11-1996

How A Service Company Expanded From A Regional Into An International Operation?

Hannah Alper
Lynn University

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HOW A SERVICE COMPANY EXPANDED FROM A REGIONAL INTO AN INTERNATIONAL OPERATION?

GRADUATE PROJECT
LYNN UNIVERSITY
MASTER OF PROFESSIONAL STUDIES
CONCENTRATION: INTERNATIONAL MANAGEMENT

SUBMITTED TO: DEAN ARTHUR SNYDER
BY: HANNAH ALPER
HOW A SERVICE COMPANY EXPANDED FROM A REGIONAL INTO AN INTERNATIONAL OPERATION?
HOW A SERVICE COMPANY EXPANDED FROM A REGIONAL INTO AN INTERNATIONAL OPERATION?

CHAPTER 1: THE PROBLEM AND ITS SETTING

THE PROBLEM AND ITS SETTING
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CHAPTER 1

THE PROBLEM AND ITS SETTING

HOW A SERVICE COMPANY EXPANDED FROM A REGIONAL INTO AN INTERNATIONAL OPERATION?

THE PROBLEM AND ITS SETTING

This research proposes to analyze how a service, THE NATIONAL BANK OF CANADA, expanded their services from a regional operation within the province of Quebec Canada, into an international business circumferencing the globe.

The formation of the hierarchical organizational structure dictates the overall strategic planning process and its implementation. As the bank grows, the management style must adapt itself in order to maintain successful operations and optimize functional activities. No matter how large an enterprise grows or how wide its international boundaries reach, the customer and its needs are ultimately always the primary focus. As the bank grows, the scope of customer services must expand to meet the newly required needs of the particular marketplace, in order to stay competitive in a global arena.

Business today is imprisoned in a giant closed system, a single market economy with no growth. The challenge is no longer to strive higher but to relieve one's competitors of their remaining patch of ground. What is needed are new codes of conduct, a radical departure from traditional methods. At the same time businesses must conserve energies, keep a close eye on competitors, and be prepared to act immediately. The agility for rapid response and for adapting, requires the building of a new type of organization: supple, light and prepared to act immediately.

THE HYPOTHESIS

The first hypothesis is that there is a departure from traditional managerial methods. Strategy is born from action¹, says management analyst Henry Mintzberg. Power must be returned to those who act. Positions that are only advisory and reflective must be eliminated. Management needs to become proactive not reactive to situational factors.² This agility, this potential for rapid response, for adapting, requires a new type of organization; supple, light, committed to action. The hierarchy is shrinking and tasks are devolving to operating units. Decentralization is common.

The second hypothesis is that it is no longer the product that is important, but how to sell it. New incarnations of old products are so numerous that consumers constantly change their minds. Tom Peters, author of IN SEARCH OF EXCELLENCE, says that products no longer exist, that substance no longer counts.

¹ Arnold Roger A., ECONOMICS, WEST PUBLISHING COMPANY © 1989, p.34
² Anonymous, CONSTANT CHANGE, INSTITUTIONAL INVESTOR, vol. 29 #3, Mar. 96, p. 88
The question for the consumer is no longer "What does this product do?", rather, "With which one can I get
the most?" It is no longer enough to simply determine consumer needs, but to anticipate future wants.
Corporations must embrace economies of scope; manufacturing products or offering services for specific
clients, in a particular field, and modifying according to the perceptions of those clients.

THE DELIMITATION

The study will evaluate THE NATIONAL BANK's situation for the years 1992 to 1996, with limited
predictions of future developments.

The study will include only brief summations of external environmental factors both domestically in Quebec
Canada and in the appropriate host countries. Not all categories will be applicable for all situational conditions.

The ideas reviewed will encompass organizational change and highlight some tools for navigating current
turbulent economic times.

The study will not examine international banking as a whole, instead pertain to company specific
information, within the larger framework.

**All amounts stated and/or analyzed in this report are quoted in Canadian Dollars. As of September 4,
1996, the foreign currency exchange rate is CN$1.00=US$0.7309 or CN$1.3871=US$1.00

THE DEFINITION OF TERMS

ALLOWANCE FOR CREDIT LOSSES: The total provision for loan losses previously charged to income which
were not affected by loan write-offs or recoveries. It is the amount deemed necessary to absorb anticipated
credit losses on loans, acceptances, guarantees, letters of credit and deposits with other banks.

ASSET BASED LENDING: Loans or other forms of credit secured by assets belonging to the borrower (e.g.
accounts receivable or inventory items) which are strictly controlled by the lender until settlement of the debt.

ASSETS UNDER ADMINISTRATION: Assets beneficially owned by clients for whom a financial institution
provides administrative services such as custodial services, collection of investment income, settlement of buy
and sell transactions and record keeping. As these assets are not owned by the bank, they are not reported
on its balance sheet.

ASSETS UNDER MANAGEMENT: Assets beneficially owned by clients for whom a financial institution
provides management services, notably in the form of trust and portfolio management services. As these
assets are not owned by the bank they are not reported on its balance sheet.

AVERAGE ASSETS: daily average of balance sheet assets.

BANKER'S ACCEPTANCE: A negotiable, short term instrument of indebtedness usually issued by a non
financial entity to finance a given transaction and guaranteed, for a fee, by the issuer's bank. It is an offered
rates of negotiable, bank backed business credit instruments typically financing an import order.

3 Peters Tom, IN SEARCH OF EXCELLENCE, SIMON & SHUSTER© 1994
**BALANCE SHEET**: Financial statement that lists the assets, liabilities, and owner's equity of a business at a specified point in time.

**BASIS POINT**: A unit of measure equal to one one-hundredth of a percentage point.

**BOND**: Form of a long term debt, usually issued in $1000.00 increments, with interest paid semi-annually and the principal repaid in 10 or more years.

**CAPITAL**: Amount which would be owed to the holders of shares and bank debentures if assets had to be liquidated to reimburse depositors and other creditors. Capital consists of bank debentures and shareholders' equity.

**COMMERCIAL PAPER**: High grade unsecured notes sold through dealers by major corporations.

**COMMON STOCK**: Ownership shares in a public corporation with the lowest preference as to the asset on liquidation. Holders of common stock have the right to vote for the board of directors. In common usage it can also be called capital stock.

**DEBENTURE**: Long term debt instrument not secured by any lien on a specific property.

**DERIVATIVES**: Financial futures or options whose value is "derived" from interest rates, exchange rates, foreign exchange rates or equity prices. Derivatives are used in treasury operations as well as for hedging regular financial instruments. The most common types of derivatives include foreign currency or interest rate futures, swaps and options.

**DISCOUNT RATE**: The charge on loans to depository institutions by THE BANK OF CANADA. (This institutions operates on a comparative capacity to the United States Federal Reserve Banks.)

**EARNING ASSETS**: Total assets which generate interest for the bank. Earning assets are calculated as total assets less cash and other non interest bearing assets.

**FISCAL PERIOD**: A financial reporting period that may cover a year or a quarter of the year.

**FOREIGN CURRENCY and INTEREST RATE FUTURES**: Contractual obligations to buy or sell, on specified future dates, stipulated quantities of foreign currency at a specific exchange rate or a financial instruments at a given interest rate.

**FOREIGN CURRENCY and INTEREST RATE OPTIONS**: The holder of an option has the right, but not the obligation, to buy (call option) or sell (put option) foreign currencies or financial instruments at a set price (strike price) on or before a specified future date.

**FOREIGN CURRENCY and INTEREST RATE SWAP**: Transactions in which counterparts exchange, for a specified period, currencies and/or streams of interest payments (generally by exchanging a fixed rate for a floating one). These transactions are based on a specified amount of notional principal.

**GUARANTEES and LETTERS OF CREDIT**: Irrevocable assurances that a bank will make payments in the event its client cannot meet its obligations to third parties.
**Interest Rate Sensitivity Gap:** A gap arises when the average maturities of assets and liabilities do not match. The gap is an indicator of the degree to which a bank is affected by interest rate fluctuations for the period in question.

**Liability:** Any debt of the business; the amounts owed to non-owners.

**Liquid Assets:** Assets held as cash or securities easily convertible to cash, such as deposits with other banks and securities.

**Net Assets:** Assets minus liabilities. Net assets are equal to owners equity.

**Net Income (Loss):** Total of all reported revenues, gains, expenses and losses for a fiscal period.

**Net Income Per Share:** Net income available to common shareholders, namely net income less preferred share dividends, divided by the average number of common shares outstanding for the fiscal year.

**Net Interest Income:** The difference between the interest the bank earns on its assets and the interest it pays on its liabilities. When expressed as a percentage of average assets, it is called net interest margin, or simply interest margin.

**Non-Accrual Loans:** A loan is classified as non-accrual when, in the opinion of management, there is reasonable doubt as to the ultimate collectability of a portion of principal or interest or where interest is contractually past due by 90 days, unless there is no doubt as to the collectability of principal and interest.

**Notional Principal:** The principal amount used to calculate interest payments for certain off balance sheet instruments such as interest rate swaps and future agreements. It is considered 'notional' as the principal amount itself does not change hands.

**Off-Balance Sheet Financial Instruments:** A variety of products used by banks and clients alike to meet their needs for liquidity, foreign exchange and interest rate protection. Foreign currency and interest rate futures, swaps and options are some examples of financial instruments used for this purpose.

**Price Earning Ratio:** Market price of common stock divided by earnings per common share. This profitability ratio relates the market value of a company's common shares to the earnings per share of common stock.

**Productivity Ratio:** The ratio of non interest expenses to the sum of net interest income and other incomes. This percentage serves to evaluate the efficiency with which expenses are incurred to generate revenue.

**Provision for Loan Losses:** A charge to income which is added to the allowance for credit losses to ensure it is maintained at an adequate level to cover loan losses, after taking into account any write off or recoveries of specific loans.

**Regulatory (or BIS) Capital Ratios:** Ratios of capital to risk adjusted assets, as stipulated by the Bank for International Settlements. Tier I capital, or base capital as it is also known, consists of common shareholders' equity, non-cumulative preferred shares and non controlling interest in subsidiaries less unamortized goodwill. Tier II capital, or supplementary capital, consists of cumulative preferred shares and
subordinated debentures less any investment in associated companies. Total regulatory capital is the sum of Tier I and Tier II capital.

**RETAINED EARNINGS:** Dollar amount of assets furnished by earnings of the company that were not distributed as dividends.

**RETURN ON ASSETS (ROA):** Net income expressed as a percentage of average total assets. It is used as a measure of profitability and indicated how efficiently the bank employs its resources.

**RETURN ON COMMON SHAREHOLDERS’ EQUITY:** Net income available to common shareholders, namely net income less preferred share dividends, expressed as a percentage of average common shareholders’ equity. This ratio indicated the bank’s effectiveness in employing common shareholders’ funds.

**RISK ADJUSTED ASSETS and OFF BALANCE SHEET FINANCIAL INSTRUMENTS:** In order to bring certain assets to a comparable risk level, risk weighing factors are applied to their face amount. Off balance sheet instruments are also converted by adjusting notional values to balance sheet (or credit) equivalents and then applying appropriate risk weighting factors. The risk adjusted total forms the denominator of the various capital ratios according to the Bank for International Settlements.

**SEURITIZATION:** An operation whereby certain assets such as mortgage loans are sold to an entity which raises funds by issuing negotiable instruments, which are then purchased by a large number of investors.

**SUBORDINATED DEBENTURES:** Unsecured obligations issued by a bank which rank behind the claims of depositors and certain other creditors in the event of liquidation. Convertible debentures can be exchanged for shares at the option of the holder, the issuer, or both.

**SUBSIDIARY COMPANY:** Company in which more than 50% of the voting stock is owned by another company.

**TAXABLE EQUIVALENT BASIS:** Tax exempt income earned on certain securities is grossed up to an equivalent before tax basis. This procedure permits a uniform measurement and comparison of net interest income that arises from both taxable and tax exempt sources.

**TRADING PORTFOLIO:** Liquid assets used for trading on financial markets. This portfolio is recorded on the balance sheet at market value.

**ASSUMPTIONS**

*The first assumption:* Management must be pro-active to successfully compete in today’s business environment.

*The second assumption:* Decentralized units optimize corporate performance.

