

# ANALYST AND INVESTOR PRESENTATION



## Q3 2011 RESULTS CONFERENCE CALL

August 25, 2011



## 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" section and under the "Medium-Term Objectives" heading in the "Outlook for National Bank" section of the 2010 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 2011 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 2011 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. 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 the restructured notes of the master asset vehicles, in particular the realizable value of the 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 2010 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.

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## HIGHLIGHTS



### ADJUSTED RESULTS

	Q3 2011	YTD 2011
Net Income	\$293M	\$900M
Diluted EPS	\$1.72	\$5.21
Provision for credit losses	\$26M or 16 bps	\$98M or 21 bps
ROE	17.50%	18.20%
Tier 1 ratio (Basel II)	13.9%	13.9%
Common Equity Tier 1 ratio (Basel III)	8.0%	8.0%
Dividend payout	38%	38% (trailing 4 quarters)

*Note:* See Appendix 4 for a definition of Common Equity Tier 1

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## FINANCIAL REVIEW

**Patricia Curadeau-Grou**  
Chief Financial Officer and  
Executive Vice-President  
Finance, Risk and Treasury



## PERFORMANCE SNAPSHOT



(millions of dollars)

	Adjusted <sup>(2)</sup>			Reported		
	Q3 11	Q3 10	Change	Q3 11	Q3 10	Change
<b>Revenues<sup>(1)</sup></b>	<b>1,109</b>	<b>1,066</b>	<b>4%</b>	<b>1,109</b>	<b>1,063</b>	<b>4%</b>
Expenses	700	684	2%	718	684	5%
Net Income	293	273	7%	312	271	15%
<b>EPS</b>	<b>\$1.72</b>	<b>\$1.57</b>	<b>10%</b>	<b>\$1.84</b>	<b>\$1.56</b>	<b>18%</b>
<b>ROE</b>	<b>17.5%</b>	<b>17.7%</b>		<b>18.7%</b>	<b>17.7%</b>	

### Q3 2011 vs. Q3 2010 (adjusted)

- Top line: keeping momentum
- Good cost control

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

(2) Details on specified items in Appendix 1

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## PERFORMANCE SNAPSHOT



(millions of dollars)

	Adjusted <sup>(2)</sup>			Reported		
	9M 11	9M 10	Change	9M 11	9M 10	Change
<b>Revenues<sup>(1)</sup></b>	<b>3,403</b>	<b>3,205</b>	<b>6%</b>	<b>3,403</b>	<b>3,197</b>	<b>6%</b>
Expenses	2,128	2,028	5%	2,146	2,103	2%
Net Income	900	802	12%	919	747	23%
<b>EPS</b>	<b>\$5.21</b>	<b>\$4.62</b>	<b>13%</b>	<b>\$5.12</b>	<b>\$4.28</b>	<b>20%</b>
<b>ROE</b>	<b>18.2%</b>	<b>17.8%</b>		<b>17.9%</b>	<b>16.6%</b>	

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

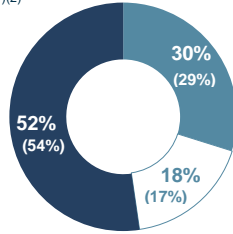
(2) Details on specified items in Appendix 1

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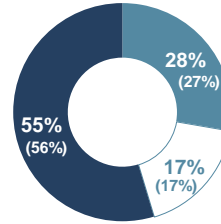
## WELL DIVERSIFIED BUSINESS MIX



TEB REVENUES<sup>(1)(2)</sup> YTD 2011 vs. (YTD 2010)

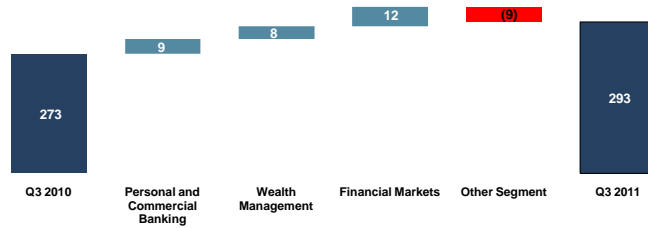


Q3 2011 vs. (Q3 2010)



■ Personal and Commercial Banking ■ Financial Markets □ Wealth Management

NET INCOME<sup>(2)</sup>  
(millions of dollars)



