
NB Split Corp.

Annual Financial Statements
for the year ended December 31, 2008

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of NB Split Corp. (the "Fund") are the responsibility of management and have been approved by the board of directors of the Fund (the "Board"). They have been prepared in accordance with Canadian generally accepted accounting principles using information available to February 20, 2009 and management's best estimates and judgments.

The Board is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements.

These financial statements have been approved by the Board and have been audited by Deloitte & Touche LLP, Chartered Accountants, on behalf of the shareholders. The auditors' report outlines the scope of their audit and their opinion on the financial statements.



Tim Evans
DIRECTOR
FEBRUARY 20, 2009.



David Taylor
DIRECTOR
FEBRUARY 20, 2009.

AUDITORS' REPORT

To the Shareholders of **NB Split Corp.**,

We have audited the statements of net assets of NB Split Corp. (the "Fund") as at December 31, 2008 and 2007, the schedule of investments as at December 31, 2008 and the statements of investment operations and retained earnings (deficit), changes in shareholders' equity and cash flows for the year ended December 31, 2008 and the period from February 22, 2007 to December 31, 2007. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2008 and 2007, the results of its investment operations, the changes in its shareholders' equity and its cash flows for the year or period then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

CHARTERED ACCOUNTANTS
LICENSED PUBLIC ACCOUNTANTS
TORONTO, CANADA,
FEBRUARY 20, 2009.

NB SPLIT CORP
STATEMENTS OF NET ASSETS

As at December 31	2008 \$	2007 \$
ASSETS		
Investment in National Bank Shares, at fair value	39,445,582	80,188,420
Cash and cash equivalents	73,611	181,729
Dividends receivable	781,600	952,977
Prepaid expenses	25,666	6,728
	40,326,459	81,329,854
LIABILITIES		
Accounts payable and accrued liabilities	70,807	68,099
Preferred Shares <i>[note 5]</i>	39,864,561	48,309,163
	39,935,368	48,377,262
	391,091	32,952,592
CAPITAL SHAREHOLDERS' EQUITY		
Capital Shares <i>[note 5]</i>	50,238,777	52,490,097
Class J Shares <i>[note 5]</i>	150	150
Deficit	(49,847,836)	(19,537,655)
	391,091	32,952,592
Number of units outstanding <i>[note 5]</i>	1,246,415	1,521,688
Net Assets per two Capital Shares <i>[note 5]</i>	\$0.31	\$21.66
Redemption value per Preferred Share <i>[note 5]</i>	\$32.72	\$32.72
Net Assets per unit	\$33.03	\$54.38

See accompanying notes

On behalf of the Board of Directors:



DIRECTOR



DIRECTOR

NB SPLIT CORP.

**STATEMENTS OF INVESTMENT OPERATIONS
AND RETAINED EARNINGS (DEFICIT)**

	Year ended December 31, 2008 \$	Period from February 22 to December 31, 2007 \$
INVESTMENT INCOME		
Dividends	3,640,532	3,627,462
Interest	19,525	30,154
	3,660,057	3,657,616
EXPENSES		
Administration fees <i>[note 6]</i>	183,405	188,186
Securityholder reporting costs	138,374	121,988
Independent review committee and directors' fees	46,927	35,407
Custodial fees	41,566	34,999
Legal fees	25,366	67,627
Audit fees	21,134	18,000
Goods and Services Tax	18,478	25,193
Other administration expense	15,996	4,897
	491,246	496,297
Net investment income before the undernoted:	3,168,811	3,161,319
Preferred Shares issue costs amortization <i>[note 5]</i>	(562,331)	(305,662)
Dividends paid on Preferred Shares <i>[note 7]</i>	(2,365,312)	(1,863,003)
Net realized loss on sale of investment <i>[note 8]</i>	(7,456,641)	-
Transaction costs <i>[note 6]</i>	(789)	-
Change in unrealized depreciation of investment	(22,681,237)	(20,246,666)
Results of investment operations for the period	(29,897,499)	(19,254,012)
Results of investment operations per Capital Share	\$ (19.8537)	\$ (6.3470)
Retained earnings (deficit), beginning of period	(19,537,655)	-
Results of investment operations for the period	(29,897,499)	(19,254,012)
Dividends paid on Capital Shares <i>[note 7]</i>	(412,682)	(283,643)
Deficit, end of period	(49,847,836)	(19,537,655)
Dividends paid per Preferred Share	\$ 1.5544	\$ 1.2243
Dividends paid per Capital Share	\$ 0.1356	\$ 0.0932

See accompanying notes

NB SPLIT CORP.

