

Report to Shareholders

Fourth Quarter 2007



National Bank releases its fourth quarter and fiscal 2007 results

Dividend raised 2 cents per share

- Diluted earnings per share of \$3.22 for fiscal 2007, compared to \$5.13 for fiscal 2006;
- Diluted loss per share of \$1.14 in the fourth quarter of 2007, as against diluted earnings per share of \$1.31 in the same quarter of 2006;
- \$365 million after-tax charge and compensation adjustment in the fourth quarter of 2007, related to asset-backed commercial paper (ABCP) held by the Bank.

Financial highlights excluding specified items⁽¹⁾ for the fourth quarter of 2007 and fiscal 2007 and 2006:

- Diluted earnings per share of \$5.65 for fiscal 2007, up 12% from 2006;
- Net income of \$933 million in fiscal 2007, an increase of 9% from 2006;
- Diluted earnings per share of \$1.34 in the fourth quarter of 2007, compared to \$1.31 in the corresponding period of 2006;
- Net income of \$217 million in the fourth quarter of 2007, as against \$220 million for the same period of 2006.

(1) The financial reporting method is explained in detail on pages 3 and 4.

MONTREAL, November 29, 2007 – National Bank today announced its financial results for the fourth quarter and its fiscal year ended October 31, 2007.

For fiscal 2007, diluted earnings per share were \$3.22, as against \$5.13 for fiscal 2006. Excluding specified items, diluted earnings per share totalled \$5.65, a 12% increase over fiscal 2006. The specified items for the 2007 fiscal year and fourth quarter are:

- An after-tax charge, taking into account the resulting reduction in variable compensation, of \$365 million related to the adjustment to the value of ABCP;
- The cost of financing the ABCP held and certain other charges totalling \$16 million net of income taxes;
- An after-tax restructuring charge of \$5 million resulting from the announced gradual consolidation of Altamira's activities with those of the Bank and a \$6 million charge for the impairment in value of an intangible asset.

In the fourth quarter of 2007, the diluted loss per share was \$1.14, compared to diluted earnings per share of \$1.31 in the year-earlier period. Excluding specified items, earnings per share stood at \$1.34, up \$0.03.

Asset-backed commercial paper

On August 20, 2007, the Bank announced a number of measures to relieve its clients from the uncertainties related to the liquidity problem in the asset-backed commercial paper (ABCP) market. During the fourth quarter of 2007, the Bank purchased \$2,138 million of ABCP, issued by 26 trusts, from mutual funds and pooled funds administered by the Bank, as well as the ABCP held by its individual retail clients and certain other clients. This amount is in addition to the \$156 million in ABCP already held by the Bank. As at October 31, 2007, the carrying value of this ABCP owned by the Bank was \$1,719 million.

During the fourth quarter of 2007, the Bank adjusted the carrying value of ABCP it owned due to impairment in the value of some of the underlying assets, the significant reduction in liquidity of the commercial paper and the uncertain nature of the terms and conditions of the restructuring proposals of the ABCP conduits. A charge of \$575 million (\$365 million after taxes and compensation adjustments) was recorded in the Consolidated Statement of Income.

The deterioration in global credit markets, prolonged illiquidity, reduced price transparency in underlying assets, increased market volatility and a significantly weaker U.S. housing market all contributed to the turmoil in the Canadian ABCP market. Determining the fair value of the ABCP is complex and involves an extensive process including the use of quantitative modeling and relevant assumptions. Whenever available, observable market inputs for comparable underlying securities, from independent pricing sources, were used to assess the fair value of each class of assets in the trusts.

Our valuation was based on our assessment of then-prevailing conditions, which may change in subsequent periods. Possible changes that could have a material effect on the future value of ABCP include (1) changes in the value of the underlying assets, (2) developments related to the liquidity of the ABCP market, (3) the outcome of the restructuring of the conduits and (4) a change in economic conditions in North America.

Highlights

- An increase in total revenues before specified items of \$28 million in the fourth quarter to \$998 million. For fiscal 2007, total revenues before specified items rose \$237 million, or 6%.
- Growth of 9% in consumer loans during fiscal 2007 due to sustained growth in mortgage loans and secured lines of credit.
- Return on shareholders' equity excluding specified items of 20.0% for fiscal 2007.
- Excellent quality of the loan portfolio maintained.

Personal and Commercial

- Net income of \$466 million in 2007 compared to \$447 million for 2006, when the segment had recorded an after-tax gain on securities of \$10 million. Excluding this gain, net income increased 7%, despite the 25% increase in the provision for credit losses.
- For the fourth quarter of 2007, segment net income was \$111 million, up 5%, after the gain on securities from insurance activities is excluded, despite the 21% increase in the provision for credit losses compared to the same period of 2006.
- Robust growth in retail loans and deposits, with the largest increases observed in consumer loans, which were up 16%. Business growth was tempered by the decrease in the net interest margin, from 2.91% in the fourth quarter of 2006 to 2.71% in the fourth quarter of 2007.

Wealth Management

- Increase of 7% in total revenues for fiscal 2007, attributable to the strength of retail brokerage, private investment management and mutual fund activities.
- Net income for fiscal 2007 of \$164 million, up 15%, excluding the restructuring charge related to the consolidation of Altamira's activities with those of the Bank and the impairment in value of an intangible asset.
- Increase in segment net income of 27% in the fourth quarter, excluding specified items.
- Growth of 8% in off-balance sheet personal savings administered by the Bank in fiscal 2007. Assets totalled \$76.1 billion owing to the increase in assets administered by mutual funds, private investment management and brokerage services.

Financial Markets

- Total revenues for Financial Markets in 2007 up 15% net of non-controlling interests and excluding specified items. This increase was due to higher trading revenues and the inclusion of one full year of revenues from Credigy Ltd.
- Increase of 19% in segment net income in the fourth quarter of 2007, excluding the after-tax impact of the adjustment in the value of the ABCP held in a trading portfolio and the effect on variable compensation.

Other

- Net loss of \$389 million in the fourth quarter and \$432 million for fiscal 2007 chiefly attributable to the adjustment in value of ABCP acquired during the fourth quarter of 2007, taking into account the decrease in variable compensation.

| 2007 Financial Objectives | Objectives | Results excluding specified items | |
|---------------------------------------|----------------|-----------------------------------|-------|
| | | Results | |
| Growth in diluted earnings per share | 5% – 10% | (37)% | 12% |
| Return on common shareholders' equity | 16% – 20% | 11.5% | 20.0% |
| Tier 1 capital ratio | More than 8.5% | 9.0% | 9.0% |
| Dividend payout ratio | 40% – 50% | 40% | 40.0% |

Financial Reporting Method

The Bank uses certain measurements that do not comply with generally accepted accounting principles (GAAP) to assess results. Securities regulators require companies to caution readers that net earnings and any other measurements adjusted using non-GAAP criteria are not standard under GAAP and cannot be easily compared with similar measurements used by other companies.

Quarter ended October 31

(unaudited)

(millions of dollars, except per share amounts)

| | Personal and Commercial | | Wealth Management | | Financial Markets | | Other | | Total | |
|---|-------------------------|------|-------------------|------|-------------------|------|------------|------|---------------|-------------|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| Reported results | | | | | | | | | | |
| Total revenues | 545 | 542 | 208 | 202 | 298 | 298 | (649) | (72) | 402 | 970 |
| Operating expenses | 340 | 334 | 164 | 155 | 168 | 175 | (32) | 9 | 640 | 673 |
| Provision for credit losses | 40 | 33 | – | – | – | 1 | (11) | (12) | 29 | 22 |
| Income taxes (recovery) | 54 | 59 | 16 | 15 | 28 | 39 | (221) | (69) | (123) | 44 |
| Non-controlling interest | – | – | 1 | 2 | 26 | 5 | 4 | 4 | 31 | 11 |
| Net income (net loss) | 111 | 116 | 27 | 30 | 76 | 78 | (389) | (4) | (175) | 220 |
| Earnings (loss) per share – diluted | | | | | | | | | (1.14) | 1.31 |
| Specified items | | | | | | | | | | |
| Before income taxes | | | | | | | | | | |
| Altamira restructuring charge | – | – | 7 | – | – | – | – | – | 7 | – |
| Impairment in value of an intangible asset | – | – | 6 | – | – | – | – | – | 6 | – |
| Charge related to ABCP and financing cost, net of variable compensation | – | – | – | – | 25 | – | 528 | – | 553 | – |
| Total | – | – | 13 | – | 25 | – | 528 | – | 566 | – |
| After income taxes | | | | | | | | | | |
| Altamira restructuring charge | – | – | 5 | – | – | – | – | – | 5 | – |
| Impairment in value of an intangible asset | – | – | 6 | – | – | – | – | – | 6 | – |
| Charge related to ABCP and financing cost, net of variable compensation | – | – | – | – | 17 | – | 364 | – | 381 | – |
| Total | – | – | 11 | – | 17 | – | 364 | – | 392 | – |
| Earnings per share – diluted | | | | | | | | | 2.48 | – |
| Results excluding specified items | | | | | | | | | | |
| Total revenues | 545 | 542 | 208 | 202 | 342 | 298 | (97) | (72) | 998 | 970 |
| Operating expenses | 340 | 334 | 151 | 155 | 187 | 175 | (8) | 9 | 670 | 673 |
| Provision for credit losses | 40 | 33 | – | – | – | 1 | (11) | (12) | 29 | 22 |
| Income taxes (recovery) | 54 | 59 | 18 | 15 | 36 | 39 | (57) | (69) | 51 | 44 |
| Non-controlling interest | – | – | 1 | 2 | 26 | 5 | 4 | 4 | 31 | 11 |
| Net income (net loss) | 111 | 116 | 38 | 30 | 93 | 78 | (25) | (4) | 217 | 220 |
| Earnings per share – diluted | | | | | | | | | 1.34 | 1.31 |

Fiscal year ended October 31

(unaudited)