*The third assumption:* Meeting clients’ needs must become a central focus.
THE IMPORTANCE OF THE STUDY

It is only by looking at what was and how it transpired, can we assess and evaluate the present situation, before future predictions can be made. The world is becoming smaller due to technologies. Cross cultural differences are lessening and becoming fewer. Global expansion, standardization of product and services, and customer service are critical to survival in today's competitive environment.
CHAPTER 2: THE REVIEW OF THE RELATED LITERATURE

THE INTRODUCTION
THE ECONOMIES OF SCALE
THE ORGANIZATION
THE COMPETITION
THE INITIATIVE
CHAPTER 2

THE REVIEW OF THE RELATED LITERATURE

HOW A SERVICE COMPANY EXPANDED FROM A REGIONAL
INTO AN INTERNATIONAL OPERATION?

Management is not a science; it is a discipline, an art. 4 On the basis of experience, it enunciates principles, fixes goals. The managers principal duties were to make workers work, organize their tasks, plan purchases and sales, and buy new machines that would produce more, more cheaply, thanks to economies of scale. To do so, the manager had to surround himself with people who could gather information on markets and in workshops, who could come up with new ways to improve production, make sure the workers were doing their jobs, push them to produce more efficiently. Thus was born the managing executive. He produced nothing, but he looked to the future, planned, organized, controlled. The discovery of oil and the commercial boom that it produced led John Rockefeller to conceive of vertical and horizontal integration. One had to expand as quickly as possible to dominate the largest number of new markets, but also to run the enterprise economically. A smooth running organization is needed to ensure that a number of people can achieve the desires goals. In such a context, discipline is the watchword. At the end of a line, waits the client. The success of such a business so relies on its management that one comes to identify them completely: "the business is an organization, the organization is a business." 5 This soon became a study in and of itself. Sociologists and psychologists hired by schools of management tirelessly researched the ways in which power was exercised in business. One among them, Adolf Berle writes in POWER: "No collective assembly of whatever class or group, exerts power on its own, nor could it. Another factor is essential: organization". The enterprise is by definition a place where power is wielded. This power can take precedence even over the functions of the entrepreneur. Which led the economist Galbraith to declare, in the NEW INDUSTRIAL STATE(1967), that those personalities who laid the groundwork for capitalism's moral authority, in the beginning, had now passed from the scene. "the entrepreneur no longer exists as an individual person in the mature industrial enterprise...the directing force of the enterprise is management." 6 Management was promoting a new world view. Given a growing economy and demand, to always produce more. More than yesterday, less than tomorrow: next year must always be better than the last. Starting with a local market, business were fated to grow steadily on the national stage, then to export, to create affiliates abroad, and finally to integrate vertically and horizontally. This view gave rise to a series of principals designed to enable enterprises to flourish in that environment. Case

4 Ross Joel E., TOTAL QUALITY MANAGEMENT: TEXT, CASES & READINGS; 2ND. EDITION, ST. LUCIE PRESS© 1995, p. 188
5 Stewart Thomas A., IT'S A FLAT WORLD AFTER ALL, FORTUNE, vol. 134 #4, Aug. '96, p. 197
6 Browning E.S., HOW GALBRAITH MOVED MARKET, WSJ, MONEY & INVESTING, Apr. 22, '96, p. C1
studies produced increasingly precise organizational models. It seemed that management could be expressed in universal precepts. Since our surroundings evolve in a predictable way, let's organize. Since the opportunities to do business and make progress are unlimited, let's plan. Since technology enables to produce in great volume, let's expand to take advantage of economies of scale.

**ECONOMIES OF SCALE**

The first concern of management is always growth. Small banks think; 'Ah! If we were bigger, it would cost us less to run our computers!'. In fact they are wrong. Their computer systems cost them more because they are trying to copy those of the largest most major banks instead of designing a system appropriate to their needs. If one looks at the most profitable businesses, it apparent that they are almost never among the largest. Size is not a guarantee of economic success. Many businesses have overlooked the costs involved in growth, not asking themselves whether these costs would outrun the benefits of economies of scale. To foresee the fluctuations in money markets everywhere, a multinational corporation operates to create reserves as a hedge against change. To predict the evolution in tastes on three sub continents doesn't happen by magic. "Growth has a cost that can exceed by a large margin the increase in profits it is likely to create".

**THE ORGANIZATION**

The Second World War introduced American Competence to the world. The west embraced it as a model. Post war markets experienced mind boggling growth. The product was forgotten about. Enterprise became so efficient in manufacturing it was often neglected to ask if the product was any good. Products had to be made as quickly as possible, in the largest possible quantities. This way of managing corresponded perfectly to the vision of continuous growth. One had to satisfy markets that were ever larger, ever wealthier. The product would always sell. All that was needed was production in sufficient numbers. The principal of efficiency focused on the enterprise and its organization. That was legitimate, but repeated success in doing things right deflected the mind and the imagination from one fundamental question: 'Are we doing the right things?'

In the 1980's, managers came up with a formula based on continuous growth: strategic planning. Planning fine tunes as precisely as possible the entire organization. It influences the coordination of its suppliers, its financing, its capital investments, and so on. It requires a specific goal. Strategy consists in dictating a general approach in pursuit of a goal that is still vague. "Strategy adapts to the environment,

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7 Johnson Arthur, SMALL RISKS AND LOTS OF THEM, CANADIAN BUSINESS, vol.76 #5, May '94, p.34
8 ibid
9 Hatcher Jerome M., Hodges Bonnie A; CORPORATE RE-STRUCTURING: MANAGING THE CHANGE PROCESS FROM WITHIN, NATIONAL PRODUCTIVITY REVIEW, vol. 14 # 2, Spring '95, p.121
planning imposes its grid on the environment". Economies of scale encouraged expansion. The growth of business required a synchronic growth in organization.

Traditional organization is military, with the important people at the top. Salaries are determined by one’s position in the hierarchy. To reward an employee, one must promote him. Administration becomes more and more all consuming. When it became obvious there were lessons to be learned from employees ‘on the floor’, quality circles became fashionable. The results were minimal because these groups, in which workers were asked for their input, were assimilated into the old order; groups’ reports were lost in the administrative shuffle of paper. But the environment was no longer the same. Technologies had changed, as had workers. Divided internally by task, then by operation, the organization evolved into an implosive matrix, programming its own dismemberment. The management model for organization was becoming extinct.

**COMPETITION**

Business knows how to produce identical objects in great profusion. The new environment requires the flexible imaginative production of personalized articles and services. Industry must shorten the reaction time of its organization, restrict the number of hierarchical level, bring clients and brainstormers together, to respond quickly to or anticipate new needs. Managers must understand the importance of the people within their walls, and beyond them. They have lost sight of whom they are there to serve, the client. Successful organizations have one common central focus: customers. Goods aren’t sold; product and services are bought.

The markets have always been in control. Any idea, any technology, any invention that appears anywhere in the world can now instantly and radically alter the conditions in a local market. This is not a secret pearl of wisdom. Mission statements, annual reports, posters on the wall, seminars, and even television programs all proclaim the supremacy of customers. An enterprise must quickly adapt to each change by drawing on all possible resources available, principally the capability, creativity, and expertise of employees. Authority no longer means telling people what they ought to do, rather mobilizing workers so they themselves can make the best decision.

Consumers, with their buying power continuing to grow, saw new products appear each year and bought them to enhance the quality of life. In the early stages of commercialization, there wasn’t much to choose between one product or another. When the product matured, the struggle between manufacturers was to see who could come up with additional features that would tempt the consumer to renew a purchase earlier than intended, and more importantly, to select that product rather than a competitor’s. Up to the beginning of the 1970’s most products remained very simple and most consumers remained very conservative. The telephone was there to make call, the radio for listening to programs, the alarm clock to wake one up. If the

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products performed the tasks for which they had been designed, all was well. Then growth prospects diminished considerably. Markets no longer expanded. No more inventions emerged from the technical knowledge at hand. As a consequence the buyer was left splitting hairs: should he choose the coffee maker that tells time or the one that’s calcium resistant. The question for the consumer is no longer ‘what does this product do?’ rather ‘Which one will give me the most pleasure?’ Tom Peters says that products no longer count. This is the age of fashion, that is to say of style, packaging, appearance, first impressions, sales, craft, color. The life span of products in the modern marketplace of the 1990’s has virtually become impossible to predict. Gratification has to be immediate. Technology, however omnipresent, no longer guarantees a sale. Customers are inclined to shift loyalties depending on the features offered by a product. It is no longer enough to determine consumer needs; they must be anticipated by inventing novelties...and praying they will bring pleasure and satisfaction. Management constantly must reduce costs while appending new features to old products. They have to manipulate all facets of the business at the same time; the organization of production, research and development, publicity, the company’s image in the eyes of the investor, methods of financing, new materials. All these elements interact. All the competitors in the world are going through the same process. “A successful business is no longer a commercial giant but one that can serve its market with as few resources as possible.” Leanness, sub-contracting, strategic alliances, have become the principals that must be honored to remain competitive.

INITIATIVE

No longer can we predict what our customers will desire tomorrow. The strength of business now resides in creativity. Information and an enhanced ability to process it require an emphasis on the increasingly refined grasp of tiny details. There is a transition between an integrated structure for business and one that is decentralized. The role of the manager is no longer to control everything but to share out power according to the capabilities of each, inside or outside, the enterprise. That means they must react on a daily basis to unforeseen occurrences and new situations. It is no longer the scale of the enterprise that counts, but its ability to attract clients, to determine what pleases them. The consumer that is known best is the current one. Therefore he is the best potential customer as well. Given technological chaos and the need to respond at once to shifting customers’ demands, enterprises must produce original economic ideas fast enough, if not anticipated, to client’s perceived desires. Initiative must be delegated and shared at different levels of the business. All of technology is known and can be applied anywhere in the world. What separates winners from losers is not the available technology; rather how it is used and its presentation. The race to find new clients is over. Those that are, must be taken care of. Expansion must be within existing market spheres.

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12 Peters Tom, IN SEARCH OF EXCELLENCE, SIMON & SHUSTER© 1994
13 Duclaux Denise, SEGMENT OF ONE-NESS SUCCESS, ABA BANKING JOURNAL, vol. LXXXVIII #9, Sept. ’96, p. 67
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CHAPTER 3: PROCEDURES AND METHODOLOGY

THE STUDY
THE DATA
THE RESEARCH METHODOLOGY
THE INTERVIEW QUESTIONS
CHAPTER 3
PROCEDURES AND METHODOLOGY

HOW A SERVICE COMPANY EXPANDED FROM A REGIONAL INTO AN INTERNATIONAL OPERATION?

The study is based on historical and present data, with limited future projections of further global expansion. The data will specifically highlight the years 1992 to 1995. Data pertaining to 1996, will be inconclusive as THE NATIONAL BANK’s fiscal year ends October 31. Needed information will not be accessible until mid February 1997, at the earliest. Prediction of the future will be projections obtained via interviews with bank officers.

THE DATA

Primary research was collected via interviews with bank executive officials. Persons contacted were: Mr. Andre Berard, C.E.O., Mr. Leon Courville, President and C.O.O., Mr. Gaby Touma, Senior V.P. International, Mr. Jean Turmel, Senior Executive V.P., Treasury, Brokerage, and Trust Services, Ms. Gisele Desrochers, Senior V.P. Human Resource and Administration, Mr. Jean-Pierre Belange, Executive Chairman of the Credit Committee, Mr. Rolland Robichaud, Executive V.P., Mr. James D. Raymond, Corporate Director, Human Resource, Mr. Pasquale Minicucci, V.P. Continuous Improvement Program, Ms. Nicole Rondou, V.P. Marketing, Mr. Jacques Piche, V.P. International Commercial Operations, Mr. Raymond Gelinatas, President and C.E.O., Natbank (Fl.), Mr. Massimo Piasent-Foligno, Branch Operations Manager, NatBank (Fl.). Additional needed information would have been difficult to amass, without the invaluable help of the many secretaries and administrative personnel who were available to ‘fill in the gaps’.

Secondary data researched for this study includes newspaper and magazine articles, management and banking journals, related topic books and academic texts, class notes, financial reports and stock quotes. A historical perspective will be used. It is only by looking at the past, can prediction of the future be made.

THE RESEARCH METHODOLOGY

All information gathered for this research is classified so as to assemble a descriptive self-report qualitative study, fulfilling the criteria of the Lynn University Graduate Project requirement.

