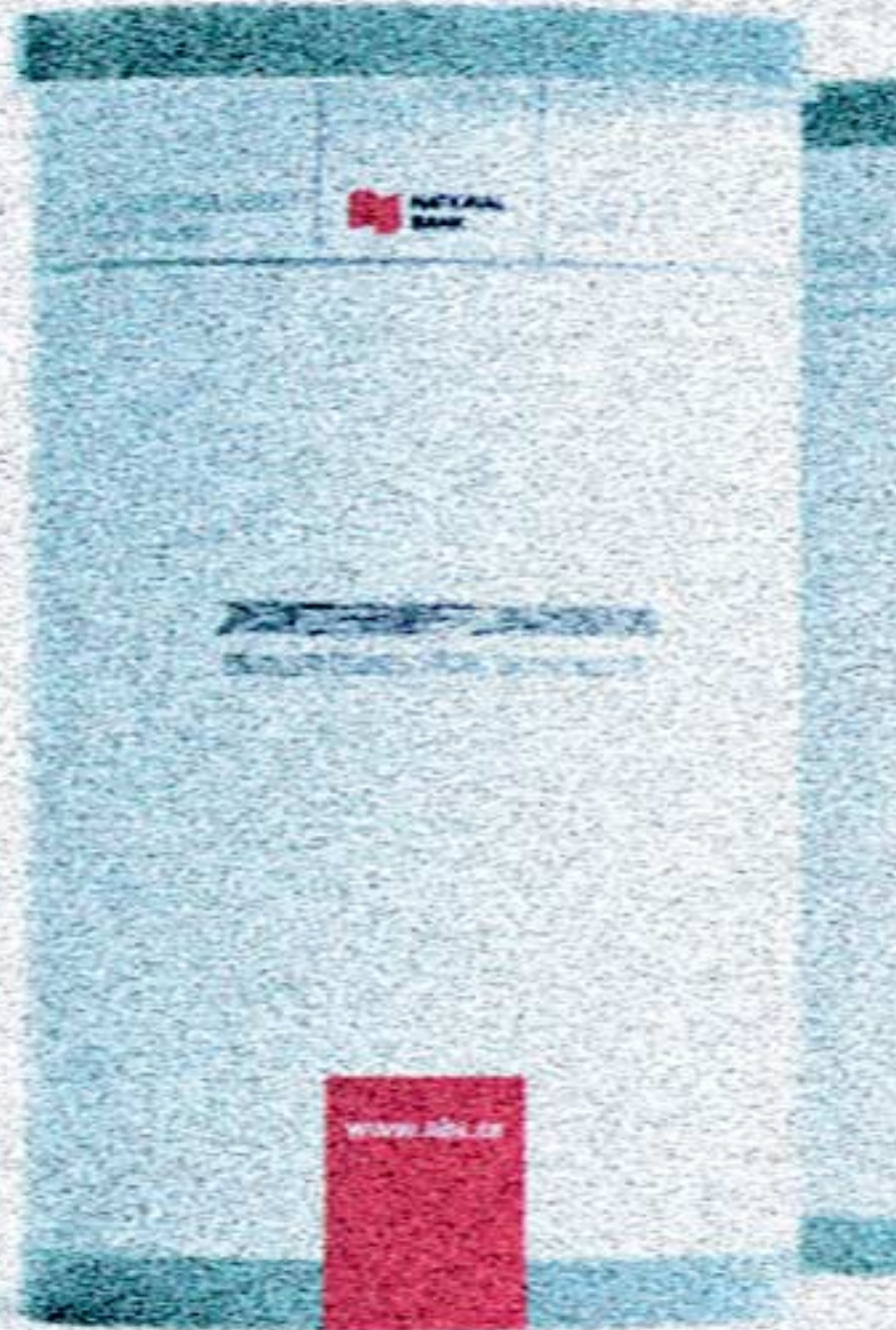




Merrill Lynch  
Canadian Banks' CEO  
Conference 2003  
January 22, 2003

Réal Raymond  
President and CEO



How well did National Bank  
really do in 2002

Why we did well

Why we plan to do well in 2003



How well did National Bank  
really do in 2002

Why we did well

Why we plan to do well in 2003



Strategy was sharp, clear and unchanged

- **To be a Quebec-based super regional Bank**

