

National Bank releases its results for the second quarter of 2010

The financial information in this press release is based on the unaudited interim consolidated financial statements for the second quarter ended April 30, 2010. 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:

- Net income of \$261 million in the second quarter of 2010, up 8% from net income of \$241 million in the second quarter of 2009;
- Diluted earnings per share of \$1.50 for the second quarter of 2010, a 6% increase from diluted earnings per share of \$1.41 for the same quarter of 2009;
- Return on equity of 18.0%;
- Tier 1 capital ratio of 12.6% as at April 30, 2010 compared to 10.7% as at October 31, 2009.

Highlights excluding specified items⁽¹⁾:

- Net income of \$261 million in the second quarter of 2010, unchanged from net income of \$261 million in the same period of 2009;
- Diluted earnings per share of \$1.50 for the second quarter of 2010 versus \$1.53 for the same quarter of 2009;
- Return on equity of 17.8%.

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

MONTREAL, May 27, 2010 – National Bank reports net income of \$261 million in the second quarter of 2010, up 8% from \$241 million in the second quarter of 2009. Diluted earnings per share for the quarter ended April 30, 2010 stood at \$1.50, up 6% from \$1.41 for the same quarter of 2009. In the second quarter of 2009, the Bank had recorded \$20 million in after-tax charges related to asset-backed commercial paper (ABCP). Excluding specified items, net income for the second quarter of 2010 would have remained at \$261 million, stable when compared to the \$261 million reported for the second quarter of 2009, and diluted earnings per share would have been \$1.50 in the second quarter of 2010 versus \$1.53 for the same quarter of 2009.

The Bank's net income for the first six months of fiscal 2010 totalled \$476 million, up 54% from \$310 million in the same period of 2009. Diluted earnings per share stood at \$2.72 for the first six months of 2010, up \$0.95 or 54% from \$1.77 for the same six-month period of 2009. Excluding the specified items described on page 5, net income for the first six months of 2010 would have been \$529 million, a 3% increase from \$514 million in the first six months of 2009. Diluted earnings per share would have been \$3.05 for the first six months of 2010 compared to \$3.04 for the first six months of 2009.

"In the second quarter of 2010, the Personal and Commercial segment excelled with a steadily increasing loan volume. The results of Financial Markets were also up from the second quarter of 2009, which had benefited from highly favourable market conditions. I would also like to point out that a new phase in the *One client, one bank* plan has been successfully completed, namely, the selection of the integrator for the new SAP sales and service platform. It has been decided that the Bank will lead this major project with the help of Accenture in collaboration with CGI and our other IT partners. With these developments, combined with the consistent quality of our credit portfolio, the sound performance of the Quebec economy, and our solid financial footing, we are well positioned to diligently pursue our initiatives to further improve client service," said President and Chief Executive Officer Louis Vachon.

Results by Segment

Personal and Commercial

Net income for the Personal and Commercial segment rose 23% to total \$141 million for the quarter. The segment's total revenues advanced \$44 million to total \$591 million, and net interest income advanced \$22 million to total \$365 million for the second quarter of 2010. This growth came from a solid increase in personal and commercial loans, tempered by a narrowing of the net interest margin, which was 2.49% in the second quarter of 2010 compared to 2.53% in the same quarter of 2009. The decrease was mainly due to a lower spread on deposits.

Total revenues at Personal Banking were \$402 million, a \$33 million increase arising mainly from higher loan volumes, partly offset by a narrowing of net interest margins on deposits. Growth in other income came mainly from fees collected on loan prepayments and insurance revenues. Total revenues at Commercial Banking increased by \$11 million, mainly due to higher loan volumes and to higher lending and acceptance fees.

Operating expenses for the Personal and Commercial segment stood at \$335 million in the second quarter of 2010, up \$6 million from the same quarter of 2009, mainly due to substantial investments in sales force improvements, in particular branch hirings. Nevertheless, the efficiency ratio was 57% for the second quarter of 2010 versus 60% for the same quarter of 2009. The segment's provision for credit losses was up \$6 million for a total of \$55 million, with the increase divided almost equally between personal loans and commercial loans.

