

Address

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Good day everyone.

Welcome and thank you for being with us today.

Before I start, I would like to extend special thanks to Rob Wessel. As you know, this will be Rob's last showing as lead architect of this Conference. He did a wonderful job as NBF's financial services analyst and I'm convinced his knowledge and expertise will prove to be extremely valuable in its new role at the bank.

For your information, pending regulatory approval because Rob has to complete the Partners, Directors and Officers course, he will become Managing Director, proprietary equity.

So then, on behalf of my colleagues, Rob, I thank you and wish you the best.

Many of you are already familiar with the unique character of National Bank of Canada and its stellar achievements.

Over the years, focus and discipline has been built into an operating philosophy that has served shareholders well.

Today, National Bank is by far Quebec's leading bank.

Over the past years, our intimate knowledge of the Quebec market gave us a distinctive advantage over many competitors. In what some saw a limiting factor to development, we saw traction, revenue growth and profitability. We continue to believe that this unique position will again serve shareholders well in the future.

Obviously, we also aim to deepen our penetration of markets outside of Quebec. In that matter, we still favor a focused approach because we clearly understand that, for time being, National Bank cannot be in the ROC what it is in Quebec. This is why we developed the Partnership strategy, capitalized on Altamira's brand strength and grew rapidly the Energy business in Calgary.

In these selected markets as well as in Quebec, we put a lot of emphasis on a disciplined execution of strategies to ensure coordinated efforts at all levels of the organization. It also eliminates temptations such as protecting market shares at all costs when doing so would reduce unduly our profitability.

Finally, sound risk management practices as well as a clear bias for initiatives that reinforce our balanced model of development, allowed us to reach higher operating and financial standards.

A quick look at our financial performance shows how such focus and discipline translated into steady increases in net income per share. Diluted EPS reached five dollars and thirteen cents in fiscal 2006, up 5% over the previous year, or up 10%, excluding one-time items that temporarily boosted our EPS in 2005.

Over the last 3 years, our EPS has grown 15% per year with less volatility than the other major banks. The momentum was also obvious in the first quarter of 2007 when EPS growth reached 13% year-over-year, well above the Street consensus.

Looking at the total revenue breakdown, we can also see clearly the benefits of NBC's balanced approach to business development. Combining faster growing and more volatile business like financial markets with slower growing and low volatility P&C banking, we have delivered solid and constant revenue growth.

The Bank also reached a unique balance between what each segment can bring to shareholder value creation. We strongly believe our balanced business model will serve well our shareholders in the years ahead.

Taking a picture at the end of Q1 07, we see that the portion of profits coming from retail banking, including personal, commercial and wealth management, has increased to 65.8% from 61.7% five years ago.

This increase is purely due to the timing of the picture and is not an indication of a defined strategy. We remain committed to our balanced growth model and definitively do not want to put all our eggs in the same basket.

Let's now turn to the core theme of the day, retail business development.

Three principles can help understand how we drive profitable growth in our retail operations.

First, we focus on five operational guidelines: synergies, client relationships, pricing discipline, market segmentation and client satisfaction.

The second principle is to generate positive operating leverage using a balanced portfolio of investments to generate both growing revenues and improving efficiency through better processes and technology.

The third principle is to avoid taking risks when there are no clear prospects for profitability.

Speaking of risk, quality credit management is at the center of the retail business management.

In our view, serving shareholders well command on the one hand to be strategic and opportunistic with regards to business development.

But on the other hand, it also commands managing close to the chest in order to be prepared for more volatility in key markets. We then like to think our well grounded risk management practices will counterbalance less favorable economic conditions.

Since Q1 2002, National Bank retail loan losses track record has been better than its competitors.

To some extent, this performance is attributable to a conservative approach to credit risk.

But it is also the result of the fast growth of the All-In-One line of credit that allowed us to tap into a clientele with very good risk profile.

Overall, with this approach, we have reduced substantially the percentage of non insured mortgages disbursed to the lower level of credits.

Certainly, looking at these numbers, the sub-prime mortgage market has not been part of our strategy.

If we look at the distribution of the global personal credit portfolio, including credit cards, you can see that 80% of our Quebec portfolio is composed of secured credit.

