Address

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NATIONAL BANK OF CANADA

Bon après-midi à tous, good afternoon everyone.

Welcome and thank you for attending today's conference. I also want to extend a special thanks to Robert Wessel and John Aiken for organizing this event.

Many of you already know about National Bank of Canada's stellar achievements. Investors who have been buying our stock since the early 2000s have been rewarded handsomely as we have outperformed our peers by a significant stretch. Clearly, National Bank has a great story to tell. We are living proof that the Canadian market provides plenty of opportunities for a financial institution that pursues a domestically oriented strategy.

Over the years, the disciplined execution of our strategy has been forged into an operating philosophy – one that has served shareholders' interests well. For example, between 2000 and 2005, cash EPS almost doubled, from $2.65 to $4.98.

In 2006, we have been building on that trend. In the first quarter, our P&C, Wealth Management and Financial Markets sectors have each increased their revenues and contribution.

For those who divide banking in two businesses, with retail on one side and wholesale on the other, growth for P&C and Wealth Management combined has been a healthy 7% for revenues and in the double digits for net income.

Is this growth poised to continue in the years ahead? As far as I am concerned, the answer is a resounding "yes."

There are two reasons for this:

- The first is our ability to pursue an integrated P&C and Wealth Management development strategy in our Quebec stronghold by leveraging our brand and clientele with comprehensive lending, savings and investment solutions;
- The second is the development of businesses that are not dependent on physical points of service. Examples include financial markets, Altamira and our partnerships. In these Canada-wide markets, a niche strategy can generate tremendous growth for an institution of our size.

Today, I will talk primarily about the first point and then bring you up to date on the second.

Our Quebec retail development strategy

Retail operations in Quebec, which include P&C and Wealth Management, accounted for 56% of total revenues during the past fiscal year while 18% came from outside of Quebec. The balance, 26%, came from capital market activities. Although our Quebec retail operations form the core of the Bank's business, our top line is highly diversified.

We benefit from excellent brand awareness in Quebec. In fact, in our home market, our red flag logo is as powerful as the McDonald's "M" or Nike's "swoosh."

A quick look at our revenue sources shows how diverse our Quebec business is. Overall, more than 65% of revenues are not credit- related. That's high in comparison with our U.S. super-regional peers.

Twenty five percent of revenues are derived from branch-related non-credit activities, while 22% stem from wealth management operations, be it the NBF advisor network, National Bank Mutual Funds or Private Investment Management. Rapidly growing sales of insurance products already account for 5% of our total top line.

Our retail business's growth is based on four core principles, which are applied diligently on a daily basis:

- First, we actively pursue markets where our brand and products have the largest comparative advantages.
- Second, we focus on profitable markets where it is possible to establish long-term relationships with clients.
- Third, we avoid excessive operational and credit risk.
- And finally, we try to keep clear of unproductive price wars in markets where products are commoditized, competition is fierce and client loyalty is low.

To sum up, the metrics we use to measure our success in the retail game are profitability and revenue growth, not market share.

A look at the first quarter of fiscal 2006 shows how these four principles bore fruit in Quebec. Total retail revenues were up 6% on a year-over-year basis. In the individual clients market, Wealth Management contributed the most to our growing revenues with 15%.

Two components, Mutual funds and Private Investment Management, lead year-over-year growth, with a 21% combined revenue increase. Retail brokerage also generated a solid 12% growth, confirming our undisputed number one position in Quebec.

Let's now take a closer look at these businesses. Over the years, we have developed an inclusive approach toward serving individual clients. We see our personal banking branch network and our wealth management operations as a unified business with a common goal of building long-term relationships with each individual client.

To accomplish this objective, we center our business development efforts on providing comprehensive lending, savings and investment solutions. That vision has helped increase the number of products sold in all client segments.

As part of our multi-channel wealth management distribution strategy, NBF relies on top-notch advisors and quality products to satisfy the needs of the most demanding of clients. In addition, our strong presence in Canadian capital markets ensures that our clients have access to a continuous supply of new issues. In fact, we are involved in as many new equity issues as the Big 5 banks.