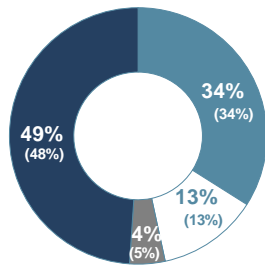
(1) Adjusted for gains or losses attributable to third parties  
(2) Excluding specified items and Other Segments

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## SOUND BUSINESS SEGMENT REVENUES DIVERSIFICATION YTD 2011 vs. (YTD 2010)

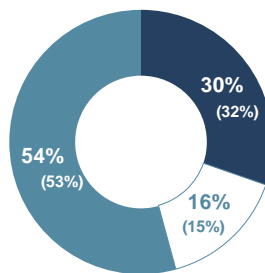


### PERSONAL AND COMMERCIAL



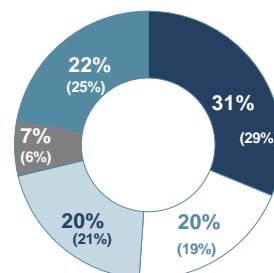
■ Retail banking  
□ Credit cards  
■ Insurance  
■ Commercial banking

### WEALTH MANAGEMENT



■ Transactions and other  
□ Net interest income  
■ Fees

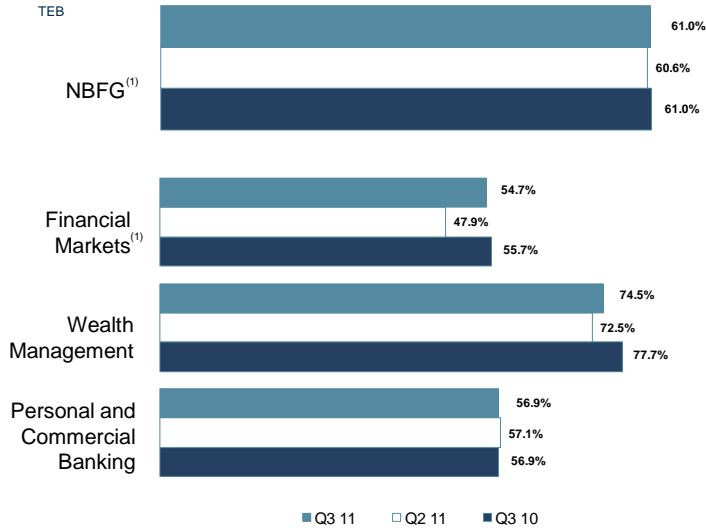
### FINANCIAL MARKETS



■ Trading  
□ Corp. banking  
■ Capital markets  
■ Inv. gains  
■ Other

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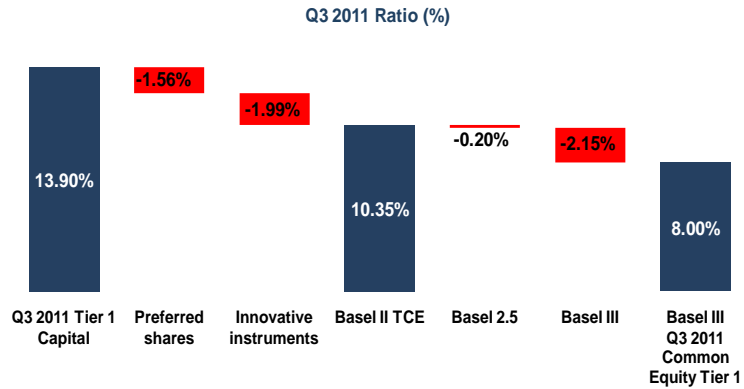
## BUSINESS LINE EFFICIENCY RATIO



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

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## BASEL III IMPACT TO COMMON EQUITY TIER 1<sup>(1) (2)</sup>

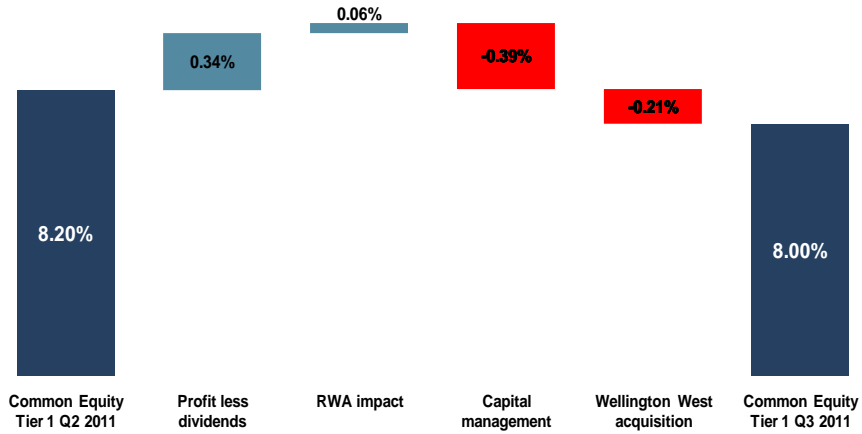


(1) Final text rules

(2) Include IFRS impact

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## QUARTERLY COMMON EQUITY TIER 1 EVOLUTION