INTERVIEW QUESTIONS
* THE NATIONAL BANK, appears to have created a niche within the mid market companies it serves. By not venturing into other available markets, is the bank limiting it potential for growth?
* When did THE NATIONAL BANK start looking beyond its own country’s borders for expansion?
* What was the initial strategy behind these maneuvers?
* Are you satisfied with the endeavors?
* Does THE NATIONAL BANK plan to continue its international reach?
* Why does THE NATIONAL BANK favor corporate agreements, alliances and affiliations in the international market arena?
* What are the advantages? What are the possible disadvantages?
* THE NATIONAL BANK has a number of international centers, but they appear to function as private banks, favoring mainly Canadians abroad. Are citizens of the participating host countries able to utilize the same privileges and networking facilities as Canadians?
* Does the bank have to abide by THE CANADA BANK ACT, no matter where they are located, as well that laws of the host country? Or are fulfilling the host country's requirements sufficient?
* Why are the bank's mergers, acquisitions, and wholly owned subsidiaries, contained to the borders of Canada? Are there plans to reach beyond these horizons, on a greater scale, in the future?
* Do you feel that having THE NATIONAL BANK's head office located in Montreal Quebec Canada has an adverse effect on prospective opportunities?
* What impact on the management structure has expansion had?
* Is it a requirement that all upper management be Canadian?
* By streamlining operations to create a light supple organization able to respond proactively to situational conditions, was there any adverse affect on employee cohesiveness? motivation? morale?
* What are future projections?
* What are some plans regarding new technologies? innovations? products? services? client relations? internal employee relations?
* Stiff competition for a shrinking consumer base is a dominate factor of business in the 1990's. How does the bank plan on maintaining and enhancing its market share?
* What do you feel will be the greatest challenge the bank will face?
CHAPTER 4: DISCUSSION

THE HISTORY
THE CURRENT STATUS
THE EXAMINATION AS SPECIFIED BY THIS STUDY
THE FUTURE TRENDS
CHAPTER 4
DISCUSSION

NATIONAL BANK OF CANADA
HOW A SERVICE COMPANY EXPANDED FROM A REGIONAL
INTO AN INTERNATIONAL OPERATION?

HISTORY
1859: The bank's history began in Quebec City (Province of Quebec, Canada) in 1859 with the foundation of the Banque Nationale, the first of the original financial institutions, which years later, following several takeovers and mergers, would form the National Bank of Canada. Confederation was still eight years away when an act of the Parliament of the Union of Upper and Lower Canada, which included present day Ontario and Quebec, sanctioned the establishment of the Banque Nationale. This name has been maintained without interruption, except for slight changes, since the bank's beginnings. Active mainly in the Quebec City region and in Eastern Quebec, the Banque Nationale played a key role in regional economic development during the following sixty years. In 1907, it opened an office in Paris.

1861: Two years after the founding of the Banque Nationale, the Banque Jacques Cartier was established in the same way in Montreal. Following a reorganization in 1900, it changed its name to The Provincial Bank of Canada and gradually set up a network of offices throughout Quebec and in certain regions of Ontario, New Brunswick, and Prince Edward Island.

1874: Another early Canadian Bank, the Banque d'Hochelaga, was founded in Montreal. Despite its modest beginnings, at the turn of the century it was expanding rapidly. Following the First World War, competition was strong between the Banque Nationale, the Provincial Bank, and the Banque d'Hochelaga, all more or less equally and successfully serving the same Quebec market. It was suggested publicly at times that merging these banks would make them more effective in promoting economic development in Quebec.

1924: A severe recession shook the Banque Nationale in the early 1920's. Negotiations for its merger with the Banque d'Hochelaga led to an agreement which created the Banque Canadienne Nationale, later known in English as the Bank Canadian National (BCN). The success of this merger was due in part to assistance provided by the Province of Quebec through special legislation. The Provincial Bank had declined the invitation to join forces with the other two banks. Subsequently, the BCN and the provincial Bank safely weathered the hardships of the Depression, as did the Canadian banking system as a whole.

1970: As a result of the 1924 merger, the Bank Canadian National was twice the size of its closest competitor, the Provincial Bank, giving it greater prestige and favoring its more rapid development. After the Second World War however, the Provincial Bank once again took on a more aggressive character which eventually led to its takeover of several other institutions. In 1970 it merged with The People's Bank, a commercial bank
established in 1968 to continue the work of the much respected Quebec Savings Bank founded more than a century earlier.

1976: Instituting a national expansion program, the Provincial Bank also took over the Unity Bank of Canada, based in Toronto, and in 1979, acquired Laurentide Financial Corporation Ltd. of Vancouver, a well known Canadian Finance company.

1979: By the late 1970’s, the Bank Canadian National and The Provincial Bank of Canada had grown into major banks with respective assets of nine and six billion dollars. Although both still had a large part of their operations concentrated in Quebec, they had been actively developing business on a national and international scale during the preceding decade. At this point, they agreed to consolidate their forces in what was to become one of the largest mergers in the history of world banking, of the time, amalgamating to form the National Bank of Canada. In this way, the newly formed bank could reduce expenses through increased volume and eliminate duplication of efforts in traditional markets. By uniting the substantial resources at its disposal, the National Bank was better able to compete with other major Canadian and international banks in providing first quality banking and financial services to meet the whole spectrum of customer needs.

1980-80 This was a decade of excesses and extremes. Everyone was gifted with the magical Midas Touch. Most businesses flourished and expanded. Growth in all frontiers was rapid and extensive. The bank was no exception, in this frenzy of activity. They followed reactively in this excited trend of buyouts, acquisitions and mergers to stimulated increased portfolios.

CURRENT STATUS

THE NATIONAL BANK OF CANADA, was formed through a series of amalgamations, including amalgamations with the PROVINCIAL BANK OF CANADA, the MERCANTILE BANK OF CANADA, and with NATIONAL BANK LEASING INC., its wholly owned subsidiary. The bank’s roots date back to 1859 with the founding of BANQUE NATIONALE, in Quebec City, Province of Quebec, Canada. THE NATIONAL BANK is a bank named in Schedule 1 of the Bank Act (of Canada). Its head office and principal place of business is located at the National Bank Tower, 600 De La Gauchetiere West, Montreal, Quebec, Canada, H3B 4L2.

As the Bank Act allows banks to control brokerage firms and trust and insurance companies, THE NATIONAL BANK carries on securities brokerage operations through its subsidiaries LEVESQUE BEAUBIEN GEOFFRION INC., NATIONAL BANK SECURITIES INC., NATCAN INVESTMENT MANAGEMENT INC., and NBC CLEARING SERVICES INCORPORATED. In addition, since the acquisition of GENERAL TRUST OF CANADA (TRUST GENERAL), THE NATIONAL BANK offers its clientele a complete range of trust services.

15 STANDARD & POOR’S, McGRAW HILL COMPANY INC., vol. 57 #16, Aug. 29, ‘96, p. 8471-8474

15
The bank has also entered the insurance field with the creation of its subsidiary **NATIONAL BANK LIFE INSURANCE COMPANY**.

**THE NATIONAL BANK** ranks sixth among Canadian banks in terms of total assets, and is present in each of the Canadian provinces. It offers an extensive range of financial services to individuals, commercial enterprises, financial institutions and government both in Canada and abroad.

**THE NATIONAL BANK**'s main sectors are as follows: banking, which consists of retail banking, commercial banking, international, trust services and insurance, treasury, brokerage and corporate banking; and human resource and administration which among other things, assures administrative support for the main business of the bank.

Through its network of 644 branches, retail banking primarily provides services to individuals and serves as support to the commercial banking centers and the corporate banking, international, and treasury divisions. In addition to personal mortgage loans, the bank offers a full range of transaction accounts and investment vehicles including term deposits and investment certificates, mutual funds and registered retirement savings plans. Clients can access their accounts at any of **THE NATIONAL BANK**'s 812 banking machines and at more than 236,803 banking machines in North America and Europe which belong to the Cirrus, Interac and Mastercard ATM networks. Through the **INTERAC DIRECT PAYMENT** network, debit card holders can make purchases without using cash at 19,779 bank terminals. The bank also offers its clients credit card services and travelers cheques.16

The commercial banking division manages credit to independent businesses and offers them an array of complimentary services. There are almost 40 commercial banking centers in operation, 19 in the Province of Quebec, Canada, nine in the Province of Ontario, Canada, and nine in Atlantic Canada. All centers are staffed by account managers, each of whom services a small number of business clients, and by experts in special financing packages. In addition to the specialized services offered by treasury and international commercial operations, business can obtain a full range of services such as bankers' acceptances, operating loans and fixed or variable rate term loans, as well as computerized payroll processing, bank reconciliation with cheques in consignment and pre authorized payments. In the United States, **THE NATIONAL BANK** offers services to mid market companies through its subsidiary **NATIONAL CANADA FINANCE CORP.**, which has offices in 14 cities.17

With over 25 years of experience in international markets, the international division offers its clients both in Canada and abroad services that are adapted to their needs and concerns. **THE NATIONAL BANK**'s initial strategy remained constant through the years: quality of service with the proliferation of products and networks. The bank prefers to follow the movement and pulse of their client base, allowing for mutual

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16 Ms. Nicole Rondou, V.P., MARKETING, **THE NATIONAL BANK OF CANADA**, Montreal Quebec Canada, Head Office
17 Mr. Jacques Piche, V.P., INTERNATIONAL COMMERCIAL OPERATIONS, **THE NATIONAL BANK OF CANADA**, Headoffice: Montreal Quebec Canada
familiarity, accessibility and ease of transactions, in an established relationship. Through more than 41 offices in Canada, The United States, Latin America, Asia, and Europe, as well as nine cooperation agreements with well respected financial institutions and 2,500 banking correspondents around the world, clients are assured of receiving customized and high quality service wherever they go. THE NATIONAL BANK also holds a minority interest in the Chilean bank BANCO OSORNO y LA UNION. The division's operations include international banking and corporate credit, foreign risk capital, export financing, advisory services as well as financing and management of international commercial operations such as letters of credit, letters of guarantee, foreign exchange transactions, foreign payments, management of foreign accounts, to mention a few. By becoming involved in large scale projects world wide, with several established partners, the international sector can count on a staff of specialists who are constantly creating new ways of doing business so as to better serve their clients.\textsuperscript{18}

Further to THE NATIONAL BANK's acquisition of GENERAL TRUST in July of 1993, the later has been restructured to focus on trust services. With its investment services, its personal trust services and its branches now integrated into THE NATIONAL BANK framework, GENERAL TRUST promotes the growth of assets entrusted to it by households with considerable liquidity. Its corporate trust services meets the needs of independent businesses as well as larger corporations throughout the Province of Quebec. GENERAL TRUST and NATIONAL BANK SECURITIES INC. offer their clients active fund management. NATIONAL BANK SECURITIES INC. also offers its clients a wide selection of mutual funds and discount brokerage services.\textsuperscript{19}

The insurance sector is responsible for managing THE NATIONAL BANK's insured risks and credit insurance, and for marketing its various insurance products to bank clients. As part of its management of insured risks, this sector ensures that it obtains the best conditions on international markets for the different policies underwritten by THE NATIONAL BANK to cover possible claims related to the bank's assets and premises, as well as its officers liabilities. This sector is also responsible for maximizing the penetration and profitability of the credit insurance plans offered on the bank's various loan products. Delivery of other insurance products is achieved by the regular marketing of a variety of insurance plans to NATIONAL BANK clients.

The treasury, brokerage and corporate banking sector manages the bank's liquidity. It is responsible for matching assets and liabilities, and is in constant touch with the various financial markets in Canada and abroad. It also develops financial instruments adapted to the need of both institutional and commercial clients and is responsible for raising and managing THE NATIONAL BANK's Tier 1 and Tier 2 capital. In addition, it oversees the securitization of NHA mortgage loans. The treasury sector is also very active in the negotiation and sale of off balance sheet instruments such as options, swaps, and other future

\textsuperscript{18} Mr. Gaby Tourna, SENIOR V.P. INTERNATIONAL, NATIONAL BANK OF CANADA, Headoffice: Montreal Quebec Canada
contracts. It handles foreign exchange transactions on behalf of THE NATIONAL BANK and its clients in a whole variety of currencies, both in spot and futures markets. This sector has offices in Montreal, Toronto, New York, and Singapore.

Using teams based in Montreal and Toronto with particular expertise in industry niches, corporate banking offers a broad range of services customized to clients' needs. In addition to traditional operating credit and term financing, these teams structure project financing for acquisitions or re-capitalization, and arrange high yield financing, syndicating larger loans, if necessary among a number of financial institutions. They also offer consulting services for restructuring, mergers, and acquisitions and for hybrid financing combining debt and equity. Together with treasury, corporate banking offers financial risk management instruments for hedging interest rates, foreign currencies and import/export transactions. NATIONAL BANK specialists can suggest various electronic products such as point of sale debit and electronic data interchange (EDI) that meet client needs.