For the first six months of 2010, net income for the Personal and Commercial segment stood at \$280 million, a \$29 million increase over the \$251 million in net income recorded during the same six months in 2009. Total revenues for the segment rose 6% to total \$1,184 million. Total revenues at Personal Banking grew \$58 million or 8%, mainly due to higher loan volumes. Total revenues for Commercial Banking rose \$10 million or 3%. The segment's provision for credit losses was \$15 million higher than in the same six-month period of 2009. This increase was attributable to the losses on credit card receivables and personal loans. The efficiency ratio for the first half of 2010 fell to 57% compared to 58% in the same six-month period of 2009.

Wealth Management

Net income for the Wealth Management segment totalled \$28 million in the second quarter of 2010, down \$2 million from \$30 million in the same quarter of 2009. Total revenues for the segment stood at \$194 million, as against \$185 million in the second quarter of 2009, primarily due to other income, which was up \$21 million or 14% owing to robust brokerage activities and mutual fund revenues and tempered by the narrower net interest margin on deposits. Second quarter operating expenses increased \$12 million to stand at \$152 million. The increase recorded in salaries and variable compensation is explained by the growth in securities brokerage commission revenues as brokerage activity rebounded.

For the first six months of fiscal 2010, net income for Wealth Management totalled \$51 million compared to \$61 million in the same period of 2009, for a decrease that is explained by the same factors provided for the quarter. First-half total revenues stood at \$387 million, as against \$380 million for the first six months of 2009. Excluding net interest income, other revenues were up \$32 million or 10%. First-half operating expenses amounted to \$307 million compared to \$286 million in the first half of 2009.

Financial Markets

The Financial Markets segment posted net income of \$125 million in the second quarter of 2010, up \$3 million from the same quarter of 2009. Total revenues on a taxable equivalent basis for the segment stood at \$350 million compared to \$355 million in the second quarter of 2009. Including revenues adjusted for non-controlling interest related to trading activities, second quarter revenues totalled \$345 million compared to \$354 million for the same quarter of 2009. Trading activity revenues on a taxable equivalent basis were \$148 million for the quarter, down \$40 million from the same year-earlier quarter, mainly due to lower revenues from fixed-income securities offset by higher revenues from equity securities and commodity and foreign exchange contracts. Revenues from all other activities were up compared to the same quarter of 2009 due mainly to greater activity in the financial markets and higher banking service revenues. The increase in *Other* revenues in the Financial Markets segment was mainly attributable to the revenues from Credigy Ltd.

Operating expenses for the quarter stood at \$165 million, a slight \$2 million decline from the second quarter of 2009 due to strict cost control. For the second quarter of 2010, the segment recorded a recovery of \$1 million on the provision for credit losses, \$8 million less than in the same quarter of 2009. This decrease was due to the recovery of a manufacturing sector loan.

For the first six months of fiscal 2010, net income for the segment totalled \$269 million, up \$73 million or 37% from the same period in 2009. Total revenues on a taxable equivalent basis stood at \$716 million compared to \$613 million for the first six months of 2009. Including revenues adjusted for non-controlling interest related to trading activities, the revenues from Financial Markets totalled \$716 million, up \$94 million or 15% from the first half of 2009. This increase primarily consists of the increase in revenues from all non-trading activities, which are benefitting from the recovery in financial markets. Operating expenses stood at \$325 million, a \$5 million decrease when compared to the first six months of 2009. For the first half of 2010, the segment recorded a provision for credit losses of \$4 million, down \$7 million from the same six-month period of 2009.

Other

The *Other* heading of segment results posted a net loss of \$33 million in the second quarter of 2010 versus a net loss of \$26 million in the same quarter of 2009. Charges related to holding ABCP were negligible in the second quarter of 2010, whereas the 2009 results had \$20 million in after-tax charges related to holding ABCP, including a \$17 million loss on economic hedge transactions and \$3 million in financing costs and professional fees. Excluding specified items, the net loss of the *Other* heading for the second quarter of 2010 was \$33 million compared to a net loss of \$6 million for the second quarter of 2009. The difference owes mainly to the decrease in revenues from securitization activities.