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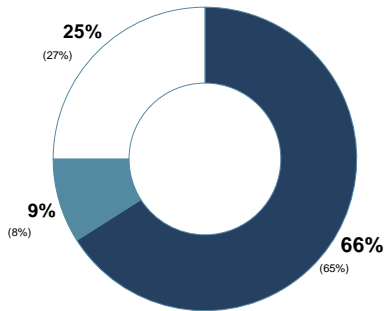
## RISK MANAGEMENT



## GLOBAL PORTFOLIO COMPOSITION As at July 31, 2011 vs. (July 31, 2010)

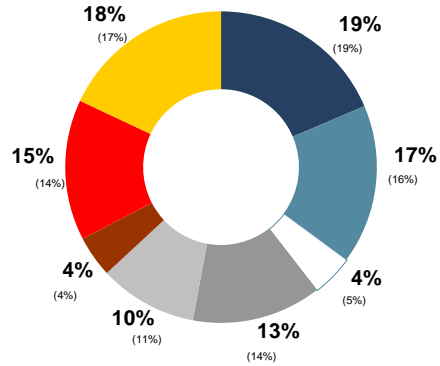


### PER BUSINESS SEGMENT



- Personal Banking
- Corporate Banking
- Commercial Banking

### PER INDUSTRY (Corporate & Commercial)



- Primary sector
- Transport
- Manufacturing
- Wholesale & retail
- Construction and real estate
- Public admin & government
- Communication
- Other services

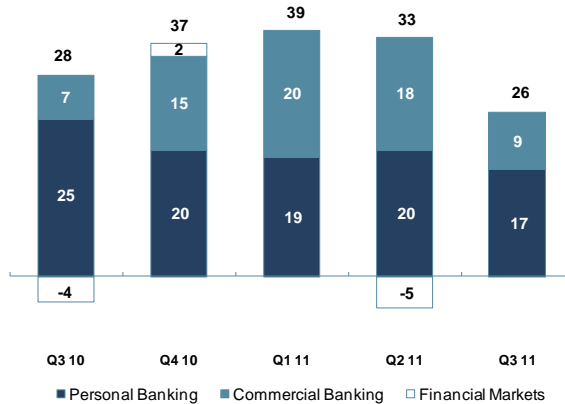
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## RISK PROVISIONING



(millions of dollars)

### SPECIFIC PROVISION FOR CREDIT LOSSES (excluding specified items)



- Personal Banking
- Commercial Banking
- Financial Markets

#### Risk Provisioning Q3 2011

- Q3: \$26M or 16 bps
- 2011: \$98M or 21 bps

#### Next quarter PCL Target

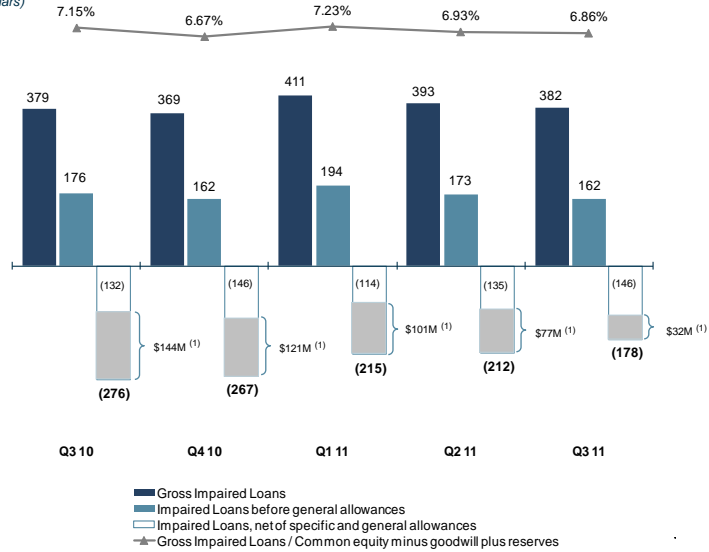
- 23 bps to 28 bps

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## IMPAIRED LOANS



(millions of dollars)



