

June 1, 2005

**NA (TSX) \$52.83**  
**TARGET PRICE: n/a**  
**POTENTIAL RETURN: n/a**

52-week range	\$42.31 – \$55.69
Shares Outstanding (mln)	166
Free Float	100%
Market Capitalization (\$ mln)	\$8,756

Fiscal Year End: Oct. 31

	2004	2005e	2006e
Sales (mln)	\$3,656	\$3,862	\$4,005
EBITDA	n/a	n/a	n/a
EPS (FD)	\$3.35	\$4.52	\$4.75
EV/EBITDA	n/a	n/a	n/a
P/E	15.8x	11.7x	11.1x

As at April 30, 2005 (Priced on May 31, 2005)

Tier 1 Capital Ratio	9.5%
Tangible Common Equity / Risk-Weighted Assets	7.5%
Excess Capital per share	\$2.60
BVPS	\$24.19
Price-to-Book	2.2x
Dividend per share	\$1.76
Dividend Yield	3.3%



Robert Wessel CA, CFA  
 416.869.8046  
 robert.wessel@nbfinancial.com

Associates:

Robert Sedran CFA  
 416.869.6425  
 robert.sedran@nbfinancial.com

Jennifer Feetham, ASA  
 416.869.8033  
 jennifer.feetham@nbfinancial.com

**Stock Rating: Not Rated**  
**Risk Rating: Low**

Industry Weighting (Banks): Underweight  
 (NBF Economics & Strategy Group)

## National Bank

### BANK PROFILE (all \$ terms are Cdn)

National Bank is the sixth largest Canadian bank in terms of assets and market capitalization.

The bank operates its business along three lines. Personal and Commercial comprises the banking services offered to individuals and commercial entities. Wealth Management includes the bank's full-service and discount brokerage operations in addition to its trust and asset management services. Financial Markets, Treasury and Investment Banking provides financing services through the Bank and National Bank Financial to corporate and institutional clients, in addition to managing the bank's assets and liabilities.

### INVESTMENT HIGHLIGHTS

Although it is our view that the Canadian banks are in an acquisition cycle, we believe NA is unlikely to pursue foreign expansion as a method to deploy its excess common equity. It is more likely to use a combination of dividend increases and share repurchases to manage its capital. In addition, NA should have more opportunities for profitable deployment domestically than its peers, since it is underrepresented in retail banking in many parts of Canada, given its Quebec focus.

### RISK FACTORS

By virtue of its dominant market share in Quebec, NA's earnings are more heavily concentrated in one region than those of any of its peers. Therefore, NA is particularly exposed to changes in Quebec's economy.

### VALUATION

It remains our view that NA warrants, and will achieve, a price-to-earnings multiple equal to the average of the Big-6 banks over time, to recognize what are very significant operating improvements, a reduction in the bank's absolute and relative credit risk profile, and below average reinvestment risk.

Given our affiliation with the bank, we do not provide a rating or a target.

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**Sector Perform** – The stock is projected to perform in line with the sector over the next 12 months; **Underperform** – The stock is expected to underperform the sector over the next 12 months.

**SECONDARY STOCK RATING: Under Review** – Our analyst has withdrawn the rating because of insufficient information and is awaiting more information and/or clarification; **Tender** – Our analyst is recommending that investors tender to a specific offering for the company's stock;

**Restricted** – Because of ongoing investment banking transactions or because of other circumstances, NBF policy and/or laws or regulations preclude our analyst from rating a company's stock.

**INDUSTRY RATING:** NBF has an Industry Weighting system that reflects the view of our Economics & Strategy Group, using its sector rotation strategy. The three tiered system rates industries as **Overweight**, **Market Weight** and **Underweight**, depending on the sector's projected performance against broader market averages over the next 12 months.

**RISK RATING:** NBF utilizes a four-tiered risk rating system, **Low**, **Average**, **Above Average** and **Speculative**. The system attempts to evaluate risk against the overall market. In addition to sector-specific criteria, analysts also utilize quantitative and qualitative criteria in choosing a rating. The criteria include predictability of financial results, share price volatility, credit ratings, share liquidity and balance sheet quality.

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