

Report to Shareholders

Third Quarter 2007



National Bank maintains revenue and profitability growth in the third quarter of 2007

- Revenues of \$1,010 million, up 10%
- Net income of \$243 million, up 10%
- Diluted earnings per share of \$1.48, up 14%
- Return on common shareholders' equity increases to 20.6%

MONTREAL, August 30, 2007 – National Bank reported net income of \$243 million in the third quarter of fiscal 2007, an increase of 10% over the same period of 2006. Diluted earnings per share totalled \$1.48, up 14% from \$1.30 in the third quarter of 2006. Had it not been for the gain related to the MasterCard Inc. IPO in the third quarter of 2006, the increase in diluted earnings per share would have been 18%.

Between the third quarter of 2006 and the third quarter of 2007, the Bank's total revenues grew 10% to \$1,010 million. Return on common shareholders' equity stood at 20.6%, an increase of 40 basis points.

"In achieving net income of \$243 million in the last quarter, National Bank proved that it could continue growing its business while conducting an in-depth review of its business strategies in order to maximize the potential of its current growth platform," said Louis Vachon, President and Chief Executive Officer.

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. These measures were taken in the best interest of the Bank and its shareholders as well. As a result of these initiatives, the Bank expects to purchase approximately \$2 billion in ABCP. As of August 24, 2007, the Bank purchased approximately \$1 billion of ABCP from eight National Bank mutual funds, approximately \$90 million from six funds operated by Altamira Investment Services Inc. and approximately \$560 million from pooled funds. The balance is expected to be purchased shortly. The Bank is in contact with other customers who hold ABCP acquired through the Bank or its subsidiaries and is working with them to attempt to resolve their liquidity and other issues in the context of their overall banking relationship. At this time, the Bank can not quantify the financial impact, if any, of these initiatives mainly for two reasons. First, most of such ABCP has been issued by non-bank sponsored conduits which are subject to a restructuring proposal, which is at a very formative stage and the outcome of which could have a material effect on the value of such ABCP. Second, there is insufficient information available about the current value of the assets which underlie the ABCP being purchased and about any other contingent liabilities which may exist. The magnitude of the sums involved and the uncertainties referred to above could give rise to a material charge to the Bank's earnings. The Bank will address this issue when it publishes the fourth quarter results for fiscal 2007.

Highlights

- Growth of 10% in total revenues in the third quarter of 2007 to \$1,010 million, as against \$921 million in the same quarter of 2006.
- Diluted earnings per share of \$1.48, up 14% from the third quarter of 2006, or 18% if the gain related to the MasterCard Inc. IPO is excluded.
- Excellent quality of the loan portfolio maintained.

Personal and Commercial

- Total revenues for Personal and Commercial up 2% in the third quarter of 2007. Business growth was tempered by a decline in the net interest margin from 2.88% in the third quarter of 2006 to 2.78% this quarter. In addition, revenue growth was reduced by the adjustments to the actuarial reserves for insurance operations.
- Generalized growth in retail loan and deposit volumes, with the largest gains coming from consumer loans, at 16%.
- Growth of \$1 million in segment net income to \$122 million, despite the increase in the provision for credit losses due to the higher recovery rate for business loans in the third quarter of 2006.

Wealth Management

- Total revenues for Wealth Management up 9% in the third quarter of 2007 from the year-earlier period of 2006, attributable to the strength of private investment management, mutual funds and retail brokerage activities.
- Increase of 9% in Wealth Management net income, from \$35 million in the third quarter of 2006 to \$38 million in the third quarter of 2007.
- Year-over-year growth of 10% in deposits and off-balance sheet personal savings. Assets totalled \$106.3 billion due to the increase in assets administered by retail brokerage, mutual funds and private investment management.

Financial Markets

- Total revenues for Financial Markets up 28% to \$312 million in the third quarter of 2007 – or 31% to \$320 million, adjusted for non-controlling interest – due to higher financial market fees and trading revenues.
- Growth of 43% in segment net income in the third quarter of 2007 to \$96 million, compared to \$67 million in the corresponding period of 2006.

Financial Information

(unaudited)

(millions of dollars)	For the quarter ended July 31			For the nine months ended July 31		
	2007	2006	%	2007	2006	%
Personal and Commercial	122	121	1	355	331	7
Wealth Management	38	35	9	126	112	13
Financial Markets	96	67	43	278	229	21
Other	(13)	(3)	–	(43)	(21)	–
Net income	243	220	10	716	651	10
Less: gain related to MasterCard Inc. IPO	–	9		–	9	
net gain on sale of shareholder management business	–	–		–	5	
Net income excluding specified items	243	211	15	716	637	12
Diluted earnings per common share	\$1.48	\$1.30	14	\$4.31	\$3.83	13
Less: gain related to MasterCard Inc. IPO	–	0.05		–	0.05	
net gain on sale of shareholder management business	–	–		–	0.03	
Diluted earnings per common share excluding specified items	\$1.48	\$1.25	18	\$4.31	\$3.75	15
Return on common shareholders' equity	20.6%	20.2%		20.6%	20.2%	

2007 Financial Objectives	Objectives	Results	Results
		3rd quarter 2007	Nine months 2007
Growth in diluted earnings per share excluding specified items	5% – 10%	18%	15%
Return on common shareholders' equity	16% – 20%	20.6%	20.6%
Tier 1 capital ratio	More than 8.5%	9.4%	9.4%
Dividend payout ratio	40% – 50%	38%	38%

Caution Regarding Forward-Looking Statements

From time to time, National Bank of Canada makes written and oral forward-looking statements in this Report to Shareholders, in other filings with Canadian regulators or the United States Securities and Exchange Commission, in annual reports, in press releases and in other communications. All 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, market changes, the achievement of strategic objectives, 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. 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 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 2006 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.

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. Like many other institutions, the Bank uses the taxable equivalent basis to calculate net interest income, other income and income taxes. This calculation method consists in grossing up certain tax-exempt income (particularly dividends) by the income tax that would have been otherwise payable. An equivalent amount is added to income taxes. This adjustment is necessary in order to perform a uniform comparison of the return on different assets regardless of their tax treatment. For the quarter ended July 31, 2007, net interest income was grossed up by \$20 million (\$23 million in 2006) and other income was grossed up by \$23 million (\$25 million in 2006) for all operating segments. An equivalent amount was added to income taxes. For the nine months ended July 31, 2007, net interest income was grossed up by \$88 million (\$59 million in 2006) and other income by \$62 million (\$36 million in 2006) for all operating segments. An equivalent amount was added to income taxes.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND OPERATING RESULTS

August 29, 2007 – 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 Regulation 51-102 respecting Continuous Disclosure Obligations of the Canadian Securities Administrators and is based on the unaudited interim consolidated financial statements for the third quarter of 2007 and the nine months ended July 31, 2007. 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 \$243 million in the third quarter of fiscal 2007, up 10% from the \$220 million in net income recorded in the same period one year earlier. In the third quarter of 2007, diluted earnings per share, which stood at \$1.30 in the third quarter of 2006, reached \$1.48, for an increase of 14%. Had it not been for the gain related to last fiscal year's MasterCard Inc. IPO, the increase in diluted earnings per share would have been 18%.

The Bank's net income for the first nine months of fiscal 2007 totalled \$716 million, a rise of 10% from the same period in 2006. Diluted earnings per share amounted to \$4.31, a gain of 13% over the first nine months of fiscal 2006, or 15% excluding specified items.

Return on common shareholders' equity was 20.6% in the third quarter of 2007, as against 20.2% for the year-earlier period. During the first nine months of 2007, it climbed 40 basis points compared to the same period of 2006, to 20.6%.

