



National Bank releases its fourth quarter and fiscal 2008 results

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

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

(1) The financial reporting method is explained in detail on page 4.

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.

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%

Personal and Commercial

- The segment's contribution grew to \$223 million in the fourth quarter, up 7% from the corresponding quarter of 2007. It posted net income of \$119 million, up \$5 million, despite a higher provision for credit losses.
- The segment's contribution increased 6% to \$915 million in fiscal 2008, compared to \$861 million in 2007, for net income of \$489 million in 2008, as against \$473 million in 2007.
- At Personal Banking, loan and deposit volumes rose in fiscal 2008, with consumer loans posting the largest increases, at 17%. At Commercial Banking, business loan and deposit volumes increased, especially in Quebec, by 9% and 13%, respectively. Business growth was tempered by the narrowing of the net interest margin from 2.72% in the fourth quarter of 2007 to 2.61% in the fourth quarter of 2008.

Wealth Management

- Net income for the quarter was \$47 million, as against \$29 million for the fourth quarter of 2007, when the segment recorded a restructuring charge related to the consolidation of Altamira's activities with those of the Bank and an impairment charge on an intangible asset of \$11 million after taxes. Excluding these charges, net income rose 18% from the fourth quarter of 2007, owing to the strong growth in volumes for the CashPerformer high-interest savings account and control of operating expenses.
- Despite a slowdown in brokerage activities owing to weak financial markets and the decline in value of assets under management and administration, net income for fiscal 2008 was \$171 million, which was stable compared to 2007 excluding the restructuring charge and the impairment in value of an intangible asset recorded in 2007.
- Acquisition in the fourth quarter of the full-service securities brokerage firm, Groupe Option Retraite, with assets under management of \$1.5 billion.

Financial Markets

- Net income for the quarter was \$70 million, practically unchanged from the corresponding quarter of 2007, when the Bank had recorded an after-tax charge of \$17 million attributable to the impact of ABCP.
- Operating expenses for the quarter were \$151 million, down \$14 million or 8% compared to the same period of 2007.
- For fiscal 2008, the segment's net income totalled \$384 million, an increase of 15% from the same period of 2007. Taking into account non-controlling interest, the segment's total revenues for the quarter were \$1,186 million, up 3% from fiscal 2007.

Other

- The segment 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, owing to the charge related to the impact of ABCP of \$78 million, the restructuring charge of \$44 million and the write-off of tangible assets of \$36 million, whereas in the fourth quarter of 2007, a charge of \$364 million attributable to the impact of ABCP was recognized.
- In fiscal 2008, results for the Other heading included a net loss of \$180 million for specified items related to the impact of ABCP, including a charge for impairment of \$109 million, a provision for credit losses relating to ABCP of \$18 million, financing costs and professional fees of \$52 million, and a loss on economic hedge transactions of \$1 million.

Capital Management

- Tier 1 capital ratio and total capital ratio stood at 9.4% and 13.2%, respectively, as at October 31, 2008 under Basel II, as against 9.0% and 12.4% as at October 31, 2007 under Basel I.

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.

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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 4

MD&A | Management's Discussion and Analysis of Financial Condition and Operating Results

December 3, 2008 – 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 National Instrument 51-102 respecting Continuous Disclosure Obligations of the Canadian Securities Administrators and 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.

Analysis of Results

Consolidated Results

National Bank reported 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

Return on common shareholders' equity was 5.0% in the fourth quarter of 2008, compared to (16.0)% for the same period of 2007. Excluding all specified items, return on common shareholders' equity was 17.1% for the fourth quarter of 2008, compared to 18.4% for the corresponding quarter of 2007. For fiscal 2008, return on common shareholders' equity was 16.4%, as against 11.5% for the year-earlier period. Excluding specified items, return on common shareholders' equity was 19.7% for fiscal 2008, compared to 20.0% for the corresponding period of 2007.

Total revenues

The Bank's total revenues were \$765 million in the fourth quarter of 2008, compared to \$399 million in the fourth quarter of 2007. Taking into account non-controlling interest, total revenues for the fourth quarter were \$886 million, compared to \$369 million for the year-earlier period.

Net interest income for the quarter totalled \$623 million, versus \$297 million for the fourth quarter of 2007. Net interest income at Personal and Commercial advanced \$9 million to \$354 million for the quarter. The growth stemmed from the solid increase in loan and deposit volumes, especially consumer loans and business loans in Quebec. This increase was tempered by the narrower net interest margin, which was 2.61% in the fourth quarter of 2008 compared to 2.72% in the same quarter of 2007. Trading revenues recorded in net interest income rose \$226 million from the fourth quarter of 2007 to reach \$220 million.

Other income for the fourth quarter totalled \$142 million, as against \$102 million for the same period of 2007. Trading losses were \$228 million in the fourth quarter of 2008, compared to gains of \$99 million in the fourth quarter of 2007. This decrease was more than offset by the increase in net interest income from trading activities and the non-controlling interest in the Innocap platform. Net losses on available for sale securities reached \$210 million, as against \$502 million for the year-earlier period. This change resulted mainly from the charge of \$152 million attributable to the adjustment in the value of ABCP recorded during the fourth quarter of 2008, versus a charge of \$575 million for the corresponding quarter of 2007.

MD&A | Management's Discussion and Analysis of Financial Condition and Operating Results (cont.)

Underwriting and advisory fees totalled \$49 million for the quarter, down from \$76 million for the same period in 2007. This decrease was the result of more difficult market conditions during the quarter. However, securities brokerage commissions remained stable at \$60 million. Securitization revenues totalled \$62 million, versus \$44 million for the fourth quarter of 2007, owing to the higher volume of new insured mortgage loan securitizations. Foreign exchange revenues were up \$6 million to \$34 million. Trust service and mutual fund fees fell \$3 million to \$85 million, due to the decrease in value of assets under management and administration. Lastly, other revenues were up \$59 million to \$146 million. This increase was mainly attributable to the sale of an interest in a subsidiary Asset Management Finance Corporation.

Total revenues amounted to \$3,637 million for fiscal 2008, as against \$3,417 million for fiscal 2007. Net interest income was up \$737 million to \$1,864 million for fiscal 2008, primarily due to the \$592 million growth in net interest income attributable to trading activities. Net interest income at Personal and Commercial increased \$21 million to \$1,390 million for fiscal 2008. ABCP financing costs trimmed \$63 million from net interest income for the year as against \$21 million for fiscal 2007. Other income for fiscal 2008 was \$1,773 million, versus \$2,290 million for the corresponding period of 2007. Compared to fiscal 2007, trading revenues were down \$839 million for a loss of \$329 million in fiscal 2008. This decrease was more than offset by the increase in net interest income from trading activities and the non-controlling interest in the Innocap platform. Underwriting and advisory fees declined from \$381 million to \$312 million, securities brokerage commissions from \$267 million to \$240 million, and trust service and mutual fund fees from \$357 million to \$342 million. These decreases were attributable to financial market conditions. Losses on available for sale securities were \$88 million in 2008 as against \$409 million in 2007, mainly due to the significant loss relating to ABCP recognized in 2007. Securitization revenues reached \$226 million, up \$47 million from fiscal 2007.

Operating expenses

In the fourth quarter of 2008, operating expenses increased \$133 million from the year-earlier period to \$770 million. Excluding specified items, operating expenses were \$646 million in 2008, down \$21 million, from \$667 million in the fourth quarter of 2007. Operating expenses were up \$133 million owing chiefly to a \$66 million restructuring charge. Technology expenses rose \$44 million mainly due to a \$54 million write-off of tangible assets in the fourth quarter of 2008. Salaries and staff benefits rose \$12 million as a result of a reduction in variable compensation related to the adjustment in the value of ABCP recorded in the fourth quarter of 2007. Professional fees were up \$8 million to \$60 million due to the review of the Bank's business processes. Other operating expenses, composed of occupancy, communication and other expenses, rose \$10 million.

For fiscal 2008, operating expenses rose \$69 million to \$2,695 million. Excluding specified items, operating expenses were down \$98 million to \$2,558 million in fiscal 2008 from \$2,656 million in fiscal 2007. Technology expenses were up \$34 million as a result of the write-off of tangible assets in the fourth quarter. Professional fees also rose \$34 million, owing to the review of business processes, technological development and ABCP-related

expenses. In addition, restructuring charges of \$66 million were recorded in 2008, compared to \$7 million in 2007. These increases were offset by a decrease in salaries and staff benefits of \$44 million to \$1,454 million, primarily due to the drop in variable compensation and the decline in other expenses of \$14 million, attributable to rigorous cost management.

Provision for credit losses

In the fourth quarter of 2008, the Bank recorded provisions for credit losses of \$49 million, up \$20 million from the year-earlier period. This increase was attributable in part to the \$4 million rise in credit losses for credit card receivables at Personal and Commercial and the recording of a \$4 million specific allowance on loans secured by ABCP. A \$4 million credit loss was recorded by Corporate Banking for fiscal 2008 whereas no loss had been recorded in fiscal 2007. Credit losses for fiscal 2008 totalled \$144 million, up \$41 million, mainly due to credit losses for SMEs and credit card receivables, as well as, the recording of a general allowance of \$23 million on loans secured by ABCP.

As at October 31, 2008, gross impaired loans amounted to \$307 million, an increase of \$58 million from October 31, 2007, mainly attributable to credit granted to individuals and SMEs. As at October 31, 2008, allowances for credit losses exceeded gross impaired loans by \$162 million versus \$179 million as at October 31, 2007.

Income taxes

The income tax recovery for the fourth quarter of 2008 was \$23 million, as against \$123 million for the corresponding quarter of 2007. For fiscal 2008, income taxes were \$167 million, compared to \$79 million in 2007. Excluding specified items, the effective tax rate for fiscal 2008 was 25% compared to 20% in 2007.

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.

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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.

FINANCIAL MARKET REVENUES

(taxable equivalent basis⁽¹⁾)

(millions of dollars)

	Q4 2008	Q4 2007	Fiscal 2008	Fiscal 2007
Trading activity revenues				
Equity	43	41	148	299
Fixed income	(17)	51	91	88
Commodity and foreign exchange	39	(20)	114	(7)
	65	72	353	380
Financial market fees	28	56	223	279
Gains (losses) on available for sale securities	(61)	34	64	126
Banking services	49	44	186	175
Other	175	52	360	197
Total⁽²⁾	256	258	1,186	1,157

(1) See "Financial Reporting Method" on page 4

(2) Excluding non-controlling interest

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.

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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 fourth quarter of 2008, cash and cash equivalents were up \$0.6 billion, compared to a decrease of \$6.4 billion in the fourth quarter of 2007. As at October 31, 2008, cash and cash equivalents totalled \$3.5 billion versus \$3.0 billion one year earlier.

Operating activities generated \$3.1 billion in cash flows, owing chiefly to the \$4.7 billion decrease in held for trading securities. For the fourth quarter of 2007, operating activities generated cash flows of \$4.4 billion, due mainly to the \$3.7 billion decrease in held for trading securities.

Financing activities generated cash flows of \$4.1 billion as a result of the \$7.4 billion increase in deposits, offset by a \$2.6 billion decrease in obligations related to securities sold short. For the fourth quarter of 2007, financing activities required cash flows of \$12.9 billion, mainly as a result of the \$2.2 billion decrease in obligations related to securities sold short and the \$9.8 billion decrease in securities sold under repurchase agreements.

Lastly, investing activities required cash flows of \$6.6 billion in the fourth quarter of 2008, owing to the \$4.2 billion increase in available for sale securities and the \$2.3 billion increase in loans. For the corresponding period of 2007, investing activities generated cash flows of \$2.2 billion, mainly due to the \$2.3 billion decrease in securities purchased under reverse repurchase agreements.

Balance Sheet

As at October 31, 2008, the Bank had total assets of \$129.3 billion, compared to \$113.1 billion as at October 31, 2007. Loans and acceptances were up \$4.0 billion, due to growth in personal and business loans. In addition, available for sale securities and held for trading securities were up \$3.9 billion and \$3.0 billion, respectively, owing to the increased acquisition of securities issued or guaranteed by the Government of Canada. Lastly, the fair value of derivative financial instruments rose \$4.9 billion. The table below presents the main portfolios.

AVERAGE MONTHLY VOLUMES (millions of dollars)

	October 2008	October 2007
Loans and acceptances*		
Residential mortgages	23,307	22,781
Consumer loans	13,005	11,127
Credit card receivables	1,846	1,793
SME loans	15,268	14,048
Corporate loans	7,098	5,919
	60,524	55,668
Deposits		
Personal (balance)	33,098	30,215
Off-balance sheet personal savings (balance)	64,563	76,073
Business	13,421	11,870

* including securitized assets

Residential mortgages rose \$0.5 billion as at October 31, 2008, with volumes reaching \$23.3 billion, compared to \$22.8 billion as at October 31, 2007. Consumer loans climbed 17% to \$13.0 billion, due to higher volumes of home equity lines of credit. SME loans increased \$1.2 billion to \$15.3 billion as at October 31, 2008, and corporate loans continued to grow, rising 20% to \$7.1 billion.

Personal deposits stood at \$33.1 billion as at October 31, 2008, up \$2.9 billion, or 10%, in a year. Off-balance sheet personal savings administered by the Bank as at October 31, 2008 totalled \$64.6 billion, down \$11.5 billion in a year. 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 13% year over year to \$13.4 billion as at October 31, 2008.

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 (the "Committee") for Third-Party Structured Asset-Backed Commercial Paper (ABCP) approved an agreement in principle to restructure the affected series of ABCP issued by 20 trusts. On March 17, 2008, the Committee announced that it had filed an application with the Superior Court of Justice of Ontario under the *Companies' Creditors Arrangement Act* asking the court to call a meeting of ABCP noteholders to vote on the Committee's restructuring plan. The restructuring plan was approved by approximately 96% of the noteholders on April 25, 2008 and, on June 5, 2008, the Superior Court of Justice of Ontario sanctioned the restructuring plan (the "Plan") proposed by the Committee for third-party structured ABCP.

MD&A | Management's Discussion and Analysis of Financial Condition and Operating Results (cont.)

On June 18, 2008, a number of corporate noteholders submitted an application to the Ontario Court of Appeal to challenge the Superior Court of Justice of Ontario decision that sanctioned the Committee's Plan to restructure \$32 billion of third-party ABCP. The Committee asked the Court of Appeal to dismiss the proceedings and to leave in place approval of the Plan that the majority of affected noteholders voted in favour of in April 2008. On August 18, 2008, the Ontario Court of Appeal dismissed the proceedings. The decision of the Ontario Court of Appeal could be appealed to the Supreme Court of Canada upon the granting of leave to appeal. However, the *Companies' Creditors Arrangement Act* states that no appeal to the Supreme Court of Canada shall operate as a stay of proceedings unless ordered by the Supreme Court of Canada.

In September 2008, Canadian corporate investors owning asset-backed commercial paper asked the Supreme Court of Canada to hear their objections to the Plan that would restructure the affected series of ABCP. On September 19, 2008, the Supreme Court of Canada decided not to hear an appeal of the Ontario Court of Appeal's ruling in this matter. On that date, the Committee announced that it was commencing the final steps to implement the Plan to restructure the ABCP.

On November 25, 2008, the Pan-Canadian Investors Committee for Third-Party Structured ABCP announced that it will not complete the proposed restructuring of the third-party ABCP market in Canada by the end of November. The delay is principally due to the complexity of the restructuring, the large number of participants involved in the process and current market conditions. Despite this delay, the Investors Committee has made significant progress over the course of the past several weeks toward settling issues and completing the required documentation to implement the restructuring.

Restructuring plan

In general terms, the Plan proposes to replace the affected ABCP 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 will be pooled into the Master Asset Vehicles (1 and 2) as follows:

- Master Asset Vehicle 1 (MAV1) will be 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) will be 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 will be provided by third party lenders, including Canadian banks, asset providers and noteholders. 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 approximately \$812 million to these margin funding facilities.

In connection with the contribution to MAV1 or MAV2 of assets supported by the margin funding facility, investors will receive 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 provisional rating of AA. Ineligible assets in MAV1 and MAV2 will be segregated, and noteholders holding series of ABCP secured in part by ineligible assets will receive 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, will be created under a third Master Asset Vehicle 3 (MAV3). Two main types of notes will be created in MAV3: TA tracking notes for traditional assets and IA tracking notes for ineligible assets. All tracking notes will be tied to the net return and maturities of their respective underlying assets.

On August 1, 2008, the Bank reclassified \$119 million of ABCP that had been classified in *Held for trading securities* to *Available for sale securities* on the Consolidated Balance Sheet. The reclassification was made in light of the fact that market activities for third-party ABCP had been frozen since August 2007, which is a rare event. This reclassification had no impact on the Consolidated Statement of Income of the fourth quarter. Furthermore, during the period when the ABCP was classified in the trading book, the impact on trading revenues was not significant for the fiscal year. As at October 31, 2008, the fair value of that ABCP was \$107 million.

