

# Analyst and Investor Presentation Q1 2008 Results Conference Call

Montreal, February 28, 2008



## Caution Regarding Forward-Looking Statements

From time to time, National Bank of Canada (the "Bank") makes written and oral forward-looking statements in publications, in filings with Canadian regulators or the United States Securities and Exchange Commission, in annual reports, in press releases and in other communications. Such statements are made pursuant to Canadian securities regulations and the 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 (in particular, the Canadian and U.S. economies), market changes, the achievement of strategic priorities and objectives, future strategies and actions, the price of Bank shares, certain risks as well as statements with respect to our beliefs, plans, expectations, 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. Assumptions about the performance of the Canadian and U.S. economies in 2008 and how that will affect the Bank's business are material factors considered in setting the Bank's strategic priorities and objectives, and in determining its financial targets, including provisions for credit losses. Key assumptions include that economic growth in Canada and the United States will be modest in 2008 and that inflation will remain low in North America. The Bank has also assumed that interest rates in Canada and the United States will decline slightly in 2008, and that the Canadian dollar will likely trade at parity with the U.S. dollar at the end of the year. In determining its expectation for economic growth, both broadly and in the financial services sector, 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 material factors it considers when establishing its sustainable effective tax rate. 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 factors, many of which are beyond the Bank's control, which include, but are not limited to, the management of credit, market and liquidity risks; the strength of the Canadian and United States 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; 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 judgments and legal proceedings; developments with respect to the restructuring proposal relating to asset-backed commercial paper (ABCP) and liquidity in the ABCP market; 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; operational and infrastructure risks; 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 other developments, including those relating to the war on terrorism; and the Bank's success in anticipating and managing the foregoing risks.

Additional information about these factors can be found under "Risk Management" and "Factors That Could Affect Future Results" in the 2007 Annual Report.

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 also cautions readers not to place undue reliance on these forward-looking statements. Moreover, these forward-looking statements may not be suitable for establishing strategic priorities and objectives, future strategies or actions, financial objectives and projections other than those mentioned above.



## Q1 2008 Highlights

Record Net Income of \$255 M

Tier 1 Capital ratio at 9.3% (Basel II)

One client, one bank: IT restructuring  
Wealth Management: Acquisitions

Appointment in P&C Banking



## Financial Review

Patricia Curadeau-Grou  
Executive Vice-President  
Finance, Risk and Treasury

## Performance Snapshot (reported)

(millions of dollars)	Q1 08	Q1 07	Change	Q4 07
Revenues	991	988	0%	372
Expenses	632	656	(4%)	640
Net Income	255	240	6%	(175)
EPS	\$1.58	\$1.43	10%	(\$1.14)
ROE	22.9%	20.7%		(16.0%)

### Q1 2008 – YoY

Reported  
EPS up 10%

*Adjusted for gains or losses attributable to third parties using the Innocap platform*



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## Performance Snapshot (adjusted)

(millions of dollars)	Q1 08	Q1 07	Change	Q4 07	Change
Revenues	978	988	(1%)	968	1%
Expenses	630	656	(4%)	670	(6%)
Net Income	237	240	(1%)	217	9%
EPS	\$1.46	\$1.43	2%	\$1.34	9%
ROE	21.3%	20.7%		18.4%	

### Q1 2008 – YoY

Adjusted EPS up 2%

Specified items:

- Gain related to the sale of the Bank's operations in Nassau
- ABCP financing cost and professional fees

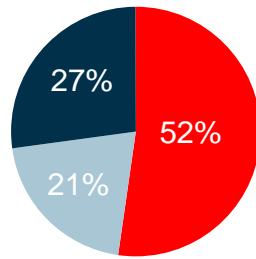
*Adjusted for gains or losses attributable to third parties using the Innocap platform*



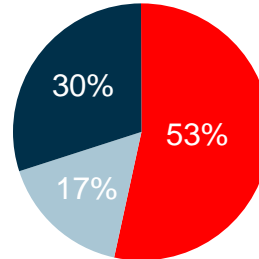
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## Well-diversified Business Mix Q1 2008

Revenues<sup>1</sup>



Net Income

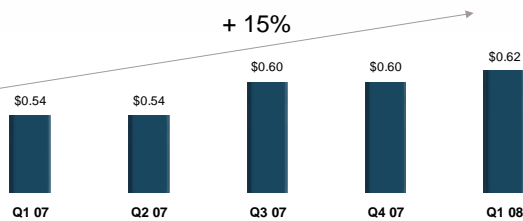


■ Personal and Commercial Banking 
 ■ Wealth Management 
 ■ Financial Markets

<sup>1</sup>Adjusted for gains or losses attributable to third parties using the Innocap platform