Total Revenues

The Bank's total revenues grew 10% between the third quarter of 2006 and the third quarter of 2007, to \$1,010 million. On a taxable equivalent basis⁽¹⁾, total revenues amounted to \$1,053 million, up 9%.

Personal and Commercial net interest income advanced \$8 million to \$346 million for the quarter. This growth stemmed from a sustained rise in loan and deposit volumes. However, this rise was accompanied by a decrease in the net interest margin from 2.88% in the third quarter of 2006 to 2.78% in the third quarter of 2007.

Other income in the third quarter totalled \$704 million, as against \$513 million for the same period of 2006. On a taxable equivalent basis⁽¹⁾, other income was \$727 million, versus \$538 million in the third quarter of 2006. Financial market fees increased \$27 million from the corresponding period of 2006 to \$166 million, due to the solid performance of Corporate and Investment Banking and the growth in retail brokerage activities.

Trading revenues, recorded in both net interest income and other income, rose \$24 million in the third quarter of 2007 to \$90 million. Revenues from mutual funds and trust services climbed \$14 million from the third quarter of 2006 to reach \$93 million in the third quarter of 2007, mainly on the strength of growth in mutual fund, private investment management and retail brokerage activities. Aside from these items, the increase in other income in the third quarter was derived from other revenues, which grew \$36 million, and included revenues from the activities of Credigy Ltd. and the \$5M gain on the sale of the U.S. advisory practice.

Lending fees and insurance revenues decreased \$7 million to \$62 million, due to the increase in actuarial reserves for insurance operations, while gains on available for sale securities declined \$17 million, due mainly to the effect of the gain related to last fiscal year's MasterCard Inc. IPO.

Total revenues rose \$188 million during the first nine months of fiscal 2007 to stand at \$3,021 million, as against \$2,833 for the same period in 2006. On a taxable equivalent basis⁽¹⁾, total revenues were \$3,171 million, for an increase of \$243 million, or 8%. Personal and Commercial net interest income climbed \$38 million, or 4%, to \$1,022 million during the first nine months of 2007. Other income for the first nine months of fiscal 2007 totalled \$2,253 million, compared to \$1,881 million for the year-earlier period. Trading revenues rose \$76 million to \$317 million, including the portion recorded to net interest income. Financial market fees grew \$50 million to \$512 million, revenues from trust services and mutual funds \$33 million to \$269 million and other income from \$104 million to \$276 million, including \$70 million of revenues from Credigy Ltd., the \$5 million gain on the sale of the U.S. advisory practice and a \$15 million increase in the share of revenues in Maple Partners. Gains on available for sale securities decreased \$37 million to \$93 million.

Operating Expenses

In the third quarter of 2007, operating expenses were \$675 million, up \$53 million from the year-earlier period. Salaries and staff benefits increased \$39 million to \$393 million, due, in particular, to higher variable compensation. Professional fees increased \$11 million as a result of the integration of the activities of Credigy Ltd. For the first nine months of fiscal 2007, operating expenses rose \$119 million to \$1,992 million. Salaries and staff benefits were up \$71 million to \$1,162 million, mainly owing to the increase in revenue-based compensation. The \$37 million increase in professional fees is explained by, in particular, the integration of Credigy Ltd.

Income Taxes

Income taxes for the third quarter of 2007 totalled \$71 million, representing an effective tax rate of 23%, compared to \$58 million and an effective tax rate of 20% for the year-earlier period. For the first nine months of 2007, income taxes amounted to \$202 million, for an effective tax rate of 21%, as against \$233 million and an effective tax rate of 26% for the corresponding period of 2006. The decrease in the effective tax rate for the first nine months of 2007 was attributable to the larger share of non-controlling interests in revenues and the increase in tax-exempt income from securities.

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

Results by Segment

Personal and Commercial

Personal and Commercial net income was \$122 million in the third quarter of 2007, an increase of \$1 million from the \$121 million in net income earned in the corresponding period of 2006. Total revenues for the segment grew 2% to \$548 million.

Total revenues at Personal Banking advanced \$11 million, due to growth of \$2.5 billion in average assets resulting from the increase in consumer loans and residential mortgages. This growth in average assets was tempered by the narrowing net interest margin on mortgage and credit card loans.

Total revenues at Commercial Banking remained unchanged in the third quarter of 2007, at \$183 million. The growth in business loans and deposits was offset by the narrowing net interest margin.

Personal and Commercial operating expenses amounted to \$331 million in the third quarter of 2007, for a slight increase of \$2 million compared to the year-earlier period. This limited growth was attributable to cost containment and resulted in an improved efficiency ratio, which stood at 60.4% this quarter as against 61.3% for the same period in 2006. The segment's provision for credit losses was \$9 million higher, for a total of \$33 million, due to an improved recovery rate for business loans in the third quarter of 2006.

For the first nine months of fiscal 2007, Personal and Commercial net income totalled \$355 million, up 7% from the \$331 million in net income earned in the same period in 2006. Total revenues for the segment rose 3% to \$1,604 million. Total revenues for Personal Banking grew \$40 million, or 4%. The increase in total revenues for Commercial Banking was \$14 million, or 3%. The efficiency ratio dropped to 59.7% during the first nine months of fiscal 2007 from 62.0% for the year-earlier period.

Wealth Management

Wealth Management net income totalled \$38 million in the third quarter of fiscal 2007, compared to \$35 million in the same quarter in 2006, for an increase of 9%. Segment total revenues climbed \$18 million, or 9%, to \$215 million in the third quarter of 2007. The strength of private investment management and mutual fund activities accounted for more than half of the growth in the segment's revenues and net income; the remainder stemmed from brokerage activities. Operating expenses were up \$13 million, for a total of \$157 million for the quarter, with variable compensation accounting for half of this increase. The efficiency ratio remained virtually unchanged, at 73.0% in the third quarter of 2007 versus 73.1% for the same period one year earlier.

For the first nine months of fiscal 2007, Wealth Management net income was \$126 million, or 13% higher than the \$112 million in net income recorded in the corresponding period of 2006. Total revenues for the segment grew 8% to \$666 million during the first nine months of fiscal 2007. Operating expenses rose 6% to \$474 million.

Financial Markets

The Financial Markets segment recorded net income of \$96 million in the third quarter of 2007, up \$29 million, or 43%, from the corresponding quarter of 2006. Total revenues for the segment rose \$68 million to \$312 million. Adjusted for non-controlling interest, total revenues increased \$76 million to \$320 million. Trading revenues totalled \$87 million in the quarter, up \$21 million from the third quarter of 2006. This growth was accompanied by a \$19 million increase in financial market fees, which totalled \$76 million, while gains on available for sale securities and revenues from banking services remained more or less the same. The increase in the "Other" heading was due to revenues from Credigy Ltd. and the \$5 million gain on the sale of the U.S. advisory practice.

Operating expenses for the quarter rose \$34 million from the year-earlier period to \$179 million, due to the integration of the activities of Credigy Ltd. and variable compensation. The efficiency ratio was 55.9%, as against 59.5% in the third quarter of 2006. The provision for credit losses was nil during the quarter, whereas it was \$1 million in the corresponding period of 2006.

For the first nine months of fiscal 2007, segment net income was \$278 million, a \$49 million, or 21%, increase over the same period in 2006. Total revenues grew 20% to \$945 million, while operating expenses rose 17% to \$517 million.

