

Notice of Annual Meeting of Common Shareholders

February 29, 2008

Management Proxy Circular



Your participation is important
Please take a few minutes to vote



Montreal, January 11, 2008

Dear Shareholder,

You are cordially invited to join the members of the Board of Directors and management for the Annual Meeting of Common Shareholders of National Bank of Canada to be held at 9:00 a.m. (EST) on Friday, February 29, 2008 at the Mount Royal Centre, 2200 Mansfield Street, Montreal, Quebec, Canada.

The event is an opportunity for us to present the results of National Bank of Canada, its current projects and, above all, for you to voice your opinion on the matters put to a vote at this Meeting.

Your participation is important to us. If you cannot attend in person, you can nonetheless express your opinion on the matters put to a vote by using the enclosed proxy form or voting instructions form.

The business that will be put to a vote at this Meeting is set out in the enclosed Management Proxy Circular. Please read this information carefully.

There will be a live webcast of this Meeting in the Investor Relations section of National Bank of Canada's website at www.nbc.ca/investorrelations.

Sincerely,

Jean Douville
Chairman of the Board

Louis Vachon
President and Chief Executive Officer



NOTICE OF ANNUAL MEETING OF COMMON SHAREHOLDERS

Date: **Friday, February 29, 2008**
Time: **9:00 a.m. (EST)**
Place: **Mount Royal Centre
2200 Mansfield Street
Montreal, Quebec
Canada**

For the following purposes:

1. To receive the consolidated financial statements for the financial year ended October 31, 2007 and the auditor's report thereon;
2. To elect the directors;
3. To appoint the auditor;
4. To examine the shareholder proposals, as set out in Schedule A to the Management Proxy Circular (the "Circular"); and
5. To transact any other business which may properly come before the Meeting.

Holders of record of Common Shares of National Bank of Canada (the "Bank") at 5:00 p.m. (EST) on January 11, 2008 are entitled to receive a Notice of Annual Meeting of Common Shareholders. As at such date, 158,127,338 Common Shares of the Bank are issued and outstanding. Each Common Share of the Bank entitles its holder to cast one vote on the matters outlined in the Notice of Meeting subject to the restrictions set out in the *Bank Act* (Canada).

By order of the Board of Directors,

Linda Caty
Vice-President and Corporate Secretary
January 11, 2008

Shareholders who are unable to attend the Annual Meeting of Common Shareholders are asked to complete, date and sign the enclosed proxy form. Proxies should be returned in the enclosed pre-addressed, postage-paid envelope either by mail to Computershare Trust Company of Canada at 100 University Avenue, 9th Floor, Toronto, Ontario, Canada M5J 2Y1, or by facsimile machine to 1-866-249-7775. To be valid, the proxy form must be received by Computershare Trust Company of Canada no later than 5:00 p.m. (EST) on February 27, 2008.

For any questions regarding the Circular, the proxy form or the exercise of voting rights, please contact the proxy solicitation firm, Georgeson Shareholder Communications Canada Inc., by calling 1-888-605-8407.

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Section 1 | Voting Information

Solicitation of Proxies

This Management Proxy Circular (the “Circular”) is provided in connection with the solicitation of proxies by management of National Bank of Canada (the “Bank”) for use at the Annual Meeting of Common Shareholders of the Bank (the “Meeting”) for the purposes set forth in the Notice of Meeting, to be held at 9:00 a.m. (EST) on Friday, February 29, 2008, at the Mount Royal Centre, 2200 Mansfield Street, Montreal, Quebec, Canada, and at any reconvening of the Meeting or at any adjournment thereof. The proxies will be solicited by regular or electronic mail, by telephone or in person. Employees, officers, directors or agents of the Bank will solicit the proxies. The Bank will use the services of the proxy solicitation firm, Georgeson Shareholder Communications Canada Inc. The cost of the services provided by this firm, estimated at approximately \$34,000, will be borne by the Bank.

Voting Rights of Common Shares

Holders of record of Common Shares of the Bank at 5:00 p.m. (EST) on January 11, 2008, or their duly authorized representatives, are entitled to receive a Notice of Meeting and to vote at the Meeting.

On January 11, 2008, the record date, 158,127,338 Common Shares of the Bank were issued and outstanding.

Holders of Common Shares are entitled to cast one vote per share held on the matters set out in the Notice of Meeting. However, the *Bank Act* (Canada) (the “Act”) contains provisions specifically prohibiting the exercise of voting rights attached to shares of the Bank held by a government, whether Canadian, provincial or foreign, as well as any agency thereof.

To the knowledge of the directors and officers of the Bank, no individual or corporation beneficially owns, directly or indirectly, or exercises control or direction over Common Shares carrying more than 10% of the voting rights attached to the Common Shares of the Bank.

Holders of Common Shares of the Bank may vote in person at the Meeting, or may complete, sign and return the enclosed proxy form. This proxy form authorizes a proxyholder to represent and vote on behalf of the holder of Common Shares at the Meeting.

Non-Registered Shareholder

The name of a shareholder whose shares are registered in the name of a broker or other intermediary (“a Non-Registered Shareholder”) does not appear in the register of shareholders of the Bank.

To exercise the voting rights attached to such held shares, a Non-Registered Shareholder who does not wish to attend the Meeting must:

- complete the voting instructions form sent to him or her by the broker or by any other intermediary in accordance with the instructions provided on the form; and
- return the voting instructions form to his or her broker or other intermediary as indicated on the form.

To vote in person at the Meeting, a Non-Registered Shareholder must:

- insert his or her name as proxyholder in the space provided for this purpose on the voting instructions form; and
- return the voting instructions form to his or her broker or other intermediary as indicated on the form.

Appointment of Proxyholders

The proxyholders designated in the proxy form are directors of the Bank. If a shareholder wishes to appoint as his or her proxyholder a person other than those whose names are printed on the proxy form, the shareholder may do so by striking out the names appearing thereon and inserting such other person’s name in the blank space provided. If the shareholder is a legal entity, an estate or a trust, the proxy form must be signed by a duly authorized officer or attorney. A proxyholder need not be a shareholder of the Bank. To be valid, the proxy form must be returned in the enclosed pre-addressed, postage-paid envelope either by mail to Computershare Trust Company of Canada at 100 University Avenue, 9th Floor, Toronto, Ontario, Canada M5J 2Y1, or by facsimile machine to 1-866-249-7775, no later than 5:00 p.m. (EST) on February 27, 2008.

Section 1 | Voting Information (cont.)

Voting by Proxy

Common Shares represented by a proxy are to be voted by the proxyholder named in the proxy form, in accordance with the instructions given.

If no instructions are given, the voting rights attached to the Common Shares will be exercised by the proxyholder who is a director of the Bank as follows:

- **FOR** the election of each of the nominees proposed as directors;
- **FOR** the appointment of the auditor;
- **AGAINST** proposals Nos. 1 and 3 to 20; and **FOR** proposal No. 2 presented by shareholders and set out in Schedule A to this Circular.

If no instructions are given, any other proxyholder will have discretionary authority when exercising the voting rights attached to the Common Shares concerning these matters.

The proxy confers discretionary authority to the proxyholder with respect to any proposed amendments or variations to the matters set out therein and any other business which may properly come before the Meeting. Any proxy previously given is thereby revoked.

As at the date hereof, management of the Bank is not aware of any amendment or other matter which may properly come before the Meeting.

Revocation of Proxies

Shareholders may revoke their proxy by delivering a written notice to this effect, signed by them or by their duly authorized representative to:

- the Head Office of the Bank, c/o Corporate Secretary's Office, National Bank of Canada, 600 De La Gauchetière Street West, 4th Floor, Montreal, Quebec, Canada H3B 4L2, no later than 5:00 p.m. (EST) on the last business day preceding the date of the Meeting, namely, February 28, 2008, or prior to any reconvening thereof in case of an adjournment; or
- the Chairman of the Meeting on the day of the Meeting, or any reconvening thereof in case of an adjournment.

Confidentiality of Votes

To protect the confidential nature of voting by proxy, the votes exercised by proxy are received and compiled for the Meeting by Computershare Trust Company of Canada, transfer agent and registrar of the Bank. Computershare Trust Company of Canada submits a copy of a proxy form to the Bank only when a shareholder clearly wishes to express a personal opinion to management, or when necessary to comply with legal requirements.

Section 2 | Business on the Agenda of the Meeting

Consolidated Financial Statements and Auditor's Report

The consolidated financial statements of the Bank for the year ended October 31, 2007 and the auditor's report thereon are included in the 2007 Annual Report of the Bank, which is available on the Bank's website (www.nbc.ca) and on the website of the System for Electronic Document Analysis and Retrieval ("SEDAR") (www.sedar.com).

Election of Directors

The Bank recommends voting **FOR** the election of all the nominees to the Board of Directors of the Bank (the "Board") whose names and biographies are presented under "Information on Nominees for Election to the Board of Directors" in this Circular. This section highlights the professional experience of the nominees and presents the names of the reporting issuers on whose boards the nominees currently serve or have served as directors in the past five years.

All directors elected at the Meeting will hold office until their resignation or the election or appointment of their replacement, or until the close of the next Annual Meeting of Common Shareholders of the Bank.

The Bank has introduced a majority voting mechanism, which is in effect for purposes of electing nominees as directors. For more information on majority voting, see "Majority Voting" under "Report of the Conduct Review and Corporate Governance Committee" in this Circular.

The resolution regarding the election of each director must be adopted by a majority of the votes cast by the holders of Common Shares present or represented by proxy and entitled to cast votes at the Meeting.

Appointment of Auditor

On the advice of the Audit and Risk Management Committee and of the Board, the Bank recommends voting **FOR** the appointment of Samson Bélair/Deloitte & Touche LLP ("SB/DT") as auditor of the Bank for the financial year starting November 1, 2007 and ending October 31, 2008.

SB/DT has served as auditor of the Bank for the past five financial years. In 2003, PricewaterhouseCoopers, LLP, also served as auditor of the Bank.

The resolution regarding the appointment of the auditor must be adopted by a majority of the votes cast by the holders of Common Shares present or represented by proxy and entitled to vote at the Meeting.

For more information on the auditor's fees for the past two financial years, see "Auditor's Fees" under "Report of the Audit and Risk Management Committee" in this Circular.

Shareholder Proposals

The Bank received shareholder proposals within the time limits prescribed by the Act.

The full text of the proposals on which the holders of Common Shares will be voting is provided in Schedule A to the Circular.

The Bank recommends voting **AGAINST** proposals Nos. 1 and 3 to 20; and **FOR** proposal No. 2 for the reasons set out at the end of each of these proposals.

To be adopted, these proposals must be approved by a majority of the votes cast by the holders of Common Shares present or represented by proxy and entitled to vote at the Meeting.

Any proposal a shareholder would like to have included at the Annual Meeting of Common Shareholders to be held in 2009 must be submitted to the Bank no later than 5:00 p.m. (EST) on October 13, 2008.

Section 2 | Business on the Agenda of the Meeting (cont.)

Information on Nominees for Election to the Board of Directors

Lawrence S. Bloomberg



Age: 65
Toronto, Ontario, Canada

Director since August 1999

Not independent because he acts as an advisor to a subsidiary of the Bank

Mr. Bloomberg is an advisor to National Bank Financial Inc., where he served as Co-Chairman of the Board and Co-Chief Executive Officer from October 1999 to October 2000. Previously, Mr. Bloomberg was Chairman of the Board, President and Chief Executive Officer of First Marathon Inc., a company he founded in 1979, which merged with National Bank Financial Inc. in 1999.

Mr. Bloomberg has extensive expertise in the financial sector, both nationally and internationally. Prior to and after starting his own business, he contributed to the development of many financial and non-financial companies. He brings valuable insight and a unique perspective to the Board on financial sector developments in Canada and abroad.

Mr. Bloomberg currently serves as Chairman of the Board of Mount Sinai Hospital and sits on the board of directors of the MaRS Discovery District, a multi-faceted innovation centre connecting science, business and capital to stimulate innovation, entrepreneurship and the creation of successful global science and technology businesses in Canada.

Role on Board of Directors and Board committees	Attendance at meetings	Director of reporting issuers or of parapublic companies in the past five years	
• Board member	13/14	–	
Securities held			
Year	Common Shares ⁽¹⁾	Deferred stock units (DSUs) ⁽²⁾	Minimum requirements ⁽²⁾
2006	623,575	–	Meets the Bank's share-holding requirements for directors
2007	378,437	–	

(1) This number includes Common Shares directly or indirectly beneficially owned or controlled.

(2) For more information, see "Compensation of Directors" under "Report of the Conduct Review and Corporate Governance Committee" in this Circular.

Section 2 | Business on the Agenda of the Meeting (cont.)

Information on Nominees for Election to the Board of Directors (cont.)

Pierre Bourgie



Age: 51
Montreal, Quebec, Canada

Director since March 1998

Independent

Since 1996, Mr. Bourgie has been President and Chief Executive Officer of *Société Financière Bourgie (1996) inc.*, a diversified investment company and, since 1998, President of Montreal Partners Inc., a merchant bank specializing in business financing. He is also President of Ipso Facto, a real estate financing limited partnership, and is actively involved in a number of economic, community and cultural organizations.

As a business leader and a director of various companies, Mr. Bourgie brings to the Board his business management skills as well as a keen understanding of corporate governance and management of large international businesses.

Role on Board of Directors and Board committees	Attendance at meetings ⁽²⁾	Director of reporting issuers or parapublic companies in the past five years	
• Board member	11/14	Saputo Inc.	1997 to date
• Chair and member of the Audit and Risk Management Committee	12/17	Hydro-Québec	1995 to 2003
• Member of the Conduct Review and Corporate Governance Committee	2/4	Canam Group Inc.	1997 to 2005
• Member of the <i>Ad Hoc</i> Committee ⁽¹⁾	4/4	HearUSA, Inc.	2002 to 2004
Securities held			
Year	Common Shares	Deferred stock units (DSUs)	Minimum requirements
2006	106,169	–	Meets the Bank's share-holding requirements for directors
2007	107,783	–	

(1) For more information, see "Ad Hoc Committee" under "Report of the Conduct Review and Corporate Governance Committee" in this Circular.

(2) In order to avoid a conflict of interest because of his direct or indirect asset-backed commercial paper holdings, Mr. Bourgie refrained from attending certain meetings and deliberations of the Board and its committees, and will continue to do so in compliance with applicable legislation and the Bank's policies.

Section 2 | Business on the Agenda of the Meeting (cont.)

Information on Nominees for Election to the Board of Directors (cont.)

André Caillé



Age: 64
Lac-Brome, Quebec, Canada

Director since October 2005

Independent

Mr. Caillé is a Corporate Director. He was Chairman of Hydro-Québec's board of directors from April to September 2005 and served as the company's President and Chief Executive Officer and director from October 1996 to April 2005. From 1982 to 1987, Mr. Caillé held various senior executive positions with Gaz Métro Inc., formerly known as *Gaz Métropolitain Inc.*, including President and Chief Executive Officer from 1987 to 1996. He was also Director of Environmental Protection Services and Deputy Minister of the Environment of Quebec from 1974 to 1982. From 2003 to 2007, Mr. Caillé was Chancellor of the Université de Montréal, where he presided over meetings of the university's board of directors. In addition, from 2004 to 2007, he served as President of the World Energy Council.

Throughout his career, Mr. Caillé has been the recipient of many prestigious awards, including the *Prix Hommage Pierre-Decelles* in recognition of his outstanding management. He was also made a Knight of the Legion of Honour of the French Republic in June 2004.

Mr. Caillé currently sits on several boards of directors, and is Co-Chair of the board of directors of the *Fondation Père Sablon*.

He brings to the Board extensive knowledge of the energy and environmental sectors and experience in managing large corporations.

Role on Board of Directors and Board committees	Attendance at meetings	Director of reporting issuers or parapublic companies in the past five years	
• Board member	14/14	Quebecor World Inc.	2005 to date
• Member of the Audit and Risk Management Committee	17/17	Hydro-Québec	1996 to 2005
• Member of the Human Resources Committee	8/8		
• Chair and member of the Independent Committee ⁽¹⁾	4/4		
Securities held			
Year	Common Shares	Deferred stock units (DSUs)	Minimum requirements
2006	174	1,267	5-year grace period after taking office to meet the Bank's shareholding requirements for directors
2007	676	2,677	

(1) For more information, see "Independent Committee" under "Report of the Conduct Review and Corporate Governance Committee" in this Circular.

Section 2 | Business on the Agenda of the Meeting (cont.)

Information on Nominees for Election to the Board of Directors (cont.)

G rard Coulombe



Age: 60
Sainte-Marthe, Quebec,
Canada

Director since February 1994

Not independent because
the law firm of which he is a
partner is paid for the legal
services that it provides to the
Bank and its subsidiaries

Mr. Coulombe is a partner of Lavery, de Billy, L.L.P. From 1977 to 2007, he was Senior Partner at Desjardins Ducharme, L.L.P., where he chaired the board of directors from 2000 to 2007. From 1972 to 1977, he was responsible for negotiating international tax treaties on behalf of the Department of Finance Canada.

Mr. Coulombe is a member of the boards of directors of the following subsidiaries of the Bank: FMI Acquisition Inc., National Bank Life Insurance Company, National Bank Group Inc., National Bank Acquisition Holding Inc. and National Bank Trust Inc.

He has extensive expertise in business management and corporate law, especially with respect to financial institutions and crown corporations, as well as the creation of financial and industrial consortiums. He is also an authority on corporate governance matters.

Role on Board of Directors and Board committees	Attendance at meetings	Director of reporting issuers or parapublic companies in the past five years	
<ul style="list-style-type: none"> Board member 	14/14	Cominar Real Estate Investment Trust	March 2007 to date
		Sodisco-Howden Group Inc. ⁽¹⁾	1989 to 2005
Securities held			
Year	Common Shares	Deferred stock units (DSUs)	Minimum requirements
2006	4,067	12,511	Meets the Bank's shareholding requirements for directors
2007	4,448	14,129	

Bernard Cyr



Age: 59
Cap Shediac,
New Brunswick, Canada

Director since August 2001

Independent

Since 1986, Mr. Cyr has been President of Cyr Holdings Inc., a holding company in the hotel, commercial real estate, restaurant and entertainment sectors and, since 1993, President of Dooly's Inc., an entertainment industry franchiser. Mr. Cyr serves on several boards of directors and is involved with charitable organizations. He was a member of the Bank's Atlantic Canada business development committee from 1996 to 2001.


In addition to his entrepreneurial vision, Mr. Cyr brings to the Board varied experience in the management of small and medium-sized enterprises as well as a thorough understanding of regional markets.


Role on Board of Directors and Board committees	Attendance at meetings	Director of reporting issuers or of parapublic companies in the past five years	
<ul style="list-style-type: none"> Board member Member of the Audit and Risk Management Committee Member of the Independent Committee 	14/14 17/17 4/4	NB Power Group	1998 to date
Securities held			
Year	Common Shares	Deferred stock units (DSUs)	Minimum requirements
2006	8,641	–	Meets the Bank's shareholding requirements for directors
2007	10,312	–	

(1) Sodisco-Howden Group Inc. was privatized in 2005.

Section 2 | Business on the Agenda of the Meeting (cont.)

Information on Nominees for Election to the Board of Directors (cont.)

<p>Shirley A. Dawe</p>  <p>Age: 61 Toronto, Ontario, Canada</p> <p><i>Director since July 1988</i></p> <p><i>Independent</i></p>	<p>Ms. Dawe is a Corporate Director and is President of Shirley Dawe Associates Inc., a Toronto-based management consulting firm, since 1986. From 1969 to 1985, she held various senior executive positions with Hudson's Bay Company.</p> <p>Her extensive management and consumer marketing experience brought Ms. Dawe to the boards of directors of numerous public and private companies in Canada and the United States. Her retail industry expertise led to her appointment on industry-specific public task forces and on boards of academic and non-profit organizations.</p> <p>Ms. Dawe brings to the Board a deep understanding of consumer trends and winning business strategies in the North American retail industry, coupled with a keen appreciation of corporate governance issues.</p>			
	<p>Role on Board of Directors and Board committees</p> <ul style="list-style-type: none"> Board member Member of the Conduct Review and Corporate Governance Committee Member of the Human Resources Committee 	<p>Attendance at meetings</p> <p>14/14 4/4 8/8</p>	<p>Director of reporting issuers or parapublic companies in the past five years</p> <p>Birks & Mayors Inc. 1999 to date The Bon-Ton Stores, Inc. 2003 to date OshKosh B'Gosh, Inc. 1997 to 2005 Moore Corporation Limited⁽¹⁾ 1989 to 2002</p>	
	<p>Securities held</p>			
	<p>Year</p> <p>2006 2007</p>	<p>Common Shares</p> <p>4,203 4,778</p>	<p>Deferred stock units (DSUs)</p> <p>4,923 5,314</p>	<p>Minimum requirements</p> <p>Meets the Bank's shareholding requirements for directors</p>

<p>Nicole Diamond-Gélinas</p>  <p>Age: 63 Saint-Barnabé-Nord, Quebec, Canada</p> <p><i>Director since March 1998</i></p> <p><i>Independent</i></p>	<p>Ms. Diamond-Gélinas has been President of Aspasia Inc., a manufacturer of colour charts, since 1976, and President of Plastifil Inc., a plastics extrusion and injection molding company, since 1998. She also heads Trois-Rivières Ford Lincoln Inc., a company specializing in the sale, leasing and servicing of motor vehicles. Actively involved in her region's business community, she is a member of the <i>Chambre de commerce et d'industries de Trois-Rivières</i> and was a member of the Bank's Mauricie business development committee from 1992 to 1998. She has been Chair of the board of directors of the <i>Fondation du Centre hospitalier régional de Trois-Rivières</i> since September 2007, and a member of this Board since 2005. In addition, she has served on the board of directors of the Montréal Impact F.C. school club, now known as the <i>Club de soccer Attak de Trois-Rivières</i>, since August 2007.</p> <p>Ms. Diamond-Gélinas has first-hand experience of the realities and challenges facing small and medium-sized manufacturers as well as a solid grasp of the economic and social dynamics of regional markets.</p> <p>Ms. Diamond-Gélinas also currently serves on the board of the Bank's subsidiary National Bank Life Insurance Company.</p>			
	<p>Role on Board of Directors and Board committees</p> <ul style="list-style-type: none"> Board member Member of the Audit and Risk Management Committee 	<p>Attendance at meetings</p> <p>14/14 17/17</p>	<p>Director of reporting issuers or parapublic companies in the past five years</p> <p>–</p>	
	<p>Securities held</p>			
	<p>Year</p> <p>2006 2007</p>	<p>Common Shares</p> <p>22,624 23,248</p>	<p>Deferred stock units (DSUs)</p> <p>2,870 3,984</p>	<p>Minimum requirements</p> <p>Meets the Bank's shareholding requirements for directors</p>

(1) Moore Corporation Limited was subsequently renamed Moore Wallace Incorporated and is now known as R.R. Donnelley & Sons Company.

Section 2 | Business on the Agenda of the Meeting (cont.)

Information on Nominees for Election to the Board of Directors (cont.)

Jean Douville



Age: 64
Bedford, Quebec, Canada

Director since
November 1991

Independent

Mr. Douville has been Chairman of the Board of the Bank since March 10, 2004. He is also Chairman of the Board of UAP Inc., a company specializing in the distribution and reconditioning of spare parts and accessories for cars, trucks and industrial machinery. Mr. Douville was called to the Quebec Bar in 1968 and began working for UAP Inc. in 1971. He became President of the company in 1981, and was subsequently appointed Chief Executive Officer in 1982 and then Chairman of the Board in 1994.

Before being appointed Chairman of the Bank's Board, he was successively Chair of the Audit and Risk Management Committee and Chair of the Conduct Review and Corporate Governance Committee.

Mr. Douville brings to the Board in-depth knowledge of a key industrial sector in North America as well as experience in managing a large corporation.

Role on Board of Directors and Board committees	Attendance at meetings	Director of reporting issuers or parapublic companies in the past five years	
<ul style="list-style-type: none"> Chairman and member of the Board Member of the <i>Ad Hoc</i> Committee 	<p>14/14</p> <p>4/4</p>	<p>Genuine Parts Company</p> <p>Richelieu Hardware Ltd.</p> <p>Leroux Steel Inc.⁽¹⁾</p> <p>Van Houtte Inc.</p>	<p>1990 to date</p> <p>2005 to date</p> <p>1999 to 2003</p> <p>1999 to 2003</p>
Securities held			
Year	Common Shares	Deferred stock units (DSUs)	Minimum requirements
2006	5,296	6,316	Meets the Bank's share-holding requirements for directors
2007	5,669	6,560	

Marcel Dutil



Age: 65
Montreal, Quebec, Canada

Director since January 1982

Independent

Mr. Dutil is Chairman of the Board and Chief Executive Officer of Canam Group Inc. He is the founder of this industrial company, which mainly designs and manufactures frames, joists and steel decks.

In building his business from the ground up, Mr. Dutil has acquired solid experience in the areas of management and market development, especially international markets.

Mr. Dutil also serves on the boards of Montreal Economic Institute, *Groupe Maritime Verreault inc.* and Manac Inc.

Role on Board of Directors and Board committees	Attendance at meetings	Director of reporting issuers or parapublic companies in the past five years	
<ul style="list-style-type: none"> Board member Member of the Human Resources Committee Member of the Independent Committee 	<p>14/14</p> <p>8/8</p> <p>4/4</p>	<p>Canam Group Inc.</p> <p>The Jean Coutu Group (PJC) Inc.</p> <p>Total Containment, Inc.</p> <p>Leroux Steel Inc.⁽¹⁾</p> <p>MAAX Inc.⁽²⁾</p>	<p>1972 to date</p> <p>1995 to date</p> <p>1990 to 2004</p> <p>1999 to 2003</p> <p>2001 to 2004</p>
Securities held			
Year	Common Shares	Deferred stock units (DSUs)	Minimum requirements
2006	20,655	8,642	Meets the Bank's share-holding requirements for directors
2007	21,061	10,070	

(1) This corporation operates under the name of 9137-7101 Quebec Inc., which is a private company.

(2) MAAX Inc. was privatized in June 2004.

Section 2 | Business on the Agenda of the Meeting (cont.)

Information on Nominees for Election to the Board of Directors (cont.)

Jean Gaulin



Age: 65
San Antonio, Texas,
United States

Director since
October 2001

Independent

Mr. Gaulin is a Corporate Director. He is currently Chairman of the board of directors of RONA Inc. Mr. Gaulin was Chairman of the board of directors of Ultramar Diamond Shamrock Corporation from January 1, 2000 to January 1, 2002, and President and Chief Executive Officer from January 1, 1999 to January 1, 2002. In 1996, following the merger of Ultramar Corporation and Diamond Shamrock Inc., he was named Vice-Chairman of the Board, President and Chief Operating Officer of Ultramar Diamond Shamrock Corporation. Prior to the merger, he was Chairman of the Board and Chief Executive Officer of Ultramar Corporation. He is also involved in a number of charitable organizations.

He brings to the Board expertise in the oil industry and solid experience in managing a large corporation in a North American context.

Mr. Gaulin also serves on the board of Bombardier Recreational Products Inc.

Role on Board of Directors and Board committees	Attendance at meetings	Director of reporting issuers or parapublic companies in the past five years	
• Board member	14/14	Saputo Inc.	2003 to date
• Member of the Audit and Risk Management Committee	17/17	RONA Inc.	2004 to date
• Chair and member of the Human Resources Committee	8/8	Abitibi-Consolidated Inc. ⁽¹⁾	2001 to 2004
• Chair and member of the <i>Ad Hoc</i> Committee	4/4	Crane Co.	2001 to 2007
• Member of the Independent Committee	4/4		
Securities held			
Year	Common Shares	Deferred stock units (DSUs)	Minimum requirements
2006	23,903	7,728	Meets the Bank's share-holding requirements for directors
2007	24,447	8,027	

Paul Gobeil, F.C.A.



