



**NOTICE OF ANNUAL AND  
SPECIAL MEETING OF SHAREHOLDERS  
AND MANAGEMENT PROXY CIRCULAR**

**March 7, 2001**

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# Notice of Annual and Special Meeting of Shareholders

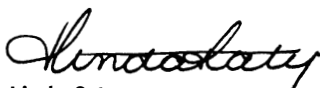
National  
Bank  
of Canada

Notice is hereby given that the Annual and Special Meeting of Holders of Common Shares of National Bank of Canada (the "Bank") will be held on Wednesday, March 7, 2001 at 8:30 a.m. at The Queen Elizabeth Hotel, 900 René Lévesque Blvd. West, Montreal, Quebec, for the following purposes:

1. To receive the Consolidated Financial Statements for the financial year ended October 31, 2000 and the Auditors' Report thereon;
2. To consider and, if thought fit, to pass a special resolution, set out in Schedule A of the Management Proxy Circular (the "Circular"), confirming the resolution of the Board of Directors of the Bank (the "Board") to repeal and replace section 4.1 of By-law I of the Bank so as to reduce the minimum and maximum number of directors of the Bank;
3. To elect directors;
4. To appoint auditors;
5. To consider and, if thought fit, to pass a resolution, set out in Schedule B of the Circular, approving certain amendments to the Stock Option Plan;
6. To consider and, if thought fit, to pass a resolution, set out in Schedule C of the Circular, approving an increase in the number of common shares reserved for issuance under the Stock Option Plan;
7. To consider and, if thought fit, to pass a resolution, set out in Schedule D of the Circular, approving the introduction of a Shareholder Rights Plan;
8. To consider and, if thought fit, to pass a special resolution, set out in Schedule E of the Circular, confirming the resolution of the Board to amend Part 1 of By-law II of the Bank by removing the limit on the aggregate consideration for which the common shares of the authorized share capital of the Bank may be issued and to authorize the Bank to produce any and all relevant documentation to this end for regulatory authorities;
9. To consider and, if thought fit, to pass a special resolution, set out in Schedule F of the Circular, confirming the resolution of the Board to add section 4.4 to By-law II of the Bank so as to introduce a pre-emptive right attaching to common shares and to authorize the Bank to produce any and all relevant documentation to this end for regulatory authorities;
10. To consider the proposals submitted by shareholders, set out in Schedule G of the Circular; and
11. To transact such other business as may properly be brought before the Meeting.

Holders of common shares of the Bank listed in the register of the Bank at 5:00 p.m. Eastern Standard Time (EST) on January 17, 2001 are entitled to receive the Notice of Annual and Special Meeting of Shareholders.

By Order of the Board,



Linda Caty

Vice-President and Corporate Secretary

Montreal, January 18, 2001

***Holders of common shares of the Bank who are unable to attend the Meeting are requested to complete, date and sign the enclosed form of proxy. In order to be valid, proxies must reach General Trust of Canada, Stock and Bond Transfer Services, P.O. Box 888, Station B, Montreal, Quebec H3B 9Z9, no later than 5:00 p.m. EST on March 5, 2001. Proxies may be returned in the postage-paid envelope provided or by fax to (514) 871-3673.***

Shareholders with questions regarding the Circular or the form of proxy may call 1-800-567-1004 for service in English or 1-800-565-0252 for service in French.

## GENERAL INFORMATION

### Solicitation of Proxies

This Management Proxy Circular (the "Circular") is furnished in connection with the solicitation by the management of National Bank of Canada (the "Bank") of proxies to be used at the Annual and Special Meeting (the "Meeting") of Holders of Common Shares of the Bank, to be held on the date, at the time and place, and for the purposes set forth in the Notice of Annual and Special Meeting accompanying this Circular and at any continuation thereof after an adjournment. The solicitation of proxies will be done by employees, officers, directors or agents of the Bank by mail, electronically, by telephone or in person. The costs incurred by management in this regard will be borne by the Bank. The Bank may also use the services of an outside agency, Georgeson Shareholder Communications Canada, to solicit proxies on its behalf. The Bank estimates that the costs which might be incurred for such solicitation would be approximately \$35,000.

### Appointment and Revocation of Proxies

The proxyholders designated in the enclosed form of proxy are directors and officers of the Bank. If a shareholder wishes to appoint as a proxyholder a person other than those designated in the form of proxy, the shareholder may do so by striking out the names appearing thereon and inserting the name of such person in the blank space provided. If the shareholder is a legal entity, an estate or a trust, the form of proxy must be signed by a duly authorized officer or attorney. A proxyholder is not required to be a shareholder of the Bank. In order to be valid, proxies must be returned to General Trust of Canada ("General Trust"), Stock and Bond Transfer Services, P.O. Box 888, Station B, Montreal, Quebec H3B 9Z9, no later than 5:00 p.m. Eastern Standard Time (EST) on March 5, 2001.

Shareholders may revoke a proxy by delivering a written notice to that effect signed by them or by their duly authorized attorney to:

- i) the Head Office of the Bank, c/o Corporate Secretary's Office, National Bank of Canada, 600 de La Gauchetière West, 4th Floor, Montreal, Quebec H3B 4L2, no later than the last business day preceding the day of the Meeting or any continuation thereof after an adjournment; or
- ii) the Chairman of the Meeting on the day of the Meeting or any continuation thereof after an adjournment.

### Voting by Proxies

Common shares represented by a proxy are to be voted by the proxyholder designated in the enclosed form of proxy in accordance with the directions of the shareholder.

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

- FOR the special resolution, set out in Schedule A, confirming the resolution of the Board of Directors of the Bank (the "Board") to repeal and replace section 4.1 of By-law I of the Bank so as to reduce the minimum and maximum number of directors of the Bank;
- FOR the election of all nominees proposed as director by the management of the Bank;
- FOR the appointment of auditors;
- FOR the resolution, set out in Schedule B, approving certain amendments to the Stock Option Plan;
- FOR the resolution, set out in Schedule C, approving an increase in the number of common shares reserved for issuance under the Stock Option Plan;
- FOR the resolution, set out in Schedule D, approving the introduction of a Shareholder Rights Plan;
- FOR the special resolution, set out in Schedule E, confirming the resolution of the Board to amend Part 1 of By-law II of the Bank by removing the limit on the aggregate consideration for which the common shares of the authorized share capital of the Bank may be issued and to authorize the Bank to produce any and all relevant documentation to this end for regulatory authorities;

- **FOR the special resolution, set out in Schedule F, confirming the resolution of the Board to add section 4.4 to By-law II of the Bank so as to introduce a pre-emptive right attaching to common shares and to authorize the Bank to produce any and all relevant documentation to this end for regulatory authorities;**
- **AGAINST Shareholder Proposal No. 1 set out in Schedule G;**
- **AGAINST Shareholder Proposal No. 2 set out in Schedule G;**
- **AGAINST Shareholder Proposal No. 3 set out in Schedule G;**
- **AGAINST Shareholder Proposal No. 4 set out in Schedule G.**

**If no instructions are given, any other proxyholder will have discretionary authority when exercising the voting rights attached to the common shares concerning these questions.**

The duly completed and signed form of proxy confers discretionary authority to the proxyholder with respect to any proposed changes or amendments 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, the management of the Bank knows of no amendments or other matters which may properly come before the Meeting.

## Voting Common Shares

As at December 22, 2000, 189,590,840 common shares of the Bank were issued and outstanding. Holders of common shares of the Bank listed in the register of the Bank at 5:00 p.m. EST on January 17, 2001 or their duly authorized attorneys are entitled to receive the Notice of Annual and Special Meeting and to vote at the Meeting. Persons who acquire such shares after that date and who request, no later than 10 days before the Meeting, that their name be listed in the register of the Bank are also entitled to vote.

Unless restricted as hereinafter provided, each holder of common shares listed in the register of the Bank is entitled to one vote per share held.

To the best of the knowledge of the directors and officers of the Bank, no individual or corporation beneficially owns, directly or indirectly, controls or directs common shares carrying more than 10% of the voting rights attached to the common shares of the Bank.

## Information on Voting at the Meeting for Non-Registered Shareholders

Shareholders whose shares are held in the name of a broker or another intermediary are not personally listed in the register of the Bank. To vote, the shareholders must therefore ask the broker or other intermediary to send them material relating to the meetings, complete the request for voting instructions sent by the broker and, if they wish to vote in person, insert their name as the proxyholder.

## Voting Restrictions

The *Bank Act* contains provisions which prevent the voting rights attaching to the common shares of a bank from being exercised if the shares are held by the Government of Canada or of a province or an agency thereof or by the government of a foreign country or any political subdivision thereof or an agency thereof.

## **Confidentiality of Votes**

In order to protect the confidential nature of voting by proxy, General Trust, the registrar and transfer agent of the Bank, receives the votes exercised by proxy and compiles the results for the Meeting. It submits a copy of the proxy to the Bank only when a shareholder clearly wishes to express a personal opinion to management or when it is required by law.

## **Minutes of Meeting**

A copy of the minutes of the Annual Meeting of Holders of Common Shares of the Bank held on Wednesday, March 15, 2000 has been mailed to shareholders with this Circular.

## **RECEIPT OF CONSOLIDATED FINANCIAL STATEMENTS**

The Consolidated Financial Statements of the Bank for the financial year ended October 31, 2000 and the Auditors' Report on these financial statements are included in the Annual Report of the Bank, which has been mailed to shareholders with this Circular.

## **REDUCTION IN THE MINIMUM AND MAXIMUM NUMBER OF DIRECTORS OF THE BANK**

Management of the Bank recommends voting FOR a special resolution, set out in Schedule A, confirming the resolution of the Board passed on October 26, 2000 to repeal and replace section 4.1 of By-law I of the Bank so as to reduce the minimum number of directors to 15 and the maximum to 25.


In order to be passed, this special resolution must be approved by no less than two-thirds of the votes cast by the holders of common shares, present or represented by proxy and entitled to vote at the Meeting.

This special resolution will only take effect after it has been confirmed by the shareholders of the Bank.

## **ELECTION OF DIRECTORS**




Management of the Bank recommends voting FOR the election of all the nominees to the Board listed in the following table:

## Nominees for Election as Directors





Name, Occupation, Main Activities and Place of Residence	Director Since	Common Shares Beneficially Owned, Controlled or Directed	Deferred Stock Units <sup>(1)</sup>	Attendance at Meetings of the Board and Committees During the Financial Year Ended October 31, 2000	
				Board	Committees
<p><b>Pierre Beaudoin</b></p>  <p>Île-des-Soeurs, Verdun, Quebec</p> <p>President of Bombardier Aerospace, Business Aircraft, a unit of Bombardier Inc. This Canadian company is known for its activities in the fields of aeronautics, rail transportation equipment, recreational products and financial services related to its products and expertise. From 1992 to 2000, Mr. Beaudoin also held various management positions within the Recreational Products Group including, most recently, President and Chief Operating Officer.</p> <p>Mr. Beaudoin's expertise in customer service, design as well as the production and distribution of consumer products on international markets provides the Board with better insight into these sectors of activity.</p>	March 1999	5,000	1,419	10/14	—
<p><b>André Bérard</b><sup>(1)</sup></p>  <p>Île-des-Soeurs, Verdun, Quebec</p> <p>Chairman of the Board and Chief Executive Officer of National Bank of Canada. Since joining the Bank over 40 years ago, Mr. Bérard has held various positions in a number of key sectors. He became President and Chief Executive Officer in July 1989 and Chairman of the Board in September 1990. Recognized for his leadership qualities, he is also very involved in many fundraising campaigns, primarily in the health care sector.</p> <p>Mr. Bérard has an in-depth understanding of all the Bank's sectors of activity, having played an active part in its management and development for many years. With his vast business experience, he has a clear vision of the economic, social and political environment of the domestic and international markets in which the Bank operates.</p>	July 1985	113,872	—	13/14	8/8
<p><b>Lawrence S. Bloomberg</b></p>  <p>Toronto, Ontario</p> <p>Special advisor to National Bank Financial Inc., where he served as Co-Chairman of the Board and Co-Chief Executive Officer from August 1999 to October 2000. Prior to that, Mr. Bloomberg was Chairman of the Board, President and Chief Executive Officer of First Marathon Inc., a company he founded in 1979 and which was integrated with National Bank Financial Inc. in 1999.</p> <p>Mr. Bloomberg has extensive expertise in the financial sector, both nationally and internationally. He contributed to the growth of several financial companies before starting his own business and becoming one of the Bank's experts in financial matters. As a result of his involvement in several business organizations, he brings valuable insight and a unique perspective to the Board concerning developments in the financial sector in Canada as well as abroad.</p>	August 1999	1,783,068	—	14/14	—

(1) For more information regarding Deferred Stock Units, please refer to the "Remuneration of Directors of the Bank" section of the Circular.