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



(millions of dollars)

	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11
Retail	7	16	13	17	18
Commercial	(6)	6	52	(6)	(4)
Corporate Banking	(48)	(3)	0	(1)	0
<b>Total</b>	<b>(47)</b>	19	65	10	14

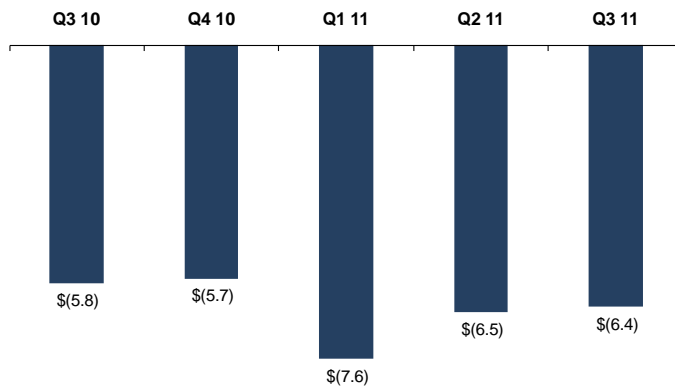
(1) Formations include new accounts, disbursements, principal repayments, and exchange rate fluctuation

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## STABLE VAR



(millions of dollars)



(1) Excluding ABCP VAR

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## BUSINESS SEGMENT REVIEW

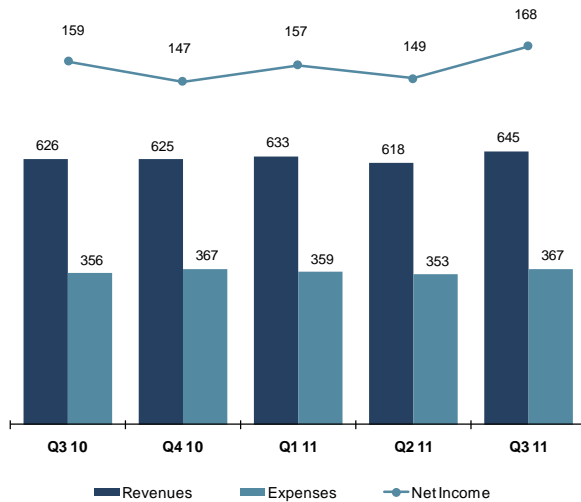
**Jean Dagenais**  
Senior Vice-President  
Finance, Taxation, and Investor Relations



## PERSONAL AND COMMERCIAL BANKING Quarterly Results



(millions of dollars)  
TEB



### Q3 2011 vs. Q3 2010

- Revenues up 3% due to good volume growth in loans and BAs
- Net income up 6%

### Q3 2011 vs. Q2 2011

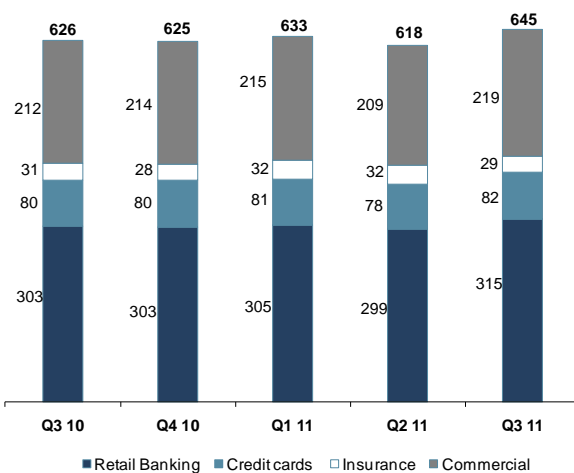
- Revenues up 4% due to a 3% volume growth in loans and BAs

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## PERSONAL AND COMMERCIAL BANKING Revenues Breakdown



(millions of dollars)  
TEB



### Q3 2011 vs. Q3 2010

- Retail Banking: revenues up 4% due to good volume growth in loans and BAs
- Credit cards: up 3% due to higher spreads and transaction fees
- Commercial: up 3% due to good volume growth in loans and BAs and in deposits

### Q3 2011 vs. Q2 2011

- Retail banking and Commercial: revenues up, due to volume growth of 3% in loans and BAs
- Credit cards: up 5%