The security brokerage subsidiary LEVESQUE BEAUBIEN GEOFRION INC., provides services to individuals and business clients in addition to playing an important role for various levels of government. This subsidiary is active on all the major markets through its network of 32 offices.

Another subsidiary, NATCAN INVESTMENT MANAGEMENT INC., specializes in portfolio management for institutional clients. It offers its clients the opportunity to invest in Canada, the United States, and abroad. Pension funds, insurance companies, mutual funds, foundations, religious orders and other organizations are among the many clients for which this subsidiary manages in excess of $5 billion.

The human resources and administrative sector is responsible for human resource policies as well as those related to administrative support in certain areas. In terms of human resources, this sector is responsible for employee relations, staffing, succession planning, training, employee benefits, compensation, and employee equity. It is also responsible for public relations, legal affairs and corporate secretary's office as well as audit, premises, and administrative services. As of July 31, 1998, THE NATIONAL BANK had 12,188 employees compared to 12,327 a year earlier. This decrease was due to the restructuring of branch work under the bank's Continuous Improvement Program and the rationalization of operations.20

20 Ms. Gisele Desrochers, SENIOR V.P. HUMAN RESOURCE AND ADMINISTRATION, NATIONAL BANK OF CANADA, Headoffice: Montreal Quebec Canada
ANALYSIS OF CONDITIONS AS SPECIFIED BY THIS STUDY
EXAMINATION OF YEARS 1992 THROUGH 1996

HOW DID A SERVICE EXPAND FROM A REGIONAL INTO AN INTERNATIONAL OPERATION?

1992:

In North America, 1992 was a year of recovery even though economic and financial conditions did not improve significantly. Corporations and consumers alike adopted a 'wait and see' attitude in response to the weak 'North American Recovery'; corporations because earnings failed to materialize and consumers because they had to deal with a deteriorating job market. At the same time many overseas economies were grappling with a recession, that in their cases, began one year later than in North America. Europe was hit hard, as evidenced by the situation in Great Britain. They were experiencing their longest and harshest post World War Two Recession.

Such a context was hardly conducive to stimulating growth in banks' balance sheets. Corporations actively reduced their debt load, while consumers proved extremely reluctant to increase non mortgage debts. As after tax income grew only slightly, this streamlining of household indebtedness naturally curbed deposit growth.

The difficult international environment and Canada's structural problems limited growth in 1992 to 1.5%. Exports were the only bright spot. Consumers, as they grappled with their heavy debt load, continued to be cautious. At the same time, historically low profits and high excess capacity revealed the extent to which businesses were in trouble. Investment in machinery and equipment remained vigorous. Slower growth in wages, the steep decline in the Canadian dollar and projected gains in productivity were expected to re-establish Canada's competitive position.

The bank had $1.6 billion growth in loan volume\(^2\), which translates into a 8% increase over the $28.4 billion recorded at the end of fiscal year 1991\(^2\). This higher volume came primarily from target retail markets and corporate mid markets in both Canada and the United States.

Residential mortgages in the amount of $1.1 billion were sold to third parties, reducing balance sheet growth, while allowing the bank to retain a considerable portion of the net interest generated by these loans. As a result, the bank's liquid assets rose.

Deteriorating economic conditions in the industrialized countries and wide spread disinflation attributed to tighter monetary policies. This had a severe impact on the real estate market worldwide. All banks involved in real estate lending incurred heavy losses. THE NATIONAL BANK was no exception. The bank

\(^{22}\) 1991 ANNUAL REPORT, NATIONAL BANK OF CANADA, in house publication
lowered its lending limits for a single borrower from 10% to 8% of shareholder equity. Stricter limits were set for the real estate sector, as well as for corporations. This ceiling did not apply only to new loans, but also to existing credits that did not conform to the new limits. The bank has reduced the number of such loans either as they came up for renewal, or by selling or syndicating them.

Net income, at $1 billion in 1992 was modest because of losses of real estate loans. Taking into account the dividends paid to preferred shareholders, the resulting loss was $0.29 per share. After payment of $89 million in dividends on common shares, common shareholders' equity declined $116 million to $1,305 million. To preserve capital and pursue growth in less risky markets, dividends were cut in half to $0.10 per share.

These disappointing results masked the progress achieved by the bank in other sectors, namely the mid market business. The decentralization of the Province of Quebec operations, increased market share. Fluctuating interest rates on the 1992 financial markets produced positive treasury results. Corporate restructuring efforts reduced bank employees to 11,982 at the end of 1992, from 12,844 in 1991. Task forces were formed to conduct comprehensive reviews of all administrative procedures in order to improve quality of service and simultaneously achieve permanent cost reductions.

A "MORTGAGE BLITZ" afforded bank customers and non customers the opportunity to benefit from lowered mortgage rates. The bank offered to refund customers a certain portion of the penalty for renegotiating their mortgages at a time when rates were falling. 17,000 new and existing customers took advantage of this offer. This initiative illustrates the leadership role the bank is capable of assuming in a target market and reflects their commitment to offering their customers services that are adapted to changing financial conditions.

To address problems inherited from the 1980's, the bank cleaned up their commercial credit portfolio and applied very strict credit policies. Groundwork was also laid for reorienting activities by targeting markets niches that had traditional proven successful. The return to profitability in the fourth quarter of 1992, showed a positive direction.

The business structure pursued by THE NATIONAL BANK OF CANADA, is divided into two distinct segments; domestic operations and international operations. In Canada, this strategy is based on the bank's areas of expertise and regional presence.

In its natural market, Quebec, the bank provided a full line of financial services to individual, businesses, governments, and investors. They also offer mutual funds and investment fund management to

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23 Mr. Rolland Robichaud, EXECUTIVE V.P., NATIONAL BANK OF CANADA, Headoffice, Montreal Quebec Canada
24 Ms. Gisele Desrochers, SENIOR V.P. HUMAN RESOURCE AND ADMINISTRATION, NATIONAL BANK OF CANADA, Headoffice; Montreal Quebec Canada
25 Mr. James D. Raymond, CORPORATE DIRECTOR, HUMAN RESOURCE, NATIONAL BANK OF CANADA, Montreal Quebec Canada
26 4TH. QUARTER SHAREHOLDER REPORT, NATIONAL BANK OF CANADA
compliment all existing traditional banking products. In other parts of Canada, the bank concentrated mainly on retail banking and the corporate mid market.

At the international level, the bank's strategy consisted in expanding its lending activities with mid market companies in the United States, offering the entire range of trade related financial services and taking advantage of the reciprocity agreements it had signed with European banks.

"This international strategy is linked to the domestic strategy." The common goal of these two segments was to focus on sectors of activity where risks are lower or more easily assessed in order to stabilize the bank's earning base. In the latter half of the 1980's, high risk loans with a greedy eye on the ensuing but speculative high profits, were routinely granted. The economic down turn of the early 1990's had server detrimental effects on the bank's business activities. The positive profit statements turned into negative losses. All loans were scrutinized, re-evaluated and re-assessed. The bank's international operations outside the U.S.A. generated net income of $28.4 million, up $18 million over 1991. During the year, the bank collected interest arrears of $27 million on its loans to Argentina. Average assets advanced by 12% primarily owing to an increase in liquid assets.

In terms of lending to small and medium sized businesses, the credit risks involved are appropriately remunerated and can be more quickly contained in the event a company's financial position deteriorates. In addition, it is easier to diversify this portfolio both geographically and by sector.

Controlling risks became the bank's main priority in fiscal 1992, given the uncertain economic climate. New credit standards, determined on the basis of market size and knowledge of those markets, provided a guarantee that a loan or series of loans didn't have a material impact on the bank's results. A strengthened credit team and a sophisticated monitoring system were among the tools used by the bank to improve the portfolio quality. Brokerage and funds management requiring less capital and generating other income were utilized to effectively challenge credit related risks. This allowed for a diversification of both product and service. In the United States, earning assets generated an additional $855 million between September 30, 1991 and September 30, 1992 because of higher loan volumes recorded. Earning assets in Europe climbed a substantial $1,263 million during 1992, particularly in France and Switzerland, as a result of growth in cash resources and securities. As at October 31, 1992, net outstanding loans to lesser developed countries (LDCs) stood at $263 million as against $254 million in 1991, and represented 20% of common share equity. As part of its on going strategy to reduce LDC exposure and improve asset mix, THE NATIONAL BANK sold off $47 million of these loans on the secondary market. On the recommendation of the Office of the Superintendent of Financial institutions, Mexico ($105 million) was removed from the list of designated

27 Mr. Gaby Touma, SENIOR V.P. INTERNATIONAL, NATIONAL BANK OF CANADA, Headoffice; Montreal Quebec Canada
28 Mr. Andre Berard, C.E.O., NATIONAL BANK OF CANADA, Headoffice; Montreal Quebec Canada
countries while Algeria ($5 million) was added. During the year, interest arrears of $27 million were received on loans to Argentina.

1992 was a period of low inflation and modest economic growth, in all geographic regions. The reorganization of several branches and the application of tighter cost controls, trimmed the number of bank branches from 882 to 852. The bank did add 28 automated banking machines to the existing network totaling 482 ATMs at the year's end.29

In any strategy, it is not enough to target markets accurately; giving good service to customers is equally important. Finding innovative ways to deliver existing products and technologies is just as advantageous as developing new ones.30 The bank pioneered the automated debit system in Canada, and played a leading role in implementing the INTERACT project. Another customer oriented innovation was TELNAT, which enables customers to pay bills via the telephone. The bank introduced COOLCASH accounts for youngsters aged seven to twelve, which offered client cards and checking privileges. This allowed THE NATIONAL BANK OF CANADA, a competitive advantage over existing competition.

In order to position the bank in its target markets, superior financial products and services must be backed by effective marketing. During 1992, a number of retired Banque Nationale employees joined the SILVER STARS program and embarked on a new career selling RRIFs to other seniors looking for ways to invest their RRSP savings. The SILVER STARS visit customers at home, talk over their financial situation, and suggest products that will give them the level of retirement income they want. Based on the same approach, a team of mortgage development managers was formed to call on builders and real estate brokers. As a result, RE/MAX, one of north America's largest real estate brokers, offered its clients mortgage financing through THE NATIONAL BANK. Another example of innovative marketing is the niche LEVESQUE BEAUBIEN GEOFFRION has carved in the specialty of research financing. Opening business development centers was a natural extension of their decision to decentralize the core markets. Their role is to target potential customers, identify their needs, and then approach them directly. The 10.5% growth in consumer loans between September 1991 and September 1992 stemmed partly from this initiative.

Product marketing also plays a key role in the image projected by the bank. As a rule, marketing aimed at the general public is structured around a feature that differentiates one company or product from the competition. This was the technique used in 1992 to promote deposits and the Gold MasterCard. The bank's decision to freeze service charges reaffirmed THE NATIONAL BANK's reputation for offering the most competitively priced services of the six major Canadian banks. The bank's visibility was further enhanced during the year through its association with SyMe Frechette, a silver medallist for Canada at the Barcelona Summer Olympics. Earning customer loyalty is an ongoing concern.

29 Finferock Don, SUPERTELLERS VS. TRADITIONAL BANK TELLERS, CANADIAN BANKER, vol. 56 #12, Dec. '94, p. 85
30 Davis Lynn, BUSINESS LESSONS FROM THE GERMANS, THE ECONOMIST, Jul. '95, vol. 340 #7974, p. 62
"Combining product choice and customer needs not only motivates our dealing with individual customers, but also our relationship with business clients." The National Bank's activities in Canada and the United States have been integrated. A growing number of Canadian clients are doing business with National Canada Finance Corporation, whose 14 offices in the United States give the bank a presence that is unparalleled among Canadian banks.

In 1992, the bank signed a third reciprocity agreement in Europe. This time with GIROCREDIT, Austria's leading private bank. In addition to supporting the commercial and financial activities of National Bank clients in Austria itself, the agreement gives them access to Eastern Europe where the bank's new partner is active. The bank also signed a fourth such agreement with GRUPPO ARCA NORDEST, a group of 12 banks in Northern Italy. This complemented its presence in 130 countries. The bank's existing reciprocity agreements include the CAIXA GALICIA in Spain, the BANQUE REGIONALE d'ESCOMpte et de DEPOTS in France. Since 1987, the National Bank of Canada has also had a 10% interest in BANCO OSORNO y LA UNION, the third largest private bank in Chile.