Outside of Quebec, this proportion is increasing every year, reaching 84% in Q1 07, helped by the fast growth of the Partnerships business, in which 99% of loans are secured.

Having said that, holding tight on underwriting, while at the same time posting revenue and net income growth is not easy.

This is why I felt it was important to give you a sense of what is happening against our main Quebec competitor, the Desjardins Group.

Despite considerable pressure from this Group in many aspects of the retail business, we have been able to post a steady positive operating leverage in our P&C segment, while at the same time increasing constantly the revenues, as I shown earlier in the presentation.

This is the result of a strategy focused on increasing the revenues as opposed to purely chasing market share growth.

As a side comment, I'd like to mention that in Q1 07, the abnormally strong operating leverage is partly the consequence of some investments made in the previous two years that increased the expenses and diminished the leverage at that time.

Other points of comparison also demonstrate our ability to reach higher levels of efficiency.

Last year, our ROE stood at more than 800 basis points over Desjardins. But a more important point, is that over the last two years, we increased our revenues in line with Desjardins' one with a growth in profitability that far exceeded theirs because, among other factors, we protected better our margins.

Coming back to the principle of balanced growth, the value of our strategies also shows its strength when compared to peer banks. Over the course of the last five years, we have been able to increase retail revenues by 27%, thanks both to the P&C and Wealth Management segments performance.

Moreover, as you can see, revenue volatility was low and growth constant because we stuck to our principles throughout the period.

This stability is also coming from our premier position in Quebec, a province that is not prone to pronounced booms and busts, and from a step-by-step approach to development elsewhere in Canada.

From 2002 to 2006, retail activities gained great scope and stability.

Not only did we succeed in the very competitive personal banking business, but we also capitalized on our high wealth management market share in Quebec and helped SME's tackle their strategic challenges.

Customer satisfaction, which is up substantially, was one of the key drivers behind that growth.

Over the same period, the Wealth Management segment posted robust revenue and net income growth.

Net income almost doubled over the last five years. Looking at the chart, you can see that 60% of this increase came from revenue and productivity growth in fund management activities while 40% came from brokerage activities.

Obviously, we like the stability and leverage inherent in the retail fund management activities but we are also extremely pleased with the leverage our brokerage activities have produced.

As of today, we still experience good momentum in wealth management revenue growth as the Private Investment Program is firing on all cylinders, while mutual funds sales and retail brokerage activities are vibrant.

Commercial Banking also was a key contributor to the retail business development.

More than anywhere else at the Bank, Commercial activities benefited from the improved risk profile of recent years and therefore contributed strongly to value creation. As you can see, the mid-market commercial risks, which constitute the main component of our business, are still holding well in terms of credit risk rating.

The development of non-credit based services has been central to the expansion of that sector of the bank. We developed a renowned expertise in foreign exchange solutions for SMEs, held strong on market shares, which top more than 40% in most categories and grew deposit volumes substantially.

In the first quarter of the year, this growth continued, with revenues up more than 29% in foreign exchange, and 18% with regards to international services offered to clients doing business outside the country.

Another concrete effect of the constant application of our key principles to retail business development can be found in our stronger ties with clients. We see it in the number of products they buy from us to satisfy their financial needs. Among the wealthy clientele, this trend is even more pronounced, with soon to be nine products per client.

One more way to look at it is in using the share of wallet approach, a measure that increased from 40% a few years ago to 46% last year. Clients are looking for convenience, choice and personalized service. The share of wallet measure tells us that they find those more than ever at National Bank.

Getting more specific into the Personal Banking segment, we can also see that the momentum is holding well at the beginning of 2007. Revenue growth from Partnerships is still well north of 30%, and other personal banking lines of business are also growing nicely.

As time is running fast, I would like to leave you with a twofold message. One relates to performance. The other to growth and business development.

First, performance is well illustrated in the graph besides, as NBC has posted the best Total Shareholder Return among big 6 banks in recent years. Over a five year period ending in Q1 07, it reached 24% on a compounded annual basis.

Needless to say that we are more than proud to see this success recognized at the international level.

