

## REPORT TO SHAREHOLDERS

### Operating results up, affected by specified items

#### HIGHLIGHTS FOR THE FIRST QUARTER OF 2009:

- Net income of \$69 million in the first quarter of 2009, compared to net income of \$255 million in the first quarter of 2008
- Diluted earnings per share of \$0.36 in the first quarter, as against diluted earnings per share of \$1.58 in the corresponding quarter of 2008
- Asset-backed commercial paper (ABCP) restructuring plan completed on January 21, 2009
- An after-tax charge related to holding ABCP of \$98 million
- An after-tax charge related to commitments to extend credit to clients holding ABCP of \$86 million
- Tier 1 capital ratio of 10.0% as at January 31, 2009, compared to 9.4% as at October 31, 2008

(1) The financial reporting method is explained in detail on page 3.

#### HIGHLIGHTS EXCLUDING SPECIFIED ITEMS FOR THE FIRST QUARTER OF 2009<sup>(1)</sup>:

- Net income of \$253 million in the first quarter of 2009, up 7% from the same period of 2008
- Diluted earnings per share of \$1.51 in the first quarter of 2009, up 3% from \$1.46 in the corresponding quarter of 2008
- Return on equity of 19.3%

**MONTREAL, February 26, 2009** – National Bank today announced net income of \$69 million for the first quarter of fiscal 2009, compared to net income of \$255 million in the first quarter of 2008. Diluted earnings per share stood at \$0.36, as against diluted earnings per share of \$1.58 for the corresponding quarter of 2008. Operating results were higher than in the first quarter of 2008, but charges attributable to the impact of ABCP affected net income. These charges comprise the after-tax cost of holding ABCP of \$98 million and the after-tax loss related to commitments to extend credit to clients holding ABCP of \$86 million. In the first quarter of 2008, the Bank had recorded an after-tax charge related to holding ABCP of \$14 million and a gain of \$32 million on the sale of its subsidiary in Nassau. Excluding specified items, net income for the first quarter was \$253 million, up 7% from \$237 million in the first quarter of 2008, while diluted earnings per share were \$1.51, up 3% from the \$1.46 in the corresponding quarter of 2008.

“The operating results for the first quarter of 2009 were up from the corresponding quarter of 2008, primarily due to the good performance of the Personal and Commercial and Financial Markets segments. The relatively good performance of the Wealth Management segment is also worth noting, given the current economic environment. In addition, the efforts with regard to the ABCP restructuring have finally paid off, with the issuance of new notes. This success is one of the few positive restructuring events in the context of a global financial crisis,” stated Louis Vachon, President and Chief Executive Officer.

#### Financial Indicators

	Results Q1 2009	Results excluding specified items <sup>(1)</sup>
Growth in diluted earnings per share	(77)%	3%
Return on common shareholders' equity	4.6%	19.3%
Tier 1 capital ratio	10.0%	10.0%
Dividend payout ratio		43%

(1) See “Financial Reporting Method” on page 3.

## PERSONAL AND COMMERCIAL

- The segment's contribution grew to \$250 million in the first quarter, up 4% from the corresponding quarter of 2008. It posted net income of \$140 million, up \$7 million or 5%.
- The quality of the loan portfolio was maintained, as evidenced, in particular, by the slight increase of \$1 million in the provision for credit losses at Personal and Commercial to \$45 million for the quarter.
- Consumer and business loan volumes rose 8% and 9%, respectively. Business growth was tempered by the narrowing of the segment's net interest margin from 2.69% in the first quarter of 2008 to 2.59% in the first quarter of 2009. The wider spread on loans was mitigated by the narrower spread on deposits.
- Personal deposits rose \$2.6 billion from January 31, 2008 to \$37.7 billion owing to the increase in traditional savings products, while Commercial Banking deposit volumes grew \$1.2 billion from the first quarter of 2008 to \$14.8 billion as at January 31, 2009.

## WEALTH MANAGEMENT

- Total revenues for the quarter were \$195 million, as against \$214 million for the first quarter of 2008, a decrease attributable to the slowdown in brokerage activities owing to weak financial markets and the decline in value of assets under management and administration.
- The segment's operating expenses declined \$7 million to \$146 million in the first quarter of 2009.

## FINANCIAL MARKETS

- Net income for the quarter was \$73 million, up 1% from the corresponding quarter of 2008. Taking into account non-controlling interest, the segment's total revenues for the quarter were \$269 million, compared to \$278 million in the first quarter of 2008. The increase in trading activity revenues was partly offset by the lower gains on securities and financial market fees.
- Operating expenses for the quarter were \$167 million, down \$2 million, or 1%, from the year-earlier period.

## OTHER

- The segment posted a net loss of \$176 million in the first quarter of 2008, compared to a net gain of \$11 million in the corresponding quarter of 2008, owing to the charges related to the impact of ABCP. The charges comprise the after-tax cost of holding ABCP of \$98 million and an after-tax loss related to commitments to extend credit to clients holding ABCP of \$86 million. In the first quarter of 2008, the Bank had recorded an after-tax charge related to holding ABCP of \$14 million as well as a gain of \$32 million attributable to the sale of its subsidiary in Nassau.

## CAPITAL MANAGEMENT

- Two series of first preferred shares were issued for total proceeds of \$315 million.
- Tier 1 capital ratio and total capital ratio stood at 10.0% and 14.0%, respectively, as at January 31, 2009, compared to 9.4% and 13.2% as at October 31, 2008, under Basel II.

## ADDITIONAL INFORMATION

- On January 21, 2009, the Pan-Canadian Investors Committee for Third-Party Structured ABCP finalized the implementation of its ABCP restructuring plan. The affected ABCP was replaced by new, longer-term floating rate notes with maturities that are more closely tied to the maturities of the underlying assets. The Bank is currently completing the final steps to offer improved credit facilities to its commercial and corporate clients holding third-party ABCP.

# 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)

	Notes	Quarter ended		
		January 31, 2009	January 31, 2008	%
Personal and Commercial		140	133	5
Wealth Management		32	39	(18)
Financial Markets		73	72	1
Other		(176)	11	
<b>Net income</b>		<b>69</b>	<b>255</b>	<b>(73)</b>
Plus: Charges related to holding ABCP	1	98	14	
Plus: Charge related to commitments to extend credit to clients holding ABCP	2	86	–	
<b>Net income excluding the impact of ABCP</b>		<b>253</b>	<b>269</b>	<b>(6)</b>
Less: Gain on the sale of the Bank's subsidiary in Nassau	3	–	(32)	
<b>Net income excluding specified items</b>		<b>253</b>	<b>237</b>	<b>7</b>
<b>Diluted earnings per common share</b>		<b>\$ 0.36</b>	<b>\$ 1.58</b>	<b>(77)</b>
Plus: Charges related to holding ABCP	1	0.61	0.08	
Plus: Charge related to commitments to extend credit to clients holding ABCP	2	0.54	–	
<b>Diluted earnings per common share excluding the impact of ABCP</b>		<b>\$ 1.51</b>	<b>\$ 1.66</b>	<b>(9)</b>
Less: Gain on the sale of the Bank's subsidiary in Nassau	3	–	(0.20)	
<b>Diluted earnings per common share excluding specified items</b>		<b>\$ 1.51</b>	<b>\$ 1.46</b>	<b>3</b>
<b>Return on common shareholders' equity</b>				
<b>Including specified items</b>		<b>4.6%</b>	<b>22.9%</b>	
<b>Excluding specified items</b>		<b>19.3%</b>	<b>21.3%</b>	

(1) During the quarter ended January 31, 2009, the following items, net of income taxes, were recognized related to ABCP: a loss on available for sale securities related to ABCP of \$129 million (2008: nil), a loss on economic hedge transactions of \$1 million (2008: nil), interest received or receivable on ABCP held of \$41 million (2008: nil), ABCP financing costs of \$7 million (2008: \$13 million) and professional fees related to the ABCP file of \$2 million (2008: \$1 million).

(2) During the quarter ended January 31, 2009, an after-tax provision for credit losses related to commitments to extend credit to clients holding ABCP of \$86 million was recorded (2008: nil).

(3) During the quarter ended January 31, 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 American 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 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 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. With the financial and credit crisis currently underway, fiscal 2009 could be characterized by an overall slowdown in the world economy, which could affect the United States, Canada’s largest trading partner. The financial crisis may result in lower levels of activity on financial markets and a higher cost of funds for financial institutions. There is a strong possibility that personal and commercial bankruptcies could increase in 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 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 the 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 infrastructure 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.

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### 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

# HIGHLIGHTS

(unaudited) (millions of dollars)

Quarter ended	January 31, 2009	January 31, 2008	% Change
<b>Operating results</b>			
Total revenues	\$ 876	\$ 929	(6)
Total revenues adjusted for non-controlling interest <sup>(1)</sup>	886	991	(11)
Net income	69	255	(73)
Return on common shareholders' equity	4.6 %	22.9 %	
<b>Per common share (dollars)</b>			
Earnings – basic	\$ 0.36	\$ 1.58	
Earnings – diluted	0.36	1.58	
<b>EXCLUDING SPECIFIED ITEMS<sup>(2)</sup></b>			
<b>Operating results</b>			
Total revenues	\$ 1,019	\$ 916	11
Total revenues adjusted for non-controlling interest <sup>(1)</sup>	1,029	978	5
Net income	253	237	7
Return on common shareholders' equity	19.3 %	21.3 %	
<b>Per common share (dollars)</b>			
Earnings – basic	\$ 1.51	\$ 1.47	
Earnings – diluted	1.51	1.46	
<b>Per common share (dollars)</b>			
Dividends declared	\$ 0.62	\$ 0.62	
Book value	30.52	28.13	
Stock trading range			
High	45.95	54.25	
Low	25.62	45.15	
Close	34.22	50.53	
	<b>January 31, 2009</b>	<b>October 31, 2008</b>	<b>% Change</b>
<b>Financial position</b>			
Total assets	\$ 136,989	\$ 129,332	6
Loans and acceptances	56,223	56,015	–
Deposits	79,575	76,022	5
Subordinated debentures and shareholders' equity	8,313	7,764	7
Capital ratios – BIS under Basel II			
Tier 1	10.0 %	9.4 %	
Total	14.0 %	13.2 %	
Capital ratios – BIS under Basel I			
Tier 1	10.8 %	10.1 %	
Total	14.8 %	14.1 %	
Impaired loans, net of specific and general allowances as a % of loans and acceptances	(0.3)%	(162) (0.3)%	
Assets under administration/management	189,082	204,998	
Total personal savings	98,238	95,893	
Interest coverage	4.09	5.21	
Asset coverage	3.65	3.89	
<b>Other information</b>			
Number of employees	17,199	17,146	–
Number of branches in Canada	448	446	–
Number of banking machines	857	857	–

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

(2) See "Financial Reporting Method" on page 3.

# FINANCIAL CONDITION AND OPERATING RESULTS

February 25, 2009 – The following text presents Management's discussion and analysis of the Bank's financial condition and operating results. This analysis was prepared in accordance with the requirements set out in Multilateral Instrument 51-102 respecting Continuous Disclosure Obligations of the Canadian Securities Administrators and is based on the unaudited interim consolidated financial statements for the first quarter of 2009. 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).

## Analysis of Results

### CONSOLIDATED RESULTS

National Bank reported net income of \$69 million for the first quarter of fiscal 2009, compared to net income of \$255 million in the first quarter of 2008. Diluted earnings per share stood at \$0.36, as against diluted earnings per share of \$1.58 for the corresponding quarter of 2008. The results for the quarter included charges attributable to the impact of asset-backed commercial paper (ABCP). These charges comprise the after-tax cost of holding ABCP of \$98 million, which consisted of a net loss on available for sale securities related to ABCP of \$129 million, financing costs, professional fees and the cost of economic hedge transactions totalling \$10 million and interest income on ABCP further to the restructuring of \$41 million. In addition, an after-tax loss related to commitments to extend credit to clients holding ABCP of \$86 million was recorded in the first quarter of 2009. In the first quarter of 2008, the Bank had recorded after-tax charges related to holding ABCP of \$14 million, as well as a gain of \$32 million on the sale of its subsidiary in Nassau. Excluding specified items, net income for the first quarter was \$253 million, up 7% from \$237 million in the first quarter of 2008, while diluted earnings per share were \$1.51, up 3% from the \$1.46 in the corresponding quarter of 2008.

Return on common shareholders' equity was 4.6% in the first quarter of 2009, compared to 22.9% for the same period of 2008. Excluding specified items, return on common shareholders' equity was 19.3% for the first quarter of 2009, compared to 21.3% for the corresponding quarter of 2008.

### Total revenues

The Bank's total revenues were \$876 million in the first quarter of 2009, compared to \$929 million in the first quarter of 2008. Taking into account non-controlling interest, total revenues for the first quarter were \$886 million, compared to \$991 million for the year-earlier period. The decline was primarily attributable to the adjustment in the value of ABCP recorded in the first quarter of 2009, as well as the gain on the sale of the Bank's subsidiary in Nassau, recorded in the first quarter of 2008.

Net interest income for the quarter totalled \$491 million, versus \$428 million for the first quarter of 2008. Net interest income at Personal and Commercial advanced \$14 million to \$358 million for the quarter. The growth stemmed from the solid increase in loan volumes, especially consumer loans and business loans in Quebec. This increase was tempered by the narrower net interest margin, which was 2.59% in the first quarter of 2009, compared to 2.69% in the same quarter of 2008. Net interest income at Wealth Management rose \$13 million owing to the volume and net interest margin for the CashPerformer account. Trading revenues recorded in net

interest income fell \$46 million from the first quarter of 2008 to reach \$188 million. The increase in net interest income in the *Other* heading was mainly attributable to arrears of interest received and receivable on ABCP further to the implementation of the restructuring plan.

Other income for the first quarter totalled \$385 million, as against \$501 million for the same period of 2008. Trading revenues were \$16 million in the first quarter of 2009, compared to losses of \$68 million in the first quarter of 2008. Net losses on available for sale securities reached \$177 million, as against net gains of \$31 million for the year-earlier period. This change largely resulted from the charge attributable to the adjustment in the value of ABCP recorded during the first quarter of 2009.

Underwriting and advisory fees totalled \$82 million for the quarter, down from \$95 million for the same period in 2008, while securities brokerage commissions declined \$6 million to \$53 million. These decreases were the result of market conditions which continued to be affected by the financial crisis. Securitization revenues totalled \$98 million, versus \$46 million for the first quarter of 2008, owing to the higher volume of new securitizations. Trust service and mutual fund fees were down \$4 million to \$75 million, due to the decrease in value of assets under management and administration. Lastly, other income declined \$20 million to \$65 million. This decrease was mainly attributable to the gain on the sale of a subsidiary in Nassau in the first quarter of 2008.

