

Report to Shareholders



National Bank: robust revenue and diluted EPS growth in the second quarter of 2006

- Revenues of \$949 million, an increase of 5.4%
- Diluted earnings per share of \$1.26, up 10%
- Return on common shareholders' equity of 20.4%
- Increase in the quarterly dividend of 4 % to 50 cents per share

MONTREAL, May 25, 2006 – National Bank reported net income of \$214 million for the second quarter of fiscal 2006, an increase of \$12 million over the same period in 2005. Diluted earnings per share totalled \$1.26, up 10% from \$1.15 in the second quarter of 2005. Had it not been for the reduction in the general allowance for credit risk in the second quarter of 2005 and the net gain on the sale of its shareholder manage-

ment activities in the second quarter of 2006, the increase would have been 14%.

Return on common shareholders' equity was 20.4% in the second quarter of 2006 versus 19.9% for the same quarter last year. The Board of Directors also approved an increase of 4% in the quarterly dividend to 50 cents per share.

(millions of dollars)	For the quarter ended April 30			For the six months ended April 30		
	2006	2005	%	2006	2005	%
Personal and Commercial	111	105	+6	225	217	+4
Wealth Management	42	30	+40	80	56	+43
Financial Markets	59	61	-3	141	137	+3
Other	2	6	-	(15)	31	-
Net income	<u>214</u>	<u>202</u>	+6	<u>431</u>	<u>441</u>	-2
Less: Reduction in general allowance for credit risk	-	(11)		-	(11)	
Net gain on sale of shareholder management activities included in Wealth Management	(5)	-		(5)	-	
Gain on disposal of investments in South America	-	-		-	(25)	
Net income excluding preceding items	<u>209</u>	<u>191</u>	+9	<u>426</u>	<u>405</u>	+5
Diluted earnings per share	\$1.26	\$1.15	+10	\$2.52	\$2.52	-
Less: Reduction in general allowance for credit risk	-	(0.07)		-	(0.07)	
Net gain on sale of shareholder management activities included in Wealth Management	(0.03)	-		(0.03)	-	
Gain on disposal of investments in South America	-	-		-	(0.15)	
Diluted earnings per share excluding preceding items	<u>\$1.23</u>	<u>\$1.08</u>	+14	<u>\$2.49</u>	<u>\$2.30</u>	+8
Return on common shareholders' equity	<u>20.4%</u>	<u>19.9%</u>		<u>20.2%</u>	<u>21.8%</u>	

The quarter saw robust growth in revenues in both the Personal and Commercial and Wealth Management segments as well as a slight decrease in operating expenses. These activities also showed excellent profitability. "Over 8% of personal savings on deposit with the six major Canadian banks, be they securities, mutual funds or other vehicles⁽¹⁾, are held at the Bank—a proportion far exceeding our relative size in the Canadian market. This competitive advantage is fully reflected in our quarterly results and is a source of long-term profitability for our shareholders," stated Réal Raymond, President and Chief Executive Officer.

The Bank posted net income of \$431 million for the first six months of fiscal 2006 versus \$441 million for the same period in 2005. Diluted earnings per share for the first six months of 2006 stood at \$2.52, unchanged from the first half of 2005. Had it not been for the reduction in the general allowance for credit risk, the gain on disposal of investments in South America and the net gain on the sale of the shareholder management activities in the first half of 2005 and 2006, diluted earnings per share would have increased 8%. Lastly, return on common shareholders' equity was 20.2% in the first half of 2006 compared to 21.8% for the same period last year.

Results by Segment

In the second quarter of 2006, net income for Personal and Commercial totalled \$111 million, up 6% from \$105 million for the same quarter the previous year. The segment recorded sustained growth in total revenues due to insurance and foreign exchange activities and higher net interest income resulting primarily from increased loan volumes. Operating expenses rose chiefly due to the higher cost of salaries and staff benefits. The segment's contribution before the provision for credit losses and income taxes was \$200 million for the quarter, 10% higher than in the corresponding period of 2005. This growth was partly offset by the increase in the provision for credit losses. In the first six months of 2006, net income for the Personal and Commercial segment was \$225 million, up 4% over the \$217 million recorded for the corresponding period of 2005. Total revenues for the segment grew 5.4% to \$1,049 million.

Net income for Wealth Management totalled \$42 million for the quarter, compared to \$30 million for the corresponding period of 2005, an increase of 40%. The gain on the sale of

National Bank Trust's shareholder management activities during the quarter, less certain expenses, contributed \$5 million to the increase in quarterly net income. The segment's total revenues rose 11% on the strength of increased activity in almost all of its business units. A slight increase in operating expenses resulted in a decrease in the efficiency ratio from 77.3% in the second quarter of 2005 to 71.7% this quarter. In the first six months of 2006, net income for Wealth Management reached \$80 million, 43% more than for the same period of 2005. Total revenues for the segment grew 11% to \$444 million in the first half of 2006.

Financial Markets posted net income of \$59 million in the second quarter of 2006, for a decrease of \$2 million versus the corresponding quarter of 2005. The segment's revenues declined by \$8 million to \$237 million. Lower financial market fees were partly offset by higher gains on securities and trading revenues. The decrease in operating expenses therefore enabled the segment to substantially maintain its profitability. In the first half of 2006, net income for the segment stood at \$141 million, \$4 million more than for the same period of 2005. The improvement mainly reflects the decline in operating expenses.

Credit Risk

For the second quarter of 2006, the Bank recorded \$22 million in specific provisions for credit losses. Excluding the \$17 million reduction in the general allowance for credit risk in the corresponding period of 2005, the increase in credit losses was \$4 million this quarter. As at April 30, 2006, gross impaired loans stood at \$242 million versus \$260 million at the end of fiscal 2005. This decline was primarily due to the decrease in gross impaired real estate loans. As at April 30, 2006, allowances for credit losses exceeded gross impaired loans by \$197 million compared to \$191 million as at October 31, 2005.

Regulatory Capital

As at April 30, 2006, Tier 1 and total capital ratios stood at 9.1% and 12.2%, respectively, compared to 9.6% and 12.8% as at October 31, 2005, taking into account the \$500 million debenture issued on November 2, 2005. During the quarter, the Bank repurchased 2.7 million common shares, at a total cost of \$168 million, as part of its normal course issuer bid. Under this program, the Bank is seeking to repurchase a maximum of 8.3 million common shares by January 22, 2007.

⁽¹⁾ Source: *Investor Economics Inc.*

Financial Objectives

	Objectives	Results 2nd quarter 2006	Results 1st six months 2006
Growth in diluted earnings per share excluding the reduction in the general allowance for credit risk and the gains on disposal of investments and activities	5% – 10%	14%	8%
Return on common shareholders' equity	16% – 18%	20.4%	20.2%
Tier 1 capital ratio	More than 8.5%	9.1%	9.1%
Dividend payout ratio	35% – 45%	37%	37%

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.

