

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

**MARCH 13, 2002**

**MANAGEMENT PROXY CIRCULAR**



January 24, 2002

**Dear Shareholder,**

We are pleased to invite you to attend the Annual Meeting of Shareholders of National Bank of Canada which will be held on Wednesday, March 13, 2002 at 9:30 a.m., at The Queen Elizabeth Hotel, 900 René-Lévesque Blvd. West, Montreal, Quebec.

At this Meeting, you will have an opportunity to take due note of certain information about the Bank and you will be called upon to vote on the business set out in the Notice of Annual Meeting.

We also invite you to consult the attached Management Proxy Circular which contains important information, in particular, about the exercise of your voting rights.

Sincerely,

A handwritten signature in black ink, appearing to be 'A. Bérard', written over a circular scribble.

André Bérard  
Chairman of the Board and  
Chief Executive Officer



#### **NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

**DATE:** Wednesday, March 13, 2002

**TIME:** 9:30 a.m.

**PLACE:** The Queen Elizabeth Hotel  
Le Grand Salon  
900 René-Lévesque Blvd. West  
Montreal, Quebec

#### **BUSINESS OF THE ANNUAL MEETING OF SHAREHOLDERS**

1. To receive the consolidated financial statements for the financial year ended October 31, 2001 and the auditors' report thereon
2. To elect directors
3. To consider and, if thought fit, to confirm by special resolution an amendment to section 4.6 of By-Law I in order to increase the aggregate remuneration which may be paid to all directors of National Bank of Canada (the "Bank") during each financial year (the special resolution is presented in the "Business of the Meeting" section of the Management Proxy Circular (the "Circular"))
4. To appoint auditors
5. To consider the shareholder proposal set out in Schedule A of the Circular, and
6. 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 p.m. Eastern Standard Time (EST) on January 23, 2002 are entitled to receive the Notice of Annual Meeting of Shareholders.

On that date, 190,497,751 common shares of the Bank were issued and outstanding. Each holder of common shares of the Bank is entitled to cast one vote per share held, unless restricted in the *Bank Act*.

By Order of the Board of Directors,

A handwritten signature in black ink, appearing to read 'Linda Caty', followed by a period.

**Linda Caty**  
Vice-President and Corporate Secretary

Montreal, January 24, 2002

**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. Proxies may be returned by mail in the postage-paid envelope provided to National Bank Trust Inc., Share Ownership Management, P.O. Box 888, Station B, Montreal, Quebec H3B 9Z9 or sent by fax to (514) 871-3673. In order to be valid, the form of proxy must reach National Bank Trust Inc. no later than 5 p.m. EST on March 11, 2002.**

**Shareholders with questions regarding the Circular, the form of proxy or the vote may call 1-800-890-1037 for service in English or 1-888-890-2933 for service in French.**

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## MANAGEMENT PROXY CIRCULAR

as at January 24, 2002 (except as otherwise indicated)

### SECTION I – VOTING 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 Meeting of Holders of Common Shares of the Bank (the “Meeting”) to be held on Wednesday, March 13, 2002, at 9:30 a.m., at The Queen Elizabeth Hotel, Le Grand Salon, located at 900 René-Lévesque Blvd. West, Montreal, Quebec, and at any continuation thereof after an adjournment. The solicitation of proxies will be done by mail, electronically, by telephone or in person. Employees, officers, directors or agents of the Bank will solicit the proxies. 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 \$31,000. The costs incurred in this regard will be borne by the Bank.

#### VOTING COMMON SHARES

Holders of common shares listed in the register of the Bank at 5 p.m. Eastern Standard Time (EST) on January 23, 2002 or their duly authorized attorneys are entitled to receive the Notice of Annual Meeting and to vote at the Meeting. Persons who acquire such shares after that date must request, no later than 10 days before the Meeting, that their name be listed in the register of the Bank to be entitled to vote. To do so, they must contact National Bank Trust Inc. by writing to National Bank Trust Inc., Share Ownership Management, P.O. Box 888, Station B, Montreal, Quebec H3B 9Z9, or by calling one of the following numbers: 1-800-341-1419 or (514) 871-7171.