### Operating expenses

In the first quarter of 2009, operating expenses increased \$13 million or 2% from the year-earlier period to \$645 million. This increase was mainly attributable to salaries, including variable compensation, occupancy costs and the capital tax.

### Provision for credit losses

In the first quarter of 2009, the Bank recorded provisions for credit losses of \$164 million, including an allowance for credit facilities related to clients holding ABCP of \$126 million. Excluding this specified item, the provision for credit losses rose \$6 million to \$38 million in the first quarter of 2009. This increase was largely attributable to the \$6 million rise in credit losses for credit card receivables at Personal and Commercial, tempered by lower losses on credit granted to businesses. A \$4 million credit loss was recorded by Corporate Banking for fiscal 2009, whereas no loss had been recorded for fiscal 2008.

As at January 31, 2009, gross impaired loans amounted to \$322 million, an increase of \$15 million from October 31, 2008, mainly due to loans at Corporate Banking. As at January 31, 2009, allowances for credit losses exceeded gross impaired loans by \$153 million, versus \$162 million as at October 31, 2008.

#### Income taxes

The income tax recovery for the first quarter of 2009 was \$7 million, as against an income tax expense of \$67 million in the year-earlier period. Excluding specified items, the effective tax rate for the first quarter of 2009 was 22%, compared to 23% in 2008.

## Results by Segment

#### Personal and Commercial

Personal and Commercial contributed \$250 million in the first quarter of 2009, an increase of 4% compared to the corresponding quarter of 2008. Net income for the quarter grew 5% to \$140 million. The segment's total revenues advanced \$16 million, or 3%, to \$571 million. Loan volumes at Personal and Commercial increased 8% from the first quarter of 2008 to the first quarter of 2009. 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 \$5 million to \$382 million. Loan and deposit volumes posted strong growth owing to the \$2.7 billion increase in average assets stemming from the rise in consumer loans. The narrower net interest margin on deposits was partially offset by the wider net interest margin on credit products, especially credit cards. At Commercial Banking, total revenues rose by \$11 million, as growth in business loan and deposit volumes was partially offset by the narrower net interest margin. The increase in foreign exchange revenues also contributed to the increase in total revenues.

Operating expenses for Personal and Commercial were \$321 million in the first quarter of 2009, up \$7 million from the corresponding quarter of 2008. This slight increase, combined with growth in total revenues, translated into an improved efficiency ratio of 56% for the quarter, versus 57% for the year-earlier period. The segment's provision for credit losses was up \$1 million to \$45 million, due mainly to higher credit losses for credit card receivables, tempered by lower losses on credit granted to businesses.

#### Wealth Management

Net income for Wealth Management totalled \$32 million in the first quarter of 2009, compared to \$39 million for the corresponding quarter of 2008, a decrease of \$7 million. The segment's total revenues were \$195 million, as against \$214 million in the year-earlier period. The decrease was primarily attributable to unrelenting poor financial market conditions, which resulted in a slowdown in brokerage activities and a decline in value of assets under management and administration. Operating expenses were down \$7 million to \$146 million in the first quarter of 2009, primarily owing to a decrease in variable compensation. The efficiency ratio was 75% in the first quarter of 2009, versus 71% in the first quarter of 2008.

#### Financial Markets

Financial Markets posted net income of \$73 million in the first quarter of 2009, up \$1 million from the corresponding quarter of 2008. Total revenues for the segment were \$259 million, as against \$216 million in the first quarter of 2008. Taking into account non-controlling interest, revenues for the quarter were \$269 million, compared to \$278 million for the same quarter of 2008. Trading revenues reached \$134 million in the first quarter of 2009, an increase of \$10 million from the first quarter of 2008, primarily due to the increase in revenues from equity securities, partly offset by the decrease in revenues from fixed-income securities and commodity and foreign exchange transactions. Financial market fees and gains on available for sale securities were down \$31 million from the first quarter of 2008. These declines were attributable to a slowdown in activities due to more difficult market conditions. Operating expenses for the quarter were \$167 million, down \$2 million from the year-earlier period, due to a decrease in technology expenses. A \$4 million credit loss was recorded in the first quarter of 2009 at Corporate Banking.

#### Financial Market Revenues

(taxable equivalent basis<sup>(1)</sup>)  
(millions of dollars)

	Q1 2009	Q1 2008
Trading activity revenues		
Equity	44	(13)
Fixed income	58	95
Commodity and foreign exchange	32	42
	134	124
Financial market fees	55	72
Gains on available for sale securities, net	9	23
Banking services	54	49
Other	17	10
<b>Total<sup>(2)</sup></b>	<b>269</b>	<b>278</b>

(1) See "Financial Reporting Method" on page 3.

(2) Excluding non-controlling interest

### Other

The *Other* heading of segment results posted a net loss of \$176 million in the first quarter of 2009, compared to net income of \$11 million in the corresponding quarter of 2008. The results for the quarter take into account charges related to the impact of ABCP. These charges comprised the after-tax cost of holding ABCP of \$98 million, which consisted of a net loss on available for sale securities related to ABCP of \$129 million, financing costs, professional fees and the cost of economic hedge transactions totalling \$10 million and interest income on ABCP further to the restructuring of \$41 million. In addition, an after-tax loss related to commitments to extend credit to clients holding ABCP of \$86 million was recorded in the first quarter of 2009. In the first quarter of 2008, the Bank had recorded a \$32 million gain on the sale of its subsidiary in Nassau, Bahamas. In addition, the Bank had recorded a \$14 million after-tax charge related to the cost of financing ABCP held. Excluding specified items, total revenues for the *Other* heading of segment results for the first quarter of 2009 increased \$63 million compared to the first quarter of 2008. This increase was mainly attributable to securitization revenues of \$98 million for the quarter ended January 31, 2009, compared to \$46 million for the corresponding quarter of 2008.

### Cash Flows

Due to the nature of the Bank's business, most of its revenues and expenses are cash items. Moreover, certain activities, such as trading activities, generate significant cash flow movement, which can have an impact on several assets and liabilities, such as held for trading securities, securities sold short or securities sold under repurchase agreements.

For the first quarter of 2009, cash and cash equivalents were down \$2.1 billion, compared to an increase of \$1.2 billion in the first quarter of 2008. As at January 31, 2009, cash and cash equivalents totalled \$1.4 billion, versus \$4.2 billion one year earlier.

Operating activities required \$1.8 billion in cash flows, owing chiefly to the \$2.7 billion increase in held for trading securities, offset by the increase in amounts due to clients, dealers and brokers of \$0.5 billion. For the first quarter of 2008, operating activities required cash flows of \$4.6 billion, due mainly to the \$5.6 billion increase in held for trading securities.

Financing activities generated cash flows of \$6.2 billion as a result of the \$3.6 billion increase in deposits and the \$2.5 billion increase in securities sold under repurchase agreements. For the first quarter of 2008, financing activities generated cash flows of \$6.3 billion, mainly as a result of the \$2.3 billion increase in deposits, the \$2.1 billion increase in obligations related to securities sold short and the \$1.1 billion increase in securities sold under repurchase agreements.

Lastly, investing activities required cash flows of \$6.4 billion in the first quarter of 2009, owing to the \$5.0 billion increase in available for sale securities and the \$0.9 billion increase in securities purchased under reverse repurchase agreements. For the corresponding period of 2008, investing activities required cash flows of \$0.5 billion, mainly due to the \$2.9 billion increase in securities purchased under reverse repurchase agreements, offset by the \$1.9 billion decrease in available for sale securities.

### Balance Sheet

As at January 31, 2009, the Bank had total assets of \$137.0 billion, compared to \$129.3 billion as at October 31, 2008. Loans and acceptances were up \$0.2 billion despite the increase in securitized loans. In addition, securities were up \$7.5 billion owing to the increase of securities issued by the Government of Canada. The table below presents the main portfolios:

#### Average Monthly Volumes (millions of dollars)

	January 2009	October 2008	January 2008
<b>Loans and acceptances<sup>(1)</sup></b>			
Residential mortgages	<b>23,198</b>	23,124	22,978
Consumer loans	<b>13,822</b>	13,189	11,314
Credit card receivables	<b>1,856</b>	1,846	1,835
SME loans	<b>15,485</b>	15,267	14,194
Corporate loans	<b>7,782</b>	7,098	6,285
	<b>62,143</b>	60,524	56,606
<b>Deposits</b>			
Personal (balance)	<b>34,676</b>	33,098	31,522
Off-balance sheet personal savings (balance)	<b>63,562</b>	62,795	66,931
Business	<b>15,015</b>	13,472	12,176

(1) Including securitized assets

Loans and acceptances were up \$1.6 billion, or 3%, from October 31, 2008, for total volumes of \$62.1 billion as at January 31, 2009. This increase was mainly attributable to the increase in consumer loans, which rose 5% from October 31, 2008 to \$13.8 billion due to higher volumes of secured home equity lines of credit. Corporate loans continued to grow, reaching \$7.8 billion as at January 31, 2009, an increase of 10% from October 31, 2008. Compared to one year earlier, residential mortgage loan volumes increased 1% to \$23.2 billion as at January 31, 2009. Consumer loan volumes grew 22% from January 31, 2008, and SME loan volumes increased \$1.3 billion or 9% year over year to \$15.5 billion as at January 31, 2009. Corporate loans were up 24% from the corresponding period last year.

Personal deposits amounted to \$34.7 billion as at January 31, 2009, up \$1.6 billion, or 5%, from October 31, 2008. Off-balance sheet personal savings administered by the Bank totalled \$63.6 billion as at the end of the first quarter of 2009, for an increase of \$0.8 billion from October 31, 2008. Business deposits also grew, reaching \$15.0 billion as at January 31, 2009, up 11%. Year over year, personal deposits increased \$3.2 billion, or 10%, while off-balance sheet personal savings administered by the Bank were down \$3.4 billion. The decrease was mainly attributable to the decline in the fair value of assets under management and administration and the transfer of assets to traditional banking products. Moreover, business deposits advanced 23% year over year.

As at January 31, 2009, the Bank's shareholders' equity was \$6.0 billion, compared to \$5.5 billion as at October 31, 2008. This increase was explained by the issuance of First Preferred Shares Series 24 and 26 for an amount of \$315 million. Moreover, accumulated other comprehensive income amounted to \$97 million as at January 31, 2009, as against a loss of \$62 million as at October 31, 2008. This change was attributable to gains on derivative financial instruments designated as cash flow hedges.

#### Shares and stock options as at January 31, 2009

	Number of shares	\$
First Preferred Shares		
Series 15	8,000,000	200
Series 16	8,000,000	200
Series 20	6,900,000	173
Series 21	8,050,000	201
Series 24	6,800,000	170
Series 26	5,800,000	145
	<b>43,550,000</b>	<b>1,089</b>
Common shares	159,678,951 <sup>(1)</sup>	1,662
Stock options	8,792,946 <sup>(1)</sup>	

(1) As at February 20, 2009, 159,916,751 common shares and 8,792,946 stock options were outstanding.

#### ASSET-BACKED COMMERCIAL PAPER

On August 20, 2007, the Bank announced a number of measures to relieve its clients from the uncertainties related to the liquidity problem in the asset-backed commercial paper (ABCP) market. During the fourth quarter of 2007, the Bank purchased \$2,138 million of ABCP, issued by 26 trusts, including \$1,084 million from mutual funds and \$559 million from pooled funds administered by the Bank, as well as the ABCP held by its individual retail clients and certain other clients. This amount was in addition to the \$156 million of ABCP already held by the Bank.

On December 23, 2007, the Pan-Canadian Investors Committee for Third-Party Structured ABCP approved an agreement in principle to restructure the affected series of ABCP issued by 20 trusts. On December 24, 2008, an agreement was reached with all key stakeholders, including the governments of Canada, Quebec, Ontario and Alberta, regarding the restructuring of \$32 billion of third-party ABCP. The restructuring plan (the "Plan") was implemented on January 21, 2009.

#### Restructuring plan

In accordance with the Plan, the affected ABCP has been replaced with new longer-term floating rate notes with maturities designed to more closely match the maturities of the underlying assets. The Plan also provides, in certain circumstances, for the pooling of certain assets as well as the establishment of new margin funding facilities to support any collateral calls that may occur in the future.

The series of affected ABCP supported in whole or in part by synthetic assets have been pooled into the Master Asset Vehicles (1 and 2) as follows:

- Master Asset Vehicle 1 (MAV1) is a newly formed vehicle for investors who have elected to commit their pro rata share of a margin funding facility associated with their underlying assets;
- Master Asset Vehicle 2 (MAV2) is a newly formed vehicle for investors who have elected to commit less than, or none of their pro rata share of a margin funding facility, in which case third parties will fund the remaining portion.

The margin funding facilities in MAV1 and MAV2 are provided by third party lenders, including Canadian banks, asset providers, noteholders and the governments of Canada, Quebec, Ontario and Alberta. The facilities provided by the governments rank senior to all other margin funding facilities and, in the event of margin calls, they would be the last in and the first out. These facilities are designed to reduce the risk that the newly formed vehicles will not be able to meet margin calls if future circumstances warrant them. The Bank committed to contribute \$911 million to these margin funding facilities.

The key parties to the restructuring have also agreed to enhance the transaction by including a moratorium which prevents collateral calls for a period of 18 months.

In connection with the contribution to MAV1 or MAV2 of assets supported by the margin funding facility, investors have received a mix of Class A-1, Class A-2, Class B and Class C notes with an expected maturity in December 2016. Class A-1 and Class A-2 notes have received a final rating of "A". Ineligible assets in MAV1 and MAV2 have been segregated, and noteholders holding series of ABCP secured in part by ineligible assets have received IA tracking notes that will track the performance of the underlying individual asset.

A newly formed vehicle, which silos each series secured exclusively by traditional assets or by 100% ineligible assets, has been created under a third Master Asset Vehicle 3 (MAV3). Two main types of notes are created in MAV3: TA tracking notes for traditional assets and IA tracking notes for ineligible assets. All tracking notes are tied to the net return and maturities of their respective underlying assets.