(millions of dollars, except per share amounts)

| | Personal and Commercial | | Wealth Management | | Financial Markets | | Other | | Total | |
|---|----------------------------|-------|----------------------|------|----------------------|-------|-------|-------|-------------|---------------|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| Reported results | | | | | | | | | | |
| Total revenues | 2,149 | 2,092 | 874 | 819 | 1,243 | 1,087 | (843) | (195) | 3,423 | 3,803 |
| Operating expenses | 1,298 | 1,295 | 638 | 601 | 685 | 617 | 11 | 33 | 2,632 | 2,546 |
| Provision for credit losses | 151 | 121 | – | – | – | 4 | (48) | (48) | 103 | 77 |
| Income taxes (recovery) | 234 | 229 | 78 | 70 | 159 | 150 | (392) | (172) | 79 | 277 |
| Non-controlling interest | – | – | 5 | 6 | 45 | 9 | 18 | 17 | 68 | 32 |
| Net income (net loss) | 466 | 447 | 153 | 142 | 354 | 307 | (432) | (25) | 541 | 871 |
| Earnings per share – diluted | | | | | | | | | 3.22 | 5.13 |
| Specified items | | | | | | | | | | |
| Before income taxes | | | | | | | | | | |
| Sale of shareholder management business | – | – | – | – | – | – | – | (8) | – | (8) |
| Gain related to Mastercard Inc. IPO | – | – | – | – | – | – | – | (13) | – | (13) |
| Altamira restructuring charge | – | – | 7 | – | – | – | – | – | 7 | – |
| Impairment in value of an intangible asset | – | – | 6 | – | – | – | – | – | 6 | – |
| Charge related to ABCP and financing cost, net of variable compensation | – | – | – | – | 25 | – | 528 | – | 553 | – |
| Total | – | – | 13 | – | 25 | – | 528 | (21) | 566 | (21) |
| After income taxes | | | | | | | | | | |
| Sale of shareholder management business | – | – | – | – | – | – | – | (5) | – | (5) |
| Gain related to Mastercard Inc. IPO | – | – | – | – | – | – | – | (9) | – | (9) |
| Altamira restructuring charge | – | – | 5 | – | – | – | – | – | 5 | – |
| Impairment in value of an intangible asset | – | – | 6 | – | – | – | – | – | 6 | – |
| Charge related to ABCP and financing cost, net of variable compensation | – | – | – | – | 17 | – | 364 | – | 381 | – |
| Total | – | – | 11 | – | 17 | – | 364 | (14) | 392 | (14) |
| Earnings (loss) per share – diluted | | | | | | | | | 2.43 | (0.08) |
| Results excluding specified items | | | | | | | | | | |
| Total revenues | 2,149 | 2,092 | 874 | 819 | 1,287 | 1,087 | (291) | (216) | 4,019 | 3,782 |
| Operating expenses | 1,298 | 1,295 | 625 | 601 | 704 | 617 | 35 | 33 | 2,662 | 2,546 |
| Provision for credit losses | 151 | 121 | – | – | – | 4 | (48) | (48) | 103 | 77 |
| Income taxes (recovery) | 234 | 229 | 80 | 70 | 167 | 150 | (228) | (179) | 253 | 270 |
| Non-controlling interest | – | – | 5 | 6 | 45 | 9 | 18 | 17 | 68 | 32 |
| Net income (net loss) | 466 | 447 | 164 | 142 | 371 | 307 | (68) | (39) | 933 | 857 |
| Earnings per share – diluted | | | | | | | | | 5.65 | 5.05 |

Caution Regarding Forward-Looking Statements

From time to time, National Bank of Canada makes written and oral forward-looking statements such as in this Report to Shareholders. Such statements are made pursuant to Canadian securities regulations and the provisions of the United States Private Securities Litigation Reform Act of 1995. These forward-looking statements include, among others, statements with respect to the economy, market changes, the achievement of strategic objectives, certain risks as well as statements with respect to our beliefs, plans, expectations, estimates and intentions. These forward-looking statements are typically identified by the words “may,” “could,” “should,” “would,” “suspect,” “outlook,” “believe,” “anticipate,” “estimate,” “expect,” “intend,” “plan,” and words and expressions of similar import.

By their very nature, such forward-looking statements require us to make assumptions and involve inherent risks and uncertainties, both general and specific. There is significant risk that express or implied projections contained in such statements will not materialize or will not be accurate. A number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking statements. Such differences may be caused by factors, many of which are beyond the Bank's control, which include, but are not limited to, the management of credit, market and liquidity risks; the strength of the Canadian and United States economies and the economies of other countries in which the Bank conducts business; the impact of the movement of the Canadian dollar relative to other currencies, particularly the U.S. dollar; the effects of changes in monetary policy, including changes in interest rate policies of the Bank of Canada; the effects of competition in the markets in which the Bank operates; the impact of changes in the laws and regulations regulating financial services and enforcement thereof (including banking, insurance and securities); judicial judgments and legal proceedings; developments with respect to the restructuring proposal relating to asset-backed commercial paper (ABCP) and liquidity in the ABCP market; the Bank's ability to obtain accurate and complete information from or on behalf of its clients or counterparties; the Bank's ability to successfully realign its organization, resources and processes; its ability to complete strategic acquisitions and integrate them successfully; changes in the accounting policies and methods the Bank uses to report its financial condition, including uncertainties associated with critical accounting assumptions and estimates; operational and infrastructure risks; other factors that may affect future results, including changes in trade policies, timely development of new products and services, changes in estimates relating to reserves, changes in tax laws, technological changes, unexpected changes in consumer spending and saving habits; natural disasters; the possible impact on the business from public health emergencies, conflicts, other international events and other developments, including those relating to the war on terrorism; and the Bank's success in anticipating and managing the foregoing risks.

Additional information about these factors can be found under “Risk Management” and “Factors That Could Affect Future Results” in the 2006 Annual Report.

The Bank cautions that the foregoing list of important factors is not exhaustive. Investors and others who base themselves on the Bank's forward-looking statements should carefully consider the above factors as well as the uncertainties they represent and the risk they entail. The Bank also cautions readers not to place undue reliance on these forward-looking statements.

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

November 29, 2007 – The following text presents Management's discussion and analysis of the Bank's financial condition and operating results. This analysis was prepared in accordance with the requirements set out in National Instrument 51-102 respecting Continuous Disclosure Obligations of the Canadian Securities Administrators and is based on the unaudited interim consolidated financial statements for the fourth quarter of 2007 and fiscal 2007. Additional information about National Bank of Canada, including the Annual Information Form, can be obtained from the SEDAR website at www.sedar.com and the Bank's website at www.nbc.ca.

Analysis of Results

Consolidated Results

National Bank reported a net loss of \$175 million in the fourth quarter of 2007, compared to net income of \$220 million in the corresponding quarter of 2006. The diluted loss per share was \$1.14 versus diluted earnings per share of \$1.31 in the same quarter a year earlier.

In the fourth quarter of 2007, the Bank recorded the following specified items:

- An after-tax charge, taking into account the resulting reduction in variable compensation, of \$365 million related to the adjustment to the value of ABCP;
- The cost of financing the ABCP held and certain other charges totalling \$16 million net of income taxes;
- An after-tax restructuring charge of \$5 million resulting from the announced gradual consolidation of Altamira's activities with those of the Bank and a \$6 million charge for the impairment in value of an intangible asset.

Excluding these specified items, net income for the fourth quarter of 2007 was \$217 million, or \$3 million less than in the year-earlier period, and diluted earnings per share totalled \$1.34, up \$0.03 from the corresponding quarter of 2006.

The Bank's net income for fiscal 2007 amounted to \$541 million as against \$871 million for fiscal 2006. Diluted earnings per share were \$3.22 in 2007 versus \$5.13 the year earlier. Excluding the specified items for 2007 and 2006, net income rose 9% to \$933 million and diluted earnings per share climbed 12% to \$5.65.

Return on common shareholders' equity (ROE) was (16.0%) in the fourth quarter of 2007, compared to 19.7% for the same period of 2006. Excluding the specified items recorded in 2007, ROE was 18.4% versus 19.7% for the corresponding quarter of 2006. For fiscal 2007, ROE was 11.5% versus 20.1% in fiscal 2006. Excluding the specified items recorded in 2007 and 2006, ROE was 20.0%, or 30 basis points higher than in the previous year.

Asset-backed commercial paper

On August 20, 2007, the Bank announced a number of measures to relieve its clients from the uncertainties related to the liquidity problem in the asset-backed commercial paper (ABCP) market. During the fourth quarter of 2007, the Bank purchased \$2,138 million of ABCP, issued by 26 trusts, from mutual funds and pooled funds administered by the Bank, as well as the ABCP held by its individual retail clients and certain other clients. This amount is in addition to the \$156 million in ABCP already held by the Bank. As at October 31, 2007, the carrying value of this ABCP owned by the Bank was \$1,719 million. The carrying value of this ABCP classified in *Available for sale securities* was \$1,606 million and an amount of \$113 million was classified in *Held for trading securities*.

During the fourth quarter of 2007, the Bank adjusted the carrying value of ABCP it owned due to impairment in the value of some of the underlying assets, the significant reduction in liquidity of the commercial paper and the uncertain nature of the terms and conditions of the restructuring proposals of the ABCP conduits. A charge of \$575 million was recognized in the Consolidated Statement of Income, specifically \$42 million under *Trading revenues* (*Financial Markets* segment) and \$533 million under *Gains (losses) on available for sale securities* (under the *Other* heading of segment results). This charge represents Management's best estimate of impairment within a reasonable range of possible write-downs.

The deterioration in global credit markets, prolonged illiquidity, reduced price transparency in underlying assets, increased market volatility and a significantly weaker U.S. housing market all contributed to the turmoil in the Canadian ABCP market. Determining the fair value of the ABCP is complex and involves an extensive process that includes the use of quantitative modeling and relevant assumptions. Whenever available, observable market inputs for comparable underlying securities, from independent pricing sources, were used to assess the fair value of each class of assets in the trusts.

Our valuation was based on our assessment of then-prevailing conditions, which may change in subsequent periods. Possible changes that could have a material effect on the future value of the ABCP include (1) changes in the value of the underlying assets, (2) developments related to the liquidity of the ABCP market, (3) the outcome of the restructuring of the conduits and (4) a change in economic conditions in North America.

Total Revenues

The Bank's total revenues were \$402 million in the fourth quarter of 2007, compared to \$970 million in the fourth quarter of 2006. Excluding the specified items recorded in the fourth quarter of 2007, total revenues reached \$998 million, for an increase of \$28 million or 3%.

Net interest income for the quarter was \$297 million versus \$304 million for the year-earlier period. Net interest income at Personal and Commercial declined \$3 million to \$343 million this quarter. This decrease was explained by the narrower net interest margin, which was 2.71% in the fourth quarter of 2007 compared to 2.91% in the same quarter of 2006. The decrease in the net interest margin on credit products was attributable to the higher cost of funds, primarily because of higher interest rates at the beginning of the quarter linked to the global liquidity issues. Moreover, the cost of financing the ABCP held by the Bank reduced net interest income for the quarter by \$21 million.

Other income for the fourth quarter totalled \$105 million, as against \$666 million for the same period of 2006. Gains on available for sale securities declined \$552 million owing to the \$533 million adjustment in the ABCP acquired during the quarter. Underwriting commissions on new issues and consulting fees totalled \$76 million for the quarter, down from \$106 million for the same period in 2006. This decrease was essentially the result of more difficult market conditions during the quarter, particularly for corporate financing, compared to greater market activity in the fourth quarter of 2006. At \$99 million, trading revenues in the fourth quarter of 2007 were up \$11 million over the same period of 2006, despite the \$42 million decline in the value of ABCP held in a trading portfolio.

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

Revenues from mutual funds and trust services climbed \$15 million from the fourth quarter of 2006 to \$88 million in the fourth quarter of 2007 chiefly owing to growth in mutual funds, private investment management and retail brokerage activities.

Lastly, insurance revenues grew \$6 million compared to the fourth quarter of 2006 while securitization revenues fell \$14 million over the year-earlier period, mainly due to interest rate movements.

For fiscal 2007, total revenues declined \$380 million to \$3,423 million. Excluding the specified items recorded in 2007 and 2006, total revenues reached \$4,019 million, for an increase of \$237 million, or 6%.