## Nominees for Election as Directors (cont.)

Name, Occupation, Main Activities and Place of Residence	Director Since	Common Shares Beneficially Owned, Controlled or Directed	Deferred Stock Units	Attendance at Meetings of the Board and Committees During the Financial Year Ended October 31, 2000	
				Board	Committees
<p><b>Pierre Bourgie</b><sup>(C) (G)</sup> Outremont, Quebec</p>  <p>President and Chief Executive Officer of Société Financière Bourgie Inc., a diversified investment company, and President of Partenaires de Montréal, a bank specialized in venture capital and business financing. He is actively involved in a number of economic, community and cultural organizations such as the Clinical Research Institute of Montréal and the <i>Musée d'art contemporain de Montréal</i>.</p> <p>As a business leader and a director of several companies, Mr. Bourgie brings to the Board his business management skills as well as a keen understanding of corporate governance and the management of international businesses.</p>	March 1998	102,423	—	12/14	7/8
<p><b>Gérard Coulombe</b><sup>(HR)</sup> Sainte-Marthe, Quebec</p>  <p>Senior Partner of Desjardins Ducharme Stein Monast, General Partnership, where he practices business law and was appointed Chairman of the Board in 2000. He was formerly with the federal Department of Finance where he was responsible for negotiating international tax treaties. He is also Chairman Emeritus of Lex Mundi Ltd., a global association of more than 150 independent law firms.</p> <p>Mr. Coulombe has vast expertise in business management and corporate law, as regards financial institutions and crown corporations as well as the creation of financial and industrial consortiums. He is also an authority on corporate governance matters.</p>	February 1994	3,468	2,194	14/14	7/7
<p><b>François J. Coutu</b><sup>(C) (HR)</sup> Outremont, Quebec</p>  <p>President and Chief Operating Officer of The Jean Coutu Group (PJC) Inc. since 1990. The company is a franchisor of a chain of pharmacies and distributor of pharmaceutical and other products. From 1987 to 1990, he held the positions of Vice-President – Operations and Marketing and Executive Vice-President – Pharmacies and Public Affairs in the Group. Mr. Coutu is also a member of the boards of directors of the <i>Fondation de l'Hôpital Sainte-Justine</i>, <i>Radiologie Laënnec</i> and Samford University in Alabama.</p> <p>With his experience managing a family firm that has become an international group and leader in its field, Mr. Coutu contributes his in-depth knowledge of the key issues affecting retail trade and consumer relations.</p>	January 1993	4,812	—	12/14	19/21




## Nominees for Election as Directors (cont.)

Name, Occupation, Main Activities and Place of Residence	Director Since	Common Shares Beneficially Owned, Controlled or Directed	Deferred Stock Units	Attendance at Meetings of the Board and Committees During the Financial Year Ended October 31, 2000	
				Board	Committees
<p><b>Shirley A. Dawe</b><sup>(G)(HR)</sup> Toronto, Ontario</p>  <p>President of Shirley Dawe Associates Inc. since 1986. Ms. Dawe is a consultant and advisor to some of North America's leading retailers and brand marketers and was formerly a senior executive with a major Canadian retailer. She recently co-authored a comprehensive study ranking the best e-retailers in North America.</p> <p>Ms. Dawe brings to the Board extensive knowledge of the retail industry and winning business strategies. She is also a director of a number of U.S. and Canadian firms.</p>	July 1988	3,000	573	13/14	12/12
<p><b>Nicole Diamond-Gélinas</b><sup>(A)</sup> Saint-Barnabé-Nord, Quebec</p>  <p>Since 1976, Vice-President and General Manager of Aspaspie Inc., a manufacturer of colour charts, and President of Plastifill Inc., a company specialized in plastic extrusion and injection. Actively involved in her region's business community, Ms. Diamond-Gélinas is a member of the <i>Chambre de commerce de Trois-Rivières</i> and was a member of the Mauricie Business Development Committee of the Bank from 1992 to 1998.</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>	March 1998	16,906	—	14/14	4/4
<p><b>Jean Douville</b><sup>(A)</sup> Île-des-Soeurs, Verdun, Quebec</p>  <p>Chairman of the Board and Chief Executive Officer of UAP Inc., a firm specialized in distributing and reconditioning replacement 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 subsequently became President of the company in 1981, was appointed Chief Executive Officer in 1982 and then Chairman of the Board in 1994. Mr. Douville also sits on the board of directors of various Canadian and U.S. companies.</p> <p>Mr. Douville brings to the Board in-depth knowledge of a key industrial sector in North America as well as experience managing a large corporation.</p>	November 1991	4,564	2,138	11/14	4/4
<p><b>Marcel Dutil</b><sup>(HR)</sup> Outremont, Quebec</p>  <p>Chairman of the Board, President and Chief Executive Officer of The Canam Manac Group Inc. Mr. Dutil is the founder of this industrial company which mainly designs and manufactures frames, joists, steel decks, semi-trailers and forestry equipment. He also sits on the board of directors of several Canadian and foreign firms.</p> <p>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.</p>	January 1982	88,418	—	11/14	5/7




## Nominees for Election as Directors (cont.)

Name, Occupation, Main Activities and Place of Residence	Director Since	Common Shares Beneficially Owned, Controlled or Directed	Deferred Stock Units	Attendance at Meetings of the Board and Committees During the Financial Year Ended October 31, 2000	
				Board	Committees
<p><b>Paul Gobeil</b> <sup>(A)</sup> <sup>(C)</sup> <sup>(G)</sup></p>  <p>Île-des-Sœurs, Verdun, Quebec</p> <p>Since 1990, Vice-Chairman of the Board of Métro Inc. and Co-Chairman of the Board of EADS Canada Inc. Mr. Gobeil has been a Member of the <i>Ordre des comptables agréés du Québec</i> since 1965 and a Fellow since 1986. From 1973 to 1985, he held a number of executive positions at Proviso Inc. Elected as the MNA for Verdun in 1985, he was, until 1989, Minister Responsible for Administration, President of the Treasury Board and then Minister of International Affairs in the Quebec government. Mr. Gobeil is also involved in a number of cultural, charitable, educational and professional organizations and is currently Chairman of the Board of <i>Université de Sherbrooke</i>.</p> <p>Mr. Gobeil is a valuable asset to the Board in terms of corporate governance, financial and accounting management and corporate strategy.</p>	February 1994	10,000	3,102	14/14	12/12
<p><b>Suzanne Leclair</b> <sup>(A)</sup></p>  <p>Laval, Quebec</p> <p>President, Chief Executive Officer and Chairwoman of the Board of Directors of Transit Truck Bodies Inc., a firm specialized in the construction of truck bodies. Ms. Leclair has won a number of awards for her entrepreneurial skills. She actively participates on a number of committees for economic, cultural and charitable organizations.</p> <p>As the founder of an SME that has grown into a large corporation and as the recipient of numerous business awards for the quality of her management, Ms. Leclair brings to the Board her vision as an entrepreneur in the manufacturing sector.</p>	July 1989	8,439	—	13/14	4/4
<p><b>Bernard Lemaire</b> <sup>(G)</sup></p>  <p>Kingsey Falls, Quebec</p> <p>Chairman of the Board of Cascades Inc., of which he is co-founder. The company has extensive international operations, mainly in the flat cardboard, fine paper, tissue paper, cardboard box and specialized product sectors. Cascades has also developed expertise in the field of energy.</p> <p>Frequently honoured for his managerial skills, Mr. Lemaire ranks among Quebec's top business leaders. He brings to the Board proven management and business development skills as well as extensive business experience.</p>	October 1983	10,000	—	10/14	4/5

## Nominees for Election as Directors (cont.)

Name, Occupation, Main Activities and Place of Residence	Director Since	Common Shares Beneficially Owned, Controlled or Directed	Deferred Stock Units	Attendance at Meetings of the Board and Committees During the Financial Year Ended October 31, 2000	
				Board	Committees
<p><b>J.-Robert Ouimet</b><sup>(C)</sup> Montreal, Quebec</p>  <p>President and Chief Executive Officer of Ouimet-Cordon Bleu Inc., which manufactures and markets canned and frozen food products. Mr. Ouimet holds a bachelor's degree in business from the <i>École des Hautes Études Commerciales</i>, a bachelor's degree in political science from Fribourg University in Switzerland and an MBA from Columbia University. In 1998, he obtained a Ph.D in economic and social sciences from Fribourg University. He sits on the board of directors of various companies and organizations in the cultural, community and university sectors.</p> <p>Mr. Ouimet has solid management expertise, especially in acquiring and purchasing stakes in companies. He is also particularly interested in matters pertaining to the personal development of employees in the workplace.</p>	November 1972	6,500	—	14/14	13/14
<p><b>Robert Parizeau</b><sup>(G) (HR)</sup> Montreal, Quebec</p>  <p>Chairman of the Board of AON Parizeau Inc. and member of the Advisory Committee of AON Reed Stenhouse Inc., an insurance brokerage and risk management advisory firm. In addition, Mr. Parizeau is Chairman of the Board of Gaz Métropolitain Inc., a carrier and distributor of natural gas. He is also Chairman of the Board and of the Corporation of the Clinical Research Institute of Montréal and a director of various other companies.</p> <p>As President and Chief Executive Officer of Sodarcac Inc., an insurance, reinsurance and actuarial consulting holding company, Mr. Parizeau has played an active role in the development of the Canadian property and casualty insurance industry for over 20 years. He is also extremely knowledgeable about the functions of boards of directors.</p>	December 1978	10,073	3,266	14/14	12/12
<p><b>E.A. (Dee) Parkinson-Marcoux</b> Canmore, Alberta</p>  <p>President and Chief Executive Officer of Ensyn Energy, a Calgary-based company involved in oil technology. An engineer by training, Ms. Parkinson-Marcoux's previous positions include President of Gulf Heavy Oil from 1997 to 1998, President of CS Resources from 1996 to 1997 and Executive Vice-President of Suncor Oil Sands Group from 1991 to 1996. She is also a director of several companies in the energy, natural resources and technology sectors.</p> <p>Ms. Parkinson-Marcoux brings to the Board her solid expertise in the energy, oil and natural resource sectors as well as knowledge of Western Canadian markets.</p>	March 2000	2,000	917	8/9	—

## Nominees for Election as Directors (cont.)

Name, Occupation, Main Activities and Place of Residence	Director Since	Common Shares Beneficially Owned, Controlled or Directed	Deferred Stock Units	Attendance at Meetings of the Board and Committees During the Financial Year Ended October 31, 2000	
				Board	Committees
<p><b>Réal Raymond</b> <sup>(C)</sup></p>  <p>Île-des-Soeurs, Verdun, Quebec            President – Personal and Commercial Bank of National Bank of Canada. Mr. Raymond has held a number of positions since joining the Bank in 1970, including that of Senior Vice-President – Treasury and Financial Markets from 1992 to 1997. In 1997, he went to Lévesque Beaubien Geoffrion, now named National Bank Financial Inc., where he served as Senior Executive Vice-President – Corporate Financing while maintaining his responsibilities as Senior Vice-President at the Bank. Mr. Raymond is involved in many professional and community organizations.</p> <p>Mr. Raymond brings to the Board his varied expertise in the field of banking as well as an in-depth understanding of business operations and strategies in several sectors of activity.</p>	November 1999	11,870	—	14/14	10/10
<p><b>Jean Turmel</b> <sup>(C)</sup></p>  <p>Outremont, Quebec            President – Financial Markets, Treasury and Investment Bank of National Bank of Canada. After working at various securities firms, Mr. Turmel joined the Bank in 1981 as Vice-President – Treasury and Foreign Exchange. Since that time, he has held various senior management positions within the Bank. During the past few years, he has been involved in various organizations in the finance and securities sectors.</p> <p>Mr. Turmel has exceptional expertise in the Bank's key sectors of activity, especially money markets, treasury and securities brokerage. Having held many different positions at the Bank over the years, Mr. Turmel has a thorough grasp of the Bank's decision-making processes and strategies in his areas of specialty.</p>	September 1998	62,967	—	13/14	1/1
<p><b>Dennis Wood</b></p>  <p>Magog, Quebec            Chairman of the Board, President and Chief Executive Officer of C-MAC Industries Inc. since 1989. This Montreal-based corporation oversees a multinational industrial group and is a world leader in designing and manufacturing components and integrated electronic systems for high tech markets. Mr. Wood is also a director of several financial, high tech and engineering companies as well as university and community organizations.</p> <p>Mr. Wood brings to the Board solid expertise in high-growth economic sectors, such as the high tech sector, and extensive experience in developing international markets.</p>	—	6,650	—	—	—

(A): Member of the Audit Committee  
 (C): Member of the Credit Committee  
 (G): Member of the Conduct Review and Corporate Governance Committee  
 (HR): Member of the Human Resources Committee

NOTE: - As ex officio members of the Credit Committee, André Bérard, Réal Raymond and Jean Turmel generally attend meetings of the Committee on a rotating basis.  
 - Pierre Bourgie, Paul Gobeil and Jean Turmel have been members of the Credit Committee since September 28, 2000.

## Nominees for Election as Directors (cont.)

The above nominees provided the information in the previous table with respect to their main activities and the shares they beneficially own, control or direct and the deferred stock units ("DSUs") credited. It should be noted that the table does not include attendance by directors as guests at meetings of the committees.

Each director elected at the Meeting will hold office until the close of the subsequent annual meeting of the Bank, the election or appointment of a replacement, or until the position is vacated, whichever event occurs first.