Financial Market Revenues

(taxable equivalent basis)⁽¹⁾
(millions of dollars)

	Q3 2007	Q3 2006
Trading revenues		
Equity	56	53
Interest rate	21	12
Commodity and foreign exchange	10	1
	87	66
Financial market fees	76	57
Gains on available for sale securities	43	43
Banking services	43	46
Other	71	32
Total⁽²⁾	320	244

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

(2) Adjusted for non-controlling interest

Other

The "Other" heading of the segment results recorded a net loss of \$13 million in the third quarter of 2007, compared to a \$3 million net loss in the corresponding period of 2006. In the third quarter of 2006, the Bank had realized a \$9 million after-tax gain related to the MasterCard Inc. IPO. During the first nine months of fiscal 2007, the net loss was \$43 million, compared to \$21 million for the same period of 2006. The increase in securitization revenues was offset by an increase in operating expenses not allocated to the business units.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND OPERATING RESULTS (cont.)

Comprehensive Income

In the third quarter of 2007, comprehensive income amounted to \$117 million, or \$126 million less than net income for the same period. This was due to the impact of the higher Canadian dollar on foreign operations, the decrease in the fair value of available for sale securities, due to the lower values of securities on the stock market, and an unrealized loss on derivatives designated as cash flow hedges.

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 trading account securities, securities sold short or securities sold under repurchase agreements.

For the third quarter of 2007, cash and cash equivalents were down \$0.3 billion compared to a decrease of \$0.4 billion in the third quarter of 2006. As at July 31, 2007, cash and cash equivalents totalled \$9.4 billion versus \$9.2 billion one year earlier.

Operating activities generated \$3.1 billion in cash flows, owing chiefly to the \$4.1 billion decrease in held for trading securities, offset in part by the \$0.9 billion required by other items. For the third quarter of 2006, operating activities generated cash flows of \$0.5 billion, due to the \$1.1 billion decrease in trading account securities, offset by a change in other items of \$0.6 billion.

Financing activities required \$10.1 billion, due to the \$3.2 billion decrease in securities sold short, the \$2.2 billion decrease in securities sold under repurchase agreements, and the \$4.5 billion decrease in deposits mainly with deposit-taking institutions. For the corresponding period of 2006, financing activities required cash flows of \$2.3 billion, mainly as a result of the decrease in deposits.

Lastly, investing activities generated \$6.8 billion in cash flows in the third quarter of 2007, owing chiefly to the \$4.9 billion decrease in securities purchased under reverse repurchase agreements. For the corresponding period of 2006, investing activities generated \$1.3 billion in cash flows, mainly due to the decrease in securities purchased under reverse repurchase agreements.

Risk Management

Credit Risk

In the third quarter of 2007, the Bank recorded specific provisions for credit losses of \$22 million, up \$6 million from the same period a year earlier due to the higher recovery rate in 2006. As at July 31, 2007, gross impaired loans held steady at \$232 million compared to \$234 million at the end of fiscal 2006. As at July 31, 2007, allowances for credit losses exceeded gross impaired loans by \$198 million versus \$192 million as at October 31, 2006.

Market Risk – Trading Activities

The Value-at-Risk (VaR) simulation model is one of the main tools used to manage market risk in trading activities. VaR is the maximum value of potential daily losses, measured at a 99% confidence level, which means that actual losses are likely to exceed VaR only one day out of 100. The computerized VaR calculation model is based on two years of historical data. Market risk management is discussed in more detail on page 54 of the 2006 Annual Report.

The table below, entitled "Trading Activities," illustrates the allocation of market risk by type of risk: interest rate, foreign exchange, equity and commodity.

Trading Activities⁽¹⁾ (millions of dollars)

Global VaR by risk category	For the quarter ended July 31, 2007			
	Period end	High	Average	Low
Interest rate	(3.0)	(4.8)	(3.1)	(2.1)
Foreign exchange	(3.4)	(3.9)	(2.4)	(1.6)
Equity	(4.3)	(8.0)	(6.0)	(4.3)
Commodity	(2.6)	(3.5)	(2.1)	(1.5)
Correlation effect ⁽²⁾	8.9	12.6	7.4	5.1
Global VaR	(4.4)	(7.6)	(6.2)	(4.4)

Global VaR by risk category	For the quarter ended April 30, 2007			
	Period end	High	Average	Low
Interest rate	(4.8)	(8.0)	(6.2)	(4.2)
Foreign exchange	(2.0)	(3.1)	(2.2)	(1.7)
Equity	(5.3)	(6.5)	(5.4)	(4.6)
Commodity	(2.2)	(2.2)	(1.4)	(1.0)
Correlation effect ⁽²⁾	7.8	10.3	8.0	5.9
Global VaR	(6.5)	(9.5)	(7.2)	(5.6)

(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 risk.

Balance Sheet

As at July 31, 2007, the Bank had assets of \$124.3 billion, up \$7.5 billion from \$116.8 billion as at October 31, 2006. Loans and acceptances were up \$1.1 billion owing mainly to vigorous consumer credit growth. In addition, cash, deposits with financial institutions, securities and securities purchased under reverse repurchase agreements increased \$4.5 billion. The table below presents the main portfolios.

Average monthly volumes (millions of dollars)	July 2007	October 2006	July 2006
Loans and acceptances*			
Residential mortgages	22,439	21,525	21,377
Consumer loans	10,735	9,490	9,238
Credit card receivables	1,781	1,743	1,741
SME loans	14,102	13,669	13,751
Corporate loans	5,589	5,308	5,073
	54,646	51,735	51,180
Deposits			
Personal (balance)	29,624	29,092	29,100
Off-balance sheet personal savings (balance)	76,705	70,462	67,988
Business	11,765	10,398	10,522

* including securitized assets

Residential mortgage loans rose \$1.0 billion as at July 31, 2007, reaching \$22.4 billion compared to \$21.4 billion as at July 31, 2006. Consumer loans climbed 16% to \$10.7 billion, primarily driven by higher volumes of secured lines of credit. SME loans increased \$0.4 billion year over year to \$14.1 billion as at July 31, 2007. Corporate loans continued to grow, rising 10% to \$5.6 billion.

Personal deposits stood at \$29.6 billion as at July 31, 2007, up \$0.5 billion from the same period a year earlier, with most of that growth derived from traditional deposits. Off-balance sheet personal savings administered by the Bank as at July 31, 2007 totalled \$76.7 billion, up \$8.7 billion or 13% in a year. The increase was primarily attributable to savings administered by private investment management and mutual funds, with the remainder stemming from brokerage services. Moreover, business deposits advanced \$1.2 billion year over year to \$11.8 billion as at July 31, 2007.

Subsequent Event

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. Accordingly, the Bank will acquire, at 100% of the acquisition cost plus accrued interest, all of the ABCP currently held in the mutual funds and pooled funds of its subsidiaries, except for two alternative funds, as well as all of the ABCP currently held by all its retail clients and certain other clients.

As a result of these initiatives, the Bank expects to purchase approximately \$2 billion in ABCP during the fourth quarter, including \$150 million in bank conduits ABCP. As of August 24, 2007, the Bank purchased approximately \$1 billion of ABCP from eight National Bank mutual funds, approximately \$90 million from six funds operated by Altamira Investment Services Inc. and approximately \$560 million from pooled funds. The Bank also has less than \$100 million of ABCP issued by non-bank sponsored conduits. The Bank will assess the value of the ABCP acquired as well as other contingencies related to its ABCP exposure during the fourth quarter. The magnitude of the sums involved, the value of the assets which underlie the ABCP and the outcome of the restructuring proposal of non-bank sponsored conduits being purchased could give rise to a material charge to the Bank's earnings. The Bank does not provide liquidity facilities to any structured ABCP conduits or to any conduits sponsored by any other bank.

Accounting Policies and Estimates

The unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). The reader is referred to Notes 1 and 2 to the 2006 audited annual consolidated financial statements for more information on the significant accounting policies used to prepare the consolidated financial statements.

There have not been any changes to the Bank's significant accounting policies affecting the nine months ended July 31, 2007, other than those described in Note 2 to the unaudited interim consolidated financial statements on financial instruments and stock-based compensation.

