

# Report to Shareholders

## Fourth Quarter 2004

### National Bank announces record net income for 2004 and meets all of its financial objectives

- Record net income of \$192 million for the fourth quarter of 2004 versus \$158 million for the same period of 2003
- Earnings per share up 28% to \$1.11 per share
- Net income of \$725 million or \$4.10 per share for fiscal 2004
- Return on common shareholders' equity of 19.7% for the fourth quarter and 18.8% for fiscal 2004
- An 11% increase in the quarterly dividend

**MONTREAL, December 2, 2004** – For the fourth quarter ended October 31, 2004, National Bank reported record net income of \$192 million, compared to \$158 million for the corresponding quarter one year earlier. Earnings per share for the quarter stood at \$1.11, up 28% from \$0.87 per share in the fourth quarter of 2003.

Return on common shareholders' equity reached 19.7% for the quarter, as against 16.4% for the year-earlier period.

As a result of excellent credit quality, the Bank reduced its general allowance for credit risk by \$35 million (\$23 million dollars net of income taxes), which increased earnings per share for the quarter by \$0.13. This adjustment is included in the "Other" heading in Segment Disclosures. Aside from the reversal of the general allowance, the growth in net income for the fourth quarter of 2004 compared to the same period of 2003 was attributable to the Personal and Commercial and Wealth Management segments.

In fact, the Personal and Commercial segment generated net income of \$97 million, up \$4 million, or 4%, from the same period one year earlier. Revenues climbed nearly 5% while operating expenses rose 4%.

Net income for the Wealth Management segment amounted to \$25 million for the quarter, 14% higher than the \$22 million recorded in the fourth quarter of 2003. Most of this increase derived from trust services.

The Financial Markets segment earned net income of \$65 million, the same as in the fourth quarter of 2003. The decline in trading revenues was largely offset by gains on securities and lower credit losses at Corporate and Investment Banking.

	For the quarter ended October 31		
	2004	2003	%
<b>Net income</b>			
Personal and Commercial	97	93	+4
Wealth Management	25	22	+14
Financial Markets	65	65	-
Other	5	(22)	
<b>Total</b>	<u>192</u>	<u>158</u>	+22
<b>Earnings per share</b>	<u>\$1.11</u>	<u>\$0.87</u>	+28
<b>Return on common shareholders' equity</b>	19.7%	16.4%	

	For the fiscal year ended October 31		
	2004	2003	%
<b>Net income</b>			
Personal and Commercial	388	358	+8
Wealth Management	105	82	+28
Financial Markets	250	219	+14
Other	(18)	(35)	
<b>Total</b>	<u>725</u>	<u>624</u>	+16
<b>Earnings per share</b>	<u>\$4.10</u>	<u>\$3.37</u>	+22
<b>Return on common shareholders' equity</b>	18.8%	16.5%	

"National Bank had another strong quarter, as expected," said Réal Raymond, President and Chief Executive Officer. "We're very satisfied with the way each segment has progressed. We are determined to capitalize on our expanding distribution network and product line and still deliver high-quality customer service," he continued, adding, "Our strategy, defined by our resolve to continue to be the leading bank in Quebec and to adopt a selective approach by choosing specialized niches elsewhere in Canada, is clearly driving this growth."

The Board of Directors today approved an 11% increase in the quarterly dividend, bringing the amount paid to \$0.42 per share.

For fiscal 2004, the Bank posted record net income of \$725 million, as against \$624 million for the previous year, for an increase of 16%. Earnings per share were up 22%, from \$3.37 for fiscal 2003 to \$4.10 for fiscal 2004. Return on common shareholders' equity stood at 18.8% for fiscal 2004 compared to 16.5% for fiscal 2003. For fiscal 2004, the general allowance for credit risk was reduced by a total of \$55 million (\$36 million net of income taxes), adding \$0.20 to earnings per share.

The Personal and Commercial segment generated net income of \$388 million in 2004, up \$30 million, or 8%, from the preceding year, due to revenue growth of 4% resulting from a 5% increase in the volume of loans and acceptances and a decrease in credit losses.

Net income for the Wealth Management segment rose \$23 million, or 28%, to \$105 million in 2004. This growth was partly due to substantial activity by individuals on financial markets during the first half of the fiscal year.

For the Financial Markets segment, net income totalled \$250 million in 2004, an increase of \$31 million, or 14%, compared to one year earlier. For fiscal 2004, gains on securities, corporate financing transactions and lower credit losses largely offset lower trading activities.

As at October 31, 2004, specific allowances and the general allowance for credit risk exceeded gross impaired loans by \$190 million, as against \$154 million as at October 31, 2003. Taking into account the \$55 million reduction in the general allowance for credit risk, which amounted to \$350 million as at October 31, 2004, net impaired loans fell by \$91 million, or nearly 60%, with Corporate and Investment Banking accounting for two-thirds of the decrease.

Tier 1 and total capital ratios were respectively 9.6% and 13.0% as at October 31, 2004 versus 9.6% and 13.4% as at October 31, 2003. During the year, the Bank repurchased 8.7 million common shares for cancellation under the normal course bid for an amount of \$382 million.

"Our 2004 results reveal an efficient, financially solid business that is seriously committed to its customers," said Réal Raymond, President and Chief Executive Officer. "As we turn the page on fiscal 2004, all of our attention will be focused on steering our resources and people towards growth. Our financial performance is proof that the strategy we implemented will ensure long-term growth for our shareholders. And on that note, I would like to thank our employees for delivering a fantastic year."

	Objectives	Results	
		Q4 2004	Fiscal year ended October 31, 2004
Growth in earnings per share	5% - 10%	28%	22%
Return on common shareholders' equity (ROE)	15% - 17%	19.7%	18.8%
Tier 1 capital ratio	8.75% - 9.50%	9.6%	9.6%
Dividend payout ratio	35% - 45%	35%	35%

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#### Caution regarding forward-looking statements

From time to time, National Bank of Canada makes written and oral forward-looking statements, included in this quarterly report, in other filings with Canadian regulators or the U.S. Securities and Exchange Commission, in reports to shareholders, in press releases and in other communications. All such statements are made pursuant to the "safe harbour" provisions of the United States Private Securities Litigation Reform Act of 1995. These forward-looking statements include, among others, statements with respect to the economy, market changes, the achievement of strategic objectives, certain risks as well as statements with respect to our beliefs, plans, expectations, anticipations, estimates and intentions. These forward-looking statements are typically identified by the words "may," "could," "should," "would," "suspect," "outlook," "believe," "anticipate," "estimate," "expect," "intend," "plan," and words and expressions of similar import.

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 a variety of 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.

## 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 2004 and for the fiscal year ended October 31, 2004.*

### Analysis of Results

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#### Operating Results

National Bank reported net income of \$192 million for the fourth quarter ended October 31, 2004, as against \$158 million for the corresponding quarter one year earlier. Earnings per share for the quarter amounted to \$1.11, as against \$0.87 for the same period of 2003, for an increase of 28%. Return on common shareholders' equity stood at 19.7% for the quarter, up from 16.4% for the quarter ended October 31, 2003.

