

Report to Shareholders

Fourth Quarter 2003

National Bank achieves or exceeds all its objectives for fiscal 2003

Dividend increased by 18%

National Bank announces its intention to repurchase up to 5% of its outstanding common shares during the next 12-month period.

- Net income up 17% to \$158 million for the fourth quarter of 2003
- Earnings per share up 23% to \$0.87 versus \$0.71 for the fourth quarter of 2002
- Record net income of \$624 million for fiscal 2003 or \$3.37 per share compared to \$429 million or \$2.18 per share in 2002
- Return on common shareholders' equity of 16.5% for fiscal 2003

MONTREAL, December 4, 2003 – National Bank of Canada recorded net income of \$158 million in the fourth quarter of 2003, for a 17% increase, compared to \$135 million in the corresponding quarter of 2002.

Earnings per share amounted to \$0.87 for the fourth quarter versus \$0.71 for the corresponding quarter of 2002. Return on common shareholders' equity was 16.4% for the quarter compared to 14.5% for the fourth quarter of 2002.

Each of the Bank's three business segments posted solid growth in quarterly net income.

Personal and Commercial declared net income of \$79 million for the fourth quarter of 2003 for an increase of \$11 million, or 16%, compared to the same period in 2002. The improvement was attributable to wider spreads and higher other income, particularly for insurance products.

Wealth Management benefitted from the stock market recovery, generating net income of \$24 million in the fourth quarter, a jump of 60% from \$15 million in the fourth quarter of 2002.

Net income for Financial Markets was up 49% to \$73 million in the fourth quarter of 2003 versus \$49 million for the same period a year earlier. Trading activities accounted for most of the net income growth in this segment.

| | For the quarter ended October 31 | | |
|--|-------------------------------------|---------------|------------|
| | 2003 | 2002 | % |
| Net income | | | |
| Personal and Commercial | 79 | 68 | +16 |
| Wealth Management | 24 | 15 | +60 |
| Financial Markets | 73 | 49 | +49 |
| Other | (18) | 3 | |
| Total | 158 | 135 | +17 |
| Earnings per share | \$0.87 | \$0.71 | +23 |
| Return on common shareholders' equity | 16.4% | 14.5% | |

| | For the fiscal year ended October 31 | | |
|--|---|---------------|------------|
| | 2003 | 2002 | % |
| Net income | | | |
| Personal and Commercial | 328 | 283 | +16 |
| Wealth Management | 81 | 66 | +23 |
| Financial Markets | 235 | 241 | -2 |
| Other | (20) | (161) | |
| Total | 624 | 429 | +45 |
| Earnings per share | \$3.37 | \$2.18 | +55 |
| Return on common shareholders' equity | 16.5% | 11.3% | |

Commenting on these results, Réal Raymond, President and Chief Executive Officer of the National Bank, stated that he was very pleased with the strong performance of all business units in the fourth quarter and with the Bank's record net income for 2003. "Our results are proof of the determination, diligence and discipline with which we pursued our strategies. Diversifying our revenue streams has proven beneficial not only for each of our segments, but for each of our markets as well."

At the meeting held on December 4, 2003, the Board of Directors raised the target dividend payout ratio to between 35% and 45% of income available to common shareholders. The Board also approved an 18% increase in the quarterly dividend bringing it to \$0.33 per share.

Moreover, the Bank received approval to repurchase up to 8.7 million common shares under a normal course issuer bid.

For fiscal 2003, the Bank posted record net income of \$624 million, up 45% from \$429 million the previous year. In 2002, the Bank had recorded a \$112 million impairment charge (after taxes) following the revaluation of its investment in a technology firm. Excluding the impact of this impairment charge on results for fiscal 2002, net income for 2003 was up \$83 million or 15%. Earnings per share rose to \$3.37 for the year from \$2.18 for 2002 (\$2.79 if the impairment charge for an investment is excluded). Return on common shareholders' equity was 16.5% in 2003, up from 11.3% a year earlier (14.3% if the impairment charge for an investment is excluded).

Personal and Commercial recorded net income of \$328 million in 2003 for an increase of \$45 million or 16%. Wider spreads, growth of more than 6% in other income, a better efficiency ratio and improved credit quality accounted for this increase.

Net income at Wealth Management totalled \$81 million in 2003 compared to \$66 million in 2002 for an increase of 23%. The improvement was chiefly attributable to the contribution of one full year of income from Altamira and renewed trading by individual investors on capital markets in the second half of fiscal 2003.

Lastly, the Financial Markets segment recorded net income of \$235 million in 2003 versus \$241 million a year earlier. The excellent performance at Treasury, primarily in trading activities, was offset by a decrease in demand for corporate financing and a decline in merger and acquisition activities.

As at October 31, 2003, specific and general allowances for credit risk exceeded gross impaired loans by \$154 million compared to \$159 million as at October 31, 2002. The decrease in net impaired

loans at Personal and Commercial, however, was offset by the increase in net impaired corporate loans.

Tier 1 and total capital ratios were 9.6% and 13.4% respectively as at October 31, 2003 compared to 9.6% and 13.6% as at October 31, 2002.

Business Development

During the fourth quarter, the Bank continued its efforts to improve its offering of financial products and investment solutions and position itself as a wealth management leader. It also continued to expand its distribution network, by capitalizing on partnerships with various distributors and resellers of financial products.

For example, National Bank Securities (NBS) introduced its Advisor Series which enables independent financial advisors to sell all of its mutual funds. This initiative was formalized by the signing of agreements with ScotiaMcLeod, Avantages Services Financiers, the PEAK Financial Group, BBA Investments, Le Groupe financier Everest, Desjardins Securities and other well-known brokerage firms. The National Bank, which is relying on the quality customer service provided by NBS to make inroads into the independent market, has thus become one of the first financial institutions in Quebec to make its family of mutual funds available to such a large group of financial experts.

In addition, the National Bank recently launched the Monthly Income Fund, an investment fund composed of four asset classes: preferred shares, common shares, high-yield bonds and income trusts. The Fund provides investors with a monthly income consisting of dividends, interest, capital gains and capital returns.

Furthermore, Great-West Life and London Life representatives can now offer National Bank financial products under their respective banners. They join Investors Group representatives who have been distributing our products since the previous quarter.

In October, National Bank Financial strengthened its position in the cities of Saint-Hyacinthe and Rimouski, Quebec by acquiring two ScotiaMcLeod branches.

The National Bank introduced several other initiatives aimed at offering a broader array of products to its customers. As a result, consumers now have the option of opening bank accounts online at www.nbc.ca. For their part, companies that subscribe to Internet Banking Solutions can now safely conclude transactions with their domestic and international partners in a number of currencies via wire transfers. This fast, easy way of doing business will considerably facilitate their financial and commercial transactions in Canada and abroad.

Lastly, in the past three months, the Bank launched two new credit cards, providing clients with definite advantages. The new National Bank Platinum MasterCard is designed for individuals looking for a generous reward program as well as a broad range of travel insurance coverage and attractive rates. The National Bank Premia BusinessCard is intended for companies and self-employed individuals. An excellent tool for managing expenses, it allows cardholders to benefit from a unique combination of advantages and save substantially. It, also, offers a generous reward program and comprehensive insurance coverage.

For more information:

Michel Labonté

Senior Vice-President
Finance, Technology and Corporate Affairs
(514) 394-8610

Denis Dubé

Director
Public Relations
(514) 394-8644

Quarterly financial statements are available at all times on the National Bank of Canada website at www.nbc.ca/investorrelations.

Conference call on results for the fourth quarter and the fiscal year ended October 31, 2003

- A conference call for financial analysts will be held on **December 4, 2003 at 2:00 p.m. Eastern time.**
- Access by telephone:
1-800-387-6216 or (416) 405-9328
- The conference call will be webcast live at www.nbc.ca/investorrelations
- The Report to Shareholders, supplementary financial information and a slide presentation will be available on the investor relations page of the National Bank's website shortly before the start of the conference call.

Recording of the conference call

- A recording of the conference call can be heard until December 11, 2003 by calling 1-800-408-3053 or (416) 695-5800. The access code is 1497513.
- A recording of the webcast will also be available on the Internet after the call at www.nbc.ca/investorrelations.

