

# Address

delivered by **Réal Raymond**

President and  
Chief Executive Officer

National Bank of Canada

at the Annual Meeting of Shareholders

Fairmont The Queen Elizabeth

Montreal, March 2, 2005



**Ladies and Gentlemen,  
Shareholders,**

I would like to begin by congratulating all our employees and thanking them for the excellent results we achieved in fiscal 2004. Once again, we significantly exceeded our financial objectives, and results for the first quarter bode well for 2005. The momentum of the past few years is testimony to the teamwork evident throughout our organization. I particularly wish to thank all Bank officers for their invaluable contribution and the members of the Board of Directors for their ongoing support and sound advice.

Our solid performance on all fronts is both confirmation of the Bank's corporate health and an incentive for us to explore other avenues of growth in the future. This forward-looking approach is reflected in the theme of both the Annual Report and this meeting: see and seize opportunities. Keeping an eye on the future is responsible management as it allows us to respond to challenges as they arise.

Most industry-watchers agree that it is becoming increasingly difficult to ensure revenue and earnings growth that matches the potential of our capital resources. Although our many innovations are a source of added value that bolsters revenues, overall growth in credit and savings barely exceeds that of the gross domestic product, which hovers around 5% a year.

If we factor in the emergence of new competitors for personal banking services and the increased number of businesses that are turning directly to financial markets, we have a clearer picture of how difficult it is for all lending and deposit-taking institutions to grow.

Where will our next revenue and earnings dollar come from? That is the question that keeps coming up.

Finding answers to that question has been the key to National Bank's remarkable success in recent years. Since 1999, we have diversified our revenues, which have expanded at an average annual rate of 8%. We have also cleaned up our loan portfolio and, in the process, significantly reduced our provision for credit losses. As for our productivity, year after year we have proven that we can be as efficient as larger institutions. All of these achievements have paved the way for average growth in net income of 11.7% over five years.

Proactive management of our balance sheet, risks and capital underpins this excellent profitability. In 1999, \$100 in risk-adjusted assets generated \$5.57 in income. In the quarter just ended, the same \$100 yielded \$9.11 in annualized income, for an increase of 64%.

This gain, combined with excellent profitability, has enabled the Bank to carry out three share buyback programs since 2002, which have helped propel earnings per share from \$2.28 in 1999 to \$4.10 in 2004.

As such, shareholders have benefitted from the Bank's prosperity and seen their dividend more than double in five years. Dividend growth contributed to the rapid rise in the Bank's share price, generating an average return of 26% since 1999.

This enviable track record is the result of numerous initiatives that have redefined our entire organization. Our action plan revolved around:

- improving customer satisfaction
- engaging personnel
- fine-tuning risk management
- reconfiguring our service delivery networks through advances in remote banking
- shedding non-core business activities less likely to generate added shareholder value
- pursuing efficiency
- innovating by launching new products
- fostering synergy among the various operating units
- and, finally, implementing a business development strategy that focusses on what makes the Bank unique – the success of which can be measured by our results

These accomplishments have enabled us to build high-performance banking operations. These have also caught the attention of financial markets and strengthened their confidence in the Bank's ability to meet their increasingly demanding expectations.

It goes without saying that the solid foundation that is the hallmark of National Bank makes seizing opportunities much easier. A healthy, vibrant company such as ours has the necessary drive, financial means and human resources to capitalize on new business opportunities. It is in this context that I would like to take a closer look at the paths we have taken over the past few years as well as our plans for the future.

It is often said that you don't have to look far for the best opportunities. Indeed, much of the progress we have made in recent years has come from further developing our existing activities.

Nowhere is this more evident than in our Wealth Management operations, particularly at the branch level, where we set out to increase our share of wallet of our wealthiest clientele by 4 percentage points between 2001 and 2006.

The action plan adopted to achieve this goal involved:

- expanding our team of financial planners from 150 in 2001 to 290 in 2004
- increasing the number of target clients assigned to those planners from 44% to 60%
- developing such new products as Strategic Portfolios and Private Investment Management
- deploying financial planners in Commercial Banking Centres
- introducing a sales-based compensation plan
- and, like all Bank sectors, rolling out initiatives to improve service quality by setting high standards

The results were not long in coming. Figures for 2004 show that we have already achieved the target increase in share of wallet originally set for 2006.

