NATIONAL BANK OF CANADA

Report to Shareholders

Second Quarter 2004

National Bank announces net income of $180 million for the second quarter of 2004, an increase of 30%

- *Earnings per share jump 38% to $1.01*
- *Return on common shareholders' equity of 19.0%*
- *15% increase in quarterly dividend*

MONTREAL, May 27, 2004 – National Bank earned net income of $180 million in the quarter ended April 30, 2004, up 30% compared to $138 million in the corresponding quarter of 2003. Earnings per share amounted to $1.01 in the second quarter versus $0.73 in the same period of 2003, for a 38% increase. Return on common shareholders' equity was 19.0% for the quarter, compared to 14.8% for the quarter ended April 30, 2003.

In addition, at its meeting on May 27, 2004, the Board of Directors of the Bank approved an increase of 15% in the quarterly dividend bringing it to 38 cents per share.

For the second quarter of 2004, every operating segment posted excellent results as evidenced by the growth in net income by segment.

Personal and Commercial Banking declared net income of $92 million for the second quarter of 2004, a $13 million or 16% increase compared to the same period in 2003. In addition to the 8% decrease in the provision for credit losses, the segment's income grew by 7% and operating expenses rose by 5%.

In the Wealth Management segment, net income soared 74% to $33 million from the second quarter 2003 to second quarter 2004. This outstanding performance was due to a 31% rise in income and an improvement in productivity.

Net income for the Financial Markets segment climbed 59% to $59 million, attributable to gains on securities and a higher volume of financial market transactions.

Moreover, as a result of the improved quality of the loan portfolio, the Bank reduced its general allowance for credit risk by $20 million ($13 million net of income taxes or 7 cents per share). This reduction was charged to the "Other" heading in segment results.

	For the quarter ended April 30		
	2004	**2003**	**%**
Net income			
Personal and Commercial	92	79	+16
Wealth Management	33	19	+74
Financial Markets	59	37	+59
Other	(4)	3	
Total	180	138	+30
Earnings per share	$1.01	$0.73	+38
Return on common shareholders' equity	19.0%	14.8%	

	For the six months ended April 30		
	2004	**2003**	**%**
Net income			
Personal and Commercial	196	173	+13
Wealth Management	57	38	+50
Financial Markets	131	101	+30
Other	(18)	(8)	
Total	366	304	+20
Earnings per share	$2.04	$1.61	+27
Return on common shareholders' equity	19.0%	16.3%	

For the first six months of 2004, the Bank recorded net income of $366 million as against $304 million for the same period last year, for growth of 20%. At $2.04, earnings per share were up 27% from $1.61 for the year earlier period. Return on common shareholders' equity was 19.0% compared to 16.3% for the first six months of fiscal 2003.

As at April 30, 2004, the specific and general allowances for credit risk exceeded gross impaired loans by $165 million versus $171 million as at January 31, 2004 and $154 million as at October 31, 2003. The $6 million increase over the previous quarter was attributable to the $20 million reduction in the general allowance for credit risk, which now stands at $385 million. Excluding this item, net impaired loans were down $14 million from January 31, 2004.

Tier 1 and total capital ratios were 9.6% and 13.2%, respectively, as at April 30, 2004 in comparison to 10.1% and 13.8% as at January 31, 2004 and 9.6% and 13.4% as at October 31, 2003.

The Bank repurchased 5.9 million common shares for cancellation as at April 30, 2004 under the normal course issuer bid for the repurchase of up to 8.7 million common shares.

"Our excellent second-quarter results demonstrate the ability of our business model to tap into the strength of the Canadian economy. With our three segments each posting earnings growth of more than 10%, we are satisfied that we are on course to meet our annual targets," said Réal Raymond, President and Chief Executive Officer. "These results reflect our ongoing efforts to grow our business volume while keeping a tight rein on expenses and maintaining the quality of our loan portfolio."

	Objectives	Results Q2 2004	Results First 6 months of 2004
Growth in earnings per share	5% - 10%	38%	27%
Return on common shareholders' equity (ROE)	15 % - 17%	19.0%	19.0%
Tier 1 capital ratio	8.75% - 9.50%	9.6%	9.6%
Dividend payout ratio	35% - 45%	32%	32%

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Caution regarding forward-looking statements

From time to time, National Bank of Canada makes written and oral forward-looking statements, included in this quarterly report, in other filings with Canadian regulators or the U.S. Securities and Exchange Commission, in reports to shareholders, in press releases and in other communications. All such statements are made pursuant to the "safe harbour" 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, anticipations, 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, changes in Canadian and/or global economic and financial conditions (particularly fluctuations in interest rates, currencies and other financial instruments), liquidity, market trends, regulatory developments and competition in geographic areas where the Bank operates, technological changes, consolidation in the Canadian financial services sector, the possible impact on our businesses of international conflicts and other developments including those relating to the war on terrorism and the Bank's anticipation of and success in managing the risks implied by the foregoing.

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 therefore cautions readers not to place undue reliance on these forward-looking statements. The Bank does not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time by or on behalf of the Bank.

Management's Discussion and Analysis of Financial Condition and Operating Results

The following text presents management's analysis of the Bank's financial condition and operating results as presented in the unaudited consolidated financial statements for the second quarter and first half of 2004.

Analysis of Results

Operating Results

For the second quarter ended April 30, 2004, National Bank earned net income of $180 million, compared to $138 million for the same period one year earlier. Earnings per share reached $1.01 compared to $0.73 for the second quarter of 2003, up 38%. Return on common shareholders' equity was 19.0%, as against 14.8% for the quarter ended April 30, 2003.

For the six-month period ended April 30, 2004, net income totalled $366 million, compared to $304 million for the first half of 2003, an increase of 20%. At $2.04, earnings per share for the first half of 2004 were up 27% from $1.61 per share for the corresponding period of 2003. Finally, return on common shareholders' equity, at 19.0%, was substantially ahead of the 16.3% result recorded for the first six months of 2003.

