
NB Split Corp.

**Annual Management Report of Fund Performance
and Audited Financial Statements
for the period from
February 22, 2007 to December 31, 2007**

NB Split Corp.

2007 ANNUAL REPORT

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Forward-looking Statements

This report may contain forward-looking statements. Forward-looking statements involve risks and uncertainties and are predictive in nature and actual results could differ materially from those contemplated by the forward-looking statements.

Annual Management Report of Fund Performance

This annual management report of fund performance contains financial highlights along with the audited annual financial statements (the “Annual Financial Statements”) of NB Split Corp. (the “Company”). The Canadian Securities Administrators released a nationally harmonized set of continuous disclosure requirements for investment funds. Set out in *National Instrument 81-106 Investment Fund Continuous Disclosure* are the requirements for a number of reporting matters including financial statements, management report of fund performance, delivery obligations and proxy voting disclosure. Shareholders can request a copy of the Company’s proxy voting policies and procedures or proxy voting disclosure by calling 1-877-642-1289, by writing to FA Administration Services Inc. (the “Administrator”) at 95 Wellington Street West, Suite 1400, Toronto, ON, M5J 2N7, by visiting the Company’s website at www.nbsplit.com or on SEDAR at www.sedar.com.

Investment Objectives and Strategy

The Company holds common shares (the “National Bank Shares”) of National Bank of Canada (“National Bank”) in order to generate quarterly fixed cumulative preferential distributions of \$0.3886 for the holders of Preferred Shares representing a yield of 4.75% per annum based on the \$32.72 issue price. Holders of Capital Shares are provided with a leveraged investment, the value of which is based on the value of the National Bank Shares. Holders of Capital Shares will also benefit from any increase in the dividends paid on the National Bank Shares and will be entitled to receive dividends as and when declared by the Board of Directors of the Company.

Risk

There were not any changes to the Company over the financial year which affected the overall level of risk associated with an investment in shares of the Company.

The Company has a redemption and a retraction feature. As with all funds with redemption and retraction features, there is always a risk that redemptions or retractions will be significant. If a significant number of shares are redeemed or retracted, the trading liquidity of the shares could be significantly reduced and expenses of the Company would be spread over fewer shares, resulting in a higher management expense ratio for the Company.

The Company was created to acquire and hold shares of National Bank Shares and only trade them in limited circumstances as described in the Prospectus and Annual Information Form. The National Bank Shares held by the Company are not actively traded and the Company can be considered a passive investment vehicle that has economic exposure to a static basket comprised of the National Bank Shares. As such, the performance of the Company’s portfolio is directly related to the performance of National Bank. National Bank, as well as the global banking sector, experienced a very difficult year, marked by various challenges, most notably problems associated with sub-prime securities and credit markets.

The annual information form of the Company for the year ended December 31, 2007 contains a more detailed discussion of risks. This document is available on the Company's website at www.nbsplit.com or on SEDAR at www.sedar.com. In addition, readers are directed to Note 8 to the attached Annual Financial Statements.

Results of Operations

The Company completed its initial public offering on February 22, 2007, and its over-allotment option on March 12, 2007. In aggregate, the Company issued 3,043,376 Capital Shares and 1,521,688 Preferred Shares for aggregate gross proceeds of approximately \$106 million. The net proceeds of the offering were invested in accordance with the investment guidelines of the Company.

The Company's net asset value per Capital Share decreased over the period to \$10.83 from its opening net asset value of \$17.23 as at February 22, 2007. The Company distributed \$0.0932 per Capital Share during the period. As a result, total return for the Capital Shares was -36.7% over the period. During the same period the Company also distributed \$1.2243 per Preferred Share during the period.

As mentioned above, the performance of the Company's portfolio is directly related to the performance of National Bank. National Bank, as well as the global banking sector, experienced a very difficult year, marked by various challenges, most notably problems associated with sub-prime securities and credit markets.

Recent Developments

March 19, 2008: The Company announced that it had been advised by DBRS Limited that the rating of certain structured preferred shares with significant exposure to the financial sector, including the Company's Preferred Shares, had been placed "Under Review with Developing Implications".

