

# Analyst and Investor Presentation

## Q2 2005 Results Conference Call



May 26, 2005  
[www.nbc.ca/investorrelations](http://www.nbc.ca/investorrelations)

opportunities



## Highlights



- Q2 05 Results:
  - Net income \$202 M; up 12% y/y
  - EPS at \$1.17; +16% y/y
  - ROE at 20%; was 19% as at Q2 04
- For the 6 months
  - Net income \$441 M; up 20% y/y
  - EPS at \$2.56; +25% y/y
  - ROE at 22%; was 19% as at Q2 04
- P&C volume growth with pick-up in Commercial, Financial Markets growth supported by well balanced business mix
- High quality credit profile, \$17 M release of general allowance
- Technological investments accelerated, key to future growth
- Dividend increase of 5%, from \$0.42 per share to \$0.44 per share
- Capital position remains strong with Tier One maintained at 9.5%

## 2005 Objectives Strong first half of the year



	2005 Objectives	Q2 05	YTD
Growth in earnings per share	5% to 10%	16%	25%
Return on common shareholders' equity	16% to 18%	20%	22%
Tier 1 capital ratio	Equal or greater than 8.5%	9.5%	9.5%
Dividend payout ratio <sup>1</sup>	35% to 45%	35%	35%

(1) Trailing 4 quarters

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## Performance Snapshot



In millions of dollars

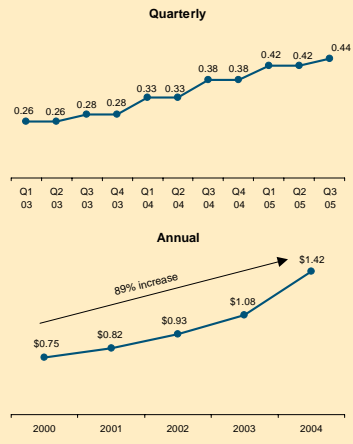
Q2 04	Q2 05	Change		6M 04	6M 05	Change
\$884	\$900	2%	Total revenues	\$1 795	\$1 883	5%
\$602	\$624	4%	Operating expenses	\$1 179	\$1 237	5%
\$282	\$276	-2%	<b>Contribution</b>	\$616	\$646	5%
\$19	\$1	-95%	Provision for credit losses	\$63	\$18	-71%
\$263	\$275	5%	<b>Operating income</b>	\$553	\$628	14%
\$180	\$202	12%	<b>Net income</b>	\$366	\$441	20%
\$1,01	\$1,17	16%	EPS	\$2,04	\$2,56	25%
19,0%	19,9%		ROE	19,0%	21,8%	
9,6%	9,5%		Tier 1 ratio	9,6%	9,5%	
65,8%	66,5%		Efficiency ratio	64,2%	63,8%	

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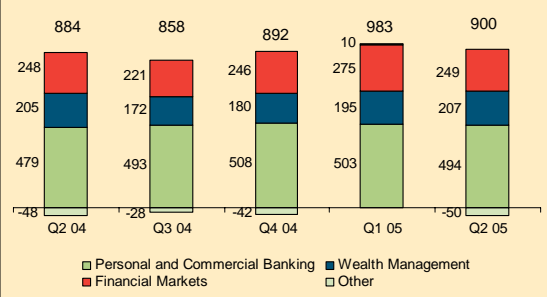
## Dividend per Share



- Highlights:**
- Increase in quarterly dividend of 5%, now at \$0.44 per share
  - 2.8 M shares repurchased in Q2 05, totalling an amount of \$149M

## Revenues – Business Line Mix

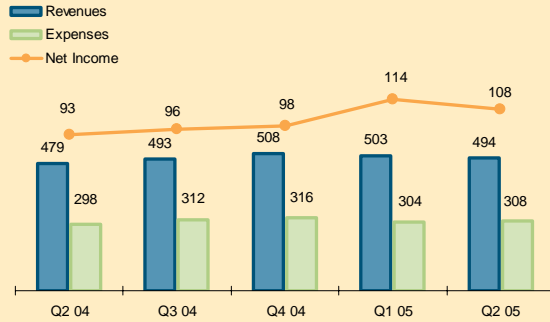
In millions of dollars



- Highlights:**
- Y/Y revenue increase:
- P&C: 3%
  - Wealth Management: 1%
  - Financial Markets: stable
- Revenue Diversification**
-