Age: 65
Ottawa, Ontario, Canada

Director since
February 1994

Independent

Mr. Gobeil is Vice-Chairman of the Board of Metro Inc. and Chairman of the Board of DiagnoCure Inc. He has been a Member of the *Ordre des comptables agréés du Québec* since 1965 and a Fellow since 1986. Elected as a member of the Quebec National Assembly (MNA) for the riding of Verdun in 1985, he was, until 1989, successively Minister Responsible for Administration, President of the Treasury Board and Minister of International Affairs in the Quebec government. From 1974 to 1985, he held a number of executive positions at Provigo Inc.

Mr. Gobeil brings to the Board a wealth of expertise in corporate governance, financial and accounting management and corporate strategy.

Role on Board of Directors and Board committees	Attendance at meetings	Director of reporting issuers or parapublic companies in the past five years	
• Board member	14/14	Metro Inc.	1990 to date
• Member of the Audit and Risk Management Committee	17/17	Canam Group Inc.	1992 to date
• Chair and member of the Conduct Review and Corporate Governance Committee	4/4	Yellow Pages Income Fund	2003 to date
• Member of the <i>Ad Hoc</i> Committee	4/4	DiagnoCure Inc.	2005 to date
		Nstein Technologies Inc.	2000 to 2003
		Export Development Canada	2002 to 2007
		MAAX Inc. ⁽²⁾	2003 to 2004
		Hudson's Bay Company	2003 to 2006
Securities held			
Year	Common Shares	Deferred stock units (DSUs)	Minimum requirements
2006	10,955	20,942	Meets the Bank's share-holding requirements for directors
2007	11,519	23,259	

(1) This company is now known as AbitibiBowater Inc.

(2) MAAX Inc. was privatized in June 2004.

Section 2 | Business on the Agenda of the Meeting (cont.)

Information on Nominees for Election to the Board of Directors (cont.)

Roseann Runte



Age: 59
Norfolk, Virginia,
United States

Director since
April 2001

Independent

Ms. Runte has been President of Old Dominion University in Norfolk, Virginia since July 1, 2001. She also served as President of Victoria University in the University of Toronto from 1994 to 2001. She has a Ph.D. in French Literature from The University of Kansas. She is the author of many books and articles, notably on education and economic and cultural development. Ms. Runte is a member of the advisory boards of SunGard SCT and of the Association of Governing Boards of Universities and Colleges, and serves on the board of the Virginia Advanced Carrier and Shipbuilding Integration Center. She was recently appointed a member of the Virginia National Economic Defense Authority. In the past, she served on various boards of directors in the literary, cultural and economic development sectors, in particular, as President of the Canadian Commission for UNESCO from 1992 to 1996. She also served on the board of Expo 2000 in Germany.

Drawing on her management experience in the university milieu and her involvement with boards of directors in Canada and abroad, Ms. Runte brings to the Board her vision of the issues facing markets in a globalized business environment.

Role on Board of Directors and Board committees	Attendance at meetings	Director of reporting issuers or parapublic companies in the past five years	
<ul style="list-style-type: none"> Board member Member of the Conduct Review and Corporate Governance Committee Member of the Independent Committee 	<p>13/14</p> <p>4/4</p> <p>4/4</p>	The Jean Coutu Group (PJC) Inc.	2004 to 2006
Securities held			
Year	Common Shares	Deferred stock units (DSUs)	Minimum requirements
2006	2,652	6,803	Meets the Bank's shareholding requirements for directors
2007	3,086	8,160	

Marc P. Tellier



Age: 39
Montreal, Quebec, Canada

Director since
March 2005

Independent

Mr. Tellier has been President and Chief Executive Officer of Yellow Pages Group Co., Canada's largest directories publisher, since 2002. He was previously President and Chief Executive Officer of Bell ActiMedia Inc., a company acquired through one of the largest leveraged buyouts in Canadian history. In August 2003, he completed one of the largest initial public offerings in Canada for Yellow Pages Income Fund, and has since then completed acquisitions totalling \$4 billion. He has held a number of management positions in sales and finance throughout his career, including Senior Vice-President – Partnership Development at Bell Canada. He was also President and Chief Executive Officer of Sympatico-Lycos Inc., the leading Canadian Internet portal. Mr. Tellier was also named one of Canada's Top 40 Under 40™ in 2000.

He brings to the Board management experience in the Canadian communications and media industry.

Mr. Tellier also serves on the boards of directors of the Yellow Pages Association (YPA), the Canadian Council of Chief Executives, Sainte-Justine Hospital Foundation, Students on Ice Foundation and Lower Canada College.

Role on Board of Directors and Board committees	Attendance at meetings	Director of reporting issuers or of parapublic companies in the past five years	
<ul style="list-style-type: none"> Board member Member of the Human Resources Committee 	<p>14/14</p> <p>7/8</p>	Yellow Pages Income Fund YPG Holdings Inc.	2003 to date 2003 to date
Securities held			
Year	Common Shares	Deferred stock units (DSUs)	Minimum requirements
2006	265	1,536	5-year grace period after taking office to meet the Bank's shareholding requirements for directors
2007	666	2,554	

Section 2 | Business on the Agenda of the Meeting (cont.)

Information on Nominees for Election to the Board of Directors (cont.)

Louis Vachon



Age: 45
Beaconsfield, Quebec,
Canada

Director since
August 2006

Not independent because
he is an Executive Officer of
the Bank

Mr. Vachon has been President and Chief Executive Officer of the Bank since June 2007. He is responsible for the strategies, orientations and development of the Bank and its subsidiaries. From August 2006 to May 2007, he held the position of Chief Operating Officer of the Bank responsible for all its operating units: Personal and Commercial Banking, Wealth Management and Financial Markets. He was Chairman of the Board of Natcan Investment Management Inc. from November 2004 to September 2006, and of National Bank Financial Group from January 2005 to September 2006. From September 2005 to September 2006, he also held the position of President and Chief Executive Officer of National Bank Financial Inc. In 1986, he joined Lévesque Beaubien Geoffrion Inc., now National Bank Financial Inc., where he served as Vice-President until 1990. From 1990 to 1996, he was employed by BT Bank of Canada, the Canadian subsidiary of Bankers Trust, where he served as President and Chief Executive Officer from 1994 to 1996. Mr. Vachon returned to the Bank in 1996 and, in 1997, he was appointed Senior Vice-President – Treasury and Financial Markets.

Mr. Vachon brings to the Board solid, well-rounded experience in various sectors of the financial industry, including investment management, risk management, business development, financial engineering and securities brokerage. He also developed his strategic and operational skills in a multicultural environment in Canada and the United States.

He has a Master's in International Finance from The Fletcher School. He was also named one of Canada's Top 40 Under 40™ in 2002.

Mr. Vachon is a member of the boards of directors of the following subsidiaries: National Bank Group Inc., National Bank Acquisition Holding Inc. and Natcan Acquisition Holdings Inc.

Role on Board of Directors and Board committees	Attendance at meetings	Director of reporting issuers or parapublic companies in the past five years		
• Board member	13/14 ⁽¹⁾	Montreal Exchange Inc.	2000 to date	
Securities held				
Stock units ⁽²⁾				
Year	Common Shares	Restricted Stock Units (RSUs) DSUs		Minimum requirements ⁽³⁾
2006	15,946	54,877	–	Meets the Bank's share-holding requirements for officers
2007	16,512	79,293	–	

(1) Mr. Vachon was absent from the Board Meeting at which the succession plan for the President and Chief Executive Officer was discussed.

(2) For more information, see "Total Compensation of Named Executive Officers" in this Circular.

(3) For more information, see "Share Ownership Guidelines for Officers of the Bank" under "Officer Compensation" in "Report of the Human Resources Committee" in this Circular.

Section 2 | Business on the Agenda of the Meeting (cont.)

For further information about the terms and conditions of the compensation of directors and the fees paid to them during the most recently completed financial year, about the attendance of the director not standing for re-election and about the number of meetings held by the Board of Directors and its committees, see “Report of the Conduct Review and Corporate Governance Committee” in this Circular.

To the knowledge of the Bank, no nominee for election to the Board of Directors of the Bank is, at the date of this Circular, or has been, within 10 years before the date of the Circular, a director, chief executive officer or chief financial officer of any company, including the Bank, which, while the nominee was acting in such capacity, or after the nominee ceased to act in such capacity, and as a result of an event which occurred while the nominee was performing his or her duties, was the subject of one of the following orders which was in effect for more than 30 consecutive days, namely, any cease trade or similar order or any order that denied it access to any exemption under securities legislation.

To the knowledge of the Bank, no nominee for election to the Board of Directors of the Bank is, at the date of this Circular, or has been, within 10 years before the date of this Circular, a director or executive officer of any company, including the Bank, which while the nominee was acting in such capacity or within a year of the nominee ceasing to act in such capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or became subject to, or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold its assets, except for:

- Gérard Coulombe, who, until September 28, 2005, was a board member of *Centre International de Gestion de Projets G.P.*, a non-profit company, adjudged bankrupt on September 29, 2005;
- Marcel Dutil, who, until March 2004, served on the board of Total Containment, Inc., a company placed under the protection of Chapter 11 of Title 11 (Bankruptcy) of the United States Code on March 4, 2004; and
- Paul Gobeil, who, until November 12, 2001, was on the boards of BridgePoint International Inc. and its wholly-owned subsidiary BridgePoint International (Canada) Inc. On January 25, 2002, BridgePoint International (Canada) Inc. filed a proposal with its creditors. The TSX suspended trading on the shares of BridgePoint International Inc. on January 31, 2002 for failure to meet TSX listing requirements. The shares of BridgePoint International Inc. were delisted from the TSX at the close of business on January 31, 2003.

In addition, to the knowledge of the Bank, no nominee for election to the Bank’s Board of Directors has, within 10 years before the date of this Circular, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or became subject to, or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the nominee.

Furthermore, to the knowledge of the Bank, no nominee for election to the Bank’s Board of Directors has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority, or has entered into a settlement agreement with a securities regulatory authority, or has been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered material to a reasonable investor in deciding whether to vote for a nominee. Moreover, in the opinion of the Bank, no disclosure concerning a settlement agreement entered into by a nominee to the Bank’s Board of Directors before December 31, 2000 is likely to be considered material to a reasonable investor in deciding whether to vote for a nominee except for the following disclosure:

- Under an administrative settlement agreement approved by a panel of the Toronto Stock Exchange in August 1998, Mr. Lawrence S. Bloomberg agreed to pay a \$250,000 fine, not as a result of any personal misconduct, but as President and Chief Executive Officer of First Marathon Securities Limited (“FMSL”) for compliance inadequacies in 1993, 1994 and 1995, and issues arising from the participation of certain FMSL officers and employees in matters relating to the financing, sale of securities and operations of Cartaway Resources Corp. between July 1995 and June 1996.

Section 3 | Internal Management

Report of the Audit and Risk Management Committee

Role of the Committee

The Audit and Risk Management Committee (for the purposes of this report, the “Committee”) assists the Board in reviewing financial statements, financial reporting and disclosure processes, internal controls, audit processes and management information systems to determine their integrity and effectiveness. The Committee recommends the appointment of the external auditor to the Board, as well as the external auditor’s fees, and reviews the hiring terms and any other services that the external auditor may be called upon to provide to the Bank. Furthermore, it is responsible for overseeing the work of the external auditor. It reviews and discusses the qualifications, independence and objectivity of the external auditor, as well as of the partner of the external auditor’s firm responsible of the audit.

The Committee also acts as an intermediary between the Board and the persons responsible for the independent monitoring functions, namely, external audit, internal audit and corporate compliance. In this regard, it supervises the work of the Bank’s internal audit, financial analysis and corporate compliance functions and conducts a detailed review of the Bank’s risk management, including related control practices and the principal risks related to financial and other disclosures. It also reviews any certifications and reports required by regulatory authorities which come under its purview.

The duties and responsibilities of the Committee are set out in detail in its mandate, which is reviewed annually.⁽¹⁾

The Committee is composed entirely of independent directors. Pierre Bourgie refrained from participating in certain meetings during the most recently completed financial year in order to avoid a conflict of interest because of his direct or indirect holdings of asset-backed commercial paper (“ABCP”). Paul Gobeil or André Caillé chaired such meetings. For more information about the concept of an independent director, see “Independence of Directors” under “Report of the Conduct Review and Corporate Governance Committee” in this Circular.

Members

Pierre Bourgie, Chair
André Caillé
Bernard Cyr
Nicole Diamond-Gélinas
Jean Gaulin
Paul Gobeil

Financial Literacy of Members

The Board has determined that all the members of the Committee are “financially literate” within the meaning of Canadian Securities Administrators (“CSA”) rules relating to audit committees. All Committee members have acquired the necessary experience and knowledge to adequately fulfill their duties as Committee members from having served as chief executive officers or directors of other corporations or through their academic background. Several of them serve or have served on the audit committees of various corporations.

It should also be noted that one of the members of the Committee, Paul Gobeil, has special financial expertise. In fact, Mr. Gobeil has two Master’s degrees, in accounting sciences and in accounting, from the *Université de Sherbrooke*, as well as extensive experience in business and finance. He has been a member of the *Ordre des comptables agréés du Québec* since 1965, and a Fellow since 1986.

Guidelines for the Management of Services

Provided by the External Auditor

One of the Committee’s duties is to manage the external audit process. Accordingly, it annually reviews the Guidelines for the Management of Services Provided by the External Auditor.

These Guidelines state that a mandate may be entrusted to the external auditor for non-audit services if the following conditions are met:

- the specific expertise of the external auditor or its intrinsic knowledge of the Bank’s activities allow it to carry out the mandate more effectively;
- the accepted mandate or the services rendered do not compromise the independence of the external auditor within the prevailing regulatory framework; and
- the mandate is authorized according to the conditions stated hereafter.

(1) The text of this mandate is presented in its entirety on the Bank’s website (www.nbc.ca) and under “Information Regarding the Audit and Risk Management Committee of the Board of Directors” in the Bank’s Annual Information Form for fiscal 2007, filed on the SEDAR website (www.sedar.com).

Section 3 | Internal Management (cont.)

These services must be pre-approved by the Committee. A policy with specific provisions may be adopted, provided it meets the following conditions:

- policies and procedures for pre-approval are detailed;
- the Committee is informed of each non-audit service; and
- the procedures do not involve the delegation of Committee responsibilities to management.

The Committee reviews the pre-approval procedures for mandates entrusted to the external auditor and, if it deems appropriate, renews them on an annual basis. These procedures are as follows:

- All services offered to the Bank and its subsidiaries by the external auditor of the Bank must be specifically pre-approved by the Committee. The various pre-approval terms and conditions are:
 - (a) detailed annual approval of all audit services;
 - (b) approval of an annual budget allowance for obtaining comfort letters in connection with financing programs;
 - (c) approval of an annual budget allowance for obtaining interpretations on the application of generally accepted accounting principles and additional work in connection with audits that have already been pre-approved; and
 - (d) approval of an annual budget allowance for tax mandates.

Audit mandates not included in (a), mandates described in (b), (c) and (d) exceeding \$100,000, and mandates exceeding the budget allowances presented in (b), (c) and (d) will be subject to specific pre-approval, as described hereafter.

- The Committee has delegated responsibility to approve the awarding of specific mandates to its Chair. Consequently, where specific pre-approval is required under these Guidelines, the Bank's management must submit a written request to the Committee Chair. It is management's responsibility to determine whether a service is included in the package of pre-approved services. Management must consult with the Committee Chair in all potentially ambiguous cases.

Auditor's Fees

The Committee recommends to the Board, for its approval, the fees to be paid to the external auditor for all work done. The following table details fees billed by SB/DT to the Bank and to its subsidiaries for various services rendered during the past two financial years.

	2007 (\$)	2006 (\$)
Audit services ⁽¹⁾	5,507,102	5,092,893
Audit-related services ⁽²⁾	88,218	133,750
Tax consulting ⁽³⁾	1,425,154	1,695,104
Other services ⁽⁴⁾	109,371	54,765
Total	7,129,845	6,976,512

(1) These fees include fees for services related to the audit of the consolidated financial statements of the Bank and the financial statements of its subsidiaries or other services normally provided by the external auditor in connection with statutory or regulatory filings or engagements required by applicable legislation. These fees also include fees for comfort letters, statutory audits, certification services, consents and assistance with the preparation and review of documents filed with regulators, as well as in connection with the interpretation of accounting and financial reporting standards. Figures for fiscal 2006 have been restated to reflect the administrative fees subsequently invoiced by SB/DT for the year-end audit.

(2) These fees include certification and related services performed by the Bank's auditor. These services also include accounting consultations in connection with acquisitions and divestitures and internal control reviews.

(3) These fees include fees for assistance in tax planning, during restructurings, and when taking a tax position, as well as the preparation and review of income and other tax returns and tax opinions.

(4) These fees include fees for financial services (business recovery), risk management services, statutory and/or regulatory compliance services and merger integration services.

Pierre Bourgie
Chair
Audit and Risk Management Committee

Section 3 | Internal Management (cont.)

Report of the Human Resources Committee

Role of the Committee

The Human Resources Committee (for the purposes of this report, the “Committee”) assists the Board with its human resources responsibilities. In such capacity, the Committee recommends to the Board total compensation strategies and human resources programs aimed at achieving the business objectives of the Bank and its subsidiaries. In addition, the Committee ensures that the policies and programs implemented promote the achievement of the results sought by the Bank, without however compromising its viability, solvency or reputation.

The Committee meets at least once every quarter. The duties and responsibilities of the Committee are detailed in its mandate, which is reviewed annually⁽¹⁾. The Committee’s main achievements during the most recently completed financial year are described under “Achievements in Fiscal 2007” in this Circular.

Composition, Competencies and Independence of the Committee

The Committee is composed entirely of independent members, who are appointed annually by the Board from among the directors. For more information in this regard, refer to “Independence of Directors” under “Report of the Conduct Review and Corporate Governance Committee” in this Circular. The composition of the Committee did not change in 2007 and none of its members are or have been officers of the Bank.

Members

Jean Gaulin, Chair
André Caillé
Shirley A. Dawe
Marcel Dutil
Marc P. Tellier

All of the Committee members have extensive experience as corporate executives and the necessary knowledge and expertise with regard to corporate strategy development and officer compensation to fulfill their mandate. In addition, the Committee adopts procedures to ensure its independence from management and to have access to relevant information. The Committee therefore holds meetings without members of the Bank’s management being present, after each of its regular meetings. It also communicates directly with the Senior Vice-President – Human Resources and Corporate Affairs, or any other member of management, whenever it deems appropriate. In addition, the Committee selects the external advisors, giving them specific mandates to assist it in the performance of its duties. The details of the mandates assigned to the advisors engaged by the Committee during the most recently completed financial year, as well as the fees paid to them, are provided under “Independent External Advisors” in this section of the Circular.

Disclosure

The Committee considers it essential that shareholders and the Bank’s other stakeholders have a clear understanding of all components of officer compensation and decisions made by the Committee during the year. To this end, it ensures that relevant information is clearly conveyed in a timely manner. The Report of the Human Resources Committee therefore aims to account for its activities and the compensation of the officers appointed by the Board, namely, the President and Chief Executive Officer, the members of the Office of the President, the Senior Vice-Presidents and the Vice-Presidents of the Bank, and of the other officers of National Bank Financial Group (“NBFG”), namely, the Senior Vice-Presidents and the Vice-Presidents.

Jean Gaulin
Chair
Human Resources Committee

(1) The text of this mandate is presented in its entirety on the Bank’s website (www.nbc.ca).

Section 3 | Internal Management (cont.)

The following terms are used for the purposes of this Report:

- **members of the Office of the President** means the President and Chief Executive Officer, the Co-Presidents and Co-Chief Executive Officers of NCFG, the Chief Operating Officer – Personal and Commercial Banking and Wealth Management, the Executive Vice-President – Finance, Risk and Treasury, the Senior Vice-President – Human Resources and Corporate Affairs and the Senior Vice-President – Technology, Business Intelligence and Organizational Performance;
- **officers of the Bank** means the officers appointed by the Board, namely, the members of the Office of the President, the Senior Vice-Presidents and the Vice-Presidents; and
- **Named Executive Officers** means the officers for whom disclosure is required under “Total Compensation of Named Executive Officers” in this Circular, according to the regulations in force.

Achievements in Fiscal 2007

In fiscal 2007, the Committee examined files pertaining to the Bank’s strategic orientations and organizational structure, officer succession planning and development, and compensation programs for officers and other employees of the Bank and NCFG. In particular, the Committee addressed the following matters:

Strategic Orientations and Organizational Structure

Within the scope of its mandate, the Committee assisted the Board with the restructuring of the Bank’s management. To this end, the Committee:

- recommended to the Board that it approve the creation of the Office of the President, the appointment of the officers therein and their respective compensation; and
- reviewed the changes made to the responsibilities of the other officers affected by the restructuring and recommended that the Board approve their appointment and total compensation.

Officer Succession Planning and Development

The Committee oversaw the strategic succession planning programs for officers of the Bank and its subsidiaries. The Committee also looked at the mobilization and retention of officers in a context of increased workforce mobility and scarcity of talent. To this end, the Committee:

- appraised the performance of officers;
- monitored the progress of persons holding key positions within the Bank, as well as that of candidates identified in the succession plan, in order to meet the Bank’s future needs in terms of filling key positions; and
- identified candidates for the succession plan and ensured that their functions are challenging, their compensation is competitive and their competencies are broadened.

Total Compensation

The Committee examined the scope of various compensation programs in order to ensure that the components of these programs support the growth and performance objectives set by the Bank and that the programs channel efforts toward achieving long-term growth for the Bank. In addition, the Committee reviewed the components of the Bank’s annual bonus program, namely, the performance indicators used and their weighting, and determined that the existing indicators were well aligned with the Bank’s strategic orientations but that their weighting should be amended to support the Bank’s growth and performance objectives. Simulations were carried out to determine the size of the bonus envelopes created, for various performance levels, had the proposed weighting been used. These tests revealed that the proposed weighting should support the achievement of objectives in the coming years.

The Committee also reviewed the competitiveness of the compensation of officers of the Bank in relation to the Bank’s reference market, which is comprised of widely-held Canadian companies, including major financial institutions. A description of the reference market is provided under “Philosophy and Guiding Principles Governing Officer Compensation” in this section of the Circular.

Furthermore, the Committee set the annual compensation of officers based on the level of achievement of the Bank’s results in relation to predetermined targets and each officer’s individual performance. Accordingly, the Committee exercised an oversight role regarding the performance of all officers of the Bank. For this purpose, the President and Chief Executive Officer of the Bank submitted a report to the Committee on officers’ performance for the Committee’s review.

Within the scope of its mandate, the Committee also assumes the strategic oversight of the pension plans of the Bank and NCFG, and of the Pool Fund for Participating Pension Plans of the Bank (the “Pool Fund”). Retirement committees assist the Committee in carrying out its mandate and submit their recommendations to it for approval. During the most recently completed financial year, the Committee:

- reviewed the mandate and the composition of the retirement committees and approved the appointment of new members;
- read and approved the audited consolidated financial statements of the Pool Fund for the financial year ended December 31, 2006;
- approved the appointment of the external auditors of the pension plans of the Bank and of the Pool Fund, as well as their fees for the 2007 calendar year;
- received the actuarial valuations of the Pension Plan for Designated Employees and of the Post-Retirement Allowance Program (“PRAP”) for officers of the Bank; and
- revised the PRAP for executive officers of the Bank to maintain their indirect compensation at a competitive level. The amendments made to this program are described under “Pension Plan and Post-Retirement Allowance Program” in this section of the Circular.

Section 3 | Internal Management (cont.)

Independent External Advisors

To obtain the information needed to make informed decisions and to keep abreast of market trends and best practices regarding officer compensation, the Committee regularly seeks advice from independent external advisors. During the most recently completed financial year, the Committee retained the services of three consulting firms: Hay Group Limited (“Hay Group”), McLagan Partners Inc. (“McLagan”) and Morneau Sobeco Corporation (“Morneau Sobeco”).

Hay Group provides advisory services to the Committee to help it determine the value of compensation programs for officers and employees of the Bank compared with those offered for similar positions by businesses in the Bank’s reference market. McLagan, which specializes in the financial markets sector, advised the Committee in establishing the value of compensation programs for officers and employees of NCFG. Morneau Sobeco advises the Committee in establishing provisions of the pension plans of the officers of the Bank and prepares actuarial valuations of the pension plans for which the Committee is responsible. In addition, within the scope of their mandate, external advisors met with the Committee members in order to present their recommendations concerning the variable compensation programs for officers, the total direct compensation of members of the Office of the President, and the PRAP. The Committee communicates directly with its external advisors whenever it deems appropriate.

In addition to the mandates carried out on behalf of the Committee during the most recently completed financial year, these firms executed other mandates for the Bank. In particular, McLagan and Hay Group provided market data on management and non-management positions at the Bank and NCFG, whereas Morneau Sobeco provided pension plan administration and actuarial services. The Committee annually reviews the fees paid to external advisors for the mandates performed for the Bank in order to ensure that such mandates do not adversely affect their status as independent advisors of the Committee.

The following table presents the fees paid to Hay Group, McLagan and Morneau Sobeco in the most recently completed financial year.

Independent External Advisors	Fees Paid
Hay Group	
Advisory mandates concerning compensation carried out for the Committee	\$59,674
Other mandates carried out for the Bank	\$16,100
McLagan	
Advisory mandates concerning compensation carried out for the Committee	\$21,818
Other mandates carried out for the Bank	\$24,103
Morneau Sobeco	
Advisory mandates concerning compensation carried out for the Committee	\$150,845
Other mandates carried out for the Bank	\$505,023 ⁽¹⁾
Total fees relating to advisory mandates concerning compensation carried out for the Committee	\$232,337
Total fees for other mandates carried out for the Bank	\$545,226

(1) Includes administration, actuarial and compliance services for the pension plans of the Bank and NCFG, and the employee benefits of NCFG.

Philosophy and Guiding Principles Governing Officer Compensation

Compensation is one of the main tools used by the Bank to attract, motivate and foster the loyalty of high-calibre officers who are focused on improving the performance of the Bank and generating value for shareholders. The guiding principles on which the Committee bases itself therefore seek to reward top-performing officers, while aligning their interests with those of shareholders.

The Committee sets the target total compensation for officers at the median of the reference market, which is adjusted to take into consideration characteristics specific to the Bank, particularly its relative size.

Reference Market

The reference market used to establish the value of compensation varies according to the line level of the positions and the business segments concerned. Therefore, for officers of the Bank, the reference market generally consists of the five other major Canadian banks, namely, Bank of Montreal, Canadian Imperial Bank of Commerce, Royal Bank of Canada, The Bank of Nova Scotia and The Toronto-Dominion Bank. The Bank also uses market data of widely-held Canadian corporations outside the banking industry.

For specialized positions in the Financial Markets segment, the Bank compares itself with a group of Canadian companies in the investment and brokerage sectors.

The Committee’s decisions and recommendations are based on the following guiding principles:

- the target total compensation of officers is competitive with the median of the Bank’s reference market;
- the annual variable compensation program ties the cash component of compensation to the level of achievement of the Bank’s strategic objectives, taking into account the financial results of the Bank and its various units, thereby ensuring competitive cash compensation for comparable performance;
- the long-term variable compensation program aligns officers’ compensation with the long-term interests of the Bank’s shareholders and the Bank’s long-term growth;
- the proportion of variable compensation, in relation to base salary, increases with the officer’s line level and capacity to influence the Bank’s short-, mid- and long-term results; and
- employee benefits and pension plans are comparable, on the whole, to those offered by the reference market.

Section 3 | Internal Management (cont.)