Net interest income for 2007 amounted to \$1,127 million, as against \$1,292 million in 2006. Net interest income at Personal and Commercial advanced \$35 million or 3% to \$1,365 million for fiscal 2007, primarily because of growth in loan and deposit volumes. Financial Markets net interest income was down \$183 million owing to trading activities but was offset by an increase in other income. Lastly, ABCP financing trimmed \$21 million from net interest income for the year.

Other income for fiscal 2007 stood at \$2,296 compared to \$2,511 million in 2006. Gains on available for sale securities decreased \$589 million primarily because of the decline in the value of ABCP held by the Bank. Trading revenues increased \$193 million despite the decline in the value of ABCP held in the trading portfolio. Trust service and mutual fund fees rose \$48 million to \$357 million, while other revenues increased \$109 million to \$351 million, in particular because of the addition of the activities of Credigy Ltd. as of the fourth quarter of 2006.

Operating Expenses

In the fourth quarter of 2007, operating expenses declined \$33 million from the same period a year earlier to \$640 million. Excluding the reduction in variable compensation related to the adjustment in ABCP value, the charge for the consolidation of Altamira's activities with those of the Bank and the impairment in value of an intangible asset, operating expenses decreased \$3 million to \$670 million versus the year-earlier period.

Salaries and staff benefits were down \$52 million to \$336 million in the fourth quarter of 2007 owing to the decline in variable compensation related to the decreased value of ABCP. Higher technological expenses to stimulate future business growth were offset by the reduction in other expenses.

For fiscal 2007, operating expenses rose \$86 million to \$2,632 million. Excluding the specified items in the fourth quarter of 2007, expenses increased \$116 million to \$2,662 million. Higher salaries and staff benefits and professional fees resulting from the activities of Credigy Ltd. as well as technological expenses accounted for the rise in operating expenses.

Income Taxes

In the fourth quarter of 2007, \$123 million in income taxes was recovered compared to an income tax charge of \$44 million for the corresponding quarter of 2006. These changes were chiefly attributable to the specified items of the fourth quarter of 2007. For fiscal 2007, income taxes were \$79 million, compared to \$277 million in 2006. Excluding the specified items, the tax rate for fiscal 2007 was 20% in comparison to 23% in 2006, owing to the increase in tax-exempt income from securities.

Results by Segment

The segment results are presented excluding the specified items recorded in 2007 and 2006. Refer to the Financial Reporting Method section on pages 3 and 4 for details of these adjustments.

Personal and Commercial

Personal and Commercial net income was \$111 million in the fourth quarter of 2007, down \$5 million from the \$116 million in net income earned in the corresponding quarter of 2006, which took into account a gain on securities related to insurance activities. Excluding this gain, net income for the segment improved 5% despite the 21% increase in the provision for credit losses.

Total revenues for the segment rose \$3 million or 1% to \$545 million. Loan and deposit volumes at Personal and Commercial experienced robust growth of 7% and 5% respectively in the fourth quarter of 2007 versus the year-earlier period. This growth was tempered by narrowing of the net interest margin by 20 basis points in the fourth quarter of 2007 compared to the fourth quarter of 2006, reflecting tightening credit conditions on markets and the higher interest rates at the beginning of the quarter owing to global liquidity issues.

Total revenues at Personal Banking advanced \$1 million in the fourth quarter of 2007 as against the year-earlier period, which included a gain on securities related to insurance activities. This growth stemmed from the increase in loan insurance activities and the average asset volume growth of \$2.9 billion. This increase was however mitigated by narrower spreads on credit products, while the spread on deposit products remained essentially unchanged.

Total revenues at Commercial Banking increased \$2 million in the fourth quarter of 2007, owing to growth in revenues from foreign exchange activities and activities with mid-size companies. The growth in business loan and deposit volumes was offset by the narrowing spread on credit products. The spread on deposits however widened.

Operating expenses at Personal and Commercial totalled \$340 million in the fourth quarter of 2007, for an increase of \$6 million, or 2%, over the corresponding quarter of 2006. This modest increase was attributable to higher technological expenses with the goal of generating future business growth. At 62%, the efficiency ratio in the fourth quarter of 2007 was unchanged from the same quarter a year earlier.

The segment's provision for credit losses was up \$7 million for a total of \$40 million, due to higher loan losses for Commercial Banking.

For fiscal 2007, Personal and Commercial net income amounted to \$466 million, up 4% from the \$447 million in net income earned in 2006, which included a gain on securities related to insurance activities. The segment's total revenues advanced 3% to \$2,149 million. Total revenues for Personal Banking increased \$40 million or 3%. Were it not for the gain on securities related to insurance activities in 2006, total revenues would have grown 4%. Commercial Banking total revenues increased \$17 million, or 2%. The efficiency ratio moved down to 60.4% in fiscal 2007 from 61.9% for 2006. The segment's provision for credit losses rose \$30 million to \$151 million chiefly owing to higher credit losses at Commercial Banking.

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

Wealth Management

Wealth Management net income totalled \$38 million in the fourth quarter of fiscal 2007, compared to \$30 million in the same quarter of 2006, for an increase of \$8 million, or 27%. Segment total revenues climbed \$6 million to reach \$208 million in the fourth quarter of 2007. Robust private investment management and mutual fund operations accounted for most of the revenue growth. Operating expenses were down \$4 million to \$151 million for the quarter, mainly due to lower variable compensation. The efficiency ratio improved substantially, dropping from 76.7% in the fourth quarter of 2006 to 72.6% in the fourth quarter of 2007.

For fiscal 2007, Wealth Management net income was \$164 million compared to \$142 million in 2006, for an increase of \$22 million or 15%. Total revenues for the segment climbed 7% to \$874 million in 2007. Half of this growth was attributable to securities brokerage activities, mainly because of the steady increase in managed assets, with the remainder stemming from private investment management and mutual fund activities. As a result of business growth, operating expenses rose 4% to \$625 million for fiscal 2007, as against \$601 million in 2006.

Financial Markets

The Financial Markets segment recorded net income of \$93 million in the fourth quarter of 2007, up \$15 million, or 19%, over the same period in 2006.

Total revenues for the segment, net of non-controlling interests, amounted to \$312 million in the fourth quarter of 2007, up 6% from \$293 million for the fourth quarter of 2006. Trading revenues rose 8% to \$116 million primarily from interest rate trading. Financial market fees for the quarter were \$56 million, down \$27 million because of reduced activity in corporate financing and the sale of the U.S. advisory practice. Other activities contributed \$62 million, or \$40 million more this quarter than the same period in 2006, mainly from the Maple Partners share of revenues and favourable revenues from asset and liability management.

Operating expenses for the fourth quarter of 2007 rose \$12 million from the year-earlier period to \$187 million, owing mainly to severance pay and technological expenses. The efficiency ratio was virtually unchanged at 60% as against 59.7% in the fourth quarter of 2006. The provision for credit losses was nil during the quarter, whereas it was \$1 million in the corresponding period of 2006.

For fiscal 2007, segment net income amounted to \$371 million, a 21% increase over the \$307 million reported for the previous year. Total revenues, net of non-controlling interests, reached \$1,241 million, for a 15% increase over fiscal 2006. Trading activities accounted for half of the increase in segment revenues from interest rate and equity trading. However, the \$126 million gain on securities was down 17% from 2006, which had been an exceptional year. Lastly, the inclusion of Credigy Ltd. revenues for a full year and the share of revenues from Maple Partners were primarily responsible for \$99 million increase in the *Other* heading. Operating expenses for 2007 were \$704 million, up 14% over 2006 primarily because of the inclusion of Credigy Ltd. charges and the increase in variable compensation. No provision for credit losses was recorded for the segment during the year compared to losses of \$4 million in 2006.

Financial Market Revenues

| <i>(taxable equivalent basis)⁽¹⁾</i> <i>(millions of dollars)</i> | Q4 2007 | Q4 2006 | 2007 | 2006 |
|---|------------|------------|--------------|--------------|
| Trading revenues | | | | |
| Equity | 62 | 90 | 298 | 266 |
| Interest rate | 59 | 12 | 105 | 51 |
| Commodity and foreign exchange | (5) | 5 | 21 | 25 |
| | 116 | 107 | 424 | 342 |
| Financial market fees | 56 | 83 | 279 | 269 |
| Gains on available for sale securities | 34 | 36 | 126 | 152 |
| Banking services | 44 | 45 | 175 | 176 |
| Other | 62 | 22 | 237 | 138 |
| Total⁽²⁾ | 312 | 293 | 1,241 | 1,077 |

(1) See Note 16 to the Consolidated Financial Statements on page 28.

(2) Excluding non-controlling interest

Other

The *Other* heading of segment results recorded a net loss of \$25 million in the fourth quarter of 2007, compared to a net loss of \$4 million in the corresponding quarter of 2006. The decrease was mainly attributable to the \$14 million decline in securitization revenues. For fiscal 2007, the net loss was \$68 million versus \$39 million for fiscal 2006.

Comprehensive Income

In the fourth quarter of 2007, comprehensive income was a loss of \$199 million, or \$24 million more than the net loss for the same period. This was mainly due to the decrease in the value of investments in foreign currency owing to the higher Canadian dollar and to the decrease in the fair value of available for sale financial assets, partly mitigated by unrealized gains on derivatives designated as cash flow hedges. For fiscal 2007, comprehensive income was \$92 million less than net income for the year owing mainly to the impact of the higher Canadian dollar on investments in foreign currency.

Cash Flows

Due to the nature of the Bank's business, most of its revenues and expenses are cash items. Moreover, certain activities, such as trading activities, generate significant cash flow movement, which can have an impact on several assets and liabilities such as held for trading securities, securities sold short or securities sold under repurchase agreements.

For the fourth quarter of 2007, cash and cash equivalents were down \$6.4 billion compared to an increase of \$1.7 billion in the fourth quarter of 2006. As at October 31, 2007, cash and cash equivalents totalled \$3.0 billion versus \$10.9 billion one year earlier.

Operating activities generated \$4.4 billion in cash flows, owing chiefly to the \$3.7 billion decrease in held for trading securities. For the fourth quarter of 2006, operating activities required cash flows of \$3.1 billion, due to the \$4.2 billion increase in held for trading securities, offset by a change in other items of \$0.7 billion.

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

Financing activities required cash flows of \$12.9 billion, mainly due to the \$2.2 billion decrease in securities sold short, the \$9.8 billion decrease in securities sold under repurchase agreements, and the \$0.5 billion decrease in deposits. For the corresponding period of 2006, financing activities generated \$6.3 billion in cash flows, mainly as a result of the \$3.9 billion increase in deposits, the \$0.8 billion increase in securities sold short and the \$1.9 billion increase in securities sold under repurchase agreements.

Lastly, investing activities generated \$2.2 billion in cash flows in the fourth quarter of 2007, owing to the \$2.3 billion decrease in securities purchased under reverse repurchase agreements. For the corresponding period of 2006, investing activities required cash flows of \$1.5 billion, mainly due to the increase in securities purchased under reverse repurchase agreements.

