

# ANALYST AND INVESTOR PRESENTATION Q4 2010 RESULTS CONFERENCE CALL

December 1, 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 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 vehicle conduits, 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.

## HIGHLIGHTS



### ADJUSTED RESULTS

	<u>Q4 2010</u>	<u>2010</u>
Net Income	\$282M	\$1,084
Diluted EPS	\$1.63	\$6.25
Provision for credit losses	\$37M or 24 bps	\$144M or 24 bps
ROE	17.5%	17.7%
Tier 1 ratio		14%
Dividend payout:	38%	39% (trailing 4 quarters)

### WELL CAPITALIZED

- Common share dividends: from \$0.62 to \$0.66, up 6% or \$0.04
- Well positioned for the implementation of Basel III rules

## 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		
	Q4 10	Q4 09	Change	Q4 10	Q4 09	Change
<b>Revenues<sup>(1)</sup></b>	<b>1,087</b>	<b>1,081</b>	<b>1%</b>	<b>1,084</b>	<b>1,080</b>	<b>0%</b>
Expenses	692	699	(1%)	716	700	2%
Net Income	282	243	16%	287	241	19%
<b>EPS</b>	<b>\$1.63</b>	<b>\$1.40</b>	<b>16%</b>	<b>\$1.66</b>	<b>\$1.39</b>	<b>19%</b>
<b>ROE</b>	<b>17.5%</b>	<b>16.3%</b>		<b>18.0%</b>	<b>16.7%</b>	

### Q4 2010 vs. Q4 2009 (adjusted)

- Net income: up 16% mainly due to higher contributions from P&C and Wealth Management and increased securitization revenues

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

(2) Details on specified items in Appendix 1

## PERFORMANCE SNAPSHOT



(millions of dollars)

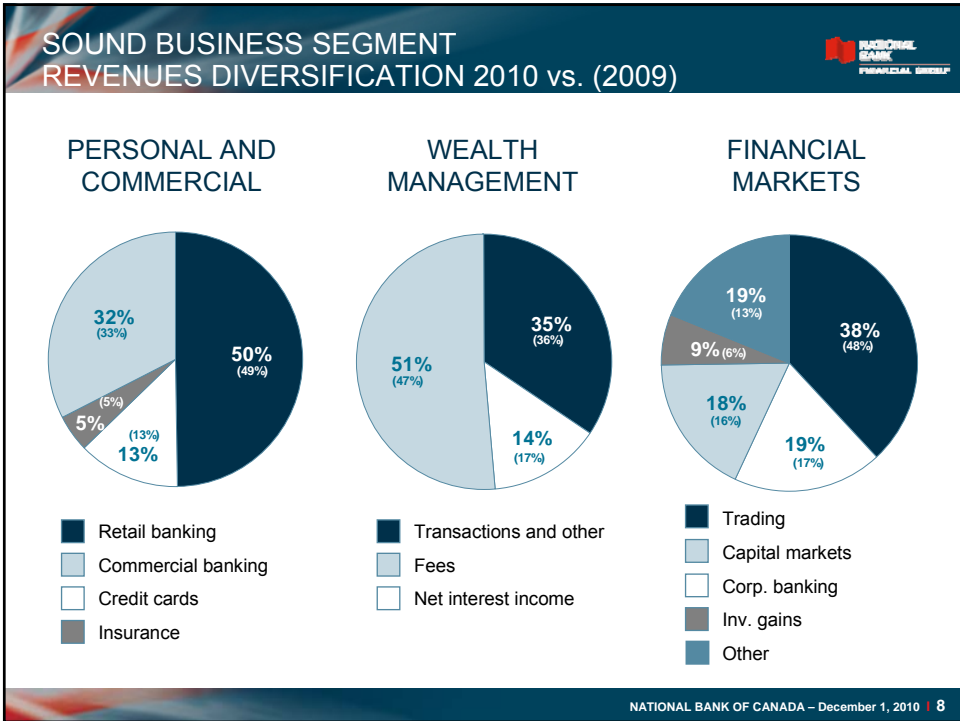
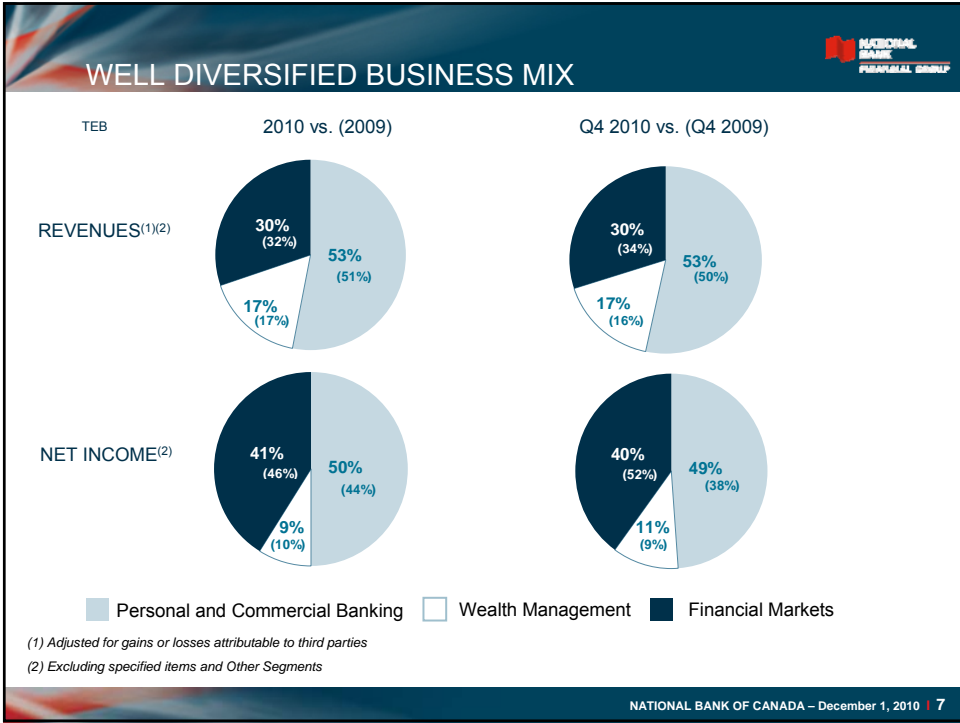
	Adjusted <sup>(2)</sup>			Reported		
	12M 10	12M 09	Change	12M 10	12M 09	Change
<b>Revenues<sup>(1)</sup></b>	<b>4,284</b>	<b>4,311</b>	<b>(1%)</b>	<b>4,273</b>	<b>4,133</b>	<b>3%</b>
Expenses	2,712	2,663	2%	2,811	2,662	6%
Net Income	1,084	1,061	2%	1,034	854	21%
<b>EPS</b>	<b>\$6.25</b>	<b>\$6.22</b>	<b>0%</b>	<b>\$5.94</b>	<b>\$4.94</b>	<b>20%</b>
<b>ROE</b>	<b>17.7%</b>	<b>19.0%</b>		<b>17.0%</b>	<b>15.6%</b>	