On January 23, 2002, the date the registers of the Bank were closed, 190,497,751 common shares of the Bank were issued and outstanding.

Each holder of common shares is entitled to cast one vote per share held. However, the *Bank Act* (the “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.

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.

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

#### 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 Meeting, complete the request for voting instructions sent by the broker or other intermediary and, if they wish to vote in person, insert their name as the proxyholder.

#### APPOINTMENT OF PROXYHOLDERS

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 thereof. A proxyholder is not required to be a shareholder of the Bank. In order to be valid, the form of proxy must be returned by mail in the postage-paid envelope provided to National Bank Trust Inc., Share Ownership Management, P.O. Box 888, Station B, Montreal, Quebec H3B 9Z9, or by fax to (514) 871-3673, no later than 5 p.m. EST on March 11, 2002.

## SECTION I – VOTING INFORMATION (cont.)

### 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 by voting as follows:**

- **FOR** the election of all nominees proposed as director by the management of the Bank;
- **FOR** the amendment to section 4.6 of By-Law I of the Bank in order to increase the aggregate remuneration which may be paid to all directors of the Bank during each financial year;
- **FOR** the appointment of auditors;
- **AGAINST** the shareholder proposal set out in Schedule A of the Circular.

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

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

As at the date hereof, management of the Bank knows of no amendments or other matters which may properly come before the Meeting.

### REVOCAION OF PROXIES

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

- 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
- the secretary of the Meeting on the day of the Meeting or any continuation thereof after an adjournment.

### CONFIDENTIALITY OF VOTES

In order to protect the confidential nature of voting by proxy, the votes exercised by proxy are received and compiled for the Meeting by National Bank Trust Inc., the transfer agent and registrar of the Bank. National Bank Trust Inc. submits a copy of the form of proxy to the Bank only when a shareholder clearly wishes to express a personal opinion to management or when it is required for legal reasons.

## SECTION II – BUSINESS OF THE MEETING

### FINANCIAL STATEMENTS AND AUDITORS' REPORT

The consolidated financial statements of the Bank for the financial year ended October 31, 2001 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.

### ELECTION OF DIRECTORS

Management of the Bank recommends voting FOR the election of all the nominees to the Board listed in the following table<sup>(1)</sup>.

(1)

- Common shareholdings: Include common shares beneficially owned, controlled or directed.
- Deferred stock units: For more information regarding deferred stock units ("DSUs"), please refer to the "Forms of Remuneration of Directors of the Bank" section of the Circular.
- (ARM): Member of the Audit and Risk Management Committee. On March 7, 2001, the responsibilities of the Credit Committee and the Audit Committee were assigned to this new committee. For more information, please refer to the "Committees of the Board" section in Schedule C of the Circular.
- (G): Member of the Conduct Review and Corporate Governance Committee.
- (HR): Member of the Human Resources Committee.

## NOMINEES FOR ELECTION AS DIRECTORS

### **ANDRÉ BÉRARD** **Île-des-Sœurs, Verdun, Quebec**

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.

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.



**Director since:**  
July 1985

**Common shareholdings:**  
116,751

### **LAWRENCE S. BLOOMBERG** **Toronto, Ontario**

Special advisor to National Bank Financial Inc., where he served as Co-Chairman of the Board and Co-Chief Executive Officer from October 1999 to October 2000. 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.

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.



**Director since:**  
August 1999

**Common shareholdings:**  
873,068

### **PIERRE BOURGIE** <sup>(ARM) (G)</sup> **Outremont, Quebec**

President and Chief Executive Officer of Société Financière Bourgie Inc., a diversified investment company, and President of Partenaires de Montréal, a merchant bank specialized in business financing. Mr. Bourgie is actively involved in a number of economic, community and cultural organizations, such as the *Musée d'art contemporain de Montréal*, of which he is Chairman of the Board.

Mr. Bourgie is a member of the Board of Directors of National Bank Trust Inc.

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.



**Director since:**  
March 1998

**Common shareholdings:**  
103,805

### **GÉRARD COULOMBE** <sup>(HR)</sup> **Sainte-Marthe, Quebec**

Senior Partner of Desjardins Ducharme Stein Monast, General Partnership, where he practises business law and was appointed Chairman of the Board in 2000. Mr. Coulombe is also Chairman Emeritus of Lex Mundi Ltd., a global association of more than 150 independent law firms. He was formerly with the federal Department of Finance where he was responsible for negotiating international tax treaties.