For fiscal 2004, net income was \$725 million, an increase of 16% from the \$624 million reported at the end of fiscal 2003. Earnings per share for 2004 totalled \$4.10, up 22% from \$3.37 per share in fiscal 2003. Finally, return on common shareholders' equity was 18.8%, as against 16.5% one year earlier.

#### Results by Segment

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Since the beginning of fiscal 2004, the Bank has measured the results of its operating segments in terms of actual losses rather than expected losses. Prior year figures have been reclassified to comply with the current year presentation.

#### Personal and Commercial

Net income for the Personal and Commercial segment amounted to \$97 million for the fourth quarter of 2004, up 4% from \$93 million in the corresponding quarter of 2003. Growth in the volume of loans and acceptances, partly offset by narrower spreads, helped push up revenues by approximately 5%, while operating expenses increased 4%.

At \$326 million, net interest income for the quarter was \$5 million or 2% higher than for the same period of 2003. The average volume of loans and acceptances grew by 7% to \$40.9 billion in the fourth quarter of 2004, while the spread narrowed 14 basis points compared to the corresponding quarter of 2003. Other income for the quarter totalled \$179 million, up \$17 million or 10% from the fourth quarter of 2003. The main sources of growth were commercial lending fees, and card service and insurance revenues. Operating expenses for the quarter stood at \$316 million, compared to \$304 million for the same period of 2003, an increase of 4% owing primarily to compensation. The efficiency ratio improved to 62.6% for the fourth quarter of 2004 from 62.9% for the fourth quarter of 2003.

For fiscal 2004, net income for the Personal and Commercial segment was \$388 million, an 8% increase from the \$358 million recorded in 2003. Net interest income climbed \$41 million or 3%, primarily due to a \$1.9 billion or 5% increase in the volume of loans and acceptances. The impact on net interest income was partly offset by a change in the spread, which narrowed to 3.18% in 2004 from 3.23% in 2003. Other income reached \$666 million in 2004 versus \$629 million one year earlier. This growth stemmed mainly from transaction fees, card service revenues, insurance revenues and commissions paid by Wealth Management on sales of mutual funds and trust services. Operating expenses for fiscal 2004 totalled \$1,216 million, as against \$1,162 million in 2003. Nearly half of the \$54 million increase was attributable to compensation, with IT development costs and product promotion expenses making up the balance.

#### Wealth Management

Net income for Wealth Management in the fourth quarter of 2004 was \$25 million compared to \$22 million for the same period in 2003, representing an increase of \$3 million or 14%. Total revenues amounted to \$180 million for the quarter, up 3% from \$174 million in the corresponding period of 2003. Most of the increase was derived from higher mutual fund revenues, portfolio management and trust services. Operating expenses were \$139 million for the fourth quarter of 2004, up 1% from \$138 million for the same period one year earlier. The efficiency ratio improved from 79.3% in the fourth quarter of 2003 to 77.2% this quarter.

Net income for the Wealth Management segment in fiscal 2004 reached \$105 million as against \$82 million for fiscal 2003, for an increase of \$23 million or 28%. At \$743 million, revenues increased 13% from \$658 million in 2003. More than half this growth stemmed from brokerage activities, one quarter from portfolio management and the balance mainly from mutual funds. Operating expenses were \$576 million in 2004 versus \$526 million in 2003. Nearly two-thirds of the increase was attributable to variable compensation resulting from the higher volume of brokerage transactions. Moreover, the efficiency ratio improved from 79.9% in 2003 to 77.5% in 2004.

#### Financial Markets

Net income for the Financial Markets segment stood at \$65 million for the fourth quarter of 2004, unchanged from the year-earlier period. Trading revenues were particularly impressive in the final quarter of 2003. Their decline in the fourth quarter of 2004 was offset by gains on investment account securities and lower credit losses.

The segment posted revenues of \$246 million for the quarter, compared to \$274 million for the fourth quarter of 2003. Trading revenues were down \$55 million, while gains on investment account securities rose \$37 million.

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

Trading Revenues (millions of dollars)	Q4 2004	Q4 2003	2004	2003
<i>Financial Markets</i>				
Interest rate	(2)	19	43	86
Equities	58	42	190	145
Commodities and foreign exchange	8	58	30	96
	<b>64</b>	<b>119</b>	<b>263</b>	<b>327</b>
<i>Other segments</i>	3	3	8	13
<b>Total</b>	<b>67</b>	<b>122</b>	<b>271</b>	<b>340</b>
Net interest income	61	(33)	37	(41)
Other income	(13)	136	198	335
Taxable equivalent	19	19	36	46
<b>Total</b>	<b>67</b>	<b>122</b>	<b>271</b>	<b>340</b>

Totalling \$146 million, operating expenses for the quarter were down \$7 million from \$153 million in the fourth quarter of 2003 because of lower variable compensation related to trading activities. For the fourth quarter of 2004, the segment recovered \$1 million of the allowance for credit losses compared to a \$19 million charge for the same period in 2003.

The Financial Markets segment generated net income of \$250 million in fiscal 2004 for a 14% increase over the previous year. Segment revenues advanced 6%, or \$56 million, in 2004, to \$987 million. Approximately \$30 million of the increase was attributable to the loss on credit derivatives recorded in 2003, while the balance of the increase was derived from gains on securities and corporate financing revenues, which were partly offset by the decline in trading revenues. The segment's operating expenses in 2004 were \$541 million compared to \$527 million in 2003. Variable compensation expenses increased \$19 million. Moreover, savings were realized by streamlining certain non-profitable activities. The efficiency ratio improved from 56.6% in 2003 to 54.8% in 2004.

### Other

Net income for the "Other" heading in Segment Disclosures totalled \$5 million in the fourth quarter of 2004 compared to a loss of \$22 million for the same period last year. The variance was due primarily to the reduction in the general allowance for credit risk this quarter, representing a net-tax amount of \$23 million.

For fiscal 2004, the net loss for the "Other" heading in Segment Disclosures was \$18 million versus \$35 million in 2003. The reduction in the general allowance for credit risk added \$36 million, net of income taxes, to the results under the "Other" heading in fiscal 2004.

## Consolidated Results

### Total revenues

Total revenues in the fourth quarter stood at \$894 million, compared to \$903 million posted in the corresponding quarter of 2003.

Net interest income totalled \$387 million for the period, as against \$321 million for the year-earlier period, an increase of \$66 million or 21%. Net interest income for the Financial Markets segment rose \$80 million owing to lower interest paid on indexed deposits linked to a trading portfolio as a result of slimmer trading revenues in the portfolio and less need to resort to financing trading activities through sales of securities sold under repurchase agreements. Moreover, net interest income at Personal and Commercial grew by \$5 million, or 2%, to \$326 million for the fourth quarter of 2004. This improvement was fuelled primarily by a greater volume of loans and acceptances, offset, in part, by a narrower spread. Furthermore, net interest income under the "Other" heading was down \$19 million mainly due to the lower amount of capital allocated to the business segments further to the share repurchase programs.

Other income for the fourth quarter of 2004 amounted to \$507 million compared to \$582 million recorded for the corresponding quarter of 2003.

At \$139 million, financial market fees were down \$11 million from the same period a year earlier mainly because of corporate financing activities and retail brokerage activities as investors retreated from financial markets, generating fewer fees this quarter than in the year-earlier period.