Details of significant future changes in accounting standards are presented in Note 3 to the interim consolidated financial statements.

The key assumptions and bases for estimates made by Management in accordance with GAAP and their impact on amounts presented in the unaudited interim consolidated financial statements and notes remain essentially unchanged from those described in the 2006 Annual Report.

Disclosure on Internal Controls over Financial Reporting

During the nine months ended July 31, 2007, no changes were made to the Bank's internal control over financial reporting policies, procedures and other processes that have materially affected, or are reasonably likely to materially affect, the Bank's internal control over financial reporting.

Capital

Tier 1 and total capital ratios, according to the rules of the Bank for International Settlements, stood at 9.4% and 13.4%, respectively, as at July 31, 2007, as against 9.9% and 14.0% as at October 31, 2006, including the \$500 million subordinated debenture issued on November 2, 2006.

During the quarter, the Bank repurchased 1,785,400 common shares for a total of \$111 million as part of its normal course issuer bid. Under the program, the Bank intends to repurchase a maximum of 8,102,000 common shares by January 31, 2008. In the first nine months of fiscal 2007, the Bank repurchased 4,742,000 common shares, for a total of \$300 million.

Risk-weighted assets rose \$3.9 billion during the nine-month period, of which \$2.0 billion was due to the higher volumes of balance sheet items and \$1.9 billion to market risk.

Dividends

The Board of Directors declared regular dividends on the various classes and series of preferred shares and a dividend of \$0.60 per common share, payable on November 1, 2007 to shareholders of record on September 26, 2007.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND OPERATING RESULTS (cont.)

Additional Financial Information

(unaudited)

(millions of dollars except per share amounts)

	2007			2006			2005	2006	2005	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Total	Total
Total revenues	\$1,010	\$1,022	\$ 989	\$970	\$921	\$941	\$971	\$920	\$3,803	\$3,676
Total revenues (taxable equivalent basis)⁽¹⁾	1,053	1,064	1,054	1,055	969	968	991	953	3,983	3,826
Net income	243	233	240	220	220	214	217	207	871	855
Earnings per share										
Basic	1.49	1.42	1.45	1.33	1.32	1.29	1.28	1.22	5.22	4.98
Diluted	1.48	1.40	1.43	1.31	1.30	1.26	1.26	1.20	5.13	4.90
Dividends per common share	0.60	0.54	0.54	0.50	0.50	0.48	0.48	0.44	1.96	1.72
Return on common shareholders' equity	20.6%	20.3%	20.7%	19.7%	20.2%	20.4%	19.9%	19.4%	20.1%	20.7%
Total assets	\$124,274	\$ 136,669	\$ 122,727	\$116,801	\$ 108,552	\$ 111,083	\$ 105,172	\$107,970		
Impaired loans, net	110	110	112	116	98	111	113	117		
Per common share										
Book value	28.70	28.92	28.34	27.17	26.57	25.77	25.72	25.39		
Stock trading range										
High	66.14	65.87	66.59	62.86	62.69	65.60	63.90	61.47		
Low	60.61	61.96	61.36	58.26	56.14	61.35	58.35	55.87		

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

HIGHLIGHTS

(unaudited)

	Quarter ended July 31			Nine months ended July 31		
	2007	2006	% change	2007	2006	% change
Operating results (millions of dollars)						
Total revenues	\$1,010	\$921	10	\$3,021	\$2,833	7
Total revenues (taxable equivalent basis) ⁽¹⁾	1,053	969	9	3,171	2,928	8
Net income	243	220	10	716	651	10
Return on common shareholders' equity	20.6%	20.2%		20.6%	20.2%	
Per common share						
Earnings – basic	\$1.49	\$1.32	13	\$4.36	\$3.89	12
Earnings – diluted	1.48	1.30	14	4.31	3.83	13
Dividends declared	0.60	0.50	20	1.68	1.46	15
Book value				28.70	26.57	8
Stock trading range						
High	66.14	62.69		66.59	65.60	
Low	60.61	56.14		60.61	56.14	
Close	60.93	58.55		60.93	58.55	

	July 31 2007	October 31 2006	
Financial position (millions of dollars)			
Total assets	\$124,274	\$116,801	6
Loans and acceptances	51,799	50,670	2
Deposits	72,265	71,917	–
Subordinated debentures and shareholders' equity	6,812	6,237	9
Capital ratios – BIS			
Tier 1	9.4%	9.9%	
Total	13.4%	14.0% ⁽²⁾	
Impaired loans, net of specific and general allowances	(198)	(192)	
as a % of loans and acceptances	(0.4)%	(0.4)%	
Assets under administration/management	242,269	228,749	
Total personal savings	106,329	99,554	
Interest coverage	13.81	14.11	
Asset coverage	3.56	4.01	
Other information			
Number of employees	17,169	16,972	1
Number of branches in Canada	448	451	(1)
Number of banking machines	815	801	2

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

(2) Taking into account the issuance of \$500 million of subordinated debentures on November 2, 2006.

CONSOLIDATED STATEMENT OF INCOME

(unaudited)
(millions of dollars)

	Quarter ended			Nine months ended	
	July 31 2007	April 30 2007	July 31 2006	July 31 2007	July 31 2006
Interest income					
Loans	784	750	687	2,263	1,929
Securities	–	–	236	–	700
Securities available for sale	79	77	–	224	–
Securities held for trading	248	331	–	846	–
Deposits with financial institutions	104	87	83	321	218
	1,215	1,245	1,006	3,654	2,847
Interest expense					
Deposits	662	636	433	1,957	1,319
Subordinated debentures	25	25	23	75	69
Other	222	336	142	792	471
	909	997	598	2,824	1,859
Net interest income	306	248	408	830	988
Other income					
Financial market fees	166	179	139	512	462
Deposit and payment service charges	54	52	53	159	155
Trading revenues	96	184	(39)	411	229
Gains on investment account securities, net	–	–	60	–	130
Gains on available for sale securities, net	43	21	–	93	–
Card service revenues	11	10	9	31	27
Lending fees and insurance revenues	62	58	69	179	194
Acceptances, letters of credit and guarantee	17	17	19	51	51
Securitization revenues	39	48	38	135	117
Foreign exchange revenues	26	20	25	75	72
Trust services and mutual funds	93	91	79	269	236
Other	97	94	61	276	172
	704	774	513	2,191	1,845
Total revenues	1,010	1,022	921	3,021	2,833
Provision for credit losses	22	23	16	74	55
	988	999	905	2,947	2,778
Operating expenses					
Salaries and staff benefits	393	379	354	1,162	1,091
Occupancy	43	44	41	127	123
Technology	100	102	97	300	293
Communications	18	19	18	54	55
Professional fees	50	47	39	137	100
Other	71	70	73	212	211
	675	661	622	1,992	1,873
Income before income taxes and non-controlling interest	313	338	283	955	905
Income taxes	71	75	58	202	233
	242	263	225	753	672
Non-controlling interest	(1)	30	5	37	21
Net income	243	233	220	716	651
Dividends on preferred shares	5	6	6	16	16
Net income available to common shareholders	238	227	214	700	635
Number of common shares outstanding (thousands)					
Average – basic	159,209	160,588	161,927	160,492	163,149
Average – diluted	160,567	162,032	164,512	162,335	165,903
End of period	157,858	159,418	161,918	157,858	161,918
Earnings per common share (dollars)					
Basic	1.49	1.42	1.32	4.36	3.89
Diluted	1.48	1.40	1.30	4.31	3.83
Dividends per common share (dollars)	0.60	0.54	0.50	1.68	1.46

CONSOLIDATED BALANCE SHEET

(unaudited)
(millions of dollars)

