



## NATIONAL BANK FINANCIAL

Canadian Financial Services Conference

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March 29 • 06



## FORWARD-LOOKING STATEMENTS

### CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that predictions, forecasts, conclusions or projections will not prove to be accurate, that our assumptions may not be correct and that actual results may differ materially from such predictions, forecasts, conclusions or projections. We caution readers of this presentation not to place undue reliance on our forward-looking statements as 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.

The future outcomes that relate to forward-looking statements may be influenced by many factors, including but not limited to: general economic conditions in the countries in which we operate; currency value fluctuations; changes in monetary policy; the degree of competition in the geographic and business areas in which we operate; changes in laws; judicial or regulatory proceedings; the accuracy and completeness of the information we obtain with respect to our customers and counterparties; our ability to execute our strategic plans and to complete and integrate acquisitions; critical accounting estimates; operational and infrastructure risks; general political conditions; global capital market activities; the possible effects on our business of war or terrorist activities; disease or illness that affects local, national or international economies; disruptions to public infrastructure, such as transportation, communications, power or water supply; and technological changes.

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**2006**

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**2006 PRIORITIES**

	<b>Achieve financial targets</b> with a particular focus on revenue growth to improve productivity
	<b>Drive revenue growth</b> by providing a superior client experience and earning a larger share of customers' business
	<b>Continue to improve U.S. performance</b>
	<b>Accelerate growth in the United States</b> both organically and through acquisitions
	<b>Grow net income in Canada</b> through operational efficiency and improved market share, accelerating our growth in commercial banking and wealth management
	<b>Build a high-performance organization</b> by developing our people, living our values and being an employer of choice
	<b>Maintain our world-class foundation</b> of leading governance, sound risk management, productive systems and excellent after sales service

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## P&C CHICAGOLAND BANKING STRATEGY, ASPIRATION AND PRIORITIES

- Our differentiated strategy is to leverage strong community leaders focused on growing deep customer relationships through exceptional service and offering a complete range of products and services through an expanding distribution network
- Our aspiration is to be the leading Midwest retail and commercial bank
- Our priorities are:
  - ▶ Improving organic growth
  - ▶ Expanding our retail footprint in the Midwest through de novo growth and acquisitions

## OVERVIEW OF THE U.S. FINANCIAL SERVICES INDUSTRY

- Large, growing, diverse and fragmented market with almost 9,000 banking institutions and thrifts
- U.S. and Canadian markets have significant differences in customer preferences and market structure
  - ▶ Payment processing models
  - ▶ Adoption of electronic channels
  - ▶ Regulatory requirements (e.g., Community reinvestment act, Anti-money laundering)
  - ▶ Customer buying behaviour and share of wallet

Top 5 MSA Profile			
	Population (MM)*	Population Growth(%)**	Per Capita Personal Income (\$M)***
New York	18.7	10.8	41
Los Angeles	12.9	8.4	33
<b>Chicago</b>	<b>9.4</b>	<b>12.7</b>	<b>35</b>
Philadelphia	5.8	12.6	37
Dallas	5.7	29.3	34

\* Population as of July 2004  
 \*\* Population growth rate 1990-2000  
 \*\*\* Per capita income in 2003

Source: SNL database, FDIC, US census

## CHICAGO AREA OVERVIEW

An attractive, growing, fragmented and competitive retail banking market

- Chicago Metropolitan Statistical Area (MSA) key demographic indicators:
  - ▶ Population growth in the second quartile of all U.S. MSAs
  - ▶ Median household income in the first quartile of all U.S. MSAs
- Banking statistics:
  - ▶ Almost 3,000 branches in MSA
  - ▶ Top 5 bank deposit market share significantly lags other major MSAs; increasing market fragmentation
  - ▶ 14 new banking charters granted and over 561 new branches opened in last 3 years (highest MSA branch growth rate in the U.S.)