Our Wealth Management revenues grew rapidly in 2003 and 2004 in absolute terms, and much more vigorously than the rest of the banking industry. This translated into two consecutive years of 27% growth in income before income taxes.

Our branch sales force has not been the only source of growth. Brokerage operations, mutual funds and fund management all recorded significant gains in assets under administration or management, as well as increases of more than 20% in net income before income taxes in 2004.

Brokerage assets at National Bank Financial reached \$87 billion, fuelled by average annual growth of 16% since 2000.

At National Bank Securities, net mutual fund sales in 2004 amounted to 11.9% of assets, as compared to 5.7% for Canada's nine largest lending and deposit-taking institutions, and 3.1% for the industry as a whole. If we look at retail funds alone, our performance was even more impressive, with net sales of 16.9%.

Altamira mutual funds, for their part, surpassed our objectives in terms of cost synergy, which enabled this subsidiary to make a significant contribution to Bank profitability despite net sales being lower than expected.

Our high-end Private Investment Management product is another example of how our strategy to generate more business opportunities with existing clients has paid off. The numbers speak for themselves: over the past 15 months, assets under management have grown by \$1.286 billion, for an average quarterly increase of 9%. This strong showing assures us of a solid presence in the wealth management market and reaffirms the quality of our service offering.

Our success with retail customers has not been limited to wealth management. After having created a life and health insurance group that now includes over 600,000 insured clients, we innovated this year by offering our Private Investment Management portfolios as part of universal insurance policies.

We have also carved out a niche for ourselves in the automobile insurance sector in Quebec. In this fiercely competitive market, we felt that low-risk drivers offered the best opportunities. The results bear this out: in just five years, we have close to 70,000 policies and \$60 million in premiums. We already rank 2nd in terms of brand recognition and have the best claims ratio among direct insurers. Spurred on by these numbers, we will begin offering home insurance this fall.

I would be remiss if I failed to mention the substantial contribution product distribution agreements have made to business growth. Over the past 15 months, partnerships have brought in \$880 million in new loans and deposits for the Bank. We quickly seized on the potential of these agreements to penetrate other Canadian markets and make better use of our retail service platform and, in just a few short years, have become a leading distributor of banking products.

The SME market has always been, and continues to be, a source of great opportunity for National Bank. As Quebec's leading bank for independent businesses, we are ideally positioned to manage the personal holdings of entrepreneurs, who represent a valuable source of new business for our Wealth Management sector.

Similarly, our performance on the foreign exchange market and in corporate trust services is a reflection of our commitment to provide superior service to the SME market, where we have a definite competitive edge.

We have also focussed more closely on depositors, professionals and the self-employed over the past few years. Our new "BusinessFlex" product was designed specifically to meet the needs of these client groups, while a network of deposit account managers was deployed to better serve the needs of depositors. In addition, we launched a specialized financing unit for the fast-growing health sector.

In Ontario and Western Canada, strong 35% growth in loans to the energy sector in 2004 is further proof that the Bank is seizing real opportunities in select markets and offering more than just traditional financing in its core market. We have also applied our expertise to the financing of farm and agri-food operations, which has generated annual volume growth in excess of 20%.

Greater operating efficiency and improved credit quality have been instrumental in increasing profitability in the Commercial Banking sector. Indeed, our loan portfolio is in excellent health, partly because companies have cleaned up their balance sheets and bankruptcies are down sharply.

Financial markets are another area in which the Bank has made its mark. Under the guidance of Jean Turmel, the Bank has succeeded in staking out an extremely profitable and solid position on financial markets. Jean Turmel is one of those rare individuals who embodies all the qualities of a natural leader, mentor and manager, and whose expert knowledge of financial markets has earned him the esteem of industry professionals.

Now that he has reached retirement age, Mr. Turmel will be stepping down as head of the Financial Markets sector, but will continue his association with the Bank as an external fund manager. I have had the immense pleasure of working closely with Jean for many years, so it is to a loyal colleague and, particularly, a good friend that I extend my best wishes and sincere thanks on behalf of us all.

Since our acquisition of First Marathon in 1999 – a well-seized opportunity if ever there was one – we have recorded the strongest growth in financial market activities of all the major banks. By focussing on risk management, we also managed to minimize unpleasant surprises, reducing the volatility of results.

