Address

delivered by **Louis Vachon**

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NATIONAL BANK
FINANCIAL GROUP

(Check against delivery)

Ladies and Gentlemen, Shareholders,

Thank you for attending this morning, whether you are here in Montreal or joining us via the Internet.

Before I begin, I would like to thank all of my colleagues at the Bank, at every level, for their consistent and effective work. During fiscal 2007 and over the last few months, they have had to quickly adapt in the face of organizational changes and upheavals in our economic and financial environment.

They have done so while delivering the same high-quality service.

They have also helped maintain the Bank's status as a profitable financial group. A very strong financial group.

I am convinced that it will grow even stronger.

I'm going to address three topics this morning:

- First, I will review the Bank's overall performance in fiscal 2007.
- Then, I will present the Bank's key strategic development priorities for the next few years, which were well received by the investment community in January.
- Finally, I will talk to you directly about the asset-backed commercial paper file. After I have finished, André Caillé, Chair of the Independent Committee that was created to address the ABCP issue, will add to my comments.

FISCAL 2007

First, the Bank's performance was clearly unsatisfactory in 2007. The commercial paper issue reduced our net income to $541 million. Without the specified items for the year, net income would have reached a record $933 million.

Furthermore, the Bank's common shares were more volatile than the shares of most of our competitors. As President of the Bank, I take full responsibility for this situation. Rest assured that management is doing everything necessary to restore the Bank to its position as one of the top performing financial institutions in the industry.

Let me tell you how we want to do that.

STRATEGIC DEVELOPMENT

Now let's talk about the second topic I wanted to address with you, our strategic priorities.

For the organization as a whole, fiscal 2007 was marked by two events that will have a significant influence on the Bank's development.

First, a new management structure was implemented for the purpose of more effectively meeting client needs and expectations. The effects of these changes are already palpable. Operations are more efficient. There's more cooperation.

With this in mind, we are proud to announce that we are formally launching a new distinctive brand signature today: National Bank Financial Group. This name accurately reflects what our institution is: a group offering a complete line of financial solutions.

The second event that marked fiscal 2007 was the update of the Bank's strategic orientations and their presentation to the Board of Directors in December. The management team set out the goals that it would like to see the Bank reach over the next five years.

One client, one bank: Be the best in class in the Quebec market

The first goal is to become the best in class in the Quebec market by focusing on a clear vision: to serve each and every client as an even better integrated financial institution. An approach we call *One client, one bank*.

We will improve client service using three levers: our brand image, service quality and our organizational abilities.

In terms of brand image, the National Bank Financial Group brand signature is just the first step. Others will follow. In 2009, for example, the Bank will celebrate its 150th anniversary. That's 150 years of contributing to Quebec's economic development, building wealth for individuals and helping communities across Canada thrive and grow.

In terms of service quality, we will step up efforts to take client satisfaction among our already highly satisfied clientele to new heights. In the next five years, we want to increase the percentage of very satisfied clients from 65% to 70% among individuals. Among businesses, we want to increase it by 9%.

As an organization, a culture of cooperation and technology will help us obtain a comprehensive profile of our clients' activities. This will allow us to offer our clients solutions best fitted to their needs and expectations.

These different elements, along with our determination to continue being a top employer in Canada, will make the Bank the preferred financial partner of individuals and businesses not just in Quebec, but in other regions of Canada as well.

Seize the right opportunities

Our second goal is to quicken the pace of growth. With a better understanding of our clients, we will be able to improve client retention. Increase the number of financial solutions each client holds. Pull ahead of the competition in providing innovative, relevant financial solutions.

But to satisfy the demands of our shareholders, we will need to do more. Our strategy will be supplemented by growth accelerators, especially outside Quebec.

These growth accelerators fall into two categories. The first is related to the niches in which we excel. Think about our more than 25 years of expertise in the oil and gas market in Calgary. About our partnerships. We will strive to capture the full potential of these markets.

The second growth accelerator is linked to our desire to conclude acquisitions and alliances that complement our current activities. For example, in the past few weeks, we have announced the acquisition of two securities firms by National Bank Financial. The firms involved are a perfect fit for Financial's entrepreneurial culture.

Strategic acquisitions and alliances will allow us to reach an important objective in the current demographic context: to become the savings leader in Quebec.

Match or exceed the average financial performance of our peers

Our third goal is to match or exceed the average financial performance of our peers. To do this, the revenue growth initiatives I have just outlined will have to be accompanied by an ongoing quest to achieve ever-higher levels of productivity. In our industry, increasing revenues faster than expenditures is imperative to provide shareholders with the kinds of returns they expect.

In regard to this, we believe that a more robust growth profile, based on a steady increase in revenues, will serve our shareholders better over the medium and long term.

Finally, to ensure the type of growth I am talking about, we will maintain something for which National Bank is known in financial circles. Our excellent risk profile.

Over the years, we have taken great care to underwrite risks that serve our clients but are, at the same time, profitable. This could be a determining factor in the context of the impending economic slowdown.

Maintain the balance among the stakeholders in our success

Finally, our last goal is to preserve the balance we have achieved among the four key groups responsible for our success: our shareholders, our clients, our employees and the community. This means:

- A high return for shareholders;
- Very satisfied clients;
- Motivated employees;
- And a major contribution to society.

We will maintain this balance because it is the foundation on which National Bank's success is built.

2008, a year of transition

These goals will be realized over a period of three to five years.

Fiscal 2008 is already shaping up to be something of a transition period, particularly as regards our *One client, one bank* vision.

We are looking to make quick gains whenever possible in order to enhance the client experience or improve client retention. However, other milestones, especially technological ones, will take longer to achieve.