Results by Segment

Since the beginning of fiscal 2004, the Bank has measured the results of its operating segments in terms of actual losses rather than expected losses. Prior year figures have been restated to comply with current year presentation.

Personal and Commercial

Quarterly net income for the Personal and Commercial segment amounted to $92 million, up 16% from the $79 million for the same period of 2003. This improvement over the corresponding period of 2003 owes to the combined effect of higher revenues, the lower provision for credit losses and enhanced productivity.

At $316 million, net interest income rose $16 million, or 5%, compared to the second quarter of 2003. This growth was due to the volume of loans and acceptances, specifically consumer loans, which rose 21%, and the spread, which inched up two basis points to 3.21% for the second quarter of 2004. Other income increased by $14 million to $160 million owing to transaction account revenues, lending fees and foreign exchange revenue.

Operating expenses for the quarter were $297 million, as against $283 million for the same period of 2003. The increase was divided mainly between compensation and the cost of technological investments. The efficiency ratio was 62.4% in the second quarter of 2004, down from 63.5% for the second quarter of 2003.

For the first six months of fiscal 2004, net income for the Personal and Commercial segment amounted to $196 million, up 13% over the same period of 2003. This improvement is explained by the approximate 4% increase in the volume of loans and acceptances, the wider spread, growth in other income, and lower credit losses, which fell from $80 million in the first half of 2003 to $65 million for the same period of 2004.

Wealth Management

The Wealth Management segment continued to experience a high level of activity in the second quarter of 2004, which drove net income up an impressive 74% to $33 million dollars, compared to $19 million for the same period one year earlier.

Total revenues grew to $205 million in the second quarter of 2004 from $156 million in the same period of 2003, an increase of 31%. Close to 70% of the increase derived from brokerage activities, with the remainder coming from investment management and mutual fund revenues.

Operating expenses totalled $154 million for the second quarter of 2004, as against $125 million for the same period of 2003. Variable compensation accounted for approximately 80% of the increase. However, the efficiency ratio improved substantially, from 80.1% in the second quarter of 2003 to 75.1% this quarter, it reflects a significant growth in revenues while a portion of the operating expenses remain fixed.

For the first half of fiscal 2004, net income for the Wealth Management segment reached $57 million, compared to $38 million for the first half of 2003, with revenues growing 23% and operating expenses increasing 18%.

Financial Markets

Net income for the Financial Markets segment amounted to $59 million for the second quarter of 2004, up 59% from the $37 million recorded for the same period of 2003.

Revenues for the quarter climbed $60 million, or 32%, to $248 million. Approximately 40% of the increase was attributable to financial market fees. Gains on investment account securities, which grew by $38 million, due, in particular, to losses on credit derivatives recorded in the second quarter of 2003, accounted for the remainder of the increase. In addition, trading revenues held steady over the corresponding quarter of 2003.

Management's Discussion and Analysis of Financial Condition and Operating Results (cont.)

Trading Revenues (millions of dollars)	Q2 2004	Q2 2003	First six months 2004	First six months 2003
Financial Markets				
Interest rate	10	22	34	53
Equity	53	29	100	51
Commodities				
and foreing exchange	–	12	13	22
	63	**63**	**147**	**126**
Other segments	2	3	4	6
Total	**65**	**66**	**151**	**132**
Net interest income	7	11	(63)	27
Other income	49	43	209	82
Taxable equivalent	9	12	5	23
Total	**65**	**66**	**151**	**132**

Operating expenses were $136 million for the quarter, compared to $117 million for the second quarter of 2003. The increase was primarily due to variable compensation.

The provision for credit losses amounted to $17 million for the quarter, compared to $13 million for the same period last year.

For the first half of fiscal 2004, the Financial Markets segment generated net income of $131 million, a 30% increase over the same period last year. The reason for the increase is twofold: first, revenues, fuelled by a resurgence in financial market activity and the solid performance of Treasury, rose by 21% to $516 million. Second, the efficiency ratio improved, going from 57.6% for the first six months of 2003 to 51.9% for the first half of 2004.

Other

The net loss for the "Other" heading of results by segment totalled $4 million for the second quarter of 2004, compared to net income of $3 million for the same period of 2003.

The credit amount of the provision for credit losses comprises the reversal of $20 million from the general allowance for credit risk.

For the six-month period ended April 30, 2004, the "Other" heading posted a net loss of $18 million, compared to a net loss of $8 million for the corresponding period of 2003.

Consolidated Results

Revenues

Total revenues for the second quarter of 2004 amounted to $884 million, compared to $773 million for the same period of 2003, an increase of $111 million, or 14%.

Net interest income totalled $328 million for the quarter, compared to $343 million for the second quarter of 2003. The decrease was due to the reduction in capital resulting from share purchase programs, to the lower volume of corporate loans and to the decline in asset and liability matching income from the same period of 2003. However, net interest income in the Personal and Commercial segment grew $16 million, or 5%, to reach $316 million for the second quarter of 2004. Financial market fees, totalling $178 million for the quarter, were up $58 million, or 48%, and accounted for over half of the increase in total revenues. This growth reflects the high volume of individual and institutional trading on financial markets. Gains on investment account securities were up $26 million to $16 million in the second quarter of 2004, primarily owing to losses recorded on credit derivatives in the second quarter of 2003. Finally, revenues from trust services and mutual funds, amounting to $62 million for the quarter, were up $11 million, or 22%. This growth was attributable to the correspondent network, investment management and the increase in assets under management in mutual funds.

For the first six months of fiscal 2004, total revenues were $1,797 million, compared to $1,608 million for the corresponding half of 2003, an increase of 12%. Excluding the "Other" heading, a fifth of the increase was derived from Personal and Commercial banking activities, around 35% from Wealth Management revenues and the remainder from revenues at Financial Markets.