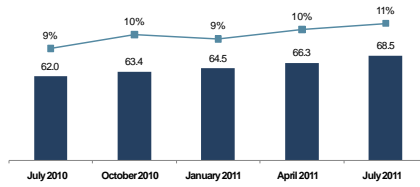
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## PERSONAL AND COMMERCIAL BANKING Loans & BAs Evolution



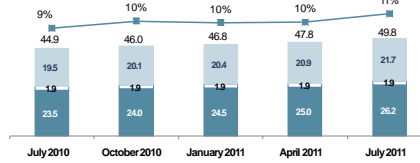
Average Monthly Volume  
(billions of dollars)

### PERSONAL AND COMMERCIAL



### PERSONAL

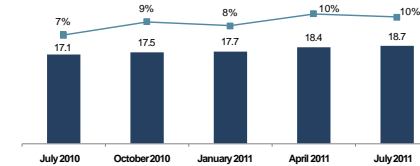
- Mortgages
- Credit Cards
- Personal Loans (including All-in-One)



Q3 2011 vs. Q3 2010

- Good growth in Mortgages and Personal loans

### COMMERCIAL



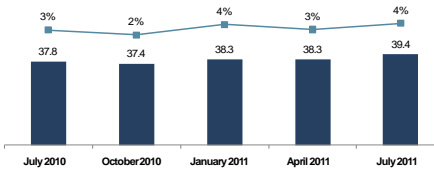
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## PERSONAL AND COMMERCIAL BANKING Deposits Evolution



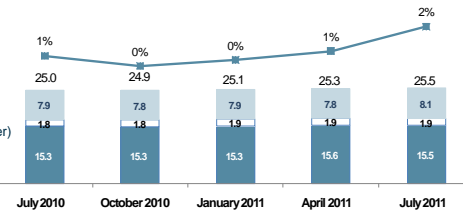
Average Monthly Volume  
(billions of dollars)

### PERSONAL AND COMMERCIAL



### PERSONAL

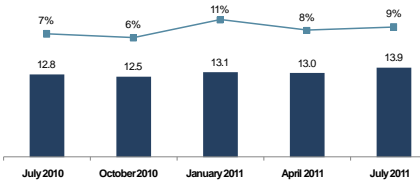
(Including High-Interest Cash Performer)



YoY Growth:

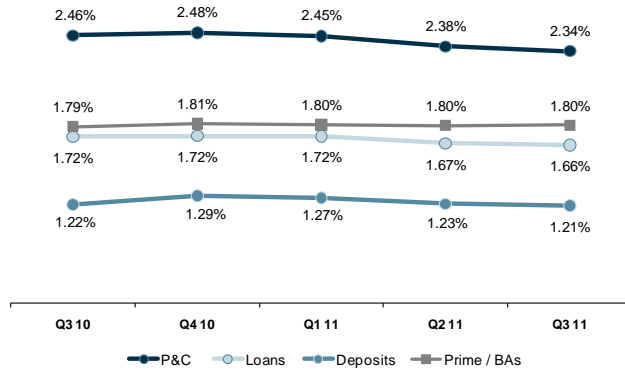
- 0.7% GICs
- 2.3% Transaction accounts
- 7.6% High-Interest Cash Performer

### COMMERCIAL



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## PERSONAL AND COMMERCIAL BANKING Margin Evolution

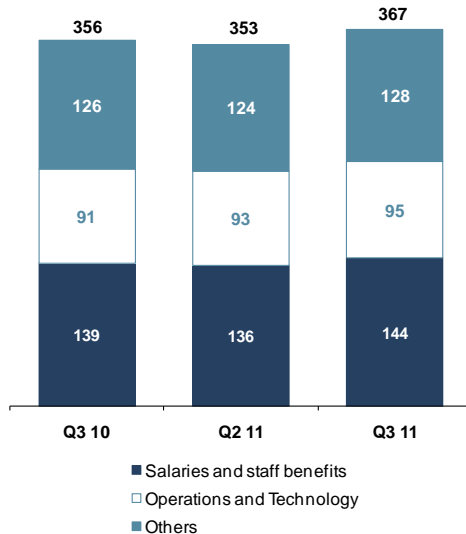


### Q3 2011 vs. Q2 2011

- Lower spreads due to competitive environment, business mix, and yield curve

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## PERSONAL AND COMMERCIAL BANKING Expenses Breakdown



### Q3 2011 vs. Q3 2010

- Expenses up 3%
  - Salaries and staff benefits +3.6%
  - Operations and Technology +4.4%
  - Others +2.4%

