

Report to Shareholders



THIRD QUARTER | 2006

National Bank maintains revenue and profitability growth in third quarter of 2006

- Revenues of \$933 million, an increase of 5%
- Diluted earnings per share of \$1.30, up 10%
- Return on common shareholders' equity increased to 20.2%

MONTREAL, August 31, 2006 – National Bank today released its earnings report for the third quarter ended July 31, 2006. During the quarter, the Bank posted growth in revenues and profitability compared to the corresponding year-earlier period.

The Bank's three main business segments each reported higher revenues and profitability, and improved productivity. Total revenues increased robustly on the strength of the Personal and Commercial segment. With net income totalling \$220 million, the third quarter was the best quarter for the Bank this fiscal year.

"The disciplined deployment of our strategies continues to pay off. Increasing the profitability of our operations is more important than just trying to grab a larger share of the market. The success of this approach is borne out in wider spreads and the continued high quality of our loan portfolio. We are well on our way to achieving our financial targets for fiscal 2006," said Réal Raymond, President and Chief Executive Officer.

During the quarter, National Bank appointed Louis Vachon as Chief Operating Officer of the Bank. In creating this position, the Bank intends to boost operational efficiency by fostering synergy among its operating units. It will also afford Mr. Raymond more time to focus on the Bank's strategic development, client and investor relations and risk management.

Highlights

- Growth in total revenues in the third quarter of 2006 to \$933 million, up 5% from \$889 million in the third quarter of 2005.
- Rise in diluted earnings per share to \$1.30, a 10% increase over the year-earlier period. The quarter was highlighted by an after-tax gain of 5 cents per share associated with the initial public offering of MasterCard Inc., of which the Bank is a shareholder.
- Increase in ROE of 60 basis points to 20.2% versus 19.6% in the corresponding quarter of 2005.
- Optimization of the capital structure through the issue of \$225 million of innovative instruments that qualify as Tier 1 capital.

Personal and Commercial

- Rise of 6.5% in total revenues at Personal and Commercial due mainly to vigorous growth in loan volumes over the third quarter of 2005. Insurance-related revenues increased 15% from the third quarter of 2005.
- Return of the net interest margin to Q1 2006 levels, just shy of where it stood in Q3 2005.
- Continued improvement in commercial loans and deposits as a result of the propitious business climate in Quebec and the ongoing development of specialized markets. Foreign exchange revenues rose 25% from the year-earlier period.
- Signing of a cooperation agreement between the Bank and UniCredit Group to assist commercial clients in their business dealings with counterparties in Central and Eastern Europe, Russia, Ukraine and Turkey.

Wealth Management

- Growth of 16% in revenues from trust services and mutual funds owing to continued interest in private investment management services and long-term mutual funds.
- Launch of six new tax-effective Monthly Income Portfolios to meet the needs of investors seeking regular income streams.

Financial Markets

- Strong performance from Financial Markets despite reduced activity on secondary markets and fewer new securities issues. The marked increase in gains on investment account securities offset the decline in trading revenues.

Financial Objectives

Financial Objectives	Objectives	Results 3rd quarter 2006	Results Nine months 2006
Growth in diluted earnings per share excluding specified items	5% – 10%	6%	8%
Return on common shareholders' equity	16% – 18%	20.2%	20.2%
Tier 1 capital ratio	More than 8.5%	9.4%	9.4%
Dividend payout ratio	35% – 45%	37%	37%

(unaudited) (millions of dollars)	For the quarter ended July 31			For the nine months ended July 31		
	2006	2005	%	2006	2005	%
Personal and Commercial	130	116	+12	355	333	+7
Wealth Management	34	29	+17	114	85	+34
Financial Markets	60	54	+11	208	192	+8
Other	(4)	8	–	(26)	38	–
Net income	<u>220</u>	<u>207</u>	<u>+6</u>	<u>651</u>	<u>648</u>	<u>–</u>
Less specified items:						
• gain related to the MasterCard IPO	(9)	–		(9)	–	
• net gain on the sale of shareholder management activities (included in Wealth Management)	–	–		(5)	–	
• gain on the disposal of investments in South America	–	–		–	(25)	
• reduction in the general allowance for credit risk	–	–		–	(11)	
Net income excluding specified items	<u>211</u>	<u>207</u>	<u>+2</u>	<u>637</u>	<u>612</u>	<u>+4</u>
Diluted earnings per share	\$1.30	\$1.18	+10	\$3.83	\$3.70	+4
Less specified items:						
• gain related to the MasterCard IPO	(0.05)	–		(0.05)	–	
• net gain on the sale of shareholder management activities (included in Wealth Management)	–	–		(0.03)	–	
• gain on the disposal of investments in South America	–	–		–	(0.15)	
• reduction in the general allowance for credit risk	–	–		–	(0.07)	
Diluted earnings per share excluding specified items	<u>\$1.25</u>	<u>\$1.18</u>	<u>+6</u>	<u>\$3.75</u>	<u>\$3.48</u>	<u>+8</u>
Return on common shareholders' equity	<u>20.2%</u>	<u>19.6%</u>		<u>20.2%</u>	<u>21.1%</u>	

Caution regarding forward-looking statements

From time to time, National Bank of Canada makes written and oral forward-looking statements in this quarterly report, in other filings with Canadian regulators or the United States Securities and Exchange Commission, in reports to shareholders, in press releases and in other communications. All such statements are made pursuant to Canadian securities regulations and the provisions of the United States Private Securities Litigation Reform Act of 1995. These forward-looking statements include, among others, statements with respect to the economy, market changes, the achievement of strategic objectives, certain risks as well as statements with respect to our beliefs, plans, expectations, estimates and intentions. These forward-looking statements are typically identified by the words "may," "could," "should," "would," "suspect," "outlook," "believe," "anticipate," "estimate," "expect," "intend," "plan," and words and expressions of similar import.

By their very nature, such forward-looking statements require us to make assumptions and involve inherent risks and uncertainties, both general and specific. There is significant risk that express or implied projections contained in such statements will not materialize or will not be accurate. A number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking statements. Such differences may be caused by factors, many of which are beyond the Bank's control, which include, but are not limited to, the management of credit, market and liquidity risks; the strength of the Canadian and United States economies and the economies of other countries in which the Bank conducts business; the impact of the movement of the Canadian dollar relative to other currencies, particularly the U.S. dollar; the effects of changes in monetary policy, including changes in interest rate policies of the Bank of Canada; the effects of competition in the markets in

which the Bank operates; the impact of changes in the laws and regulations regulating financial services and enforcement thereof (including banking, insurance and securities); judicial judgments and legal proceedings; 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," "Risk Management Framework," "Credit Risk Management," "Market Risk Management," "Liquidity Risk Management," "Operational Risk Management," and "Factors that could affect future results" in the 2005 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

August 31, 2006 — The following text presents Management's discussion and analysis of the Bank's financial condition and operating results. This analysis was prepared in accordance with Multilateral Instrument 51-102 respecting Continuous Disclosure Obligations of the Canadian Securities Administrators and is based on the unaudited interim consolidated financial statements for the third quarter and the first nine months of fiscal 2006. Additional information about National Bank of Canada, including the Annual Information Form, can be obtained from the SEDAR website at www.sedar.com and the Bank's website at www.nbc.ca.