The portion of trading revenues recorded as other income fell \$149 million from the fourth quarter of 2003. However, since less interest was paid on trading activities recorded as net interest income, total trading revenues for the quarter declined \$55 million. Moreover, gains on investment account securities advanced \$50 million to \$51 million in the fourth quarter of 2004.

Lending fees combined with revenues on acceptances, letters of credit and letters of guarantee increased \$7 million, or 10%, to \$74 million. This growth was due to commercial lending activities and corporate financing.

Securitization revenues for the quarter declined \$14 million to \$41 million as a result of the recent interest rate hikes, which reduced the gain on the sale of the underlying assets.

Lastly, revenues from trust services and mutual funds rose \$10 million, or 19%, in the quarter to \$63 million. This growth was attributable to the correspondent network, investment management, trust services and the increase in mutual fund assets under management.

For fiscal 2004, total revenues increased 6% to reach \$3,549 million compared to \$3,362 million in 2003. Excluding the "Other" heading, slightly more than half of total revenues in 2004 were derived from Personal and Commercial Banking, approximately 20% from Wealth Management and the remaining 27%, from Financial Markets. These proportions are similar to those recorded last year.

At \$1,383 million, net interest income in 2004 rose \$59 million, or 4%, from \$1,324 million in 2003. Net interest income for the Personal and Commercial segment accounted for \$41 million of the increase principally due to the \$1.9 billion, or 5%, growth in loan and acceptance volumes, which was partly offset by the narrower spread. Net interest income at Financial Markets jumped \$70 million from 2003.

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

This increase was attributable to trading activities, which are explained later in this report. Lastly, net interest income for the "Other" heading decreased \$54 million from 2003 because of share repurchase programs, which reduced capital and securitization activities.

Other income totalled \$2,166 million in 2004, up \$128 million, or 6%, from \$2,038 million in 2003.

Financial market fees rose \$89 million, or 16%, in 2004 to \$633 million. Just over 40% of the increase was derived from individual investor brokerage activities, while the balance stemmed from the Financial Markets segment, primarily corporate financing.

Trading revenues recorded as other income totalling \$198 million in 2004 were down \$137 million from 2003. Due to lower interest paid on trading activities recorded as net interest income, trading revenues on the whole were down \$59 million in 2004. However, gains on investment account securities shot up \$90 million to \$91 million in fiscal 2004.

Lending fees and other credit activities reached \$303 million dollars in 2004 compared to \$267 million in the previous year. An unamortized balance of certain mortgage loan prepayment fees, amounting to \$25 million, was included in "Lending fees" following the application of a new accounting standard that came into effect this year. Insurance revenues and consumer and corporate lending activities accounted for the remainder of the increase.

Securitization revenues decreased \$24 million, or 12%, owing to the termination of certain programs and smaller gains on the sale of the underlying assets.

At \$72 million, foreign exchange revenues in fiscal 2004 surpassed 2003 results by \$6 million, or 9%.

Revenues from trust services and mutual funds stood at \$244 million in 2004, up \$34 million, or 16%, from the previous year.

Approximately one-third of the increase was derived from correspondent network services, another 30% from investment management, one quarter from trust services and the remainder from mutual funds.

Approximately 35% of the increase in other items in "Other income" was attributable to investment management services.

### Operating Expenses

Operating expenses for the quarter totalled \$625 million compared to \$623 million for the same quarter of 2003. Salaries and staff benefits, which amounted to \$342 million for the quarter and accounted for approximately 55% of expenses, were down \$11 million year over year, primarily due to variable compensation related to trading activities. Occupancy costs, which totalled \$60 million for the quarter, rose \$12 million, mainly as a result of a higher allowance for vacant office space. Computer and equipment costs were up \$15 million but were offset in large part by professional fees, which were down \$11 million.

For fiscal 2004, operating expenses were \$2,392 million as against \$2,257 million in 2003. Slightly more than half of the \$135 million increase was attributable to compensation, primarily variable compensation. Moreover, computer and equipment costs for the year amounted to \$334 million, up \$22 million as a result of various initiatives to improve systems. Almost 45% of the increase in the "Other" heading was attributable to product promotion expenses and customer loyalty programs. At 65.4%, the efficiency ratio for 2004 was stable over 2003 when it stood at 65.3%.

### Trading Activities <sup>(1)</sup>

(millions of dollars)

Global VaR by risk category	For the quarter ended October 31, 2004				For the quarter ended July 31, 2004			
	Period end	High	Average	Low	Period end	High	Average	Low
Interest rate	(3.7)	(4.9)	(3.7)	(2.7)	(4.8)	(6.5)	(4.3)	(2.2)
Foreign exchange	(0.9)	(2.9)	(1.7)	(0.7)	(0.9)	(3.2)	(1.4)	(0.2)
Equity	(3.6)	(5.4)	(3.8)	(3.0)	(4.8)	(5.6)	(3.1)	(1.1)
Commodity	(1.0)	(1.0)	(0.8)	(0.6)	(0.9)	(1.0)	(0.7)	(0.6)
Correlation effect <sup>(2)</sup>	3.6	6.6	4.2	2.4	4.0	8.7	4.5	1.4
<b>Global VaR</b>	<b>(5.6)</b>	<b>(7.6)</b>	<b>(5.8)</b>	<b>(4.6)</b>	<b>(7.4)</b>	<b>(7.6)</b>	<b>(5.0)</b>	<b>(2.7)</b>

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

<sup>(2)</sup> The correlation effect results from diversification by risk type.

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

### Risk Management

#### Credit Risk

The Bank recorded an \$8 million recovery of credit losses for the quarter as against a \$50 million provision for the year-earlier period. In addition to the \$35 million decrease in the general allowance for credit risk, credit losses were down \$20 million at Financial Markets.

For fiscal 2004, credit losses amounted to \$86 million, a drop of \$91 million, or 51%, versus the 2003 fiscal year. In 2004, the Bank reduced its general allowance for credit risk by \$55 million. Moreover, the provision for credit losses declined \$19 million at Personal and Commercial and \$11 million at Financial Markets. The remainder of the decrease stemmed from the securitization recorded under "Other" in Segment Disclosures.

As at October 31, 2004, the allowance for credit losses exceeded impaired loans by \$190 million, compared to \$154 million as at year-end 2003. The \$36 million improvement stemmed from a \$58 million decrease in net impaired loans for Corporate and Investment Banking, \$17 million for Real Estate and \$12 million for Commercial Banking. These decreases were partially offset by the \$55 million reversal of the general allowance for credit risk.

The ratio of gross private impaired loans to total tangible capital and allowances was excellent at 11% as at October 31, 2004 versus 13% as at October 31, 2003.

#### 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. Market risk management is described in more detail on page 59 of the 2003 Annual Report.

The table on page 5 entitled "Trading Activities" illustrates the allocation of market risk by type of risk: interest rate, foreign exchange, equity price and commodity.

#### Balance Sheet

As at October 31, 2004, the Bank's total assets stood at \$88.8 billion, compared to \$84.9 billion as at October 31, 2003. Loans and acceptances rose \$2.9 billion, while cash resources, securities and securities purchased under reverse repurchase agreements were up \$1.1 billion. The following table presents the main portfolios.

