



National Bank releases its fourth quarter 2008 results

The financial information in this press release is based on the unaudited interim consolidated financial statements for the fourth quarter and the fiscal year ended October 31 2008. Additional information about National Bank of Canada, including the Annual Information Form, can be obtained from the SEDAR website at www.sedar.com and the Bank's website at www.nbc.ca.

Highlights for the fourth quarter and fiscal 2008:

- Net income of \$70 million in the fourth quarter, compared to a net loss of \$175 million in the same period of 2007
- Diluted earnings per share of \$0.37 in the fourth quarter of 2008, as against a diluted loss per share of \$1.14 in the same quarter of 2007
- Charge relating to the impact of asset-backed commercial paper (ABCP) of \$78 million, restructuring charge of \$44 million, and write-off of tangible assets of \$36 million in the fourth quarter of 2008
- Net income of \$776 million for fiscal 2008, up 43% compared to \$541 million for fiscal 2007
- Diluted earnings per share up 45% to \$4.67 for fiscal 2008, compared to \$3.22 for fiscal 2007
- Tier 1 capital ratio of 9.4% as at October 31, 2008, compared to 9.0% as at October 31, 2007

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

Highlights excluding specified items for the fourth quarter and fiscal 2008⁽¹⁾:

- Net income of \$228 million in the fourth quarter, up 5% from the corresponding period of 2007
- Diluted earnings per share of \$1.36 in the fourth quarter of 2008, compared to \$1.34 in the corresponding period of 2007
- Net income of \$947 million for fiscal 2008, as against \$933 million for fiscal 2007
- Diluted earnings per share rose 2% to \$5.75 for fiscal 2008, compared to \$5.65 for fiscal 2007

MONTREAL, December 4, 2008 – National Bank today announced net income of \$70 million for the fourth quarter of 2008, compared to a net loss of \$175 million for the corresponding period of 2007. Diluted earnings per share stood at \$0.37, as against a diluted loss per share of \$1.14 for the corresponding period of 2007. The results for the quarter include a \$117 million loss (\$78 million after taxes or \$0.49 per share) attributable to the impact of asset-backed commercial paper (ABCP), a \$66 million loss (\$44 million after taxes or \$0.28 per share) due to a restructuring charge, as well as a \$54 million loss (\$36 million after taxes or \$0.22 per share) resulting from a write-off of tangible assets. In the fourth quarter of 2007, the Bank had recorded a loss of \$553 million (\$381 million after taxes or \$2.41 per share) attributable to the impact of ABCP, as well as a restructuring charge and the impairment in value of an intangible asset totalling \$13 million (\$11 million after taxes or \$0.07 per share) resulting from the consolidation of Altamira's activities with those of the Bank. Excluding specified items, net income for the fourth quarter was \$228 million, for an increase of 5%, while diluted earnings per share were \$1.36.

The Bank's net income for fiscal 2008 amounted to \$776 million, an increase of 43% over the previous year. Excluding the impact of ABCP, net income totalled \$956 million for fiscal 2008, for an increase of 4% from the year-earlier period. Moreover, excluding all specified items, net income was \$947 million for fiscal 2008, up \$14 million. Diluted earnings per share were \$4.67 in fiscal 2008, up 45%, compared to \$3.22 for fiscal 2007. Excluding the impact of ABCP, diluted earnings per share were \$5.81, for an increase of \$0.23 or 4%. Finally, excluding all specified items, diluted earnings per share amounted to \$5.75, as against \$5.65 for fiscal 2007.

The specified items for fiscal 2008 are:

- A charge of \$270 million (\$180 million after taxes) attributable to the impact of ABCP, including a \$164 million loss related to an impairment charge, a \$27 million provision for credit losses relating to ABCP, financing costs and professional fees totalling \$78 million, as well as a \$1 million loss on economic hedge transactions
- A restructuring charge of \$66 million (\$44 million after taxes) stemming from the alignment of the Bank's operations with client needs in order to streamline processes and strengthen the efficiency of corporate functions
- A charge of \$54 million (\$36 million after taxes) attributable to a write-off of tangible assets, including the industry initiative to implement image-based cheque clearing
- A gain of \$88 million (\$57 million after taxes) owing to the combination of Montréal Exchange Inc. with TSX Group Inc.
- A \$32 million net gain on the sale of the Bank's subsidiary in Nassau

The specified items for fiscal 2007 are:

- A charge of \$553 million (\$381 million after taxes) attributable to the impact of ABCP, including a \$575 million loss related to an impairment charge, \$24 million for financing costs and professional fees, and a \$46 million reduction in variable compensation
- A restructuring charge of \$7 million (\$5 million after taxes) resulting from the consolidation of Altamira's activities with those of the Bank and a \$6 million charge for the impairment in value of an intangible asset

“Despite a significant economic slowdown and exceptionally difficult financial conditions worldwide, National Bank posted solid and profitable results for fiscal 2008. The contribution of the Personal and Commercial segment grew, that of the Wealth Management segment remained stable, and that of the Financial Markets segment was highly acceptable. Furthermore, the quality of the loan portfolio held steady and the Tier 1 capital ratio remained solid at 9.4%. The results for fiscal 2008 are a further demonstration of the appropriateness of National Bank’s business model and the advantages of diversifying its business. During the fourth quarter, we streamlined our organizational structure, which had an impact on our results. However, this initiative will enable us to better serve our clients and cope with the economic conditions we will face in the coming quarters. With a solid financial base and the tangible progress made in 2008, especially with regard to cost management, the Bank intends to continue on its current trajectory in order to ensure profitable growth over the long term,” said Louis Vachon, President and Chief Executive Officer.

Results by Segment

Personal and Commercial

Personal and Commercial contributed \$223 million for the fourth quarter of 2008, an increase of 7% compared to the corresponding quarter of 2007. Net income for the quarter grew 4% to \$119 million, despite the increase in the provision for credit losses. The segment’s total revenues advanced \$16 million, or 3%, to \$566 million. Loan volumes at Personal and Commercial increased 7% from the fourth quarter of 2007 to the fourth quarter of 2008. This growth was tempered by the narrowing of the net interest margin, which was mainly due to the decrease in the spread on deposits.

Total revenues at Personal Banking rose \$2 million to \$369 million. Loan and deposit volumes posted strong growth owing to the \$2.6 billion increase in average asset volumes stemming from the rise in consumer loans and residential mortgages. The narrower net interest margin on deposits and credit products was partially offset by the wider net interest margin on credit cards. At Commercial Banking, total revenues rose by \$14 million, as growth in business loan and deposit volumes was partially offset by the narrower net interest margin.

Operating expenses for Personal and Commercial were \$343 million in the fourth quarter of 2008, up \$1 million from the corresponding quarter of 2007. This slight increase, combined with growth in total revenues, translated into an improved efficiency ratio of 61% for the quarter versus 62% for the year-earlier period. The segment’s provision for credit losses was up \$4 million to \$44 million, due mainly to higher credit losses for personal loans and credit card receivables.

For fiscal 2008, Personal and Commercial posted net income of \$489 million, an increase of \$16 million over the \$473 million recorded for the same period in 2007. The segment’s total revenues advanced 2% to \$2,208 million. Total revenues at Personal Banking rose \$21 million, or 1%. Commercial Banking total revenues increased \$21 million, or 3%. The efficiency ratio moved down to 59% in fiscal 2008 from 60% for 2007. The segment’s provision for credit losses rose \$28 million, or 19%, to \$179 million, chiefly owing to higher credit losses for credit card receivables and for Commercial Banking.

Wealth Management

Net income for Wealth Management totalled \$47 million in the fourth quarter of 2008, compared to \$29 million for the corresponding quarter of 2007, an increase of \$18 million. The segment’s total revenues were \$218 million, as against \$213 million a year earlier. The increase was primarily attributable to higher volumes for the CashPerformer high-interest savings account. Operating expenses were down \$16 million to \$150 million in the fourth quarter of 2008 owing to rigorous cost management, but also to the integration of Altamira’s activities into those of the Bank, which had resulted in a \$7 million restructuring charge and a \$6 million impairment in value of an intangible asset for the same period in 2007. The efficiency ratio was 69% in the fourth quarter of 2008 versus 78% in the fourth quarter of 2007, or 72% excluding specified items.

For fiscal 2008, Wealth Management net income was \$171 million, compared to \$160 million for fiscal 2007, for an increase of \$11 million. Total revenues for the segment were \$864 million versus \$895 million in 2007. This decrease is mainly attributable to the slowdown in securities brokerage activities owing to more difficult market conditions during the fiscal year. Operating expenses were \$614 million, down \$35 million from the \$649 million recorded for the same period in 2007. Excluding the \$7 million restructuring charge and the \$6 million impairment in value of an intangible asset, the \$22 million improvement stemmed mainly from the \$26 million decline in variable compensation.