Analysis of Results

Consolidated Results

National Bank posted net income of \$220 million in the third quarter of fiscal 2006, up 6% from \$207 million for the same period of 2005. Excluding the after-tax gain of \$9 million from the initial public offering by MasterCard Inc., of which the Bank is a shareholder, net income was \$211 million. Net income for the first nine months of fiscal 2006 was \$651 million for the Bank, \$3 million more than for the same period of 2005. Had it not been for specified items, i.e., the MasterCard IPO, the net gain on the sale of shareholder management activities, the gain on the disposal of investments in South America and the reduction in the general allowance for credit risk in the first nine months of 2005 and 2006, net income would have been \$25 million or 4% higher period over period.

Diluted earnings per share amounted to \$1.30 in the third quarter of 2006, up 10% from \$1.18 for the same period of 2005. Excluding the gain from the MasterCard IPO in the third quarter of 2006, diluted earnings per share increased \$0.07. Diluted earnings per share in the first nine months of 2006 were \$3.83, up 4% from the first nine months of 2005. Excluding specified items, diluted earnings per share grew 8% from period to period.

Total Revenues

The Bank's total revenues rose 5% in the third quarter of 2006 to reach \$933 million, as against \$889 million in the third quarter of 2005. Personal and Commercial net interest income advanced \$19 million, or 5.8%, to \$348 million for the quarter, owing to higher volumes of both consumer loans and business loans and deposits. Although the net interest margin narrowed compared to the corresponding quarter of 2005, it widened between the second and third quarter of 2006. The improvement in the spread on deposits cancelled out the deterioration of credit product spreads caused by competition.

Trading revenues, recorded in both net interest income and other income, decreased by \$40 million from the third quarter of 2005 to the third quarter of 2006. The decline was more than offset by gains on investment account securities. These gains amounted to \$60 million in the third quarter of 2006, with \$13 million before tax coming from the MasterCard IPO, and represented a substantial increase compared to the \$7 million loss in the third quarter of 2005.

Revenues from mutual funds and trust services climbed \$10 million from the third quarter of 2005 to reach \$83 million in the third quarter of 2006. Most of the increase stemmed from the growth in private investment management and mutual funds.

Aside from these items, the increase in other income was attributable to commissions on loans and bankers' acceptances, foreign exchange revenues and other revenues, which together rose \$27 million. Securitization revenues, however, were \$38 million this quarter, as against \$48 million in the third quarter of 2005. Financial market fees amounted to \$139 million in the third quarter of 2006, compared to \$158 million in the year-earlier period, due to the slowdown in secondary market activities and the smaller number of new issues.

Total revenues in the first nine months of 2006 grew 3% to reach \$2,861 million, versus \$2,772 million in the corresponding period of 2005. Personal and Commercial net interest income advanced \$47 million, or 4.9%, to \$1,013 million in the first nine months of 2006. Compared to the same period of 2005, trading revenues fell \$17 million to \$246 million, gains on securities rose \$43 million to \$130 million and revenues from trust services and mutual funds grew \$40 million to \$247 million. Similarly, other revenues, foreign exchange revenues and lending fees increased \$80 million. Securitization revenues declined \$26 million to \$117 million and financial market fees decreased \$54 million to \$462 million.

Operating Expenses

In the third quarter of 2006, operating expenses were \$634 million, up \$18 million from the year-earlier period. Salaries and staff benefits decreased \$1 million to \$354 million, with the decrease in variable compensation offsetting the increase in regular salaries and pension plan costs during the third quarter of 2006. The ratio of salaries and staff benefits to operating expenses fell 2% to 56%. Technology expenses were up \$6 million while professional fees increased \$7 million to \$40 million. Changes in these expenses depend on the completion schedule for technological development projects.

For the first nine months of 2006, operating expenses were up \$48 million, to \$1,901 million. This growth was due to professional fees, which were up \$12 million, salaries and staff benefits, which rose \$12 million, and technology expenses, which increased \$14 million.

Income Taxes

Income taxes for the third quarter of 2006 totalled \$58 million, representing an effective tax rate of 20.5%, compared to \$46 million and an effective tax rate of 17.8% for the year-earlier period. The tax rate for the third quarter of 2006 was affected by the receipt of tax-exempt dividends, while in the third quarter of 2005 the tax rate was reduced by a transaction on the financial markets. For the first nine months of 2006, income taxes amounted to \$233 million, for an effective tax rate of 25.7%, as against \$219 million and an effective tax rate of 24.7% for the corresponding period of 2005.

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

Results by Segment

Personal and Commercial

Net income for the Personal and Commercial segment totalled \$130 million for the third quarter of 2006, up 12% from the \$116 million in net income earned in the corresponding quarter of 2005. Total revenues for the segment climbed 7% to \$559 million. At Personal Banking, total revenues rose \$22 million, or 6%, owing chiefly to growth of \$2.8 billion in average asset volumes, attributable mainly to consumer loans, but also to residential mortgages and credit card advances. The increase in revenues stemming from higher loan volumes was partly offset by a narrowing of the spread on these products. However, the decrease in the spread on credit products was fully offset by the improvement in the spread on transaction deposits that resulted from the rise in interest rates. Insurance revenues jumped 15%, at an annualized rate. Total revenues for Commercial Banking were up \$12 million, or 7%, due to the increase in net interest income attributable to higher volumes of loans and acceptances and growth in foreign exchange revenues. Although the spread on Commercial Banking credit products in the third quarter of 2006 was slightly narrower than in the third quarter of 2005, it was relatively steady compared to the second quarter of 2006. The spread on deposits cancelled out the decrease in the spread on credit products, at an annualized rate.

Operating expenses for the Personal and Commercial segment were \$339 million for the third quarter of 2006, as against \$324 million for the year-earlier period, for an increase of 5%, which is lower than the growth in total revenues. As a result, the efficiency ratio declined to 60.6% for the third quarter of 2006 from 61.7% for the same quarter of 2005. The segment's provision for credit losses was decreased by \$2 million to \$24 million due to a higher recovery rate for Commercial Banking.

For the first nine months of fiscal 2006, the Personal and Commercial segment posted net income of \$355 million, a 7% increase over the \$333 million recorded for the same period of 2005. Total revenues for the segment rose 6% to \$1,608 million on growth of \$62 million or 6% at Personal Banking and \$26 million or 5% at Commercial Banking. The efficiency ratio moved down to 61.3% in the first nine months of 2006 from 61.9% for the same period a year earlier.

Wealth Management

Net income for the Wealth Management segment totalled \$34 million for the third quarter of 2006, compared to \$29 million for the corresponding quarter of 2005, for an increase of 17%. The segment's total revenues advanced 3% to \$204 million for the third quarter of 2006. A slowdown of activities on secondary markets affecting revenues for Individual Investor Services at National Bank Financial was offset by strong growth in trust and mutual fund activities. Operating expenses were up \$2 million, or 1%, to

\$152 million this quarter. The efficiency ratio dropped from 75.4% in the third quarter of 2005 to 74.5% this quarter.