## Personal and Commercial Banking – Quarterly

In millions of dollars



### Highlights:

Y/Y increase:  
Revenues: 3%  
Net income: 16%

The 3% top line growth is driven from Net Interest Income and Other revenues

Expense ratio stands at 62.3%, more reflective level than very low Q1 05 ratio

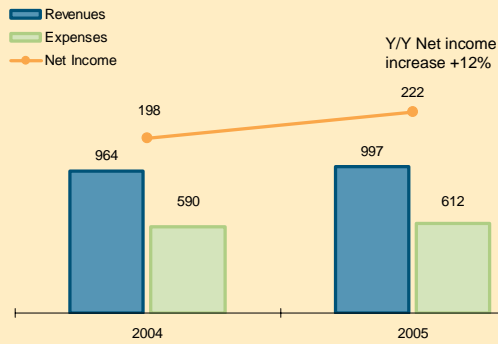
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## Personal and Commercial Banking – YTD

In millions of dollars



### Highlights:

- Revenues +3%:
  - NII +3%
  - Other income: +4%

- Expense ratio stable, same level as in 2004 at 61.4%

- Net income growth 12%

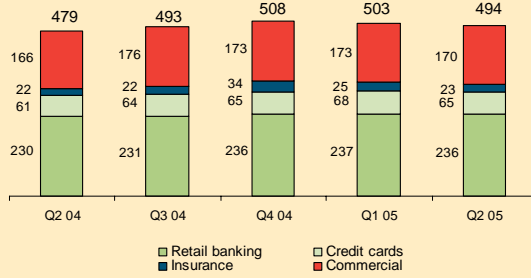
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## P&C Revenue Composition

In millions of dollars



### Highlights:

Contributor increases y/y:

Majority of sectors contributing to the growth, split 2/3 Net Interest Income and 1/3 Other revenues

Retail banking 3%  
Credit cards 7%  
Insurance 5%  
Commercial 3%

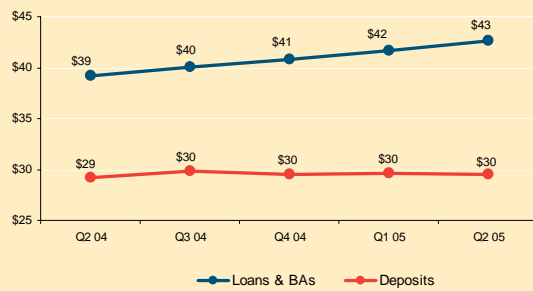
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## P&C Volume Evolution

In billions of dollars  
Quarterly average volumes



### Growth :

10% in Loans & BAs

Seeing steady pace of \$1B in new loans per quarter

Commercial loans increasing 3% between Q4 04 and Q2 05

2% in Deposits

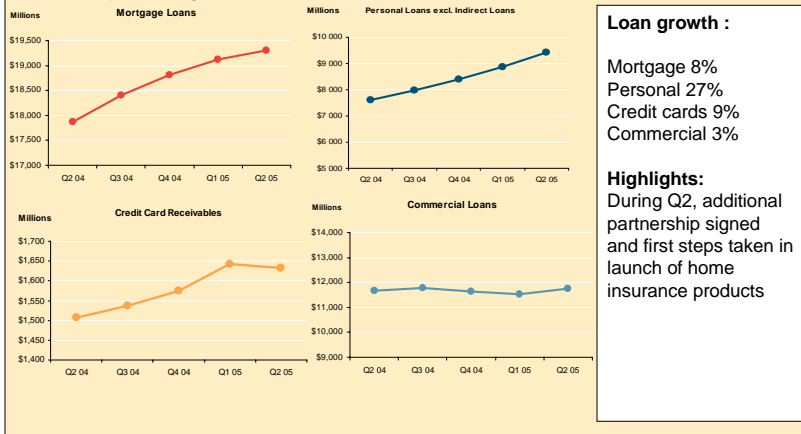
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## P&C Loan Evolution