Officer Compensation

The compensation of officers of the Bank and officers of NCFG varies according to the Bank's results and the individual performance of each officer to ensure they receive competitive compensation when results meet expectations, and higher compensation when they exceed set objectives. Compensation paid to officers consists of the following components:

- base salary;
- annual variable compensation program;
- mid- and long-term variable compensation programs;
- employee benefits and perquisites; and
- pension plans.

The mix of short-term compensation (base salary and annual variable compensation) and mid- and long-term variable compensation is a function of the officer's level of responsibility (except for the Co-Presidents and Co-Chief Executive Officers of NCFG, for whom the industry requires a higher proportion of short-term variable compensation). Following an annual analysis of the total compensation provided to officers of the Bank, in comparison to its reference market, the weighting assigned to each of the compensation components was revised. The table below presents the target value of each component of total direct compensation for officers of the Bank, according to line level.

	Percentage Weight of Target Total Direct Compensation			Total Compensation at Risk
	Base Salary	Target Annual Variable Compensation	Target Mid- and Long-Term Compensation	
President and Chief Executive Officer	16%	20%	64%	84%
Members of the Office of the President ⁽¹⁾	25%	17%	58%	75%
Co-Presidents and Co-Chief Executive Officers, NCFG	6%	86%	8%	94%
Senior Vice-Presidents	38%	19%	43%	62%
Vice-Presidents	50%	20%	30%	50%

(1) Excluding the Co-Presidents and Co-Chief Executive Officers of NCFG.

Base Salary

The Committee annually reviews the base salaries of officers, including those of the Named Executive Officers whose compensation is presented under "Total Compensation of Named Executive Officers" in this Circular. Taking into account each officer's level of responsibility, experience and sustained contribution, the Committee makes the appropriate adjustments, as required. Similarly, in order to ensure that officers' base salaries are competitive, the Committee uses the median salaries of the Bank's reference market adjusted, if necessary, to take into consideration characteristics specific to the Bank.

Annual Variable Compensation Programs

Annual Bonus Program of the Bank

The Bank offers all its employees an annual bonus program that aims to reward them for their individual contribution to the financial results of their business unit and of the Bank as a whole. The value of the envelope to be shared is therefore calculated according to:

- the Bank's financial results compared to the objectives set at the beginning of the year. The two financial indicators used to calculate the bonus envelope are return on equity ("ROE") and growth in earnings per share ("GEPS"). For fiscal 2007, target ROE was set at 19.4% and GEPS, at 7.2%;

- the Bank's financial performance compared with that of the other five major Canadian banks. As shown in the table below, this indicator is used only to establish the threshold below which no bonus is paid, as well as the maximum to be achieved, so that the bonus paid can be greater than the target bonus, without however exceeding 200%; and
- the financial results of each business unit of the Bank.

The program specifies the minimum, target and maximum annual bonus as a percentage of base salary. This percentage varies depending on the line level of the position held in order to recognize the capacity of each level to influence the Bank's results.

Lastly, the bonus paid is based not only on the Bank's financial results, but also on such criteria as client satisfaction, management quality and individual performance.

Annual Bonus Program for Officers

The target annual bonus envelope for the President and Chief Executive Officer, the members of the Office of the President (excluding the Co-Presidents and Co-Chief Executive Officers of NCFG, whose program is described under "Annual Bonus Program for Officers on the NCFG Policy Committee" in this section of the Circular) and the other Senior Vice-Presidents of the Bank is determined using two weighted performance criteria.

Section 3 | Internal Management (cont.)

The following table presents the parameters used to create the bonus envelope for fiscal 2007 and the results needed to achieve the target or maximum percentages.

Return on Equity (ROE) (80% of envelope)	Envelope (as a % of target)
Threshold ⁽¹⁾ = the lesser of: 90% of budgeted ROE and 75% of average ROE for the other five major Canadian banks	0%
Target ⁽²⁾ = budgeted ROE (19.4% in fiscal 2007)	100%
Maximum ⁽³⁾ = the higher of: 110% of budgeted ROE and 125% of average ROE for the other five major Canadian banks	200%
Growth in Earnings per Share (GEPS) (20% of envelope)	
Zero growth (if average GEPS for the other five major Canadian banks is negative, this average will serve as the threshold)	0%
Target = Budgeted GEPS (7.2% in fiscal 2007)	100%
Maximum = 200% of budgeted GEPS	200%

- (1) *Threshold: If financial results do not reach this level, no bonus envelope is created and therefore no bonus is paid. However, if the results achieved are between the threshold and the target, the bonus envelope will be greater than 0% but less than 100% of the target.*
- (2) *Target: If the objectives set at the beginning of the year are achieved, the bonus envelope is aligned with the annual bonus target level of officers.*
- (3) *Maximum: If financial results exceed the objectives set at the beginning of the year, the bonus envelope is greater than 100% of the target, without however exceeding 200%.*

In addition to these two criteria, the annual bonus envelope for Vice-Presidents is based on their business unit's income before income taxes.

The program also provides that the Board may increase the total target envelopes by up to 15%, to take into account the achievement of non-financial objectives, without however exceeding the maximum of 200%.

Amendments to the Program for Officers – Effective in fiscal 2008, the weighting of performance indicators will be amended to support the Bank's objectives. A weighting of 70% will be assigned to growth in earnings per share in calculating the bonus envelope, and 30% to return on equity.

Annual Bonus Program for Officers on the NBFG Policy Committee

The Policy Committee is the primary management forum of NBFG. The officers of NBFG who are members of this committee, including Luc Paiement and Ricardo Pascoe, participate in a separate annual bonus program. The bonus envelope is based on a predetermined percentage of NBFG's pre-tax income. Bonuses are calculated and paid semi-annually, based on the year-to-date financial results at the end of the first half of the year and at year-end.

In order to foster retention, one third of the annual bonus is paid to each officer in the form of restricted stock units ("RSUs"). The value of these units corresponds to the closing price of the Bank's Common Shares on the Toronto Stock Exchange on the day preceding the grant. Additional RSUs are credited to the officer's account equal in amount to the dividends paid on the Common Shares. RSUs vest evenly over three years and expire at the end of the third year. A cash payment will be equal to the number of vested RSUs multiplied by the price corresponding to the average closing market price of the Bank's Common Shares on the Toronto Stock Exchange for the 20 days preceding the vesting date of the RSUs.

Amendments to the Program for Officers on the NBFG Policy Committee – Effective in fiscal 2008, bonuses will be calculated and paid annually based on year-end results.

Annual Bonus Programs of Other Officers, Administrative Personnel and Specialists of NBFG

NBFG also offers variable compensation programs to all its personnel to reward them for their individual contribution to the financial results of the various business units and of NBFG as a whole.

The bonus envelopes created for NBFG officers and specialists vary from unit to unit, and may be a function of the income generated by the unit, the direct contribution or the overall profitability of NBFG. Bonuses are allocated based on the ability to generate income, the business relationship with clients, as well as the level of responsibility, experience and performance of individual employees. In order to foster retention, one third of the annual bonus of some officers is paid in the form of RSUs as per the terms and conditions previously described.

These programs are established on the basis of those offered for similar positions in the reference market, namely, the investment industry.

Section 3 | Internal Management (cont.)

The bonus envelope for administrative personnel is based on the financial results of the Bank, of NCFG and of the relevant business units, and the extent to which predetermined strategic objectives are achieved. Bonuses are allocated based on the employee's line level and individual contribution to the attainment of the objectives.

Mid- and Long-Term Variable Compensation Programs

The Bank grants stock options on an annual basis to all of its officers and other designated persons of the Bank and its subsidiaries, except for officers who are not Canadian residents, who receive exclusively Stock Appreciation Rights ("SARs"). Moreover, officers may elect to receive a portion of this long-term compensation in the form of Deferred Stock Units ("DSUs") instead of stock options. Certain officers of the Bank receive a portion of their compensation as RSUs. Lastly, officers of the Bank are required to comply with the Share Ownership Guidelines, as set out under "Share Ownership Guidelines for Officers of the Bank" in this section of the Circular.

All these plans are described hereafter.

Stock Option Plan of the Bank

The purpose of the Bank's Stock Option Plan (the "Stock Option Plan") is to encourage officers and other designated persons of the Bank and its subsidiaries to contribute to the growth of shareholder investments by tying a portion of their compensation to increases in the value of the Bank's Common Shares. Each option entitles the holder to purchase one Common Share at a price equal to the closing price of the Bank's Common Shares on the Toronto Stock Exchange on the day preceding the grant. Each year, when granting options, the Committee considers the number and term of previously granted options. After setting the conditions, the Committee grants options, on an annual basis, to officers and other designated persons of the Bank and its subsidiaries. Since the Stock Option Plan was adopted, the Bank makes only one grant per financial year, on a specific date, without taking into account the officers hired or appointed during the financial year. This annual award date has never been retroactively amended.

Options vest over four years at the rate of 25% per year. They may be exercised in whole or in part before the expiration date set by the Committee at the time they are granted, but such period cannot exceed 10 years. Options expire on their expiration date or, under certain circumstances provided for in the Stock Option Plan, within prescribed periods. All non-vested options will be forfeited on the date of the plan member's death or following 30 continuous months of absence due to disability. Retired plan members retain options vested before their retirement for a period of three years. If the plan member resigns or is dismissed for cause, all unexercised options will be forfeited on the departure date or on the date the member ceases to be eligible. In the event of termination of employment, an extension for the termination of the options of up to 18 months may be granted.

No options may be exercised in the first year after they are granted. Officers may exercise their vested options between the 2nd business day following publication of the Bank's interim consolidated financial statements and the 30th calendar day following that date. Options are not transferable, except as part of an estate settlement.

To further align the interests of officers who are members of the Office of the President with those of shareholders, the Board has added specific conditions under which options can be exercised. Accordingly, each member of the Office of the President must, upon exercising stock options granted since December 2002, keep the amount equal to the gain resulting from the exercise of vested options, after tax considerations, in the form of Common Shares of the Bank for one year. Moreover, members of the Office of the President must disclose their intention to exercise any stock options of the Bank, regardless of the grant date, by way of a news release, five business days prior to the intended exercise date. Lastly, the Stock Option Plan specifically provides that the price of options already granted cannot be lowered, under any circumstances, to reflect changes in the price of the Bank's Common Shares. Officers can therefore only benefit from the options granted to them provided that the Bank's share price increases steadily over the long term.

The number of Common Shares reserved for a member may not exceed 5% of the total number of Common Shares issued and outstanding. The Bank strictly abides by this rule and no member holds options on a number of Common Shares that exceeds 5% of the total number of Common Shares issued and outstanding.

The following amendments, approved by the Bank's shareholders at the last annual and special meeting of shareholders, were made to the Stock Option Plan during the most recently completed financial year:

- the number of Common Shares issuable under the Stock Option Plan was increased by 3,171,101 shares; and
- amendments to the amendment procedure and to the conditional expiration dates of the Stock Option Plan were made following changes in Toronto Stock Exchange rules or the interpretation thereof.

All such amendments had previously been approved by the Toronto Stock Exchange.

Section 3 | Internal Management (cont.)

The table below presents the total number of stock options granted in December of each year and exercised in the three most recently completed financial years, as well as the reserve for future grants at the end of each financial year.

	Stock Options Granted in December	Black-Scholes ⁽¹⁾ Value at Grant Date	Value of Grant	Stock Options Exercised During the Financial Year	Outstanding Stock Options at Financial Year-End	Stock Options Available (at Financial Year-End) for Future Grants	Total Stock Options Outstanding and Available for Grant at Financial Year-End
2007	2,260,036	\$10.18	\$23,007,166	931,318	5,770,347	9,790,783	15,561,130
2006	1,493,504	\$14.36	\$21,446,717	1,074,308	5,391,912	7,929,435	13,321,347
2005	943,200	\$15.50	\$14,619,600	1,760,263	5,613,970	8,781,685	14,395,655

(1) For compensation purposes, the Black & Scholes value is based on a stock option duration of ten years.

Stock Appreciation Rights Plan of the Bank

The Bank's Stock Appreciation Rights Plan (the "SAR Plan") has the same objectives and respects the same granting and exercise criteria as the Stock Option Plan.

The Committee grants SARs to officers and other designated persons of the Bank and its subsidiaries. SAR Plan members may receive, on the exercise date of the SARs, a cash amount equal to the difference between the closing price of the Common Shares of the Bank on the Toronto Stock Exchange on the day preceding the exercise date and the closing price on the day preceding the grant.

As in the case of stock options, SARs may not be exercised before the vesting date and have a maximum term of 10 years as of the grant date. Furthermore, unexercised SARs expire either on their expiration date, or when a plan member resigns or is dismissed for cause.

In fiscal 2007, only plan members who were not Canadian residents were granted SARs.

No amendment was made to the SAR Plan in fiscal 2007.

Restricted Stock Unit Plan of the Bank

The Bank's Restricted Stock Unit Plan (the "RSU Plan") was approved to further ensure that the compensation of certain officers and other designated persons of the Bank and its subsidiaries is competitive and to foster retention. Under the RSU Plan, a predetermined percentage of the officer's base salary is paid in the form of RSUs. The value of these units corresponds to the closing price of the Common Shares of the Bank on the Toronto Stock Exchange on the day preceding the grant. Additional RSUs equal in amount to the dividends paid on Common Shares are credited to the officer's account. RSUs vest only at the end of the third year after the grant date, which is also the maturity date. A cash payment will be equal to the number of vested units multiplied by the price corresponding to the average closing price of the Common Shares of the Bank on the Toronto Stock Exchange for the 20 days preceding the vesting date of the units. If the plan member resigns or is dismissed for cause, all non-vested RSUs are cancelled.

No amendment was made to the RSU Plan in fiscal 2007.

Deferred Stock Unit Plan for Officers of the Bank

The objective of the Deferred Stock Unit Plan for officers of the Bank (the "DSU Plan") is to align the interests of officers of the Bank more closely with those of shareholders by tying a portion of their compensation to the future value of the Bank's Common Shares. A DSU is a right that has a value equal to the closing price of the Bank's Common Shares on the Toronto Stock Exchange on the day preceding the grant. Additional DSUs equal in amount to the dividends paid on Common Shares are credited to the officer's account. DSUs vest over four years at the rate of 25% per year, and may only be cashed when the officer retires or leaves the Bank. In general, the member may then request that all or some of his or her vested DSUs be redeemed by filing up to eight notices of redemption of DSUs on or before December 1 of the first calendar year after the calendar year in which the officer ceased to be in the Bank's employ.

The officers of the Bank may elect to receive up to 30% of their long-term compensation in the form of DSUs instead of stock options.

No amendment was made to the DSU Plan in fiscal 2007.

Deferred Compensation Plan of NBFG

NBFG offers a deferred compensation plan to its key Individual Investor Services employees. This deferred compensation plan was established to foster retention of key employees and thereby promote growth in income and continuous improvement in profitability in this sector. Plan members can defer a portion of their annual compensation and thereby benefit from the deferral of income tax on that compensation. This plan also enables the employer to make a contribution to key employees in this sector. The total contribution envelope of the employer is established based on NBFG's profitability and is distributed to eligible employees with the highest individual contributions in terms of income generated. The amounts awarded by the employer and the deferred compensation of the employee may be invested in deferred units according to six investment choices, as chosen by the member, who may subsequently modify the fund allocation among the six proposed investments, once a year. The units deposited in the employer's account vest at the rate of 25% each financial year. Bank shares are one of the investments proposed under this plan. The value of vested units is payable, under certain conditions, to employees when their employment is terminated or when they retire.

Section 3 | Internal Management (cont.)

Share Ownership Guidelines for Officers of the Bank

The Committee ensures that the compensation of officers of the Bank is closely tied to the long-term interests of shareholders. Share Ownership Guidelines for officers of the Bank have therefore been implemented and are monitored on a regular basis to ensure compliance.

Officers of the Bank are required to maintain minimum holdings of Bank Common Shares, including DSUs, vested SARs and vested stock options, commensurate with each officer's compensation and position. The value of the minimum holdings of Common Shares equals the previous three years' average base salary received by a given officer multiplied by a factor established under the Bank's Share Ownership Guidelines, as follows:

Position	Multiple of Previous Three Years' Average Salary
President and Chief Executive Officer	5x
Members of the Office of the President ⁽¹⁾	2x
Senior Vice-Presidents	1.5x
Vice-Presidents	1x

(1) Excluding the President and Chief Executive Officer.

New Bank officers have a five-year grace period starting on the date of their hiring or promotion to meet these requirements. Moreover, all officers are responsible for ensuring that they comply with the Share Ownership Guidelines. If, for any reason, a shortfall should occur, the officer would then have to abstain from selling his or her Bank shares and from exercising his or her vested options and vested SARs (unless the share certificates are kept) until such time as the minimum requirements were once again met.

Amendments to the Share Ownership Guidelines – In December 2007, the Guidelines were revised to include the value of non-vested DSUs as well as vested and non-vested RSUs in the calculation of officer shareholdings. Furthermore, certain NBSG officers will now be required to hold and maintain minimum holdings of Bank Common Shares.

As at December 12, 2007, all of the Named Executive Officers held the required value of Common Shares of the Bank, including DSUs, RSUs, SARs and stock options, in compliance with the Guidelines in effect at that date. The table below presents the shareholdings of the Named Executive Officers at that date.

Named Executive Officer		Requirement	Share Ownership ⁽¹⁾			Actual Multiple	
Name	Title	Multiple of Previous Three Years' Average Salary	Securities Held, Value Added of Vested Stock Options, DSUs and RSUs	Value Added of Non-Vested Stock Options	Total Value	Based on Securities Held and Stock Units	Based on Total Value
Louis Vachon	President and Chief Executive Officer	5x	\$ 8,485,480	\$ 77,688	\$ 8,563,168	14.1x	14.3x
Jean Dagenais	Senior Vice-President and Chief Financial Officer	1.5x	\$ 572,369	\$ 8,193	\$ 580,562	3.2x	3.3x
Michel Tremblay	Chief Operating Officer – Personal and Commercial Banking and Wealth Management, member of the Office of the President	2x	\$ 2,797,706	\$ 39,635	\$ 2,837,341	6.3x	6.4x
Ricardo Pascoe	Co-Presidents and Co-Chief Executive Officers, NBSG and Senior Vice-Presidents, members of the Office of the President	2x	\$ 3,390,660	\$ 22,600	\$ 3,413,260	12.0x	12.0x
Luc Paiement	members of the Office of the President		\$ 3,887,694	\$ 22,600	\$ 3,910,294	13.0x	13.0x

(1) Value determined on December 12, 2007, based on the closing price of Common Shares of the Bank on the Toronto Stock Exchange on the preceding day, namely \$53.85.

Section 3 | Internal Management (cont.)

Employee Share Ownership Plan for Canadian Employees of the Bank and Its Designated Subsidiaries

The aim of the Employee Share Ownership Plan (the “ESO Plan”) is to build a stronger sense of belonging among Bank employees. Under the ESO Plan, eligible employees may contribute up to 8% of their gross salary per year by way of payroll deductions and the Bank matches 25% of their contributions, up to \$1,500 per year. The Bank’s contributions are vested after the employee has completed one year of continuous membership in the Plan. Subsequent contributions vest immediately.

Employee Benefit and Perquisite Programs

Officers have the same benefit programs as all of the Bank’s employees. These programs provide competitive basic medical, dental, life and accident insurance coverage for employees and their dependants, as well as income protection in case of disability. This basic coverage can be increased subject to the employee paying additional premiums. Basic life insurance and accident insurance are considered taxable benefits.

In addition to the banking services at no charge or at a reduced rate offered to all its employees, the Bank provides its officers with the use of a vehicle and it refunds the cost of an annual medical exam as well as the fees of a tax consultant, up to an annual limit. These perquisites offered to officers are comparable to those offered by the competition and are taxable.

Pension Plan and Post-Retirement Allowance Program

The Bank offers all eligible employees, including its officers, a defined benefit pension plan and a Post-Retirement Allowance Program (“PRAP”). The benefits accrued under these plans form an integral part of the total compensation offered by the Bank. A pension, up to the maximum pension prescribed by applicable legislation, is payable under the registered pension plan, while the PRAP provides for any supplemental pension.

Pensions are determined according to the years of credited service and average pensionable earnings. In general, for each year of credited service, these two plans combined grant a life pension equal to 2% of the average pensionable earnings. The number of years of credited service for purposes of the PRAP is limited to 35. Average pensionable earnings are defined as the average earnings for the 60 highest-paid consecutive months. Pensionable earnings include the salary and the annual bonus, which is subject to conditions that vary according to line level:

- for the President and Chief Executive Officer, the eligible bonus is limited to 100% of base salary;

- for members of the Office of the President, 50% of the annual bonus (up to 35% of base salary) is recognized. However, average annual pensionable earnings are limited to \$700,000, except for certain members designated by the Board as being eligible for a limit of \$1,000,000; and
- for all other Officers of the Bank, 50% of the annual bonus (up to 25% of base salary) is recognized. Average annual pensionable earnings are limited to \$400,000 for Senior Vice-Presidents and to \$250,000 for Vice-Presidents.

Moreover, the officers of the Bank contribute to the pension plan. The contribution percentage also varies depending on the line level of the officer:

- the President and Chief Executive Officer, the members of the Office of the President and the Senior Vice-Presidents contribute 9% of their pensionable earnings, up to \$14,580 per year. At retirement, the accumulated sum exceeding the basic contribution is converted into a supplemental pension, subject to the limits imposed by applicable legislation; and
- the Vice-Presidents contribute in the order of 3.4% of their pensionable earnings, up to the Maximum Pensionable Earnings (“MPE”) under the Canada or Quebec Pension Plan, plus 5% of their salary in excess of the MPE. Annual contributions are not to exceed \$5,540.

Pursuant to the pension plans, the normal retirement age is 60. However, these pension plans allow for early retirement starting at age 55, subject to the Bank’s consent. In such case, the pension is reduced by the lesser of:

- 4% for each year prior to age 60, or
- 2% for each year by which the sum of the age and years of service falls short of 90.

Amendments to the PRAP – In May 2007, the Board passed a resolution amending the PRAP in order to maintain the total compensation of executive officers at a competitive level and to foster retention. Therefore, the members of the Office of the President will be credited 1.5 years of service for each year of participation between the ages of 50 and 60 (or within ten years of their appointment by the Board). In addition, the ceiling for average pensionable earnings under the PRAP for these officers was raised from \$700,000 to \$1,000,000. These amendments do not apply to the President and Chief Executive Officer, whose pension calculation provisions are described under “Retirement Plans for Named Executive Officers” in this Circular, and the Co-Presidents and Co-Chief Executive Officers of NCFG, for whom the industry requires different proportions of total compensation components.

Section 3 | Internal Management (cont.)

Results of the Bank for Fiscal 2007 and Annual Variable Compensation of Named Executive Officers

In December of each year, the Committee reviews the results obtained for the Bank as a whole and for the various business units in relation to the targets set through compensation programs at the beginning of the financial year.

The table below presents the targets and results used by the Committee to determine the annual bonus envelopes of the Named Executive Officers for fiscal 2007.

Named Executive Officers, Excluding the Co-Presidents and Co-Chief Executive Officers of NCFG

Parameters	Target	Results	Officers	Bonus Envelope
Return on equity (ROE)	19.4%	11.5%	President and Chief Executive Officer	No envelope
Growth in earnings per share (GEPS)	7.2%	(37%)	Senior Vice-Presidents, members of the Office of the President Other Senior Vice-Presidents	No envelope No envelope ⁽¹⁾

(1) The Board decided to use its discretionary margin of 15% of the target to create a bonus envelope for the Senior Vice-Presidents of the Bank who are not members of the Office of the President, in order to recognize the achievement of non-financial objectives.

Co-Presidents and Co-Chief Executive Officers of NCFG

Parameters	Results		Officers	Bonus Envelope	
	1st Half of Year	2nd Half of Year		1st Half of Year	2nd Half of Year
Income before income taxes (IBIT) – NCFG	Positive	Lower than IBIT for first half of year	Co-Presidents and Co-Chief Executive Officers of NCFG	Envelope based on results as at April 30, 2007	No envelope

NCFG's income before income taxes as at April 30, 2007 resulted in the creation of a bonus envelope totalling \$5.3 million and those bonuses were paid in June 2007, in accordance with the provisions of the compensation program for the Co-Presidents and Co-Chief Executive Officers of NCFG. In the fourth quarter, the Bank recorded an impairment in value relating to the ABCP liquidity crisis, which began in August 2007, and the Board decided that no bonuses would be payable to the Co-Presidents and Co-Chief Executive Officers of NCFG for the second half of the year.

Compensation of the President and Chief Executive Officer for Fiscal 2007

Mr. Vachon was appointed President and Chief Executive Officer on June 1, 2007. The Committee established his total compensation package on the basis of the median of the Bank's reference market, adjusted to take into account characteristics specific to the Bank. To this end, the Committee members mandated Hay Group to conduct a market study on which they based their decisions.

The target values of Mr. Vachon's compensation components are:

- a base salary of \$800,000;
- a target annual bonus set at 125% of base salary. The actual bonus may vary between 0% and 250% of base salary depending on the annual financial results achieved, as well as Mr. Vachon's contribution and overall performance;

- mid-term compensation representing 150% of base salary paid in the form of RSUs; and
- target long-term compensation, representing 250% of base salary at the time of the grant, paid in the form of stock options.

Criteria for Assessing the Performance of the President and Chief Executive Officer

The Committee assesses the overall performance of the President and Chief Executive Officer on the basis of his contribution to:

- the financial results obtained by the Bank versus the objectives set at the beginning of the financial year and the results obtained by the other five major Canadian banks;
- the development of competitive advantages enabling the Bank to consolidate its strategic positioning within the financial services sector;
- the Bank's risk profile and credit quality;
- the creation and maintenance of a solid corporate image based on the ongoing development of quality customer service and a tangible commitment to the community;
- the management of human resources, particularly strategic senior management succession planning; and
- the development and maintenance of quality relationships with shareholders, clients, employees, governments and other regulatory authorities, as well as communities.

Section 3 | Internal Management (cont.)

A written description of the responsibilities of the President and Chief Executive Officer, related to the above elements, was established and approved by the Committee.

Assessment of the Performance of the President and Chief Executive Officer for Fiscal 2007

At the beginning of each financial year, the Committee approves the annual objectives of the Bank's President and Chief Executive Officer. Following Mr. Raymond's announcement that he intended to retire on June 1, 2007, the objectives set at the start of fiscal 2007 with respect to creating value for shareholders and clients were maintained.

In addition, Mr. Vachon's organizational objectives primarily involved assuming his new duties, namely, reviewing the make-up and structure of his management team as well as the Bank's mid-term strategy. Accordingly, in December 2007, Mr. Vachon presented the main priorities that will

guide the Bank's actions in the coming years to ensure it meets its growth challenges.

Fiscal 2007 was also marked by the liquidity problem in the ABCP market, which had an adverse impact on the Bank's results. However, the decisive action taken by the Bank to relieve individual clients from uncertainties related to this market by purchasing the ABCP they were holding, and its assessment of the impairment in value of its ABCP portfolio were well received by the market. This event confirmed that the Bank is a diversified, profitable and financially solid company.

The table below summarizes the performance indicators, targets and results (including and excluding specified items) obtained in fiscal 2007.

Category	Target	Results	Results Excluding Specified Items ⁽¹⁾
Financial results	Return on equity over 16%	11.50%	20%
	Growth in earnings per share over 5%	(37)%	12%
Risk	Tier 1 capital ratio of 8.5%	9%	9%
Very satisfied clients	150 basis-point increase	63 basis-point increase	–

(1) These percentages take into account the adjustment related to specified items including, inter alia, the impairment in value of ABCP and the consolidation of Altamira activities with those of the Bank. These percentages are not in compliance with generally accepted accounting principles (GAAP). For more information, see "Financial Reporting Method" at pages 12 and 13 of the Bank's 2007 Annual Report.