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

May 25, 2006 – 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 Multilateral Instrument 51-102 respecting Continuous Disclosure Obligations of the Canadian Securities Administrators and is based on the unaudited interim consolidated financial statements for the second quarter and the first six months of 2006. 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 recorded net income of \$214 million in the second quarter of fiscal 2006, up 6% from the \$202 million recorded for the corresponding period of 2005. Excluding the reduction in the general allowance for credit risk in the second quarter of 2005 and the net gain on the sale of the shareholder management activities in the second quarter of 2006, the increase would have been 9%. The Bank's net income for the first six months of fiscal 2006 was \$431 million, \$10 million less than for the year-earlier period. Excluding the reduction in the general allowance for credit risk, the gain on the disposal of investments in South America and the net gain on the sale of the shareholder management activities in the first half of 2005 and 2006, net income increased \$21 million, or 5%, year over year.

Diluted earnings per share amounted to \$1.26 in the second quarter of 2006, up 10% from \$1.15 for the same period of 2005. Excluding the reduction in the general allowance for credit risk in the first quarter of 2005 and the net gain on the sale of the shareholder management activities in the second quarter of 2006, diluted earnings per share increased 14%. Diluted earnings per share in the first half of 2006 were \$2.52, unchanged from the first half of 2005. Excluding the reduction in the general allowance for credit risk, the gain on the disposal of investments in South America and the net gain on the sale of the shareholder management activities, diluted earnings per share grew 8% for the first six months.

Total Revenues

At \$949 million, the Bank's total revenues rose 5.4% in the second quarter of 2006, as against \$900 million in the second quarter of 2005. Personal and Commercial net interest income advanced \$14 million, or 4.5%, to \$328 million for the quarter, owing to higher volumes of consumer and business loans. While the spread on credit products narrowed from the second quarter of 2005 to the second quarter of 2006, the effect was partly offset by the wider spread on deposits.

Trading revenues totalled \$86 million for the second quarter of 2006, up \$11 million, owing primarily to commodity and currency trading. Gains on investment account securities climbed \$11 million to \$28 million in the second quarter of 2006.

Revenues from mutual funds and trust services, particularly Private Investment Management, climbed \$14 million from the

second quarter of 2005 to reach \$83 million in the second quarter of 2006. Aside from these items, the increase in other income was attributable to lending fees and foreign exchange revenues, each of which rose \$6 million. Securitization revenues, however, were \$39 million this quarter, as against \$47 million in the second quarter of 2005. Financial market fees amounted to \$164 million in the second quarter of 2006, compared to \$189 million in the year-earlier period when institutional brokerage activities were significantly higher.

Total revenues in the first half of 2006 grew 2.4%, reaching \$1,928 million versus \$1,883 million in the first half of 2005. Personal and Commercial net interest income advanced \$28 million, or 4.4%, to \$665 million. Trading revenues climbed \$22 million to \$179 million. Revenues from mutual funds and trust services, including Private Investment Management, rose \$30 million from the first half of 2005 to \$164 million in the first six months of 2006. Lending fees and foreign exchange revenues increased \$10 million and \$11 million, respectively, while securitization revenues amounted to \$79 million, compared to \$95 million for the same period in 2005. Financial market fees totalled \$323 million in the first six months of 2006, as against \$358 million in the first six months of 2005.

Operating Expenses

In the second quarter of 2006, operating expenses were \$623 million, down \$1 million from the year-earlier period. Salaries and staff benefits remained substantially the same for the comparison period. At 57%, the ratio of salaries and staff benefits to operating expenses also remained stable. The increase in regular salaries and pension plan costs during the second quarter of 2006 was offset by the decrease in variable compensation.

In the first half of 2006, operating expenses climbed \$30 million to \$1,267 million, owing to the \$13 million growth in salaries and staff benefits. Technology expenses were up \$8 million to \$215 million, while other expenses, including professional fees, increased \$9 million to \$315 million.

Income Taxes

Income taxes for the second quarter of 2006 totalled \$82 million, representing an effective tax rate of 27.0%, compared to \$66 million and an effective tax rate of 24.0% for the year-earlier period. For the first half of 2006, income taxes amounted to \$175 million, representing an effective tax rate of 28.1%, as against \$173 million and an effective tax rate of 27.6% for the corresponding period of 2005.

Results by Segment

Personal and Commercial

Net income for the Personal and Commercial segment totalled \$111 million for the second quarter of 2006, up 5.7% from the \$105 million in net income earned in the corresponding quarter of 2005. Total revenues for the segment climbed 5.5% to \$520 million. At Personal Banking, total revenues rose \$21 million or 6.5% owing to growth of \$3 billion in average asset volumes, attributable mainly to consumer loans, but also to residential

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

mortgages and credit card advances. The increase in revenues stemming from higher loan volumes was partly offset by a narrowing of the spread on these products. However, the spread on transaction deposits widened because of rising interest rates. Insurance revenues jumped 31%, at an annualized rate. Total revenues for Commercial Banking were up \$6 million or 3.9% due to the increase in net interest income attributable to higher volumes of loans and acceptances and growth in foreign exchange revenues. While the spread narrowed slightly on Commercial Banking credit products, it widened on deposits. Operating expenses for the Personal and Commercial segment were \$320 million for the second quarter of 2006, as against \$311 million for the year-earlier period, for an increase of 2.9%. As a result, the efficiency ratio declined to 61.5% for the quarter from 63.1% for the second quarter of 2005. The segment provision for credit losses was increased by \$7 million to \$33 million.

For the first six months of fiscal 2006, the Personal and Commercial segment posted net income of \$225 million, a 3.7% increase over the \$217 million recorded for the same period of 2005. Total revenues for the segment rose 5.4% to \$1,049 million on growth of \$39 million or 6.0% at Personal Banking and \$15 million or 4.4% at Commercial Banking. The efficiency ratio moved down to 61.6% in the first half of 2006 from 62.0% for the same period a year earlier.

Wealth Management

Net income for the Wealth Management segment totalled \$42 million for the second quarter of 2006, compared to \$30 million for the corresponding quarter of 2005, for an increase of 40%. The net gain realized on the sale of National Bank Trust's shareholder management activities during the quarter contributed \$5 million to the increase in net income for the quarter. The segment's total revenues advanced 11% to \$230 million for the second quarter of 2006. Almost all the business units in the segment saw increased activity. Operating expenses were up \$5 million or 3% to \$165 million for the quarter. With revenue growth outstripping expense growth, the efficiency ratio was reduced from 77.3% in the second quarter of 2005 to 71.7% this quarter.

For the first half of fiscal 2006, net income for the Wealth Management segment amounted to \$80 million versus \$56 million for the same period in 2005, for an increase of 43%. Total revenues for the segment rose by 11% to \$444 million in the first six months of fiscal 2006. Operating expenses edged up barely \$9 million or 3% to \$320 million for the six-month period.

