

ANNUAL MEETING of shareholders 2010

Address by Louis Vachon
President and Chief Executive Officer,
National Bank of Canada

Centre Mont-Royal
March 31, 2010

Ladies and Gentlemen, Shareholders,

Good morning and welcome to our Annual Meeting.

Before we begin, I would like to introduce the members of the Office of the President management team:

- **John B. Cieslak**, Senior Vice-President – Technology, Organizational Performance and Sourcing;
- **Patricia Curadeau-Grou**, Chief Financial Officer and Executive Vice-President – Finance, Risk and Treasury;
- **Lynn Jeannot**, Senior Vice-President – Human Resources and Corporate Affairs;
- **Michael Hanley**, Senior Vice-President – Operations and Strategic Initiatives Office;
- **Réjean Lévesque**, Executive Vice-President – Personal and Commercial Banking;
- **Luc Paiement**, Executive Vice-President – Wealth Management; Co-President and Co-Chief Executive Officer, National Bank Financial;
- **Ricardo Pascoe**, Executive Vice-President – Financial Markets; Co-President and Co-Chief Executive Officer, National Bank Financial.

I would like to thank the members of my team. Your hard work is greatly appreciated. I would also like to take this opportunity to welcome our honoured guests and those people watching the Webcast of today's meeting.

Today, I would like to bring up four major themes. First, I will review the economic environment and the situation of financial institutions after the turmoil of the past few years. I will then share last year's achievements and discuss the outlook and priorities for 2010.

As you are no doubt aware, the world continues to slowly emerge from the most severe financial crisis of the last 75 years. Credit markets have stabilized and stock markets have acknowledged the global economic recovery.

The Canadian and Quebec economies turned the corner in mid-2009 and resumed growth in the fourth quarter of 2009. Although the recession exacted a heavy toll on certain industries and regions, our economic decline was shorter and less pronounced than initially feared and we fared better than most industrialized countries.

Among the many factors responsible for the rebound, we must acknowledge the important role played by Canadian authorities. Through its wise interventions, the Bank of Canada contributed significantly to fostering a climate of financial and economic stability during the past two years. The constructive actions of the federal government supported economic activity and provincial governments implemented stimulus measures of their own. Together, these initiatives blunted the force of the recession and helped pave the way towards recovery.

The Quebec government's response merits special mention, as its timely investments in infrastructure and hydroelectric projects and their massive scale shielded the province from the worst of the slowdown and allowed Quebec to outperform the country as a whole.

For the past several years, we have been pointing to the diversification of the Quebec economy as a natural bulwark against sharp downturns. Since no industrial sector accounts for an inordinate share of activity—such as the automobile industry in Ontario or natural resources in other parts of Canada—Quebec was not as hard hit by the global recession.

Difficult period for financial institutions

The past few years have been challenging for financial institutions and their shareholders. In many countries, bankruptcies, government bailouts, massive dilution of shareholders' equity and sharp dividend reductions have been the norm rather than the exception. The destruction of shareholder value has been unprecedented.

In the United States, many financial institutions have disappeared as a result of the crisis. Many of the largest institutions were saved by capital injections from the U.S. government. Twelve of 16 banks listed on the S&P 500 Banks Index slashed or eliminated their dividend and 13 of them issued new equity at depressed share prices. Weak capital positions forced more than half of the U.S. 48 largest regional banks to adopt similar survival measures.

European institutions did not fare much better. While their insolvency rate was lower than that of U.S. banks, massive injections of public capital were needed to prevent the collapse of several global institutions. All but three of 34 banks in the S&P Europe 350 Banks Index reduced or suspended their dividend, and more than half were compelled to proceed with ill-timed equity issues, thereby diluting their shareholders' equity.

Amidst this turbulence, the Canadian banking system has been a beacon of stability. No bankruptcies, bailouts or injections of public funds were required to maintain investor and public confidence. Our regulatory system, which requires banks to comply with conservative leverage and liquidity ratios, combined with the constant surveillance of the Office of the Superintendent of Financial Institutions, served Canadians well. Prestigious global institutions took notice and praised our financial regulatory system and both the World Economic Forum and Moody's ranked Canada first in the world for the soundness of its banking system.