Average monthly volumes (millions of dollars)	October 2004	October 2003
<b>Loans and acceptances*</b>		
Residential mortgages	19,554	18,105
Consumer loans	6,489	5,193
Credit card receivables	1,589	1,472
Business loans	17,240	18,143
	<b>44,872</b>	<b>42,913</b>
<b>Deposits</b>		
Personal (balance)	23,675	23,512
Off-balance sheet personal savings (balance)	57,456	51,747
Business	10,683	10,533

\* including securitized assets

As at October 31, 2004, residential mortgage loans were up \$1.4 billion, or 8%, from October 31, 2003 to \$19.6 billion. Consumer loans, which stood at \$6.5 billion, have risen nearly 25% for the year. Excluding indirect loans, this strong growth, which was mainly due to partnership volumes, would have been 29%. Credit card receivables have increased 8% to \$1.6 billion since the beginning of the fiscal year. Business loans and acceptances totalled \$17.2 billion as against \$18.1 billion as at the end of fiscal 2003. Corporate loans were down approximately \$1 billion, while SME loans and acceptances remained stable.

Personal deposits stood at \$23.7 billion as at October 31, 2004 versus \$23.5 billion on the same date a year earlier. As at October 31, 2004, off-balance sheet personal savings administered by the Bank totalled \$57.5 billion, for an increase of \$5.8 billion, or 11%, since the end of fiscal 2003. Approximately 60% of the increase was attributable to savings administered by brokerage subsidiaries. Of the remainder, \$1.2 billion stemmed from mutual funds, which were up 15%. Lastly, the savings products administered by National Bank Trust grew by \$900 million, or 45%, in fiscal 2004.

#### Capital

Tier 1 and total capital ratios, in accordance with the rules of the Bank for International Settlements, were 9.6% and 13.0% respectively as at October 31, 2004 compared to 9.6% and 13.4% as at October 31, 2003. Since the beginning of the 2004 fiscal year, net income, net of dividends, has been offset in large part by the repurchase of common shares.

#### Dividends

At its meeting of December 2, 2004, the Board of Directors declared regular dividends on the various classes and series of preferred shares and a dividend of 42 cents per common share, payable on February 1, 2005 to shareholders of record on December 27, 2004.

## Highlights

(unaudited)	Quarter ended October 31			Fiscal year ended October 31		
	2004	2003	% Change	2004	2003	% Change
<b>Operating results</b>						
(millions of dollars)						
Total revenues	\$894	\$903	(1)	\$3,549	\$3,362	6
Net income	192	158	22	725	624	16
Return on common shareholders' equity	19.7 %	16.4 %		18.8 %	16.5 %	
<b>Per common share</b>						
Earnings per share – basic	\$1.11	\$0.87	28	\$4.10	\$3.37	22
Dividends paid	0.38	0.28	36	1.42	1.08	31
Book value				22.87	21.32	7
Stock trading range						
High	48.78	41.19		48.78	41.19	
Low	42.31	34.50		40.17	29.95	
Close	48.78	40.91		48.78	40.91	
<b>Financial position</b>						
(millions of dollars)						
				October 31 2004	October 31 2003	
Total assets				\$88,807	\$84,931	5
Loans and acceptances				44,574	41,715	7
Deposits				53,432	51,463	4
Subordinated debentures and shareholders' equity				5,612	5,613	-
Capital ratios - BIS						
Tier 1				9.6 %	9.6 %	
Total				13.0 %	13.4 %	
Impaired loans, net of specific and general allowances				(190)	(154)	
as a % of loans and acceptances				(0.4)%	(0.4)%	
Assets under administration/management				180,598	155,348	
Total personal savings				81,131	75,259	
Interest coverage				12.61	10.22	
Asset coverage				3.42	3.19	
<b>Other information</b>						
Number of employees				16,555	16,935	(2)
Number of branches in Canada				462	477	(3)
Number of banking machines				770	817	(6)

## Consolidated Statement of Income

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

	Quarter ended			Fiscal year ended	
	October 31 2004	July 31 2004	October 31 2003	October 31 2004	October 31 2003
<b>Interest income and dividends</b>					
Loans	483	472	500	1,904	1,977
Securities	155	152	125	588	526
Deposits with financial institutions	24	28	31	113	131
	<b>662</b>	<b>652</b>	<b>656</b>	<b>2,605</b>	<b>2,634</b>
<b>Interest expense</b>					
Deposits	194	173	247	800	1,030
Subordinated debentures	24	25	26	99	105
Other	57	64	62	323	175
	<b>275</b>	<b>262</b>	<b>335</b>	<b>1,222</b>	<b>1,310</b>
<b>Net interest income</b>	<b>387</b>	<b>390</b>	<b>321</b>	<b>1,383</b>	<b>1,324</b>
<b>Other income</b>					
Financial market fees	139	152	150	633	544
Deposit and payment service charges	50	50	50	200	192
Trading revenues	(13)	2	136	198	335
Gains on investment account securities, net	51	12	1	91	1
Card service revenues	12	13	12	49	49
Lending fees	58	53	55	238	204
Acceptances, letters of credit and guarantee	16	17	12	65	63
Securitization revenues	41	45	55	180	204
Foreign exchange revenues	17	18	15	72	66
Trust services and mutual funds	63	62	53	244	210
Other	73	44	43	196	170
	<b>507</b>	<b>468</b>	<b>582</b>	<b>2,166</b>	<b>2,038</b>
<b>Total revenues</b>	<b>894</b>	<b>858</b>	<b>903</b>	<b>3,549</b>	<b>3,362</b>
<b>Provision for credit losses (recovery)</b>	<b>(8)</b>	<b>31</b>	<b>50</b>	<b>86</b>	<b>177</b>
	<b>902</b>	<b>827</b>	<b>853</b>	<b>3,463</b>	<b>3,185</b>
<b>Operating expenses</b>					
Salaries and staff benefits	342	325	353	1,359	1,287
Occupancy	60	46	48	200	192
Computers and equipment	96	81	81	334	312
Communications	19	19	20	77	80
Professional fees	20	42	31	118	112
Other	88	73	90	304	274
	<b>625</b>	<b>586</b>	<b>623</b>	<b>2,392</b>	<b>2,257</b>
<b>Income before income taxes and non-controlling interest</b>	<b>277</b>	<b>241</b>	<b>230</b>	<b>1,071</b>	<b>928</b>
Income taxes	77	68	66	318	277
	<b>200</b>	<b>173</b>	<b>164</b>	<b>753</b>	<b>651</b>
Non-controlling interest	8	6	6	28	27
<b>Net income</b>	<b>192</b>	<b>167</b>	<b>158</b>	<b>725</b>	<b>624</b>
Dividends on preferred shares	5	6	6	23	25
<b>Net income available to common shareholders</b>	<b>187</b>	<b>161</b>	<b>152</b>	<b>702</b>	<b>599</b>
Number of common shares outstanding (thousands)					
Average - basic	167,671	169,332	174,585	170,918	177,751
Average - diluted	169,936	171,634	176,347	173,276	179,235
At end				167,430	174,620
<b>Earnings per common share</b>					
Basic	1.11	0.95	0.87	4.10	3.37
Diluted	1.09	0.94	0.86	4.05	3.34
<b>Dividends per common share</b>	<b>0.38</b>	<b>0.38</b>	<b>0.28</b>	<b>1.42</b>	<b>1.08</b>