Mr. Coulombe sits on the boards of FMI Acquisition Inc., National Bank Life Insurance Company and National Bank Group Inc.

Mr. Coulombe has vast expertise in business management and corporate law, especially 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.



**Director since:**  
February 1994

**Common shareholdings:**  
3,468

**Deferred stock units:**  
3,924

**ELECTION OF DIRECTORS (cont.)**

**NOMINEES FOR ELECTION AS DIRECTORS (cont.)**

**FRANÇOIS J. COUTU** <sup>(ARM)</sup> <sup>(HR)</sup>  
**Outremont, Quebec**

President and Chief Operating Officer of The Jean Coutu Group (PJC) Inc. since 1990, a franchisor of a chain of pharmacies, which distributes pharmaceutical and other products. From 1987 to 1990, Mr. Coutu held the positions of Vice-President – Operations and Marketing and Executive Vice-President – Pharmacies and Public Affairs in the Group. A pharmacist by profession, Mr. Coutu owns pharmacies in the Jean Coutu chain. He sits on the board of directors of several organizations in Canada and the United States.

Mr. Coutu is a member of the Board of Directors of National Bank Life Insurance Company.

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.



**Director since:**  
January 1993

**Common shareholdings:**  
5,595

**BERNARD CYR**  
**Moncton, New Brunswick**

President of Cyr Holdings Inc., a holding company in the hotel, commercial real estate, restaurant and entertainment sectors, since 1986, and President of Dooly's Inc., a franchisor in the entertainment industry, since 1993. Mr. Cyr serves on the boards of several companies and currently chairs the development committee for the *Université de Moncton*, his alma mater. He was a member of the Bank's business development committee in Atlantic Canada from 1996 to 2001.

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



**Director since:**  
August 2001

**Common shareholdings:**  
3,195

**SHIRLEY A. DAWE** <sup>(G)</sup> <sup>(HR)</sup>  
**Toronto, Ontario**

President of Shirley Dawe Associates Inc., a Toronto-based consulting company specializing in retail and consumer brand management and marketing, since 1986. From 1969 to 1985, Ms. Dawe held progressively senior executive positions with a national department store group.

Her wide experience brought her to academic, not-for-profit boards and to public sector task forces. Ms. Dawe sits on the board of directors of several companies in Canada and the United States. She co-authored a definitive study of international e-retailing for a Canadian university.

Ms. Dawe brings to the Board a deep understanding of consumer trends and winning business strategies in the retail industry.



**Director since:**  
July 1988

**Common shareholdings:**  
3,000  
**Deferred stock units:**  
1,056

**NICOLE DIAMOND-GÉLINAS** <sup>(ARM)</sup>  
**Saint-Barnabé-Nord, Quebec**

Since 1976, Vice-President and General Manager of Aspasia Inc., a manufacturer of colour charts, and President of Plastifill Inc., a company specialized in plastic extrusion and injection. Ms. Diamond-Gélinas also heads a company specializing in the sale, leasing and servicing of motor vehicles. Actively involved in her region's business community, she is a member of the *Chambre de commerce de Trois-Rivières* and was a member of the Mauricie business development committee of the Bank from 1992 to 1998.

Ms. Diamond-Gélinas was a member of the Board of Directors of Natcan Trust Company until December 2001.

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.



**Director since:**  
March 1998

**Common shareholdings:**  
18,168

**JEAN DOUVILLE** <sup>(ARM)</sup>

**Île-des-Soeurs, Verdun, Quebec**

Chairman of the Board 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. He also sits on the board of directors of various Canadian and U.S. companies.

Mr. Douville is a member of the Board of Directors of National Bank Life Insurance Company and National Bank Financial & Co. Inc.

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.



**Director since:**  
November 1991

**Common shareholdings:**  
4,564

**Deferred stock units:**  
4,164

**MARCEL DUTIL** <sup>(HR)</sup>

**Outremont, Quebec**

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.