Financial Markets

For the quarter ended April 30, 2006, the Financial Markets segment posted net income of \$59 million, down \$2 million from the year-earlier period. Segment revenues fell \$8 million to \$237 million. Lower financial market fees were offset by higher

Financial Market Revenues

(taxable equivalent basis ⁽¹⁾) (millions of dollars)	Q2 2006	Q2 2005
Trading revenues		
Equity	57	57
Interest rate	14	13
Commodity and foreign exchange	12	5
	83	75
Financial market fees	65	88
Gains on securities	31	14
Banking services	29	34
Other	29	34
Total	237	245

gains on securities and trading revenues. Operating expenses for the quarter were \$142 million, a decline of 5.3% from the \$150 million recorded in the corresponding quarter of 2005, primarily owing to variable compensation. The provision for credit losses for the quarter stood at \$1 million, compared to \$2 million for the second quarter of 2005. For the first half of fiscal 2006, the segment's net income totalled \$141 million, or \$4 million more than the corresponding period of 2005.

Other

The "Other" heading of segment results posted net income of \$2 million for the second quarter of 2006, compared to \$6 million for the same period a year earlier. For the first six months of 2006, the "Other" heading recorded a loss of \$15 million, as against a gain of \$31 million for the corresponding period of 2005. In the first half of 2005, the Bank recorded a \$37 million pre-tax gain on the disposal of investments and reversed the general allowance for credit risk by \$17 million.

Cash Flows

Due to the nature of the Bank's business, most of its revenues and expenses are cash items. Moreover, significant cash flow movement can be observed in certain activities, such as trading activities, and could impact several assets and liabilities such as trading account securities, securities sold short or securities sold under repurchase agreements.

For the second quarter of 2006, cash and cash equivalents were up \$1.2 billion, compared to an increase of \$2.3 billion for the second quarter of 2005. As at April 30, 2006, cash and cash equivalents totalled \$9.6 billion versus \$8.9 billion the previous year.

Operating activities required cash of \$5.2 billion for the second quarter of 2006, mainly because of the increase in trading account securities. For the corresponding quarter of 2005, operating activities required cash of \$3.9 billion for the same reason.

⁽¹⁾ 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. The use of the taxable equivalent basis is not in accordance with GAAP. Securities regulators require that companies caution readers that measures adjusted on a basis other than GAAP do not have standardized meanings under GAAP and may not be comparable to similar measures used by other companies. Please refer to Note 11 to the unaudited interim consolidated financial statements for the impact of the taxable equivalent adjustment to segment results.

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

Financing activities provided cash inflows of \$5.2 billion, most of which was generated by higher deposits, particularly purchased funds. For the second quarter of 2005, the \$5.1 billion rise in deposits and the \$3.4 billion increase in obligations related to securities sold short accounted for \$8.0 billion in cash inflows from financing activities.

Finally, cash inflows from investing activities were \$1.2 billion in the second quarter of 2006. Investing activities in the corresponding quarter of 2005 required cash of \$1.8 billion due to the \$1.9 billion increase in loans.

Risk Management

Credit Risk

In the second quarter of 2006, the Bank recorded specific provisions for credit losses of \$22 million, an increase of \$4 million over the second quarter of 2005. As at April 30, 2006, gross impaired loans stood at \$242 million compared to \$260 million at the end of fiscal 2005. This decline was primarily due to the decrease in gross impaired real estate loans. The ratio of gross impaired loans to total adjusted capital and allowances was only 6.4%. As at April 30, 2006, allowances for credit losses exceeded gross impaired loans by \$197 million versus \$191 million as at October 31, 2005.

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. The VaR measure is based on a 99% confidence level, which is an estimate of the maximum potential trading loss in 99 out of 100 days, which means that actual losses will probably exceed VaR on 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 61 of the 2005 Annual Report.

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

Trading Activities⁽¹⁾

(millions of dollars)

Global VaR by risk category	For the quarter ended April 30, 2006				For the quarter ended January 31, 2006			
	Period end	High	Average	Low	Period end	High	Average	Low
Interest rate	(7.1)	(8.2)	(5.8)	(3.6)	(5.2)	(7.2)	(3.7)	(1.8)
Foreign exchange	(0.9)	(2.2)	(1.5)	(0.6)	(1.9)	(2.8)	(1.8)	(0.6)
Equity	(3.7)	(6.7)	(4.9)	(3.7)	(6.1)	(6.2)	(4.7)	(3.0)
Commodity	(1.4)	(1.4)	(0.9)	(0.7)	(1.6)	(2.3)	(1.2)	(0.5)
Correlation effect ⁽²⁾	6.5	9.5	6.0	3.2	5.7	8.3	5.6	1.8
Global VaR	(6.6)	(9.0)	(7.1)	(5.4)	(9.1)	(10.2)	(5.8)	(4.1)

⁽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 April 30, 2006, the Bank had assets of \$111.2 billion, up \$3.6 billion versus \$107.6 billion at the end of fiscal 2005. Loans and acceptances were up \$700 million. In addition, cash, deposits with financial institutions, securities and securities purchased under reverse repurchase agreements increased \$3.4 billion. The table below presents the main portfolios.

Average monthly volumes (millions of dollars)	April 2006	October 2005	April 2005
Loans and acceptances*			
Residential mortgages	20,972	20,728	20,053
Consumer loans	9,049	8,283	7,354
Credit card receivables	1,716	1,707	1,646
SME loans	15,312	14,182	15,009
Corporate loans	3,558	3,216	2,741
	50,607	48,116	46,803
Deposits			
Personal (balance)	28,270	26,385	25,033
Off-balance sheet personal savings (balance)	68,636	63,262	60,239
Business	11,310	11,103	10,533

* including securitized assets

Residential mortgage loans rose steadily during the second quarter, with the average monthly volume reaching \$21.0 billion as against \$20.1 billion in the second quarter of 2005. Consumer loans climbed 23% to \$9.0 billion, driven by volumes from secured lines of credit. The rise in credit card receivables, which were up 4.3% over the previous year to total \$1.7 billion as at April 30, 2006, was attributable to increased consumer spending. Business loans continued to grow, with SME loans up \$300 million year over year, representing an average volume of \$15.3 billion as at April 30, 2006. Average volumes of corporate loans, for their part, rose \$800 million to \$3.6 billion.

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

Personal deposits stood at \$28.3 billion as at April 30, 2006, up \$3.2 billion or 12.9% from the corresponding quarter of 2005, chiefly owing to deposits distributed by Altamira. Off-balance sheet personal savings administered by the Bank as at April 30, 2006 totalled \$68.6 billion, an increase of \$8.4 billion or 13.9% in a year. The rise was primarily attributable to savings administered by brokerage subsidiaries, with the remainder divided between Private Investment Management and mutual funds.