During the financial year ended October 31, 2000, the Board held 14 meetings. The number of meetings held by each committee of the Board during this period was as follows:

Credit Committee: 14

Human Resources Committee: 7

Conduct Review and Corporate Governance Committee: 5

Audit Committee: 4

Donald M. Green, Léonce Montambault and Michel Perron will not be standing for re-election as they have reached the retirement age specified in the internal rules of the Bank. During the financial year ended October 31, 2000, Mr. Green attended 13 meetings of the Board and 12 meetings of the Credit Committee. Mr. Montambault attended 12 meetings of the Board, 5 meetings of the Conduct Review and Corporate Governance Committee, 7 meetings of the Human Resources Committee and 4 meetings of the Audit Committee. Mr. Perron attended 12 meetings of the Board and 9 meetings of the Credit Committee. Raymond Royer resigned on May 9, 2000. Prior to that date, Mr. Royer had attended 3 meetings of the Board and 4 meetings of the Credit Committee. Claude F. Savoie passed away on October 5, 2000. He had attended 8 meetings of the Board and 3 meetings of the Audit Committee.

This year, the Bank is recommending one new nominee for election as director, Dennis Wood. Mr. Wood has been Chairman of the Board, President and Chief Executive Officer of C-MAC Industries Inc. since 1989.

## Functions Held by Directors in Bank Subsidiaries

The following table lists the Bank directors and the nominee for director who also sit on the board of directors and committees of Bank subsidiaries, together with their main role, as applicable.

Bank Directors	Bank Subsidiaries									
	National Bank Life Insurance Company	National Bank Financial & Co. Inc.	National Bank Financial Inc.	National Bank Financial Ltd.	Natcan Investment Management Inc.	National Bank Group Inc.	NBC International USA Ltd.	NBF Financial Services Ltd.	Natcan Trust Company	General Trust of Canada
Pierre Beaudoin									(BD)	
André Bérard						(BD) (Chair)				
Lawrence S. Bloomberg		(BD) <sup>(1)</sup> (Co-Chair) (A) (HR)	(BD) <sup>(1)</sup> (Co-Chair)							
Pierre Bourgie										(BD)
Gérard Coulombe	(BD)					(BD)				
François J. Coutu	(BD) (A)									
Nicole Diamond-Gélinas									(BD)	
Jean Douville	(BD) (E)	(BD) (A) (HR)								
Paul Gobeil	(BD) (A)									
Suzanne Leclair									(BD)	
Robert Parizeau		(BD) (HR)								
Réal Raymond	(BD) (Chair)					(BD)				(BD) (Chair)
Jean Turmel		(BD) <sup>(2)</sup> (Chair) (A) (HR)	(BD) <sup>(2)</sup> (Chair)	(BD)	(BD) <sup>(2)</sup> (Chair)	(BD)	(BD)	(BD)		
Dennis Wood										(BD) (A) (E)

(BD): Member of the Board of Directors

(E): Member of the Ethics Committee

(A): Member of the Audit Committee

(HR): Member of the Human Resources Committee

(1) Lawrence S. Bloomberg exercised the above duties and those of Co-Chief Executive Officer until October 25, 2000.

(2) Jean Turmel is also:

- Chief Executive Officer of Natcan Investment Management Inc.; and
- since October 26, 2000, Chairman of the Board of National Bank Financial & Co. Inc. and National Bank Financial Inc.

# REMUNERATION PAID BY THE BANK AND ITS SUBSIDIARIES TO DIRECTORS AND OFFICERS

## Remuneration of Directors of the Bank

The following table sets out the annual base remuneration and attendance vouchers which the directors are entitled to receive for sitting on the Board of Directors and committees of the Bank and, if applicable, of the Bank subsidiaries designated hereinbelow.

The Bank and Designated Subsidiaries	Annual Base Remuneration (\$)	Additional Annual Base Remuneration (\$)										Attendance Vouchers (\$)	
		for Committee Members					for Committee Chairs					(BD)	Committees
	(BD)	(C)	(E)	(G)	(HR)	(A)	(C)	(E)	(G)	(HR)	(A)		
National Bank of Canada	15,500 <sup>(1)</sup>	2,000	N/A	3,500	3,500	2,000	3,500	N/A	7,000	7,000	5,000	1,200	1,200
National Bank Life Insurance Company	2,500	N/A	1,800	N/A	N/A	1,800	N/A	3,000	N/A	N/A	3,000	1,000	1,000
National Bank Financial & Co. Inc.	3,500	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1,000	1,000
Natcan Trust Company	2,500	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1,000	N/A
General Trust of Canada	6,000	N/A	1,000	N/A	N/A	1,000	N/A	N/A	N/A	N/A	N/A	500	500

(BD): Board of Directors

(C): Credit Committee

(G): Conduct Review and Corporate Governance Committee

(A): Audit Committee

(E): Ethics Committee

(HR): Human Resources Committee

(1) Effective February 2, 2000, the annual base remuneration of directors of the Bank was increased to \$15,500 from \$14,000.

The directors of the Bank who are also officers of the Bank or one of its subsidiaries do not receive any remuneration in their capacity as directors of the Bank or any of its subsidiaries. However, the Bank and its subsidiaries pay the expenses incurred by them to attend meetings.

### FORMS OF REMUNERATION OF DIRECTORS OF THE BANK

On January 31, 2000, the Bank amended its directors' remuneration program to include an additional form of remuneration, namely, the granting of deferred stock units ("DSUs").

Since that date, eligible directors have been able to receive their remuneration for serving on the Board and any committees in the form of common shares of the Bank, DSUs, cash or a combination thereof. However, until they hold the minimum number of common shares required by the Bank, directors must receive all of their annual base remuneration in the form of common shares or DSUs.

Under the terms of the program, a DSU is a right which has a value equal to the market value of a common share of the Bank on the date it is granted, which is credited every quarter to an account in the director's name. It is only paid out upon the director's departure from the Board, in the form of cash or common shares, at the market value of the share at that time.

DSUs are also credited to that account as dividend equivalents when dividends are paid on common shares. Such dividends are converted into additional DSUs using the fair market value of the common shares on The Toronto Stock Exchange on the last trading day preceding the dividend payment date.

## Composition and Role of the Human Resources Committee

### COMPOSITION OF THE HUMAN RESOURCES COMMITTEE

The Committee is comprised of six directors who are neither officers nor former officers of the Bank. The Committee is chaired by Robert Parizeau, with the other members being Gérard Coulombe, François J. Coutu, Shirley A. Dawe, Marcel Dutil and Léonce Montambault.

**ROLE OF THE HUMAN RESOURCES COMMITTEE**

It is the responsibility of the Human Resources Committee of the Bank to recommend that the Board adopt policies in matters of total compensation for employees and management, namely, the Chairman, the Presidents, the Executive Vice-Presidents, the Senior Vice-Presidents and the Vice-Presidents of the Bank (the "Officers"). It appraises the performance of Officers and annually reviews their total compensation based on the objectives assigned to them and the results achieved. It also analyzes the various components of their compensation and submits timely recommendations to the Board in that regard. Moreover, the Committee examines and comments on the Bank's executive and management succession planning as well as the profiles of those who are likely to be promoted. Lastly, it oversees the management of the Bank's pension plans and pool fund and assesses the performance of the fund's manager. It should be noted that the compensation paid to Lawrence S. Bloomberg and Pierre Brunet is approved by the Human Resources Committee of the Board of Directors of National Bank Financial & Co. Inc.

**Report of the Human Resources Committee on the Compensation of Officers of the Bank****TOTAL COMPENSATION POLICY**

The total compensation policy of the Bank is designed to attract, motivate and retain competent officers. To this end, the basic principles underlying this policy are as follows:

- The total compensation of officers must be competitive in relation to the comparison market, taking into account the criteria specific to the Bank;
- The compensation of officers is to be aligned with corporate performance;
- Base salaries are generally comparable to the median base salaries offered by the comparison market, as defined below. However, the base salary of the Named Executive Officers, as defined on page 16, is slightly below the median;
- The annual bonus program supports the Bank's strategic objectives and offers fully competitive total cash compensation, which may exceed market practices if justified by financial and business development results;
- The long-term variable compensation program aligns the interests of officers with those of the Bank's shareholders;
- The proportion of variable compensation in relation to base salary increases in line with the level of responsibility;
- The employee benefits and pension plan are comparable, on the whole, to those offered by the comparison market; and
- The comparison market refers to a group of Canadian financial institutions and selected Canadian companies.

The services of independent compensation specialists are also retained, as needed, to compare the Bank's aggregate compensation policy with that of other institutions in its comparison market.

**COMPONENTS OF THE COMPENSATION OF OFFICERS OF THE BANK**

The compensation of Officers consists of the following:

**Base Salary**

The Bank has created a salary structure based mainly on salaries within the comparison market for positions similar to Bank positions in terms of responsibilities and complexity, while taking into account the criteria specific to the Bank. The base salaries of Officers according to this structure reflect their individual performance, experience and specific competencies.

**Annual Bonus Program**

The Bank offers an annual bonus program which complements the base salary of Officers. Under the terms of this program, the total bonus envelope to be shared is calculated based on how well the financial objectives set for the Bank and its sectors at the beginning of the year are achieved and on a comparison between the Bank's results and those of the other five major Canadian banks. The bonus of each incumbent is calculated taking into account pre-established target bonuses and the individual results obtained in executing specific mandates essential to the Bank's success. Bonuses under this program, which was revised in January 1999, are granted once a year.

## **Long-Term Variable Compensation Program**

### ***Stock Appreciation Rights Plan (the "SAR Plan")***

The purpose of the SAR Plan is to encourage Officers and other designated persons to contribute to the growth of shareholders' investments by giving them the opportunity to benefit from the appreciation in the value of the common shares of the Bank. Accordingly, the SAR Plan enables the Bank to award stock appreciation rights ("SARs"), on a discretionary basis, to Officers and other designated persons of the Bank and its subsidiaries. For their part, participants entitled to SARs may receive, on the exercise date of the SAR, a cash amount equal to the difference between the market price of a common share on the exercise date of the SAR and the exercise price of the SAR. Further to the restructuring of Canada's stock exchanges in December 1999, the exercise price of each SAR awarded is equal to the closing price of the common shares of the Bank on The Toronto Stock Exchange on the business day preceding the date of the award.

The SAR Plan was presented to the Conduct Review and Corporate Governance Committee on October 30, 1996 and took effect following approval by the Board on November 7, 1996. It complements the Stock Option Plan of the Bank which is described below.

### ***Stock Option Plan***

The Stock Option Plan has the same objectives as the SAR Plan and enables the Human Resources Committee of the Bank to award options, on a discretionary basis, to Officers and other designated persons of the Bank and its subsidiaries. Each year, if applicable, the Committee is responsible for setting the terms and conditions of each award of stock options and for determining the participants based on their performance and contribution to the Bank's success.

The maximum number of common shares that may be issued under the Stock Option Plan is 8,000,000. The maximum number of common shares reserved for a participant may not exceed 5% of the total number of common shares issued and outstanding. Since the start of the past financial year, 360,875 options have been exercised at strike prices ranging from \$9.50 to \$13.50. As at December 22, 2000, 3,131,375 options were outstanding with strike prices ranging between \$11.00 and \$24.90 and maturities between December 2005 and December 2010. On that same date, 1,457,075 options could be exercised at prices ranging between \$11.00 and \$13.50.

Under the terms of the Stock Option Plan in effect during the past financial year and since the restructuring of Canada's stock exchanges in December 1999, the exercise price for each option awarded is equal to the closing price of the common shares of the Bank on The Toronto Stock Exchange on the business day preceding the date of the award.

In accordance with the Stock Option Plan, options may be exercised in whole or in part no later than the termination date determined by the Human Resources Committee at the time they are awarded, without exceeding the legal limit of 10 years. They expire on the termination date or, in the event of certain circumstances provided for in the Stock Option Plan, expire in a specific timeframe. No options may be exercised in the first year after they are awarded.

No options were awarded under the Stock Option Plan to purchase common shares of the Bank for the past four financial years ended October 31, 1997, 1998, 1999 and 2000 respectively.

## **COMPENSATION OF THE CHAIRMAN OF THE BOARD AND CHIEF EXECUTIVE OFFICER**

For the financial year ended October 31, 2000, the compensation received by the Chairman of the Board and Chief Executive Officer consisted of a base salary, an annual bonus and SARs.

The base salary of the Chairman of the Board and Chief Executive Officer was increased to \$680,000 to recognize his responsibilities and performance and to be competitive with the average of base salaries paid to chief executive officers of companies within the comparison market, while taking into account the criteria specific to the Bank.

The Human Resources Committee also awarded André Bérard an annual bonus of \$940,000 in recognition of his special contribution to the 2000 financial results. In establishing the amount of this annual bonus, the Committee first based itself on the criteria applicable to the Named Executive Officers as defined hereinbelow, namely, the extent to which the financial objectives set for the Bank and its sectors were achieved and the Bank's performance in relation to that of the other five major Canadian banks. The Committee then took into account Mr. Bérard's performance during the 1999-2000 financial year.

Lastly, the Human Resources Committee granted Mr. Bérard an award of 265,000 SARs during the financial year, as a long-term incentive measure.

