

# ANALYST AND INVESTOR PRESENTATION Q2 2010 RESULTS CONFERENCE CALL

May 28, 2010



## CAUTION REGARDING FORWARD-LOOKING STATEMENTS



From time to time, National Bank of Canada (the Bank) makes written and oral forward-looking statements, such as those contained in the "Major Economic Trends and Outlook" section and under the "Medium-term objectives" heading in the "Overview" section of the 2009 Annual Report, in other filings with Canadian securities regulators and in other communications, for the purpose of describing the economic environment in which the Bank will operate during fiscal 2010 and the objectives it has set for itself for that period. These forward-looking statements are made pursuant to the "safe harbour" provisions of Canadian and U.S. securities legislation. They include, among others, statements with respect to the economy—particularly the Canadian and U.S. economies—market changes, observations regarding the Bank's objectives and its strategies for achieving them, Bank projected financial returns and certain risks faced by the Bank. These forward-looking statements are typically identified by future or conditional verbs or words such as "outlook," "believe," "anticipate," "estimate," "project," "expect," "intend," "plan," and terms and expressions of similar import. By their very nature, such forward-looking statements require assumptions to be made and involve inherent risks and uncertainties, both general and specific.

Assumptions about the performance of the Canadian and U.S. economies in 2010 and how that will affect the Bank's business are among the main factors considered in setting the Bank's strategic priorities and objectives and in determining its financial targets, including provisions for credit losses. There is a likelihood that personal and commercial bankruptcies will increase in the coming quarters, a consequence of the financial and credit crisis that marked 2009. In determining its expectations for economic growth, both broadly and in the financial services sector in particular, the Bank primarily considers historical economic data provided by the Canadian and U.S. governments and their agencies. Tax laws in the countries in which the Bank operates, primarily Canada and the United States, are major factors it considers when establishing its effective tax rate. There is a strong possibility that express or implied projections contained in such statements will not materialize or will not be accurate. The Bank recommends that readers not place undue reliance on these statements, as a number of factors, many of which are beyond the Bank's control, 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. These factors include the management of credit, market and liquidity risks; the strength of the Canadian and U.S. economies and the economies of other countries in which the Bank conducts business; the impact of the movement of the Canadian dollar relative to other currencies, particularly the U.S. dollar; the effects of changes in monetary policy, including changes in interest rate policies of the Bank of Canada and the U.S. Federal Reserve; the effects of competition in the markets in which the Bank operates; the impact of changes in the laws and regulations regulating financial services and enforcement thereof (including banking, insurance and securities); judicial proceedings, regulatory proceedings or claims, class actions or other recourses of various nature; the situation with respect to asset-backed commercial paper (ABCP), in particular the realizable value of underlying assets; the Bank's ability to obtain accurate and complete information from or on behalf of its clients or counterparties; the Bank's ability to successfully realign its organization, resources and processes; its ability to complete strategic acquisitions and integrate them successfully; changes in the accounting policies and methods the Bank uses to report its financial condition, including uncertainties associated with critical accounting assumptions and estimates; the Bank's ability to recruit and retain key officers; operational risks, including risks related to the Bank's reliance on third parties to ensure access to the infrastructure essential to the Bank's business as well as other factors that may affect future results, including changes in trade policies; timely development of new products and services; changes in estimates relating to reserves; changes in tax laws; technological changes; unexpected changes in consumer spending and saving habits; natural disasters; the possible impact on the business from public health emergencies, conflicts, other international events and developments, including those relating to the war on terrorism; and the Bank's success in anticipating and managing the foregoing risks. A substantial amount of the Bank's business involves making loans or otherwise committing resources to specific companies, industries or countries. Unforeseen events affecting such borrowers, industries or countries could have a material adverse effect on the Bank's financial results, businesses, financial condition, or liquidity.

The foregoing list of risk factors is not exhaustive. Additional information about these factors can be found under "Risk Management" and "Factors That Could Affect Future Results" in the 2009 Annual Report. 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 also cautions readers not to place undue reliance on these forward-looking statements. Except as required by law, the Bank does not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time, by it or on its behalf.

The forward-looking information contained in this document is presented for the purpose of interpreting the information contained herein and may not be appropriate for other purposes.

## 2010 AND Q2 2010 HIGHLIGHTS



### Q2 2010 (adjusted)

Net Income	\$261M
EPS	\$1.50
ROE	17.8%
Provision for credit losses	\$36M or 25 bps

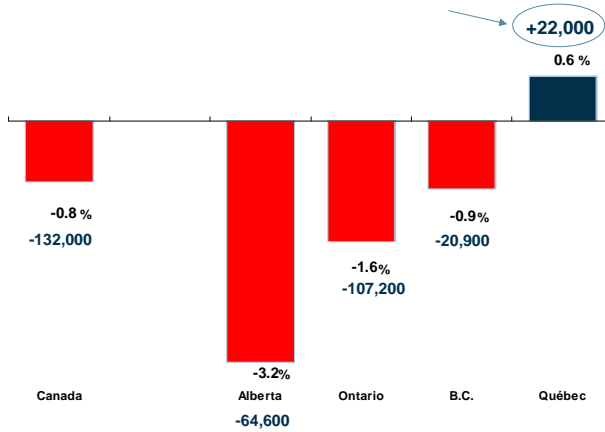
### 2010 YTD (adjusted)