Risk Management

Credit Risk

In the fourth quarter of 2007, the Bank recorded specific provisions for credit losses of \$29 million, up \$7 million from the same period a year earlier. Credit losses for fiscal 2007 totalled \$103 million, up \$26 million or 34%, mainly attributable to losses on commercial loans and the higher recovery rate in 2006 for these loans.

As at October 31, 2007, gross impaired loans amounted to \$249 million, or \$15 million more than in fiscal 2006. Increases were recorded for both commercial credit and residential mortgage loans. As at October 31, 2007, allowances for credit losses exceeded gross impaired loans by \$179 million versus \$192 million as at October 31, 2006.

Market Risk – Trading Activities

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

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

Trading Activities⁽¹⁾ (millions of dollars)

| Global VaR by risk category | Period end | Average | For the quarter ended October 31, 2007 | |
|-----------------------------------|--------------|--------------|---|--------------|
| | | | High | Low |
| Interest rate | (3.4) | (3.2) | (4.3) | (2.6) |
| Foreign exchange | (1.7) | (2.7) | (4.3) | (1.6) |
| Equity | (7.0) | (4.9) | (7.0) | (3.7) |
| Commodity | (1.8) | (2.1) | (3.1) | (1.5) |
| Correlation effect ⁽²⁾ | 8.5 | 7.6 | 12.3 | 4.9 |
| Global VaR | (5.4) | (5.3) | (6.4) | (4.5) |

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

(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.)

Balance Sheet

As at October 31, 2007, the Bank had assets of \$113.1 billion, compared to \$116.8 billion as at October 31, 2006. Loans and acceptances were up \$1.4 billion owing mainly to vigorous consumer credit growth. In addition, cash, deposits with financial institutions, securities and securities purchased under reverse repurchase agreements decreased \$8.6 billion. The table below presents the main portfolios.

| Average monthly volumes (millions of dollars) | October 2007 | October 2006 |
|--|-----------------|-----------------|
| Loans and acceptances* | | |
| Residential mortgages | 22,858 | 21,525 |
| Consumer loans | 11,050 | 9,490 |
| Credit card receivables | 1,793 | 1,743 |
| SME loans | 14,048 | 13,668 |
| Corporate loans | 5,919 | 5,308 |
| | 55,668 | 51,734 |
| Deposits | | |
| Personal (balance) | 30,215 | 29,092 |
| Off-balance sheet personal savings (balance) | 76,073 | 70,462 |
| Business | 11,867 | 10,398 |

* including securitized assets

Residential mortgage loans rose 6.2% as at October 31, 2007, reaching \$22.9 billion compared to \$21.5 billion as at October 31, 2006. Consumer loans climbed 16.4% to \$11.1 billion, primarily driven by higher volumes of secured lines of credit. SME loans increased \$0.4 billion to \$14.0 billion and corporate loans continued to grow, rising 11.5% to \$5.9 billion.

Personal deposits stood at \$30.2 billion as at October 31, 2007, up \$1.1 billion from the same period a year earlier, with most of that growth derived from traditional deposits. Off-balance sheet personal savings administered by the Bank as at October 31, 2007 totalled \$76.1 billion, up \$5.6 billion or 8% in a year. The increase was primarily attributable to savings administered by private investment management and mutual funds, with the remainder stemming from brokerage services. Moreover, business deposits advanced \$1.5 billion year over year to \$11.9 billion as at October 31, 2007.

Accounting Policies and Estimates

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

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

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

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

Disclosure on Internal Controls over Financial Reporting

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

Capital

Tier 1 and total capital ratios, according to the rules of the Bank for International Settlements, stood at 9.0% and 12.4%, respectively, as at October 31, 2007, compared to 9.9% and 14.0% as at October 31, 2006, including the \$500 million subordinated debenture issued on November 2, 2006.

The decrease in capital ratios was essentially attributable to the Bank's purchase of ABCP and the impairment charge recorded in the fourth quarter. Active management of on and off-balance sheet assets mitigated the negative impact. Consequently, risk-weighted assets were \$49.3 billion as at October 31, 2007, up only 4% year over year.

During the fiscal year ended October 31, 2007, the Bank repurchased 5,006,600 common shares for a total of \$315 million as part of its normal course issuer bid. Under the program, the Bank could repurchase a maximum of 8,102,000 common shares by January 31, 2008.

Dividends

The Board of Directors declared regular dividends on the various classes and series of preferred shares and increased the dividend per common share by 2 cents to \$0.62, payable on February 1, 2008 to shareholders of record on December 27, 2007.

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

Additional Financial Information

(unaudited)

(millions of dollars except per share amounts)

| | 2007 | | | | 2006 | | | | 2007 | 2006 |
|--|------------|------------|------------|------------|------------|------------|------------|------------|----------|----------|
| | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 | Total | Total |
| Total revenues | \$ 402 | \$ 1,010 | \$ 1,022 | \$ 989 | \$ 970 | \$ 921 | \$ 941 | \$ 971 | \$ 3,423 | \$ 3,803 |
| Net income (loss) | (175) | 243 | 233 | 240 | 220 | 220 | 214 | 217 | 541 | 871 |
| Earnings (loss) per common share | | | | | | | | | | |
| Basic | (1.14) | 1.49 | 1.42 | 1.45 | 1.33 | 1.32 | 1.29 | 1.28 | 3.25 | 5.22 |
| Diluted | (1.14) | 1.48 | 1.40 | 1.43 | 1.31 | 1.30 | 1.26 | 1.26 | 3.22 | 5.13 |
| Dividends per common share | 0.60 | 0.60 | 0.54 | 0.54 | 0.50 | 0.50 | 0.48 | 0.48 | 2.28 | 1.96 |
| Return on common shareholders' equity | (16.0)% | 20.6 % | 20.3 % | 20.7 % | 19.7 % | 20.2 % | 20.4 % | 19.9 % | 11.5 % | 20.1 % |
| Total assets | \$ 113,085 | \$ 123,353 | \$ 135,172 | \$ 121,402 | \$ 116,801 | \$ 108,552 | \$ 111,083 | \$ 105,172 | | |
| Impaired loans, net | 129 | 110 | 110 | 112 | 116 | 98 | 111 | 113 | | |
| Per common share | | | | | | | | | | |
| Book value | 26.85 | 28.70 | 28.92 | 28.34 | 27.17 | 26.57 | 25.77 | 25.72 | | |
| Stock trading range | | | | | | | | | | |
| High | 60.28 | 66.14 | 65.87 | 66.59 | 62.86 | 62.69 | 65.60 | 63.90 | | |
| Low | 50.50 | 60.61 | 61.96 | 61.36 | 58.26 | 56.14 | 61.35 | 58.35 | | |

HIGHLIGHTS

(unaudited)

| | Quarter ended October 31 | | | Fiscal year ended October 31 | | |
|--|--------------------------|---------|-------------|------------------------------|---------|-------------|
| | 2007 | 2006 | % Change | 2007 | 2006 | % Change |
| Operating results (millions of dollars) | | | | | | |
| Total revenues | \$ 402 | \$ 970 | (59) | \$3,423 | \$3,803 | (10) |
| Net income (loss) | (175) | 220 | – | 541 | 871 | (38) |
| Return on common shareholders' equity | (16.0)% | 19.7% | | 11.5% | 20.1% | |
| Per common share (dollars) | | | | | | |
| Earnings (loss) – basic | \$ (1.14) | \$ 1.33 | – | \$ 3.25 | \$ 5.22 | (38) |
| Earnings (loss) – diluted | (1.14) | 1.31 | – | 3.22 | 5.13 | (37) |
| EXCLUDING SPECIFIED ITEMS⁽¹⁾ | | | | | | |
| Operating results (millions of dollars) | | | | | | |
| Total revenues | \$ 998 | \$970 | 3 | \$4,019 | \$3,782 | 6 |
| Net income | 217 | 220 | (1) | 933 | 857 | 9 |
| Return on common shareholders' equity | 18.4% | 19.7% | | 20.0% | 19.7% | |
| Per common share (dollars) | | | | | | |
| Earnings – basic | \$ 1.34 | \$ 1.33 | 1 | \$ 5.71 | \$ 5.13 | 11 |
| Earnings – diluted | 1.34 | 1.31 | 2 | 5.65 | 5.05 | 12 |
| Per common share (dollars) | | | | | | |
| Dividends declared | \$ 0.60 | \$ 0.50 | 20 | \$ 2.28 | \$ 1.96 | 16 |
| Book value | | | | 26.85 | 27.17 | (1) |
| Stock trading range | | | | | | |
| High | 60.28 | 62.86 | | 66.59 | 65.60 | |
| Low | 50.50 | 58.26 | | 50.50 | 56.14 | |
| Close | 54.65 | 61.25 | | 54.65 | 61.25 | |

| | October 31 2007 | October 31 2006 | |
|--|--------------------|----------------------|-----|
| Financial position (millions of dollars) | | | |
| Total assets | \$113,085 | \$116,801 | (3) |
| Loans and acceptances | 52,045 | 50,670 | 3 |
| Deposits | 70,798 | 71,917 | (2) |
| Subordinated debentures and shareholders' equity | 6,242 | 6,237 | – |
| Capital ratios – BIS | | | |
| Tier 1 | 9.0% | 9.9% | |
| Total | 12.4% | 14.0% ⁽²⁾ | |
| Impaired loans, net of specific and general allowances | (179) | (192) | |
| as a % of loans and acceptances | (0.3)% | (0.4)% | |
| Assets under administration/management | 239,028 | 228,749 | |
| Total personal savings | 106,288 | 99,554 | |
| Interest coverage | 7.88 | 14.11 | |
| Asset coverage | 3.89 | 4.01 | |
| Other information | | | |
| Number of employees | 16,863 | 16,972 | (1) |
| Number of branches in Canada | 447 | 451 | (1) |
| Number of banking machines | 835 | 801 | 4 |

(1) See "Financial Reporting Method" on pages 3 and 4.