For the first nine months of fiscal 2006, net income for the Wealth Management segment amounted to \$114 million versus \$85 million for the same period in 2005, for an increase of 34%. Total revenues for the segment rose 8% to \$648 million in the first nine months of fiscal 2006. Operating expenses edged up barely \$11 million or 2% to \$472 million.

Financial Markets

For the quarter ended July 31, 2006, the Financial Markets segment posted net income of \$60 million, up \$6 million or 11% from the year-earlier period. Total segment revenues rose \$15 million to \$238 million. Higher gains on securities were partly offset by lower trading revenues. The reduction in new issues of securities was evident in the \$9 million drop in financial market fees, while revenues from corporate banking services rose \$9 million, mainly because of an increase in the value of credit derivatives. Operating expenses for the quarter were \$143 million, up \$3 million from the year-earlier period. This modest increase was due to a reduction in variable compensation. The provision for credit losses for the quarter stood at \$1 million, compared to nil in the corresponding quarter of 2005. For the first nine months of fiscal 2006, the segment's net income totalled \$208 million, up \$16 million, or 8%, from the year-earlier period.

Financial Market Revenues

(taxable equivalent basis ⁽¹⁾) (millions of dollars)	Q3 2006	Q3 2005
Trading revenues		
Equity	56	86
Interest rate	11	11
Commodity and foreign exchange	1	10
	68	107
Financial market fees	57	66
Gains on securities	43	-
Banking services	34	25
Other	36	25
Total	238	223

Other

The "Other" heading of segment results recorded a loss of \$4 million for the third quarter of 2006, compared to net income of \$8 million for the same period a year earlier. The pre-tax gain of \$13 million related to the MasterCard IPO partly offset the impact of lower securitization revenues and net interest income. For the first nine months of fiscal 2006, the "Other" heading recorded a loss of \$26 million, as against a gain of \$38 million for the corresponding period of 2005, when the Bank recorded a \$37 million pre-tax gain on the disposal of investments and reversed \$17 million of the general allowance for credit risk.

(1) Taxable equivalent basis is a calculation method that consists in grossing up certain tax-exempt income by the amount of income tax that otherwise would have been payable. The use of the taxable equivalent basis is not in accordance with GAAP. Securities regulators require that companies caution readers that measures adjusted on a basis other than GAAP do not have standardized meanings under GAAP and may not be comparable to similar measures used by other companies. Please refer to Note 12 to the unaudited interim consolidated financial statements for the impact of the taxable equivalent adjustment to segment results.

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

Cash Flows

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

For the third quarter of 2006, cash and cash equivalents declined \$0.4 billion compared to a decrease of \$0.9 billion for the third quarter of 2005. As at July 31, 2006, cash and cash equivalents totalled \$9.2 billion versus \$8.0 billion the previous year.

Operating activities generated cash inflows of \$1.2 billion for the third quarter of 2006, mainly because of the decrease in trading account securities. For the corresponding quarter of 2005, operating activities required cash of \$1.6 billion because of the increase of \$3.4 billion for trading account securities, partly offset by \$1.6 billion in inflows from other items.

Financing activities in the third quarter of 2006 required cash of \$2.3 billion, mostly in purchased funds, owing chiefly to lower deposits. For the third quarter of 2005, the \$1.7 billion increase in obligations related to securities sold short and the \$7.6 billion rise in securities sold under repurchase agreements accounted for \$8.2 billion in cash inflows from financing activities.

Finally, investing activities generated cash of \$0.7 billion in the third quarter of 2006. In the corresponding quarter of 2005, investing activities required cash of \$7.5 billion due to the \$2.3 billion increase in loans, the \$3.7 billion rise in deposits with financial institutions pledged as collateral and the \$1.4 billion in securities purchased under reverse repurchase agreements.

Risk Management

Credit Risk

In the third quarter of 2006, the Bank recorded specific provisions for credit losses of \$16 million, an increase of \$1 million over the third quarter of 2005. As at July 31, 2006, gross impaired loans stood at \$214 million compared to \$260 million at the end of fiscal 2005. This decline was primarily due to the successful recovery of impaired business loans. The ratio of gross impaired loans

to total adjusted capital and allowances was only 5.6%. As at July 31, 2006, allowances for credit losses exceeded gross impaired loans by \$210 million versus \$191 million as at October 31, 2005.

Market Risk – Trading Activities

The Value-at-Risk (VaR) simulation model is one of the main tools used to manage market risk in trading activities. 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 61 of the 2005 Annual Report.

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

Balance Sheet

As at July 31, 2006, the Bank had assets of \$108.6 billion, up \$1.0 billion versus \$107.6 billion at the end of fiscal 2005. Loans and acceptances were up \$1.6 billion. In addition, cash, deposits with financial institutions, securities and securities purchased under reverse repurchase agreements increased \$0.3 billion. The table below presents the main portfolios.

Average monthly volumes (millions of dollars)	July 2006	October 2005	July 2005
Loans and acceptances*			
Residential mortgages	21,313	20,728	20,419
Consumer loans	9,302	8,283	7,832
Credit card receivables	1,741	1,707	1,680
SME loans	15,210	14,182	14,858
Corporate loans	3,614	3,216	2,892
	51,180	48,116	47,681
Deposits			
Personal (balance)	29,178	26,385	25,476
Off-balance sheet personal savings (balance)	67,580	63,262	63,776
Business	12,288	11,103	11,250

* including securitized assets

Trading Activities ⁽¹⁾

(millions of dollars)

Global VaR by risk category	For the quarter ended July 31, 2006				For the quarter ended April 30, 2006			
	Period end	High	Average	Low	Period end	High	Average	Low
Interest rate	(3.3)	(7.6)	(4.2)	(2.4)	(7.1)	(8.2)	(5.8)	(3.6)
Foreign exchange	(1.6)	(1.9)	(1.3)	(0.8)	(0.9)	(2.2)	(1.5)	(0.6)
Equity	(3.8)	(4.2)	(3.4)	(2.3)	(3.7)	(6.7)	(4.9)	(3.7)
Commodity	(1.0)	(1.6)	(1.1)	(0.7)	(1.4)	(1.4)	(0.9)	(0.7)
Correlation effect ⁽²⁾	4.8	7.3	4.5	2.3	6.5	9.5	6.0	3.2
Global VaR	(4.9)	(8.0)	(5.5)	(3.9)	(6.6)	(9.0)	(7.1)	(5.4)

⁽¹⁾ Amounts are presented on a pre-tax basis and represent one-day VaR.

⁽²⁾ The correlation effect is the result of the diversification of types of risk.

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

Residential mortgage loans rose steadily during the third quarter of 2006, reaching \$21.3 billion as against \$20.4 billion in the year-earlier period. Consumer loans climbed 19% to \$9.3 billion, primarily driven by secured lines of credit. Higher consumer spending also accounted for the increase in credit card receivables, which were up 3.6% over the previous year to total \$1.7 billion as at July 31, 2006. Business loans continued to grow, with SME loans up 2.4% year over year, to \$15.2 billion as at July 31, 2006. Average volumes of corporate loans, for their part, rose \$700 million to \$3.6 billion.