Accounting Policies and Estimates

The interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The reader is referred to Note 1 and Note 2a to the 2005 annual consolidated financial statements for more information on the significant accounting policies used to prepare the financial statements.

There have not been any changes to the Bank's significant accounting policies affecting the first half of 2006.

Details of significant future changes in accounting standards are presented in Note 2 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 interim consolidated financial statements and notes remain essentially unchanged from those described in the 2005 Annual Report.

Capital

Tier 1 and total capital ratios, according to the rules of the Bank for International Settlements, stood at 9.1% and 12.2%, respectively, as at April 30, 2006 versus 9.6% and 12.8% as at October 31, 2005, including the \$500 million debenture issued on November 2, 2005. During the quarter, the Bank repurchased 2.7 million common shares for a total of \$168 million as part of its normal course issuer bid. Under the program, the Bank intends to repurchase a maximum of 8,278,000 common shares by January 22, 2007.

In addition, risk-weighted assets rose \$1.8 billion or 3.8% since the start of the fiscal year mainly because of higher loan volumes.

Dividends

At its Meeting on May 25, 2006, the Board of Directors declared regular dividends on the various classes and series of preferred shares as well as a 2 cents increase to 50 cents per common share, payable on August 1, 2006 to shareholders of record on June 22, 2006.

Additional Financial Information

(unaudited)
(millions of dollars except per share amounts)

	2006		2005				2004		2005	2004
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Total	Total
Total revenues	\$949	\$979	\$931	\$889	\$900	\$983	\$892	\$858	\$3,703	\$3,545
Net income	214	217	207	207	202	239	192	167	855	725
Earnings per share										
Basic	1.29	1.28	1.22	1.20	1.17	1.39	1.11	0.95	4.98	4.10
Diluted	1.26	1.26	1.20	1.18	1.15	1.37	1.09	0.94	4.90	4.05
Dividends per common share	0.48	0.48	0.44	0.44	0.42	0.42	0.38	0.38	1.72	1.42
Return on common shareholders' equity	20.4%	19.9%	19.4%	19.6%	19.9%	23.6%	19.7%	17.2%	20.7%	18.8%
Total assets	\$111,183	\$105,276	\$107,598	\$110,593	\$99,917	\$91,703	\$88,497	\$85,481		
Impaired loans, net	111	113	117	114	119	134	160	199		
Per common share										
Book value	25.77	25.72	25.39	24.70	24.19	23.97	22.87	22.30		
Stock trading range										
High	65.60	63.90	61.47	58.21	55.24	49.75	48.78	45.50		
Low	61.35	58.35	55.87	51.60	48.72	46.39	42.31	42.72		

Highlights

(unaudited)	Quarter ended April 30			Six months ended April 30		
	2006	2005	% Change	2006	2005	% Change
Operating results						
(millions of dollars)						
Total revenues	\$949	\$900	5	\$1,928	\$1,883	2
Net income	214	202	6	431	441	(2)
Return on common shareholders' equity	20.4%	19.9%		20.2%	21.8%	
Per common share						
Earnings - basic	\$1.29	\$1.17	10	\$2.57	\$2.56	-
Earnings - diluted	1.26	1.15	10	2.52	2.52	-
Dividends declared	0.48	0.42	14	0.96	0.84	14
Book value				25.77	24.19	7
Stock trading range						
High	65.60	55.24		65.60	55.24	
Low	61.35	48.72		58.35	46.39	
Close	62.34	52.41		62.34	52.41	
Financial position						
(millions of dollars)						
				April 30 2006	October 31 2005	
Total assets				\$111,183	\$107,598	3
Loans and acceptances				51,099	50,360	1
Deposits				70,118	61,977	13
Subordinated debentures and shareholders' equity				6,171	5,699	8
Capital ratios - BIS						
Tier 1				9.1%	9.6%	
Total				12.2%	12.8% ⁽¹⁾	
Impaired loans, net of specific and general allowances				(197)	(191)	
as a % of loans and acceptances				(0.4)%	(0.4)%	
Assets under administration/management				228,946	221,132	
Total personal savings				96,906	89,647	
Interest coverage				14.38	12.71	
Asset coverage				3.58	4.73	
Other information						
Number of employees				16,955	16,890	-
Number of branches in Canada				455	457	-
Number of banking machines				802	788	2

(1) Taking into account the issuance of \$500 million of subordinated debentures on November 2, 2005.

Consolidated Statement of Income

(unaudited)
(millions of dollars)

Interest income and dividends

Loans
Securities
Deposits with financial institutions

Interest expense

Deposits
Subordinated debentures
Other

Net interest income

Other income

Financial market fees
Deposit and payment service charges
Trading revenues
Gains on investment account securities, net
Card service revenues
Lending fees
Acceptances, letters of credit and guarantee
Securitization revenues
Foreign exchange revenues
Trust services and mutual funds
Other

Total revenues

Provision for credit losses

Operating expenses

Salaries and staff benefits
Occupancy
Technology
Communications
Professional fees
Other

Income before income taxes and non-controlling interest

Income taxes

Non-controlling interest

Net income

Dividends on preferred shares

Net income available to common shareholders

Number of common shares outstanding (thousands)

Average - basic
Average - diluted
End of period

Earnings per common share (dollars)

Basic
Diluted

Dividends per common share (dollars)

	Quarter ended			Six months ended	
	April 30 2006	January 31 2006	April 30 2005	April 30 2006	April 30 2005
Interest income and dividends					
Loans	627	614	506	1,241	1,015
Securities	260	204	182	464	361
Deposits with financial institutions	77	58	46	135	74
	964	876	734	1,840	1,450
Interest expense					
Deposits	447	439	253	886	513
Subordinated debentures	22	24	28	46	54
Other	194	135	73	329	154
	663	598	354	1,261	721
Net interest income	301	278	380	579	729
Other income					
Financial market fees	164	159	189	323	358
Deposit and payment service charges	52	50	49	102	98
Trading revenues	102	166	2	268	86
Gains on investment account securities, net	28	42	17	70	94
Card service revenues	14	14	17	28	32
Lending fees	63	62	57	125	115
Acceptances, letters of credit and guarantee	16	16	15	32	31
Securitization revenues	39	40	47	79	95
Foreign exchange revenues	24	23	18	47	36
Trust services and mutual funds	83	81	69	164	134
Other	63	48	40	111	75
	648	701	520	1,349	1,154
Total revenues	949	979	900	1,928	1,883
Provision for credit losses	22	17	1	39	18
	927	962	899	1,889	1,865
Operating expenses					
Salaries and staff benefits	358	379	357	737	724
Occupancy	33	30	31	63	61
Technology	105	110	108	215	207
Communications	19	18	21	37	40
Professional fees	32	30	32	62	57
Other	76	77	75	153	148
	623	644	624	1,267	1,237
Income before income taxes and non-controlling interest	304	318	275	622	628
Income taxes	82	93	66	175	173
	222	225	209	447	455
Non-controlling interest	8	8	7	16	14
Net income	214	217	202	431	441
Dividends on preferred shares	5	6	7	11	13
Net income available to common shareholders	209	211	195	420	428
Number of common shares outstanding (thousands)					
Average - basic	162,598	164,903	167,327	163,770	167,513
Average - diluted	165,552	167,781	169,938	166,685	170,053
End of period	161,882	164,313	165,744	161,882	165,744
Earnings per common share (dollars)					
Basic	1.29	1.28	1.17	2.57	2.56
Diluted	1.26	1.26	1.15	2.52	2.52
Dividends per common share (dollars)	0.48	0.48	0.42	0.96	0.84