Last January, Mercer Oliver Wyman, a division of Mercer Management Consulting, ranked once again National Bank among the top 20 financial institutions in the world with the most consistent financial performance over 5 and 10 years.

Actually, we ranked fourth in our peer group and ninth in the overall world ranking.

And to conclude, let me share with you some of the interesting opportunities we are foreseeing to deliver profitable growth in the retail business over the future years.

I'll start with personal banking where over the last couple of years, we launched several initiatives to grow our insurance businesses.

On one side, being a relatively new player in the property and casualty market, and having a very small market share of 2% in Quebec, we think we can leverage our brand name and the business model we put in place gradually to deliver solid revenue growth in this business line without hurting our profitability.

Secondly, through a better tilt of our compensation schemes we believe we can increase the penetration rate of our credit insurance products.

And finally, without having to invest substantially, we started a group insurance distribution program through which we can leverage our close relationship with many SMEs in Quebec, without taking undue risks, because the manufacturing part is assumed by the traditional group insurance carriers.

Also, for a few years, because of various internal reasons not related to the quality of the product offered, we experienced a gradual decline in the number of credit cards sold by the branches. At the end of last year, we promoted a new program to entice our distribution network at selling credit cards again. It's early to tell, but after a few months, we are on the path to sell as many cards as we used to a few years ago. We are confident that it will eventually foster interesting revenue growth in this business line in the coming years.

Still in personal banking, over the last few years we worked hard and invested a lot to increase our secured loans portfolio, mainly through two initiatives, the Partnership program and the All-in-One Product. The partnership program still delivers tremendous growth in secured loans. This growth is coming mostly outside of Quebec, thus generating a healthy diversification of our lending portfolio. It is starting to produce an interesting contribution to our growth in earnings because revenues are growing much faster than expenses: after a few years of investments, it's pay-back time for us and hopefully for a few years to come.

On the commercial banking side of the business, our growth initiatives have delivered very encouraging results so far.

Our push on the foreign exchange and other related international services have contributed nicely to the bottom line in a very short period of time. Moreover, as I mentioned earlier, we introduced at the end of last year new cross selling targets for both credit insurance and group insurance products. Our main goal with this strategy is to increase the number of products per SME client. We are now at 2.1 products per client and aim to be at 3 products in the short term. This goal is very realistic and is only one step forward: the best in the business are at 6 products per commercial client. The potential growth is then very appealing when one considers the quality of the relationship we have built over the years with these clients through our lending activities. It's time for us to leverage these relationships.

Another successful story is our capacity to grow the deposit business with our commercial clients. Our SME clients are more conservative in the management of their businesses. They are then able to generate good positive cash flows and currently are oftentimes reluctant to reinvest that money in their business. We captured that opportunity by growing our deposit volume 10% year-over-year so far in 2007.

The Wealth Management segment has increased its share of the total revenue in retail banking from 25.5% to 28.3% over the last four years, mostly through improved synergies and a greater focus on of-balance sheet products.

However, we also have been able to launch some growth initiatives through Altamira and more specifically with the High Interest Cash Performer and Meritage products. The volume of the HICP has stabilized lately but we are able to generate a good margin which contributes substantially to Altamira's bottom line. Growth might eventually resume with this product when the shape of the yield curve will become more favorable. At the same time, Meritage is still growing rapidly, even though you cannot see the results in the Altamira IFIC numbers because it is a wrap product.

On the other hand, the results coming from the Altamira direct channel distribution are improving but this channel is still not generating positive net sales. Turning around this situation is a key priority and various scenarios are currently analyzed.

Finally, our focus on internal synergies and of-balance sheet products has delivered tremendous growth both in revenue and profitability: as I shown earlier, wealth management revenues have increased by 40% and profits have doubled between 2002 and 2007.

But great potential still lies ahead of us: many clients of the full service brokerage use an outside discount brokerage firm, a good proportion of our entrepreneurs have traditionally been clients of other firms for their personal wealth management activities and too many clients of our financial planners are using third party providers for their full service brokerage activities.

Here is a low hanging fruit that we have yet to capture the full potential.

Thank you. 