As at October 31, 2008, the carrying value before impairment charges of the ABCP held by the Bank was \$2,198 million, a decrease since October 31, 2007 due to sales of ABCP excluded from the Plan. The underlying assets as part of the proposed restructuring plan are estimated as follows:

Type of underlying assets	Carrying value before impairment charges
Synthetic assets or hybrid assets	
Class A-1	737
Class A-2	666
Class B	114
Class C	47
Total synthetic assets or hybrid assets	1,564
Traditional assets ⁽¹⁾	184
Ineligible assets	296
ABCP not included in the Pan-Canadian restructuring plan	154
Total underlying assets⁽²⁾	2,198

(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.

MD&A | Management's Discussion and Analysis of Financial Condition and Operating Results (cont.)

Establishing fair value

To determine the value of the ABCP it holds, the Bank has established a range of estimated fair value. The carrying value of the ABCP held by the Bank as at October 31, 2008 was \$1,529 million classified in *Available for sale securities*. An impairment charge of \$152 million was recorded in the fourth quarter in *Gains (losses) on available for sale securities* in the Consolidated Statement of Income. This charge includes an impairment of \$125 million which is mostly due to the widening of credit spreads given the deterioration of global markets as well as a charge for a trust that is not included in the Pan-Canadian restructuring plan. For fiscal year 2008, total impairment charges was \$164 million (2007: \$575 million).

In establishing fair value for ABCP that is part of the Plan and excluding ineligible assets, the Bank considered the quality of the underlying assets and the probability of achieving a successful restructuring. In the event of a successful restructuring, the Bank determined the fair value using a discounted cash flow analysis. The discount rate is 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. In previous quarters, the discount rate was solely based on the CDX.IG index, and during the fourth quarter, the Bank changed its methodology to better reflect the fair value of ABCP. Credit ratings, coupons and maturities are based on the anticipated terms of the restructuring plan. The probability of a successful restructuring is established at 95% (90% in previous quarters). The increase of 5% in the probability of a successful restructuring is due to the announcement of the Committee that it was commencing its final steps to implement its plan following the decision by the Supreme Court of Canada to deny leave to appeal by a small group of corporate investors on September 19, 2008.

For the probability assigned to an unsuccessful restructuring, the fair value of each class of assets held by the trusts is based on an analysis of the trusts' underlying assets and 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. This methodology was also used for ABCP supported by ineligible assets. On October 31, 2007, this methodology was used for all the ABCP held by the Bank.

The Bank's valuation was based on its assessment of the conditions prevailing as at October 31, 2008, which may change in subsequent periods. The most important assumptions to determine the fair value of the notes are the probability of success of the restructuring, observable discount rates and expected credit ratings of the restructured notes. The sensitivities of these assumptions on the fair value as at October 31, 2008 are as follows:

- Assuming a 5% variation in the probability of a successful restructuring would result in a decrease or increase of \$35 million in the fair value;
- A change of 10 basis points in the discount rate would be a \$10 million decrease or increase in the fair value; and
- A decrease in the expected credit rating of one letter grade would result in a decrease in the fair value between a range of \$80 million to \$100 million.

Determining the fair value of ABCP is complex and involves an extensive process that includes the use of quantitative modeling 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, (3) the outcome of the restructuring plan and (4) 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 it held that were included in the Plan. Once the ABCP restructuring plan is finalized, interest income will be recorded in *Interest income* in the Consolidated Statement of Income when received.

Credit Facilities

During the year, the Bank completed its activities to support clients holding third-party ABCP. These activities aimed to offer commercial and corporate clients of the Bank improved credit facilities for their liquidity needs until the maturity of long-term notes resulting from the restructuring of ABCP. In general, these credit facilities will cover up to 75% of the value of the investment when the restructuring plan will be completed. 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.

For the restructured notes backed by ineligible assets, the Bank waives all recourse other than the notes given as collateral. This credit facility will be made available for a period of two 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. This offer could represent up to \$248 million in credit facilities.

For the other notes included in the Plan, the Bank waives all recourse other than the notes given as collateral to a first tranche representing 45% of the face value of the restructured note. For the remaining 30% of the face value of the note, the Bank will retain full recourse to the borrower. This credit facility will be made available for a period of three years with the possibility of being extended each subsequent year at the discretion of the Bank if borrowers maintain their normal banking relationship with the Bank during the period of the credit facility. This offer could represent up to \$828 million in credit facilities.

The Bank has also provided credit facilities to borrowers for their liquidity needs until the outcome of the restructuring plan. As at October 31, 2008, the outstanding credit facilities represented \$233 million with recourse to the borrowers. During the third quarter of 2008, the Bank recorded a general provision of \$23 million regarding the portion of the loans related to notes backed by ineligible assets. When new loans will be granted, there is a risk that the loss will be in excess of the amount recorded as at October 31, 2008.

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The collateral related to the credit facilities offered to clients upon the completion of the restructuring plan is estimated as follows:

Collateral	Face value of the notes	Credit facilities related to notes backed by ineligible assets ⁽¹⁾	Credit facilities related to other notes included in the restructuring plan ⁽²⁾
Synthetic assets or hybrid assets			
Class A-1	420	–	338
Class A-2	402	–	321
Class B	73	–	58
Class C	28	–	22
Total synthetic assets or hybrid assets	923	–	739
Traditional assets	122	–	89
Ineligible assets	325	248	–
Total	1,370	248	828

(1) Generally, these credit facilities represent 75% of the nominal value of the notes and are guaranteed by the notes

(2) Generally, 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

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 discussion of these types of arrangements, including their nature, business purpose and importance, see pages 47 to 50 of the 2007 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 8 to the 2007 audited consolidated financial statements. For more information on the guarantees and a description of obligations under certain indemnification agreements, refer to Note 22 to the 2007 audited consolidated financial instruments and to Note 7 for securitization activities.

During the fiscal year ended October 31, 2008, aside from new securitization activities described in Note 9 to the unaudited interim consolidated financial statements and the Bank's commitment to contribute approximately \$812 million to the margin funding facilities in order to support the efforts of the ABCP restructuring plan, the Bank did not enter into any significant arrangements with VIEs that are not consolidated by the Bank.

Additional Disclosure

On April 7, 2008, the *Financial Stability Forum* published a report in response to a request from G7 ministers and central bank governors. The report presents an analysis of the causes and weaknesses that have produced the events affecting the global markets and sets out recommendations to enhance transparency and valuation with respect to certain exposures.

Since the second quarter of 2008, the Superintendent of Financial Institutions has asked Canadian banks to apply certain recommendations concerning, 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 October 31, 2008.

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 October 31, 2008, total commitments for this type of loan stood at \$252 million.

Details concerning other exposures are provided in Table 7 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. 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.

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Information about risk management is presented in tables 1 to 9 of the Additional Financial Information section at the end of this Management's Discussion and Analysis and Note 3 to the unaudited interim consolidated financial statements concerning the management of risks associated with financial instruments.

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 2007 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 2007 Annual Report.

There have not been any changes to the Bank's significant accounting policies affecting fiscal 2008, other than those described in Note 2a) to the unaudited interim consolidated financial statements on reclassification of financial assets and accounting changes.

Furthermore, the Bank adopted the new standards set out in the CICA Handbook relating to the disclosure for financial instruments and capital as well as the standards relating to the presentation of financial instruments. The reader is referred to 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 fourth quarter of 2008, 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 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.

SHARES AND STOCK OPTIONS OUTSTANDING AS AT OCTOBER 31, 2008

	Number of shares	Share \$
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
	30,950,000	774
Common shares	159,447,203 ⁽¹⁾	1,656
Stock options	6,711,730 ⁽¹⁾	

(1) As at November 28, 2008, 159,732,528 common shares and 6,702,178 stock options were outstanding.

Subsequent Event

On November 10, 2008, the Bank, through one of its wholly owned subsidiaries, concluded the acquisition of a 12.5% interest in Wellington West Holdings Inc. (Wellington West), an independent wealth management firm, for a total cash consideration of \$37 million including the direct costs related to the acquisition. Under the related agreement, additional cash amounts of up to \$35 million could be paid over the three fiscal years following the acquisition provided Wellington West meets certain financial objectives.

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 February 1, 2009 to shareholders of record on January 2, 2009.

MD&A | Additional Financial Information

Quarterly Information

(unaudited)

(millions of dollars except per share amounts)

	2008				2007				2008	2007
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Total	Total
Total revenues	\$ 765	\$ 1,056	\$ 887	\$ 929	\$ 399	\$ 1,008	\$ 1,021	\$ 989	\$ 3,637	\$ 3,417
Net income (loss)	70	286	165	255	(175)	243	233	240	776	541
Earnings (loss) per common share										
Basic	0.37	1.73	1.01	1.58	(1.14)	1.49	1.42	1.45	4.69	3.25
Diluted	0.37	1.73	1.00	1.58	(1.14)	1.48	1.40	1.43	4.67	3.22
Dividends per common share	0.62	0.62	0.62	0.62	0.60	0.60	0.54	0.54	2.48	2.28
Return on common shareholders' equity	5.0%	23.7%	14.3%	22.9%	(16.0)%	20.6%	20.3%	20.7%	16.4%	11.5%
Total assets	\$129,332	\$121,931	\$123,608	\$120,124	\$113,085	\$123,353	\$135,172	\$121,402		
Impaired loans, net	169	142	134	140	129	110	110	112		
Per common share										
Book value	29.70	29.44	28.76	28.13	26.85	28.70	28.92	28.34		
Stock trading range										
High	53.66	54.63	53.73	54.25	60.28	66.14	65.87	66.59		
Low	42.25	45.75	44.39	45.15	50.50	60.61	61.96	61.36		

Table 1 – Distribution of Gross Loans and Impaired Loans by Borrower Category

(unaudited)

(millions of dollars)

	As at October 31, 2008			Fiscal year ended October 31, 2008	
	Gross loans	Impaired loans	Specific allowances	Specific provision for credit losses	Write-offs
Personal ⁽¹⁾	15,289	37	14	74	123
Residential mortgage	15,772	31	3	(2)	1
Non-residential mortgage	1,350	18	6	2	–
Agricultural, fishing and trapping	1,952	47	20	17	9
Financial institutions	3,428	–	–	–	–
Manufacturing	2,219	20	10	(5)	7
Construction and real estate	1,264	15	9	(19)	23
Transportation and communications	890	2	2	3	4
Mines, quarries and energy	1,456	7	6	4	1
Forestry	115	5	3	6	1
Government	1,171	–	–	–	–
Wholesale	570	6	3	10	8
Retail	1,362	38	21	5	2
Services	3,019	54	14	9	8
Other	2,353	27	27	17	7
Total – Business and government	21,149	239	121	49⁽²⁾	70
Total	52,210	307	138	121	194

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

(2) Including a specific provision of \$4 million related to an ABCP secured loan

MD&A | Additional Financial Information (cont.)

Table 2 – Geographic Distribution of Loans

As at October 31, 2008
(unaudited)
(millions of dollars)

	Gross loans	Impaired loans	Specific allowances
Canada			
Residential mortgage	15,702	31	3
Personal and credit card	15,029	37	14
Business and government	19,266	239	121
	49,997	307	138
United States			
Residential mortgage	70	–	–
Personal and credit card	2	–	–
Business and government	1,877 ⁽¹⁾	–	–
	1,949	–	–
Other			
Residential mortgage	–	–	–
Personal and credit card	258	–	–
Business and government	6	–	–
	264	–	–
	52,210	307	138

(1) Includes \$1,273 million of guaranteed loans to financial institutions

Table 3 – Credit Risk Mitigation

As at October 31, 2008
(unaudited)
(millions of dollars)

	Total exposure covered by		
	Eligible financial collateral	Guarantees	Credit derivatives
Balance sheet exposures			
Securities purchased under reverse repurchase agreements and securities sold under repurchase agreements	10,847	–	–
Loans			
Residential mortgage	–	8,712	–
Personal and credit card	–	885	–
Business and government	1,013	1,457	46
Derivative financial instruments – OTC	566	–	–

MD&A | Additional Financial Information (cont.)

Table 4 – Breakdown of Credit Risk by Derivative Financial Instrument Portfolio – OTC

As at October 31, 2008
(unaudited)
(millions of dollars)

	Replacement cost	Credit equivalent	Risk-weighted amount
Interest rate contracts	2,774	3,554	841
Foreign exchange contracts	2,147	3,181	1,186
Equity contracts	1,876	3,391	1,793
Commodity contracts	471	493	407
Credit derivative contracts	1,250	3,280	643
	8,518	13,899	4,870
Impact of master netting agreements	(5,520)	(8,063)	(1,776)
	2,998	5,836	3,094
Impact of collateral held	(566)	(566)	(148)
	2,432	5,270	2,946

Table 5 – Credit Derivative Positions (Notional Amounts)

As at October 31, 2008
(unaudited)
(millions of dollars)

	Credit portfolio ⁽¹⁾		Trading	
	Protection purchased	Protection sold	Protection purchased	Protection sold
Credit default swaps				
Indices and single names	117	71	10,221	9,827
Tranches on indices	–	–	2,056	1,799
Collateralized debt obligations	–	–	36	36

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

Table 6 – Breakdown of the Residual Contractual Maturity of the Credit Portfolio

As at October 31, 2008
(unaudited)
(millions of dollars)

	Within 1 year	1 to 5 years	Over 5 years	Total
Deposits with financial institutions	3,406	–	–	3,406
Available for sale securities ⁽¹⁾				
Securities issued and guaranteed by				
Canada	3,878	2,427	735	7,040
Provinces	382	960	498	1,840
Municipalities and school boards	–	1	1	2
U.S. Treasury and other U.S. agencies	100	–	–	100
Other debt securities	1,897	284	262	2,443
Total available for sale securities⁽¹⁾	6,257	3,672	1,496	11,425
Securities purchased under reverse repurchase agreements	7,868	–	–	7,868
Loans				
Residential mortgage	8,003	6,168	1,598	15,769
Personal and credit card	14,184	907	184	15,275
Business and government	18,368	2,191	138	20,697
Total loans	40,555	9,266	1,920	51,741
Derivative financial instruments – OTC	2,771	3,899	1,848	8,518

(1) Available for sale securities except equities

MD&A | Additional Financial Information (cont.)

Table 7 – 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 October 31, 2008
(unaudited)
(millions of dollars)

	Notes	Bank's exposure		Total special purpose entity assets
		Investments and other assets	Undrawn liquidity facilities	
NON-CONSOLIDATED SPECIAL PURPOSE ENTITIES				
VIEs in which the Bank has a significant variable interest				
Securitization entity for the Bank's credit card receivables (qualifying special purpose entity)	1	61	N/A	1,689
Multi-seller asset-backed commercial paper conduit administered by the Bank	2	451	90	673
Other asset-backed commercial paper conduits	3			
– National Bank structured conduits	4	162	N/A	3,947
– Third-party structured conduits		1,367	N/A	–
NBC Capital Trust	5	2	N/A	190
Private capital funds and investments	6	132	N/A	3,008
		2,175		9,507
CONSOLIDATED SPECIAL PURPOSE ENTITIES				
VIEs	7			
National Bank hedge fund managed accounts (Innocap platform)	8	1,398	N/A	2,608
Mutual funds	9	293	N/A	357
Building	10	93	N/A	93
Private investments	11	14	N/A	30
Other				
NBC Asset Trust	12	263	N/A	1,029
		2,061		4,117
		4,236		13,624

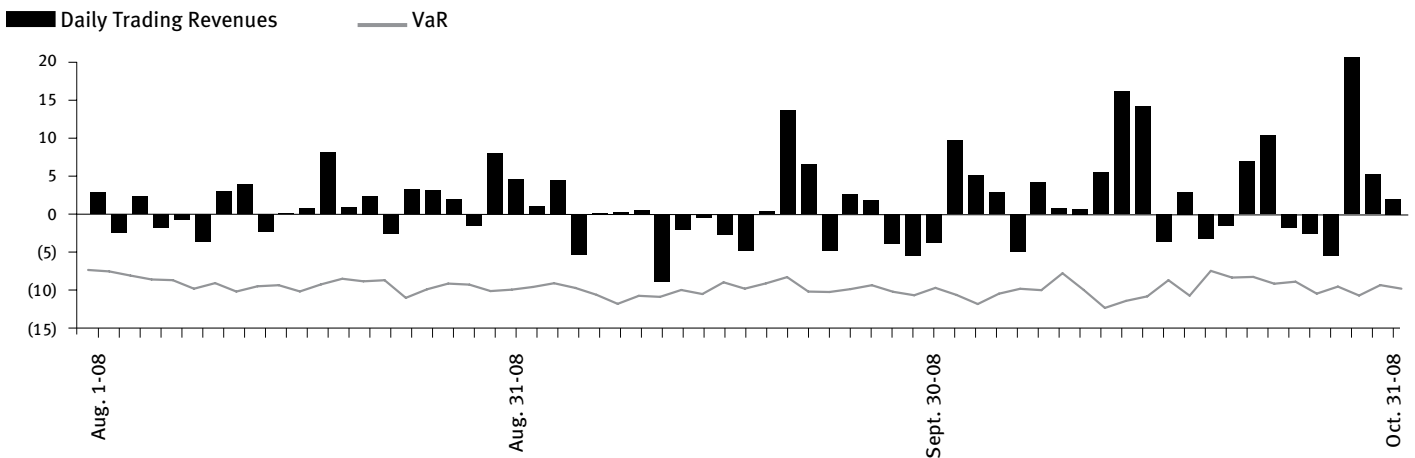
N/A – Not applicable

- 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 October 31, 2008, the amount of the global-style liquidity facility totalled \$541 million, representing the total amount of commercial paper and one floating-rate note outstanding. As at October 31, 2008, the Bank held \$451 million of the commercial paper and, consequently, the maximum potential amount of future payments as at October 31, 2008 was \$90 million.
- 3) Refer to the Asset-backed commercial paper section on pages 10 to 13 of Management's Discussion and Analysis.
- 4) The underlying assets are primarily collateralized debt obligation (CDO) structures referencing a portfolio of corporate debt, commercial and residential mortgage-backed securities and other asset-backed securities.
- 5) Refer to Note 12 to the 2007 audited consolidated financial statements.
- 6) 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.
- 7) For the consolidated special purpose entities, the Bank's exposure is net of non-controlling interest.
- 8) The underlying assets are various financial instruments (trading portfolio). The total assets of the Innocap platform are presented on a net asset basis.
- 9) The underlying assets are various financial instruments and are presented on a net asset basis. Certain mutual funds are in a trading portfolio.
- 10) The underlying asset is a building located in Canada.
- 11) The investments are presented on an equity basis.
- 12) Refer to Note 13 to the unaudited interim consolidated financial statements. The average maturity of the underlying assets is 4 years.