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.



**Director since:**  
January 1982

**Common shareholdings:**  
88,418

**Deferred stock units:**  
1,622

**JEAN GAULIN**

**San Antonio, Texas, United States**

Corporate Director. Mr. Gaulin was Chairman, President and Chief Executive Officer of Ultramar Diamond Shamrock Corporation from January 1, 2000 to January 1, 2002. In 1996, following the merger of Ultramar Corporation and Diamond Shamrock Inc., he was named Vice-Chairman, President and Chief Operating Officer of Ultramar Diamond Shamrock. Prior to the merger, he was Chairman and Chief Executive Officer of Ultramar Corporation. He serves on the board of directors of various companies and is involved with charitable organizations.

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



**Director since:**  
October 2001

**Common shareholdings:**  
3,000

**PAUL GOBEIL** <sup>(ARM) (G)</sup>

**Île-des-Soeurs, Verdun, Quebec**

Since 1990, Vice-Chairman of the Board of Métro Inc., Chairman of the Board of Export Development Canada, and Co-Chairman of the Board of EADS Canada Inc. Mr. Gobeil has been a Member of the *Ordre des comptables agréés du Québec* since 1965 and a Fellow since 1986. From 1973 to 1985, he held a number of executive positions at Provigo 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. He is currently Chairman of the Board of the *Université de Sherbrooke*.

Mr. Gobeil is a member of the Board of Directors of National Bank Life Insurance Company.

Mr. Gobeil is an invaluable asset to the Board in terms of corporate governance, financial and accounting management, and corporate strategy.



**Director since:**  
February 1994

**Common shareholdings:**  
10,000

**Deferred stock units:**  
6,443

**ELECTION OF DIRECTORS (cont.)**

**NOMINEES FOR ELECTION AS DIRECTORS (cont.)**

**SUZANNE LECLAIR <sup>(ARM)</sup>**

**Île-des-Soeurs, Verdun, Quebec**

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 is also actively involved in a number of committees for economic, cultural and charitable organizations.

Ms. Leclair was a member of the Board of Directors of Natcan Trust Company until December 2001.

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.



**Director since:**  
July 1989

**Common shareholdings:**  
9,643

**BERNARD LEMAIRE**

**Kingsey Falls, Quebec**

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, and has developed expertise in the field of energy. Frequently honoured for his managerial skills, Mr. Lemaire ranks among Quebec's top business leaders.

Mr. Lemaire brings to the Board proven management and business development skills as well as extensive business experience.



**Director since:**  
October 1983

**Common shareholdings:**  
10,000

**ROBERT PARIZEAU <sup>(G) (HR)</sup>**

**Montreal, Quebec**

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. Mr. Parizeau is also Chairman of the Board of Gaz Métropolitain Inc., a carrier and distributor of natural gas, Chairman of the Board of the Corporation of the Clinical Research Institute of Montréal and a director of various other companies.

Mr. Parizeau is a member of the Board of Directors of National Bank Financial & Co. Inc.

As President and Chief Executive Officer of Sodarcan 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.



**Director since:**  
December 1978

**Common shareholdings:**  
10,073

**Deferred stock units:**  
6,543

**E.A. (DEE) PARKINSON-MARCOUX <sup>(HR)</sup>**

**Canmore, Alberta**

Since November 2001, Consultant with Southern Pacific Petroleum, an oil-producing company. An engineer by training, Ms. Parkinson-Marcoux's previous positions include President and Chief Executive Officer of Ensyn Energy from 1999 to 2001, 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 companies in the energy, natural resources and engineering sectors.

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.



**Director since:**  
March 2000

**Common shareholdings:**  
2,000

**Deferred stock units:**  
2,225

**RÉAL RAYMOND**  
**Île-des-Sœurs, Verdun, Quebec**

President and Chief Operating Officer of National Bank of Canada since July 2001. 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 Inc., 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. In November 1999, he was named President – Personal and Commercial Bank. He is involved in many professional and community organizations as well as the *Université du Québec*, where he obtained his MBA.

Mr. Raymond is Chair or member of the boards of National Bank Life Insurance Company, National Bank Group Inc. and National Bank Trust Inc.