**STATEMENTS OF CHANGES
IN SHAREHOLDERS' EQUITY**

	Year ended December 31, 2008 \$	Period from February 22 to December 31, 2007 \$
Shareholders' equity, beginning of period	32,952,592	–
Operations		
Decrease in net assets from investment operations	(29,897,499)	(19,254,012)
Shareholder transactions [note 5]		
Proceeds from issuance of Capital Shares	–	56,150,287
Proceeds from issuance of Class J Shares	–	150
Issue costs on Capital Shares	(1,833)	(3,660,190)
Retraction of Capital Shares	(2,249,487)	–
	(2,251,320)	52,490,247
Distribution to Capital Shareholders [note 7]		
Dividends paid on Capital Shares	(412,682)	(283,643)
Net increase (decrease) in shareholders' equity	(32,561,501)	32,952,592
Shareholders' equity, end of period	391,091	32,952,592

See accompanying notes

NB SPLIT CORP.
STATEMENTS OF CASH FLOWS

	Year ended December 31, 2008 \$	Period from February 22 to December 31, 2007 \$
OPERATING ACTIVITIES		
Net investment income	3,168,811	3,161,319
Net change in non-cash items		
Change in other assets and liabilities	155,148	(891,606)
Cash flows from operating activities	3,323,959	2,269,713
FINANCING ACTIVITIES		
Issuance of Preferred Shares	-	49,789,631
Issuance of Capital Shares	-	56,150,287
Issuance of Class J Shares	-	150
Issue costs on Preferred Shares	-	(1,786,130)
Issue costs on Capital Shares	(1,833)	(3,660,190)
Retraction and purchase for cancellation of Preferred Shares	(9,006,933)	-
Retraction of Capital Shares	(2,249,487)	-
Dividends paid on Preferred Shares	(2,365,312)	(1,863,003)
Dividends paid on Capital Shares	(412,682)	(283,643)
Cash flows from (used in) financing activities	(14,036,247)	98,347,102
INVESTING ACTIVITIES		
Proceeds from sale of investment	10,604,960	-
Purchase of investment portfolio	-	(100,435,086)
Transaction costs	(789)	-
Cash flows from (used in) investing activities	10,604,171	(100,435,086)
Net increase (decrease) in cash and cash equivalents during the period	(108,117)	181,729
Cash and cash equivalents, beginning of period	181,729	-
Cash and cash equivalents, end of period	73,612	181,729

See accompanying notes

NB SPLIT CORP.
SCHEDULE OF INVESTMENTS

As at December 31, 2008

Number of shares	Description	Average cost \$	Fair value \$	% of Portfolio
Canadian Equities				
1,260,645	National Bank of Canada	82,373,485	39,445,582	
Total Canadian Equities		82,373,485	39,445,582	100.00%
Total Investments		82,373,485	39,445,582	100.00%

See accompanying notes

NB SPLIT CORP.

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

1. INCORPORATION

NB Split Corp. (the "Fund"), incorporated under the laws of Ontario on December 15, 2006, is a mutual fund corporation whose investment portfolio consists of common shares of the National Bank of Canada ("National Bank Shares").

On February 22, 2007, 1,436,369 Preferred Shares and 2,872,738 Capital Shares were issued by the Fund for gross proceeds of \$46,997,994 in respect of the Preferred Shares and \$53,002,016 in respect of the Capital Shares.

On March 12, 2007, an over allotment option was exercised for 85,319 Preferred Shares and 170,638 Capital Shares for gross proceeds of \$2,791,637 in respect of the Preferred Shares and \$3,148,271 in respect of the Capital Shares.

The Administrator of the Fund is FA Administration Services Inc. (the "Administrator").

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). In applying Canadian GAAP, management may make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses during the reporting period. Actual results could differ from those estimates. The following is a summary of significant accounting policies followed by the Fund in the preparation of its financial statements.

Adoption of new accounting standards

Financial Instruments Disclosure and Presentation

On January 1, 2008, the Fund adopted CICA Handbook Section 3862, *Financial Instruments – Disclosures* and CICA Handbook Section 3863, *Financial Instruments – Presentation*. These sections emphasize disclosure on how the Fund manages its financial risk exposure on financial instruments. The standards include new requirements to quantify certain risk exposures and to provide sensitivity analysis for certain risks. These standards did not affect the Fund's financial position or results of operations. See Note 4 for disclosure relating to the adoption of the new requirements.

Capital Disclosures

On January 1, 2008, the Fund adopted CICA Handbook Section 1535, *Capital Disclosures*, which specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data and qualitative information about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. This standard did not affect the Fund's financial position or results of operations. The disclosure requirements pertaining to Section 1535 are contained in Note 11.