While there have been no other developments affecting the Company, the National Bank Shares are influenced by factors that are not within the control of the Company, including the financial performance of National Bank and market conditions affecting the financial sector generally. Readers may wish to consult the continuous disclosure documents of National Bank for further information concerning recent developments pertaining to National Bank available on the Internet at www.sedar.com. For greater certainty, such documents are not incorporated by reference herein.

Related Party Transactions

In connection with its initial public offering, the Company engaged National Bank Financial Inc. ("NBF"), Scotia Capital Inc., BMO Nesbitt Burns Inc., CIBC World Markets Inc., RBC Dominion Securities Inc., TD Securities Inc., HSBC Securities (Canada) Inc., Canaccord Capital Corp., Raymond James Ltd., Desjardins Securities Inc., Blackmont Capital Inc. and WellingtonWest Capital Inc. (col-

lectively, the “Agents”) as its agents to offer for sale to the public the Capital Shares and the Preferred Shares pursuant to a prospectus dated January 30, 2007 (the “Offering”). In connection with their services, the Agents received \$0.982 per Preferred Share and \$1.107 per Capital Share. In connection with the Offering, NBF was also the promoter.

The Company established a revolving credit facility dated May 11, 2007 in the aggregate amount of \$5,000,000 which may be used to fund the payment of a portion of the fixed distributions on the Preferred Shares on a temporary basis, if necessary. Amounts borrowed under the facility are collateralized by a security interest in the assets and undertakings of the Company. The lender under the credit facility is National Bank, an affiliate of NBF. The terms, conditions, interest rates and expenses are typical for a loan of this nature. As at December 31, 2007, the loan had not yet been drawn on.

FA Administration Services Inc. (“FA”), which has been retained by the Company to provide certain administrative services to it, is also considered a related party.

The Independent Review Committee

The Company has appointed an Independent Review Committee (the “IRC”) in accordance with *National Instrument 81-107*. The Company shares its IRC with NB Split Corp., and the relationship with the IRC is administered by FA Administration Services Inc. The costs and expenses of the IRC are shared by the Company and GlobalBanc Advantaged 8 Split Corp. The IRC’s Report to Security-holders which must be prepared in accordance with Section 4.4 of *National Instrument 81-107* is available on the Company’s website (www.nbsplit.com), on SEDAR (www.sedar.com), or can be obtained by calling (416) 642-1289 or 1-877-642-1289, or by emailing info@nbsplit.com.

The members of the IRC are:

Douglas A. S. Mills, C.A. – Mr. Mills brings over 30 years of experience in the finance and wealth management industry. He is currently the Chairman of The Glencreggan Limited, a consulting firm engaged in corporate advisory and change implementation. Mr. Mills has played several leading roles in the financial services industry including Chief Executive of a major Chartered Bank’s Investment Management subsidiary, Vice-President of Barclays Bank Canada and Barclays PLC. Mr. Mills is a Chartered Accountant, sits on several boards and is an Executive-in-Residence at the Ivey School of Business.

Carl M. Solomon, LLB. – Mr. Solomon brings over 35 years of experience in the legal profession having been a partner and subsequently counsel to the law firm now known as Gowling Lafleur Henderson LLP until his retirement in 1999. More recently, Mr. Solomon has been involved in assisting numerous small and mid-sized companies to raise capital for their on-going business or buy-out needs.

Henry Knowles, Q.C., H.B.A., LL.B., LL.M., M.B.A. – Mr. Knowles brings over 45 years of experience in both the legal and financial services industries. Mr. Knowles is currently a consultant to Sheldon Huxtable Professional Corporation. Between 1980 and 1983, Mr. Knowles was the Chairman of the Ontario Securities Commission and was responsible for introducing the new Ontario Securities Act to the business, government and professional communities. Mr. Knowles has played prominent roles with many publicly-listed companies, and has also served in a senior position with a major Canadian mutual fund management company. Mr. Knowles sits on several boards.

Financial Highlights

The following tables show selected key financial information about the Company and are intended to help explain the Company's financial performance since inception. This information is derived from the Company's audited annual financial statements.