Net Income	\$530M
EPS	\$3.05
Provision for credit losses	\$79M or 27 bps
ROE	17.9%
Tier 1 ratio:	12.6%
Dividend payout:	40% (trailing 4 quarters)

## EMPLOYMENT STATUS - MAJOR CANADIAN PROVINCES



% (numbers) of job loss/gain since peak prior to recession



### Quebec in expansion

- Quebec economy in expansion; over 22K jobs created since peak prior to recession
- Unemployment rate: 7.9%
- GDP 2010F: 2.8%

Source: Economic and Strategy Group, National Bank Financial Group, May 2010

# FINANCIAL REVIEW

## Patricia Curadeau-Grou

Chief Financial Officer  
Executive Vice-President  
Finance, Risk and Treasury



## PERFORMANCE SNAPSHOT

(millions of dollars)

	Adjusted <sup>(2)</sup>			Reported		
	Q2 10	Q2 09	Change	Q2 10	Q2 09	Change
<b>Revenues<sup>(1)</sup></b>	<b>1,047</b>	<b>1,058</b>	<b>(1%)</b>	<b>1,047</b>	<b>1,030</b>	<b>2%</b>
Expenses	660	653	1%	660	654	1%
Net Income	261	261	0%	261	241	8%
<b>EPS</b>	<b>\$1.50</b>	<b>\$1.53</b>	<b>(2%)</b>	<b>\$1.50</b>	<b>\$1.41</b>	<b>6%</b>
<b>ROE</b>	<b>17.8%</b>	<b>19.4%</b>		<b>18.0%</b>	<b>18.5%</b>	

Q2 2010 vs. Q2 2009  
(adjusted)

- Securitization revenues included in Other income, declined by \$44M

(1) Adjusted for gains or losses attributable to third parties

(2) Details on specified items in Appendix 1

## PERFORMANCE SNAPSHOT



(millions of dollars)

	Adjusted <sup>(2)</sup>			Reported		
	6M 10	6M 09	Change	6M 10	6M 09	Change
<b>Revenues<sup>(1)</sup></b>	<b>2,134</b>	<b>2,087</b>	<b>2%</b>	<b>2,129</b>	<b>1,916</b>	<b>11%</b>
Expenses	1,339	1,296	3%	1,414	1,299	9%
Net Income	529	514	3%	476	310	54%
<b>EPS</b>	<b>\$3.05</b>	<b>\$3.04</b>	<b>0%</b>	<b>\$2.72</b>	<b>\$1.77</b>	<b>54%</b>
<b>ROE</b>	<b>17.9%</b>	<b>19.3%</b>		<b>16.1%</b>	<b>11.5%</b>	

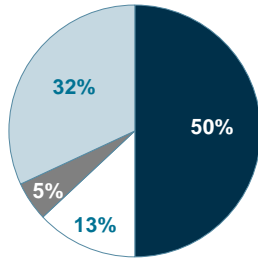
(1) Adjusted for gains or losses attributable to third parties

(2) Details on specified items in Appendix 1

## SOUND BUSINESS SEGMENT DIVERSIFICATION (YTD-2010)

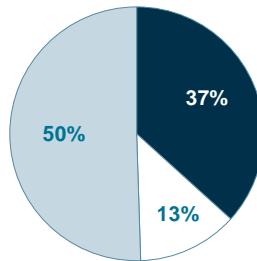


### PERSONAL AND COMMERCIAL



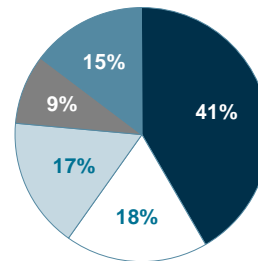
- Retail banking
- Commercial banking
- Credit cards
- Insurance

### WEALTH MANAGEMENT



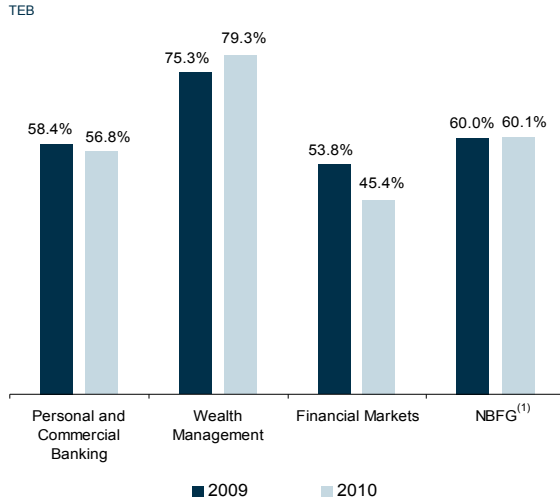
- Transactions and other
- Fees
- Net interest income