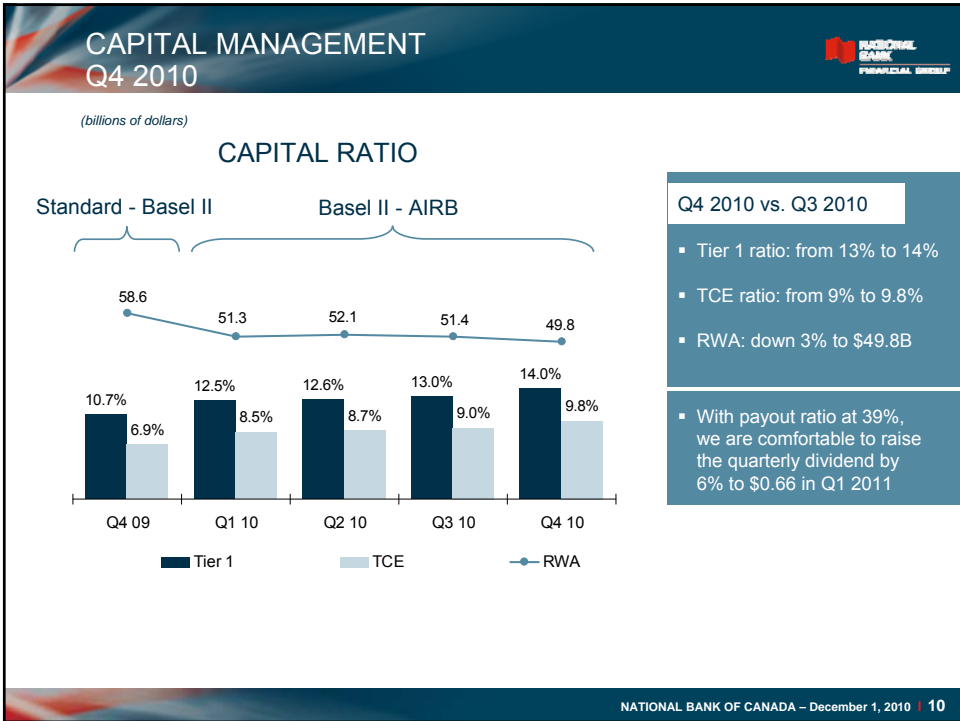
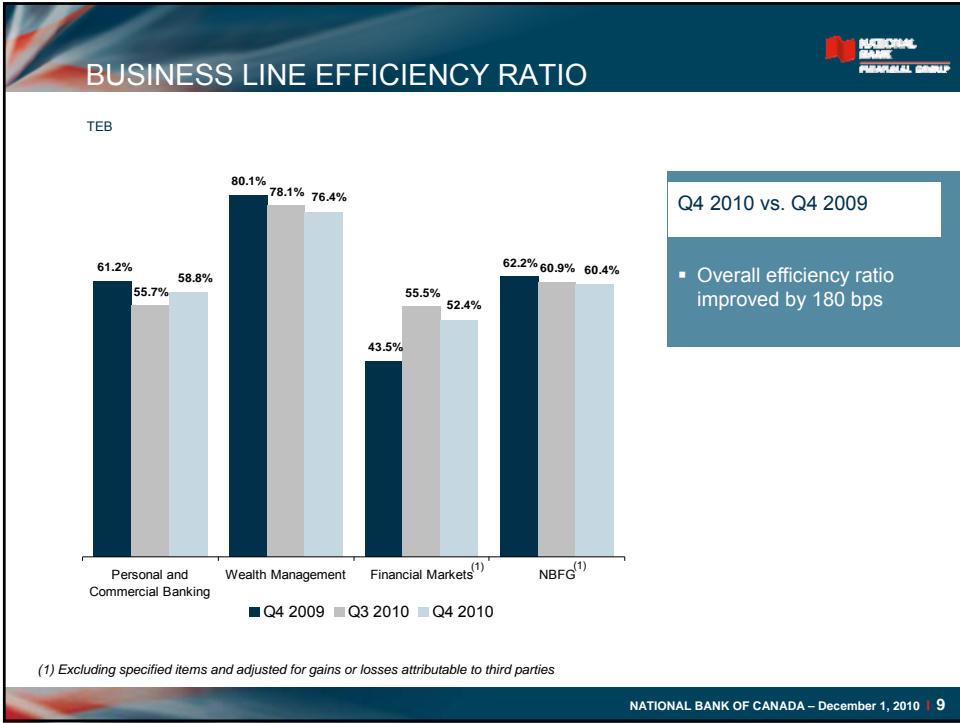
### Q4 2010 vs. Q4 2009 (reported)