Management's Discussion and Analysis of Financial Condition and Operating Results

The following text presents management's analysis of the Bank's financial condition and operating results as presented in the unaudited consolidated financial statements for the fourth quarter of 2003 and in the unaudited consolidated financial statements for the fiscal year ended October 31, 2003.

Strategic Objectives

The National Bank published its strategic objectives for fiscal 2003 in its 2002 Annual Report. The table below compares these objectives with the results for the fourth quarter and the fiscal year ended October 31, 2003.

| | Objectives | 4th quarter results | 2003 results |
|---------------------------------------|---------------|---------------------|--------------------|
| Growth in earnings per share | 5% - 10% | 23% | 21% ⁽¹⁾ |
| Return on common shareholders' equity | 14% - 16% | 16.4% | 16.5% |
| Tier 1 capital ratio | 8.75% - 9.50% | | 9.6% |
| Dividend payout ratio | 30% - 40% | | 32% |

⁽¹⁾ Excluding the impairment charge for an investment in 2002

Analysis of Results

Operating Results

For the fourth quarter ended October 31, 2003, the National Bank earned net income of \$158 million, compared to \$135 million for the corresponding quarter of 2002. Earnings per share were \$0.87 for the quarter versus \$0.71 for the fourth quarter of 2002. Return on common shareholders' equity rose to 16.4% for the quarter as against 14.5% for the fourth quarter ended October 31, 2002.

For fiscal 2003, the National Bank recorded net income of \$624 million compared to \$429 million in 2002, representing an increase of 45% (\$83 million or 15% if the impairment charge for an investment is excluded). At \$3.37 for fiscal 2003, earnings per share were up 55% versus \$2.18 for fiscal 2002 (excluding the impairment charge which amounted to \$0.61, the increase is 21%). Return on common shareholders' equity rose to 16.5% for the fiscal year ended October 31, 2003 versus 11.3% for fiscal 2002 (14.3% if the impairment charge for an investment is excluded).

Revenues

Total revenues for the fourth quarter of 2003 were \$903 million, an increase of \$108 million, or 14%, compared to \$795 million for the year-earlier period.

Net interest income amounted to \$321 million for the quarter, down \$40 million from \$361 million for the fourth quarter of 2002. The \$57 million decrease in net interest income at Financial Markets was primarily due to the cost of financing trading account investments and interest paid on index-linked deposits for which revenues are recorded as "Other income". Moreover, net interest income for Personal and Commercial rose by \$16 million, or 5%, to \$320 million, mainly owing to the wider spread, which improved from 3.15% of average assets in the fourth quarter of 2002 to 3.25% this quarter.

Other income for the quarter totalled \$582 million as against \$434 million for the fourth quarter of 2002, an increase of \$148 million, owing largely to a \$126 million rise in trading income. Of the remainder, \$16 million was attributable to capital market fees reflecting the stock market rally and \$8 million from commissions on loans and acceptances.

For fiscal 2003, total revenues reached a new high of \$3.4 billion, an increase of more than \$300 million, or 11%, over fiscal 2002.

Net interest income for fiscal 2003 stood at \$1,324 million, down \$120 million from fiscal 2002. The decline was attributable to securitization activities and the cost of financing trading account securities as well as interest paid on index-linked deposits for which revenues are generally recorded as "Other income". For Personal and Commercial, net interest income rose by 5% to \$1,248 million in 2003. As the increase in the spread on credit products was greater than the reduction in the spread on deposits, the segment's overall spread rose by 13 basis points to 3.23% of average assets in 2003.

Other income for fiscal 2003 rose by \$454 million, or 29%, to \$2,038 million. Part of the increase was attributable to a \$137 million impairment charge for an investment recorded in 2002. The remainder was chiefly due to a \$261 million increase in trading income, a \$23 million increase in commissions on loans and acceptances, and the contribution of revenues generated by Altamira and Putnam Lovell for a full year.

Management's Discussion and Analysis of Financial Condition and Operating Results (cont.)

Operating Expenses

Operating expenses for the fourth quarter of 2003 were \$624 million compared to \$540 million for the corresponding period of 2002. Salaries and staff benefits, representing \$353 million, increased \$53 million. Close to half of this increase was due to variable compensation linked to the sizeable growth in revenues at Treasury and National Bank Financial, while an adjustment to the provision for capital taxes and marketing expenses accounted for much of the remainder.

For fiscal 2003, operating expenses were \$2,259 million, up \$219 million. The inclusion of 12 months of operating expenses for the companies acquired in 2002 accounted for \$83 million of the increase, and higher variable compensation, for approximately \$30 million. Had it not been for these items, operating expenses would have increased by approximately 5% due, in part, to the cost of staff benefits, including the pension plan, professional fees and marketing expenses, in particular bonus points for credit cards.

Results by Segment

The revenues of each segment are presented on a taxable equivalent basis, i.e., they are grossed up to make the tax-exempt income earned on certain securities comparable with income from other financial instruments. An equivalent amount was added to income taxes. In addition, the provision for credit losses of each operating segment is based on expected losses which are calculated using statistical analyses. The difference between expected losses and actual losses is charged to the "Other" heading.

Personal and Commercial

Personal and Commercial posted net income of \$79 million for the fourth quarter compared to \$68 million for the corresponding quarter of 2002, for an increase of 16%. Net interest income, which totalled \$320 million, rose by \$16 million, owing mainly to the spread, which went from 3.15% in the fourth quarter of 2002 to 3.25% this quarter. At \$161 million, other income was up by \$12 million or 8%, with insurance activities accounting for half of the increase. Operating expenses for the quarter were \$307 million compared to \$293 million for the fourth quarter of 2002. The increase in operating expenses of less than 5% was more than one percentage point lower than the growth in revenues. Expected loan losses were \$51 million for the fourth quarter, down \$2 million compared to the same quarter of 2002.

For fiscal 2003, net income for Personal and Commercial amounted to \$328 million, up \$45 million or 16%. Net interest income was \$1,248 million, an increase of \$58

million, or 5%, primarily due to the spread, which went from 3.10% in 2002 to 3.23% in 2003. Other income was up \$37 million, or 6%, to \$629 million chiefly owing to commercial lending fees and revenues from insurance activities. At \$1,157 million for fiscal 2003, operating expenses were \$44 million or 4% more than for fiscal 2002. The efficiency ratio improved from 62.5% in 2002 to 61.6% in 2003. The improved quality of the portfolio, as evidenced by the decline in impaired loans at Personal and Commercial, was also reflected in the lower expected losses, which dropped 5% from \$219 million in 2002 to \$207 million in 2003.

Wealth Management

Net income for the Wealth Management segment reached \$24 million for the fourth quarter of 2003, up 60% from \$15 million for the corresponding quarter a year earlier. Total revenues amounted to \$176 million for the fourth quarter of 2003 versus \$155 million for the same period of 2002, representing growth of 14%. Increased trading activity by individuals on capital markets accounted for the strong growth in income for this segment. Operating expenses for the quarter were \$137 million compared to \$131 million for the fourth quarter of 2002 owing to variable compensation at the Bank's brokerage subsidiary.

For fiscal 2003, net income for Wealth Management amounted to \$81 million as against \$66 million for fiscal 2002, an increase of 23%. Total revenues for 2003 were up \$47 million, or 8%, to \$658 million, notably due to the inclusion of Altamira revenues for one full year. Operating expenses were \$526 million, for an increase of \$20 million. The inclusion of 12 months of operating expenses for Altamira was partially offset by lower expenses related to individual investor services at the Bank's full-service brokerage subsidiary.

Financial Markets

For the fourth quarter of 2003, Financial Markets posted net income of \$73 million as against \$49 million for the same period of 2002, for an increase of 49%. Revenues for the quarter reached \$275 million, up \$75 million or 38%, due to trading income at Treasury. At \$153 million, operating expenses increased by \$33 million compared to the fourth quarter a year earlier as a result of variable compensation at Treasury. Expected loan losses were \$8 million for the quarter as against \$9 million for the fourth quarter of 2002.