MD&A | Additional Financial Information (cont.)
Table 8 – Daily Trading Revenues⁽¹⁾

Daily trading revenues were positive more than 65% of the days in the fourth quarter of 2008. Net daily trading losses in excess of \$1 million were recorded on 22 days, especially because of the uncertainty of markets during the quarter. None of these losses exceeded the VaR limit.

Quarter ended October 31, 2008
(unaudited)
(millions of dollars)



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

Table 9 – Credit Risk Exposure⁽¹⁾ under Basel Asset Categories and by Risk Weight⁽²⁾

As at October 31, 2008
(unaudited)
(millions of dollars)

	Risk Weights							Total
	0%	20%	35%	50%	75%	100%	150%	
Retail residential mortgages	8,712	–	11,421	–	–	–	–	20,133
Other retail	885	–	–	–	9,220	–	–	10,105
Corporate	1,482	107	–	–	–	27,044	–	28,633
Sovereign	14,127	–	–	–	–	–	–	14,127
Bank	11,900	7,910	–	–	–	–	–	19,810
Total	37,106	8,017	11,421	–	9,220	27,044	–	92,808

(1) Excluding the Trading book and Securitization

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

MD&A | Additional Financial Information (cont.)

Table 10 – Capital Adequacy

As at October 31, 2008

(unaudited)

(millions of dollars)

	Risk-weighted exposures	
	Basel II	Basel I
Approaches for credit risk		
Retail residential mortgages	3,997	5,623
Other retail	6,915	9,220
Corporate	27,065	28,048
Bank	1,582	1,570
Trading book	2,826	1,659
Securitization	115	–
	42,500	46,120
Equity securities	975	975
Other assets	2,034	2,030
Total – Credit risk	45,509	49,125
Approaches for market risk		
Standardized approach	5,084	4,226
Advanced measurement approach	1,539	1,539
Total – Market risk	6,623	5,765
Approaches for operational risk	5,937	–
Total capital requirements for risk	58,069	54,890
Tier 1 capital ratio	9.4%	10.1%
Total capital ratio	13.2%	14.1%

CONSOLIDATED FINANCIAL STATEMENTS | Consolidated Balance Sheet*(unaudited) (millions of dollars)*

	October 31, 2008	July 31, 2008	October 31, 2007
ASSETS			
Cash	254	276	283
Deposits with financial institutions	3,406	2,814	3,045
Securities (Notes 7 and 8)			
Available for sale	12,322	8,157	8,442
Held for trading	33,863	38,557	30,828
	46,185	46,714	39,270
Securities purchased under reverse repurchase agreements			
	7,868	7,148	5,966
Loans (Notes 3 and 9)			
Residential mortgage	15,772	15,725	15,895
Personal and credit card	15,289	14,522	13,116
Business and government	21,149	20,353	19,377
	52,210	50,600	48,388
Allowance for credit losses	(469)	(464)	(428)
	51,741	50,136	47,960
Other			
Customers' liability under acceptances	4,274	4,760	4,085
Fair value of derivative financial instruments	9,814	5,417	4,883
Premises and equipment	460	466	426
Goodwill	740	722	703
Other intangible assets	183	177	169
Due from clients, dealers and brokers	2,273	1,584	4,313
Other assets	2,134	1,717	1,982
	19,878	14,843	16,561
	129,332	121,931	113,085
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits (Note 3)			
Personal	33,098	32,777	30,215
Business and government	36,872	28,964	33,797
Deposit-taking institutions	5,827	6,702	6,561
Deposit from NBC Capital Trust	225	225	225
	76,022	68,668	70,798
Other			
Acceptances	4,274	4,760	4,085
Obligations related to securities sold short	15,829	18,432	16,223
Securities sold under repurchase agreements	7,151	7,287	2,070
Fair value of derivative financial instruments	8,588	4,369	3,615
Due to clients, dealers and brokers	2,389	2,493	4,341
Other liabilities	5,286	5,792	4,751
	43,517	43,133	35,085
Subordinated debentures (Note 12)	2,255	2,182	1,605
Non-controlling interest (Note 13)	2,029	2,490	960
Shareholders' equity (Notes 14 and 16)			
Preferred shares	774	774	400
Common shares	1,656	1,633	1,575
Contributed surplus	31	36	32
Retained earnings	3,110	3,168	2,793
Accumulated other comprehensive income	(62)	(153)	(163)
	5,509	5,458	4,637
	129,332	121,931	113,085

CONSOLIDATED FINANCIAL STATEMENTS | Consolidated Statement of Income*(unaudited) (millions of dollars)*

	Quarter ended			Fiscal year ended	
	October 31, 2008	July 31, 2008	October 31, 2007	October 31, 2008	October 31, 2007
Interest income					
Loans	737	722	768	2,974	3,031
Securities available for sale	37	77	72	213	296
Securities held for trading	218	206	214	864	1,060
Deposits with financial institutions	9	34	102	207	423
	1,001	1,039	1,156	4,258	4,810
Interest expense					
Deposits	186	404	676	1,673	2,633
Subordinated debentures	30	28	25	98	100
Other	162	158	158	623	950
	378	590	859	2,394	3,683
Net interest income	623	449	297	1,864	1,127
Other income					
Underwriting and advisory fees	49	74	76	312	381
Securities brokerage commissions	60	60	60	240	267
Deposit and payment service charges	54	53	54	211	213
Trading revenues (losses) (Note 6)	(228)	(20)	99	(329)	510
Gains (losses) on available for sale securities, net	(210)	86	(502)	(88)	(409)
Card service revenues	9	10	3	42	34
Lending fees	27	28	30	106	121
Insurance revenues	32	31	30	119	115
Revenues from acceptances, letters of credit and guarantee	22	19	17	77	68
Securitization revenues (Note 9)	62	60	44	226	179
Foreign exchange revenues	34	30	28	121	103
Trust services and mutual funds	85	89	88	342	357
Other	146	87	75	394	351
	142	607	102	1,773	2,290
Total revenues	765	1,056	399	3,637	3,417
Provision for credit losses	49	29	29	144	103
	716	1,027	370	3,493	3,314
Operating expenses					
Salaries and staff benefits	348	373	336	1,454	1,498
Occupancy	45	46	42	177	169
Technology	153	99	109	448	414
Communications	22	19	19	78	73
Professional fees	60	63	52	214	180
Restructuring charges (Note 17)	66	-	7	66	7
Other	76	59	72	258	285
	770	659	637	2,695	2,626
Income (loss) before income taxes (recovery) and non-controlling interest	(54)	368	(267)	798	688
Income taxes (recovery)	(23)	95	(123)	167	79
	(31)	273	(144)	631	609
Non-controlling interest	(101)	(13)	31	(145)	68
Net income (loss)	70	286	(175)	776	541
Dividends on preferred shares	11	10	5	32	21
Net income (loss) available to common shareholders	59	276	(180)	744	520
Number of common shares outstanding (thousands)					
Average – basic	159,382	158,890	157,790	158,663	159,811
Average – diluted	159,818	159,473	157,790	159,255	161,190
End of period	159,447	159,115	157,806	159,447	157,806
Earnings (loss) per common share (dollars) (Note 18)					
Basic	0.37	1.73	(1.14)	4.69	3.25
Diluted	0.37	1.73	(1.14)	4.67	3.22
Dividends per common share (dollars)	0.62	0.62	0.60	2.48	2.28

CONSOLIDATED FINANCIAL STATEMENTS | Consolidated Statement of Comprehensive Income*(unaudited) (millions of dollars)*

	Quarter ended			Fiscal year ended	
	October 31, 2008	July 31, 2008	October 31, 2007	October 31, 2008	October 31, 2007
Net income (loss)	70	286	(175)	776	541
Other comprehensive income, net of income taxes					
Net unrealized gains (losses) on translating financial statements of self-sustaining foreign operations	367	34	(195)	513	(299)
Impact of hedging net foreign currency translation gains or losses	(294)	(31)	159	(404)	211
Net change in unrealized foreign currency translation gains and losses, net of hedging activities	73	3	(36)	109	(88)
Net unrealized gains (losses) on available for sale financial assets	(136)	(25)	(18)	(156)	51
Reclassification to net income of (gains) losses on available for sale financial assets	34	(63)	10	(51)	(11)
Net change in unrealized gains and losses on available for sale financial assets, net of fair value hedge transactions	(102)	(88)	(8)	(207)	40
Net gains (losses) on derivative financial instruments designated as cash flow hedges	126	15	15	206	(54)
Reclassification to net income of (gains) losses on derivative financial instruments designated as cash flow hedges	(6)	(5)	5	(7)	10
Net change in gains and losses on derivative financial instruments designated as cash flow hedges	120	10	20	199	(44)
Total other comprehensive income, net of income taxes	91	(75)	(24)	101	(92)
Comprehensive income	161	211	(199)	877	449

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			Fiscal year ended	
	October 31, 2008	July 31, 2008	October 31, 2007	October 31, 2008	October 31, 2007
Net unrealized gains (losses) on translating financial statements of self-sustaining foreign operations	10	2	(22)	15	(22)
Impact of hedging net foreign currency translation gains or losses	(110)	(11)	65	(155)	91
Net unrealized gains (losses) on available for sale financial assets	(60)	(12)	1	(70)	23
Reclassification to net income of (gains) losses on available for sale financial assets	14	(28)	4	(23)	(7)
Net gains (losses) on derivative financial instruments designated as cash flow hedges	57	6	8	94	(26)
Reclassification to net income of (gains) losses on derivative financial instruments designated as cash flow hedges	(2)	(2)	2	(2)	5
Total income taxes (recovery)	(91)	(45)	58	(141)	64

CONSOLIDATED FINANCIAL STATEMENTS | Consolidated Statement of Changes in Shareholders' Equity*(unaudited) (millions of dollars)*

Fiscal year ended October 31	2008	2007
Preferred shares at beginning	400	400
Issuance of preferred shares, Series 20 and 21 (Note 14)	374	–
Preferred shares at end	774	400
Common shares at beginning	1,575	1,566
Issuance of common shares		
Dividend Reinvestment and Share Purchase Plan	17	18
Stock Option Plan	41	34
Acquisitions (Note 14)	24	–
Other	(1)	6
Repurchase of common shares for cancellation (Note 14)	–	(49)
Common shares at end	1,656	1,575
Contributed surplus at beginning	32	21
Stock option expense (Note 16)	11	16
Stock options exercised	(6)	(4)
Other	(6)	(1)
Contributed surplus at end	31	32
Retained earnings at beginning	2,793	2,893
Net income	776	541
Impact of initial adoption of financial instrument standards	–	2
Dividends		
Preferred shares	(32)	(21)
Common shares	(394)	(364)
Premium paid on common shares repurchased for cancellation (Note 14)	–	(266)
Share issuance and other expenses, net of income taxes	(33)	8
Retained earnings at end	3,110	2,793
Accumulated other comprehensive income (loss) at beginning, net of income taxes	(163)	(92)
Impact of initial adoption of financial instruments standards	–	21
Net change in unrealized foreign currency translation gains (losses), net of hedging activities	109	(88)
Net change in unrealized gains (losses) on available for sale financial assets, net of fair value hedge transactions	(207)	40
Net change in gains (losses) on derivative financial instruments designated as cash flow hedges	199	(44)
Accumulated other comprehensive income (loss) at end, net of income taxes	(62)	(163)
Shareholders' equity	5,509	4,637

Retained Earnings and Accumulated Other Comprehensive Income (Loss), Net of Income Taxes

As at October 31	2008	2007
Retained earnings	3,110	2,793
Accumulated other comprehensive income (loss), net of income taxes		
Unrealized foreign currency translation gains and losses, net of hedging activities	(71)	(180)
Unrealized gains and losses on available for sale financial assets, net of fair value hedge transactions	(139)	68
Gains and losses on derivative financial instruments designated as cash flow hedges	148	(51)
	(62)	(163)
Total	3,048	2,630

CONSOLIDATED FINANCIAL STATEMENTS | Consolidated Statement of Cash Flows*(unaudited) (millions of dollars)*

	Quarter ended		Fiscal year ended	
	October 31, 2008	October 31, 2007	October 31, 2008	October 31, 2007
Cash flows from operating activities				
Net income	70	(175)	776	541
Adjustments for:				
Provision for credit losses	49	29	144	103
Amortization of premises and equipment	20	23	79	78
Write-off of tangible assets	54	–	54	–
Future income taxes	(20)	29	(5)	49
Translation adjustment on foreign currency subordinated debentures	8	(5)	11	(8)
Gains on sale of available for sale securities, net	(48)	(42)	(190)	(135)
Other-than-temporary impairment charges	200	544	220	544
Gains on asset securitizations and other transfers of receivables, net	(50)	(29)	(181)	(113)
Stock option expense	3	2	11	16
Change in interest payable	(161)	160	(439)	245
Change in interest and dividends receivable	(118)	(110)	(12)	(52)
Change in income taxes payable	(107)	(204)	70	(151)
Change in fair value of derivative financial instruments, net	(353)	(185)	(249)	(581)
Change in held for trading securities	4,694	3,710	(3,035)	1,036
Change in due from clients, dealers and brokers	(689)	(622)	2,040	(365)
Change in due to clients, dealers and brokers	(104)	971	(1,952)	1,118
Change in other items	(352)	295	1,105	296
	3,096	4,391	(1,553)	2,621
Cash flows from financing activities				
Change in deposits	7,354	(482)	5,224	(1,119)
Issuance of NBC CapS II	–	–	750	–
Issuance of subordinated debentures	–	–	500	500
Repurchase of subordinated debentures	–	(300)	–	(300)
Issuance of common shares	23	10	81	58
Issuance of preferred shares	–	–	374	–
Repurchase of common shares for cancellation	–	(15)	–	(315)
Redemption of preferred shares of NB Capital	(312)	–	(312)	–
Dividends paid on common shares	(193)	(96)	(484)	(351)
Dividends paid on preferred shares	(9)	(5)	(25)	(21)
Change in obligations related to securities sold short	(2,603)	(2,232)	(394)	602
Change in securities sold under repurchase agreements	(136)	(9,841)	5,081	(7,447)
Change in other items	(47)	17	812	(75)
	4,077	(12,944)	11,607	(8,468)
Cash flows from investing activities				
Change in deposits with financial institutions pledged as collateral	8	(224)	138	(322)
Change in loans (excluding securitization)	(2,300)	(1,160)	(7,338)	(3,887)
Proceeds from securitization of new assets and other transfers of receivables	646	968	3,813	2,870
Maturity of securitized assets	–	–	(400)	(101)
Purchases of available for sale securities	(11,338)	(4,993)	(26,370)	(18,025)
Sales of available for sale securities	7,177	5,320	22,642	15,932
Change in securities purchased under reverse repurchase agreements	(720)	2,330	(1,902)	1,626
Change in premises and equipment	(68)	(44)	(167)	(119)
	(6,595)	2,197	(9,584)	(2,026)
Increase (decrease) in cash and cash equivalents	578	(6,356)	470	(7,873)
Cash and cash equivalents at beginning	2,888	9,352	2,996	10,869
Cash and cash equivalents at end	3,466	2,996	3,466	2,996
Cash and cash equivalents				
Cash	254	283	254	283
Deposits with financial institutions	3,406	3,045	3,406	3,045
Less: Amount pledged as collateral	(194)	(332)	(194)	(332)
	3,466	2,996	3,466	2,996
Supplementary information				
Interest paid	539	699	2,833	3,438
Income taxes paid	31	99	(24)	238

CONSOLIDATED FINANCIAL STATEMENTS | Notes to the Consolidated Financial Statements

(unaudited) (millions of dollars)

These unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended October 31, 2007. Certain comparative figures have been reclassified to conform with the presentation adopted in fiscal 2008.