**This report is submitted by the Human Resources Committee in accordance with Canadian securities legislation.**

**Robert Parizeau, Chair**  
**François J. Coutu**  
**Marcel Dutil**

**Gérard Coulombe**  
**Shirley A. Dawe**  
**Léonce Montambault**

## Performance of the Bank in 2000

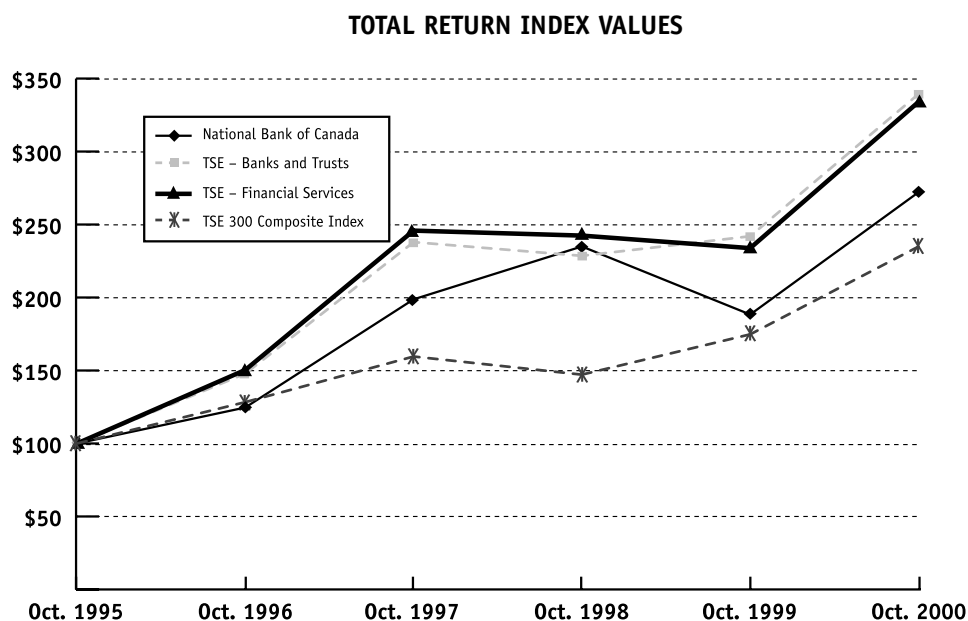
For the first time in its history, the Bank's income before goodwill charges surpassed the half-billion dollar mark. In fact, income before goodwill charges reached \$531 million for the fiscal year ended October 31, 2000, an increase of 24% over the \$428 million recorded in fiscal 1999. Return on common shareholders' equity before goodwill charges was 16.0%, up from 15.5% in 1999.

Each of the Bank's three main segments increased their contribution to the Bank's earnings. Personal Banking and Wealth Management saw its revenues increase significantly, largely due to brokerage income, and improved its productivity. Commercial Banking improved its profitability by adjusting its pricing in terms of risk. Lastly, Financial Markets, Treasury and Investment Banking took advantage of market opportunities and successfully completed the integration of First Marathon Inc.

In addition, the Bank pursued its Operational Excellence project aimed at reducing operating costs. The Bank also undertook a program to review its distribution network. It accelerated the development of its electronic infrastructure with the goal of being able to participate fully in new business opportunities in e-commerce. In this regard, the Bank concluded a transaction with COGNICASE INC. whereby it received 9,291,008 COGNICASE common shares in exchange for the shares of SIBN Inc., the Bank's information technology and e-commerce subsidiary, and made a \$20 million investment. As a result, the Bank holds approximately 35% of the company's share capital. For the next 10 years, COGNICASE will be the preferred supplier of information technology services to the Bank and its subsidiaries, while continuing to be the Bank's preferred partner for all its e-commerce solutions, products and services, including wireless solutions.

## Performance Graph for Common Shares of the Bank

The following graph compares the cumulative total return of a \$100 investment in common shares of the Bank made on October 31, 1995 and the cumulative total return on the TSE 300 Index as well as the TSE Banks and Trusts Index and TSE Financial Services Index for the five most recently completed financial years, assuming dividends are fully reinvested at the market price on each dividend payment date.



	Oct. 1995 (\$)	Oct. 1996 (\$)	Oct. 1997 (\$)	Oct. 1998 (\$)	Oct. 1999 (\$)	Oct. 2000 (\$)
National Bank of Canada	100.00	124.64	198.74	234.97	188.34	272.10
TSE - Banks and Trusts	100.00	147.85	237.94	228.55	241.96	339.35
TSE - Financial Services	100.00	150.35	245.82	242.41	233.82	333.96
TSE 300 Composite Index	100.00	128.32	159.58	147.16	174.76	234.88

## Total Compensation of Named Executive Officers of the Bank

### SUMMARY OF TOTAL COMPENSATION OF NAMED EXECUTIVE OFFICERS

The following table, presented in accordance with Canadian securities legislation, shows the total compensation paid by the Bank and its subsidiaries to each of the Named Executive Officers, as defined below, during each of the three most recently completed financial years. The persons named in the table below are collectively the “Named Executive Officers”.

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation			All Other Compensation (\$)
		Salary (\$)	Bonus (\$)	Other Annual Compensation <sup>(1)</sup> (\$)	Awards		Payouts	
					Securities Awarded <sup>(2)</sup> Under SARs (#)	Options (#)	Long-Term Bonus Program (\$)	
<b>André Bérard</b> Chairman of the Board and Chief Executive Officer	2000	680,000	940,000	5,104	265,000	Nil	N/A	N/A
	1999	575,000	769,800	5,854	138,000	Nil	N/A	N/A
	1998	575,000	843,254	3,761	141,000	Nil	N/A	N/A
<b>Réal Raymond</b> President – Personal and Commercial Bank	2000	385,000	500,000	74	122,000	Nil	N/A	N/A
	1999	250,000	456,500	28	N/A	Nil	N/A	N/A
	1998	250,000	270,500	Nil	23,000	Nil	N/A	N/A
<b>Jean Turmel</b> President – Financial Markets, Treasury and Investment Bank	2000	385,000	802,000	5,458	122,000	Nil	N/A	N/A
	1999	385,000	748,600	3,395	61,000	Nil	N/A	N/A
	1998	337,000	775,000	989	62,000	Nil	N/A	N/A
<b>Lawrence S. Bloomberg</b> <sup>(3)</sup> Co-Chairman of the Board and Co-Chief Executive Officer National Bank Financial Inc.	2000	200,000	2,750,000	N/A	N/A	N/A	144,000	N/A
	1999	N/A	732,000	N/A	N/A	N/A	N/A	N/A
	1998	N/A	N/A	N/A	N/A	N/A	N/A	N/A
<b>Pierre Brunet</b> <sup>(3)</sup> Co-Chairman of the Board and Co-Chief Executive Officer National Bank Financial Inc.	2000	200,000	2,750,000	N/A	N/A	N/A	144,000	N/A
	1999	200,000	1,425,000	N/A	N/A	N/A	N/A	N/A
	1998	200,000	1,115,000	N/A	N/A	N/A	N/A	N/A

- (1) The amounts in this column only represent benefits relating to loans granted at preferred interest rates to Named Executive Officers. The Named Executive Officers have the use of a leased car and may, at their option, participate in the Employee Share Purchase Plan of the Bank; the aggregate value of these benefits for the financial year ended October 31, 2000 does not exceed the lesser of: \$50,000 or 10% of the annual salary and bonuses paid to Named Executive Officers.
- (2) These securities were awarded under the Stock Appreciation Rights Plan and the Stock Option Plan of the Bank. For further information, refer to the “Stock Appreciation Rights Plan” and “Stock Option Plan” sections of the Circular.
- (3) Lawrence S. Bloomberg and Pierre Brunet each held the positions of Co-Chairman of the Board and Co-Chief Executive Officer of National Bank Financial Inc. until October 25, 2000. Since that date, they have served as special advisors to National Bank Financial Inc. and will continue to do so for a period of two years. Mr. Brunet is also Vice-Chairman of the Board of the Bank. As employees of National Bank Financial Inc., they did not participate in the Stock Appreciation Rights Plan or the Stock Option Plan of the Bank. Moreover, the compensation paid to Messrs. Bloomberg and Brunet is approved by the Human Resources Committee of the Board of Directors of National Bank Financial & Co. Inc.

### SUMMARY OF LONG-TERM VARIABLE COMPENSATION OF NAMED EXECUTIVE OFFICERS

The following table specifies the number of SARs awarded to Named Executive Officers under the SAR Plan during the financial year ended October 31, 2000. These SARs, up to 25% of which are exercisable by their holders as of December 2000, with a further 25% exercisable as of December 2001, another 25% exercisable as of December 2002, and the remainder as of December 2003, expire on December 31, 2009. During the 30-day period prior to the SARs being awarded, the closing price of the common shares on The Toronto Stock Exchange fluctuated between \$17.00 and \$18.70.

**Management Proxy Circular****SARs AWARDED DURING THE FINANCIAL YEAR ENDED OCTOBER 31, 2000**

Name	Number of SARs Awarded	% of Total SARs Awarded to Employees During Financial Year	Exercise Price of an SAR (\$)	Market Value of a Common Share on the Day Preceding the Award (\$)	Expiry Date
<b>André Bérard</b>	265,000	13.5%	17.35	17.35	31/12/2009
<b>Réal Raymond</b>	122,000	6.2%	17.35	17.35	31/12/2009
<b>Jean Turmel</b>	122,000	6.2%	17.35	17.35	31/12/2009
<b>Lawrence S. Bloomberg</b>	N/A	N/A	N/A	N/A	N/A
<b>Pierre Brunet</b>	N/A	N/A	N/A	N/A	N/A

The following table lists, for each of the Named Executive Officers, the number of securities affected by options/SARs exercised during the financial year ended October 31, 2000, the total value realized, and the number and value of unexercised in-the-money options/SARs outstanding under the terms of the two plans as at October 31, 2000. The value of unexercised options at financial year-end is equal to the difference between the exercise price of the options and the price of common shares of the Bank on the last business day of the financial year, namely, \$24.95 per common share. The value of unexercised SARs at financial year-end is equal to the difference between the exercise price of the SARs and the price of common shares of the Bank on the last business day of the financial year, namely, \$24.95 per common share. The value of a common share of the Bank was established according to regulations and the terms of the two plans in effect during the past financial year and corresponds to the closing price on The Toronto Stock Exchange.

**OPTIONS/SARs EXERCISED BY THE NAMED EXECUTIVE OFFICERS DURING THE FINANCIAL YEAR ENDED OCTOBER 31, 2000 AND NUMBER AND VALUE OF UNEXERCISED IN-THE-MONEY 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 <sup>(1)</sup>	
			Exercisable (#)	Unexercisable (#)	Exercisable (\$)	Unexercisable (\$)
<b>André Bérard</b>	0	0	347,750	475,250	3,146,213	2,460,788
<b>Réal Raymond</b>	0	0	65,250	140,750	700,613	1,015,388
<b>Jean Turmel</b>	0	0	149,000	213,000	1,340,438	1,104,313
<b>Lawrence S. Bloomberg</b>	N/A	N/A	N/A	N/A	N/A	N/A
<b>Pierre Brunet</b>	N/A	N/A	N/A	N/A	N/A	N/A

(1) The amounts indicated are based on a price of \$24.95 on the last business day of the financial year, namely, October 31, 2000.

**COMPENSATION OF THE OFFICERS OF NATIONAL BANK FINANCIAL INC.**

The officers of National Bank Financial Inc. receive a base salary that is comparable to those observed in the comparison market, while taking into account the criteria specific to National Bank Financial Inc.

In order to attract and retain high calibre employees in the fiercely competitive securities sector, National Bank Financial Inc. offers two compensation programs.

The short-term variable compensation program is an important part of the compensation of officers at National Bank Financial Inc. Under this program, bonuses are awarded every six months based on the percentage of pre-tax income generated by securities operations. The allocation of bonuses among the program participants is approved by the Human Resources Committee of the Board of Directors of National Bank Financial & Co. Inc.

The long-term compensation program enables certain officers and employees of National Bank Financial Inc. to share in the company's profits. It provides for the issue of deferred stocks or the granting of bonuses over a three-year period, namely, 50% at the end of the reference year, 25% at the end of the second year and 25% at the end of the third year. Participants who choose deferred stocks receive phantom stock units of the Bank with a value equal to the market price. The value of these units varies according to the price of Bank shares. In order to encourage participants to remain at National Bank Financial Inc., the deferred stock units are vested over a four-year period, commencing the year after they are granted.

## RETIREMENT BENEFITS FOR NAMED EXECUTIVE OFFICERS EMPLOYED BY THE BANK

### Pension Plan

With the exception of Lawrence S. Bloomberg and Pierre Brunet, the Named Executive Officers of the Bank participate in a defined benefit pension plan. This plan is fully funded according to the most recent actuarial valuation. For each year of service credited, the plan grants 2% of the average eligible earnings (defined as the average earnings for the 60 highest-paid consecutive months, based on salary and 25% of the annual bonus paid as of January 1, 1996) less the pension acquired under the Canada or Quebec pension plans ("CPP/QPP") while the Named Executive Officer participated in the Bank pension plan, except for the years of participation prior to January 1, 1990 which are reduced by 50%. However, this benefit cannot exceed the maximum pension prescribed under the *Income Tax Act*, currently \$1,722 per year of service credited. The normal retirement age is 60. However, the plan does allow for early retirement, with the employer's consent, as of 55 years of age; the benefits then payable are reduced by the lesser of: 4% for each year of early retirement prior to age 60 or 2% for each year by which the sum of the participant's age and years of service falls short of 90.