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

CONSOLIDATED BALANCE SHEET

(unaudited)
(millions of dollars)

| | October 31 2007 | July 31 2007 | October 31 2006 |
|---|--------------------|-----------------|--------------------|
| ASSETS | | | |
| Cash | 283 | 301 | 268 |
| Deposits with financial institutions | 3,045 | 9,161 | 10,611 |
| Securities | | | |
| Available for sale (2006: Investment account) (Note 4) | 8,442 | 9,267 | 6,814 |
| Held for trading | 30,828 | 34,538 | 31,864 |
| | 39,270 | 43,805 | 38,678 |
| Securities purchased under reverse repurchase agreements | 5,966 | 8,296 | 7,592 |
| Loans (Notes 5, 6 and 7) | | | |
| Residential mortgage | 15,895 | 16,000 | 15,385 |
| Personal and credit card | 13,116 | 12,741 | 11,319 |
| Business and government | 19,377 | 19,486 | 20,667 |
| | 48,388 | 48,227 | 47,371 |
| Allowance for credit losses | (428) | (430) | (426) |
| | 47,960 | 47,797 | 46,945 |
| Other | | | |
| Customers' liability under acceptances | 4,085 | 3,954 | 3,725 |
| Fair value of derivative financial instruments (Note 14) | 4,883 | 3,768 | 2,269 |
| Premises and equipment | 426 | 405 | 385 |
| Goodwill | 703 | 680 | 683 |
| Intangible assets | 169 | 175 | 177 |
| Other assets | 6,295 | 5,011 | 5,468 |
| | 16,561 | 13,993 | 12,707 |
| | 113,085 | 123,353 | 116,801 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Deposits | | | |
| Personal | 30,215 | 29,666 | 29,092 |
| Business and government | 33,797 | 33,183 | 33,998 |
| Deposit-taking institutions | 6,561 | 8,206 | 8,602 |
| Deposit from NBC Capital Trust | 225 | 225 | 225 |
| | 70,798 | 71,280 | 71,917 |
| Other | | | |
| Acceptances | 4,085 | 3,954 | 3,725 |
| Obligations related to securities sold short | 16,223 | 18,455 | 15,621 |
| Securities sold under repurchase agreements | 2,070 | 11,911 | 9,517 |
| Fair value of derivative financial instruments (Note 14) | 3,620 | 2,654 | 1,646 |
| Other liabilities | 9,087 | 7,426 | 7,562 |
| | 35,085 | 44,400 | 38,071 |
| Subordinated debentures (Note 8) | 1,605 | 1,882 | 1,449 |
| Non-controlling interest | 960 | 861 | 576 |
| Shareholders' equity (Notes 10 and 11) | | | |
| Preferred shares | 400 | 400 | 400 |
| Common shares | 1,575 | 1,567 | 1,566 |
| Contributed surplus | 32 | 33 | 21 |
| Retained earnings | 2,793 | 3,070 | 2,893 |
| Accumulated other comprehensive income (loss) (Notes 2 and 12) | (163) | (140) | (92) |
| | 4,637 | 4,930 | 4,788 |
| | 113,085 | 123,353 | 116,801 |

CONSOLIDATED STATEMENT OF INCOME

(unaudited)
(millions of dollars)

| | Quarter ended | | | Fiscal year ended | |
|--|--------------------|-----------------|--------------------|--------------------|--------------------|
| | October 31 2007 | July 31 2007 | October 31 2006 | October 31 2007 | October 31 2006 |
| Interest income | | | | | |
| Loans | 768 | 784 | 719 | 3,031 | 2,648 |
| Securities | – | – | 260 | – | 960 |
| Securities available for sale | 72 | 79 | – | 296 | – |
| Securities held for trading | 214 | 248 | – | 1,060 | – |
| Deposits with financial institutions | 102 | 104 | 96 | 423 | 314 |
| | 1,156 | 1,215 | 1,075 | 4,810 | 3,922 |
| Interest expense | | | | | |
| Deposits | 676 | 662 | 558 | 2,633 | 1,877 |
| Subordinated debentures | 25 | 25 | 21 | 100 | 90 |
| Other | 158 | 222 | 192 | 950 | 663 |
| | 859 | 909 | 771 | 3,683 | 2,630 |
| Net interest income | 297 | 306 | 304 | 1,127 | 1,292 |
| Other income | | | | | |
| Underwriting and advisory fees | 76 | 99 | 106 | 381 | 373 |
| Securities and brokerage commissions | 60 | 67 | 61 | 267 | 256 |
| Deposit and payment service charges | 54 | 54 | 53 | 213 | 208 |
| Trading revenues | 99 | 96 | 88 | 510 | 317 |
| Gains (losses) on available for sale securities (2006: Investment account), net | (502) | 43 | 50 | (409) | 180 |
| Card service revenues | 3 | 11 | 7 | 34 | 34 |
| Lending fees | 33 | 35 | 33 | 127 | 138 |
| Insurance revenues | 30 | 27 | 24 | 115 | 113 |
| Acceptances, letters of credit and guarantee | 17 | 17 | 17 | 68 | 68 |
| Securitization revenues | 44 | 39 | 58 | 179 | 175 |
| Foreign exchange revenues | 28 | 26 | 26 | 103 | 98 |
| Trust services and mutual funds | 88 | 93 | 73 | 357 | 309 |
| Other | 75 | 97 | 70 | 351 | 242 |
| | 105 | 704 | 666 | 2,296 | 2,511 |
| Total revenues | 402 | 1,010 | 970 | 3,423 | 3,803 |
| Provision for credit losses | 29 | 22 | 22 | 103 | 77 |
| | 373 | 988 | 948 | 3,320 | 3,726 |
| Operating expenses | | | | | |
| Salaries and staff benefits | 336 | 393 | 388 | 1,498 | 1,479 |
| Occupancy | 42 | 43 | 41 | 169 | 164 |
| Technology | 107 | 100 | 94 | 407 | 387 |
| Communications | 19 | 18 | 19 | 73 | 74 |
| Professional fees | 57 | 50 | 41 | 194 | 141 |
| Other | 79 | 71 | 90 | 291 | 301 |
| | 640 | 675 | 673 | 2,632 | 2,546 |
| Income (loss) before income taxes (recovery) and non-controlling interest | (267) | 313 | 275 | 688 | 1,180 |
| Income taxes (recovery) | (123) | 71 | 44 | 79 | 277 |
| | (144) | 242 | 231 | 609 | 903 |
| Non-controlling interest | 31 | (1) | 11 | 68 | 32 |
| Net income (loss) | (175) | 243 | 220 | 541 | 871 |
| Dividends on preferred shares | 5 | 5 | 5 | 21 | 21 |
| Net income (loss) available to common shareholders | (180) | 238 | 215 | 520 | 850 |
| Number of common shares outstanding (thousands) | | | | | |
| Average – basic | 157,790 | 159,209 | 161,969 | 159,811 | 162,851 |
| Average – diluted | 157,790 | 160,567 | 164,599 | 161,190 | 165,549 |
| End of period | 157,806 | 157,858 | 161,512 | 157,806 | 161,512 |
| Earnings (loss) per common share (dollars) | | | | | |
| Basic | (1.14) | 1.49 | 1.33 | 3.25 | 5.22 |
| Diluted | (1.14) | 1.48 | 1.31 | 3.22 | 5.13 |
| Dividends per common share (dollars) | 0.60 | 0.60 | 0.50 | 2.28 | 1.96 |

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(unaudited)
(millions of dollars)

| | Quarter ended | | | Fiscal year ended | |
|---|--------------------|-----------------|--------------------|--------------------|--------------------|
| | October 31 2007 | July 31 2007 | October 31 2006 | October 31 2007 | October 31 2006 |
| Net income (loss) | (175) | 243 | 220 | 541 | 871 |
| Other comprehensive income (loss), net of income taxes (Note 12) | | | | | |
| Net unrealized gains (losses) on translating financial statements of self-sustaining foreign operations | (195) | (80) | 9 | (299) | (99) |
| Impact of hedging net foreign currency translation gains or losses | 159 | 40 | 7 | 211 | 33 |
| Net change in unrealized foreign currency gains and losses, net of hedging activities | (36) | (40) | 16 | (88) | (66) |
| Net unrealized gains (losses) on available for sale financial assets | (18) | (20) | – | 51 | – |
| Reclassification to net income of (gains) losses on available for sale financial assets | 10 | (25) | – | (11) | – |
| Net change in unrealized gains and losses on available for sale financial assets | (8) | (45) | – | 40 | – |
| Net gains (losses) on derivative financial instruments designated as cash flow hedges | 15 | (43) | – | (54) | – |
| Reclassification to net income of (gains) losses on derivative financial instruments designated as cash flow hedges | 5 | 2 | – | 10 | – |
| Net change in gains and losses on derivative financial instruments designated as cash flow hedges | 20 | (41) | – | (44) | – |
| Total other comprehensive income (loss), net of income taxes | (24) | (126) | 16 | (92) | (66) |
| Comprehensive income (loss) | (199) | 117 | 236 | 449 | 805 |

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Fiscal year ended October 31

(unaudited)

(millions of dollars)

| | 2007 | 2006 |
|---|--------------|-------|
| Preferred shares | 400 | 400 |
| Common shares at beginning | 1,566 | 1,565 |
| Issuance of common shares | | |
| Dividend Reinvestment and Share Purchase Plan | 18 | 15 |
| Stock Option Plan | 34 | 35 |
| Other | 6 | – |
| Repurchase of common shares for cancellation (Note 10) | (49) | (48) |
| Impact of shares acquired or sold for trading purposes | – | (1) |
| Common shares at end | 1,575 | 1,566 |
| Contributed surplus at beginning | 21 | 13 |
| Stock option expense (Note 11) | 16 | 12 |
| Stock options exercised | (4) | (4) |
| Other | (1) | – |
| Contributed surplus at end | 32 | 21 |
| Retained earnings at beginning | 2,893 | 2,645 |
| Net income | 541 | 871 |
| Impact of initial adoption of financial instruments standards (Note 2) | 2 | – |
| Dividends | | |
| Preferred shares | (21) | (21) |
| Common shares | (364) | (320) |
| Premium paid on common shares repurchased for cancellation (Note 10) | (266) | (261) |
| Share issuance and other expenses, net of income taxes | 8 | (21) |
| Retained earnings at end | 2,793 | 2,893 |
| Accumulated other comprehensive income (loss) at beginning, net of income taxes | (92) | (26) |
| Impact of initial adoption of financial instruments standards (Note 2) | 21 | – |
| Net change in unrealized foreign currency gains (losses), net of hedging activities | (88) | (66) |
| Net change in unrealized gains (losses) on available for sale financial assets | 40 | – |
| Net change in gains (losses) on derivative financial instruments designated as cash flow hedges | (44) | – |
| Accumulated other comprehensive income (loss) at end, net of income taxes | (163) | (92) |
| Shareholders' equity | 4,637 | 4,788 |

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

| | 2007 | 2006 |
|---|-------|------|
| As at October 31 | | |
| Unrealized foreign exchange gains and losses, net of hedging activities | (180) | (92) |
| Unrealized gains and losses on available for sale financial assets | 68 | – |
| Gains and losses on derivative financial instruments designated as cash flow hedges | (51) | – |
| | (163) | (92) |

