Address

delivered by **Louis Vachon**

Chief Operating Officer

National Bank of Canada

at the Annual Meeting of Shareholders

Fairmont The Queen Elizabeth

Montreal, March 7, 2007

NATIONAL BANK OF CANADA

Thank you and good morning everyone.

It gives me great pleasure to present National Bank's financial results for fiscal 2006 and the first quarter of 2007 and to review the Bank's activities.

But first, I would like to thank the members of the Board of Directors for the confidence they have shown in me by appointing me Chief Operating Officer of the Bank last summer. Over the past few months, I have immersed myself in the issues that influence the development of our retail and SME business, while benefiting from the support and experience of the President and Chief Executive Officer, Réal Raymond.

As you know, I will be taking the reins from Réal next June. And while the challenge will be sizeable, I will be able to count on his priceless legacy to help me meet the challenge successfully. All through his mandate, Réal Raymond raised the bar across the organization in terms of both our absolute performance and our relative performance vis-à-vis our competitors. As a result, the Bank boasts a solid management team, has a clearly defined strategy and is in sound financial health.

Réal has consistently advocated seeking a balance between financial performance, employee aspirations and client satisfaction. This concept is now front and centre in the decisions we make. Moreover, from my privileged vantage point, I've seen how much the balance between what I call our three core areas of expertise, by which I mean the competencies grouped under Personal and Commercial, Wealth Management and Financial Markets, has been strengthened in the past few years.

Thank you, Réal for this legacy, which will make a lasting contribution to the achievement of excellent results.

And now for the main highlights.

In fiscal 2006, the Bank posted record net income of $871 million, for a year-over-year increase of $16 million. In addition, all financial objectives were reached or surpassed. Diluted earnings per share, excluding specified items, rose 10.3% – the high end of the 5% to 10% target range. This growth was underpinned by an increase in revenues that more than offset the increase in operating expenses.

Return on common shareholders' equity reached 20.1%, exceeding the target of 16% to 18%. Capitalization remained strong, with a Tier 1 capital ratio of 9.9%, despite the effect of share repurchases and the higher annual dividend.

The dividend rose 14% to $1.96 per share last year, for a dividend payout ratio of 38%.

The Bank revised some of its financial objectives for fiscal 2007, including the target for the dividend payout ratio, which has been raised to 40-50% from 35-45% in 2006. As regards credit quality, gross impaired loans were further reduced to $234 million as at October 31, 2006. The excess of allowances over impaired loans held steady at $192 million.

The results for the first quarter of fiscal 2007 show that growth is continuing at a solid pace. The Bank's total revenues gained 6%, advancing past the billion-dollar mark. That's a faster growth rate than for the Canadian economy.

Diluted net earnings per share increased 13% to $1.43. A glance at the Bank's three business lines shows that these gains were achieved in a very balanced manner both in the first quarter of 2007 and through fiscal 2006.

Revenues at Personal and Commercial grew 6% during fiscal 2006 to $2.2 billion, due to balanced growth in net interest income and other income.

The increase on the Personal Banking side was pronounced for secured credit, savings and insurance.

Secured loans climbed 9% owing to the popularity of mortgage loans – led by the All-In-One home equity line of credit – and the success of investment loans distributed through partnerships.

Many of our savings and investment solutions were also highly popular – particularly our Strategic Portfolios, integrated mutual fund solutions sold in our branches that saw assets under management surge 31% in fiscal 2006.

Insurance revenues were up 24%, taking into account gains on securities. This robust growth in revenues was attributable to the strength of all our insurance activities – credit insurance, personal and group insurance brokerage and auto and home insurance.

On the Commercial Banking side, the strongest revenue increase in 2006 stemmed from non-credit activities, with foreign exchange, international services and deposit revenues up 22%, 8% and 5%, respectively.

This performance aptly reflects our desire to work proactively with our clients, whether in managing foreign exchange risk, developing new markets or administering their cash assets.