Operating Expenses

Operating expenses for the quarter totalled $602 million, an increase of $73 million, compared to $529 million for the same quarter of 2003. Salaries and staff benefits, which amounted to $347 million for the quarter and accounted for close to 60% of expenses, were up $55 million from the corresponding quarter of 2003. Approximately 80% of the increase was due to variable compensation related to growth in financial market revenues.

For the first six months of fiscal 2004, operating expenses were $1,181 million, compared to $1,077 million for the same period of 2003. Nearly 60% of the $104 million increase was attributable to variable remuneration. The efficiency ratio went from 67.0% for the first half of 2003 to 65.7% for the first half of 2004.

Risk Management

Credit Risk

The provision for credit losses for the quarter was $19 million, compared to $41 million for the corresponding quarter of 2003. The decline in the provision stemmed primarily from the $20 million reduction in the general allowance for credit risk. Moreover, credit losses in the Personal and Commercial segment were down 8% or $3 million to $36 million. In the Financial Markets segment, the provision for credit losses rose $4 million to $17 million for the second quarter of 2004.

Management's Discussion and Analysis of Financial Condition and Operating Results (cont.)

As at April 30, 2004, allowances for credit losses exceeded impaired loans by $165 million, compared to $154 million as at October 31, 2003 and $179 million at the end of the corresponding quarter of 2003. Corporate Banking and Real Estate were chiefly responsible for the decline in impaired loans since the beginning of fiscal 2004.

The ratio of gross private impaired loans to total tangible capital and allowances was excellent at 12.6% as at April 30, 2004 versus 13.0% as at October 31, 2003 and 13.3% as at April 30, 2003.

Market Risk – Trading Activities

The VaR (Value-at-Risk) method is one of the main tools used in managing trading-related market risk. The VaR measure is based on a 99% confidence level and uses two years of historical data for its computation. Market risk management is described in more detail on page 59 of the 2003 Annual Report.

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

Balance Sheet

As at April 30, 2004, the Bank's total assets stood at $83.7 billion, compared to $82.4 billion as at October 31, 2003. Loans were the principal drivers of the increase. The table below presents the main loan and deposit items.

Average monthly volumes (millions of dollars)	**April 2004**	**October 2003**
Loans and acceptances*		
Residential mortgages	18,544	18,105
Consumer loans	5,842	5,193
Credit card receivables	1,576	1,525
Business loans	18,210	18,143
	44,172	**42,966**
Deposits		
Personal (balance)	24,048	23,512
Off-balance sheet personal savings (balance)	55,752	51,525
Business	10,554	10,533

* including securitized assets

Trading Activities [1]

(millions of dollars)

Global VaR by risk category	For the quarter ended April 30, 2004				For the quarter ended January 31, 2004			
	Period end	High	Average	Low	Period end	High	Average	Low
Interest rate	(6)	(7)	(4)	(3)	(4)	(7)	(5)	(3)
Foreign exchange	(1)	(2)	(1)	–	(1)	(2)	(1)	–
Equity	(2)	(3)	(2)	(2)	(2)	(4)	(2)	(1)
Commodities	–	(1)	–	–	–	–	–	–
Correlation effect [2]	3	7	3	2	3	7	3	–
Global VaR	**(6)**	**(6)**	**(4)**	**(3)**	**(4)**	**(6)**	**(5)**	**(4)**

(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.

Management's Discussion and Analysis of Financial Condition and Operating Results (cont.)

As at April 30, 2004, residential mortgages totalled $18.5 billion, up approximately $400 million or 2.4% from October 31, 2003. Consumer loans, which stood at $5.8 billion, have risen 12.5% since the beginning of fiscal 2004. Excluding indirect loans, this growth, which was mainly due to partnership volumes, would have been 15%. Credit card receivables have increased 3.3% since the beginning of fiscal 2004 to $1.6 billion as at April 30, 2004. Business loans and acceptances stood at $18.2 billion versus $18.1 billion as at October 31, 2003. Lower corporate loan volumes offset the growth of nearly 2.3% in small and medium-sized business loans.

Personal deposits have grown by approximately $500 million or 2.3% since October 31, 2003 to $24.0 billion. As at April 30, 2004, off-balance sheet savings administered by the Bank and its subsidiaries stood at $55.8 billion, an increase of $4.2 billion or 8.2%. The savings products administered by the brokerage subsidiaries accounted for more than 60% of this growth, mutual funds for $900 million and the products administered by National Bank Trust for the balance.

Capital

Tier 1 and total capital ratios, in accordance with the rules of the Bank for International Settlements, were 9.6% and 13.2%, respectively, as at April 30, 2004, compared to 9.6% and 13.4% as at October 31, 2003.

Dividends

At its meeting on May 27, 2004, the Board of Directors declared regular dividends on the various classes and series of preferred shares, as well as a dividend of 38 cents per common share, payable on August 1, 2004 to shareholders of record on June 28, 2004.

Highlights

(unaudited)	Quarter ended April 30 2004	2003	% Change	Six months ended April 30 2004	2003	% Change
Operating results						
(millions of dollars)						
Total revenues	**$884**	$773	14	**$1,797**	$1,608	12
Net income	**180**	138	30	**366**	304	20
Return on common shareholders' equity	**19.0 %**	14.8 %		**19.0 %**	16.3 %	
Per common share						
Earnings per share – basic	**$1.01**	$0.73	38	**$2.04**	$1.61	27
Dividends paid	**0.33**	0.26	27	**0.66**	0.52	27
Book value				**21.94**	20.28	8
Stock trading range						
High	**47.93**	35.15		**47.93**	35.15	
Low	**43.27**	31.26		**40.17**	29.95	
Close	**44.48**	34.90		**44.48**	34.90	

