

## **National Bank releases its 2011 financial information in accordance with International Financial Reporting Standards (IFRS)**

This press release provides unaudited financial information prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP) and with International Financial Reporting Standards (IFRS) for fiscal 2011. It is available on the SEDAR website at [www.sedar.com](http://www.sedar.com) and on the Bank's website at [www.nbc.ca](http://www.nbc.ca). A financial information supplement entitled "[Supplementary Financial Information – IFRS Transition](#)" is also available at [www.nbc.ca](http://www.nbc.ca). All amounts are in Canadian dollars.

### **Highlights:**

- Net income attributed to the Bank's shareholders for fiscal 2011 of \$1,224 million under IFRS versus \$1,213 million under Canadian GAAP, an increase of \$11 million or 0.9%;
- Diluted earnings per common share for fiscal 2011 of \$6.92 under IFRS versus \$6.85 under Canadian GAAP, an increase of \$0.07 or 1.0%;
- Total assets of \$154.6 billion as at November 1, 2010 under IFRS versus total assets of \$145.3 billion as at October 31, 2010 under Canadian GAAP, an increase of \$9.3 billion;
- Equity (excluding non-controlling interests) of \$6.4 billion as at November 1, 2010 under IFRS versus \$7.2 billion as at October 31, 2010 under Canadian GAAP, a decrease of \$769 million;
- A decrease in the Basel II Tier 1 capital ratio as at November 1, 2011 of approximately 166 basis points, which will be phased in over the next five quarters, starting with the first quarter of 2012.

**Montreal, January 27, 2012** – National Bank of Canada (the Bank) today has released its 2011 financial information in accordance with International Financial Reporting Standards (IFRS), which, as of November 1, 2011, have been adopted by the Bank in replacement of Canadian generally accepted accounting principles (Canadian GAAP). On March 1, 2012, the Bank will issue its first condensed consolidated financial statements for the first quarter ending January 31, 2012, including IFRS comparative figures for 2011 in accordance with IAS 34 *Interim Financial Reporting*. These financial statements will also include an IFRS opening consolidated statement of financial position as at November 1, 2010, the Bank's IFRS transition date.

The following information is being provided to help users of the Bank's consolidated financial statements better understand the impact of the first-time adoption of IFRS on the 2011 comparative consolidated financial statements and should be read in conjunction with the "Future Accounting Policy Changes" section on pages 51 to 55 of the [2011 Annual Report](#) and the "[Supplementary Financial Information – IFRS Transition](#)" financial information supplement.

Under IFRS 1 *First-time Adoption of International Financial Reporting Standards*, certain choices that the Bank made at the IFRS transition date, as well as its accounting policy decisions, need not be finalized prior to the preparation of the 2012 annual consolidated financial statements, which will contain management's explicit and unreserved statement of compliance with IFRS. As such, the IFRS adjustments presented herein are management's best estimates and could change before the 2012 annual consolidated financial statements are prepared under IFRS.

The Bank identified a number of differences between Canadian GAAP and IFRS that required adjustments to be made to the 2011 net income and financial position, the impacts of which were as follows:

- Net income attributed to the Bank's shareholders for 2011 of \$1,224 million under IFRS versus \$1,213 million under Canadian GAAP, an increase of \$11 million or 0.9%, and diluted earnings per common share for 2011 of \$6.92 under IFRS versus \$6.85 under Canadian GAAP, an increase of \$0.07 or 1.0%, owing primarily to employee benefits, business combinations and measurement of the available-for-sale securities;
- A \$9.3 billion increase in total assets as at the IFRS transition date of November 1, 2010, owing primarily to securitized credit card receivables and insured mortgage loans, which are presented in assets under IFRS;
- Excluding non-controlling interests, equity decreased by \$769 million, from \$7.2 billion as at October 31, 2010 under Canadian GAAP to \$6.4 billion as at November 1, 2010 under IFRS, mainly due to the securitization of insured mortgage loans and credit card receivables and the recognition in retained earnings of all unamortized actuarial gains and losses related to employee benefits as at November 1, 2010;
- A decrease in the Basel II Tier 1 capital ratio as at November 1, 2011 of approximately 166 basis points, which will be phased in over the next five quarters, starting with the first quarter of 2012.