Consolidated Balance Sheet

(unaudited)
(millions of dollars)

	April 30 2006	January 31 2006	October 31 2005	April 30 2005
ASSETS				
Cash	226	250	227	208
Deposits with financial institutions	9,467	9,234	10,087	9,089
Securities				
Investment account	7,671	7,129	6,716	6,815
Trading account	28,839	22,943	26,336	24,347
	36,510	30,072	33,052	31,162
Securities purchased under reverse repurchase agreements	7,549	7,980	7,023	6,843
Loans				
Residential mortgage	14,889	15,348	15,677	15,446
Personal and credit card	10,687	10,124	9,796	8,689
Business and government	22,285	22,749	22,096	19,896
	47,861	48,221	47,569	44,031
Allowance for credit losses	(439)	(454)	(451)	(485)
	47,422	47,767	47,118	43,546
Other				
Customers' liability under acceptances	3,677	3,468	3,242	2,902
Fair value of trading derivative financial instruments	2,593	2,634	2,390	2,618
Premises and equipment	345	350	355	343
Goodwill	662	662	662	662
Intangible assets	177	178	178	179
Other assets	2,555	2,681	3,264	2,365
	10,009	9,973	10,091	9,069
	111,183	105,276	107,598	99,917
LIABILITIES AND SHAREHOLDERS' EQUITY				
Deposits				
Personal	28,270	27,103	26,385	25,033
Business and government	30,930	29,640	29,636	27,787
Deposit-taking institutions	10,918	8,177	5,956	8,926
	70,118	64,920	61,977	61,746
Other				
Acceptances	3,677	3,468	3,242	2,902
Obligations related to securities sold short	15,094	14,495	15,504	15,088
Securities sold under repurchase agreements	7,541	7,840	12,915	6,885
Fair value of trading derivative financial instruments	1,997	2,060	1,846	2,213
Other liabilities	6,068	5,788	5,928	4,301
	34,377	33,651	39,435	31,389
Subordinated debentures	1,599	1,600	1,102	1,770
Non-controlling interest	517	479	487	427
Shareholders' equity				
Preferred shares	400	400	400	575
Common shares	1,558	1,573	1,565	1,552
Contributed surplus	17	15	13	10
Unrealized foreign currency translation adjustments	(77)	(49)	(26)	(1)
Retained earnings	2,674	2,687	2,645	2,449
	4,572	4,626	4,597	4,585
	111,183	105,276	107,598	99,917

Consolidated Statement of Changes in Shareholders' Equity

(unaudited)
(millions of dollars)

	Six months ended April 30	
	2006	2005
Preferred shares at beginning	400	375
Issuance of preferred shares, Series 16	–	200
Preferred shares at end	400	575
Common shares at beginning	1,565	1,545
Issuance of common shares		
Dividend Reinvestment and Share Purchase Plan	7	6
Stock Option Plan	29	28
Repurchase of common shares for cancellation (Note 8)	(43)	(26)
Impact of shares acquired or sold for trading purposes	–	(1)
Common shares at end	1,558	1,552
Contributed surplus at beginning	13	7
Stock option expense (Note 9)	4	3
Contributed surplus at end	17	10
Unrealized foreign currency translation adjustments at beginning	(26)	(10)
Gains (losses) on foreign exchange operations with a functional currency other than the Canadian dollar, net of income taxes	(51)	9
Unrealized foreign currency translation adjustments at end	(77)	(1)
Retained earnings at beginning	2,645	2,287
Net income	431	441
Impact of initial adoption of AcG-15 "Consolidation of Variable Interest Entities"	–	6
Dividends		
Preferred shares	(11)	(13)
Common shares	(158)	(141)
Premium paid on common shares repurchased for cancellation (Note 8)	(232)	(123)
Share issuance and other expenses, net of income taxes	(1)	(8)
Retained earnings at end	2,674	2,449
Shareholders' equity	4,572	4,585

Consolidated Statement of Cash Flows

(unaudited)
(millions of dollars)

	Quarter ended April 30		Six months ended April 30	
	2006	2005	2006	2005
Cash flows from operating activities				
Net income	214	202	431	441
Adjustments for:				
Provision for credit losses	22	1	39	18
Amortization of premises and equipment	16	15	32	30
Future income taxes	-	1	4	(29)
Translation adjustment on foreign currency subordinated debentures	(1)	6	(3)	12
Gains on sale of investment account securities, net	(28)	(17)	(70)	(94)
Gains on asset securitization and other transfers of receivables, net	(20)	(30)	(42)	(55)
Stock option expense	2	2	4	3
Change in interest payable	15	(4)	98	12
Change in interest and dividends receivable	(17)	(24)	54	(24)
Change in income taxes payable	20	(18)	68	28
Change in net fair value amounts of trading derivative financial instruments	(22)	(112)	(52)	(56)
Change in trading account securities	(5,896)	(4,069)	(2,503)	(3,786)
Change in other items	445	173	690	(1,313)
	(5,250)	(3,874)	(1,250)	(4,813)
Cash flows from financing activities				
Change in deposits	5,198	5,086	8,141	8,314
Issuance of subordinated debentures	-	-	500	350
Issuance of common shares	11	15	36	33
Issuance of preferred shares	-	200	-	200
Repurchase of common shares for cancellation	(168)	(149)	(275)	(149)
Dividends paid on common shares	(80)	(141)	(153)	(205)
Dividends paid on preferred shares	(5)	(6)	(11)	(12)
Change in obligations related to securities sold short	599	3,417	(410)	4,884
Change in securities sold under repurchase agreements	(299)	(384)	(5,374)	(1,297)
Change in other items	(26)	(9)	(49)	5
	5,230	8,029	2,405	12,123
Cash flows from investing activities				
Change in deposits with financial institutions pledged as collateral	1,005	66	3,940	61
Change in loans	(295)	(1,943)	(1,521)	(3,335)
Proceeds from securitization of assets and other transfers of receivables	618	1,190	1,178	1,769
Maturity of securitized assets	-	(500)	-	(500)
Purchases of investment account securities	(33,951)	(6,701)	(56,719)	(11,992)
Sales of investment account securities	33,437	7,349	55,834	12,769
Change in securities purchased under reverse repurchase agreements	431	(1,277)	(526)	(2,347)
Consolidation of assets in accordance with AcG-15	-	-	-	(132)
Net acquisitions of premises and equipment	(11)	(12)	(22)	(22)
	1,234	(1,828)	2,164	(3,729)
Increase in cash and cash equivalents	1,214	2,327	3,319	3,581
Cash and cash equivalents at beginning	8,381	6,587	6,276	5,333
Cash and cash equivalents at end	9,595	8,914	9,595	8,914
Cash and cash equivalents				
Cash	226	208	226	208
Deposits with financial institutions	9,467	9,089	9,467	9,089
Less: Amount pledged as collateral	(98)	(383)	(98)	(383)
	9,595	8,914	9,595	8,914
Supplementary information				
Interest paid	648	358	1,163	709
Income taxes paid	42	85	75	136