Financial position (millions of dollars)	**April 30 2004**	October 31 2003	
Total assets	**$83,722**	$82,423	2
Loans and acceptances	**43,226**	41,806	3
Deposits	**53,864**	51,463	5
Subordinated debentures and shareholders' equity	**5,587**	5,613	–
Capital ratios - BIS			
Tier 1	**9.6 %**	9.6 %	
Total	**13.2 %**	13.4 %	
Impaired loans, net of specific and general allowances	**(165)**	(154)	
as a % of loans and acceptances	**(0.4)%**	(0.4)%	
Assets under administration/management	**166,682**	155,348	
Total personal savings	**79,800**	75,037	
Interest coverage	**11.47**	10.22	
Asset coverage	**3.29**	3.19	
Other information			
Number of employees	**16,366**	16,935	(3)
Number of branches in Canada	**474**	477	(1)
Number of banking machines	**815**	817	–

Consolidated Statement of Income

(unaudited) (millions of dollars except per share amounts)	Quarter ended **April 30 2004**	 January 31 2004	 April 30 2003	Six months ended **April 30 2004**	 April 30 2003
Interest income and dividends					
Loans	**460**	489	477	**949**	965
Securities	**143**	138	126	**281**	276
Deposits with financial institutions	**28**	33	32	**61**	69
	631	660	635	**1,291**	1,310
Interest expense					
Deposits	**186**	247	235	**433**	492
Subordinated debentures	**25**	25	26	**50**	53
Other	**92**	110	31	**202**	67
	303	382	292	**685**	612
Net interest income	**328**	278	343	**606**	698
Other income					
Financial market fees	**178**	164	120	**342**	256
Deposit and payment service charges	**51**	49	47	**100**	94
Trading revenues	**49**	160	43	**209**	82
Gains (losses) on investment account securities, net	**16**	(7)	(10)	**9**	2
Card service revenues	**12**	12	11	**24**	22
Lending fees	**51**	76	49	**127**	99
Acceptances, letters of credit and guarantee	**16**	16	15	**32**	34
Securitization revenues	**43**	51	44	**94**	98
Foreign exchange revenues	**18**	19	18	**37**	35
Trust services and mutual funds	**62**	57	51	**119**	105
Other	**60**	38	42	**98**	83
	556	635	430	**1,191**	910
Total revenues	**884**	913	773	**1,797**	1,608
Provision for credit losses	**19**	44	41	**63**	82
	865	869	732	**1,734**	1,526
Operating expenses					
Salaries and staff benefits	**347**	345	292	**692**	609
Occupancy	**48**	46	49	**94**	95
Computers and equipment	**84**	73	80	**157**	159
Communications	**20**	19	20	**39**	41
Professional fees	**32**	24	25	**56**	51
Other	**71**	72	63	**143**	122
	602	579	529	**1,181**	1,077
Income before income taxes and non-controlling interest	**263**	290	203	**553**	449
Income taxes	**76**	97	58	**173**	131
	187	193	145	**380**	318
Non-controlling interest	**7**	7	7	**14**	14
Net income	**180**	186	138	**366**	304
Dividends on preferred shares	**6**	6	8	**12**	13
Net income available to common shareholders	**174**	180	130	**354**	291
Number of common shares outstanding (thousands)					
Average - basic	**172,023**	174,669	178,348	**173,361**	180,574
Average - diluted	**174,520**	177,008	179,666	**175,778**	181,821
End of period				**169,730**	175,670
Earnings per common share					
Basic	**1.01**	1.03	0.73	**2.04**	1.61
Diluted	**1.00**	1.02	0.72	**2.02**	1.60
Dividends per common share	**0.33**	0.33	0.26	**0.66**	0.52

Consolidated Balance Sheet

(unaudited) (millions of dollars)	**April 30 2004**	January 31 2004	October 31 2003	April 30 2003
ASSETS				
Cash resources				
Cash and deposits with Bank of Canada	**198**	193	313	328
Deposits with financial institutions	**8,398**	7,837	6,643	5,255
	8,596	8,030	6,956	5,583
Securities				
Investment account	**5,825**	5,770	6,998	7,124
Trading account	**18,339**	17,701	19,151	14,224
Loan substitutes	**20**	20	30	63
	24,184	23,491	26,179	21, 411
Securities purchased under reverse repurchase agreements	**4,234**	4,411	3,955	3,419
Loans				
Residential mortgage	**14,489**	14,014	13,976	13,148
Personal and credit card	**6,862**	6,260	6,101	5,920
Business and government	**19,324**	18,352	19,025	20,216
Allowance for credit losses	**(614)**	(643)	(630)	(646)
	40,061	37,983	38,472	38,638
Other				
Customers' liability under acceptances	**3,165**	3,160	3,334	3,128
Assets held for disposal	**–**	–	–	225
Premises and equipment	**268**	264	263	241
Goodwill	**662**	662	660	660
Intangible assets	**181**	182	183	184
Other assets	**2,371**	2,629	2,421	2,319
	6,647	6,897	6,861	6,757
	83,722	80,812	82,423	75,808
LIABILITIES AND SHAREHOLDERS' EQUITY				
Deposits				
Personal	**24,048**	23,853	23,512	23,234
Business and government	**23,172**	21,637	22,700	22,741
Deposit-taking institutions	**6,644**	6,010	5,251	4,354
	53,864	51,500	51,463	50,329
Other				
Acceptances	**3,165**	3,160	3,334	3,128
Obligations related to securities sold short	**9,481**	8,644	8,457	6,331
Obligations related to securities sold under repurchase agreements	**6,208**	6,643	8,674	4,358
Other liabilities	**5,001**	4,832	4,484	5,614
	23,855	23,279	24,949	19,431
Subordinated debentures	**1,488**	1,473	1,516	1,553
Non-controlling interest	**416**	400	398	433
Shareholders' equity				
Preferred shares	**375**	375	375	500
Common shares	**1,556**	1,583	1,583	1,583
Contributed surplus	**4**	3	2	–
Unrealized foreign currency translation adjustment	**2**	1	6	15
Retained earnings	**2,162**	2,198	2,131	1,964
	4,099	4,160	4,097	4,062
	83,722	80,812	82,423	75,808