	July 31 2007	April 30 2007	October 31 2006	July 31 2006
ASSETS				
Cash	301	270	268	257
Deposits with financial institutions	9,176	9,415	10,611	9,029
Securities				
Investment account	–	–	6,814	7,715
Available for sale	9,267	9,901	–	–
Held for trading	34,632	38,775	31,864	27,705
	43,899	48,676	38,678	35,420
Securities purchased under reverse repurchase agreements	8,296	13,146	7,592	5,954
Loans (Notes 4, 5 and 6)				
Residential mortgage	16,000	15,142	15,385	15,598
Personal and credit card	12,789	12,335	11,319	10,997
Business and government	19,486	22,213	20,667	19,932
	48,275	49,690	47,371	46,527
Allowance for credit losses	(430)	(434)	(426)	(424)
	47,845	49,256	46,945	46,103
Other				
Customers' liability under acceptances	3,954	4,001	3,725	3,598
Fair value of derivative financial instruments (Note 11)	3,768	3,073	2,269	2,438
Premises and equipment	405	389	385	357
Goodwill	680	683	683	686
Intangible assets	175	176	177	177
Other assets	5,775	7,584	5,468	4,533
	14,757	15,906	12,707	11,789
	124,274	136,669	116,801	108,552
LIABILITIES AND SHAREHOLDERS' EQUITY				
Deposits				
Personal	29,624	29,708	29,092	29,100
Business and government	34,210	35,620	33,998	29,097
Deposit-taking institutions	8,206	11,238	8,602	9,594
Deposit from NBC Capital Trust	225	225	225	225
	72,265	76,791	71,917	68,016
Other				
Acceptances	3,954	4,001	3,725	3,598
Obligations related to securities sold short	18,526	21,713	15,621	14,864
Securities sold under repurchase agreements	11,911	14,095	9,517	7,620
Fair value of derivative financial instruments (Note 11)	2,654	2,262	1,646	1,623
Other liabilities	7,291	9,952	7,562	6,008
	44,336	52,023	38,071	33,713
Subordinated debentures (Note 7)	1,882	1,935	1,449	1,599
Non-controlling interest	861	908	576	522
Shareholders' equity (Notes 9 and 10)				
Preferred shares	400	400	400	400
Common shares	1,567	1,576	1,566	1,563
Contributed surplus	33	29	21	19
Unrealized foreign currency translation adjustments	–	–	(92)	(82)
Retained earnings	3,070	3,021	2,893	2,802
Accumulated other comprehensive income (loss)	(140)	(14)	–	–
	4,930	5,012	4,788	4,702
	124,274	136,669	116,801	108,552

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Nine months ended July 31

(unaudited)

(millions of dollars)

	2007	2006
Preferred shares	400	400
Common shares at beginning	1,566	1,565
Issuance of common shares		
Dividend Reinvestment and Share Purchase Plan	14	11
Stock Option Plan	28	31
Other	6	(1)
Repurchase of common shares for cancellation (Note 9)	(47)	(43)
Common shares at end	1,567	1,563
Contributed surplus at beginning	21	13
Stock option expense (Note 10)	14	7
Stock options exercised	(3)	(1)
Other	1	–
Contributed surplus at end	33	19
Unrealized foreign currency translation adjustments at beginning	(92)	(26)
Losses on foreign exchange operations with a functional currency other than the Canadian dollar, net of income taxes	–	(56)
Reclassification to accumulated other comprehensive income (Note 2)	92	–
Unrealized foreign currency translation adjustments at end	–	(82)
Retained earnings at beginning	2,893	2,645
Net income	716	651
Impact of initial adoption of financial instruments standards (Note 2)	1	–
Dividends		
Preferred shares	(16)	(16)
Common shares	(269)	(240)
Premium paid on common shares repurchased for cancellation (Note 9)	(253)	(232)
Share issuance and other expenses, net of income taxes	(2)	(6)
Retained earnings at end	3,070	2,802
Accumulated other comprehensive income (loss) at beginning, net of income taxes	–	–
Reclassification from unrealized foreign currency translation adjustments (Note 2)	(92)	–
Impact of initial adoption of financial instruments standards (Note 2)	21	–
Net change in unrealized foreign currency translation gains (losses), net of hedging activities	(52)	–
Net change in unrealized gains (losses) on available for sale financial assets	47	–
Net change in gains (losses) on derivatives designated as cash flow hedges	(64)	–
Accumulated other comprehensive income (loss) at end, net of income taxes	(140)	–
Shareholders' equity	4,930	4,702

Accumulated Other Comprehensive Income (Loss), Net of Income Taxes

As at July 31, 2007

Unrealized foreign currency translation gains and losses, net of hedging activities	(144)
Unrealized gains and losses on available for sale financial assets	75
Gains and losses on derivatives designated as cash flow hedges	(71)
Accumulated other comprehensive income (loss), net of income taxes	(140)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(unaudited)
(millions of dollars)

	Quarter ended		Nine months ended
	July 31 2007	April 30 2007	July 31 2007
Net income	243	233	716
Other comprehensive income (loss), net of income taxes (Note 12)			
Net unrealized gains (losses) on translating financial statements of self-sustaining foreign operations	(80)	(103)	(104)
Impact of hedging net foreign currency translation gains or losses	40	59	52
Net change in unrealized foreign currency translation gains and losses, net of hedging activities	(40)	(44)	(52)
Net unrealized gains (losses) on available for sale financial assets	(20)	71	69
Reclassification to net income of (gains) losses on available for sale financial assets	(25)	4	(22)
Net change in unrealized gains and losses on available for sale financial assets	(45)	75	47
Net gains (losses) on derivatives designated as cash flow hedges	(43)	(6)	(70)
Reclassification to net income of (gains) losses on derivatives designated as cash flow hedges	2	2	6
Net change in gains and losses on derivatives designated as cash flow hedges	(41)	(4)	(64)
Total other comprehensive income (loss), net of income taxes	(126)	27	(69)
Comprehensive income	117	260	647

CONSOLIDATED STATEMENT OF CASH FLOWS

(unaudited)

(millions of dollars)

	Quarter ended July 31		Nine months ended July 31	
	2007	2006	2007	2006
Cash flows from operating activities				
Net income	243	220	716	651
Adjustments for:				
Provision for credit losses	22	16	74	55
Amortization of premises and equipment	19	16	55	49
Future income taxes	9	5	20	10
Translation adjustment on foreign currency subordinated debentures	(2)	–	(2)	(3)
Gains on sale of investment account securities, net	–	(60)	–	(130)
Gains on sale of available for sale securities, net	(43)	–	(93)	–
Gains on asset securitizations and other transfers of receivables, net	(25)	(19)	(84)	(62)
Stock option expense	3	2	14	7
Change in interest payable	27	(41)	88	57
Change in interest and dividends receivable	(85)	9	56	63
Change in income taxes payable	27	27	52	95
Change in fair value of derivative financial instruments, net	(364)	(213)	(586)	(271)
Change in held for trading securities	4,143	1,134	(2,768)	(1,522)
Change in other items	(909)	(563)	(492)	1,935
	3,065	533	(2,950)	934
Cash flows from financing activities				
Change in deposits	(4,526)	(2,242)	348	5,572
Issuance of deposit to NBC Capital Trust	–	225	–	225
Issuance of subordinated debentures	–	–	500	500
Issuance of common shares	9	5	48	41
Repurchase of common shares for cancellation	(111)	–	(300)	(275)
Dividends paid on common shares	(87)	(79)	(255)	(231)
Dividends paid on preferred shares	(5)	(5)	(16)	(16)
Change in obligations related to securities sold short	(3,187)	(230)	2,905	(640)
Change in securities sold under repurchase agreements	(2,184)	79	2,394	(5,295)
Change in other items	1	(5)	(22)	(56)
	(10,090)	(2,252)	5,602	(175)
Cash flows from investing activities				
Change in deposits with financial institutions pledged as collateral	(46)	34	(98)	3,974
Change in loans	543	(595)	(3,171)	(3,591)
Proceeds from securitization of new assets and other transfers of receivables	451	324	1,802	1,502
Maturity of securitized assets	395	–	395	–
Purchases of investment account securities	–	(6,588)	–	(19,740)
Purchases of available for sale securities	(3,204)	–	(13,031)	–
Sales of investment account securities	–	6,604	–	19,024
Sales of available for sale securities	3,817	–	10,730	–
Change in securities purchased under reverse repurchase agreements	4,850	1,595	(704)	1,069
Net acquisitions of premises and equipment	(35)	(28)	(75)	(51)
	6,771	1,346	(4,152)	2,187
Increase (decrease) in cash and cash equivalents	(254)	(373)	(1,500)	2,946
Cash and cash equivalents at beginning	9,623	9,595	10,869	6,276
Cash and cash equivalents at end	9,369	9,222	9,369	9,222
Cash and cash equivalents				
Cash	301	257	301	257
Deposits with financial institutions	9,176	9,029	9,176	9,029
Less: Amount pledged as collateral	(108)	(64)	(108)	(64)
	9,369	9,222	9,369	9,222
Supplementary information				
Interest paid	882	639	2,736	1,802
Income taxes paid	26	28	118	176