Quarterly average volumes



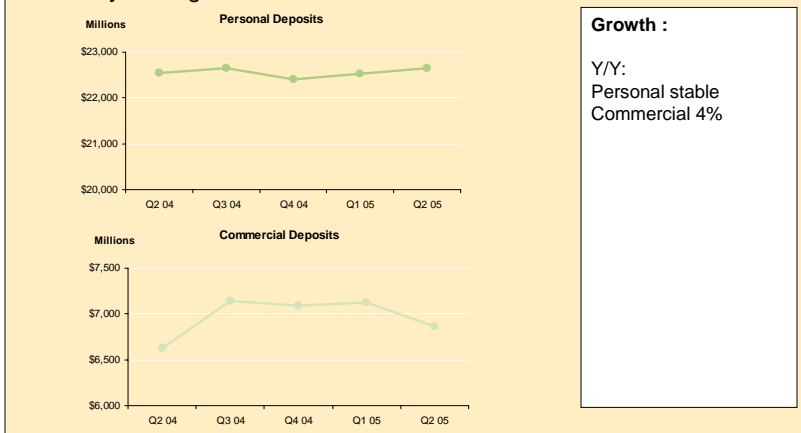
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## P&C Deposit Volume Evolution

Quarterly average volumes

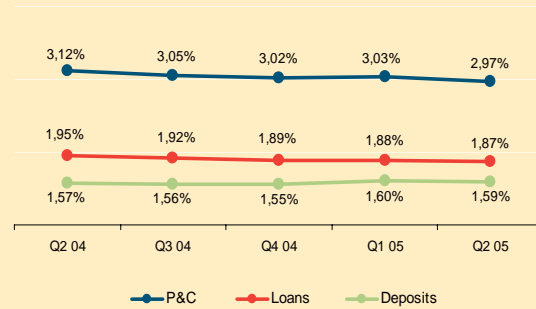


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## P&C Margin Evolution



### Evolution :

Important volume increase Q/Q supported by:

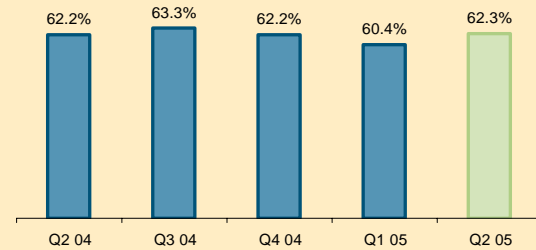
- Product mix due to solid growth in volume with lower margin
- Combined with a slight decrease in the prime/BAs in the Commercial sector

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## P&C Expense Ratio



### Highlights :

Expense ratio steady since Q2 04 and similar to the 2004 full year (Q1 05 level not representative)

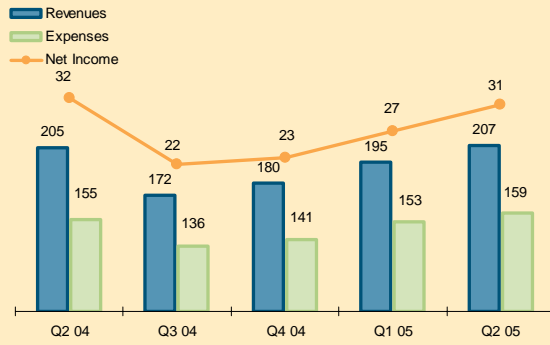
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## Wealth Management – Quarterly

In millions of dollars



### Highlights:

Revenue increase driven by Retail brokerage and Segregated fund activity.