Consolidated Statement of Cash Flows

(unaudited)	Quarter ended April 30		Six months ended April 30	
(millions of dollars)	**2004**	2003	**2004**	2003
Cash flows from operating activities				
Net income	**180**	138	**366**	304
Adjustments for:				
Provision for credit losses	**19**	41	**63**	82
Amortization of premises and equipment	**13**	13	**25**	24
Future income taxes	**4**	(5)	**1**	1
Translation adjustment on foreign currency subordinated debentures	**15**	(28)	**17**	(39)
Losses (gains) on sales of investment account securities, net	**(16)**	10	**(9)**	(2)
Gains on asset securitization	**(18)**	(14)	**(35)**	(34)
Stock option expense	**1**	–	**2**	–
Change in interest payable	**(16)**	(2)	**6**	(3)
Change in interest receivable	**(13)**	(8)	**180**	5
Change in income taxes payable	**(34)**	79	**(153)**	85
Change in unrealized losses (gains) and net amounts payable on derivative contracts	**92**	73	**(154)**	301
Change in trading account securities	**(638)**	(2,555)	**812**	(1,045)
Excess of contributions over expense for employee pension plans	**(5)**	–	**(20)**	(77)
Change in other items	**435**	854	**770**	1 467
	19	(1,404)	**1,871**	1,069
Cash flows from financing activities				
Change in deposits	**2,364**	341	**2,401**	(1,361)
Maturity of subordinated debentures	**–**	–	**(45)**	–
Issuance of common shares	**13**	4	**27**	11
Issuance of preferred shares	**–**	–	**–**	200
Repurchase of common shares for cancellation	**(194)**	(194)	**(263)**	(240)
Dividends paid on common shares	**(57)**	–	**(115)**	(91)
Dividends paid on preferred shares	**(6)**	(5)	**(11)**	(10)
Change in obligations related to securities sold short	**837**	246	**1,024**	789
Change in obligations related to securities sold under repurchase agreements	**(435)**	1,065	**(2,466)**	(58)
Change in other items	**1**	(3)	**(4)**	(7)
	2,523	1,454	**548**	(767)
Cash flows from investing activities				
Change in loans	**(2,347)**	(1,515)	**(2,372)**	(832)
Proceeds from securitization of assets	**250**	281	**720**	558
Purchases of investment account securities	**(2,285)**	(5,667)	**(4,880)**	(11,432)
Sales of investment account securities	**2,246**	6,003	**6,062**	11,186
Change in securities purchased under reverse repurchase agreements	**177**	7	**(279)**	(1,053)
Net acquisition of premises and equipment	**(17)**	(8)	**(30)**	(10)
	(1,976)	(899)	**(779)**	(1,583)
Increase (decrease) in cash and cash equivalents	**566**	(849)	**1,640**	(1,281)
Cash and cash equivalents at beginning	**8,030**	6,432	**6,956**	6,864
Cash and cash equivalents at end	**8,596**	5,583	**8,596**	5,583
Cash and cash equivalents				
Cash and deposits with Bank of Canada	**198**	328	**198**	328
Deposits with financial institutions	**8,398**	5,255	**8,398**	5,255
Total	**8,596**	5,583	**8,596**	5,583
Interest and dividends paid	**382**	300	**806**	718
Income taxes paid	**92**	8	**309**	78

Consolidated Statement of Changes in Shareholders' Equity

(unaudited) (millions of dollars)	Six months ended April 30 2004	 2003
Preferred shares at beginning	**375**	300
Issuance of preferred shares, Series 15	**–**	200
Preferred shares at end	**375**	500
Common shares at beginning	**1,583**	1,639
Issuance of common shares	**27**	11
Repurchase of common shares for cancellation (Note 6)	**(54)**	(67)
Common shares at end	**1,556**	1,583
Contributed surplus at beginning	**2**	–
Stock option expense	**2**	-
Contributed surplus at end	**4**	–
Unrealized foreign currency translation adjustment at beginning	**6**	17
Foreign exchange gains (losses) on activities where the functional currency is other than the Canadian dollar	**(20)**	30
Income taxes related to foreign exchange gains and losses	**16**	(32)
Unrealized foreign currency translation adjustment at end	**2**	15
Retained earnings at beginning	**2,131**	1,945
Net income	**366**	304
Dividends		
Preferred shares	**(11)**	(13)
Common shares	**(115)**	(95)
Income taxes related to dividends on preferred shares, Series 12, 13 and 15	**–**	(1)
Premium paid on common shares repurchased for cancellation (Note 6)	**(209)**	(173)
Share issuance expenses, net of income taxes	**–**	(3)
Retained earnings at end	**2,162**	1,964
Shareholders' equity	**4,099**	4,062

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, 2003. Certain comparative figures have been reclassified to comply with the presentation adopted in fiscal 2004.

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, 2003, except for the new standards described in Note 2.

2. Recent Standards Adopted

Generally Accepted Accounting Principles

On November 1, 2003, the Bank adopted the requirements of Section 1100 of the Canadian Institute of Chartered Accountants (CICA) Handbook, "Generally Accepted Accounting Principles". This Section establishes standards for financial reporting in accordance with generally accepted accounting principles (GAAP) and identifies other sources to be consulted in selecting accounting policies and disclosures when a matter is not dealt with explicitly in the primary sources of GAAP. The application of this standard eliminates certain practices that could have been used within a particular industry. The only material impact on the results of the Bank is that mortgage loan prepayment fees will no longer be amortized. Since November 1, 2003, these fees have been recognized in the Consolidated Statement of Income under "Lending fees" when earned. Prior to November 1, 2003, mortgage loan prepayment fees were recorded and amortized to interest income over the term of the loan. In accordance with the guidance in Section 1100, the unamortized balance of mortgage loan prepayment fees, which amounted to $25 million as at October 31, 2003 ($16 million net of income taxes), was recorded in the first quarter of 2004 in the Consolidated Statement of Income under "Lending fees". In addition, following the adoption of Section 1100, the current basis of presentation using the net balance of certain amounts receivable and payable on outstanding transactions, including cheques and other items in transit, could be replaced by a presentation based on gross balance.