As at January 31, 2009, the face value of the ABCP held by the Bank was \$2,163 million of which \$1,765 million was designated as *Held for trading securities* under the fair value option and \$398 million was classified in *Available for sale securities*. The underlying assets as part of the Plan were as follows:

Type of underlying assets	Face value of ABCP
Synthetic assets or hybrid assets	
Class A-1	726
Class A-2	649
Class B	111
Class C	46
<b>Total synthetic assets or hybrid assets</b>	<b>1,532</b>
Traditional assets <sup>(1)</sup>	182
Ineligible assets	296
ABCP not included in the Pan-Canadian restructuring plan	153
<b>Total underlying assets<sup>(2)</sup></b>	<b>2,163</b>

(1) Includes series secured exclusively by traditional assets

(2) The underlying assets of third-party ABCP held by the Bank are comprised of 54% leveraged super senior exposures, 21% fully funded collateralized debt obligations, 16% traditional assets and 9% cash.

#### Establishing fair value

On January 21, 2009, the Bank assessed the fair value of the ABCP included in the Plan to determine the carrying value of the new notes. On that date, the carrying value of the previous notes was removed from the balance sheet and replaced with the new notes at fair value. The notes held in an investment portfolio with one or more embedded derivatives were designated as *Held for trading securities* under the fair value option and the others were classified in *Available for sale securities*. On January 31, 2009, the Bank also established the fair value of the ABCP that it held.

To determine the value of the ABCP it held on both dates, the Bank established ranges of estimated fair value. The carrying value of the ABCP held in an investment portfolio as at January 31, 2009, designated as *Held for trading securities*, was \$1,140 million, and \$233 million was classified in *Available for sale securities*. A loss of \$190 million was recorded in the first quarter of 2009 in *Gains (losses) on available for sale securities* in the Consolidated Statement of Income. This loss was due to the wider credit spreads as at January 21, 2009 compared to October 31, 2008 and the downgrade from the provisional rating of "AA" to the final rating of "A".

In establishing the fair value of the ABCP included in the Plan and excluding ineligible assets, the Bank considered the quality of the underlying assets. As the Plan has been completed, the Bank determined the fair value solely using a discounted cash flow analysis. As at October 31, 2008, a proportion of the value was based on the probability assigned to an unsuccessful restructuring.

The discount rate was based 80% on the CDX.IG index tranches and 20% on a basket of securities backed by assets such as credit card receivables, Residential Mortgage-Backed Securities (RMBS), Commercial Mortgage-Backed Securities (CMBS) and automobile loans. Credit ratings, coupons and maturities were based on the terms provided for in the Plan. The value of the margin funding facility was determined in reference to other comparable financial instruments.

For ineligible assets, the fair value of the tracking notes was based on an analysis of the underlying assets and the market value of comparable instruments. For RMBS, fair values were based on the ABX index; for CMBS, CMBS indices, including the CMBX index, were chosen. As for derivative financial instruments, the Bank used valuation models which are commonly used by market participants with inputs that are based on factors observable in the markets: CDX.IG indices, correlation and interest rates.

The Bank's valuation was based on its assessment of the conditions prevailing as at January 21 and 31, 2009, which may change in subsequent periods. The most important assumptions to determine the fair value of the notes are the observable discount rates and the credit ratings of the notes. Fair value sensitivities to these assumptions as at January 31, 2009 were as follows:

- A change of 10 basis points in the discount rate would result in a \$10 million decrease or increase in the fair value;
- A decrease in the credit rating of one letter grade would result in a decrease in the fair value between a range of \$70 million and \$90 million; and
- An increase in the credit rating of one letter grade would result in an increase in the fair value between a range of \$60 million and \$80 million.

Determining the fair value of ABCP is complex and involves an extensive process that includes the use of quantitative modelling and relevant assumptions. Possible changes that could have a material effect on the future value of the ABCP include (1) changes in the value of the underlying assets, (2) developments related to the liquidity of the ABCP market, and (3) the impacts of a severe and prolonged economic slowdown in North America.

#### Interest arrears

Between August 20, 2007 and October 31, 2008, the Bank recorded no interest income related to the notes that are part of the Plan. Further to the Plan's implementation, the Bank recorded \$59 million for the first quarter of 2009 as *Interest income* in the Consolidated Statement of Income.

### Credit facilities to clients holding ABCP

As the Plan has been implemented, the Bank offer commercial and corporate clients of the Bank holding third-party ABCP improved credit facilities for their liquidity needs. These credit facilities will cover up to 75% of the value of the notes. The credit agreements will also provide for an option in favour of the borrower allowing the borrower to assign to the Bank, on or after the maturity date of the credit facility, the restructured notes in payment of the principal of the credit facility. These credit facilities will be made available for a period of two to three years with the possibility of being extended by the Bank if borrowers maintain a normal banking relationship with the Bank during the period of the credit facility.

During the first quarter of 2009, the Bank recorded a provision for credit losses of \$126 million related to these new credit facilities. This amount was recorded in *Other Liabilities* in the Consolidated Balance Sheet. A general allowance for credit risk for ABCP-secured loans of \$23 million was recorded during fiscal 2008. These provisions are based on the Bank's assessment of the value of the collateral at the maturity date of the loans and are mainly due to the credit facilities related to notes backed by ineligible assets.

As at January 31, 2009, the outstanding new credit facilities were \$105 million. In total, the collateral related to the credit facilities offered to clients was estimated as follows:

Collateral	Face value of the notes	Credit facilities related to notes backed by ineligible assets <sup>(1)</sup>	Credit facilities related to other notes included in the restructuring plan <sup>(2)</sup>
Synthetic assets or hybrid assets			
Class A-1	423	–	339
Class A-2	405	–	322
Class B	74	–	59
Class C	28	–	22
<b>Total synthetic assets or hybrid assets</b>	<b>930</b>	<b>–</b>	<b>742</b>
Traditional assets	127	–	92
Ineligible assets	324	247	–
<b>Total</b>	<b>1,381</b>	<b>247</b>	<b>834</b>

(1) These credit facilities represent 75% of the nominal value of the notes and are guaranteed by the notes.

(2) These credit facilities represent 75% of the nominal value of the notes of which 30% are full recourse to the borrower and 45% guaranteed by the notes.

The Bank has also provided credit facilities to borrowers for their liquidity needs until the new credit facilities are made available. As at January 31, 2009, the outstanding credit facilities represented \$292 million with recourse to the borrowers.

## Off-Balance Sheet Arrangements

In the normal course of business, the Bank is party to various financial arrangements that, under Canadian generally accepted accounting principles (GAAP), are not required to be recorded on the Consolidated Balance Sheet or are recorded under amounts other than their notional or contractual values. These arrangements include, among others, assets under administration and assets under management, variable interest entities (VIEs), derivative financial instruments, letters of guarantee and credit agreements. For a complete analysis of these types of arrangements, including their nature, business purpose and importance, see pages 46 to 49 of the 2008 Annual Report. For further information on the VIEs in which the Bank holds a significant variable interest but is not the primary beneficiary as defined in Accounting Guideline No. 15 *Consolidation of Variable Interest Entities* (AcG-15), see Note 13 to the 2008 audited consolidated financial statements. For more information on the guarantees and a description of obligations under certain indemnification agreements, refer to Note 28 to the 2008 audited consolidated financial instruments and to Note 11 for securitization activities.

During the first quarter ended January 31, 2009, aside from new securitization activities described in Note 8 to the unaudited interim consolidated financial statements and the \$911 million margin funding facility that the Bank has committed to contribute as part of the ABCP restructuring plan completed on January 21, 2009, the Bank did not enter into any significant arrangements with VIEs that are not consolidated by the Bank. The ABCP restructuring plan provides for a moratorium on margin calls for a period of 18 months.

## Additional Disclosure – Financial Stability Forum

The Superintendent of Financial Institutions has asked Canadian banks to apply certain Financial Stability Forum recommendations published in April 2008. The recommendations were issued to enhance transparency and valuation with respect to certain exposures, in particular special purpose entities, subprime and Alt-A exposures, synthetic collateralized debt obligations, residential and commercial mortgage-backed securities, and leveraged financing structures.

The Bank does not market any specific mortgage financing program to subprime or Alt-A clients. Subprime loans are generally defined as loans granted to borrowers with a higher credit risk profile than prime borrowers, and the Bank does not grant this type of loan. Alt-A loans are granted to borrowers who cannot provide standard proof of income. The Bank's Alt-A loan volume was \$111 million as at January 31, 2009.

Credit derivative positions in collateralized debt obligations are provided in Table 5 in the Additional Financial Information section, at the end of Management's Discussion and Analysis. The Bank does not have any significant direct position in residential and commercial mortgage-backed securities.

Leveraged finance loans are defined by the Bank as loans to large corporate and financial sponsor-backed companies that are typically non-investment grade with much higher levels of debt relative to the industry in which they operate. Leveraged finance is commonly employed to achieve a specific objective, for example to make an acquisition, to complete a buy-out or to repurchase shares. Leveraged finance risk exposure takes the form of both funded and unfunded commitments. As at January 31, 2009, total commitments for this type of loan stood at \$206 million.

Details concerning other exposures are provided in Table 9 in the Additional Financial Information section at the end of Management's Discussion and Analysis.

## Risk Management

Over the last few months of 2008, the economic slowdown initially feared for the United States spread around the world. Canada cannot remain completely immune to the major successive shocks that have hit the global economy. At this start of fiscal 2009, the next quarters will be more difficult. The Bank's objective is to maintain its financial performance by staying the course with prudent management and a sound balance between return and the risks assumed. The Bank views risk as an integral part of its development and the diversification of its activities.

In order to manage the current financial and credit crisis, the Bank is taking additional steps to more closely monitor its liquidities and funding. In October 2008, the Bank of Canada announced that it was temporarily allowing participants in the Large Value Transfer System (LVTS) to substitute their non-mortgage loan portfolios (in Canadian dollars) for current LVTS collateral, which is composed of marketable securities that may be used as collateral for other purposes. In order to benefit from this initiative, the Bank, as a participant in the LVTS, has granted the Bank of Canada a movable hypothec on the portfolio of non-mortgage loans to Canadian residents denominated in Canadian dollars. Since the beginning of fiscal 2009, the Bank has substituted this portfolio for LVTS collateral.

The Bank has enhanced control of its exposure to counterparty risk with certain U.S. and international entities most affected by the crisis by taking an overall prudent approach when extending credit facilities. Management of the credit portfolio also involves more frequent monitoring and updates. For more details, please refer to the Risk Management section of the 2008 Annual Report on pages 57 to 65, as well as to Note 5 to the consolidated financial statements concerning the management of risks associated with the financial instruments presented on pages 106 to 115 of the 2008 Annual Report.

Information about risk management is presented in Tables 1 to 8 of the Additional Financial Information section at the end of this Management's Discussion and Analysis and Note 7 to the unaudited interim consolidated financial statements concerning the management of risks associated with loans.

The first table below illustrates the VaR distribution of trading portfolios by risk category, as well as the diversification effect. The second table presents the potential before-tax impact of an immediate and sustained 100-basis-point and 200-basis-point increase or decrease in interest rates on net interest income and on the economic value of shareholders' equity of non-trading portfolios, assuming no further hedging is undertaken.

### Global VaR by Risk Category<sup>(1)</sup>

Quarter ended	January 31, 2009			October 31, 2008
	Low	High	Average	Period end
Interest rate	(8.8)	(14.7)	(12.3)	(12.2)
Foreign exchange	(1.0)	(5.0)	(2.5)	(3.1)
Equity	(3.2)	(5.5)	(4.0)	(3.7)
Commodity	(0.7)	(3.5)	(1.3)	(1.6)
Correlation effect <sup>(2)</sup>	n.s.	n.s.	8.0	9.1
<b>Global VaR</b>	<b>(9.7)</b>	<b>(13.8)</b>	<b>(12.1)</b>	<b>(11.5)</b>

n.s. – Computation of a correlation effect for the high and low is not significant as highs and lows may occur on different days and be attributable to different types of risk.

(1) Amounts are presented on a pre-tax basis and represent one-day VaR.

(2) The correlation effect is the result of the diversification of types of risks.

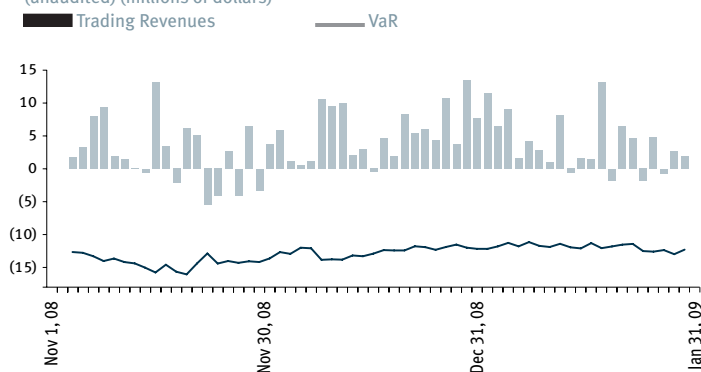
### Interest rate sensitivity – non-trading (before tax)

As at January 31	2009	2008
100-basis-point increase in the interest rate		
Impact on net interest income (for the next 12 months)	(9)	(5)
Impact on shareholders' equity	(81)	(76)
200-basis-point increase in the interest rate		
Impact on net interest income (for the next 12 months)	(24)	(14)
Impact on shareholders' equity	(168)	(153)
100-basis-point decrease in the interest rate		
Impact on net interest income (for the next 12 months)	(5)	(5)
Impact on shareholders' equity	35	49
200-basis-point decrease in the interest rate		
Impact on net interest income (for the next 12 months)	(37)	(30)
Impact on shareholders' equity	(117)	(1)

### Daily Trading Revenues<sup>(1)</sup>

Daily trading revenues were positive more than 82% of the days in the quarter ended January 31, 2009. Net daily trading losses in excess of \$1 million were recorded on only 7 days, despite the volatility of markets during the quarter. None of these losses exceeded the VaR limit.

Quarter ended January 31, 2009  
(unaudited) (millions of dollars)



(1) Excluding the impact of economic hedge transactions undertaken to protect the ABCP portfolio

## Accounting Policies and Estimates

The unaudited interim consolidated financial statements have been prepared in accordance with Canadian GAAP. The reader is referred to Note 1 to the 2008 audited annual consolidated financial statements for more information on the significant accounting policies used to prepare the consolidated financial statements. Certain of these accounting policies are considered critical because they are important to the presentation of the Bank's financial position and operating results and require difficult, subjective and complex judgments and estimates because they relate to matters that are inherently uncertain. The key assumptions and bases for estimates made by Management in accordance with GAAP are described in the 2008 Annual Report.

