



NATIONAL BANK OF CANADA

Insights on National Bank Financial and Treasury Activities

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Investor Presentation Toronto

Introduction by: **Réal Raymond**,
President and Chief Executive Officer



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Organization Overview



Jean Turmel

President, Financial Markets
Treasury and Investment Bank and
Chairman of National Bank Financial

Louis Vachon
SVP Treasury and
Financial Markets

VP Treasury

VP Financial Markets
and Derivatives

TBA President
Natcan

Kym Anthony
President National
Bank Financial

VP Governmental
Affairs

Introduction to Treasury activities and National Bank Financial



Role and Responsibilities

- Treasury and Financial Markets
 - Responsible for the Bank's treasury management
 - Provides a wide range of capital market products and services to corporate, government and institutional clients

- Natcan
 - Manage National Bank Funds
 - 20 investment professionals: teams of specialists in various asset categories (fixed income, Canadian equities, foreign equities) are supported by economists who closely monitor the developments in the various capital markets
 - International Management assumes responsibility for international funds



Introduction to Treasury activities and National Bank Financial



Role and Responsibilities (cont'd)

■ National Bank Financial

- Truly national integrated firm, combining solid retail brokerage and advisory services with institutional brokerage, corporate finance and securities clearing services for third parties.
- Has a substantial presence in all regions of Canada and yet remains unique among major Canadian firms for the depth of services in Quebec



Treasury Insights

Louis Vachon,
Senior Vice-President, Treasury and Financial Markets



What is Treasury and Financial Markets?



- Treasury:
 - Funding / liquidity management
 - ALM

- Financial Markets:
 - FX
 - Equity derivatives
 - Commodity derivatives

- Investments:
 - Investment portfolio
 - Alternative asset management



Strategy: How do we try to make money?

- Diversification
- Niche



Strategy: Diversification



- Client-related, proprietary trading, investments
- Equity, fixed income, currency, commodity
- Activities based on volume, market direction and volatility
- Directional and non-directional strategies
- Short-term traders, value investing, growth investing
- Geographical diversification
- 16 different books / profit centers

Strategy: Diversification

- The ultimate goal:
reduce volatility of earnings
- We should perform well in most (but not all)
economic/financial environments



Strategy: Niche Activities



- Geographical: Quebec
- Early mover / innovations:
 - Alternative asset management / Pulp & Paper
- Local Dominance / Global Excellence
- Focus on high margin businesses



Alternative Asset Management



- Absolute return strategies: hedge fund and C.T.A.
- External trader program
 - Origin
 - Evolution
- Revenue source:
 - Trading profits
 - Investment management fees

The Vision – Absolute Return Investing



- Less friendly markets going forward
- Risk adjusted absolute returns over index benchmarking
- Alpha over Beta
- Traders / Managers leaving large organisations
- Risk management and talent over packaging and distribution
- Search for real diversification – low correlation
- **Our objective: continue to expand in this space as specialty manufacturer**

Product Differentiation



- Track Record / Performance
- Eat your own cooking
- Transparency and controls:
 - Managed accounts: outsource trading – not risk management and controls
- Structuring capability
- Liquidity



Existing Client Base



- NBC-owned funds: US \$188,361,835.44
- Retail Investors: US \$275,662,143
- Institutional Investors: US \$125,461,000
- Total Assets in the program: US \$589,485,000



Risk/Return Characteristics of the Business



■ Returns:

- High growth: US \$95 billions to US \$500 billion in 6 years
- High margins: 1% institutional, 2-3% retail

■ Risk:

- Risk control / diversification
- Reputation risk

Competition – Absolute Return Investing



- No dominant player
- No Fidelity in the area
- Similar strategy:
 - SG
 - BNP
 - Desjardins



External Trader Program



MONTHLY PERFORMANCE (%)

	Jan	Feb	March	April	May	June	July	Aug	Sept	Oct	Nov	Dec
2001	-0.06	0.17	0.41	0.52	0.29	-0.53	-0.27	1.44	-0.85	0.25	-0.91	1.04
2000	-0.62	2.94	-0.39	0.72	4.6	1.73	2.62	1.41	0.75	1.63	3.33	3.19
1999	-2.14	1.25	2.98	3.35	0.24	0.8	0.11	-0.62	-0.4	-2.1	2.69	4.32
1998	-2.24	1.37	3.87	-2.55	3.38	-0.53	-1.77	5.81	5.3	2.12	-2.16	3.55
1997	7.64	5.13	-1.41	-0.09	-1.49	0.13	2.12	2.45	3.7	0.16	-0.31	2.3

Challenges



- Maintain risk-adjusted performance
- Manage expectations
- Capacity and flow of funds
- Technology



Pulp/Paper Derivatives



- Started in 1999
- Acts as intermediary between consumers and producers
- Recently hired 7 new professionals to complement our team
- Products traded:
 - Newsprint
 - Pulp
 - Container board
 - Recycled paper
- Financial contracts; no physical

Why NBC?