## Capital Management Dividend

Quarterly



### Growth for shareholders

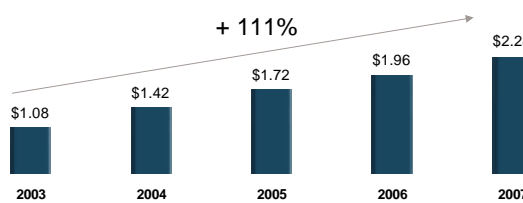
Quarterly dividend:

- Increased by \$0.02 in Q1 2008

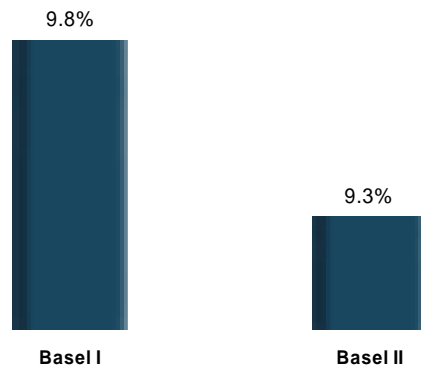
Common shares buyback:

- New program of up to 4.7 M common shares started on January 14, 2008, representing 3% of outstanding shares
- No buyback in Q1 2008

Annual



## Capital Management Tier 1 – Q1 2008



### Active capital management

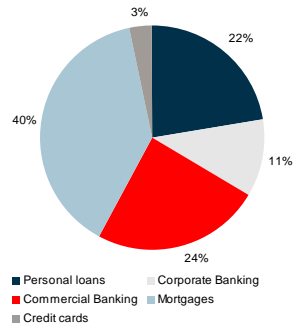
- Basel II implementation:
  - Impact of 50 bps
- Issuance of \$400 M of Innovative instrument
  - Impact of 39 bps

## Risk Management

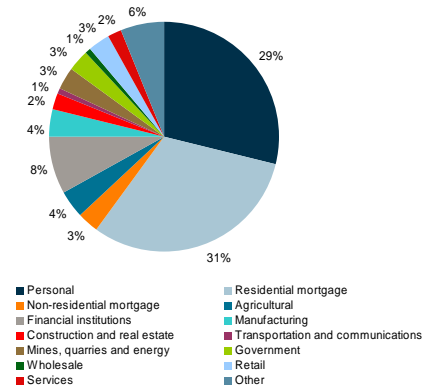
# Global Portfolio Composition

As at January 31, 2008

## Per business segment

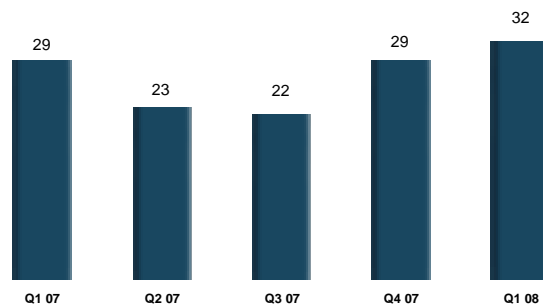


## Per industry



# Risk Provisioning

(millions of dollars)



## Risk provisioning Q1 2008

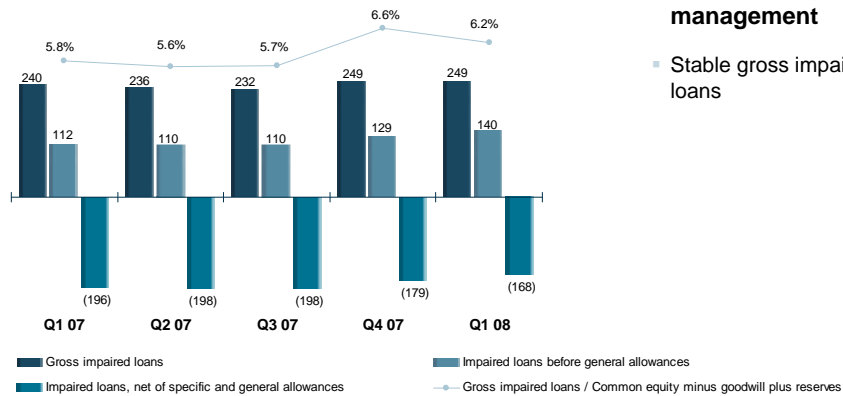
- P&C Banking: \$32 M or 25 bps

2008 PCL target:

- 25 bps to 30 bps

## Impaired Loans

(millions of dollars)