There have not been any changes to the Bank's significant accounting policies affecting fiscal 2009, other than those described in Note 2A to the unaudited interim consolidated financial statements.

Details of significant future changes in accounting standards are presented in Note 2B to the unaudited interim consolidated financial statements.

## Disclosure on Internal Controls over Financial Reporting

During the first quarter of 2009, no changes were made to the Bank's internal control over financial reporting policies, procedures and other processes that have materially affected, or are reasonably likely to materially affect, the Bank's internal control over financial reporting.

## Capital

Tier 1 and total capital ratios, according to the rules of the Bank for International Settlements (BIS) – Basel II, stood at 10.0% and 14.0%, respectively, as at January 31, 2009, compared to 9.4% and 13.2% as at October 31, 2008. The increase in Tier 1 and total capital ratios is attributable to the issuance of two series of First Preferred Shares during the quarter for total proceeds of \$315 million. If these ratios had been calculated using the old BIS rules – Basel I, they would have been 10.8% and 14.8%, respectively, as at January 31, 2009.

As at January 31, 2009, risk-weighted assets calculated under the rules of Basel II were \$57.3 billion, compared to \$58.1 billion as at October 31, 2008, down slightly by 1%. Risk-weighted assets calculated under Basel I would have been \$54.4 billion as at January 31, 2009.

Other information on capital is provided in the following tables.

### Capital Adequacy under Basel II (unaudited) (millions of dollars)

	Risk-weighted assets	
	As at January 31, 2009	As at October 31, 2008
<b>Approaches for credit risk</b>		
Retail residential mortgages	3,791	3,997
Other retail	7,168	6,915
Corporate	26,581	27,065
Bank	1,564	1,582
Trading book	3,133	2,826
Securitization	509	115
	<b>42,746</b>	42,500
Equity securities	1,019	975
Other assets	2,128	2,034
<b>Total – Credit risk</b>	<b>45,893</b>	45,509
<b>Approaches for market risk</b>		
Standardized approach	4,070	5,084
Advanced measurement approach	1,549	1,539
<b>Total – Market risk</b>	<b>5,619</b>	6,623
<b>Approaches for operational risk</b>	<b>5,800</b>	5,937
<b>Total capital requirements for risk</b>	<b>57,312</b>	58,069
<b>Tier 1 capital ratio</b>	<b>10.0%</b>	9.4%
<b>Total capital ratio</b>	<b>14.0%</b>	13.2%

## Regulatory Capital under Basel II

(unaudited) (millions of dollars)

	As at January 31, 2009	As at October 31, 2008
<b>Tier 1 Capital</b>		
Common shares	1,662	1,656
Contributed surplus	37	31
Retained earnings	3,080	3,110
Unrealized foreign exchange gains and losses, net of hedging activities and after tax, included in <i>Accumulated other comprehensive income</i>	(62)	(71)
Accumulated net after-tax unrealized losses on available for sale equity securities included in <i>Accumulated other comprehensive income</i>	(97)	(88)
Non-cumulative permanent preferred shares	1,089	774
Innovative instruments <sup>(1)</sup>	880	828
Non-controlling interest <sup>(2)</sup>	19	18
<b>Gross Tier 1 Capital</b>	<b>6,608</b>	<b>6,258</b>
Goodwill	(741)	(740)
<b>Net Tier 1 Capital</b>	<b>5,867</b>	<b>5,518</b>
Gains on sales recorded upon securitization	(37)	(38)
Investments in companies subject to significant influence	(121)	–
<b>Adjusted Net Tier 1 Capital</b>	<b>5,709</b>	<b>5,480</b>
<b>Tier 2 Capital</b>		
Subordinated debentures	2,153	2,153
Eligible general allowance for credit risk	331	331
Accumulated net after-tax unrealized gains on available for sale equity securities included in <i>Accumulated other comprehensive income</i>	–	–
Excess Tier 1 qualifying innovative instruments <sup>(1)</sup>	95	147
Other deductions	(254)	(432)
<b>Adjusted Tier 2 Capital</b>	<b>2,325</b>	<b>2,199</b>
<b>Total Capital</b>	<b>8,034</b>	<b>7,679</b>

(1) 400,000 NBC CapS II - Series 1 and 350,000 NBC CapS II - Series 2 issued by NBC Asset Trust presented in *Non-controlling interest* and the \$225 million deposit from NBC Capital Trust.

(2) Excluding 400,000 NBC CapS II - Series 1 and 350,000 NBC CapS II - Series 2 issued by NBC Asset Trust, mutual funds and other entities consolidated pursuant to the application of AcG-15.

## Subsequent Event

On February 16, 2009, the Bank announced its intention to redeem for cancellation on April 16, 2009 subordinated debentures with a total value of \$250 million maturing on April 16, 2014.

## Dividends

The Board of Directors declared regular dividends on the various classes and series of preferred shares and a dividend of \$0.62 per common share, payable on May 1, 2009 to shareholders of record on March 26, 2009.

# ADDITIONAL FINANCIAL INFORMATION

## QUARTERLY INFORMATION

(unaudited) (millions of dollars except per share amounts)

	2009			2008			2007			2008	2007
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Total	Total	
<b>Total revenues</b>	<b>\$ 876</b>	\$ 765	\$ 1,056	\$ 887	\$ 929	\$ 399	\$ 1,008	\$ 1,021	\$ 3,637	\$ 3,417	
<b>Net income (loss)</b>	<b>69</b>	70	286	165	255	(175)	243	233	776	541	
<b>Earnings (loss) per common share</b>											
Basic	<b>0.36</b>	0.37	1.73	1.01	1.58	(1.14)	1.49	1.42	4.69	3.25	
Diluted	<b>0.36</b>	0.37	1.73	1.00	1.58	(1.14)	1.48	1.40	4.67	3.22	
<b>Dividends per common share</b>	<b>0.62</b>	0.62	0.62	0.62	0.62	0.60	0.60	0.54	2.48	2.28	
<b>Return on common shareholders' equity</b>	<b>4.6%</b>	5.0%	23.7%	14.3%	22.9%	(16.0)%	20.6%	20.3%	16.4%	11.5%	
<b>Total assets</b>	<b>\$136,989</b>	\$129,332	\$121,931	\$123,608	\$120,124	\$113,085	\$123,353	\$135,172			
<b>Impaired loans, net</b>	<b>178</b>	169	142	134	140	129	110	110			
<b>Per common share</b>											
Book value	<b>30.52</b>	29.70	29.44	28.76	28.13	26.85	28.70	28.92			
Stock trading range											
High	<b>45.95</b>	53.66	54.63	53.73	54.25	60.28	66.14	65.87			
Low	<b>25.62</b>	42.25	45.75	44.39	45.15	50.50	60.61	61.96			

## TABLE 1 – DISTRIBUTION OF GROSS LOANS AND IMPAIRED LOANS BY BORROWER CATEGORY

(unaudited) (millions of dollars)

	As at January 31, 2009			Quarter ended January 31, 2009	
	Gross loans	Impaired loans	Specific allowances	Specific provision for credit losses	Write-offs
Personal <sup>(1)</sup>	16,361	43	18	22	33
Residential mortgage	14,704	30	3	–	1
Non-residential mortgage	1,330	16	5	–	2
Agricultural, fishing and trapping	1,895	43	18	–	2
Financial institutions	3,095	2	–	–	–
Manufacturing	2,215	44	19	7	1
Construction and real estate	1,540	14	9	1	2
Transportation and communications	782	3	1	–	–
Mines, quarries and energy	1,381	1	1	–	4
Forestry	122	4	3	–	–
Government	1,506	–	–	–	–
Wholesale	515	7	4	2	1
Retail	1,425	40	27	5	–
Services	2,986	54	15	1	–
Other	2,397	21	21	–	2
<b>Total – Business and government</b>	<b>21,189</b>	<b>249</b>	<b>123</b>	<b>16</b>	<b>14</b>
<b>Total</b>	<b>52,254</b>	<b>322</b>	<b>144</b>	<b>38</b>	<b>48</b>

(1) Including consumer loans, credit card receivables and other personal loans

## TABLE 2 – GEOGRAPHIC DISTRIBUTION OF LOANS

As at January 31, 2009  
 (unaudited) (millions of dollars)

	Gross loans	Impaired loans	Specific allowances
<b>Canada</b>			
Residential mortgage	14,632	30	3
Personal and credit card	16,162	43	18
Business and government	19,937	249	123
	50,731	322	144
<b>United States</b>			
Residential mortgage	72	–	–
Personal and credit card	3	–	–
Business and government	1,250 <sup>(1)</sup>	–	–
	1,325	–	–
<b>Other</b>			
Residential mortgage	–	–	–
Personal and credit card	196	–	–
Business and government	2	–	–
	198	–	–
	52,254	322	144

(1) Includes \$677 million of guaranteed loans to financial institutions

## TABLE 3 – CREDIT RISK MITIGATION

As at January 31, 2009  
 (unaudited) (millions of dollars)

	Eligible financial collateral	Total exposure covered by	
		Guarantees	Credit derivatives
<b>Balance sheet exposures</b>			
Securities purchased under reverse repurchase agreements and securities sold under repurchase agreements	9,961	–	–
Loans			
Residential mortgage	–	8,766	–
Personal and credit card	328	753	–
Business and government	116	1,282	47
Derivative financial instruments – OTC	780	–	–

**TABLE 4 – BREAKDOWN OF CREDIT RISK BY DERIVATIVE FINANCIAL INSTRUMENT PORTFOLIO – OTC**

As at January 31, 2009  
(unaudited) (millions of dollars)

	Replacement cost	Credit equivalent	Risk-weighted amount
Interest rate contracts	4,718	5,523	1,289
Foreign exchange contracts	1,332	2,426	880
Equity contracts	1,472	2,975	1,697
Commodity contracts	959	969	821
Credit derivative contracts	1,410	3,688	717
	9,891	15,581	5,404
Impact of master netting agreements	(6,341)	(8,089)	(1,946)
	3,550	7,492	3,458
Impact of collateral held	–	(780)	(186)
	3,550	6,712	3,272

**TABLE 5 – CREDIT DERIVATIVE POSITIONS (NOTIONAL AMOUNTS)**

As at January 31, 2009  
(unaudited) (millions of dollars)

	Credit portfolio <sup>(1)</sup>		Trading	
	Protection purchased	Protection sold	Protection purchased	Protection sold
Credit default swaps				
Indices and single names	119	72	11,751	11,363
Tranches on indices	–	–	2,172	2,054
Collateralized debt obligations	–	–	37	37
Total return swap	–	–	–	13

(1) Protection sold is solely for the purpose of reducing protection purchased

**TABLE 6 – RESIDUAL CONTRACTUAL MATURITY BREAKDOWN OF THE CREDIT PORTFOLIO**

As at January 31, 2009  
(unaudited) (millions of dollars)

	Within 1 year	1 to 5 years	Over 5 years	Total
<b>Deposits with financial institutions</b>	1,610	–	–	1,610
Available for sale securities				
Securities issued and guaranteed by				
Canada	10,546	1,375	1,375	13,296
Provinces	190	883	787	1,860
Municipalities and school boards	–	31	1	32
U.S. Treasury and other U.S. agencies	10	50	–	60
Other debt securities	358	286	362	1,006
<b>Total available for sale securities<sup>(1)</sup></b>	11,104	2,625	2,525	16,254
<b>Securities purchased under reverse repurchase agreements</b>	8,774	–	–	8,774
Loans				
Residential mortgage	7,061	7,087	553	14,701
Personal and credit card	15,350	870	123	16,343
Business and government	18,270	2,329	136	20,735
<b>Total loans</b>	40,681	10,286	812	51,779
<b>Derivative financial instruments – OTC</b>	2,190	5,167	2,534	9,891

(1) Available for sale securities except equities

**TABLE 7 – CREDIT RISK EXPOSURE<sup>(1)</sup> UNDER BASEL ASSET CATEGORIES AND BY RISK WEIGHT<sup>(2)</sup>**

As at January 31, 2009  
(unaudited) (millions of dollars)

	Risk Weights							Total
	0%	20%	35%	50%	75%	100%	150%	
Retail residential mortgages	8,768	–	10,832	–	–	–	–	19,600
Other retail	1,081	–	–	–	9,558	–	–	10,639
Corporate	2,729	109	–	–	–	26,559	–	29,397
Sovereign	25,088	–	–	–	–	–	–	25,088
Bank	8,731	7,820	–	–	–	–	–	16,551
<b>Total</b>	<b>46,397</b>	<b>7,929</b>	<b>10,832</b>	<b>–</b>	<b>9,558</b>	<b>26,559</b>	<b>–</b>	<b>101,275</b>

(1) Excluding the Trading book and Securitization

(2) Exposure amounts are net of all specific allowances for credit losses and reflect the risk weights of the guarantors, where applicable.

**TABLE 8 – MAXIMUM CREDIT RISK EXPOSURE**

The amounts shown in the table below represent the Bank's maximum exposure to credit risk as at the balance sheet date without taking into account any collateral held or any other credit enhancements.

As at January 31, 2009  
(unaudited) (millions of dollars)

	Maximum exposure to credit risk under Basel asset categories					Total
	Drawn <sup>(1)</sup>	Undrawn commitments <sup>(2)</sup>	Repo-style transactions <sup>(3)</sup>	OTC derivatives	Other off-balance sheet items <sup>(4)</sup>	
Retail residential mortgages	19,600	5,414	–	–	–	25,014
Other retail	10,639	5,482	–	–	–	16,121
Corporate	22,519	13,234	1,452	80	1,602	38,887
Sovereign	16,073	1,557	8,335	42	117	26,124
Bank	6,378	1,542	8,637	401	808	17,766
Trading book	–	–	–	6,189	–	6,189
Securitization	23	–	–	–	30	53
<b>Total – Credit risk</b>	<b>75,232</b>	<b>27,229</b>	<b>18,424</b>	<b>6,712</b>	<b>2,557</b>	<b>130,154</b>

(1) The amounts drawn represent certain deposits with financial institutions, available for sale securities except equity securities, gross loans, customers' liability under acceptances and certain other assets.

(2) Undrawn commitments represent unused portions of authorized credit facilities in the form of loans, acceptances, letters of guarantee and documentary letters of credit.

(3) Represents securities purchased under reverse repurchase agreements and sold under repurchase agreements.

(4) Letters of guarantee and credit that represent the Bank's commitment to make payments in the event that a client cannot meet its financial obligations to third parties.