---

- **Use our strong capital position to dominate Quebec market**

---

- **Invest selectively in wealth management and capital markets**

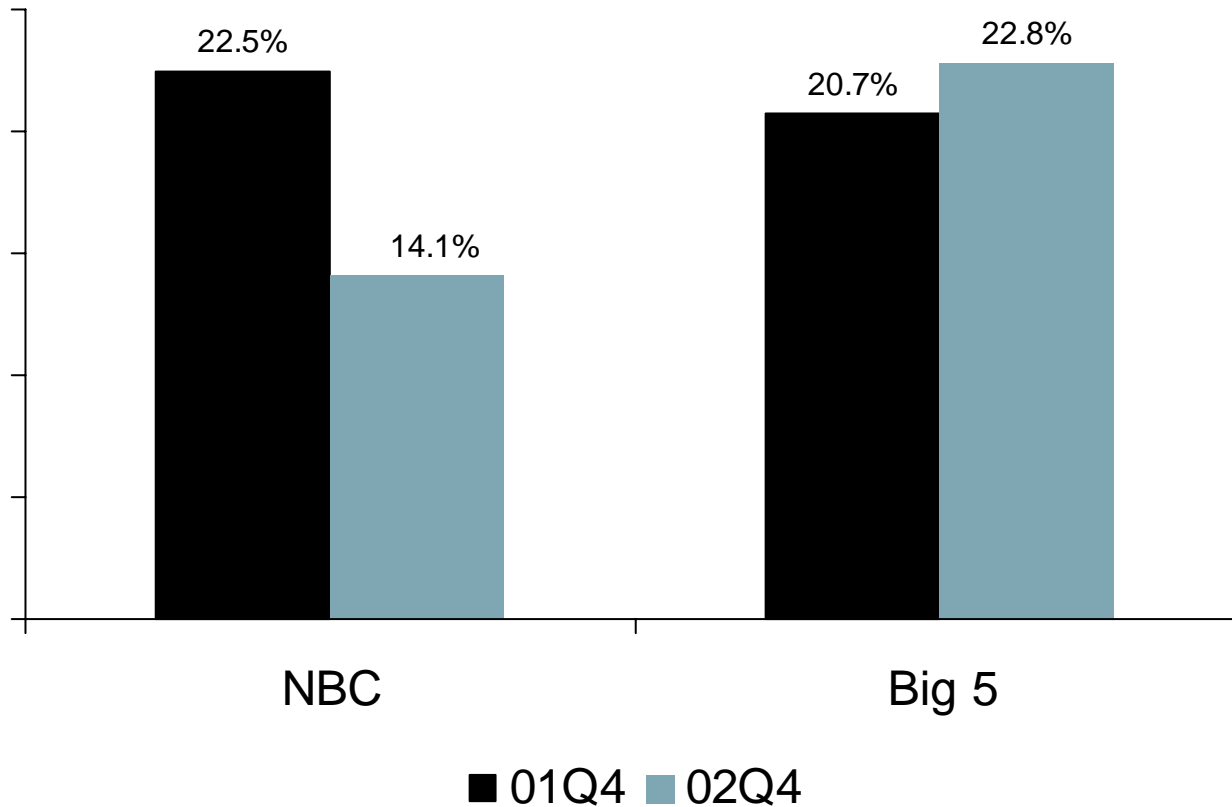
---

- **Set up partnerships as distribution channels for retail products outside Quebec**

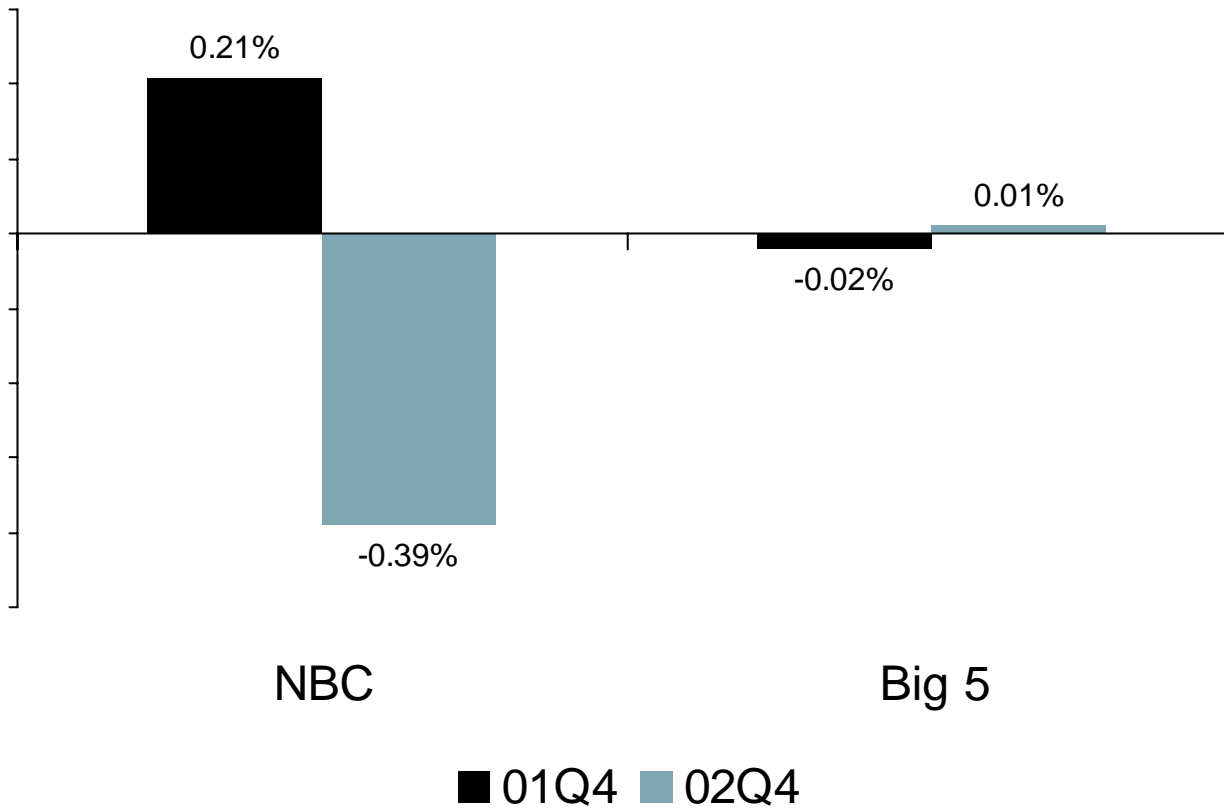
---




Gross impaired loans as % of tangible equity  
(Tangible equity: common equity + reserves - goodwill)