The Company's Net Asset Value (NAV) per Unit

	2007
Net Asset Value, beginning of period ⁽¹⁾	\$67.19
Increase (decrease) from operations	
Total revenue	1.21
Total expenses	(0.16)
Realized gains (losses) for the period	0.00
Unrealized losses for the period	(6.67)
Total increase (decrease) from operations ⁽²⁾	(5.62)
Distributions per Preferred Share:	
From income (excluding dividends)	0.00
From dividends	(1.22)
From capital gains	0.00
Return of capital	0.00
Total Annual Preferred Share Distributions ⁽³⁾	(1.22)
Distributions per Capital Share:	
From income (excluding dividends)	0.00
From dividends	(0.09)
From capital gains	0.00
Return of capital	0.00
Total Annual Capital Distributions ⁽³⁾	(0.09)
Net Asset Value at December 31 ^{(4) (5)}	\$54.38

(1) The Net Asset Value reflects the issue prices of \$18.45 for Capital Shares and \$32.72 for Preferred Shares less share issue expenses. A unit represents one Preferred Security and two Capital Shares.

(2) Net Asset Value and distributions are based on the actual number of capital units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of capital units outstanding over the financial period.

(3) Distributions were paid in cash.

(4) The NAV as at December 31, 2007 represents the GAAP NAV. The Transaction NAV net of section 3855 adjustment was \$54.50 (See note 2 of the Company's annual financial statements).

(5) This is not a reconciliation of the beginning and ending Net Asset Value per unit.

Ratios and Supplementary Data

	2007 ⁽¹⁾
Net assets ⁽¹⁾	\$82,742,223
Number of units outstanding ⁽¹⁾	1,521,688
Management expense ratio before share issue expenses and interest on Preferred Shares ⁽²⁾	0.52%
Management expense ratio ⁽²⁾	8.40%
Portfolio turnover rate ⁽³⁾	0.00%
Trading expense ratio ⁽⁴⁾	0.00%
Closing market price – Preferred Share	\$30.00
Closing market price – Capital Shares	\$10.25

- (1) This information is provided as at December 31, 2007 and represents GAAP NAV. A Unit represents one Preferred Security and two Capital Shares. Net Asset Value is equal to Net Asset Value per unit multiplied by the number of Units outstanding.
- (2) Management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of daily average net assets during the period. Total expenses include interest on the Company's Preferred Shares. The Preferred Shares form part of the Company's dual security capital structure. The MER for the period ending December 31, 2007 annualizes expenses incurred from inception date to the end of the period and it also includes all Agents' fees and other offering expenses, which are one time expenses and therefore are not annualized.
- (3) The Company portfolio turnover rate indicates how actively the Company's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Company buying and selling all of the securities in its portfolio once in the course of the year. The higher a fund's portfolio turnover rate in a year, the greater the trading costs payable by the fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a fund.
- (4) The trading expense ratio represents total commissions and other portfolio Transaction costs expressed as an annualized percentage of monthly average net assets during the period.

Management Fees

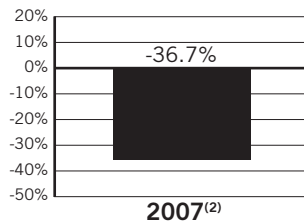
The Company pays FA a monthly fee of 1/12 of 0.25% of the fair value of National Bank Shares held by the Company for the administrative services it provides.

Past Performance

The following bar chart indicates the performance of the Company by showing annual returns by fiscal year assuming all the distributions made by the Company in the periods shown were reinvested. Past performance information does not take into account sales, redemption, distribution or other optional charges that would have reduced returns on performance. Past performance is not necessarily indicative of future performance.

Year-by-Year Returns ⁽¹⁾

The following bar chart shows the Company's annual performance for the period shown. The bar chart shows, in percentage terms, how much an investment made on the first trading day of the financial period would have grown or decreased by the last day of the financial period.



(1) Calculation of year-by-year returns is determined using the Transaction NAV as described in the Note 2 of the accompanying annual financial statements.

(2) Total return for the period February 22, 2007 to December 31, 2007.

Summary of Investment Portfolio

Below is a summary of the Company's investment portfolio as at December 31, 2007. This is a summary only and subject to change due to ongoing portfolio activity in the Company. An updated summary is available quarterly at www.nbsplit.com.