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## Impaired Loan Formation

(millions of dollars)

	Q1 07	Q2 07	Q3 07	Q4 07	Q1 08
Personal & Commercial Banking	22	19	18	46	46
Corporate	0	(1)	0	(1)	(3)
<b>Total</b>	<b>22</b>	<b>18</b>	<b>18</b>	<b>45</b>	<b>43</b>

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



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## Risk Management Current Focus

Commercial paper liquidity lines to third party asset-backed conduits	<ul style="list-style-type: none"> <li>None</li> </ul>
Commercial paper liquidity lines to National Bank sponsored asset-backed conduit	<ul style="list-style-type: none"> <li>Backstop liquidity facilities – not significant</li> <li>No exposure to U.S. subprime mortgages</li> </ul>
U.S. subprime mortgage direct exposure	<ul style="list-style-type: none"> <li>None</li> </ul>
U.S. subprime mortgage indirect exposure	<ul style="list-style-type: none"> <li>Minimal, held through \$1.7 B ABCP as at Jan. 31, 2008</li> </ul>
Leveraged buy out (LBO) underwriting commitments	<ul style="list-style-type: none"> <li>None</li> </ul>
Hedge fund trading and lending exposure, including prime brokerage	<ul style="list-style-type: none"> <li>Transactions fully collateralized</li> <li>No credit issues with counterparties</li> </ul>

## Credit derivative position

As at January 31, 2008  
(millions of dollars)

	Protection		Total
	Purchased	Sold	
Credit derivative contracts	7 164	6 028	13 192
Positive replacement cost			
Before netting	322	7	329
After netting	73	2	75

## Business Segment Review

Jean Dagenais  
Senior Vice-President and Chief Financial Officer

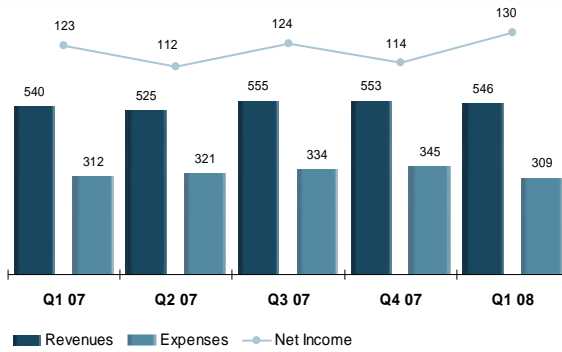
## Specified items

<i>(millions of dollars)</i>	Q1 08
Gain related to the sale of the Bank's operations in Nassau	32
ABCP financing costs	<u>(19)</u>
Revenues	13
ABCP professional fees	<u>2</u>
Income before income taxes	11
Income taxes	<u>(7)</u>
Net Income	18

## Personal and Commercial Banking Quarterly Results

### TEB

(millions of dollars)



### Q1 2008 – YoY

- Net Income up 6%
- Good volume growth in personal loans and deposits increased revenues by 1%
- Continuous efforts resulted in a 1% reduction in expenses
- Efficiency ratio improved by 120 bps to 56.6%

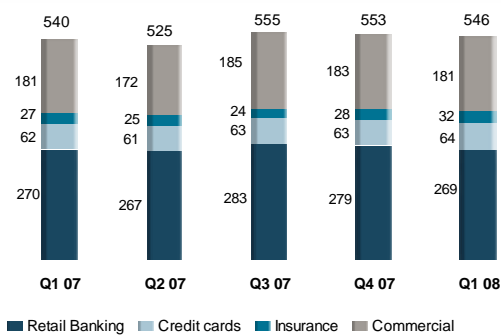


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## Personal and Commercial Banking Revenues Breakdown

### TEB

(millions of dollars)



### Q1 2008 – YoY

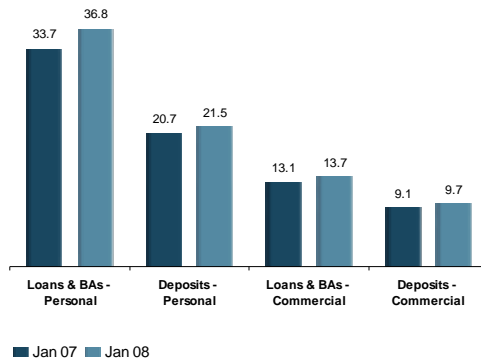
- Good volume growth in both Retail and Commercial Banking is offset by lower spread
- Credit cards up 3%