	# Banks	# of Bank branches	Branches/100,000 people	Deposit share of top 5 competitors*
New York	233	5,236	28	57%
Los Angeles	160	2,227	17	53%
<b>Chicago</b>	<b>309</b>	<b>2,989</b>	<b>32</b>	<b>45%</b>
Philadelphia	156	1,893	33	54%
Dallas	176	1,493	26	67%

\* Unadjusted in-market deposits as of 6/30/05  
Source: SNL database, FDIC

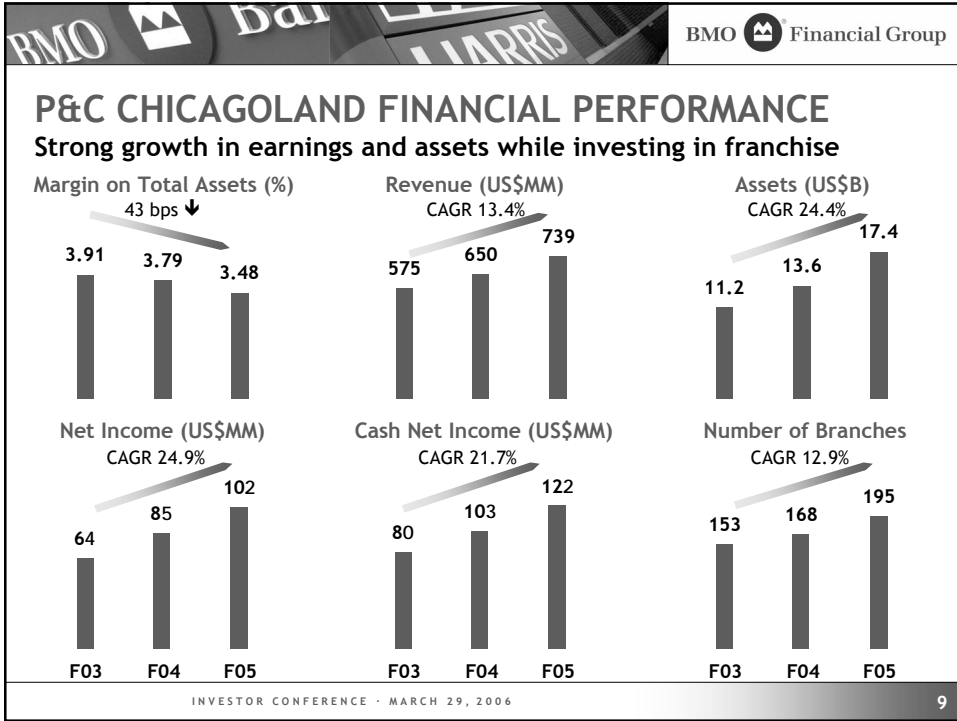
## CHICAGO MSA MARKET SHARE INFORMATION

Retail and small business adjusted deposit market share

	Number of Branches	2000 share (%)	2005 share (%)	1 Year Growth (%)	5 Year Growth (%)	Deposits per Branch (\$MM) 2005
Chase	287	10.6	10.5	1.9	37.7	61.3
Harris*	172	8.1	8.5	0.4	45.5	83.1
LaSalle	140	10.1	7.6	3.2	4.9	91.4
Fifth Third	103	4.8	4.3	13.5	27.4	70.9
Charter One	136	3.8	3.8	0.7	40.1	47.1
Top 5 Share (%)		37.4	34.7			
Total Market Size (US\$B)		<b>\$120.3</b>	<b>\$168.7</b>			
Total Market Growth (%)		8.4	7.7	7.7	40.3	

\* Harris branch count above excludes 19 Mercantile branches, 2 Villa Park branches and 6 net new branches opened post 6/30/05

Source: [www.fdic.gov](http://www.fdic.gov) as at June 30, 2005. Market share data for 8 counties: Cook, DuPage, Grundy, Kane, Kendall, Lake, McHenry, Will. Data adjusted to remove large corporate/wholesale deposits on a Y/Y consistent basis.