### FINANCIAL MARKETS



- Trading
- Capital markets
- Corp. banking
- Inv. gains
- Other

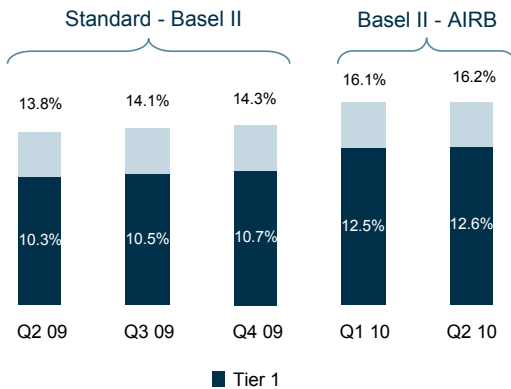
## BUSINESS LINE EFFICIENCY RATIO



(1) Adjusted for gains or losses attributable to third parties using the Innocap platform

## CAPITAL MANAGEMENT Q2 2010

### CAPITAL RATIO



#### Q2 2010 vs. Q1 2010

- Quarterly dividend stands at \$0.62
- Dividend payout of 40% (trailing 4 quarters)
- TCE ratio at 8.7%
- Risk-weighted assets at \$52.1B

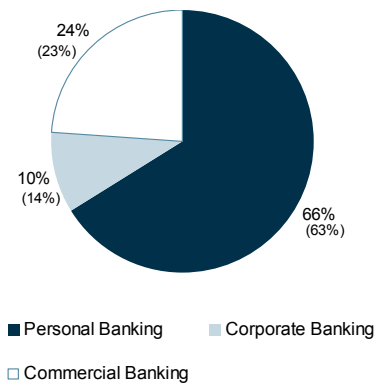
# RISK MANAGEMENT



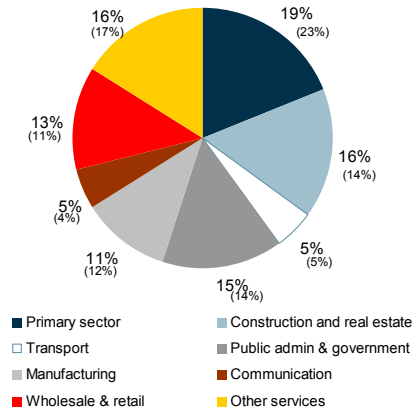
## GLOBAL PORTFOLIO COMPOSITION As at April 30, 2010 vs. (April 30, 2009)

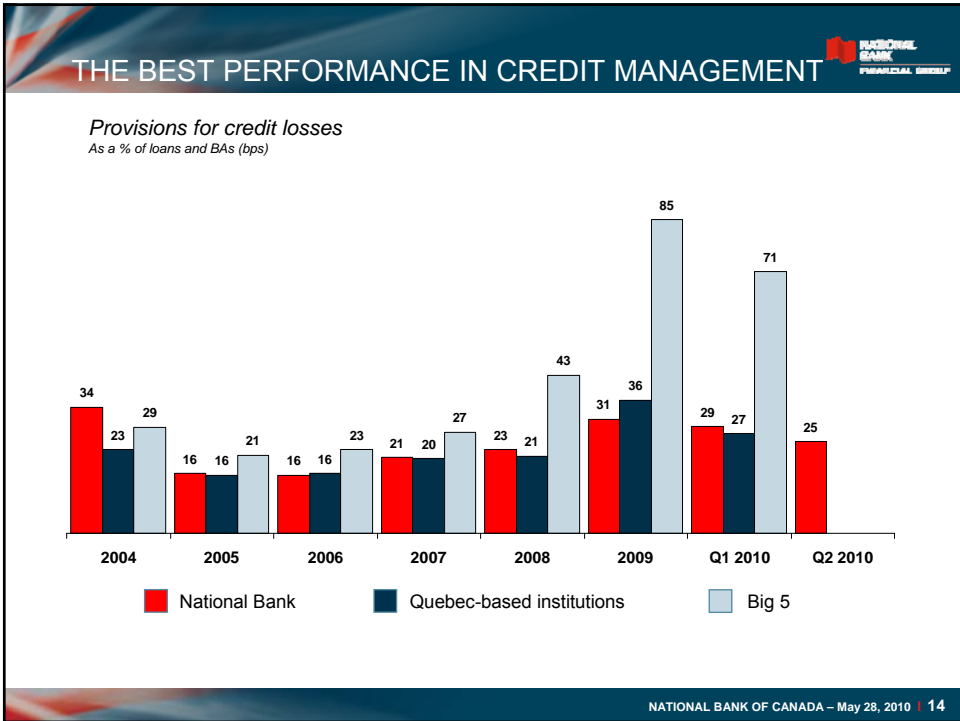
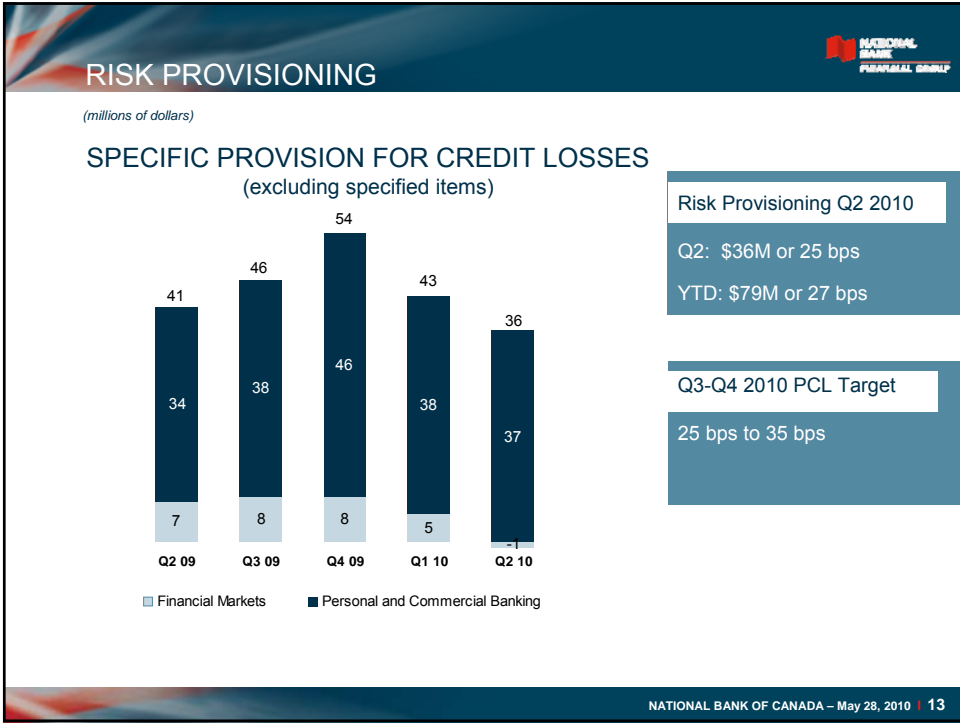


