

Address

delivered by **Réal Raymond**

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Good morning everybody,

I want to start off by saying how pleased I am to be participating once again at this conference and I want to thank Scotia Capital and Kevin Choquette for organizing it.

Today, I will address National Bank's growth prospects. There are a number of ways to define growth. Some use market capitalization, especially those who want to measure an institution's financial power to make acquisitions. Others look at revenue growth, although this metric needs to be balanced against the capital requirements needed to generate either internal or "purchased" growth.

As far as I am concerned, I prefer to put shareholders front and center. As a result, I use shareholder value creation as my preferred growth measurement metric.

Our performance in this regard has been strong during the past few years and fiscal 2005 is no exception. Through rapid revenue, net income and EPS growth National Bank is keeping the #1 spot in terms of shareholder value creation among the top 6 Canadian banks.

Our current strategy can be best described as focused on internal growth, though I don't rule out acquisitions if the price and the fit are good. We have made acquisitions in the past, and we won't hesitate to do so again.

But our core strategy is to make sure that our three main sectors of operations contribute in a balanced and constant way to revenue and net income growth, with each bringing diversification benefits.

A successful domestic-oriented internal growth strategy relies on three ingredients: a strong national economy, a business plan that delivers revenue and net income growth and sound risk management.

First ingredient: the economy.

It's no secret that the Canadian financial industry has been helped along by very favorable economic conditions.

The Canadian economy has been growing at a rapid pace for almost 15 years. This is the longest bout of sustained growth since the golden sixties.

We have certainly benefited from sound public policy, which has helped propel Canada to the front rank among industrialized countries in terms of public sector and external balances. Thanks to its diversification, it looks like the Canadian economy could continue its expansion during the near term.

Just as during the 90s the Canadian economy was able to benefit from the IT revolution and the rapid expansion of the North American common market, in the 2000s we are taking advantage of increased demand for commodities and energy.

Those who venture in the risky business of economic forecasting are bullish on the Canadian economy. With its tar sands, Canada sits on the world's second largest proven oil reserve. Quebec's actual and potential hydro-electric power generation is also a tremendous asset that is far from being as monetized as it should.

Canada's positive economic outlook is reflected in its banking sector's near-term strength and its secular fundamentals. Bankruptcies are down significantly, especially in Quebec, making credit risk a lesser source of earnings volatility.

The average wealth of Canadian households has also been growing rapidly. This has provided significant opportunities for financial sector professionals to grow their assets under management.

Capital markets have also been growing faster than the economy. According to data collected by the Canadian Investor Protection Fund, revenue generated by the brokerage industry for their regulated Canadian operations has grown at an average compounded rate of 10.8% rising from 0.46% of GDP in 1991 to 1.03% in the past 12 months. Furthermore, these regulated activities exclude other significant financial operations that are generally conducted for the banks' own accounts.

The second ingredient of a successful growth strategy is a business development plan that is in synch with these secular trends. We believe that Canadian financial markets offer numerous growth opportunities for a bank like ours. Let's take a look at these opportunities sector by sector.

In the P&C sector, revenue growth has kept pace with the competitors despite the fact that we have not made any U.S. acquisitions. Net income continues to grow with a 16% improvement for the 9 months.

The best example is our rising loan volumes, which have been boosted both by the strong economy and by increased business development efforts. Among our initiatives:

- We have been pursuing more aggressively the mortgage market and personal lines of credit, especially HELOCs to prime clients.
- Our partnership strategy is producing the expected results. This provides us with better leverage to market our products, adds geographical diversification all the while reducing operating costs.
- Current and checking accounts continue to grow.
- Most importantly, our growth has been achieved while preserving product profitability.

These days, retail banking is more about relationships than about where the customer can get the cheapest price on any single item.

That's why we attach great importance to customer satisfaction. And I am pleased to inform you that this important metric is once again on the rise at National Bank.

One good measure of the depth and the intensity of our relationships with our clients is the average number of National Bank products they hold. Here again the trend is up markedly.

We are also doing well in our commercial sector. After several years of marginal progress, growth in our core Quebec SME market is finally picking up.

This growth is being stimulated by a renewed surge in M&A activities and by the fact that we now offer a more attractive product suite, such as the newly introduced BusinessFlex.

Our energy group in Calgary is also booming. Our 20 years of solid experience in financing small and medium size enterprises in Canada's energy sector is a good example of our ability to take advantage of economic expansion out west. Outstanding volume of loans amount close to \$1.5 billion.

Although keeping clients happy and selling more products is the cheapest acquisition strategy, it has costs of its own.

Our employees need the right tools to promote our organizational and cultural values. So it is our intention to continue to invest in our service platform in order to improve productivity and enhance the customer's experience.

National Bank's **Wealth Management** business has also been performing well. Much of National Bank's success in wealth management is due to our multi-channel approach.

- The first element is our National Bank Financial brokerage channel where two-thirds of its clients are not banking clients. This leaves considerable room for cross-selling. That's especially true outside Quebec which now accounts for 40% of revenue and 34% of assets under management
- The second channel is the direct channel through Altamira. Altamira markets its own brand of mutual funds as well as the cash performer account, which is a direct response to other successful high-yield accounts;
- The third channel is our branches, in which the majority of our wealth management products are marketed
- And finally there is the commercial sector channel, which is increasingly important as an entry point to harvest other opportunities to manage entrepreneurs' wealth.

The success of our wealth management sector can be measured through several metrics:

For the first 9 months of fiscal 2005, revenue is up 7% and net income by 14% due to the significant operating leverage and productivity gains in retail brokerage.

Assets under management and administration are up 19% for the 12 months ending in July, an increase from the already strong growth of 16% in the previous 12 months.

If we include the cash performer accounts in the assets managed by Altamira, all operating units have registered double digit asset growth.