# Net impaired loans as % of loans & BAs



## Focused business development

- **Withdrew from US Asset-based lending market**

---

- **Acquisition of Altamira**

---

- **Acquisition of Putnam Lovell**



## Partnerships

- **Edward Jones**

- 
- **Investors Group/London Life/GreatWest Life**
- 



## NBF Successes in 2002

### **Franco-Nevada**

- Exclusive Advisors to Franco-Nevada in a \$14 billion M&A transaction value
- First global 3-way merger of public companies

### **Algonquin Power**

- Co-Lead on \$100 million equity financing
- Maintaining our bank finance Lead

### **Menu Foods**

- First Sole Lead mandate for \$129 million Income Trust IPO
- Introduction of an innovative subordination feature that became widely accepted



## NBF Successes in 2002 (Continued)

### **United Grain Growers**

- \$1.2 billion gross M&A transaction value
- Exclusive Financial Advisor and Co-Lead underwriter for equity financing

### **Domtar**

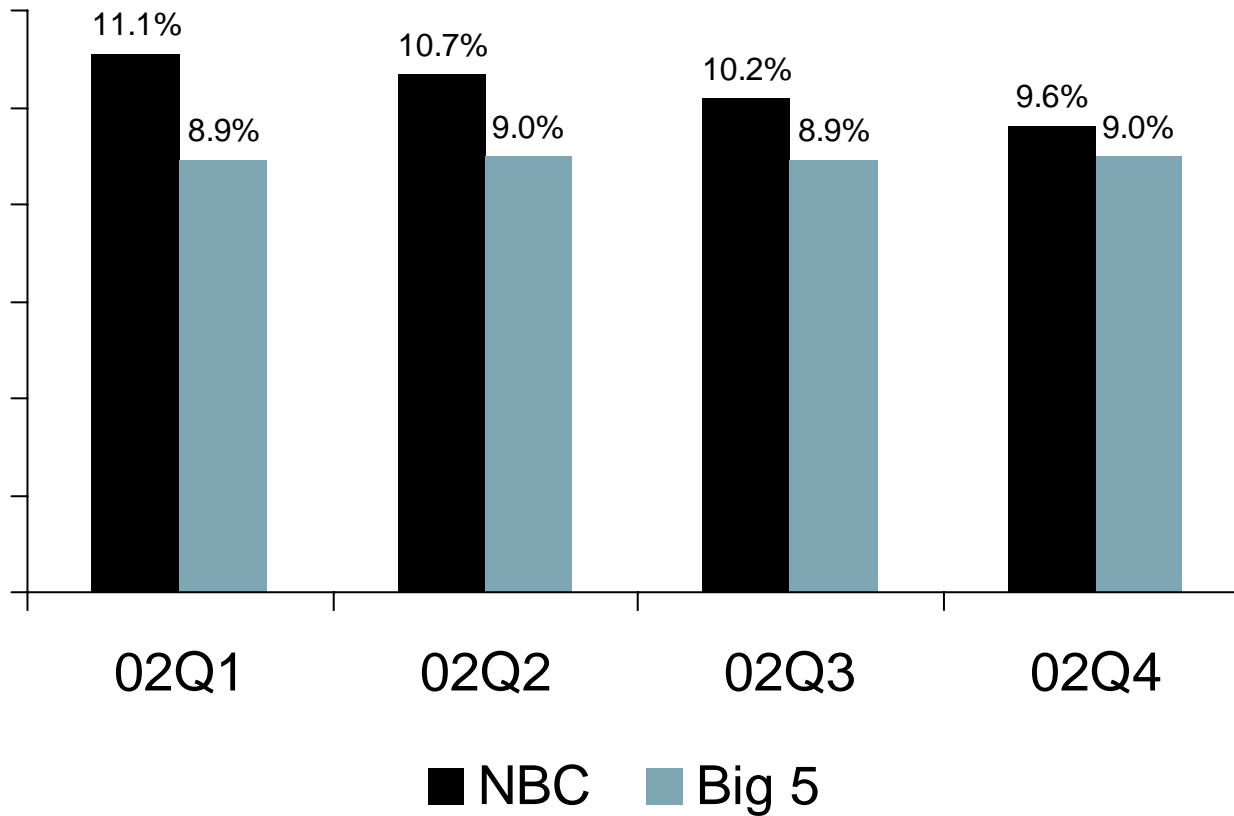
- Sole Lead of a \$300 million secondary issue of Domtar