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, 2007, 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, 2007 and the accompanying notes included on pages 84 to 137 of the 2007 Annual Report.

2 – Changes in Accounting Policies

2a. Recent Accounting Standards Adopted

CAPITAL DISCLOSURES AND FINANCIAL INSTRUMENTS – DISCLOSURES AND PRESENTATION

On November 1, 2007, the Bank adopted the requirements of three new sections of the Canadian Institute of Chartered Accountants (CICA) Handbook: Section 1535, *Capital Disclosures*, Section 3862, *Financial Instruments – Disclosures*, and Section 3863, *Financial Instruments – Presentation*.

Section 1535 establishes disclosure requirements concerning:

- an entity’s objectives, policies and processes for managing capital;
- quantitative data about what the entity manages as capital;
- whether the entity has complied with any capital requirements; and
- the consequences of non-compliance with such capital requirements.

Sections 3862 and 3863 consist of a comprehensive series of disclosure and presentation requirements applicable to financial instruments. They revise and enhance the disclosure requirements set out in Section 3861, *Financial Instruments – Disclosure and Presentation*, and carry forward unchanged its presentation requirements.

Section 3862 requires disclosures that enable users of financial statements to evaluate:

- the significance of financial instruments for an entity’s financial position and performance; and
- the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks.

RECLASSIFICATION OF FINANCIAL ASSETS

On October 24, 2008, the Canadian Accounting Standards Board issued changes to Section 3855, *Financial Instruments – Recognition and Measurement*, and Section 3862, *Financial Instruments – Disclosures*.

These changes specify that an entity may reclassify a financial asset, other than a derivative financial instrument or a financial asset which upon initial recognition was designated as held for trading, out of the held-for-trading category, only in rare circumstances, provided this financial asset is no longer held for the purpose of selling it in the near term. The financial asset must be reclassified at its fair value on the date of reclassification, and this fair value becomes its new cost or amortized cost, as applicable. Any gain or loss already recognized in the Consolidated Statement of Income cannot be reversed.

Moreover, according to these changes, a financial asset classified as available for sale that would have met the definition of loans and receivables may be reclassified out of the available-for-sale financial asset category to the loans and receivables category if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity.

The changes to Section 3862 describe the disclosure requirements when an entity reclassifies a financial asset out of the held-for-trading financial instrument category or the available-for-sale financial asset category. The entity must disclose, among other things, the following information:

- the amount reclassified into and out of each category;
- the carrying amounts and fair values of all financial assets that have been reclassified in the current and previous reporting periods; and
- the rare situation, and the facts and circumstances indicating that the situation was rare.

These changes apply to the Bank to reclassifications made on or after August 1, 2008. On that date, the Bank reclassified asset-backed commercial paper (ABCP) with a fair value of \$119 million in *Held for trading Securities to Available for Sale securities* in the Consolidated Balance Sheet. For more details, see Note 8.

CONSOLIDATED FINANCIAL STATEMENTS | Notes to the Consolidated Financial Statements (cont.)*(unaudited) (millions of dollars)***2 – Changes in Accounting Policies (cont.)****ACCOUNTING CHANGES**

On November 1, 2007, the Bank adopted the requirements of the new version of CICA Handbook Section 1506, *Accounting Changes*.

This standard specifies that an entity must change an accounting policy only if the change is required by GAAP or results in the financial statements providing more relevant information. An entity must account for a change in accounting policy resulting from the application of GAAP in accordance with the specific transitional provisions of the standard, if any. If the standard does not include specific transitional provisions applying to that change or the entity decides to change an accounting policy voluntarily, the change must be applied retrospectively and prior periods adjusted, unless it is impossible to determine the period-specific effects or the cumulative effect of the change.

The standard requires the disclosure of changes in accounting estimates during the current period and, unless it is impossible to estimate, for future periods. According to this standard, the entity must disclose that an error has occurred and the period in which it occurred. In this case, the financial statements are restated.

Furthermore, the standard requires that, when a new standard has been issued but is not yet effective, this fact be disclosed along with the expected impact of initial application on the financial statements.

The application of this standard did not have an impact on the Bank's consolidated financial statements.

2b. Recent Accounting Standards Pending Adoption**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. On November 1, 2008, the Bank will apply this standard retrospectively with restatement of prior periods. The initial application of this standard will have no impact on the Bank's consolidated financial statements.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

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

CONSOLIDATED FINANCIAL STATEMENTS | Notes to the Consolidated Financial Statements (cont.)*(unaudited) (millions of dollars)***3 – Management of the Risks Associated with Financial Instruments**

The Bank views risk as an integral part of its development and the diversification of its activities, and advocates a risk management approach consistent with its business expansion strategy. The purpose of sound risk management is to provide reasonable assurance that incurred risks do not exceed acceptable thresholds and that risk-taking contributes to the creation of shareholder value. For the Bank, this means striking a healthy balance between return and risk.

In the normal course of business, the Bank is primarily exposed to the risks described below:

Credit risk	Risk of a financial loss if an obligor does not fully honour its contractual commitments to the Bank. Obligors may be borrowers, issuers, counterparties or guarantors.
Market risk	Risk of a financial loss resulting from unfavourable changes in underlying market factors, namely, interest rates, foreign exchange rates, equity prices, commodity prices, credit risk and market volatility.
Liquidity risk	Risk that the Bank will be unable to honour daily cash commitments without resorting to costly and untimely measures.
Operational risk	Risk of loss resulting from an inadequacy or a failure ascribable to people, processes, technology or external events.
Reputational risk	Risk that the Bank's operations or practices will be judged by the public to be negative, whether that judgment is with or without basis, and will adversely affect the perception, image or trademarks of the Bank, potentially resulting in costly litigation or loss of income.

RISK MANAGEMENT FRAMEWORK

To achieve its risk management objectives, the Bank has a risk management framework that comprises the following elements:

Risk management culture

The Bank and its management routinely promote a risk management culture through internal communications that advance a balanced model where business development initiatives are accompanied by a constant concern for sound risk management.

Governance structure

The governance structure at the Bank sets out the roles and responsibilities of all levels of the organization.

The Audit and Risk Management Committee (ARMC) of the Board of Directors

The ARMC approves risk management policies and sets risk tolerance limits. In addition to ensuring that the appropriate resources, policies and procedures are in place to properly and effectively manage risk on an ongoing basis, it examines and approves all significant aspects of risk assessment systems.

The Global Risk Committee

The Global Risk Committee, which reports to the ARMC, defines, across the Bank and its subsidiaries, the parameters of the policies that determine their risk tolerance and the overall risk strategy, and sets limits as well as tolerance and intervention thresholds enabling the Bank to properly manage the main risks to which it is exposed. Specifically, the Committee approves and monitors all large credit facilities.

The Bank's Management

The Bank's Management promotes the risk management culture Bank-wide and manages the primary risks to which the Bank is exposed.

The Risk Management Group

This group proposes risk management policies and implements tools and models for identifying, measuring and monitoring risks. In addition to instituting and applying various independent risk review and approval procedures, this group sets risk limits that reflect the risk tolerance established by the Board of Directors and informs Management and the Board of Directors of significant risks.

The Business Units

The business units manage risks related to their operations within established limits and in accordance with risk management policies by identifying, analyzing and understanding the risks to which they are exposed and implementing risk mitigation mechanisms.

CONSOLIDATED FINANCIAL STATEMENTS | Notes to the Consolidated Financial Statements (cont.)*(unaudited) (millions of dollars)***3 – Management of the Risks Associated with Financial Instruments (cont.)****Risk management policies**

Risk management policies, along with the related guidelines and procedures, are essential elements of the risk management framework. They describe how business units must manage risk and the approval process for risk decisions and, in particular, set the risk limits to be adhered to. These policies cover all the main risks defined in the Bank's risk management approach and are reviewed on a regular basis – in most cases, annually – to ensure that they are still relevant given changes in the markets and the business plans of the Bank's many business units. Other policies, standards and procedures complement the risk management policies and cover more specific aspects of management (e.g., the continuity of certain activities).

Independent oversight by the Corporate Compliance Department

The Bank's Corporate Compliance Department, whose Vice-President reports directly to the ARMC, helps to provide assurance that the Bank's structures, management systems, programs, policies and procedures necessary to ensure compliance with legislation, regulations, guidelines and codes of professional conduct applicable to the Bank are in place and operational.

Independent assessment by the Internal Audit Department

The Internal Audit Department, whose Senior Vice-President also reports directly to the ARMC, provides an independent, objective assessment of the effectiveness of processes, policies, procedures and control measures implemented by managers. It also recommends solutions to improve the effectiveness of risk management, internal controls and operations at the Bank and its subsidiaries.

CREDIT RISK MANAGEMENT

Credit risk represents the most significant risk facing the Bank in the normal course of business. The Bank is exposed to credit risk not only through its direct lending activities and transactions, but also through commitments to extend credit, letters of guarantee, letters of credit, over-the-counter derivatives trading, available for sale debt securities, securities purchased under reverse repurchase agreements, deposits with financial institutions and transactions carrying a settlement risk for the Bank such as fund transfers to third parties via electronic payment systems.

A policy framework centralizes the governance of activities that generate credit risk for the Bank as a whole. The framework is supplemented by a series of subordinate internal or sectoral policies and guidelines used to provide more thorough coverage of the given business lines or deal with specific management issues such as credit limits or collateral requirements.

Credit risk assessment of loans

Before a sound and prudent credit decision can be taken, the credit risk represented by the borrower or counterparty must be accurately assessed. This assessment is performed at the outset of the credit application process. Each application is analyzed and assigned one of 19 grades on a scale of 1 to 10 using a credit rating system developed by the Bank for all portfolios exposed to credit risk. As each grade corresponds to a borrower's or counterparty's probability of default, the credit risk can be determined for the Bank. The credit risk assessment method varies according to portfolio type.

Consumer credit portfolios

This category comprises credit portfolios composed of residential mortgage loans, consumer loans and loans to some small businesses. The credit risk of these portfolios is measured using credit scoring models. These tools use proven statistical methods that measure applicants' characteristics and history based on internal and external information to estimate future credit behaviour and assign a risk rating. Consequently, consumer credit risk assessments are based on a group of borrowers with similar credit histories and behaviour profiles.

Commercial and government credit portfolios

This category comprises commercial (other than some small businesses classified in the consumer credit portfolios), government and financial institution credit portfolios.

These credit portfolios are assigned a risk rating based on a detailed individual analysis of the financial and non-financial aspects of the borrower, including its financial health, sector of economic activity, competitive ability, access to capital and management quality. The Bank has risk-rating tools and models enabling it to specifically assess the risk represented by a borrower in relation to its industry and peers.

The Bank also uses individual assessment models to assign a risk rating to the credit facility based on the collateral and guarantees the obligor is able to provide and, in some cases, other factors.

The Bank consequently has a bi-dimensional risk rating system that, using internal and external historical data, establishes a default risk rating for each borrower, and models that assign a risk rating to the credit facility that is independent of the risk rating assigned to the borrower.

CONSOLIDATED FINANCIAL STATEMENTS | Notes to the Consolidated Financial Statements (cont.)*(unaudited) (millions of dollars)***3 – Management of the Risks Associated with Financial Instruments (cont.)****Credit granting process**

Credit granting decisions are based first and foremost on the results of the risk assessment. In addition to the client's solvency, decisions are also influenced by factors such as available collateral, transaction compliance with policies, standards and procedures, and the Bank's overall risk-adjusted return objective. Each credit granting decision is made by authorities within the risk management teams and management who are independent of the business units and are at a reporting level commensurate with the size of the proposed credit transaction and the associated risk.

Decision-making authority is determined in compliance with the delegation of authority set out in the Credit Risk Management Policy. A person in a senior position in the organization approves credit facilities that are substantial or carry a higher risk for the Bank. The Bank's Global Risk Committee approves and monitors all substantial credit facilities. Credit applications that exceed management's latitudes are submitted to the Board of Directors for approval. The credit granting process demands a high level of accountability from managers, who must proactively manage the credit portfolio.

Risk mitigation

The Bank also controls credit risk using various risk mitigation techniques. The most common method used to mitigate credit risk is to obtain quality collateral from counterparties in guarantee of the Bank's commitments. In the Bank's opinion, obtaining collateral cannot replace a rigorous assessment of a counterparty's ability and willingness to meet its obligations, but, beyond a certain risk threshold, it is an essential complement. Collateral is not required in all credit commitments; it depends upon the level of risk presented by the borrower and the type of credit granted. However, if the level of risk to the Bank is considered high, the counterparty will likely be asked to pledge collateral. The legal validity of any collateral obtained and the Bank's ability to correctly measure the collateral's value on a regular basis are critical for this mechanism to play its proper role in risk mitigation. The Bank has established specific requirements in its internal policies with respect to the appropriate legal documentation and assessment for the kinds of collateral that business units may require in guarantee of the credits they grant to their counterparties. The categories of eligible collateral and the lending value of these assets have also been defined by the Bank. For the most part, they include the following asset categories: accounts receivable, inventory, machinery and equipment, rolling stock, real estate mortgages on residential, commercial and office buildings and on industrial facilities, as well as cash and marketable securities.

Commitments related to the trading of contracts on derivative financial instruments are frequently subject to credit risk mitigation measures. The first of these, and the most widely used, is the signing of *International Swaps and Derivatives Association, Inc.* (ISDA) Master Agreements with the appropriate counterparties. These agreements make it possible to apply full netting of the gross amounts of the market price assessments, when one of the contracting parties defaults on the agreement, for each of the transactions covered by the agreement and in force at the time of default. The amount of the final settlement is therefore the net balance of gains and losses on each transaction, which increases the likelihood of recovery when a counterparty defaults. The Bank's policies require signing an ISDA agreement with each counterparty trading derivative financial instruments with its traders. Under certain conditions, foreign exchange contracts are exempt from this rule, but the Bank prefers signing ISDA agreements as often as possible.

Another mechanism for reducing credit risk complements the ISDA Master Agreement in many cases and provides the Bank or its counterparty (or both parties, if need be) with the right to request collateral from the counterparty when the net balance of gains and losses on each transaction exceeds a threshold defined in the agreement. These agreements are known as *Credit Support Annexes* (CSAs).

Portfolio diversification and management

The Bank is exposed to credit risk not only under its commitments to a particular borrower, but also through the sectoral distribution (activity sector) of its commitments and the exposure of its various credit portfolios to geographical, concentration and settlement risks.

The Bank's approach to controlling these diverse risks begins with optimizing diversification of its commitments. The management criteria set out in its internal policies and procedures include measures designed to maintain a healthy degree of diversification of credit risk in its portfolios. These instructions are mainly reflected in the application of various limits on the scope of its commitments: credit approval limits by level; limits on counterparty credit concentration; and credit concentration limits by industry, country, region and type of financial instrument. Compliance with these limits is monitored through periodic reports submitted by Risk Management officers to the Board of Directors.

The criteria established for portfolio diversification and the specific limits set for economic, industrial or geographical sectors are based on the findings of sector-based studies and analyses conducted by economists and the Bank's Risk Management Group, and are approved by the Global Risk Committee. Continuous analyses are performed in order to anticipate problems with a sector or borrower before they materialize as defaulted payments.

CONSOLIDATED FINANCIAL STATEMENTS | Notes to the Consolidated Financial Statements (cont.)*(unaudited) (millions of dollars)***3 – Management of the Risks Associated with Financial Instruments (cont.)****Other risk mitigation methods****– Credit derivative financial instruments**

To some extent the Bank also reduces credit risk by using the protection provided by derivative financial instruments such as credit default swaps. When the Bank acquires credit protection, it pays interest on the swap to the counterparty in exchange for the counterparty's commitment to pay if a credit event occurs. Since, like borrowers, providers of credit protection must receive a default risk rating, the Bank's internal policies set out all the criteria under which a counterparty may be judged eligible to mitigate the Bank's credit risk.