Financial Markets

Financial Markets posted net income of \$70 million in the fourth quarter of 2008, practically the same as in the corresponding quarter of 2007. Total revenues for the segment were \$135 million, as against \$288 million in the fourth quarter of 2007. Taking into account non-controlling interest, revenues for the quarter were \$256 million, compared to \$258 million for the corresponding quarter of 2007. In the fourth quarter of 2008, the decrease in trading activity revenues, financial market fees and the gains (losses) on available for sale securities in comparison with the fourth quarter of 2007 was offset by higher other financial market income, in particular, asset and liability management activities, the gain on the sale of an interest in Asset Management Finance Corporation and the impairment charge in the fourth quarter of 2007, relating to the ABCP in the trading book. Operating expenses for the quarter were \$151 million, down \$14 million from the fourth quarter of 2007, due to lower variable compensation. A \$4 million credit loss was recorded in the fourth quarter of 2008 at Corporate Banking.

For fiscal 2008, the segment's net income totalled \$384 million, an increase of \$50 million from the same period in 2007. The segment's total revenues were \$989 million, compared to \$1,203 million for fiscal 2007. Taking into account non-controlling interest in trading activities, revenues for the Financial Markets segment were \$1,186 million, compared to \$1,157 million for fiscal 2007. This growth was mainly attributable to the rise in other income owing to the increased contribution of a company subject to significant influence, Maple Financial Group Inc., and asset and liability management activities, offset by the decline in financial market fees, trading revenues and gains and losses on available for sale securities. At \$635 million, operating expenses were down \$38 million from fiscal 2007.

Other

The *Other* heading of segment results posted a net loss of \$166 million in the fourth quarter of 2008, compared to a net loss of \$389 million in the corresponding quarter of 2007. The results for the quarter take into account charges totalling \$117 million, net of taxes consisting of a charge relating to the impact of ABCP of \$78 million, a restructuring charge of \$44 million, and a write-off of tangible assets of \$36 million. In the fourth quarter of 2007, the Bank had recorded a charge of \$365 million, net of income taxes and taking into account variable compensation, following the purchase of \$2.1 billion in ABCP from mutual funds and pooled funds administered by the Bank, as well as ABCP held by its individual retail clients and certain other clients. For fiscal 2008, the net loss was \$268 million, as against a net loss of \$426 million for fiscal 2007. The impact of ABCP explained most of the change.

Capital

Tier 1 and total capital ratios, according to the new rules of the Bank for International Settlements (BIS) – Basel II – stood at 9.4% and 13.2%, respectively, as at October 31, 2008. If these ratios had been calculated using the old BIS rules – Basel I – they would have been 10.1% and 14.1% as at October 31, 2008, respectively, compared to 9.0% and 12.4% as at October 31, 2007. The ratios rose during the year owing to the issuance of \$374 million of preferred shares, the issuance of \$750 million in innovative instruments, and the issuance of \$500 million of subordinated debentures, offset by the repurchase for cancellation on September 30, 2008, of preferred shares of NB Capital Corporation issued at US \$300 million.

Furthermore, as at October 31, 2008, risk-weighted assets under Basel I would have been \$54.9 billion, compared to \$58.1 billion under the new rules. Risk-weighted assets were up 18% from October 31, 2007. This increase mitigated the rise in the ratios and was primarily due to the impact of including operational risk in the calculation of risk-weighted assets.

Other information on capital is provided in Table 10 in the Additional Financial Information section at the end of Management's Discussion and Analysis, and in Note 4 to the unaudited interim consolidated financial statements.

2008 Financial Objectives

	Objectives	Results Q4 2008	Results excluding specified items	Results Fiscal 2008	Results excluding specified items
Growth in diluted earnings per share	3% – 8%		1%	45%	2%
Return on common shareholders' equity	16% – 21%	5.0%	17.1%	16.4%	19.7%
Tier 1 capital ratio	More than 8.0%	9.4%	9.4%	9.4%	9.4%
Dividend payout ratio	40% – 50%		43%		43%