National Bank stands tall

National Bank managed the crisis in exemplary fashion. We also successfully assumed our role as a critical pillar of the economy by increasing lending to consumers, businesses and commercial clients, despite the challenging times. In 2009, nearly \$42 billion in debt financing was approved for some 40,000 businesses. These loans contribute directly to the growth and development of organizations not only in our core market of Quebec but also in most other Canadian provinces.

Staffing was increased to 18,000 employees, the highest level on record. In 2009, we paid out \$1.5 billion in salaries and staff benefits and invested over \$12 million in employee training.

Many of our employees are involved in the community. Year after year, they organize a wide variety of volunteer activities and fundraising campaigns.

For example, the Financial Group once again teamed up with the *Club des petits déjeuners du Québec* and the Breakfast Clubs of Canada to organize a major fundraising campaign in branches during the holiday season. Proceeds from the campaign, combined with a corporate donation, totalled \$400,000. Over the past five years, we have collected more than \$1.5 million for this cause.

Our employees also lent their full support to the measures we quickly took to assist victims of the earthquake in Haiti this past January. The campaign was a huge success, with close to \$1.3 million donated to the Canadian Red Cross by National Bank Financial Group and its employees and clients.

Along with these two fundraisers, we continued to support education, health, the arts and community outreach through our donations and sponsorships program. Every year, we donate millions of dollars to hundreds of Canadian organizations. These donations directly contribute to the development and improvement of the communities we serve.

For example, our commitment to sport reached new heights in 2009, when we renewed our major partnership with Tennis Canada. As of 2010, we become title sponsor of both the Toronto Rogers Cup and the Montreal tournament. We have also become a partner of the Montreal Canadiens. In addition to leading the banking syndicate responsible for financing the hockey Club, we joined the group of investors, headed by the Molson brothers, that purchased the Canadiens, Bell Centre and the Gillett Entertainment Group. Lastly, we have continued our support for the Montreal Impact soccer club.

Fiscal 2009 was one of the best years on record for National Bank shareholders as the numbers clearly show.

- Excluding specified items, our diluted earnings per share reached \$6.22—the highest in the Bank’s history. This demonstrates the strength of our franchise;
- Through prudent risk management, we sustained the outstanding quality of our credit portfolio;
- Our capital base remained strong, as did our liquidity position;
- We maintained our dividend and did not issue new common shares, allowing shareholders to benefit fully from our strong financial results with no dilution of their equity;
- The Bank’s net earnings exceeded the \$1 billion mark, despite a difficult economic environment;
- Lastly, total shareholder return reached 32% in 2009, the best among the Big 6 Canadian banks. Over three years, the Bank also performed very well.

Thanks to its numerous accomplishments, our Bank is well positioned to take advantage of business opportunities as market conditions improve.

Staying the course

Our achievements are due in large measure to a clear strategy and a detailed game plan for transforming the way the Bank serves its clients. With this framework as a guide, we were able to stay the course on our long-term priorities in 2009 while taking the necessary action to face short-term challenges.

Under our strategic plan approved by the Board of Directors in early 2008, we are working tirelessly to provide all clients with the best advice and best solutions to meet their financial needs and expectations, to the extent permitted under current regulations, regardless of their point of entry to the Bank. That is the vision taking shape under the *One client, one bank* approach, which will make us the leader in client experience.

Our new work methods have already produced concrete results in the branches. I invite you to view a testimonial from a client in Val-d’Or, which clearly illustrates the teamwork and synergy that are being generated by the deployment of the *One client, one bank* approach.

[Video presentation]

This is a good example of the results of our *One client, one bank* approach.

There are four key components to this approach:

- aligning distribution and operations with client needs across the entire Bank;
- simplifying internal processes;
- increasing the efficiency of corporate functions; and

- instilling a culture of cooperation, accountability and performance at all levels.

We believe that this new business model—built on close, trusting relationships with clients—will enable the Financial Group to continue to set itself apart.