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, 2005. Certain comparative figures have been reclassified to comply with the presentation adopted in fiscal 2006.

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, 2005.

2. Recent Accounting Standards Pending Adoption

Financial Instruments – Recognition and Measurement, Hedges and Comprehensive Income

In January 2005, the Canadian Institute of Chartered Accountants (CICA) issued three new standards: "Financial Instruments – Recognition and Measurement," "Hedges" and "Comprehensive Income." The main consequences of implementing these standards are described below.

All financial assets and liabilities will be carried at fair value in the Consolidated Balance Sheet, except for items classified in the following categories, which will be carried at amortized cost: loans and receivables, held-to-maturity securities and financial liabilities not held for trading. Realized and unrealized gains and losses on financial assets and liabilities that are held for trading will be recorded in the Consolidated Statement of Income. Unrealized gains and losses on financial assets that are available for sale will be reported in Other comprehensive income until realized, at which time they will be recorded in the Consolidated Statement of Income. All derivatives, including embedded derivatives that must be accounted for separately, will be recorded at fair value in the Consolidated Balance Sheet.

For fair value hedges, changes in the fair value of the derivatives and corresponding changes in fair value of the hedged items attributed to the risk being hedged will be recognized in the Consolidated Statement of Income. For cash flow hedges, the effective portion of the changes in the fair values of the derivative instruments will be recorded in Other comprehensive income until the hedged items are recognized in the Consolidated Statement of Income.

Other comprehensive income, which comprises the above items as well as unrealized exchange gains and losses on self-sustaining foreign operations (net of hedging activities), will be included as a separate component of the Consolidated Statement of Changes in Shareholders' Equity. A new statement entitled "Statement of Comprehensive Income" will be added to the Bank's consolidated financial statements.

These new standards will apply to the Bank effective November 1, 2006. The impact of implementing these new standards on the Bank's consolidated financial statements cannot yet be determined as it is dependent on the Bank's unsettled positions and hedging strategies and on market volatility at the time of transition.

3. Transfers of Receivables

Securitization transactions

CMHC-guaranteed mortgage loans and credit card receivables

The Bank securitizes guaranteed residential mortgage loans through the creation of mortgage-backed securities. The Bank also sells credit card receivables on a revolving basis to a trust. The pre-tax gain or loss from securitization transactions, net of transaction fees, is recognized in the Consolidated Statement of Income under "Securitization revenues."

Securitization operations for the quarter ended:

	April 30, 2006	January 31, 2006	April 30, 2005	
	Mortgage loans	Mortgage loans	Mortgage loans	Credit card receivables
Net cash proceeds	618	419	307	795
Retained interests	17	13	13	21
Retained servicing liability	(4)	(2)	(2)	(4)
	631	430	318	812
Receivables securitized and sold	626	425	309	800
Gain before income taxes, net of transaction fees	5	5	9	12
Mortgage-backed securities created and retained included in the item "Securities – investment account"	278	275	140	-

Securitization operations for the six months ended:

	April 30, 2006	April 30, 2005	
	Mortgage loans	Mortgage loans	Credit card receivables
Net cash proceeds	1,037	799	795
Retained interests	30	37	21
Retained servicing liability	(6)	(5)	(4)
	1,061	831	812
Receivables securitized and sold	1,051	803	800
Gain before income taxes, net of transaction fees	10	28	12
Mortgage-backed securities created and retained included in the item "Securities – investment account"	553	140	-

The key assumptions used to measure the fair value of retained interests at the securitization date for transactions carried out during the quarter ended April 30, 2006 were as follows:

Guaranteed mortgage loans – Key assumptions

Weighted average term (months)	27.2
Prepayment rate	20.0 %
Excess spread, net of credit losses	1.2 %
Expected credit losses	-
Discount rate	4.0 %

Notes to the Consolidated Financial Statements (cont.)

(unaudited) (millions of dollars)

Other transfers

The Bank sells insured and uninsured mortgage loans to a mutual fund administered by the Bank. The pre-tax gain or loss is carried in the Consolidated Statement of Income under "Other income – Other." The following table summarizes the other transfers carried out by the Bank:

	Quarter ended			Six months ended	
	April 30, 2006	January 31, 2006	April 30, 2005	April 30, 2006	April 30, 2005
Net cash proceeds	–	141	88	141	173
Insured and uninsured mortgage loans sold	–	140	90	140	176
Gain (loss) before income taxes	–	1	(2)	1	(3)

4. Loans and Impaired Loans

	Gross amount	Impaired loans		Net balance
		Gross	Specific allowances	
April 30, 2006				
Residential mortgage	14,889	10	2	8
Personal and credit card	10,687	36	17	19
Business and government	22,285	196	112	84
	47,861	242	131	111
General allowance ⁽¹⁾				(308)
Impaired loans, net of specific and general allowances				(197)
October 31, 2005				
Residential mortgage	15,677	10	2	8
Personal and credit card	9,796	35	18	17
Business and government	22,096	215	123	92
	47,569	260	143	117
General allowance ⁽¹⁾				(308)
Impaired loans, net of specific and general allowances				(191)

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

5. Allowance for Credit Losses

The changes made to allowances are as follows:

	Specific allowances	Allocated general allowance	Unallocated general allowance	Six months ended	
				April 30 2006	April 30 2005
Allowances at beginning	143	241	67	451	578
Provision for credit losses	39	(6)	6	39	18
Write-offs	(84)	–	–	(84)	(134)
Recoveries	33	–	–	33	23
Allowances at end	131	235	73	439	485

6. Subordinated Debentures

On November 2, 2005, the Bank issued \$500 million of subordinated debentures that mature in 2020. Interest at the annual rate of 4.70% is payable semi-annually on May 2 and November 2 of each year.