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, 2006. Certain comparative figures have been reclassified to conform with the presentation adopted in fiscal 2007.

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, 2006 except for the recent accounting standards adopted described in Note 2.

2 Recent Accounting Standards Adopted

a) Financial Instruments – Recognition and Measurement, Hedges and Comprehensive Income

On November 1, 2006, the Bank adopted the standards set out in the new sections of the Canadian Institute of Chartered Accountants (CICA) Handbook relating to financial instruments as described in Note 2 of its Annual Report for the fiscal year ended October 31, 2006.

Transition

The recognition, derecognition and measurement methods used as well as the hedge accounting policies used to prepare the consolidated financial statements of periods prior to November 1, 2006 were unchanged and, therefore, those financial statements have not been restated.

As at November 1, 2006, the Bank recognized all of its financial assets and liabilities in the Consolidated Balance Sheet according to their classification. Any adjustment made to a previous carrying amount was recognized as an adjustment to the balance of retained earnings at that date or as the opening balance of "Accumulated other comprehensive income," net of income taxes.

The items recognized as an adjustment to the opening balance of retained earnings, net of income taxes, totalled \$1 million.

The items recognized as an adjustment to the opening balances of "Accumulated other comprehensive income," net of income taxes, are:

- A net unrealized loss on the translation of the financial statements of self-sustaining foreign operations, net of hedge transactions, in the amount of \$92 million that was previously presented as a separate item in Shareholders' equity
- A net unrealized gain on available for sale financial assets in the amount of \$28 million
- A net loss on derivatives designated as cash flow hedges in the amount of \$7 million

Risk Management

In the context of its day-to-day operations, the Bank exposes itself to certain categories of risks, especially credit and market risk, in order to generate revenue and thereby create shareholder value.

Credit risk is controlled through a rigorous and methodical process that includes the following: credit risk assessment, credit granting process, and portfolio diversification and 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. One of the main tools used to manage market risk is the Value-at-Risk simulation model.

The Bank uses derivative financial instruments to manage its exposure to interest rate risk, foreign exchange risk and credit risk, as well as other market risks. Some derivatives used to manage these risks are specifically designated as hedges and qualify for hedge accounting.

Hedge Accounting Policy

The purpose of hedging transactions is to modify the Bank's exposure to one or more risks by creating an offset between changes in the fair value of, or the cash flows attributable to, the hedged item and the hedging item. Hedge accounting ensures that counterbalancing gains, losses, revenues and expenses are recognized in net income in the same period or periods. When hedge accounting is appropriate, the hedging relationship will be designated a fair value hedge, a cash flow hedge or a foreign currency risk hedge related to a net investment in a self-sustaining foreign operation.

Fair value hedge

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

For the quarter ended July 31, 2007, the amount representing the ineffective portion recognized as "Other income" in the Consolidated Statement of Income was negligible (negligible for the nine months ended July 31, 2007). All the components of the change in fair value of the derivative instruments used 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 instruments related to the hedged item will mitigate the variability in future cash flows. The Bank uses this strategy primarily for its loan portfolios.

For the quarter ended July 31, 2007, an unrealized loss of \$64 million was recorded in "Other comprehensive income" for the effective portion of changes in fair value of derivative instruments designated as cash flow hedges (\$104 million for the nine months ended July 31, 2007). The amounts recognized are reclassified to "Net interest income" in the periods during which the variability in cash flows of the hedged item affects net interest income. A net loss of \$3 million was reclassified to net income during the quarter (\$9 million during the nine-month period). An estimated net loss of \$38 million deferred in "Accumulated other comprehensive income" as at July 31, 2007 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 five years.

For the quarter ended July 31, 2007, the amount representing the ineffective portion recognized as "Other income" in the Consolidated Statement of Income was negligible (negligible for the nine months ended July 31, 2007). All the components of the change in fair value of the derivative instruments used were taken into account in assessing the effectiveness of the cash flow hedge.

Hedge of a net investment in a self-sustaining foreign operation

The Bank uses financial instruments denominated in foreign currencies to hedge the foreign exchange risk related to investments in self-sustaining foreign operations whose activities are denominated in a currency other than the Canadian dollar. In a hedge of a net investment in a self-sustaining foreign operation, the monetary items used will offset the foreign exchange gains and losses on the investments.

For the quarter ended July 31, 2007, unrealized foreign exchange losses of \$80 million (\$104 million for the nine-month period) were recorded in "Other comprehensive income" related to the Bank's net investment in self-sustaining foreign operations and were offset by gains of \$59 million (\$78 million for the nine-month period) related to financial instruments designated as foreign currency risk hedges. These non-derivative financial instruments represent foreign currency denominated liabilities and totalled \$1.7 billion as at July 31, 2007.

Available for Sale Financial Assets Presented at Cost

The Bank holds equity securities, mutual fund units and other securities that are classified as available for sale but which must be recognized at cost on the Consolidated Balance Sheet because they do not have a quoted market price in an active market. These available for sale financial assets, presented at cost on the Consolidated Balance Sheet, total \$375 million.

Impairment in Value Not Recognized in the Consolidated Statement of Income

Financial assets classified as available for sale are measured periodically to determine whether there is an objective indication of an other-than-temporary impairment in value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)*(unaudited) (millions of dollars)*

The gross unrealized gains (losses) are presented in the table below.

				As at July 31, 2007
	Unamortized cost	Gross unrealized gains	Gross unrealized losses	Carrying value
Securities issued or guaranteed by the Canadian or U.S. governments	7,008	2	(43)	6,967
Other debt securities	911	7	(11)	907
Equity securities	1,249	178	(34)	1,393
Total available for sale securities	9,168	187	(88)	9,267
Other available for sale financial assets	1,139	–	(1)	1,138
Total available for sale financial assets	10,307	187	(89)	10,405

Financial instruments designated as held for trading

The Bank may irrevocably designate any financial instrument as held for trading when it is initially recognized; as a result, the instrument will be measured at fair value, with the gains and losses recognized in the Consolidated Statement of Income during the period in which they occur. The Superintendent of Financial Institutions Canada has issued guidelines limiting the circumstances under which this option may be used. The Bank can use this option in the following cases:

- If, in accordance with a documented risk management strategy, using this option allows the Bank to eliminate or significantly reduce the valuation or recognition inconsistency and if the fair values are reliable.
- For hybrid financial instruments with one or more embedded derivatives which would significantly affect the cash flows of these financial instruments and which would otherwise be accounted for separately.

