

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 7, 2007



Ladies and Gentlemen, Dear Shareholders,

As you already know, this will be my final Annual Meeting as President and Chief Executive Officer of National Bank. After 37 years at the Bank, I feel it's time to pass the torch to someone else and move on to other challenges. The Board has therefore chosen Louis Vachon to replace me effective June 1st. The transfer of responsibilities will be made all the easier by the fact that the Bank is in an excellent position to continue developing in its many markets.

I would like to thank everyone who supported me in carrying out my mandate – the Board, the Executive Committee and our employees. Without the help of such talented individuals, I would not have been able to take part in this wonderful adventure. It has been an honour for me to guide for the past five years.

As shareholders, you have all witnessed the major transformation the Bank has undergone in the past few years. Our key success and performance indicators have progressed rapidly, including client satisfaction and employee engagement.

Also, since the beginning of 2002, the Bank's stock market valuation has doubled. Today it stands at more than \$10 billion. For shareholders, this has meant a more-than-attractive return on their investment.

In fact, taking into account reinvested dividends, the Bank's share price increased an average of 24% over the past five years, significantly outperforming the big 5 Canadian banks.

This performance stemmed from the collective effort of passionate people. Because of their cohesive action:

- Efficiency was enhanced;
- Strategies were applied in a disciplined manner without deviating from the Bank's chosen course;
- And issues were clearly understood at all levels of the organization.

It is especially gratifying to see that the orientations that guided me and were backed by all members of the Bank were maintained throughout my term and were perfectly suited to the Bank's development.

Today, your Bank is one of the best. For the past number of years, Mercer Management Consulting has ranked National Bank among the top 20 financial institutions in the world with the most consistent financial performance. In January, we climbed into fourth place in our reference group of 230 financial institutions.

National Bank also made the list of the 100 top brands in the world banking industry, as published by the British magazine, *The Banker*.

We have the ability to attain the same level of excellence in the future. In fact, the six key factors that have contributed to the success we have seen in recent years are still relevant today.

They are:

- Our leading market position in Quebec;
- Our targeted operations outside Quebec;
- Client satisfaction assured by a quality offering;
- Economies of scope by offering a large, varied range of products;
- Excellent capitalization;
- And finally, partnerships to increase revenue and reduce costs.

These key factors in business development have the greatest impact when they are underpinned by a constant search for balance among the different stakeholders – employees, clients and shareholders.

National Bank is therefore participating fully, and no doubt more, in the significant growth in Canada's banking industry. A remarkable performance, judging from how profitable the Bank has become and how much value it has created for its shareholders.

This sustained performance is frowned upon in some circles. Whenever banks disclose their results, the event receives extensive media coverage that often draws a link between success and excess, suggesting that when banks win, they create losers.

The profitability of Canada's banks must be viewed within the context of the excellent economic conditions of the last few years. Think about the robust performance of the financial markets. The growth in real estate. The strong job market. These enviable conditions have in many ways surpassed those of the glory years that followed the Second World War.

As a result, many industries – including banking – have benefited from a favourable business climate and cleaned up balance sheets that, at other times, have been far more debt-laden.

This profitability must also be understood in terms of the quality of management in banks. As an industry, we know how to effectively manage risk and capital. We have an ability to reach ever-higher levels of efficiency.

For clients, that means improved service delivery. It is clear from our surveys, which show marked year-over-year growth in client satisfaction, that they appreciate it.

What's more, Canadians enjoy some of the lowest-priced basic banking services in the world. A comparable basket of services costs over \$180 U.S. per year in Australia and \$140 per year in the United States. In Canada, basic banking services cost \$114. So, if there are losers, they're not our clients.

Profitability, along with the presence of professional management teams, has also been a source of satisfaction for our employees. They remain unflinching in their level of engagement, in spite of a job market that requires them to be more flexible, constantly acquire new skills, and provide a sustained effort to satisfy a demanding clientele.

Our internal surveys show that we are getting better and better at fulfilling their personal and professional aspirations while maintaining high standards of excellence, which is no doubt one of the reasons why the Bank made the list of Canada's 50 Best Employers for a third consecutive year.