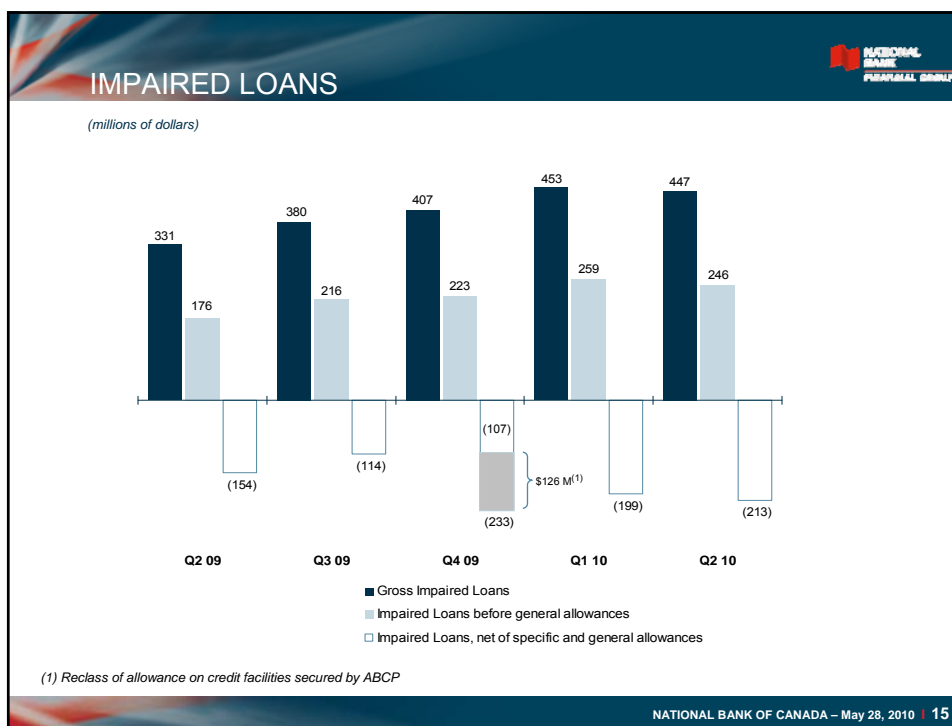
### PER BUSINESS SEGMENT



### PER INDUSTRY (Corporate & Commercial)







## IMPAIRED LOAN FORMATION<sup>(1)</sup>

(millions of dollars)

	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10
<b>Personal &amp; Commercial Banking</b>	<b>22</b>	<b>37</b>	<b>46</b>	<b>67</b>	<b>23</b>
Retail	11	27	18	20	11
Commercial	12	12	28	26	12
Real estate	(1)	(2)	0	21	0
<b>Corporate Banking</b>	<b>10</b>	<b>48</b>	<b>7</b>	<b>3</b>	<b>(1)</b>
<b>Total</b>	<b>32</b>	<b>85</b>	<b>53</b>	<b>70</b>	<b>22</b>

(1) Formations include new accounts, disbursements, principal repayments and exchange rate fluctuation