## TABLE 9 – SPECIAL PURPOSE ENTITIES

Special purpose entities are not operating entities; they do not generally have any employees and they can include variable interest entities (VIEs) as defined in Accounting Guideline No.15 entitled *Consolidation of variable interest entities* (AcG-15). AcG-15 requires the consolidation of a VIE by its primary beneficiary, defined as the party that absorbs the majority of the entity's expected losses, receives the majority of the entity's expected residual returns, or both. The Bank has concluded interest rate swaps with some entities.

As at January 31, 2009  
(unaudited) (millions of dollars)

	Notes	Investments and other assets	Bank's exposure Undrawn liquidity, margin funding facilities and others	Total special purpose entity assets
<b>NON-CONSOLIDATED SPECIAL PURPOSE ENTITIES</b>				
VIEs in which the Bank has a significant variable interest				
Securitization entity for the Bank's credit card receivables (qualifying special purpose entity)	1	60	N/A	1,685
Multi-seller asset-backed commercial paper conduit administered by the Bank	2	410	88	641
Other asset-backed commercial paper conduits	3	1,373	941	–
NBC Capital Trust	4	2	N/A	170
Private capital funds and investments	5	145	N/A	2,202
		<b>1,990</b>		<b>4,698</b>
<b>CONSOLIDATED SPECIAL PURPOSE ENTITIES</b>				
VIEs				
National Bank hedge fund managed accounts (Innocap platform)	7	1,147	N/A	1,628
Mutual funds	8	207	N/A	273
Building	9	95	N/A	95
Private investments	10	14	N/A	31
Other				
NBC Asset Trust	11	263	N/A	1,017
		<b>1,726</b>		<b>3,044</b>
		<b>3,716</b>		<b>7,742</b>

N/A – Not applicable

- (1) The Bank's exposure represents the retained interest in the future excess interest, as well as certain securities issued by the entity and acquired by the Bank.
- (2) The main underlying assets are residential and commercial mortgages, leases, consumer loans and other receivables. The underlying assets are located in Canada. As at January 31, 2009, the amount of the global-style liquidity facility totalled \$498 million, representing the total amount of commercial paper outstanding. As at January 31, 2009, the Bank held \$410 million of the commercial paper and, consequently, the maximum potential amount of future payments as at January 31, 2009 was \$88 million.
- (3) Refer to the "Asset-backed commercial paper" section on pages 9 to 11 of Management's Discussion and Analysis. The total amount of commercial paper outstanding totalled \$36 billion as at January 31, 2009.
- (4) Refer to Note 17 to the 2008 audited consolidated financial statements.
- (5) The underlying assets are private investments. The disclosed amount of total assets of the special purpose entities are those of the most recent available period.
- (6) For the consolidated special purpose entities, the Bank's exposure is net of the non-controlling interest.
- (7) The underlying assets are various financial instruments (trading portfolio). The total assets of the Innocap platform are presented on a net asset basis.
- (8) The underlying assets are various financial instruments and are presented on a net asset basis. Certain mutual funds are in a trading portfolio.
- (9) The underlying asset is a building located in Canada.
- (10) The investments are presented on an equity basis.
- (11) Refer to Note 21 to the 2008 audited consolidated financial statements. The average maturity of the underlying assets in 4 years.

**CONSOLIDATED BALANCE SHEET**

(unaudited) (millions of dollars)

	January 31, 2009	October 31, 2008	January 31, 2008
<b>ASSETS</b>			
<b>Cash</b>	244	254	262
<b>Deposits with financial institutions</b>	1,610	3,406	4,115
<b>Securities (Notes 5 and 6)</b>			
Available for sale	17,161	12,322	6,634
Held for trading	36,529	33,863	36,396
	53,690	46,185	43,030
<b>Securities purchased under reverse repurchase agreements</b>	8,774	7,868	8,855
<b>Loans (Notes 7 and 8)</b>			
Residential mortgage	14,704	15,366	15,044
Personal and credit card	16,361	15,695	13,784
Business and government	21,189	21,149	19,151
	52,254	52,210	47,979
Allowance for credit losses	(475)	(469)	(417)
	51,779	51,741	47,562
<b>Other</b>			
Customers' liability under acceptances	4,444	4,274	4,533
Fair value of derivative financial instruments	10,899	9,814	4,233
Premises and equipment	457	460	433
Goodwill	741	740	702
Intangible assets	182	183	168
Due from clients, dealers and brokers	2,258	2,273	4,650
Other assets	1,911	2,134	1,581
	20,892	19,878	16,300
	136,989	129,332	120,124
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Deposits</b>			
Personal	34,676	33,098	31,522
Business and government	35,389	36,872	35,285
Deposit-taking institutions	9,285	5,827	6,090
Deposit from NBC Capital Trust	225	225	225
	79,575	76,022	73,122
<b>Other</b>			
Acceptances	4,444	4,274	4,533
Obligations related to securities sold short	16,066	15,829	18,355
Securities sold under repurchase agreements	9,650	7,151	3,193
Fair value of derivative financial instruments	9,547	8,588	3,307
Due to clients, dealers and brokers	2,854	2,389	4,404
Other liabilities	5,226	5,286	5,041
	47,787	43,517	38,833
<b>Subordinated debentures</b>	2,348	2,255	1,656
<b>Non-controlling interest (Note 10)</b>	1,314	2,029	1,664
<b>Shareholders' equity (Notes 11 and 13)</b>			
Preferred shares	1,089	774	400
Common shares	1,662	1,656	1,590
Contributed surplus	37	31	33
Retained earnings	3,080	3,110	2,941
Accumulated other comprehensive income (loss)	97	(62)	(115)
	5,965	5,509	4,849
	136,989	129,332	120,124

**CONSOLIDATED STATEMENT OF INCOME**

(unaudited) (millions of dollars)

Quarter ended	January 31, 2009	October 31, 2008	January 31, 2008
<b>Interest income</b>			
Loans	635	737	762
Securities available for sale	146	37	58
Securities held for trading	188	220	234
Deposits with financial institutions	2	9	93
	<b>971</b>	<b>1,003</b>	<b>1,147</b>
<b>Interest expense</b>			
Deposits	325	186	537
Subordinated debentures	23	30	20
Other	132	164	162
	<b>480</b>	<b>380</b>	<b>719</b>
<b>Net interest income</b>	<b>491</b>	<b>623</b>	<b>428</b>
<b>Other income</b>			
Underwriting and advisory fees	82	49	95
Securities brokerage commissions	53	60	59
Deposit and payment service charges	57	58	56
Trading revenues (losses) (Note 4)	16	(228)	(68)
Gains (losses) on available for sale securities, net	(177)	(210)	31
Card service revenues	8	9	10
Lending fees	25	27	27
Insurance revenues	30	32	34
Revenues from acceptances, letters of credit and guarantee	23	22	18
Securitization revenues (Note 8)	98	62	46
Foreign exchange revenues	30	34	29
Trust services and mutual funds	75	85	79
Other	65	142	85
	<b>385</b>	<b>142</b>	<b>501</b>
<b>Total revenues</b>	<b>876</b>	<b>765</b>	<b>929</b>
<b>Provision for credit losses</b>	<b>164</b>	<b>49</b>	<b>32</b>
	<b>712</b>	<b>716</b>	<b>897</b>
<b>Operating expenses</b>			
Salaries and staff benefits	378	349	374
Occupancy	44	45	41
Technology	96	153	98
Communications	20	22	19
Professional fees	41	59	45
Restructuring charges (Note 14)	-	66	-
Other	66	76	55
	<b>645</b>	<b>770</b>	<b>632</b>
<b>Income (loss) before income taxes (recovery) and non-controlling interest</b>	<b>67</b>	<b>(54)</b>	<b>265</b>
Income taxes (recovery)	(7)	(23)	67
	<b>74</b>	<b>(31)</b>	<b>198</b>
Non-controlling interest	5	(101)	(57)
<b>Net income</b>	<b>69</b>	<b>70</b>	<b>255</b>
Dividends on preferred shares	12	11	5
<b>Net income available to common shareholders</b>	<b>57</b>	<b>59</b>	<b>250</b>
<b>Number of common shares outstanding (thousands)</b>			
Average – basic	159,758	159,382	158,001
Average – diluted	159,901	159,818	158,731
End of period	159,679	159,447	158,141
<b>Earnings per common share (dollars) (Note 15)</b>			
Basic	0.36	0.37	1.58
Diluted	0.36	0.37	1.58
<b>Dividends per common share (dollars)</b>	<b>0.62</b>	<b>0.62</b>	<b>0.62</b>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(unaudited) (millions of dollars)

Quarter ended	January 31, 2009	October 31, 2008	January 31, 2008
<b>Net income</b>	<b>69</b>	70	255
<b>Other comprehensive income, net of income taxes</b>			
Net unrealized gains (losses) on translating financial statements of self-sustaining foreign operations	39	367	101
Impact of hedging net foreign currency translation gains or losses	(30)	(294)	(79)
<b>Net change in unrealized foreign currency translation gains and losses, net of hedging activities</b>	<b>9</b>	73	22
Net unrealized gains (losses) on available for sale financial assets	8	(136)	(17)
Reclassification to net income of (gains) losses on available for sale financial assets	1	34	(15)
<b>Net change in unrealized gains and losses on available for sale financial assets, net of fair value hedge transactions</b>	<b>9</b>	(102)	(32)
Net gains (losses) on derivative financial instruments designated as cash flow hedges	147	126	54
Reclassification to net income of (gains) losses on derivative financial instruments designated as cash flow hedges	(6)	(6)	4
<b>Net change in gains and losses on derivative financial instruments designated as cash flow hedges</b>	<b>141</b>	120	58
<b>Total other comprehensive income, net of income taxes</b>	<b>159</b>	91	48
<b>Comprehensive income</b>	<b>228</b>	161	303

INCOME TAXES – OTHER COMPREHENSIVE INCOME

The income tax charge or recovery for each component of other comprehensive income is presented in the following table:

Quarter ended	January 31, 2009	October 31, 2008	January 31, 2008
Net unrealized gains (losses) on translating financial statements of self-sustaining foreign operations	1	10	3
Impact of hedging net foreign currency translation gains or losses	(11)	(110)	(33)
Net unrealized gains (losses) on available for sale financial assets	2	(60)	(8)
Reclassification to net income of (gains) losses on available for sale financial assets	3	14	(6)
Net gains (losses) on derivative financial instruments designated as cash flow hedges	66	57	25
Reclassification to net income of (gains) losses on derivative financial instruments designated as cash flow hedges	(3)	(2)	2
<b>Total income taxes (recovery)</b>	<b>58</b>	(91)	(17)

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(unaudited) (millions of dollars)

Quarter ended January 31	2009	2008
<b>Preferred shares at beginning</b>	<b>774</b>	400
Issuance of preferred shares, Series 24 and 26 (Note 11)	315	–
<b>Preferred shares at end</b>	<b>1,089</b>	400
<b>Common shares at beginning</b>		
Issuance of common shares	1,656	1,575
Dividend Reinvestment and Share Purchase Plan	4	4
Stock Option Plan	2	11
<b>Common shares at end</b>	<b>1,662</b>	1,590
<b>Contributed surplus at beginning</b>	<b>31</b>	32
Stock option expense (Note 13)	2	2
Stock options exercised	–	(1)
Other	4	–
<b>Contributed surplus at end</b>	<b>37</b>	33
<b>Retained earnings at beginning</b>	<b>3,110</b>	2,793
Net income	69	255
Dividends		
Preferred shares	(12)	(5)
Common shares	(99)	(98)
Share issuance expenses and others, net of income taxes	12	(4)
<b>Retained earnings at end</b>	<b>3,080</b>	2,941
<b>Accumulated other comprehensive income (loss) at beginning, net of income taxes</b>	<b>(62)</b>	(163)
Net change in unrealized foreign currency translation gains (losses), net of hedging activities	9	22
Net change in unrealized gains (losses) on available for sale financial assets, net of fair value hedge transactions	9	(32)
Net change in gains (losses) on derivative financial instruments designated as cash flow hedges	141	58
<b>Accumulated other comprehensive income (loss) at end, net of income taxes</b>	<b>97</b>	(115)
<b>Shareholders' equity</b>	<b>5,965</b>	4,849

RETAINED EARNINGS AND ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), NET OF INCOME TAXES

As at January 31	2009	2008
<b>Retained earnings</b>	<b>3,080</b>	2,941
<b>Accumulated other comprehensive income (loss), net of income taxes</b>		
Unrealized foreign currency translation gains and losses, net of hedging activities	(62)	(158)
Unrealized gains and losses on available for sale financial assets, net of fair value hedge transactions	(130)	36
Gains and losses on derivative financial instruments designated as cash flow hedges	289	7
	97	(115)
<b>Total</b>	<b>3,177</b>	2,826

CONSOLIDATED STATEMENT OF CASH FLOWS

(unaudited) (millions of dollars)

Quarter ended January 31	2009	2008
<b>Cash flows from operating activities</b>		
Net income	69	255
Adjustments for:		
Provision for credit losses	164	32
Amortization of premises and equipment	23	20
Future income taxes	9	(1)
Translation adjustment on foreign currency subordinated debentures	1	3
Losses (gains) on sale of available for sale securities, net	177	(31)
Gains on asset securitizations and other transfers of receivables, net	(85)	(31)
Stock option expense	2	2
Change in interest payable	(83)	(149)
Change in interest and dividends receivable	69	126
Change in income taxes payable	(42)	(3)
Change in fair value of derivative financial instruments, net	(330)	257
Change in held for trading securities	(2,666)	(5,568)
Change in due from clients, dealers and brokers	15	(337)
Change in due to clients, dealers and brokers	465	63
Change in other items	387	797
	<b>(1,825)</b>	<b>(4,565)</b>
<b>Cash flows from financing activities</b>		
Change in deposits	3,553	2,324
Issuance of NBC CapS II	-	400
Issuance of common shares	6	15
Issuance of preferred shares	315	-
Dividends paid on common shares	(99)	(95)
Dividends paid on preferred shares	(12)	(5)
Change in obligations related to securities sold short	237	2,132
Change in securities sold under repurchase agreements	2,499	1,123
Change in other items	(325)	385
	<b>6,174</b>	<b>6,279</b>
<b>Cash flows from investing activities</b>		
Change in deposits with financial institutions pledged as collateral	(294)	122
Change in loans (excluding securitization)	(1,377)	(438)
Proceeds from securitization of new assets and other transfers of receivables	1,175	1,204
Maturity of securitized assets	-	(400)
Purchases of available for sale securities	(14,358)	(4,369)
Sales of available for sale securities	9,331	6,254
Change in securities purchased under reverse repurchase agreements	(906)	(2,889)
Change in premises and equipment	(20)	(27)
	<b>(6,449)</b>	<b>(543)</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(2,100)</b>	<b>1,171</b>
Cash and cash equivalents at beginning	3,466	2,996
Cash and cash equivalents at end	1,366	4,167
<b>Cash and cash equivalents</b>		
Cash	244	262
Deposits with financial institutions	1,610	4,115
Less: Amount pledged as collateral	(488)	(210)
	<b>1,366</b>	<b>4,167</b>
<b>Supplementary information</b>		
Interest paid	563	868
Income taxes paid	63	54

*These unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended October 31, 2008. Certain comparative figures have been reclassified to conform with the presentation adopted in fiscal 2009.*

## NOTE 1

### SIGNIFICANT ACCOUNTING POLICIES

These unaudited interim consolidated financial statements of the Bank have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) and the accounting policies described in the Bank’s most recent Annual Report for the year ended October 31, 2008, except for the recent accounting standards adopted described in Note 2A. Under Canadian GAAP, additional disclosures are required in annual financial statements and these unaudited interim consolidated financial statements should therefore be read in conjunction with the audited consolidated financial statements for the fiscal year ended October 31, 2008 and the accompanying notes included on pages 88 to 154 of the 2008 Annual Report.