### **Hydro One**

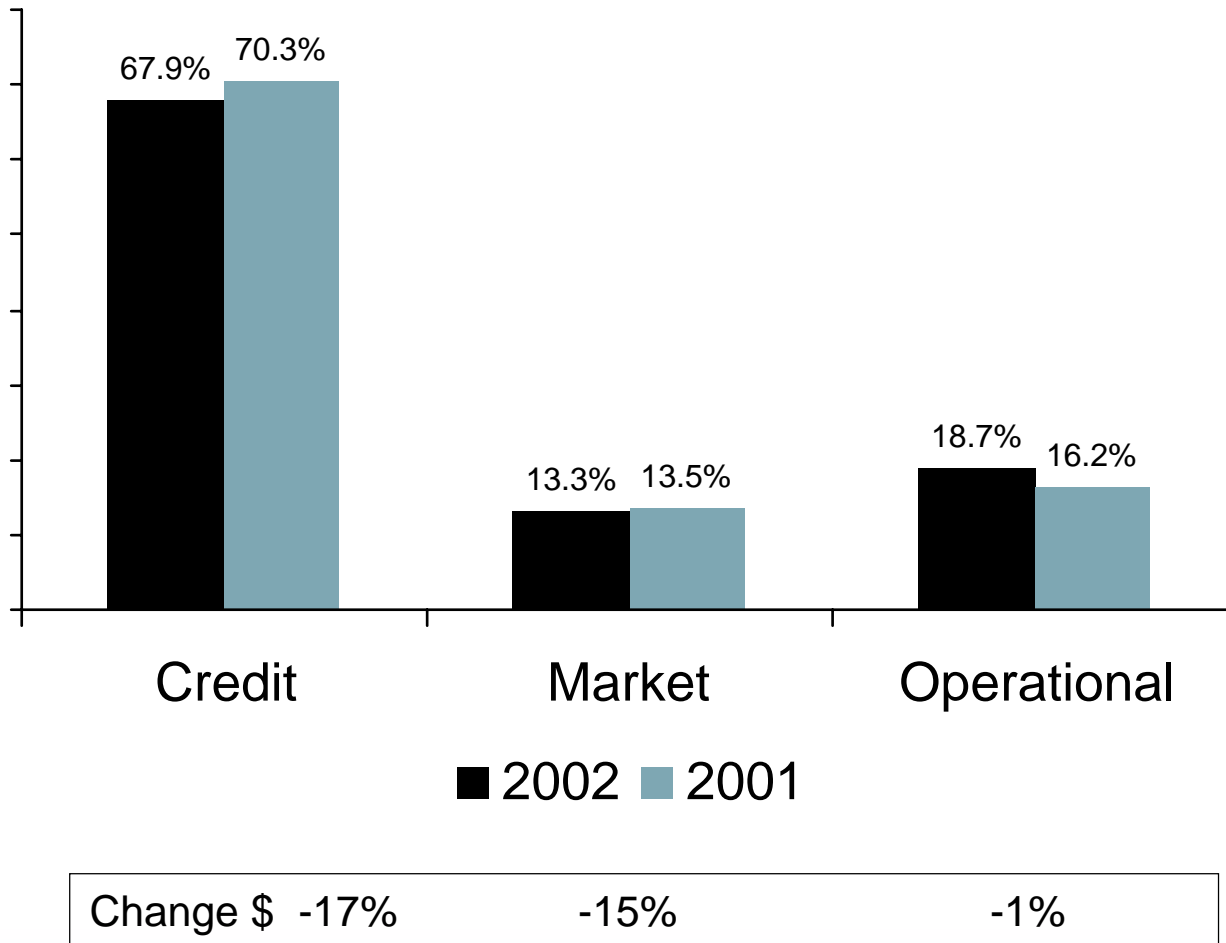
- Advisor to the Board of Directors in the proposed Sale of Hydro One