7. Pension and Other Employee Future Benefits

	Quarter ended			Six months ended	
	April 30 2006	January 31 2006	April 30 2005	April 30 2006	April 30 2005
Pension benefit expense	15	15	12	30	25
Other employee future benefit expense	2	3	2	5	2

Notes to the Consolidated Financial Statements (cont.)

(unaudited) (millions of dollars)

8. Capital Stock

Shares outstanding and dividends	Shares		Dividends	
	Number of shares	\$	\$	per share
First preferred shares				
Series 15	8,000,000	200	6	0.3656
Series 16	8,000,000	200	5	0.3031
	16,000,000	400	11	
Common shares	161,881,773	1,558	158	0.4800
		1,958	169	

Repurchase of common shares

On January 23, 2006, the Bank commenced a normal course issuer bid to repurchase, for cancellation, up to 8,278,000 common shares over a 12-month period ending no later than January 22, 2007. Repurchases are 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 are charged to retained earnings. As at April 30, 2006, the Bank had repurchased 2,700,820 common shares at a cost of \$169 million, which reduced common share capital by \$26 million and retained earnings by \$143 million.

On January 13, 2005, the Bank commenced a normal course issuer bid to repurchase, for cancellation, up to 8,400,000 common shares over a 12-month period ended January 12, 2006. Repurchases are 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 are charged to retained earnings. During the period ended April 30, 2006, the Bank repurchased 1,771,600 common shares at a cost of \$106 million, which reduced common share capital by \$17 million and retained earnings by \$89 million.

9. Stock-Based Compensation

Stock Option Plan

On December 7, 2005, the Bank awarded 943,200 stock options at an exercise price of \$61.44 and with an expiry date of December 6, 2015. The fair value of these options on the award date, estimated using the Black-Scholes model, was \$12.81. The following assumptions were used: i) a risk-free interest rate of 4.18%, ii) an expected life of the options of 6 years, iii) an expected volatility of 24%, and iv) an expected dividend yield of 5.00%.

As at April 30, 2006, a total of 5,574,542 stock options were outstanding.

Stock Appreciation Rights (SAR) Plan

In December 2005, the Bank awarded 5,400 SARs. As at April 30, 2006, a total of 322,075 SARs were outstanding.

Deferred Stock Unit (DSU) Plan for Officers

In December 2005, the Bank awarded 32,911 DSUs. As at April 30, 2006, a total of 124,934 DSUs for officers were outstanding.

Restricted Stock Unit Plan (RSU)

In December 2005, the Bank awarded 41,073 RSUs. As at April 30, 2006, a total of 91,904 RSUs were outstanding.

10. Subsequent Event

Subsequent to quarter-end, the Bank announced that NBC Capital Trust (the "Trust"), an open-end trust established under the laws of Ontario, had filed a preliminary prospectus with the various securities commissions across Canada relating to the offering of Trust Capital Securities - Series 1 ("NBC CapS - Series 1"). The proceeds from the issue of NBC CapS - Series 1 will be used by the Trust to purchase a senior deposit note from the Bank.

The Trust is a variable interest entity under CICA Accounting Guideline No. 15 "Consolidation of Variable Interest Entities" (AcG-15). The Bank will not consolidate the Trust since the Bank is not the primary beneficiary; therefore, the NBC CapS - Series 1 issued by the Trust will not be reported on the Bank's Consolidated Balance Sheet, but the senior deposit note will be reported in Liabilities - Deposits.

The Bank expects that the NBC CapS - Series 1 will qualify as innovative Tier 1 Capital of the Bank for regulatory purposes. Subject to customary closing conditions, including the receipt of regulatory approvals, this transaction is expected to close in the third quarter of 2006.

Notes to the Consolidated Financial Statements (cont.)

(unaudited) (millions of dollars)

11. Segment Disclosures

Quarter ended April 30

	Personal and Commercial		Wealth Management		Financial Markets		Other		Total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Net interest income ⁽¹⁾	328	314	30	25	15	103	(72)	(62)	301	380
Other income ⁽¹⁾	192	179	200	182	222	142	34	17	648	520
Total revenues	520	493	230	207	237	245	(38)	(45)	949	900
Operating expenses	320	311	165	160	142	150	(4)	3	623	624
Contribution	200	182	65	47	95	95	(34)	(48)	326	276
Provision for credit losses	33	26	–	–	1	2	(12)	(27)	22	1
Income before income taxes and non-controlling interest	167	156	65	47	94	93	(22)	(21)	304	275
Income taxes ⁽¹⁾	56	51	22	16	33	31	(29)	(32)	82	66
Non-controlling interest	–	–	1	1	2	1	5	5	8	7
Net income (net loss)	111	105	42	30	59	61	2	6	214	202
Average assets	47,100	43,338	973	917	66,892	48,432	(9,577)	(5,715)	105,388	86,972

Six months ended April 30

	Personal and Commercial		Wealth Management		Financial Markets		Other		Total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Net interest income ⁽²⁾	665	637	59	48	1	161	(146)	(117)	579	729
Other income ⁽²⁾	384	358	385	351	513	356	67	89	1,349	1,154
Total revenues	1,049	995	444	399	514	517	(79)	(28)	1,928	1,883
Operating expenses	646	617	320	311	293	304	8	5	1,267	1,237
Contribution	403	378	124	88	221	213	(87)	(33)	661	646
Provision for credit losses	64	53	–	–	2	4	(27)	(39)	39	18
Income before income taxes and non-controlling interest	339	325	124	88	219	209	(60)	6	622	628
Income taxes ⁽²⁾	114	108	41	30	74	71	(54)	(36)	175	173
Non-controlling interest	–	–	3	2	4	1	9	11	16	14
Net income (net loss)	225	217	80	56	141	137	(15)	31	431	441
Average assets	46,657	42,852	944	886	65,619	46,332	(8,746)	(5,557)	104,474	84,513

Personal and Commercial

The Personal and Commercial segment comprises the branch network, intermediary services, credit cards, insurance, commercial 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

The Other heading comprises securitization operations, certain non-recurring items 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 \$17 million (\$23 million in 2005) and other income by \$13 million (\$15 million in 2005). An equal amount was added to income taxes. The impact of these adjustments is reversed under the "Other" heading.

(2) For the six months ended April 30, 2006, net interest income was grossed up by \$36 million (\$39 million in 2005) and other income by \$14 million (\$16 million in 2005). An equivalent amount was added to income taxes. The impact of these increases is reversed under the "Other" heading.

www.nbc.ca

Economic Commentary

For a more detailed analysis and up-to-date information on the state of the global and local economies, 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 under Economic Analysis in the menu on the right-hand side of the screen.

News Bites

Personal Banking

Strategy-5, a new mortgage solution

As part of its mortgage campaign, National Bank launched the *Strategy-5*, a new five-year mortgage solution. With a 1.50% rate discount the first year and 0.30% off the regular rate the following four years, it's one of the best mortgage offers on the market.