Personal deposits stood at \$29.2 billion as at July 31, 2006, up \$3.7 billion or 14.5% from the corresponding quarter of 2005, chiefly owing to deposits distributed by Altamira. Off-balance sheet personal savings administered by the Bank as at July 31, 2006 totalled \$67.6 billion, an increase of \$3.8 billion or 6.0% in a year. The rise was primarily attributable to savings administered by brokerage subsidiaries, with the remainder divided between private investment management and mutual funds.

Accounting Policies and Estimates

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

There have not been any changes to the Bank's significant accounting policies affecting the first nine months ended July 31, 2006.

Details of significant future changes in accounting standards are presented in Note 2 to the interim consolidated financial statements.

The key assumptions and bases for estimates made by Management in accordance with GAAP and their impact on amounts presented in the interim consolidated financial statements and notes remain essentially unchanged from those described in the 2005 Annual Report.

Capital

Tier 1 and total capital ratios, according to the rules of the Bank for International Settlements, stood at 9.4% and 12.4%, respectively, as at July 31, 2006 versus 9.6% and 12.8% as at October 31, 2005, including the \$500 million debenture issued on November 2, 2005. During the third quarter of 2006, the Bank issued \$225 million in innovative capital instruments. During the first nine months of fiscal 2006, the Bank repurchased 4.5 million common shares for a total of \$275 million as part of its normal course issuer bids.

Risk-weighted assets rose \$2.4 billion or 5.2% since the start of the fiscal year mainly because of higher loan volumes.

Dividends

At its meeting on August 31, 2006, the Board of Directors declared regular dividends on the various classes and series of preferred shares as well as a 50 cent dividend per common share, payable on November 1, 2006 to shareholders of record on September 28, 2006.

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

Additional Financial Information

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

	2006			2005				2004	2005	2004
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Total	Total
Total revenues	\$933	\$949	\$979	\$931	\$889	\$900	\$983	\$892	\$3,703	\$3,545
Net income	220	214	217	207	207	202	239	192	855	725
Earnings per share										
Basic	1.32	1.29	1.28	1.22	1.20	1.17	1.39	1.11	4.98	4.10
Diluted	1.30	1.26	1.26	1.20	1.18	1.15	1.37	1.09	4.90	4.05
Dividends per common share	0.50	0.48	0.48	0.44	0.44	0.42	0.42	0.38	1.72	1.42
Return on common shareholders' equity	20.2%	20.4%	19.9%	19.4%	19.6%	19.9%	23.6%	19.7%	20.7%	18.8%
Total assets	\$108,645	\$111,183	\$105,276	\$107,598	\$110,593	\$99,917	\$91,703	\$88,497		
Impaired loans, net	98	111	113	117	114	119	134	160		
Per common share										
Book value	26.57	25.77	25.72	25.39	24.70	24.19	23.97	22.87		
Stock trading range										
High	62.69	65.60	63.90	61.47	58.21	55.24	49.75	48.78		
Low	56.14	61.35	58.35	55.87	51.60	48.72	46.39	42.31		

Highlights

(unaudited)	Quarter ended July 31			Nine months ended July 31		
	2006	2005	% Change	2006	2005	% Change
Operating results						
(millions of dollars)						
Total revenues	\$933	\$889	5	\$2,861	\$2,772	3
Net income	220	207	6	651	648	-
Return on common shareholders' equity	20.2%	19.6%		20.2%	21.1%	
Per common share						
Earnings - basic	\$1.32	\$1.20	10	\$3.89	\$3.76	3
Earnings - diluted	1.30	1.18	10	3.83	3.70	4
Dividends declared	0.50	0.44	14	1.46	1.28	14
Book value				26.57	24.70	8
Stock trading range						
High	62.69	58.21		65.60	58.21	
Low	56.14	51.60		56.14	46.39	
Close	58.55	57.30		58.55	57.30	
Financial position						
(millions of dollars)						
				July 31 2006	October 31 2005	
Total assets				\$108,645	\$107,598	1
Loans and acceptances				51,943	50,360	3
Deposits				68,094	61,977	10
Subordinated debentures and shareholders' equity				6,301	5,699	11
Capital ratios - BIS						
Tier 1				9.4%	9.6%	
Total				12.4%	12.8% ⁽¹⁾	
Impaired loans, net of specific and general allowances				(210)	(191)	
as a % of loans and acceptances				(0.4)%	(0.4)%	
Assets under administration/management				227,699	221,132	
Total personal savings				96,758	89,647	
Interest coverage				14.60	12.71	
Asset coverage				3.65	4.73	
Other information						
Number of employees				17,183	16,890	2
Number of branches in Canada				453	457	(1)
Number of banking machines				800	788	2

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

Consolidated Statement of Income

(unaudited)
(millions of dollars)

Interest income and dividends

Loans
Securities
Deposits with financial institutions

Interest expense

Deposits
Subordinated debentures
Other

Net interest income

Other income

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

Total revenues

Provision for credit losses

Operating expenses

Salaries and staff benefits
Occupancy
Technology
Communications
Professional fees
Other

Income before income taxes and non-controlling interest

Income taxes

Non-controlling interest

Net income

Dividends on preferred shares

Net income available to common shareholders

Number of common shares outstanding (thousands)

Average - basic
Average - diluted
End of period

Earnings per common share (dollars)

Basic
Diluted

Dividends per common share (dollars)

	Quarter ended			Nine months ended	
	July 31 2006	April 30 2006	July 31 2005	July 31 2006	July 31 2005
Interest income and dividends					
Loans	687	627	538	1,928	1,553
Securities	236	260	189	700	550
Deposits with financial institutions	83	77	52	218	126
	1,006	964	779	2,846	2,229
Interest expense					
Deposits	433	447	330	1,319	843
Subordinated debentures	23	22	25	69	79
Other	142	194	116	471	270
	598	663	471	1,859	1,192
Net interest income	408	301	308	987	1,037
Other income					
Financial market fees	139	164	158	462	516
Deposit and payment service charges	53	52	51	155	149
Trading revenues (losses)	(39)	102	94	229	180
Gains (losses) on investment account securities, net	60	28	(7)	130	87
Card service revenues	17	14	17	45	49
Lending fees	69	63	66	194	181
Acceptances, letters of credit and guarantee	19	16	15	51	46
Securitization revenues	38	39	48	117	143
Foreign exchange revenues	25	24	20	72	56
Trust services and mutual funds	83	83	73	247	207
Other	61	63	46	172	121
	525	648	581	1,874	1,735
Total revenues	933	949	889	2,861	2,772
Provision for credit losses	16	22	15	55	33
	917	927	874	2,806	2,739
Operating expenses					
Salaries and staff benefits	354	358	355	1,091	1,079
Occupancy	31	33	29	94	90
Technology	107	105	101	322	308
Communications	18	19	19	55	59
Professional fees	40	32	33	102	90
Other	84	76	79	237	227
	634	623	616	1,901	1,853
Income before income taxes and non-controlling interest	283	304	258	905	886
Income taxes	58	82	46	233	219
	225	222	212	672	667
Non-controlling interest	5	8	5	21	19
Net income	220	214	207	651	648
Dividends on preferred shares	6	5	8	16	21
Net income available to common shareholders	214	209	199	635	627
Number of common shares outstanding (thousands)					
Average - basic	161,927	162,598	165,363	163,149	166,789
Average - diluted	164,512	165,552	167,849	165,903	169,310
End of period	161,918	161,882	165,096	161,918	165,096
Earnings per common share (dollars)					
Basic	1.32	1.29	1.20	3.89	3.76
Diluted	1.30	1.26	1.18	3.83	3.70
Dividends per common share (dollars)	0.50	0.48	0.44	1.46	1.28