## Tier 1 Capital ratio



# Capital yearend, as a % of total



How well did National Bank  
really do in 2002

Why we did well

Why we plan to do well in 2003



## Three reasons

- **Strength of Quebec economy**

---

- **Focus and base growth on super regional model**

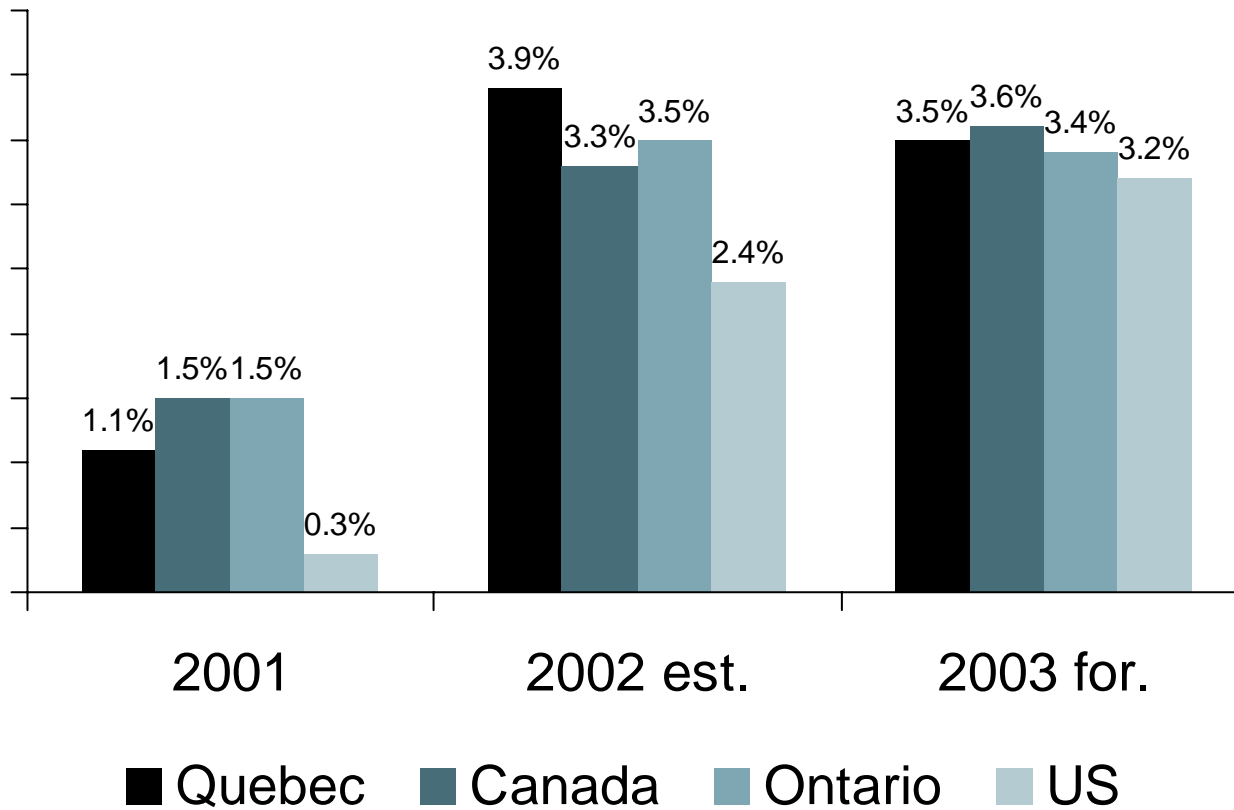
---

- **Delivered on customer service**