Investments

The investment in the National Bank Shares is categorized as held for trading and valued at fair value which means the latest bid price. The difference between the bid price and average cost, as recorded in the accounts, is reported as part of the Statements of Investment Operations and Retained Earnings (Deficit) as unrealized appreciation (depreciation) of investment. Average cost is used to determine the gain or loss on investments sold.

Cash and cash equivalents

Cash and cash equivalents are comprised of cash and short-term investments with a term to maturity of less than three months from the date of purchase. Cash and cash equivalents are categorized as held trading and therefore are carried at fair value. Short-term investments are valued at cost plus accrued interest, which approximates fair value.

Income recognition

The accrual method of recording income and expenses is followed with dividend income being recorded on the ex-dividend date.

NOTES TO FINANCIAL STATEMENTS continued

Transaction costs

Transaction costs, such as brokerage commissions incurred in the purchase and sale of securities, are expensed and are recognized in the Statements of Investment Operations and Retained Earnings (Deficit).

Results of investment operations per Capital Share

The results of investment operations per Capital Share in the statements of investment operations and retained earnings (deficit) represent the results of investment operations during the period, divided by the average number of Capital Shares outstanding during the period.

Net Assets per unit

The Net Assets per unit is calculated as net assets at fair value divided by the number of units outstanding of the Fund. The Preferred Shares are not treated as liabilities for this purpose. A unit is a notional unit comprising of one Preferred Share and two Capital Shares.

Preferred Shares

The Preferred Shares are carried at amortized cost using the effective interest method and are presented as liabilities in the Statements of Net Assets. The costs incurred to issue Preferred Shares are amortized over the term of the Preferred Shares using the effective interest method. On redemption or early retraction of the Preferred Shares or Capital Shares, any unamortized issue cost balance relating to these shares and included in Net Assets will be written off. The fair value of the Preferred Shares, which is based on the TSX market price on December 31, 2008, was \$31,297,481 (2007 - \$45,650,650).

Other assets and liabilities

Dividends receivable are designated as loans and receivables and recorded at cost or amortized cost. Similarly, accounts payable and accrued liabilities are designated as other liabilities and reported as cost or amortized cost. Other assets and liabilities are short-term in nature and amortized cost approximates fair value.

3. NET ASSET VALUE

The Canadian securities regulatory authorities have published amendments to NI 81-106 that remove the requirement that net asset value, for redemptions and subscriptions, ("Net Asset Value") be calculated in accordance with Canadian GAAP effective September 8, 2008. As a result of the amendments, the Net Asset Value of investment funds will continue to be calculated based on the fair value of investments using the close or last trade price. The Net Assets per unit for financial reporting purposes and Net Asset Value per unit (for redemptions and subscriptions) could be different due to the use of different valuation techniques. The Net Asset Value per unit calculated using the close or last traded price at December 31 is as follows and the difference between the Canadian GAAP Net Assets and Net Asset Value is on account of the use of the last bid price for the valuation of investments for Canadian GAAP:

	2008	2007
Capital Shares	\$0.32	\$21.78
Preferred Shares	\$32.72	\$32.72

4. FINANCIAL RISK MANAGEMENT

In the normal course of business, the Fund is exposed to various financial risks, including credit risk, liquidity risk and market risk (consisting of interest rate risk, currency risk and other price risk). To assist in managing risk, the Fund maintains a governance structure that oversees the investment activities and monitors compliance with the Fund's stated investment strategy, investment guidelines and securities regulations.

Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund. As of December 31, 2008 the Fund does not have any significant credit risk exposure.

NOTES TO FINANCIAL STATEMENTS continued

Liquidity risk

Liquidity risk is the risk that the Fund may not be able to settle or meet its obligation on time or at a reasonable price. As at December 31, 2008, the Fund's investment in National Bank Shares is considered readily realizable as the shares are actively traded on a public exchange.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or fair values of financial instruments.

The majority of the Fund's financial assets and liabilities are non-interest bearing, accordingly, the Fund is not subject to significant amounts of risk due to fluctuations in prevailing levels of market interest rates.

The Fund is not exposed to interest rate risk on the Preferred Shares as these shares are entitled to a fixed cumulative preferential distribution of 4.75% per annum on the issue price of the Preferred Shares.

Currency risk

Currency risk is the risk that the value of investments which are denominated in a currency other than the functional currency of the Fund will fluctuate due to changes in foreign exchange rates. The Fund invests primarily in Canadian dollar securities, which represents the functional currency of the Fund. As of December 31, 2008, the Fund had no exposure to foreign currencies and consequently did not have any exposure to currency risk.