For the first six months of 2010, the net loss under this heading was \$124 million, as compared to a net loss of \$198 million in the same period of 2009. The difference was primarily due to the impact of ABCP. During the first six months of 2010, an administrative penalty of \$75 million was recorded, and for the same period of 2009, charges related to holding ABCP of \$118 million and charges related to commitments to extend credit to clients holding ABCP of \$86 million, net of income taxes, were recorded. Excluding specified items, the net loss for the first six months of 2009 was \$71 million compared to a \$6 million net loss for the same period of 2009. The difference is still mostly attributable to the decrease in revenues from securitization activities.

Capital

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

According to the rules of the Bank for International Settlements (BIS) – Basel II – and using the AIRB Approach for credit risk, the Tier 1 capital ratio and the total capital ratio stood at 12.6% and 16.2%, respectively, as at April 30, 2010. As at October 31, 2009, using the Standardized Approach of Basel II, these same ratios were 10.7% and 14.3%, respectively. This increase in the capital ratios was largely due to the Bank's adoption of the AIRB Approach as well as to the growth in retained earnings.

As at April 30, 2010, the risk-weighted assets calculated under the rules of Basel II decreased and amounted to \$52.1 billion compared to \$58.6 billion as at October 31, 2009.

Financial Indicators

	Results Q2 2010	Results excluding specified items ⁽¹⁾	Results First half 2010	Results excluding specified items ⁽¹⁾
Growth in diluted earnings per share	6 %	(2)%	54 %	–
Return on common shareholders' equity	18.0 %	17.8 %	16.1 %	17.9 %
Tier 1 capital ratio under Basel II	12.6 %	12.6 %	12.6 %	12.6 %
Dividend payout ratio			42 %	39 %

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

HIGHLIGHTS

(unaudited) (millions of dollars)

	Quarter ended			Six months ended		
	April 30, 2010	April 30, 2009	% Change	April 30, 2010	April 30, 2009	% Change
Operating results						
Total revenues	\$ 1,052	\$ 1,031	2	\$ 2,129	\$ 1,907	12
Total revenues adjusted for non-controlling interest ⁽¹⁾	1,047	1,030	2	2,129	1,916	11
Net income	261	241	8	476	310	54
Return on common shareholders' equity	18.0%	18.5%		16.1%	11.5%	
Per common share (dollars)						
Earnings – basic	\$ 1.51	\$ 1.41	7	\$ 2.74	\$ 1.77	55
Earnings – diluted	1.50	1.41	6	2.72	1.77	54
EXCLUDING SPECIFIED ITEMS⁽²⁾						
Operating results						
Total revenues	\$ 1,052	\$ 1,059	(1)	\$ 2,134	\$ 2,078	3
Total revenues adjusted for non-controlling interest ⁽¹⁾	1,047	1,058	(1)	2,134	2,087	2
Net income	261	261	–	529	514	3
Return on common shareholders' equity	17.8%	19.4%		17.9%	19.3%	
Per common share (dollars)						
Earnings – basic	\$ 1.52	\$ 1.53	(1)	\$ 3.08	\$ 3.04	1
Earnings – diluted	1.50	1.53	(2)	3.05	3.04	–
Per common share (dollars)						
Dividends declared	\$ 0.62	\$ 0.62		\$ 1.24	\$ 1.24	
Book value				34.48	31.88	
Stock trading range						
High	64.01	46.43		64.62	46.43	
Low	56.62	30.71		56.51	25.62	
Close	62.10	43.65		62.10	43.65	

	As at April 30, 2010	As at October 31, 2009	% Change
Financial position			
Total assets	\$ 150,735	\$ 132,138	14
Loans and acceptances ⁽³⁾	61,177	58,370	5
Deposits	83,646	75,170	11
Subordinated debentures and shareholders' equity	8,660	8,494	2
Capital ratios – BIS under Basel II			
Tier 1	12.6% ⁽⁴⁾	10.7% ⁽⁵⁾	
Total	16.2% ⁽⁴⁾	14.3% ⁽⁵⁾	
Capital ratios – BIS under Basel I			
Tier 1	11.6%	11.5%	
Total	15.3%	15.2%	
Impaired loans, net of specific and general allowances	(213)	(233)	
As a % of loans and acceptances	(0.3)%	(0.4)%	
Assets under administration/management	221,507	192,551	
Total personal savings	112,640	106,458	
Interest coverage	9.49	8.04	
Asset coverage	4.28	4.19	
Other information			
Number of employees	18,248	17,747	3
Number of branches in Canada	444	445	–
Number of banking machines	855	855	–

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

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

(3) Net of securitized assets.