## NOTE 2

### CHANGES IN ACCOUNTING POLICIES

#### 2A. RECENT ACCOUNTING STANDARDS ADOPTED

##### **Goodwill and Intangible Assets**

In January 2008, CICA Handbook Section 3064, *Goodwill and Intangible Assets*, was published. This new accounting standard reinforces the approach under which assets are recorded only if they meet the definition of an asset and the recognition criteria for an asset. It also clarifies the application of the concept of matching costs with revenues, so as to eliminate the current practice of recognizing as assets items that do not meet the definition of an asset and the recognition criteria for an asset. The application of this standard did not have a significant impact on the Bank’s consolidated financial statements.

##### **Credit Risk and the Fair Value of Financial Assets and Financial Liabilities**

On January 20, 2009, the Emerging Issues Committee issued Abstract 173 (EIC-173), *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*. EIC-173 stipulates that an entity’s own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative financial instruments. EIC-173 applies to the Bank effective November 1, 2008 and must be applied retrospectively without restatement of prior periods. In accordance with EIC-173, certain financial assets and financial liabilities, including derivative financial instruments, must be remeasured as at November 1, 2008. Any adjustment to the fair value must be recorded as an adjustment to the balance of retained earnings as at that date, except certain adjustments related to derivative financial instruments in a hedging relationship. In certain specific cases, any resulting difference would be recorded either in *Accumulated other comprehensive income* or as an adjustment to the carrying value of the hedged item. The Bank estimates that the impact of EIC-173 is not material and is nevertheless continuing to improve its measurement models.

#### 2B. RECENT ACCOUNTING STANDARDS PENDING ADOPTION

##### **Business Combinations, Consolidated Financial Statements and Non-Controlling Interests**

On January 5, 2009, three new sections of the CICA Handbook were published: Section 1582, *Business Combinations*, Section 1601, *Consolidated Financial Statements* and Section 1602, *Non-Controlling Interests*. The main impacts of these standards are described below.

##### Business Combinations

On the date on which the acquirer obtains control of a business, the acquirer must measure the business acquired as a whole in order to determine its fair value. The acquirer must measure the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree, at their acquisition-date fair values. Acquisition-related costs are accounted for as expenses in the periods in which the costs are incurred and the services are received, except for costs to issue debt securities, which are capitalized and amortized using the effective interest method, or share capital, which is recognized as capital transactions. The standard provides for a measurement period after the acquisition date during which the acquirer may retrospectively adjust the provisional amounts recognized on the acquisition date. This new standard is applicable to the Bank prospectively to business combinations for which the acquisition date is on or after November 1, 2011. Earlier application is permitted if Sections 1601 and 1602 are applied at the same time.

##### Consolidated Financial Statements and Non-Controlling Interests

Section 1601 establishes standards for the preparation of consolidated financial statements after the acquisition date and certain aspects of consolidation on the acquisition date. Section 1602 establishes standards for the accounting and presentation of non-controlling interest in a subsidiary subsequent to a business combination. These new standards are applicable to the Bank effective November 1, 2011. Earlier application is permitted if Section 1582 is applied at the same time.

##### **International Financial Reporting Standards (IFRS)**

In February 2008, the Canadian Accounting Standards Board confirmed that all publicly accountable enterprises would be required to report under IFRS in 2011. IFRS will replace Canadian GAAP. On November 1, 2011, these standards will apply to the Bank. During fiscal 2008, the Bank started an important project for the convergence to IFRS and for evaluating the impact of the initial application of these standards on the consolidated financial statements.

## NOTE 3

### CARRYING VALUES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

Financial assets and liabilities are recognized in the Consolidated Balance Sheet at fair value, cost or amortized cost according to the categories determined by the accounting framework for financial instruments. The carrying values for each category of financial asset and liability are presented in the table below:

As at January 31, 2009

	Financial instruments required to be classified as held for trading	Financial instruments designated as held for trading	Available for sale	Loans and receivables	Financial liabilities at cost or amortized cost	Derivative financial instruments designated as cash flow hedges	Derivative financial instruments designated as fair value hedges
<b>Financial Assets</b>							
<b>Cash</b>	244	-	-	-	-	-	-
<b>Deposits with financial institutions</b>	-	-	43	1,567	-	-	-
<b>Securities</b>							
Available for sale	-	-	17,161	-	-	-	-
Held for trading	32,887	3,642	-	-	-	-	-
<b>Securities purchased under reverse repurchase agreements</b>	-	-	-	8,774	-	-	-
<b>Loans</b>	-	-	-	51,779	-	-	-
<b>Other</b>							
Customers' liability under acceptances	-	-	-	4,444	-	-	-
Fair value of derivative financial instruments	9,913	-	-	-	-	572	414
Due from clients, dealers and brokers	-	-	-	2,258	-	-	-
Other assets	-	-	-	362	-	-	-
<b>Total financial assets</b>	<b>43,044</b>	<b>3,642</b>	<b>17,204</b>	<b>69,184</b>	<b>-</b>	<b>572</b>	<b>414</b>
<b>Financial Liabilities</b>							
<b>Deposits</b>							
Personal	-	-	-	-	34,676	-	-
Business and government	-	593	-	-	34,796	-	-
Deposit-taking institutions	-	-	-	-	9,285	-	-
Deposit from NBC Capital Trust	-	-	-	-	225	-	-
<b>Other</b>							
Acceptances	-	-	-	-	4,444	-	-
Obligations related to securities sold short	16,066	-	-	-	-	-	-
Securities sold under repurchase agreements	-	-	-	-	9,650	-	-
Fair value of derivative financial instruments	9,350	-	-	-	-	46	151
Due to clients, dealers and brokers	-	-	-	-	2,854	-	-
Other liabilities	-	-	-	-	3,978	-	-
<b>Subordinated debentures</b>	-	-	-	-	2,348	-	-
<b>Total financial liabilities</b>	<b>25,416</b>	<b>593</b>	<b>-</b>	<b>-</b>	<b>102,256</b>	<b>46</b>	<b>151</b>

**Note 3 Carrying Values of Financial Assets and Financial Liabilities by Category (cont.)**

As at October 31, 2008

	Financial instruments required to be classified as held for trading	Financial instruments designated as held for trading	Available for sale	Loans and receivables	Financial liabilities at cost or amortized cost	Derivative financial instruments designated as cash flow hedges	Derivative financial instruments designated as fair value hedges
<b>Financial Assets</b>							
<b>Cash</b>	254	–	–	–	–	–	–
<b>Deposits with financial institutions</b>	–	–	–	3,406	–	–	–
<b>Securities</b>							
Available for sale	–	–	12,322	–	–	–	–
Held for trading	32,178	1,685	–	–	–	–	–
<b>Securities purchased under reverse repurchase agreements</b>	–	–	–	7,868	–	–	–
<b>Loans</b>	–	–	–	51,741	–	–	–
<b>Other</b>							
Customers' liability under acceptances	–	–	–	4,274	–	–	–
Fair value of derivative financial instruments	9,241	–	–	–	–	305	268
Due from clients, dealers and brokers	–	–	–	2,273	–	–	–
Other assets	–	–	–	431	–	–	–
<b>Total financial assets</b>	<b>41,673</b>	<b>1,685</b>	<b>12,322</b>	<b>69,993</b>	<b>–</b>	<b>305</b>	<b>268</b>
<b>Financial Liabilities</b>							
<b>Deposits</b>							
Personal	–	–	–	–	33,098	–	–
Business and government	–	567	–	–	36,305	–	–
Deposit-taking institutions	–	–	–	–	5,827	–	–
Deposit from NBC Capital Trust	–	–	–	–	225	–	–
<b>Other</b>							
Acceptances	–	–	–	–	4,274	–	–
Obligations related to securities sold short	15,829	–	–	–	–	–	–
Securities sold under repurchase agreements	–	–	–	–	7,151	–	–
Fair value of derivative financial instruments	8,502	–	–	–	–	35	51
Due to clients, dealers and brokers	–	–	–	–	2,389	–	–
Other liabilities	–	–	–	–	4,094	–	–
<b>Subordinated debentures</b>	–	–	–	–	2,255	–	–
<b>Total financial liabilities</b>	<b>24,331</b>	<b>567</b>	<b>–</b>	<b>–</b>	<b>95,618</b>	<b>35</b>	<b>51</b>

## NOTE 4

### TOTAL INCOME FROM TRADING ACTIVITIES

Income from trading activities comprises net interest income from trading activities, trading revenues recognized as *Other income* and the impact of non-controlling interest.

Net interest income comprises interest and dividends related to financial assets and liabilities associated with trading activities, net of interest expenses and interest income related to the financing of these financial assets and liabilities.

Other income comprises the realized and unrealized gains and losses on securities held for trading, income from derivative financial instruments held for trading purposes and the change in fair value of financial instruments designated as held for trading.

The impact of non-controlling interest takes into account trading revenues and losses attributable to third parties.

Quarter ended	January 31, 2009	October 31, 2008	January 31, 2008
Net interest income	107	220	119
Other income	16	(228)	(68)
Non-controlling interest	10	121	62
<b>Total</b>	<b>133</b>	<b>113</b>	<b>113</b>

## NOTE 5

### AVAILABLE FOR SALE FINANCIAL ASSETS

As at January 31, 2009

	Cost or unamortized cost	Gross unrealized gains	Gross unrealized losses	Carrying value
Securities issued or guaranteed by:				
Canada	13,197	102	(3)	13,296
Provinces	1,847	24	(11)	1,860
Municipalities or school boards	32	–	–	32
U.S. Treasury and other U.S. agencies	60	–	–	60
Other debt securities	1,032	5	(31)	1,006
Equity securities	1,047	14	(154)	907
<b>Total of available for sale securities</b>	<b>17,215</b>	<b>145</b>	<b>(199)</b>	<b>17,161</b>
Other available for sale financial assets	43	–	–	43
<b>Total of available for sale financial assets</b>	<b>17,258</b>	<b>145</b>	<b>(199)</b>	<b>17,204</b>

#### Gross unrealized losses

Financial assets classified as available for sale are measured periodically to determine whether there is objective evidence of impairment in value. Gross unrealized losses on equity securities are mainly caused by market price fluctuations or foreign exchange movements. The Bank has the ability and intent to hold these securities for a period of time sufficient to allow for any recovery of their fair value. As at January 31, 2009, the Bank concluded that the gross unrealized losses, recognized in *Other comprehensive income*, were temporary.

#### Available for sale securities presented at cost

The Bank holds equity securities such as mutual fund units and other securities that are classified as available for sale but must be presented at cost because they are not traded in an active market. As at January 31, 2009, these available for sale securities presented at cost in the Consolidated Balance Sheet totalled \$361 million. Some of these securities had a fair value that could be estimated. The difference between the estimated fair value and the cost represented an unrealized gain of \$5 million including the impact of hedges on these securities as at January 31, 2009.

## NOTE 6

### ASSET-BACKED COMMERCIAL PAPER

On August 20, 2007, the Bank announced a number of measures to relieve its clients from the uncertainties related to the liquidity problem in the asset-backed commercial paper (ABCP) market. During the fourth quarter of 2007, the Bank purchased \$2,138 million of ABCP, issued by 26 trusts, including \$1,084 million from mutual funds and \$559 million from pooled funds administered by the Bank, as well as the ABCP held by its individual retail clients and certain other clients. This amount was in addition to the \$156 million of ABCP already held by the Bank.

On December 23, 2007, the Pan-Canadian Investors Committee for Third-Party Structured ABCP approved an agreement in principle to restructure the affected series of ABCP issued by 20 trusts. On December 24, 2008, an agreement was reached with all key stakeholders, including the governments of Canada, Quebec, Ontario and Alberta, regarding the restructuring of \$32 billion of third-party ABCP. The restructuring plan (the "Plan") was implemented on January 21, 2009.

#### **Restructuring plan**

In accordance with the Plan, the affected ABCP has been replaced with new longer-term floating rate notes with maturities designed to more closely match the maturities of the underlying assets. The Plan also provides, in certain circumstances, for the pooling of certain assets as well as the establishment of new margin funding facilities to support any collateral calls that may occur in the future.

The series of affected ABCP supported in whole or in part by synthetic assets have been pooled into the Master Asset Vehicles (1 and 2) as follows:

- Master Asset Vehicle 1 (MAV1) is a newly formed vehicle for investors who have elected to commit their pro rata share of a margin funding facility associated with their underlying assets;
- Master Asset Vehicle 2 (MAV2) is a newly formed vehicle for investors who have elected to commit less than, or none of their pro rata share of a margin funding facility, in which case third parties will fund the remaining portion.

The margin funding facilities in MAV1 and MAV2 are provided by third party lenders, including Canadian banks, asset providers, noteholders and the governments of Canada, Quebec, Ontario and Alberta. The facilities provided by the governments rank senior to all other margin funding facilities and, in the event of margin calls, they would be the last in and the first out. These facilities are designed to reduce the risk that the newly formed vehicles will not be able to meet margin calls if future circumstances warrant them. The Bank committed to contribute \$911 million to these margin funding facilities.