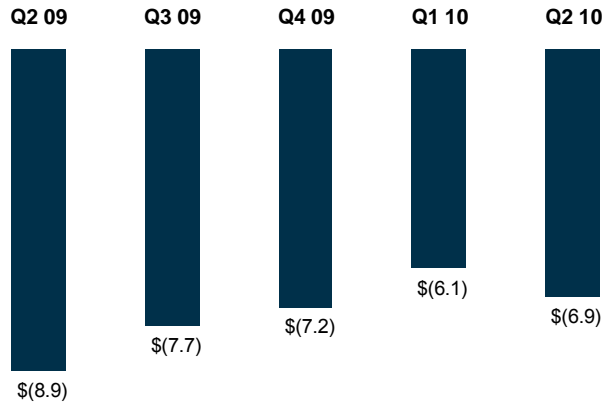
NATIONAL BANK OF CANADA – May 28, 2010 | 16

## SOUND MARKET RISK MANAGEMENT



(millions of dollars)

### GLOBAL TRADING VAR<sup>(1)</sup>



(1) Excluding ABCP VAR

## BUSINESS SEGMENT REVIEW

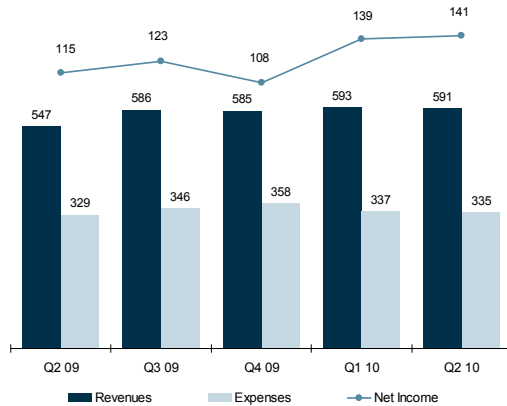
**Jean Dagenais**  
Senior Vice-President  
Finance, Taxation and Investor Relations



## PERSONAL AND COMMERCIAL BANKING Quarterly Results



(millions of dollars)  
TEB



### Q2 2010 vs. Q2 2009

- Revenues up 8% due to loan growth
- Net income up 23%
- Net income before PCL is up 17%

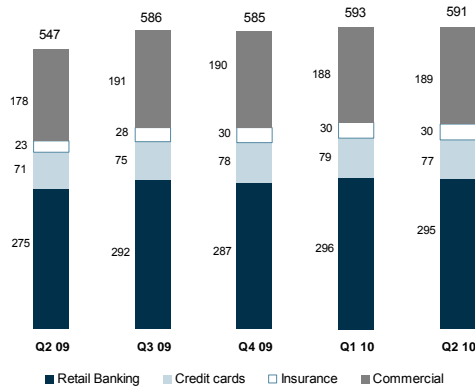
### Q2 2010 vs. Q1 2010

- Revenues are stable: good volume growth in loans and BA's (+2.5%) partially offset by three fewer days during quarter

## PERSONAL AND COMMERCIAL BANKING Revenues Breakdown



(millions of dollars)  
TEB



### Q2 2010 vs. Q2 2009

- Retail Banking: up 7% due to good volume growth
- Credit Card: up 8% due higher spreads and transaction fees
- Insurance: up 30%
- Commercial: up 6% due to good volume growth and higher spreads on loans

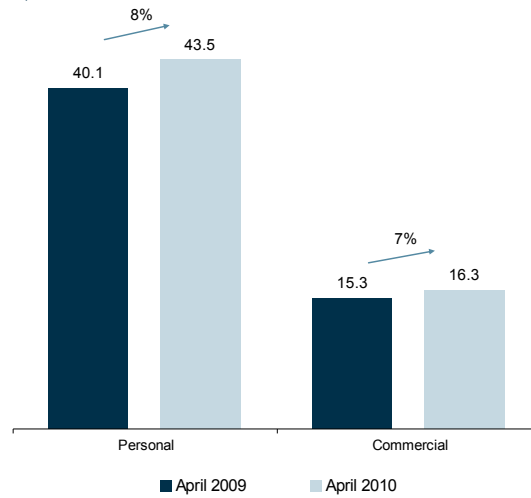
### Q2 2010 vs. Q1 2010

- Retail Banking: good volume growth in loans and BA's (+2%) offset by fewer days during quarter
- Commercial: good volume growth in loans and BA's (+4%) offset by fewer days in quarter

## PERSONAL AND COMMERCIAL BANKING Loans & BAs Evolution



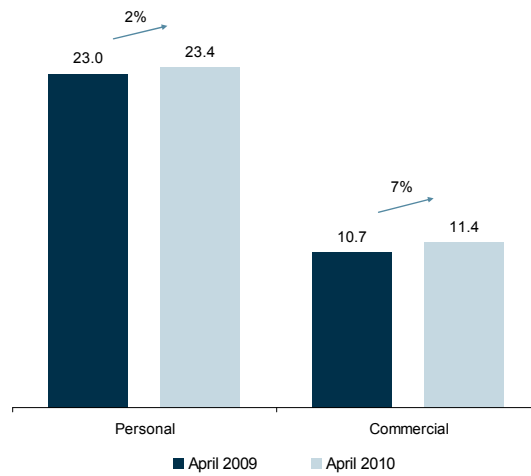
Average Monthly Volume  
(billions of dollars)