### Post-Retirement Allowance Program

With the exception of Lawrence S. Bloomberg and Pierre Brunet, the Named Executive Officers of the Bank are entitled to receive a post-retirement allowance for life.

This program, in which the Named Executive Officers participate, grants an allowance equal to the difference between the pension which would be payable if there were no provision for a maximum pension (maximum 35 years) and the pension actually paid under the pension plan for the years recognized under the Post-Retirement Allowance Program. The payment conditions of this allowance are identical to those of the pension plan.

### Estimated Annual Benefits Payable at Retirement

The following table shows the estimated annual benefits payable under the Bank's pension plan and the Post-Retirement Allowance Program to the Named Executive Officers of the Bank.

### PENSIONS PAYABLE AS OF AGE 60

Average Eligible Earnings <sup>(1)</sup> (\$)	Years of Participation <sup>(2) (3)</sup>				
	15 (\$)	20 (\$)	25 (\$)	30 (\$)	35 (\$)
<b>300,000</b>	87,129	116,574	146,018	175,522	205,687
<b>400,000</b>	117,129	156,574	196,018	235,522	275,687
<b>500,000</b>	147,129	196,574	246,018	295,522	345,687
<b>600,000</b>	177,129	236,574	296,018	355,522	415,687
<b>700,000</b>	207,129	276,574	346,018	415,522	485,687
<b>800,000</b>	237,129	316,574	396,018	475,522	555,687
<b>900,000</b>	267,129	356,574	446,018	535,522	625,687
<b>1,000,000</b>	297,129	396,574	496,018	595,522	695,687

- (1) The sum of the amounts in the "Salary" column and 25% of the amounts in the "Bonus" column of the "Summary of Total Compensation of Named Executive Officers" table of the Circular is used to calculate the average eligible earnings for the purposes of the above programs.
- (2) Years of service credited on the normal retirement date under the pension plan have been estimated as follows:
- André Bérard: 37 years
  - Réal Raymond: 35 years
  - Jean Turmel: 24 years
- However, the maximum number of years recognized under the Post-Retirement Allowance Program is 35.
- (3) The pension is payable for life. Upon the participant's death, 60% of the pension is payable to the spouse. If there is no spouse, part of the pension is payable to the dependent children.

**RETIREMENT BENEFITS FOR NAMED EXECUTIVE OFFICERS EMPLOYED BY NATIONAL BANK FINANCIAL INC.****Pension Plan**

Pierre Brunet participates in a defined benefit pension plan. This plan is fully funded according to the most recent actuarial valuation. For the years of service recognized as at December 31, 1992, the credited pension cannot be less than 2% of the average salary between January 1, 1990 and December 31, 1992. For each year of service recognized as of January 1, 1993, the plan grants 2% of the salary paid that year. For the purposes of this plan, the salary is defined as the normal compensation up to a maximum of \$60,000.

At the end of each year of the plan, namely December 31, the amount of the pension credited after January 1, 1993, with the exception of the pension credited for the current year, is increased by the Consumer Price Index, up to a maximum of 2%. The normal retirement age is 65. However, the plan does allow for early retirement as of age 55. In such case, the benefits payable shall be reduced by the lesser of: 6% for each year of early retirement prior to age 60 or 3% for each year of early retirement between 60 and 63.

The following table shows the estimated annual benefits payable to Pierre Brunet at retirement under this pension plan. Lawrence S. Bloomberg does not participate in any pension plan.

**PENSION PAYABLE AS OF AGE 65**

Average Eligible Earnings <sup>(1)</sup> (\$)	Years of Participation <sup>(2)</sup>				
	15 (\$)	20 (\$)	25 (\$)	30 (\$)	35 (\$)
<b>60,000</b>	19,985	27,999	36,014	42,264	48,514

(1) The salary in this table is limited to \$60,000 for calculation purposes under the pension plan.

(2) Years of service credited on the normal retirement date under the pension plan have been estimated at 33 years. The pension is payable for life and guaranteed for a period of 10 years after retirement.

**EMPLOYMENT CONTRACT AND TERMINATION OF EMPLOYMENT**

The Board has adopted a program whereby certain Executive Officers would receive a separation allowance in the event their employment is terminated by the Bank following a change in control. A change in control notably means any change in the ownership of Bank shares, be it following the acquisition of shares, a merger or a grouping, resulting in one shareholder owning in excess of 20% of the voting shares of the Bank. Under the terms of this program, the Chairman of the Board and Chief Executive Officer, the President – Personal and Commercial Bank and the President – Financial Markets, Treasury and Investment Bank would each be entitled to a separation allowance equal to their base salary and average annual bonus for the past three years (or the target annual bonus for eligible Executive Officers who have been in their position for less than three years) for a period of 36 months, up to the normal retirement age. Certain other Executive Officers of the Bank are also covered by this program and could receive a separation allowance equal to their base salary and average annual bonus for the past three years (or the target annual bonus for eligible Executive Officers who have been in their position for less than three years) for a period of 18 to 24 months, up to the normal retirement age. In all cases, the separation allowance would also include an amount equal to the estimated value of the stock options and SARs that would have been granted to them had their employment not been terminated. Moreover, all stock options and SARs already granted would immediately be vested and the Executive Officers would have a maximum of 12 months in which to exercise the options or SARs.

## INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS

In the normal course of its operations, the Bank and its subsidiaries grant loans to its directors, officers and employees.

As at December 22, 2000, total loans outstanding (other than routine indebtedness as defined by Canadian securities legislation) granted notably to Executive Officers of the Bank, as defined below, amounted to approximately \$279,071,372. This total includes mortgage loans for an aggregate amount of approximately \$258,654,724, personal loans for an aggregate amount of approximately \$18,136,630 and investment loans for the purchase of securities of the Bank or its subsidiaries for an aggregate amount of approximately \$2,280,018. None of these loans was granted to a director with the exception of the officer-director listed below. For the purposes of this section, the term "Executive Officers" includes (i) the Chairman of the Board and Chief Executive Officer, (ii) the President – Personal and Commercial Bank, (iii) the President – Financial Markets, Treasury and Investment Bank, (iv) the Executive Vice-Presidents, (v) the Senior Vice-Presidents, and (vi) other officers of the Bank or one of its subsidiaries who perform a policy-making function in respect of the Bank.

The tables below show such loans granted to Executive Officers of the Bank, in accordance with Canadian securities legislation.

**Table of Indebtedness of Executive Officers Under Securities Purchase Plans**

Name and Principal Occupation	Involvement of the Bank or a Subsidiary	Largest Amount Outstanding During the Financial Year Ended October 31, 2000	Balance as at December 22, 2000
<b>G.F. Kym Anthony</b> <sup>(1)</sup> President and Chief Executive Officer National Bank Financial Inc.	Loan granted by National Bank Financial Inc.	\$1,696,000	\$1,272,000
<b>Michel Tremblay</b> <sup>(2)</sup> Senior Vice-President – Wealth Management and President – Natcan Investment Management Inc.	Loan granted by National Bank of Canada	\$203,016	\$183,016

(1) Loan granted at the 90-day bankers' acceptance rate in effect from time to time for the purchase of 156,000 common shares of the Bank. The loan is being repaid in full through equal and consecutive annual payments over a period ending in October 2003. The shares have been assigned as security for repayment of the loan.

(2) Loan granted for the purchase of 69,289 class A voting common shares of Natcan Investment Management Inc., as part of this subsidiary's long-term bonus program, encumbered by a movable hypothec securing repayment of the loan. The principal of the loan bears interest at the Bank's prime rate less 2% and, subject to the usual prepayment clauses, at least 4% of the principal is repayable on March 31 of each year. These shares are subject to certain transfer restrictions and are redeemable at any time.

# Management Proxy Circular

## Table of Indebtedness of Executive Officers Other Than Under Securities Purchase Plans

Name and Principal Occupation	Involvement of the Bank or a Subsidiary	Largest Amount Outstanding During the Financial Year Ended October 31, 2000	Balance as at December 22, 2000
<b>G.F. Kym Anthony</b> President and Chief Executive Officer National Bank Financial Inc.	Loan granted by National Bank Financial Inc.	\$865,440 <sup>(1)</sup>	\$865,440 <sup>(1)</sup>
<b>Lawrence S. Bloomberg</b> <sup>(5)</sup> Co-Chairman of the Board and Co-Chief Executive Officer National Bank Financial Inc. and Director of National Bank of Canada	Loan granted by National Bank Financial Inc.	\$865,440 <sup>(1)</sup>	\$865,440 <sup>(1)</sup>
<b>Yves G. Breton</b> President National Bank Discount Brokerage Inc.	Loan granted by National Bank of Canada	\$52,036 <sup>(2)</sup>	\$47,847 <sup>(2)</sup>
<b>Pierre Brunet</b> <sup>(5)</sup> Co-Chairman of the Board and Co-Chief Executive Officer National Bank Financial Inc.	Loan granted by National Bank Financial Inc.	\$865,440 <sup>(1)</sup>	\$865,440 <sup>(1)</sup>
<b>Germain Carrière</b> President and Chief Operating Officer Individual Investor Services National Bank Financial Inc.	Loan granted by National Bank Financial Inc.	\$865,440 <sup>(1)</sup>	\$865,440 <sup>(1)</sup>
<b>Frank De Vries</b> Senior Vice-President – United States National Bank of Canada	Loan granted by National Bank of Canada	US \$591,775 <sup>(3)(4)</sup>	US \$576,500 <sup>(3)(4)</sup>
<b>Douglas Kemp-Welch</b> Senior Vice-President – Ontario and Western Canada National Bank of Canada	Loan granted by National Bank of Canada	\$75,000 <sup>(2)</sup> \$383,000 <sup>(3)</sup>	\$25,034 <sup>(2)</sup> \$377,867 <sup>(3)</sup>
<b>Mario Lecaldare</b> Executive Vice-President – Corporate Financing National Bank Financial Inc.	Loan granted by National Bank of Canada	\$292,000 <sup>(3)</sup> \$356,358 <sup>(1)</sup>	\$285,091 <sup>(3)</sup> \$356,358 <sup>(1)</sup>
<b>Enrico Pallotta</b> Senior Vice-President – Corporate Banking, Canada National Bank of Canada	Loan granted by National Bank of Canada	\$71,272 <sup>(1)</sup> \$130,334 <sup>(2)</sup> \$300,000 <sup>(3)</sup>	\$71,272 <sup>(1)</sup> \$126,186 <sup>(2)</sup> \$299,333 <sup>(3)</sup>
<b>Réal Raymond</b> President – Personal and Commercial Bank National Bank of Canada	Loan granted by National Bank of Canada	\$396,565 <sup>(2)</sup>	\$499,565 <sup>(2)</sup>

- (1) Personal leveraged loan to finance commitments under the NB Affiliate 2000 Fund co-investment program. The leveraged loan bears interest at the federal prescribed rate reviewed quarterly and is secured by a pledge of the participant's total interest in the affiliated partnership. This program provides eligible Officers and employees of the Bank's group of companies involved in brokerage operations the opportunity to co-invest with NB Capital Equity Fund, LP, an indirect subsidiary of the Bank, through affiliated limited partnerships in equity and equity-related securities exchangeable or convertible into equity securities of private and sometimes public companies. Eligible Officers and employees are offered credit facilities by members of the Bank's group of companies, in particular through limited recourse leveraged loans. Leveraged loans may bear interest and will mature on the earliest of: (i) the 10th anniversary date of the loan, (ii) the termination of the limited partnership, (iii) the sale or disposition of the limited partnership interest held by a participant or (iv) the date the principal amount of the loan otherwise becomes due and payable. The lender will have personal recourse against the participant on a portion of the participant's leveraged loans. Recourse for the balance of the leveraged loan will be limited to the participant's partnership interest and distributions thereon.
- (2) Personal loans in excess of \$25,000 granted for consumer purchases, construction and home improvements and sundry investments, granted according to the standards applicable to clients, except for the interest rates, which range between half of the Bank's prime rate and the prime rate.
- (3) Loans, secured by a mortgage on the borrower's main residence, which exceed the respective Executive Officers' annual salary; they are granted according to the standards applicable to clients, except for the interest rates, which are at one-third of the Bank's prime rate on the first \$50,000 and at the Bank's prime rate less 5% on the amount in excess thereof but such rate cannot be lower than the rate applied to the first \$50,000.
- (4) Loan granted under a relocation agreement.
- (5) Lawrence S. Bloomberg and Pierre Brunet each held the positions of Co-Chairman of the Board and Co-Chief Executive Officer of National Bank Financial Inc. until October 25, 2000. Since that date, they have been acting as special advisors to National Bank Financial Inc.

## **LIABILITY INSURANCE FOR DIRECTORS AND OFFICERS**

The Bank is covered by a blended risk insurance program, which includes public liability insurance for directors and officers of the Bank and its subsidiaries. This policy initially provided coverage of \$50,000,000 with a deductible of \$1,000,000 per claim. This coverage was increased to \$100,000,000 effective September 1, 2000, with the deductible remaining the same. This insurance protects directors and officers of the Bank from acts, errors or omissions committed in the course of their duties as directors or officers. Illegal acts and those committed for personal gain are excluded from this coverage. The Bank's insurer estimates that the portion of the annual premium attributable to the public liability insurance for directors and officers is approximately \$225,000.