For fiscal 2003, net income for Financial Markets was \$235 million, down \$6 million from the previous year. Revenues were \$931 million for the year compared to \$829 million for fiscal 2002, for an increase of 12%. Revenue from Treasury accounted for 90% of the increase. Operating expenses were \$527 million

Management's Discussion and Analysis of Financial Condition and Operating Results (cont.)

for fiscal 2003, versus \$416 million for the previous year. Close to 40% of the increase was attributable to Treasury, largely because of variable compensation. The remainder was due to the inclusion of 12 months of operating expenses for Putnam Lovell. Expected losses for 2003 stood at \$39 million, relatively unchanged from a year earlier.

Other

The net loss for the "Other" heading totalled \$18 million for the fourth quarter of 2003 compared to net income of \$3 million for the same quarter of 2002. An adjustment to the provision for capital taxes and the purchase of an insurance policy for the long-term disability program accounted for this loss.

For fiscal 2003, the net loss for the "Other" heading was \$20 million as against \$161 million for fiscal 2002. Total revenues were \$101 million higher mainly because of an impairment charge for an investment recorded a year earlier. The favourable \$300 million variance in the provision for credit losses was primarily due to the revision of the estimated allowance of \$185 million recorded in 2002, \$120 million in losses for the telecommunications sector, the \$30 million reduction in the general allowance for credit risk and the difference between the expected losses charged to the business units and the actual losses incurred. These favourable variances were offset in part by the \$111 million net gain recorded in 2002 under "Discontinued Operations" generated by the sale of U.S. asset-based lending operations.

Risk Management

Credit Risk

The provision for credit losses for the quarter was \$50 million as against \$53 million for the fourth quarter of 2002. For fiscal 2003, credit losses were \$177 million compared to \$490 million a year earlier. Excluding the revision of the estimated allowance of \$185 million recorded in 2002, the provision for credit losses was reduced by \$128 million in 2003, largely due to losses incurred in the telecommunications sector in 2002.

As at October 31, 2003, allowances for credit losses exceeded impaired loans by \$154 million, compared to \$159 million as at October 31, 2002. The reduction in impaired loans, particularly consumer loans, but also commercial and real estate loans, was offset by an increase in impaired corporate loans.

Credit quality remained excellent. The ratio of gross private impaired loans to total tangible capital and allowances was extremely good at 13.0% as at October 31, 2003, versus 14.1% as at October 31, 2002.

Market Risk – Trading Activities

The VaR (Value-at-Risk) method is one of the main tools used in managing trading-related market risk. The VaR measure is based on a 99% confidence level and uses two years of historical data for its computation. Market risk management is described in more detail on page 49 of the 2002 Annual Report.

The following table entitled "Trading Activities" illustrates the allocation of market risk by type of risk, namely, interest rate, foreign exchange, commodity and equity price. Global VaR as at October 31, 2003 was at more or less the same level as for the previous quarter.

Trading Activities ⁽¹⁾

(millions of dollars)

| Global VaR by risk category | For the quarter ended October 31, 2003 | | | | For the quarter ended July 31, 2003 | | | |
|-----------------------------------|--|------------|------------|------------|-------------------------------------|------------|------------|------------|
| | Period end | High | Average | Low | Period end | High | Average | Low |
| Interest rate | (4) | (5) | (4) | (3) | (4) | (5) | (4) | (2) |
| Foreign exchange | (1) | (2) | (1) | – | (1) | (2) | (1) | – |
| Equities | (2) | (3) | (2) | (1) | (2) | (5) | (3) | (2) |
| Commodities | – | – | – | – | – | (1) | – | – |
| Correlation effect ⁽²⁾ | 3 | 4 | 4 | 1 | 3 | 8 | 4 | 1 |
| Global VaR | (4) | (6) | (3) | (3) | (4) | (5) | (4) | (3) |

⁽¹⁾ Amounts are presented on a pre-tax basis and represent one-day VaR.

⁽²⁾ The correlation effect is the result of the diversification of types of risk.

Management's Discussion and Analysis of Financial Condition and Operating Results (cont.)

Balance Sheet

As at October 31, 2003, the Bank's total assets amounted to \$82.4 billion compared to \$74.6 billion as at October 31, 2002. The table below presents the main loan and deposit headings.

| Average monthly volumes (millions of dollars) | October 2003 | October 2002 |
|--|-----------------|-----------------|
| Loans and acceptances* | | |
| Residential mortgages | 18,095 | 17,452 |
| Consumer loans | 4,924 | 4,758 |
| Credit card receivables | 1,525 | 1,383 |
| Business loans | 17,803 | 18,304 |
| | 42,347 | 41,897 |
| Deposits | | |
| Personal (balance) | 23,512 | 22,607 |
| Off-balance sheet personal savings (balance) | 51,525 | 45,636 |
| Business and government | 9,226 | 8,447 |

* including securitized assets

As at October 31, 2003, residential mortgages totalled \$18.1 billion, up approximately 4% from October 31, 2002. Excluding indirect loans, consumer loans have risen by 8% since October 2002 to \$4.3 billion. Credit card receivables have increased by 10% since the beginning of the fiscal year, to \$1.5 billion as at October 31, 2003. At \$17.8 billion, business loans and acceptances are comparable to \$18.3 billion as at October 31, 2002. This decline stems mainly from corporate loans.

Personal deposits have risen by about \$900 million since October 31, 2002 to total \$23.5 billion. Off-balance sheet savings administered by the Bank and its subsidiaries have grown by nearly \$6 billion since October 31, 2002, to reach \$51.5 billion. The brokerage subsidiaries, both full-service and online, contributed to the year-over-year increase in off-balance sheet savings. Business deposits were up by almost \$800 million from October 31, 2002, chiefly because of deposits from small and medium-sized enterprises.

Capital

Tier 1 and total capital ratios, in accordance with the rules of the Bank for International Settlements, were 9.6% and 13.4% respectively as at October 31, 2003 compared to 9.6% and 13.6% as at October 31, 2002. The ratios are stable because the capital generated by net income less the dividends paid was reduced as a result of the repurchase of 9.1 million common shares under a normal course issuer bid and the redemption of \$125 million of Series 12 preferred shares on May 15, 2003. The decrease was mitigated by the issue of \$200 million of preferred shares in the first quarter of 2003.

Dividends

At its meeting on December 4, 2003, the Board of Directors declared regular dividends on the various classes and series of preferred shares, as well as a dividend of 33 cents per common share, payable on February 1, 2004 to shareholders of record on December 29, 2003.

Normal course issuer bid for the repurchase of common shares

The National Bank also announced its intention to make a normal course issuer bid for the repurchase of up to 5% of its outstanding common shares. The notice of intention was filed with and approved by the Toronto Stock Exchange.

The notice stipulates that the Bank may, during a 12-month period beginning on December 8, 2003 and ending no later than December 7, 2004, purchase through the facilities of the Toronto Stock Exchange up to a maximum of 8,700,000 common shares. The Bank will purchase for cancellation the shares at the market price in effect at the time of acquisition. The actual number of common shares repurchased and the timing of the purchases will be determined by the Bank.

As at November 28, 2003, there were 175,154,014 common shares of the Bank issued and outstanding. Under its previous normal course issuer bid, the Bank repurchased and cancelled 9,100,000 common shares.

The normal course issuer bid represents proper use of the Bank's surplus funds and aims to increase the value of shareholders' equity.