Lastly, bank earnings directly enrich millions of Canadians who hold bank shares personally or through pension and investment funds. In addition, Canadian society as a whole benefits from the fact that banks remit close to 40% of their pre-tax income to the various governments.

It is therefore in everyone's best interests for businesses like National Bank to be profitable. From the diligent saver in the Saguenay to the oil patch investor in Calgary, from the business owner in the Outaouais to the daycare owner in Laval. Everyone wins when banks firmly anchored in today's reality seek to balance the aspirations of all stakeholders.

It is also important to point out that close to a third of the Bank's net income comes from its Financial Markets segment. If we stand accused of earning profits in global markets occupied by the world's large financial institutions, then we take the accusation as a compliment, not a criticism.

Under Louis Vachon's leadership, the Financial Markets segment clearly showed that it was possible, regardless of one's size, to make a mark by focusing on business performance and quality. I am certain that Louis and his team will be able to reproduce this success across the Bank as a whole.

Looking forward, it seems clear that consumers will continue to demand the same quality of service, choice of products and financial stability from their bank. Success also means giving oneself the means to satisfy these demands.

Governments also have a strong interest in banks. Because of their wide-ranging activities and the nature of their role, banks are a key driver of the Canadian economy. They provide liquidity to different economic agents, ensure transaction fluidity and reliability, participate actively in the capital markets and invest in culture and society.

In short, the banking industry is one of Canada's leading sectors. It is growth-oriented, dynamic and profitable. However, its contribution, like that of the other major industries in Canada, must grow. Accordingly, we need our governments to create fertile ground so the industry can develop over the long term and help to ensure ongoing productivity improvements and extend its global reach.

The United Kingdom, whose financial services industry has undergone a renewal that is arousing interest as far away as the United States, has understood this. Expanded roles have been entrusted to the Financial Services Authority, which must have regard, in particular, for the following three key matters.

First, maximization of the financial industry's contribution to the nation's economy and global reach.

Second, maximization of the benefits of a sound regulatory framework and minimization of the adverse effects of regulation.

Third, safeguarding of citizens' assets by eliminating the types of reprehensible conduct that we have witnessed in Canada in non-banking sectors.

Insulating financial services regulations from political pressures would have a number of advantages for the country. For example, there is no reason why Canadian banks should be prevented from competing fully with the foreign insurance firms that are currently dominating the country's P&C insurance market. Or, for that matter, with the large Canadian life and health insurers, which rate right up there with the big banks in terms of size.

And yet, banks are still not permitted to make full use of their expertise in designing and distributing insurance products, even though allowing them to do so would result in better access, reduced costs and continuous innovation.

The consequences are serious, when you consider that millions of Canadians, especially those who are less affluent, are still living without property, home or disability insurance. The development of a growth industry is also being impeded.

Similarly, I am convinced that an institutional framework could easily be designed that would finally make it possible to consider bank mergers on their merit. There is no question in my mind that the competitive advantages of the banking sector could be strengthened by carefully applying safeguards to ensure healthy competition across the country. On the matter of competitiveness, the financial services industry has found a major ally in the Governor of the Bank of Canada. Like us, he is convinced that the country would only benefit from a reduction in the barriers to efficiency in the financial sector, including in the area of bank mergers.

In December, David Dodge made a clear appeal along these lines, stating that an effort was needed to "build regulatory frameworks that promote competition, innovation, and efficiency." This analysis comes from a particularly well-informed and impartial actor in the industry.

It is time to take up Mr. Dodge's call and fully harness our industry's capacity to create wealth for all Canadians.

In conclusion, and to sum up the theme of the Annual Report, it has been a privilege for me to work for and on behalf of such a unique financial institution. National Bank really is a bank like no other.

The past number of years have been a thrilling adventure. Through its privileged position in Quebec and its ability to profitably tap selected markets outside the province, the Bank has contributed, in distinctive ways, to the evolution of Canada's financial services industry.

Its capacity for innovation, unparalleled profitability, and skill at maintaining a balance among the stakeholders in its success have contributed to progress in the industry. And to the economic and social well-being of Canadians.

The years ahead will no doubt prove to be just as exciting. The management team, through its energy and drive, will play a direct role in making it so. As, I hope, will the openness of governments to removing the roadblocks to efficiency in the banking sector.

Thank you. 