CONSOLIDATED STATEMENT OF CASH FLOWS*(unaudited)*
(millions of dollars)

| | Quarter ended October 31 | | Fiscal year ended October 31 | |
|--|-----------------------------|----------------|---------------------------------|----------------|
| | 2007 | 2006 | 2007 | 2006 |
| Cash flows from operating activities | | | | |
| Net income (loss) | (175) | 220 | 541 | 871 |
| Adjustments for: | | | | |
| Provision for credit losses | 29 | 22 | 103 | 77 |
| Amortization of premises and equipment | 23 | 21 | 78 | 69 |
| Future income taxes | 29 | 9 | 49 | 21 |
| Translation adjustment on foreign currency subordinated debentures | (5) | – | (8) | (3) |
| Gains (losses) on sale of available for sale securities (2006: Investment account), net | (31) | (50) | (124) | (180) |
| Impairment charge | 533 | – | 533 | – |
| Gains on asset securitizations and other transfers of receivables, net | (29) | (35) | (113) | (98) |
| Stock option expense | 2 | 4 | 16 | 12 |
| Change in interest payable | 160 | 127 | 245 | 185 |
| Change in interest and dividends receivable | (110) | (108) | (52) | (45) |
| Change in income taxes payable | (204) | (62) | (151) | 33 |
| Change in fair value of derivative financial instruments, net | (180) | 192 | (576) | (79) |
| Change in held for trading securities | 3,710 | (4,159) | 1,036 | (5,681) |
| Change in other items | 644 | 736 | 1,049 | 2,671 |
| | 4,396 | (3,083) | 2,626 | (2,147) |
| Cash flows from financing activities | | | | |
| Change in deposits | (482) | 3,901 | (1,119) | 9,473 |
| Issuance of deposit to NBC Capital Trust | – | – | – | 225 |
| Issuance of subordinated debentures | – | – | 500 | 500 |
| Repurchase of subordinated debentures | (300) | (150) | (300) | (150) |
| Issuance of common shares | 10 | 9 | 58 | 50 |
| Repurchase of common shares for cancellation | (15) | (34) | (315) | (309) |
| Dividends paid on common shares | (96) | (80) | (351) | (311) |
| Dividends paid on preferred shares | (5) | (5) | (21) | (21) |
| Change in obligations related to securities sold short | (2,232) | 757 | 602 | 117 |
| Change in securities sold under repurchase agreements | (9,841) | 1,897 | (7,447) | (3,398) |
| Change in other items | 12 | (19) | (80) | (78) |
| | (12,949) | 6,276 | (8,473) | 6,098 |
| Cash flows from investing activities | | | | |
| Change in deposits with financial institutions pledged as collateral | (224) | 70 | (322) | 4,028 |
| Change in loans (excluding securitization) | (1,160) | (1,684) | (3,887) | (5,274) |
| Proceeds from securitization of new assets and other transfers of receivables | 968 | 820 | 2,870 | 2,321 |
| Maturity and redemption of securitized assets | – | – | (101) | – |
| Purchases of available for sale securities (2006: Investment account) | (4,993) | (4,888) | (18,025) | (24,630) |
| Sales of available for sale securities (2006: Investment account) | 5,320 | 5,839 | 15,932 | 24,865 |
| Change in securities purchased under reverse repurchase agreements | 2,330 | (1,638) | 1,626 | (569) |
| Net acquisitions of premises and equipment | (44) | (49) | (119) | (99) |
| | 2,197 | (1,530) | (2,026) | 642 |
| Increase (decrease) in cash and cash equivalents | (6,356) | 1,663 | (7,873) | 4,593 |
| Cash and cash equivalents at beginning | 9,352 | 9,206 | 10,869 | 6,276 |
| Cash and cash equivalents at end | 2,996 | 10,869 | 2,996 | 10,869 |
| Cash and cash equivalents | | | | |
| Cash | 283 | 268 | 283 | 268 |
| Deposits with financial institutions | 3,045 | 10,611 | 3,045 | 10,611 |
| Less: Amount pledged as collateral | (332) | (10) | (332) | (10) |
| | 2,996 | 10,869 | 2,996 | 10,869 |
| Supplementary information | | | | |
| Interest paid | 698 | 644 | 3,438 | 2,445 |
| Income taxes paid | 203 | 95 | 367 | 217 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(unaudited) (millions of dollars)

These unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended October 31, 2006. Certain comparative figures have been reclassified to conform with the presentation adopted in fiscal 2007.

1 Significant Accounting Policies

These unaudited interim consolidated financial statements of the Bank have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and the accounting policies described in the Bank's most recent Annual Report for the year ended October 31, 2006 except for the recent accounting standards adopted described in Note 2.

2 Recent Accounting Standards Adopted

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

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

Transition

On November 1, 2006, the Bank adopted the standards set out in the new sections of the CICA Handbook relating to financial instruments: Section 1530, *Comprehensive Income*; Section 3855, *Financial Instruments – Recognition and Measurement*; and Section 3865, *Hedges*. The corresponding figures for the year ended October 31, 2006 have not been restated, in accordance with the relevant transitional provisions, except for unrealized gains or losses on translating financial statements of self-sustaining foreign operations, net of hedging activities.

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

The items recognized as an adjustment to the opening balance of *Retained earnings*, net of income taxes, totalled \$2 million.

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

- Reclassification of a net unrealized loss on translating financial statements of self-sustaining foreign operations, net of hedging activities, in the amount of \$92 million that was previously presented as a separate item in *Shareholders' equity*;
- Net unrealized gain on available for sale securities in the amount of \$28 million; and
- Net loss on derivative financial instruments designated as cash flow hedges in the amount of \$7 million

Moreover, during the fourth quarter of the fiscal year ended October 31, 2007, the Bank opted to record, effective November 1, 2006, transactions on held for trading securities on the settlement date.

Risk Management

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

Credit risk is controlled through a rigorous and methodical process that includes the following: credit risk assessment, credit granting process, and portfolio diversification and management.

Market risk is intrinsically interlinked with participation in financial markets. Managing this risk is a core competency for the Bank in its trading, investing and asset/liability management activities. One of the main tools used to manage market risk is the Value-at-Risk simulation model.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

(unaudited) (millions of dollars)

2 Recent Accounting Standards Adopted (cont.)

Hedge Accounting Policy

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

Fair value hedge

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

For the quarter ended October 31, 2007, the amount representing the ineffective portion recognized as *Other income* in the Consolidated Statement of Income was negligible (negligible for the fiscal year ended October 31, 2007). All the components of the change in fair value of the derivative financial instruments used were taken into account in assessing the effectiveness of the fair value hedge.

Cash flow hedge

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

For the quarter ended October 31, 2007, an unrealized gain of \$23 million was recorded in *Other comprehensive income* for the effective portion of changes in fair value of derivative financial instruments designated as cash flow hedges (unrealized loss of \$80 million for the fiscal year ended October 31, 2007). The amounts recognized are reclassified to *Net interest income* in the periods during which the variability in cash flows of the hedged item affects net interest income. A net loss of \$7 million was reclassified to *Net income* during the quarter (\$15 million during the fiscal year ended October 31, 2007). An estimated net loss of \$24 million deferred in *Accumulated other comprehensive income* as at October 31, 2007 is expected to be reclassified to net income during the next 12 months. The maximum period over which the Bank hedges its exposure to the variability in future cash flows is four years.

For the quarter ended October 31, 2007, an unrealized loss representing the ineffective portion was recognized as *Other income* in the Consolidated Statement of Income in the amount of \$1 million (\$2 million for the fiscal year ended October 31, 2007). All the components of the change in fair value of the derivative financial instruments used were taken into account in assessing the effectiveness of the cash flow hedge.

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

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

For the quarter ended October 31, 2007, unrealized foreign exchange losses of \$217 million (\$321 million for the fiscal year ended October 31, 2007) were recorded in *Other comprehensive income* related to the Bank's net investment in self-sustaining foreign operations and were offset by gains of \$224 million (\$302 million for the fiscal year ended October 31, 2007) related to financial instruments designated as foreign currency risk hedges. These non-derivative financial instruments represent foreign currency denominated liabilities and totalled \$1.8 billion as at October 31, 2007.

Financial instruments designated as held for trading

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

- If, consistent with a documented risk management strategy, using this option allows the Bank to eliminate or significantly reduce the measurement or recognition inconsistency of measuring financial assets or liabilities together on a different basis, and if the fair values are reliable; or
- If a group of financial assets and/or financial liabilities to which an instrument belongs is managed and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management or investment strategy, and information is provided on that basis to senior management, and if the fair values are reliable; or
- For hybrid financial instruments with one or more embedded derivatives which would significantly modify the cash flows of the financial instruments and which would otherwise be bifurcated and accounted for separately.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

(unaudited) (millions of dollars)

2 Recent Accounting Standards Adopted (cont.)

During the fiscal year ended October 31, 2007, the Bank designated certain deposits with one or more embedded derivatives as held for trading. These deposits are included under liabilities in *Deposits* in the Consolidated Balance Sheet.

The fair value of these deposits totalled \$297 million as at October 31, 2007. The change in fair value in the amount of \$7 million for the quarter ended October 31, 2007 was recognized as a loss in *Trading revenues* in the Consolidated Statement of Income (gain of \$5 million for the fiscal year ended October 31, 2007). This change in fair value is entirely due to factors other than changes in an essentially risk-free interest rate.

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

b) Stock-Based Compensation

On November 1, 2006, the Bank adopted the accounting treatment set out in Abstract No.162 entitled *Stock-Based Compensation for Employees Eligible to Retire Before the Vesting Date* (EIC-162) issued by the Emerging Issues Committee. EIC-162 specifies that the compensation cost attributable to stock-based awards granted to employees who are eligible to retire at the grant date should be recognized immediately and that the compensation cost attributable to stock-based awards granted to employees who will become eligible to retire during the vesting period should be recognized over the period from the grant date to the date of retirement eligibility. Previously, the Bank amortized this cost over the vesting period. The Bank has not restated its prior-period consolidated financial statements to take this change into account because the impact is not material.

3 Recent Accounting Standards Pending Adoption

Capital Disclosures and Financial Instruments – Disclosures and Presentation

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

Section 1535 establishes disclosure requirements concerning:

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

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

Section 3862 establishes disclosure requirements that enable users of financial statements to evaluate:

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

Accounting changes

In July 2006, the CICA published a new version of Section 1506, *Accounting Changes*. The new standard will apply to the Bank effective November 1, 2007.

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

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

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

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

4 Available for Sale Financial Assets

Financial assets classified as available for sale comprise securities and certain negotiable certificates of deposit.

The Bank holds equity securities, mutual fund units and other securities that are classified as available for sale but which must be recognized at cost on the Consolidated Balance Sheet because they are not traded in an active market. These available for sale financial assets presented at cost on the Consolidated Balance Sheet total \$403 million.

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

| | As at October 31, 2007 | | | |
|--|-----------------------------|---------------------------|----------------------------|----------------|
| | Cost or unamortized cost | Gross unrealized gains | Gross unrealized losses | Carrying value |
| Securities issued or guaranteed by: | | | | |
| Canada | 4,071 | 2 | (17) | 4,056 |
| Provinces | 743 | 2 | (1) | 744 |
| Municipalities or school boards | 1 | - | - | 1 |
| U.S. Treasury and other U.S. agencies | 79 | - | - | 79 |
| Other debt securities | 2,272 | 4 | (6) | 2,270 |
| Equity securities | 1,174 | 168 | (50) | 1,292 |
| Total available for sale securities | 8,340 | 176 | (74) | 8,442 |
| Other available for sale financial assets | 836 | - | - | 836 |
| Total available for sale financial assets | 9,176 | 176 | (74) | 9,278 |

Asset-backed commercial paper

On August 20, 2007, the Bank announced a number of measures to relieve its clients from the uncertainties related to the liquidity problem in the asset-backed commercial paper (ABCP) market. During the fourth quarter of 2007, the Bank purchased \$2,138 million of ABCP, issued by 26 trusts, including \$1,084 million from mutual funds and \$559 million from pooled funds administered by the Bank, as well as the ABCP held by its individual retail clients and certain other clients. This amount is in addition to the \$156 million in ABCP already held by the Bank. As at October 31, 2007, once adjusted, the carrying value of this ABCP owned by the Bank was \$1,719 million. The carrying value of this ABCP classified in *Available for sale securities* was \$1,606 million and an amount of \$113 million was classified in *Held for trading securities*.