Consolidated Balance Sheet

(unaudited)
(millions of dollars)

	July 31 2006	April 30 2006	October 31 2005	July 31 2005
ASSETS				
Cash	257	226	227	232
Deposits with financial institutions	9,029	9,467	10,087	11,799
Securities				
Investment account	7,715	7,671	6,716	6,945
Trading account	27,705	28,839	26,336	27,745
	35,420	36,510	33,052	34,690
Securities purchased under reverse repurchase agreements	5,954	7,549	7,023	8,270
Loans (Notes 4 and 5)				
Residential mortgage	15,440	14,889	15,677	16,005
Personal and credit card	10,961	10,687	9,796	9,292
Business and government	22,368	22,285	22,096	20,978
	48,769	47,861	47,569	46,275
Allowance for credit losses	(424)	(439)	(451)	(480)
	48,345	47,422	47,118	45,795
Other				
Customers' liability under acceptances	3,598	3,677	3,242	2,842
Fair value of trading derivative financial instruments	2,438	2,599	2,390	2,844
Premises and equipment	355	345	355	345
Goodwill	686	662	662	662
Intangible assets	177	177	178	179
Other assets	2,386	2,549	3,264	2,935
	9,640	10,009	10,091	9,807
	108,645	111,183	107,598	110,593
LIABILITIES AND SHAREHOLDERS' EQUITY				
Deposits				
Personal	29,178	28,270	26,385	25,476
Business and government	29,097	30,930	29,636	28,474
Deposit-taking institutions	9,594	10,918	5,956	7,043
Deposit from NBC Capital Trust (Note 6)	225	-	-	-
	68,094	70,118	61,977	60,993
Other				
Acceptances	3,598	3,677	3,242	2,842
Obligations related to securities sold short	14,864	15,094	15,504	16,776
Securities sold under repurchase agreements	7,620	7,541	12,915	14,526
Fair value of trading derivative financial instruments	1,623	1,997	1,846	2,386
Other liabilities	6,023	6,068	5,928	6,593
	33,728	34,377	39,435	43,123
Subordinated debentures (Note 7)	1,599	1,599	1,102	1,409
Non-controlling interest	522	517	487	415
Shareholders' equity (Note 9)				
Preferred shares	400	400	400	575
Common shares	1,563	1,558	1,565	1,557
Contributed surplus	19	17	13	12
Unrealized foreign currency translation adjustments	(82)	(77)	(26)	(10)
Retained earnings	2,802	2,674	2,645	2,519
	4,702	4,572	4,597	4,653
	108,645	111,183	107,598	110,593

Consolidated Statement of Changes in Shareholders' Equity

(unaudited)
(millions of dollars)

	Nine months ended July 31	
	2006	2005
Preferred shares at beginning	400	375
Issuance of preferred shares, Series 16	–	200
Preferred shares at end	400	575
Common shares at beginning	1,565	1,545
Issuance of common shares		
Dividend Reinvestment and Share Purchase Plan	11	9
Stock Option Plan	31	42
Repurchase of common shares for cancellation (Note 9)	(43)	(39)
Impact of shares acquired or sold for trading purposes	(1)	–
Common shares at end	1,563	1,557
Contributed surplus at beginning	13	7
Stock option expense (Note 10)	6	5
Contributed surplus at end	19	12
Unrealized foreign currency translation adjustments at beginning	(26)	(10)
Losses on foreign exchange operations with a functional currency other than the Canadian dollar, net of income taxes	(56)	–
Unrealized foreign currency translation adjustments at end	(82)	(10)
Retained earnings at beginning	2,645	2,287
Net income	651	648
Impact of initial adoption of AcG-15 "Consolidation of Variable Interest Entities"	–	6
Dividends		
Preferred shares	(16)	(21)
Common shares	(240)	(214)
Premium paid on common shares repurchased for cancellation (Note 9)	(232)	(185)
Share issuance and other expenses, net of income taxes	(6)	(2)
Retained earnings at end	2,802	2,519
Shareholders' equity	4,702	4,653

Consolidated Statement of Cash Flows

(unaudited)
(millions of dollars)

	Quarter ended July 31		Nine months ended July 31	
	2006	2005	2006	2005
Cash flows from operating activities				
Net income	220	207	651	648
Adjustments for:				
Provision for credit losses	16	15	55	33
Amortization of premises and equipment	16	15	49	45
Future income taxes	5	(1)	10	(30)
Translation adjustment on foreign currency subordinated debentures	-	(11)	(3)	1
Gains (losses) on sale of investment account securities, net	(60)	7	(130)	(87)
Gains on asset securitization and other transfers of receivables, net	(19)	(32)	(62)	(87)
Stock option expense	2	2	6	5
Change in interest payable	(41)	50	57	62
Change in interest and dividends receivable	9	12	63	(12)
Change in income taxes payable	27	(18)	95	10
Change in net fair value amounts of trading derivative financial instruments	(213)	(54)	(271)	(46)
Change in trading account securities	1,134	(3,398)	(1,369)	(7,184)
Change in other items	110	1,632	807	270
	1,206	(1,574)	(42)	(6,372)
Cash flows from financing activities				
Change in deposits	(2,249)	(753)	5,892	7,561
Issuance of deposit from NBC Capital Trust	225	-	225	-
Issuance of subordinated debentures	-	-	500	350
Repurchase of subordinated debentures	-	(350)	-	(350)
Issuance of common shares	5	18	41	51
Issuance of preferred shares	-	-	-	200
Repurchase of common shares for cancellation	-	(75)	(275)	(224)
Dividends paid on common shares	(79)	-	(231)	(205)
Dividends paid on preferred shares	(5)	(7)	(16)	(19)
Change in obligations related to securities sold short	(230)	1,688	(640)	6,572
Change in securities sold under repurchase agreements	79	7,641	(5,295)	6,344
Change in other items	(5)	(9)	(56)	(4)
	(2,259)	8,153	145	20,276
Cash flows from investing activities				
Change in deposits with financial institutions pledged as collateral	34	(3,680)	3,974	(3,619)
Change in loans	(1,263)	(2,336)	(2,784)	(5,645)
Proceeds from securitization of assets and other transfers of receivables	324	278	1,502	2,021
Maturity of securitized assets	-	(206)	-	(706)
Purchases of investment account securities	(44,346)	(9,226)	(101,071)	(21,233)
Sales of investment account securities	44,368	9,089	100,203	21,858
Change in securities purchased under reverse repurchase agreements	1,595	(1,427)	1,069	(3,774)
Consolidation of assets in accordance with AcG-15	(6)	-	(1)	(132)
Net acquisitions of premises and equipment	(26)	(17)	(49)	(39)
	680	(7,525)	2,843	(11,269)
Increase in cash and cash equivalents	(373)	(946)	2,946	2,635
Cash and cash equivalents at beginning	9,595	8,914	6,276	5,333
Cash and cash equivalents at end	9,222	7,968	9,222	7,968
Cash and cash equivalents				
Cash	257	232	257	232
Deposits with financial institutions	9,029	11,799	9,029	11,799
Less: Amount pledged as collateral	(64)	(4,063)	(64)	(4,063)
	9,222	7,968	9,222	7,968
Supplementary information				
Interest paid	639	421	1,802	1,130
Income taxes paid	28	79	176	174

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

These unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended October 31, 2005. Certain comparative figures have been reclassified to comply with the presentation adopted in fiscal 2006.