The financial information in this press release presents the impact of the Bank's adoption of IFRS for the year ended October 31, 2011 and includes the following:

- 1) Reconciliations of the net income attributed to the Bank's shareholders under Canadian GAAP and under IFRS
- 2) Condensed consolidated quarterly results
- 3) Condensed consolidated quarterly cumulative and annual results
- 4) Financial measures – Reporting method
- 5) Opening Consolidated Statement of Financial Position and reconciliations of equity as at November 1, 2010 and as at October 31, 2011

### 1) Reconciliations of the net income attributed to the Bank's shareholders under Canadian GAAP and under IFRS

The impact of IFRS on the net income attributed to the Bank's shareholders comes mainly from the application of the IFRS standards on employee benefits, business combinations and measurement of the available-for-sale securities.

					2011
(unaudited) (millions of Canadian dollars)	Q1	Q2	Q3	Q4	Fiscal Year
<b>Net income attributed to the Bank's shareholders under Canadian GAAP</b>	<b>312</b>	<b>295</b>	<b>312</b>	<b>294</b>	<b>1,213</b>
<i>Adjustments related to IFRS, net of income taxes:</i>					
Employee benefits	6	6	6	6	24
Business combinations	-	-	(17)	(2)	(19)
Available-for-sale securities	9	2	4	(3)	12
Mortgage loan securitization	-	8	17	(29)	(4)
Consolidation	(4)	(2)	(1)	-	(7)
Revaluation of an investment	-	-	-	5	5
Other	(1)	1	(3)	3	-
Total adjustments related to IFRS, net of income taxes	10	15	6	(20)	11
<b>Net income attributed to the Bank's shareholders under IFRS</b>	<b>322</b>	<b>310</b>	<b>318</b>	<b>274</b>	<b>1,224</b>

#### Employee benefits

As at the transition date, the Bank chose to recognize the unamortized actuarial gains and losses in retained earnings, as permitted by IFRS. As a result, an adjustment to reverse the amortization of those gains and losses, which was recognized under Canadian GAAP, was required during fiscal 2011 to reflect that choice.

#### Business combinations

In July 2011, the Bank completed the purchase of the 82% of shares it didn't already own in Wellington West Holdings Inc. (WW). The differences between the two accounting frameworks, which required IFRS adjustments to be made to net income beginning in the third quarter of 2011, are described below:

##### *Value of the investment in WW prior to obtaining control*

Under IFRS, the 18% interest that the Bank owned in WW prior to obtaining control must be remeasured at fair value at the time control is obtained (acquisition of the remaining 82% of shares it didn't already own). A revaluation gain on the investment in WW was recognized in net income as an IFRS adjustment.

##### *Acquisition-related costs and restructuring costs*

Under Canadian GAAP, the acquisition-related costs of WW that satisfy certain criteria are included in the purchase price. Under IFRS, these costs must be expensed as incurred. Under Canadian GAAP, restructuring costs that satisfy certain criteria are recognized as liabilities on the acquisition date and are included in the purchase price allocation. Under IFRS, these costs must be expensed. Operating expenses have been adjusted accordingly to reflect these differences.

#### Available-for-sale securities

Under Canadian GAAP and IFRS, entities must determine whether there is objective evidence of impairment. Under Canadian GAAP, an impairment loss is recognized in the consolidated income statement if it is considered to be other than temporary. Under IFRS, the notion of other-than-temporary impairment does not exist and an impairment loss is recognized when there is objective evidence of impairment. Consequently, impairment losses are generally recognized more quickly under IFRS. Moreover, during 2011, an adjustment had to be made to the gains and losses on the sale of available-for-sale securities for which an impairment had already been recognized in retained earnings in the opening consolidated statement of financial position under IFRS.

