Address

delivered by **Réal Raymond**

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at Scotia Capital Financials Summit

National Bank:
a consistent performer building on its core strengths

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NATIONAL BANK OF CANADA

Good day everyone.

I hope you all had a great summer and had a chance to play some golf, tennis or any one of the sports that I enjoy the most.

Recently, I found myself discussing themes that are common to sports and business. And a word emerged, that holds the key to progress, success and fun, in both practicing our favorite sports as well as the art of management.

That word is consistency.

According to Mercer Oliver Wyman, National Bank figures on the select ranking of the world's most consistently performing financial services companies. Mercer's Shareholder Performance Index is a risk-adjusted measure that recognizes companies offering the most stable growth. Whose shares outperform consistently over time.

Last year, we ranked thirteenth among the three hundred companies in our peer group. This year, we made the top ten. I would like to say the same about my golf.

This success is due to our consistent low share price volatility coupled with our steady EPS growth. Our CAGR stands at twelve percent during the past four years.

One key to achieving the results that we did in the first nine months of the current year was our successful diversification efforts. Revenues and net income increased in all of our three sectors of operation. Retail, including wealth management, was particularly strong, with revenues up by seven percent and net income by twelve.

By expanding non-credit activities, such as insurance and mutual funds, we have diversified our retail revenue base even further. Non-credit, low-risk, fee-based activities now account for 65% of our retail revenues.

We plan to preserve that balance, using the same drivers that guided our operations in recent years:

1. Geographic diversification
2. Structural growth retail markets
3. Efficient use of resources

As far as diversification is concerned, three factors strongly contributed to our geographical expansion: partnerships, our growing oil and gas presence and our success in financial markets.

Volumes from our partnership initiatives continue to grow at a strong pace. As of July 31st, they have risen 183 percent over the past two years and now top $2.5 billion. They are mostly being generated outside of our Quebec base. Partnerships add to our earnings on a quarterly basis. They contribute to the diversification of risks, revenues and net income sources.

Our presence in the oil and gas sector also continues to grow substantially. Assets have increased by 72 percent during the past two years. Various instruments are used to mitigate the risk, while providing us the underwriting muscle to write larger tickets and deepen business relations.

Financial markets are another key to our geographical diversification strategy. Our financial markets business continues to do extremely well under current market conditions. We grew revenues and net income from Q3 05 to Q3 06 and that sector is showing great stability thanks to its diversification.

Our exceptionally strong first quarter illustrates our approach to the business: profit from advantageous situations while avoiding large downsides. The result is a solid base for growth.

Cost containment is another area that we focus on strongly. This could be a key contributor to profitability in coming quarters. In fact, we are already doing better then ever on that front. The expense ratio in our financial markets sector has been cut from 60 to 57 percent during the first nine months of the year, a level that compares well to the industry average.

Now, let's get to my second point, what I call structural growth retail markets.

Four years ago, our Wealth Management sector accounted for 11 percent of our total net income. Today, it stands at 18 percent. That trend is one that we are aiming to continue.

First and foremost, we benefit from an incomparable position in our home market. Quebecers are in a catch-up mode with regard to their finances. Many Quebecers did not invest enough in past years, and now they are slowly trying to make up for it. As in so many trends, demography explains a lot. As our clients get older, and wiser, their minds are increasingly focused on retirement.

Our success among big banks' in the Canadian wealth management market is another illustration of our strength. Our eight percent share is well above our five percent relative size. This comes from a strong showing in Quebec relative to both banks and non-banks. This rise in fee-based asset revenues had a great deal to do with our consistent performance. In addition, our relationships with our customers have strengthened and client attrition is down.

Among the individual elements of our Wealth Management story, mutual funds are doing well. Wrap products continue to attract new assets steadily. And the spring introduction of monthly-income portfolios closed a key hole in our product offering.

Altamira will soon launch a new suite of products aimed at the advisor channel that will contribute to already good momentum there. Altamira as a whole is in the midst of a strong turnaround, with a 30 percent rise in net income during the first nine months. Part of the momentum is coming from our successful Cash Performer, in which growth and profitability is achieved while considering all risks including market and liquidity.

Private Investment Management is a good example of the potential of the Quebec wealth market. Assets under management grew by 35 percent from the end of fiscal year 2003 to the last quarter. They now stand at $5.5 billion.