## Consolidated Balance Sheet

(unaudited)  
(millions of dollars)

	October 31 2004	July 31 2004	October 31 2003
<b>ASSETS</b>			
<b>Cash resources</b>			
Cash	481	226	222
Deposits with financial institutions	5,296	6,743	6,825
	5,777	6,969	7,047
<b>Securities</b>			
Investment account	7,428	5,631	6,998
Trading account	20,561	18,992	19,151
Loan substitutes	18	18	30
	28,007	24,641	26,179
<b>Securities purchased under reverse repurchase agreements</b>	4,496	4,451	3,955
<b>Loans</b>			
Residential mortgage	15,500	15,170	13,976
Personal and credit card	7,825	7,146	6,101
Business and government	18,751	19,394	18,934
Allowance for credit losses	(578)	(622)	(630)
	41,498	41,088	38,381
<b>Other</b>			
Customers' liability under acceptances	3,076	3,038	3,334
Premises and equipment	267	272	263
Goodwill	662	662	660
Intangible assets	180	181	183
Other assets	4,844	4,253	4,929
	9,029	8,406	9,369
	88,807	85,555	84,931
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Deposits</b>			
Personal	23,675	23,888	23,512
Business and government	24,299	23,847	22,700
Deposit-taking institutions	5,458	6,533	5,251
	53,432	54,268	51,463
<b>Other</b>			
Acceptances	3,076	3,038	3,334
Obligations related to securities sold short	10,204	9,140	8,457
Securities sold under repurchase agreements	8,182	7,233	8,674
Other liabilities	7,931	5,878	6,992
	29,393	25,289	27,457
<b>Subordinated debentures</b>	1,408	1,474	1,516
<b>Non-controlling interest</b>	370	402	398
<b>Shareholders' equity</b>			
Preferred shares	375	375	375
Common shares	1,545	1,544	1,583
Contributed surplus	7	6	2
Unrealized foreign currency translation adjustments	(10)	-	6
Retained earnings	2,287	2,197	2,131
	4,204	4,122	4,097
	88,807	85,555	84,931

## Consolidated Statement of Cash Flows

(unaudited)  
(millions of dollars)

	Quarter ended October 31		Fiscal year ended October 31	
	2004	2003	2004	2003
<b>Cash flows from operating activities</b>				
Net income	192	158	725	624
Adjustments for:				
Provision for credit losses (recovery)	(8)	50	86	177
Amortization of premises and equipment	16	13	52	49
Future income taxes	50	3	50	5
Translation adjustment on foreign currency subordinated debentures	(32)	(29)	(29)	(76)
Gains on sales of investment account securities, net	(51)	(1)	(91)	(1)
Gains on asset securitization	(14)	(29)	(67)	(86)
Stock option expense	1	-	5	2
Change in interest payable	6	56	4	72
Change in interest and dividends receivable	93	(49)	320	(34)
Change in income taxes payable	(17)	72	(160)	208
Change in unrealized losses (gains) and net amounts payable on derivative contracts	177	(151)	10	(458)
Change in trading account securities	(1,569)	(4,519)	(1,410)	(5,972)
Excess of pension plan contributions over expenses	-	(178)	(20)	(255)
Change in other items	1,073	435	807	1,034
	(83)	(4,169)	282	(4,711)
<b>Cash flows from financing activities</b>				
Change in deposits	(836)	(64)	1,969	(227)
Maturity of subordinated debentures	(34)	-	(79)	-
Issuance of common shares	9	3	42	26
Issuance of preferred shares	-	-	-	200
Repurchase of common shares for cancellation	(41)	-	(382)	(298)
Redemption of preferred shares for cancellation	-	-	-	(125)
Dividends paid on common shares	-	(98)	(179)	(235)
Dividends paid on preferred shares	(6)	(6)	(23)	(25)
Change in obligations related to securities sold short	1,064	2,230	1,747	2,915
Change in securities sold under repurchase agreements	949	2,492	(492)	4,258
Change in other items	(10)	(8)	(16)	(16)
	1,095	4,549	2,587	6,473
<b>Cash flows from investing activities</b>				
Change in loans	(693)	13	(4,730)	(1,328)
Proceeds from securitization of assets	291	567	1,527	1,529
Purchases of investment account securities	(7,367)	(6,504)	(15,480)	(21,342)
Sales of investment account securities	5,621	6,386	15,141	21,208
Change in securities purchased under reverse repurchase agreements	(45)	(360)	(541)	(1,589)
Net acquisition of premises and equipment	(11)	(31)	(56)	(57)
	(2,204)	71	(4,139)	(1,579)
<b>Increase (decrease) in cash and cash equivalents</b>	(1,192)	451	(1,270)	183
Cash and cash equivalents at beginning	6,969	6,596	7,047	6,864
Cash and cash equivalents at end	5,777	7,047	5,777	7,047
<b>Cash and cash equivalents</b>				
Cash	481	222	481	222
Deposits with financial institutions	5,296	6,825	5,296	6,825
	5,777	7,047	5,777	7,047
<b>Supplementary information</b>				
Interest and dividends paid	275	383	1,420	1,498
Income taxes paid	74	13	460	127

## Consolidated Statement of Changes in Shareholders' Equity

(unaudited)  
(millions of dollars)

	Fiscal year ended October 31	
	2004	2003
<b>Preferred shares at beginning</b>	375	300
Issuance of preferred shares, Series 15	-	200
Redemption of preferred shares, Series 12 for cancellation	-	(125)
<b>Preferred shares at end</b>	<b>375</b>	<b>375</b>
<b>Common shares at beginning</b>	<b>1,583</b>	<b>1,639</b>
Issuance of common shares	42	26
Repurchase of common shares for cancellation (Note 7)	(80)	(82)
<b>Common shares at end</b>	<b>1,545</b>	<b>1,583</b>
<b>Contributed surplus at beginning</b>	<b>2</b>	<b>-</b>
Stock option expense	5	2
<b>Contributed surplus at end</b>	<b>7</b>	<b>2</b>
<b>Unrealized foreign currency translation adjustments at beginning</b>	<b>6</b>	<b>17</b>
Losses on foreign exchange operations whose functional currency is other than the Canadian dollar, net of income taxes	(16)	(11)
<b>Unrealized foreign currency translation adjustments at end</b>	<b>(10)</b>	<b>6</b>
<b>Retained earnings at beginning</b>	<b>2,131</b>	<b>1,945</b>
Net income	725	624
Dividends		
Preferred shares	(23)	(25)
Common shares	(243)	(193)
Income taxes related to dividends on preferred shares, Series 12, 13 and 15	(1)	-
Premium paid on common shares repurchased for cancellation (Note 7)	(302)	(216)
Share issuance expenses, net of income taxes	-	(4)
<b>Retained earnings at end</b>	<b>2,287</b>	<b>2,131</b>
<b>Shareholders' equity</b>	<b>4,204</b>	<b>4,097</b>

## 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, 2003. Certain comparative figures have been reclassified to comply with the presentation adopted in fiscal 2004.*

### 1. Significant Accounting Policies

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These unaudited interim consolidated financial statements of the Bank have been 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, 2003, except for the new standards described in Note 2.