Highlights

| (unaudited) | Quarter ended October 31 | | | Fiscal year ended October 31 | | |
|--|--------------------------|--------|-------------|------------------------------|--------------------|-------------|
| | 2003 | 2002 | % Change | 2003 | 2002 | % Change |
| Operating results | | | | | | |
| (millions of dollars) | | | | | | |
| Total revenues | \$903 | \$795 | 14 | \$3,362 | \$3,028 | 11 |
| Net income | 158 | 135 | 17 | 624 | 429 | 45 |
| Return on common shareholders' equity | 16.4% | 14.5% | | 16.5% | 11.3% | |
| Per common share | | | | | | |
| Net income | \$0.87 | \$0.71 | 23 | \$3.37 | \$2.18 | 55 |
| Dividends paid | 0.28 | 0.24 | 17 | 1.08 | 0.93 | 16 |
| Book value | | | | 21.32 | 19.72 | 8 |
| Stock trading range | | | | | | |
| High | 41.19 | 32.50 | | 41.19 | 34.93 | |
| Low | 34.50 | 27.00 | | 29.95 | 24.70 | |
| Close | 40.91 | 29.39 | | 40.91 | 29.39 | |
| Financial position | | | | | | |
| (millions of dollars) | | | | | | |
| | | | | October 31 2003 | October 31 2002 | |
| Total assets | | | | \$82,423 | \$74,593 | 10 |
| Loans and acceptances | | | | 45,670 | 43,800 | 4 |
| Deposits | | | | 51,463 | 51,690 | - |
| Subordinated debentures and shareholders' equity | | | | 5,613 | 5,493 | 2 |
| Capital ratios - BIS | | | | | | |
| Tier 1 | | | | 9.6% | 9.6% | |
| Total | | | | 13.4% | 13.6% | |
| Impaired loans, | | | | | | |
| net of specific and general allowances | | | | (154) | (159) | |
| as a % of loans and acceptances | | | | (0.3)% | (0.4)% | |
| Assets under administration/management | | | | 155,348 | 138,672 | |
| Total personal savings | | | | 75,037 | 68,243 | |
| Interest coverage | | | | 10.22 | 7.39 | |
| Asset coverage | | | | 3.19 | 3.02 | |
| Other information | | | | | | |
| Number of employees | | | | 16,935 | 17,285 | (2) |
| Number of branches in Canada | | | | 477 | 507 | (6) |
| Number of banking machines | | | | 817 | 826 | (1) |

Consolidated Statement of Income

(unaudited)
(millions of dollars except per share amounts)

| | Quarter ended | | | Fiscal year ended | |
|---|--------------------|-----------------|--------------------|--------------------|--------------------|
| | October 31 2003 | July 31 2003 | October 31 2002 | October 31 2003 | October 31 2002 |
| Interest income and dividends | | | | | |
| Loans | 463 | 483 | 475 | 1,872 | 1,906 |
| Securities | 125 | 125 | 130 | 526 | 511 |
| Deposits with financial institutions | 31 | 31 | 37 | 131 | 174 |
| | 619 | 639 | 642 | 2,529 | 2,591 |
| Interest expense | | | | | |
| Deposits | 247 | 291 | 233 | 1,030 | 979 |
| Subordinated debentures | 26 | 26 | 27 | 105 | 110 |
| Other | 25 | 17 | 21 | 70 | 58 |
| | 298 | 334 | 281 | 1,205 | 1,147 |
| Net interest income | 321 | 305 | 361 | 1,324 | 1,444 |
| Other income | | | | | |
| Capital market fees | 150 | 138 | 134 | 544 | 539 |
| Deposit and payment service charges | 49 | 48 | 47 | 189 | 186 |
| Trading revenues | 136 | 117 | 10 | 335 | 74 |
| Losses on investment account securities, net | - | (8) | (7) | (6) | (103) |
| Card service revenues | 12 | 15 | 11 | 49 | 47 |
| Lending fees | 56 | 50 | 45 | 204 | 181 |
| Acceptances, letters of credit and guarantee | 12 | 17 | 15 | 63 | 63 |
| Securitization revenues (Note 7) | 55 | 51 | 67 | 204 | 204 |
| Foreign exchange revenues | 14 | 16 | 17 | 66 | 67 |
| Trust services and mutual funds | 53 | 52 | 52 | 210 | 160 |
| Other | 45 | 50 | 43 | 180 | 166 |
| | 582 | 546 | 434 | 2,038 | 1,584 |
| Total revenues | 903 | 851 | 795 | 3,362 | 3,028 |
| Provision for credit losses | 50 | 45 | 53 | 177 | 490 |
| | 853 | 806 | 742 | 3,185 | 2,538 |
| Operating expenses | | | | | |
| Salaries and staff benefits | 353 | 325 | 300 | 1,287 | 1,147 |
| Occupancy | 49 | 49 | 55 | 192 | 191 |
| Computers and equipment | 82 | 72 | 87 | 312 | 305 |
| Communications | 20 | 19 | 20 | 80 | 77 |
| Professional fees | 30 | 30 | 33 | 112 | 99 |
| Other | 90 | 63 | 45 | 276 | 221 |
| | 624 | 558 | 540 | 2,259 | 2,040 |
| Income before income taxes, non-controlling interest and discontinued operations | 229 | 248 | 202 | 926 | 498 |
| Income taxes | 66 | 80 | 56 | 277 | 150 |
| | 163 | 168 | 146 | 649 | 348 |
| Non-controlling interest | 6 | 7 | 7 | 27 | 30 |
| Income before discontinued operations | 157 | 161 | 139 | 622 | 318 |
| Discontinued operations | 1 | 1 | (4) | 2 | 111 |
| Net income | 158 | 162 | 135 | 624 | 429 |
| Dividends on preferred shares | 6 | 6 | 5 | 25 | 21 |
| Net income available to common shares | 152 | 156 | 130 | 599 | 408 |
| Number of common shares outstanding (thousands) | | | | | |
| Average - basic | 174,585 | 175,363 | 183,124 | 177,751 | 186,608 |
| Average - diluted | 176,347 | 177,038 | 184,168 | 179,235 | 187,727 |
| End of period | | | | 174,620 | 182,596 |
| Income before discontinued operations per common share | | | | | |
| Basic | 0.87 | 0.88 | 0.73 | 3.36 | 1.59 |
| Diluted | 0.86 | 0.87 | 0.73 | 3.33 | 1.59 |
| Net income per common share | | | | | |
| Basic | 0.87 | 0.89 | 0.71 | 3.37 | 2.18 |
| Diluted | 0.86 | 0.88 | 0.71 | 3.34 | 2.18 |
| Dividends per common share | 0.28 | 0.28 | 0.24 | 1.08 | 0.93 |

Consolidated Balance Sheet

(unaudited)
(millions of dollars)

| | October 31 2003 | July 31 2003 | October 31 2002 |
|--|--------------------|-----------------|--------------------|
| ASSETS | | | |
| Cash resources | | | |
| Cash and deposits with Bank of Canada | 313 | 325 | 245 |
| Deposits with financial institutions | 6,734 | 6,271 | 6,619 |
| | 7,047 | 6,596 | 6,864 |
| Securities | | | |
| Investment account | 6,998 | 6,879 | 6,863 |
| Trading account | 19,151 | 14,632 | 13,179 |
| Loan substitutes | 30 | 63 | 76 |
| | 26,179 | 21,574 | 20,118 |
| Loans | | | |
| Residential mortgage | 13,976 | 13,784 | 12,867 |
| Personal and credit card | 6,101 | 6,012 | 5,561 |
| Business and government | 18,934 | 19,857 | 20,680 |
| Securities purchased under reverse repurchase agreements | 3,955 | 3,595 | 2,366 |
| Allowance for credit losses | (630) | (642) | (662) |
| | 42,336 | 42,606 | 40,812 |
| Other | | | |
| Customers' liability under acceptances | 3,334 | 3,344 | 2,988 |
| Assets held for disposal | – | 19 | 313 |
| Premises and equipment | 263 | 245 | 255 |
| Goodwill | 660 | 660 | 661 |
| Intangible assets | 183 | 183 | 184 |
| Other assets | 2,421 | 3,167 | 2,398 |
| | 6,861 | 7,618 | 6,799 |
| | 82,423 | 78,394 | 74,593 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Deposits | | | |
| Personal | 23,512 | 23,501 | 22,607 |
| Business and government | 22,700 | 23,173 | 22,582 |
| Deposit-taking institutions | 5,251 | 4,853 | 6,501 |
| | 51,463 | 51,527 | 51,690 |
| Other | | | |
| Acceptances | 3,334 | 3,344 | 2,988 |
| Obligations related to securities sold short | 8,457 | 6,227 | 5,542 |
| Obligations related to securities sold under repurchase agreements | 8,674 | 6,182 | 4,416 |
| Other liabilities | 4,484 | 5,147 | 3,978 |
| | 24,949 | 20,900 | 16,924 |
| Subordinated debentures | 1,516 | 1,543 | 1,592 |
| Non-controlling interest | 398 | 424 | 486 |
| Shareholders' equity | | | |
| Preferred shares | 375 | 375 | 300 |
| Common shares | 1,583 | 1,580 | 1,639 |
| Contributed surplus | 2 | 2 | – |
| Retained earnings | 2,137 | 2,043 | 1,962 |
| | 4,097 | 4,000 | 3,901 |
| | 82,423 | 78,394 | 74,593 |

