

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 8, 2006



Ladies and gentlemen, dear shareholders,

I would like to begin by thanking Mr. Jean Douville for his kind words. National Bank's success depends on the commitment of all those who are closely associated with it, starting with your representatives on the Board. I can assure you that the Bank's Senior Management appreciates the invaluable support and advice it receives from every member of the Board of Directors, and I would like to thank them on your behalf.

At last year's annual meeting, we unveiled our mission, which is as follows:

National Bank 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."

The results for the year ended October 31, 2005 and for the first quarter of the current year confirm that National Bank is fulfilling this mission with ever greater success.

Our mission focuses first and foremost on our shareholders. Our total return of 25.1% for fiscal 2005 proves that the Bank is a prosperous financial institution and that its shareholders are reaping the rewards of this value creation. Furthermore, in the past five years, shareholders have obtained a return far exceeding that of the five other major Canadian banks.

In today's financial services industry, several success factors must be present to achieve an excellent return:

- The disciplined pursuit of a strategy incorporating business strengths and market trends
- A quality service offering commensurate with client expectations
- Qualified and engaged personnel working to achieve corporate objectives and satisfy clients
- And a commitment to the community in order to be recognized as a dynamic, responsible partner.

National Bank has earned the trust of each of the stakeholders on which its success depends by acting on all of these success factors in a coordinated and balanced manner.

The excellent profitability that the Bank offers its shareholders has been accompanied by significant progress in our relationships with our clients, our employees and the community. In fact, client satisfaction is up across the board.

In our banking activities, client satisfaction is measured in terms of the proportion of "very satisfied" clients, which has grown by 27% since 2001 among individual clients and 31% among small and medium-sized enterprises.

The degree of engagement and professionalism among employees is monitored just as carefully as service quality. According to an employee survey, the level of engagement is steadily increasing. Overall employee satisfaction is now at 93%, a clear advance over the 86% satisfaction rate observed in 2001.

This also has a tangible impact on our clients. Ninety-two percent of employees feel that client service is a firmly established value at the Bank, compared to 82% four years ago. Information and ongoing training, as well as a workplace that fosters equity, cooperation and opportunities for advancement, are powerful levers that inspire unreserved commitment among our employees.

The inclusion of National Bank on the prestigious list of the 50 Best Employers in Canada for the past two years constitutes public acknowledgement of its ongoing efforts to engage all its personnel in the pursuit of its business objectives. An institution like ours can be evaluated on many different levels, but our employees are ultimately the ones who make the difference. Our present success is the result of many years' work, and I would like to offer each and every one of our employees my sincerest thanks and congratulations.

The Bank's involvement in the community goes beyond its role as financial partner of choice, particularly in Quebec. The Bank generously supports most major fund-raising campaigns, especially in the education and health sectors. Donations, sponsorships and other charitable giving by the Bank and its employees totaled \$18 million for 2005 alone.

Because of its community involvement and excellent reputation as a financial institution, the Bank has been ranked one of the most admired companies in Quebec for the past four years in a poll conducted by Léger Marketing for the French-language magazine *Commerce*—an honour of which we are extremely proud.

Naturally, behind our success is a carefully executed business plan. This same concern for balance can be seen in the way we go about developing business:

- A balance among activities
- A balance between our primary obligation of preserving the Bank's capital and risk-taking, which is an integral part of the banking business
- A balance between the need to take advantage of market opportunities and the need to align ourselves with long-term trends.

Let's start with balancing activities, which makes it possible to benefit from the effects of diversification. As we can see, the Bank's three segments have each made a significant contribution to revenue growth and to growth in income before taxes from 2000 to 2005. We intend to continue the deployment of all business segments.

Specifically, the Bank has distinguished itself from several of its competitors by the strong shareholder value it has created through the expansion of its activities on the financial markets.

These activities will continue to be considered on the same footing as those we carry out for individuals and businesses, especially as they are extremely helpful in mitigating the impact of economic cycles.

Disciplined risk management has enabled us to achieve a balance between our primary obligation of preserving capital and risk-taking. In terms of credit risk, the Bank's track record is as good or better than that of its peers.

Credit is not the only kind of risk. Inappropriate transactions and the marketing of non-proprietary products give rise to reputational risk, which, if it occurs, can be just as damaging. We trust that the mechanisms in place have helped us avoid major incidents.

But I think that the Bank's greatest success has, first and foremost, been its ability to develop business in a disciplined manner using an approach based on secular market trends, not on the flavour of the month.