As at October 31, 2004, the positive fair value of financial instruments used for trading purposes is presented under "Other assets" in the Consolidated Balance Sheet; the negative fair value is presented under "Other liabilities." Figures as at October 31, 2003 have been reclassified to conform to the presentation adopted in the current year.

### 2. Recent Accounting Standards Adopted

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#### Generally Accepted Accounting Principles

On November 1, 2003, the Bank adopted the requirements of Section 1100 of the CICA Handbook, "Generally Accepted Accounting Principles." This Section establishes standards for financial reporting in accordance with generally accepted accounting principles ("GAAP") and identifies other sources to consult when selecting accounting policies and determining appropriate disclosures when a matter is not dealt with explicitly in the primary sources of GAAP. The application of this standard eliminates certain practices that may have been used within a particular industry. The only material impact on the results of the Bank is that certain mortgage loan repayment fees are no longer amortized. Since November 1, 2003, certain fees have been recognized in the Consolidated Statement of Income under "Lending fees" when earned. Prior to November 1, 2003, mortgage loan repayment fees were deferred and amortized to interest income over the term of the loan. Following the adoption of Section 1100, an unamortized balance of mortgage loan repayment fees, which amounted to \$25 million as at October 31, 2003 (\$16 million net of income taxes), was recorded during the first quarter in the Consolidated Statement of Income under "Lending fees." In addition, following the adoption of Section 1100, net amounts receivable from financial institutions related to cheques and other items in

the clearing process are presented as assets in the Consolidated Balance Sheet, while net amounts payable to individual financial institutions are presented as liabilities. As at October 31, 2003, the net balance for all financial institutions was presented as an asset in the Consolidated Balance Sheet.

#### Hedging relationships

On November 1, 2003, the Bank adopted CICA Accounting Guideline No.13 "Hedging Relationships" (AcG-13). This Guideline 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 it does not cover hedge accounting techniques. Monetary or derivative financial instruments used in risk management that satisfy the conditions for hedge accounting are recorded using the hedge accounting methodology described in Note 1 of the 2003 Annual Report.

When a hedging relationship ceases to be effective, hedge accounting will be discontinued prospectively, and the financial instrument will be carried at fair value on the Consolidated 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, 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.

Derivative financial instruments that do not qualify for hedge accounting under AcG-13 are carried at fair value on the Consolidated Balance Sheet as at November 1, 2003. The resulting \$16 million transitional gain is deferred and recognized in income over the remaining life term of the hedge item.

#### Impairment of long-lived assets

On November 1, 2003, the Bank adopted the recommendations of CICA standard "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 disposition. The impairment loss is to be measured as the excess of the carrying value of the asset over its fair value. The adoption of this standard had no impact on the consolidated financial statements for the fiscal year ended October 31, 2004.

## Notes to the Consolidated Financial Statements (cont.) (unaudited) (millions of dollars)

### Equity-linked deposit contracts

On November 1, 2003, the Bank adopted CICA Accounting Guideline No. 17 "Equity-Linked Deposit Contracts". Under this Guideline, 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 investors, after a specified period of time, to receive the higher of a stated percentage of their principal investment and a variable amount based on the return on equities or an equity index. Any subsequent changes in fair value are recognized in the Consolidated Statement of Income as they arise.

The adoption of this Guideline did not have a material impact on the consolidated financial statements for the fiscal year ended October 31, 2004.

### 3. Recent Accounting Standards Pending Adoption

#### Variable interest entities

On November 1, 2004, the Bank will adopt Accounting Guideline No. 15 "Consolidation of Variable Interest Entities" (AcG-15). This Guideline is harmonized with new FASB Interpretation No. 46 (FIN46R) "Consolidation of Variable Interest Entities" and provides guidance on the application of the standards set out in Section 1590, "Subsidiaries" of the CICA Handbook for certain entities defined as variable interest entities ("VIEs"). VIEs are entities in which equity investors do not have controlling financial interest or the equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support provided by other parties. AcG-15 requires the consolidation of a VIE by its primary beneficiary, i.e., the party that receives the majority

of the expected residual returns and/or absorbs the majority of the entity's expected losses. Based on information currently available, the application of the provisions of AcG-15 on November 1, 2004 will result in the consolidation of certain mutual funds in which the Bank has a significant investment and the consolidation of the VIE that leases the Bank's head office building under a capital lease. The estimated impact of this standard will result in an increase in "Premises and equipment" of \$84 million, "Securities" of \$54 million, "Other assets" of \$3 million, "Other liabilities" of \$93 million, "Non-controlling interest" of \$45 million, and "Retained earnings" of \$3 million. The Bank continues to assess the impact of this new Guideline on its consolidated financial statements.

#### Investment companies

In January 2004, the CICA issued Accounting Guideline No.18 "Investment Companies." Under this Guideline, investment companies would be required to account for all their investments at fair value, including investments that would otherwise be consolidated or accounted for using the equity method. The Guideline sets out the criteria for determining whether a company is an investment company and also provides guidance on the circumstances in which the parent company of, or equity method investor in, an investment company should account for the investment company's investments at fair value.

The provisions of the Guideline will apply to the Bank as of November 1, 2004. They may be applied prospectively or retroactively. The Bank is currently evaluating the impact of this new Guideline.

**Notes to the Consolidated Financial Statements (cont.)**  
(unaudited) (millions of dollars)

**4. Loans and Impaired Loans**

	Gross amount	Impaired loans		Net
		Gross allowances	Specific Country risk allowance	
<b>October 31, 2004</b>				
Residential mortgage	15,500	4	2	2
Personal and credit card	7,825	32	17	15
Business and government	18,751	352	209	143
	<b>42,076</b>	<b>388</b>	<b>228</b>	<b>160</b>
General allowance <sup>(1)</sup>				<b>(350)</b>
Impaired loans, net of specific and general allowances				<b>(190)</b>
<b>October 31, 2003</b>				
Residential mortgage	13,976	7	3	4
Personal and credit card	6,101	33	17	16
Business and government	18,934	436	186	231
	39,011	476	206	251
General allowance <sup>(1)</sup>				<b>(405)</b>
Impaired loans, net of specific and general allowances				<b>(154)</b>

As at October 31, 2004, net foreclosed assets held for sale represented a negligible net amount (\$6 million as at October 31, 2003) and foreclosed assets held for use, \$1 million (\$4 million as at October 31, 2003).