1. Significant Accounting Policies

These unaudited interim consolidated financial statements of the Bank have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and the accounting policies described in the Bank's most recent Annual Report for the year ended October 31, 2005.

2. Recent Accounting Standards Pending Adoption

Financial Instruments – Recognition and Measurement, Hedges and Comprehensive Income

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

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

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

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

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

3. Transfers of Receivables

Securitization transactions

CMHC-guaranteed mortgage loans and credit card receivables

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

Securitization operations for the quarter ended:	July 31, 2006	April 30, 2006	July 31, 2005
	Mortgage loans	Mortgage loans	Mortgage loans
Net cash proceeds	324	618	335
Retained interests	7	17	16
Retained servicing liability	(2)	(4)	(2)
	329	631	349
Receivables securitized and sold	328	626	336
Gain before income taxes, net of transaction fees	1	5	13
Mortgage-backed securities created and retained included in the item "Securities – investment account"	43	278	–

Securitization operations for the nine months ended:	July 31, 2006	July 31, 2005	
	Mortgage loans	Mortgage loans	Credit card receivables
Net cash proceeds	1,361	1,135	795
Retained interests	37	54	21
Retained servicing liability	(8)	(7)	(4)
	1,390	1,182	812
Receivables securitized and sold	1,379	1,141	800
Gain before income taxes, net of transaction fees	11	41	12
Mortgage-backed securities created and retained included in the item "Securities – investment account"	596	140	–

The key assumptions used to measure the fair value of retained interests at the securitization date for transactions carried out during the quarter ended July 31, 2006 were as follows:

Guaranteed mortgage loans – Key assumptions	2006
Weighted average term (months)	29.4
Prepayment rate	20.0 %
Excess spread, net of credit losses	0.9 %
Expected credit losses	–
Discount rate	4.6 %

Notes to the Consolidated Financial Statements (cont.)

(unaudited) (millions of dollars)

3. Transfers of Receivables (cont.)

Other transfers

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

	Nine months ended	
	July 31, 2006	July 31, 2005
Net cash proceeds	141	294
Insured and uninsured mortgage loans sold	140	296
Gain (loss) before income taxes	1	(2)

4. Loans and Impaired Loans

	Gross amount	Impaired loans		Net balance
		Gross	Specific allowances	
July 31, 2006				
Residential mortgage	15,440	13	2	11
Personal and credit card	10,961	36	17	19
Business and government	22,368	165	97	68
	48,769	214	116	98
General allowance ⁽¹⁾				(308)
Impaired loans, net of specific and general allowances				(210)
October 31, 2005				
Residential mortgage	15,677	10	2	8
Personal and credit card	9,796	35	18	17
Business and government	22,096	215	123	92
	47,569	260	143	117
General allowance ⁽¹⁾				(308)
Impaired loans, net of specific and general allowances				(191)

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

5. Allowance for Credit Losses

The changes made to allowances are as follows:

	Specific allowances	Allocated general allowance	Unallocated general allowance	Nine months ended	
				July 31, 2006	July 31, 2005
Allowances at beginning	143	241	67	451	578
Provision for credit losses	55	(6)	6	55	33
Write-offs	(129)	-	-	(129)	(171)
Recoveries	47	-	-	47	40
Allowances at end	116	235	73	424	480

6. Deposit from NBC Capital Trust

On June 15, 2006, NBC Capital Trust (the "Trust"), an open-end trust established under the laws of the Province of Ontario, issued 225,000 transferable non-voting trust units called Trust Capital Securities - Series 1, or NBC CapS-Series 1. The gross proceeds from the offering of \$225 million were used by the Trust to acquire a deposit note from the Bank. Since the Bank does not consolidate the Trust, the deposit note is presented on the consolidated balance sheet of the Bank under "Deposits".

The deposit note bears interest at a fixed annual rate of 5.3299% payable semi-annually in arrears up to June 30, 2016 and thereafter at a fixed annual rate equal to the Bankers' Acceptance Rate plus 1.50%. The deposit note, which will mature on June 30, 2056, may be redeemed, on and after June 30, 2011, at the option of the Bank, without the consent of the Trust, subject to prior written notice and prior approval of the Superintendent of Financial Institutions, or upon the occurrence of certain regulatory or tax events as defined. If the Bank redeems the deposit note, in whole or in part, the Trust will be required to redeem a corresponding amount of NBC CapS-Series 1.

Each \$1,000 of principal amount of the deposit note is convertible at any time into 40 First Preferred Shares Series 17 of the Bank at the option of the Trust. The Trust will exercise this conversion right in circumstances in which holders of NBC CapS-Series 1 exercise their exchange rights.

Failure by the Bank to make payment or to satisfy its other obligations under the deposit note will not entitle the Trust to accelerate payment of the deposit note.

The Trust is a variable interest entity under Accounting Guideline No 15 "Consolidation of Variable Interest Entities" (AcG - 15). Although, the Bank owns the equity and voting control of the Trust, the Bank does not consolidate the Trust because the Bank is not the primary beneficiary; therefore, NBC CapS-Series 1 issued by the Trust are not reported on the Bank's Consolidated Balance Sheet, but the deposit note is reported under "Deposits".

Notes to the Consolidated Financial Statements (cont.)

(unaudited) (millions of dollars)

6. Deposit from NBC Capital Trust (cont.)

The non-cumulative cash distribution per NBC CapS-Series 1 will be \$26.645 (representing an annual yield of 5.329% of the \$1,000 initial issue price) paid by the Trust semi-annually from December 31, 2006 to and including June 30, 2016, and thereafter, will be determined by multiplying \$1,000 by one-half of the sum of the applicable Bankers' Acceptance Rate plus 1.50%. No cash distributions will be payable by the Trust on NBC CapS-Series 1 if the Bank fails to declare regular dividends on its preferred shares, or if no preferred shares are then outstanding, on its outstanding common shares. In this case, the net distributable funds of the Trust will be paid to the Bank as holder of the Special Trust Securities, representing the residual interest in the Trust. Should the Trust fail to pay the semi-annual distributions in full on the NBC CapS-Series 1, the Bank will not declare dividends on any of its preferred shares and common shares for a specified period of time. The NBC CapS-Series 1 are not redeemable at the option of the holder.