### Q3 2011 vs. Q2 2011

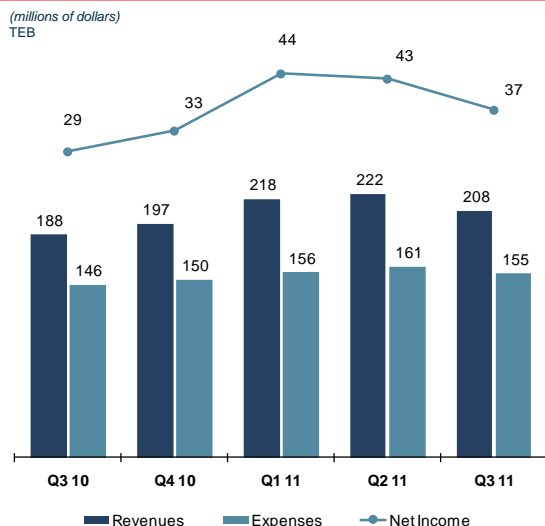
- Expenses up 4% (3% due to 3 additional days in Q3)
  - Salaries and staff benefits +5.5%
  - Operations and Technology +2.2%
  - Others +3.2%

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**KEY TAKEAWAYS**

- Good volume growth in Personal and Commercial Banking
- Stable efficiency ratio
- Infrastructure
  - Q3 2011: 13 branches relocated or revamped
  - Q4 2011: 7 new branch openings
- Launch of the International direct payment solution

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



**Q3 2011 vs. Q3 2010**

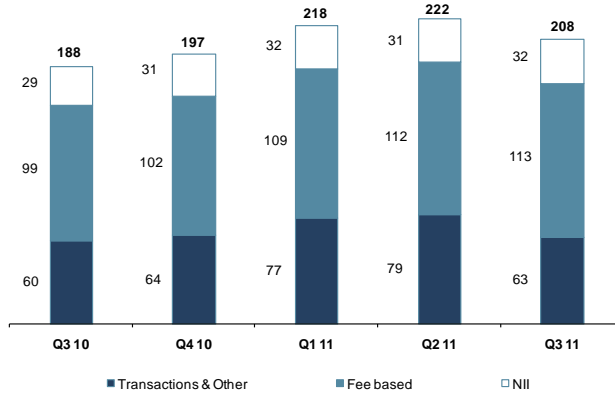
- Net income up 28% driven by strong revenue growth of 11%
- Expense ratio: improvement of 320 bps at 74.5%
- Wellington West: transaction closed July 15, 2011
- Non material P/L impact

(1) Excluding specified items

## WEALTH MANAGEMENT Revenues Breakdown



(millions of dollars)  
TEB



### Q3 2011 vs. Q3 2010

- NII up \$3M or 10% mainly due to higher short-term interest rate
- Fee-based revenues up \$14M or 14% driven by market growth at the start of the year
- Transactional revenues up \$3M or 5% due to better pricing in full-service brokerage

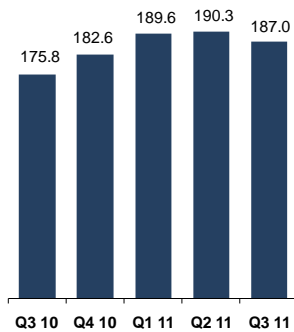
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## WEALTH MANAGEMENT Assets Under Administration and Management

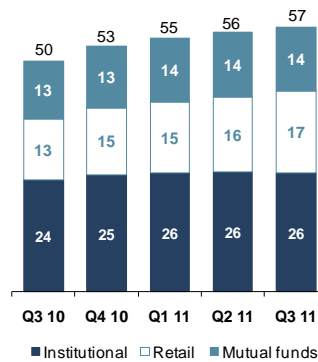


(billions of dollars)

### ASSETS UNDER ADMINISTRATION



### ASSETS UNDER MANAGEMENT



*Note: Reclass of assets under administration vs. assets under management*

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## WEALTH MANAGEMENT



### KEY TAKEAWAYS

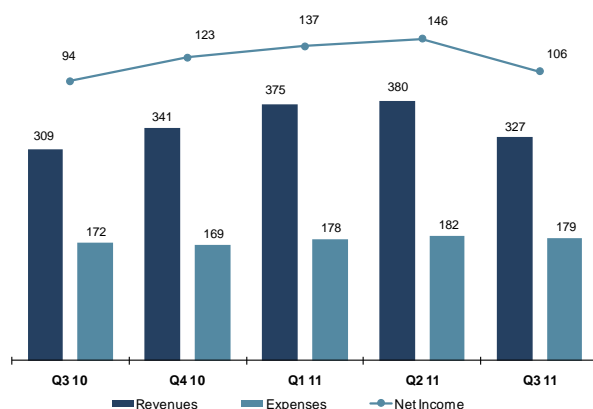
- Wellington West: transaction closed July 15, 2011
  - Most advisors (99%), representing 99% of AUA, signed an employment contract with National Bank
  - Synergies: on time and on target
  - Full integration expected in coming quarters
  