Consolidated Statement of Cash Flows

(unaudited)
(millions of dollars)

| | Quarter ended October 31 | | Fiscal year ended October 31 | |
|---|--------------------------|----------------|------------------------------|----------------|
| | 2003 | 2002 | 2003 | 2002 |
| Cash flows from operating activities | | | | |
| Net income | 158 | 135 | 624 | 429 |
| Adjustments for: | | | | |
| Provision for credit losses excluding discontinued operations | 50 | 53 | 177 | 490 |
| Provision for credit losses attributed to discontinued operations | 1 | - | 1 | (51) |
| Amortization of premises and equipment | 13 | 18 | 49 | 58 |
| Future income taxes | 3 | (19) | 5 | (24) |
| Translation adjustment on foreign currency of subordinated debentures | (28) | (8) | (76) | (10) |
| Impairment charge | - | 2 | - | 139 |
| Losses (gains) on sale of investment account securities, net | - | 7 | (1) | (41) |
| Gains on securitization of assets | (29) | (27) | (87) | (46) |
| Stock option expense (Note 2) | - | - | 2 | - |
| Change in interest payable | 56 | (10) | 72 | (153) |
| Change in interest receivable | (49) | (22) | (34) | (25) |
| Change in income taxes payable | 72 | 68 | 208 | 164 |
| Change in unrealized losses and nets amounts payable on derivative contracts | (289) | 133 | 10 | 124 |
| Change in trading account securities | (4,519) | (1,256) | (5,972) | (2,187) |
| Excess contributions over expense for employee future benefit plans | (178) | - | (255) | - |
| Change in other items | 537 | (186) | 554 | (234) |
| | (4,202) | (1,112) | (4,723) | (1,367) |
| Cash flows from financing activities | | | | |
| Change in deposits | (64) | 400 | (227) | 254 |
| Redemption and maturity of subordinated debentures | - | - | - | (45) |
| Issuance of common shares | 3 | 10 | 26 | 53 |
| Issuance of preferred shares | - | - | 200 | - |
| Repurchase of common shares for cancellation | - | (28) | (298) | (306) |
| Redemption of preferred shares for cancellation | - | - | (125) | (192) |
| Dividends paid on common shares | (98) | (45) | (235) | (174) |
| Dividends paid on preferred shares | (6) | (5) | (25) | (21) |
| Change in obligations related to securities sold short | 2,230 | 500 | 2,915 | 163 |
| Change in obligations related to securities sold under repurchase agreements | 2,492 | 834 | 4,258 | 9 |
| Change in other items | (8) | - | (16) | (4) |
| | 4,549 | 1,666 | 6,473 | (263) |
| Cash flows from investing activities | | | | |
| Change in loans | (186) | (997) | (1,528) | (3,267) |
| Proceeds on new securitized assets | 767 | 545 | 1,729 | 1,880 |
| Proceeds from sale of asset-based loans | - | - | - | 2,540 |
| Purchases of investment account securities | (6,504) | (6,402) | (21,342) | (21,432) |
| Sales of investment account securities | 6,418 | 5,996 | 21,220 | 21,329 |
| Change in securities purchased under reverse repurchase agreements | (360) | 305 | (1,589) | 1,675 |
| Net acquisition of premises and equipment | (31) | (28) | (57) | (63) |
| | 104 | (581) | (1,567) | 2,662 |
| Increase (decrease) in cash and cash equivalents | 451 | (27) | 183 | 1,032 |
| Cash and cash equivalents at beginning | 6,596 | 6,891 | 6,864 | 5,832 |
| Cash and cash equivalents at end | 7,047 | 6,864 | 7,047 | 6,864 |
| Cash and cash equivalents | | | | |
| Cash and deposits with Bank of Canada | 313 | 245 | 313 | 245 |
| Deposits with financial institutions | 6,734 | 6,619 | 6,734 | 6,619 |
| Total | 7,047 | 6,864 | 7,047 | 6,864 |
| Interest and dividends paid | 346 | 343 | 1,395 | 1,519 |
| Income taxes paid | 14 | 13 | 126 | 101 |

Consolidated Statement of Changes in Shareholders' Equity

(unaudited)
(millions of dollars)

| | Fiscal year ended October 31 | |
|--|------------------------------|--------------|
| | 2003 | 2002 |
| Preferred shares at beginning | 300 | 492 |
| Issuance of preferred shares (Note 6) | 200 | - |
| Redemption of preferred shares, Series 10,11 and 12, for cancellation (Note 6) | (125) | (192) |
| Preferred shares at end | 375 | 300 |
| Common shares at beginning | 1,639 | 1,668 |
| Issuance of common shares | 26 | 53 |
| Repurchase of common shares for cancellation (Note 6) | (82) | (82) |
| Common shares at end | 1,583 | 1,639 |
| Contributed surplus at beginning | - | - |
| Stock option expense (Note 2) | 2 | - |
| Contributed surplus at end | 2 | - |
| Retained earnings at beginning | 1,962 | 1,956 |
| Net income | 624 | 429 |
| Dividends | | |
| Preferred shares | (25) | (21) |
| Common shares | (193) | (174) |
| Income taxes related to dividends on preferred shares, Series 10,11,12,13 and 15 | - | (2) |
| Premium paid on common shares repurchased for cancellation (Note 6) | (216) | (224) |
| Foreign currency translation adjustment, net of income taxes | (11) | (2) |
| Share issuance expenses, net of income taxes | (4) | - |
| Retained earnings at end | 2,137 | 1,962 |
| Shareholders' equity | 4,097 | 3,901 |

Notes to the Consolidated Financial Statements

(unaudited) (millions of dollars)

These unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended October 31, 2002. Certain comparative figures have been reclassified to conform with the presentation adopted in fiscal 2003.

1. Significant Accounting Policies

These unaudited interim consolidated financial statements of the Bank were prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and the accounting policies described in the Bank's most recent annual report for the year ended October 31, 2002, with the exception of the new standards described in Note 2 and the recording in the first quarter of 2002 of the difference between the general allowance for credit risk according to the guidance provided by the Superintendent of Financial Institutions Canada and according to Canadian GAAP, as described in Note 28 to the 2002 annual consolidated financial statements.

Had the Bank followed Canadian GAAP in the first quarter of 2002, net income would have decreased by \$57 million, the provision for credit losses would have increased by \$97 million, income taxes would have decreased by \$40 million, and basic and diluted net income per common share would have decreased by \$0.30. Furthermore, return on common shareholders' equity would have decreased by 6.26%.

Notes to the Consolidated Financial Statements (cont.)

2. Recent Standards Adopted

Stock-Based Compensation

On November 1, 2002, the Bank adopted the requirements of the standard of the Canadian Institute of Chartered Accountants (the "CICA") entitled "Stock-Based Compensation and Other Stock-Based Payments". It establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services. A description of the new accounting policies and the impact of the adoption of this new standard on the consolidated financial statements for the year ended October 31, 2003 are presented below.

A. Stock Appreciation Rights (SAR) Plan

In accordance with this new standard, SARs are recorded at fair value by measuring, on an ongoing basis, the excess of the stock price over the exercise price of the option. The new standard applies to SARs outstanding at the date of the adoption of the recommendations and to subsequent awards. The Bank's obligation, which results from the variation in the stock's market price, is recognized in income on a straight-line basis over the vesting period, namely, four years, and a corresponding amount is included in "Other liabilities". When the vesting period expires and until the SARs are exercised, the change in the obligation attributable to variations in the stock price is recognized by increasing or decreasing the compensation expense for the period in which the variations occur. With regard to SARs outstanding as at the date of the adoption of the recommendations, the application of the new standard's transitional provisions, taking into account the liability previously recognized by the Bank, did not require any cumulative adjustment to the balance of retained earnings as at November 1, 2002. Furthermore, the new standard had no material impact on the consolidated financial statements for the year ended October 31, 2003.