The key parties to the restructuring have also agreed to enhance the transaction by including a moratorium which prevents collateral calls for a period of 18 months.

In connection with the contribution to MAV1 or MAV2 of assets supported by the margin funding facility, investors have received a mix of Class A-1, Class A-2, Class B and Class C notes with an expected maturity in December 2016. Class A-1 and Class A-2 notes have received a final rating of "A". Ineligible assets in MAV1 and MAV2 have been segregated, and noteholders holding series of ABCP secured in part by ineligible assets have received IA tracking notes that will track the performance of the underlying individual asset.

A newly formed vehicle, which silos each series secured exclusively by traditional assets or by 100% ineligible assets, has been created under a third Master Asset Vehicle 3 (MAV3). Two main types of notes are created in MAV3: TA tracking notes for traditional assets and IA tracking notes for ineligible assets. All tracking notes are tied to the net return and maturities of their respective underlying assets.

**Note 6 Asset-Backed Commercial Paper (cont.)**

As at January 31, 2009, the face value of the ABCP held by the Bank was \$2,163 million of which \$1,765 million was designated as *Held for trading securities* under the fair value option and \$398 million was classified in *Available for sale securities*. The underlying assets as part of the Plan were as follows:

Type of underlying assets	Face value of ABCP
Synthetic assets or hybrid assets	
Class A-1	726
Class A-2	649
Class B	111
Class C	46
<b>Total synthetic assets or hybrid assets</b>	<b>1,532</b>
Traditional assets <sup>(1)</sup>	182
Ineligible assets	296
ABCP not included in the Pan-Canadian restructuring plan	153
<b>Total underlying assets<sup>(2)</sup></b>	<b>2,163</b>

(1) Includes series secured exclusively by traditional assets

(2) The underlying assets of third-party ABCP held by the Bank are comprised of 54% leveraged super senior exposures, 21% fully funded collateralized debt obligations, 16% traditional assets and 9% cash.

**Establishing fair value**

On January 21, 2009, the Bank assessed the fair value of the ABCP included in the Plan to determine the carrying value of the new notes. On that date, the carrying value of the previous notes was removed from the balance sheet and replaced with the new notes at fair value. The notes held in an investment portfolio with one or more embedded derivatives were designated as *Held for trading securities* under the fair value option and the others were classified in *Available for sale securities*. On January 31, 2009, the Bank also established the fair value of the ABCP that it held.

To determine the value of the ABCP it held on both dates, the Bank established ranges of estimated fair value. The carrying value of the ABCP held in an investment portfolio as at January 31, 2009, designated as *Held for trading securities*, was \$1,140 million, and \$233 million was classified in *Available for sale securities*. A loss of \$190 million was recorded in the first quarter of 2009 in *Gains (losses) on available for sale securities* in the Consolidated Statement of Income. This loss was due to the wider credit spreads as at January 21, 2009 compared to October 31, 2008 and the downgrade from the provisional rating of "AA" to the final rating of "A".

In establishing the fair value of the ABCP included in the Plan and excluding ineligible assets, the Bank considered the quality of the underlying assets. As the Plan has been completed, the Bank determined the fair value solely using a discounted cash flow analysis. As at October 31, 2008, a proportion of the value was based on the probability assigned to an unsuccessful restructuring.

The discount rate was based 80% on the CDX.IG index tranches and 20% on a basket of securities backed by assets such as credit card receivables, Residential Mortgage-Backed Securities (RMBS), Commercial Mortgage-Backed Securities (CMBS) and automobile loans. Credit ratings, coupons and maturities were based on the terms provided for in the Plan. The value of the margin funding facility was determined in reference to other comparable financial instruments.

For ineligible assets, the fair value of the tracking notes was based on an analysis of the underlying assets and the market value of comparable instruments. For RMBS, fair values were based on the ABX index; for CMBS, CMBS indices, including the CMBX index, were chosen. As for derivative financial instruments, the Bank used valuation models which are commonly used by market participants with inputs that are based on factors observable in the markets: CDX.IG indices, correlation and interest rates.

The Bank's valuation was based on its assessment of the conditions prevailing as at January 21 and 31, 2009, which may change in subsequent periods. The most important assumptions to determine the fair value of the notes are the observable discount rates and the credit ratings of the notes. Fair value sensitivities to these assumptions as at January 31, 2009 were as follows:

- A change of 10 basis points in the discount rate would result in a \$10 million decrease or increase in the fair value;
- A decrease in the credit rating of one letter grade would result in a decrease in the fair value between a range of \$70 million and \$90 million; and
- An increase in the credit rating of one letter grade would result in an increase in the fair value between a range of \$60 million and \$80 million.

Determining the fair value of ABCP is complex and involves an extensive process that includes the use of quantitative modelling and relevant assumptions. Possible changes that could have a material effect on the future value of the ABCP include (1) changes in the value of the underlying assets, (2) developments related to the liquidity of the ABCP market, and (3) the impacts of a severe and prolonged economic slowdown in North America.

**Note 6 Asset-Backed Commercial Paper (cont.)**

**Interest arrears**

Between August 20, 2007 and October 31, 2008, the Bank recorded no interest income related to the notes that are part of the Plan. Further to the Plan's implementation, the Bank recorded \$59 million for the first quarter of 2009 as *Interest income* in the Consolidated Statement of Income.

**Credit facilities to clients holding ABCP**

As the Plan has been implemented, the Bank offer commercial and corporate clients of the Bank holding third-party ABCP improved credit facilities for their liquidity needs. These credit facilities will cover up to 75% of the value of the notes. The credit agreements will also provide for an option in favour of the borrower allowing the borrower to assign to the Bank, on or after the maturity date of the credit facility, the restructured notes in payment of the principal of the credit facility. These credit facilities will be made available for a period of two to three years with the possibility of being extended by the Bank if borrowers maintain a normal banking relationship with the Bank during the period of the credit facility.

During the first quarter of 2009, the Bank recorded a provision for credit losses of \$126 million related to these new credit facilities. This amount was recorded in *Other Liabilities* in the Consolidated Balance Sheet. A general allowance for credit risk for ABCP-secured loans of \$23 million was recorded during fiscal 2008. These provisions are based on the Bank's assessment of the value of the collateral at the maturity date of the loans and are mainly due to the credit facilities related to notes backed by ineligible assets.

As at January 31, 2009, the outstanding new credit facilities were \$105 million. In total, the collateral related to the credit facilities offered to clients was estimated as follows:

Collateral	Face value of the notes	Credit facilities related to notes backed by ineligible assets <sup>(1)</sup>	Credit facilities related to other notes included in the restructuring plan <sup>(2)</sup>
Synthetic assets or hybrid assets			
Class A-1	423	–	339
Class A-2	405	–	322
Class B	74	–	59
Class C	28	–	22
<b>Total synthetic assets or hybrid assets</b>	<b>930</b>	<b>–</b>	<b>742</b>
Traditional assets	127	–	92
Ineligible assets	324	247	–
<b>Total</b>	<b>1,381</b>	<b>247</b>	<b>834</b>

(1) These credit facilities represent 75% of the nominal value of the notes and are guaranteed by the notes.

(2) These credit facilities represent 75% of the nominal value of the notes of which 30% are full recourse to the borrower and 45% guaranteed by the notes.

The Bank has also provided credit facilities to borrowers for their liquidity needs until the new credit facilities are made available. As at January 31, 2009, the outstanding credit facilities represented \$292 million with recourse to the borrowers.

## NOTE 7

### LOANS

#### CREDIT QUALITY OF LOANS

As at January 31, 2009	Residential mortgage	Personal and credit card	Business and government <sup>(2)</sup>	Total
Neither past due <sup>(1)</sup> nor impaired	14,501	16,281	20,756	51,538
Past due but not impaired	173	37	184	394
Impaired	30	43	249	322
	<b>14,704</b>	<b>16,361</b>	<b>21,189</b>	<b>52,254</b>
Less: Specific allowances	3	18	123	144
<b>Sub-total</b>	<b>14,701</b>	<b>16,343</b>	<b>21,066</b>	<b>52,110</b>
Less: General allowance <sup>(3)</sup>				331
<b>Total</b>				<b>51,779</b>

(1) A loan is considered to be past due when the counterparty has not made a payment the day of the contractual expiry date.

(2) Business credit portfolios are closely monitored and a monthly watchlist of problem commitments is produced. The watchlist is analyzed by the loan portfolio managers concerned, who must then submit a report to Credit Risk Management.

(3) The general allowance for credit risk was created taking into account the Bank's overall credit portfolio, except for an amount for ABCP-secured loans.

#### LOANS PAST DUE BUT NOT IMPAIRED

As at January 31, 2009	Residential mortgage	Personal and credit card	Business and government
Past due but not impaired			
1 month late	49	14	112
2 months late	22	10	37
3 months late and more <sup>(1)</sup>	102	13	35
<b>Total</b>	<b>173</b>	<b>37</b>	<b>184</b>

(1) Include insured and fully secured loans for which, in the opinion of Management, there is no reasonable doubt as to the ultimate collectibility of the principal or interest. Credit card receivables are included in this category because they are written off only when payments are more than 180 days in arrears.

**Note 7 Loans (cont.)**

**IMPAIRED LOANS**

As at January 31, 2009	Gross	Specific allowances	Net
Loans			
Residential mortgage	30	3	27
Personal and credit card	43	18	25
Business and government	249	123	126
<b>Total</b>	<b>322</b>	<b>144</b>	<b>178</b>

As at October 31, 2008	Gross	Specific allowances	Net
Loans			
Residential mortgage	31	3	28
Personal and credit card	37	14	23
Business and government	239	121	118
<b>Total</b>	<b>307</b>	<b>138</b>	<b>169</b>

**ALLOWANCE FOR CREDIT LOSSES**

Quarter ended January 31, 2009	Residential mortgage	Personal and credit card	Business and government	Total
Specific allowances at beginning	3	14	121	138
Provision for credit losses	–	22	16	38
Write-offs	(1)	(10)	(14)	(25)
Write-offs on credit cards	–	(23)	–	(23)
Recoveries	1	15	–	16
Specific allowances at end	3	18	123	144
General allowance <sup>(1)</sup> at beginning				331
Provision for credit losses				126 <sup>(2)</sup>
General allowance at end				457
Specific and general allowances at end				601
Less: Allowance for commitments to extend credit to clients holding ABCP				(126) <sup>(2)</sup>
Allowances at end				475

Quarter ended January 31, 2008	Residential mortgage	Personal and credit card	Business and government	Total
Specific allowances at beginning	1	12	107	120
Provision for credit losses	–	16	16	32
Write-offs	–	(13)	(29)	(42)
Write-offs on credit cards	–	(17)	–	(17)
Recoveries	1	14	1	16
Specific allowances at end	2	12	95	109
General allowance <sup>(3)</sup>				308
Allowances at end				417

(1) The general allowance for credit risk was created taking into account the Bank's overall credit portfolio, except for an amount of \$23 million for ABCP-secured loans.

(2) Provisions taken for new credit facilities granted to clients holding ABCP. This general allowance is recorded in *Other liabilities* in the Consolidated Balance Sheet.

(3) The general allowance for credit risk was created taking into account the Bank's overall credit portfolio.

## NOTE 8

### TRANSFERS OF RECEIVABLES

#### New securitization activities

##### Insured mortgage loans

The Bank securitizes insured residential mortgage loans by creating mortgage-backed securities.

The pre-tax gain or loss from securitization transactions, net of transaction fees, is recognized in the Consolidated Statement of Income under *Securitization revenues*.

Securitization activities for the quarter ended	January 31, 2009 Insured mortgage loans	October 31, 2008 Insured mortgage loans	January 31, 2008 Insured mortgage loans
Net cash proceeds	1,104	646	1,204
Retained rights to future excess interest	83	29	29
Retained servicing liability	(7)	(3)	(7)
	1,180	672	1,226
Receivables securitized and sold	1,119 <sup>(1)</sup>	648	1,208 <sup>(2)</sup>
Gain before income taxes, net of transaction fees	61	24	18
Mortgage-backed securities created and retained included in <i>Available for sale securities</i>	162	164	455

(1) Includes \$160 million of receivables securitized during previous fiscal years

(2) Includes \$181 million of receivables securitized during previous fiscal years

#### Impact of securitization activities on certain items in the Consolidated Statement of Income

Securitization revenues for the quarter ended January 31	2009	2008	2009	2008	2009	2008	2009	2008
	Gains on sale of assets		Servicing revenues		Other		Total	
Insured mortgage loans	61	18	5	5	–	–	66	23
Credit card receivables <sup>(1)</sup>	24	13	6	6	2	4	32	23
<b>Total</b>	<b>85</b>	<b>31</b>	<b>11</b>	<b>11</b>	<b>2</b>	<b>4</b>	<b>98</b>	<b>46</b>

(1) Revolving securitization transactions

#### Key assumptions

The key assumptions used to measure the fair value of retained rights to future excess interest as at the securitization date for transactions carried out during the quarter ended January 31, 2009 were as follows:

	Insured mortgage loans		Credit card receivables
	Variable rate	Fixed rate	
Weighted average term (months)	32.6	33.1	–
Payment rate (per month)	–	–	27.2%
Prepayment rate	20.0%	17.0%	–
Excess spread, net of credit losses	1.2%	3.1%	10.8%
Expected credit losses	–	–	4.2%
Discount rate	2.0%	2.4%	17.0%

## Note 8 Transfers of Receivables (cont.)

### Other transfers

The Bank sells insured and uninsured mortgage loans to a mutual fund administered by the Bank. The pre-tax gain or loss is recorded in *Other income* – *Other* in the Consolidated Statement of Income.

For the quarter ended	January 31, 2009	January 31, 2008
Net cash proceeds	71	–
Uninsured mortgage loans sold	70	–
<b>Gain before income taxes</b>	<b>1</b>	<b>–</b>

## NOTE 9

### DESIGNATED AS HELD FOR TRADING FINANCIAL INSTRUMENTS

#### Securities

Since the fourth quarter of 2008, the Bank has designated as held for trading securities under the fair value option that were purchased to hedge certain derivative financial instruments. The Bank adopted this option in accordance with its risk management strategy, which allows it to manage these securities and the derivative financial instruments involved together using the fair value basis and thereby considerably reduce financial risks. During the quarter ended January 31, 2009, the Bank designated securities with an initial cost of \$712 million. The total fair value of these securities designated as held for trading was \$2.5 billion as at January 31, 2009. The change in fair value of \$81 million for the quarter was recorded as a gain in *Trading revenues (losses)* in the Consolidated Statement of Income.