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## Personal and Commercial Banking Volume Evolution

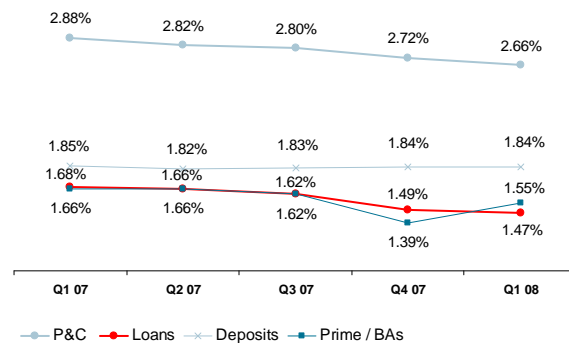
### Average volume (billions of dollars)



### Strong volume growth

- Good performance in Personal Banking with loans and deposits up 9% and 4% respectively
- Commercial Banking: deposits were up 7% and loans grew by 5%

## Personal and Commercial Banking Margin Evolution



### Q1 2008 vs Q4 2007

- Margins were impacted by lower prime / BAs
- Prime / BAs back to Q1 2007 level since the end of January 2008
- Mortgage spread stable

## Personal and Commercial Banking Summary

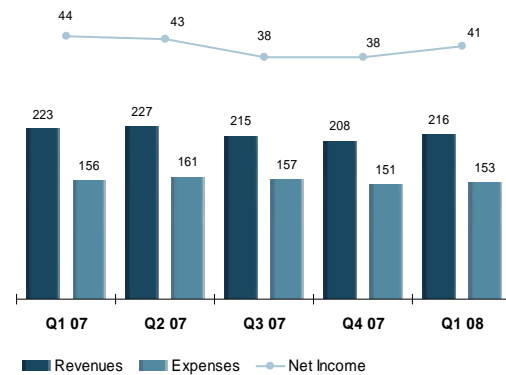
Sustained personal loans and deposits volume growth tempered by temporarily spread compression

Efficiency ratio improvement

## Wealth Management Quarterly Results<sup>1</sup>

### TEB

(millions of dollars)



<sup>1</sup> Excluding specified items

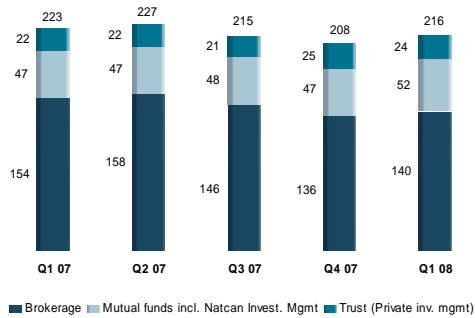
### Q1 2008 – YoY

- Net Income down 7%
- Revenues decreased by 3%, mainly due to weaker financial markets activities

## Wealth Management Revenues Breakdown

### TEB

(millions of dollars)



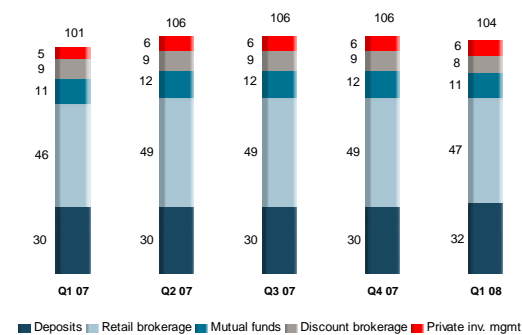
### Q1 2008 – YoY

- Solid growth in mutual funds and private investment management up 11% and 9%, respectively

## Wealth Management Retail Assets Under Management

### TEB

(billions of dollars)



### Q1 2008 – YoY

- Overall up 3%
- Growth in following sub-sectors:
  - Deposits: 7%
  - Retail brokerage: 2%
  - Private investment management: 20%