B. Stock Option Plan

The Bank has adopted the fair value-based method to record stock options awarded subsequent to November 1, 2002.

The fair value of the stock options is estimated on the grant date using the Black-Scholes model.

Cost is recognized using a straight-line method over the vesting period, namely, four years, as an increase in the compensation expense and contributed surplus. When the options are exercised, the proceeds and the contributed surplus are credited to common share paid-up capital. For options awarded before November 1, 2002, the Bank continues to apply the accounting policy described in Note 1 to the 2002 annual consolidated financial statements.

The fair value on the grant date of the options awarded in 2003 was estimated at \$6.90 using the Black-Scholes model. The following assumptions were used: i) a risk-free interest rate of 4.54%, ii) an expected life of options of six years, iii) an expected volatility of 27% and iv) an expected dividend yield of 3.36%.

The impact of the adoption of the fair value-based method on the consolidated financial statements for the year ended October 31, 2003 was an increase of approximately \$2.2 million in compensation expense and in contributed surplus.

Disclosure of Guarantees

On April 30, 2003, the Bank adopted the requirements of the CICA's Accounting Guideline no 14 entitled "Disclosure of Guarantees" (AcG-14). This Guideline broadens the definition of guarantees and requires that the guarantor disclose significant information on the guarantees which it has provided.

AcG-14 defines a guarantee as a contract (including an indemnity) that contingently requires the guarantor to make payments (either in cash, financial instruments, other assets or shares of the entity, or provision of services) to the beneficiary due to (a) changes in interest rate, security or commodity price, foreign exchange rate, index or other variable, including the occurrence or non-occurrence of a specified event, that is related to an asset, a liability or an equity security of the beneficiary of the guarantee, (b) failure of a third party to

Notes to the Consolidated Financial Statements (cont.)

perform under a contractual agreement or (c) failure of a third party to pay its indebtedness when due.

Significant guarantees issued by the Bank and in effect on October 31, 2003 are described below:

Letters of Guarantee

In the normal course of business, the Bank issues letters of guarantee. These letters of guarantee represent irrevocable commitments that the Bank will make payments in the event that a client cannot meet his financial obligations to third parties. The Bank's policy for requiring collateral security with respect to letters of guarantee is similar to that for loans. Generally, the term of these letters of guarantee is less than two years. The maximum potential future payments for letters of guarantee totalled approximately \$903 million as at October 31, 2003. The general allowance for credit losses recorded covers all credit risks including those relating to letters of guarantee.

Liquidity Facilities

The Bank provides backstop liquidity facilities under asset-backed commercial paper conduit programs administered by the Bank further to securitization operations. These backstop liquidity facilities may only be drawn upon if, after a market disruption, the programs would be unable to access the commercial paper market. These guarantees have a duration of less than one year and are renewable periodically. None of the backstop liquidity facilities provided by the Bank have been drawn upon to date. As at October 31, 2003, the maximum potential future payments that the Bank may be required to make under these backstop liquidity facilities was \$441 million. No amount has been accrued in the Consolidated Balance Sheet with respect to these liquidity facilities.

Derivatives

In the normal course of business, the Bank enters into written put options to meet the needs of its clients and for its own risk management and trading activities. Put options are contractual agreements by which the Bank grants the purchaser the

right, but not the obligation, to sell to the Bank by or at a pre-determined date, a specific amount of currency, or a commodity or financial instrument, at a price agreed to when the option is contracted. Written put options that qualify as a guarantee under AcG-14 include primarily over-the-counter currency options with companies other than financial institutions and over-the-counter stock options when it is probable that the counterparty holds underlying securities. The terms of these options vary based on the contracts but do not exceed two years. The maximum potential future payments with respect to these options sold totalled \$1,022 million as at October 31, 2003. At that date, the Bank had recorded liabilities of \$5 million in the Consolidated Balance Sheet with respect to these written put options.

Securities lending

In accordance with securities lending agreements the Bank has entered into with certain clients who have previously entrusted it with the safekeeping of their securities, the Bank, as an agent for these clients, lends their securities to third parties and indemnifies these clients in the event of loss. In order to protect itself against all potential losses, the Bank requires from the borrower as security a cash amount or highly liquid marketable securities with a fair value greater than that of the securities loaned. The fair value of securities loaned totalled \$1.6 billion as at October 31, 2003. No amount has been accrued in the Consolidated Balance Sheet with respect to potential indemnities resulting from securities lending operations.

Sale of a business and operations

Under agreements with respect to the sale of a business and operations, the Bank has agreed to indemnify the purchaser for losses incurred resulting from certain types of claims from the Bank's past conduct of the business or operations, as well as any representations and guarantees that may have been incorrect on the date they were made. In cases where the maximum potential future payments are limited by the agreements, the maximum amount for all such agreements totalled approximately \$244 million as at October 31, 2003. One agreement does not limit the maximum potential future payments if the

Notes to the Consolidated Financial Statements (cont.)

guarantee is enforced and the nature of these commitments prevents the Bank from estimating the maximum potential liability it may be required to pay. The applicable period of the various indemnification clauses are described in the agreements and may vary. No amount has been accrued in the Consolidated Balance Sheet with respect to these indemnification agreements.

Business Acquisition

In June 2002, the Bank purchased Putnam Lovell Group Inc., a U.S. investment bank. The aggregate consideration paid on closing amounted to \$27 million and consisted of 807,294 common shares of the Bank valued at \$26 million at that date plus a cash payment of \$1 million. An additional amount consisting of 476,119 common shares of the Bank valued at \$15 million at that date will be paid in 2004, contingent upon certain profitability objectives being achieved. The value of the common shares was based on the average closing price of the shares of the Bank over a period of several days preceding the date on which the number of shares was determined, namely, June 18, 2002. No amount has been accrued in the Consolidated Balance Sheet with respect to this additional consideration.

Other indemnification agreements

In the normal course of business, including securitization operations, the Bank enters into contractual agreements other than those described above. Under these agreements, the Bank agrees to compensate the counterparties for costs incurred as a result of litigation, changes in laws and regulations (including tax legislation), claims with respect to past performance, incorrect representations or the non-performance of certain restrictive clauses. The nature of these agreements prevents the Bank from making a reasonable estimate of the maximum potential amount it could be required to pay. The term of these agreements is described in each contract. No amount has been accrued in the Consolidated Balance Sheet with respect to these agreements.

Other guarantee

In accordance with a mutual guarantee agreement required by a regulatory authority, a subsidiary of the Bank has agreed to guarantee all the commitments, debts and liabilities of a company subject to significant influence to the maximum of its regulatory capital, namely, \$25.5 million as at October 31, 2003. This guarantee expires on the date the investment in the company subject to significant influence is sold, or sooner if deemed appropriate by the regulatory

authority. To date, this guarantee remains undrawn on and no amount has been accrued in the Consolidated Balance Sheet with respect to the agreement.

Disposal of Long-Lived Assets and Discontinued Operations

In 2002, the CICA issued a new standard entitled "Disposal of Long-Lived Assets and Discontinued Operations", which establishes standards for the recognition, measurement, presentation and disclosure of the disposal of non-monetary long-lived assets. Long-lived assets to be disposed of other than by sale should continue to be classified as held-for-use until their disposal. Long-lived assets held for sale that meet certain criteria should be presented separately on the balance sheet and measured at the lower of their carrying value or fair value, less cost to sell.

Furthermore, the standard broadens the definition of discontinued operations. This change did not affect the presentation of discontinued operations.

This new standard applies to discontinued operations underway, subsequent to a commitment to follow a plan, since May 1, 2003. These new requirements did not have a material impact for the Bank.