- Record year with reported net income over \$1B

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

(2) Details on specified items in Appendix 1





## QUARTERLY TIER 1 EVOLUTION



## RISK MANAGEMENT

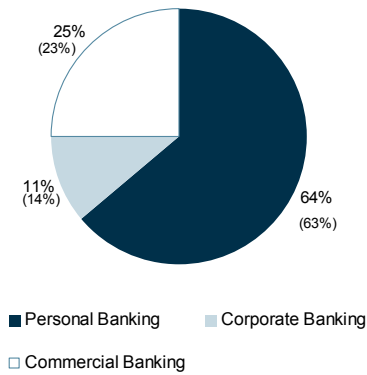


# GLOBAL PORTFOLIO COMPOSITION

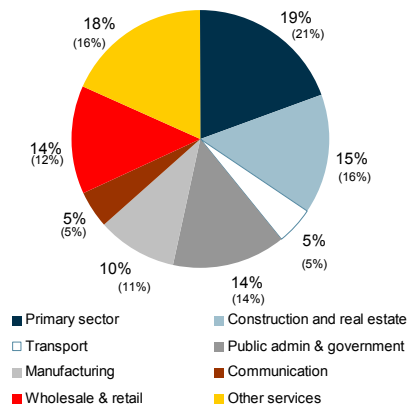
As at October 31, 2010 vs. (October 31, 2009)



## PER BUSINESS SEGMENT



## PER INDUSTRY (Corporate & Commercial)

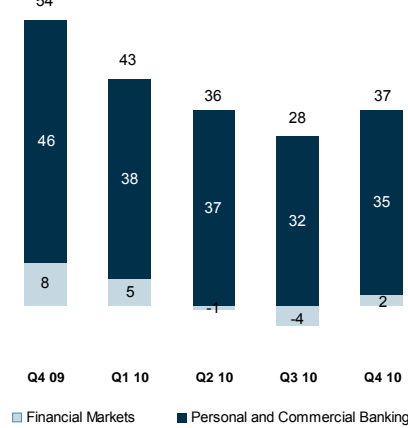


# RISK PROVISIONING



(millions of dollars)