- New commission grid at NBF WM: revenues per trade up significantly
  
- Private Wealth 1859: reached \$7B of AUM in less than two years and over \$600M of new money in Q3 2011
  
- Gaining momentum at Innocap with new clients
  
- National Bank won the prestigious *Structured Products House of the Year, Canada Award*

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



(millions of dollars)  
TEB



### Q3 2011 vs. Q3 2010

- Revenues up 6%
- Net income up 13% on:
  - Greater activity with clients in risk management products, particularly foreign exchange and interest rates
  - Increased new issue activity in Fixed Income
  - Continued strong performance by Credigy

### Q3 2011 vs. Q2 2011

- Revenues down 14%
- Net income down 27% on:
  - Lower activity in ETFs
  - Lower equity commissions due to lower volumes on Canadian exchanges
  - Lower prop trading revenues

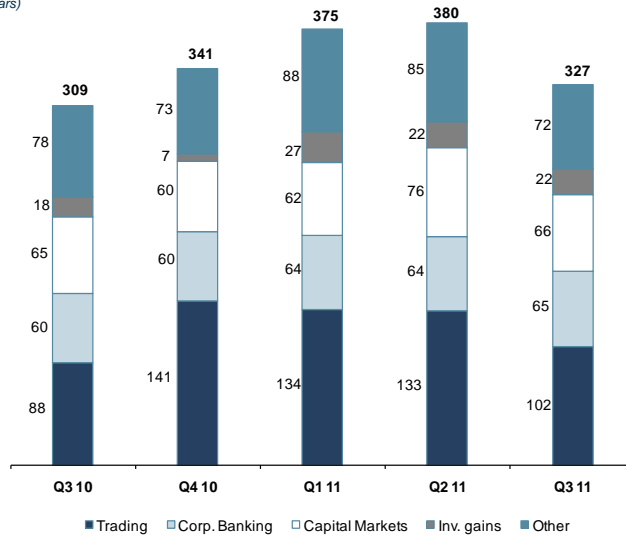
(1) Excluding specified items and adjusted for gains or losses attributable to third parties

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



(millions of dollars)  
TEB



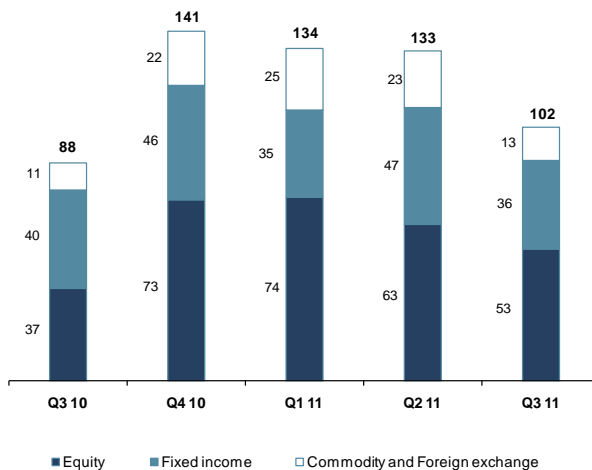
(1) Excluding specified items and adjusted for gains or losses attributable to third parties

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



(millions of dollars)  
TEB



### Q3 2011

- Non material loss in proprietary trading
- CVA: +\$2 million

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

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## FINANCIAL MARKETS



### KEY TAKEAWAYS

- For calendar 2011, NBF is currently ranked #1 in Government Underwriting in Canada, with 23.7% market share<sup>(1)</sup>
- For first half of calendar 2011, NBF ranked #4 in Debt and Equity Underwriting in Canada
- NBF was lead or co-lead underwriter for 20 debt issues with notional of \$16.9 billion and for 26 equity issues totaling \$1.2 billion
- Wellington West Capital Markets business integration is completed, adding 60 names to companies covered by NBF's research group. With launching coverage on 15 names, NBF increases its coverage universe to 230 companies