– Loan syndication

For loan syndication, the Bank has developed specific instructions on the appropriate objectives, responsibilities and documentation requirements.

– Securitization

Securitization represents a means for transferring to a third party the credit risk incurred on loans originally granted by the Bank. A more detailed analysis of this activity is provided in Note 9.

Account follow-up and recovery

Credit granted and borrowers are monitored on an ongoing basis and in a manner commensurate with the related risk. Rigorous care is taken by loan portfolio managers with problem loans, which are managed using an array of methods, including a monthly watchlist of problem commitments produced for the loan portfolio managers concerned, who then submit a report to Credit Risk Management.

When, despite close monitoring, credit commitments continue to deteriorate and risk increases to the point where monitoring has to be increased, a group specialized in managing problem accounts steps in to maximize collection of the committed amounts and tailor strategies to these accounts. This unit's role is critical because, when a borrower defaults, the Bank's primary goal is to recover the maximum amount of assets.

Identification of impaired loans and provisioning for credit losses

A loan, other than a credit card receivable, is considered to be impaired when, in the opinion of Management, there is no longer reasonable assurance of the timely collection of the full amount of principal and interest. Whenever a payment is contractually 90 days past due, loans are classified as impaired unless they are fully secured and collection efforts are reasonably expected to result in repayment of the debt within 180 days. In all cases, loans that are more than 180 days in arrears are considered impaired, except when they are guaranteed or insured by the Government of Canada, a Canadian provincial government or by a Canadian government agency, in which case, they are impaired after they are 365 days in arrears. Loans are returned to performing status when the timely collection of principal and interest is reasonably assured and when all principal and interest payments in arrears have been collected. Credit card receivables are written off when payments are more than 180 days in arrears. The Bank's policies set out detailed criteria for establishing allowances for credit losses and, if necessary, writing off impaired loans. The credit policies also set out collection practices, which are designed to minimize losses by recovering the maximum possible amount.

The allowance for credit losses reflects Management's best estimate of losses in its credit portfolio as at the balance sheet date. This allowance relates primarily to loans, but may also cover the credit risk associated with deposits with financial institutions, derivative financial instruments, loan substitute securities and other credit instruments such as acceptances, commitments to extend credit, letters of guarantee and letters of credit. The allowance for credit losses consists of specific allowances for impaired loans and the general allowance for credit risk.

CONSOLIDATED FINANCIAL STATEMENTS | Notes to the Consolidated Financial Statements (cont.)*(unaudited) (millions of dollars)***3 – Management of the Risks Associated with Financial Instruments (cont.)**

Specific allowances are recorded in order to recognize the estimated losses for loans classified as impaired. The credit risk for business and government loan portfolios is assessed individually and on an ongoing basis, and the Bank records a specific allowance as soon as a loan is deemed impaired. The loans in these portfolios are written off when all reasonable collection efforts have been exhausted or the borrower is bankrupt, liquidation is in process and further recovery of balances owing is not expected. Personal loans comprise a large number of homogeneous balances that are managed together, for which specific allowances are established on the basis of historical net write-off experience. Personal loans without collateral for which all the signatories have declared bankruptcy are automatically written off.

The general allowance allocated for credit risk represents Management's best estimate of probable losses within the portion of the portfolio that has not yet been specifically identified as impaired. This amount is determined by applying expected loss factors to outstanding and undrawn facilities. The allocated general allowance for the business and government loan portfolio is based on the application of expected default and loss factors, determined by statistical loss migration analysis, delineated by loan type, to which is added an additional amount that takes into account the discovery period and migration risk. For personal loans, the general allowance is based on specific parameters by product and no discovery period is calculated. Losses are determined by the application of loss ratios established through statistical analysis of loss migration over an economic cycle. The unallocated general allowance for credit risk is based on Management's assessment of probable losses in the portfolio that have not been captured in the determination of the specific allowances for impaired loans and the allocated general allowance. This assessment takes into account general economic and business conditions, recent credit loss experience, and credit quality and concentration trends when the general allowance was created on the date of the Consolidated Balance Sheet. This allowance also reflects model and estimation risks. The unallocated general allowance does not represent future losses or serve as a substitute for the allocated general allowance.

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 October 31, 2008

	Maximum exposure to credit risk under Basel asset categories					Total
	Drawn ⁽¹⁾	Undrawn commitments ⁽²⁾	Repo-style transactions ⁽³⁾	OTC derivatives	Other off-balance sheet items ⁽⁴⁾	
Retail residential mortgages	20,133	5,062	–	–	–	25,195
Other retail	10,105	5,584	–	–	–	15,689
Corporate	23,057	12,226	26	78	1,883	37,270
Sovereign	9,719	1,026	3,903	36	114	14,798
Bank	7,911	1,984	11,090	277	41	21,303
Trading book	–	–	–	5,445	–	5,445
Securitization	24	–	–	–	91	115
Total - Credit risk	70,949	25,882	15,019	5,836	2,129	119,815

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

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

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

CONSOLIDATED FINANCIAL STATEMENTS | Notes to the Consolidated Financial Statements (cont.)

(unaudited) (millions of dollars)

3 – Management of the Risks Associated with Financial Instruments (cont.)**GROSS LOANS BY TYPE OF BORROWER**

As at October 31, 2008

	Gross loans
Personal ⁽¹⁾	15,289
Residential mortgage	15,772
Non-residential mortgage	1,350
Agricultural, fishing and trapping	1,952
Financial institutions	3,428
Manufacturing	2,219
Construction and real estate	1,264
Transportation and communications	890
Mines, quarries and energy	1,456
Forestry	115
Government	1,171
Wholesale	570
Retail	1,362
Services	3,019
Other	2,353
	52,210
Securities purchased under reverse repurchase agreements (financial institutions)	7,868

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

CREDIT QUALITY OF LOANS

As at October 31, 2008

	Residential mortgages	Personal and credit card	Business and government ⁽²⁾	Total
Neither past due ⁽¹⁾ nor impaired	15,641	15,222	20,813	51,676
Past due but not impaired	100	30	97	227
Impaired	31	37	239	307
	15,772	15,289	21,149	52,210
Less: Specific allowances	3	14	121	138
Sub-total	15,769	15,275	21,028	52,072
Less: General allowance ⁽³⁾				331
Total				51,741

(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 October 31, 2008

	Residential mortgages	Personal and credit card	Business and government
Past due but not impaired			
1 month late	39	12	33
2 months late	14	7	25
3 months late and more ⁽¹⁾	47	11	39
Total	100	30	97

(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.

CONSOLIDATED FINANCIAL STATEMENTS | Notes to the Consolidated Financial Statements (cont.)*(unaudited) (millions of dollars)***3 – Management of the Risks Associated with Financial Instruments (cont.)****IMPAIRED LOANS**

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
Total	307	138	169

As at October 31, 2007

	Gross	Specific allowances	Net
Loans			
Residential mortgage	20	1	19
Personal and credit card	36	12	24
Business and government	193	107	86
Total	249	120	129

ALLOWANCE FOR CREDIT LOSSES

Fiscal year ended October 31, 2008

	Residential mortgages	Personal and credit card	Business and government	Total
Specific allowances at beginning	1	12	107	120
Provision for credit losses	(2)	74	49 ⁽¹⁾	121
Write-offs	(1)	(48)	(70)	(119)
Write-offs on credit cards	–	(75)	–	(75)
Recoveries	5	51	35	91
Specific allowances at end	3	14	121	138
General allowance at beginning				308
Provision for credit losses ⁽²⁾				23
General allowance ⁽³⁾ at end				331
Allowances at end				469

Fiscal year ended October 31, 2007

	Residential mortgages	Personal and credit card	Business and government	Total
Specific allowances at beginning	2	16	100	118
Provision for credit losses	(3)	62	44	103
Write-offs	(1)	(49)	(38)	(88)
Write-offs on credit cards	–	(66)	–	(66)
Recoveries	3	49	1	53
Specific allowances at end	1	12	107	120
General allowance ⁽⁴⁾				308
Allowances at end				428

⁽¹⁾ Includes a specific provision of \$4 million related to ABCP secured loan⁽²⁾ Provision related to ABCP secured loans⁽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.⁽⁴⁾ The general allowance for credit risk was created taking into account the Bank's overall credit portfolio.

CONSOLIDATED FINANCIAL STATEMENTS | Notes to the Consolidated Financial Statements (cont.)*(unaudited) (millions of dollars)***3 – Management of the Risks Associated with Financial Instruments (cont.)****MARKET RISK MANAGEMENT**

Market risk is intrinsically interlinked with participation in financial markets. Managing this risk is a core competency for the Bank in its trading, investing and asset/liability management activities.

Assessing market risk

One of the main tools used to manage market risk is the Value-at-Risk (VaR) simulation model. VaR is the maximum value of potential daily losses, in the portfolios held, measured at a 99% confidence level, which means that actual losses are likely to exceed the value only one day out of 100. VaR is calculated on an ongoing basis for both major classes of financial instruments (including derivative financial instruments) and all portfolios of the Financial Markets segment of the Bank. By calculating this value, the Bank seeks to ensure that trading and investment decisions do not entail risks in excess of preset limits. The VaR calculation model is based on two years of historical data.

Outstanding VaR is monitored daily in relation to established limits for each product, portfolio and business unit, as well as by type of activity: trading, investing and asset/liability management. Moreover, investment activities, i.e., available for sale securities, are governed by an investment guideline in addition to the Market Risk Management Policy. In addition, the Bank carries out backtesting in order to verify the capacity of the Bank's VaR model to estimate the maximum risk of market losses and thus validate, retroactively, the quality of the results obtained using the model.

The VaR model simulates losses in market situations similar to those revealed by historical data, i.e., market conditions that are supposedly normal. The Bank also simulates the impact of abnormal situations, i.e., rare extreme events (a stock market crash, for example), on the various portfolios of the Financial Markets segment. It does this by carrying out daily stress tests as well as sensitivity analyses for all risk categories: interest rate risk, equity and commodity price risk, foreign exchange risk and market volatility risk.

This battery of stress tests and sensitivity analyses simulate the results that the portfolios of the Financial Markets segment would generate if the extreme scenarios in question were to occur. Stress tests and sensitivity analyses are subject to maximum potential loss limits, which are approved by the Board of Directors. These tests and analyses, which are jointly established by the Risk Management Group and the management of the business units, are regularly reviewed in light of changes in market conditions, new products and trading strategies.

Trading activities

The following table illustrates the VaR distribution of trading portfolios by risk category, as well as the risk diversification effect.

GLOBAL VaR BY RISK CATEGORY⁽¹⁾

Quarter ended	October 31, 2008			July 31, 2008
	Low	High	Average	Period end
Interest rate	(9.1)	(17.7)	(12.2)	(9.7)
Foreign exchange	(1.1)	(6.3)	(3.4)	(1.8)
Equity	(3.5)	(6.4)	(4.5)	(3.7)
Commodity	(0.7)	(2.8)	(1.4)	(1.3)
Correlation effect ⁽²⁾	n.s.	n.s.	9.4	6.8
Global VaR	(9.6)	(17.1)	(12.1)	(9.7)

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.

CONSOLIDATED FINANCIAL STATEMENTS | Notes to the Consolidated Financial Statements (cont.)*(unaudited) (millions of dollars)***3 – Management of the Risks Associated with Financial Instruments (cont.)****Available for sale securities portfolios**

The Bank has created available for sale securities portfolios in liquid or non-liquid securities for strategic, long-term investment and liquidity purposes. These investments carry not only market risk, but also credit risk, liquidity risk, concentration risk and reputational risk as well as risk of non-compliance with laws and regulations in effect.

The Investment Guidelines set out the guiding principles and general management standards to be followed by all those who manage portfolios of available for sale securities included in the portfolios of the Bank and its subsidiaries. Under these guidelines, business units that are active in managing this type of portfolio are required to have internal investment policies that set, among other things, targets and limits for the allocation of assets in the portfolios concerned and internal approval mechanisms. In accordance with the policies, investments in equity securities included in portfolios of available for sale securities that meet certain materiality criteria are approved by a higher line level than the one in the business unit concerned. The primary objective is to reduce concentration risk by industry, issuer, country, type of financial instrument and credit quality. Lastly, a limit is set on the amount of non-liquid securities in the available for sale portfolios in proportion to the Bank's equity.

Structural interest rate risk

As part of its non-trading activities, such as granting mortgage loans and accepting term deposits, the Bank is exposed to structural interest rate risk. Interest rate movements cause changes in interest income and interest expense and, although these changes move in the same direction, their relative magnitude will have a favourable or unfavourable impact on annual net interest income and the economic value (present value of estimated cash flows) of shareholders' equity. The extent of that impact depends on several factors, including asset and liability matching and the interest rate curve. Assets and liabilities are managed to optimize the impact of interest rate movements in view of anticipated rate changes.

Regular simulations are performed to assess the impact of various scenarios on net interest income and the economic value of shareholders' equity and to guide the management of structural interest rate risk.

Interest risk management is managed under a specific policy, the revision and application of which are overseen by various management committees, among others. The policy sets risk limits based on the impact of a 100-basis-point change in interest rates on the following parameters: annual net interest income, economic value and the duration of shareholders' equity.

The following table provides the potential before-tax impact of an immediate and sustained 100-basis-point and 200-basis-point increase and decrease in interest rates on net interest income and on the economic value of shareholders' equity of the Bank's non-trading portfolios, assuming that no further hedging is undertaken.

INTEREST RATE SENSITIVITY – NON-TRADING (BEFORE TAX)

As at October 31	2008	2007
100-basis-point increase in the interest rate		
Impact on net interest income (for the next 12 months)	–	(16)
Impact on shareholders' equity	(74)	(89)
200-basis-point increase in the interest rate		
Impact on net interest income (for the next 12 months)	(5)	(33)
Impact on shareholders' equity	(149)	(175)
100-basis-point decrease in the interest rate		
Impact on net interest income (for the next 12 months)	(15)	2
Impact on shareholders' equity	38	65
200-basis-point decrease in the interest rate		
Impact on net interest income (for the next 12 months)	(45)	(10)
Impact on shareholders' equity	(11)	36

CONSOLIDATED FINANCIAL STATEMENTS | Notes to the Consolidated Financial Statements (cont.)*(unaudited) (millions of dollars)***3 – Management of the Risks Associated with Financial Instruments (cont.)****Hedge of structural foreign exchange risk and interest rate risk**Hedge of a net investment in a self-sustaining foreign operation

The Bank's structural foreign exchange risk arises from investments in self-sustaining foreign operations denominated in currencies other than the Canadian dollar. This risk is measured by assessing the impact of currency fluctuations. The Bank uses derivative and non-derivative financial instruments to hedge structural foreign exchange risk. In a hedge of a net investment in a self-sustaining foreign operation, the financial instruments used will offset foreign exchange gains and losses on the investments. When non-derivative financial instruments are designated as foreign exchange risk hedges, only the changes in value attributable to foreign exchange risk are taken into account in assessing and calculating the effectiveness of the hedge.

For the quarter ended October 31, 2008, unrealized foreign exchange gains of \$377 million (\$528 million for the fiscal year ended October 31, 2008) were recorded in *Other comprehensive income* related to the Bank's net investment in self-sustaining foreign operations. These gains were offset by losses of \$404 million (\$559 million for the fiscal year ended October 31, 2008) related to financial instruments designated as foreign exchange risk hedges. Non-derivative financial instruments designated as hedges represent foreign currency-denominated liabilities and totalled \$2.1 billion as at October 31, 2008.

As at October 31, 2008, a 1% appreciation of the value of the Canadian dollar would have reduced shareholders' equity by \$4.3 million.

Fair value hedge

Fair value hedge transactions mainly use interest rate swaps to hedge changes in the fair value of a financial asset or liability arising from changes in market interest rates. In a fair value hedge, the change in fair value of the derivative financial instruments used as hedging items will offset the change in fair value of the hedged item. The Bank uses this strategy primarily for its securities, fixed-rate deposits and subordinated debenture portfolios.

For the quarter ended October 31, 2008, an unrealized loss representing the ineffective portion was recorded in *Other income* in the Consolidated Statement of Income in the amount of \$1 million (unrealized gain of \$1 million for the fiscal year ended October 31, 2008). All the components of the change in fair value of the derivative financial instruments designated as hedges were taken into account in assessing the effectiveness of the fair value hedge.