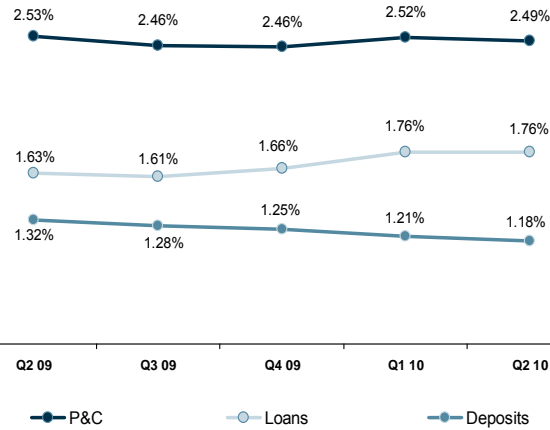
## PERSONAL AND COMMERCIAL BANKING Deposits



Average Monthly Volume  
(billions of dollars)



## PERSONAL AND COMMERCIAL BANKING Margin Evolution



### Q2 2010 vs. Q1 2010

- Stable loan margins
- Lower deposit margins due to yield curve

## PERSONAL AND COMMERCIAL BANKING



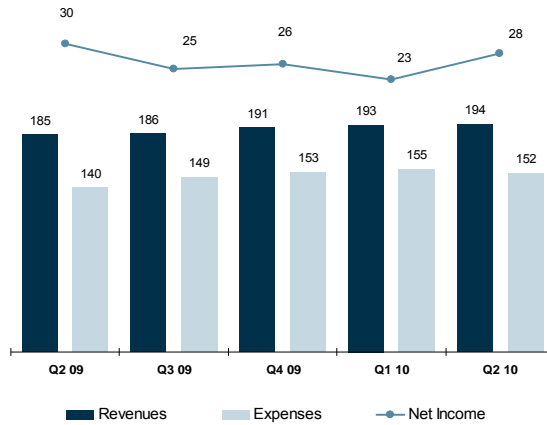
### Key Takeaways

- Good volume growth in Personal and Commercial Banking
- Efficiency ratio maintained
- One client, one bank
  - New distribution retail and commercial model
    - Quebec: deployment fully completed and closely monitoring effectiveness
    - Rest of Canada: implementation launched in Q1 2010
  - Q2 2010: 8 branches relocated or revamped
  - Q3/Q4 2010 and 2011: over 80 branches projects, including 13 new branches

## WEALTH MANAGEMENT Quarterly Results<sup>(1)</sup>



(millions of dollars)  
TEB



### Q2 2010 vs. Q1 2010

- Net income growth of \$6M or 21%

### Q2 2010 vs. Q2 2009

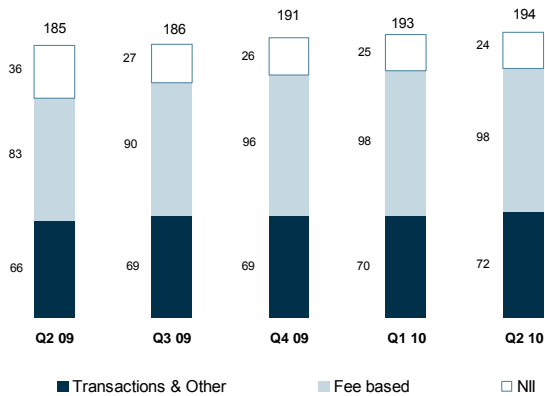
- Net income down \$2M largely driven by a \$12M reduction in NII

(1) Excluding specified items

## WEALTH MANAGEMENT Revenues Breakdown



(millions of dollars)  
TEB



### Q2 2010 vs. Q2 2009

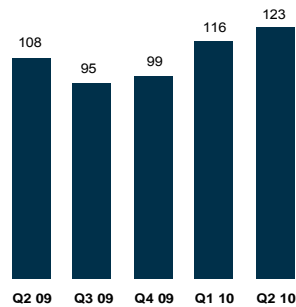
- Revenue growth of 5% or 14% excluding NII
- Fee based revenues grew by 18% due to increased market value

## WEALTH MANAGEMENT Assets Under Administration and Management

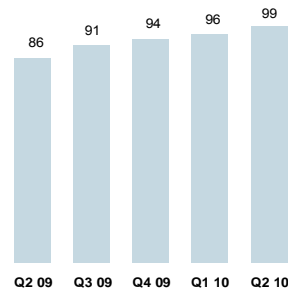


(billions of dollars)