#### Mortgage loan securitization

Under Canadian GAAP, the Bank derecognizes its financial assets according to a model based on control and legal form. Under IFRS, the derecognition criteria are more restrictive and are based largely on the notion of the transfer of substantially all of the risks and rewards of ownership of the transferred assets. Consequently, several financial asset transfers through the securitization of mortgage loans that qualified for derecognition under Canadian GAAP no longer qualify under IFRS, and these securitization transactions represent financing transactions instead of sale transactions.

Insured mortgage loans securitized under the Canada Mortgage Bond (CMB) program and the liabilities related to these transferred receivables are presented in the Consolidated Statement of Financial Position under IFRS. Also, mortgage loans that are securitized and retained as mortgage-backed securities and which had been classified in securities under Canadian GAAP are reclassified to loans under IFRS. Finally, as permitted by IFRS, the Bank has designated at fair value through profit or loss certain liabilities related to transferred receivables and certain securities that had been classified as available-for-sale under Canadian GAAP. The hedging strategies associated with these financial instruments were also modified accordingly.

Specifically, the securitization gains and servicing revenues that had been recognized under Canadian GAAP were eliminated from net income. The interest income and expenses from loans and liabilities related to transferred receivables, the change in fair value of financial instruments designated at fair value and adjustments related to hedge accounting were recognized in net income in accordance with IFRS.

#### Consolidation

Canadian GAAP requires variable interest entities (VIEs) to be consolidated by their primary beneficiary. Canadian GAAP also provides an exemption to the consolidation of qualifying special purpose entities, eligible under certain conditions, that does not exist in IFRS. Under IFRS, consolidation of special purpose entities is required based on the application of the principle of control. As a result, Canadian Credit Card Trust (CCCT), NBC Capital Trust and certain other funds, which had not been consolidated under Canadian GAAP, are consolidated under IFRS. Therefore, the revenues and expenses from these entities are consolidated in the Bank's net income under IFRS. More specifically for CCCT, interest income and expenses, commission revenues as well as provisions for credit losses taken for credit card receivables were recorded in the Bank's net income, and the securitization gains and servicing revenues were eliminated from net income.

### Revaluation of an investment

During fiscal 2011, the Bank sold part of its investment in a subsidiary, reducing its interest. Under IFRS, when control is lost, any interest retained must be remeasured at fair value upon disposal. A revaluation gain on the retained interest was recognized to net income as an IFRS adjustment.

### Other adjustments

Other IFRS standards required less significant adjustments to the 2011 net income. Specifically, adjustments were made primarily to reflect the standards on hedge accounting, the accounting treatment of share-based payments and the customer loyalty program for certain credit cards.

### Tax adjustments

Current and deferred taxes were adjusted to reflect the adjustments made to the 2011 net income in accordance with IFRS.

## 2) Condensed consolidated quarterly results

The following table provides a reconciliation of Canadian GAAP and IFRS net income following IFRS adjustments for each quarter of 2011.