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

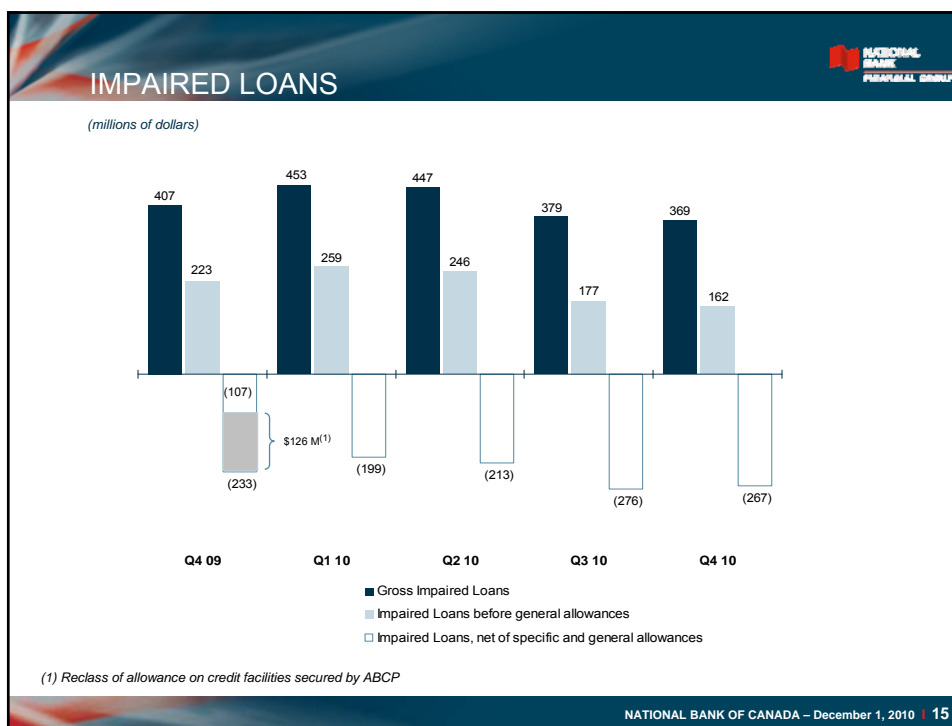


### Risk Provisioning Q4 2010

- Q4: \$37M or 24 bps
- 2010: \$144M or 24 bps

### 2011 First Half PCL Target

- 25 bps to 30 bps



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

(millions of dollars)

**NATIONAL BANK OF CANADA**  
FINANCIAL GROUP

	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10
<b>Personal &amp; Commercial Banking</b>	<b>46</b>	<b>67</b>	<b>23</b>	<b>1</b>	<b>22</b>
Retail	18	20	11	7	16
Commercial	28	26	12	(6)	6
Real estate	0	21	0	0	0
<b>Corporate Banking</b>	<b>7</b>	<b>3</b>	<b>(1)</b>	<b>(48)</b>	<b>(3)</b>
<b>Total</b>	<b>53</b>	<b>70</b>	<b>22</b>	<b>(47)</b>	<b>19</b>

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

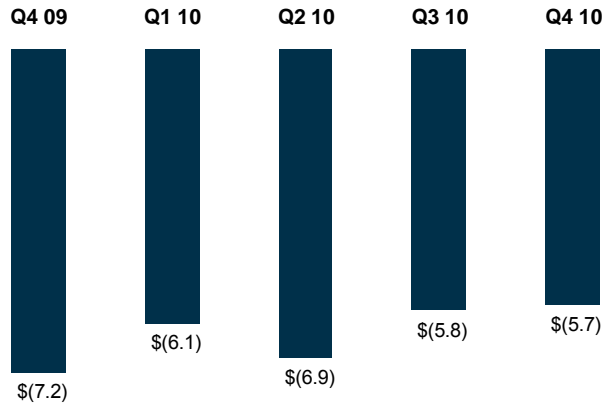
NATIONAL BANK OF CANADA – December 1, 2010 | 16

## SOUND MARKET RISK MANAGEMENT



(millions of dollars)