Cash flow hedge

Cash flow hedge transactions mainly use interest rate swaps to hedge exposure of the future cash flows related to a floating-rate financial asset or liability. In a cash flow hedge, the derivative financial instruments used as hedging items will mitigate the variability in future cash flows related to the hedged item. The Bank uses this strategy primarily for its loan portfolios, personal lines of credit and variable-rate deposits.

For the quarter ended October 31, 2008, an unrealized gain of \$183 million (\$300 million for the fiscal year ended October 31, 2008) was recorded in *Other comprehensive income* for the effective portion of changes in fair value of derivative financial instruments designated as cash flow hedges. The amounts recognized are reclassified to *Net interest income* in the periods during which the cash flows of the hedged items are recognized. Consequently, a net gain of \$8 million was reclassified to *Net income* in the quarter ended October 31, 2008 (\$9 million for the fiscal year ended October 31, 2008). An estimated net gain of \$96 million deferred in *Accumulated other comprehensive income* as at October 31, 2008 is expected to be reclassified to *Net income* during the next 12 months. The maximum period over which the Bank hedges its exposure to the variability in future cash flows is twelve years.

For the quarter ended October 31, 2008, the amount representing the ineffective portion recorded as *Other income* in the Consolidated Statement of Income is negligible (an unrealized gain of \$1 million for the fiscal year ended October 31, 2008). All the components of the change in fair value of the derivative financial instruments designated as hedges were taken into account in assessing and calculating the effectiveness of the cash flow hedge.

LIQUIDITY RISK MANAGEMENT

Liquidity risk arises when sources of funds become insufficient to meet scheduled payments under the Bank's commitments. Liquidity risk stems from mismatched cash flows related to assets and liabilities as well as the characteristics of certain products, such as credit commitments and non-fixed term deposits.

The Bank's primary objective as a financial institution is to manage liquidity so as to ensure timely access to the market in order to support the Bank's business strategy and enable it to honour its commitments when they come due, even in extreme conditions. This is done primarily by implementing a policy framework, approved by the Board of Directors, which establishes the monitoring structures controlled by the various committees, risk controls, procedures for delegating decision-making to higher levels, delegation of responsibilities and segregation of duties.

CONSOLIDATED FINANCIAL STATEMENTS | Notes to the Consolidated Financial Statements (cont.)

(unaudited) (millions of dollars)

3 – Management of the Risks Associated with Financial Instruments (cont.)**Liquidity management**

The Bank manages liquidity risk on a consolidated basis by placing limits on the various indicators of liquidity risk. Short-term day-to-day funding decisions are based on a daily cumulative net cash position, which is controlled by means of limits set on liquidity ratios. Moreover, the Bank's collateral pledging activities related to derivative financial instrument transactions (exchange-traded and over-the-counter contracts) are tracked on a daily basis in relation to the global limit set by the Bank and are tested once a week using a series of extreme simulations. The Bank also regularly tracks unencumbered securities outstanding in proportion to its total assets and in proportion to unsecured liabilities due in less than one year.

The Bank's survival period, an indicator designed to measure the number of days it would take to utilize its liquid assets if it were to lose deposits prematurely or if funds borrowed directly from the money market were not renewed at maturity, is measured monthly using various simulations of extreme conditions based, for each simulation, on specific scenarios. Another indicator known as net cash capital, also calculated monthly, measures the portion of short-term loans being used to finance the Bank's illiquid assets. Moreover, the Bank closely monitors its financial leverage to ensure that its assets-to-capital multiple respects the level prescribed by the Office of the Superintendent of Financial Institutions. Lastly, a liquidity contingency plan is outlined in the Liquidity Management and Funding Policy.

Funding

Core deposit liabilities are the Bank's primary funding source. In this context, diversification of funding by origination and term structure is an important element of a liquidity management strategy. The Bank seeks to diversify its funding sources by geographic location, currency, instrument, term and depositor or counterparty on guaranteed and non-guaranteed lending markets. Institutional funding activities are subject to liquidity ratio limits. In addition, the Bank is actively involved in securitization programs (e.g., residential mortgages and credit card receivables) that give it access to long-term funding. The Bank also uses the securitization program for credit card receivables to improve regulatory capital ratios as it reduces risk-weighted assets.

The following table presents financial liabilities and loan commitments by contractual maturity, except for the fair value of derivative financial instruments held for trading and commitments related to securities sold short.

As at October 31, 2008

	Payable on demand	Payable after notice	Payable on a fixed date				Total
			Less than 1 year	1 to 2 years	2 to 5 years	More than 5 years	
Personal	2,746	14,605	7,378	3,763	4,553	53	33,098
Other	7,253	7,151	24,374	1,552	1,730	864	42,924
Total deposits	9,999	21,756	31,752	5,315	6,283	917	76,022
			Less than 1 year	1 to 2 years	2 to 5 years	More than 5 years	Total
Securities sold under repurchase agreements			7,151	–	–	–	7,151
Designated derivative financial instruments							
Fair value hedges			19	14	10	8	51
Cash flow hedges			–	24	–	11	35
Total designated derivative financial instruments			19	38	10	19	86
Subordinated debentures			405	–	500	1,350	2,255
Loan commitments			26,037	–	–	–	26,037

CONSOLIDATED FINANCIAL STATEMENTS | Notes to the Consolidated Financial Statements (cont.)*(unaudited) (millions of dollars)***4 – Capital Disclosure****CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES**

Capital management consists in maintaining the balance between risk-adjusted capital, regulatory capital ratios that satisfy the minimum requirements for a well-capitalized financial institution, as defined by the Office of the Superintendent of Financial Institutions (the “Superintendent”), and the production of a competitive return on shareholders’ equity.

Each year, the Board of Directors, on the recommendation of the ARMC, approves a detailed capital management policy and the Bank’s capital plan. This policy sets out the principles and practices the Bank incorporates into its capital management strategy and the basic criteria it adopts to ensure that it has a sufficient level of capital at all times and prudently manages such capital in view of its future capital requirements. The capital plan sets operational targets and takes into account expected levels for risk-weighted assets, determined under the regulatory approach. Moreover, the capital plan presents an analysis of the different strategies that are available to the Bank to optimize capital management, including the issuance and repurchase of equity securities and subordinated indebtedness and the dividend policy.

CAPITAL MANAGEMENT

The capital ratio is the ratio, expressed as a percentage, of regulatory capital to risk-weighted assets. Risk-weighted assets are calculated in accordance with the rules established by the Superintendent for balance sheet and off-balance sheet risks. Credit, market and operational risk are considered in calculating risk assets for regulatory purposes. The definition adopted by the Bank for International Settlements (BIS) distinguishes between three types of capital: Tier 1 capital, which consists of common shareholders’ equity and non-cumulative preferred shareholders’ equity, the eligible amount of innovative instruments and non-controlling interests in subsidiaries, less goodwill; and Tier 2 capital, which consists of preferred shares not eligible for Tier 1 capital, the eligible portion of subordinated debentures, the eligible general allowance for credit risk as well as the eligible amount of innovative instruments that could not be included in Tier 1 capital. In accordance with BIS rules, the Superintendent defines a third tier of capital intended specifically to cover market risk, which is also covered by Tier 1 capital. Total regulatory capital is the sum of all capital net of investments in companies subject to significant influence and first-loss protection with respect to asset securitization.

On November 1, 2007, the Bank adopted the requirements of the new Basel II capital standards framework. These new rules, established in 2004 by the BIS in Basel, Switzerland, and adopted by many countries around the world, including Canada, amend the capital adequacy rules introduced in 1988.

Since November 1, 2007, the Bank has been using the standardized approach for credit risk. This approach is almost identical to the one used as at October 31, 2007. Beginning in fiscal 2010, the Bank will adopt the Advanced Internal Ratings-Based Approach, which provides for enhanced sensitivity of capital to the credit risk of borrowers and counterparties with which it does business. The Bank has been using the standardized approach for operational risk since November 1, 2007. This approach imposes a capital charge to cover operational risk.

The Superintendent considers financial institutions to be well-capitalized if they maintain a Tier 1 capital ratio of 7% and a total regulatory capital ratio of 10%. The Bank maintained ratios that satisfied these requirements in the fourth quarter of 2008.

In addition to regulatory capital ratios, banks are expected to meet an assets-to-capital multiple test. The assets-to-capital multiple is calculated by dividing a bank’s total assets, including specified off-balance sheet items, by its total capital. The Bank met the assets-to-capital multiple test in the fourth quarter of 2008.

CONSOLIDATED FINANCIAL STATEMENTS | Notes to the Consolidated Financial Statements (cont.)

(unaudited) (millions of dollars)

4 – Capital Disclosure (cont.)

REGULATORY CAPITAL	Basel II	Basel I
As at October 31	2008	2007
Tier 1 Capital		
Common shares	1,656	1,575
Contributed surplus	31	32
Retained earnings	3,110	2,793
Unrealized foreign exchange gains and losses, net of hedging activities and after tax, included in <i>Accumulated other comprehensive income</i>	(71)	(180)
Accumulated net after-tax unrealized losses on available for sale equity securities included in <i>Accumulated other comprehensive income</i>	(88)	–
Non-cumulative permanent preferred shares	774	400
Innovative instruments ⁽¹⁾	828	509
Non-controlling interest ⁽²⁾	18	17
Trading in short positions of own shares	–	(1)
Gross Tier 1 Capital	6,258	5,145
Goodwill	(740)	(703)
Net Tier 1 Capital	5,518	4,442
Gains on sales recorded upon securitization	(38)	–
Adjusted Net Tier 1 Capital	5,480	4,442
Tier 2 Capital		
Subordinated debentures	2,153	1,641
Eligible general allowance for credit risk	331	308
Accumulated net after-tax unrealized gains on available for sale equity securities included in <i>Accumulated other comprehensive income</i>	–	80
Excess Tier 1 qualifying innovative instruments ⁽¹⁾	147	–
Other deductions	(432)	(355)
Adjusted Tier 2 Capital	2,199	1,674
Total Capital	7,679	6,116

(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.

CONSOLIDATED FINANCIAL STATEMENTS | Notes to the Consolidated Financial Statements (cont.)*(unaudited) (millions of dollars)***5 – 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 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
FINANCIAL ASSETS							
Cash	254	–	–	–	–	–	–
Deposits with financial institutions	–	–	–	3,406	–	–	–
Securities							
Available for sale	–	–	12,322	–	–	–	–
Held for trading	32,178	1,685	–	–	–	–	–
Securities purchased under reverse repurchase agreements	–	–	–	7,868	–	–	–
Loans	–	–	–	51,741	–	–	–
Other							
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	–	–	–
Total financial assets	41,673	1,685	12,322	69,993	–	305	268
FINANCIAL LIABILITIES							
Deposits							
Personal	–	–	–	–	33,098	–	–
Business and government	–	567	–	–	36,305	–	–
Deposit-taking institutions	–	–	–	–	5,827	–	–
Deposit from NBC Capital Trust	–	–	–	–	225	–	–
Other							
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	–	–
Subordinated debentures	–	–	–	–	2,255	–	–
Total financial liabilities	24,331	567	–	–	95,618	35	51

CONSOLIDATED FINANCIAL STATEMENTS | Notes to the Consolidated Financial Statements (cont.)

(unaudited) (millions of dollars)

5 – Carrying Values of Financial Assets and Financial Liabilities by Category (cont.)

As at October 31, 2007

	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
FINANCIAL ASSETS							
Cash	283	–	–	–	–	–	–
Deposits with financial institutions	–	–	836	2,209	–	–	–
Securities							
Available for sale	–	–	8,442	–	–	–	–
Held for trading	30,828	–	–	–	–	–	–
Securities purchased under reverse repurchase agreements	–	–	–	5,966	–	–	–
Loans	–	–	–	47,960	–	–	–
Other							
Customers' liability under acceptances	–	–	–	4,085	–	–	–
Fair value of derivative financial instruments	4,702	–	–	–	–	2	179
Due from clients, dealers and brokers	–	–	–	4,313	–	–	–
Other assets	–	–	–	419	–	–	–
Total financial assets	35,813	–	9,278	64,952	–	2	179
FINANCIAL LIABILITIES							
Deposits							
Personal	–	–	–	–	30,215	–	–
Business and government	–	297	–	–	33,500	–	–
Deposit-taking institutions	–	–	–	–	6,561	–	–
Deposit from NBC Capital Trust	–	–	–	–	225	–	–
Other							
Acceptances	–	–	–	–	4,085	–	–
Obligations related to securities sold short	16,223	–	–	–	–	–	–
Securities sold under repurchase agreements	–	–	–	–	2,070	–	–
Fair value of derivative financial instruments	3,314	–	–	–	–	85	216
Due to clients, dealers and brokers	–	–	–	–	4,341	–	–
Other liabilities	–	–	–	–	3,200	–	–
Subordinated debentures	–	–	–	–	1,605	–	–
Total financial liabilities	19,537	297	–	–	85,802	85	216

CONSOLIDATED FINANCIAL STATEMENTS | Notes to the Consolidated Financial Statements (cont.)

(unaudited) (millions of dollars)

6 – 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.

TOTAL INCOME FROM TRADING ACTIVITIES

	Quarter ended			Fiscal year ended	
	October 31, 2008	July 31, 2008	October 31, 2007	October 31, 2008	October 31, 2007
Net interest income	220	98	(6)	447	(148)
Other income	(228)	(20)	99	(329)	510
Non-controlling interest	121	29	(30)	198	(46)
Total	113	107	63	316	316

7 – Available for Sale Financial Assets

As at October 31, 2008

	Cost or unamortized cost	Gross unrealized gains	Gross unrealized losses	Carrying value
Securities issued or guaranteed by:				
Canada	7,014	29	(3)	7,040
Provinces	1,857	4	(21)	1,840
Municipalities or school boards	2	–	–	2
U.S. Treasury and other U.S. agencies	100	–	–	100
Other debt securities	2,494	5	(56)	2,443
Equity securities	1,024	3	(130)	897
Total available for sale securities	12,491	41	(210)	12,322

Reclassification of securities to the financial assets available for sale category

On August 1, 2008, the Bank reclassified \$119 million of held for trading securities to available for sale financial assets. For more details, see Note 8.

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 October 31, 2008, the Bank concluded that the gross unrealized losses, recognized in *Other comprehensive income*, were temporary.

Impairment charges

During the quarter ended October 31, 2008, the Bank recognized other-than-temporary impairments in the amount of \$200 million (\$220 million for the fiscal year ended October 31, 2008) in *Gains (losses) on available for sales securities* in the Consolidated Statement of Income.

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 October 31, 2008, these available for sale securities presented at cost in the Consolidated Balance Sheet totalled \$340 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 \$15 million including the impact of hedges on these securities as at October 31, 2008.

CONSOLIDATED FINANCIAL STATEMENTS | Notes to the Consolidated Financial Statements (cont.)*(unaudited) (millions of dollars)***8 – 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 (the “Committee”) for Third-Party Structured Asset-Backed Commercial Paper (ABCP) approved an agreement in principle to restructure the affected series of ABCP issued by 20 trusts. On March 17, 2008, the Committee announced that it had filed an application with the Superior Court of Justice of Ontario under the *Companies’ Creditors Arrangement Act* asking the court to call a meeting of ABCP noteholders to vote on the Committee’s restructuring plan. The restructuring plan was approved by approximately 96% of the noteholders on April 25, 2008 and, on June 5, 2008, the Superior Court of Justice of Ontario sanctioned the restructuring plan (the “Plan”) proposed by the Committee for third-party structured ABCP.

On June 18, 2008, a number of corporate noteholders submitted an application to the Ontario Court of Appeal to challenge the Superior Court of Justice of Ontario decision that sanctioned the Committee’s Plan to restructure \$32 billion of third-party ABCP. The Committee asked the Court of Appeal to dismiss the proceedings and to leave in place approval of the Plan that the majority of affected noteholders voted in favour of in April 2008. On August 18, 2008, the Ontario Court of Appeal dismissed the proceedings. The decision of the Ontario Court of Appeal could be appealed to the Supreme Court of Canada upon the granting of leave to appeal. However, the *Companies’ Creditors Arrangement Act* states that no appeal to the Supreme Court of Canada shall operate as a stay of proceedings unless ordered by the Supreme Court of Canada.

In September 2008, Canadian corporate investors owning asset-backed commercial paper asked the Supreme Court of Canada to hear their objections to the Plan that would restructure the affected series of ABCP. On September 19, 2008, the Supreme Court of Canada decided not to hear an appeal of the Ontario Court of Appeal’s ruling in this matter. On that date, the Committee announced that it was commencing the final steps to implement the Plan to restructure the ABCP.

On November 25, 2008, the Pan-Canadian Investors Committee for Third-Party Structured ABCP announced that it will not complete the proposed restructuring of the third-party ABCP market in Canada by the end of November. The delay is principally due to the complexity of the restructuring, the large number of participants involved in the process and current market conditions. Despite this delay, the Investors Committee has made significant progress over the course of the past several weeks toward settling issues and completing the required documentation to implement the restructuring.