1993:

One of the biggest challenges faced by the bank in 1993 was to smoothly integrate the operations of General Trust of Canada and its subsidiaries. To guarantee the success of this transaction, the bank had to make sure to retain the clients of that company. Despite the closure of 13 of the 33 branches acquired, the bank succeeded in keeping about 85% of deposits as they came up for renewal. Five trust branches were converted to National Bank branches, while the other 15 continued to operate under their original name. They serve main urban centers in Quebec and target individuals who are in their peak earning years. The trust branches are essentially private banking centers providing personalized service to clients, with a focus on savings, investments, and made to measure financial packages. Trust services are offered to clients through the bank's network of branches, commercial banking centers and subsidiaries.

The acquisition of General Trust tied in with several of the bank's priorities. It enabled the bank to reduce their reliance on purchased funds by adding $2.9 billion in personal deposits, as well as strengthening their share of the residential mortgage market. It diversified the sources of other income and increased assets under management by $12 billion.

31 Mr. Andre Berard, C.E.O., National Bank of Canada, Headoffice; Montreal Quebec Canada
34 Ms. Gisele Desrouchers, Senior V.P. Human Resource and Administration, National Bank of Canada, Headoffice, Montreal Quebec Canada
One of the highlights of 1993 was that the bank outperformed the other major Canadian banks in terms of other income as a percentage of assets. This growth in other income has several important consequences. Fee based activities generally require less capital underpinnings. The lack of underlying assets automatically does away with credit risk. Diversifying activities reduces the volatility of results.

Domestic operations in 1993 registered net income of $140.0 million, an increase of $181.8 million from 1992. Net interest for the year was $853.0 million or 6.6% in relation to 1992. As a percentage of average assets, net interest income went from 3.27% in 1992 to 2.96% in 1993, mainly because of the impact of falling interest rates, at a time when management of domestic assets and liabilities was geared more towards interest rates. Loan loss provisions decreased to $216.4 million. Other income grew by 18.0%. Growth in expenses was contained at $26.8 million. Average domestic assets rose by $920 million or 3.3% during 1993, as compared to 4.0% in 1992. Asset growth from regular operations was canceled out by the sale of leasing loans.

A net loss of $7.1 million was recorded in 1993 on operations in the United States, compared to a net loss of $6.0 million in 1992. Net interest income was up $6.6 million or 7.5% due primarily to the results of the bank's subsidiaries.

The bank's international operations outside the U.S.A. generated net income of $41.3 million in 1993, up $12.9 million over 1992. Interest receipts on sovereign loans amounted to $50.6 million versus $55.0 million in 1992. Other income posted an increase of $7.1 million, occurring mainly in foreign exchange profits, while average assets remained relatively stable in relation to 1992.

While economic and financial conditions were less than ideal for lending and deposit taking institutions, this was not the case for LEVESQUE BEAUBIEN GEOFRION, who had set a record, posting earnings of $26 million. Prevailing conditions also favored mutual funds, with the result that sales by NATIONAL BANK SECURITIES surged from $889 million to $1,404 million. Other bank operations also contributed to the growth of other income. The aggressive promotion of the INTERAC direct payment service, necessitated the rise of bank terminals from 8,112 to 13,718 during the year, for an increase of 69%. More than 14 million transactions were generated via these terminals, giving the bank about one third of the INTERAC network market. In spite of constraints imposed by the Bank Act (of Canada), sales of personal and commercial insurance products rose.

Strengthening the bank's financial base was a primary concern in 1993. Measures were taken to prevent deterioration in the least stable loans. Some high risk assets were sold. Net non performing assets declined. Domestic real estate loans deteriorated slightly. The capital base was expanded through the increase

36 1993 ANNUAL REPORT, NATIONAL BANK OF CANADA
37 Hays Laurie, Scimm Leslie, BANKS LIKELY TO DIVE INTO INSURANCE RIGHT AWAY DESPITE HIGH COURT RULING, CANADIAN BUSINESS, Mar. '94, p. 63
in retained earnings and new common share issues. The redemption of debentures in exchange for common shares raised the Tier 1 capital ratio from 5% to 6.2% of risk adjusted assets.

The bank's strategy included targeting two key markets, individuals and independent businesses36. A number of initiatives aimed at individuals were launched in 1993. This entailed offering more flexible mortgage products such as MULTI-CHOICE MORTGAGE; implementing an accelerated renewal program for mortgage loans; forging stronger ties with the real estate broke REMAX through referral agreements and the acquisition of RELONAT which provides relocation services; creating the I.D. account for the 13 to 17 age group; increasing deposits in all branches; creating a national ad campaign illustrating some of the ways the bank supports its customers.

The cost of regular operation declined. The bank introduced its Continuous Improvement Program. The aim being to carry out an in depth review of the bank's administrative procedures as well as all aspects of consumer service, sales tools and technologies developed for customers and personnel37. This program's success depended on the participation of all personnel, and is a way of providing efficient customer service, increase sales capacity and product diversity within a decentralized organization.

In 1992, performance bonuses were awarded to 75% of clerical and management personnel, and to 59% of middle and senior managers. In 1993 the bank's variable compensation plan extended to all employee levels. Personnel training programs were also redefined, with the focus shifting to credit and sales rather than administrative procedures. The bank introduced a Work & Family Responsibilities Program which offered more flexible work schedules and benefits to help personnel meet their diverse family commitments.

On November 1, 1993, the bank's management structure was changed with the appointment of a President and Chief Operating Officer.

To complement its offices in Paris, London, Nassau, Hong Kong, Seoul, Singapore, Taipei, and Tokyo, the bank signed reciprocity agreements with five European banks and holds an interest in another foreign bank. This means the bank can offer its business clients an even wider range of international services and an exclusive network of banking contracts. These banks in turn have access to THE NATIONAL BANK'S entire North American network. The latest reciprocity agreement was signed during 1993 with LANDESGIROKASSE, a German Bank. As a result of these agreements, over 2000 points of service throughout Europe are accessible to NATIONAL BANK customers. The bank had taken steps to open a representative office in Mexico. This office is operated jointly with BANCO OSORNO y LA UNION, Chile's third largest private bank, where NATIONAL BANK has held a 10% since 1987. Through its presence in Mexico and its 15 offices in the U.S.A., NATIONAL BANK can take full advantage of opportunities that the North American Free Trade Agreement allows.

36 Mr. Andre Berard, C.E.O., NATIONAL BANK OF CANADA, Headoffice; Montreal Quebec Canada
37 Mr. Pasquale Minicucci, V.P. CONTINUOUS IMPROVEMENT PROGRAM, NATIONAL BANK OF CANADA, Headoffice; Montreal Quebec Canada
The results for fiscal year 1993 confirmed the continued improvements in the bank's position. It increased its capital base while at the same time integrating assets acquired. It enhanced the quality of its loan portfolio. It improved and added to the variety of customer services.

1994:

Despite the turmoil on financial markets in early 1994, economic growth in Canada firmed up, with GDP rising 4% in constant dollars. This growth extended to a large number of sectors, such as the surge in exports, increased business spending, and the strong upturn in consumer spending after the job market improved. Economic activity rebounded strongly in 1994, with Canada recording growth in excess of 4%. After two years of turbulence on capital and currency markets, caused by economic cycles being out of sync, 1994 signaled a return to economic growth in the G-7 Countries. Latin America began to reap the benefits of its economic policies while the booming economies of Southeast Asia continued their trend of sustained economic performance. Countries saw their debt load escalate during the recession and had no choice but to exploit the global economic upturn in order to clean up their public finances. Canada, the most heavily indebted of the G-7 countries (after Italy) had a dismal record in debt reduction.

During the fiscal year 1994, THE NATIONAL BANK made progress on a number of fronts: income stability and improved profitability, a solid financial base, growth in priority activities, and greater operating efficiency. The bank ended 1994 with net earnings of $217 million, or $1.12 per share, compared with $1.01 per share in 1993. In 1994, THE NATIONAL BANK, earned net income of $217.2 million or 0.50% of average assets, for an increase of 24% over the $174.6 million in net income or 0.44% of average assets as at October 31, 1993. Return on common shareholder equity was 10.5% and asset rose by 5%. Other income, which is a key component of a financial institution's stability, continued to grow, representing 39% of total income and 1.61 of average assets.

The bank consolidated its financial position by expanding its deposit base, strengthening its capital structure, and continuing to improve its loan portfolio.

Personal deposits reached almost $20.2 billion in 1994, up 6%, as a result of three strategic initiatives: Securistock, the purchase of CONFEDERATION TRUST's deposit base, and an aggressive deposit campaign.

Securistock, an innovative investment product linked to stock market performance, was specifically introduced in response to client demand. By launching this product NATIONAL BANK succeeded in increasing its market share of RRSP deposits, despite fierce competition from mutual funds. The retention rate for the CONFEDERATED TRUST deposits was high. Another advantage this transaction gave the bank was that it established a network of deposit brokers outside the Province of Quebec. The contribution of these personal deposits in terms of total assets rose to 45%.

40 1994 ANNUAL REPORT, NATIONAL BANK OF CANADA
The bank’s profitability helped to strengthen its capital base, as evidenced by its internally generated capital of $116 million. The bank improved its loan portfolio by trimming net non accrual loans from $904 million to $688 million. These loans represented 2.1% of loans and bankers acceptances, down from 2.8% a year ago.

The third objective reflected the bank’s determination to be a leader in all financial sectors in the Province of Quebec and to strengthen its presence among consumers and independent businesses throughout Canada and the United States. The bank completed its integration of GENERAL TRUST, acquired in 1993, with a 90% retention of deposits. The bank now had the needed base to offer quality trust service to clients.

The marketing efforts were instrumental in increasing their market share for mortgages, which contributed to the 14.2% increase in overall mortgage volumes. These efforts also boosted the market share for independent business loans, especially those to smaller businesses. In conjunction with government (of Canada) guaranteed loan programs, particularly the Federal Small Business Loan Program, the bank actively reinforced its continued commitment to being the institution which best meets the needs of independent businesses41.

LEVESQUE BEAUBIEN GEOFFRION again posted net earnings of $25 million. Economic conditions had an impact on fund management activities. Mutual funds lost ground in reaction to volatile stock markets and higher interest rates. Despite that, mutual fund volume at the bank’s subsidiaries climbed by more than $400 million since October 1993, and management fees rose 67%.

The bank’s lending activities in the United States, mainly in the mid market, contributed significantly to the bank’s results. Excluding real estate loans, the $2.3 billion in assets generated $48.7 million in pre tax income. In 1994, net income on operations in the U.S.A. was recorded at $27 million, compared to a net loss of $7.1 million in 1993. This turn around was primarily due to a $52.5 million reduction in loan loss provisions. By weeding out lower quality U.S. loans, the bank was able to reduce net non accrual loans in the U.S.A. by a significant 56%. The offices opened in Denver Co. and Boston Mass. expanded the bank’s network to 17 major U.S. cities. A new subsidiary, NATBANK, opened in Pompano Fl., to provide services to residents and vacationing Canadians.

THE NATIONAL BANK’s international operation outside the U.S.A. generated net income of $28.4 million in 1994. Lower interest receipts on loans to lesser developed countries (LDCs) and smaller treasury gains accounted for the $30.6 million year over year decrease in net interest income. In 1994, interest on LDC loans fell $22.1 million to $28.5 million at year end, down from $50.6 million in 1993. Three factors essentially contributed to the reduction in gross exposure and general provisions respectively: the conversion of loans to Poland into discount bonds under a BRADY-type restructuring; the conversion of loans to Brazil into discount and parity bonds, also under the BRADY PLAN; and the conversion of the Argentina bond portfolio into discount bonds. Consequently, these loans and corresponding provisions were written off. During the year THE

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41 Martin Alvin, FEDERAL SMALL BUSINESS LOAN PROGRAM, CANADIAN BANKER vol. 445 #67, Dec’94, p. 80

27
NATIONAL BANK opened a liaison office in Milan in partnership with GRUPPO ARCA NORDEST and the Government of Quebec. Preliminary steps were taken to open a representative office in Shanghai.

One of the most important measures implemented during 1994, was the out sourcing out their information technology services to ISM, a subsidiary of IBM. This led to a reduction in costs, greater access to new technologies, increased operating efficiencies, and maximum use of those new technologies.