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



(1) Excluding ABCP VAR

## BUSINESS SEGMENT REVIEW

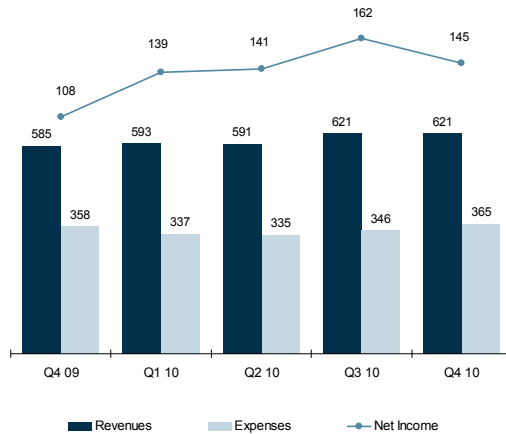
**Jean Dagenais**  
Senior Vice-President  
Finance, Taxation and Investor Relations



## PERSONAL AND COMMERCIAL BANKING Quarterly Results



(millions of dollars)  
TEB



### Q4 2010 vs. Q4 2009

- Revenues: up 6% due to strong volume growth in loans and BAs (+9%)
- Net income: up 34 %
- Net income before PCL: up 13%

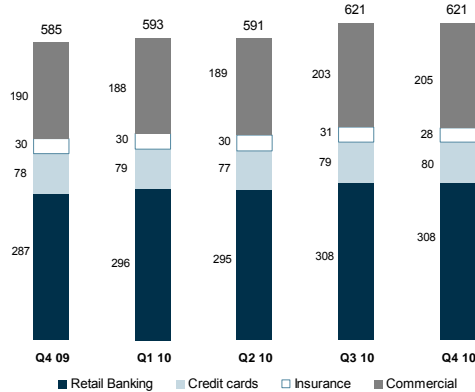
### Q4 2010 vs. Q3 2010

- Revenues: stable due to good loans and BAs growth (+3%) offset by lower loan prepayment fees
- Expenses: up 5% due to higher staff compensation, marketing and IT expenses

## PERSONAL AND COMMERCIAL BANKING Revenues Breakdown



(millions of dollars)  
TEB



### Q4 2010 vs. Q4 2009

- Retail Banking: revenues up 7% due to good volume growth
- Credit Card: up 3% due to higher spreads and transaction fees
- Insurance: down 7% due to an actuarial adjustment
- Commercial: up 8% due to good volume growth

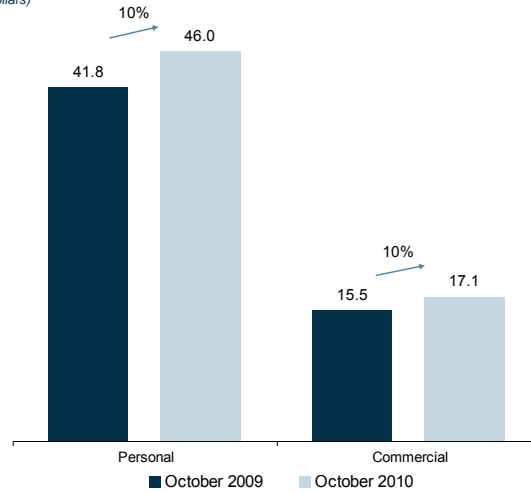
### Q4 2010 vs. Q3 2010

- Retail Banking: good volume growth in loans and BAs (+3%) offset by lower loan prepayment fees
- Commercial: up 1% due to good volume growth in loans and BAs (+3%)

## PERSONAL AND COMMERCIAL BANKING Loans & BAs Evolution



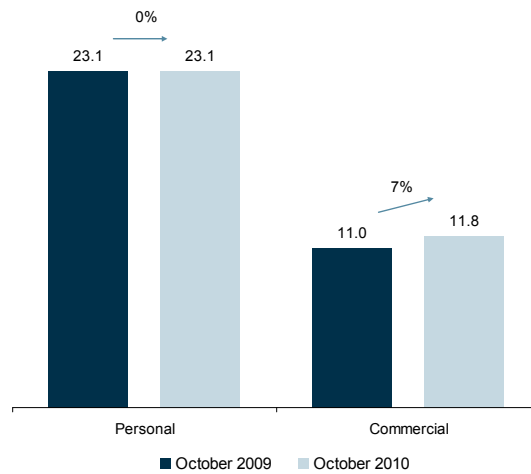
Average Monthly Volume  
(billions of dollars)