## **APPOINTMENT AND REMUNERATION OF AUDITORS**

Management of the Bank recommends voting FOR the appointment of the accounting firms Samson Bélair/Deloitte & Touche, General Partnership, and Arthur Andersen & Cie, General Partnership, as auditors of the Bank for the financial year beginning November 1, 2000 and ending October 31, 2001.

In the past five financial years, Samson Bélair/Deloitte & Touche, General Partnership, acted as auditor of the Bank in 1997, 1998 and 2000, and Mallette Maheu, General Partnership (which joined with Arthur Andersen & Cie, General Partnership, in Montreal and Quebec City), acted as auditor of the Bank in 1998 and 1999.

In order to be passed, the appointment of auditors must be approved by a majority of votes cast by the holders of common shares present or represented by proxy and able to vote at the Meeting.

During the financial year ended October 31, 2000, the fees paid by the Bank to Samson Bélair/Deloitte & Touche, General Partnership, and PricewaterhouseCoopers LLP for the audit services rendered to the Bank and its subsidiaries amounted to \$515,304 and \$706,378 respectively. The fees paid to these same accounting firms for non-audit services, such as those relating to information technology, taxation and the issue of prospectuses, amounted to \$7,233,834 and \$1,732,407 respectively. In addition, fees of \$1,398,874 were paid to Arthur Andersen & Cie, General Partnership, for non-audit services.

## **OTHER MATTERS**

### **Amendments to the Stock Option Plan**

Management of the Bank recommends voting FOR a resolution, set out in Schedule B, approving certain amendments to the Stock Option Plan.

In order to be passed, this resolution must be approved by a majority of the votes cast by holders of common shares present or represented by proxy and able to vote at the Meeting.

The Stock Option Plan, which is a component of the Long-Term Variable Compensation Program of Officers, is described in the "Components of the Compensation of Officers of the Bank" section of the Circular.

Created in 1993, this Plan, together with the separate SAR Plan, is used to encourage Officers and other designated persons to contribute to the growth of shareholders' investments by giving them the opportunity to benefit from the appreciation in the value of the common shares of the Bank.

However, no options have been awarded under this Plan during the past four financial years.

Accordingly, the Board approved amendments to the Stock Option Plan for the following purposes:

1. to give participants a choice, when exercising a vested option, to purchase a common share or to receive an amount in cash, representing the appreciation of that share at closing on the day before its exercise over its market value at closing on the day before the date of the award;
2. to give each participant in the SAR Plan who resides in Canada the possibility of exchanging each SAR held for a stock option governed by the amended Stock Option Plan at an exercise price representing the market value of a common share at closing on the day before its exchange;
3. to increase the number of common shares reserved for future awards for the exercise of options under the Stock Option Plan from 4,998,725 common shares to a total of 18,930,437 common shares, which represents 10% of the common shares issued and outstanding as at December 22, 2000, calculated as prescribed by The Toronto Stock Exchange.

Moreover, under the right granted to it in the Plan to amend an award by advancing the vesting date of options awarded to a participant, the Board also specified in the same resolution that the options issued would automatically be advanced under special circumstances which would, in the Board's opinion, lead to the common shares of the Bank being struck from the stock exchange on which they are listed, subject to the conditions the Board might formulate in this regard.

These proposed amendments have been conditionally approved by The Toronto Stock Exchange, subject to the approval of holders of common shares and regulatory authorities.

### **Increase in the number of common shares reserved for issuance under the Stock Option Plan**

Management of the Bank recommends voting FOR a resolution, set out in Schedule C, to approve an increase in the number of shares reserved for issuance under the Stock Option Plan.

In order to be passed, this resolution must be approved by a majority of the votes cast by holders of common shares present or represented by proxy and able to vote at the Meeting.

The Stock Option Plan initially provided for a maximum reserve of 8,000,000 common shares to be issued for exercising options under the Plan. As at December 22, 2000, a total of 6,716,300 options had been awarded to participants in the Plan, of which 583,650 were cancelled. Since the Plan was adopted, the options exercised have resulted in the issue of 3,001,275 common shares. A reserve of 4,780,925 common shares is required to allow for the exchange of existing SARs for options under the amended SAR and Stock Option Plans.

In addition, as part of the resolution of December 14, 2000, the Board authorized, subject to the approval of regulatory authorities and holders of common shares, that the number of common shares that may be issued for the exercise of options under the Stock Option Plan be increased by 13,931,712 additional common shares, which would bring the total number of common shares reserved for issuance under the Stock Option Plan to 18,930,437 common shares.

As at December 22, 2000, 189,590,840 common shares of the Bank were issued and outstanding. Given that the number of common shares in the Bank's treasury reserved for future stock option awards at that date was 4,998,725, the resolution proposes that the reserve of shares in the Bank's treasury be increased to a total of 18,930,437. If the resolution is approved, the total number of common shares in the new reserve will represent approximately 10% of the total number of common shares of the Bank issued and outstanding as at December 22, 2000, calculated as prescribed by The Toronto Stock Exchange.

## Introduction of a Shareholder Rights Plan

Management of the Bank recommends voting FOR a resolution, set out in Schedule D, approving the introduction of a Shareholder Rights Plan (the "Rights Plan").

In order to be passed, this resolution must be approved by a majority of the votes cast by holders of common shares present or represented by proxy and able to vote at the Meeting.

The Rights Plan is also subject to approval by regulatory authorities.

### BACKGROUND TO THE RIGHTS PLAN

The *Bank Act* currently prohibits any person from holding a significant interest in any class of shares issued by a Schedule I bank such as the Bank. The expression "significant interest" is currently defined in the *Bank Act* as more than 10% of any class of shares. In the context of Bill C-38, the Federal Government had announced its intention to amend this restriction on ownership of banks to permit a person, with the prior approval of the Minister of Finance, to acquire an interest exceeding 10% and rising to 20% of any class of voting shares, and up to 30% of any class of non-voting shares, of a bank with equity of \$5 billion or more (a "Large Bank"). All banks currently named in Schedule I to the *Bank Act*, including notably the Bank, were deemed to be Large Banks for the purpose of this provision, whatever their real size. This presumption would cease to apply only if the Minister of Finance specified that it no longer applied.

In this event, Bill C-38 provided that a bank with between \$1 billion and \$5 billion in equity (a "Medium-Sized Bank"), such as the Bank, could be owned up to 65% by a single person but would still be required to have shares that carry at least 35% of the voting rights attached to all outstanding shares listed on a recognized stock exchange in Canada and be beneficially owned by persons who did not have, and were not controlled by persons who had a significant interest (ownership of over 10% of any class of shares) in a Medium-Sized Bank.

Even if Bill C-38 has not been passed due to the end of the parliamentary session following the calling of the federal elections last October, the reform process is not yet terminated. Although it is more than likely that a similar bill will be introduced again before the House of Commons in the near future, no assurance can be given that the form of such a bill will be identical to that of Bill C-38.

Therefore, there is some degree of uncertainty as to the precise form and implementation of the legislation governing the ownership of banks as well as other associated changes to the Federal Government's regulatory regime for financial institutions. In any event, the Board has determined that it would be in the best interests of the Bank and its shareholders to complement the provisions of applicable securities law by adopting the Rights Plan.

The object of the Rights Plan is to ensure, to the extent possible, that the Board will have sufficient time to properly consider any proposed takeover or share exchange bid for the Bank and to allow enough time for competing offers to emerge. Takeover bids may not always result in shareholders receiving fair treatment or full value for their investment. Furthermore, under current Canadian securities legislation, a takeover bid need only remain open for 21 days, a period of time which the Board believes is insufficient to evaluate a bid, pursue alternatives which could maximize shareholder value and make informed recommendations to the Bank's shareholders.

The Rights Plan utilizes the mechanism of the Permitted Bid (as described below) to attempt to ensure that a person seeking control of the Bank gives the Bank shareholders and the Board sufficient time to evaluate the bid, negotiate with the initial bidder and encourage competing bids to emerge. The object of this process is to identify the transaction that produces the best value reasonably available to the shareholders in the circumstances. The Rights Plan requires all potential bidders to comply with the conditions specified in the Permitted Bid provisions, failing which such bidders are subject to the dilutive features of the Rights Plan. By creating the potential for substantial dilution of a bidder's position, the Rights Plan encourages an offeror to proceed by way of a Permitted Bid or to approach the Board with a view to negotiation.

The Rights Plan is not being proposed in response to any known or imminent acquisition or takeover bid.

The Rights Plan, after ratification by the shareholders, will be in effect until the earlier of March 7, 2004 and the date on which the Board elects to redeem all but not less than all of the outstanding rights (the "Expiration Time") after which time it will automatically terminate.

**SUMMARY OF THE RIGHTS PLAN**

The following is a summary of the principal terms of the Rights Plan which is qualified in its entirety by reference to the terms of the shareholder rights agreement (the "Rights Agreement") to be dated as of the date of approval by shareholders between the Bank and General Trust of Canada. To obtain copies of the Rights Agreement, send your request to: National Bank of Canada, Corporate Secretary's Office, 600 de La Gauchetière West, 4th Floor, Montreal, Quebec, Canada H3B 4L2.

**OPERATION OF THE RIGHTS PLAN**

Pursuant to the terms of the Rights Agreement, one right will be issued in respect of each common share outstanding as at the close of business on March 6, 2001 (the "Record Time"). In addition, one right will be issued for each additional common share issued after the Record Time and prior to the earlier of the Expiration Time and the Separation Time (as defined below). The rights have an initial exercise price of \$100, subject to certain adjustments, and are not exercisable until the Separation Time. Upon the occurrence of a Flip-in Event (as defined below), each right will entitle the holder thereof, other than an Acquiring Person (as defined below), to purchase from the Bank one common share upon payment to the Bank of 50% of the closing price of the common shares of the Bank on The Toronto Stock Exchange on the date of consummation or occurrence of such Flip-in Event, subject to certain anti-dilution adjustments.

**TRADING OF RIGHTS**

Until the Separation Time, the rights trade with the common shares and are represented by the common share certificates or an entry in the Bank's securities register in respect of any outstanding common shares. From and after the Separation Time and prior to the Expiration Time, the rights are evidenced by rights certificates and trade separately from the common shares. The rights do not carry any of the rights attaching to the common shares such as voting or dividend rights.

**SEPARATION TIME**

The rights will separate from the common shares to which they are attached and become exercisable at the time (the "Separation Time") that is the close of business on the 10th business day after the earliest of:

1. the first date (the "Stock Acquisition Date") of public announcement of facts indicating that a person has become an Acquiring Person (as defined below);
2. the date of the commencement of, or first public announcement of the intent of any person (other than the Bank or any of its subsidiaries) to commence, a takeover bid or a share exchange bid for more than 20% of the outstanding common shares of the Bank other than a Permitted Bid or a Competing Permitted Bid (as defined below); and
3. the date upon which a Permitted Bid or a Competing Permitted Bid ceases to be such.

The Separation Time can also be such later time as may from time to time be determined by the Board.

**FLIP-IN EVENT**

The acquisition by a person (an "Acquiring Person"), including others acting jointly or in concert with such person, of more than 20% of the outstanding common shares, other than by way of a Permitted Bid, a Competing Permitted Bid or in certain other limited circumstances described in the Rights Plan, is referred to as a "Flip-in Event", which is deemed to be effective at the close of business on the 10th business day following the Stock Acquisition Date.

**EXERCISE OF RIGHTS**

Upon the Separation Time or the effective date of a Flip-in Event, whichever comes first, each right (other than those held by the Acquiring Person) will entitle the holder thereof to purchase from the Bank one common share upon payment to the Bank of 50% of the closing price of the common shares of the Bank on The Toronto Stock Exchange on the Stock Acquisition Date subject to certain anti-dilution adjustments.

## PERMITTED BID REQUIREMENTS

The requirements of a Permitted Bid include the following:

1. the takeover bid must be made by means of a takeover bid circular;
2. the takeover bid must be made to all holders of common shares wherever resident, on identical terms and conditions, other than the bidder;
3. the takeover bid must not permit common shares tendered pursuant to the bid to be taken up or paid for (a) prior to the close of business on a date which is not less than 60 days following the date of the bid, and (b) then only if at such date more than 50% of the then outstanding common shares held by shareholders other than any other Acquiring Person, the bidder, the bidder's affiliates or associates, persons acting jointly or in concert with the bidder and any employee benefit plan, deferred profit-sharing plan, stock participation plan or trust for the benefit of employees of the Bank or any of its subsidiaries, unless the beneficiaries of such plan or trust direct the manner in which the common shares are to be voted or direct whether the common shares are to be tendered to a takeover bid (the "Independent Shareholders"), have been deposited or tendered to the takeover bid and not withdrawn;
4. the takeover bid must allow common shares to be deposited, unless the takeover bid is withdrawn, at any time up to the close of business on the date that the common shares are to be first taken up and paid for;
5. the takeover bid must allow common shares to be withdrawn until taken up and paid for; and
6. if more than 50% of the then outstanding common shares of the Bank held by Independent Shareholders are deposited or tendered to the takeover bid and not withdrawn, the bidder must make a public announcement of that fact and the takeover bid must remain open for deposits and tenders of common shares for not less than 10 days from the date of such public announcement.