Intense competition in the financial services industry forced THE NATIONAL BANK to be innovative and work tirelessly to maintain their lead in key sectors, as well as improve overall performance. Keen competition and demanding clientele cut into profit margins and lead to greater diversity of products. Competition between the various types of investment vehicles only intensifies as product lines and delivery networks expand. Independent markets also become more competitive because of government pressures on financial institutions, and the ready availability of government financing. The bank has to be present everywhere, and by the same token, must excel in all markets. Quality of service and the proliferation of products and networks call for the right mix of specialists and generalists. Personnel training is a challenge for the bank, as it is for any corporation, in today's business environment. "A key to success lies in fostering a sales culture in all branches to exploit synergies in this service network". An important catalyst in creating these synergies is incentive compensation. As part of the bank's decentralization process, it created four new regional advisory committees. These committees report directly to the vice presidents of their region.

The bank also played an important role in the general community, providing support to numerous socio-cultural organizations.

1995:

The economic environment in 1995 can be summarized as a year of slower economic growth in North America and a fragile recovery in Japan. In the United States, the slowdown was tempered by substantial productivity gains in personal income, low inflation, and a monetary policy that favored lower interest rates. The situation was more precarious in the United Kingdom where the pound sterling lost ground and inflation trended up. France and Germany emerged from recession, but the recovery in both countries was shaky and their public finances were in a perilous state. Remarkable growth was once again recorded in most Asian countries, except for Japan which remained in the grip of a recession. Mexico slowly got back on its feet after the financial beating it took in December 1994. The economic climate was far from rosy in Canada. Growth fell off abruptly at the start of 1995. Higher interest rates frightened consumers into scaling down their spending. Business investment lost steam and anticipated productivity gains did not materialize.

In 1995, all major indicators of the bank's profitability and financial strengths held firm or continued to improve. Net interest grew 7.8%. Specific provisions for loan losses declined by 15.6%. Net earnings rose 13%.

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42 Kerr Monta, NATIONAL BANK FARMING OUT, COMPUTING CANADA, vol. 20 # 1, Jan. 5, '94, p.3
43 Mr. Andre Berard, C.E.O., NATIONAL BANK OF CANADA, Headoffice; Montreal Quebec Canada
to $245 million, a record for the bank. Earnings per share rose from $1.12 to $1.26. The level of non performing loans outstanding fell 25.7% from $888 million to $511 million. The loan loss provision charged to income shrank from $275 million to $255 million.

At the end of fiscal year 1995, THE NATIONAL BANK was more solid than ever. Return on assets rose from 0.50% to 0.51% and return on common equity was 11% compared to 10.5% a year earlier. The bank was able to reduce non core capital and by extension the cost of capital. At 10.4%, its total capital ratio, as defined by the Bank for International Settlements, still exceed the average of the other major Canadian banks. Non performing loans accounted for only 1.5% of loans and bankers acceptances, down from 2.1% a year earlier.

Throughout 1995, the bank respected its strategic orientations by concentrating on its priority markets: individuals and independent businesses. To meet the needs of their retail clients, a number of new financial products were launched while other were redefined: ESCALARATE, SecruiDollar, and the STUDENT LINE OF CREDIT, as well as GENERAL TRUST's VIRTUOSO financial services and CRESCENDO account.

Some 2,500 loans were granted to the bank's independent business clients under its HEAD START program. While the Quebec government's start up program for independent businesses formed the basis of this program, the bank and its partners took it a step further by including additional features. They also introduced new products for independent businesses, self employed professionals, and farm producers; specifically a simplified operating credit and all-inclusive packages offering a range of services, for a fixed price. A study by Brendan Wood confirmed the bank's prominent position in payroll services, for both market share and product quality.

Large corporations located in the bank's primary territories represented a special niche where the bank expertise was hard to match. A full range of banking services and management product were made available to this group such as the InfoFinance software, where clients can manage their cash resources on personal computers.

By improving THE NATIONAL BANK's products and quality of service, they were successful in increasing the average number of financial products clients use. THE NATIONAL BANK's commitment to meet all financial needs of its main client groups by offering personalized service and state of the art tools was acknowledged by the Quebec Chamber of Commerce MERCURE award for total quality.

Canada is a nation of exporters. In recent years, exports have been the main engine of growth in Canada. THE NATIONAL BANK's International Sector managed to capitalize on the situation, experiencing

44 Marwick Peat, THE ESSENCE OF SUCCESS, ABA BANKING JOURNAL, vol.LXXXVIII #2, Feb. '96, p. 35
45 Ms. Nicole Rondou, V.P. MARKETING, NATIONAL BANK OF CANADA, Headoffice; Montreal Quebec Canada
46 Lynch Edward, MARKET SEGMENTATION: THE NEW SOPHISTICATION, BANKERS MAGAZINE, vol.178 #2, Mar/apr. '95, p. 46
growth for themselves and their services. In Europe, Asia, the Caribbean, and the United States, the bank opened offices, forged new alliances, and took part in joint ventures. The small rise in non interest expenses, stemmed from THE NATIONAL BANK’s expanded global presence. Two new alliances were forged, with BANCO SABADELL in Spain and BANCO PORTUGUES do ATLANTICO in Portugal. Representative offices were opened in Cuba and Shanghai, and the bank took part in a new joint venture in China. The bank continued its expansion in the United States and re-oriented its commercial activities by focusing on asset based lending to mid market companies. The early success of NATBANK, a subsidiary that serves clients in Pompano Beach Fl., convinced the U.S. regulatory agencies to authorize the opening of a second branch. This one is located in Hollywood Fl. As a result of market expansion efforts, personal deposits obtained through financial intermediaries outside of the Province of Quebec, were up 65.5% over the previous year.

In the United States, THE NATIONAL BANK continued to target specific client segments and to withdraw from less profitable operations. The withdrawal from the real estate sector, in particular, translated into a 12.5% reduction in loan loss provisions. The bank opted instead to zero in on sectors where it enjoys a comparative advantage, such as services to mid market companies. The net effect of the two pronged strategy was that the bank’s average assets in the U.S.A. remained virtually unchanged. The bank radically altered the make-up of its commercial portfolio by reducing conventional levels in favor of assets based lending. This kind of activity now accounts for the lion’s share of THE NATIONAL BANK’s U.S. commercial portfolio.

LEVESQUE BEAUBIEN GEOFFRION, the securities brokerage subsidiary, outperformed its competitors because of its strong presence in the retail bond market, its expansion in Western Canada, and the acquisition of G.D. Mack, a brokerage firm based in Atlantic Canada.

With respect to insurance, the bank pursued its diversification development strategy with the creation of NATIONAL BANK LIFE INSURANCE COMPANY. The bank is able to be more active in this area by making full use of the opportunities available within the present regulatory framework (of Canada) and those which will emerge as existing boundaries are expanded.

The consumer and independent business markets continued to be the bank’s primary focus. To succeed in mature and highly competitive markets demands innovation, synergy and a line of products and services that compliment each other fully. The bank continues to specialize in markets where it enjoys definite advantages. These target markets consist of companies that are firmly established in Quebec and more generally, companies operating in sectors where they have acquired specific expertise. Some examples are communications, forestry products, asset-based lend in the USA, and capital market products. To enhance service to large corporations, the bank’s TREASURY SECTOR, LEVESQUE BEAUBIEN GEOFFRION and NATCAN INVESTMENT MANAGEMENT were grouped together in order to provide corporate clients comprehensive financial solutions. At the international level, a planned opening in Singapore will take place and the bank has and is expanding its Latin American operations. In this way, the bank is able to assist its clients
wherever their business takes them. "We at the Banque National du Canada, follow our clients, opening up affiliates, offices and branches, where they and their business already are." 47

The bank's technology driven transformation program, geared to personalized service and making operations more efficient, was massively applied in 1995. This program was financed in part from savings it already generates each year.

One phase of the program involves the individual branches, where the goal was to reduce their administrative workload so that the staff could devote themselves fully to client relations. Among the methods introduced were a central office for processing and storing cheques and other bank items: the TELNAT INFOCENTER which clients can call for information about their accounts or carry out certain banking transactions: regional credit centers, which carry out credit checks on behalf of branches and speeds up the processing of client's loan applications; and regional assistance centers, which free up branches from routine administrative tasks. Branch personnel are gradually being equipped with a computerized service platform, there by improving the quality of customer service while ensuring better follow up of clients' needs. Customer service representatives will be able to carry out their transactions on-line, from preparing deposit and withdrawal slips to checking signatures. Re-engineering the commercial banking sector improved the capabilities of INFOFINANCE and affiliates, implementation of the commercial services platform. Product development became increasingly integrated with appropriate technology development.

Since the bank's transformation hinges on dynamic, motivated employees, the bank continued to revive their work methods in order to promote flexibility and individual responsibilities. Incentive compensation, under the new compensation system adopted in March 1995, accounted for 5% of total payroll. In line with this approach, the training programs emphasis is ongoing learning, sales, credit and change management, and increased personnel training. By attending a series of workshops, employees learn about monitoring commercial loans and managing change. "Another important innovation in training was the setting up a university program in conjunction with the UNIVERSITE du QUEBEC and the INSTITUTE of CANADIAN BANKERS". 48

The bank's organizational structure is flatter and more streamlined with the reduction in the number of management levels, and with salary; management became aligned more closely with performance in terms of customer relations.

In 1995, THE NATIONAL BANK continued to apply very strict limits in its financing activities. It also developed new computer bases credit risk assessment tools which have placed THE NATIONAL BANK at the forefront of the industry. These are gradually being introduced into every sector of its operations. Similarly, the regional credit centers are in the process of being set up to make use of leading edge technology to provide

47 Mr. Gaby Tourna, SENIOR V.P., INTERNATIONAL, NATIONAL BANK OF CANADA, Headoffice; Montreal Quebec Canada
48 Mr. Pasquale Minicucci, V.P., CONTINUOUS IMPROVEMENT PROGRAM, BANK NATIONAL OF CANADA, Headoffice; Mt.l., P.Q., Can.
support to the branch network. Syndication is also increasingly used by the bank to spread the risk in certain loans among several financial institutions. More than 15% of THE NATIONAL BANK business loans in 1995 were syndicated, making the bank a key player in this area.

NATIONAL BANK OF CANADA is actively involved in the economic and community development of all the regions it serves, many of where its roots go back a long way. There is a reciprocal loyalty between the bank and its clients, making it easier to arrive at mutually advantageous solutions, especially in difficult economic environments. The bank's in-depth knowledge of its multi-regional markets makes it better placed to respond to clients' needs. "The bank's ongoing priority is to bring the NATIONAL BANK OF CANADA closer to its clients. This is one of the reasons behind the decentralization of operations in all regions."

1996:

THE NATIONAL BANK posted net earnings of $98 million in 1996, compared to $64 million (for the corresponding quarter) in 1995. In 1996, THE NATIONAL BANK sold more than 80% of its interest in the Chilean BANCO OSORNO y la UNION, generating a gain of approximately $80 million. The bank also decided to record a special sectional provision of $60 million to accelerate the disposal of real estate loans and repossessed properties. The gain on the disposal of the bank's interest Chile less the sectored provision, and taking into account income taxes, boosted net earnings by $23 million. For the first nine months of 1996, net earnings stood at $244 million. Net interest income climbed 2.8% as a result of higher volumes in residential mortgages, and to a lesser extent, corporate loans and commercial loans in the United States.

As at July 31, 1996, assets totaled $49.5 billion, compared to $48.6 billion in 1995. Cash resources and securities were reduced by $900 million while loans and banker acceptances advanced $1.9 billion, including $800 million in residential mortgages. On the liabilities side, personal deposits were up $300 million. Purchased funds fell by $2.5 billion, offset by an equivalent increase in borrowed securities, securities sold with re-purchase agreements and amounts payable for the settlement of securities. In addition, mutual funds grew by close to 35%, reaching $2.1 billion as at July 31, 1996 versus $1.5 billion a year earlier. Impaired loans stood at $401 million for quarter as against $404 million in the second quarter of 1996 and $539 million at as July 31, 1995. Tier 1 and total capital ratios, calculated according to the rules of the BANK for INTERNATIONAL SETTLEMENTS, were 7.1% and 10.2 respectively as at July 31, 1996.

In Canada, jobs in the public sector have recorded very slow growth, and in some cases substantial losses. But, in terms of overall growth, this performance is the highest of all the G-7 member nations. Canada is the only country, after the U.S.A., to have registered such a strong surge in employment. In the U.S.A., job creation has been concentrated in the service sectors since the start of the 90's decade. The manufacturing sector is still far from having made up ground lost since 1989. Employment in this sector is unlikely to regain its pre-recessionary level. The services sector is very diversified. While it is largely made up of unskilled, low paying jobs, it also includes a number of jobs requiring a high degree of specialization. Net job creation has for

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the most part occurred in the highly specialized areas. For instance between February 1994 and February 1996, 68% of new full time jobs were created in sectors where salaries were higher than the median. 50% of these gains were concentrated in the top third of jobs paying the highest salaries. Another interesting finding was that wage gaps stopped widening in 1994 (the last year for which data on this topic is available to date). These conclusions fly in the face of certain widely held beliefs, notably, that a highly flexible job market is directly synonymous with a lower standard of living. Canada has a great deal to learn from these results.