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## P&C CHICAGOLAND BANKING OVERVIEW

- Leading player in growing Chicago MSA and NW Indiana retail banking market – 199 branches as at January 31, 2006
- Relationship-focused, community banking business model
- Strong heritage and brand equity based on service excellence and trust
- Growth trajectory to be the leading Midwest retail and commercial bank
- Our competitive aspiration: offer superior customer experience of community banks with convenience and product breadth of the network banks

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## DIFFERENTIATED CUSTOMER FOCUS SUPPORTED BY SCALE ECONOMIES

- Scale elements:
  - ▶ Centralized operations and processing centres
  - ▶ Consolidated 26 banking charters
  - ▶ Enhanced distribution capabilities – added 59 new branches to network in last 3 years; supported by award winning call centre
- Customer focused elements:
  - ▶ Strong local leaders in all markets
  - ▶ Streamlined account opening processes
  - ▶ Redesigned deposit product suite

**Cash Productivity\* (%)**

Period	Cash Productivity* (%)
F02	75.2
F03	74.2
F04	71.4
F05	69.9
Q1 F06	67.8

\* Excludes Mid-Market and Treasury Operations

**Accounts and Services / Household**

Period	Accounts and Services / Household
Q4 03	3.97
Q4 04	4.08
Q4 05	4.12

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## CHICAGO AREA RETAIL CONSUMER OPPORTUNITY

Customer opportunity is highest in certain segments

**Chicago Area Retail Segment Opportunity Assessment**

Segment	Households	Deposits	Loans
<b>Builders</b>	23% of all households	45% of deposits	54% of loans
<b>Classics</b>	33% of households	35% of deposits	35% of loans
<b>Basics</b>	36% of households	5% of deposits	8% of loans
<b>Preservers</b>	8% of households	15% of deposits	3% of loans

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## PERSONAL BANKING CUSTOMER BASE

Well positioned in the most attractive retail customer segments

- Strong, above-market penetration in **Builder** and **Preserver** customer segments
- The Builders and Preservers have:
  - ▶ Highest average balances
  - ▶ Highest profitability
  - ▶ Broadest range of financial needs
  - ▶ Largest forecasted growth

Customer Segment Analysis

Segment	Chicago Area Households (%)	Harris Households (%)
Preserver	~15%	~15%
Builder	~16%	~37%
Classic	~29%	~18%
Basic	~40%	~30%

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## EXECUTING ON THE OPPORTUNITY

We are capitalizing on opportunities from target customer segments who value our model

- Customer acquisition — Builders segment represents ~40% of our new customers
- Cross-sell to Builders is ~20% higher than our average cross-sell ratio
- Builders have high borrowing needs:
  - ▶ We have the largest non-wholesale mortgage origination team in the Chicago area
  - ▶ Our average mortgage loan is 1.2X the Chicago area average
- Branch strategy supports focus on markets with highest concentration of attractive customer segments

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## PERSONAL BANKING PERFORMANCE SUMMARY

- Continued strong growth in balances and revenues
  - ▶ Consumer loan balances up over \$2 billion from F2003 - F2005
- Above market growth in Indirect Auto lending
  - ▶ #1 in market share in auto loans originated through non-captive lenders in Illinois
  - ▶ Successful expansion in Midwest; now in 12 states
  - ▶ Loan losses significantly below industry averages
- Strong revenue growth in consumer deposits
  - ▶ Balances up over \$1.3 billion from F2003-F2005
  - ▶ Revenues increased by improving margins

**Average Consumer Loans (US\$B)**  
CAGR 19%

Year	Loans (US\$B)
F03	7.5
F04	8.9
F05	10.1

**Average Consumer Deposits (US\$B)**  
CAGR 6%

Year	Deposits (US\$B)
F03	10.3
F04	10.4
F05	10.4

■ Organic ■ Acquisitions

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## BUSINESS BANKING MODEL

A segment focused model lined up against distinctive customer needs

**Business Banking Segment Opportunity Assessment**

**Complexity of Financial Needs**

**High**

**Low**

**Business Revenues**

**\$0-1MM**   **\$1-10MM**   **\$10-100MM**

**Commercial Mid Market**

Harris offer:

- Advisory approach with skilled relationship managers
- Complex and customized solutions

**Small Business**

Harris offer:

- Integrated retail, wholesale and wealth services
- Branch-based or centralized relationship management

**Micro Business**

Harris offer:

- Simplified standard products and services
- Leverage retail network

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## BUSINESS BANKING PERFORMANCE OVERVIEW

- Continued strong performance from F2003-F2005
  - Added \$1.4 billion in business banking loans
  - Added \$700 million in business banking deposits
- Solid underwriting standards and lending processes enable stable earnings growth
- Leading position in market segments
  - Tied with Chase and LaSalle for #1 in small and micro business segments
  - #3 position in commercial mid-market segment (Chase and LaSalle in #1 and #2 position)

**Average Business Loans (US\$B)**  
CAGR 22%

Year	Organic	Acquisitions	Total
F03	2.9	0.0	2.9
F04	3.2	0.1	3.3
F05	3.6	0.1	3.7

**Average Business Deposits (US\$B)**  
CAGR 11%

Year	Organic	Acquisitions	Total
F03	3.0	0.0	3.0
F04	3.3	0.1	3.4
F05	3.3	0.2	3.5

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## P&C CHICAGOLAND BANKING APPROACH TO CREDIT RISK MANAGEMENT

- Aligned with BMO overall risk management philosophy
- Success based on:
  - Structured and consistent application of criteria
  - Local market knowledge
- Consistent superior credit performance compared to peer groups

**Consumer Lending Net Losses (bps)**

Year	Indirect Auto - Harris	Home Eq - Harris	Indirect Auto - RMA*	Home Eq - RMA*	Total
F03	23.7	1.5	0.0	0.0	25.2
F04	18.5	4.8	0.0	0.0	23.3
F05	17.5	2.0	0.0	0.0	19.5

**Business Lending Net Losses (bps)**

Year	P&C Chicagoland Banking	Lehman Peer Average	Chicagoland Peer Group
F01	40	45	45
F02	30	40	40
F03	35	35	45
F04	15	15	15
F05	5	5	15

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## LEVERAGING RISK MANAGEMENT CAPABILITIES

Low risk consumer portfolio provides an opportunity for further expansion

- Strong profitable growth in Home Equity lending with minimal losses
- Continued profitable growth in Indirect Auto lending with below market losses
- Focused on opportunities to accelerate performance - opening the door to more customers at a higher yield
- Initiatives launched to date have contributed incremental yield of 7bps to overall consumer lending portfolio; target incremental yield contribution of 25bps

Average Home Equity Loans (US\$B)

CAGR 26%

Year	Average Home Equity Loans (US\$B)
F03	1.7
F04	2.2
F05	2.7

**Risk/ Reward Initiatives - Examples**

- Home equity no-doc program
- Risk based pricing in home equity lending
- Mortgage interest only on Adjustable Rate Mortgage (ARM) products

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## OUR ONGOING PRIORITIES

Building on market opportunities and core capabilities to achieve our vision

- Improving organic growth from the core franchise
  - ▶ Enhancing branch performance
  - ▶ Refining our differentiated customer experience
- Expanding our footprint in the Midwest to become the leading Midwest retail and commercial bank

One Harris

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## IMPROVING BRANCH PERFORMANCE

**Exceptional people driving exceptional results**

- Vision: Employ 200 high-performing branch managers and the best business bankers in Chicago area by 2007
  - ▶ Ongoing war for talent in retail banking in Chicago MSA
  - ▶ Critical determinant of branch performance
  - ▶ Launched in 2005
- Key elements:
  - ▶ Differentiated intake program
  - ▶ Skill assessment and proficiency targets
  - ▶ Role definition and alignment
  - ▶ Performance management
  - ▶ Proactive talent pipeline management