(1) Source: Bloomberg Underwriter Rankings, Debt-Canadian Governments

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## APPENDIX 1 | DETAIL OF SPECIFIED ITEMS



(millions of dollars)

	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11
Write-off	-	-	-	-	-	(2)	-	-	-
Severance	-	-	-	-	-	-	-	-	(7)
Litigation	-	-	-	-	-	-	-	-	(11)
Restructuration charge	-	-	-	-	-	(22)	-	-	-
Income taxes	-	-	25	-	-	32	-	-	5
Net Income	-	-	25	-	-	8	-	-	(13)
EPS	-	-	0.15	-	-	0.05	-	-	(0.08)
Reversal of provisions for income tax contingencies	-	-	-	-	-	-	-	-	21
Net Income	-	-	-	-	-	-	-	-	21
EPS	-	-	-	-	-	0.00	-	-	0.13
<b>ABCP specified items</b>									
Financing cost	(4)	(1)	(3)	(2)	(3)	(3)	-	-	-
Economic hedge transactions	(2)	-	(2)	2	-	-	-	-	-
Charges related to holding ABCP	-	-	-	-	-	-	-	-	-
Revenues	(6)	(1)	(5)	-	(3)	(3)	-	-	-
Provision for credit losses	-	-	-	-	-	-	-	-	(15)
Other expenses	(5)	1	75	-	-	-	-	-	-
Income before income taxes	(1)	(2)	(80)	-	(3)	(3)	-	-	15
Income taxes	-	-	(2)	-	(1)	-	-	-	4
Net Income	(1)	(2)	(78)	-	(2)	(3)	-	-	11
EPS	(0.01)	(0.01)	(0.48)	-	(0.01)	(0.02)	-	-	0.07
Premium paid on preferred shares repurchased for cancellation	-	-	-	-	-	-	(0.21)	-	-
<b>Total EPS Items</b>	<b>(0.01)</b>	<b>(0.01)</b>	<b>(0.33)</b>	<b>-</b>	<b>(0.01)</b>	<b>0.03</b>	<b>-</b>	<b>(0.21)</b>	<b>0.12</b>

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## APPENDIX 2 | PIIGS Exposure in US\$

(millions of dollars)

PIIGS Exposure as of July 31st, 2011 - US\$

	Direct Credit Risk
Portugal	-
Ireland	44.9
Italy	7.4
Greece	-
Spain	0.3
<b>Total *</b>	<b>52.6</b>

\* Contingent / Trade Finance exposure of \$183 million.

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## APPENDIX 3 | RESTRUCTURED ABCP AS AT JULY 31, 2011

### TRIGGER RISK

- Remote Trigger Risk - US spreads would have to widen by **more than 680 bps** from current levels

#### Indicative Distance to Triggers

	CDX7 5yr	CDX7 7yr	CDX7 10yr	CDX5 10yr	ItraxxS6 10yr
Trigger	909	859	814	909	534
Spread Level	33	79	134	139	146
Distance to Trigger Q3 11	876	780	680	770	388
Distance to Trigger Q2 11	877	763	651	739	397
Distance to Trigger Q1 11	855	727	601	675	382
Distance to Trigger Q4 10	793	678	560	623	372
Distance to Trigger Q3 10	690	623	536	593	352
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 above exceeded 12% (currently at 1.11% on CDX indices and 0.29% on Itraxx index)

### CORPORATE DEFAULT

Corporate names ( approx. 900 names)

	Q3 2011	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010	Q1 2010	Q4 2009	Q3 2009	Q2 2009
Defaulted	41	38	38	38	37	37	36	32	30	25
Above 1,000 basis points	15	12	11	15	20	10	21	31	40	53

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## APPENDIX 4 | COMMON EQUITY TIER 1 DEFINITION



Under Base III, a new measure of capital is used to evaluate financial institutions ability to deal with unexpected losses. Common Equity Tier 1 includes common shares, contributed surplus, retained earnings, accumulated other comprehensive income, qualifying minority interest, but will exclude preferred and innovative instruments, less regulatory adjustments applicable to common equity Tier 1.

These adjustments include goodwill and intangibles, deferred tax assets, cash flow hedges, shortfall loan loss reserves versus expected losses, gain on sales on securitization, losses due to changes in own credit risk on liabilities at fair value, defined benefits pension fund assets, investments in own shares, reciprocal cross holding of financial entities, investments in capital of financial entities, and substantial investments in financial entities.

Common equity Tier 1, net of regulatory adjustments, is divided by risk-weighted assets.

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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.



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