Bonuses for Fiscal 2007

Since the financial results for fiscal 2007 fell short of their target objective, the Committee and the Board decided not to grant Mr. Vachon an annual bonus. The bonus would have totalled \$992,000, had the specified items been excluded.

In keeping with the other components of Mr. Vachon's compensation, the Committee granted him mid-term and long-term compensation comprised of 196,464 stock options and 22,284 RSUs, in accordance with the target percentages of base salary fixed for calculating his mid-term compensation, namely:

- 150% of base salary in RSUs of the Bank; and
- 250% of base salary in stock options.

The estimated value of the compensation (cash and stock-based) granted to Mr. Vachon in fiscal 2007 was therefore \$3,875,074, which represents a decrease of 41% versus the value of \$6,542,342 granted to him in fiscal 2006.

Moreover, the table below shows the variation, between October 31, 2006 and October 31, 2007, of the options and RSUs granted to Mr. Vachon during preceding financial years, and clearly shows that Mr. Vachon's compensation is closely tied to the share price for the same period. The value of Mr. Vachon's stock options and RSUs at October 31 of each year was determined as follows:

- Value of stock options: The difference between the aggregate value at financial year-end (i.e., the total number of stock options multiplied by the closing price of the Bank's Common Shares on the Toronto Stock Exchange at financial year-end) and for each grant, the value at the grant date (i.e., the number of stock options granted multiplied by the closing price of the Bank's Common Shares on the Toronto Stock Exchange on the day preceding the grant date).
- Value of RSUs: The number of RSUs multiplied by the closing price of the Bank's Common Shares on the Toronto Stock Exchange on the last business day of the financial year.

Section 3 | Internal Management (cont.)

	Value as at October 31, 2006	December 2006 Award	Value as at October 31, 2007	% Change
Louis Vachon's options and RSUs	\$9,292,429	\$2,157,143	\$7,894,259	(31.1)% ⁽¹⁾
Bank's share price	\$61.25	–	\$54.65	(10.8)%

(1) Mr. Vachon did not exercise any options or redeem any RSUs in fiscal 2007. The reduction in the total value of Mr. Vachon's holdings was solely due to the decline in the price of the underlying shares.

Mr. Vachon's compensation is detailed in the "Summary of Total Compensation of Named Executive Officers" table under "Total Compensation of Named Executive Officers" in this Circular.

In conclusion, it is the view of the Committee that the level of officer compensation is in line with the Bank's quantitative and qualitative results for fiscal 2007, given the compensation programs in effect and the contractual obligations they contain. The level of officer compensation is also appropriate in relation to the compensation provided by the Bank's competitors in comparable circumstances, while taking into account characteristics specific to the Bank.

This report is submitted by the Committee:

Jean Gaulin, Chair
André Caillé
Shirley A. Dawe
Marcel Dutil
Marc P. Tellier

Section 3 | Internal Management (cont.)

Total Compensation of Named Executive Officers

Summary of Total Compensation of Named Executive Officers

The following table is presented pursuant to Canadian securities legislation. It details the total compensation paid by the Bank and its subsidiaries to each of the Named Executive Officers during the three most recently completed financial years.

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation		
		Salary (\$)	Bonuses (\$) ⁽¹⁾	Other Annual Compen- sation (\$) ⁽²⁾	Awards	Payouts	
					Number of Securities Under Options or SARs Granted (#) ⁽³⁾	Shares or Units Subject to Resale Restrictions (\$) ⁽⁴⁾ ⁽⁵⁾ ⁽⁶⁾	Other Compensation (\$) ⁽⁷⁾
Louis Vachon ⁽⁸⁾ President and Chief Executive Officer	2007	675,074	0	0	196,464	1,200,000	126,835
	2006	444,164	2,930,790 and 22,598 RSUs ⁽⁶⁾ (\$1,366,644)	0	125,400	–	78,717
	2005	400,000	3,442,214 and 30,708 RSUs ⁽⁶⁾ (\$1,721,106)	0	37,400	–	15,951
Réal Raymond ⁽⁹⁾ President and Chief Executive Officer	2007	794,427	756,233	0	–	–	149,608
	2006	1,000,000	1,500,000	0	191,500	1,250,123	173,933
	2005	1,000,000	2,000,000	0	177,400	1,250,304	113,638
Jean Dagenais ⁽¹⁰⁾ Senior Vice-President and Chief Financial Officer	2007	182,244	32,700	0	34,100	–	0
	2006	157,960	86,000	0	3,700	–	0
	2005	154,044	103,000	0	3,300	–	0
Pierre Fitzgibbon ⁽¹¹⁾ Senior Vice-President Finance, Technology and Corporate Affairs	2007	221,393	0	16,793	–	–	0
	2006	321,137	333,000	6,801	32,400	–	0
	2005	268,644	1,210,000	2,794	29,300	–	0
Michel Tremblay ⁽¹²⁾ Chief Operating Officer Personal and Commercial Banking and Wealth Management	2007	461,816	0	0	0	0	66,291
	2006	440,000	460,000	0	31,100	807,473	31,560
	2005	440,000	836,000	0	28,800	587,674	10,709
Ricardo Pascoe Co-President and Co-Chief Executive Officer, NCFG and Senior Vice-President	2007	300,000	1,768,651 and 13,371 RSUs ⁽⁶⁾ (\$884,326)	0	42,720	–	101,389
	2006	256,022	2,169,282 and 17,548 RSUs ⁽⁶⁾ (\$1,084,642)	0	30,300	–	46,941
	2005	250,000	2,063,454 and 18,405 RSUs ⁽⁶⁾ (\$1,031,727)	0	13,400	–	9,545
Luc Paiement Co-President and Co-Chief Executive Officer, NCFG and Senior Vice-President	2007	300,000	1,768,651 and 13,371 RSUs ⁽⁶⁾ (\$884,326)	13,180	29,904	130,467	82,119
	2006	300,000	2,018,238 and 16,309 RSUs ⁽⁶⁾ (\$1,009,120)	3,727	21,200	130,680	40,428
	2005	300,000	1,881,445 and 16,785 RSUs ⁽⁶⁾ (\$940,723)	1,248	16,000	–	9,721

Section 3 | Internal Management (cont.)

- (1) The figures in this column include the annual bonuses earned during each financial year ended October 31 and paid in cash or in the form of RSUs. The portion of the bonuses paid in the form of RSUs was reported under the "Other Compensation" column in circulars of previous years. Under the Annual Bonus Program for officers on the Policy Committee of NCFG, Mr. Pascoe and Mr. Paiement received a semi-annual bonus in June 2007, and a third of this bonus was paid in the form of RSUs, whose value of \$66.14 was based on the grant price as at May 29, 2007.
- (2) The figures in this column relate solely to benefits relating to loans granted at preferred interest rates to Named Executive Officers. They also benefit from other perquisites, such as the use of a leased car, a parking space and the reimbursement of certain fees for tax advice. The aggregate value of these other benefits for the year ended October 31, 2007 does not exceed the lesser of: \$50,000 or 10% of the salary and bonuses paid annually to the Named Executive Officers.
- (3) These securities were granted under the Stock Option Plan. For more information, see "Stock Option Plan of the Bank" in this Circular.
- (4) Mr. Vachon and Mr. Tremblay are eligible for mid-term compensation equal to 150% and 140% of their respective base salary. This compensation is paid in the form of RSUs. The value of this compensation was estimated based on the price of the RSU grant on December 11, 2007, namely \$53.85. These RSUs will only be vested at the end of year 2010 and their value will then be calculated based on the value of the Common Shares of the Bank at that time. For more information, see "Restricted Stock Unit Plan of the Bank" under the "Report of the Human Resources Committee" in this Circular.
- (5) Mr. Paiement received 2,422 DSUs for officers of the Bank at a price of \$53.85 in December 2007, pursuant to the DSU Plan. For more information, see "Deferred Stock Unit Plan for Officers of the Bank" under "Report of the Human Resources Committee" in this Circular.
- (6) As at October 31, 2007, the number and value of RSUs and DSUs held by the Named Executive Officers and based on a share price of \$54.65 as at October 31, 2007 was determined as follows:

Name	Total RSUs Held as at October 31, 2007		Total DSUs Held as at October 31, 2007	
	Number	Value (\$)	Number	Value (\$)
Louis Vachon	56,379	3,081,097	–	–
Réal Raymond	–	–	–	–
Jean Dagenais	–	–	–	–
Pierre Fitzgibbon	–	–	–	–
Michel Tremblay	16,442	898,552	13,025	711,798
Ricardo Pascoe	51,404	2,809,233	–	–
Luc Paiement	42,394	2,316,844	2,037	111,336

- (7) The figures in this column represent the amount of dividends accumulated during the financial year and credited in the form of additional DSUs and RSUs under the DSU Plan for Officers and the RSU Plan. For Mr. Paiement, the amounts stated also include the total contributions made by National Bank Financial Inc. during each financial year on his behalf to the National Bank Financial Inc. employee Group Registered Retirement Savings Plan ("RRSP").
- (8) Mr. Vachon has held the position of President and Chief Executive Officer since June 1, 2007. He previously held the position of Chief Operating Officer of the Bank. Following this appointment, Mr. Vachon's base salary was adjusted from \$600,000 to \$800,000.
- (9) Mr. Raymond retired on June 1, 2007. Since then, Mr. Raymond has acted as special advisor and, as such, received fees totalling \$177,550 as well as certain other benefits which were in effect at the time of his retirement. Since Mr. Raymond retired, he is no longer eligible for stock option grants or any other form of mid- or long-term compensation. The figures disclosed for fiscal 2007 represent the total compensation paid during the financial year. See "Retirement Plans for Named Executive Officers" in this Circular for a description of post-retirement benefits and payments.
- (10) Mr. Dagenais has held the position of Senior Vice-President and Chief Financial Officer since June 1, 2007. Following this appointment, Mr. Dagenais' base salary was adjusted from \$165,000 to \$210,000.
- (11) Mr. Fitzgibbon held the position of Senior Vice-President – Finance, Technology and Corporate Affairs until May 31, 2007. The figures disclosed for fiscal 2007 represent the total compensation paid up to June 15, 2007.
- (12) Mr. Tremblay was appointed Chief Operating Officer – Personal and Commercial Banking and Wealth Management on June 1, 2007. Following this appointment, Mr. Tremblay's base salary was adjusted from \$440,000 to \$500,000. The Board decided not to grant any stock options or RSUs to Mr. Tremblay in December 2007 because Mr. Tremblay tendered his resignation, which will be effective January 18, 2008.

Section 3 | Internal Management (cont.)

Options Granted in December 2007

The table below specifies the number of options granted to Named Executive Officers during the most recently completed calendar year. Under the Stock Option Plan, options granted on December 12, 2007 will vest over the next four years, in equal portions of 25%, starting in December 2008. These

options will expire on December 12, 2017. During the 30 business days prior to the options being granted, the closing price of the Common Shares of the Bank on the Toronto Stock Exchange fluctuated between \$54.10 and \$53.85.

Name	Number of Options Granted (#)	Percentage of Total Options & SARs Granted to Employees in December 2007	Option Exercise Price (\$)	Market Value of a Common Share on the Date Preceding the Grant (\$)	Expiration Date
Louis Vachon	196,464	8.52	53.85	53.85	12/12/2017
Réal Raymond	0	0	–	–	–
Jean Dagenais	34,100	1.48	53.85	53.85	12/12/2017
Pierre Fitzgibbon	0	0	–	–	–
Michel Tremblay	0	0	–	–	–
Ricardo Pascoe	42,720	1.85	53.85	53.85	12/12/2017
Luc Paiement	29,904	1.30	53.85	53.85	12/12/2017

Since the initial approval of the Stock Option Plan and the SAR Plan, as well as during the most recently completed financial year, the Bank has not repriced downward any options or SARs held by its officers and Named Executive Officers.

The following table lists, for each of the Named Executive Officers, the number of securities affected by options/SARs exercised during the most

recently completed financial year, the aggregate value realized as well as the number and value of unexercised options/SARs outstanding as at October 31, 2007. The value of unexercised options/SARs at financial year-end is equal to the difference between the exercise price of the options/SARs and the closing price of Common Shares of the Bank on the Toronto Stock Exchange on the last business day of the financial year, namely, \$54.65.

Options/SARs Exercised by the Named Executive Officers During the Financial Year Ended October 31, 2007, and Number and Value of Unexercised Options/SARs at Financial Year-End

Name	Number of Securities Affected by Exercised Options/SARs (#)	Aggregate Value Realized (\$)	Unexercised Options/SARs at Financial Year-End		Value of Unexercised In-The-Money Options/SARs at Financial Year-End ⁽¹⁾	
			Exercisable (#)	Unexercisable (#)	Exercisable (\$)	Unexercisable (\$)
Louis Vachon	0	0	198,150	187,950	4,540,237	272,925
Réal Raymond	0	0	493,950	505,350	6,896,880	1,523,280
Jean Dagenais	0	0	19,875	10,325	383,765	35,768
Pierre Fitzgibbon	7,325	7,834	0	0	0	0
Michel Tremblay	10,000	349,641	65,155	74,605	894,085	197,987
Ricardo Pascoe	0	0	33,850	55,850	358,725	153,975
Luc Paiement	0	0	42,250	44,850	658,478	101,423

(1) The figures indicated are based on a price of \$54.65 per Common Share, namely, the closing price of the Common Shares of the Bank on the Toronto Stock Exchange on the last business day of the financial year ended October 31, 2007.

Section 3 | Internal Management (cont.)

Under the Bank's long-term compensation programs, only the Stock Option Plan allows for the issuance of the Bank's equity securities. The following

table shows the situation of the Stock Option Plan as at October 31, 2007, pursuant to Canadian securities legislation.

Plan Category	Number of Securities To Be Issued upon Exercise of Outstanding Options, Warrants or Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity compensation plans approved by security holders	5,770,347	\$48.71	9,790,783
Equity compensation plans not approved by security holders	–	–	–
Total	5,770,347	\$48.71	9,790,783

Retirement Plans for Named Executive Officers

All the Named Executive Officers of the Bank participate in the defined benefit pension plan and the Post-Retirement Allowance Program. The provisions of these plans are described under "Pension Plan and Post-Retirement Allowance Program" in the "Report of the Human Resources Committee" in this Circular. In addition, Mr. Vachon's pension is calculated as follows:

- Five years of additional credited service as at August 1, 2006;
- 4% of the average pensionable gains for each year of credited service from August 1, 2006 to July 31, 2010, i.e., the equivalent of two years of credited service per year;
- 2.5% per year of credited service from August 1, 2010 to July 31, 2017, i.e., the equivalent of 1.25 years of credited service per year; and

- 2% for each year thereafter, up to a total pension of 70% of the average pensionable earnings, i.e., the equivalent of 35 years of credited service.

The figures in the tables below are based on this number of years of credited service.

These provisions were approved by the Board in August 2006.

The following table details the estimated annual pensions payable to the Named Executed Officers under the defined benefit pension plan and the PRAP.

Estimated Pensions Payable as of Age 60⁽¹⁾⁽²⁾

Average Pensionable Earnings ⁽³⁾	Years of Credited Service				
	15	20	25	30	35
(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
200,000	56,963	76,170	95,663	115,157	134,651
300,000	86,963	116,170	145,663	175,157	204,651
400,000 ⁽⁴⁾	116,963	156,170	195,663	235,157	274,651
500,000	146,963	196,170	245,663	295,157	344,651
600,000	176,963	236,170	295,663	355,157	414,651
700,000 ⁽⁴⁾	206,963	276,170	345,663	415,157	484,651
1,000,000 ⁽⁴⁾	296,963	396,170	495,663	595,157	694,651
1,500,000	446,963	596,170	745,663	895,157	1,044,651
2,000,000	596,963	796,170	995,663	1,195,157	1,394,651

(1) The estimated pensions do not take into account the pension generated by the additional contributions accrued by the Named Executive Officer.

(2) The pension is payable for life, but reduced to take into account the amount payable under the Canada or Quebec Pension Plan. Upon the member's death, 60% of the pension is payable to the member's spouse. If there is no spouse, part of the pension is payable to the dependent children.

(3) The amounts in the "Salary" and "Bonuses" columns of the "Summary of Total Compensation of Named Executive Officers" table in this Circular are used to calculate the average pensionable earnings, subject to the maximums set out in Note 4 of this table.

(4) Average pensionable earnings are limited to \$1,000,000 for Mr. Tremblay; \$700,000, for Messrs. Paiement and Pascoe; and \$400,000 for Mr. Dagenais.

Section 3 | Internal Management (cont.)

The years of credited service as at October 31, 2007 and estimated on the normal retirement date, as well as the estimated annual pension payable at age 60 on the basis of average compensation as at October 31, 2007 and the projected years of service until age 60, are presented for the five Named Executive Officers, in office at the end of the recently ended financial year, in the table below. As at October 31, 2007, Mr. Fitzgibbon had ceased to participate in the pension plan and had transferred all his entitlements outside the plan. See “Retirement Conditions of Mr. Raymond” in this section for the years of credited service and the annual pension of Mr. Raymond.

Name	Years of Credited Service as at October 31, 2007	Estimated Years of Credited Service on Normal Retirement Date	Estimated Annual Pension Payable at Age 60
Louis Vachon ⁽¹⁾	16.1	35.0	\$ 352,000
Jean Dagenais	14.8	26.1	\$ 90,000
Michel Tremblay ⁽²⁾	8.6	20.8	\$ 216,000
Ricardo Pascoe	4.1	17.0	\$ 111,000
Luc Paiement ⁽³⁾	0.8	12.8	\$ 99,000

- (1) Mr. Vachon was credited an additional five years of credited service as at August 1, 2006, accruing two years of credited service per year from August 1, 2006 to July 31, 2010, 1.25 years of credited service per year from August 1, 2010 to July 31, 2017, and one year of credited service per year thereafter, up to no more than 35 years of credited service.
- (2) The years of service credited to Mr. Tremblay are calculated according to the PRAP provisions for eligible members of the Office of the President, namely, 1.5 years of credited service for each year between ages 50 and 60.
- (3) Mr. Paiement joined the Bank's pension plan on January 16, 2007. Previously, Mr. Paiement was a member of the National Bank Financial Group Registered Retirement Savings Plan, to which, in fiscal 2007, he contributed \$3,333 and the employer contributed \$1,000 on his behalf.

The following table details, for each of the Named Executive Officers, the changes in accrued pension benefit obligation between October 31, 2006 and October 31, 2007, including the annual pension benefit expense for the Bank with respect to their membership in retirement plans for fiscal 2007.

It should be noted that the amounts in the table below are estimates and are based on assumptions and employment conditions that can vary over time. The method used to calculate these amounts may also differ from that used by another company, which could call into question the relevance of a comparison.

Name	Accrued Pension Benefit Obligation as at October 31, 2006 ⁽¹⁾	Annual Cost of Retirement Benefits for Fiscal 2007 ⁽²⁾	Change in Obligation Related to Compensation ⁽³⁾	Change in Obligation Related to Other Items ⁽⁴⁾	Accrued Pension Benefit Obligation as at October 31, 2007 ⁽¹⁾
Louis Vachon	\$ 3,014,000	\$ 326,000	\$ 962,000	\$ (521,000)	\$ 3,781,000
Jean Dagenais	\$ 478,000	\$ 29,000	\$ 212,000	\$ 17,000	\$ 736,000
Michel Tremblay	\$ 890,000	\$ 203,000	\$ 560,000	\$ (170,000)	\$ 1,483,000
Ricardo Pascoe	\$ 333,000	\$ 91,000	\$ 0	\$ (94,000)	\$ 330,000
Luc Paiement	\$ 0	\$ 64,000	\$ 0	\$ 9,000	\$ 73,000

- (1) The accrued pension benefit obligation represents the present value of the pension benefit for years of credited service up to October 31, 2006 or October 31, 2007. These values were calculated using the same assumptions as those used for the Bank's consolidated financial statements, in particular, a discount rate of 5.25% as at October 31, 2006 and a discount rate of 5.75% as at October 31, 2007. The value of benefits payable by the officer's contributions is included in the calculation of the accrued pension benefit obligation.
- (2) The annual cost of retirement benefits represents the present value of the pension benefit accumulated during fiscal 2007. This value was calculated using the same assumptions as those used for the Bank's consolidated financial statements, in particular, the discount rate applicable at the beginning of fiscal 2007, i.e., 5.25%. Contributions made by the officer are excluded from the calculation of the annual cost of pension benefits.
- (3) The change in the obligation related to compensation includes the impact of the changes in base salary, the increase in maximum pensionable earnings following appointments, plan amendments or attributions of years of credited service. For Mr. Tremblay, the change in the obligation totalling \$560,000 is broken down as follows: \$275,000 represents the increase in his pensionable earnings while \$285,000 is for the recognition of additional years of credited service.
- (4) The change in the obligation related to other items reflects the amounts attributable to interest accruing on the obligation at the beginning of the financial year, contributions paid by the officer, actuarial gains and losses other than those associated with compensation levels, and changes in actuarial assumptions. The most significant of these changes for fiscal 2007 relates to the increase in the discount rate from 5.25% to 5.75%.

Section 3 | Internal Management (cont.)

Retirement Conditions of Mr. Raymond

When Mr. Raymond retired on June 1, 2007, he had 37 years of service, of which only 32.4 years were recognized for the calculation of his pension. The Board decided to recognize 2.6 additional years in order to provide Mr. Raymond with a pension equal to 70% of his average pensionable earnings. These additional years represent a retirement allowance of \$209,000 per year, payable under the PRAP, thus providing him with an aggregate annual pension of \$1,386,000. Mr. Raymond will also continue to have access to certain facilities and services, in particular the use of an office and a company car, which are services he had prior to his retirement.

Detailed Tables of Estimated Value of Total Compensation of Named Executive Officers

The following tables present the estimated value of the total compensation of the Named Executive Officers for the three most recently completed financial years. Estimated total compensation includes all variable compensation, whether paid in cash or stock-based, for each of the Named Executive Officers, as well as the annual cost of retirement benefits.

Estimated Value of the Total Compensation of the Five Named Executive Officers

	2007	2006	2005
Total compensation of the five Named Executive Officers	\$12,387,706	\$17,007,821	\$15,667,336
% change versus the previous year	(27.2%)	8.5%	

Tables of Estimated Value of Individual Global Compensation for the Named Executive Officers

Louis Vachon <i>President and Chief Executive Officer</i>	2007 ⁽¹⁾	2007 ⁽²⁾	2006 ⁽²⁾	2005
Cash Compensation				
Base salary	\$ 309,156	\$ 365,918	\$ 444,164	\$ 400,000
Annual bonus	\$ 0	\$ 0	\$ 2,930,790	\$ 3,442,214
Bonus paid as RSUs	–	–	\$ 1,366,644	\$ 1,721,106
Cash Total	\$ 309,156	\$ 365,918	\$ 4,741,598	\$ 5,563,320
Estimated Stock-Based Compensation⁽³⁾				
RSUs ⁽⁴⁾	\$ 1,200,000	–	\$ 0	\$ 0
Stock options ⁽⁵⁾	\$ 2,000,000	–	\$ 1,800,744	\$ 579,700
Estimated Total Equity Value	\$ 3,200,000	–	\$ 1,800,744	\$ 579,700
Annual Cost of Retirement Benefits⁽⁶⁾	\$ 136,000	\$ 190,000	\$ 124,000	\$ 55,000
Estimated Value of Global Compensation	\$ 3,645,156	\$ 555,918	\$ 6,666,342	\$ 6,198,020

(1) Mr. Vachon has held the position of President and Chief Executive Officer since June 1, 2007.

(2) Mr. Vachon held the position of Chief Operating Officer from August 2006 to May 2007, and Chairman of the Board and Chief Executive Officer of NCFG, Chairman of the Board of Natcan Investment Management Inc. and Senior Vice-President until July 31, 2006.

(3) This compensation ties the interests of the officer to the appreciation in value of the Common Shares of the Bank. The real value of such stock-based compensation will therefore depend on the value of the Common Shares of the Bank at the time of their vesting.

(4) Variable mid-term compensation under the RSU Plan. The value was established based on the price of the grant on December 11, 2007, namely, \$53.85. These RSUs will only be vested at the end of year 2010 and their value will then be calculated based on the value of the Common Shares of the Bank at that time. For more information, see "Restricted Stock Unit Plan of the Bank" under the "Report of the Human Resources Committee" in this Circular.

(5) Estimated value of stock options calculated using the Black-Scholes model (for compensation purposes): \$10.18 in December 2007, \$14.36 in December 2006 and \$15.50 in December 2005. The exercise price of these options is \$53.85 for those granted in 2007, \$65.90 for those granted in 2006, and \$61.44 for those granted in 2005.

(6) Present value of the retirement benefit accumulated during the financial year and determined based on the assumptions used in the Bank's Annual Report for each of those years.

Section 3 | Internal Management (cont.)

Jean Dagenais

Senior Vice-President and Chief Financial Officer

	2007 ⁽¹⁾	2007 ⁽²⁾	2006	2005
Cash Compensation				
Base salary	\$ 81,356	\$ 100,888	\$ 157,960	\$ 154,044
Annual bonus	\$ 0	\$ 32,700	\$ 86,000	\$ 103,000
Cash Total	\$ 81,356	\$ 133,588	\$ 243,960	\$ 257,044
Estimated Stock-Based Compensation ⁽³⁾				
Stock options ⁽⁴⁾	\$347,138	–	\$ 53,132	\$ 51,150
Estimated Total Equity Value	\$347,138	–	\$ 53,132	\$ 51,150
Annual Cost of Retirement Benefits ⁽⁵⁾	\$ 12,000	\$ 17,000	\$ 27,000	\$ 28,000
Estimated Value of Global Compensation	\$ 440,494	\$ 150,588	\$ 324,092	\$ 336,194

(1) Mr. Dagenais has held the position of Senior Vice-President and Chief Financial Officer since June 1, 2007.

(2) Mr. Dagenais held the position of Vice-President and Chief Accountant until May 31, 2007.

(3) This compensation ties the interests of the officer to the appreciation in value of the Common Shares of the Bank. The real value of such stock-based compensation will therefore depend on the value of the Common Shares of the Bank at the time of their vesting.

(4) Estimated value of stock options calculated using the Black-Scholes model (for compensation purposes): \$10.18 in December 2007, \$14.36 in December 2006 and \$15.50 in December 2005. The exercise price of these options is \$53.85 for those granted in 2007, \$65.90 for those granted in 2006, and \$61.44 for those granted in 2005.

(5) Present value of the retirement benefit accumulated during the financial year and determined based on the assumptions used in the Bank's Annual Report for each of those years.

Michel Tremblay

Chief Operating Officer

Personal and Commercial Banking and
Wealth Management

	2007 ⁽¹⁾	2007 ⁽²⁾	2006	2005
Cash Compensation				
Base salary	\$ 191,783	\$ 270,033	\$ 440,000	\$ 440,000
Annual bonus	\$ 0	\$ 0	\$ 460,000	\$ 836,000
Cash Total	\$ 191,783	\$ 270,033	\$ 900,000	\$1,276,000
Estimated Stock-Based Compensation ⁽³⁾				
RSUs	\$ 0	–	\$ 616,033	\$ 396,042
Stock options ⁽⁴⁾	\$ 0	–	\$ 446,596	\$ 446,400
DSUs	\$ 0	–	\$ 191,440	\$ 191,631
Estimated Total Equity Value	\$ 0	–	\$1,254,069	\$1,034,073
Annual Cost of Retirement Benefits ⁽⁵⁾	\$ 134,000	\$ 69,000	\$ 107,000	\$ 94,000
Estimated Value of Global Compensation	\$ 325,783	\$ 339,033	\$2,261,069	\$2,404,073

(1) Mr. Tremblay was named Chief Operating Officer – Personal and Commercial Banking and Wealth Management on June 1, 2007. He has since tendered his resignation, which will be effective January 18, 2008.