### Top 2 Decile Retail Customer Retention (%)

Year	Retention (%)
F01	94
F02	95
F03	97
F04	97
F05	97

### Business Customer Retention (%)

Year	Retention (%)
F03	91.2
F04	89.2
F05	89.2
Industry Avg.*	83.0

\* Based on small business numbers  
Source: Business Banking Board

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## REFINING OUR CUSTOMER EXPERIENCE

**In person: (Branch)**

- Redesigned customer on-boarding program
- Increased availability of Hispanic brochures and account material
- Implemented training, profiling tool for small business customers/prospects
- Tracking a more frequent, sensitive measure of customer satisfaction – Net Promoter Score

**Phone:**

- 24 hour sales access
- Focus on “one and done” calls (96% resolved on first call)
- Dedicated relationship management for small business customers
- Full product suite support (service and sales) including investments

**Online:**

- Increasing customer penetration
- Examples of functionality offered:
  - ▶ “Push to Talk”, eChat, e-mail; secured messaging
  - ▶ Online check images
  - ▶ Harris Total Look - account aggregation

### Retail Net Promoter Score

Year	Harris	Network Banks	Community Banks
F01	21%		
F03**	26%		
F05	34%		

### Business Net Promoter Score\*

Year	Harris	Network Banks	Community Banks
F01	25%		
F03**	26%		
F05	42%		

■ Harris ■ Network Banks ■ Community Banks  
Net Promoter Score is calculated as % of customers that will definitely recommend less % of detractors (undecided, probably not, definitely not recommend)

\* Based on small business numbers  
\*\* Network F03 score artificially depressed by consolidation of American National by Bank One

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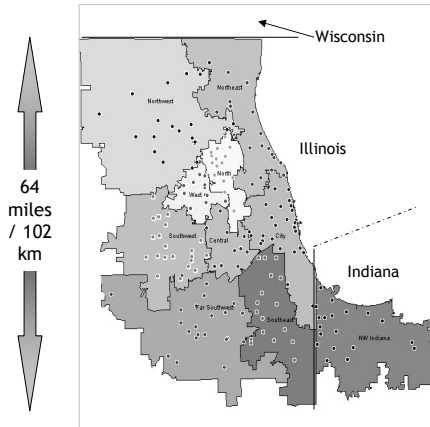
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## CHICAGOLAND AND NW INDIANA COMMUNITIES

Market opportunity in target areas drive expansion



**FDIC Market Share Data  
June 30, 2005**

Region	Harris N.A. Regional Market Share Rank	# of Harris N.A. Branches	Harris N.A. Market Share
Central	2	10	8.4%
City	3	30	9.7%
North	3	14	9.4%
Northeast	5	17	6.5%
Northwest	1	21	14.8%
Far Southwest	1	23	25.7%
Southeast	3	19	6.7%
Southwest	2	23	13.2%
West	1	15	25.9%
NW Indiana	5	20	7.5%

For the purposes of calculating regional market share, Harris N.A. has divided the area into 10 regions, segmented by zip code

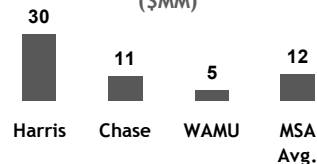
## DE NOVO BRANCH EXPANSION

Focused on targeted high priority communities

- Strong market coverage
  - ▶ 2<sup>nd</sup> largest branch distribution network in Chicago area
  - ▶ Opened 28 de novo branches in Chicago area in last 3 years
  - ▶ 10 sites secured for de-novo expansion in 2006 and 2007
- Maintain focused strategy
  - ▶ Identify sites with high visibility, drive-thru capability, located at major intersection and within close proximity to major grocer
  - ▶ De novo branches becoming profitable after second year with continued focus on improving branch performance



Average deposits at new branches\* (\$MM)



\* Avg. deposits as at 6/30/05 for new branches opened in Chicago MSA between 6/30/03 and 6/30/04  
Source: FDIC