HOLDINGS as at December 31, 2007

DESCRIPTION	FAIR VALUE (\$) ⁽¹⁾	% OF NAV
National Bank of Canada	80,372,868	96.92
Cash and Cash Equivalents	181,729	0.22

SECTOR ALLOCATION as at December 31, 2007

INDUSTRY	FAIR VALUE (\$) ⁽¹⁾	% OF NAV
Financials	80,372,868	96.92
Cash and Cash Equivalents	181,729	0.22
Other Assets, Net of Liabilities	80,554,597	97.14
Total Net Assets	2,372,074	2.86
	82,926,671	100.00

(1) Based on last traded market prices for securities (Transaction NAV) as at December 31, 2007 (See Note 2 of the Company's annual financial statements).

Management's Responsibility for Financial Reporting

The accompanying financial statements of NB Split Corp. (the "Company") are the responsibility of management and have been approved by the board of directors of the Company (the "Board"). They have been prepared in accordance with Canadian generally accepted accounting principles using information available to February 13, 2008 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.



Michael Shuh
DIRECTOR
FEBRUARY 13, 2008.



David Taylor
DIRECTOR
FEBRUARY 13, 2008.

Auditors' Report

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

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

We conducted our audit 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 Company as at December 31, 2007, the results of its investment operations, the changes in its shareholders' equity and its cash flows for the period from February 22, 2007 to December 31, 2007 in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

CHARTERED ACCOUNTANTS
LICENSED PUBLIC ACCOUNTANTS

TORONTO, CANADA,
FEBRUARY 13, 2008.

STATEMENT OF NET ASSETS

As at December 31	2007 \$
ASSETS	
Investment in National Bank Shares, at fair value	80,188,420
Cash and cash equivalents	181,729
Dividends receivable	952,977
	81,323,126
LIABILITIES	
Accounts payable and accrued liabilities	61,371
Preferred Shares <i>[note 3]</i>	48,309,163
	48,370,534
	32,952,592
CAPITAL SHAREHOLDERS' EQUITY	
Capital Shares <i>[note 3]</i>	52,490,097
Class J Shares <i>[note 3]</i>	150
Deficit	(19,537,655)
	32,952,592
Number of units outstanding <i>[note 3]</i>	1,521,688
Net Asset Value per two Capital Shares	\$21.66
Redemption value per Preferred Share <i>[note 3]</i>	\$32.72
Net Asset Value per unit	\$54.38

See accompanying notes

On behalf of the Board of Directors:



DIRECTOR



DIRECTOR

STATEMENT OF INVESTMENT OPERATIONS AND RETAINED EARNINGS (DEFICIT)

Period from February 22, 2007 to December 31

2007
\$**INVESTMENT INCOME**

Dividends	3,627,462
Interest	30,154
	3,657,616

EXPENSES

Administration fee <i>[note 4]</i>	188,186
Securityholder reporting costs	121,988
Legal fees	67,627
Custodial fees	34,999
Goods and Services Tax	25,193
Directors' fees	23,897
Audit fees	18,000
Other administration expense	16,407
	496,297

Net investment income before the undernoted:	3,161,319
Preferred Shares issue costs amortization <i>[note 3]</i>	(305,662)
Dividends paid on Preferred Shares <i>[note 5]</i>	(1,863,003)
Change in unrealized depreciation of investment	(20,246,666)
Results of investment operations for the period	(19,254,012)
Results of investment operations per Capital Share	\$ (6.3470)

Retained earnings, beginning of period	-
Results of investment operations for the period	(19,254,012)
Dividends paid on Capital Shares <i>[note 5]</i>	(283,643)
Deficit, end of period	(19,537,655)

Dividends paid per Preferred Share	\$ 1.2243
Dividends paid per Capital Share	\$ 0.0932

See accompanying notes

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Period from February 22, 2007 to December 31