SETP/TSX Income Trust Index™ Note

In March, National Bank launched its SETP/TSX Income Trust Index™ Note, an investment solution that combines full principal protection with an unlimited potential return over an 8-year term.

RRSP solutions: National Bank All-In-One

During its RRSP campaign, National Bank proposed the All-In-One as an innovative solution for managing personal finances. The new multi-account concept makes it easier for clients to manage their projects and even finance their RRSP investments.

SMART Note

National Bank has launched the third series of its SMART Note, a solution that offers complete principal protection and an unlimited return potential at the end of the 7-year term. It contains the asset classes needed for optimal diversification of returns, enabling investors to capitalize on stock, bond, currency and commodities markets.

Partnership agreement with IPC

Investment Planning Counsel Inc. (IPC) and National Bank have signed an agreement to provide National Bank RRSP loan solutions to IPC clients all across Canada.

Computershare

Computershare has acquired the share ownership management services of National Bank Trust, a subsidiary of the Bank. Under the agreement, Computershare has acquired all the security transfer services and employee share ownership plans as well as a portion of National Bank Trust's corporate trust services.

Commercial Banking

Group insurance in Quebec

National Bank Insurance wants to become a key player in the Quebec group insurance market where it has been present for two years through an outsourcing agreement. It now has its own team of specialists who can offer companies group life, disability, health and dental insurance solutions.

The SMEs of the National Bank

In April, the Bank kicked off its 13th annual recognition program "The SMEs of the National Bank," which gives the Bank's commercial clients the opportunity to distinguish themselves in the business community and raise their visibility.

Events

Annual Meeting of Shareholders

The Annual Meeting of Shareholders of the Bank was held on March 8. Réal Raymond, President and Chief Executive Officer, tied the Bank's success to the balance it has achieved between shareholder return, its diversified service offering, the engagement and competency of its personnel and its commitment to the community.

Financial Markets

Canadian Financial Services Conference

On March 29, Réal Raymond, President and Chief Executive Officer of National Bank, addressed the National Bank Financial Canadian Financial Services Conference, an event attended by more than 60 portfolio managers. Mr. Raymond recapped the key factors of the Bank's success for the future: its ability to pursue its growth strategy in Quebec and its initiatives in specialized niche markets in Canada through partnerships, financial services and Altamira.

Community

Active in the community, National Bank donates several millions of dollars each year to hundreds of Canadian health, education, community outreach and cultural organizations. Here are some of the donations and commitments the Bank has made since February 1:

- Donation of \$50,000 to the University of Ottawa Heart Institute. The Institute will use the Bank's contribution to improve the quality of life of cardiac patients and advance research into heart disease.
- Donation of \$256,905 to the Quebec Breast Cancer Foundation through its Allure MasterCard. Launched last spring, the Allure card enables cardholders to directly support the activities of the Foundation. National Bank makes a charitable donation to the Foundation equal to a percentage of all cardholder purchases.
- As part of the 14th annual National Bank Bursary program, organized in cooperation with the Quebec Foundation for Athletic Excellence, Réal Raymond, President and Chief Executive Officer, and Sylvie Roy, Vice-President – Marketing and Public Affairs, revealed the names of the 30 athletes who would receive up to \$3,000 each in financial support, for a total of \$70,500.
- National Bank published its *2005 Social Responsibility Report*, in which it presents its commitment to the community and the many activities it undertakes to meet the needs of its clients, employees and shareholders. The Report is available on the Bank's website at www.nbc.ca and can also be obtained by calling TelNat at 1-888-4TELNAT or (514) 394-5555.
- Donation of close to \$275,000 to the Quebec Breakfast Club, which began selling piggy banks through National Bank branches in November as a new fundraising activity. The activity was a huge success, with nearly 94,000 piggy banks sold.
- For the 4th consecutive year, the Bank helped support *Défi sportif*, now in its 23rd year. In addition to being a partner of the event, the Bank had the pleasure of awarding bursaries to the National Bank Champions in recognition of their hard work, talent and commitment to promoting their sport.
- For many years, National Bank has encouraged its employees to become involved in the community. It was therefore proud to honour Pierre M. Houle, a Bank employee, with the "André Bérard Award" for his volunteer work with *La Rose Bleue*, an association that assists people with intellectual or sensory difficulties. As part of the award, *La Rose Bleue* received a \$5,000 donation from the Bank.
- The Bank contributed more than \$1 million to the *Quartier international de Montréal (QIM)* to support the city's cultural development and promote its international profile. The Bank is the principal partner of the QIM's cultural corridor projects and the Victoria Square concourse.

Awards, Distinctions and Public Honours

150 most admired companies in Quebec

National Bank was pleased to be listed once again among the 150 most admired companies in Quebec, according to a Léger Marketing survey conducted for French-language business magazine *Commerce*. The survey results, published in the March issue, revealed that National Bank had maintained its 48th place standing from 2005, and its second place ranking among the financial institutions most admired by Quebecers.

NBDB: best direct brokerage service

For the second consecutive year, National Bank Direct Brokerage (NBDB) received the Dalbar award for best direct brokerage service owing to the quality of its client service throughout 2005.

Financial personalities of the year

In February, French-language business newspaper *Finance et Investissement* published its list of most influential Quebec financial personalities of the year, which included three Bank officers: Réal Raymond, President and Chief Executive Officer, Louis Vachon, Chairman of the Board and Chief Executive Officer of National Bank Financial Group and Chairman of Natcan Investment Management, as well as Charles Guay, President and Chief Executive Officer, National Bank Securities and Altamira.

Réal Raymond, personality of the week

In its March 12 issue, *La Presse* named Réal Raymond, President and Chief Executive Officer, its personality of the week mainly in recognition of the Bank's record of having consistently outperformed the other major Canadian banks over the past five years.

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National Bank of Canada 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.

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Quarterly report publication dates for fiscal 2005–2006

Third quarter: August 31, 2006

Fourth quarter: November 30, 2006

DISCLOSURE OF 2nd QUARTER 2006 RESULTS

Conference call

- A conference call for analysts and institutional investors will be held on **May 25, 2006 at 1:00 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 June 1, 2006 by calling **1-800-408-3053** or **(416) 695-5800**. The access code is **3185725#**.

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 numbers below.

Computershare Trust Company of Canada

Share Ownership Management

1100 University, 12th Floor

Montreal, Quebec H3B 2G7

Telephone: (514) 871-7171

1-800-341-1419

Fax: (514) 871-7442

E-mail: clientele@tbn.bnc.ca

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 1-800-341-1419 or (514) 871-7171.

www.nbc.ca/investorrelations

National Bank of Canada is committed to protecting the environment.



certified



processed
chlorine-free



100%
post-consumer



recyclable



permanent
archival



bio gas
energy