## ACQUISITION STRATEGY

- Target banks in Chicago area and the U.S. Midwest
- Advantages include deep market knowledge, the Harris brand with multiple lines of businesses, integration experience and completion of the charter consolidation
- Leading with P&C creates opportunities for both PCG and IBG
- Three key questions:
  - ✓ *Is it a good strategic fit?*
  - ✓ *Is it a good cultural fit?*
  - ✓ *Is it a good financial fit?*

Acquisition History	Year	Amount (US \$MM)
Harris Bank	1984	547
Barrington	1985	32
St. Charles & Batavia	1988	26
Libertyville	1990	6
Frankfort	1990	17
Suburban Bancorp	1994	222
Household Int'l	1996	277
Joliet	2001	221
Lakeland	2004	37
New Lenox State Bank (NLSB)	2004	235
Mercantile	2004	161
Edville (Villa Park)	2005	66
<b>Total</b>		<b>\$1,847</b>

## ACQUISITIONS — RUN-RATE SYNERGY CAPTURE

Strong progress-to-date in capturing expense synergy opportunities

- Key expense synergies captured:
  - ▶ Transition bank leadership into the Harris management model
  - ▶ Centralize operations, item processing and other back office activities
  - ▶ Consolidate duplicative home office functional areas (e.g., credit, compliance, audit)
  - ▶ Divest and/or exit non-core businesses
  - ▶ Rationalize vendor contracts
- On pace to exceed business case targets for NLSB, Mercantile and Villa Park

	Lakeland	NLSB	Mercantile	Villa Park
Pre-Acquisition Productivity ratio (%)	53	57	70	53
Business Case Synergy as % of Operating NIX by Year 3	16	15	19	16
Synergy Run-Rate to Date vs. Business Case (%)	100	105	85	175
Projected Run-Rate Synergy Capture (vs. Business Case) by Year 3 (%)	100	120	125	175

## EXECUTION ON ACQUISITION OPPORTUNITIES

### Case example - Accelerated integration of Villa Park Bank

#### Integration Approach

- Completed purchase **AND** converted data systems in December 2005
- Quickly implemented transition to Harris business model upon closing and systems conversion
- Leveraged a standardized approach to integrating small banks – limiting customization requirements and allowing faster, more cost effective systems conversion

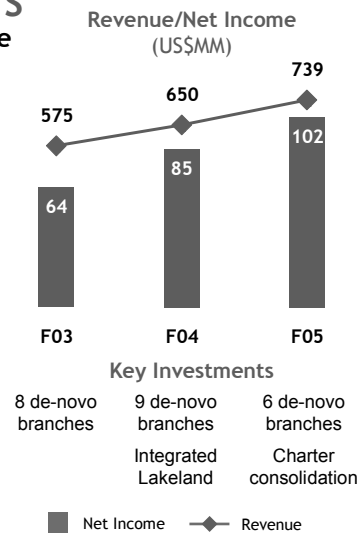
#### Strategic and Financial Implications

- Helped to clear integration pipeline, providing flexibility for additional (and larger) acquisitions
- Allowed faster realization of business case synergies
- Resulted in greater synergy opportunity than initially anticipated (**175% of business case run rate capture by end of 2006**)
  - ▶ Rationalized senior management
  - ▶ Centralized back office support
  - ▶ Eliminated home office roles

## CHICAGOLAND BANKING TARGETS

### We are confident about our ability to execute on our strategy

- Target over time:
  - ▶ 8 -10% annual revenue growth
  - ▶ 10 -15% annual net income growth
- Target 100 -150 bps productivity improvement each year
- Expand our Chicagoland branch network of 199 branches to 220+ branches by 2007
- Expand distribution footprint to be the leading Midwest retail and commercial bank with 350 - 400 branches in the next 5 years



## CONCLUSION

- P&C Chicagoland strategy linked with overall BMO strategy and priorities
- Our differentiated strategy combines the strengths of both community and network banks
- Priorities:
  - ▶ Improving organic growth through improved branch performance
  - ▶ De novo growth and expansion



## Q&A





## INVESTOR RELATIONS • CONTACT INFORMATION

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