(2) Mr. Tremblay held the position of Senior Vice-President – Personal Banking and Wealth Management until May 31, 2007.

(3) This compensation ties the interests of the officer to the appreciation in value of the Common Shares of the Bank. The real value of such stock-based compensation will therefore depend on the value of the Common Shares of the Bank at the time of their vesting.

(4) Estimated value of stock options calculated using the Black-Scholes model (for compensation purposes): \$14.36 in December 2006 and \$15.50 in December 2005. The exercise price of these options is \$65.90 for those granted in 2006 and \$61.44 for those granted in 2005.

(5) Present value of the retirement benefit accumulated during the financial year and determined based on the assumptions used in the Bank's Annual Report for each of those years.

Section 3 | Internal Management (cont.)

Ricardo Pascoe <i>Co-President and Co-Chief Executive Officer, NBSF and Senior Vice-President</i>	Co-President and Co-CEO		Senior Vice-President	
	2007	2006⁽¹⁾ (effective September 4, 2006)	2006	2005
Cash Compensation				
Base salary	\$ 300,000	\$ 47,689	\$ 208,333	\$ 250,000
Annual bonus	\$1,768,651 ⁽²⁾	\$ 492,948	\$1,676,334	\$2,063,454
Bonus paid as RSUs	\$ 884,326 ⁽²⁾	\$ 246,474	\$ 838,168	\$1,031,727
Cash Total	\$2,952,977	\$ 787,111	\$2,722,835	\$3,345,181
Estimated Stock-Based Compensation⁽³⁾				
Stock options ⁽⁴⁾	\$ 434,890	\$ 435,108	–	\$ 207,700
Estimated Total Equity Value	\$ 434,890	\$ 435,108	–	\$ 207,700
Annual Cost of Retirement Benefits⁽⁵⁾	\$ 91,000	\$ 8,333	\$ 41,667	\$ 36,000
Estimated Value of Global Compensation	\$3,478,867	\$1,230,552	\$2,764,502	\$3,588,881

- (1) Mr. Pascoe has held the position of Co-President and Co-Chief Executive Officer of NBSF since September 2006 and his cash compensation formula was revised at that date. The amounts indicated in this column represent the compensation paid for the two months of fiscal 2006 during which he held this position.
- (2) This amount represents the semi-annual bonus paid in June 2007 for the first half of fiscal 2007 (based on results as at April 30, 2007), in the form of cash and RSUs. The RSU value was established based on the price of the grant on May 29, 2007, namely, \$66.14.
- (3) This compensation ties the interests of the officer to the appreciation in value of the Common Shares of the Bank. The real value of such stock-based compensation will therefore depend on the value of the Common Shares of the Bank at the time of their vesting.
- (4) Estimated value of stock options calculated using the Black-Scholes model (for compensation purposes): \$10.18 in December 2007, \$14.36 in December 2006 and \$15.50 in December 2005. The exercise price of these options is \$53.85 for those granted in 2007, \$65.90 for those granted in 2006, and \$61.44 for those granted in 2005.
- (5) Present value of the retirement benefit accumulated during the financial year and determined based on the assumptions used in the Bank's Annual Report for each of those years.

Luc Paiement <i>Co-President and Co-Chief Executive Officer, NBSF and Senior Vice-President</i>	Co-President and Co-CEO		Senior Vice-President	
	2007	2006⁽¹⁾ (effective September 4, 2006)	2006	2005
Cash Compensation				
Base salary	\$ 300,000	\$ 50,000	\$ 250,000	\$ 300,000
Annual bonus	\$1,768,651 ⁽²⁾	\$ 492,948	\$1,525,290	\$1,881,445
Bonus paid as RSUs	\$ 884,326 ⁽²⁾	\$ 246,474	\$ 762,646	\$ 940,723
Cash Total	\$2,952,977	\$ 789,422	\$2,537,936	\$3,122,168
Estimated Stock-Based Compensation⁽³⁾				
Options ⁽⁴⁾	\$ 304,423	\$ 304,432	–	\$ 248,000
DSUs ⁽⁵⁾	\$ 130,467	\$ 130,680	–	–
Estimated Total Equity Value	\$ 434,890	\$ 435,112	–	\$ 248,000
Annual Cost of Retirement Benefits⁽⁶⁾	\$ 64,000	–	–	–
Estimated Value of Global Compensation	\$3,451,867	\$1,224,534	\$2,537,936	\$3,370,168

- (1) Mr. Paiement has held the position of Co-President and Co-Chief Executive Officer of NBSF since September 2006 and his cash compensation formula was revised at that date. The amounts indicated in this column represent the compensation paid for the two months of fiscal 2006 during which he held this position.
- (2) This amount represents the semi-annual bonus paid in June 2007 for the first half of fiscal 2007 (based on results as at April 30, 2007), in the form of cash and RSUs. The RSU value was established based on the price of the grant on May 29, 2007, namely, \$66.14.
- (3) This compensation ties the interests of the officer to the appreciation in value of the Common Shares of the Bank. The real value of such stock-based compensation will therefore depend on the value of the Common Shares of the Bank at the time of their vesting.
- (4) Estimated value of stock options calculated using the Black-Scholes model (for compensation purposes): \$10.18 in December 2007, \$14.36 in December 2006 and \$15.50 in December 2005. The exercise price of these options is \$53.85 for those granted in 2007, \$65.90 for those granted in 2006, and \$61.44 for those granted in 2005.
- (5) Under the DSU Plan, Mr. Paiement elected to receive a portion of up to 30% of his long-term compensation in the form of DSUs. The DSU value was based on the price of the grant, namely, \$53.85 in December 2007 and \$65.90 in December 2006.
- (6) Since January 16, 2007, Mr. Paiement has been a member of the Bank's defined benefit pension plan. The figure indicated represents the present value of the retirement benefit accumulated during the financial year and determined according to the assumptions used in the Bank's Annual Report. Previously, he participated in the Group RRSP, and employer contributions totalled \$1,000 per year.

Section 3 | Internal Management (cont.)

Termination of Employment Policy

Under the Bank's Termination of Employment Policy, the President and Chief Executive Officer and the members of the Office of the President (the "Eligible Executive Officers") would receive a separation allowance in the event their employment were to be terminated by the Bank following a change of control. The compensating measures are applicable when the following two events occur:

- a change of control of the Bank, as defined below; and
- a dismissal (without cause) resulting from a Bank initiative during the two-year period following the change of control, or the resignation of an officer further to a significant reduction in compensation or responsibilities or a transfer to another organization, against his or her wishes, during the two-year period following the change of control.

Moreover, this policy specifies that, in the case of voluntary resignation, dismissal (for cause), demotion or termination of employment based on an unsatisfactory performance, the policy is not applicable.

"Change of control" means any change in the ownership of Bank shares following the acquisition of shares, a merger or a business combination resulting in one incorporated or unincorporated entity beneficially owning in excess of 50% of the voting shares of the Bank.

Pursuant to this policy, Eligible Executive Officers would be entitled to a separation allowance equal to their base salary and their average annual bonus for the previous three years (or the target annual bonus for Eligible Executive Officers who have been in their respective positions for less than three years) for a period of 24 months, up to the normal retirement age.

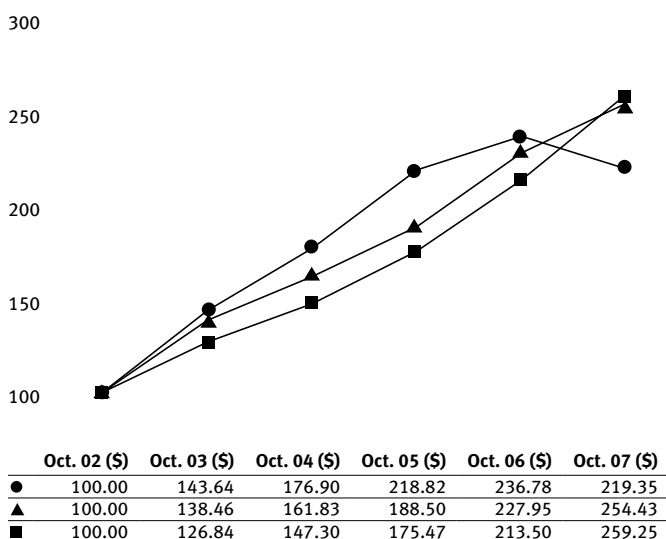
No amendments were made to the Termination of Employment Policy in fiscal 2007. Furthermore, as at the end of the financial year, no other termination of employment agreement with any Named Executive Officer had been concluded.

Comparative Performance of Common Shares of the Bank

The following performance graph shows the cumulative total return on a \$100 investment in Common Shares of the Bank on October 31, 2002, compared to the total cumulative return of the S&P/TSX Bank Sub-index and the S&P/TSX Composite Index for the five most recently completed financial years, assuming dividends are fully reinvested at the market price on each dividend payment date.

Five-Year Cumulative Return on a \$100 Investment

● Bank ▲ S&P/TSX Bank ■ S&P/TSX Composite



Section 3 | Internal Management (cont.)

Report of the Conduct Review and Corporate Governance Committee

Role of the Committee

The Conduct Review and Corporate Governance Committee (for the purposes of this report, the “Committee”) assists the Board in developing, implementing and overseeing the Bank’s corporate governance policies, rules and procedures.

The Committee makes recommendations regarding the composition of the Board, and determines its size. It also develops the criteria used to nominate and re-elect directors in the Charter of Expectations and draws up the list of nominees as directors at each of the Bank’s annual meetings. It further manages the process to determine the independence of the directors.

The Committee prepares and reviews annually the mandates of the Board, of the Board committees and of the committee Chairs.

In addition to preparing the Statement of the Bank’s Corporate Governance Practices, it ensures that the rules of the Code of Professional Conduct are prepared, implemented and overseen by the Bank’s management.

The Committee establishes and oversees the performance evaluation process applied to the Board, the committees, the Chairman of the Board, the committee Chairs and the directors, and ensures that orientation and continuing education programs for directors are maintained.

The duties and responsibilities of the Committee are detailed in its mandate, which is revised annually⁽¹⁾.

The Committee is composed entirely of independent directors. For further information, see “Independence of Directors” in this section of the Circular.

Members

Paul Gobeil, Chair
Pierre Bourgie
Shirley A. Dawe
Roseann Runte

Statement of the Bank’s Corporate Governance Practices

Sound corporate governance is an essential component of the Bank’s operations. It is in the best interests of its shareholders, clients and all its partners to establish and maintain policies and practices that are in keeping with the spirit of corporate governance best practices. The Bank’s directors are strongly committed to such policies and practices.

The following statement details the Bank’s corporate governance practices proposed by its directors. The Bank complies, in particular, with all disclosure obligations and corporate governance guidelines set out by the securities regulators and self-regulatory bodies.

Composition of the Board

Size of the Board

At the close of the financial year ended October 31, 2007, the Board was composed of 14 directors. The Committee is of the opinion that this number is appropriate because it enables the Board to marshal the requisite skills, knowledge, qualifications and diversity to foster frank discussions and a spirit of cooperation among the directors.

The Board charges the Committee with the responsibility for periodically reviewing the size of the Board to verify its effectiveness. In this regard, the Committee must take into account the skills and aptitudes of Board members, the scope of the work they must perform, as well as the diversity and complementary nature of their expertise.

Independence of Directors

Independence standards – More than three quarters of the Bank’s directors, including the Chairman of the Board, are independent. The criteria proposed by the CSA and best practices are taken into consideration in the determination of the independence of Board members. This assessment is done annually by the Committee, then reviewed and approved by the Board. Furthermore, the Committee verifies whether there are any material relationships between the Bank and the directors in accordance with CSA criteria, including any material relationship which, in the Board’s view, could reasonably be expected to interfere with the exercise of a member’s independent judgment.

Independence is also determined using information provided semi-annually by the directors in a questionnaire, which includes, in particular, questions about their outside board memberships and the relationship they have with the Bank, if any.

The independent members of the Board meet *in camera* after each regularly scheduled meeting of the Board of Directors.

Independent directors – At the end of the most recently completed financial year and as at the date of the Circular, the Board is of the opinion that 11 of the 14 Bank directors, including the Chairman of the Board, Jean Douville, are independent. The three non-independent directors are Louis Vachon and Lawrence S. Bloomberg, respectively an officer of the Bank and an advisor to one of the subsidiaries of the Bank, as well as Gérard Coulombe, who is a partner at Lavery, de Billy, L.L.P., a law firm that provides remunerated legal services to the Bank and its subsidiaries. The following table outlines the independent status of nominees for election to the Board.

(1) This mandate is reproduced in its entirety on the Bank’s website (www.nbc.ca).

Section 3 | Internal Management (cont.)

Directors	Independent	Non-Independent	Reason for Non-Independence
Lawrence S. Bloomberg		√	Advisor to a subsidiary of the Bank
Pierre Bourgie (ARM Chair, G, <i>Ad Hoc</i>)	√		
André Caillé (HR, ARM, IC Chair)	√		
Gérard Coulombe		√	The law firm of which he is a partner provides legal services to the Bank and its subsidiaries
Bernard Cyr (ARM, IC)	√		
Shirley A. Dawe (G, HR)	√		
Nicole Diamond-Gélinas (ARM)	√		
Jean Douville (Chairman of the Board, <i>Ad Hoc</i>)	√		
Marcel Dutil (HR, IC)	√		
Jean Gaulin (HR Chair, ARM, <i>Ad Hoc</i> Chair, IC)	√		
Paul Gobeil (G Chair, ARM, <i>Ad Hoc</i>)	√		
Roseann Runte (G, IC)	√		
Marc P. Tellier (HR)	√		
Louis Vachon		√	President and Chief Executive Officer of the Bank

- *Audit and Risk Management Committee (ARM)*
- *Conduct Review and Corporate Governance Committee (G)*
- *Human Resources Committee (HR)*
- *Ad Hoc Committee (Ad Hoc)*
- *Independent Committee (IC)*

Outside board memberships – The Bank lists all boards on which its directors serve. See “Information on Nominees for Election to the Board of Directors” in this Circular for the disclosure, *inter alia*, of the names of the reporting issuers or parapublic companies on whose boards each director currently serves or has served in the previous five years.

The Board adopted a directive regarding outside board memberships for its members which provides that all directors must notify the Committee Chair or the Chairman of the Board before accepting an invitation to serve on a board other than the Bank’s. The Chairman of the Board and the Committee Chair will then assess whether the director, in accepting the outside board membership, would be involved in a real or apparent conflict of interest and whether the director would remain capable of performing his or her duties as a director of the Bank. To this end, they examine the following elements: the industry sector of the company concerned, the business ties between the company and the Bank, the number of outside boards on which the director in question serves, and the number of Bank directors already serving on the board of such company.

In the event of real or apparent conflicts of interest, the director may be asked to choose, and must either refuse the outside board membership or leave the Bank’s Board.

Interlocking Directorships

Reporting Issuer	Director	Reporting Issuer’s Committee(s) on Which Director Serves
Saputo Inc.	Pierre Bourgie	<ul style="list-style-type: none"> • Corporate Governance and Human Resources Committee • Audit Committee
	Jean Gaulin	<ul style="list-style-type: none"> • Corporate Governance and Human Resources Committee
Canam Group Inc.	Marcel Dutil	–
	Paul Gobeil	<ul style="list-style-type: none"> • Corporate Governance Committee (Chair) • Human Resources Committee
Yellow Pages Income Fund	Paul Gobeil	<ul style="list-style-type: none"> • Corporate Governance and Nominating Committee
	Marc P. Tellier	–

Section 3 | Internal Management (cont.)

Nomination of Directors and Re-election

Nomination

The Board has delegated responsibility for nominating members for election to the Board to the Committee. Consequently, the Committee administers this process and submits its recommendations thereon to the Board.

The Committee establishes the selection criteria for directors and periodically reviews such criteria to ensure they continue to comply with regulatory requirements and the Charter of Expectations, and to meet the Board's current and future needs.

The directors must have a reputation for honesty and integrity. Their expertise must enable them to make an active, informed and profitable contribution to the conduct of business and the orientation and development of the Bank. Moreover, in this regard, each director's expertise, as it complements that of the others, is also considered. In addition, the Board must be composed of a large majority of independent directors, who are required to make themselves available. Finally, the Committee recognizes the importance of adding a larger number of women directors to the Board and, where two persons meet nominating criteria, it will promote the appointment of female nominees to fill vacancies and to achieve a more balanced representation.

After consulting with the Chairman of the Board, the Committee recommends the election of directors meeting the aforesaid criteria for election to the Board. The Committee discusses expectations for new directors with potential nominees prior to their nomination to ensure that they are sufficiently motivated, available and competent to properly fulfill their role.

Election – Majority Voting

The Bank has adopted a policy statement pursuant to which a nominee will be deemed to have not received the support of shareholders, even if he or she is elected, where the number of votes withheld exceeds the number of votes cast in his or her favour at an Annual Meeting of Shareholders. A director elected under such circumstances must immediately tender his or her resignation to the Committee, and the Committee will submit a recommendation in this respect to the Board. Where applicable, within 90 days of receiving the final voting results, the Board will then issue a press release announcing the resignation of the director in question or explaining the reasons justifying its decision not to accept such resignation.

Re-election

The Committee annually assesses the eligibility and availability of directors nominated for re-election and informs them of its conclusions through a recommendation to the Board. In addition, a directive from the Bank provides that, barring exceptional circumstances, the full term of a director's mandate will be limited to 15 years. The computation of this 15-year tenure started in 1998 for directors in office at that time.

Charter of Expectations

The Board believes that its effectiveness and the achievement of its objectives depend, in particular, on directors' motivation and team spirit and on whether their qualifications and expertise complement one another. Accordingly, the Board has a Charter of Expectations for its directors which provides a framework for directors in the performance of their duties. The Charter serves as a benchmark for preparing selection and re-election criteria for directors, as well as for reviewing the performance of Board members.

Orientation and Continuing Education

Directors benefit from an orientation and continuing education program that not only enables them to become more familiar with the Bank's operations and its business segments but also broadens their knowledge. The program is two-fold, namely, the orientation of new directors and continuing education, and it is provided by Bank representatives with relevant expertise in the topics discussed, or by external consultants.

Orientation

Orientation program – The orientation program for new directors is intended to provide them with an overview of the Bank, its operations, activities and main challenges. More specifically, new directors receive training on the role of the Board, its committees and directors, the Bank's vision, its main segments of activity and business challenges, the audit and control system as well as the Bank's client base and human resources. New directors also attend meetings with members of the Bank's Office of the President, the President and Chief Executive Officer, and the Chairman of the Board.

Directors' Handbook – Upon being nominated, directors are given a Directors' Handbook which contains a series of documents outlining, in particular, the duties and the scope of the directors' responsibilities. It also includes a description of the Bank's organizational structure, its obligations as a reporting issuer, some of its policies, as well as the texts of the mandates of the Board, its committees, the Chairman of the Board and the committee Chairs, as well as a copy of the Bank's By-Laws and Code of Professional Conduct. The Directors' Handbook is reviewed periodically and directors are subsequently provided with any updates.

Continuing Education

Directors attend presentations on various aspects of the Bank's operations given by Bank representatives with relevant expertise in the topics discussed, as well as training sessions given by external consultants.

For instance, last year, directors received training on the revised framework for international convergence of capital measurement and standards, commonly known as Basel II.

Section 3 | Internal Management (cont.)

Role of the Board

The Board exercises its role and responsibilities in accordance with applicable legislation and regulations—particularly regarding securities—, the Bank’s By-Laws, its internal policies and procedures and the Charter of Expectations for its directors. The Board also adopted a mandate setting out its responsibilities. The mandate is reproduced in its entirety in Schedule B to this Circular and may be found under “More About Us” on the Bank’s website (www.nbc.ca). The Board reviews its mandate annually to ensure that it complies with existing regulations and reflects how the Board functions, as well as its actions and responsibilities.

The Board is responsible for overseeing the management of the Bank’s business and internal affairs. As such, it communicates its views to management through the Bank’s President and Chief Executive Officer. The main responsibilities of the Board are described below.

Mandate of the Chairman of the Board

The Board, with the Committee’s support, prepares and approves the mandate of the Chairman of the Board. This written mandate defines his duties and regulates, in particular, his relations with directors, the Board committees, shareholders and executive officers. The Committee reviews the mandate annually to ensure that it adequately reflects the duties and responsibilities of the Chairman of the Board. Any amendments to the mandate of the Chairman of the Board made during its annual review are submitted to the Board for approval.

Strategic Planning

The Board regularly reviews and approves the Bank’s strategic planning process and its strategic plan. The Bank’s strategic plan sets out its mission, vision and business objectives, taking into account business opportunities and risks for the Bank, as well as the business plans relating to its main operations.

Risk Management

Together with the Audit and Risk Management Committee, the Board examines and approves the Bank’s overall risk philosophy and risk tolerance. It identifies and understands the main risks facing the Bank (including credit, market and operational risks), and ensures that appropriate systems have been implemented for effective management of such risks. The Audit and Risk Management Committee receives detailed quarterly reports on its activities from the Bank’s Risk Management segment, the general allowance for credit risk, impaired loans and loan losses, and compliance with regulatory capital ratios and obligations under the Basel Accord. On the recommendation of the Audit and Risk Management Committee, the Board annually discusses and adopts all the major policies concerning the Bank’s activity-related risks and ensures that such policies are enforced. The Audit and Risk Management Committee has discussion sessions on a regular basis, and in private, with the internal auditor and the external auditor of the Bank. For more information on the Bank’s risk management structure and systems, see “Risk Management Framework” in the Bank’s 2007 Annual Report.

Financial Information, Internal Control and Management Information Systems

The Board ensures that financial reporting by the Bank is complete and reliable. In order to assist the Board in this regard, the Audit and Risk Management Committee reviews audit and internal control processes and management information systems to verify their integrity and effectiveness. The Audit and Risk Management Committee is itself assisted by the Disclosure Committee of the Bank, which ensures that the President and Chief Executive Officer and the Senior Vice-President and Chief Financial Officer have the necessary information to file the certifications required by regulation. The Disclosure Committee’s role is to report to the Audit and Risk Management Committee any significant deficiencies or material weaknesses in the design of internal controls which could adversely affect the Bank’s ability to provide reliable financial reporting. It is also responsible for informing the Audit and Risk Management Committee of any fraud, whether material or not, involving management or other employees with a significant role in relation to the Bank’s internal controls. In addition, the Bank’s Internal Auditor regularly reviews the Bank’s internal control policies and procedures.

Human Resources Management

Supervision of management – The Board oversees the management of the Bank by reviewing periodical reports submitted by those in charge of its various segments and through discussion periods with the senior management of those segments. Within the scope of its supervisory role, the Board, assisted by the Human Resources Committee, oversees management by relying on the overall assessment of the President and Chief Executive Officer’s performance in relation to the objectives set at the beginning of the year and by studying the recommendations presented by the President and Chief Executive Officer to the Board on the individual performance of executive officers. In particular, the Board ensures that the President and Chief Executive Officer and other executive officers help create and maintain a culture of integrity within the Bank, notably by promoting its Code of Professional Conduct and related policies. For more information on the Bank’s human resources and, in particular, the criteria for assessing the performance of the Bank’s President and Chief Executive Officer, see “Report of the Human Resources Committee” in this Circular.

Succession planning – The Board supervises the training, development and succession planning process for senior management, including the process for the President and Chief Executive Officer. The Board fulfills these obligations in conjunction with the Human Resources Committee.

Corporate Governance

The Board, assisted by the Committee, prepares, implements and supervises the Bank’s corporate governance rules, policies and procedures.

Communication with Clients, Investors and the General Public

Information disclosure – The Board advocates transparency and diligence in disclosing information to shareholders, investors, clients and the general public. For this purpose, it regularly reviews the Bank’s Information Disclosure Policy intended to ensure complete, accurate and timely disclosure to stakeholders and to prohibit the selective disclosure of information. This policy describes, in particular, the type of information

Section 3 | Internal Management (cont.)

to be disclosed, whether financial or non-financial, and when and in what manner such information can be disclosed.

Disclosure Committee – The Bank has set up a Disclosure Committee whose role is to ensure that information disclosure controls and procedures as well as financial reporting internal control procedures are implemented and operational. This Committee reviews the Bank’s Information Disclosure Policy on a regular basis and recommends it for approval to the Audit and Risk Management Committee and to the Board.

Measures for collecting stakeholder reactions – The Board ensures that measures are implemented to obtain feedback from all stakeholders. The Bank answers questions from shareholders, investors, financial analysts and the media through the Investor Relations Department, the Public Relations Department, the Corporate Secretary’s Office or Computershare Trust Company of Canada, its transfer agent and registrar. Clients with concerns or special needs may contact their branch or TelNat. If a complaint cannot be resolved through regular administrative channels, clients may contact the Bank’s Ombudsman. Stakeholders may contact independent directors and the Chairman of the Board by e-mail at boardofdirectors@nbc.ca.

Moreover, the Bank has adopted a policy for reporting irregularities relating to accounting, internal accounting or auditing controls, and procedures concerning: (i) the receipt, retention and handling of complaints received regarding accounting, internal accounting controls or auditing matters, and (ii) the confidential and anonymous reporting by employees of the Bank of any concerns regarding accounting or auditing matters.

Compensation

Compensation of Directors

Principles – To provide adequate compensation that recognizes the increasing complexity of its activities, the Board has adopted, on the recommendation of the Committee, a compensation program for directors. The purpose of this program is to give the Bank the necessary tools to recruit and retain qualified individuals to serve as members of the Board. The program is also intended to align the interests of the members of the Board more closely with those of the Bank’s shareholders. The Bank periodically reviews the fees paid to the directors to offer them adequate compensation in line with its reference market.

Compensation of Directors of the Bank and Its Subsidiaries

Fees paid to the Bank’s directors for serving on the Boards of Directors and committees of the Bank and its subsidiaries for the financial year ended October 31, 2007:

National Bank of Canada

Annual retainer of a director

- In cash \$ 45,000
- In Common Shares \$ 25,000

Annual retainer of the Chairman of the Board (in cash) \$200,000⁽¹⁾

Annual retainer of the Audit and Risk Management Committee Chair

- In cash \$ 15,000
- In Common Shares \$ 10,000

Annual Audit and Risk Management Committee member retainer (including committee Chair)

- In cash \$ 12,500
- In Common Shares \$ 7,500

Annual retainers of Chairs of standing committees (other than of the Audit and Risk Management Committee)

- In cash \$ 12,500
- In Common Shares \$ 7,500

⁽¹⁾ The Chairman of the Board also receives an annual retainer as a director and an annual allowance of \$25,000 for accommodation expenses.

Section 3 | Internal Management (cont.)

Annual retainers of members of standing committees (including committee Chairs)
(other than of the Audit and Risk Management Committee)

• In cash	\$10,000
• In Common Shares	\$ 5,000

Quarterly *Ad Hoc* Committee member retainer

• In cash	\$ 875
• In Common Shares	\$ 625

Ad Hoc Committee meeting fees (in cash)

\$ 1,500

Quarterly retainer for Independent Committee Chair

• In cash	\$ 2,500
• In Common Shares	\$ 1,250

Quarterly Independent Committee member retainer (including committee Chair)

• In cash	\$ 875
• In Common Shares	\$ 625

Independent Committee meeting fees (in cash)

\$ 1,500

National Bank Life Insurance Company

Annual retainer of a director (in cash) \$ 6,000

Annual retainer of committee members (in cash) \$ 1,800

Board and Committee meeting fees (in cash) \$ 1,000

National Bank Trust Inc.

Annual retainer of a director (in cash) \$ 6,000

Board and committee meeting fees (in cash) \$ 500

FMI Acquisition Inc.