We made significant progress in 2009 in terms of client service objectives. A few highlights clearly illustrate the breadth of change under way and the scale of our ambition.

- In Personal and Commercial Banking, we have made our branches the focal point of contact with our clients under a new distribution model. In 2009, all in-branch activities were aligned to meet client needs and hundreds of additional client-facing positions were added to provide enhanced service. Unprecedented training activity was conducted involving several thousand branch employees with a focus on improving service quality and delivering a consistently high level of client experience across the network. We also launched a three-year branch upgrade program and completed the renovation and relocation of 39 branches and the replacement of most of our banking machines during the year.
- In Wealth Management, we created Private Wealth 1859, a dedicated team to serve high-net-worth individuals, strengthened our portfolio of financial solutions and products, and tightened cooperation with other Bank divisions and third parties to optimize distribution.
- In Financial Markets, where all activities are already organized along client-centric lines, we have seen appreciable growth in revenues and in the products per client, the first tangible results of our *One client, one bank* approach.
- At the corporate level, we generated savings of \$100 million by reorganizing functions, renegotiating supplier contracts and creating shared service centres.

For all our client-facing activities, fiscal 2009 was an intense year of implementation and we are pleased that most of the planned actions were completed on time.

Outlook and priorities

We expect more favourable economic conditions in 2010 but with a moderate pace of growth. For the financial services industry, the creation of shareholder value under such a scenario is rooted in increased productivity, cost control and quality of service.

We believe our current strategic direction is perfectly in tune with an environment of slow growth in a mature market and we are determined to press ahead with our plans.

Our first priority in 2010 is to leverage the new distribution model implemented in 2009 to increase revenues in all our segments by attracting new business and growing our share of wallet with existing clients. We will continue to invest in branch upgrades, training and other support measures to ensure our distribution model delivers the expected benefits.

Our second priority is to complete the simplification and standardization of internal processes as well as the deployment of a new information technology platform for our front-line employees.

These days, managing digital information, in other words all client data, is just as important as cash management and plays a central role in the success of financial institutions. Like cash, digital information should be secured, processed rigorously and used wisely for business purposes. We will set up systems to help us reach new heights in this regard and, as we do for all our projects, we will work to achieve immediate gains in client satisfaction, sales growth and cost cutting under these initiatives.

Our third priority is to continue to reinforce our culture of cooperation and accountability to better serve clients. This means working together to ensure that nothing stands in the way of client service excellence.

Acknowledgements

In closing, let me mention the retirement of Gisèle Desrochers, who served National Bank with distinction in various capacities for 15 years. Upon joining us in 1994 as head of human resources, she was the first woman to hold the title of Senior Vice-President in our organization. She introduced innovative programs that led to the recognition of the Bank as a top employer. Through her efforts, diversity gained prominence at the Bank. In fact, we were recently recognized for our practices to promote diversity by the *Jeune Chambre de commerce haïtienne*. Ms. Desrochers also championed the advancement of women at the Bank. Today, more than 39% of management positions are held by women—putting us almost on par with the industry leader. More recently, she played a prominent role in the implementation of our strategic plan as Senior Vice-President – Strategic Initiatives Office and member of the Office of the President.

During the past year, we were pleased to welcome Michael Hanley as a member of the Office of the President. Mr. Hanley, who has held high-level positions in finance and general management in several large Canadian companies, joined the Bank as Senior Vice-President – Operations. In November 2009, he also became responsible for the work of the Strategic Initiatives Office.

Our success in 2009 is a testament to the rigour and quality of leadership within our organization and the dedication of our workforce. A tremendous amount of work was accomplished in the past year in difficult economic conditions, and our employees deserve heartfelt thanks and congratulations. I also commend their openness to change and willingness to adopt new practices and responsibilities.

The Bank is in the midst of the most significant transformation in its 151-year history. I would like to thank the Board of Directors, the management team, our employees and our clients for their support.

The Board of Directors and management believe we are taking the right steps to consolidate our position as a dominant super-regional bank with a focused and growing presence outside our core market. What's more our employees are committed to our strategy.

Together, we are proud to be building the Bank's future.

Thank you.