After strengthening our corporate financing activities, making acquisitions and adding new expertise in areas such as alternative management and credit derivatives, we have built a balanced portfolio that enables us to tap into the many different opportunities financial markets have to offer.

As a result, National Bank Financial has become one of the top-tier securities brokerage firms in Canada, ranking:

- 1st in municipal bonds
- 3rd in provincial bonds
- among the leading underwriters of share issues, with considerable expertise in structured products such as income trusts

- and, this year, one of the major players in mergers and acquisitions, acting as lead manager or co-manager for a large number of transactions, particularly cross-border acquisitions by Canadian corporations

All of these successes have enhanced the perception financial markets have of National Bank.

Our tireless efforts to convince investors that our strategy is truly the right one have paid off and led to a relative improvement in the valuation of the Bank's stock. Our price/earnings ratio rose from 7.9 times earnings per share in 1999 to 11.9 at the end of fiscal 2004. This improvement alone translated into an increase of more than \$15 in our share price.

Clients have welcomed our initiatives to improve service quality and expand our service offering. In fact, between 2001 and 2004, the percentage of "very satisfied" clients in Canada rose 19.5% for retail and business clients.

Our employees have also responded enthusiastically to our open communication of the organization's objectives and our expectations of them. Linking compensation to performance, fast-tracking the careers of high achievers, and providing top-quality training to all personnel are just some of the ways we show our commitment to employees.

National Bank's presence on the Hewitt Associates list of the 50 Best Employers in Canada and its first-place ranking among the lending and deposit-taking institutions surveyed clearly attest to the engagement of the Bank's employees.

Needless to say, the progress we have made with the stakeholders most closely connected to our institution has had a positive effect on the Bank's public image. For the third year in a row, National Bank has been named the lending and deposit-taking institution most admired by Quebecers in the annual survey conducted by *Revue Commerce* magazine and Léger Marketing.

There is a strong link between our corporate performance and our role in society. The volunteer work of our employees, and Bank donations and sponsorships to countless health, educational, cultural and assistance organizations greatly benefit the community. However, let us not forget how the Bank also contributes to the well-being of our society by creating quality jobs as we continue to expand, and by helping clients realize their personal dreams or business projects.

Our strategy is yielding results because we have all the necessary resources in place to execute our action plan in a professional, thorough and disciplined manner.

All this has been possible because everyone who contributes to the Bank's success shares the same values and vision of what National Bank is and what it has the potential to become.

In order to clearly define and convey this shared view, the Board of Directors has adopted a vision statement which I would like to read to you now:

National Bank of Canada seeks to be recognized as “A prosperous, efficient and progressive financial institution renowned for its leadership, innovation and service quality that builds on its position of strength in Quebec to continue its expansion elsewhere in Canada and in other select markets.”

This statement reaffirms our strategy of being a super-regional bank as well as our financial priorities of profitability and efficiency. It also incorporates the values of innovation and service quality that employees identified as being most important and which I also value highly.

From now on, this vision will inspire our actions and our pledge to our clients, our shareholders, our employees and the community. It will also serve as the framework for identifying and taking up new business development opportunities in the years ahead.

In this respect, the Bank has two very distinct advantages over several of its competitors:

- First, we are right on course to meet our main objectives. The vast majority of our operations are progressing very well, requiring no more than occasional fine-tuning. We are therefore free to actively pursue our business plan without having to worry about making major adjustments.
- Second, several of our strategies have yet to be fully realized or are still in their initial stages. There currently exists significant leverage within our operating units to support strong growth well past this fiscal year.

We can therefore focus our attention on analyzing and choosing new points of attack. We will continue to concentrate on the most immediate opportunities, both in terms of our areas of expertise and the geographical markets we know best. Profitability will remain our primary concern whether growth is achieved organically or through acquisitions.

I am therefore very optimistic and confident about National Bank’s future given our sound financial foundation and chosen paths of growth that capitalize on our competencies and competitive advantages.

In conclusion, and in the spirit of the vision statement I have just shared with you, we are committed to ensuring that the Bank continues to be as vibrant a presence in the future as it is today:

- by being a leading financial institution in Quebec and developing profitable niche markets elsewhere
- by being a progressive, efficient organization at every level – one whose business model is centred on innovation
- by making leadership and customer satisfaction core values that engage all employees
- by continuing to be prosperous in order to ensure we have the means to achieve our ambitions, and to meet the high – yet justified – expectations of our shareholders 