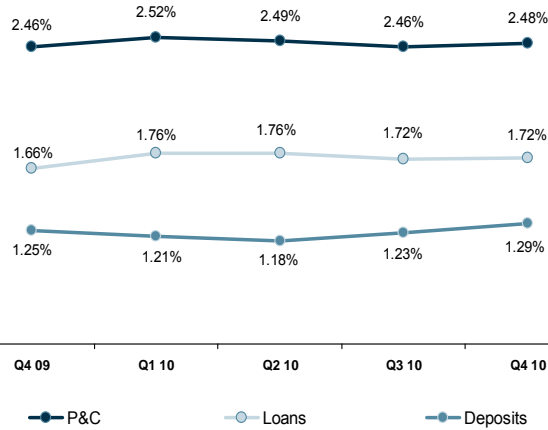
## PERSONAL AND COMMERCIAL BANKING Deposits



Average Monthly Volume  
(billions of dollars)



## PERSONAL AND COMMERCIAL BANKING Margin Evolution



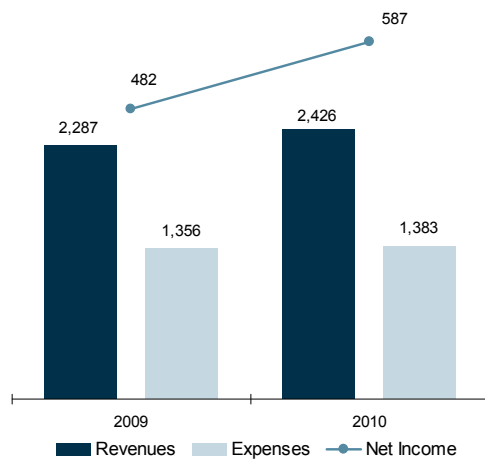
### Q4 2010 vs. Q3 2010

- Loan margins are stable
- Higher deposit margins due to yield curve

## PERSONAL AND COMMERCIAL BANKING RESULTS



(millions of dollars)  
TEB



### 2010 vs. 2009

- Net income up 22%
- Strong volume growth
- Stabilizing margin
- Moderate expense increase
- Lower loan losses

## PERSONAL AND COMMERCIAL BANKING



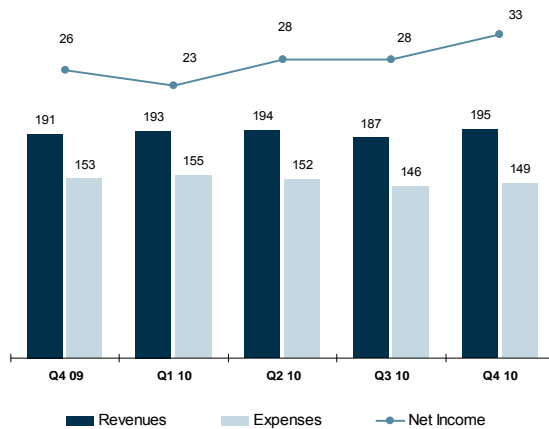
### Key Takeaways

- Good volume growth in Personal and Commercial Banking
- Efficiency ratio improved 240 bps from Q4 2009 to Q4 2010
- Good momentum in the *one client, one bank* program
- Q4 2010: 14 branch projects, including 3 new branches
- Fiscal 2011: 59 branch projects, including 10 new branches

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



(millions of dollars)  
TEB



### Q4 2010 vs. Q4 2009

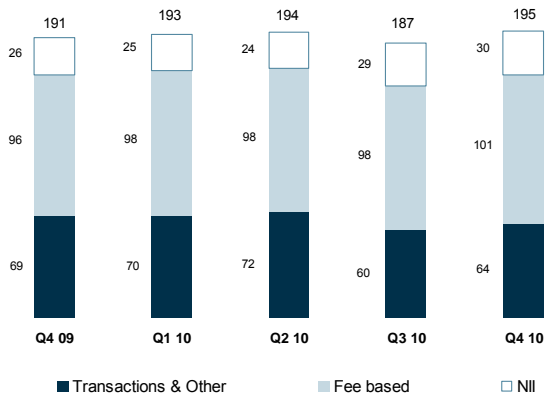
- Net income: up 27% or \$7M mostly due to higher NII and fee-based revenues
- Good expense control: efficiency ratio at 76.4%, an improvement of 370 bps

(1) Excluding specified items

## WEALTH MANAGEMENT Revenues Breakdown



(millions of dollars)  
TEB



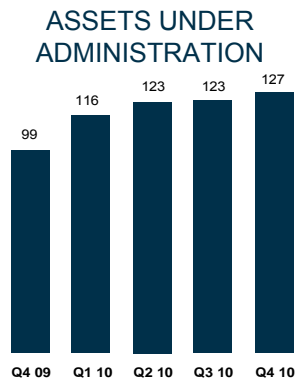
### Q4 2010 vs. Q4 2009

- Nil: up \$4 million or 15% due to higher interest rate
- Fee-based revenues: up \$5M or 5% due to higher markets
- Transaction revenues: down \$5M or 7% due to some pricing pressure, AUA moving towards fee-based and decreasing pricing schedule in the correspondent network