	January 31, 2011			April 30, 2011			July 31, 2011			October 31, 2011		
	Canadian GAAP	IFRS adjust.	IFRS	Canadian GAAP	IFRS adjust.	IFRS	Canadian GAAP	IFRS adjust.	IFRS	Canadian GAAP	IFRS adjust.	IFRS
(unaudited) (millions of Canadian dollars)												
Net interest income	522	109	631	471	105	576	474	117	591	491	112	603
Other income	631	(100)	531	675	(73)	602	629	(63)	566	699	(133)	566
Total revenues	1,153	9	1,162	1,146	32	1,178	1,103	54	1,157	1,190	(21)	1,169
Operating expenses	706	(11)	695	722	(12)	710	718	24	742	776	(12)	764
Provisions for credit losses	39	16	55	33	17	50	11	18	29	36	14	50
Net income before income taxes	408	4	412	391	27	418	374	12	386	378	(23)	355
Income taxes	72	(1)	71	85	6	91	53	(3)	50	74	(11)	63
Non-controlling interests	24	(24)	n.a.	11	(11)	n.a.	9	(9)	n.a.	10	(10)	n.a.
<b>Net income</b>	<b>312</b>	<b>29</b>	<b>341</b>	<b>295</b>	<b>32</b>	<b>327</b>	<b>312</b>	<b>24</b>	<b>336</b>	<b>294</b>	<b>(2)</b>	<b>292</b>
Non-controlling interests	n.a.	19	19	n.a.	17	17	n.a.	18	18	n.a.	18	18
<b>Net income attributed to the Bank's shareholders</b>	<b>312</b>	<b>10</b>	<b>322</b>	<b>295</b>	<b>15</b>	<b>310</b>	<b>312</b>	<b>6</b>	<b>318</b>	<b>294</b>	<b>(20)</b>	<b>274</b>

## 3) Condensed consolidated quarterly cumulative and annual results

The following table provides a reconciliation of Canadian GAAP and IFRS net income following IFRS adjustments for the cumulative periods of 2011.

	Quarter ended January 31, 2011			Six months ended April 30, 2011			Nine months ended July 31, 2011			Year ended October 31, 2011		
	Canadian GAAP	IFRS adjust.	IFRS	Canadian GAAP	IFRS adjust.	IFRS	Canadian GAAP	IFRS adjust.	IFRS	Canadian GAAP	IFRS adjust.	IFRS
(unaudited) (millions of Canadian dollars)												
Net interest income	522	109	631	993	214	1,207	1,467	331	1,798	1,958	443	2,401
Other income	631	(100)	531	1,306	(173)	1,133	1,935	(236)	1,699	2,634	(369)	2,265
Total revenues	1,153	9	1,162	2,299	41	2,340	3,402	95	3,497	4,592	74	4,666
Operating expenses	706	(11)	695	1,428	(23)	1,405	2,146	1	2,147	2,922	(11)	2,911
Provisions for credit losses	39	16	55	72	33	105	83	51	134	119	65	184
Net income before income taxes	408	4	412	799	31	830	1,173	43	1,216	1,551	20	1,571
Income taxes	72	(1)	71	157	5	162	210	2	212	284	(9)	275
Non-controlling interests	24	(24)	n.a.	35	(35)	n.a.	44	(44)	n.a.	54	(54)	n.a.
<b>Net income</b>	<b>312</b>	<b>29</b>	<b>341</b>	<b>607</b>	<b>61</b>	<b>668</b>	<b>919</b>	<b>85</b>	<b>1,004</b>	<b>1,213</b>	<b>83</b>	<b>1,296</b>
Non-controlling interests	n.a.	19	19	n.a.	36	36	n.a.	54	54	n.a.	72	72
<b>Net income attributed to the Bank's shareholders</b>	<b>312</b>	<b>10</b>	<b>322</b>	<b>607</b>	<b>25</b>	<b>632</b>	<b>919</b>	<b>31</b>	<b>950</b>	<b>1,213</b>	<b>11</b>	<b>1,224</b>

**4) Financial measures – Reporting method**

The Bank uses certain measures that are not in accordance with IFRS or Canadian GAAP to assess results. Securities regulators require companies to caution readers that net income and other measures adjusted using non-IFRS or non-GAAP criteria are not standard under IFRS or Canadian GAAP and cannot be easily compared with similar measures used by other companies.