Our branches have been highly effective in selling National Bank Securities funds. In the past 5 years, net sales of funds designed for individual investors have constantly outpaced those of other deposit taking institutions by a wide margin (7% on average).

The penetration of our upscale Private Investment Management product continues unabated. Since last October, assets have increased by one billion dollars, an annualized growth rate of 45%. Our successes in the wealth management sector are the result of several key ingredients. Among them are the use of an entire range of channels to take advantage of changes in market trends and investor needs.

The strong synergy with our corporate finance operations is another key ingredient. This synergy provides us a continuous flow of value-added investment vehicles such as revenue trust units and structured deposits.

With everything improving; consumer satisfaction, number of products held and assets managed for our clients – it's hardly surprising that our share of wallet is also on the upswing, and now stands at 40% for the 12 months ending in April 05.

I'll conclude this review with the **Financial Markets sector** which has also been performing well.

We make no bones about it; at National Bank we believe that our active presence in Financial Markets is one of our core competencies.

Our financial markets strategy has several components aimed at building a diversified portfolio of businesses:

- The first prong is our focus on developing and taking advantage of new opportunities as they emerge
- The second prong is to maintain a diversified retail, institutional and corporate client base.
- The third prong is our position as the leading financier in the Quebec market, coupled with our ability to participate in global markets in areas where we specialize, like equity derivatives and absolute return products.

Other keys to our sustained growth have been our speed in moving capital effectively across markets in response to market conditions, our rigorous monitoring of risks and our avoidance of business partners and transactions that do not live up to our standards.

The result has been a steady upward trend.

Since 2000, not only has National Bank shown the strongest growth among the top Six banks in financial markets, we have steadily been maintaining low volatility in our results.

Year-to-date results are in line with those of recent years. Revenue is up 2% and net income by 10%. This compares well with a revenue decline of 3.5% and a net operating income growth of 1% for the big 5 banks.

Our diversification and capacity to seize opportunities, show up in our year-to-date results. Declines in some business lines have been more than offset by increases in others.

Finally a word about the growth in our BIS assets allocated to market risk.

Although we monitor closely our risk profile and contain if needed the capital allocated to specific exposures, desks and activities, this does not translate in specific limits on a sectoral point of view.

I am more than willing to give to our operating units the capital that they need, as long as it builds shareholder value.

In fact National Bank has been very efficient in increasing dramatically the productivity of the capital.

All of our business segments are using their capital well right now, and we see no reason to deprive them.

This capital allocated to the financial markets segment should thus be put into perspective.

The first point is that what we are in line with current industry trends. If you add BIS assets coming from securities, cash instruments and market risk, they account for about 16% of total BIS assets at National Bank which is roughly in line with the level at three of the other big banks.

Secondly, it pays to assess the effectiveness of these BIS assets in generating additional revenues and profits. For the first nine months \$100 of BIS assets generated \$1.68 annualized of net income in the Financial Markets. That's more than the \$1.58 generated in the P&C sector.

But the clear leader is Wealth Management with \$4.73 of net income for each \$100 of BIS assets. This is another good reason to be excited by National Bank performance in this growth area.

This discussion on capital allocation is a good introduction to third ingredient of strong internal growth: tight risk management. I will start with credit risk situation, in part because it just makes me feel so darn good.

The pipeline is as clean as it could be. The volume of loans on the watch list is still declining. In the last quarter, it stood at about half of its 2001 peak.

Impaired loan formation is now in negative territory for the last 4 quarters. This includes net reversals of \$41 million from the corporate loans book coupled with formations of \$21 million from the P&C sector, or five basis points of our exposure.

This has naturally translated into low provisioning of just \$15 million for the last quarter. This is below the average of approximately \$20 million for the last twelve months, excluding a reversal of general provisions.

This current strong credit situation at National Bank and in the Canadian banking industry as a whole is unheard of in recent history.

Banks have also done their homework, implementing more sophisticated underwriting and credit risk management tools. For example at National Bank we have been following the portfolio industry concentration for more than a decade. It reflects partly our view of the relative risks, but more importantly, our efforts to focus on industries and sectors that we know inside-out. Having a concentration of exposures and credit expertise in certain industries and sectors goes hand-in-hand with our niche approach that enables us to be as performant as our larger competitors in markets where we choose to compete.

Regarding legal, operational and reputational risks, to be of a reasonable size is probably an advantage in this regard.

The volume of deal flows is still manageable for our senior risk executives who do not have to delegate much of their decision power:

- We review the reputation and background of new names.
- We care about the suitability of new products or new issues for our clientele.
- We rapidly escalate to senior management and committees any reputational or operational issue.

In a nutshell, we manage the risks inherent to our business such as trying to avoid, to the greatest extent possible, large negative surprises. Our job is to make sure that our bank's excellent risk profile is under control not just for next year, but also five years from now.

So that's our plan. I believe that it is a focused domestic-oriented internal growth strategy that enables us to be among the best in markets we choose.

The rapidly increasing returns that we are delivering to our shareholders are grounded in real progress in operations as well as in volume growth stimulated by a favorable economic environment. The bank also continues to be geared to taking full advantage of secular developments in financial markets.

Our shareholder base is diverse. National Bank is an attractive investment for both Canadian and U.S. investors. For Canadian investors, we offer returns that have exceeded by far those of our peers and of the market.

For U.S. investors, we offer a pure play in the Canadian financial market. We are especially attractive to those who believe that it makes little sense to invest in a Canadian bank just to get exposure to the U.S. banking industry.

In fact, National Bank looks pretty good when our performance is benchmarked with that of U.S. peers.

If you buy National Bank shares, you are investing in a proven super regional bank that, we hope, will make you as satisfied as it has made our current shareholders.

Thank you for your attention. 🏦