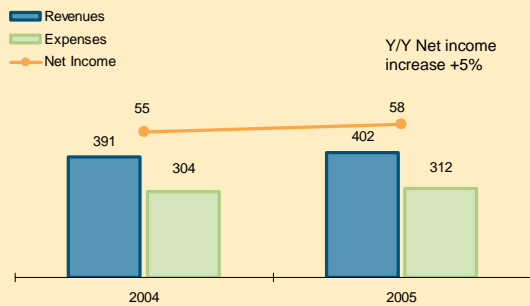
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## Wealth Management – YTD

In millions of dollars



### Highlights:

Revenue increase of 3%

Expense growth in line with revenue growth

Expense ratio at 77.6%, same level as in 2004

Net income increase of 5%

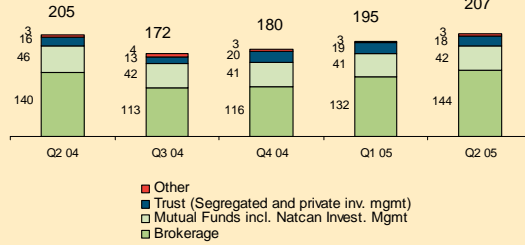
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## Wealth Management Revenue Composition

In millions of dollars



### Revenue growth:

Driven mainly by the brokerage and segregated and private investment management activities.

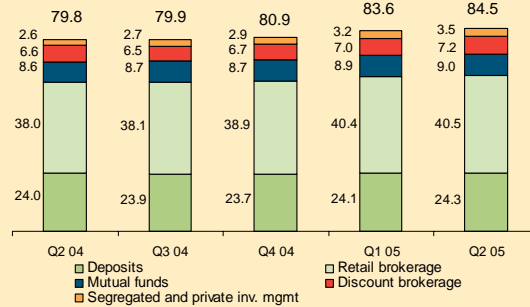
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## Retail Assets Under Management Composition

In billions of dollars



### Highlights:

Contributor increases  
Q2 05 vs Q2 04:

Deposits 1%  
Retail brokerage 7%  
Mutual funds 5%  
Discount brokerage 8%  
Segregated and private invest. mgmt 38%

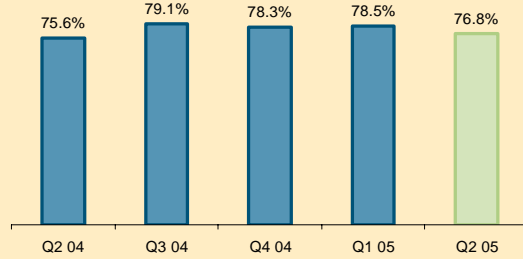
Result of refining product offering to high net worth clientele, more proactive management

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## Wealth Management Expense Ratio



### Highlights :

Stable level maintained, unusually low Q2 04

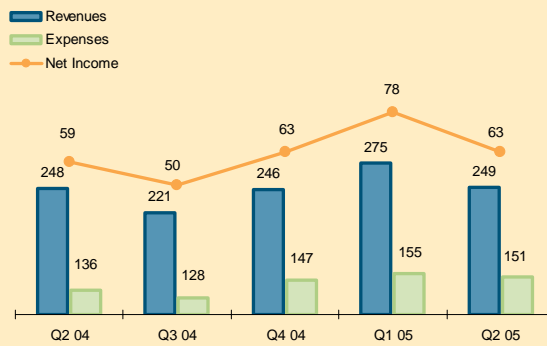
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## Financial Markets – Quarterly

In millions of dollars



### Highlights:

Y/Y Net income growth of 7%; also aided by significant loan loss reduction

Expense level impacted by business mix; catch up in IT expenditures

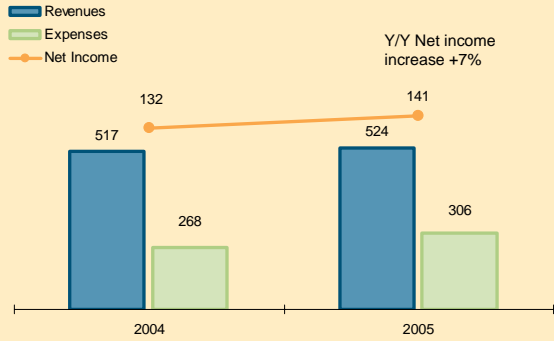
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## Financial Markets – YTD