	Year ended October 31, 2011	
	Canadian GAAP	IFRS
(unaudited) (millions of Canadian dollars except for diluted earnings per common share)		
<b>Net income attributed to the Bank's shareholders excluding specified items</b>	<b>1,203</b>	<b>1,233</b>
Less: items related to the acquisition of Wellington West Holdings Inc.	(4)	(23)
Less: severance pay	(10)	(10)
Less: litigation provisions	(8)	(8)
Plus: reversal of allowances for credit losses	11	11
Plus: reversal of provisions for income tax contingencies	21	21
<b>Net income attributed to the Bank's shareholders</b>	<b>1,213</b>	<b>1,224</b>
<b>Diluted earnings per common share excluding specified items</b>	<b>\$ 7.00</b>	<b>\$ 7.18</b>
Less: items related to the acquisition of Wellington West Holdings Inc.	(0.03)	(0.14)
Less: severance pay	(0.06)	(0.06)
Less: litigation provisions	(0.05)	(0.05)
Less: premium paid on preferred shares repurchased for cancellation	(0.21)	(0.21)
Plus: reversal of allowances for credit losses	0.07	0.07
Plus: reversal of provisions for income tax contingencies	0.13	0.13
<b>Diluted earnings per common share</b>	<b>\$ 6.85</b>	<b>\$ 6.92</b>
<b>Return on common shareholders' equity</b>		
<b>Including specified items</b>	<b>17.7 %</b>	<b>20.3 %</b>
<b>Excluding specified items</b>	<b>18.1 %</b>	<b>21.0 %</b>

For fiscal 2011, diluted earnings per share excluding specified items were \$7.18 under IFRS versus \$7.00 at the same date under Canadian GAAP, an increase of \$0.18 or 2.6%.

**5) Opening Consolidated Statement of Financial Position and reconciliations of equity  
as at November 1, 2010 and as at October 31, 2011**

The Bank prepared an opening Consolidated Statement of Financial Position as at November 1, 2010 presented in its [2011 Annual Report](#) on page 52, which constitutes the starting point for IFRS. All adjustments resulting from this first-time adoption were recognized directly in equity as at November 1, 2010, as prescribed by IFRS. The following table provides a reconciliation of equity under Canadian GAAP and IFRS as at November 1, 2010 and as at October 31, 2011.

(unaudited) (millions of Canadian dollars)	As at October 31, 2011	As at November 1, 2010
<b>Equity under Canadian GAAP</b>	<b>7,336</b>	<b>7,208</b>
<b>Equity attributed to the Bank's shareholders</b>		
<i>Adjustments related to IFRS, net of income taxes:</i>		
Employee benefits	(357)	(381)
Mortgage loan securitization	(367)	(327)
Consolidation	(49)	(52)
Premises and equipment	(18)	(18)
Available-for-sale securities	23	16
Customer loyalty program	(6)	(6)
Business combinations	(21)	-
Other	5	(1)
	(790)	(769)
<b>Equity attributed to non-controlling interests</b>		
<i>Adjustments related to IFRS, net of income taxes:</i>		
Reclassification of non-controlling interests as at November 1, 2010 and as at October 31, 2011	975	1,217
Consolidation	228	229
Presentation adjustments	(179)	(424)
	1,024	1,022
<b>Equity under IFRS</b>	<b>7,570</b>	<b>7,461</b>

As at November 1, 2010, excluding non-controlling interests, which are an integral part of equity in accordance with IFRS, equity under IFRS was \$769 million less than equity under Canadian GAAP. The \$769 million decrease stems mainly from the application of the exemption for employee benefits and the retrospective application of the requirements for mortgage loan securitization.

As at October 31, 2011, equity attributed to the Bank's shareholders totalled \$6.5 billion under IFRS compared with \$7.3 billion under Canadian GAAP. The \$790 million decrease stems from the impacts as at the November 1, 2010 transition date and the IFRS adjustments made during fiscal 2011, primarily for the same reasons mentioned previously.

A detailed presentation of all IFRS impacts on the Bank's opening equity as at November 1, 2010 is available in the "Future Accounting Policy Changes" section on pages 51 to 55 of the Bank's [2011 Annual Report](#).