---



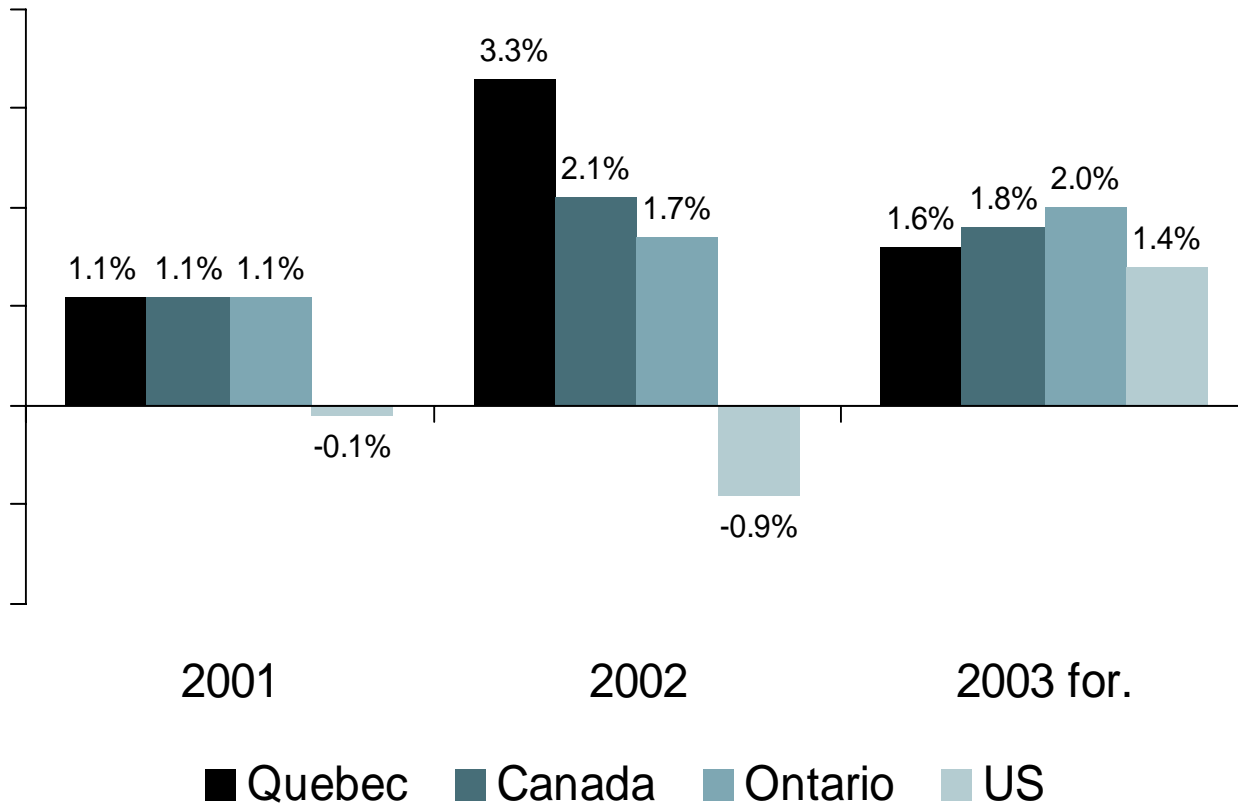

# GDP Growth



Source: National Bank Financial



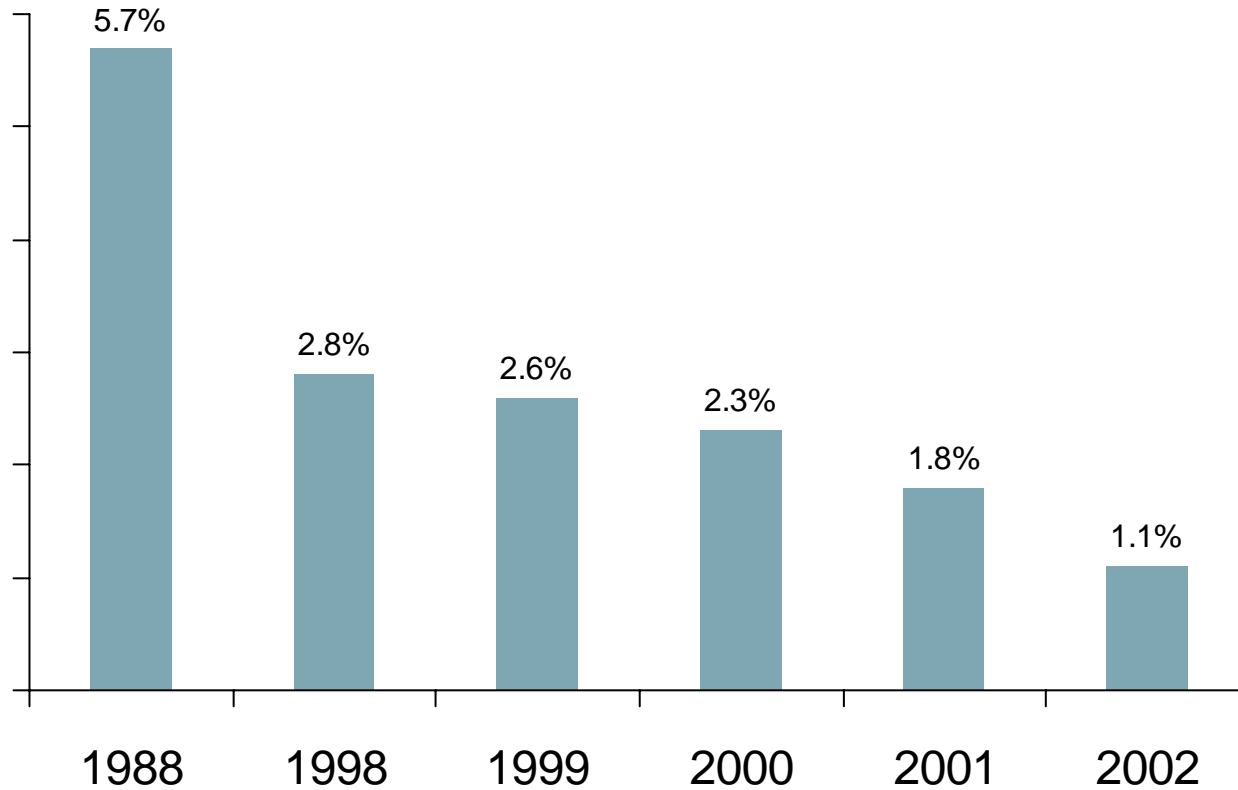
# Employment Growth



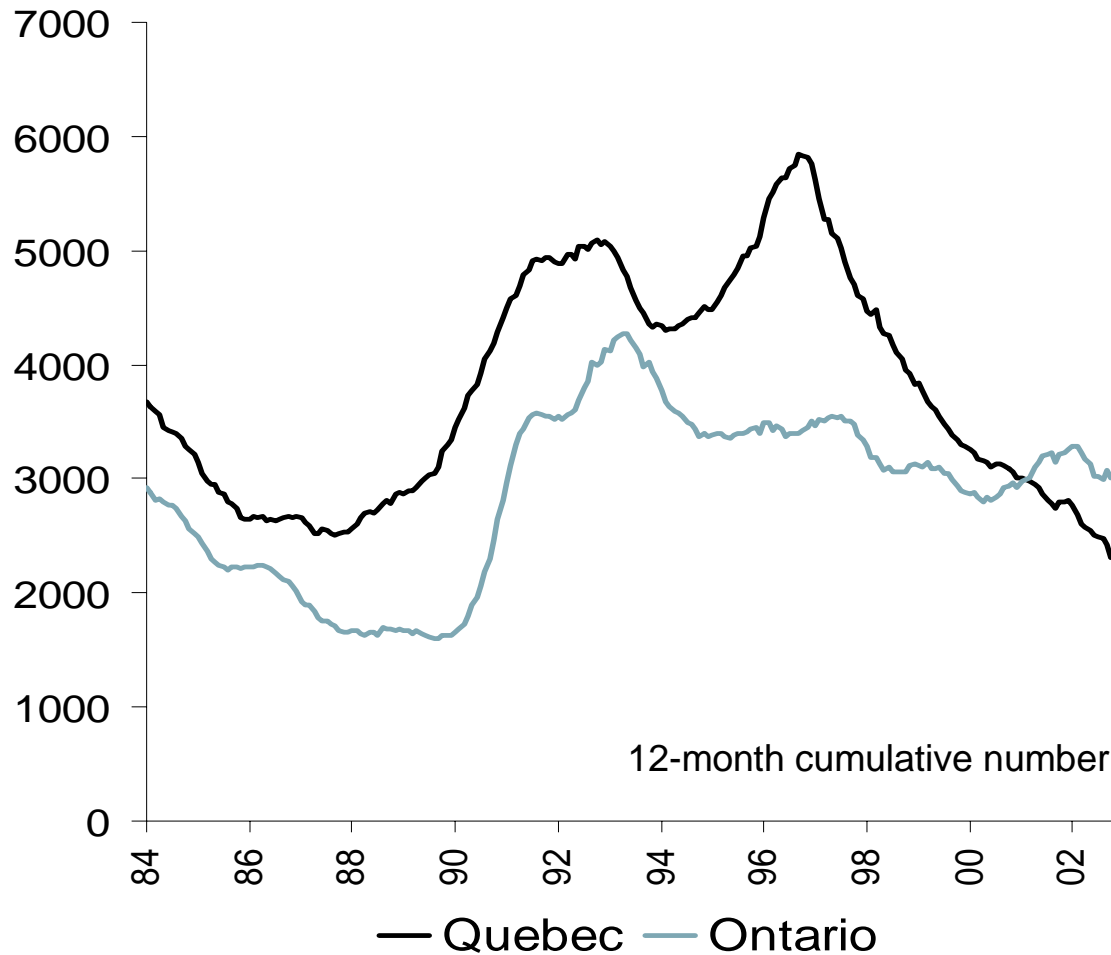
Source: National Bank Financial



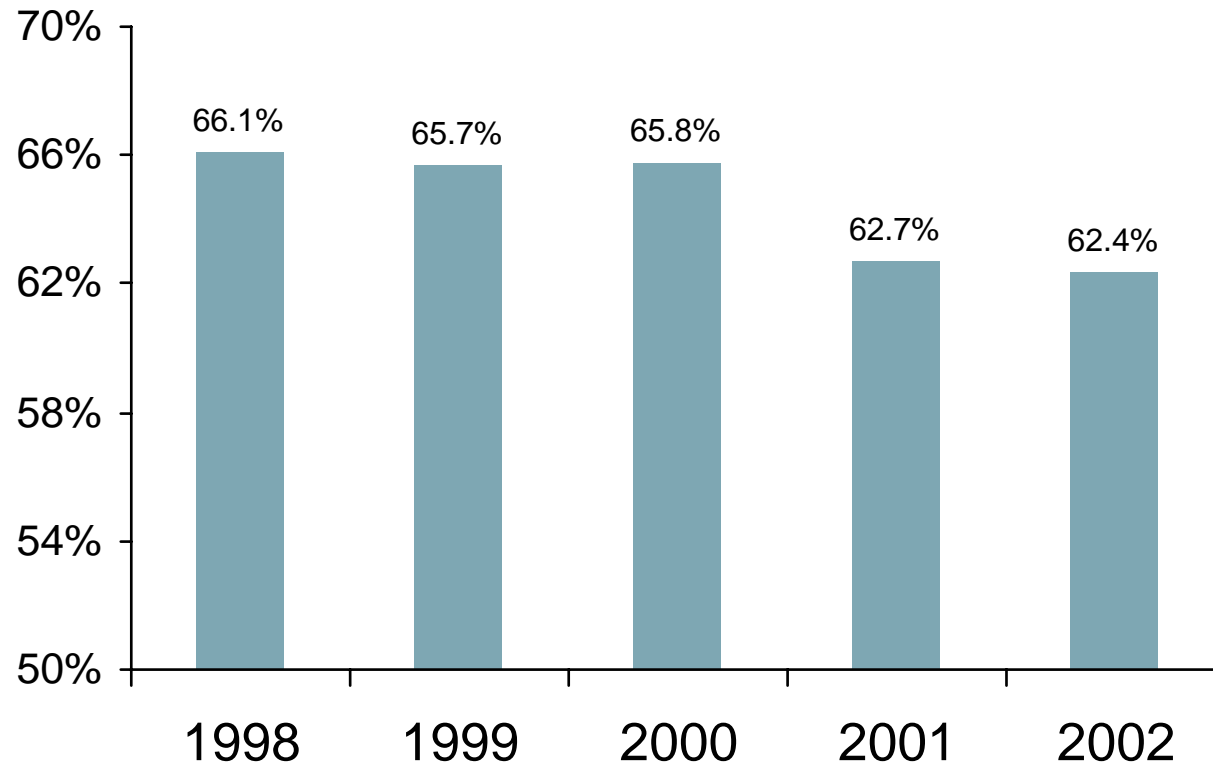
## Gap in Unemployment Rate Quebec vs Ontario



# Commercial