In millions of dollars



### Highlights:

Revenue growth of 2%

Net income increase of 7% lead by decrease in loan losses

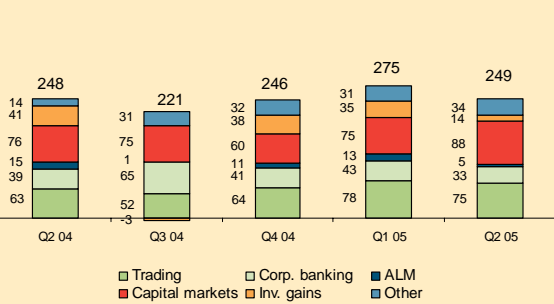
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## Financial Markets Revenue Composition

In millions of dollars



### Highlights:

Excess of market value over book of \$57M

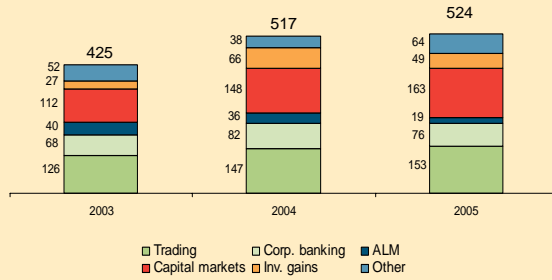
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## Financial Markets Revenue Composition – YTD

In millions of dollars



### Highlights:

Revenue driven by wide scope of activities

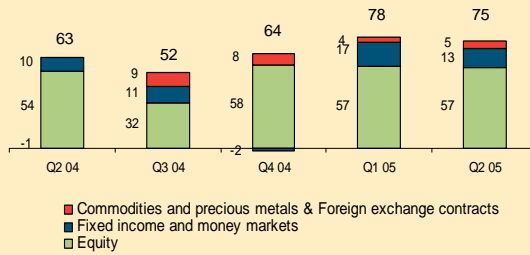
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## Trading Revenue Breakdown