**Caution regarding forward-looking statements**

*From time to time, National Bank of Canada (the Bank) makes written and oral forward-looking statements, such as those contained in the "Major Economic Trends" and "Outlook for National Bank" section of the 2011 Annual Report, and 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 2012 and the objectives it has set for itself for that period. These forward-looking statements are made pursuant to the "safe harbour" provisions of Canadian and U.S. securities legislation. They include, among others, statements with respect to the economy—particularly the Canadian and U.S. economies—market changes, observations regarding the Bank's objectives and its strategies for achieving them, Bank projected financial returns and certain risks faced by the Bank. These forward-looking statements are typically identified by future or conditional verbs or words such as "outlook," "believe," "anticipate," "estimate," "project," "expect," "intend," "plan," and words and expressions of similar import.*

*By their very nature, such forward-looking statements require assumptions to be made and involve inherent risks and uncertainties, both general and specific. Assumptions about the performance of the Canadian and U.S. economies in 2012 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. In determining its expectations for economic growth, both broadly and in the financial services sector in particular, the Bank primarily considers historical economic data provided by the Canadian and U.S. governments and their agencies. Tax laws in the countries in which the Bank operates, primarily Canada and the United States, are major factors it considers when establishing its effective tax rate.*

*There is a strong possibility that express or implied projections contained in these forward-looking statements will not materialize or will not be accurate. The Bank recommends that readers not place undue reliance on these statements, as a number of factors, many of which are beyond the Bank's control, could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking statements. These factors include the management of credit, market and liquidity risks; general economic conditions of the financial market in Canada, the United States and other countries in which the Bank conducts business, including the impact of the debt crisis affecting certain European countries; the downward adjustment of the long-term sovereign debt rating of the United States attributed by Standard & Poor's and the downward adjustment of the sovereign debt rating of other European countries; 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 (including banking, insurance and securities) and enforcement thereof; judicial proceedings, regulatory proceedings or claims, class actions or other recourses of various nature; the situation with respect to the restructured notes of the master asset vehicles (MAV), in particular the realizable value of the underlying assets; the Bank's ability to obtain accurate and complete information from or on behalf of its clients or counterparties; the Bank's ability to successfully realign its organization, resources and processes; its ability to complete strategic acquisitions and integrate them successfully; changes in the accounting policies and methods the Bank uses to report its financial condition, including uncertainties associated with critical accounting assumptions and estimates; the Bank's ability to recruit and retain key officers; operational risks, including risks related to the Bank's reliance on third parties to ensure access to the infrastructure essential to the Bank's business as well as other factors that may affect future results, including changes in trade policies; timely development of new products and services; changes in estimates relating to reserves; changes in tax laws; technological changes; unexpected changes in consumer spending and saving habits; natural disasters; the possible impact on the business from public health emergencies, conflicts, other international events and developments, including those relating to the war on terrorism; and the Bank's success in anticipating and managing the foregoing risks. A substantial amount of the Bank's business involves making loans or otherwise committing resources to specific companies, industries or countries. Unforeseen events affecting such borrowers, industries or countries could have a material adverse effect on the Bank's financial results, businesses, financial condition or liquidity.*

*The foregoing list of risk factors is not exhaustive. Additional information about these factors can be found under the "Risk Management" and "Factors That Could Affect Future Results" sections of the 2011 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.*

**About National Bank of Canada**

National Bank of Canada is an integrated group that provides comprehensive financial services to consumers, small and medium-sized enterprises and large corporations in its core market, while offering specialized services to its clients elsewhere in the world. National Bank offers a full array of banking services, including retail, corporate and investment banking. It is an active player on international capital markets and, through its subsidiaries, is involved in securities brokerage, insurance and wealth management as well as mutual fund and retirement plan management. As at October 31, 2011, National Bank has over CDN\$156 billion in assets in accordance with Canadian GAAP and, together with its subsidiaries, employs more than 19,000 people. The Bank's securities are listed on the Toronto Stock Exchange (TSX: NA). For more information, visit the Bank's website at [www.nbc.ca](http://www.nbc.ca). To access National Bank of Canada's financial literacy portal, visit [www.clearfacts.ca](http://www.clearfacts.ca).

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