In addition, the current fiscal year will likely see a slowdown in the U.S. economy that will no doubt have an impact on our clients' activities.

But every economic or financial event carries opportunities that can be capitalized on.

For example, in the Financial Markets segment, we will seize opportunities by making our expertise available to clients so they can counter the negative effects of the change in the structure of interest rates.

In the Wealth Management segment, we will do it by integrating smaller players no longer able, with good reason, to shoulder the regulatory burden.

It is also what we would do if bank mergers were to make National Bank the ideal partner for the purchase of blocks of branches from other banks. In fact, the Bank could be an important part of the solution in the event of transactions involving two of its competitors.

I believe that consolidation in the insurance industry illustrates the potential advantages of consolidation for the banking sector. In Canada, consolidation in life and health insurance has given rise to international players, while players with a more regional profile have prospered and stepped up growth across Canada.

Mergers would therefore allow National Bank to extend its range of activities and have a more substantial presence outside Quebec.

A solid bank

I would like to remind you that National Bank is a solid, profitable and diversified financial group.

Its strength was evident once again with the commercial paper issue. Despite the conservative charge on the financial statements, the Bank's Tier 1 capital ratio today is well above regulatory thresholds. Well above the average for American banks. And above the ratios posted by National Bank in the past several years.

Moreover, the rating agencies have reiterated their confidence in the Bank as a solid financial institution.

The Bank is also profitable. Over the years, it has regularly raised its dividend per share, reflected in a compound annual increase of 21% over five years.

Lastly, the Bank is a well-diversified financial group with a business portfolio that provides steady returns.

As you can tell from my presentation, your financial group is adapting. It is adapting to client requirements to ensure that in addressing their financial concerns, clients receive everything they need... and much more.

This is where I, together with management and all employees, hope to lead the Bank in the coming years. A bank that is ever more effective at serving the interests of clients and shareholders for the benefit of communities.

COMMERCIAL PAPER

Before turning the podium over to André Caillé, the Chair of the Independent Committee created to handle the ABCP issue, I would like to quickly answer three key questions concerning asset-backed commercial paper on behalf of the Bank's management.

First: Why was National Bank so significantly involved in the ABCP market?

Up until August 2007, this market had all the characteristics of being reliable and efficient. A large number of financial players were active in it. Returns were competitive. And a major credit rating agency was assigning ratings – sometimes among the highest – to ABCP.

Also, agreements were in place with liquidity lenders, most of which were large international banks.

We were completely surprised when the credit facilities could not be accessed because of a very rigid interpretation of the general market disruption clause. All the more surprising was that both bank and non-bank commercial paper contained similar clauses.

Next, National Bank is smaller than its main bank competitors. It therefore used different strategies to access the commercial paper market. As a result, the Bank became an active player in the third party or, if you prefer, non-bank ABCP market.

Other larger banks relied mainly on their own balance sheets to set up conduits and other structured financial instruments, while also being active in the non-bank ABCP market.

As for the percentage of ABCP held in mutual funds, a comparison with our peers shows that the total percentage of bank and non-bank commercial paper was similar to levels at many other institutions.

Which brings me to the second question: Why did several officers and directors of the Bank hold commercial paper?

As you may have read in the Circular, 48 directors and officers of the Bank held commercial paper. In most cases, the paper was held indirectly, through a mutual fund or private fund.

There is a simple explanation for this. ABCP was a common product in all business circles. Also, to borrow an expression from Warren Buffet, we eat our own cooking.

In other words, at National Bank, officers use the financial solutions of the company they work for.

I think it would be a source of some concern if they did not.

In my case, I arranged with the Board to have my personal assets affected by the transaction placed in trust. As President and Chief Executive Officer of the Bank and following the agreement in principle announced by the Crawford Committee in December, I presented the Board with proposals to align my assets in trust with the interests of shareholders and commercial and corporate clients that were not covered by the purchase transaction.

Lastly, you are probably wondering what we have learned from these events.

Before I say anything else, it's important to state that the investment policies governing the diversification and concentration of assets in our mutual funds were adhered to. That all decisions were made in good faith.

That being said, National Bank's management doesn't live on a desert island. Those same policies now take into account the risks of a systemic shock affecting categories of products or specific market segments.

As I have mentioned, National Bank has one of the strongest track records in Canada when it comes to managing risk. But we can do even better. At every level of the organization.

In conclusion, the ABCP problem, which is the result of a global crisis in confidence, demanded that the Bank take quick and decisive action.

It therefore purchased over $2 billion of ABCP. In so doing, it acted with diligence and an immense sense of responsibility.

The goal was clear:

- To relieve as many clients as possible from the uncertainties related to this market; and
- To protect the Bank's corporate image.

We also considered the interests of about one hundred businesses that could not be reimbursed under the ABCP purchase program. This was a difficult decision.

We therefore remain deeply committed to finding a positive solution for these clients using the same proactive approach that the Bank has demonstrated since the events of last summer.

Credit facilities of close to $600 million have been made available to these clients to support them and minimize the impact of these events on their activities.

As soon as the turbulence began, we took a clear leadership role in establishing the Crawford Committee, which is in charge of overseeing the restructuring of the ABCP market. We remain optimistic about the outcome of the restructuring process.

To guide actions and eliminate any appearance of conflict of interest, the Board of Directors established an independent committee consisting entirely of directors who have no personal interest in commercial paper and the purchase transaction. The Committee's mandate is to assess the situation and make appropriate recommendations.

The Committee's Chair, André Caillé, will now talk to you about the governance framework that was used to guide the decisions that were made.

Thank you for giving me your attention. I will be happy to answer your questions during the scheduled question period.

Thank you again.