Hedging relationships

On November 1, 2003, the Bank adopted CICA Accounting Guideline No.13, "Hedging Relationships" (AcG-13). This Guideline identifies the circumstances in which hedge accounting is appropriate and discusses the identification, designation, documentation and effectiveness of hedging relationships and the discontinuance of hedge accounting, but does not cover hedge accounting techniques. Monetary or derivative financial instruments used in risk management qualifying for hedge accounting are recorded using the hedge accounting methodology described in Note 1 in the 2003 Annual Report.

When a hedging relationship ceases to be effective, hedge accounting will be discontinued prospectively and the financial instrument will be carried at fair value on the Consolidated Balance Sheet as of the date hedge accounting was discontinued. Any subsequent changes in fair value will be recognized in "Other income", in conformity with EIC-128, "Accounting for Trading Speculative or Non-Hedging Derivative Financial Instruments". Should the financial instrument once again qualify as a hedging relationship, then hedge accounting will take effect again on the new date of designation.

Financial instruments that do not qualify for hedge accounting under AcG-13 are carried at fair value on the Consolidated Balance Sheet as at November 1, 2003. The resulting $16 million transitional gain is deferred and recognized in income over the remaining term of the financial instruments.

Impairment of long-lived assets

Effective November 1, 2003, the Bank adopted the recommendations of CICA standard "Impairment of Long-Lived Assets", which establishes standards for the recognition, measurement and disclosure of the impairment of long-lived assets. This standard stipulates that an impairment loss should be recognized when the carrying value of a long-lived asset intended for use exceeds the sum of the undiscounted cash flows expected from its use and eventual disposition. The impairment loss is to be measured as the excess of the carrying value of the asset over its fair value. The adoption of this standard had no impact on the consolidated financial statements for the six months ended April 30, 2004.

Notes to the Consolidated Financial Statements (cont.)

(unaudited) (millions of dollars)

Equity-linked deposit contracts

On November 1, 2003, the Bank adopted CICA Accounting Guideline No. 17, "Equity-Linked Deposit Contracts". Under this Guideline, the Bank may record at fair value certain deposit obligations for which the obligation varies according to the return on equities or an equity index and which entitle the investors, after a specified period of time, to receive the higher of a stated percentage of their principal investment and a variable amount based on the return on equities or an equity index. Any subsequent changes in fair value are recognized in the Consolidated Statement of Income as they arise. The adoption of this Guideline did not have a material impact on the consolidated financial statements for the six months ended April 30, 2004.

3. Recent Accounting Standards Pending Adoption

Variable interest entities

In March 2004, the CICA published a draft Guideline of proposed changes to Accounting Guideline No. 15, "Consolidation of Variable Interest Entities". This Guideline is harmonized with the corresponding recently revised U.S. standard and includes guidance on determining the primary beneficiary of variable interest entities and the beneficiary that will therefore have to consolidate them. The Guideline will apply to all periods beginning on or after November 1, 2004. The Bank is currently evaluating the impact of this new Guideline.

Investment companies

In January 2004, the CICA issued Accounting Guideline No. 18, "Investment Companies." Under this Guideline, investment companies would be required to account for all their investments at fair value, including investments that would otherwise be consolidated or accounted for using the equity method. The Guideline sets out the criteria for determining whether a company is an investment company and also provides guidance on the circumstances in which the parent company of, or equity method investor in, an investment company should account for the investment company's investments at fair value.

The provisions of the Guideline will apply to the Bank as of November 1, 2004. They may be applied prospectively or retroactively. The Bank is currently examining the impact of this new Guideline.

Notes to the Consolidated Financial Statements (cont.)
(unaudited) (millions of dollars)

4. Loans and Impaired Loans

		Impaired loans			
	Gross amount	Gross	Specific allowances	Country risk allowance	Net
April 30, 2004					
Residential mortgage	14,489	6	3	–	3
Personal and credit card	6,862	31	17	–	14
Business and government	19,324	412	200	9	203
	40,675	449	220	9	220
General allowance [1]					(385)
Impaired loans, net of specific and general allowances					(165)
October 31, 2003					
Residential mortgage	13,976	7	3	–	4
Personal and credit card	6,101	33	17	–	16
Business and government	19,025	436	186	19	231
	39,102	476	206	19	251
General allowance [1]					(405)
Impaired loans, net of specific and general allowances					(154)

As at April 30, 2004, foreclosed assets held for sale amounted to $1 million net ($6 million as at October 31, 2003) and foreclosed assets held for use, $2 million ($4 million as at October 31, 2003).

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

5. Allowances for Credit Losses

	Specific allowances	Allocated general allowance	Unallocated general allowance	Country risk allowance	Six months ended April 30	
					2004	2003
Allowances at beginning	206	300	105	19	**630**	662
Provision for credit losses	83	(30)	10	–	**63**	82
Write-offs	(100)	–	–	(11)	**(111)**	(123)
Recoveries	31	–	–	1	**32**	25
Allowances at end	220	270	115	9	**614**	646

Notes to the Consolidated Financial Statements (cont.)

(unaudited) (millions of dollars)

6. Capital Stock

Issued and fully paid as at April 30, 2004

First preferred shares		
7,000,000	shares, Series 13	175
8,000,000	shares, Series 15	200
		375
169,729,578	common shares	1,556
		1,931
6,547,975	stock options outstanding	N/A

Repurchase of common shares

On December 8, 2003, the Bank started a normal course issuer bid for the repurchase of up to 8,700,000 common shares over a 12-month period ending no later than December 7, 2004. 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.