Annual retainer of a director (in cash) \$ 500

Retainers – Directors receive a retainer for serving on the Board. In addition to these fees, the Chairman of the Board, committee Chairs and committee members receive compensation related to these positions. Since November 1, 2006, directors have been paid in the form of annual flat fees and no longer receive meeting fees. Flat fees take the directors' overall duties into account, not just their attendance at or participation in meetings. Moreover, following a review of market trends, the Board approved an increase in director fees, including the compensation paid in the form of

Common Shares, which came into force on November 1, 2006. The Bank and its subsidiaries also reimburse directors for the expenses incurred to attend meetings. Lastly, the Bank's directors do not benefit from any pension plan. For more information about the amounts allocated, see the tables under "Compensation of Directors of the Bank and Its Subsidiaries" and "Statement of Compensation of Directors" in this Circular, which present the compensation paid to directors for the financial year ended October 31, 2007.

Section 3 | Internal Management (cont.)

Statement of Compensation of Directors

During the financial year ended October 31, 2007

		Lawrence S. Bloomberg	Pierre Bourgie (ARM Chair, G, Ad Hoc)	André Caillé (HR, ARM, IC Chair)	Gérard Coulombe	Bernard Cyr (ARM, IC)	Shirley A. Dawe (G, HR)	Nicole Diamond-Gélinas (ARM)	Jean Douville ⁽¹⁾ (Ad Hoc)	Marcel Dutil (HR, IC)	Jean Gaulin (HR Chair, Ad Hoc Chair, ARM, IC)	Paul Gobeil (G Chair, ARM, Ad Hoc)	Réal Raymond	Roseann Runte (G, IC)	Marc P. Tellier (HR)	Louis Yachon	Total
Board Member Retainer (\$)	In cash	45,000	45,000	45,000	45,000	45,000	45,000	45,000	45,000	45,000	45,000	45,000		45,000	45,000		585,000
	In Common Shares	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000		25,000	25,000		325,000
Chairman of the Board Additional Compensation (\$)	In cash							200,000									200,000
	In Common Shares																
Standing Committee Member Compensation (\$)	In cash		22,500	22,500		12,500	20,000	12,500		10,000	22,500	22,500		10,000	10,000		
	In Common Shares		12,500	12,500		7,500	10,000	7,500		5,000	12,500	12,500		5,000	5,000		
Standing Committee Chair Compensation (\$)	In cash		15,000								12,500	12,500					
	In Common Shares		10,000								7,500	7,500					
Ad Hoc Committee Member Compensation (\$)	In cash		875					875				875					
	Meeting fees		6,000					6,000				6,000					
	In Common Shares		625					625				625					
Independent Committee Member Compensation (\$)	In cash			875		875				875	875			875			
	Meeting fees			6,000		6,000				6,000	6,000			6,000			
	In Common Shares			625		625				625	625			625			
Independent Committee Chair Compensation (\$)	In cash			2,500													
	In Common Shares			1,250													
Total Compensation (\$)		70,000	137,500	116,250	70,000	97,500	100,000	90,000	277,500	92,500	132,500	132,500		92,500	85,000		1,493,750

(1) The Chairman of the Board also receives an annual allowance of \$25,000 for accommodation expenses.

Section 3 | Internal Management (cont.)

Directors who are also officers of the Bank – Directors who are also officers of the Bank do not receive any compensation in their capacity as directors of the Bank or any of its subsidiaries.

Holding of shares or DSUs and share ownership requirements – Directors are required to hold Common Shares of the Bank or DSUs having a value equal to or greater than five times the amount of the annual base retainer received as a director of the Bank. A DSU is a right that has a value equal to the market value of a Common Share of the Bank at the time the DSUs are credited, i.e., quarterly, to an account in the director's name. Additional DSUs calculated in proportion to the dividends paid on the Common Shares are also credited to the account. DSUs can only be redeemed when the director retires from the Board. Directors have five years from the date they take office to attain the expected level of shares or DSUs pursuant to the Bank's shareholding requirements. Annual retainers for a director are paid entirely in the form of Common Shares or DSUs, or a combination thereof, until these requirements have been met. In addition, part of the retainer for directors as well as part of the compensation paid to committee members and Chairs must be paid in the form of Bank shares even to directors who have attained the minimum required level. Directors may also elect to receive their retainer in the form of cash, Common Shares and DSUs. For the number of shares and DSUs held by the directors, see "Information on Nominees for Election to the Board of Directors" in this Circular.

Other compensation paid to a director – During the most recently completed financial year, only one director received, directly from the Bank or one of its subsidiaries, compensation other than that received in his or her capacity as a director of the Bank or of one of its subsidiaries. Under a service contract entered into in November 2004 with National Bank Financial Inc., Lawrence S. Bloomberg acts as an advisor to National Bank Financial Inc. and National Bank Financial Ltd. and, as such, receives an annual retainer, commissions, business development allowance and reimbursement for various administrative expenses incurred when carrying out his duties. For the financial year ended October 31, 2007, Mr. Bloomberg received other compensation totalling \$1,427,628.

Compensation of Officers

The Human Resources Committee determines the total compensation of the Bank's officers. It reviews the scope of total compensation policies applicable to employees and officers, ensuring that they serve the interests of shareholders and promote the Bank's long-term growth, and recommends their approval to the Board. The Human Resources Committee also conducts an annual review of the total compensation of all officers, based on their performance. For more information about officer compensation and the criteria for assessing the performance of the President and Chief Executive Officer, see "Report of the Human Resources Committee" in this Circular.

Board Committees

In performing its duties, the Board is assisted by three standing committees: the Conduct Review and Corporate Governance Committee, the Audit and Risk Management Committee, and the Human Resources Committee.

Independence

The Board's committees are composed of a majority of independent directors. After each regularly scheduled committee meeting, they hold meetings *in camera* in the absence of members of management, who are invited from time to time to committee meetings. A list of the committee members is found at the end of each committee's report in this Circular.

Committee Mandates

The committees review their respective mandates annually to ensure that they adequately reflect how they function, as well as their activities and responsibilities, and comply with regulatory requirements, and recommend approval thereof to the Board. See "More About Us" on the Bank's website (www.nbc.ca) for each committee's mandate.

Audit and Risk Management Committee – For the summary of the mandate of this committee, of the financial literacy of its members, as well as of the policies and procedures for awarding contracts for non-audit services, and a description of the fees paid to the auditor, see "Report of the Audit and Risk Management Committee" in this Circular. The text of the mandate of this committee can be found in its entirety under "More About Us" on the Bank's website (www.nbc.ca) and in its Annual Information Form, which is filed on the SEDAR website (www.sedar.com).

Conduct Review and Corporate Governance Committee – For the summary of the mandate of this committee, see this section of the Circular. The text of the mandate of this committee can be found in its entirety under "More About Us" on the Bank's website (www.nbc.ca).

Human Resources Committee – For the summary of the mandate of this committee, see "Report of the Human Resources Committee" in this Circular. The text of the mandate of this committee can be found in its entirety under "More About Us" on the Bank's website (www.nbc.ca).

Ad Hoc Committee – The Board had set up an *Ad Hoc* Committee as part of the succession planning process for the Bank's President and Chief Executive Officer. This *Ad Hoc* Committee was composed of the Chairman of the Board, and the Chairs of the Conduct Review and Corporate Governance Committee, the Audit and Risk Management Committee, and the Human Resources Committee.

Independent Committee – The Board set up a committee composed exclusively of independent directors having no interest in ABCP holdings and the Transaction (as this term is defined in "Interest of Informed Persons in a Material Transaction" of this Circular). This Committee has the mandate to review and understand the circumstances surrounding the liquidity problems in the ABCP market, assess the consequences thereof for the Bank and its subsidiaries, and recommend to the Board the appropriate measures to be taken to safeguard the interests of the Bank and its shareholders. The Independent Committee is composed of André Caillé, its Chair, Bernard Cyr, Marcel Dutil, Jean Gaulin and Roseann Runte.

Section 3 | Internal Management (cont.)

Attendance Record of Director Not Standing for Re-election

During the financial year ended October 31, 2007

Réal Raymond

Board of Directors: 7/8⁽¹⁾

Summary of the Number of Board and Committee Meetings

During the financial year ended October 31, 2007

Board of Directors	14
Conduct Review and Corporate Governance Committee	4
Human Resources Committee	8
Audit and Risk Management Committee	17
Ad Hoc Committee	4
Independent Committee	4

Mandates of Board Committee Chairs

The committees annually review the written mandate of their respective Chairs and recommend it for approval to the Board, thus ensuring that it adequately reflects the duties of each committee Chair. These mandates define the duties of the Chairs in holding committee meetings, their role regarding the dynamics of the committees and their relationship with the senior management of the Bank.

External Advisors

General powers – The Board’s committees have the necessary authority to retain legal counsel or other independent advisors where they deem it necessary to carry out their duties and responsibilities. They also have the authority to set their compensation.

Services of Human Resources Consultants – The Human Resources Committee retained the services of human resources consultants during the most recently completed financial year. For the name of these independent external advisors, a description of their respective mandates and the fees paid to them, see “Independent External Advisors” under “Human Resources Committee Report” in this Circular.

Business Ethics

Code of Professional Conduct

Application and content – The Bank has a Code of Professional Conduct (for the purposes of this section, the “Code”), which sets out the obligations of its employees, officers and directors relating to professional conduct, to the extent that it applies to them. Specifically, the Code describes the duty to act with honesty and integrity, abide by the law, treat others fairly and respectfully, keep information in the strictest confidence, avoid conflicts of interest and respect the organization. The Code can be found in its entirety under “More About Us” on the Bank’s website (www.nbc.ca) and on the SEDAR website (www.sedar.com).

Code updates and non-compliance – The Committee reviews the Code at least every two years and recommends updates, if any, to the Board for approval. The Bank’s management must report any material breach of the Code to the Committee and submit an annual report to it on the procedure ensuring compliance with the Code. In the event of a material breach of the Code by a director or officer, the Board would disclose the breach through a material change report filed with the CSA.

Conflict of Interest

Duty to report – The directors have a duty to report any conflict of interest to the Board. Furthermore, they must refrain from participating in Board discussions and abstain from voting on any Board decision regarding a company to which they are related. During the financial year ended October 31, 2007, some directors, who had disclosed their direct or indirect interest in ABCP or in the Transaction (as this term is defined in “Interest of Informed Persons in a Material Transaction” in this Circular) refrained from participating in the meetings or deliberations of the Board and its committees relating to this issue.

Independent judgment – To ensure directors’ independent judgment during, *inter alia*, the review of operations and contracts in which a director has a material interest, the Committee, in conjunction with the Chairman of the Board, also reviews the outside board memberships of directors. For more information on the subject of outside board memberships, see “Outside Board Memberships” in this section of the Circular.

Measures to foster and promote an ethical business culture – The Board promotes a culture of ethical business conduct and integrity throughout the Bank and, for this reason, attaches great importance to compliance with the Code. Moreover, the Bank set up a Disclosure Committee to ensure adequate reporting of information. Lastly, the Bank has introduced a Policy for the reporting of irregularities.

Assessment of the Board, Board Committees, the Chairman of the Board, Committee Chairs and Directors

The Committee is responsible for establishing and overseeing a process whereby each director can assess the effectiveness and performance of the Board and its Chairman, of the Board committees and their respective Chairs, as well as assess his or her own performance as a Board member.

In the most recently completed financial year, the assessment process was conducted through one-on-one meetings. Each director first met individually with the Chairman of the Board to discuss his or her assessment of the performance of the Board, the performance of each Board committee on which he or she served, the performance of the Chair of such committee, and of his or her own performance as a member of the Board. Then, each director had the opportunity to meet individually with the Chair of the Committee to discuss the performance of the Chairman of the Board and the Chair of each committee on which he or she sat (other than the Committee). A questionnaire, approved by the Committee, was given to each director to help him or her prepare for these meetings so as to facilitate their conduct.

(1) Mr. Raymond resigned as director on June 1, 2007. He was also absent from the meeting at which the succession plan for the President and Chief Executive Officer was discussed.

Section 3 | Internal Management (cont.)

The questionnaire included suggested topics and questions for discussion at these meetings, including the Board's responsibilities, its relationship with management, its activities and its composition, the structure and activities of the committees, the material prepared for Board and committee meetings and timelines for delivery to directors. Following these one-on-one meetings, the Committee held an *in camera* session and members discussed and reviewed the feedback from the one-on-one meetings and considered the appropriateness of any modifications or enhancements in respect of the effective performance of the Board, its committees, the Chairman of the Board, the Chairs of Board committees and individual directors. A report was then presented to the Board.

Paul Gobeil
Chair
Conduct Review and Corporate Governance Committee

Section 4 | Other Information

Indebtedness of Directors, Executive Officers and Employees

In the normal course of its business, the Bank grants loans to its directors, executive officers⁽¹⁾ and employees.

Aggregate Indebtedness

As at December 14, 2007, the aggregate loans granted by the Bank or one of its subsidiaries, other than loans repaid in full and routine indebtedness as defined by Canadian securities legislation, to directors, executive officers, employees and former directors, executive officers and employees of the Bank and its subsidiaries stood as follows:

Purpose	Granted by the Bank or its subsidiaries (\$)	Granted by another entity (\$) ⁽²⁾
Purchase of securities	608,755	–
Other	737,514,884	–

Indebtedness of Directors and Executive Officers Under Security Purchase and Other Plans

The following table outlines the loans granted in the Bank's last financial year to each individual who is, or was during the most recently completed financial year, a director or executive officer of the Bank, to each nominee as a director of the Bank, and to each related person of any such director, executive officer or nominee. The loans are granted either by the Bank or one of its subsidiaries, or any other entity, if the indebtedness is the subject of a guarantee, a letter of credit provided by the Bank or any of its subsidiaries, a support agreement, or similar arrangement or understanding.

Name and Principal Position	Involvement of Bank or Subsidiary	Largest Amount Outstanding in Financial Year Ended October 31, 2007 (\$)	Outstanding as at December 14, 2007 (\$)	Financially Assisted Securities Subscribed During Financial Year Ended October 31, 2007	Security for Indebtedness	Amount Forgiven During Financial Year Ended October 31, 2007 (\$)
Security Subscription Plans						
Pascal Duquette President and Chief Executive Officer, Natcan Investment Management Inc.	Indebtedness to the Bank	643,901 ⁽³⁾	608,755 ⁽³⁾	–	–	–
Other Plans						
Laura Dottori-Attanasio Senior Vice-President, Risk Management	Indebtedness to the Bank	400,000 ⁽⁴⁾ 124,503 ⁽⁵⁾	357,712 ⁽⁴⁾ 69,352 ⁽⁵⁾	–	–	–
Pierre Dubreuil Senior Vice-President, Marketing, International and Business Solutions	Indebtedness to the Bank	186,015 ⁽⁶⁾	159,259 ⁽⁶⁾	–	–	–
Charles Guay Senior Vice President, Wealth Management	Indebtedness to the Bank	477,811 ⁽⁶⁾	356,870 ⁽⁶⁾	–	–	–
Pierre Fitzgibbon Senior Vice-President, Finance, Technology and Corporate Affairs (resigned on June 1, 2007)	Indebtedness to the Bank	461,631 ⁽⁵⁾ 171,352 ⁽⁶⁾	257,692 ⁽⁵⁾ 220,125 ⁽⁶⁾	–	–	–
Eric Laflamme Vice-President, Trust Services and President and Chief Executive Officer, National Bank Trust inc. and Natcan Trust Company	Indebtedness to the Bank	282,822 ⁽⁴⁾ 51,363 ⁽⁶⁾	287,237 ⁽⁴⁾ 53,202 ⁽⁶⁾	–	–	–
Martin Lavigne Vice-President, Mutual Funds and President and Chief Executive Officer, National Bank Securities	Indebtedness to the Bank	292,945 ⁽⁴⁾ 74,993 ⁽⁶⁾	262,446 ⁽⁴⁾ 56,936 ⁽⁶⁾	–	–	–
Luc Paiement Co-President and Co-Chief Executive Officer, National Bank Financial Group and Senior Vice President	Indebtedness to the Bank	392,343 ⁽⁴⁾	264,999 ⁽⁴⁾	–	–	–

Section 4 | Other Information (cont.)

- (1) For the purposes of this section, and pursuant to subsection 1.1(1) of National Instrument 51-102 Continuous Disclosure Obligations of the CSA, the term “executive officer” includes the Chairman of the Board, the President and Chief Executive Officer, the Chief Operating Officer, the Senior Vice-Presidents, the Vice-Presidents of the Bank in charge of a principal business unit, division or function, and officers of the Bank or of any of its subsidiaries performing a policy-making function in respect of the Bank.
- (2) Loans granted by another entity which are the subject of a guarantee, a letter of credit provided by the Bank or one of its subsidiaries, a support agreement or other similar arrangement or agreement.
- (3) This amount represents loans granted by the Bank to acquire common shares in the capital stock of 9130-1564 Québec inc. These loans are granted under the long-term bonus program of Natcan Investment Management Inc. and are secured by a movable hypothec for repayment of the loans. The principal bears interest at the Bank’s prime rate less 2% and, subject to the usual prepayment clauses, at least 5% of the principal is repayable on June 30 of each year.
- (4) This amount represents one or more loans secured by a mortgage on the borrower’s main residence which exceeds the borrower’s annual salary. Such a loan is granted according to the standards applicable to clients, except for the interest rate, which will be the rate posted for the Bank’s clients less 2%. This amount may also represent one or more loans secured by a mortgage on the borrower’s secondary residence granted at market terms and conditions. Furthermore, this amount may represent an All-In-One loan; namely, a margin loan secured by a mortgage on the borrower’s principal residence (provided it is a single family dwelling). Such a loan is granted at the prime rate less 2% (but not less than the prime rate divided by 2). All-In-One loans secured by a mortgage on any other real estate owned by the borrower are granted at market terms and conditions.
- (5) This amount represents one or more personal leveraged loans (“Leveraged Loans”) granted to finance the participant’s equity commitments under the EdgeStone Affiliate Fund co-investment program. All Leveraged Loans bear interest at the federal prescribed rate published monthly and are secured by a pledge of the participant’s interests in each limited partnership comprising the EdgeStone Affiliate Fund co-investment program. This program provided officers and eligible employees of the Bank and some of its subsidiaries the opportunity to co-invest with EdgeStone Capital Equity Fund II-A, L.P., EdgeStone Capital Equity Fund II-B, L.P., EdgeStone Capital Mezzanine Fund II, L.P., and EdgeStone Capital Venture Fund II, L.P. (collectively, the “Main Funds”) and the Bank or a company in which the Bank holds an indirect interest. Officers and eligible employees are offered credit facilities by the Bank or one of its subsidiaries (the “Lender”) through limited recourse Leveraged Loans. The Leveraged Loans bear interest and will mature on the earliest of: (i) the 10th anniversary date of the establishment of the applicable Main Fund, (ii) the dissolution of the applicable EdgeStone Affiliate Fund limited partnership, (iii) the sale or disposal of the applicable EdgeStone Affiliate Fund limited partnership interest held by a participant, or (iv) the date the principal amount of the Leveraged Loans otherwise becomes due and payable. The Lender will have personal recourse against the participant equal to 50% of the participant’s total commitment (equity and leveraged portion). The Lender’s recourse for the balance of the Leveraged Loans is limited to the participant’s EdgeStone Affiliate Fund limited partnership interest and the distributions thereon.
- (6) This amount represents one or more personal loans granted to purchase property and for various investments, extended according to standards applicable to clients, except for the interest rate, which ranges between half of the prime rate and the Bank’s prime rate, or a loan under a relocation agreement. This amount may also represent the balance of a personal line of credit, granted according to standards applicable to clients, except for the interest rate, which ranges between the prime rate less 3% (but not less than the prime rate divided by 2) and the Bank’s prime rate. The aggregate of the personal loans granted and the amounts authorized as a personal line of credit is not to exceed 50% of the annual gross salary of the borrower for the reduced-rate portion. The excess will be loaned at the prime rate for these products. This amount may also represent any unpaid balance on the MasterCard account, bearing interest at the rate granted to the average client divided by 2.

Interest of Informed Persons in a Material Transaction

Since the start of the Bank’s most recently completed financial year, a material transaction of the Bank has had a major impact on it or on its subsidiaries within the meaning of Item 11 of Schedule 5 to *National Instrument 51-102 Continuous Disclosure Obligations*.

In fact, between August 20 and 24, 2007, the Bank, directly or through its subsidiaries, purchased at 100% of the acquisition cost plus accrued interest, all ABCP held in National Bank and Altamira public mutual funds, and in the pooled funds used by Natcan Investment Management Inc. in its discretionary management (except for two alternative funds) and by National Bank Trust in its private investment management. The Bank acquired, all ABCP held by its retail customers and by certain other clients who had a total of CAN \$2 million or less in ABCP in their accounts with National Bank Financial Inc., National Bank Financial Ltd. and National Bank Direct Brokerage Inc., and who were not considered to be accredited investors under securities regulations (the “Transaction”).

Section 4 | Other Information (cont.)

On August 20, 2007, 48 informed persons⁽¹⁾ had a direct or indirect interest \$7,829,720.02 in the Transaction. Among those informed persons, the Directors, members of the Office of the President and the Senior Vice-Presidents below had an interest in the Transaction :

Name	City, Province	Nature of interest	Amount (\$)
Directors of the Bank			
Coulombe, Gérard	Sainte-Marthe, Quebec	Indirect: Mutual fund ⁽²⁾	17,411.33
Diamond-Gélinas, Nicole	Saint-Barnabe-Nord, Quebec	Indirect: Mutual fund	89.28
Douville, Jean	Bedford, Quebec	Direct: Direct holding of ABCP	422,000.00
Gobeil, Paul	Ottawa, Ontario	Indirect: Mutual fund	500,912.28
Vachon, Louis	Beaconsfield, Quebec	Indirect: Mutual fund	2,538,053.02
Members of the Office of the President			
Paielement, Luc	Mont-Royal, Quebec	Indirect: Pooled fund ⁽³⁾	1,672.17
Pascoe, Ricardo	Toronto, Ontario	Indirect: Mutual fund	76,893.08
Tremblay, Michel	Mont-Royal, Quebec	Indirect: Mutual fund	1,437,614.58
Senior Vice-Presidents			
Dagenais, Jean	Montreal, Quebec	Indirect: Pooled fund and mutual fund	6,796.08
Desbiens, Pierre	Saint-Lambert, Quebec	Indirect: Pooled fund and mutual fund	642,114.44
Dubreuil, Pierre	Longueuil, Quebec	Indirect: Mutual fund	887.10
Guay, Charles	Montreal, Quebec	Indirect: Mutual fund	132.34
Keung, Alice	Montreal, Quebec	Indirect: Pooled fund and mutual fund	19,563.00
Lecaldare, Mario	Westmount, Quebec	Direct: Direct holding of ABCP	1,108,852.50
Lecat, Olivier H.	Montreal, Quebec	Indirect: Pooled fund	44,437.11
Ouellet, Martin	Montreal, Quebec	Indirect: Mutual fund	308,260.62
Total			7,125,688.93

In most cases, the informed persons had ABCP holdings in mutual funds. These persons benefited from the Transaction to the same extent and on the same conditions as other clients of the Bank affected by this Transaction. Each of such persons who is also a Board member declared his or her interest at the first meeting of the Board or of one of its committees which he or she attended and during which the draft Transaction was examined. None of these persons took part in the deliberations of the Board or its committees concerning the Transaction. On the recommendation of the Independent Committee, the Transaction was unanimously approved by the Board members, excluding the directors who had declared an interest in the Transaction.

(1) For the purposes of this section, the expression "informed person" has the meaning provided in subsection 1.1(1) of National Instrument 51-102 Continuous Disclosure Obligations published by the CSA, namely, (a) a director or executive officer of the Bank; (b) a director or executive officer of a person that is itself an informed person or subsidiary of the Bank; (c) any person who beneficially owns, directly or indirectly, voting securities of the Bank or who exercises control or direction over voting securities of the Bank or a combination of both carrying more than 10 percent of the voting rights attached to all outstanding voting securities of the Bank other than voting securities held by the person as underwriter in the course of a distribution; and (d) the Bank that has purchased, redeemed or otherwise acquired any of its securities, for so long as it holds any of its securities.

(2) National Bank or Altamira Mutual Funds.

(3) Pooled funds used by Natcan Investment Management Inc. in its discretionary management (except for two alternative funds) or by National Bank Trust in its private investment management.

Section 4 | Other Information (cont.)

Liability Insurance for Directors and Officers

The Bank has a liability insurance policy for the directors and officers of the Bank and its subsidiaries. This policy covers directors and officers under circumstances where the Bank cannot indemnify them or it is not authorized to do so. The policy provides coverage of up to \$100,000,000, with no deductible.

The annual premium for this insurance is \$561,686. The policy expires on August 31, 2008.

Buyback Program for Shares

As at the date of this Circular, the Bank had a normal course issuer bid in place enabling it to acquire in course of and during the period referred to below, through the Toronto Stock Exchange, a maximum of 8,102,000 Common Shares, representing approximately 5% of the then outstanding Common Shares, which, once redeemed, are then cancelled.

In the opinion of the Board, the redemption of the Common Shares pursuant to the normal course issuer bid represents an appropriate use of the Bank's surplus funds. This issuer bid started on February 1, 2007 and will end on January 31, 2008. The price paid by the Bank for any redeemed Common Shares corresponds to the market price of these Common Shares on the Toronto Stock Exchange at the time of redemption.

Shareholders may obtain, free of charge, a copy of the notice of intent regarding this Issuer Bid of the Bank, which was approved by the Toronto Stock Exchange, by writing to the Corporate Secretary's Office of the Bank at 600 De La Gauchetière West, 4th Floor, Montreal, Quebec, Canada H3B 4L2.

On November 29, 2007, the Bank also announced that the Board had authorized a normal course issuer bid to buy back up to 3% of its issued and outstanding Common Shares, representing approximately 4,700,000 Common Shares. This normal course issuer received the approval of the Superintendent of Financial Institutions and the Toronto Stock Exchange. It is expected that this normal course issuer bid will begin on or about February 1, 2008 and will end at the latest on or about January 31, 2009. The purchases will be made through the facilities of the Toronto Stock Exchange. The Bank will pay the market price for the Common Shares at the time of acquisition. The actual number of Common Shares which may be purchased, and the timing of any such purchases, will be determined by the Bank. Purchases will be made in accordance with applicable regulatory requirements. The Common Shares acquired pursuant to the normal course issuer bid will be cancelled.

Minutes

A copy of the minutes of the Annual and Special Meeting of Common Shareholders of the Bank held on March 7, 2007 was mailed to the Common Shareholders, together with this Circular. The minutes may also be found on the SEDAR website (www.sedar.com).

Additional Information

Additional information about the Bank may be obtained from its website (www.nbc.ca) and from the SEDAR website (www.sedar.com).

Financial information about the Bank can be found in the consolidated financial statements and Management's Discussion and Analysis for the Bank's most recently completed financial year, included in the Annual Report.

The Bank will, upon request, promptly provide any shareholder, free of charge, with a copy of the Annual Report, a copy of the Annual Information Form together with a copy of any document incorporated therein by reference, a copy of the annual consolidated financial statements for the financial year ended October 31, 2007 with the accompanying auditor's report, a copy of any subsequent quarterly report and a copy of the Management Proxy Circular of the Bank with respect to its most recent Annual Meeting of Common Shareholders involving the election of directors. To obtain copies of these documents, please send your request to the Corporate Secretary's Office of the Bank at 600 De La Gauchetière West, 4th Floor, Montreal, Quebec, Canada H3B 4L2.

Approval of the Board of Directors

The Board has approved the content of this Circular and its mailing to shareholders.