The Rights Plan allows a competing Permitted Bid (a "Competing Permitted Bid") to be made while a Permitted Bid is in existence. A Competing Permitted Bid must satisfy all the requirements of a Permitted Bid other than the requirements set out in clauses 3 and 6 above and must not permit common shares tendered or deposited pursuant to the bid to be taken up or paid for (a) prior to the close of business on a date which is not earlier than the latter of the last day on which the bid must be open for acceptance after the date of the bid under applicable Canadian provincial securities legislation and the earliest date on which common shares of the Bank may be taken up and paid for under any earlier Permitted Bid or Competing Permitted Bid that is then in existence, and (b) then only if at such date more than 50% of the then outstanding common shares held by the Independent Shareholders have been deposited or tendered to the takeover bid and not withdrawn. In the event that the requirement set forth in (b) of this paragraph is satisfied, the competing bidder must make a public announcement of the fact and the takeover bid must remain open for deposits and tenders of common shares for not less than 10 days from the date of such public announcement.

## WAIVER AND REDEMPTION

The Board may, prior to the occurrence of a Flip-in Event, waive the dilutive effects of the Rights Plan in respect of, among other things, a particular Flip-in Event resulting from a takeover bid made by way of a takeover bid circular to all holders of common shares of the Bank. In such an event, such waiver shall also be deemed to be a waiver in respect of any other Flip-in Event occurring under a takeover bid made by way of a takeover bid circular to all holders of common shares prior to the expiry of the first mentioned takeover bid.

The Board may at any time prior to the Separation Time elect to redeem all but not less than all of the outstanding rights at a price of \$0.001 each.

**AMENDMENT TO THE RIGHTS AGREEMENT**

The Rights Agreement may be amended to correct any clerical or typographical error or to make such changes as are required to maintain the validity of the Rights Agreement as a result of any change in any applicable legislation, regulations or rules thereunder, without the approval of the holders of the common shares or rights. Prior to the Separation Time, the Bank may, with the prior consent of the holders of common shares, amend, vary or delete any of the provisions of the Rights Agreement in order to effect any changes which the Board, acting in good faith, considers necessary or desirable. The Bank may, with the prior consent of the holders of rights, at any time after the Separation Time and before the Expiration Time, amend, vary or delete any of the provisions of the Rights Agreement.

**FIDUCIARY DUTY OF BOARD**

The Rights Plan will not detract from or lessen the duty of the Board to act honestly and in good faith with a view to the best interests of the Bank and its shareholders. The Board will continue to have the duty and power to take such actions and make such recommendations to the Bank's shareholders as are considered appropriate.

**EXEMPTIONS FOR INVESTMENT ADVISORS**

Investment advisors (for fully-managed accounts), trust companies (acting in their capacities as trustees and administrators), statutory bodies whose business includes the management of funds, and administrators of registered pension plans are exempt from triggering a Flip-in Event, provided that they are not making, or are not part of a group making, a takeover bid.

**CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS OF THE RIGHTS PLAN**

The Bank will not be required to include any amount in computing its income for the purposes of the *Income Tax Act* (Canada) (the "ITA") as a result of the issuance of the rights.

Under the ITA, the issuance of rights to a recipient could be considered a taxable benefit, the value of which is required to be included in computing the income of a Canadian resident recipient or is subject to withholding tax in the case of a recipient who is not resident in Canada. In any event, no amount in respect of the value of the rights is required to be included in computing income, or subject to withholding tax, if the rights do not have any value at the date of issue. The Bank considers that the rights will have negligible value when issued, there being only a remote possibility that the rights will ever be exercised. A holder of rights could be required to include an amount in computing income or be subject to withholding tax under the ITA if the rights become exercisable or are exercised. A holder of rights may be subject to tax under the ITA in respect of the proceeds of disposition of such rights.

This statement is of a general nature only and is not intended to constitute nor should it be construed to constitute legal or tax advice to any particular holder of common shares. Such shareholders are advised to consult their own tax advisors regarding the consequences of acquiring, holding, exercising or otherwise disposing of their rights, taking into account their own particular circumstances and any applicable federal, provincial, territorial or foreign legislation.

**ELIGIBILITY FOR INVESTMENT**

Provided that the Bank remains a "public corporation" for purposes of the ITA at all material times, the rights will be qualified investments under the ITA for registered retirement savings plans, registered retirement income funds and deferred profit-sharing plans and, provided certain amendments to the regulations under the ITA are enacted as proposed, registered education savings plans. The issuance of rights will not affect the status of the common shares of the Bank under the ITA for such purposes, nor will it affect the eligibility of such securities as investments for investors governed by certain Canadian federal and provincial legislation governing insurance companies, trust companies and pension plans.

## Removing the limit on the aggregate consideration for which the common shares of the authorized share capital of the Bank may be issued

Management of the Bank recommends voting FOR the special resolution, set out in Schedule E, confirming the resolution of the Board to amend Part 1 of By-law II of the Bank by removing the limit on the aggregate consideration for which the common shares of the authorized share capital of the Bank may be issued and to authorize the Bank to produce any and all relevant documentation to this end for regulatory authorities.

In order to be passed, this special resolution must be approved by no less than two-thirds of the votes cast by holders of common shares present or represented by proxy and able to vote at the Meeting.

This amendment will only take effect after it has been confirmed by the shareholders.

In addition, this amendment is subject to the approval of regulatory authorities.

In the context of the changes that could be brought about by the reform of the legislation governing the ownership of banks, as more fully described in the "Background to the Rights Plan" section, it is appropriate to amend the description of the authorized share capital of the Bank in order to eliminate the maximum consideration for which the common shares may be issued. Part 1 of By-law II of the Bank provides that the Bank is authorized to issue an unlimited number of common shares without par value, which may be issued for an aggregate consideration of not more than \$3 billion or the equivalent thereof in foreign currencies.

At its meeting held on December 14, 2000, the Board passed a resolution amending Part 1 of By-law II of the Bank, relating to the authorized share capital of the Bank, to provide that the Bank may issue an unlimited number of common shares without par value, for such consideration as the directors of the Bank may determine.

## Introduction of a pre-emptive right attaching to common shares

Management of the Bank recommends voting FOR the special resolution, set out in Schedule F, confirming the resolution of the Board to add section 4.4 to By-law II of the Bank so as to introduce a pre-emptive right attaching to common shares and to authorize the Bank to produce any and all relevant documentation to this end for regulatory authorities.

In order to be passed, this special resolution must be approved by no less than two-thirds of the votes cast by holders of common shares present or represented by proxy and able to vote at the Meeting.

This amendment will only take effect after it has been confirmed by the shareholders.

In addition, this amendment is subject to the approval of regulatory authorities.

Management of the Bank believes that it would be appropriate to provide shareholders who wish to maintain the same level of ownership as before the changes that could be brought about by the reform of legislation governing the ownership of banks, as more fully described in the "Background to the Rights Plan" section, with the right to do so.

Therefore, on December 14, 2000, the Board passed a resolution to amend By-law II of the Bank to add section 4.4 which provides for a pre-emptive right in favour of holders of common shares should an issue of common shares result in more than 20% of the voting rights attached to outstanding shares of all classes being held by the same person or same group of persons or that the number of votes attached to any outstanding shares of any class be increased by more than 20%.

## SHAREHOLDER PROPOSALS

**Four proposals made by shareholders were received by the Bank within the time limits prescribed in the *Bank Act*.**

**A translation of the complete text of these proposals is provided in Schedule G of the Circular.**

**Management of the Bank recommends voting AGAINST proposal No. 1 for the reasons set out after the proposal.**

**Management of the Bank recommends voting AGAINST proposal No. 2 for the reasons set out after the proposal.**

**Management of the Bank recommends voting AGAINST proposal No. 3 for the reasons set out after the proposal.**

**Management of the Bank recommends voting AGAINST proposal No. 4 for the reasons set out after the proposal.**

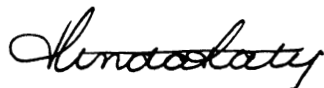
In order to be passed, each of the proposals must be approved by a majority of the votes cast by the holders of common shares present or represented by proxy and able to vote at the Meeting.

## ADDITIONAL INFORMATION

The Bank undertakes to provide to any person, upon request, 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, 2000 with the accompanying auditors' report, a copy of any subsequent quarterly financial statements and a copy of the Circular of the Bank in respect of its most recent Meeting that involved the election of directors. To obtain copies of these documents, send your request to the Corporate Secretary's Office of the Bank, 600 de La Gauchetière West, 4th Floor, Montreal, Quebec, Canada H3B 4L2.

## APPROVAL OF THE BOARD OF DIRECTORS

The Board has approved the contents of this Management Proxy Circular and the mailing thereof to the shareholders.



Linda Caty

Vice-President and Corporate Secretary

Montreal, December 22, 2000

## SCHEDULE A

**Special resolution confirming the resolution of the Board to repeal and replace section 4.1 of By-law I of the Bank so as to reduce the minimum and maximum number of directors of the Bank**

WHEREAS, on October 26, 2000, the Board passed a resolution to repeal and replace section 4.1 of By-law I of the Bank so as to reduce the minimum and maximum number of directors;

WHEREAS such repeal and replacement will only take effect after they have been confirmed by way of a special resolution of the holders of common shares of the Bank;

THEREFORE, ON A MOTION DULY MADE AND SECONDED, IT IS RESOLVED THAT:

The resolution of the Board passed on October 26, 2000 to repeal and replace section 4.1 of By-law I of the Bank so as to reduce the minimum and maximum number of directors of the Bank be confirmed as follows:

“Section 4.1 of By-law I of the Bank be repealed and replaced by the following as of the date it is confirmed by shareholders:

4.1 The Board of Directors shall consist of no less than fifteen (15) and no more than twenty-five (25) directors.

The number of directors to be elected at any annual meeting of shareholders shall be determined by resolution of the Board of Directors prior to the meeting and the directors may, furthermore, at any time provided there is a quorum:

- i) appoint additional directors during the year, within the limits allowed by the Act;
- ii) fill any vacancy within the limits allowed by the Act.”

## SCHEDULE B

### **Resolution approving certain amendments to the Stock Option Plan**

WHEREAS, on December 14, 2000, the Board passed a resolution to amend the Stock Option Plan according to the terms and conditions summarized in the "Amendments to the Stock Option Plan" section of the Circular;

WHEREAS said amendments to the Stock Option Plan will only take effect after they have been confirmed, notably by way of a resolution of the holders of common shares of the Bank;

THEREFORE, ON A MOTION DULY MADE AND SECONDED, IT IS RESOLVED THAT:

The amendments to the Stock Option Plan of the Bank summarized in the "Amendments to the Stock Option Plan" section of the Circular be approved.

## **SCHEDULE C**

### **Resolution approving an increase in the reserve of common shares for issuance under the Stock Option Plan**

WHEREAS, on December 14, 2000, the Board passed a resolution to increase the reserve of common shares for future awards under the Stock Option Plan;

WHEREAS said increase in the reserve will only take effect after it has been confirmed, notably by way of a resolution of the holders of common shares of the Bank;

THEREFORE, ON A MOTION DULY MADE AND SECONDED, IT IS RESOLVED THAT:

The number of common shares of the authorized share capital of the Bank reserved for future awards under the Stock Option Plan of the Bank be increased from 4,998,725 to a total of 18,930,437 common shares, as summarized in the “Increase in the number of shares for issuance under the Stock Option Plan” section of the Circular be approved.

## SCHEDULE D

### **Resolution approving the introduction of a Shareholder Rights Plan**

WHEREAS, on December 14, 2000, the Board approved a Shareholder Rights Plan in the event an acquisition or takeover bid or exchange offer is made with respect to the common shares of the Bank;

WHEREAS this Plan must also be approved by way of a resolution of the holders of common shares of the Bank;

THEREFORE, ON A MOTION DULY MADE AND SECONDED, IT IS RESOLVED THAT:

The Shareholder Rights Plan evidenced by the shareholder rights agreement (the "Rights Agreement") entered into between the Bank and General Trust of Canada as Rights Agent, substantially as described in the Circular, be approved;

Any two officers of the Bank be authorized for and on behalf of the Bank to date the Rights Agreement the date hereof and to execute and deliver the Rights Agreement with such changes, if any, as they in their discretion may approve, their approval of any such changes shall be conclusively evidenced by their execution;

Any officer or director of the Bank be authorized and directed on behalf of the Bank to sign and execute all documents, to conclude any agreements and to do and perform all acts and things deemed necessary or advisable in order to give effect to this resolution, including compliance with all securities laws and regulations;

The Board be hereby authorized to cause all measures to be taken, such further agreements to be entered into and such further documents to be executed as may be deemed necessary or advisable to give effect to and fully carry out the intent of this resolution.