As at April 30, 2004, the Bank has completed the repurchase of 5,937,176 common shares at a cost of $263 million, which reduced common equity capital by $54 million and retained earnings by $209 million.

7. Securitization

CMHC-guaranteed mortgage loans

During the second quarter of 2004, the Bank securitized residential mortgage loans guaranteed by the CMHC totalling $250 million through the creation of mortgage-backed securities. The Bank sold all these securities. The Bank received cash proceeds totalling $249 million and retained the rights to future excess interest in the amount of $11 million. The Bank also recorded a servicing liability of $1 million. A pre-tax gain of $9 million, net of transaction fees of $1 million, was recognized in the Consolidated Statement of Income under "Securitization revenues".

8. Guarantees, Commitments and Contingent Liabilities

As at April 30, 2004, there were no significant changes with respect to the guarantees issued by the Bank as defined in Accounting Guideline No. 14 "Disclosure of Guarantees" and presented in Note 18 to the Consolidated Financial Statements for the year ended October 31, 2003, except for the addition of the following guarantee:

Backstop liquidity facilities – multiseller conduit

The Bank administers a multiseller conduit that buys various financial assets from clients and finances these purchases by issuing asset-backed commercial paper. The Bank provides backstop liquidity facilities for commercial paper to the multiseller conduit. These backstop liquidity facilities may only be drawn upon if, after a market disruption, the conduit was unable to access the commercial paper market. These guarantees have a duration of less than one year and are renewable periodically. The terms of the backstop liquidity facilities do not require the Bank to advance money to the conduit in the event of a bankruptcy or to fund non-performing or defaulted assets. None of the backstop liquidity facilities provided by the Bank have been drawn upon to date. As at April 30, 2004, the maximum potential future payments that the Bank may be required to make under these backstop liquidity facilities was $904 million. No amount has been accrued in the Consolidated Balance Sheet with respect to these backstop liquidity facilities.

Notes to the Consolidated Financial Statements (cont.)

(unaudited) (millions of dollars)

9. Segment Disclosures

Quarter ended April 30

	Personal and Commercial		Wealth Management		Financial Markets		Other		**Total**	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003
Net interest income (1)	**316**	300	**23**	22	**54**	70	**(65)**	(49)	**328**	343
Other income (1)	**160**	146	**182**	134	**194**	118	**20**	32	**556**	430
Total revenues	**476**	446	**205**	156	**248**	188	**(45)**	(17)	**884**	773
Operating expenses	**297**	283	**154**	125	**136**	117	**15**	4	**602**	529
Contribution	**179**	163	**51**	31	**112**	71	**(60)**	(21)	**282**	244
Provision for credit losses	**36**	39	**–**	–	**17**	13	**(34)**	(11)	**19**	41
Income before income taxes and non-controlling interest	**143**	124	**51**	31	**95**	58	**(26)**	(10)	**263**	203
Income taxes (1)	**51**	45	**17**	11	**36**	21	**(28)**	(19)	**76**	58
Non-controlling interest	**–**	–	**1**	1	**–**	–	**6**	6	**7**	7
Net income (net loss)	**92**	79	**33**	19	**59**	37	**(4)**	3	**180**	138
Average assets	**40,092**	38,555	**669**	656	**43,531**	36,462	**(5,618)**	(5,563)	**78,674**	70,110

Six months ended April 30

	Personal and Commercial		Wealth Management		Financial Markets		Other		**Total**	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003
Net interest income (2)	**639**	612	**45**	45	**48**	141	**(126)**	(100)	**606**	698
Other income (2)	**320**	302	**346**	273	**468**	284	**57**	51	**1,191**	910
Total revenues	**959**	914	**391**	318	**516**	425	**(69)**	(49)	**1,797**	1,608
Operating expenses	**589**	562	**302**	256	**268**	245	**22**	14	**1,181**	1,077
Contribution	**370**	352	**89**	62	**248**	180	**(91)**	(63)	**616**	531
Provision for credit losses	**65**	80	**–**	–	**41**	23	**(43)**	(21)	**63**	82
Income before income taxes and non-controlling interest	**305**	272	**89**	62	**207**	157	**(48)**	(42)	**553**	449
Income taxes (2)	**109**	99	**30**	22	**76**	56	**(42)**	(46)	**173**	131
Non-controlling interest	**–**	–	**2**	2	**–**	–	**12**	12	**14**	14
Net income (net loss)	**196**	173	**57**	38	**131**	101	**(18)**	(8)	**366**	304
Average assets	**39,781**	38,447	**662**	664	**43,099**	36,848	**(5,548)**	(5,742)	**77,994**	70,217

Personal and Commercial
This segment comprises the branch network, intermediary services, credit cards, insurance, commercial banking services and real estate.

Wealth Management
This segment comprises full-service retail brokerage, discount brokerage, mutual funds, trust services and portfolio management.

Financial Markets
This segment comprises corporate financing and lending, treasury operations, which include asset and liability management, and corporate brokerage.

Other
This heading comprises securitization operations, gains on the sale of operations, certain non-recurring items, discontinued operations and the unallocated portion of centralized service units.

(1) **Taxable equivalent**
The accounting policies are the same as those described in the Note on accounting policies (Note 1 in the 2003 Annual Report), with the exception of 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 $18 million ($10 million in 2003) and other income by $13 million ($15 million in 2003). An equal amount was added to income taxes. The impact of these increases is reversed under the "Other" heading.

(2) For the six months ended April 30, 2004, net interest income was grossed up by $31 million ($23 million in 2003) and other income by $11 million ($27 million in 2003). An equal amount was added to income taxes. The impact of these increases is reversed under the "Other" heading.