Linda Caty
Vice-President and Corporate Secretary
January 11, 2008

Schedule A | Shareholder Proposals

Shareholder Proposals

The Bank has reproduced below the proposals and submissions by shareholders in their original form without making any changes whatsoever.

Mr. Philip L. MacDonald, 1 University Place, Sackville, New Brunswick, Canada E4L 4M8, submitted Proposal No. 1 to the Bank.

Proposal No. 1

Shareholder proposal and statement:

“It is proposed that the Bank, as a part of any normal course issuer bid, and in any case at least once every three years, offer to repurchase, direct from shareholders, for subsequent cancellation, any ‘odd lot’ shareholdings (i.e., shareholdings of from one to ninety-nine shares).

In many years the Bank has had a normal course issuer bid (the “Issuer Bid”) in place under which it can repurchase for subsequent cancellation through the Toronto Stock Exchange (the “TSX”) up to a specified maximum number of the outstanding common shares of the Bank. It is generally acknowledged that such repurchase and cancellation of outstanding shares benefits all shareholders. The Board is of the opinion that such an Issuer Bid constitutes an appropriate use of the Bank’s surplus funds.

This proposal will benefit both those shareholders whose small shareholdings (“odd lots”) are repurchased, and the remaining shareholders, as the administrative costs for small odd lot shareholders is considerable in aggregate and as a percentage of the profit or dividends per share. These costs include the accounting for and issuing of small dividend cheques, the cost of postage for dividend notices and the significant printing and postage costs of quarterly and annual statements and proxy notices. The proposal would also provide the small shareholder of a cost-effective means of selling his or her small shareholding. These saved costs, in the aggregate would amount to significant sums saved, thereby increasing the profit of the bank in a manner which positively affects all shareholders small and large.”

Position of the Bank:

The Bank acknowledges that it is sometimes difficult for shareholders to sell odd lots; however, it is of the opinion that setting up a program to buy back odd lots is not in the interest of the majority of its shareholders.

Odd lot buyback programs are rather rare on the market and generally meet very specific needs, as in the case of corporate mergers, acquisitions, spin-offs or a distribution of a portion of a corporation’s assets. Such programs are costly to set up and may last no more than 150 days, according to the *TSX Company Manual*.

The Bank, therefore, considers that the costs and the temporary nature of such programs, as well as their limited benefits for all shareholders, do not justify such a measure.

For these reasons, the Bank recommends voting **AGAINST** this proposal.

Mr. Lowell Weir, 4 Armoyan Court, Bedford, Nova Scotia, Canada B4A 3L5, submitted Proposals Nos. 2, 3, 4, 5, 6, 7, 8, 9, 10 and 11 to the Bank.

The Bank would like to point out that a number of the proposals submitted by this shareholder, as well as the arguments in support thereof, contain unfounded statements and insinuations undermining both the credibility and integrity of certain directors, officers and former officers of the Bank. It should be remembered that there are currently two lawsuits involving the proponent of these proposals and the Bank and one of its subsidiaries. In a judgment rendered in 2005, the Quebec Superior Court acknowledged that some of the proposals that this shareholder wished to submit at that time were aimed to assert a personal claim against the Bank, its directors and officers.

Proposal No. 2

Shareholder proposal and statement:

“The Bank shall re-affirm its commitment to adoption of and adherence to industry-leading standards of corporate governance.

Several years ago, the Toronto Stock Exchange (“TSX”) required listed issuers to Bank adopt industry-leading standards of governance.

However, this Bank continues to exhibit extremely low standards of governance, and thus it is now necessary to put this matter to a formal vote by the shareholders. If this Bank had practiced industry-leading corporate governance during the past five years, it would not be the only Bank;

- (a) Whose present and previous Chairman both misled and provided misrepresentations to shareholders in response to questions or shareholder motions at Annual and Special General Meetings of the Bank.
- (b) Whose former Chief Executive Officer and Corporate Secretary violated the Bank’s Code of Conduct by releasing confidential correspondence with a Bank Client without the consent of the Client.
- (c) Whose Chairman of the Corporate Governance and Conduct Review Committee not only misled shareholders at the 2002 Annual and Special Meeting of the Bank but also in contravention of securities regulations failed to disclose in the Management Proxy Circular that he was a director of a corporation and its wholly owned subsidiary until November 12, 2001 and shortly thereafter the subsidiary filed a proposal with creditors and the TSX suspended trading of the corporation for failure to meet TSX listing requirements. The shares of the corporation were subsequently de-listed from the TSX. This information was only included in the Management Proxy Circular when the complainant sought a judicial order for inclusion.
- (d) Whose Corporate Governance and Conduct Committee fails to respond to any issue of possible governance misconduct and only responded to a formal complaint when the matter was brought to the attention of each individual board member.
- (e) Whose Compensation Committee provided the former Chief Executive Officer with a \$150,000 gift in the calculation of the Officer’s Bonus for his final year in office.
- (f) Whose Directors exclude valid shareholder proposals in the Management Information Circular requiring shareholders to incur extra costs in obtaining a judicial order to have the proposals included.

Schedule A | Shareholder Proposals (cont.)

- (g) Whose Directors have provided biased unapproved supplementary material to Shareholders at Annual Meeting Such material was not pre-approved by the Toronto Stock Exchange or other regulatory authorities.
- (h) Whose Management considers a settlement agreement entered into by a director with a securities regulatory authority before December 31, 2000 to be considered **not** important to a reasoned investor in deciding to vote for a proposed director.

Moreover, if this Bank truly practiced industry-leading corporate governance it would insure its directors are properly educated with regard proper Shareholder Governance and not adverse to any shareholder suggestion or proposal.”

Position of the Bank:

The Bank is very strongly committed to corporate governance and aims to maintain strict corporate governance standards. It keeps abreast of developments in this area and abides by the corporate governance guidelines of the Canadian Securities Administrators (“CSA”). The Bank was in fact the recipient of the Korn/Ferry-Revue Commerce Award for Excellence in Corporate Governance in 2005. The Bank therefore questions the relevance of this proposal since shareholders are requested to vote on a *fait accompli* because the Bank already fully complies with corporate governance requirements and will continue to do so.

The Bank cannot in any way endorse the comments made by the proponent of this proposal because they are false. Moreover, in a number of cases, they adversely affect the reputation of the Bank and of some of its officers and directors. The matters referred to in the shareholder’s presentation have been the subject of copious correspondence over the years between the proponent of this proposal and the Bank’s officers and directors. The Conduct Review and Corporate Governance Committee has replied to this shareholder directly or through the Bank’s officers as and when deemed appropriate, depending on the type of letter or e-mail received. This shareholder has always received courteous and attentive service from both management and the Board of Directors.

Even if the Bank takes issue with the shareholder’s allegations and deplors his attacks on the integrity of its officers and directors, it recommends voting **FOR** this proposal, as it has no qualms in re-affirming its commitment to corporate governance standards to which it already adheres fully, and which it will continue to meet.

Proposal No. 3

Shareholder proposal and statement:

“The Bank improve the competency and governance on Board Committees though adopting a cap on years of committee service by a Bank director. It is proposed that no director be permitted to serve on a specific Board Committee for more than five (5) consecutive years and no director be permitted to serve more than ten (10) years in total on the specific committee.

While Board Committees certainly benefit from the wisdom and counsel of long term members, new blood brings fresh ideas and renewed enthusiasm.”

Position of the Bank:

The Bank is of the opinion that it is counter to its interests and those of its shareholders to disqualify a director from being a member of a Board committee because of the number of years that he or she has already served in such capacity. The members chosen for each of the Board committees must be selected on the basis of their qualifications and contribution and not on the number of years they have already served.

The Conduct Review and Corporate Governance Committee annually assesses the performance and effectiveness of the Board committees, and the committee Chairs and members. In addition, each director is requested to perform a self-assessment to evaluate his or her personal contribution to the committee(s) on which he or she serves. The results of these assessments and self-assessments make it possible to identify the areas of potential improvement as well as the needs of committees and their members in terms of knowledge and expertise.

It should be noted that according to a Bank directive, a director’s total term of office will be limited to 15 years, barring any special circumstances. The computation of this period started in 1998 for directors serving on the Board at that time.

The Bank is of the opinion that all these procedures ensure the effective performance of each member of the Board committees, regardless of the individual member’s number of years of service.

For these reasons, the Bank recommends voting **AGAINST** this proposal.

Schedule A | Shareholder Proposals (cont.)

Proposal No. 4

Shareholder proposal and statement:

“The Bank conduct a review of the performance of the Chief Executive Officer and the performance of the Executive Vice President – Finance, Risk and Treasury in light of the strong possibility of the Bank suffering extensive losses emulating from the Bank’s heavy participation in the non-bank Asset Backed Commercial Paper (“ABCP”) debacle.

It is clear that the Bank has suffered extensive damage to its reputation from its involvement in the ABCP market. Today, Jean Coutu Group a long standing and important customer of the Bank advised its shareholders that it was considering suing the Bank to recover approximately \$35 million in illiquid ABCP sold to it by the Bank. Certainly other important customers will follow Jean Coutu Group, The Chief Executive Officer is allegedly the architect of the Bank’s ABCP strategy and accordingly, if responsible, should be held accountable.

The Executive Vice President-Finance, Risk and Treasury should provide a satisfactory explanation as to why Natcan Investment Management Inc, (“Natcan”) was allowed to take and hold excessive positions in non-bank ABCP through managed client accounts in certain money market funds operated by National Bank Securities Inc. and Altamira Investment Services Inc. It would further appear that Natcan (whose investment philosophy emphasis “asset allocation” and “diversification”) was practicing exactly the opposite to its philosophy by taking excessive ABCP position. Positions, which appear to be, were far above acceptable levels, especially for the NB Mutual Funds operations.

The following are alleged to be the NB Mutual Fund Positions in non-bank ABCP prior to Bank’s bailout.

- National Bank Corporate Cash Mgmt 37.9% in non-bank ABCP
- National Bank Treasury Management 30.7% in non-bank ABCP
- National Bank Money Market 26.6% in non-bank ABCP
- Natcan Money Market Pooled 26.4% in non-bank ABCP
- National Bank US Money Market 21.3% in non-bank ABCP

It is further obvious that Natcan was operating without proper risk monitoring and adequate risk controls.”

Position of the Bank:

The Bank declares the allegations made by this shareholder to be false and finds his attacks against the President and Chief Executive Officer and the Executive Vice-President – Finance, Risk and Treasury to be regrettable.

At the end of each financial year, the Human Resources Committee assesses the overall performance of the President and Chief Executive Officer on the basis of: (i) the Bank’s financial results versus the objectives set at the beginning of the financial year and the results obtained by the other five major banks, (ii) the development of competitive advantages enabling the Bank to consolidate its strategic positioning within the financial services sector, (iii) the Bank’s risk profile and credit quality, (iv) the creation and maintenance of a solid corporate image, (v) the management of human resources, and (vi) the development and maintenance of quality relationships with shareholders, clients, employees, governments and other regulatory authorities, as well as communities. It also assesses the performance of each member of the Office of the President, including the Executive Vice-President – Finance, Risk and Treasury, based on the recommendations of the President and Chief Executive Officer.

The criteria for assessing the performance of the President and Chief Executive Officer and of the other officers who are members of the Office of the President take into account various factors, including, for instance, the liquidity problems affecting, in this case, the global ABCP market. The calculation of the bonus amount for these officers was based, among other things, on the return on equity and growth in earnings per share of the Bank, which were affected by the liquidity problems in the ABCP market.

In the case at hand, the following facts should be put into perspective:

- The non-bank ABCP problem in Canada stems from a crisis in confidence that erupted in the U.S. credit market in the summer of 2007 and affected a very large number of financial institutions, both in Europe and in North America. This crisis affected the non-bank ABCP in Canada, even though it had little exposure to U.S. subprime mortgage loans.
- Non-bank ABCP was successfully traded for many years and was rated very highly by Dominion Bond Rating Services.
- The Board of Directors was given the opportunity to assess officers’ leadership skills in managing the crisis effectively and proactively.

The Board continuously monitors ABCP holdings and takes the appropriate measures within the context of its mandate.

For these reasons, the Bank recommends voting **AGAINST** this proposal.

Schedule A | Shareholder Proposals (cont.)

Proposal No. 5

Shareholder proposal and statement:

“The Bank secure indemnification from the minority shareholders of Natcan Investment Management Inc (“Natcan”) for their proportionate share of the potential losses on the approximately \$2.0 billion of non-bank Asset Backed Commercial Paper (“ABCP”) purchased by the Bank from mutual fund clients accounts of National Bank Securities Inc. and Altamira Investment Services Inc. which were managed by Natcan. As the minority shareholders of Natcan are also executive officers of the Bank, no bonus or stock based compensation should be provided to these executives until the Bank has received full indemnification.

In August 2007, the Bank was forced to purchase approximately \$2.0 billion in non-bank ABCP from the clients of National Bank Securities Inc. and Altamira Investment Services Inc. in order to protect the Bank reputation. Senior Bank executives have admitted that this purchase was done without due diligence or proper review. The Bank needed to conduct a full review to determine the true value of the ABCP acquired. This ABCP was purchased for client accounts in amounts, which on the surface appear substantial above normal Mutual Fund Positions. The following are alleged to be the positions held by certain funds:

- National Bank Corporate Cash Mgmt 37.9% in non-bank ABCP
- National Bank Treasury Management 30.7% in non-bank ABCP
- National Bank Money Market 26.6% in non-bank ABCP
- Natcan Money Market Pooled 26.4% in non-bank ABCP
- National Bank US Money Market 21.3% in non-bank ABCP

Natcan Investment Management Inc. was the managers of these funds and must be held accountable for losses sustained.”

Position of the Bank:

The Bank takes issue with the facts submitted by the proponent of this proposal, which are in many cases incomplete or inexact.

Contrary to what this shareholder maintains, no Natcan officer – except for the Chairman of its Board of Directors – is an officer of the Bank or receives stock-based compensation from the Bank. The indirect equity holdings of some of Natcan’s officers in its capital stock constitute one of the components of these officers’ total compensation and are taken into consideration by the Bank at the time of determining these officers’ compensation.

The Bank annually assesses the performance of the officers of its subsidiaries, including those of Natcan, and determines the annual bonuses to be paid to them. The criteria used for assessing the performance of Natcan officers take into account various factors, including, in this case, the liquidity problems affecting the global ABCP market. In addition, the calculation of the bonus amount for these officers is based directly on the return on the assets that they manage, which was affected, in certain cases, by the problems in the ABCP market.

Like the Bank’s Board of Directors, Natcan’s Board of Directors continuously monitors ABCP holdings, and takes the appropriate measures within the context of its mandate.

For these reasons, the Bank recommends voting **AGAINST** this proposal.

Proposal No. 6

Shareholder proposal and statement:

“The Chairman for the Annual Meeting of Shareholders should be a shareholder selected from non-management shareholders registered and in attendance at the meeting.

Currently the Directors of the Bank choose the Chairman for the Shareholders Meeting and traditionally have chosen the Chairman of the Board to handle these duties. Unfortunately the Chairman of the Board often wears too many hats and may be in conflict of interest positions on certain matters or proposal brought by both management and shareholders of the Bank. To avoid these situations, the Chairman should be a shareholder selected from non-management shareholders registered and in attendance at the meeting.”

Position of the Bank:

By-Law I of the Bank provides that the Board shall appoint the Chairman of the Meeting of Shareholders, which is what was done at the meeting held on December 13, 2007. The Chairman of the Board was then appointed the Chairman of the Meeting of Shareholders to be held on February 29, 2008.

The Bank considers that the Chairman of the Board is the best person to chair the Meeting of Shareholders and to facilitate the conduct thereof. Given the large number of proposals on the agenda and the sometimes complex statements of certain shareholders, it is important for the Chairman of the Meeting to be familiar with the procedure for shareholders’ meetings as well as with the Bank’s business to ensure that each of the items on the agenda will be handled effectively and diligently.

For these reasons, the Bank recommends voting **AGAINST** this proposal.

Schedule A | Shareholder Proposals (cont.)

Proposal No. 7

Shareholder proposal and statement:

"The Secretary for the Annual Meeting of Shareholders should be a shareholder selected from non-management shareholders registered and in attendance at the meeting.

Currently the Directors of the Bank choose the Secretary for the Shareholders Meeting and traditionally have chosen the Corporate Secretary of the Board to handle these duties. Unfortunately the Corporate Secretary often wears too many hats and may be in conflict of interest positions on certain matters or proposal brought by both management and shareholders of the Bank. To avoid these situations, the Corporate Secretary should be a shareholder selected from non-management shareholders registered and in attendance at the meeting."

Position of the Bank:

By-Law 1 of the Bank provides that the Board shall appoint the Secretary of the Meeting of Shareholders, which is what was done at the meeting held on December 13, 2007. The Vice-President and Corporate Secretary was then appointed the Secretary of the Meeting of Shareholders to be held on February 29, 2008.

The Bank considers that the Vice-President and Corporate Secretary is the best person to act as Secretary for the Meeting of Shareholders and to facilitate the conduct thereof. Given the large number of proposals on the agenda and the sometimes complex statements of some shareholders, it is important for the Secretary of the Meeting to be familiar with the procedure for shareholders' meetings as well as with the Bank's business to ensure that each of the items on the agenda will be handled effectively and diligently.

For these reasons, the Bank recommends voting **AGAINST** this proposal.

Proposal No. 8

Shareholder proposal and statement:

"Management of the Bank must adhere to TSX and other applicable securities commissions regulations in not providing unapproved supplementary material to shareholders at the Annual Meeting of Shareholders.

At the Annual meeting of Bank Shareholders held on March 7, 2007 Management of the Bank provided shareholders in attendance with a packet of supplementary material which was not approved by the TSX and applicable securities commissions. This packet of material not only proved to be extremely confusing to shareholders as it did not contain all proposals submitted for consideration at the meeting only those proposals submitted by Management. Further the packet of material was highly prejudicial to shareholders submitting proposals for consideration by the shareholders."

Position of the Bank:

The Bank's continuous disclosure practices comply fully with applicable regulations and TSX rules.

However, the Bank takes issue with the shareholder's presentation in support of this proposal. The material distributed to persons in attendance at the shareholders' meetings held on March 7, 2007 was only a copy of some of the proposals submitted by management and already included in the Management Proxy Circular sent to the holders of Special and Common Shares of the Bank in accordance with the applicable regulations. The Management Proxy Circular had previously been reviewed and approved by the TSX. This material did not contain any new information and its purpose was only to facilitate the conduct of the meetings given the complexity and large number of the proposals presented by management.

The Bank must have the authority to provide its shareholders with documents useful to the orderly conduct of the meeting and which, while compliant with applicable regulations and TSX regulations, do not require approval by a Canadian securities authority or by the TSX.

For these reasons, the Bank recommends voting **AGAINST** this proposal.

Proposal No. 9

Shareholder proposal and statement:

"The Bank engage an independent investigator to conduct a formal investigation into the acquisition of \$2.0 Billion in non-bank Asset Backed Commercial Paper ("ABCP") without the performance of due diligence announced by the Bank on August 20, 2007 and partially completed on August 24, 2007. The investigator shall provide a report to the shareholders of the Bank by June 1, 2008 and address the following issues:

- (a) Was the non-bank ABCP held by Bank mutual fund accounts in National Bank Securities Inc. and Altamira Investment Services Inc purchased from the seven conduit Trusts managed by Metcalf and Mansfield Capital Corporation, a subsidiary of Quanto Financial Corporation ("Quanto"), which is partially owned by National Bank Financial ("NBF")?
- (b) Did NBF have any involvement or earn any commission in the original sale of the non-bank ABCP to the mutual fund accounts.
- (c) Were those transaction scrutinized by managers at Natcan Investment Management Services Inc ("Natcan")? Was any outside influence placed on the Natcan managers by senior officers of the Bank or NBF to purchase non-bank ABCP from Quanto?
- (d) Why did the Natcan managers purchase such large positions in non-bank ABCP for National Bank mutual fund clients and why were normal risk management techniques not employed?
- (e) What the potential loss to the Bank on the acquisition of the non-bank ABCP?

The Bank has provided very little information to its shareholders with regard to its involvement in the non-bank ABCP. Queries to Bank officers and directors are not returned. Press releases issued by the Bank have been essentially void of meaningful financial information and neither National Bank Financial nor Quanto Financial have commented on the issue.

Schedule A | Shareholder Proposals (cont.)

Shareholders require and deserve informed and factual disclosure to make proper decisions.”

Position of the Bank:

The Bank considers that it is paramount for its shareholders to have relevant information in order to make informed decisions. The Bank sees to it that its information disclosure policies and practices comply in all respects with applicable regulations. It provides timely disclosure to its shareholders, investors, clients and employees, as well as to other stakeholders and the general public, of any material information regarding the Bank, whether financial or non-financial. However, disclosure of incomplete, approximate or unverified information is avoided so as not to misinform the public.

Since the first press release was issued on August 20, 2007 concerning the measures taken by the Bank to deal with the liquidity problems in the ABCP market, the Bank has ensured that the general public is informed as and when other material information becomes available. Thus, as soon as it was able to assess the potential losses related to its ABCP holdings, it issued a press release on November 19, 2007. The Bank also provided additional information about the causes of the disruption of the Canadian ABCP market as well as the Bank’s basis for fair value measurement of the ABCP as at November 29, 2007, at the time of publishing its results for the quarter ended October 31, 2007. Both on August 20, 2007 and November 29, 2007, the Bank held telephone conferences with financial analysts to discuss its press releases. Attention is being paid by media to these conferences, which could be the subject of news coverage.

The Bank is committed to resolving the liquidity crisis on the ABCP market. Since it is aware of the possible consequences problems of these problems, it is playing a proactive role in seeking the most favourable solution available, in conjunction with the other stakeholders involved.

Like undoubtedly the many other major financial institutions and corporations affected by the ABCP crisis around the world, the Bank is attempting to determine the circumstances surrounding this situation in order to avoid the reoccurrence of such events. As early as mid-August, the Board set up an independent committee to assess the situation and make appropriate recommendations, which resulted, among other things, in the Bank’s purchase of the ABCP holdings of some of its clients between August 20 and 24, 2007. The Board and the Independent Committee of the Board can also refer to various experts, if need be, to help them in this task. The Bank is of the opinion that the Board of Directors has all the necessary tools to perform a complete analysis of this matter, arrive at various conclusions and make the appropriate decisions in the interests of the Bank and its shareholders.

Since the onset of liquidity problems in the global ABCP market, the Bank has used all means at its disposal and taken all necessary measures to find a solution to those problems, to keep the public informed and to preserve the trust of its shareholders and the general public. It intends to take any other appropriate action as the situation unfolds and new facts about this matter become known, all in the interests of the Bank and of its shareholders.

For these reasons, the Bank recommends voting **AGAINST** this proposal.

Proposal No. 10

Shareholder proposal and statement:

“The Bank undertake a review of the operations of National Bank Financial to ensure that the brokerage has put in place proper and effective management and supervisory controls to end the financial drain on National Bank Financial caused by continuous disciplinary fines imposed on National Bank Financial by Canadian securities regulators.

Recently National Bank Financial paid a \$795,000 disciplinary fee to the Investment Dealers Association with regard to activities of its head office and certain branches. This fee adds to several other large fines incurred in the last ten years due to less than adequate internal controls and supervisory shortcomings.

Shareholders funds are being needlessly wasted.”

Position of the Bank:

The Bank refutes the statements made by the proponent of this proposal, as they are, for the most part, incomplete, inaccurate or exaggerated.

The Bank, together with National Bank Financial Inc. (“NBFI”), regularly reviews the governance and supervisory practices and procedures followed by the brokerage subsidiary to ensure that the brokerage firm meets best practices standards of conduct.

In addition, as a regulated market intermediary, NBFI is subject to ongoing reviews by the CSA, the Investment Dealers Association of Canada (“IDA”) and Market Regulation Services Inc.

When, from time to time, issues are identified, plans are developed and implemented to address these matters. By way of example, in the matter referred to by the shareholder in support of his proposal, the IDA specifically noted that NBFI had made, in a timely manner, all necessary changes to its internal controls and supervisory procedures in the areas which had given rise to the issues then under review. The proposal therefore recommends taking measures that the Bank and NBFI already have in place.

It should also be noted that the particular disciplinary fine which is referred to in this proposal concerned events which occurred more than five years ago. While the Bank does not justify the regulatory fines or penalties, the Bank nonetheless notes that similar fines were incurred by numerous brokerage firms, including all the Canadian bank-owned brokerage firms, during the same time frame.

For these reasons, the Bank recommends voting **AGAINST** this proposal.

Schedule A | Shareholder Proposals (cont.)

Proposal No. 11

Shareholder proposal and statement:

“The Bank conduct a review of Press Release Policy of the Bank to ensure the Policy are in compliance with the policies of the Toronto Stock Exchange and the Canadian Securities Regulators.

Press releases by the Bank on the non-bank Asset Backed Commercial Paper (“ABCP”) problem have been very general and void of financial details. Certain financial details have been selectively released to the press however a shareholder evaluating the Bank Press Release would not be on the same playing field as an investor reading a media version of the release. The Bank should insure that its Press Release contain the required information and are released to all parties at the same time.”

Position of the Bank:

The Bank regularly reviews its Information Disclosure Policy in order to ensure it complies with the regulations in force at the time and takes into account amendments made from time to time.

The Bank endeavours to disclose to the public any and all material information in compliance with Continuous Disclosure Obligation regulations, and has been applying this policy in regard to ABCP holdings.

The Bank’s information disclosure policy and practices – including the issuance of press releases – comply with securities legislation and regulations as well as TSX rules and are reviewed on a regular basis. The shareholder’s proposal is of no relevance, as the Bank already reviews its Information Disclosure Policy on a regular basis.

For these reasons, the Bank recommends voting **AGAINST** this proposal.

The *Mouvement d’éducation et de défense des actionnaires (MÉDAC)*, 82 Sherbrooke Street West, Montreal, Quebec, Canada H2X 1X3, submitted Proposals Nos. 12, 13, 14, 15, 16, 17, 18, 19 and 20 to the Bank.

Proposal No. 12

Shareholder proposal and statement [Translation]:

“It is proposed that National Bank of Canada encourage longer share ownership by increasing the dividend normally paid to shareholders by 10% when shares are held for more than two years.

Market instability in recent years and investor focus on short-term profitability have encouraged investors to “continually play the market”. The adoption of MÉDAC’s proposal would, aside from recognizing shareholder loyalty, have the beneficial effect of developing a pool of shareholders with longer-term performance objectives as well as that of promoting management, orientation and compensation policies centred on the sustainability of National Bank of Canada.

This proposal is based on a French law passed on July 12, 1994, authorizing companies to reward individual shareholders for their loyalty. Currently applied in the large French corporations, Air Liquide and Lafarge, the arrangement encourages small shareholders to keep their shares, develop a stronger sense of belonging and favour long-term policies.”

Position of the Bank:

The law in force does not allow the Bank to declare a higher dividend for some holders of Common Shares, as suggested in this proposal.

Under the *Bank Act* (Canada) (the “Act”), the Bank’s directors have the power to declare a dividend on the shares of a particular class, if they deem it expedient. However, directors are not allowed to declare a different dividend for certain holders of shares of the same class, in accordance with the principle of equality among holders of the same class of shares which is one of the basic principles of Canadian banking law and company law. The Act specifically provides that all holders of common shares have equal rights, including the right to receive declared dividends.

For these reasons, the Bank recommends voting **AGAINST** this proposal.

Schedule A | Shareholder Proposals (cont.)

Proposal No. 13

Shareholder proposal and statement [Translation]:

“It is proposed that shareholders obtain their right to vote after a minimum one-year holding period.

This proposal is based on the recommendations of the Institute for Governance of Public and Private Organizations (HEC Montréal – Concordia University), which is partly financed by the Jarislowski Foundation and the above-mentioned universities.