On August 1, 2008, the Bank reclassified \$119 million of ABCP that had been classified in *Held for trading securities* to *Available for sale securities* on the Consolidated Balance Sheet. The reclassification was made in light of the fact that market activities for third-party ABCP had been frozen since August 2007, which is a rare event. This reclassification had no impact on the Consolidated Statement of Income of the fourth quarter. Furthermore, during the period when the ABCP was classified in the trading book, the impact on trading revenues was not significant for the fiscal year. As at October 31, 2008, the fair value of that ABCP was \$107 million.

As at October 31, 2008, the carrying value before impairment charges of the ABCP held by the Bank was \$2,198 million, a decrease since October 31, 2007 due to sales of ABCP excluded from the Plan. The underlying assets as part of the proposed restructuring plan are estimated as follows:

Type of underlying assets	Carrying value before impairment charges
Synthetic assets or hybrid assets	
Class A-1	737
Class A-2	666
Class B	114
Class C	47
Total synthetic assets or hybrid assets	1,564
Traditional assets ⁽¹⁾	184
Ineligible assets	296
ABCP not included in the Pan-Canadian restructuring plan	154
Total underlying assets⁽²⁾	2,198

(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.

CONSOLIDATED FINANCIAL STATEMENTS | Notes to the Consolidated Financial Statements (cont.)*(unaudited) (millions of dollars)***8 – Asset-Backed Commercial Paper (cont.)***Establishing fair value*

To determine the value of the ABCP it holds, the Bank has established a range of estimated fair value. The carrying value of the ABCP held by the Bank as at October 31, 2008 was \$1,529 million classified in *Available for sale securities*. An impairment charge of \$152 million was recorded in the fourth quarter in *Gains (losses) on available for sale securities* in the Consolidated Statement of Income. This charge includes an impairment of \$125 million which is mostly due to the widening of credit spreads given the deterioration of global markets as well as a charge for a trust that is not included in the Pan-Canadian restructuring plan. For fiscal year 2008, total impairment charges was \$164 million (2007: \$575 million).

In establishing fair value for ABCP that is part of the Plan and excluding ineligible assets, the Bank considered the quality of the underlying assets and the probability of achieving a successful restructuring. In the event of a successful restructuring, the Bank determined the fair value using a discounted cash flow analysis. The discount rate is 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. In previous quarters, the discount rate was solely based on the CDX.IG index, and during the fourth quarter, the Bank changed its methodology to better reflect the fair value of ABCP. Credit ratings, coupons and maturities are based on the anticipated terms of the restructuring plan. The probability of a successful restructuring is established at 95% (90% in previous quarters). The increase of 5% in the probability of a successful restructuring is due to the announcement of the Committee that it was commencing its final steps to implement its plan following the decision by the Supreme Court of Canada to deny leave to appeal by a small group of corporate investors on September 19, 2008.

For the probability assigned to an unsuccessful restructuring, the fair value of each class of assets held by the trusts is based on an analysis of the trusts' underlying assets and 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. This methodology was also used for ABCP supported by ineligible assets. On October 31, 2007, this methodology was used for all the ABCP held by the Bank.

The Bank's valuation was based on its assessment of the conditions prevailing as at October 31, 2008, which may change in subsequent periods. The most important assumptions to determine the fair value of the notes are the probability of success of the restructuring, observable discount rates and expected credit ratings of the restructured notes. The sensitivities of these assumptions on the fair value as at October 31, 2008 are as follows:

- Assuming a 5% variation in the probability of a successful restructuring would result in a decrease or increase of \$35 million in the fair value;
- A change of 10 basis points in the discount rate would be a \$10 million decrease or increase in the fair value; and
- A decrease in the expected credit rating of one letter grade would result in a decrease in the fair value between a range of \$80 million to \$100 million.

Determining the fair value of ABCP is complex and involves an extensive process that includes the use of quantitative modeling 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, (3) the outcome of the restructuring plan and (4) 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 it held that were included in the Plan. Once the ABCP restructuring plan is finalized, interest income will be recorded in *Interest income* in the Consolidated Statement of Income when received.

Credit facilities

When the restructuring will be completed, the Bank will offer to its clients holding third-party ABCP credit facilities for their liquidity needs until the maturity of the new notes. The credit facilities related to notes backed by ineligible assets will generally represent 75% of the nominal value of the notes and will be guaranteed by the notes which could represent up to \$248 million in credit facilities. For loans related to other notes included in the restructuring plan, the credit facilities will generally represent 75% of the nominal value of the notes of which 45% will be guaranteed by the notes and the remaining 30% will be full recourse to the borrower. This offer could represent up to \$828 million in credit facilities.

The Bank has also provided credit facilities to borrowers for their liquidity needs until the outcome of the restructuring plan. As at October 31, 2008, the outstanding credit facilities represented \$233 million with recourse to the borrower. During the third quarter of 2008, the Bank recorded a general provision of \$23 million regarding the portion of the loans related to notes backed by ineligible assets. When new loans will be granted, there is a risk that the loss will be in excess of the amount recorded as at October 31, 2008.

CONSOLIDATED FINANCIAL STATEMENTS | Notes to the Consolidated Financial Statements (cont.)*(unaudited) (millions of dollars)***9 – Transfers of Receivables****NEW SECURITIZATION ACTIVITIES***Insured mortgage loans and credit card receivables*

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

Under a 1998 agreement, the Bank also sells credit card receivables on a revolving basis to a trust.

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	October 31, 2008	July 31, 2008	October 31, 2007
	Insured mortgage loans	Insured mortgage loans	Insured mortgage loans
Net cash proceeds	646	797	968
Retained rights to future excess interest	29	31	22
Retained servicing liability	(3)	(4)	(5)
	672	824	985
Receivables securitized and sold	648	802 ⁽¹⁾	980 ⁽²⁾
Gain before income taxes, net of transaction fees	24	22	5
Mortgage-backed securities created and retained included in <i>Securities available for sale</i>	164	45	74

(1) Includes \$272 million of receivables securitized during the first quarter of 2008 and previous fiscal years

(2) Includes \$45 million of receivables securitized during the third quarter of 2007 and previous fiscal years

Securitization activities for the fiscal year ended	October 31, 2008		October 31, 2007
	Insured mortgage loans	Credit card receivables	Insured mortgage loans
Net cash proceeds	3,339	398 ⁽¹⁾	2,770
Asset-backed securities purchased ⁽²⁾	–	23	–
Retained rights to future excess interest	118	13	72
Retained servicing liability	(18)	(3)	(15)
	3,439	431	2,827
Receivables securitized and sold	3,352 ⁽³⁾	423	2,803 ⁽⁴⁾
Gain before income taxes, net of transaction fees	87	8	24
Mortgage-backed securities created and retained included in <i>Securities available for sale</i>	635	–	74

(1) The net cash proceeds received is equal to the gross proceeds of \$423 million, less the \$23 million used to purchase the securities issued by the Trust and the transaction fees.

(2) These securities are presented under *Securities available for sale* in the Consolidated Balance Sheet.

(3) Includes \$541 million of receivables securitized in previous fiscal years

(4) Includes \$38 million of receivables securitized in previous fiscal years

CONSOLIDATED FINANCIAL STATEMENTS | Notes to the Consolidated Financial Statements (cont.)

(unaudited) (millions of dollars)

9 – Transfers of Receivables (cont.)**IMPACT OF SECURITIZATION ACTIVITIES ON CERTAIN ITEMS IN THE CONSOLIDATED STATEMENT OF INCOME**

Securitization revenues for the quarter ended October 31

	Gains on sale of assets		Servicing revenues		Other		Total	
	2008	2007	2008	2007	2008	2007	2008	2007
Insured mortgage loans	24	5	5	3	–	–	29	8
Credit card receivables ⁽¹⁾	26	24	6	6	1	6	33	36
Total	50	29	11	9	1	6	62	44

Securitization revenues for the fiscal year ended October 31

	Gains on sale of assets		Servicing revenues		Other		Total	
	2008	2007	2008	2007	2008	2007	2008	2007
Mortgage loans								
insured	87	24	19	15	–	–	106	39
other ⁽²⁾	–	–	–	–	–	1	–	1
Credit card receivables ⁽³⁾	94	89	23	20	3	30	120	139
Total	181	113	42	35	3	31	226	179

⁽¹⁾ Revolving securitization transactions⁽²⁾ During fiscal 2000, the Bank sold uninsured mortgage loans on properties with five or more housing units to a trust. The Bank terminated this program in July 2007.⁽³⁾ Revolving securitization transactions and new securitization activities**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 October 31, 2008 were as follows:

	Insured mortgage loans		Credit card receivables
	Variable rate	Fixed rate	
Weighted average term (months)	16.1	28.7	–
Payment rate (per month)	–	–	26.6%
Prepayment rate	20.0%	17.0%	–
Excess spread, net of credit losses	1.2%	2.1%	10.8%
Expected credit losses	–	–	4.0%
Discount rate	3.2%	3.1%	17.0%

10 – Financial Assets Transferred but Not Derecognized

As part of its operations, the Bank concludes transactions in which it transfers financial assets to a third party but which are presented in the Consolidated Balance Sheet because they do not meet the criteria for derecognition.

The carrying values of these transferred financial assets are presented in the table below:

As at October 31	2008	2007
Securities sold under repurchase agreements	7,243	1,921
Loaned securities	4,348	4,103

CONSOLIDATED FINANCIAL STATEMENTS | Notes to the Consolidated Financial Statements (cont.)*(unaudited) (millions of dollars)***11 – Designated as Held for Trading Financial Instruments**

During the quarter ended October 31, 2008, the Bank designated as held for trading securities that were purchased to hedge certain derivative financial instruments. If these securities had not been designated under the fair value option, they would have been recorded at fair value as available for sale securities and the change in fair value would have been recognized in *Other comprehensive income*.

The Bank adopted this option in accordance with its risk management strategy, under which it manages the securities and derivative financial instruments involved together using the fair value basis and thereby considerably reduces financial risks.

The fair value of these securities totalled \$1.7 billion as at October 31, 2008. The change in fair value of \$8 million was recorded as a gain in *Trading revenues (losses)* in the Consolidated Statement of Income.

Certain deposits with one or more embedded derivatives are designated as held for trading. These deposits are included under liabilities in *Deposits* in the Consolidated Balance Sheet.

The fair value of these deposits totalled \$567 million as at October 31, 2008. The \$36 million change in fair value for the quarter was recorded as a gain in *Trading revenues (losses)* in the Consolidated Statement of Income (\$85 million for the fiscal year ended October 31, 2008). The change in fair value for the quarter attributable to credit risk is a \$12 million unrealized gain (\$10 million for the fiscal year ended October 31, 2008).

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 October 31, 2008.

12 – Subordinated Debentures

On May 1, 2008, the Bank issued \$500 million of subordinated debentures that mature in 2018. Interest at the annual rate of 5.55% is payable semi-annually on the 15th day of May and November of each year until November 15, 2013.

CONSOLIDATED FINANCIAL STATEMENTS | Notes to the Consolidated Financial Statements (cont.)*(unaudited) (millions of dollars)***13 – Non-Controlling Interest**

	Denominated in foreign currency	October 31, 2008	October 31, 2007
400,000 NBC CapS II – Series 1 issued by NBC Asset Trust ⁽¹⁾		400	–
350,000 NBC CapS II – Series 2 issued by NBC Asset Trust ⁽²⁾		350	–
300,000 preferred shares, Series A, exchangeable, non-cumulative dividends, issued by NB Capital Corporation ⁽³⁾	US 300	–	284
Mutual funds consolidated in accordance with AcG-15		51	26
Other entities consolidated in accordance with AcG-15		1,210	630
Other		18	20
Total		2,029	960

(1) On January 22, 2008, the Bank issued 400,000 non-voting transferable trust units called Trust Capital Securities – Series 1 or “NBC CapS II – Series 1” through its subsidiary NBC Asset Trust (the “Trust”), a closed-end trust established under the laws of Ontario. These securities are not redeemable or exchangeable for Bank preferred shares at the option of the holder. The \$400 million in gross proceeds from the investment was used by the Trust to finance the acquisition of mortgage co-ownership interests from the Bank.

The non-cumulative fixed cash distribution per NBC CapS II – Series 1 paid on June 30, 2008 is \$31.715. Subsequent distributions will be \$36.175 (representing a per annum yield of 7.235% of the \$1,000 initial issue price) to be paid by the Trust semi-annually from December 31, 2008 to June 30, 2018, inclusive. Each distribution made after June 30, 2018 will be determined by multiplying \$1,000 by one-half of the sum of the applicable bankers’ acceptance rate in effect plus 3.79%. No cash distributions will be payable by the Trust on NBC CapS II – Series 1 if the Bank fails to declare regular dividends on its preferred shares or, if no preferred shares are then outstanding, on its outstanding common shares. In this case, the net distributable funds of the Trust will be paid to the Bank as the sole holder of the special trust securities, representing the residual interest in the Trust. Should the Trust fail to pay the semi-annual distributions in full on the NBC CapS II – Series 1, the Bank will withhold from declaring dividends on any of its preferred and common shares during a determined period.

On or after June 30, 2013, or prior to that date upon the occurrence of a predetermined regulatory event or tax event, the Trust may, at its option, redeem the NBC CapS II – Series 1 in whole without the consent of the holders, with prior written notice and with Superintendent approval.

On or after January 22, 2013, the Trust may, with Superintendent approval, purchase the NBC CapS II – Series 1, in whole or in part, in the open market or by tender or private contract at any price. The NBC CapS II – Series 1 purchased by the Trust will be cancelled and will not be reissued.

Each NBC CapS II – Series 1 will be exchanged automatically, without the consent of the holders, for 40 First Preferred Shares, Series 19 of the Bank upon the occurrence of one of the following events: i) proceedings are commenced for the winding-up of the Bank; ii) the Superintendent takes control of the Bank; iii) the Bank posts a Tier 1 capital ratio of less than 5% or a total capital ratio of less than 8%; or iv) the Superintendent has directed the Bank to increase its capital or to provide additional liquidity and the Bank elects to cause such automatic exchange or the Bank does not comply with such direction to the satisfaction of the Superintendent. The First Preferred Shares, Series 19 of the Bank will pay semi-annual, non-cumulative cash dividends and will be redeemable at the Bank’s option, with Superintendent approval, as of June 30, 2013, but will not be redeemable at the option of the holders. Upon an automatic exchange, the Bank will hold all capital securities outstanding of the Trust.

For regulatory capital purposes, the NBC CapS II – Series 1 in the amount of \$400 million qualify as innovative instruments and are eligible as Tier 1 capital. According to the guidelines of the Superintendent, innovative instruments may consist of a portion representing up to 15% of net Tier 1 capital and an additional portion of 5% eligible as Tier 2B capital.

(2) On June 30, 2008, the Bank issued 350,000 non-voting transferable trust units called Trust Capital Securities – Series 2 or “NBC CapS II – Series 2” through its subsidiary NBC Asset Trust (the “Trust”), a closed-end trust established under the laws of Ontario. These securities are not redeemable or exchangeable for Bank preferred shares at the option of the holder. The \$350 million in gross proceeds from the investment was used by the Trust to finance the acquisition of mortgage co-ownership interests from the Bank.

The non-cumulative fixed cash distribution per NBC CapS II – Series 2 will be \$37.235 (representing a per annum yield of 7.447% of the \$1,000 initial issue price) to be paid by the Trust semi-annually from December 31, 2008 to June 30, 2020, inclusive. Each distribution made after June 30, 2020 will be determined by multiplying \$1,000 by one-half of the sum of the applicable bankers’ acceptance rate in effect plus 4.09%. No cash distributions will be payable by the Trust on NBC CapS II – Series 2 if the Bank fails to declare regular dividends on its preferred shares or, if no preferred shares are then outstanding, on its outstanding common shares. In this case, the net distributable funds of the Trust will be paid to the Bank as the sole holder of the special trust securities, representing the residual interest in the Trust. Should the Trust fail to pay the semi-annual distributions in full on the NBC CapS II – Series 2, the Bank will withhold from declaring dividends on any of its preferred and common shares during a determined period.

On or after July 31, 2013, or prior to that date upon the occurrence of a predetermined regulatory event or tax event, the Trust may, at its option, redeem the NBC CapS II – Series 2 in whole without the consent of the holders, with prior written notice and with Superintendent approval.

On or after June 30, 2013, the Trust may, with Superintendent approval, purchase the NBC CapS II – Series 2, in whole or in part, in the open market or by tender or private contract at any price. The NBC CapS II – Series 2 purchased by the Trust will be cancelled and will not be reissued.