## WEALTH MANAGEMENT Assets Under Administration and Management



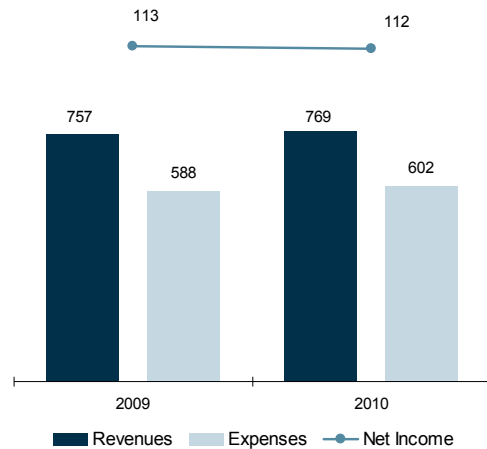
(billions of dollars)



## WEALTH MANAGEMENT RESULTS<sup>(1)</sup>



(millions of dollars)  
TEB



### 2010 vs. 2009

- Gaining momentum in second half
- Increasing AUM and AUA
- Good expense control

(1) Excluding specified items

## WEALTH MANAGEMENT



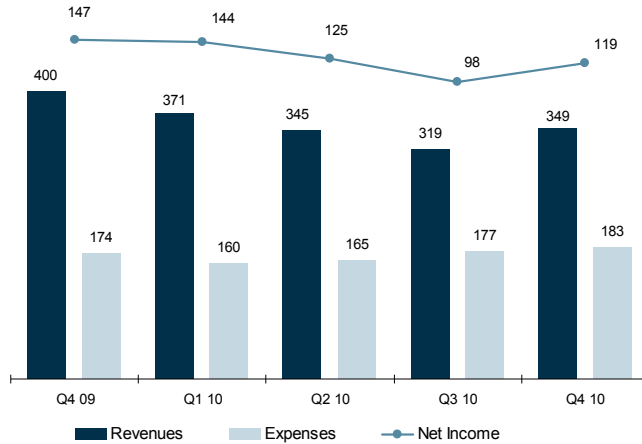
### Key Takeaways

- Good momentum in earnings due to higher interest rate, better markets and positive impacts of new initiatives
- Emphasis on expense control is paying off
- Recent developments:
  - Acquisition of the Private Wealth Management Customer Service division of Montrusco Bolton Investments
  - Partnership with Jarislowsky Fraser to become the fund manufacturer of the new low fee Jarislowsky Fraser Fund family
  - Assets under management of the Meritage portfolios reach the \$1B mark

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



(millions of dollars)  
TEB

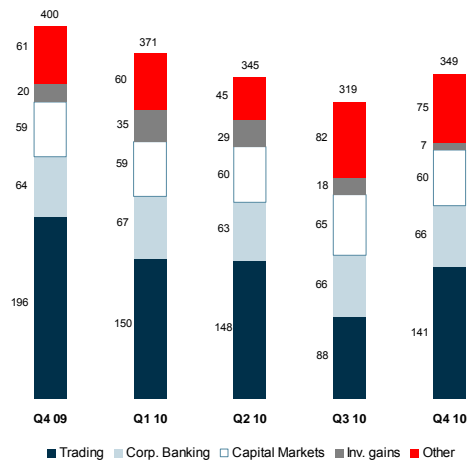


(1) Excluding specified items and adjusted for gains or losses attributable to third parties

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



(millions of dollars)  
TEB



### Q4 2010 vs. Q3 2010

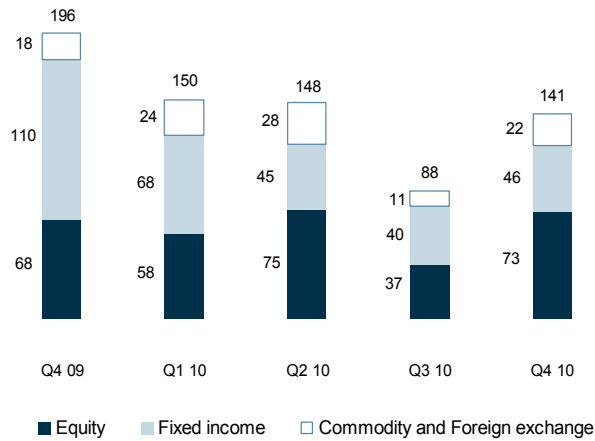
- Higher contribution from trading activities
- Stable revenues from corporate banking and capital markets
- Lower investment gains