2007
\$

Shareholders' equity, beginning of period	-
Operations	
Decrease in net assets from investment operations	(19,254,012)
Shareholder transactions [note 3]	
Proceeds from issuance of Capital Shares	56,150,287
Proceeds from issuance of Class J Shares	150
Issue costs on Capital Shares	(3,660,190)
	52,490,247
Distribution to Capital Shareholders [note 5]	
Dividends paid on Capital Shares	(283,643)
Net increase in shareholders' equity	32,952,592
Shareholders' equity, end of period	32,952,592

See accompanying notes

STATEMENT OF CASH FLOWS

Period from February 22, 2007 to December 31

2007
\$

OPERATING ACTIVITIES

Net investment income	3,161,319
Net change in non-cash items	
Change in other assets and liabilities	(2,754,609)
Cash flows from operating activities	406,710

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	(3,660,190)
Dividends paid on Capital Shares	(283,643)
Cash flows from financing activities	100,210,105

INVESTING ACTIVITIES

Purchase of investment portfolio	(100,435,086)
Cash flows used in investing activities	(100,435,086)
Net increase in cash and cash equivalents during the period	181,729
Cash and cash equivalents, beginning of period	-
Cash and cash equivalents, end of period	181,729

See accompanying notes

SCHEDULE OF INVESTMENTS

As at December 31, 2007

Number of shares	Description	Average cost \$	Fair value \$
Canadian Equities [100%]			
1,537,060	National Bank of Canada	100,435,086	80,188,420
Total Canadian Equities		100,435,086	80,188,420
Total Investments		100,435,086	80,188,420

See accompanying notes

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

1. INCORPORATION

NB Split Corp. (the "Company"), 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 Company 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 Company 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 Company in the preparation of its financial statements.

Adoption of new accounting standards

Pursuant to National Instrument 81-106 *Investment Fund Continuous Disclosure* ("NI 81-106"), investment funds are required to calculate their Net Asset Value in accordance with Canadian GAAP. On April 1, 2005, Canadian GAAP was modified by the introduction of CICA Section 3855: *Financial Instruments – Recognition and Measurement* ("Section 3855") which applies to financial years beginning on or after October 1, 2006.

The new standard redefines fair value as being the closing bid price for long positions and the closing ask price for short positions, in lieu of the closing or last trade price for all positions. Section 3855 also mandates the immediate recognition of transaction costs through the statement of investment operations.

On September 28, 2007, Canadian securities regulatory authorities ("CSRA") provided exemptive relief to investment funds from having to comply with Section 3855 in calculating and reporting their Net Asset Value for purposes other than financial statements, such as issuance and redemption of units. This exemptive relief expires on September 30, 2008 or until NI 81-106 is amended whichever is earlier. Consequently, adopting these new rules has resulted in a different Net Asset Value for financial reporting purposes ("GAAP NAV") and pricing purposes ("Transaction NAV").

The Company has adopted Section 3855 since its inception. Consequently, as at December 31, 2007, the investment in the National Bank Shares is valued at the bid price for financial reporting purposes.

The reconciliation of the Company's Transaction NAV and GAAP NAV as at December 31, 2007 is as follows:

	Total NAV \$	NAV per unit \$
Transaction NAV	82,926,671	54.50
Accounting Change due to Section 3855	(1,664,916)	(0.12)
GAAP NAV*	81,261,755	54.38

* excludes Preferred Shares as liabilities

Future change in accounting policy

On December 31, 2006, the CICA issued three new accounting standards: Handbook Section 1535, *Capital Disclosures*, Handbook Section 3862, *Financial Instruments – Disclosures*, and Handbook Section 3863 *Financial Instruments –*

NOTES TO FINANCIAL STATEMENTS continued

Presentation. These new standards will be effective for the Company on January 1, 2008. These sections emphasize disclosure on how the Company manages its capital and its financial risk exposure on financial instruments. The adoption of these accounting standards will only impact the Company's financial statement disclosure.

Investments

Investment in the National Bank Shares is valued at the bid price. The difference between the bid price and average cost, as recorded in the accounts, is reported as part of Statement of Investment Operations as unrealized appreciation (depreciation) of investments. 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 date of purchase. 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.

Results of investment operations per Capital Share

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

Net Asset Value per unit

The Net Asset Value per unit is calculated as net assets at fair value divided by the number of units outstanding of the Company. 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 Statement of Net Assets.

