluted	1.72	1.57	10	5.21	4.62	13
<b>Per common share (dollars)</b>						
Dividends declared	\$ 0.71	\$ 0.62		\$ 2.03	\$ 1.86	
Book value				40.23	36.01	
Stock trading range						
High	81.44	62.69		81.44	64.62	
Low	74.05	54.45		64.86	54.45	
Close	74.05	58.99		74.05	58.99	

	As at July 31, 2011	As at October 31, 2010	% Change
<b>Financial position</b>			
Total assets	\$ 153,314	\$ 145,302	6
Loans and acceptances <sup>(3)</sup>	68,056	63,134	8
Deposits	85,616	81,785	5
Subordinated debentures and shareholders' equity	9,280	9,241	-
Pro forma Core Tier 1 capital ratio under Basel III	8.0 %	7.6 %	
Capital ratios – BIS under Basel II			
Tier 1	13.9 %	14.0 %	
Total	17.2 %	17.5 %	
Capital ratios – BIS under Basel I			
Tier 1	11.5 %	12.1 %	
Total	14.6 %	15.6 %	
Impaired loans, net of specific and general allowances	(178)	(267)	
As a % of loans and acceptances	(0.3) %	(0.4) %	
Assets under administration/management	244,099	235,541	
Total personal savings	136,075	118,098	
Interest coverage	10.20	9.03	
Asset coverage	4.32	4.48	
<b>Other information</b>			
Number of employees	19,217	18,322	5
Number of branches in Canada	442	442	-
Number of banking machines	872	869	-

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

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

(3) Net of securitized assets.

# FINANCIAL REPORTING METHOD

The Bank uses certain measurements that are not in accordance 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)

	Quarter ended			Nine months ended		
	July 31, 2011	July 31, 2010	% Change	July 31, 2011	July 31, 2010	% Change
<b>Excluding specified items</b>						
Personal and Commercial	168	159	6	474	431	10
Wealth Management	37	29	28	124	81	53
Financial Markets	106	94	13	389	358	9
Other	(18)	(9)		(87)	(68)	
<b>Net income excluding specified items</b>	<b>293</b>	<b>273</b>	<b>7</b>	<b>900</b>	<b>802</b>	<b>12</b>
Less: Severance pay <sup>(1)</sup>	(5)	-		(5)	-	
Less: Litigation provisions <sup>(2)</sup>	(8)	-		(8)	-	
Less: Holding charges for restructured notes of the MAV conduits <sup>(3)</sup>	-	(2)		-	(5)	
Less: Administrative penalty <sup>(4)</sup>	-	-		-	(75)	
Plus: Reversal of allowances for credit losses <sup>(5)</sup>	11	-		11	-	
Plus: Reversal of provisions for income tax contingencies <sup>(6)</sup>	21	-		21	25	
<b>Net income</b>	<b>312</b>	<b>271</b>	<b>15</b>	<b>919</b>	<b>747</b>	<b>23</b>
<b>Diluted earnings per common share excluding specified items</b>	<b>\$ 1.72</b>	<b>\$ 1.57</b>	<b>10</b>	<b>\$ 5.21</b>	<b>\$ 4.62</b>	<b>13</b>
Less: Severance pay <sup>(1)</sup>	(0.03)	-		(0.03)	-	
Less: Litigation provisions <sup>(2)</sup>	(0.05)	-		(0.05)	-	
Less: Premium paid on preferred shares repurchased for cancellation <sup>(7)</sup>	-	-		(0.21)	-	
Less: Holding charges for restructured notes of the MAV conduits <sup>(3)</sup>	-	(0.01)		-	(0.03)	
Less: Administrative penalty <sup>(4)</sup>	-	-		-	(0.46)	
Plus: Reversal of allowances for credit losses <sup>(5)</sup>	0.07	-		0.07	-	
Plus: Reversal of provisions for income tax contingencies <sup>(6)</sup>	0.13	-		0.13	0.15	
<b>Diluted earnings per common share</b>	<b>\$ 1.84</b>	<b>\$ 1.56</b>	<b>18</b>	<b>\$ 5.12</b>	<b>\$ 4.28</b>	<b>20</b>
<b>Return on common shareholders' equity</b>						
<b>Including specified items</b>	<b>18.7 %</b>	<b>17.7 %</b>		<b>17.9 %</b>	<b>16.6 %</b>	
<b>Excluding specified items</b>	<b>17.5 %</b>	<b>17.7 %</b>		<b>18.2 %</b>	<b>17.8 %</b>	

(1) During the quarter ended July 31, 2011, \$5 million in severance pay, net of income taxes, was recorded following the acquisition of Wellington West Holdings Inc.

(2) During the quarter ended July 31, 2011, \$8 million in litigation provisions, net of income taxes, was recorded.

(3) During the quarter ended July 31, 2011, the holding charges for restructured notes of the master asset vehicle (MAV) conduits were negligible (\$2 million in 2010), net of income taxes. During the nine months ended July 31, 2011, the holding charges for restructured notes of the MAV conduits were negligible (\$5 million in 2010), net of income taxes.

(4) During the nine months ended July 31, 2010, a \$75 million administrative penalty had been recognized as part of a settlement of an agreement affecting the entire asset-backed commercial paper industry.

(5) During the quarter ended July 31, 2011, there was a reversal of \$11 million, net of income taxes, in allowances for credit losses taken for loans and credit facilities secured by restructured notes of the MAV conduits.

(6) During the quarter ended July 31, 2011, \$21 million in income tax provisions was reversed following a revaluation of contingent income tax liabilities. During the nine months ended July 31, 2010, a \$25 million reversal had been recorded.

(7) During the nine months ended July 31, 2011, a \$34 million premium was paid on the Series 21, 24 and 26 First Preferred Shares repurchased for cancellation.

## 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" section and under the "Medium-Term Objectives" heading in the "Outlook for National Bank" section of the 2010 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 2011 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 2011 and how that will affect the Bank's business are among the main factors considered in setting the Bank's strategic priorities and objectives and in determining its financial targets, including provisions for credit losses. In determining its expectations for economic growth, both broadly and in the financial services sector in particular, the Bank primarily considers historical economic data provided by the Canadian and U.S. governments and their agencies. 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 the restructured notes of the master asset vehicles, in particular the realizable value of the 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 2010 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 2011 RESULTS

## Conference Call

- A conference call for analysts and institutional investors will be held on August 25, 2011 at 1:30 p.m. EDT.
- Access by telephone in listen-only mode: 1-866-226-1792 or 416-340-2216.
- A recording of the conference call can be heard until September 3, 2011 by dialing 1-800-408-3053 or 905-694-9451. The access code is 4304681#.

## 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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