Bankruptcies



## Expense Ratio



How well did National Bank  
really do in 2002

Why we did well

Why we plan to do well in 2003

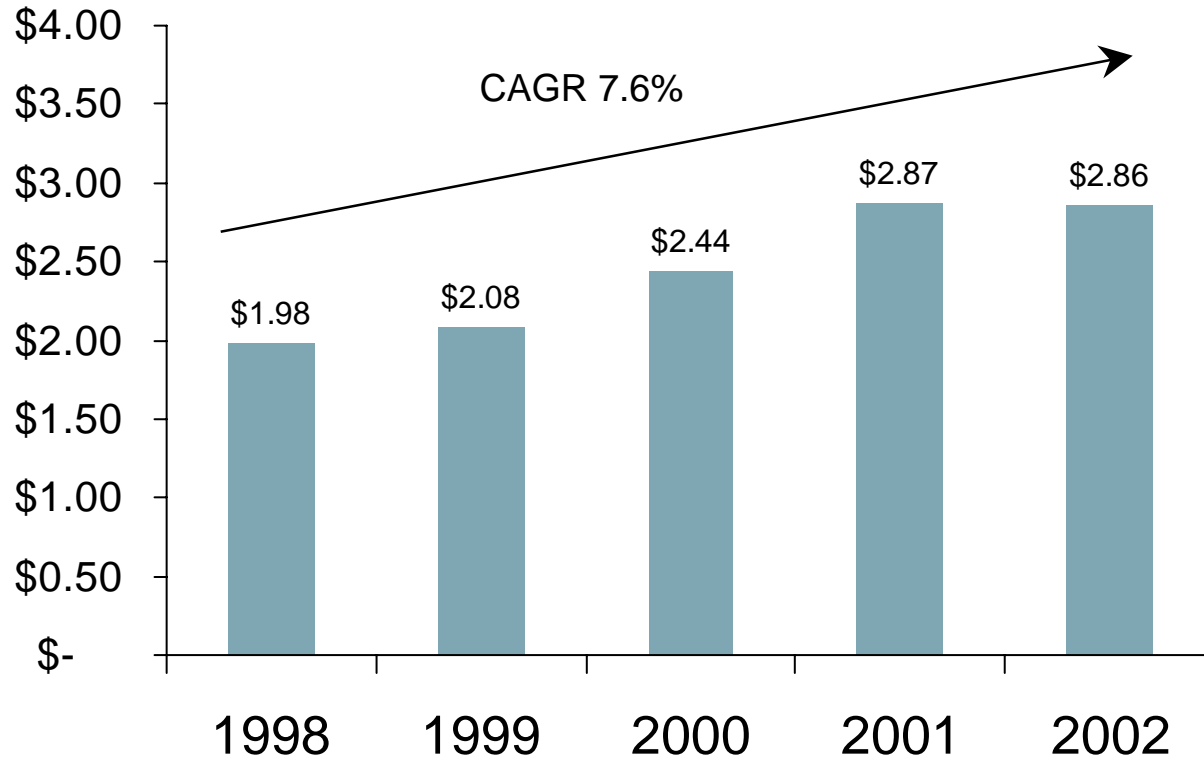


Two reasons

- **Quebec's growth expected to remain strong in 2003**
- 
- **Key sectors of our business expected to perform well and even better than in 2002**
- 