Bank News

Jean Douville named Chairman of the Board: At the meeting of the Board of Directors which followed the Annual Meeting of Shareholders held on March 10, 2004, Jean Douville was named Chairman of the Bank's Board of Directors. Mr. Douville has been a member of the Board since 1991 and is Chair of the Conduct Review and Corporate Governance Committee. He also chaired the Audit and Risk Management Committee for two years.

Revue Commerce survey on companies most admired by Quebecers: For a second consecutive year, National Bank continues to hold the top spot among financial institutions, according to the latest annual survey conducted by the business magazine *Commerce* and the firm Léger Marketing.

National Bank All-In-One: In March 2004, the Bank launched the National Bank All-In-One, an innovative and economical solution for managing personal finances. This leading-edge product allows customers to consolidate all of their financing needs in a single transaction account by using the financial value of their home or investments. With its preferred interest rate, flexible repayment options and higher credit limit, the All-In-One offers customers substantial savings and greater independence.

The SMEs of the National Bank Recognition Program: In April 2004, the Bank launched the 11th edition of its program, which honours the exceptional performances of small and medium-sized enterprises from among its Quebec business clients. The program is an excellent opportunity for the winning companies to raise their profile in Quebec and benefit from media coverage. Provincial winners will be chosen from among the regional finalists in each of the following categories: Small Business, SME, Agricultural SME and Export SME.

National Bank donates $1 million to the John Molson School of Business: The Bank, in cooperation with Concordia University, announced the establishment of a new PhD fellowship program for research in finance, The National Bank Fellowships, at the John Molson School of Business. The program, launched in February 2004, will use the $1 million donation to support 50 students working towards a PhD in finance with individual fellowships worth $20,000.

Take a stand for UQAM: On April 13, 2004, the *Université du Québec à Montréal* officially kicked off its major fund-raising campaign for 2002-2007, *Prenez position pour l'UQAM*. Réal Raymond, himself an alumnus of UQAM, is spearheading the university's $50 million financing campaign. UQAM has earmarked the funds for a number of projects including building a science outreach centre on the site of the science complex.

Réal Raymond participates in the NBF Canadian Financial Services Conference: At the April 2004 conference held in Montreal, Mr. Raymond presented the Bank's business model highlighting its strategy outside Quebec, an unknown aspect of the operations of "Quebec's leading bank". He emphasized the Bank's increasing importance on Canadian capital markets through its treasury and brokerage activities. He also focused on the Bank's positioning in various sectors of activity in all growth phases of product life cycles, achieved through sound diversification and strong synergies between business units.

Strategic alliance with the Louis Dreyfus Corporation: The Louis Dreyfus Corporation and National Bank announced the creation of a strategic alliance to provide value-added products and services to the natural gas market in Canada. Louis Dreyfus Energy Canada Inc., a subsidiary of Louis Dreyfus Corporation, will participate with the Bank in developing and providing innovative products and services and risk management solutions to Canadian natural gas producers, aggregators and consumers.

Sale of assets of three branches to Desjardins: In March 2004, National Bank and Desjardins Group announced the conclusion of an agreement under which three National Bank branches in Abitibi would be transferred to Desjardins. The transaction involved the branches in Matagami, Senneterre and Lebel-sur-Quévillon.

Economic Commentary

For a more detailed analysis and up-to-date information on the state of the global and local economy, we invite you to consult the following National Bank economic publications:

Economic and Financial Outlook: A complete survey of the economic outlook in North America and abroad, the provincial economies, and financial markets and sectors. Published twice a year.

Monthly Economic Monitor: An overview of recent economic developments in Canada, the United States and around the world, with an update of our economic forecast.

Economic Weekly: A weekly analysis of current economic issues along with the latest figures for selected indicators of foreign, North American and provincial economies, and commodity prices.

These publications are available on the Bank's website at **www.nbc.ca** in the menu on the right-hand side of the screen under Economic Analysis.

National Bank of Canada
Information for Shareholders and Investors

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Financial analysts and investors who want to obtain financial information on the Bank are asked to contact the Investor Relations Department.
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Quarterly Report Publication Dates for Fiscal 2003-2004

First quarter	February 26, 2004
Second quarter	May 27, 2004
Third quarter	August 26, 2004
Fourth quarter	December 2, 2004

DISCLOSURE OF SECOND QUARTER 2004 RESULTS

Conference Call:
- A conference call for analysts and institutional investors will be held on **May 27, 2004 at 1:00 p.m. ET.**
- Access by telephone is **1-877-211-7911** or **(416) 405-9310**
- A recording of the conference call can be heard until June 3, 2004 by calling **1-800-408-3053** or **(416) 695-5800**. The access code is **3049614**.

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 the National Bank's Web site 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 the National Bank's Web site shortly before the start of the conference call.

Transfer Agent and Registrar
For information about stock transfers, address changes, dividends, lost stock certificates, tax forms and estate transfers, shareholders are requested to contact the Transfer Agent, National Bank Trust Inc., at the address and telephone numbers below.

National Bank Trust Inc.
Share Ownership Management
1100 University, 9th Floor
Montreal, Quebec H3B 2G7
Telephone: (514) 871-7171
1-800-341-1419
Fax: (514) 871-7442
Email: **clientele@tbn.bnc.ca**

Direct Deposit Service for Dividends
Shareholders may have their dividend payments deposited directly via electronic funds transfer to an account at any financial institution that is a member of the Canadian Payments Association. To do so, simply contact the Transfer Agent, National Bank Trust Inc., in writing.

Dividend Reinvestment and Share Purchase Plan
National Bank offers holders of its common or preferred shares a Dividend Reinvestment and Share Purchase Plan through which they can invest in shares without paying any commissions or administration fees. Participants may reinvest all cash dividends paid on their shares held or make optional cash payments of at least $500 per payment, to a maximum of $5,000 per quarter, to purchase shares. For more information, please contact the Registrar, National Bank Trust Inc., at 1-800-341-1419 or (514) 871-7171.

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