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

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



(millions of dollars)  
TEB



### Q4 2010

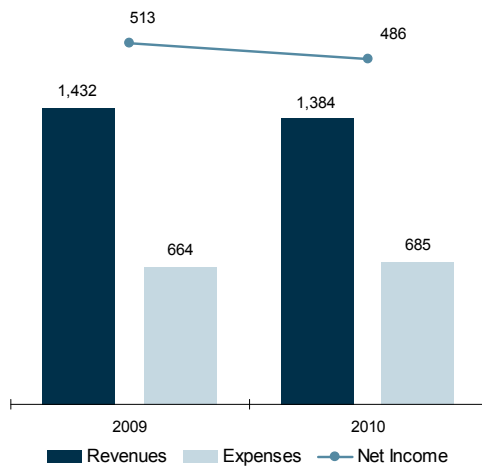
- All sub sectors up QoQ
- Large part of trading revenues coming from client facing activities.
- Proprietary trading: \$9M

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

## FINANCIAL MARKETS RESULTS<sup>(1)</sup>



(millions of dollars)  
TEB



### 2010 vs. 2009

- Lower trading revenues mostly offset by Corporate Banking and Capital Markets

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

### Key Takeaways

- Continued strong performance in Government and Corporate debt underwriting
- Good activity in risk management products with clients
- Vast majority of trading revenues were from client facing activities
- Good momentum in M&A activity
- Rigorous cost management
- Focusing resources in areas where we can achieve excellence and drive growth

### Mid-term Objectives

- |   |              |
|---|--------------|
| ▪ Growth in diluted earnings per share <sup>(1)</sup> | 5% - 10%     |
| ▪ Return on common shareholders' equity               | 15% - 18%    |
| ▪ Core Tier 1 capital ratio (under 2019 Basel III)    | More than 7% |
| ▪ Dividend payout ratio                               | 40% - 50%    |

## APPENDIX 1 | DETAIL OF SPECIFIED ITEMS



(millions of dollars)

	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10
Projects write-off	(54)	-	-	-	-	-	-	-	-
Write-off	-	-	-	-	-	-	-	-	(2)
Restructuration charge	(66)	-	-	-	-	-	-	-	(22)
Income taxes	40	-	-	-	-	25	-	-	32
Net Income	(80)	-	-	-	-	25	-	-	8
EPS	(0.50)	-	-	-	-	0.15	-	-	0.05
<b>ABCP specified items</b>									
Financing cost	(14)	49	(4)	(4)	(1)	(3)	(2)	(3)	(3)
Economic hedge transactions	57	(2)	(24)	(2)	-	(2)	2	-	-
Charges related to holding ABCP	(152)	(190)	-	-	-	-	-	-	-
Revenues	(109)	(143)	(28)	(6)	(1)	(5)	-	(3)	(3)
Provision for credit losses	4	126	-	-	-	-	-	-	-
Other expenses	4	2	1	(5)	1	75	-	-	-
Income before income taxes	(117)	(271)	(29)	(1)	(2)	(80)	-	(3)	(3)
Income taxes	(39)	(87)	(9)	-	-	(2)	-	(1)	-
Net Income	(78)	(184)	(20)	(1)	(2)	(78)	-	(2)	(3)
EPS	(0.49)	(1.15)	(0.12)	(0.01)	(0.01)	(0.48)	0.00	(0.01)	(0.02)
Total EPS Items	(0.99)	(1.15)	(0.12)	(0.01)	(0.01)	(0.33)	0.00	(0.01)	0.03

## APPENDIX 2 | Restructured ABCP as at October 29, 2010



### TRIGGER RISK

- Remote Trigger Risk - US spreads would have to widen by more than 560 bps from current levels

Indicative Distance to Triggers					
	CDX7 5yr	CDX7 7yr	CDX7 10yr	CDX5 10yr	ItraxxS6 10yr
Trigger	852	781	695	773	489
Spread Level	59	103	135	150	117
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 CDX credit indices above exceeded 12% (currently at 1.11%)

### CORPORATE DEFAULT

Corporate names ( approx. 900 names)								
	Q4 2010	Q3 2010	Q2 2010	Q1 2010	Q4 2009	Q3 2009	Q2 2009	Q1 2009
Defaulted	38	37	37	36	32	30	25	15
Above 1,000 basis points	15	20	10	21	31	40	53	83

### **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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