(4) Calculated using the AIRB Approach.

(5) Calculated using the Standardized Approach.

FINANCIAL REPORTING METHOD

The Bank uses certain measurements that 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)

	Notes	Quarter ended			Six months ended		
		April 30, 2010	April 30, 2009	%	April 30, 2010	April 30, 2009	%
Personal and Commercial		141	115	23	280	251	12
Wealth Management		28	30	(7)	51	61	(16)
Financial Markets		125	122	2	269	196	37
Other		(33)	(26)		(124)	(198)	
Net income		261	241	8	476	310	54
Plus: ABCP-related items							
– charges related to holding ABCP	1	–	20		3	118	
– administrative penalty	2	–	–		75	–	
– charge related to commitments to extend credit	3	–	–		–	86	
Net income excluding the impact of ABCP		261	261	–	554	514	8
Less: Reversal of a provision for income tax contingencies	4	–	–		(25)	–	
Net income excluding specified items		261	261	–	529	514	3
Diluted earnings per common share		\$ 1.50	\$ 1.41	6	\$ 2.72	\$ 1.77	54
Plus: ABCP-related items							
– charges related to holding ABCP	1	–	0.12		0.02	0.73	
– administrative penalty	2	–	–		0.46	–	
– charge related to commitments to extend credit	3	–	–		–	0.54	
Diluted earnings per common share excluding the impact of ABCP		\$ 1.50	\$ 1.53	(2)	\$ 3.20	\$ 3.04	5
Less: Reversal of a provision for income tax contingencies	4	–	–		(0.15)	–	
Diluted earnings per common share excluding specified items		\$ 1.50	\$ 1.53	(2)	\$ 3.05	\$ 3.04	–
Return on common shareholders' equity							
Including specified items		18.0%	18.5%		16.1%	11.5%	
Excluding specified items		17.8%	19.4%		17.9%	19.3%	

- (1) During the quarter ended April 30, 2010, items recognized with respect to holding ABCP were negligible. During the quarter ended April 30, 2009, the following items, net of income taxes, were recognized in relation to the holding of ABCP: a \$17 million loss on economic hedge transactions, \$2 million in financing costs, and \$1 million in professional fees. During the six months ended April 30, 2010, the following items, net of income taxes, were recognized in relation to the holding of ABCP: a \$1 million gain on economic hedge transactions (2009: \$18 million loss) and \$4 million in financing costs (2009: \$9 million). During the six months ended April 30, 2009, the Bank had also recognized the following items, net of income taxes, in relation to the holding of ABCP: a \$129 million loss on available-for-sale securities, \$41 million in interest received or receivable, and \$3 million in professional fees.
- (2) During the six months ended April 30, 2010, a \$75 million administrative penalty was recognized as part of a settlement of an ABCP industry-wide agreement.
- (3) 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 had been recorded.
- (4) During the six months ended April 30, 2010, an income tax provision of \$25 million was reversed as a result of a revaluation of future income tax liabilities.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

From time to time, National Bank of Canada (the Bank) makes written and oral forward-looking statements, such as those contained in the “Major Economic Trends and Outlook” section and under the “Medium-term objectives” heading in the “Overview” section of the 2009 Annual Report, in other filings with Canadian securities regulators and in other communications, for the purpose of describing the economic environment in which the Bank will operate during fiscal 2010 and the objectives it has set for itself for that period. These forward-looking statements are made pursuant to the “safe harbour” provisions of Canadian and U.S. securities legislation. They include, among others, statements with respect to the economy—particularly the Canadian and U.S. economies—market changes, observations regarding the Bank’s objectives and its strategies for achieving them, Bank projected financial returns and certain risks faced by the Bank. These forward-looking statements are typically identified by future or conditional verbs or words such as “outlook,” “believe,” “anticipate,” “estimate,” “project,” “expect,” “intend,” “plan,” and terms and expressions of similar import.