- Industry expertise
- Neutral counterparty
- Regulated counterparty
- Team expertise
- Competition:
 - Nordea Bank
 - Mirant
 - Waste Management
 - Goldman Sachs
- **Objective: To become the established leader in this field**

Team



- Our team is responsible for our success
- Maintaining and building up the team remains a top priority
- Continue to provide support and opportunities
- Protect the shareholders and franchise



Building Principles



- Be optimistic in managing your business
- Be realistic in managing your staff
- Be pessimistic in managing your risks





NATIONAL BANK OF CANADA

NBF Strategic Direction

G.F. Kym Anthony,
President and Chief Executive Officer
National Bank Financial



Overview



- Profile of National Bank Financial
- The Strategic Opportunity
- Delivering Upon the Strategic Opportunity
- Acquisition of Putnam Lovell
- Momentum
- Concluding Remarks

Profile of National Bank Financial



- Leading full-service, mid-market investment dealer in Canada
- Almost 3,000 employees in more than 92 offices
- Utilizing more than \$1 billion of capital
- Annual revenues in excess of \$1 billion
- Management of a \$12 billion corporate loan portfolio
- Retail assets under management of \$65 billion for over 700,000 accounts for captive and non-captive relationships

Profile of National Bank Financial



- 4th largest retail distribution network in Canada
- Largest 3rd party clearing business in Canada
- One of the largest fixed income operations in Canada
- Participated in more IPO's than any other dealer in Canada in 2001

Profile of National Bank Financial



- Strategically positioned as the leading mid-market investment dealer in Canada
- Focus industries:
 - Biotech and Healthcare
 - Diversified Industries (Ontario & Québec)
 - Energy
 - Financial Services
 - Media and Telecom
 - Technology

Profile of National Bank Financial



- Newly integrated corporate banking operation
- Full service debt capabilities for governments, corporates and high yield issuers
- Edgestone, an entity associated with NBF, is one of the largest private capital managers in Canada

The Strategic Opportunity



The Strategic Opportunity



- NBF made significant progress in 2001, despite difficult market conditions
- NBF has achieved superior growth and returns for shareholders by:

- 1 Dominating the mid-market in Canada;
- 2 Introducing third party investors/capital partners;
- 3 Maximizing the cross-selling between the product groups and the newly integrated corporate and investment banking departments;
- 4 Developing international capabilities in areas of domestic strength and momentum;
- 5 Disciplined industry focus; and,
- 6 Accelerating the growth of total retail assets under management and shifting the mix towards managed product.

Delivering Upon the Strategic Opportunity



Dominating the Mid-market

- Participated in more IPO's than any other dealer in 2001
- Almost doubled NBF equity underwriting market share from 4% in 2000 to 7.4% in 2001 with another significant leap in 2002 YTD to 10% (calendar year basis)
- Doubled mergers and acquisitions revenues in 2001
- Completion of the integration of the back office and increased service levels, while significantly lowering costs

Delivering Upon the Strategic Opportunity



- Several senior new hires including:

Pierre Fitzgibbon, Montreal
Vice Chairman Investment Banking

Scot Martin, Toronto
Vice Chairman Investment Banking

Rob Wonnacott, Calgary
Head of Calgary Investment Banking

Brian Imrie, Toronto
Co-head, Mergers and Acquisitions

Delivering Upon the Strategic Opportunity



Introducing Third Party Investors / Capital Partners

- October 31, 2001, Edgestone, an associated company of National Bank Financial, became one of the largest private capital managers in Canada, following a strategic investment by the CPP Investment Board and a significant increase in National Bank of Canada's investment in its funds
- Edgestone currently has approximately \$1.2 billion in committed capital under management

Delivering Upon the Strategic Opportunity



- Edgestone invests in a variety of growth, acquisition and/or buyout opportunities in the mid-market
- NBF's Co-lead of the \$175mm BFI Income Trust, is the first of several significant deals to be referred to the NBF Investment Bank by Edgestone

Delivering Upon the Strategic Opportunity



Maximize RAROC

- Transferred the management of National Bank's \$12 billion corporate loan portfolio to National Bank Financial, in November 2001
- Hired Dan Williams, a senior management consultant from Oliver Wyman's global banking practice, reporting directly to me as Head of Credit Portfolio Management to develop management and control systems to monitor Risk Adjusted Return on Capital ("RAROC) on an account by account basis
- Adopted an employee performance based compensation system driven by the RAROC of the corporate loan portfolio

Delivering Upon the Strategic Opportunity



Develop International Capabilities in Areas of Domestic Strength

- April 15, 2002 NBF announced the acquisition of Putnam Lovell, a premier investment banking boutique with a global practice in mergers and acquisitions focused exclusively on the financial services industry
- In order to leverage the strong Putnam Lovell brand, the combined entity of NBF's Financial Institutions Group and the former Putnam Lovell advisory team will be known as Putnam Lovell NBF and headed by Donald H. Putnam