Because of such fundamental factors as the aging of the population and the proliferation of funding sources, lending activities alone are no longer enough in and of themselves to support vigorous expansion. It must also be sustained by more dynamic growth areas such as wealth management, the ever expanding role of capital markets and the ability to deliver a broader range of financial services.

Within this context, the Bank's transformation has been considerable. This can be seen in the number of products sold to individuals, which has risen steadily and has reached 6.4 products per client for our wealthiest clientele.

The extent of this transformation is also reflected in the share of assets we manage for these clients, which has increased 8 percentage points in just three years in Quebec.

The transformation can also be measured by looking at revenues and income from risk-weighted assets, which indicates how efficiently regulatory capital is used. In 2005, every \$100 of assets generated \$1.96 of net income, double the 1999 figure of \$0.96. This considerable advance can be chalked up not only to the redeployment and diversification of activities, but also to the Bank's improved risk profile.

National Bank has thus made great strides in turning itself into a progressive, forward-looking financial enterprise. To date, more than 600,000 individual clients have signed up for its Internet banking services and, as a result of the BusinessFlex program, 15,000 SMEs do most of their banking somewhere other than at their branch.

Being forward-looking also means identifying and developing growth areas, which are both many and varied.

One such area is our partnership strategy, which consists in distributing the Bank's products through non-banking financial corporations such as insurers, investment advisors and mutual fund firms. I must point out that many agreements are still in the start-up phase and that some of the oldest partnerships are far from having generated their full potential. The price tag for implementing these partnerships was high, but the related revenues are currently growing three times faster than costs, and volumes are expanding rapidly.

The consumer credit market, particularly mortgage credit, has improved in recent years due to lower interest rates and the excellent employment picture. To take advantage of this favourable environment, we have marketed products that have proven highly popular with clients and sufficiently profitable for the Bank. The All-In-One line of credit is the best example of this, especially since offering a credit solution that also allows clients to carry out all their routine banking transactions ensures loyalty. Partnerships and mortgage credit generated 12% growth in consumer credit in 2005.

This portfolio is very solid because almost 80% of it consists of loans secured by mortgages or liquid financial assets, just as in the case of investment loans.

We should also mention our sizable wealth management business, which has grown by about 10% both at National Bank Financial—our full-service brokerage subsidiary—and for products marketed through the branches.

We offer a wide and varied range of investment vehicles.

One of our biggest success stories in this area is, without a doubt, Private Investment Management, which is experiencing spectacular growth of more than \$1 billion annually in assets under management. This very flexible financial service has enabled us to repatriate substantial assets that were being managed elsewhere.

The in-house development of very profitable activities in loan insurance, life and health insurance and, since 2000, property and casualty insurance is another success story. In this last area of expertise, we have put together a joint venture with AXA Canada for direct sales of automobile and, more recently, home insurance. We will continue to rapidly deploy this business, which currently serves close to 80,000 clients, in order to further benefit from economies of scale that will have a positive impact on the Bank's bottom line.

However, the regulatory framework imposes serious limits on our insurance strategy and our ability to participate in ongoing consolidation within the insurance industry. That our clients cannot obtain information on insurance products in Bank branches and are unable to benefit from an integrated product offering that includes insurance is entirely anachronistic and unjustified. This is the opinion of the banking industry and one that is now shared by a very large majority of Canadians and bodies such as the Consumers' Association of Canada.

Let us hope that the new government will finally give our clients access to the widest possible range of information concerning the attractive insurance products we can offer them, and thus provide them with the opportunity to more readily benefit from the cost advantages inherent in these products.

To sum up, the key to success for a services firm like ours depends on harmoniously balancing the aspirations of:

- employees
- clients
- fellow citizens
- and shareholders

What does this involve? Financial considerations, of course. But also respect, living up to the commitments we make, and the mutual understanding of what each stakeholder in the business is entitled to expect from the others.

By being attentive to its clients and the markets and drawing on the skill, discipline, creativity and team spirit of its personnel, National Bank has developed a strategy that has enabled it to rapidly grow its business and make the highest profitability gains in the industry.

I am convinced that what we have developed together at the Bank will continue to bear fruit in terms of growth and profitability. Although higher interest rates, the stronger Canadian dollar and rising energy costs are big challenges for both individuals and businesses, we are entering this phase of the cycle in a good position.

With remarkably solid personal and business balance sheets and a very healthy external account and sound balance of payments, Canada should remain a leader among the industrialized nations.

To go back to the theme of the annual report, as your trusted partner, we will continue to work for the prosperity of the Bank and everyone associated with it, today and tomorrow. 🇨🇦