In June 1996, THE NATIONAL BANK, acquired the insured deposits of SECURITIES HOME MORTGAGE CORPORATION. This transaction represents approximately $40 million in personal deposits. NATIONAL BANK LIFE INSURANCE, the bank's new insurance subsidiary, recently received additional government authorization for the provinces in Eastern Canada, to underwrite life insurance policies. This enables greater expansion of the bank's network and the continued meeting of client's needs. The bank has signed an agreement with CyberCash Inc. of Virginia (U.S.A.), whereby it will become the first Canadian bank to offer its clients secure credit card payment services on the World Wide Web, free of charge. At the beginning of summer 1996, THE NATIONAL BANK, signed a partnership agreement with the Quebec government allowing the province's trade delegates in Boston, Los Angeles, Chicago and Atlanta to share certain office space and secretarial services with the bank. As a result, THE NATIONAL BANK is in a better position to finance Quebec companies launching themselves on the U.S. market. An agreement, in principal, was reached in early June, between the governments of France and Quebec and various other partners, including THE NATIONAL BANK. The purpose of this accord is to promote the development of French and Quebec independent businesses by facilitating investments and the financing of trade relations.

THE NATIONAL BANK, earned a technology award from the Federation de l'Information du Quebec, for its Personal CompuTeller. This state of the art software enables bank clients to manage their accounts via personal computer.

FUTURE TRENDS

THE NATIONAL BANK will continue to streamline their operations while attending to the growing client base. They will create new synergies to foster growth in all bank sectors and subsidiaries. They will eliminate all areas where the acquired expertise is not of optimum value or benefit. They will remain at the cutting edge of technology in order to offer clients the banking services they want. Plans are in process to enhance the training, motivation and enrichment of personnel so as to ensure that clients receive exceptional service. Expansion geographically and of specific product lines will fulfill the requirements of the created niche in the marketplace. They will take advantage of opportunities around the world, and particularly the United States, in line with existing expertise and orientations. They will follow the pursuit of prudent stable growth with higher profitability, focusing on the bank's priority markets and targeted client groups, namely independent businesses and individuals. "The bank likes to be there wherever their clients need them to be, to accompany
and accommodate clients in all their financial markets and activities. "THE NATIONAL BANK's foundation is sound and its results attest to the progress made, and will continue to make". 50

HOW A SERVICE COMPANY EXPANDED FROM A REGIONAL INTO AN INTERNATIONAL OPERATION?

CHAPTER 5: CONCLUSION/RECOMMENDATIONS
CHAPTER 5
CONCLUSION/RECOMMENDATION

HOW A SERVICE COMPANY EXPANDED FROM A REGIONAL INTO AN INTERNATIONAL OPERATION?

There is no longer any question of separating the company’s operations into airtight compartment. On the contrary, they must come together into teams committed to specific projects that will be dissolved and reconstituted differently as soon as their purpose become superfluous. The new management must be concerned with action rather than planning, proactive rather than reactive. They must opt for change and not hold tight to continuity. If change was once a threat to the company’s effectiveness, it must now be seen as something one has to accept in adapting to chaos. As Mintzberg says, “Strategy emerges from action”.

Business will be torn between the need to specialize in order to satisfy a very difficult clientele, and the temptation to expand their product line in order to take advantage of wide ranging economies. Specialized business must follow very closely, and if possible anticipate, the needs of a very volatile market. The challenge in managing such businesses will be to stay the course, despite constant modifications to their product, to keep the same niche in the marketplace, without diversifying to beyond recognition from the original concept. Innovation with self imposed limits is the challenge for specialized businesses. Those large corporations that have chosen to diversify must resolve another problem; performing well while constantly manufacturing different products. They must replace economies of scale with economies of scope. They must extend the range of products they offer different segments of their market, profiting from the fact that they know their clients well to furnish them with more items adapted to the needs.

Whether the business is specialized or diversified, the solution to its problems will in either case be decentralization. Creative teams, manufacturing teams, sales teams, will all react swiftly to signals sent out by the market. The head office will be responsible for harmony and cohesion. It will share out resources, foster the company’s image and its links with the community, governments and investors, and will establish the ground rules for acquisitions and alliances. There must be a transition from the dominance of power to the dominance of knowledge. The commandments and incantations of upper management must give way to the inspiration of people in the field, because they are the ones who know market conditions best and how to respond to them.

Business requires a vision of what is likely to happen, in order to define what might be a possibility. Out of this comes strategy and objectives to pursue. There are immutable laws like gravity or the law of supply and demand. They apply everywhere.

51 Martin Lawrence L., Packard Thomas, TOTAL QUALITY MANAGEMENT IN HUMAN SERVICE ORGANIZATIONS, ADMINISTRATION WORK, vol. 20 #14, Nov. ’95, p.89
The banking industry was a sterling example of the old economy and its organization. This was to be expected. Banks fed themselves on growth. They were looked on, more in terms of, their asset growth than their profitability. The conventional measure was returns on assets. Does not a bank define itself in terms of its stability? It is duty bound to be the most stable object in the industrial landscape. The way in which the Canadian banking system evolved, circumscribed by government policy and regulation, put great emphasis on efficient performance. It was and probably still is, one of the most effective banking systems in the world; considering the enormous Canadian land mass. It put emphasis on delivering a wide range of services through a multiple branch system that required massive coordination. As computer systems were still in their infancy, banks provided clients with a thorough and almost error free service. This was in part the result of a long standing management policy of uniformity. Permanent directives on procedures were distributed to employees, who rigorously followed them. Management was top heavy, as was expected given the scale of operation. In a simpler world with limited competition, this system produced good results. Gradually the banking system opened up, expanding its services and products. The competition from non banking companies transformed the sector. Complexity ensued as did the attempts to deal with it. Added value in banking is a matter of personal judgment of clients and the ability to process a huge number of transactions swiftly. As the knowledge based economy expanded, banks adjusted with knowledge as their raw material. The industry has undergone a major facelift.

The success achieved by THE NATIONAL BANK OF CANADA, in meeting its goals, must not distract them from the challenges that still lie ahead. They must consolidate their assets, secure the future and further reduce the vulnerability to shocks from the ensuing economic cycle. They need to maintain strict credit standards, be innovative in the traditional markets, and target those products and services which have strong added value; and which are less sensitive to changing economic conditions. It is imperative that THE NATIONAL BANK remain attentive to the needs of its clients and continually improve the quality of service it provides. At the same time, the challenge within the bank itself is to promote efficiency and innovation, while instilling a culture of sales and service in a rewarding work environment conducive to learning and leadership.

THE NATIONAL BANK was well disposed to taking new directions. Not only was it known by its clients to be creative and flexible, it also boasted a tradition of change that was an integral part of its identity. "It both welcomes changes and was selective in its choice of them".52 Today there is nothing novel in talking of one’s clients, rather than one’s projects. Magazines and journals are filled with articles on communication with clients and management practices. It has also become fashionable to talk of decentralization and slimming cures. THE NATIONAL BANK made these choices long before they became popular.

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52 Mr. Andre Berard, C.E.O., NATIONAL BANK OF CANADA, Headoffice, Mtl. P.Q. Can
For the past two years, the National Bank has been a sponsor of the "Francofolies de Montreal," featuring singers from Canada, France and other French-speaking countries.
HOW A SERVICE COMPANY EXPANDED FROM A REGIONAL INTO AN INTERNATIONAL OPERATION?

CHARTS & GRAPHS
L'arbre généalogique de la Banque Nationale

1859
Banque Nationale (Québec)

1874
Banque d'Hochelaga

1861
Banque Jacques-Cartier

1848
Banque d'économie de Québec

1924
Banque Canadienne Nationale

1900
Banque Provinciale du Canada

1970
Banque Populaire de Québec

1977
L'Unité Banque du Canada

1985
Banque Mercantile

1988
Lévesque Beaubien

1989
Geoffrion Leclerc

1993
Trust Général

BANQUE NATIONALE DU CANADA
### Table 1
**Overview of Results**

(millions of dollars and as a percentage of average assets)

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<tbody>
<tr>
<td>Net interest income</td>
<td>$1,180.6</td>
<td>$1,094.9</td>
<td>$1,016.2</td>
<td>$1,040.5</td>
<td>$1,009.1</td>
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<tr>
<td>Provision for loan losses</td>
<td>255.0</td>
<td>275.0</td>
<td>325.0</td>
<td>570.0</td>
<td>270.0</td>
</tr>
<tr>
<td>Other income</td>
<td>711.6</td>
<td>719.3</td>
<td>635.3</td>
<td>540.6</td>
<td>471.7</td>
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<tr>
<td>Non-interest expenses</td>
<td>1,229.3</td>
<td>1,168.7</td>
<td>1,042.0</td>
<td>1,016.0</td>
<td>919.0</td>
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<tr>
<td>Income taxes</td>
<td>156.3</td>
<td>144.6</td>
<td>101.3</td>
<td>(13.0)</td>
<td>100.8</td>
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<tr>
<td>Minority interest</td>
<td>6.6</td>
<td>8.7</td>
<td>8.6</td>
<td>7.1</td>
<td>5.0</td>
</tr>
<tr>
<td>Net income</td>
<td>245.0</td>
<td>217.2</td>
<td>174.6</td>
<td>1.0</td>
<td>186.0</td>
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### Table 1a
**Overview of Results – Domestic Operations**

(millions of dollars and as a percentage of average assets)

<table>
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<tr>
<td>Net interest income</td>
<td>$1,024.9</td>
<td>$955.5</td>
<td>$853.0</td>
<td>$912.9</td>
<td>$898.6</td>
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<tr>
<td>Provision for loan losses</td>
<td>220.9</td>
<td>235.6</td>
<td>216.4</td>
<td>483.2</td>
<td>122.8</td>
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<tr>
<td>Other income</td>
<td>668.9</td>
<td>670.5</td>
<td>585.6</td>
<td>496.6</td>
<td>440.9</td>
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<tr>
<td>Non-interest expenses</td>
<td>1,151.2</td>
<td>1,095.3</td>
<td>970.6</td>
<td>943.8</td>
<td>856.6</td>
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<tr>
<td>Income taxes</td>
<td>136.2</td>
<td>124.6</td>
<td>102.8</td>
<td>(3.2)</td>
<td>133.1</td>
</tr>
<tr>
<td>Minority interest</td>
<td>6.6</td>
<td>8.7</td>
<td>8.6</td>
<td>7.1</td>
<td>5.0</td>
</tr>
<tr>
<td>Net income (loss)</td>
<td>178.9</td>
<td>161.8</td>
<td>140.4</td>
<td>(21.4)</td>
<td>212.0</td>
</tr>
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### Table 1b
**Overview of Results – International Operations – United States**

(millions of dollars and as a percentage of average assets)

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<tr>
<td>Net interest income</td>
<td>105.1</td>
<td>101.7</td>
<td>94.9</td>
<td>88.3</td>
<td>101.1</td>
</tr>
<tr>
<td>Provision for loan losses</td>
<td>29.5</td>
<td>33.7</td>
<td>86.2</td>
<td>83.2</td>
<td>143.6</td>
</tr>
<tr>
<td>Other income</td>
<td>24.2</td>
<td>25.0</td>
<td>22.4</td>
<td>24.0</td>
<td>18.2</td>
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<tr>
<td>Non-interest expenses</td>
<td>49.3</td>
<td>46.3</td>
<td>38.9</td>
<td>35.4</td>
<td>32.8</td>
</tr>
<tr>
<td>Income taxes</td>
<td>23.8</td>
<td>19.7</td>
<td>(0.6)</td>
<td>(0.3)</td>
<td>(15.7)</td>
</tr>
<tr>
<td>Net income (loss)</td>
<td>26.7</td>
<td>27.0</td>
<td>(7.1)</td>
<td>(6.0)</td>
<td>(36.4)</td>
</tr>
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### Table 1c
**Overview of Results – International Operations – Other**

(millions of dollars and as a percentage of average assets)