On or after June 30, 2011, the Trust may, at its option, redeem the NBC CapS-Series 1, in whole or in part, without the consent of the holders, subject to prior written notice and prior approval of the Superintendent of Financial Institutions or upon the occurrence of certain regulatory or tax events as defined.

Holders of NBC CapS-Series 1 may surrender at any time, subject to prior notice, each NBC CapS-Series 1 for 40 First Preferred Shares Series 17 of the Bank. The Bank's First Preferred Shares Series 17 pay semi-annual non-cumulative cash dividends as and when declared by the Board of Directors and will be redeemable at the option of the Bank, with the prior approval of the Superintendent of Financial Institutions, on or after June 30, 2011, but not at the option of the holders. This exchange right will be effected through the conversion by the Trust of the corresponding amount of the deposit note of the Bank. The NBC CapS-Series 1 exchanged for the Bank's First Preferred Shares Series 17 will be cancelled by the Trust.

Each NBC CapS-Series 1 will be exchanged automatically, without the consent of the holders, for 40 First Preferred Shares Series 18 of the Bank, upon the occurrence of any one of the following events: (i) proceedings are commenced for the winding-up of the Bank; (ii) the Superintendent of Financial Institutions takes control of the Bank; (iii) the Bank has a Tier 1 capital ratio of less than 5% or a total capital ratio of less than 8%; or (iv) the Superintendent of Financial Institutions has directed the Bank to increase its capital or to provide additional liquidity and the Bank elects such automatic exchange or the Bank fails to comply with such direction to the satisfaction of the Superintendent. The Bank's First Preferred Shares Series 18 pay semi-annual non-cumulative cash dividends and will be redeemable at the option of the Bank, with the prior approval of the Superintendent of Financial Institutions, on or after June 30, 2011, but not at the option of the holders. On an automatic exchange, the Bank will hold all outstanding trust capital securities of the Trust, the main asset of which is the deposit note.

As at July 31, 2006, for regulatory capital purposes, \$225 million of NBC CapS-Series 1 qualify as Tier 1 capital.

7. Subordinated Debentures

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

8. Pension and Other Employee Future Benefits

	Quarter ended			Nine months ended	
	July 31 2006	April 30 2006	July 31 2005	July 31 2006	July 31 2005
Pension benefit expense	15	15	14	44	38
Other employee future benefit expense	2	2	2	7	4

9. Capital Stock

Shares outstanding and dividends as at July 31, 2006	Shares		Dividends	
	Number of shares	\$	\$	per share
First preferred shares				
Series 15	8,000,000	200	9	0.3656
Series 16	8,000,000	200	7	0.3031
	16,000,000	400	16	
Common shares	161,917,623	1,563	240	0.5000
		1,963	256	

Repurchase of common shares

On January 23, 2006, the Bank commenced a normal course issuer bid to repurchase, for cancellation, up to 8,278,000 common shares over a 12-month period ending no later than January 22, 2007. Repurchases are made on the open market at market prices through the facilities of the Toronto Stock Exchange. Premiums paid above the average book value of the common shares are charged to retained earnings. As at July 31, 2006, the Bank had repurchased 2,700,820 common shares at a cost of \$169 million, which reduced common share capital by \$26 million and retained earnings by \$143 million.

On January 13, 2005, the Bank commenced a normal course issuer bid to repurchase, for cancellation, up to 8,400,000 common shares over a 12-month period ended January 12, 2006. Repurchases are made on the open market at market prices through the facilities of the Toronto Stock Exchange. Premiums paid above the average book value of the common shares are charged to retained earnings. During the nine months ended July 31, 2006, the Bank repurchased 1,771,600 common shares at a cost of \$106 million, which reduced common share capital by \$17 million and retained earnings by \$89 million.

Notes to the Consolidated Financial Statements (cont.)

(unaudited) (millions of dollars)

10. Stock-Based Compensation

Stock Option Plan

During the nine months ended July 31, 2006, the Bank awarded 943,200 stock options (1,468,260 in 2005) at a fair value of \$12.81 (\$9.70 in 2005).

As at July 31, 2006, a total of 5,481,517 stock options were outstanding.

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

	Nine months ended	
	July 31, 2006	July 31, 2005
Risk-free interest rate	4.18 %	4.05 %
Expected life of the options	6 years	6 years
Expected volatility	24 %	27 %
Expected dividend yield	5 %	5 %

The following table presents the compensation expense recorded for the stock options:

	Quarter ended			Nine months ended	
	July 31, 2006	April 30, 2006	July 31, 2005	July 31, 2006	July 31, 2005
Bank stock options	2	2	2	6	5

Stock Appreciation Rights (SAR) Plan

During the nine months ended July 31, 2006, the Bank awarded 5,400 SARs. As at July 31, 2006, a total of 316,850 SARs were outstanding.

Deferred Stock Unit (DSU) Plan for Officers

During the nine months ended July 31, 2006, the Bank awarded 32,911 DSUs. As at July 31, 2006, a total of 125,569 DSUs for officers were outstanding.

Restricted Stock Unit Plan (RSU)

During the nine months ended July 31, 2006, the Bank awarded 117,655 RSUs (76,582 during the quarter ended July 31, 2006). As at July 31, 2006, a total of 162,147 RSUs were outstanding.

11. Acquisition – Credigy Ltd.

On July 26, 2006, a subsidiary of the Bank acquired a 68% interest in Credigy Ltd., a privately held purchaser of and service-provider for distressed receivables of, mainly, U.S. consumers, for a total cash consideration of \$59.1 million, including direct acquisition costs.

The assets acquired totalled approximately \$105.2 million while the liabilities assumed, including non-controlling interest, were about \$70.0 million. The excess of the purchase price over the estimated fair value of net assets of \$23.9 million was recognized in the Consolidated Balance Sheet as goodwill. This amount could be adjusted once the Bank has completed its valuation of the assets acquired and liabilities assumed.

An additional cash consideration of up to \$18.7 million could be paid over the next three years, provided certain profitability targets are achieved and, if applicable, would be recognized as goodwill.

Credigy's results have been recognized in the Consolidated Statement of Income as of the July 26, 2006 acquisition date.