The Institute submits the following reasons:

“The practice of granting all the privileges of corporate citizenship immediately upon purchase of a share has two negative, or at the very least, dubious, results.

It gives undue influence and power to transient shareholders determined to create short-term value for themselves by all possible means, in particular, by leveraging a short-term stock position to influence the outcome in takeover situations or to provoke such situations.

This practice also induces in managers a short-term perspective attuned to the expectations of these [transient] shareholders: for instance, a study by Brian Bushee concludes that high levels of transient ownership are associated with an over-weighting of near-term expected earnings. This finding supports the concerns that many corporate managers have about the adverse effects of an ownership base dominated by short-term focused institutional investors. (Bushee, 2004).

In another paper, Graham, Harvey, and Rajgopal (2005) report on a survey of some 400 financial executives in the U.S. They found that financial executives would forego positive NPV projects to meet short-term earnings benchmarks. They write: “In the end, many of our results are disturbing. The majority of CFOs admit to sacrificing long-term economic value to hit a target or to smooth short-term earnings.””

Position of the Bank:

The Act specifically provides that all holders of common shares have equal rights, including the right to vote at all meetings, except those at which only holders of shares of a particular class are entitled to vote. The existing law, therefore, does not allow the Bank to deprive certain holders of Common Shares of their right to vote, as suggested in this proposal.

For these reasons, the Bank recommends voting **AGAINST** this proposal.

Proposal No. 14

Shareholder proposal and statement [Translation]:

“It is proposed that in the event of a merger or of an acquisition, the By-Laws of National Bank of Canada provide for the payment to the employee pension fund of an amount equal to twice the compensatory awards and benefits paid to officers and directors.

On August 15, 2007, *La Presse* reported that the executive officers and directors of BCE would pocket a grand total of \$170 million as a result of the hostile takeover bid made by the Ontario Teachers’ Pension Plan Board. In the event of a merger of Alcan and Rio Tinto, the circular recommending the acceptance of the offer of US \$38.1 billion included incentive awards of \$110 million for officers and executives of the company. If the transaction is approved, the President will receive at least \$51 million. Should the President’s employment be terminated after the Rio Tinto takeover, he would be eligible for an additional benefit of at least \$8.1 million. The key members of Alcan’s senior management will share a pot of not less than \$88 million in various earnings and awards.

MÉDAC considers it to be unfair that employees do not benefit from this type of financial transaction. Such loyal employees devote years, and often decades, to building up a corporation. They deserve much more than certain officers who are merely passing by, lining their pockets, and securing a golden retirement and other benefits which are disproportionate to the quality of services they have rendered to National Bank of Canada.”

Position of the Bank:

All the Bank’s officers and eligible employees can participate in the same defined benefit pension plan, which is fully funded. The life pension payable under this plan is calculated on the basis of the number of years of an employee’s credited service and average pensionable earnings. For more information about pension calculations, see “Pension Plan and Post-Retirement Allowance Program” under “Report of the Human Resources Committee” in this Circular. This pension does not vary according to the amounts contributed to the pension fund, and additional contributions would, therefore, not benefit employees whatsoever.

The actuaries of this plan, Morneau Sobeco, regularly perform an actuarial valuation of the solvency of the Bank’s pension plans to determine, among other things, the amount of the contributions that the Bank must make to the pension fund. The Bank has always paid the required contribution amounts so that the solvency of the plans is maintained at over 100%.

The allowance that would be paid to officers in the event of a change of control is described “Termination of Employment Policy” in this Circular.

Schedule A | Shareholder Proposals (cont.)

The main purpose of this policy is to ensure that the executive officers covered by the policy continue to act in the interests of the Bank and its shareholders and, if applicable, that they support any process leading to a change of control even if that process might go against their personal interests. This policy is intended for only a small group of individuals and provides for the payment of indemnities comparable to those of the other large public corporations forming part of the Bank's reference market and, as such, enables the Bank to recruit and retain high-calibre executive officers.

It is necessary that the Bank possess such procedures to mitigate the uncertainty and lack of stability associated with possible merger and acquisition transactions and, thereby, protect its shareholders' long-term interests.

For these reasons, the Bank recommends voting **AGAINST** this proposal.

Proposal No. 15

Shareholder proposal and statement [Translation]:

"It is proposed that there be an equal number of men and women on the Board of Directors of National Bank of Canada within three years of the adoption of this proposal.

At last year's annual meeting of shareholders, MÉDAC proposed that within three years of the adoption of its proposal, one-third of the members of the Board of Directors be women. MÉDAC is increasing its requirements in this respect because it is convinced that more women on the Board of Directors will add value to its operations. A 2004 survey by the Catalyst Institute of 353 of the largest companies in the world found that those with more women executives had the best performance ratios. Concurrently, a Conference Board study clearly showed that the presence of female directors changes the manner in which the board of directors operates. For example, during meetings, women have different concerns, ask novel questions and contribute other viewpoints. The topics discussed are broader, therefore becoming more representative of all the aspects related to good governance. In addition, according to executive recruitment specialists, women have distinctive competencies (multi-tasking capabilities, unifying ability and communication skills, and longer term concerns), bringing added value to the deliberations of boards of directors. In Quebec, 24 government agencies (s. 5 of the *Auditor General Act*) are now obliged to see that half of their board members are women by 2011."

Position of the Bank:

As part of the nomination process for new directors, the Conduct Review and Corporate Governance Committee assesses nominees on the basis of various criteria, namely their expertise, availability, reputation for honesty and integrity, understanding of regional, national and international issues, independence and the compatibility of their potential contribution with that of other Board members, without any gender bias. The Bank's duty with regard to its shareholders is to recruit the most qualified directors and to rely on a Board of Directors that can fully assume its role of overseeing the management of the Bank's business.

The Bank values the female representation on its Board of Directors and the resulting contribution. It has three female directors, accounting for more than 20% of the seats on the Board. Where two persons meet nominating criteria, the Bank will promote the appointment of female nominees to fill vacancies and achieve a more balanced representation on the Board of Directors. It would, however, be contrary to corporate governance best practices to select a nominee solely on the basis of gender or to expand the size of the Board to recruit new female nominees.

For these reasons, management recommends voting **AGAINST** this proposal.

Proposal No. 16

Shareholder proposal and statement [Translation]:

"It is proposed that the Annual Report and the Management Proxy Circular report the equity ratio between the total compensation of the most senior officer of National Bank of Canada, including annual salary, bonuses, rewards, payments under long-term bonus programs and any other form of compensation, and the average compensation of employees.

According to a study published in May 2006 by the Ontario Teachers' Pension Plan Board, there is no link between executive compensation and corporate stock performance. This study came to a very disturbing conclusion: top executives with the highest salary increases were unable to enhance the value of their corporation's stock faster than that of other companies in the industry. In Canada, according to data compiled by *The Globe and Mail*, average executive compensation at major corporations in 2006 was 116 times higher than that of average Canadian employees.

Executive compensation policies and general working conditions of executives are too generous, if not excessive, which is unfair to subordinates and employees. There is a compelling need for the laws and regulations governing our institutions to safeguard fair and equitable policies with respect to human resource salaries."

Position of the Bank:

The Bank considers compensation an essential management tool for attracting and retaining high-calibre, top-performing officers and ultimately achieving its financial objectives. It must, therefore, offer compensation that is competitive with its reference market and not compensation measured in terms of the average salary of employees.

Schedule A | Shareholder Proposals (cont.)

The Human Resources Committee annually reviews total compensation policies for employees and officers to ensure they serve the interests of shareholders and promote the Bank's long-term success.

The Bank considers it necessary to tie officer compensation to its financial results. It is for this reason that the proportion of the variable compensation paid to officers varies from 50% to 94% of their target total direct compensation, depending on their line level and business segment.

The purpose of the Bank's short-term variable compensation programs is to encourage officers and employees not only to achieve, but to surpass, the financial objectives set by the Bank at the start of the year. The financial criteria used to determine the level of results achieved are directly related to return on shareholders' equity. Lastly, minimum thresholds for financial results must be reached for programs to be applied, and individual contributions to these results are necessary for bonuses to be paid. For more detailed information about these programs, see "Annual Variable Compensation Programs" under "Report of the Human Resources Committee" in this Circular.

The Bank is of the view that the total compensation policy for executive officers is based on well-defined criteria and objectives and that the compensation paid is directly related to the Bank's financial results.

For these reasons, the Bank recommends voting **AGAINST** this proposal.

Proposal No. 17

Shareholder proposal and statement [Translation]:

"It is proposed that the compensation policy for the top five executives of National Bank of Canada, as well as the fees paid to Board members, be subject to prior shareholder approval.

Since excessive compensation plans may result in significant costs, shareholders have every right, as the owners of National Bank of Canada, to be called upon to approve the compensation policy of the five most highly paid executives, as well as the fees paid to directors. Given the strides made in this area, the current practice is archaic and demeaning for shareholders, who are relegated to a rubberstamping function at annual meetings.

Such a requirement is set out in the "OECD Principles of Corporate Governance", published by the Organisation for Economic Co-operation and Development (OECD) in 2004:

'Shareholders should be able to make their views known on the remuneration policy for board members and key executives. The equity component of compensation schemes for board members and employees should be subject to shareholder approval.'

In France, the aggregate envelope for director compensation must be approved by shareholders. In the United States, all stock purchase or stock option plans are submitted to a vote at general shareholder meetings. On April 20, 2007, the House of Representatives approved, by a historic 269 to 134 vote, a new law providing for a consultative vote by the shareholders of public companies on compensation policy. We would like to point out the voting results in favour of so-called "say on pay" resolutions at a number of large annual meetings: Ingersoll-Rand, 57%; Blockbuster, 57%; Motorola, 52%; Bank of New York, 47%; Apple, 46%; and Citigroup, 43%."

Position of the Bank:

Compensation of directors

In compliance with the Act, compensation of the Bank's directors is regulated by a By-Law, which must first be approved by the Bank's shareholders. The Bank's shareholders, therefore, already have the power to approve the maximum total compensation paid to directors. On March 10, 2004, the Bank's shareholders thus approved an amendment to By-Law I of the Bank limiting the total compensation of directors to \$1,800,000 for each financial year.

Compensation of Named Executive Officers⁽¹⁾

The Act provides that shareholders have the right to elect directors, the right to appoint an auditor and the right to vote on the proposals presented at the meeting of shareholders. The Act assigns directors the responsibility of directing the Bank's business and affairs. Parliament's concern was, therefore, that shareholders influence the direction of the Bank's business and affairs through its elected directors.

The Board has charged the Human Resources Committee, a committee composed of independent directors representing the shareholders, with the responsibility of recommending an approach to total compensation, which includes an annual review of the compensation policy and the various compensation programs for officers. The Human Resources Committee ensures that compensation programs are in line with the Bank's business objectives and that they are competitive, an essential aspect in recruiting and retaining key personnel. It assesses the performance of senior management members, discusses, together with the President and Chief Executive Officer, the annual performance appraisals of his direct underlings, who are officers of the Bank, and annually reviews the total compensation of all officers based on their performance.

(1) As this expression is defined in "Report of the Human Resources Committee" in this Circular.

Schedule A | Shareholder Proposals (cont.)

In order to properly perform its duties, the Human Resources Committee has detailed information about, *inter alia*, officers' performance, total compensation programs and the trends and practices in the Bank's market. In addition, from time to time, the Human Resources Committee seeks advice from independent external specialists. It would be inappropriate to have such complex and detailed matters reviewed at an annual meeting by hundreds of shareholders without the benefit of all of the information available to the Human Resources Committee.

The Bank's ability to attract and hire first-class key personnel at the right time would be significantly limited if some of the hiring terms had to be submitted to shareholders for approval.

In addition, the Bank considers that its shareholders already have the means of voicing their concerns to Board members, especially regarding compensation, namely by sending them via regular or electronic mail or by going through the Bank's Investor Relations. Shareholders can, therefore, inform Board members of their concerns much more effectively than by a simple vote so that any comments directors receive will be taken into account when establishing officer compensation.

For these reasons, the Bank recommends voting **AGAINST** this proposal.

Proposal No. 18

Shareholder proposal and statement [Translation]:

"It is proposed that National Bank of Canada oversee the exercise of options assigned to the executive officers and directors of our companies by stipulating that such options are not to be exercised by those persons until the end of their mandate.

Since the mid-1990s, North American corporations have moved toward the increasing use of stock options in executive and director compensation. This practice has resulted in excessive and unwarranted compensation levels in light of the performance of a great majority of companies and stock market returns available to shareholders. These excesses have strongly contributed to the sharp loss of investor and public confidence in the quality of corporate governance and the integrity of capital markets. The compensation of corporate executives has been completely separated from the achievement of set long-term objectives and has become an incentive to manage companies based solely on immediate stock price developments. The extensive use of stock options in compensation plans is the primary cause of these distortions and, according to a number of observers, could be the source of fraud on numerous occasions where management, with the complicity of auditors, has crossed legal and ethical boundaries to tamper with information about a corporation's actual financial situation.

Far from aligning the interests of officers with those of shareholders, stock options have eroded shareholder equity. On September 26, 2002, the Canadian Council of Chief Executives (CCCE) also acknowledged this failure by stating that investors' frustration was understandable 'when senior executives are rewarded handsomely for past performance that proves to be short-lived.'

Position of the Bank:

The Human Resources Committee has the mandate to approve the Bank's compensation programs, including the Stock Option Plan, while ensuring that the provisions of these programs comply with applicable laws and meet corporate governance best practices criteria. For these reasons, the Committee has implemented restrictions on the vesting of stock options, and their term and exercise conditions. In addition to the conditions for exercising vested options that apply to all officers, each officer who is a member of the Bank's Office of the President must, upon exercising stock options granted since December 2002, keep an amount equal to the gain resulting from the exercise of vested options, after tax considerations, in the form of Common Shares of the Bank for at least one year. For more information about the applicable conditions, see "Stock Option Plan of the Bank" under "Report of the Human Resources Committee" in this Circular.

In addition, the Human Resources Committee has implemented Guidelines to ensure that the Bank's officers maintain at all times significant holdings of the Bank's shares. For more information about the Guidelines, see "Share Ownership Guidelines for Officers of the Bank" under "Report of the Human Resources Committee" in this Circular. All Named Executive Officers covered by these Guidelines meet shareholding requirements. For more information about Named Executive Officers, see "Report of the Human Resources Committee" in this Circular.

The primary objective of the Stock Option Plan for officers and the Share Ownership Guidelines for Officers of the Bank is to align the interests of the Bank's officers with those of the shareholders, by tying a portion of their compensation to the performance of the Bank's shares. The maximum term of options is 10 years, and the Bank considers that, in view of the foregoing, this period is largely sufficient to meet the set objectives.

This proposal could hasten the departure of high-calibre officers wishing to exercise their stock options before the end of their career.

For these reasons, the Bank recommends voting **AGAINST** this proposal.

Schedule A | Shareholder Proposals (cont.)

Proposal No. 19

Shareholder proposal and statement [Translation]:

“Given the serious concerns expressed by numerous observers and regulators about the effects of so-called hedge funds and subprime mortgage loans on the stability of the financial system, it is proposed that the Bank disclose information on its direct or indirect involvement in such operations.

Last year, MÉDAC sounded the alarm by requesting disclosure of involvement in hedge funds. Our proposal was highly endorsed, by generally more than 10%, at the annual meetings that we attended. In accordance with the law, MÉDAC is resubmitting the proposal because such funds continue to be highly risky for investors, who cannot properly assess the risk involved based on the information available to them.

Remember that hedge funds are funds that apply risk hedging techniques for speculation on capital markets. Their financial strategy is primarily based on the extensive use of leverage, i.e., high indebtedness for the purpose of financing risky investments and arbitrage operations aimed at exploiting intermarket price differentials. Found mostly in tax havens, these funds do not hold securities, but borrow them. They acquire title to them only upon execution of the transaction, at which point there is maximum leverage. It should be added that many of these funds, which are purely speculative, rely on rumours to create imbalances and trigger the volatility required to turn a profit without any economic basis.

Disclosure of banks’ involvement with such funds is not MÉDAC’s only concern in the area of risky investments. Over the past summer, stock market turbulence intensified sharply as a result of the size of subprime U.S. mortgage loans. On a particular day in August 2007, the New York Stock Exchange plunged 400 points, and the TSX, 300 points. This crisis stemmed from certain U.S. mortgage institutions that had lent to American households who could not afford to pay the higher interest on such loans. In order to keep making even more loans, these institutions then converted the subprime mortgages into asset-backed securities, which they sold to other companies, such as banks or specialized firms that offer their clients riskier pooled investment funds, such as hedge funds, which—it should be noted—are scarcely regulated. Some Canadian financial institutions were hit hard by this crisis.

In the interests of transparency, shareholders must be informed of such investments so that they can assess their own investment in the organization in light of the risks involved and the highly speculative management philosophy practised by both management and the Board of Directors.”

Position of the Bank:

As previously mentioned and as applied in the Bank’s 2007 Annual Report, the Audit and Risk Management Committee thoroughly reviews the Bank’s risk management policies and practices and monitors the Bank’s risk exposure, including any risks involving hedge funds or U.S. subprime mortgages. It reviews risk management policies and recommends them to the Board for adoption. These policies, which cover all the main risks defined in the risk management approach selected by the Bank, are subject to review on a regular basis so as to verify their pertinence on the basis of market developments, among other things. Risk management is overseen independently by the Corporate Compliance Department and is also assessed independently by Internal Audit. The 2007 Annual Report contains a detailed description of the risks associated with the operations of the Bank and its subsidiaries, as well as the measures taken to ensure an effective control environment.

Since the Bank’s activities in relation to hedge funds and U.S. subprime mortgages are monitored and given their resulting low risk exposure for the Bank, the Bank is of the opinion that the information already presented on the subject in the Bank’s 2007 Annual Report is adequate for the shareholders.

For these reasons, the Bank recommends voting **AGAINST** this proposal.

Proposal No. 20

Shareholder proposal and statement [Translation]:

“It is proposed that National Bank of Canada amend its by-laws to set up a cumulative voting system to elect members of the Board of Directors.

When this proposal was submitted by MÉDAC to the annual meeting of shareholders of National Bank of Canada in 2005, it was approved by 7.1%. Under the cumulative voting system, each shareholder is entitled to a number of votes to elect directors equal to the number of common shares held, multiplied by the number of directors to be elected. These votes may then be cast for a single nominee or they may be allocated among the nominees as the shareholder pleases. Cumulative voting is provided for in Canadian legislation to promote the expression of the will of minority shareholders in the electoral process for corporate directors. A basic premise of sound governance is the legitimacy of the board of directors. In a world where corporate ownership has been progressively transformed over time from a limited number of large shareholders to multiple, small separate shareholders and owners of passive funds, electing board members has become the exclusive domain of the existing management and directors. Emphasis has been placed on independence and credibility—principles whose value we definitely recognize—obscuring, however, the legitimacy of representation by both majority and minority shareholders, a source of new ideas and added value for all shareholders.

Schedule A | Shareholder Proposals (cont.)

In order to ensure the application of this principle, we request that cumulative voting be instituted. In this way, minority shareholders will be able to fully perform their role since current voting policies favour the views held by management. The legitimacy of directors is as important as their independence and credibility. Therefore, this proposal does not aim to pass judgment on the openness of management and of the Board of Directors to shareholder concerns, but rather to essentially uphold the principle that the members of the Board of Directors must represent minority shareholders to the same extent as they do majority shareholders.”

Position of the Bank:

The main purpose of cumulative voting is to protect minority shareholders from one or more majority shareholders. In the Bank’s case, no shareholder owns more than 10% of the shares of any class conferring voting rights on the holders; therefore, there seems to be no need for cumulative voting.

The Bank is of the opinion that setting up a cumulative voting system could impair the effectiveness of the Board by allowing a director to be elected who represents the special interests of a small group of shareholders and, consequently, would have difficulty working amiably with other members of the Board in the interest of all shareholders.

In addition, it should be pointed out that the existing method of electing Bank directors not only allows shareholders to vote for each of the nominees rather than for a group of nominees, but also to express their wish to see one of them resign if the number of abstentions exceeds the number of votes cast for the nominee.

For these reasons, the Bank recommends voting **AGAINST** this proposal.

Schedule B | Mandate of the Board of Directors

Mission and Main Responsibilities

The main duty of the Board of Directors (the “Board”) of National Bank of Canada (the “Bank”) is to oversee the management of the Bank, safeguard its assets, and ensure its viability, profitability and development. It is assisted by three committees: the Audit and Risk Management Committee, the Conduct Review and Corporate Governance Committee, and the Human Resources Committee. The Board assigns responsibility for managing and directing the operations of the Bank to management and assumes the duties and responsibilities set out herein.

Composition and Independence

The Board is composed of directors who possess extensive complementary knowledge, competencies and skills, as well as relevant expertise enabling them to make an active, informed and profitable contribution to the management of the Bank, the conduct of its business and the orientation of its development.

Directors have the necessary time and interest to perform their duties effectively.

Directors act with integrity and exercise impartial judgment in performing their duties and fulfilling their responsibilities. Directors are bound by the provisions of the Code of Professional Conduct and other rules of ethics applicable to directors, officers and employees of the Bank and its subsidiaries.

A majority of the members of the Board are directors who are “independent” within the meaning of the regulations of the Canadian Securities Administrators.

The members of the Board who are independent regularly meet in camera at the end of each Board meeting under the direction of the Chairman of the Board.

The Board, either directly or through one of its committees, adopts structures and procedures to ensure the Board functions independently of management.

Directors are required to disclose any conflict of interest to the Chairman of the Board or to the Chair of the Conduct Review and Corporate Governance Committee.

1. Duties and Responsibilities

The Board, either directly or through its committees, has the following duties and responsibilities:

(i) Strategic Planning Process

Review, discuss and approve periodically a strategic plan in which the Bank establishes its mission, vision, business objectives and strategy, taking into account the opportunities and risks for the Bank, as well as the business plans relating to the main operations of the Bank.

Review and approve the business plans relating to the Bank’s main operations and review them regularly to ensure they remain appropriate and prudent given the Bank’s economic and business environment, its resources and its results.

Review and approve the Bank’s actual operating results as well as its actual versus projected financial results, in light of the Bank’s business objectives, strategic plan and business plans.

Review and approve operating budgets.

(ii) Assessing Risks

Review and approve the overall risk philosophy and risk tolerance of the Bank, recognize and understand the major risks to which the Bank is exposed and ensure that appropriate systems are set up for effective management of those risks.

Require that management report on the major risks to which the Bank is exposed, the integrity of procedures and controls to manage those risks and the overall effectiveness of the risk management process.

Plan an independent assessment of risk controls and procedures implemented by the Bank.

Require that management adopt a process aimed at determining the Bank’s appropriate level of capital in terms of the risks assumed and oversee its implementation and application.

Discuss and approve all major policies of the Bank, including those setting acceptance, monitoring, management and reporting rules for material risks to which the Bank is exposed, as well as changes to risk management policies.

Approve all certifications, reports and any other declarations required from time to time by a regulatory authority and that fall within the Board’s purview.

Approve all material aspects of risk ratings and assessment processes.

Schedule B | Mandate of the Board of Directors (cont.)

(iii) Description of the Duties of the Chairman of the Board

Approve the description of the duties assumed by Chairman of the Board when the directors who are members of management or the Chairman of the Board is not present.

Assess, on an annual basis, the performance of the Chairman of the Board.

(iv) Succession Planning and Director Compensation

Approve the appointment of any new nominee for the position of director, review and approve directors' compensation, how that compensation is paid, and the allowances given to directors, and oversee the succession planning process for the Board introduced by the Conduct Review and Corporate Governance Committee.

(v) Assessing the Effectiveness of the Board and Revising its Mandate

Regularly assess the effectiveness of the Board, its committees and its directors, in accordance with a process implemented by the Conduct Review and Corporate Governance Committee.

Review the mandate of the Board periodically.

(vi) Succession Planning for Senior Management

Select and evaluate the President and Chief Executive Officer, set his compensation, and ensure succession planning.

Approve the appointment of qualified and competent members of senior management, set their compensation, ensure their training and development, and plan their succession.

(vii) External Auditors

Recommend to the shareholders the appointment of the external auditors and approve their remuneration.

(viii) Communication and Disclosure

Approve policies on the communication and disclosure of information to shareholders, investors and the general public.

Ensure that measures are in place to receive feedback from Bank clients, shareholders, investors as well as any other stakeholders, including financial analysts.

(ix) Integrity and Ethics

Ensure that the rules of conduct and ethics are maintained, in particular by adopting a code of professional conduct for directors, officers and employees of the Bank and its subsidiaries and that the Bank has an ongoing, appropriate and effective process to guarantee compliance with these rules.

Ensure that any material breach of the code of professional conduct by a director or member of senior management is disclosed in accordance with continuous disclosure obligations.

Require that management set up a compliance program to ensure Bank compliance with the Act, applicable regulations and any other obligations.

Ensure, to the extent possible, that the Chief Executive Officer and other members of senior management are highly principled and that they foster a culture of integrity throughout the organization.

Review and approve sound internal governance policies.

(x) Material Transactions

Discuss and approve any activity, contract or agreement which is not compatible with the Bank's mission or is not in its normal course of business.

Review and approve policies with respect to major initiatives and activities.

(xi) Governance of Major Subsidiaries

Discuss and determine the structure and general corporate governance principles applicable to the Bank's major subsidiaries in order to enhance the effectiveness of the oversight carried out by the Board.

Ensure that procedures are in place for communication between the Board and committees of the Bank and those of its main subsidiaries.

(xii) Exclusive Powers

Approve all matters that the Act assigns exclusively to directors, in particular the approval of dividends, certain related party transactions under the Act, and procedures to resolve conflicts of interest.

(xiii) Residual Powers

Assume any responsibility not delegated to management.

Schedule B | Mandate of the Board of Directors (cont.)

2. Board Committees

(i) Types of Committees

The Board is responsible for overseeing the management of the Bank and may set up the appropriate committees to assist it in this role.

The Board may, from time to time, review the types of committees, appoint members and delegate the appropriate authority to such committees, and approve their respective mandates.

(ii) Composition

The directors appoint the Committee members and ensure that each committee's composition complies with all applicable regulations.

(iii) Committee Mandates

Together with the Conduct Review and Corporate Governance Committee, the Board develops and approves the mandates of each Board committee as well as those of the Chairman of the Board and committee chairs. The mandates describe their respective roles and responsibilities.

(iv) Minutes of Committees

The Board committees record the minutes of each of their meetings, and the minutes are made available to the Board.

(v) Ad Hoc or Special Committees

The Board may, from time to time, form appropriate *ad hoc* or special committees.

3. Expectations of the Board Regarding Directors

The Board requires that directors comply with the obligations set out in the "Composition and Independence" section hereof insofar as it concerns the rules of conduct and ethics, the amount of time directors must devote to their duties, and the requisite competencies. The directors must also comply with the Charter of Expectations for directors.

Together with the Conduct Review and Corporate Governance Committee, the Board oversees the implementation of orientation programs for new directors and ongoing education programs on the operations of the Bank and its subsidiaries for all Bank directors that take into account each director's needs and knowledge.

4. Expectations of the Board Regarding Management

(i) Duty to Report

Management is responsible for the day-to-day management of the Bank's operations pursuant to the powers delegated by the Board and in accordance with the laws and regulations applicable to the Bank.

Management facilitates Board oversight of business operations and internal administration of the Bank by the members of the Board by providing the Board with accurate, complete, relevant and timely information and reports. Management reports to the Board, providing it with informed opinions on such matters as the Bank's objectives, strategies, plans and material policies.

Information for Shareholders

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Transfer Agent and Registrar

For information about stock transfers, address changes, dividends, lost share certificates, tax forms and estate transfers, shareholders are requested to contact Computershare Trust Company of Canada, the Bank's Transfer Agent and Registrar, at the address and telephone numbers below.

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