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<tr>
<td>Net interest income</td>
<td>50.6</td>
<td>37.7</td>
<td>68.3</td>
<td>39.3</td>
<td>18.4</td>
</tr>
<tr>
<td>Provision for loan losses</td>
<td>4.6</td>
<td>5.7</td>
<td>22.4</td>
<td>3.6</td>
<td>3.6</td>
</tr>
<tr>
<td>Other income</td>
<td>18.5</td>
<td>23.8</td>
<td>27.1</td>
<td>20.0</td>
<td>11.6</td>
</tr>
<tr>
<td>Non-interest expenses</td>
<td>28.8</td>
<td>27.1</td>
<td>32.6</td>
<td>36.8</td>
<td>28.6</td>
</tr>
<tr>
<td>Income taxes</td>
<td>(3.7)</td>
<td>–</td>
<td>(0.9)</td>
<td>(0.5)</td>
<td>(12.6)</td>
</tr>
<tr>
<td>Net income</td>
<td>39.4</td>
<td>28.4</td>
<td>41.3</td>
<td>28.4</td>
<td>10.4</td>
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Average assets

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### Table 2
Changes in Net Interest Income

(millions of dollars)

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(1) Other interest income and interest expense including hedging operations
### Table 6
Geographic Distribution of Earning Assets by Ultimate Risk (1)

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<td></td>
<td>$</td>
<td>%</td>
<td>$</td>
<td>%</td>
<td>$</td>
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<td>Canada</td>
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<td>79.4</td>
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<td><strong>Total</strong></td>
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<td>88.4</td>
<td>39,516</td>
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<td><strong>Total</strong></td>
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</table>

(1) Earning assets are those which bear interest. Consequently, they do not include cash reserves, deposits with the Bank of Canada, cheques and other items in transit (net value), fixed assets, other assets and customers' liability under acceptances. The Bank's earning assets as at September 30 were distributed according to the location of ultimate risk, namely the geographic location of the borrower or, if applicable, the guarantor. Earning assets are calculated net of general and specific provisions and presented separately for each country where the Bank's exposure exceeds an amount equal to 3/4% of total earning assets.
Table 7
Distribution of Loans by Borrower Category

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<td>$</td>
<td>$</td>
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<tr>
<td></td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
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<td>3.3</td>
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<td>6.5</td>
<td>6.3</td>
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<td>574</td>
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</table>

* Includes consumer loans, credit cards and other personal loans.
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<td>157</td>
<td>163</td>
<td>263</td>
<td>254</td>
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<td>Loans and securities, net, as a % of shareholders' equity</td>
<td>6.5%</td>
<td>6.8%</td>
<td>8.3%</td>
<td>15.0%</td>
<td>14.2%</td>
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</table>

No loans were restructured by the Bank during fiscal 1995. Particulars by country of private-risk and sovereign-risk loans classified as restructured for previous years are as follows: 1994 – Brazil $31 million and Poland $82 million; 1991 – Venezuela $32 million.
### Quarterly Results

(millions of dollars, except for per share amounts)

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<th></th>
<th>Net interest income (taxable equivalent basis)</th>
<th>Provision for loan losses</th>
<th>Other income</th>
<th>Non-interest expenses</th>
<th>Net income (loss)</th>
<th>Net income (loss) per common share</th>
<th>Dividends</th>
<th>Return on common shareholders' equity %</th>
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<td>0.36</td>
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<td>0.33</td>
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<td>8,553</td>
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<td>7,863</td>
<td>8.8</td>
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## Quarterly Results (cont.)

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(1) Excluding Lévesque Boischien Geoffrion Inc.
## Five-Year Statistical Review

### Balance Sheet Data

(millions of dollars)

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<td>113</td>
<td>120</td>
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<td>Preferred</td>
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<td>532</td>
<td>425</td>
<td>468</td>
<td>385</td>
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<td>905</td>
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<td>2,593</td>
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<td>578</td>
<td>462</td>
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<td>497</td>
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### Income Statement Data

(millions of dollars)

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<td>$1,081</td>
<td>$996</td>
<td>$1,012</td>
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<td>635</td>
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### Five-Year Statistical Review (cont.)

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<td>- Basic</td>
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<td>$ 1.12</td>
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<td>- Fully diluted</td>
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<td>$ 1.10</td>
<td>$ 1.00</td>
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<td>11 1/8%</td>
<td>10 3/4%</td>
<td>12 1/4%</td>
<td>11 3/8%</td>
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<tr>
<td>- Low</td>
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<td>8 1/4%</td>
<td>7 1/4%</td>
<td>7 3/8%</td>
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<td>9 3/8%</td>
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### Financial Ratios

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<td>11.0%</td>
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### Other Information

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<td>Number of Bank employees</td>
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*Taking into account the redemption of $100 million in debentures through the issue of common shares as at November 1, 1993.*

*Average capital funds include common shareholders' equity, redeemable preferred shares and bank debentures.*
HOW A SERVICE COMPANY EXPANDED FROM A REGIONAL INTO AN INTERNATIONAL OPERATION?

BIBLIOGRAPHY
BIBLIOGRAPHY

HOW DID A SERVICE EXPAND FROM A REGIONAL INTO AN INTERNATIONAL OPERATION?

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HOW A SERVICE COMPANY EXPANDED FROM A REGIONAL INTO AN INTERNATIONAL OPERATION?

APPENDIX
OUR COOPERATION AGREEMENTS

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GIROCREDIT
(Central and Eastern European markets)

CHILE
BANCOSORNO
(The National Bank of Canada is a shareholder of this institution.)

FRANCE
BANQUE RÉGIONALE D'ESCOMpte ET DE DÉPÔTS (BRED)

GERMANY
LANDESGIROKASSE, HYPO-BANK

ITALY
GRUPPO ARCA NORDEST

PORTUGAL
BANCO PORTUQUÉS DO ATLÂNTICO

SPAIN
BANCO SABADELL
CAIXA GALICIA
Subsidiaries

Canada

Trust Services
General Trust of Canada
1100 University
Montreal, Quebec H3B 2G7

Natcan Trust Company
600 De La Gauchetière West
Montreal, Quebec H3B 4L2

Securities
National Bank Securities Inc.
1100 University
Montreal, Quebec H3B 2G7

Natcan Investment Management Inc.
1100 University
Montreal, Quebec H3B 2G7

Lévesque Beaubien and Company Inc.
1155 Metcalfe, 5th Floor
Montreal, Quebec H3B 4S9

General Trust Investment Funds Ltd.
1100 University
Montreal, Quebec H3B 2G7

Insurance
National Bank Life Insurance Company
600 De La Gauchetière West
Montreal, Quebec H3B 4L2

Export Financing
NatExport, a division of
Natcan Trust Company
600 De La Gauchetière West
Montreal, Quebec H3B 4L2

Information Services Corporation
National Bank Information Corporation
600 De La Gauchetière West
Montreal, Quebec H3B 4L2

United States
Natbank, F.S.B.
4031 Oakwood Boulevard
Oakwood Plaza
Hollywood, FL 33020

NBC Holdings USA, Inc.
125 West 55th Street
New York, NY 10019

National Canada Corporation
125 West 55th Street
New York, NY 10019

National Canada Finance Corp.
125 West 55th Street
New York, NY 10019

Bahamas
Natcan Holdings International Limited
Charlotte House
Charlotte Street, P.O. Box N3015
Nassau, Bahamas

National Bank of Canada
(Internal) Limited
Charlotte House
Charlotte Street, P.O. Box N3015
Nassau, Bahamas

Barbados
Natcan Insurance Company Limited
Alleyne House
White Park Road
Bridgetown, Barbados

Hong Kong
Natcan Finance (Asia) Ltd.
Room 4001, Jardine House
N-1 Connaught Place, Central
Hong Kong

Netherlands
Mercantile Canada Finance B.V.
Hoekenrode 6, 1102 BR
Amsterdam, Netherlands

Singapore
National Bank of Canada (Asia) Ltd.
331 North Bridge Road, #11-04-06
Odeon Towers
Singapore 0718

Offices Abroad

United States
Regional Office
125 West 55th Street
New York, NY 10019

Branches
125 West 55th Street
New York, NY 10019

225 West Washington Street, Suite 1100
Chicago, IL 60606

Representative Offices
Empire Tower
350 Main Street, Suite 2540
Buffalo, NY 14202

2121 San Jacinto Street, Suite 1850
Dallas, TX 75201

Agencies
200 Galleria Parkway, Suite 800
Atlanta, GA 30339

725 South Figueroa Street, Suite 1690
Los Angeles, CA 90017

Offices of National Canada
Finance Corp.
World Trade Center
401 East Pratt Street, Suite 631
Baltimore, MD 21202

5200 Town Center Circle, Suite 306
Boca Raton, FL 33486

One Federal Street, 27th Floor
Boston, MA 02110

Two First Union Center, Suite 2510
Charlotte, NC 28282

225 West Washington Street, Suite 1100
Chicago, IL 60606

312 Walnut Street, Suite 1900
Cincinnati, OH 45202

1 Cleveland Center
1375 East 9th Street, Suite 2430
Cleveland, OH 44114

1200 17th Street, Suite 2760
Denver, CO 80202

1 Commerce Square, Suite 2675
Memphis, TN 38103

125 West 55th Street
New York, NY 10019

1 Oxford Center
301 Grant Street, Suite 3440
Pittsburgh, PA 15219

Riverfront Plaza
1100 Parkview, West Tower
Richmond, VA 23219

280 Corporate Center
85 Livingston Avenue
Roseland, NJ 07076

American Center
2777 Franklin Road, Suite 1570
Southfield, MI 48034

Offices of Natbank, F.S.B.
4031 Oakwood Boulevard
Oakwood Plaza
Hollywood, FL 33020

990 North Federal Highway
Pompano Beach, FL 33062

Mexico

Representative Office
117, Lope de Vega
Piso 10, Colonia Polanco
C.P. 11 540 Mexico D.F.

Europe, Africa, Middle East
Regional Office
Princes House, 95 Gresham Street
London, England EC2V 7LU

Branch
Princes House, 95 Gresham Street
London, England EC2V 7LU

Representative Offices
123, avenue des Champs-Élysées
Paris 75008 France
Via Viciere 11
Milan, Italy 20122

Asia, Pacific

Regional Office
Room 4001, Jardine House
N-1 Connaught Place, Central
Hong Kong

Branches
Room 4001, Jardine House
N-1 Connaught Place, Central
Hong Kong

6th Floor, Leema Building
146-1 Soesong-dong
Chong krui
Seoul 110-140
Republic of Korea

331 North Bridge Road, #11-04-06
Odeon Towers
Singapore 0718

Representative Offices
8th Floor
117, Min Shen East Road
Section 3
Taipei, Taiwan 106
Republic of China

4-C Shanghai Apollo Building
1440 Yan An Road (C)
Shanghai 200040
People’s Republic of China
## Subsidiaries and Affiliated Corporation

### Subsidiaries

<table>
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<th>Name</th>
<th>Percentage of voting and participating shares</th>
<th>Investment at cost (millions of $)</th>
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<tbody>
<tr>
<td>Natcan Trust Company</td>
<td>100%</td>
<td>$55</td>
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<tr>
<td>General Trust of Canada</td>
<td>100%</td>
<td>$155</td>
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<td>National Bank Life</td>
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<td>Insurance Company</td>
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<td>NBC Export Development Corporation Inc.</td>
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<td>Lévesque, Beaubien and Company Inc.</td>
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<td>- Lévesque Beaubien Geoffrion Inc.</td>
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<td>National Bank Securities Inc.</td>
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<td>NBC Clearing Services Incorporated</td>
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<td>Natcan Investment Management Inc.</td>
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<td>Mercantile Canada Finance B.V.</td>
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<td>- National Canada Finance Corp.</td>
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<td>- National Canada Corporation</td>
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<td>NatBC Holding Corporation</td>
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<td>- Natbank, F.S.B.</td>
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<td>Natcan Holdings International Ltd.</td>
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<td>- National Bank of Canada (International) Limited</td>
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<td>Natcan Finance (Asia) Ltd.</td>
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<td>National Bank of Canada (Asia) Ltd.</td>
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<tr>
<td>Natcan Insurance Company Limited</td>
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### Affiliated Corporation

<table>
<thead>
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<th>Name</th>
<th>Percentage of voting and participating shares</th>
<th>Investment at equity (millions of $)</th>
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</thead>
<tbody>
<tr>
<td>Natdev Inc.</td>
<td>50%</td>
<td>$1</td>
</tr>
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With "Together Under the Big Top" as its theme, the fifth annual Employees' Week gave the National Bank's 12,000 or so employees an opportunity to show their pride in belonging to a winning team.