Our emphasis on wealth management is providing us with better diversification and revenue balance. In terms of mutual funds, National Bank Securities distributes its products mainly through branches, but also via independent financial advisors.

In the year 2000, our share of the Quebec mutual fund market was 11% lower than our share of Quebecers' bank deposits. However, as a result of successful sales efforts via our branch network, we have substantially closed that gap by increasing our mutual fund market share from 21% to 25%, while maintaining our combined mutual fund and deposit market share at around 29%.

This has resulted from net sales of funds that have been consistently higher as a percentage of assets than those of our competitors, not only in Quebec but also across Canada.

The final piece of our wealth management strategy is our Private Investment Management program, which is extremely attractive to our 10,800 high net worth clients. Our assets under management in this segment are increasing yearly by $1 billion, of which a large share is new money for the Bank.

With the aging population in many of our key markets, I think revenues in our wealth management operations will continue to grow at a fast pace.

By keeping expenses under control, as is the case right now, the strong operating leverage generated from these operations will support even faster bottom-line growth.

P&C

Building on our inclusive approach to the individual clients market, we have also been able to grow our business significantly in other areas. One example is our insurance division, where revenues have grown by 7% year-over-year.

This growth has been driven by strength in both the property and casualty segment and the credit and life insurance sides of the business. Our 50-50 general insurance partnership with AXA is growing at a solid pace due, in large part, to our intimate knowledge of our home market, our strong brand and our market positioning. Overall, direct premiums written by the partnership could top $80 million in 2006, approximately 15% more than last year.

Personal credit volumes are also rising fast in Quebec, growing 10% between Q1 05 and Q1 06. Volumes from the All-In-One HELOC product grew 73% year-over-year. This represented 25% of our total P&C volume growth during the period.

The All-In-One was a key response to heavy price wars in the mortgage market. Such innovations contribute to reinforce our market leadership while at the same time enabling us to generate a decent margin.

It's true that if we had not stayed away from the speculative condo market, growth would have been stronger. But we are still very comfortable with that risk mitigation call.

Commercial Banking

Let's now turn our attention to Commercial Banking, which has seen renewed strength in Quebec in recent quarters.

Our share of loans over half a million dollars is rising in all banking markets. In the $500,000 to $1 million category, it now tops 46%. In fact, if there is one market where National Bank has a strong comparative advantage, it is in providing services to SMEs.

Besides being the partner of choice to Quebec SMEs on the lending side, our strategy is to get leverage from:

- Non-lending products and services such as foreign exchange, a service that is growing 15% year over year;

- Deposit and treasury products;
- Prime access to Quebec owner-managers to cross-sell wealth management products;
- Our capacity to graduate our SME clients into the capital markets should their needs require it;
- And finally, niches in which we have developed an expertise such as technology, health care and television and motion picture financing.

In recent years, we have deployed a dedicated sale force focused on deposits and treasury products. Our volumes are therefore on the rise, with an increase of 38% in 2005.

While we've been cautious towards Commercial Real Estate for a long time, we've grown our business with clients we know well and in projects we've been very comfortable with.

Credit quality

The credit quality of our Quebec P&C portfolio is very strong, as it is for the Bank as a whole. Provisions for credit losses are still at a record low for both Personal and Commercial segments.

This provides a great example of our ability to preserve a significant market share in our commercial franchise without sacrificing either credit quality or pricing. In fact, impaired loans account for less than 0.2% of our total assets.

In the past few years, I've been part of the crowd predicting a bottoming out of the credit cycle. The only thing I can now predict with the slightest chance of being right is that our gross impaired loans ratio won't ever fall below zero…

Quebec's economy

The quality of our loan portfolio has been helped by personal and commercial bankruptcy rates that are far lower than what they were in the mid 90s. Although personal bankruptcies have increased slightly in the past few years, it is nothing comparable to the significant increases we have seen in the U.S. so far this decade.

Because of this sharp difference, it would appear that P&C banking looks more solid in Canada than it does for U.S. super-regional banks.

Borrowers here are still in good financial shape. In Canada, there is still scope for additional growth in personal loans for the foreseeable future. Business bankruptcies, for their part, have declined in North America over the past 20 years, with Quebec leading the charge with a 70% drop.