Delivering Upon the Strategic Opportunity



Disciplined Industry Focus

- Focus trading list of stocks for each industry, as determined in conjunction with corporate finance
- Tech/Biotech: already in top tier market share position in Canada
- NBF continues to dominate the Quebec diversified industry sector
- For the first time, NBF was ranked #1 in quality of equity research (source: Brendan Wood)

Delivering Upon the Strategic Opportunity



Retail Assets Under Management

- Purchased OPUS II, a niche investment manager to manage WRAP product
- Engaged an extensive list of discretionary money managers for the newly branded, Emissary NBF WRAP product
- Hired a new Ontario Sales Manager

Acquisition of Putnam Lovell



Overview of Putnam Lovell

- Putnam Lovell is a highly regarded M&A and advisory boutique focused on providing innovative investment banking solutions and in-depth research in banking, insurance, asset management, securities brokerage and eFinance
- Headquartered in San Francisco with offices in New York, London and Los Angeles
- 140 employees

Acquisition of Putnam Lovell



- Recently recognized by Institutional Investor in its 2001 rankings in the category of "Best Investment Boutiques and Regional Firms" as #2 in Asset Management / Brokers and #3 in Regional Banks.
- In 2001, ranked 2nd amongst the US dealers for M&A in Asset Management with 8 disclosed deals valued at \$US 1.3 billion
- Advised on what Fund Action named the M&A "Deal of the Year" in 2001, 1999, 1998 and 1996.
- Strong research coverage of over 100 money managers, hedge funds, bank owned investment banks and mutual fund companies

Acquisition of Putnam Lovell



Breakdown of Employees by Location

LOCATION	PUTNAM LOVELL
New York	74
San Francisco	31
Los Angeles	6
London	17

Acquisition of Putnam Lovell



Breakdown of Employees by Product Group:

PRODUCT GROUP	PUTNAM LOVELL
Investment Banking	56
Institutional Equity Sales & Trading	22
Research	20
Private Equity	9

Acquisition of Putnam Lovell



Selected Transactions

CLIENT	COMMENT	SIZE (1)
Royal Bank of Canada	Advised on sale of RT Capital to UBS	\$230
Allianz	Advised on acquisition of PIMCO	\$3,310
Global Asset Management Ltd.	Advised on sale to UBS AG	\$675
American Century	Advised on sale to JP Morgan	\$2,000
Montgomery Asset Management	Advised on sale to Commerzbank	\$250
AMVESCAP	Advised on acquisition of LGT Asset Management	\$1,300

(1) US\$ Millions

Acquisition of Putnam Lovell



Benefits to National Bank Financial

- The Putnam Lovell platform will allow NBF to enhance the breadth and depth of our product offering in equity underwriting, corporate lending, structured finance and private equity
- Putnam Lovell's highly respected research is expected to generate increased equity sales and trading volumes with our core Canadian investor client base, while expanding our equity sales and trading capabilities into the U.S.

Acquisition of Putnam Lovell



- Putnam Lovell NBF is well positioned for the cross-border mergers and acquisitions activity that continues to dominate the Canadian financial service industry
- Other than the initial purchase price, there will be little ongoing capital requirements for National Bank Financial or National Bank arising from this acquisition

Acquisition of Putnam Lovell



Benefits to Canadian Clients

- **Corporate:** Significant increased penetration to US investors
- **Advisory clients:** Canadian clients have the full support of what was previously the only cross-border mergers and acquisitions boutique in the financial services industry
- **Institutional Clients:** Gain a window to the world regarding financial industry trends, transaction dynamics and of critical importance, valuations
- **Retail Clients:** Important advantage of extensive U.S. and European research

Momentum



Momentum



Summary or key milestones over the last 12 months include:

- 1 Lowered costs dramatically during 2001
- 2 Exclusive strategic alliance created with the Canada Pension Plan, October 31, 2001
- 3 Continued aggressive hiring of senior managers across the firm
- 4 Almost doubled NBF equity underwriting market share from 4% in 2000 to 7.4% in 2001 with another significant leap in 2002 YTD to 10% (calendar year basis)
- 5 Completion of integration of the back office
- 6 Increased back office service levels

Momentum



7 Ranked #1 in quality of research for the first time (Brendan Wood Survey)

8 Acquired Opus II, a niche discretionary money manager

9 Lowered the retail brokers' payout grid

10 Continued strength and cost efficiencies in the Correspondent Network despite lower transaction volumes

11 Outstanding year in fixed income with continued build in corporate underwriting

12 Acquisition of Putnam Lovell

Concluding Remarks



Concluding Remarks



- Momentum is building at National Bank Financial
- Next steps include:
 - continued focus on RAROC maximization
 - continued partnering with 3rd party capital providers
 - extending NBF's traditional products into Putnam Lovell's client base, including corporate credit, equity underwriting, structured finance and derivatives
 - an ongoing review of acquisition / extension opportunities in areas of domestic strength and momentum
- We look forward to a significant year ahead for NBF