Other price risk

Other price risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

All investments in securities present a risk of loss of capital. The maximum market price risk resulting from these investments is equivalent to their fair value. The Fund's investment portfolio is passively managed and the value of the portfolio will be influenced by factors which are not within the control of the Fund including the financial performance of National Bank, the condition of the equity markets generally and other factors.

By utilizing a split share structure, holders of the Capital Shares receive leveraged exposure such that any capital appreciation or depreciation of the National Bank Shares will be borne by the Capital Shares. Accordingly, any increase or decrease in the value of the National Bank Shares will result in a greater proportionate increase or decrease in the Net Asset Value of the Capital Shares. If the decline in value of the National Bank Shares exceeds the amounts subscribed by the Capital Shares, then the value of the Capital Shares is nil and the Preferred Shares absorb the excess loss.

As at December 31, 2008, 95.8% of the Fund's net assets were invested in National Bank Shares which trades on the Toronto Stock Exchange ("TSX"). If the price of National Bank Shares had increased or decreased by 10% as at the period end, with all other factors remaining constant, net assets would have increased or decreased by \$3,944,582, respectively.

5. SHARE CAPITAL

The Fund is authorized to issue an unlimited number of Capital Shares (the "Capital Shares"), Preferred Shares (the "Preferred Shares"), Class B, C, D and E capital shares, issuable in series and Class B, C, D and E preferred shares, issuable in series and Class J Shares. The Fund issued 150 Class J Shares for a cash consideration of \$150.

NOTES TO FINANCIAL STATEMENTS continued

A summary of the Fund's issued and outstanding share capital and related share issue costs is as follows:

	Class J Shares	Number of Units	Capital Shares	Preferred Shares	Preferred Share Issue Costs
Issuance of shares on February 27, 2007	\$150	1,521,688	\$56,150,287	\$49,789,631	–
Issue costs	–	–	(\$3,660,190)	–	(\$1,786,130)
Amortization	–	–	–	–	\$305,662
Outstanding on December 31, 2007	\$150	1,521,688	\$52,490,097	\$49,789,631	(\$1,480,468)
Retraction of units	–	(275,273)	(\$2,249,487)	(\$9,006,933)	\$206,504
Issue costs	–	–	(\$1,833)	–	–
Amortization	–	–	–	–	\$355,827
Outstanding on December 31, 2008	\$150	1,246,415	\$50,238,777	\$40,782,698	(\$918,137)

Preferred Shares

Holders of Preferred Shares are entitled to receive quarterly fixed cumulative preferential distributions of \$0.3886 per Preferred Share. Such quarterly distributions are paid on or before the 15th day of March, June, September and December in each year commencing June, 2007.

The Preferred Shares outstanding on February 15, 2012 will be redeemed by the Fund on such date for a redemption price per share equal to the lesser of \$32.72 and the Net Asset Value per unit of the Fund on that date. The Preferred Shares may be surrendered at any time for retraction.

Holders of Preferred Shares are not entitled to vote on any of the National Bank Shares and are not entitled to vote at any meeting of shareholders of the Fund, except as set forth in the Fund's articles and as provided by law.

The Preferred Shares rank in priority to the Capital Shares and Class J Shares with respect to the payment of dividends, distributions upon a redemption, retraction or reduction of capital and distributions upon a dissolution, liquidation or winding-up of the Fund.

Capital Shares

The Capital Shares outstanding on February 15, 2012 will be redeemed by the Fund on such date for an amount per share equal to the excess of the Net Asset Value per unit of the Fund less \$32.72 for each two Capital Shares redeemed (Note 2). If the Net Asset Value per unit is less than or equal to \$32.72 on February 15, 2012, the Capital Shares will have no value on redemption. The Capital Shares may be surrendered at any time for retraction and any unamortized issue cost relating to the Preferred Shares will be deducted from the Net Asset Value per unit on retraction.

Holders of Capital Shares are not entitled to vote on any of the National Bank Shares and are not entitled to vote at any meeting of shareholders of the Fund, except as set forth in the Fund's articles and as provided by law.

Holders of Capital Shares are entitled to receive dividends as and when declared by the Fund's board of directors (the "Board of Directors"). It will be the policy of the Board of Directors to declare and pay quarterly dividends in an amount equal to the dividends received by the Fund on the National Bank Shares minus the distributions payable on the Preferred Shares and all administrative and operating expenses.

The Capital Shares will rank subsequent to the preferred Shares and prior to the Class J Shares with respect to the payment of dividends, distributions upon redemption, retraction or reduction of capital and distribution upon a dissolution, liquidation or winding-up of the Fund.