Each NBC CapS II – Series 2 will be exchanged automatically, without the consent of the holders, for 40 First Preferred Shares, Series 23 of the Bank upon the occurrence of one of the following events: i) proceedings are commenced for the winding-up of the Bank; ii) the Superintendent takes control of the Bank; iii) the Bank posts a Tier 1 capital ratio of less than 5% or a total capital ratio of less than 8%; or iv) the Superintendent has directed the Bank to increase its capital or to provide additional liquidity and the Bank elects to cause such automatic exchange or the Bank does not comply with such direction to the satisfaction of the Superintendent. The First Preferred Shares, Series 23 of the Bank will pay semi-annual, non-cumulative cash dividends and will be redeemable at the Bank’s option, with Superintendent approval, as of July 31, 2013, but will not be redeemable at the option of the holders. Upon an automatic exchange, the Bank will hold all capital securities outstanding of the Trust.

For regulatory capital purposes, the NBC CapS II – Series 2 in the amount of \$350 million qualify as innovative instruments and are eligible as Tier 1 capital. According to the guidelines of the Superintendent, innovative instruments may consist of a portion representing up to 15% of net Tier 1 capital and an additional portion of 5% eligible as Tier 2B capital.

(3) On September 30, 2008, NB Capital Corporation, a subsidiary of the Bank, repurchased for cancellation all 300,000 Series A preferred shares. These shares, issued at US \$300 million, were repurchased at a price of US \$311 million. The premium of US \$11 million (CDN \$12 million) was recognized in Goodwill.

CONSOLIDATED FINANCIAL STATEMENTS | Notes to the Consolidated Financial Statements (cont.)*(unaudited) (millions of dollars)***14 – Capital Stock****Shares outstanding and dividends declared as at October 31, 2008**

	Number of shares	Shares \$	Dividends \$	Dividends per share
First Preferred Shares				
Series 15	8,000,000	200	12	1.4625
Series 16	8,000,000	200	10	1.2125
Series 20	6,900,000	173	6	0.8692
Series 21	8,050,000	201	4	0.5596
	30,950,000	774	32	
Common shares	159,447,203	1,656	394	2.4800
		2,430	426	

ISSUANCE OF PREFERRED SHARES

On June 17, 2008, the Bank issued 7,000,000 first preferred shares Series 21, with non-cumulative preferential dividends at a quarterly amount of \$0.336 per share, for a consideration of \$171 million, net of fees of \$4 million. The first dividends will be payable on November 15, 2008 and will be \$0.55959 per share. Furthermore, the Bank granted the underwriters an over-allotment option to purchase up to an additional 1,050,000 shares at the exercise price of \$25.00 at any time in the 30 days following the closing date. The underwriters exercised this option by purchasing 1,050,000 preferred shares, Series 21. The Bank received a consideration of \$25 million, net of fees of \$1 million.

On April 16, 2008, the Bank issued 6,000,000 first preferred shares Series 20, with non-cumulative preferential dividends at a quarterly amount of \$0.375 per share, for a consideration of \$146 million, net of fees of \$4 million. Furthermore, the Bank granted the underwriters an over-allotment option to purchase up to an additional 900,000 shares at the exercise price of \$25.00 at any time in the 30 days following the closing date. The underwriters exercised this option by purchasing 900,000 preferred shares, Series 20. The Bank received a consideration of \$22 million, net of fees of \$1 million.

ISSUANCE OF COMMON SHARES

As part of the acquisitions of Bieber Securities Inc., concluded on June 2, 2008, and Groupe Option Retraite Inc., concluded on September 18, 2008, the Bank issued 452,650 common shares valued at \$24 million. Of that number, 291,948 common shares were placed in escrow in the name of the vendors and will be paid conditional on assets under management being maintained at a certain level. The Bank expects that the conditions will be met, and that the shares held in escrow will be released over the next three fiscal years.

REPURCHASE OF COMMON SHARES

On February 1, 2008, the Bank commenced a normal course issuer bid for the repurchase and cancellation of up to 4,700,000 common shares over a 12-month period ending no later than January 30, 2009. Repurchases will be made on the open market at market prices through the facilities of the Toronto Stock Exchange.

On February 1, 2007, the Bank had filed a normal course issuer bid for the repurchase and cancellation of up to 8,102,000 common shares over a 12-month period ended January 31, 2008. On January 23, 2006, the Bank had filed a normal course issuer bid for the repurchase and cancellation of up to 8,278,000 common shares over a 12-month period ending no later than January 22, 2007. Repurchases were made on the open market at market prices through the facilities of the Toronto Stock Exchange. Premiums paid above the average book value of the common shares were charged to *Retained earnings*.

During the fiscal year ended October 31, 2008, the Bank did not repurchase any common shares. During the fiscal year ended October 31, 2007, the Bank had repurchased 5,006,600 common shares at a cost of \$315 million, which had reduced common share capital by \$49 million and retained earnings by \$266 million.

CONSOLIDATED FINANCIAL STATEMENTS | Notes to the Consolidated Financial Statements (cont.)*(unaudited) (millions of dollars)***15 – Pension Benefits and Other Employee Future Benefits**

	Quarter ended			Fiscal year ended	
	October 31, 2008	July 31, 2008	October 31, 2007	October 31, 2008	October 31, 2007
Pension benefit expense	9	9	16	37	61
Other employee future benefit expense	2	3	3	10	11

16 – Stock-Based Compensation**STOCK OPTION PLAN**

During the fiscal year ended October 31, 2008, the Bank awarded 2,260,036 stock options (2007: 1,493,504) with a fair value of \$9.21 per option (2007: \$11.32).

As at October 31, 2008, a total of 6,711,730 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:

Fiscal year ended	October 31, 2008	October 31, 2007
Risk-free interest rate	4.40%	4.05%
Expected life of the options	6 years	5 years
Expected volatility	25.3%	22.5%
Expected dividend yield	4.6%	3.3%

	Quarter ended			Fiscal year ended	
	October 31, 2008	July 31, 2008	October 31, 2007	October 31, 2008	October 31, 2007
Compensation expense recorded for the stock options	3	3	2	11	16

CONSOLIDATED FINANCIAL STATEMENTS | Notes to the Consolidated Financial Statements (cont.)

(unaudited) (millions of dollars)

17 – 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. During the fourth quarter, the Bank began the restructuring process by streamlining personnel. The Bank expects to complete the restructuring during fiscal 2009.

As at October 31, 2008, the Bank recorded restructuring charges in the amount of \$66 million in the Consolidated Statement of Income. The charges consist of severance pay and fees paid to a professional services firm that was retained to provide strategic and organizational advice concerning measures related to the restructuring. These restructuring charges are presented in the *Other* heading.

In 2007, a \$7 million restructuring charge stemming from the announcement of the gradual consolidation of Altamira's activities with those of the Bank was recognized in the Consolidated Statement of Income of *Wealth Management* segment.

				2008	2007
	Severance pay	Premises-related charges	Other charges	Total	Total
Balance at the beginning of the year	4	3	–	7	–
Restructuring charges	49	–	17	66	7
Payments made during the year	(2)	(3)	(7)	(12)	–
Balance at the end of the year	51	–	10	61	7

18 – 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			Fiscal year ended	
	October 31, 2008	July 31, 2008	October 31, 2007	October 31, 2008	October 31, 2007
Basic earnings (loss) per common share					
Net income (loss)	70	286	(175)	776	541
Dividends on preferred shares	11	10	5	32	21
Net income (loss) available to common shareholders	59	276	(180)	744	520
Weighted average basic number of common shares outstanding (thousands)	159,382	158,890	157,790	158,663	159,811
Basic earnings (loss) per common share	\$ 0.37	\$ 1.73	\$ (1.14)	\$ 4.69	\$ 3.25
Diluted earnings (loss) per common share					
Net income (loss) available to common shareholders	59	276	(180)	744	520
Weighted average basic number of common shares outstanding (thousands)	159,382	158,890	157,790	158,663	159,811
Adjustment to average number of common shares (thousands)					
Stock options ⁽¹⁾	436	583	–	592	1,379
Weighted average diluted number of common shares outstanding (thousands)	159,818	159,473	157,790	159,255	161,190
Diluted earnings (loss) per common share	\$ 0.37	\$ 1.73	\$ (1.14)	\$ 4.67	\$ 3.22

(1) For the quarter ended October 31, 2008, the calculation of the diluted earnings per share excludes 4,287,440 average options outstanding with a weighted average exercise price of \$58.88 (4,309,528 average options outstanding with a weighted average exercise price of \$58.89 for the quarter ended July 31, 2008 and 2,300,750 average options outstanding with a weighted average exercise price of \$64.21 for the quarter ended October 31, 2007) as the exercise price of these options was greater than the average price of the Bank's common shares. For the fiscal year ended October 31, 2008, the calculation of the diluted earnings per share excluded 4,070,876 average options outstanding with a weighted average exercise price of \$59.27 (1,498,564 average options outstanding with a weighted average exercise price of \$65.25 for the fiscal year ended October 31, 2007) as the exercise price of these options was greater than the average price of the Bank's common shares.

CONSOLIDATED FINANCIAL STATEMENTS | Notes to the Consolidated Financial Statements (cont.)*(unaudited) (millions of dollars)***19 – Collateral Management****PLEGDED ASSETS**

In the normal course of business, the Bank pledges securities and other assets as collateral for various liabilities it contracts. A breakdown of assets pledged as collateral is provided in the following table. These transactions were concluded under standard terms and conditions for such transactions.

	October 31, 2008	October 31, 2007
Assets pledged to		
Bank of Canada	25	–
Direct clearing organizations	2,785	5,548
Assets pledged in relation to		
Derivative financial transactions	517	948
Borrowing, securities lending and securities sold under repurchase agreements	22,089	17,227
Other	137	71
Total	25,553	23,794

FINANCIAL ASSETS RECEIVED AS COLLATERAL

As at October 31, 2008, the fair value of financial assets received as collateral that the Bank was authorized to sell or repledge totalled \$26 billion (October 31, 2007: \$27 billion).

These financial assets received as collateral were obtained as a result of transactions involving securities purchased under reverse repurchase, borrowing and securities lending agreements and derivative financial instrument transactions.

These transactions were concluded in accordance with standard terms and conditions for such transactions.

20 – Litigation

In the normal course of business, the Bank is a party to 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 a party 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 its clients. These complaints, demand letters and legal claim are captured by a release included in the restructuring plan for the ABCP market. This restructuring plan has been approved by the courts. The Pan-Canadian Investors Committee for ABCP announced on November 25, 2008 that the restructuring plan would not be completed by the end of November 2008 due principally to the complexity of the plan, the large number of participants involved in the process and current market conditions and that it remains focus on completing the restructuring plan as soon as possible.

CONSOLIDATED FINANCIAL STATEMENTS | Notes to the Consolidated Financial Statements (cont.)

(unaudited) (millions of dollars)

21 – Segment Disclosures

Quarter ended October 31	Personal and Commercial		Wealth Management		Financial Markets		Other		Total	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Net interest income ⁽¹⁾	354	345	45	33	316	30	(92)	(111)	623	297
Other income ⁽¹⁾	212	205	173	180	(181)	258	(62)	(541)	142	102
Total revenues	566	550	218	213	135	288	(154)	(652)	765	399
Operating expenses	343	342	150	166	151	165	126	(36)	770	637
Contribution	223	208	68	47	(16)	123	(280)	(616)	(5)	(238)
Provision for credit losses	44	40	–	–	4	–	1	(11)	49	29
Income (loss) before income taxes (recovery) and non-controlling interest	179	168	68	47	(20)	123	(281)	(605)	(54)	(267)
Income taxes (recovery) ⁽¹⁾	60	54	21	17	29	26	(133)	(220)	(23)	(123)
Non-controlling interest	–	–	–	1	(119)	26	18	4	(101)	31
Net income (loss)	119	114	47	29	70	71	(166)	(389)	70	(175)
Average assets	53,914	50,288	668	676	89,456	88,068	(11,115)	(13,645)	132,923	125,387

Fiscal year ended October 31	Personal and Commercial		Wealth Management		Financial Markets		Other		Total	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Net interest income ⁽²⁾	1,390	1,369	151	129	706	(29)	(383)	(342)	1,864	1,127
Other income ⁽²⁾	818	797	713	766	283	1,232	(41)	(505)	1,773	2,290
Total revenues	2,208	2,166	864	895	989	1,203	(424)	(847)	3,637	3,417
Operating expenses	1,293	1,305	614	649	635	673	153	(1)	2,695	2,626
Contribution	915	861	250	246	354	530	(577)	(846)	942	791
Provision for credit losses	179	151	–	–	2	–	(37)	(48)	144	103
Income (loss) before income taxes (recovery) and non-controlling interest	736	710	250	246	352	530	(540)	(798)	798	688
Income taxes (recovery) ⁽²⁾	247	237	76	81	164	151	(320)	(390)	167	79
Non-controlling interest	–	–	3	5	(196)	45	48	18	(145)	68
Net income (loss)	489	473	171	160	384	334	(268)	(426)	776	541
Average assets	52,450	48,874	693	662	87,207	88,854	(12,021)	(12,426)	128,329	125,964

Personal and Commercial

The Personal and Commercial segment comprises the branch network, intermediary services, 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 \$30 million (2007: \$39 million) and other income by \$32 million (2007: \$16 million). An equivalent amount was added to income taxes (recovery). The impact of these adjustments is reversed under the Other heading.

(2) For the fiscal year ended October 31, 2008, net interest income was grossed up by \$126 million (2007: \$127 million) and other income by \$82 million (2007: \$78 million). An equivalent amount was added to income taxes (recovery). The impact of these increases is reversed under the Other heading.

CONSOLIDATED FINANCIAL STATEMENTS | Notes to the Consolidated Financial Statements (cont.)*(unaudited) (millions of dollars)***22 – Acquisitions and Disposals****Acquisitions**

During the fiscal year ended October 31, 2008, the Bank completed the acquisition of four investment management firms for a total consideration of \$50 million including the direct costs related to these acquisitions. Of this amount, \$24 million is payable in common shares of the Bank. The net assets acquired include client relationship intangible assets in the amount of \$15 million. The total amount by which the purchase price exceeded the fair value of the net assets, i.e., \$34 million, was recorded on the Consolidated Balance Sheet as goodwill. Under the related agreements, additional cash amounts totalling \$6 million could be paid over the five fiscal years following the acquisition provided certain levels of assets under management are reached. If these levels are reached, these additional payments will be added to goodwill.

On August 1, 2007, a wholly owned subsidiary of the Bank acquired an additional 43% interest in a joint venture, Asset Management Finance Corporation (AMF), for a total consideration of US \$60 million (CDN \$64 million), bringing the total interest in AMF to be accounted for in the Bank's consolidated financial statements to 86%. This company invests cash in the form of a revenue share interest, which provides a specific gross rate of return on investment for a specified number of years.

On June 28, 2007, a subsidiary of National Bank Financial (NBF) acquired an additional 12% interest in Credigy for a cash consideration of US \$9 million (CDN \$10 million), thereby increasing NBF's interest in Credigy to 80% as of that date.

Disposals

On August 25, 2008, the Bank, through one of its wholly owned subsidiaries, concluded the sale of a controlling interest in AMF to Crédit Suisse Group AG. As a result of this transaction, the Bank recorded a gain of \$65 million, net of related charges of \$1 million, in the Consolidated Statement of Income. Further to this sale, the Bank's subsidiary will retain an interest of 10.9% in AMF.

On January 3, 2008, the Bank, through one of its wholly owned subsidiaries, finalized the sale of all of its common shares in National Bank of Canada (International) Ltd. to Crédit Agricole (Suisse) SA. As a result of this transaction, the Bank recorded a gain of \$32 million, net of related charges of \$1 million, in the Consolidated Statement of Income. An additional gain of \$3 million will be recorded in the Consolidated Statement of Income, provided a certain level of assets under management is maintained.

23 – Subsequent Event

On November 10, 2008, the Bank, through one of its wholly owned subsidiaries, closed the acquisition of a 12.5% interest in Wellington West Holdings Inc. (Wellington West), an independent wealth management firm, for a total cash consideration of \$37 million including direct costs related to the acquisition. Under the related agreement, additional cash amounts of up to \$35 million could be paid over the three fiscal years following the acquisition provided Wellington West meets certain financial objectives.

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
Website: www.nbc.ca/investorrelations

Public Relations

600 de La Gauchetière West, 10th Floor
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Fax: 514-394-6258

Website: www.nbc.ca
General inquiries: telnat@nbc.ca

Quarterly Report Publication Dates for Fiscal 2009

First quarter: February 26, 2009
Second quarter: May 28, 2009
Third quarter: August 27, 2009
Fourth quarter: December 3, 2009

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.

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.

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
Website: 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).



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