### ASSETS UNDER ADMINISTRATION



### ASSETS UNDER MANAGEMENT



## WEALTH MANAGEMENT



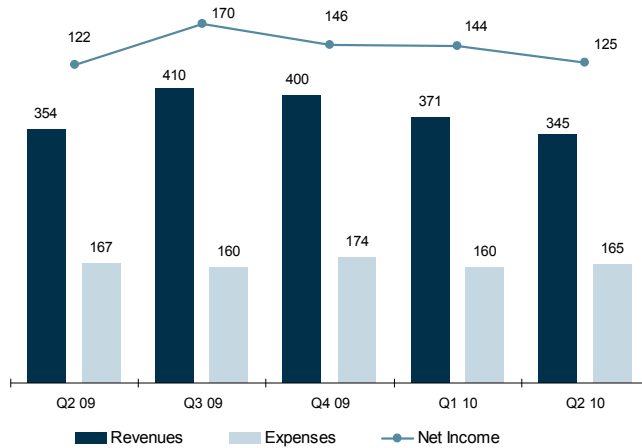
### Key Takeaways

- Referral programs are improving and start to show good results
- Increased penetration of our in house product within NBF advisor network
- After the on boarding of HSBC, Cornet maintained the momentum with the addition of 8 new clients mostly from out of Quebec
- Number of clients using our direct brokerage services went up 8%
- More than 60 % of our Partnership Banking book has been re-priced adding revenues and decreasing risks

## FINANCIAL MARKETS Quarterly Results<sup>(1)</sup>



(millions of dollars)  
TEB

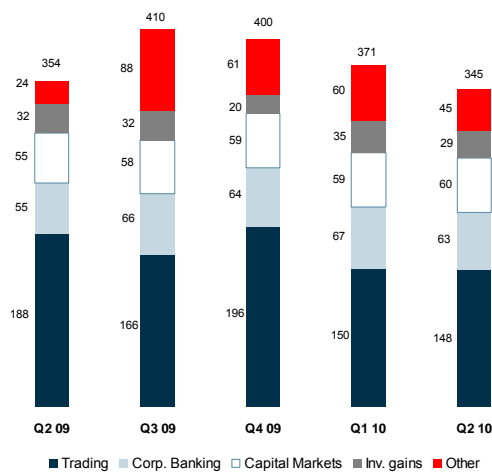


(1) Excluding specified items and adjusted for gains or losses attributable to third parties

## FINANCIAL MARKETS Revenues Breakdown<sup>(1)</sup>



(millions of dollars)  
TEB

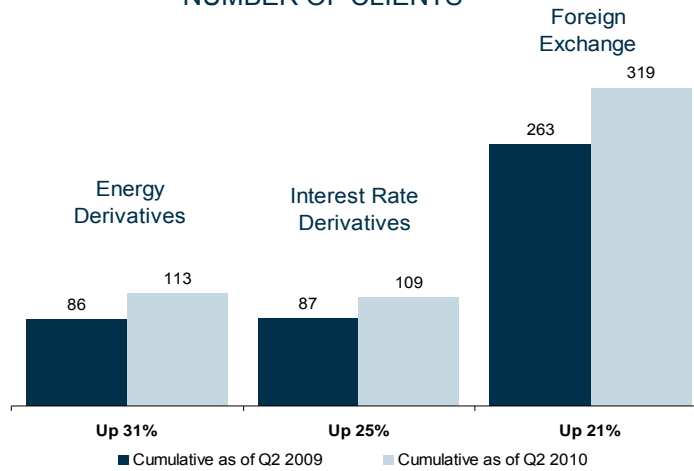


Q2 2010 vs. Q2 2009

- Good mix of business

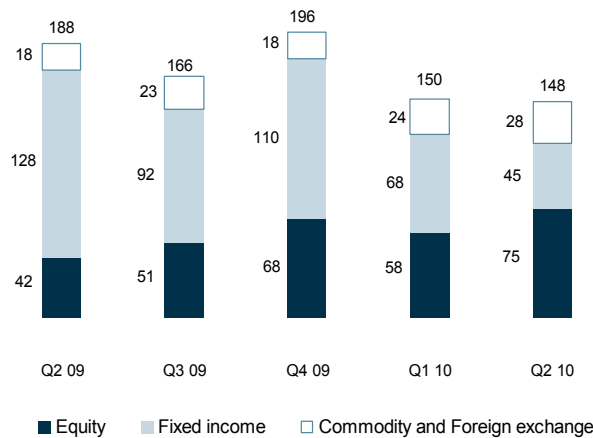
(1) Excluding specified items and adjusted for gains or losses attributable to third parties

NUMBER OF CLIENTS



FINANCIAL MARKETS  
Trading Revenues Breakdown<sup>(1)</sup>

(millions of dollars)  
TEB



Q2 2010

- Proprietary trading amounted to \$19M, representing 13% of trading revenues

(1) Excluding specified items and adjusted for gains or losses attributable to third parties

### Key Takeaways

- Ranked number one in government bond underwriting in Canada for the first four months of 2010 by Bloomberg
- Ranked number 4 for all Canadian debt underwriting by Thomson Reuters for the first quarter of calendar 2010

### Q2 2010 RESULTS

- Personal and Commercial Banking showed good volume momentum
- Financial Markets delivered a good performance thanks to revenue diversification
- One Client, One Bank project is on track
- National Bank remains well-capitalized