NOTES TO FINANCIAL STATEMENTS continued

Class J Shares

The Class J Shares of the Fund are retractable at any time. For retractions occurring at a time when any Capital Shares or Preferred Shares are outstanding, the retraction price will be \$1.00 per share; for other retractions the retraction price will be based on the Net Asset Value of the Fund. The Class J Shares are redeemable at any time for \$1.00 per share.

Holders of Class J Shares are entitled to one vote per share.

The holders of Class J Shares are entitled to receive dividends, if, as and when declared by the Fund's Board of Directors. However, holders of Class J Shares are not entitled to receive any dividends at any time when there are any Capital Shares or Preferred Shares outstanding unless approved by all of the independent directors of the Fund.

6. EXPENSES OF THE FUND

The Administrator is entitled to a monthly fee of 1/12 of 0.25% of the fair value of the National Bank Shares.

The Fund is responsible for all costs relating to its administration.

Total commissions and other transaction costs paid by the Fund for its portfolio transactions during the period amounted to \$789 (2007 – nil).

7. DISTRIBUTIONS

An objective of the Fund is to provide quarterly fixed cumulative preferential distributions equal to of \$0.3886 per share to holders of Preferred Shares, as and when declared, to yield 4.75% per annum on the original issue price of the Preferred Shares.

The fixed distributions on the Preferred Shares will be funded from the dividends received on the National Bank Shares. If necessary, any shortfall in the distributions on the Preferred Shares may be funded by proceeds from the sale of National Bank Shares. In the event that the dividends paid on the National Bank Shares exceed the amount of the fixed Preferred Share distributions and all expenses of the Fund, the excess amount may be paid as dividends on the Capital Shares, as determined by the Fund's Board of Directors.

8. NET REALIZED LOSS ON SALE OF INVESTMENT

The net realized loss on sale of investments for the year ended December 31 was as follows:

	2008 \$	2007 \$
Proceeds on sale of investments	10,604,960	–
Less cost of investments sold		
Investments, beginning of period	100,435,086	–
Investments purchased during the year	–	100,435,086
Investments, end of year	(82,373,485)	(100,435,086)
Cost of investments sold	18,061,601	–
Net realized loss on sale of investments	(7,456,641)	–

NOTES TO FINANCIAL STATEMENTS continued**9. INCOME TAXES**

The Fund qualifies and intends to continue to qualify as a mutual fund corporation under the Income Tax Act (Canada). Mutual fund corporations are generally subject to tax in the same manner as other public corporations except that income taxes payable on realized capital gains are refundable on a formula basis when shares of the Fund are redeemed or capital gains dividends are paid by the Fund to its shareholders.

The Fund is subject to a special tax at the rate of 33 1/3% on taxable dividends received from taxable Canadian corporations. This tax is refundable to the Fund upon the payment of taxable dividends to its shareholders at the rate of \$1 of tax for every \$3 of dividends paid.

10. TAX LOSS CARRYFORWARD

As at December 31, 2008, the Fund had non-capital loss carryforwards for income tax purposes which may be utilized to reduce taxable income of future years and expire in the year indicated.

Non-Capital Losses	Expiration of Non-Capital Losses 2028
\$1,555,006	\$1,555,006

11. CAPITAL MANAGEMENT

The Fund considers its capital to consist of Capital, Class J and Preferred Shares.

The Fund's objectives in managing its capital are:

- (i) to provide holders of Preferred Shares with cumulative preferential quarterly cash distributions in the amount of \$0.3886 per Preferred Share, and
- (ii) to provide holders of Capital Shares with the opportunity for growth in net asset value per share and the benefit of any increase in the dividends paid on the National Bank Shares.

The Fund manages its capital in accordance with its investment objectives and strategies and the risk management practices outlined in Note 4. In order to manage its capital structure, the Fund may adjust the amount of distributions paid to shareholders.

12. INTERNATIONAL FINANCIAL REPORTING STANDARDS

At December 31, 2008, the Fund has developed a changeover plan to meet the timeline published by the CICA for the changeover to International Financial Reporting Standards ("IFRS"). The key elements of the plan include the disclosures of the qualitative impact in the 2009 and 2010 financial statements, disclosures of the quantitative impact, if any, in the 2010 financial statements and the preparation of the 2011 financial statements in accordance with IFRS. Currently, the Fund believes that the changeover to IFRS will not impact the reported results or net asset value per unit. The main impact of IFRS on accounting policies and implementation decisions is expected to relate to additional disclosures in the financial statements of the Fund.

13. RECLASSIFICATION

Certain comparative figures have been reclassified to conform to the current year's presentation.