The costs incurred to issue Preferred Shares are amortized over the term of the Preferred Shares. On redemption or early retraction of the Preferred Shares or Capital Shares, any unamortized issue cost balance relating to these shares will be written off.

3. SHARE CAPITAL

The Company 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 Company issued 150 Class J Shares for a cash consideration of \$150.

A summary of the Company'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 Shares Issue Costs
Issued, beginning of period	–	–	–	–	–
Issuance of shares	\$150	1,521,688	\$56,150,287	\$49,789,631	–
Issue costs	–	–	(\$3,660,190)	–	(\$1,786,130)
Amortization	–	–	–	–	\$305,662
Outstanding, end of period	\$150	1,521,688	\$52,490,097	\$49,789,631	(\$1,480,468)

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.

NOTES TO FINANCIAL STATEMENTS continued

The Preferred Shares outstanding on February 15, 2012 will be redeemed by the Company 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 Company on that date. The Preferred Shares may be surrendered at any time for retraction.

Holders of Preferred Shares are not entitled to vote any of the National Bank Shares and are not entitled to vote at any meeting of shareholders of the Company, except as set forth in the Company'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 Company.

Capital Shares

The Capital Shares outstanding on February 15, 2012 will be redeemed by the Company on such date for an amount per share equal to the excess of the Net Asset Value per unit of the Company less \$32.72 for each two Capital Shares redeemed. 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 any of the National Bank Shares and are not entitled to vote at any meeting of shareholders of the Company, except as set forth in the Company's articles and as provided by law.

Holders of Capital Shares are entitled to receive dividends as and when declared by the Company'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 Company 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 Company.

Class J Shares

The Class J Shares of the Company 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 Company. 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 Company'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 Company.

4. EXPENSES OF THE COMPANY

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

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

No commissions or other transaction costs were paid by the Company for its portfolio transactions during the period.

5. DISTRIBUTIONS

An objective of the Company 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 will be funded by proceeds from the sale of National

NOTES TO FINANCIAL STATEMENTS continued

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 Company, the excess amount will be paid as dividends on the Capital Shares, as determined by the Company's Board of Directors.

6. INCOME TAXES

The Company 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 Company are redeemed or capital gains dividends are paid by the Company to its shareholders.

The Company 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 Company upon the payment of taxable dividends to its shareholders at the rate of \$1 of tax for every \$3 of dividends paid.

7. TAX LOSS CARRYFORWARD

As at December 31, 2007, the Company 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 2027
\$1,027,568	\$1,027,568

8. RISK MANAGEMENT

The Company aims to pay quarterly dividends on the Capital Shares and to pay fixed quarterly distributions on its Preferred Shares, primarily through its investment in the National Bank Shares. Holders of Preferred Shares receive a stable yield and substantial downside protection on the return of their initial investment. Holders of Capital Shares receive leveraged exposure to the National Bank Shares as well as any increases in the actual dividends paid on the National Bank Shares.

Market Risk

The value of the Capital Shares and Preferred Shares will vary with the value of the National Bank Shares. The value of the National Bank Shares will be influenced by factors which are not within the control of the Company including the financial performance of National Bank, interest rates and other financial market conditions.

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.

Interest Rate Risk

As the Company pays fixed distributions to the holders of Preferred Shares and also pays dividends to holders of Capital Shares, the market price of the Preferred Shares and Capital Shares may be affected by the level of interest rates prevailing from time to time.

9. SUBSEQUENT EVENT

On March 19, 2008 the Company was advised by DBRS Limited that the rating of certain structured preferred shares with significant exposure to the financial sector, including the Company's Preferred Shares, have been placed "Under Review with Developing Implications".

Corporate Information

CORPORATE ADDRESSES

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Toll Free: 1-877-642-1289
Fax: 416-362-2199
Email: info@nbsplit.com
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LISTED

The Toronto Stock Exchange

Preferred Shares: **NBF.PR.A**
Capital Shares: **NBF**

THE ADMINISTRATOR

FA Administration Services Inc.

Same address as above.

AUDITORS

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TRANSFER AGENT AND REGISTRAR

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