In millions of dollars

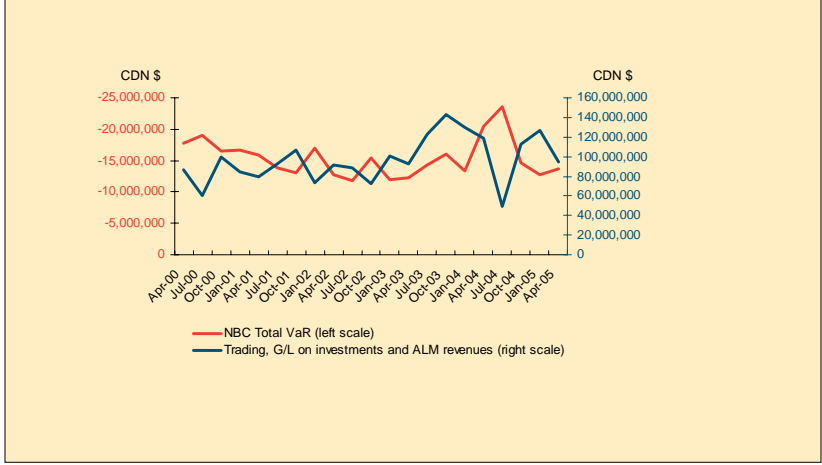


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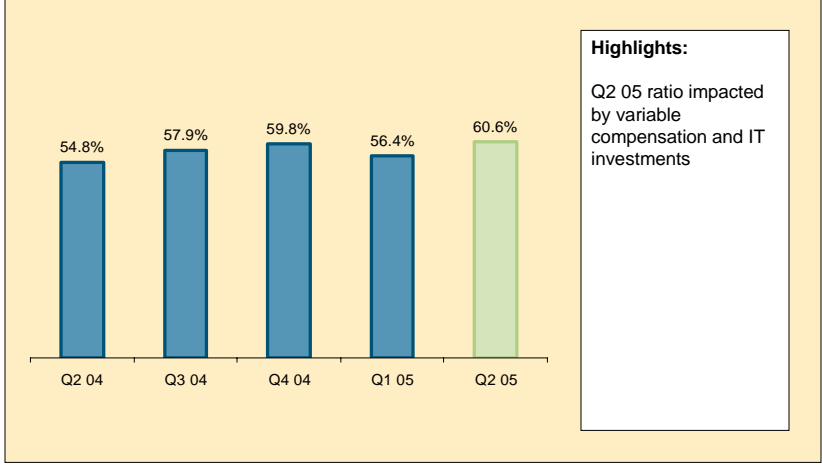
## Trading/Securities Gains/ALM Revenues



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## Financial Markets Expense Ratio

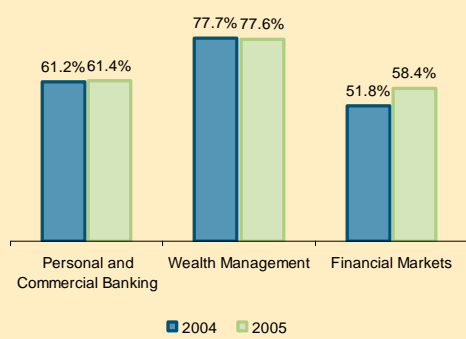


**Highlights:**  
Q2 05 ratio impacted by variable compensation and IT investments

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## Business Line Expense Ratio – YTD



**Highlights:**  
 P&C Banking and Wealth Management stand steady while Financial Markets reflect a mix of business impact and some discretionary expenses in Q1 05



## Risk Management

# Quarterly highlights

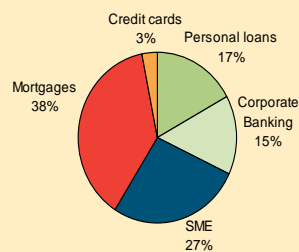
## Another low provisioning quarter



- Provisioning environment continues to be excellent:
  - Credit indicators mirror economic data
  - Quebec Personal and Commercial bankruptcy rates remain stable
  - Continued proactive surveillance of specific industries
- At quarter end, the level of credit protection bought was US\$200M; sold US\$25M
- Dominion Bond Rating Services (DBRS) upgraded all credit ratings of National Bank (March)

## Global Portfolio Composition

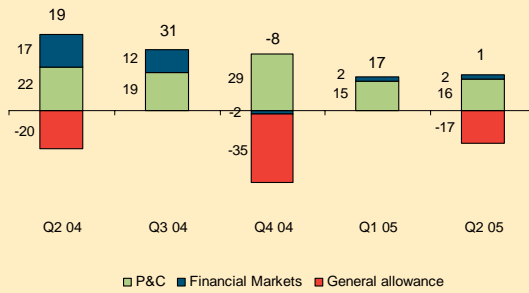
As at March 31, 2005  
Outstanding



Adjusted for securitization

## Risk Provisioning

In millions of dollars



### Highlights :

Release of general allowance driven by decrease in corporate volume

Guidance for year-end 2005: 19 to 23 bps of total loans and BAs

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## Allowance for Credit Losses



In millions of dollars	Specific allowances	Allocated general allowances	Unallocated general allowances	6M 05
Allowances at beginning	228	272	78	578
Provision for credit losses	35	-	(17)	18
Write-offs	(134)	-	-	(134)
Recoveries	23	-	-	23
<b>Allowances at end</b>	<b>152</b>	<b>272</b>	<b>61</b>	<b>485</b>

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# Impaired Loan Formation



In millions of dollars	Q2 04	Q3 04	Q4 04	Q1 05	Q2 05	6M 05
Personal & Commercial *	25	20	7	2	5	7
Corporate	3	(6)	(20)	(14)	(3)	(17)
Treasury	0	0	0	0	0	0
Other	1	(2)	0	0	0	0
<b>Total</b>	<b>29</b>	<b>12</b>	<b>(13)</b>	<b>(12)</b>	<b>2</b>	<b>(10)</b>