During the nine months ended July 31, 2007, the Bank designated certain deposits with one or more embedded derivatives as held for trading. These deposits are presented as “Deposits” in the Consolidated Balance Sheet.

The fair value of these deposits was \$230 million as at July 31, 2007. The change in fair value in the amount of \$4 million for the quarter ended July 31, 2007 was recognized as a gain in “Trading revenues” in the Consolidated Statement of Income (gain of \$12 million for the nine-month period).

At maturity, the amount that the Bank will be required contractually to pay to the deposit holders may vary and will be different than the fair value as at July 31, 2007.

The change in fair value not attributable to changes in an essentially risk-free interest rate totalled \$1 million for the quarter ended July 31, 2007 (\$6 million for the nine-month period).

b) Stock-Based Compensation

On November 1, 2006, the Bank adopted the accounting treatment set out in EIC-162 *Stock-Based Compensation for Employees Eligible to Retire Before the Vesting Date* issued by the Emerging Issues Committee. EIC-162 specifies that the compensation cost attributable to stock-based awards granted to employees who are eligible to retire at the grant date should be recognized immediately and that the compensation cost attributable to stock-based awards granted to employees who will become eligible to retire during the vesting period should be recognized over the period from the grant date to the date of retirement eligibility. Previously, the Bank amortized this cost over the vesting period. The Bank has not restated its prior-period consolidated financial statements to take this change into account because the impact is not material.

3 Recent Accounting Standards Pending Adoption

Capital Disclosures and Financial Instruments – Disclosure and Presentation

In December 2006, the CICA published three new accounting standards: Section 1535 *Capital Disclosures*; Section 3862 *Financial Instruments – Disclosures*; and Section 3863 *Financial Instruments – Presentation*. These new standards will apply to the Bank effective November 1, 2007.

Section 1535 establishes disclosure requirements concerning:

- an entity's objectives, policies and processes for managing capital;
- quantitative data about what the entity regards 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 requirements and presentation rules 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 the presentation requirements of Section 3861.

Section 3862 establishes disclosure requirements 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.

4 Loans and Impaired Loans

		Impaired loans		
	Gross loans	Gross	Specific allowances	Net balance
July 31, 2007				
Residential mortgage	16,000	17	1	16
Personal and credit card	12,789	34	14	20
Business and government	19,486	181	107	74
	48,275	232	122	110
General allowance ⁽¹⁾				(308)
Impaired loans, net of specific and general allowances				(198)
October 31, 2006				
Residential mortgage	15,385	13	2	11
Personal and credit card	11,319	36	16	20
Business and government	20,667	185	100	85
	47,371	234	118	116
General allowance ⁽¹⁾				(308)
Impaired loans, net of specific and general allowances				(192)

(1) The general allowance for credit risk was created taking into account the Bank's credit in its entirety.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

(unaudited) (millions of dollars)

5 Allowance for Credit Losses

The changes made to allowances are as follows for the nine months ended:

	July 31, 2007			July 31, 2006		
	Specific allowances	General allowance	Total	Specific allowances	General allowance	Total
Allowances at beginning	118	308	426	143	308	451
Provision for credit losses	74	–	74	55	–	55
Write-offs	(110)	–	(110)	(129)	–	(129)
Recoveries	40	–	40	47	–	47
Allowances at end	122	308	430	116	308	424

6 Asset Securitization**New Securitization Activities***CMHC-insured mortgage loans*

The Bank securitizes insured residential mortgage loans through the creation of mortgage-backed securities. The pre-tax gain or loss from securitization transactions, net of transaction fees, is recognized in the Consolidated Statement of Income under “Securitization revenues.”

Securitization activities for the quarter ended:	July 31, 2007	April 30, 2007	July 31, 2006
Net cash proceeds	451	433	324
Retained interests	11	12	7
Retained servicing liability	(2)	(3)	(2)
	460	442	329
Receivables securitized and sold	461	436	328
Gain (loss) before income taxes, net of transaction fees	(1)	6	1
Mortgage-backed securities created and retained included in “Securities – Available for sale”	7	–	43

Securitization activities for the nine months ended:	July 31, 2007	July 31, 2006
Net cash proceeds	1,802	1,361
Retained interests	50	37
Retained servicing liability	(10)	(8)
	1,842	1,390
Receivables securitized and sold	1,823	1,379
Gain before income taxes, net of transaction fees	19	11
Mortgage-backed securities created and retained included in “Securities – Available for sale”	7	596

Maturities*Mortgage loans – Other*

During fiscal 2000, the Bank sold uninsured mortgage loans on residential properties with five or more units to a trust. The Bank terminated the program in July 2007 when the outstandings represented less than 10% of the initial portfolio.

Personal loans

Since fiscal 2002, the Bank has been selling fixed-rate personal loans on a revolving basis to a trust. The last two remaining series of notes outstanding, totalling \$309 million, matured in July 2007.

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

Securitization revenues for the quarter ended July 31

	Gains on sale of assets		Servicing revenues		Other		Total
	2007	2006	2007	2006	2007	2006	2006
Mortgage loans							
– Insured	(1)	1	4	4	–	–	5
– Other	–	–	–	–	1	1	1
Credit card receivables	26 (1)	18 (1)	6	5	3	10	33
Personal loans	– (1)	– (1)	–	–	–	(1)	(1)
Total	25	19	10	9	4	10	38

Securitization revenues for the nine months ended July 31

	Gains on sale of assets		Servicing revenues		Other		Total
	2007	2006	2007	2006	2007	2006	2006
Mortgage loans							
– Insured	19	11	12	10	–	–	21
– Other	–	–	–	–	1	1	1
Credit card receivables	65 (1)	51 (1)	14	13	24	29	93
Personal loans	– (1)	– (1)	–	1	–	1	2
Total	84	62	26	24	25	31	117

(1) Revolving securitization transactions

Key assumptions

The key assumptions used to measure the fair value of retained interests as at the securitization date for transactions carried out during the quarter ended July 31, 2007 were as follows:

	Insured mortgage loans	Credit card receivables	Personal loans
Weighted average term (months)	33.2	–	14.5
Repayment rate	–	24.4%	–
Prepayment rate	17.0%	–	30.0%
Excess spread, net of credit losses	1.0%	10.8%	1.3%
Expected credit losses	–	3.7%	1.7%
Discount rate	4.7%	17.0%	17.0%

7 Subordinated Debentures

On November 2, 2006, the Bank issued \$500 million of subordinated debentures that mature in 2016. Interest at the annual rate of 4.456% is payable semi-annually on May 2 and November 2 of each year.

8 Pension and Other Employee Future Benefits

	Quarter ended			Nine months ended	
	July 31 2007	April 30 2007	July 31 2006	July 31 2007	July 31 2006
Pension benefit expense	15	15	15	45	44
Other employee future benefit expense	3	3	2	8	7

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

(unaudited) (millions of dollars)

9 Capital Stock

Shares outstanding and dividends as at July 31, 2007

	Number of shares	Shares \$	\$	Dividends declared per share
First Preferred Shares				
Series 15	8,000,000	200	9	1.0969
Series 16	8,000,000	200	7	0.9094
	16,000,000	400	16	
Common shares	157,858,194	1,567	269	1.6800
		1,967		

Repurchase of Common Shares

On February 1, 2007, the Bank filed a normal course issuer bid for the repurchase and cancellation of up to 8,102,000 common shares over a 12-month period ending no later than January 31, 2008. On January 23, 2006, the Bank filed a normal course issuer bid for the repurchase and cancellation of up to 8,278,000 common shares over a 12-month period that ended on January 22, 2007. On January 13, 2005, the Bank filed a normal course issuer bid for the repurchase and cancellation of up to 8,400,000 common shares over a 12-month period that ended on January 12, 2006. Repurchases were made on the open market at market prices through the facilities of the Toronto Stock Exchange. Premiums paid above the average carrying value of the common shares were charged to retained earnings. As at July 31, 2007, the Bank had completed the repurchase of 4,742,000 common shares (4,472,420 in 2006) at a cost of \$300 million (\$275 million in 2006), which reduced common share capital by \$47 million (\$43 million in 2006) and retained earnings by \$253 million (\$232 million in 2006).