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

**5. Allowance for Credit Losses**

The changes made to allowances during the year are as follows:

	Specific allowances	Allocated general allowance	Unallocated general allowance	Country risk allowance	2004	2003
Allowances at beginning	206	300	105	19	630	662
Provision for credit losses	141	(28)	(27)	-	86	177
Write-offs	(178)	-	-	(19)	(197)	(259)
Recoveries	59	-	-	-	59	50
Allowances at end	228	272	78	-	578	630

**6. Pension and Other Employee Future Benefits**

	Quarter ended			Fiscal year ended	
	October 31 2004	July 31 2004	October 31 2003	October 31 2004	October 31 2003
Pension benefit expense	5	11	8	38	32
Other employee future benefit expense	3	2	1	11	26

**Notes to the Consolidated Financial Statements (cont.)**  
(unaudited) (millions of dollars)

**7. Capital Stock**

<b>Issued and fully paid as at October 31, 2004</b>	
First preferred shares	
7,000,000 shares, Series 13	175
8,000,000 shares, Series 15	200
	<u>375</u>
167,430,253 common shares	1,545
	<u>1,920</u>
6,180,960 stock options outstanding	N/A

**Repurchase of common shares**

On December 8, 2003, the Bank commenced a normal course issuer bid for the repurchase of up to 8,700,000 common shares over a 12-month period ending no later than December 7, 2004. Repurchases were made on the open market at market prices through the facilities of The Toronto Stock Exchange. Premiums paid above the average carrying value of the common shares were charged to retained earnings.

As at October 31, 2004, the Bank completed the repurchase of 8,700,000 common shares at a cost of \$382 million, which reduced common equity capital by \$80 million and retained earnings by \$302 million.

**8. Securitization**

**CMHC-guaranteed mortgage loans**

During the fourth quarter of 2004, the Bank securitized \$291 million of guaranteed residential mortgage loans through the creation of mortgage-backed securities. The Bank received net cash proceeds of \$289 million and retained the rights to the excess spread of \$11 million generated on the mortgage loans. The Bank also recorded a servicing liability of \$2 million. A pre-tax gain of \$7 million, net of transaction fees, was recognized in the Consolidated Statement of Income under "Securitization revenues."

**Credit card receivables**

Following the maturity of a \$200 million bond during the fourth quarter of 2004, gross securitized credit card receivables outstanding declined from \$1.1 billion to \$900 million as at October 31, 2004.

**9. Guarantees, Commitments and Contingent Liabilities**

As at October 31, 2004, there were no significant changes with respect to the guarantees issued by the Bank as defined in Accounting Guideline No.14 "Disclosure of Guarantees" and presented in Note 18 to the Consolidated Financial Statements for the year ended October 31, 2003, except for the addition of the following guarantees:

**Backstop liquidity facilities – multi-seller conduit**

The Bank administers a multiseller conduit that buys various financial assets from clients and finances these purchases by issuing asset-backed commercial paper. The Bank provides backstop liquidity facilities for commercial paper to the multi-seller conduit. These backstop liquidity facilities may only be drawn upon if, after a market disruption, the conduit was unable to access the commercial paper market. These guarantees have a duration of less than one year and are renewable periodically. The terms of the backstop liquidity facilities do not require the Bank to advance money to the conduit in the event of a bankruptcy or to fund non-performing or defaulted assets. None of the backstop liquidity facilities provided by the Bank have been drawn upon to date. As at October 31, 2004, the maximum potential future payments that the Bank may be required to make under these backstop liquidity facilities was \$1,115 million. No amount has been accrued in the Consolidated Balance Sheet with respect to these backstop liquidity facilities.

**Other indemnification agreements**

As a member of a securities transfer network, and pursuant to the membership agreement and the regulations governing the operation of the network, the Bank granted a mortgage to the network that could be used in the event another member fails to meet its contractual obligations. Due to the nature of the agreement, the Bank is unable to estimate the maximum amount it may be required to pay. This commitment will end when the Bank ceases to be a member of the network. No amount has been accrued in the Consolidated Balance Sheet with respect to this agreement.

## Notes to the Consolidated Financial Statements (cont.) (unaudited) (millions of dollars)

### 10. Segment Disclosures

#### Quarter ended October 31

	Personal and Commercial		Wealth Management		Financial Markets		Other		Total	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Net interest income <sup>(1)</sup>	326	321	24	24	110	30	(73)	(54)	387	321
Other income <sup>(1)</sup>	179	162	156	150	136	244	36	26	507	582
Total revenues	505	483	180	174	246	274	(37)	(28)	894	903
Operating expenses	316	304	139	138	146	153	24	28	625	623
Contribution	189	179	41	36	100	121	(61)	(56)	269	280
Provision for credit losses	39	40	–	–	(1)	19	(46)	(9)	(8)	50
Income before income taxes and non-controlling interest	150	139	41	36	101	102	(15)	(47)	277	230
Income taxes <sup>(1)</sup>	53	46	15	13	36	37	(27)	(30)	77	66
Non-controlling interest	–	–	1	1	–	–	7	5	8	6
Net income (net loss)	97	93	25	22	65	65	5	(22)	192	158
Average assets	41,631	39,102	840	802	40,305	39,320	(4,711)	(5,156)	78,065	74,068

#### Fiscal year ended October 31

	Personal and Commercial		Wealth Management		Financial Markets		Other		Total	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Net interest income <sup>(2)</sup>	1,289	1,248	93	91	256	186	(255)	(201)	1,383	1,324
Other income <sup>(2)</sup>	666	629	650	567	731	745	119	97	2,166	2,038
Total revenues	1,955	1,877	743	658	987	931	(136)	(104)	3,549	3,362
Operating expenses	1,216	1,162	576	526	541	527	59	42	2,392	2,257
Contribution	739	715	167	132	446	404	(195)	(146)	1,157	1,105
Provision for credit losses	136	155	–	–	52	63	(102)	(41)	86	177
Income before income taxes and non-controlling interest	603	560	167	132	394	341	(93)	(105)	1,071	928
Income taxes <sup>(2)</sup>	215	202	58	46	144	122	(99)	(93)	318	277
Non-controlling interest	–	–	4	4	–	–	24	23	28	27
Net income (net loss)	388	358	105	82	250	219	(18)	(35)	725	624
Average assets	40,544	38,679	834	805	42,364	37,819	(5,070)	(5,493)	78,672	71,810

#### Personal and Commercial

The *Personal and Commercial* segment comprises the branch network, intermediary services, credit cards, insurance, commercial banking services and real estate.

#### Wealth Management

The *Wealth Management* segment comprises full-service retail brokerage, discount brokerage, mutual funds, trust services and portfolio management.

#### Financial Markets

The *Financial Markets* segment encompasses corporate financing and lending, treasury operations, including asset and liability management, and corporate brokerage.

#### Other

The *Other* heading comprises securitization operations, gains on the sale of operations, certain non-recurring items and the unallocated portion of centralized services.

#### (1) Taxable equivalent

The accounting policies are the same as those described in the Note on accounting policies (Note 1), with the exception of net interest income, other income and income taxes of the operating segments, which are presented on a taxable equivalent basis. Taxable equivalent basis is a calculation method that consists in grossing up

certain tax-exempt income by the amount of income tax that otherwise would have been payable. For all of the operating segments, net interest income was grossed up by \$16 million (\$12 million in 2003) and other income by \$22 million (\$19 million in 2003). An equal amount was added to income taxes. The impact of these increases is reversed under the "Other" heading.

(2) For the fiscal year ended October 31, 2004, net interest income was grossed up by \$62 million (\$42 million in 2003) and other income by \$46 million (\$55 million in 2003). An equivalent amount was added to income taxes. The impact of these increases is reversed under the "Other" heading.