## Wealth Management Summary

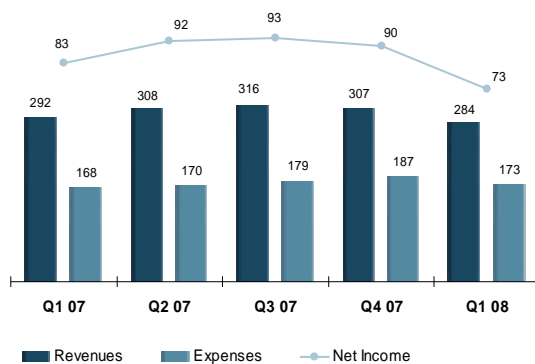
AUM grew by 3%

Pursuing acquisition initiatives :  
Aquilon Capital Corp (February 6)  
Groupe Financier Everest (February 7)

## Financial Markets Quarterly Results<sup>1</sup>

### TEB

(millions of dollars)



### Q1 2008 – YoY

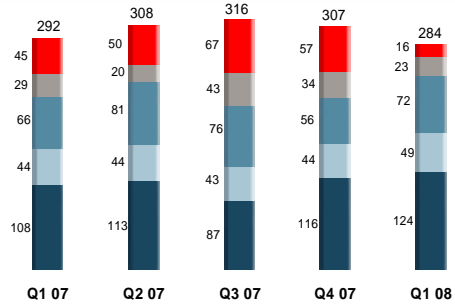
- 12% decrease in Net Income
- 3% decrease in Revenues
- Good performance in volatile financial markets
- Expenses affected by payout mix

<sup>1</sup>Excluding specified items and adjusted for gains or losses attributable to third parties using the Innocap platform

## Financial Markets Revenues Breakdown<sup>1</sup>

### TEB

(millions of dollars)



### Q1 2008 – YoY

- Good trading performance, revenues up 16%
- “Other” segment affected by slower merchant banking results

■ Trading ■ Corp. Banking ■ Capital Markets ■ Inv. gains ■ Other

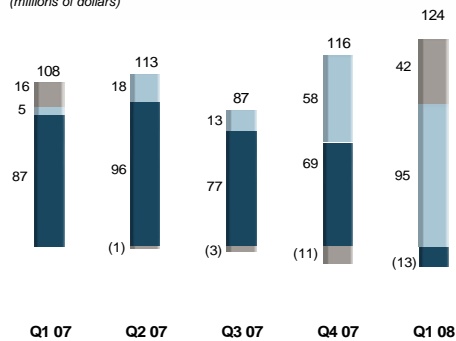
<sup>1</sup>Excluding specified items and adjusted for gains or losses attributable to third parties using the Innocap platform



## Financial Markets Trading Revenues Breakdown<sup>1</sup>

### TEB

(millions of dollars)



### Q1 2008 – YoY

- Strong fixed income performance

■ Equity ■ Fixed income ■ Commodity and foreign exchange

<sup>1</sup>Excluding specified items and adjusted for gains or losses attributable to third parties using the Innocap platform

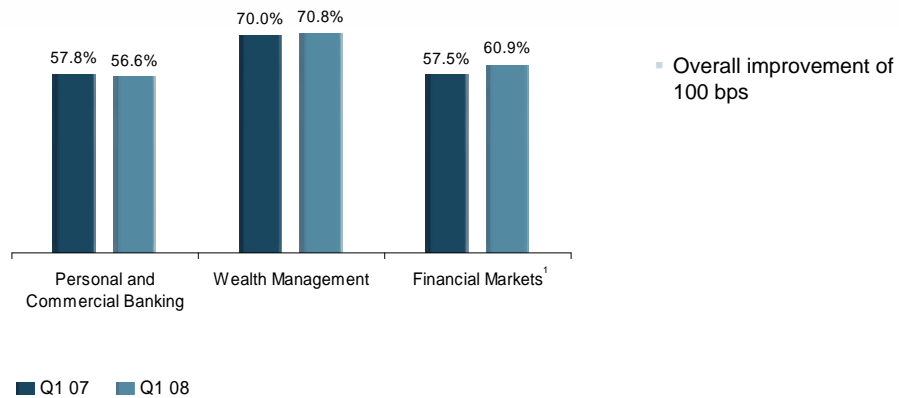


## Financial Markets Summary

Strong trading revenues

Good performance in a challenging environment

## Business Line Efficiency Ratio



<sup>1</sup>Adjusted for gains or losses attributable to third parties using the Innocap platform

## 2008 Objectives

	2008 Objectives	Q1 08 Reported	Q1 08 Adjusted
Growth in diluted earnings per share	3% to 8%	10%	2%
Return on common shareholders' equity	16% to 21%	22.9%	21.3%
Tier 1 capital ratio	More than 8.0%	9.3%	9.3%
Dividend payout ratio	40% to 50%	n/a	41.3%