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

	Quarter ended			Fiscal year ended		
	October 31, 2008	October 31, 2007	% Change	October 31, 2008	October 31, 2007	% Change
Operating results						
Total revenues	\$ 765	\$ 399	92	\$3,637	\$3,417	6
Total revenues adjusted for non-controlling interest ⁽¹⁾	886	369	140	3,834	3,371	14
Net income (loss)	70	(175)	–	776	541	43
Return on common shareholders' equity	5.0 %	(16.0) %		16.4 %	11.5 %	
Per common share (dollars)						
Earnings (loss) – basic	\$ 0.37	\$ (1.14)		\$ 4.69	\$ 3.25	44
Earnings (loss) – diluted	0.37	(1.14)		4.67	3.22	45
EXCLUDING SPECIFIED ITEMS⁽²⁾						
Operating results						
Total revenues	\$ 874	\$ 995	(12)	\$3,745	\$4,013	(7)
Total revenues adjusted for non-controlling interest ⁽¹⁾	995	966	3	3,942	3,967	(1)
Net income	228	217	5	947	933	2
Return on common shareholders' equity	17.1 %	18.4 %		19.7 %	20.0 %	
Per common share (dollars)						
Earnings – basic	\$ 1.36	\$ 1.34	1	\$ 5.77	\$ 5.71	1
Earnings – diluted	1.36	1.34	1	5.75	5.65	2
Per common share (dollars)						
Dividends declared	\$ 0.62	\$ 0.60	3	\$ 2.48	\$ 2.28	9
Book value				29.70	26.85	11
Stock trading range						
High	53.66	60.28		54.63	66.59	
Low	42.25	50.50		42.25	50.50	
Close	45.21	54.65		45.21	54.65	

	October 31, 2008	October 31, 2007	% Change
Financial position			
Total assets	\$ 129,332	\$ 113,085	14
Loans and acceptances	56,015	52,045	8
Deposits	76,022	70,798	7
Subordinated debentures and shareholders' equity	7,764	6,242	24
Capital ratios – BIS under Basel II			
Tier 1	9.4 %		
Total	13.2 %		
Capital ratios – BIS under Basel I			
Tier 1	10.1 %	9.0 %	
Total	14.1 %	12.4 %	
Impaired loans, net of specific and general allowances	(162)	(179)	
as a % of loans and acceptances	(0.3) %	(0.3) %	
Assets under administration/management	209,794	239,028	
Total personal savings	97,661	106,288	
Interest coverage	5.21	7.27	
Asset coverage	3.89	3.89	
Other information			
Number of employees	17,146	16,863	2
Number of branches in Canada	446	447	–
Number of banking machines	857	835	3

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

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

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			Fiscal year ended		
		October 31, 2008	October 31, 2007	%	October 31, 2008	October 31, 2007	%
Personal and Commercial		119	114	4	489	473	3
Wealth Management		47	29	62	171	160	7
Financial Markets		70	71	(1)	384	334	15
Other		(166)	(389)		(268)	(426)	
Net income (loss)		70	(175)		776	541	43
Plus: Impact of ABCP	1	78	381		180	381	
Net income excluding the impact of ABCP		148	206	(28)	956	922	4
Less: Gain on available for sale securities		-	-		(57)	-	
Less: Gain on the sale of the Bank's subsidiary in Nassau		-	-		(32)	-	
Plus: Restructuring charges	2	44	5		44	5	
Plus: Write-off of tangible assets		36	-		36	-	
Plus: Impairment in value of an intangible asset		-	6		-	6	
Net income excluding specified items		228	217	5	947	933	2
Diluted earnings (loss) per common share		\$ 0.37	\$ (1.14)		\$ 4.67	\$ 3.22	45
Plus: Impact of ABCP	1	0.49	2.41		1.14	2.36	
Diluted earnings per common share excluding the impact of ABCP		\$ 0.86	\$ 1.27	(32)	\$ 5.81	\$ 5.58	4
Less: Gain on available for sale securities		-	-		(0.36)	-	
Less: Gain on the sale of the Bank's subsidiary in Nassau		-	-		(0.20)	-	
Plus: Restructuring charges	2	0.28	0.03		0.28	0.03	
Plus: Write-off of tangible assets		0.22	-		0.22	-	
Plus: Impairment in value of an intangible asset		-	0.04		-	0.04	
Diluted earnings per common share excluding specified items		\$ 1.36	\$ 1.34	1	\$ 5.75	\$ 5.65	2
Return on common shareholders' equity							
Including specified items		5.0 %	(16.0)%		16.4 %	11.5 %	
Excluding specified items		17.1 %	18.4 %		19.7 %	20.0 %	

(1) During the quarter ended October 31, 2008, the following items, net of income taxes, were recognized with respect to ABCP: a charge for impairment of \$101 million (2007: \$396 million), a gain on economic hedge transactions of \$38 million (2007: nil), financing costs and professional fees of \$12 million (2007: \$16 million), a provision for credit losses relating to ABCP of \$3 million (2007: nil) and an adjustment in variable compensation of \$31 million for the quarter ended October 31, 2007.