## SCHEDULE E

**Special resolution confirming the resolution of the Board to amend Part 1 of By-law II of the Bank by removing the limit on the aggregate consideration for which the common shares of the authorized share capital of the Bank may be issued**

WHEREAS as a consequence of the adoption of the Shareholder Rights Plan, the Board in a resolution dated December 14, 2000 deemed it advisable to make certain amendments to the share capital of the Bank, namely, to remove the limit on the aggregate consideration for which common shares of the Bank may be issued;

WHEREAS said amendments will only take effect after they have been confirmed by way of a special resolution of the holders of common shares of the Bank;

THEREFORE, ON A MOTION DULY MADE AND SECONDED, IT IS RESOLVED THAT:

The resolution of the Board of December 14, 2000 to amend Part 1 of By-law II of the Bank by removing the limit on the aggregate consideration for which common shares of the authorized share capital of the Bank may be issued be confirmed as follows:

“Part 1 of By-law II of the Bank, being the description of the authorized share capital, is amended by removing the expression, with respect to the common shares, “which may be issued for an aggregate consideration of not more than three billion dollars (\$3,000,000,000) or the equivalent thereof in foreign currencies” and replacing said expression by “which may be issued for such consideration as the Directors of the Bank may determine.”, so that said Part 1 reads as follows:

‘1. Authorized Share Capital

The authorized share capital of the Bank shall consist of an unlimited number of First Preferred Shares, without par value, which may be issued for an aggregate consideration of not more than one billion dollars (\$1,000,000,000) or the equivalent thereof in foreign currencies; fifteen million (15,000,000) Second Preferred Shares, without par value, which may be issued for an aggregate consideration of not more than three hundred million dollars (\$300,000,000) or the equivalent thereof in foreign currencies; and an unlimited number of Common Shares, without par value, which may be issued for such consideration as the Directors of the Bank may determine.’ ”

Any officer or director of the Bank be authorized to sign all documents and to do and perform all acts and things deemed necessary or advisable to give full effect to this resolution, including obtaining the approval of regulatory authorities.

## SCHEDULE F

### **Special resolution confirming the resolution of the Board to add section 4.4 to By-law II of the Bank so as to introduce a pre-emptive right attaching to common shares**

WHEREAS, on December 14, 2000, the Board passed a resolution amending the rights attaching to the common shares of the share capital of the Bank to provide in certain cases a pre-emptive right in favour of the holders of common shares;

WHEREAS said amendment will only take effect after it has been confirmed by a special resolution of the holders of common shares of the Bank;

THEREFORE, ON A MOTION DULY MADE AND SECONDED, IT IS RESOLVED THAT:

The resolution of the Board of December 14, 2000 to add section 4.4 to By-law II of the Bank be confirmed as follows:

“By-law II, being the by-law relating to the share capital of the Bank, is amended by the addition of section 4.4 under Part 4 of said by-law, namely:

#### 4.4 Pre-emptive Right

Where the issue of common shares would result in either (i) a person, alone or jointly with an affiliate, acquiring more than 20% of the votes attaching to outstanding shares of any class, or (ii) the voting rights attaching to all outstanding shares of any class being increased by more than 20%, the holders of common shares shall have a pre-emptive right to acquire shares to be issued in proportion to their holdings of shares of said class. This pre-emptive right shall be at the same price, terms and conditions as those of the shares to be issued.

An offer of shares under the first paragraph shall be sent to each holder of common shares and shall provide for a date not earlier than the thirtieth day after the day on which the offer is sent, as determined by the Directors, by which the offer is to be accepted by the holders.

This pre-emptive right may be exercised in whole or in part and it is not transferable. Should the holders of common shares not subscribe to the number of shares to which they are entitled and in accordance with the offer, the Bank shall have the right to issue same, or the balance thereof, if any, at its entire discretion.

The Board may make such arrangements as it deems necessary to carry out the intent of this section and, in particular, may:

a) require any person, in whose name a share of the Bank is held to submit a declaration setting out:

- (i) the beneficial ownership of the share, and
- (ii) such other information as it deems relevant for the purposes of this section;

b) require any person who wishes to have a transfer of a share registered in the name of, or to have a share issued to, that person, to submit a declaration referred to in sub-section a) as though the person were the holder of that share; and

c) determine the circumstances in which a declaration referred to in sub-section a) is to be required, the form of the declaration and the times at which it is to be submitted.

Where, pursuant to this section, a declaration is required to be submitted by a shareholder or other person representing said shareholder in respect of the issue or transfer of any share, the Bank may refuse to issue the share or register the transfer unless the required declaration is submitted.

The Bank, its Directors, officers, employees or agents may rely on any information contained in a declaration required by the Directors pursuant to this section or on any information otherwise acquired in respect of any matter that might be the subject of such a declaration, and no action lies against the Bank or any such person for anything done or omitted to be done in good faith in reliance on any such information.’”

Any officer or director of the Bank be authorized to sign all documents and to do and perform all acts and things deemed necessary or advisable to give full effect to this resolution, including obtaining the approval of regulatory authorities.

## SCHEDULE G

### Shareholder Proposals

Proposals 1 through 3 were submitted to the management of the Bank by The Association for the Protection of Quebec Savers and Investors, a shareholder, located at 425 de Maisonneuve West, Suite 1002, Montreal, Quebec H3A 3G5.

Proposal 4 was submitted to the management of the Bank by Jean Pichon, a shareholder, residing at 506 Huberdeau, Laval, Quebec, H7X 1P7.

## PROPOSAL NO. 1

### PROPOSAL AND STATEMENT OF SHAREHOLDER

#### Independence of external auditors

*It is proposed that National Bank of Canada amend its by-laws to read that it shall not have any business relationship, other than for audit purposes, with the firm(s) acting as its external auditor(s). This restriction extends to all entities linked to the firm or belonging to the same group as the firm.*

Appointed by shareholders, the external auditors have a responsibility, as guarantors of the integrity of the financial statements, to safeguard the interests of those they represent. Their independence vis-à-vis management and the board of directors must be absolute and above all suspicion. Accounting firms which provide both audit services and other related services, whether directly or through related entities, place themselves in a real or potential conflict of interest situation. Combining several mandates jeopardizes the integrity of the audit process which is all the more worrisome as the contracts for other services are often larger and more profitable than the audit mandate.

Referring to large accounting firms in the United States, Securities and Exchange Commission Chairman Arthur Levitt “accused the industry’s biggest players of abdicating their responsibility to the public trust” and called upon “smaller accounting firms to stand up for the integrity of their profession” (CBS MarketWatch, Sept. 18, 2000).

It is in the interest of institutional investors, pension fund managers, mutual fund managers and individual shareholders that the board of directors strongly recommend the adoption of this proposal.

### BANK’S POSITION

The Bank requires the services of two recognized accounting firms to conduct an objective and rigorous external audit. While respecting accepted independence rules, it may also call on these same firms to provide consulting services. The Audit Committee of the Board, which is comprised solely of non-executive directors, ensures the independence of the external auditors and reviews their mandates and fees on an annual basis. Moreover, the fees paid to the accounting firms used by the Bank are disclosed in the Circular.

Furthermore, accounting firms must comply with the provisions of the *Bank Act*, applicable securities legislation and their own code of professional conduct. In the United States, the Securities and Exchange Commission, which has no authority over the Bank, recently adopted new guidelines authorizing accounting firms to offer their clients audit services as well as certain consulting services, subject to certain requirements, notably, that clients disclose the fees paid to accounting firms for such services. The Ontario Securities Commission, for its part, is currently studying this issue but has yet to make any recommendations in this regard. It is not for us to presume to anticipate its conclusions.

With their knowledge of the Bank’s structure and operations, and those of corporations in general, accounting firms can help the Bank to improve its management processes and thereby achieve a better return, which benefits all shareholders.

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

## PROPOSAL NO. 2

### PROPOSAL AND STATEMENT OF SHAREHOLDER

#### Stock option plans tied to performance

*It is proposed that National Bank of Canada adopt, for all stock option plans (and similar long-term incentive mechanisms), the principle of an exercise price tied to changes in the price of shares for its particular sector*

Stock option plans have led to executive officers of companies listed on the stock exchange receiving exorbitant sums. This escalation in the remuneration of the managerial elite ties in with the run-up that stock markets have experienced in recent years. Sustained economic growth in the United States has enabled most firms to record earnings that have driven up stock markets. The strong performance of stocks is not solely attributable to exceptional management by officers but often to favourable **external** factors. Officers have therefore benefitted from factors **extraneous** to their management. Many have reaped millions, and even tens of millions, for just watching time go by! This proposal from The Association for the Protection of Quebec Savers and Investors seeks to amend the plans currently in place to ensure that they serve their purpose of rewarding officers who deliver performances and results to shareholders that exceed the average for their sector of activity. Comparing officers' performances and results to those of a comparison group will make it possible to eliminate the influence of most external factors and to take into account the specific conditions and challenges faced by each officer.

#### **BANK'S POSITION**

The proposal that options be based on an exercise price that is tied to changes in the price of shares in the company's sector of activity is founded on the assumption that officers have little or no impact on the long-term growth of the Bank. According to this view, economic conditions would have a greater bearing on the Bank's performance than the quality of its management. It also implies that the compensation of officers should not take into account the long-term performance of the Bank.

The Bank is of the opinion that officers are paid in line with the comparison market, that their short- and long-term bonuses are a function of the Bank's results and that their expertise is crucial in generating value for shareholders. The Bank's compensation policy is designed to attract and retain the most talented employees in what is a fiercely competitive labour market and the Stock Option Plan is an essential component of this policy. Under the current Plan, a major part of officers' compensation is tied to the wealth created for shareholders. The Plan is designed in such a way that the annual award of options does not allow for unfettered one-time gains and the Bank's overall compensation policy is compared not only to that of the financial sector but to that of other large Canadian corporations as well.

This shareholder proposal does not constitute an appropriate mechanism because it would hamper the Bank's ability to attract and retain high calibre resources without in any way better serving the interests of shareholders. Moreover, if a company were to adopt such a long-term incentive program, it would also have to increase the size of the awards to maintain its total compensation package at a competitive level which, in turn, would result in greater share dilution.

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

## PROPOSAL NO. 3

### PROPOSAL AND STATEMENT OF SHAREHOLDER

#### Representativeness of the board of directors

*It is proposed that the by-laws of National Bank of Canada be amended to adopt the method of cumulative voting in accordance with the terms set out in legislation.*

Decision-making powers in large corporations are exercised on a day-to-day basis by management while the board of directors fulfills a supervisory role aimed at ensuring that management acts in the best interest of shareholders and the corporation. It is essential that the board of directors enjoy a reasonable measure of independence from management **and that its composition reflect the pluralism and diversity of shareholders**. It is far from clear that a “homogeneous” board, extolled by management and at risk of becoming a body that blindly ratifies management’s decisions, is in the interest of shareholders and the corporation. Electing directors by cumulative voting would temper the sometimes undue influence of large shareholders and management on the functioning of the board of directors. It is an effective means of improving the representativeness of the board of directors and of better protecting the interests of minority, institutional and individual shareholders. In order to achieve this objective of reinforcing the board of directors’ support and supervisory role with respect to management’s activities, The Association for the Protection of Quebec Savers and Investors proposes that the election of directors be conducted by way of cumulative voting.

#### **BANK’S POSITION**

Cumulative voting gives each shareholder a number of votes equal to the number of common shares held multiplied by the number of directors to be elected. The shareholder may cast all such votes in favour of one or more specific candidates instead of using the votes to elect the entire slate of proposed directors.

Very few corporations elect directors by way of cumulative voting. It is sometimes used to ensure representation for minority shareholders when the corporation is held by a majority shareholder. However, when a corporation is held solely by minority shareholders, as is the case at the Bank, there is no reason for cumulative voting. In fact, this method could, in certain instances, lead to one or several directors being elected by groups of shareholders looking to protect their particular interests. Directors elected in this way could then promote the positions of these interest groups, without necessarily taking the interest of all shareholders into account.

The Bank deems it preferable that each director be elected to watch over the interests of all shareholders. Moreover, it should be pointed out that since 1999, shareholders can vote on each individual nominee proposed as director using the form of proxy.

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

**PROPOSAL NO. 4****PROPOSAL OF SHAREHOLDER**

**It is proposed that “half, i.e. 50%, of the declared earnings per share be granted to shareholders of the National Bank.**

It is primarily senior citizens, of which I am one, who hold shares in the Bank either directly or indirectly via pension funds, who own the National Bank which you preside over, and who rely on dividend income to finance their retirement years, not to speculate.”

**BANK'S POSITION**

The Bank's dividend policy seeks to give shareholders a competitive return while retaining capital to ensure the institution's future growth. The earnings reinvested in the Bank are a source of Tier 1 capital, which is required to maintain the capital ratios set by regulatory authorities.

It should be noted that the dividend paid by the Bank is comparable to the average dividend paid by the other major Canadian banks. For the financial year ended October 31, 2000, the five major Canadian banks paid out an average of 32% of their available earnings as dividends while the Bank paid out 29% of its available earnings as dividends to its holders of common shares. Moreover, the dividend return, namely, the annualized dividend per share divided by the closing price of shares, was 3.01% for the National Bank as at October 31, 2000 compared to 2.46% for the five major Canadian banks.

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

**Head Office:**

**National Bank Tower  
600 de La Gauchetière West  
Montreal, Quebec  
Canada H3B 4L2**

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