Mr. Raymond brings to the Board his varied expertise in banking as well as an in-depth understanding of business operations and strategies in several sectors of activity.



**Director since:**  
November 1999

**Common shareholdings:**  
13,386

**ROSEANN RUNTE**  
**Norfolk, Virginia, United States**

President of Old Dominion University in Norfolk, Virginia since July 2001. Ms. Runte also served as President of Victoria University in Toronto from 1994 to 2001. She has a Ph.D. in French from the University of Kansas. She is the author of many books and articles, especially on education and economic and cultural development. Ms. Runte is Assessor Member of the Council of the Royal College of Physicians and Surgeons of Canada; she is a member of the executive committee of the Club of Rome and was recently appointed to the board of the Virginia Advanced Ship Building Information Carrier Design Center. In the past, she sat on various boards of directors in the literary, cultural and economic development sectors, and served as the President of the Canadian Commission for UNESCO from 1992 to 1996. She also served on the board of Expo 2000 in Germany.

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



**Director since:**  
April 2001

**Common shareholdings:**  
2,000

**Deferred stock units:**  
535

**JEAN TURMEL**  
**Outremont, Quebec**

President – Financial Markets, Treasury and Investment Bank of National Bank of Canada. After working at various securities companies, 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.

Mr. Turmel is a member of the boards of National Bank Financial & Co. Inc., National Bank Financial Inc., National Bank Financial Ltd., Natcan Investment Management Inc., National Bank Group Inc. and FMI Acquisition Inc.

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, he has a thorough grasp of the Bank's decision-making processes and strategies in specialized fields.



**Director since:**  
September 1998

**Common shareholdings:**  
43,206

**Deferred stock units for officers:<sup>(1)</sup>**  
57,896

**DENNIS WOOD <sup>(6)</sup>**  
**Magog, Quebec**

Chairman, President and Chief Executive Officer of Dennis Wood Holdings Inc. In tandem with his responsibilities with Dennis Wood Holdings, Mr. Wood has pursued many opportunities; the most noted of late (from 1989 to 2001) as Chairman, President and Chief Executive Officer of C-MAC Industries Inc., a multinational industrial group and world leader in designing and manufacturing components and integrated electronic systems for high-tech markets. After the merger of C-MAC Industries and Soletron Corporation in December 2001, Mr. Wood accepted a seat on Soletron's Board of Directors as well as Chair of their Strategy Committee. In addition to these directorships, Mr. Wood sits on a number of public and private companies' boards, in various fields ranging from high-tech and manufacturing to financial and cultural organizations.

Mr. Wood is a member of the Board of Directors of National Bank Trust Inc.

Mr. Wood brings to the Board solid expertise in the high-tech sector and extensive experience in developing international markets.



**Director since:**  
March 2001

**Common shareholdings:**  
6,884

(1) For more information, please refer to the "Total Compensation of Named Executive Officers" section of the Circular.

**SECTION II – BUSINESS OF THE MEETING (cont.)**

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 his or her position is vacated, whichever event occurs first.

The number of meetings held by the Board and its committees as well as the attendance of directors at these meetings are presented in the form of tables in Schedule B of the Circular.

Since the last annual meeting of shareholders of the Bank, three persons were appointed to the Board of the Bank, namely, Roseann Runte in April, Bernard Cyr in August and Jean Gaulin in October 2001.

J.-Robert Ouimet will not be standing for re-election as he has reached the retirement age specified in the corporate governance rules of the Bank. Pierre Beaudoin resigned on October 16, 2001.

**AMENDMENT TO SECTION 4.6 OF BY-LAW I – AGGREGATE REMUNERATION OF DIRECTORS**

As set out in section 4.6 of By-Law I of the Bank, the aggregate remuneration which may be paid to all directors of the Bank during each financial year may not exceed the aggregate sum of \$900,000.

Although this amount has not changed for the past 13 years, the workload of directors has significantly risen over the same period because of, inter alia, the increased regulatory requirements the Bank must respect. Consequently, the directors of the Board and the members of its committees must hold more meetings in order to discharge their responsibilities.