12. Segment Disclosures

Quarter ended July 31

	Personal and Commercial		Wealth Management		Financial Markets		Other		Total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Net interest income ⁽¹⁾	348	329	30	25	111	19	(81)	(65)	408	308
Other income ⁽¹⁾	211	196	174	174	127	204	13	7	525	581
Total revenues	559	525	204	199	238	223	(68)	(58)	933	889
Operating expenses	339	324	152	150	143	140	-	2	634	616
Contribution	220	201	52	49	95	83	(68)	(60)	299	273
Provision for credit losses	24	26	-	-	1	-	(9)	(11)	16	15
Income before income taxes and non-controlling interest	196	175	52	49	94	83	(59)	(49)	283	258
Income taxes ⁽¹⁾	66	59	17	19	34	29	(59)	(61)	58	46
Non-controlling interest	-	-	1	1	-	-	4	4	5	5
Net income (net loss)	130	116	34	29	60	54	(4)	8	220	207
Average assets	47,820	44,576	874	870	67,860	55,456	(9,877)	(5,458)	106,677	95,444

Nine months ended July 31

	Personal and Commercial		Wealth Management		Financial Markets		Other		Total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Net interest income ⁽²⁾	1,013	966	89	73	113	180	(228)	(182)	987	1,037
Other income ⁽²⁾	595	554	559	525	649	562	71	94	1,874	1,735
Total revenues	1,608	1,520	648	598	762	742	(157)	(88)	2,861	2,772
Operating expenses	985	941	472	461	436	444	8	7	1,901	1,853
Contribution	623	579	176	137	326	298	(165)	(95)	960	919
Provision for credit losses	88	79	-	-	3	4	(36)	(50)	55	33
Income before income taxes and non-controlling interest	535	500	176	137	323	294	(129)	(45)	905	886
Income taxes ⁽²⁾	180	167	58	49	111	101	(116)	(98)	233	219
Non-controlling interest	-	-	4	3	4	1	13	15	21	19
Net income (net loss)	355	333	114	85	208	192	(26)	38	651	648
Average assets	47,049	43,433	920	881	66,374	49,407	(9,127)	(5,524)	105,216	88,197

Personal and Commercial

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

Wealth Management

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

Financial Markets

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

Other

The Other heading comprises securitization operations, certain non-recurring items and the unallocated portion of centralized services.

Taxable equivalent

(1) The accounting policies are the same as those described in the note on accounting policies (Note 1), with the exception of the net interest income, other income and income taxes of the operating segments, which are presented on a taxable equivalent basis. Taxable equivalent basis is a calculation method that consists in grossing up certain tax-exempt

income by the amount of income tax that otherwise would have been payable. For all of the operating segments, net interest income was grossed up by \$23 million (\$24 million in 2005) and other income by \$32 million (\$36 million in 2005). An equal amount was added to income taxes. The impact of these adjustments is reversed under the "Other" heading.

(2) For the nine months ended July 31, 2006, net interest income was grossed up by \$60 million (\$63 million in 2005) and other income by \$46 million (\$52 million in 2005). An equivalent amount was added to income taxes. The impact of these increases is reversed under the "Other" heading.

Synchronized monetary tightening

Helped by the performance of the emerging Asian economies and the acceleration of the economies of Europe and Japan, the global economy will once again post solid GDP growth in 2006 (around 4.5%). The current synchronized liquidity withdrawal by the central banks is likely to lead to a deceleration in the world economy starting in 2007.

Since the beginning of 2006, the global economy has continued to expand at a vigorous pace. It is well on its way to a third consecutive year of GDP growth in excess of 4%, its best run in over 30 years. The current expansion is more evenly distributed than in previous years, when the only engines the global economy could count on were the U.S. and China. The corrosive deflation that plagued Japan for more than 10 years is finally a thing of the past, and the economic recovery now appears sustainable. Europe's economy has likewise pulled out of its slumber. In both cases, interest rates need to be adjusted upward.

In China, authorities are eager to temper economic growth. Elsewhere in the world, central banks are focused on rising inflation expectations in the wake of mounting energy and raw material prices. With Canada and the United States having already ratcheted up interest rates, synchronized monetary tightening is under way for the first time in almost 15 years. As a result, global economic growth is expected to slow to 4.1% in 2007, a level still well above the long-term average.

The U.S. economy seems to be in transition. Reacting to two years of successive hikes in the key interest rate and the erosion of purchasing power by higher energy prices, households are becoming less confident. However, business investment is holding firm and, more importantly, exports are accelerating in tandem with the economic turnaround in overseas countries. All things considered, U.S. economic growth should cool to a pace consistent with its potential GDP, thereby enabling the country to bypass a significant rate increase.

Canada is currently in a class apart. Its fundamentals are among the best in 50 years. Rich in natural resources, the country is benefitting from skyrocketing raw material prices by racking up record trade surpluses. These improved terms of trade are reflected in a ratio of profits to GDP that is at a 50-year high and an unemployment rate that is at a 30-year low. Canada continues to be the only G7 country that has managed to balance its budget for several years running. With the stars so favourably aligned, it is little wonder that the Canadian dollar is popular with foreign investors. The strong loonie is helping to keep inflation low and interest rates below U.S. levels. The Canadian economy should grow by 3.0% in 2006 and 2.7% in 2007.

We feel that one of the main economic and political challenges that lies ahead for Canada is the redistribution of wealth among Canadians in order to reduce regional disparities resulting from an uneven distribution of resources. For example, economic growth in Quebec has been modest since 2003, in spite of strong domestic demand. The problem, really, is the narrowing of the trade balance, which was proportionally higher in Quebec than in any other province between 2003 and 2005. Of course, the robust Canadian dollar is also a contributing factor.

Since 2002, financial markets have provided investors with solid returns due to an unprecedented liquidity injection by the central banks. However, with monetary authorities on high alert against a resurgence of inflation, capital markets have become more volatile. The comments of the chairman of the Federal Reserve, which were considered to be reassuring, assume that businesses will have to eat into their profit margins to cover the costs resulting from higher raw material prices and salaries. Obviously, earnings growth could be well below expectations. In Canada, because of the heavy weighting of resource stocks, the S&P/TSX is extremely dependent on the climate of speculation surrounding raw material prices. As usual, the investor must maintain a disciplined approach. For long-term investing, the key to success continues to be diversification among asset classes.

Economic Commentary

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

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

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

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

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

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National Bank of Canada Information for Shareholders and Investors

Investor Relations

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

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Toll free: 1-800-517-5455

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General inquiries: telnat@nbc.ca

Next quarterly report publication date for fiscal 2005-2006

Fourth quarter: November 30, 2006

DISCLOSURE OF 3rd QUARTER 2006 RESULTS

Conference call:

- A conference call for analysts and institutional investors will be held on **August 31, 2006 at 1:00 p.m. EDT.**
- Access by telephone in listen-only mode: **1-866-898-9626** or **(416) 340-2216**
- A recording of the conference call can be heard until September 7, 2006 by calling **1-800-408-3053** or **(416) 695-5800**. The access code is **3194419#**.

Webcast:

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

Financial Documents

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

Transfer Agent and Registrar

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

Computershare Trust Company of Canada

Share Ownership Management

1100 University, 12th Floor

Montreal, Quebec H3B 2G7

Telephone: (514) 871-7171

1-800-341-1419

Fax: (514) 871-7442

Email: clientele@tbn.bnc.ca

Direct Deposit Service for Dividends

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

Dividend Reinvestment and Share Purchase Plan

National Bank offers holders of its common shares a Dividend Reinvestment and Share Purchase Plan through which they can invest in common shares of the Bank without paying a commission or administration fee. Participants in the Plan may acquire shares by reinvesting cash dividends paid on shares they hold or by making optional cash payments of at least \$500 per payment, to a maximum of \$5,000 per quarter. For additional information, please contact the Registrar, Computershare Trust Company of Canada, at 1-800-341-1419 or (514) 871-7171.

www.nbc.ca/investorrelations

National Bank of Canada is committed to protecting the environment.



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