Authorized Capital Stock

During the nine months ended July 31, 2007, Section 1 of By-Law II of the Bank was amended to increase to \$5 billion the maximum aggregate consideration for which First Preferred Shares may be issued.

10 Stock-Based Compensation**Stock Option Plan**

During the nine months ended July 31, 2007, the Bank awarded 1,493,504 stock options (943,200 in 2006) at a fair value of \$11.32 (\$12.81 in 2006).

As at July 31, 2007, a total of 5,976,090 stock options were outstanding.

The fair value of these options was estimated, on the award date, using the Black-Scholes valuation model. The following assumptions were used:

Nine months ended	July 31, 2007	July 31, 2006
Risk-free interest rate	4.05%	4.18%
Expected life of the options	5 years	6 years
Expected volatility	22.5%	24.0%
Expected dividend yield	3.3%	3.2%

	Quarter ended			Nine months ended	
	July 31 2007	April 30 2007	July 31 2006	July 31 2007	July 31 2006
Compensation expense recorded for the stock options	3	6	2	14	7

Stock Appreciation Rights (SAR) Plan

During the nine months ended July 31, 2007, the Bank awarded 48,396 SARs. As at July 31, 2007, a total of 311,478 SARs were outstanding.

Deferred Stock Unit (DSU) Plan

During the nine months ended July 31, 2007, the Bank awarded 32,358 DSUs. As at July 31, 2007, a total of 194,658 DSUs were outstanding.

Restricted Stock Unit (RSU) Plan

During the nine months ended July 31, 2007, the Bank awarded 184,844 RSUs. As at July 31, 2007, a total of 357,053 RSUs were outstanding.

Deferred Compensation Plan of National Bank Financial

During the nine months ended July 31, 2007, National Bank Financial awarded 118,656 units. As at July 31, 2007, a total of 896,200 units were outstanding.

11 Fair Value of Derivative Financial Instruments

As at July 31, 2007

	Carrying value	
	Assets	Liabilities
Fair value hedges	201	157
Cash flow hedges	5	118
Derivatives not designated as hedges	3,562	2,379
	3,768	2,654

12 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		Nine months ended
	July 31 2007	April 30 2007	July 31 2007
Income taxes (recovery) on:			
Impact of hedging net foreign currency translation gains or losses	19	29	26
Net unrealized gains (losses) on available for sale financial assets	(12)	25	21
Reclassification to net income of (gains) losses on available for sale financial assets	(7)	(2)	(10)
Net gains (losses) on derivatives designated as cash flow hedges	(21)	(3)	(34)
Reclassification to net income of (gains) losses on derivatives designated as cash flow hedges	1	1	3
Total income taxes (recovery)	(20)	50	6

13 Subsequent event

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. Accordingly, the Bank will acquire, at 100% of the acquisition cost plus accrued interest, all of the ABCP currently held in the mutual funds and pooled funds of its subsidiaries, except for two alternative funds, as well as all of the ABCP currently held by all its retail clients and certain other clients.

As a result of these initiatives, the Bank expects to purchase approximately \$2 billion in ABCP during the fourth quarter, including \$150 million in bank conduits ABCP. As of August 24, 2007, the Bank purchased approximately \$1 billion of ABCP from eight National Bank mutual funds, approximately \$90 million from six funds operated by Altamira Investment Services Inc. and approximately \$560 million from pooled funds. The Bank also has less than \$100 million of ABCP issued by non-bank sponsored conduits. The Bank will assess the value of the ABCP acquired as well as other contingencies related to its ABCP exposure during the fourth quarter. The magnitude of the sums involved, the value of the assets which underlie the ABCP and the outcome of the restructuring proposal of non-bank sponsored conduits being purchased could give rise to a material charge to the Bank's earnings. The Bank does not provide liquidity facilities to any structured ABCP conduits or to any conduits sponsored by any other bank.

14 Segment Disclosures**Quarter ended July 31**

	Personal and Commercial		Wealth Management		Financial Markets		Other		Total	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Net interest income ⁽¹⁾	346	338	31	32	–	119	(71)	(81)	306	408
Other income ⁽¹⁾	202	199	184	165	312	125	6	24	704	513
Total revenues	548	537	215	197	312	244	(65)	(57)	1,010	921
Operating expenses	331	329	157	144	179	145	8	4	675	622
Contribution	217	208	58	53	133	99	(73)	(61)	335	299
Provision for credit losses	33	24	–	–	–	1	(11)	(9)	22	16
Income before income taxes and non-controlling interest	184	184	58	53	133	98	(62)	(52)	313	283
Income taxes ⁽¹⁾	62	63	19	17	43	31	(53)	(53)	71	58
Non-controlling interest	–	–	1	1	(6)	–	4	4	(1)	5
Net income (net loss)	122	121	38	35	96	67	(13)	(3)	243	220
Average assets	49,299	46,540	437	654	90,929	69,426	(11,590)	(9,940)	129,075	106,680

Nine months ended July 31

Net interest income ⁽²⁾	1,022	984	97	95	(46)	137	(243)	(228)	830	988
Other income ⁽²⁾	582	566	569	522	991	652	49	105	2,191	1,845
Total revenues	1,604	1,550	666	617	945	789	(194)	(123)	3,021	2,833
Operating expenses	958	961	474	446	517	442	43	24	1,992	1,873
Contribution	646	589	192	171	428	347	(237)	(147)	1,029	960
Provision for credit losses	111	88	–	–	–	3	(37)	(36)	74	55
Income before income taxes and non-controlling interest	535	501	192	171	428	344	(200)	(111)	955	905
Income taxes ⁽²⁾	180	170	62	55	131	111	(171)	(103)	202	233
Non-controlling interest	–	–	4	4	19	4	14	13	37	21
Net income (net loss)	355	331	126	112	278	229	(43)	(21)	716	651
Average assets	48,312	45,958	440	703	89,120	67,743	(11,641)	(9,186)	126,231	105,218

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 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 elements, and the unallocated portion of centralized services.

Taxable Equivalent

(1) The accounting policies are the same as those described in the note on accounting policies (Note 1), with the exception of the net interest income, other income and income taxes 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 otherwise would have been payable. For all of the operating segments, net interest income was grossed up by \$20 million (\$23 million in 2006) and other income by \$23 million (\$25 million in 2006). An equivalent amount was added to income taxes. The impact of these adjustments is reversed under the “Other” heading.

(2) For the nine months ended July 31, 2007, net interest income was grossed up by \$88 million (\$59 million in 2006) and other income by \$62 million (\$36 million in 2006). An equivalent amount was added to income taxes. The impact of these adjustments is reversed under the “Other” heading.

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

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

Quarterly Report Publication Date for Fiscal 2007

Fourth quarter: November 29, 2007

Disclosure of Third Quarter Results

Conference Call

- A conference call for analysts and institutional investors will be held on August 30, 2007 at 1:30 p.m. EDT.
- Access by telephone in listen-only mode: 1-866-898-9626 or 416-340-2216
- A recording of the conference call can be heard until September 6, 2007 by calling 1-800-408-3053 or 416-695-5800. The access code is 3230937.

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
Email: 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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