By their very nature, such forward-looking statements require assumptions to be made and involve inherent risks and uncertainties, both general and specific. Assumptions about the performance of the Canadian and U.S. economies in 2010 and how that will affect the Bank’s business are among the main factors considered in setting the Bank’s strategic priorities and objectives and in determining its financial targets, including provisions for credit losses. There is a likelihood that personal and commercial bankruptcies will increase in the coming quarters, a consequence of the financial and credit crisis that marked 2009. In determining its expectations for economic growth, both broadly and in the financial services sector in particular, the Bank primarily considers historical economic data provided by the Canadian and U.S. governments and their agencies. Tax laws in the countries in which the Bank operates, primarily Canada and the United States, are major factors it considers when establishing its effective tax rate. There is a strong possibility that express or implied projections contained in such statements will not materialize or will not be accurate. The Bank recommends that readers not place undue reliance on these statements, as a number of factors, many of which are beyond the Bank’s control, could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking statements. These factors include the management of credit, market and liquidity risks; the strength of the Canadian and U.S. economies and the economies of other countries in which the Bank conducts business; the impact of the movement of the Canadian dollar relative to other currencies, particularly the U.S. dollar; the effects of changes in monetary policy, including changes in interest rate policies of the Bank of Canada and the U.S. Federal Reserve; the effects of competition in the markets in which the Bank operates; the impact of changes in the laws and regulations regulating financial services and enforcement thereof (including banking, insurance and securities); judicial proceedings, regulatory proceedings or claims, class actions or other recourses of various nature; the situation with respect to asset-backed commercial paper (ABCP), in particular the realizable value of underlying assets; the Bank’s ability to obtain accurate and complete information from or on behalf of its clients or counterparties; the Bank’s ability to successfully realign its organization, resources and processes; its ability to complete strategic acquisitions and integrate them successfully; changes in the accounting policies and methods the Bank uses to report its financial condition, including uncertainties associated with critical accounting assumptions and estimates; the Bank’s ability to recruit and retain key officers; operational risks, including risks related to the Bank’s reliance on third parties to ensure access to the infrastructure essential to the Bank’s business as well as other factors that may affect future results, including changes in trade policies; timely development of new products and services; changes in estimates relating to reserves; changes in tax laws; technological changes; unexpected changes in consumer spending and saving habits; natural disasters; the possible impact on the business from public health emergencies, conflicts, other international events and developments, including those relating to the war on terrorism; and the Bank’s success in anticipating and managing the foregoing risks. A substantial amount of the Bank’s business involves making loans or otherwise committing resources to specific companies, industries or countries. Unforeseen events affecting such borrowers, industries or countries could have a material adverse effect on the Bank’s financial results, businesses, financial condition, or liquidity.

The foregoing list of risk factors is not exhaustive. Additional information about these factors can be found under “Risk Management” and “Factors That Could Affect Future Results” in the 2009 Annual Report. Investors and others who base themselves on the Bank’s forward-looking statements should carefully consider the above factors as well as the uncertainties they represent and the risk they entail. The Bank also cautions readers not to place undue reliance on these forward-looking statements. Except as required by law, the Bank does not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time, by it or on its behalf.

The forward-looking information contained in this document is presented for the purpose of interpreting the information contained herein and may not be appropriate for other purposes.

Disclosure of Second Quarter 2010 Results

Conference Call

- A conference call for analysts and institutional investors will be held on May 28, 2010 at 9:30 a.m. EDT.
- Access by telephone in listen-only mode: 1-866-223-7781 or 416-340-8018.
- A recording of the conference call can be heard until June 4, 2010 by calling 1-800-408-3053 or 416-695-5800. The access code is 7824042#.

Webcast

- The conference call will be webcast live at www.nbc.ca/investorrelations.
- 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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