Formations include new accounts, disbursements, principal repayments and exchange rate fluctuation

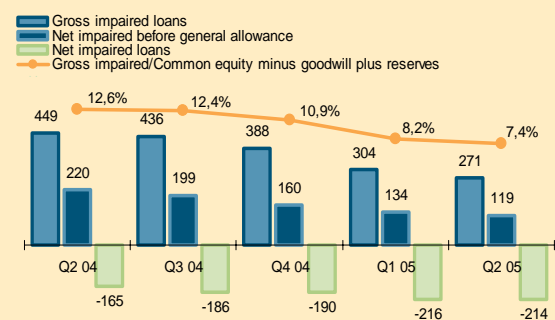
\* Includes Real Estate

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## Impaired Loans

In millions of dollars



**Continued strong asset quality**

11% decrease in gross impaired loans

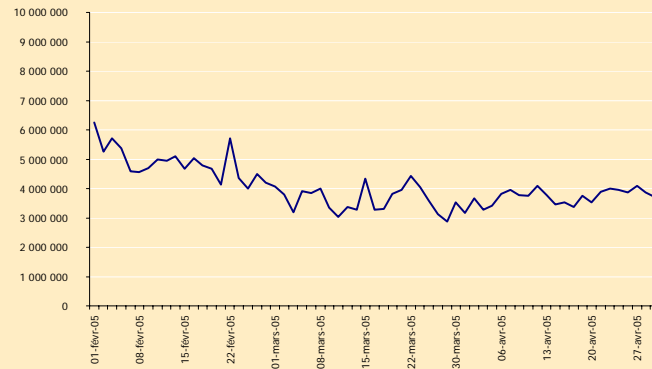
7.4% best historical ratio

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## VaR – Global Trading

In CDN dollars



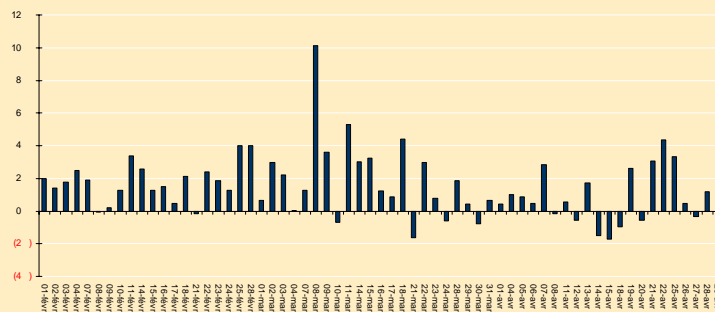
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## Daily Trading P/L – Q2 05

In millions of Cdn dollars  
(Excludes underwriting)



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## Building for the future



- Satisfying Q2 results, important volume and asset growth; diversified financial market activities are solid bases to build on
- Continued investments in our technological infrastructure, key to our future performance
- On track to attain 2005 objectives

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By their very nature, such forward-looking statements require us to make assumptions and involve inherent risks and uncertainties, both general and specific. There is significant risk that express or implied projections contained in such statements will not materialize or will not be accurate. A number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking statements. Such differences may be caused by factors, many of which are beyond the Bank's control, which include, but are not limited to, changes in Canadian and/or global economic and financial conditions (particularly fluctuations in interest rates, currencies and other financial instruments), liquidity, market trends, regulatory developments and competition in geographic areas where the Bank operates, technological changes, consolidation in the Canadian financial services sector, the possible impact on our businesses of international conflicts and other developments including those relating to the war on terrorism and the Bank's anticipation of and success in managing the risks implied by the foregoing. The Bank cautions that the foregoing list of important factors is not exhaustive. Investors and others who base themselves on the Bank's forward-looking statements should carefully consider the above factors as well as the uncertainties they represent and the risk they entail. The Bank therefore cautions readers not to place undue reliance on these forward-looking statements. The Bank does not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time by or on behalf of the Bank.