The improving credit and bankruptcy picture is a clear side benefit of the Quebec economy's increasing strength during the last decade.

Not only is Quebec's GDP growth in line with Ontario's and the rest of Canada as a whole, it is also well diversified. Quebec is less dependent on any one sector, whether it be the automotive sector, transportation equipment, natural resources or energy. As a result, Quebec's growth has been more stable than Ontario's.

The fact that exports increased by 3.8% last year -- despite the loonie's massive run-up and offshoring by businesses in some of Quebec's traditional industries such as furniture and clothing -- is also highly reassuring.

The bottom line for the Quebec market is that we have a strong franchise with plenty of growth potential. This is true both of our established businesses and products and of the new initiatives we are constantly undertaking.

Value creation elsewhere in Canada

But this strength and scope do not mean we can forego geographic diversification in the rest of Canada. In fact, we see our relative size as an advantage. Many niches in the Canadian financial services sector which our peers might see as marginal provide us with huge benefits and potential upsides.

Several of these operations are therefore key contributors to our bottom line and provide significant diversification both geographically and across sectors of activity. Let me say a few words about them.

We see financial markets as an integral part of our overall operations. They enable us to build manufacturing expertise and asset management capability in several wealth management areas such as alternative management and structured products.

In recent years, we have seen less volatility in our financial markets sector than our peers, and we have accomplished this while maintaining a high level of activity.

As in the case of our retail operations, diversification and our decision to avoid areas where we have a low comfort level have helped keep our growth stable.

NBF has about a 10% market share in the Canadian brokerage industry, be it in fixed income, institutional equities, corporate finance or retail brokerage. This strong penetration enables us to operate as efficiently as our Big 5 cousins.

In fact, net income from financial markets amounts to around a healthy 25% of revenues and this figure has been pretty stable over the past few years. I think that financial markets are still a growing industry where there are significant barriers to entry, and we will continue to be part of this growth.

Energy financing, in particular our firmly entrenched position in the junior and intermediate producers market, is another success story at National Bank. We have increased NBF already strong presence in the Calgary market. Combined with our origination power, we will be able to generate even more capital market fees in that sector and to widen and deepen our clientele coverage.

As for Altamira, everything is being done to grow its mutual funds business, from improving fund performance to putting into place a more vigorous and rigorous sales culture. As of December 2005, 69% of Altamira funds were producing a one-year yield above the median.

Altamira is also a distribution organization which has significant experience in dealing with the investment advisor channel. Our strategy here is to use National Bank's proven manufacturing power to introduce new brand-neutral products designed for this channel. The successful Cash Performer is one of these products. Others will follow.

And finally, Altamira deals directly with more than one hundred thousand clients, to whom we will market these and other Bank products more aggressively.

To sum up, Altamira is being transformed into a multi-channel, multi-product distribution organization whose contribution to our bottom line is rising rapidly.

National Bank's partnerships are another growing business segment that is not dependent on the Quebec retail market. We have reached the $2 billion mark, with volume increase representing around 40% of the growth of our non-mortgage loans portfolio.

The operating leverage from this segment is huge due to the fact that a large share of the costs is fixed, from the origination platform to marketing expenses. This year's budget calls for revenues to increase three times faster than costs.

The credit profile of borrowers brought in through our partnership agreements is also outstanding. Not only is most of the portfolio secured by liquid financial assets, but counterparties are concentrated in the better credit risk grades.

Partnerships fit nicely with our retail approach, which, as I said earlier, is to focus on areas where we have a competitive advantage and can add value without compromising our sound risk profile.

In conclusion, let me reassure you that our strategy is oriented towards growth, profitability and, ultimately, shareholder value creation. In Quebec, we are benefiting from the best and most diversified banking franchise, while our more-specialized Canada-wide activities are significant and reliable value creators.

So far during the 2000s, we have proven that National Bank has been able to execute, with discipline, a strategy in keeping with its unique character and to reward shareholders handsomely.

That remains our goal for the years to come.

Thank you.