



May 10, 2013

NA (TSX) **\$74.89**
TARGET PRICE: **Not Rated**
ESTIMATED TOTAL RETURN **N/A**

52-week range	\$71.05 - \$80.33
Shares Outstanding (mln)	162
Market Capitalization (\$ mln)	\$12 157

Fiscal Year End: Oct. 31

(\$Million)	2012A	2013E	2014E	2015E
Core Cash EPS	\$7.85	\$8.14	\$8.58	\$9.09
% Growth	9%	4%	5%	6%
Net Inc. to Common EPS	\$9.32	\$8.16	\$8.58	\$9.09
% Growth	35%	(12%)	5%	6%
Dividend / Share	\$3.08	\$3.42	\$3.84	\$4.06
F/D Avg. Shares	163	164	162	160
Price / Earnings	9.5x	9.2x	8.7x	8.2x
Core Cash Net Income	\$1 280	\$1 333	\$1 393	\$1 459
NI to Equity Holders	1 561	1 379	1 429	1 492
P&C Banking	677	712	711	723
Wealth Management	352	214	230	247
Financial Markets	428	451	466	487
Other	104	3	21	35

Quarter-End

Price / Book Value	1.8x
Quarterly Dividend Per Share	\$0.83
Dividend Yield	4.4%



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Stock Rating: Not Rated
Risk Rating: Below Average
 Industry Rating (Banks): Market Weight
 (NBF Economics & Strategy Group)

National Bank

BANK PROFILE

National Bank is the sixth largest Canadian bank in terms of assets. The bank operates along three business lines. Personal and Commercial comprises the banking services offered to individuals and commercial entities, principally in the province of Québec. Wealth Management includes the bank's full-service and discount brokerage operations in addition to its trust and asset management services; again focused on Québec-based clientele. The Financial Markets segment provides financing services to corporate and institutional clients across Canada, in addition to managing the bank's assets and liabilities.

INVESTMENT HIGHLIGHTS

Given our affiliation with National Bank of Canada, we neither rate nor do we assign a target price to the bank's stock.

Investment Thesis: Cost discipline was evident across the bank last quarter and we believe much of the improvement in efficiency is sustainable. While operational improvements are encouraging, we believe return of capital to shareholders is the most important theme underlying NA's valuation. On this front, NA indicated that share repurchases could recommence in the second half of f2013, contingent on the bank reaching 8.0% on the CET1 ratio. We note that NA did not conduct any share repurchase in the first half of f2013.

The following are the key takeaways from our Q2 f2013 preview:

P&C Banking: Given the low interest rate environment and strong deposit competition, which has pressured NIM and, therefore, top line growth, we believe NA, as well as its peers, will have to exercise cost discipline to help supplement pre-provision income in their domestic P&C banking operations. We suspect that much, if not all of last quarter's 194 bps q/q improvement in efficiency (excluding specified items) at the P&C Banking segment will be sustainable with the roll out of a new mortgage platform, which NA expects will reduce operational costs and increase cross-selling opportunities. This should help support incremental loan growth at a relatively low cost. Furthermore, NIM should benefit from management's focus on credit cards (a high margin product) and efforts to increase cross-selling from customers originated via the mortgage broker channel.

Wealth Management: We forecast that AUA growth will be fairly low at 0.3% q/q as the TSX shrank by 2% q/q. Meanwhile, we expect that efficiency should remain in the low 70s as per management guidance, but edge up somewhat from last quarter. Net income will fall \$2 million q/q, in our view, after excluding specified items and adjusting for day count.

Financial Markets: We expect net income to rise 1% q/q to \$113 million on higher fee revenues, despite fewer days in the quarter. Meanwhile, we anticipate that trading revenues will be fairly steady at \$152 million, which would mark the third straight quarter of trading revenue in excess of \$150 million.



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EXAMPLE