During the fiscal year ended October 31, 2008, the following items, net of income taxes, were recognized relating to ABCP: a charge for impairment of \$109 million (2007: \$396 million), a loss on economic hedge transactions of \$1 million (2007: nil), financing costs and professional fees of \$52 million (2007: \$16 million), a provision for credit losses relating to ABCP of \$18 million (2007: nil) and an adjustment in variable compensation of \$31 million for the fiscal year ended October 31, 2007.

(2) During the quarter ended October 31, 2008, the Bank recorded a restructuring charge of \$44 million after taxes. This charge consists of severance payments and professional fees for strategic and organizational advice regarding measures relating to the current restructuring. During the fourth quarter of fiscal year 2007, the Bank had recognized a \$5 million after taxes restructuring charge stemming from the consolidation of Altamira's activities with those of the Bank.

Caution Regarding Forward-Looking Statements

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

By their very nature, such forward-looking statements require us to make assumptions and involve inherent risks and uncertainties, both general and specific. Assumptions about the performance of the Canadian and U.S. economies in 2008 and how that will affect the Bank’s business are material factors considered in setting the Bank’s strategic priorities and objectives, and in determining its financial targets, including provisions for credit losses. Key assumptions for 2008 included that economic growth in Canada and the United States would be modest and that inflation would remain low in North America. The Bank also assumed that interest rates in Canada and the United States would decline slightly in 2008 and that the Canadian dollar would likely trade at parity with the U.S. dollar at the end of the year. With the financial and credit crisis currently underway, a marked decrease can be seen in interest rates and the Canadian dollar, which has returned to its equilibrium value with its U.S. counterpart. The upcoming year 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 expectation for economic growth, both broadly and in the financial services sector, the Bank primarily considers historical economic data provided by the Canadian and U.S. governments and their agencies. Tax laws in the countries in which the Bank operates, primarily Canada and the United States, are material factors it considers when establishing its sustainable effective tax rate. There is significant risk that express or implied projections contained in such statements will not materialize or will not be accurate. A number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking statements. Such differences may be caused by factors, many of which are beyond the Bank’s control, which include, but are not limited to, the management of credit, market and liquidity risks; the strength of the Canadian and United States economies and the economies of other countries in which the Bank conducts business; the impact of the movement of the Canadian dollar relative to other currencies, particularly the U.S. dollar; the effects of changes in monetary policy, including changes in interest rate policies of the Bank of Canada; the effects of competition in the markets in which the Bank operates; the impact of changes in the laws and regulations regulating financial services and enforcement thereof (including banking, insurance and securities); judicial or regulatory judgments and legal proceedings; developments with respect to the restructuring proposal relating to asset-backed commercial paper (ABCP) and liquidity in the ABCP market; the Bank’s ability to obtain accurate and complete information from or on behalf of its clients or counterparties; the Bank’s ability to successfully realign its organization, resources and processes; its ability to complete strategic acquisitions and integrate them successfully; changes in the accounting policies and methods the Bank uses to report its financial condition, including uncertainties associated with critical accounting assumptions and estimates; operational and infrastructure risks; other factors that may affect future results, including changes in trade policies, timely development of new products and services, changes in estimates relating to reserves, changes in tax laws, technological changes, unexpected changes in consumer spending and saving habits; natural disasters; the possible impact on the business from public health emergencies, conflicts, other international events and other developments, including those relating to the war on terrorism; and the Bank’s success in anticipating and managing the foregoing risks.

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

The Bank cautions that the foregoing list of important factors is not exhaustive. Investors and others who base themselves on the Bank’s forward-looking statements should carefully consider the above factors as well as the uncertainties they represent and the risk they entail. The Bank also cautions readers not to place undue reliance on these forward-looking statements. Moreover, these forward-looking statements may not be suitable for establishing strategic priorities and objectives, future strategies or actions, financial objectives and projections other than those mentioned above.

Financial Documents

- The quarterly financial statements are available at all times on National Bank's website at www.nbc.ca/investorrelations.
- The Report to Shareholders, Supplementary Financial Information and a slide presentation will be available on the Investor Relations page of National Bank's website shortly before the start of the conference call.

Disclosure of Fourth Quarter 2008 Results

Conference Call

- A conference call for analysts and institutional investors will be held on December 4, 2008 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 December 11, 2008 by calling 1-800-408-3053 or 416-695-5800. The access code is 3275328#.

Webcast

- The conference call will be webcast live at www.nbc.ca/investorrelations.
- A recording of the webcast will also be available on the Internet after the call.

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