3. Recent Accounting Standards Pending Adoption

Hedging Relations

CICA Accounting Guideline no 13, "Hedging Relationships" (AcG-13), identifies the circumstances in which hedge accounting is appropriate and discusses the identification, designation, documentation and effectiveness of hedging relationships and the discontinuance of hedge accounting, but does not cover hedge accounting techniques. The provisions of the new Guideline apply to fiscal years beginning on or after July 1, 2003. Effective November 1, 2003, the Bank will apply Accounting Guideline 13, "Hedging Relationships". Monetary or derivative financial instruments used in risk management qualifying for hedge accounting will be recorded using the hedge accounting methodology described in Note 1, of the 2002 Annual Report.

When the risk coverage no longer qualifies as an effective hedge, hedge accounting will be discontinued prospectively, and the financial instrument will be carried at fair value on the balance sheet as of the date hedge accounting was discontinued. Any subsequent changes in fair value will be recognized in "Other income", in conformity with EIC-128 "Accounting for Trading

Notes to the Consolidated Financial Statements (cont.)

Speculative or Non-Hedging Derivative Financial Instruments". Should the financial instrument once again qualify as a hedging relationship, then hedge accounting will take effect again on the new date of designation.

Financial instruments that do not qualify for hedge accounting under AcG-13 will be carried at fair value on the balance sheet as at November 1, 2003. The resulting \$16 million transitional gain will be deferred and recognized in income over the remaining term of the financial instruments.

Variable Interest Entities

In June 2003, the CICA issued Accounting Guideline no 15, "Consolidation of Variable Interest Entities". This Guideline is harmonized with the corresponding U.S. standard and includes guidance on determining the primary beneficiary of variable interest entities and the beneficiary that will therefore have to consolidate them.

The Guideline will apply to all annual and interim periods beginning on or after November 1, 2004, except for certain disclosure requirements which apply to periods beginning on January 1, 2004. The Bank is currently evaluating the impact of this new Accounting Guideline.

Impairment of Long-Lived Assets

In 2002, the CICA issued a new standard entitled "Impairment of Long-Lived Assets", which establishes standards for the recognition, measurement and disclosure of the impairment of long-lived assets. This standard stipulates that an impairment loss should

be recognized when the carrying value of a long-lived asset intended for use exceeds the sum of the undiscounted cash flows expected from its use and eventual disposal. The impairment loss is to be measured as the excess of the carrying value of the asset over its fair value. The Bank will adopt this standard effective November 1, 2003. The standard will have no impact on the financial statements at the date of adoption.

Equity-Linked Deposit Contracts

In 2003, the CICA issued Accounting Guideline 17 "Equity-Linked Deposit Contracts" (AcG-17). Under this Guideline, starting November 1, 2003, the Bank may record at fair value certain deposit obligations for which the obligation varies according to the return on equities or an equity index and which entitle the investors, after a specified period of time, to receive the higher of a stated percentage of their principal investment or a variable amount calculated based on the return on equities or an equity index. Any subsequent changes in fair value will be recognized in the Consolidated Statement of Income as they arise. Under the transitional provisions for AcG-17, the Bank can charge to opening retained earnings the difference as at November 1, 2003 between the carrying value and fair value of obligations to make variable payments as well as the difference between the carrying value and fair value of any related derivative which has been the object of adjustments arising from the cessation of hedge accounting for such derivatives on initial application of Accounting Guideline 13 "Hedging Relationships". The Bank intends to adopt the provisions of AcG-17 effective November 1, 2003. The adoption of this Guideline will not have a material impact on the 2004 financial statements.

4. Loans and Impaired Loans

| | Gross amount | Impaired loans | | | Net |
|--|--------------|----------------|--------------------|------------------------|-------|
| | | Gross | Specific allowance | Country risk allowance | |
| October 31, 2003 | | | | | |
| Residential mortgage | 13,976 | 7 | 3 | - | 4 |
| Personal and credit card | 6,101 | 33 | 17 | - | 16 |
| Business and government | 18,934 | 436 | 186 | 19 | 231 |
| Securities purchased under reverse repurchase agreements | 3,955 | - | - | - | - |
| | 42,966 | 476 | 206 | 19 | 251 |
| General allowance ⁽¹⁾ | | | | | (405) |
| Impaired loans, net of specific and general allowances | | | | | (154) |
| October 31, 2002⁽²⁾ | | | | | |
| Residential mortgage | 12,867 | 23 | 3 | - | 20 |
| Personal and credit card | 5,561 | 33 | 12 | - | 21 |
| Business and government | 20,680 | 447 | 220 | 22 | 205 |
| Securities purchased under reverse repurchase agreements | 2,366 | - | - | - | - |
| | 41,474 | 503 | 235 | 22 | 246 |
| General allowance ⁽¹⁾ | | | | | (405) |
| Impaired loans, net of specific and general allowances | | | | | (159) |

As at October 31, 2003, the foreclosed assets held for sale amounted to \$6 million and foreclosed assets held for use, \$4 million.

(1) The general allowance for credit risk was created taking into account the Bank's credit risk in its entirety.

(2) As at October 31, 2002, foreclosed assets for settlement of impaired loans held for sale included in total impaired loans, net of the corresponding specific allowance, amounted to \$8 million.

Notes to the Consolidated Financial Statements (cont.)

5. Allowance for credit losses

| For the year ended | Specific allowance | Allocated general allowance | Unallocated general allowance | Country risk allowance | October 31 2003 | October 31 2002 |
|---|--------------------|-----------------------------|-------------------------------|------------------------|-----------------|-----------------|
| Allowance at beginning | 235 | 296 | 109 | 22 | 662 | 879 |
| Transfer of allowance for assets held for disposal | - | - | - | - | - | (45) |
| Amounts related to discontinued operations | (1) | - | - | - | (1) | (51) |
| Provision for credit losses | 177 | 4 | (4) | - | 177 | 490 |
| Write-offs | (255) | - | - | (3) | (258) | (660) |
| Recoveries | 50 | - | - | - | 50 | 49 |
| Allowance at end | 206 | 300 | 105 | 19 | 630 | 662 |

6. Capital Stock

Issued and fully paid as at October 31, 2003

| | |
|-------------------------------------|-------|
| First preferred shares | |
| 7,000,000 shares, Series 13 | 175 |
| 8,000,000 shares, Series 15 | 200 |
| | 375 |
| 174,619,903 common shares | 1,583 |
| | 1,958 |
| 6,131,515 stock options outstanding | N/A |

Issuance of preferred shares

On January 31, 2003, the Bank issued 8,000,000 first preferred shares with a non-cumulative preferential dividend payable quarterly in an amount of \$0.365625 per share, Series 15, for an aggregate consideration of \$195 million, net of commissions totalling \$5 million.

These shares are redeemable, subject to the prior approval of the Superintendent of Financial Institutions, as of May 15, 2008, in whole or in part, at \$26 per share if they are redeemed before May 15, 2009, at \$25.75 per share if they are redeemed during the 12-month period prior to May 15, 2010, at \$25.50 per share if they are redeemed during the 12-month period prior to May 15, 2011, at \$25.25 per share if they are redeemed during the 12-month period prior to May 15, 2012, and at \$25.00 per share if they are redeemed as of May 15, 2012, in each case, plus all declared and unpaid dividends at the date fixed for redemption.

Repurchase of common shares

On January 20, 2003, the Bank started a normal course issuer bid for the repurchase of up to 9,100,000 common shares over a 12-month period ending no later than January 19, 2004. Purchases were made on the open market at market prices through the facilities of the Toronto Stock Exchange. Premiums paid above the average book value of the common shares were charged to retained earnings. As at October 31, 2003, the Bank has completed the repurchase of the 9,100,000 common shares at a cost of \$298 million, which reduced common equity capital by \$82 million and retained earnings by \$216 million.

Redemption of preferred shares

On May 15, 2003, the Bank redeemed, for cancellation, all Series 12 non-cumulative first preferred shares at a price of \$25 per share, plus declared and unpaid dividends up to the redemption date.