Retail brokerage activities at National Bank Financial and Discount brokerage both benefited from operating leverage during the first nine months of 2006. This helped boost their contribution despite lower stock market activity.

Insurance is also offering growth prospects. We intend to further leverage our brand recognition, in the auto and home insurance markets as well as group insurance. We focus on what we do best and we partner with industry names to get access to the best technology or underwriting experience.

Our insurance revenues grew 22 percent during the first nine months of 2006. In our penetration of the insurance market, the National Bank name acts as a powerful magnet. That's because people don't just shop for price. They are also looking at execution quality and for rock-solid solvency.

The lending side of the business has also progressed well, mainly in low-risk business. Personal credit is up by 41 percent over the past two years, mostly from our high quality partnership portfolio and our very popular All-In-One Home Equity Line of Credits.

The success of our HELOC product has tempered the growth of our traditional mortgage loans. But, when HELOCs are included, the growth rate for mortgage secured lending reached 17 % during the past 24 months.

If there is an area where we could do better, it is in credit cards. Our cross-selling rate is about 40 percent, while top performers in our industry reach 60 percent. I believe that there is a real opportunity there, especially when you consider the fact that our product suite is as good as what's offered by most of our competitors. We are now gearing our various distribution channels to achieve this deeper penetration.

Another welcome development is the increasingly active borrowing by Quebec and Atlantic Canada SMEs. As of July 31st volume grew 7 percent year-over-year. The situation varies from one client to another. But it is mostly driven by investments growing faster than cash flow.

To be perfectly honest, we thought that our client base's adaptation to a stronger Canadian dollar would take longer and be harsher that what we are seeing. Profit margins are under pressure for sure. But Quebec entrepreneurs are taking the right actions, particularly by increasing productivity enhancing investments.

Moreover, our share of Quebec banking in the commercial mid-market is increasing into the forty to fifty percent range, even though we do not compromise on credit quality and pricing.

It is well known that profitability in commercial lending is strongly supported by deposit gathering. As a result we have undertaken several initiatives to repatriate deposits and investments that our clients hold elsewhere. Once again, success in this area has translated to a higher market share.

FX is another important value creation driver. This business is growing at a rate of 25 percent year over year. In a nutshell, our privileged relationship with Quebec entrepreneur has been deepened even further.

Efficient use of resources is the third key reason for our consistent success. For example, I have stated many times that our policy is not to build a war chest.

Right now I am very comfortable with our 9.4 percent tier 1 capital ratio, which is well above our 8.5 percent target. True, we are maintaining a solid capitalization to support our existing business, to generate growth and to make routine acquisitions.

However, as in the past, we intend to return to shareholders capital in excess of those needs. This policy has translated into the distribution of 70 percent of net income to shareholders during the past four quarters, the highest level in the industry.

Nevertheless, credit quality remains the single most important element in capital preservation. Many analysts have been surprised by our low level of losses during the past quarter. We have not only improved our ratios, but we also remain ahead of the competition.

This strong performance comes mainly from our core P&C portfolio. Provisions for losses as a percentage of exposure remained flat over the past four years for personal lending and have declined to a record low 12 basis points for commercial.

This latter performance is particularly stellar given that SMEs were expected to be vulnerable to a strong loony as well as higher energy and financing costs.

Operational efficiency is also critical since it reflects our capacity to generate income from our operating expenses base. In 2006 we experienced efficiency gains in all our three operating sectors. With a 4.3 percent gain, the improvement has been particularly strong in wealth management, a sector with a high operating leverage.

With wealth management expected to continue to grow faster than other areas of our business, this is great news for our overall productivity performance in the coming years.

In conclusion, National Bank is committed to maintaining the consistency in our results that Mercer Oliver Wyman and others have recognized and credited us with.

I strongly believe that our success is due to competent employees who are fully aware of the Bank's strategic stances and what is expected from them. Success also depends on a client base that is convinced that their Bank provides superior service and financial products. As well as on shareholders who value their investment, because they are rewarded handsomely.

But to achieve those consistent results we will have to stay focused and disciplined. We need to maintain a diversified and growing flow of revenues and profits. Continue to balance risk and growth objectives. And leverage all of our assets as well as opportunities that emerge.

Thank you.