These results are also in line with our strategy of focusing on products and services that are less sensitive to business cycle fluctuations.

With a 40% market share for business loans granted by financial institutions in Quebec, we have a strong and unwavering presence in commercial lending. We are as careful as ever to maintain the balance between rigorous risk selection and meeting our clients' financing needs.

In the first quarter of 2007, Personal and Commercial maintained its momentum established in fiscal 2006, with revenues rising 6% and net earnings 16% from the year-earlier period.

The Wealth Management segment also had a successful year in fiscal 2006. Revenues were up 7% owing to the 14% increase in private assets managed or administered by the segment.

The highest increase in revenues, 20%, was recorded by National Bank Trust, whose growth was again largely fuelled by its Private Investment Management program. Our two mutual fund promoters posted a 19% rise in combined revenues. National Bank Securities enjoyed considerable success with the Strategic Portfolios sold in the branches.

Client interest in Altamira Investment Services' CashPerformer account remained strong throughout the fiscal year. The launch of the Meritage Portfolios last fall heralds another success at Altamira: the annual target set for sales of these fund portfolios was reached in less than five months.

Our securities brokerage subsidiaries continued to expand their activities and significantly improved their efficiency in fiscal 2006. Assets grew 14%, and a number of initiatives boosted the profitability of client accounts.

Full-service brokerage National Bank Financial saw rapid growth in fee-based managed assets, due in part to the success of the Ambassador Portfolio Service. As a result, fee-based assets represent an ever larger share of total revenues from individual investors.

In the first quarter of 2007, Wealth Management revenues rose 9% while net income climbed 22%, owing to strength across all activities: retail brokerage, mutual funds, private investment management and portfolio management.

In 2006, we proved yet again that revenues at Financial Markets could be increased at a solid pace while limiting their volatility.

The segment's revenues were therefore up 8% in 2006, while operating expenses rose barely 3%.

The resulting productivity gain contributed directly to the segment's 16% increase in net income, which totalled $283 million.

In the first quarter of 2007, the Financial Markets segment sustained its contribution to the Bank's business. Revenues rose $9 million to $299 million, despite the sharp year-over-year decline in gains on securities. Segment net income totalled $87 million.

One item worth noting is the increased quality and diversity of our activities.

In recent quarters, for example, trading revenues have greatly benefited from growth in our derivatives business. Last year, we hired more than ten derivatives specialists to serve the risk management needs of our domestic clients.

In addition, by combining our different areas of expertise, such as derivatives with currency trading, corporate and investment financing or cash management, we can apply the same integrated solutions model adopted for Personal Banking and SME clients to clients of the Financial Markets segment. In doing so, we can strengthen loyalty among our institutional clients and improve the profitability of each relationship.

Areas of expertise are combined in more general ways as well. For example, designing structured products brings together the best expertise in financial engineering at Financial Markets and the strength of the Bank's branch distribution network.

As you know, National Bank is a profitable and expanding business. In fact, earlier this week, Moody's upgraded our senior debt rating to Aa1, the same level assigned to most of our competitors on Bay Street. In the years ahead, the management team plans to make the Bank even more indispensable for clients by further broadening its service offering.

As Quebec's leading Bank, and thanks to its wealth of expertise and strong brand image, our financial group is well positioned to penetrate deeper into existing markets and carve out new ones.

This is particularly true here in Quebec. For close to 150 years now, the Bank has been a key driver of economic development in the province. It finances tens of thousands of enterprises. It facilitates transactions between economic agents. It contributes to the economic and social development of communities. We will continue to fulfill this role.

It is also true for development outside Quebec. In the markets where we have chosen to be active, we have achieved significant and sustained growth. Consider the inroads made by National Bank Financial in its niche markets. The partnership strategy. The current impetus at Altamira. I approach these new challenges with tremendous confidence and the support of a seasoned management team.

You may rest assured that I will do everything necessary and use all of my talent to merit your trust and to rally the entire Bank behind ambitious objectives.

Thank you.