7. Securitization

CMHC-guaranteed mortgage loans

During the fourth quarter of 2003, the Bank securitized residential mortgage loans guaranteed by the CMHC totalling \$567 million through the creation of mortgage-backed securities. The Bank sold all these securities. The Bank received cash proceeds totalling \$568 million and retained the rights to future excess interest in the amount of \$20 million. Transaction costs of \$2 million were recognized in the Consolidated Statement of Income under "Securitization revenues". A pre-tax gain of approximately \$18 million, net of transaction fees of \$2 million, was recognized in the Consolidated Statement of Income under "Securitization revenues".

Notes to the Consolidated Financial Statements (cont.)

8. Segment Disclosures⁽¹⁾

Quarter ended October 31

(taxable equivalent basis)
(unaudited) (millions of dollars)

| | Personal and Commercial | | Wealth Management | | Financial Markets | | Other | | Total | |
|--|----------------------------|--------|----------------------|------|----------------------|--------|---------|---------|--------|--------|
| | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 |
| Net interest income ⁽²⁾ | 320 | 304 | 24 | 23 | 31 | 83 | (42) | (42) | 333 | 368 |
| Other income ⁽²⁾ | 161 | 149 | 152 | 132 | 244 | 117 | 44 | 49 | 601 | 447 |
| Total revenues | 481 | 453 | 176 | 155 | 275 | 200 | 2 | 7 | 934 | 815 |
| Operating expenses | 307 | 293 | 137 | 131 | 153 | 120 | 27 | (4) | 624 | 540 |
| Contribution | 174 | 160 | 39 | 24 | 122 | 80 | (25) | 11 | 310 | 275 |
| Provision for credit losses ⁽³⁾ | 51 | 53 | - | 1 | 8 | 9 | (9) | (10) | 50 | 53 |
| Income before income taxes, non-controlling interest and discontinued operations | 123 | 107 | 39 | 23 | 114 | 71 | (16) | 21 | 260 | 222 |
| Income taxes ⁽²⁾ | 44 | 39 | 14 | 8 | 41 | 22 | (2) | 7 | 97 | 76 |
| Non-controlling interest | - | - | 1 | - | - | - | 5 | 7 | 6 | 7 |
| Income before discontinued operations | 79 | 68 | 24 | 15 | 73 | 49 | (19) | 7 | 157 | 139 |
| Discontinued operations | - | - | - | - | - | - | 1 | (4) | 1 | (4) |
| Net income | 79 | 68 | 24 | 15 | 73 | 49 | (18) | 3 | 158 | 135 |
| Average assets | 39,101 | 38,258 | 662 | 736 | 39,320 | 35,002 | (5,156) | (6,648) | 73,927 | 67,348 |

Fiscal year ended October 31

(taxable equivalent basis)
(unaudited) (millions of dollars)

| | Personal and Commercial | | Wealth Management | | Financial Markets | | Other | | Total | |
|--|----------------------------|--------|----------------------|------|----------------------|--------|---------|---------|--------|--------|
| | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 |
| Net interest income ⁽⁴⁾ | 1,248 | 1,190 | 91 | 89 | 186 | 321 | (159) | (127) | 1,366 | 1,473 |
| Other income ⁽⁴⁾ | 629 | 592 | 567 | 522 | 745 | 508 | 152 | 19 | 2,093 | 1,641 |
| Total revenues | 1,877 | 1,782 | 658 | 611 | 931 | 829 | (7) | (108) | 3,459 | 3,114 |
| Operating expenses | 1,157 | 1,113 | 526 | 506 | 527 | 416 | 49 | 5 | 2,259 | 2,040 |
| Contribution | 720 | 669 | 132 | 105 | 404 | 413 | (56) | (113) | 1,200 | 1,074 |
| Provision for credit losses ⁽³⁾ | 207 | 219 | - | 1 | 39 | 39 | (69) | 231 | 177 | 490 |
| Income before income taxes, non-controlling interest and discontinued operations | 513 | 450 | 132 | 104 | 365 | 374 | 13 | (344) | 1,023 | 584 |
| Income taxes ⁽⁴⁾ | 185 | 167 | 47 | 35 | 130 | 133 | 12 | (99) | 374 | 236 |
| Non-controlling interest | - | - | 4 | 3 | - | - | 23 | 27 | 27 | 30 |
| Income before discontinued operations | 328 | 283 | 81 | 66 | 235 | 241 | (22) | (272) | 622 | 318 |
| Discontinued operations | - | - | - | - | - | - | 2 | 111 | 2 | 111 |
| Net income | 328 | 283 | 81 | 66 | 235 | 241 | (20) | (161) | 624 | 429 |
| Average assets | 38,679 | 38,337 | 665 | 769 | 37,819 | 37,067 | (5,492) | (6,881) | 71,671 | 69,292 |

Personal and Commercial

This segment comprises the branch network, intermediary services, credit cards, insurance, commercial banking services and real estate.

Wealth Management

This segment comprises full-service retail brokerage, discount brokerage, mutual funds, trust services and portfolio management.

Financial Markets

This segment consists of corporate financing and lending, treasury operations, which include asset and liability management, and corporate brokerage.

Other

This heading comprises securitization operations, gains on the sale of operations, certain non-recurring items, discontinued operations and the unallocated portion of centralized service units.

(1) Since November 1, 2002, the Bank has modified the composition of its reportable segments in order to reflect changes to its organizational structure. The comparative figures have been restated to take these changes into account.

(2) Net interest income was grossed up by \$12 million (\$7 million in 2002) and other income by \$19 million (\$13 million in 2002) to bring the tax-exempt income earned on certain securities in line with the income earned on other financial instruments. An equivalent amount was added to income taxes.

(3) Provisions for credit losses for the operating segments are determined based on expected losses, which are established through statistical analysis. The difference between actual losses and expected losses is recorded under the "Other" heading.

(4) Net interest income was grossed up by \$42 million (\$29 million in 2002) and other income by \$55 million (\$57 million in 2002) to bring the tax-exempt income earned on certain securities in line with the income earned on other financial instruments. An equivalent amount was added to income taxes.



Head Office

600 de La Gauchetière West
Montreal, Quebec, Canada
H3B 4L2

www.nbc.ca

Caution regarding forward-looking statements

As part of its analyses and reports, National Bank of Canada from time to time makes forward-looking statements concerning the economy, market changes, the achievement of strategic objectives, certain risks and other related matters. By their very nature, such forward-looking statements involve inherent risks and uncertainties. It is therefore possible that express or implied projections contained in such statements will not materialize and will differ materially from actual future results. Such differences may be caused by factors which include, but are

not limited to, changes in Canadian and/or global economic conditions, particularly fluctuations in interest rates, currencies and other financial instruments, market conditions, technological changes or regulatory developments. Investors and others who base themselves on the Bank's forward-looking statements to make decisions should carefully consider the above factors as well as the uncertainties they represent and the risks they entail. The Bank therefore cautions readers not to place undue reliance on these forward-looking statements.

General Information

Investor Relations

Financial analysts and investors who want to obtain financial information on the Bank are asked to contact the Investor Relations Department, by telephone at (514) 394-0296, by fax at (514) 394-6196 or by e-mail at investorrelations@nbc.ca. For more information about the Bank and its publications, you can visit the Bank's website at www.nbc.ca.

Direct Deposit Service for Dividends

For security purposes, the National Bank offers its shareholders the possibility of having their dividend payments deposited directly to an account at the financial institution of their choice, provided it is equipped with an electronic funds transfer system.

Additional information may be obtained from the Registrar, National Bank Trust, at 1-800-341-1419 or (514) 871-7171, or by e-mail at clientele@tbn.nbc.ca.

Dividend Reinvestment and Share Purchase Plan

The National Bank offers holders of its common or preferred shares a Dividend Reinvestment and Share Purchase Plan through which they can reinvest their dividends in common shares of the Bank without paying any commissions or administration fees.

Participants in the Plan may reinvest all cash dividends paid on their eligible shares or, if they wish, make optional cash payments of at least \$500 per payment, to a maximum of \$5,000 per quarter.

Additional information may be obtained from the Registrar, National Bank Trust, at 1-800-341-1419 or (514) 871-7171, or by e-mail at clientele@tbn.nbc.ca.

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