During the fourth quarter of 2007, the Bank adjusted the carrying value of the ABCP it owned due to impairment in the value of some of the underlying assets, the significant reduction in liquidity of the commercial paper and the uncertain nature of the terms and conditions of the restructuring proposals of the ABCP conduits. A charge of \$575 million was recognized in the Consolidated Statement of Income, specifically \$42 million under *Trading revenues (Financial Markets segment)* and \$533 million under *Gains (losses) on available for sale securities* (under the *Other* heading of segment results). This charge represents Management's best estimate of impairment within a reasonable range of possible write-downs.

The deterioration in global credit markets, prolonged illiquidity, reduced price transparency in underlying assets, increased market volatility and a significantly weaker U.S. housing market all contributed to the turmoil in the Canadian ABCP market. Determining the fair value of the ABCP is complex and involves an extensive process that includes the use of quantitative modeling and relevant assumptions. Whenever available, observable market inputs for comparable underlying securities, from independent pricing sources, were used to assess the fair value of each class of assets in the trusts.

Our valuation was based on our assessment of then-prevailing conditions, which may change in subsequent periods. Possible changes that could have a material effect on the future value of the ABCP include (1) changes in the value of the underlying assets, (2) developments related to the liquidity of the ABCP market, (3) the outcome of the restructuring of the conduits and (4) a change in economic conditions in North America.

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

5 Loans and Impaired Loans

| October 31, 2007 | Impaired loans | | | |
|--|----------------|-------|---------------------|-------------|
| | Gross loans | Gross | Specific allowances | Net balance |
| Residential mortgage | 15,895 | 20 | 1 | 19 |
| Personal and credit card | 13,116 | 36 | 12 | 24 |
| Business and government | 19,377 | 193 | 107 | 86 |
| | 48,388 | 249 | 120 | 129 |
| General allowance ⁽¹⁾ | | | | (308) |
| Impaired loans, net of specific and general allowances | | | | (179) |
| October 31, 2006 | | | | |
| Residential mortgage | 15,385 | 13 | 2 | 11 |
| Personal and credit card | 11,319 | 36 | 16 | 20 |
| Business and government | 20,667 | 185 | 100 | 85 |
| | 47,371 | 234 | 118 | 116 |
| General allowance ⁽¹⁾ | | | | (308) |
| Impaired loans, net of specific and general allowances | | | | (192) |

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

6 Allowance for Credit Losses

The changes made to allowances during fiscal years are as follows:

| | | | 2007 | | 2006 | |
|-----------------------------|---------------------|-------------------|-------|---------------------|--------------------|-------|
| | Specific allowances | General allowance | Total | Specific allowances | General allowances | Total |
| Allowances at beginning | 118 | 308 | 426 | 143 | 308 | 451 |
| Provision for credit losses | 103 | – | 103 | 77 | – | 77 |
| Write-offs | (154) | – | (154) | (166) | – | (166) |
| Recoveries | 53 | – | 53 | 64 | – | 64 |
| Allowances at end | 120 | 308 | 428 | 118 | 308 | 426 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

(unaudited) (millions of dollars)

7 Asset Securitization**New Securitization Activities***Insured mortgage loans*

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

| Securitization activities for the quarter ended: | October 31 2007 | July 31 2007 | October 31 2006 |
|--|--------------------|-----------------|--------------------|
| Net cash proceeds | 968 | 451 | 820 |
| Retained interests | 22 | 11 | 25 |
| Retained servicing liability | (5) | (2) | (5) |
| | 985 | 460 | 840 |
| Receivables securitized and sold | 980 ⁽¹⁾ | 461 | 821 |
| Gain (loss) before income taxes, net of transaction fees | 5 | (1) | 19 |
| Mortgage-backed securities created and retained included in <i>Securities available for sale</i> (2006: Investment account) | 74 | 7 | 78 |

(1) Includes \$45 million of receivables securitized in the third quarter of 2007 and previous fiscal years.

| Securitization activities for the fiscal year ended: | October 31 2007 | October 31 2006 |
|--|----------------------|--------------------|
| Net cash proceeds | 2,770 | 2,180 |
| Retained interests | 72 | 63 |
| Retained servicing liability | (15) | (13) |
| | 2,827 | 2,230 |
| Receivables securitized and sold | 2,803 ⁽¹⁾ | 2,200 |
| Gain before income taxes, net of transaction fees | 24 | 30 |
| Mortgage-backed securities created and retained included in <i>Securities available for sale</i> (2006: Investment account) | 74 | 674 |

(1) Includes \$38 million of receivables securitized during previous fiscal years.

Repurchase and maturity*Mortgage loans – other*

During fiscal 2000, the Bank sold uninsured mortgage loans on properties with five or more housing units to a trust. The Bank terminated this program in July 2007 by repurchasing the \$86 million in outstanding loans, which represented less than 10% of the initial portfolio.

Personal loans

The Bank used to sell fixed-rate personal loans on a revolving basis to a trust. The two remaining series of notes, totalling \$309 million, matured in July 2007. No new series were issued and the structure was closed in 2007.

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

7 Asset Securitization (cont.)

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

Securitization revenues for the quarter ended October 31

| | Gains on sale of assets | | Servicing revenues | | Other | | Total |
|--|-------------------------|-----------|--------------------|----------|----------|-----------|-----------|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2006 |
| Mortgage loans | | | | | | | |
| – Insured | 5 | 19 | 3 | 3 | – | – | 22 |
| – Other | – | – | – | – | – | 1 | 1 |
| Credit card receivables ⁽¹⁾ | 24 | 16 | 6 | 4 | 6 | 12 | 32 |
| Personal loans ⁽¹⁾ | – | – | – | – | – | 3 | 3 |
| Total | 29 | 35 | 9 | 7 | 6 | 16 | 58 |

Securitization revenues for the fiscal year ended October 31

| | Gains on sale of assets | | Servicing revenues | | Other | | Total |
|--|-------------------------|-----------|--------------------|-----------|-----------|-----------|------------|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2006 |
| Mortgage loans | | | | | | | |
| – Insured | 24 | 30 | 15 | 13 | – | – | 43 |
| – Other | – | – | – | – | 1 | 2 | 2 |
| Credit card receivables ⁽¹⁾ | 89 | 67 | 20 | 17 | 30 | 41 | 125 |
| Personal loans ⁽¹⁾ | – | – | – | 1 | – | 4 | 5 |
| Total | 113 | 97 | 35 | 31 | 31 | 47 | 175 |

(1) Revolving securitization transactions

Key assumptions

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

| | Variable | Insured | Credit card |
|-------------------------------------|----------|----------------|-------------|
| | | mortgage loans | receivables |
| | | Fixed | |
| Weighted average term (months) | 26.8 | 33.7 | – |
| Repayment rate | – | – | 24.6 % |
| Prepayment rate | 20.0 % | 17.0 % | – |
| Excess spread, net of credit losses | 1.1 % | 1.0 % | 10.8 % |
| Expected credit losses | – | – | 3.7 % |
| Discount rate | 4.6 % | 4.8 % | 17.0 % |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

(unaudited) (millions of dollars)

8 Subordinated Debentures

On November 2, 2006, the Bank issued \$500 million of subordinated debentures that mature in 2016. Interest at the annual rate of 4.456% is payable semi-annually on May 2 and November 2 of each year until November 2, 2011.

On October 31, 2007, the Bank also redeemed a subordinated debenture in the amount of \$300 million, maturing on October 31, 2012.

9 Pension and Other Employee Future Benefits

| | Quarter ended | | | Fiscal year ended | |
|---------------------------------------|--------------------|-----------------|--------------------|--------------------|--------------------|
| | October 31 2007 | July 31 2007 | October 31 2006 | October 31 2007 | October 31 2006 |
| Pension benefit expense | 16 | 15 | 15 | 61 | 59 |
| Other employee future benefit expense | 3 | 3 | 3 | 11 | 10 |

10 Capital Stock

Shares outstanding and dividends as at October 31, 2007

| | Number of shares | Shares \$ | \$ | Dividends declared per share |
|------------------------|------------------|--------------|-----|------------------------------------|
| First Preferred Shares | | | | |
| Series 15 | 8,000,000 | 200 | 12 | 1.4625 |
| Series 16 | 8,000,000 | 200 | 9 | 1.2125 |
| | 16,000,000 | 400 | 21 | |
| Common shares | 157,806,303 | 1,575 | 364 | 2.2800 |
| | | 1,975 | 385 | |

Repurchase of Common Shares

On February 1, 2007, the Bank filed a normal course issuer bid for the repurchase and cancellation of up to 8,102,000 common shares over a 12-month period ending no later than January 31, 2008. On January 23, 2006, the Bank filed a normal course issuer bid for the repurchase and cancellation of up to 8,278,000 common shares over a 12-month period that ended on January 22, 2007. On January 13, 2005, the Bank filed a normal course issuer bid for the repurchase and cancellation of up to 8,400,000 common shares over a 12-month period that ended on January 12, 2006. Repurchases were made on the open market at market prices through the facilities of the Toronto Stock Exchange. Premiums paid above the average carrying value of the common shares were charged to *Retained earnings*. As at October 31, 2007, the Bank had completed the repurchase of 5,006,600 common shares (5,055,520 in 2006) at a cost of \$315 million (\$309 million in 2006), which reduced common share capital by \$49 million (\$48 million in 2006) and *Retained earnings* by \$266 million (\$261 million in 2006).

Authorized Capital Stock

During the fiscal year ended October 31, 2007, Section 1 of By-Law II of the Bank was amended to increase to \$5 billion (\$1 billion in 2006) the maximum aggregate consideration for which First Preferred Shares may be issued.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

(unaudited) (millions of dollars)

11 Stock-Based Compensation

Stock Option Plan

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

As at October 31, 2007, a total of 5,770,347 stock options were outstanding.

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

| Fiscal year ended | October 31 2007 | October 31 2006 |
|------------------------------|--------------------|--------------------|
| Risk-free interest rate | 4.05% | 4.18% |
| Expected life of the options | 5 years | 6 years |
| Expected volatility | 22.5% | 24.0% |
| Expected dividend yield | 3.3% | 3.2% |

| | Quarter ended | | | Fiscal year ended | |
|---|--------------------|-----------------|--------------------|--------------------|--------------------|
| | October 31 2007 | July 31 2007 | October 31 2006 | October 31 2007 | October 31 2006 |
| Compensation expense recorded for the stock options | 2 | 3 | 4 | 16 | 12 |

Stock Appreciation Rights (SAR) Plan

During the fiscal year ended October 31, 2007, the Bank awarded 48,396 SARs. As at October 31, 2007, a total of 299,400 SARs were outstanding.

Deferred Stock Unit (DSU) Plan

During the fiscal year ended October 31, 2007, the Bank awarded 32,358 DSUs. As at October 31, 2007, a total of 148,324 DSUs were outstanding.

Restricted Stock Unit (RSU) Plan

During the fiscal year ended October 31, 2007, the Bank awarded 184,844 RSUs. As at October 31, 2007, a total of 364,653 RSUs were outstanding.