# Earnings per Share



Looking ahead to 2003 and beyond

	<b>2003</b>	<b>Medium term objectives</b>
<b>Growth in earnings per share</b>	5% to 10%	>8%
<b>Return on common shareholders' equity</b>	14% to 16%	15% to 17%
<b>Tier 1 capital ratio</b>	8.75% to 9.50%	8.25% to 9.00%
<b>Dividend payout ratio</b>	30% to 40%	



6 areas of focus

- **Retail banking**

---

- **Wealth management**

---

- **SME Market**

---

- **Treasury and Financial Markets**

---

- **Share buy-backs and dividends**

---

- **Merger policy**



## Retail Banking

---

Revenues 02	Contribution 02	Outlook 03	Beyond 03
+2%	+10%	Average growth	Average growth

---

- **Market growing with nominal GDP 5-7%**
- **Marginally higher margin on transaction accounts with rising interest rate**
- **Growth market**
  - Revolving credit (credit cards & personal lines of credit)
  - Mortgage loans
  - Partnership (accelerating in 2004 and beyond)
  - Insurance: direct P&C insurance progressing according to plan



## Retail Banking

- **Slower market**
  - Deposits: liquidity transferred to managed products (brokers and mutual funds as markets recover)
  - Budget loans: exit from the indirect loan & migration to revolving credit

---

**Cruising speed 6-8% growth**



## Wealth Management

---

<b>Revenues 02</b>	<b>Contribution 02</b>	<b>Outlook 03</b>	<b>Beyond 03</b>
Stable	-17%	Average growth	Strong growth

---

- **Retail and discount brokerage**

- Low growth in transaction in 03: investors hanging to their portfolio
- Moderate rebound afterwards



## Wealth Management

- **Mutual funds**

- **Consolidation in 03**

- Small net new sales but market appreciation
    - Annualization of the impact of Altamira

- **Strong rebound in 04**

- Net sale on the rise
    - Acceleration of transfer from money market and income funds to equity funds → increase in average management fee
    - Market appreciation

---

**Consolidation in 03, accelerating afterwards**



## Commercial

---

<b>Revenues 02</b>	<b>Contribution 02</b>	<b>Outlook 03</b>	<b>Beyond 03</b>
-2%	Stable	Slow growth	Average growth

---

- **Loan demand should improve in 03**
  - Consumer not investment led economy
  - Continue slowdown in important Quebec sector: telecommunications, forestry and aerospace
  - Demand to peak up by year end 03



## Commercial

- **Credit will remain strong**
  - A very modest negative migration so far
  - The cumulative impact of initiatives taken in the past 5+ years
- **Improve pricing**
  - Use of NBC dominant position
  - Risk-based pricing

---

**Will continue to be a solid contributor to the bottom line**



## Treasury and Financial Markets

---

<b>Revenues 02</b>	<b>Contribution 02</b>	<b>Outlook 03 Treasury</b>	<b>Beyond 03 Treasury</b>
+17%	+23%	Decline	“ ? ”

---

- **Treasury operations:**
- **Unlikely to repeat 2002 stellar performance**
  - Declining interest rates have created a favorable context for treasury operations
  - Markets will be more difficult to call: direction uncertain
  - ALM strong showing in 02 (income of \$111MM; up 93%) unlikely to be repeated
  - Acquisitions will be examined to deepen products lines and expertise



## Treasury and Financial Markets (Continued)

<b>Revenues 02</b>	<b>Contribution 02</b>	<b>Outlook 03 CIB</b>	<b>Beyond 03 CIB</b>
+17%	+23%	Strong growth	Average growth

### **Corporate Investment Banking (CIB) has posted a strong performance in 02**

- 41% increase in capital market fees to \$271.5MM
- Putman Lovell has contributed to revenues growth but was neutral to net income
- Gain in market share in past two years
- Double-digit growth expected in 03
  - Higher level of new issues
  - Full impact of Putnam Lovell

**Wholesale brokerage should outperform the Bank as a whole as capital markets fully recover in 03 and 04**



## Share Buybacks and Dividends

- **5% buyback of common shares in 2002**

---

- **Additional 5% buyback commencing in 2003**

---

- **Fixed dividend payout ratio to 30%- 40%**

---

- **In December 02, increased dividend of 8% rather than waiting to next March 03, our traditional practice**

---




## Canada's merger policy

- **Opportunities for National Bank**

---

- **Disinvestments by merged banks be used as strategic tool to stimulate effective new competition and maintain existing networks**

---

- **Private gains in increased efficiency at no cost to public interest in either decreased competition or stability**

---




Positioned to perform well in 2003

- **Quebec economy strong**

---
- **Super regional bank positioning**

---
- **Low loan losses and strong capital base**

---
- **No nonsense strategy outside Quebec**

---
- **In a world of greater competition, stand ready to grow profitably in and outside Quebec**

---