## APPENDIX 1 | DETAIL OF SPECIFIED ITEMS



(millions of dollars)

	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10
Gain on available for sale securities (Revenues \$88 M)	-	86	-	-	-	-	-	-	-
Projects write-off	-	-	(54)	-	-	-	-	-	-
Restructuration charge	-	-	(66)	-	-	-	-	-	-
Income taxes	-	(29)	40	-	-	-	-	25	-
Net Income	-	57	(80)	-	-	-	-	25	-
EPS	-	0.36	(0.50)	-	-	-	-	0.15	-
<b>ABCP specified items</b>									
Financing cost	(15)	(15)	(14)	49	(4)	(4)	(1)	(3)	(2)
Economic hedge transactions	(73)	15	57	(2)	(24)	(2)	-	(2)	2
Charges related to holding ABCP	-	(12)	(152)	(190)	-	-	-	-	-
Revenues	(88)	(12)	(109)	(143)	(28)	(6)	(1)	(5)	-
Provision for credit losses	-	23	4	126	-	-	-	-	-
Other expenses	7	1	4	2	1	(5)	1	75	-
Income before income taxes	(95)	(36)	(117)	(271)	(29)	(1)	(2)	(80)	-
Income taxes	(31)	(12)	(39)	(87)	(9)	-	-	(2)	-
Net Income	(64)	(24)	(78)	(184)	(20)	(1)	(2)	(78)	-
EPS	(0.41)	(0.15)	(0.49)	(1.15)	(0.12)	(0.01)	(0.01)	(0.48)	0.00
Total EPS Items	(0.41)	0.21	(0.99)	(1.15)	(0.12)	(0.01)	(0.01)	(0.33)	0.00

## APPENDIX 2 | ABCP as at April 30, 2010



### Trigger risk

- NO TRIGGER RISK BEFORE JULY, 2010... AND REMOTE RISK AFTERWARDS
- US spreads would have to widen by more than 552 bps from current levels

#### Indicative Distance to Triggers Post Moratorium

	CDX7 5yr	CDX7 7yr	CDX7 10yr	CDX5 10yr	ItraxxS6 10yr
Trigger	774	743	669	747	475
Spread Level	75	106	117	136	110
Distance to Trigger Q2 10	699	637	552	611	365
Distance to Trigger Q1 10	675	623	539	602	372
Distance to Trigger Q4 09	626	590	523	578	356
Distance to Trigger Q3 09	616	594	542	592	355
Distance to Trigger Q2 09	553	542	509	555	341
Distance to Trigger Q1 09	443	469	458	501	275

Note: assuming no change in realized losses in the credit indices

- Triggers could also be breached if realized losses in the credit indices exceeded 12% (currently at 1.11%)

### Corporate default

#### Corporate names (900)

	Q2 2010	Q1 2010	Q4 2009	Q3 2009	Q2 2009	Q1 2009
Defaulted	37	36	32	30	25	15
Above 1,000 basis points	10	21	31	40	53	83

## APPENDIX 3 | PIIGS EXPOSURE as at April 30, 2010



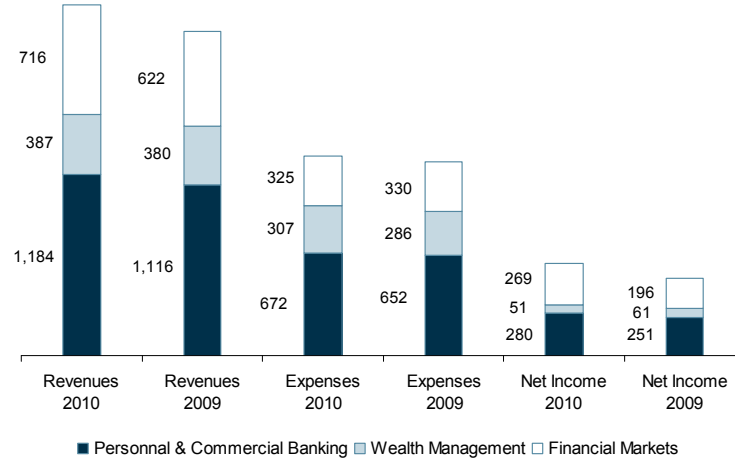
### Minimal Exposure to PIIGS

Countries	Sovereign and Banking risk
Ireland	US\$26M
Italy	US\$24M
Greece	Less than \$100K
Spain	US\$19M
Portugal	Less than \$100K
<b>Total</b>	<b>US\$69M</b>

## APPENDIX 4 | SECTORIAL RESULTS - YTD<sup>(1)</sup>



(millions of dollars)  
TEB



(1) Excluding specified items and adjusted for gains or losses attributable to third parties

### **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 Street West, 7<sup>th</sup> Floor  
Montreal, Quebec H3B 4L2  
Toll-free: 1-866-517-5455  
Fax: 514-394-6196  
E-mail: [investorrelations@nbc.ca](mailto:investorrelations@nbc.ca)  
Website: [www.nbc.ca/investorrelations](http://www.nbc.ca/investorrelations)