Deferred Compensation Plan of National Bank Financial

During the fiscal year ended October 31, 2007, National Bank Financial awarded 145,029 units. As at October 31, 2007, a total of 917,544 units were outstanding.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

*(unaudited) (millions of dollars)***12 Income Taxes – Other Comprehensive Income**

The income tax charge or recovery for each component of other comprehensive income is presented in the following table.

| | Quarter ended | | | Fiscal year ended | |
|---|--------------------|-----------------|--------------------|--------------------|--------------------|
| | October 31 2007 | July 31 2007 | October 31 2006 | October 31 2007 | October 31 2006 |
| Income taxes (recovery) on: | | | | | |
| Net unrealized gains (losses) on translating financial statements of self-sustaining foreign operations | (22) | – | 1 | (22) | 11 |
| Impact of hedging net foreign currency translation gains or losses | 65 | 19 | 2 | 91 | 20 |
| Net unrealized gains (losses) on available for sale financial assets | 1 | (12) | – | 23 | – |
| Reclassification to net income of (gains) losses on available for sale financial assets | 4 | (7) | – | (7) | – |
| Net gains (losses) on derivative financial instruments designated as cash flow hedges | 8 | (21) | – | (26) | – |
| Reclassification to net income of (gains) losses on derivative financial instruments designated as cash flow hedges | 2 | 1 | – | 5 | – |
| Total income taxes (recovery) | 58 | (20) | 3 | 64 | 31 |

13 Litigation

In the normal course of business, the Bank is a party to legal proceedings, many of which are related to lending activities and arise when the Bank takes measures to collect delinquent loans. The Bank is also sometimes named as a defendant or joined in class action suits filed by consumers contesting, among other things, certain transaction fees and unilateral increases in their credit card limits or who wish to avail themselves of certain provisions of consumer protection legislation. The Bank's dealer subsidiary, National Bank Financial, is also a party in various legal proceedings in the normal course of business. Most of these proceedings concern services to individual investors and generally relate to the suitability of investments made by investors relying on the advice of their respective advisors. In the opinion of Management, based on available information and past experience, the related aggregate potential liability will not have a material unfavourable impact on the Bank's financial position.

As a result of the events that occurred in the non-bank asset backed commercial paper (ABCP) market in August 2007, the Bank and its subsidiaries received requests for information and complaints from certain of their clients relating to the National Bank group's role in ABCP related transactions. To date, no litigation relating to ABCP has been commenced involving the Bank or its subsidiaries. However, if legal proceedings were to be initiated on the basis of the arguments advanced by ABCP holders to date, Management is of opinion that the Bank and its subsidiaries would have strong defences available. Pending the resolution of the credit and liquidity issues and uncertainties affecting ABCP, it is not possible to determine the outcome of these client requests and complaints.

14 Fair Value of Derivative Financial Instruments

As at October 31, 2007

| | Carrying value | |
|---|----------------|--------------|
| | Assets | Liabilities |
| Fair value hedges | 179 | 216 |
| Cash flow hedges | 2 | 85 |
| Derivative financial instruments not designated as hedges | 4,702 | 3,319 |
| | 4,883 | 3,620 |

15 Subsequent event

On November 29, 2007, the Bank announced the signing of an agreement with Crédit Agricole (Suisse) SA under which Crédit Agricole (Suisse) SA will acquire National Bank of Canada (International) Ltd., the Bank's subsidiary in Nassau, Bahamas. The transaction is expected to be finalized in January 2008, subject to the usual regulatory approvals.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

(unaudited) (millions of dollars)

16 Segment Disclosures

Quarter ended October 31

| | Personal and Commercial | | Wealth Management | | Financial Markets | | Other | | Total | |
|---|-------------------------|--------|-------------------|------|-------------------|--------|----------|----------|---------|---------|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| Net interest income ⁽¹⁾ | 343 | 346 | 33 | 33 | 35 | 35 | (114) | (110) | 297 | 304 |
| Other income ⁽¹⁾ | 202 | 196 | 175 | 169 | 263 | 263 | (535) | 38 | 105 | 666 |
| Total revenues | 545 | 542 | 208 | 202 | 298 | 298 | (649) | (72) | 402 | 970 |
| Operating expenses | 340 | 334 | 164 | 155 | 168 | 175 | (32) | 9 | 640 | 673 |
| Contribution | 205 | 208 | 44 | 47 | 130 | 123 | (617) | (81) | (238) | 297 |
| Provision for credit losses | 40 | 33 | – | – | – | 1 | (11) | (12) | 29 | 22 |
| Income (loss) before income taxes | | | | | | | | | | |
| (recovery) and non-controlling interest | 165 | 175 | 44 | 47 | 130 | 122 | (606) | (69) | (267) | 275 |
| Income taxes (recovery) ⁽¹⁾ | 54 | 59 | 16 | 15 | 28 | 39 | (221) | (69) | (123) | 44 |
| Non-controlling interest | – | – | 1 | 2 | 26 | 5 | 4 | 4 | 31 | 11 |
| Net income (net loss) | 111 | 116 | 27 | 30 | 76 | 78 | (389) | (4) | (175) | 220 |
| Average assets | 50,214 | 47,094 | 690 | 646 | 88,072 | 73,742 | (13,511) | (12,070) | 125,465 | 109,412 |

Fiscal year ended October 31

| | | | | | | | | | | |
|---|--------|--------|-----|-----|--------|--------|----------|---------|---------|---------|
| Net interest income ⁽²⁾ | 1,365 | 1,330 | 130 | 128 | (11) | 172 | (357) | (338) | 1,127 | 1,292 |
| Other income ⁽²⁾ | 784 | 762 | 744 | 691 | 1,254 | 915 | (486) | 143 | 2,296 | 2,511 |
| Total revenues | 2,149 | 2,092 | 874 | 819 | 1,243 | 1,087 | (843) | (195) | 3,423 | 3,803 |
| Operating expenses | 1,298 | 1,295 | 638 | 601 | 685 | 617 | 11 | 33 | 2,632 | 2,546 |
| Contribution | 851 | 797 | 236 | 218 | 558 | 470 | (854) | (228) | 791 | 1,257 |
| Provision for credit losses | 151 | 121 | – | – | – | 4 | (48) | (48) | 103 | 77 |
| Income (loss) before income taxes | | | | | | | | | | |
| (recovery) and non-controlling interest | 700 | 676 | 236 | 218 | 558 | 466 | (806) | (180) | 688 | 1,180 |
| Income taxes (recovery) ⁽²⁾ | 234 | 229 | 78 | 70 | 159 | 150 | (392) | (172) | 79 | 277 |
| Non-controlling interest | – | – | 5 | 6 | 45 | 9 | 18 | 17 | 68 | 32 |
| Net income (net loss) | 466 | 447 | 153 | 142 | 354 | 307 | (432) | (25) | 541 | 871 |
| Average assets | 48,792 | 46,245 | 677 | 689 | 88,855 | 69,255 | (12,286) | (9,914) | 126,038 | 106,275 |

Personal and Commercial

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

Wealth Management

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

Financial Markets

The Financial Markets segment encompasses corporate financing and lending, treasury operations, including asset and liability management for the Bank, and corporate brokerage.

Other

This heading comprises securitization transactions, certain non-recurring elements, and the unallocated portion of centralized services.

Taxable Equivalent

(1) The accounting policies are the same as those described in the note on accounting policies (Note 1), with the exception of the net interest income, other income and income taxes (recovery) of the operating segments, which are presented on a taxable equivalent basis. Taxable equivalent basis is a calculation method that consists in grossing up certain tax-exempt income by the amount of income tax that otherwise would have been payable. For all of the operating segments, net interest income was grossed up by \$39 million (\$62 million in 2006) and other income by \$16 million (\$22 million in 2006). An equivalent amount was added to income taxes (recovery). The impact of these adjustments is reversed under the *Other* heading.

(2) For the fiscal year ended October 31, 2007, net interest income was grossed up by \$127 million (\$122 million in 2006) and other income by \$78 million (\$58 million in 2006). An equivalent amount was added to income taxes (recovery). The impact of these adjustments is reversed under the *Other* heading.

INFORMATION FOR SHAREHOLDERS AND INVESTORS

Investor Relations

Financial analysts and investors who want to obtain financial information on the Bank are asked to contact the Investor Relations Department.

600 de La Gauchetière West, 7th Floor

Montreal, Quebec H3B 4L2

Toll-free: 1-866-517-5455

Fax: 514-394-6196

E-mail: investorrelations@nbc.ca

Website: www.nbc.ca/investorrelations

Public Relations

600 de La Gauchetière West, 10th Floor

Montreal, Quebec H3B 4L2

Telephone: 514-394-8644

Fax: 514-394-6258

Website: www.nbc.ca

General inquiries: telnat@nbc.ca

Quarterly Report Publication Dates for Fiscal 2008

First quarter: February 28, 2008

Second quarter: May 29, 2008

Third quarter: August 28, 2008

Fourth quarter: November 27, 2008

Disclosure of Fourth Quarter 2007 Results

Conference Call

- A conference call for analysts and institutional investors will be held on November 29, 2007 at 1:30 p.m. ET.
- Access by telephone in listen-only mode:
1-866-225-9256 or 416-641-6124
- A recording of the conference call can be heard until December 6, 2007 by calling 1-800-408-3053 or 416-695-5800. The access code is 3242168.

Webcast

- The conference call will be webcast live at www.nbc.ca/investorrelations.
- A recording of the webcast will also be available on the Internet after the call.

Financial Documents

- The quarterly financial statements are available at all times on National Bank's website at www.nbc.ca/investorrelations.
- The Report to Shareholders, Supplementary Financial Information and a slide presentation will be available on the Investor Relations page of National Bank's website shortly before the start of the conference call.

Transfer Agent and Registrar

For information about stock transfers, address changes, dividends, lost certificates, tax forms and estate transfers, shareholders are requested to contact the transfer agent, Computershare Trust Company of Canada, at the address or telephone number below.

Computershare Trust Company of Canada

Share Ownership Management

1500 University, 7th Floor

Montreal, Quebec H3A 3S8

Telephone: 1-888-838-1407

Fax: 1-888-453-0330

Email: service@computershare.com

Website: www.computershare.com

Direct Deposit Service for Dividends

Shareholders may elect to have their dividend payments deposited directly via electronic funds transfer to their bank account at any financial institution that is a member of the Canadian Payments Association. To do so, they must send a written request to the transfer agent, Computershare Trust Company of Canada.

Dividend Reinvestment and Share Purchase Plan

National Bank offers holders of its common shares a Dividend Reinvestment and Share Purchase Plan through which they can invest in common shares of the Bank without paying a commission or administration fee. Participants in the Plan may acquire shares by reinvesting cash dividends paid on shares they hold or by making optional cash payments of at least \$500 per payment, to a maximum of \$5,000 per quarter. For additional information, please contact the registrar, Computershare Trust Company of Canada, at 1-888-838-1407.

Dividends

The dividends declared by the Bank constitute eligible dividends pursuant to the *Income Tax Act* (Canada).



Head Office

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www.nbc.ca

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