In addition, during the first quarter of 2009, the Bank designated ABCP with one or more embedded derivatives as held for trading securities under the fair value option. As at January 31, 2009, the fair value of these notes was \$1,140 million and no change in fair value was recorded in the Consolidated Statement of Income.

#### Deposits

Certain deposits with one or more embedded derivatives are designated as held for trading under the fair value option. These deposits are included under liabilities in *Deposits* in the Consolidated Balance Sheet. The fair value of these deposits totalled \$593 million as at January 31, 2009. The \$14 million change in fair value for the quarter was recorded as a gain in *Trading revenues (losses)* in the Consolidated Statement of Income. The change in fair value for the quarter ended January 31, 2009 attributable to credit risk is a \$20 million unrealized gain.

To determine the change in fair value due to change in credit risk for these financial liabilities, the Bank calculates, at the beginning of the period, the present value of the instrument's contractual cash flows using the following rates: first, using an observed discount rate that reflects the Bank's credit spread and, again, using a rate that excludes the Bank's credit spread. The difference between those two values is then compared to the difference obtained using the same rates at the end of the period.

The amount at maturity, which the Bank will be contractually required to pay to the holders of these deposits, may vary and will be different from the fair value as at January 31, 2009.

## NOTE 10

### NON-CONTROLLING INTEREST

	January 31, 2009	October 31, 2008
400,000 NBC CapS II – Series 1 issued by NBC Asset Trust	400	400
350,000 NBC CapS II – Series 2 issued by NBC Asset Trust	350	350
Mutual funds consolidated in accordance with AcG-15	64	51
Other entities consolidated in accordance with AcG-15	481	1,210
Other	19	18
<b>Total</b>	<b>1,314</b>	<b>2,029</b>

## NOTE 11

### CAPITAL STOCK

#### Shares and dividends as at January 31, 2009

	Number of shares	Shares \$	Dividends \$	Dividends per share
First Preferred Shares				
Series 15	8,000,000	200	3	0.3656
Series 16	8,000,000	200	2	0.3031
Series 20	6,900,000	173	3	0.3750
Series 21	8,050,000	201	3	0.3359
Series 24	6,800,000	170	1	0.1390
Series 26	5,800,000	145	–	–
	<b>43,550,000</b>	<b>1,089</b>	<b>12</b>	
Common shares	<b>159,678,951</b>	<b>1,662</b>	<b>99</b>	<b>0.6200</b>
		<b>2,751</b>	<b>111</b>	

#### Issuance of Preferred Shares

On January 30, 2009, the Bank issued 4,000,000 First Preferred Shares Series 26 with a non-cumulative preferential dividend at a quarterly amount of \$0.4125 per share. The initial dividend will be payable on May 15, 2009 and will be \$0.47918 per share. Furthermore, the Bank granted the underwriters an over-allotment option to purchase up to an additional 3,000,000 shares at an exercise price of \$25.00 at any time in the 30 days following the closing date. The underwriters exercised this option by purchasing 1,800,000 First Preferred Shares Series 26. The Bank received a consideration of \$141 million, net of fees of \$4 million.

On January 14, 2009, the Bank issued 5,000,000 First Preferred Shares Series 24 with a non-cumulative preferential dividend at a quarterly amount of \$0.4125 per share. The initial dividend will be payable on May 15, 2009 and will be \$0.55151 per share. Furthermore, the Bank granted the underwriters an over-allotment option to purchase up to an additional 3,000,000 shares at an exercise price of \$25.00 at any time in the 30 days following the closing date. The underwriters exercised this option by purchasing 1,800,000 First Preferred Shares Series 24. The Bank received a consideration of \$165 million, net of fees of \$5 million.

#### Repurchase of common shares

On February 1, 2008, the Bank had filed a normal course issuer bid to repurchase for cancellation up to 4,700,000 common shares over a 12-month period ending no later than January 31, 2009. On February 1, 2007, the Bank had filed a normal course issuer bid to repurchase for cancellation up to 8,102,000 common shares over a 12-month period ending no later than January 31, 2008.

During the quarters ended January 31, 2009 and 2008, the Bank did not repurchase any common shares.

## NOTE 12

### PENSION BENEFITS AND OTHER EMPLOYEE FUTURE BENEFITS

Quarter ended	January 31, 2009	October 31, 2008	January 31, 2008
Pension benefit expense	8	9	9
Other employee future benefit expense	2	2	3

## NOTE 13

### STOCK-BASED COMPENSATION

#### Stock Option Plan

During the fiscal year ended January 31, 2009, the Bank awarded 2,357,740 stock options (2008: 2,260,036) with a fair value of \$5.65 per option (2008: \$9.21).

As at January 31, 2009, a total of 8,792,946 stock options were outstanding.

The fair value of the options awarded was estimated on the award date using the discrete dividend Black-Scholes model. The following assumptions were used:

Quarter ended	January 31, 2009	January 31, 2008
Risk-free interest rate	2.23%	4.40%
Expected life of the options	6 years	6 years
Expected volatility	41.0%	25.3%
Expected dividend yield	7.1%	4.6%

Quarter ended	January 31, 2009	October 31, 2008	January 31, 2008
Compensation expense recorded for the stock options	2	3	2

#### Stock Appreciation Rights (SAR) Plan

During the quarter ended January 31, 2009, the Bank awarded 56,892 SARs. A total of 245,103 SARs were outstanding as at January 31, 2009.

#### Deferred Stock Unit (DSU) Plan

During the quarter ended January 31, 2009, the Bank awarded 44,416 DSUs. A total of 108,037 DSUs were outstanding as at January 31, 2009.

#### Restricted Stock Unit (RSU) Plan

During the quarter ended January 31, 2009, the Bank awarded 715,816 RSUs. A total of 907,681 RSUs were outstanding as at January 31, 2009.

#### Deferred Compensation Plan of National Bank Financial

During the quarter ended January 31, 2009, National Bank Financial awarded 39,996 units. A total of 908,538 units were outstanding as at January 31, 2009.

## NOTE 14

### RESTRUCTURING CHARGES

During fiscal 2008, the Board of Directors approved the organizational restructuring of the Bank. The objectives of the restructuring are to align the Bank's distribution models and operations with client needs and to simplify processes and increase the efficiency of corporate functions.

The payments related to the provision for restructuring charges are presented in the following table:

Quarter ended January 31	2009			2008
	Severance pay	Other charges	Total	Total
Balance at the beginning	51	10	61	7
Payments made during the quarter	(12)	(10)	(22)	–
<b>Balance at the end</b>	<b>39</b>	<b>–</b>	<b>39</b>	<b>7</b>

## NOTE 15

### EARNINGS PER SHARE

Diluted earnings per share is calculated by dividing net income available to common shareholders by the weighted average number of common shares outstanding after taking into account the dilution effect of stock options using the treasury stock method.

Quarter ended	January 31, 2009	October 31, 2008	January 31, 2008
<b>Basic earnings per common share</b>			
Net income	69	70	255
Dividends on preferred shares	12	11	5
Net income available to common shareholders	57	59	250
Weighted average basic number of common shares outstanding (thousands)	159,758	159,382	158,001
<b>Basic earnings per common share</b>	<b>\$ 0.36</b>	<b>\$ 0.37</b>	<b>\$ 1.58</b>
<b>Diluted earnings per common share</b>			
Net income available to common shareholders	57	59	250
Weighted average basic number of common shares outstanding (thousands)	159,758	159,382	158,001
Adjustment to average number of common shares (thousands)			
Stock options <sup>(1)</sup>	143	436	730
Weighted average diluted number of common shares outstanding (thousands)	159,901	159,818	158,731
<b>Diluted earnings per common share</b>	<b>\$ 0.36</b>	<b>\$ 0.37</b>	<b>\$ 1.58</b>

(1) For the quarter ended January 31, 2009, the calculation of the diluted earnings per share excludes 5,920,992 average options outstanding with a weighted average exercise price of \$55.24 (4,287,440 average options outstanding with a weighted average exercise price of \$58.88 for the quarter ended October 31, 2008 and 3,341,754 average options outstanding with a weighted average exercise price of \$60.73 for the quarter ended January 31, 2008) as the exercise price of these options was greater than the average price of the Bank's common shares.

## NOTE 16

### LITIGATION

In the normal course of business, the Bank is involved in various legal proceedings, many of which are related to lending activities and arise when the Bank takes measures to collect delinquent loans. The Bank is also sometimes named as a defendant or joined in class action suits filed by consumers contesting, among other things, certain transaction fees and unilateral increases in their credit card limits or who wish to avail themselves of certain provisions of consumer protection legislation. The Bank's investment dealer subsidiary, National Bank Financial, is also involved in various legal proceedings in the normal course of business. Most of these proceedings concern Individual Investor Services and generally relate to the suitability of investments made by investors relying on the advice of their respective advisors. In the opinion of Management, based on available information and past experience, the related aggregate potential liability will not have a material unfavourable impact on the Bank's financial position.

Following the events that occurred in the asset-backed commercial paper market in August 2007, the Bank and its subsidiaries received requests for information, complaints, demand letters and one legal claim from certain of their clients. These complaints and demand letters are largely captured by a release included in the restructuring plan for the ABCP market, which has now been fully implemented.

## NOTE 17

### SEGMENT DISCLOSURES

Quarter ended January 31	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
	Personal and Commercial		Wealth Management		Financial Markets		Other		Total	
Net interest income <sup>(1)</sup>	358	344	40	33	118	150	(25)	(99)	491	428
Other income <sup>(1)</sup>	213	211	155	181	141	66	(124)	43	385	501
Total revenues	571	555	195	214	259	216	(149)	(56)	876	929
Operating expenses	321	314	146	153	167	169	11	(4)	645	632
Contribution	250	241	49	61	92	47	(160)	(52)	231	297
Provision for credit losses	45	44	–	–	4	–	115	(12)	164	32
Income (loss) before income taxes (recovery) and non-controlling interest	205	197	49	61	88	47	(275)	(40)	67	265
Income taxes (recovery) <sup>(1)</sup>	65	64	16	20	25	39	(113)	(56)	(7)	67
Non-controlling interest	–	–	1	2	(10)	(64)	14	5	5	(57)
Net income (loss)	140	133	32	39	73	72	(176)	11	69	255
Average assets	54,817	50,925	614	694	98,881	84,256	(12,709)	(13,022)	141,603	122,853

#### Personal and Commercial

The Personal and Commercial segment comprises the branch network, credit cards, insurance, business banking services and real estate.

#### Wealth Management

The Wealth Management segment comprises full-service retail brokerage, direct brokerage, mutual funds, trust services, investment management services and portfolio management.

#### Financial Markets

The Financial Markets segment encompasses corporate financing and lending, treasury operations, including asset and liability management for the Bank, and corporate brokerage.

#### Other

This heading comprises securitization transactions, certain non-recurring items, and the unallocated portion of centralized services.

#### Taxable Equivalent

(1) The accounting policies are the same as those presented in Note 1, with the exception of net interest income, other income and income taxes (recovery) of the operating segments, which are presented on a taxable equivalent basis. Taxable equivalent basis is a calculation method that consists in grossing up certain tax-exempt income by the amount of income tax that would have been otherwise payable. For all of the operating segments, net interest income was grossed up by \$24 million (2008: \$23 million) and other income by \$8 million (2008: \$25 million). An equivalent amount was added to income taxes (recovery). The impact of these adjustments is reversed under the *Other* heading.

## NOTE 18

### SUBSEQUENT EVENT

On February 16, 2009, the Bank announced its intention to redeem for cancellation on April 16, 2009 subordinated debentures with a total value of \$250 million maturing on April 16, 2014.

# INFORMATION FOR SHAREHOLDERS AND INVESTORS

## Investor Relations

Financial analysts and investors who want to obtain financial information on the Bank are asked to contact the Investor Relations Department.

600 De La Gauchetière West, 7th Floor

Montreal, Quebec H3B 4L2

Toll-free: 1-866-517-5455

Fax: 514-394-6196

E-mail: [investorrelations@nbc.ca](mailto:investorrelations@nbc.ca)

Website: [www.nbc.ca/investorrelations](http://www.nbc.ca/investorrelations)

## Public Relations

600 De La Gauchetière West, 10th Floor

Montreal, Quebec H3B 4L2

Telephone: 514-394-8644

Fax: 514-394-6258

Website: [www.nbc.ca](http://www.nbc.ca)

General inquiries: [telnat@nbc.ca](mailto:telnat@nbc.ca)

## Quarterly Report Publication Dates for Fiscal 2009

Second quarter: May 28, 2009

Third quarter: August 27, 2009

Fourth quarter: December 3, 2009

## Disclosure of First Quarter 2009 Results

### Conference Call

- A conference call for analysts and institutional investors will be held on February 26, 2009 at 1:30 p.m. ET.
- 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 March 5, 2009 by calling 1-800-408-3053 or 416-695-5800. The access code is 3282848#.

### 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.

## Transfer Agent and Registrar

For information about stock transfers, address changes, dividends, lost certificates, tax forms and estate transfers, shareholders are requested to contact the transfer agent, Computershare Trust Company of Canada, at the address or telephone number below.

### Computershare Trust Company of Canada

Share Ownership Management

1500 University, 7th Floor

Montreal, Quebec H3A 3S8

Telephone: 1-888-838-1407

Fax: 1-888-453-0330

E-mail: [service@computershare.com](mailto:service@computershare.com)

Website: [www.computershare.com](http://www.computershare.com)

## Direct Deposit Service for Dividends

Shareholders may elect to have their dividend payments deposited directly via electronic funds transfer to their bank account at any financial institution that is a member of the Canadian Payments Association. To do so, they must send a written request to the transfer agent, Computershare Trust Company of Canada.

## Dividend Reinvestment and Share Purchase Plan

National Bank offers holders of its common shares a Dividend Reinvestment and Share Purchase Plan through which they can invest in common shares of the Bank without paying a commission or administration fee. Participants in the Plan may acquire shares by reinvesting cash dividends paid on shares they hold or by making optional cash payments of at least \$500 per payment, to a maximum of \$5,000 per quarter. For additional information, please contact the registrar, Computershare Trust Company of Canada, at 1-888-838-1407.

## Dividends

The dividends declared by the Bank constitute eligible dividends pursuant to the *Income Tax Act* (Canada).



### Head Office

600 De La Gauchetière West  
Montreal, Quebec, Canada  
H3B 4L2

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