## Bank News

**Louis Vachon to succeed Jean Turmel:** Following a decision by the Board of Directors, Louis Vachon, Senior Vice-President - Treasury and Financial Markets, will succeed Jean Turmel, President - Financial Markets, Treasury and Investment Bank, when Mr. Turmel steps down on January 1, 2005. As part of his new functions, Mr. Vachon will become Chairman of the Board of a new entity, National Bank Financial Group. He will also be Chairman of the Board of Directors of Natcan Investment Management, while continuing to serve as Senior Vice-President and a member of the Bank's Executive Committee.

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**Honourable Mention at the 2004 Grands Prix québécois de la qualité:** On September 30, the Bank proudly accepted an Honourable Mention in the "large service company" category of the *Grands Prix québécois de la qualité*. This honour recognizes the Bank's commitment to service quality and rewards its initiatives to increase customer satisfaction. The *Grands Prix québécois de la qualité* are organized jointly by the *Ministère du Développement économique et régional et de la Recherche* and the *Mouvement québécois de la qualité*. These awards highlight the work of organizations that have successfully applied best management practices to all aspects of their operations while achieving exceptional results.

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**Donation of \$500,000 to Université de Moncton:** On September 30, the Bank's Board of Directors met in Bouctouche, New Brunswick, to mark the 400th anniversary of Acadia. Réal Raymond, President and Chief Executive Officer of the Bank, used the occasion to announce a \$500,000 donation to the university for its current fundraising campaign. The Bank has been a partner of *Université de Moncton* since it was created 40 years ago.

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**Presentations to investors by Réal Raymond and Michel Labonté:** Réal Raymond, President and Chief Executive Officer, spoke to US investors at the RBC Capital Markets Financial Institutions Conference in Martha's Vineyard on investment opportunities offered by Canadian banks, especially National Bank. He also delivered a talk at the Scotia Capital Financial Summit in Toronto. Mr. Labonté, Senior Vice-President - Finance, Technology and Corporate Affairs, participated in the CIBC World Markets Frontenac Institutional Investor Conference in Quebec City. The two Canadian conferences addressed growth opportunities for the Bank across the country.

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**Launch of BusinessFlex Solutions inc.:** On September 15, the Bank launched BusinessFlex Solutions inc., a brand new Internet banking solution tailored to the needs and realities of today's SMEs. Intended for businesses with total commercial commitments of \$250,000 or less, BusinessFlex Solutions inc. offers a suite of financing, banking management, payroll and credit card solutions.

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**The "Connected to Your Business" trailer:** Between September 13 and October 14 the "Connected to Your Business" trailer, sponsored by the Bank and IBM, toured Quebec to familiarize SME owner-managers with the Bank's online business solutions. The 58-foot trailer, stocked with sophisticated IBM equipment, made stops in six large cities throughout the province.

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**The Bank invests more than \$800,000 in Rouyn-Noranda:** On September 1, the Bank announced plans to invest more than \$800,000 to construct a new branch in downtown Rouyn-Noranda. The new facilities will house all Personal and Commercial Banking services under one roof. This investment will strengthen the Bank's presence in Abitibi-Témiscamingue, where it has been an important economic partner for more than 80 years.

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**Something new on the Bank's website for the 18-24 set:** In August, the Bank launched a new section on its website exclusively for 18-to-24-year-olds. It offers a vast array of information, useful advice and solutions that meet the savings and financing needs of this age group.

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## Economic Commentary

*For a more detailed analysis and up-to-date information on the state of the global and local economy, we invite you to consult the following National Bank economic publications:*

**Economic and Financial Outlook:** A complete survey of the economic outlook in North America and abroad, the provincial economies, and financial markets and sectors. Published twice a year.

**Monthly Economic Monitor:** An overview of recent economic developments in Canada, the United States and around the world, with an update of our economic forecast.

**Economic Weekly:** A weekly analysis of current economic issues along with the latest figures for selected indicators of foreign, North American and provincial economies, and commodity prices.

These publications are available on the Bank's website at [www.nbc.ca](http://www.nbc.ca) from the menu on the right-hand side of the screen under Economic Analysis.

## National Bank of Canada Information for Shareholders and Investors

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### Investor Relations

Financial analysts and investors who want to obtain financial information on the Bank are asked to contact the Investor Relations Department.

600 de La Gauchetière West, 7th Floor

Montreal, Quebec H3B 4L2

Telephone: (514) 394-0296

Fax: (514) 394-6196

E-mail: [investorrelations@nbc.ca](mailto:investorrelations@nbc.ca)

Website: [www.nbc.ca/investorrelations](http://www.nbc.ca/investorrelations)

### Public Relations

600 de La Gauchetière West, 10th Floor

Montreal, Quebec H3B 4L2

Telephone: (514) 394-8644

Fax: (514) 394-6258

Website: [www.nbc.ca](http://www.nbc.ca)

General information: [telnat@nbc.ca](mailto:telnat@nbc.ca)

### Quarterly report publication dates for fiscal 2004-2005

First quarter February 24, 2005

Second quarter May 26, 2005

Third quarter August 25, 2005

Fourth quarter December 8, 2005

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### DISCLOSURE OF 4th QUARTER 2004 RESULTS

#### Conference Call:

- A conference call for analysts and institutional investors will be held on **December 2, 2004 at 1:00 p.m. ET.**
- Access by telephone is **1-877-211-7911** or **(416) 405-9310.**
- A recording of the conference call can be heard until December 9, 2004 by calling **1-800-408-3053** or **(416) 695-5800.** The access code is **3113879.**

#### Webcast:

- The conference call will be webcast live at [www.nbc.ca/investorrelations](http://www.nbc.ca/investorrelations).
- A recording of the webcast will also be available on the Internet after the call.

#### Financial documents:

- Quarterly financial statements are available at all times on National Bank's website at [www.nbc.ca/investorrelations](http://www.nbc.ca/investorrelations).
- The Report to Shareholders, supplementary financial information and a slide presentation will be available on the Investor Relations page of National Bank's website shortly before the start of the conference call.

#### Transfer agent and registrar

For information about stock transfers, address changes, dividends, lost stock certificates, tax forms and estate transfers, shareholders are requested to contact the transfer agent, National Bank Trust Inc., at the address and telephone numbers below.

#### National Bank Trust Inc.

Share Ownership Management

1100 University, 9th Floor

Montreal, Quebec H3B 2G7

Telephone: (514) 871-7171

1-800-341-1419

Fax: (514) 871-7442

E-mail: [clientele@tbn.bnc.ca](mailto:clientele@tbn.bnc.ca)

#### Direct deposit service for dividends

Shareholders may have their dividend payments deposited directly via electronic funds transfer to an account at any financial institution that is a member of the Canadian Payments Association. To do so, simply contact the transfer agent, National Bank Trust Inc., in writing.

#### Dividend Reinvestment Plan

National Bank offers holders of its common or preferred shares a Dividend Reinvestment and Share Purchase Plan through which they can invest in shares without paying any commissions or administration fees. Participants may reinvest all cash dividends paid on their shares held or make optional cash payments of at least \$500 per payment, to a maximum of \$5,000 per quarter, to purchase shares. For more information, please contact the Registrar, National Bank Trust Inc., at 1-800-341-1419 or (514) 871-7171.



**Head Office**

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[www.nbc.ca](http://www.nbc.ca)

[www.nbc.ca/investorrelations](http://www.nbc.ca/investorrelations)