The Bank therefore deems it appropriate to increase the aggregate remuneration which may be paid to all directors of the Board of the Bank in their capacity as directors during each financial year to \$1,300,000.

Consequently, on December 20, 2001, the Board adopted a resolution which, subject to its approval by the holders of common shares by way of a special resolution, amends section 4.6 of By-Law I of the Bank so that it now stipulates that the aggregate remuneration which may be paid to all directors of the Bank during each financial year may not exceed the aggregate sum of \$1,300,000.

The Bank recommends to the shareholders that they vote **FOR** the amendment to section 4.6 of By-Law I of the Bank.

In order to be adopted, 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.

The special resolution reads as follows:

WHEREAS the Board adopted on December 20, 2001 a resolution to amend section 4.6 of By-Law I of the Bank to increase the aggregate remuneration which may be paid to all directors of the Bank during each financial year;

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

Therefore, on a motion duly made and seconded, it is resolved that:

Section 4.6 of By-Law I of the Bank be amended by removing the amount of \$900,000 and replacing it with the amount of \$1,300,000 so that section 4.6 of By-Law I reads as follows:

*“Section 4.6 – Remuneration of Directors*

*Each director shall receive remuneration as determined by the Board of Directors, from time to time, by resolution and shall be entitled to be reimbursed for the fees and expenses incurred by him in the performance of his duties. The aggregate remuneration which may be paid to all directors of the Bank in their capacity as directors during each financial year of the Bank may not exceed the aggregate sum of one million three hundred thousand dollars (\$1,300,000). A full-time officer who is a member of the Board of Directors may receive no remuneration as a director or member of a committee of the Board of Directors.”*

Any officer or director of the Bank be authorized to sign all documents and take all the measures deemed necessary or advisable to give full effect to this resolution.

### APPOINTMENT OF AUDITORS

Management of the Bank recommends voting **FOR** the appointment of the accounting firms Samson Bélair/Deloitte & Touche, General Partnership, and PricewaterhouseCoopers LLP as auditors of the Bank for the financial year beginning November 1, 2001 and ending October 31, 2002.

In the past five financial years, Samson Bélair/Deloitte & Touche, General Partnership, acted as auditor of the Bank in 1997, 1998, 2000 and 2001, and PricewaterhouseCoopers LLP acted as auditor of the Bank in 1997, 1999 and 2000.

In order to be adopted, the proposal regarding 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 entitled to vote at the Meeting.

### REMUNERATION OF AUDITORS

During the financial year ended October 31, 2001 the fees paid by the Bank to Samson Bélair/Deloitte & Touche, General Partnership, and Arthur Andersen & Cie, General Partnership, for the audit services rendered to the Bank and its subsidiaries amounted to \$694,737 and \$452,235, respectively. The fees paid to these same accounting firms for other services, such as those relating to information technology, taxation and the issue of prospectuses, amounted to \$3,848,615 and \$3,482,967, respectively. In addition, fees of \$1,635,122 were paid to PricewaterhouseCoopers LLP for services other than Bank audit services.

### SHAREHOLDER PROPOSAL

One proposal made by a shareholder was received by the Bank within the time limits prescribed in the Act. A translation of the complete text of this proposal is provided in Schedule A of the Circular.

Management of the Bank recommends voting **AGAINST** this proposal for the reasons set out after the proposal.

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

Any proposal which a shareholder would like to have included in the Management Proxy Circular for the annual meeting of shareholders to be held in 2003 must be received by the Corporate Secretary's Office of the Bank no later than 5 p.m. EST on December 12, 2002.

## SECTION III – INFORMATION ON COMPENSATION

### REMUNERATION PAID TO DIRECTORS

The following table sets out the annual retainer and meeting fees which the directors were entitled to receive for sitting on the Board of Directors and committees of the Bank and the Bank subsidiaries designated hereinbelow for the financial year ended October 31, 2001.

	Annual Retainer (\$)	Additional Annual Retainer (\$)														Meeting Fees (\$)	
		for Committee Members								for Committee Chairs						(BD)	Com- mittees
The Bank and Designated Subsidiaries	(BD)	(AH)	(C)	(E)	(G)	(HR)	(A)	(ARM)	(AH)	(C)	(E)	(G)	(HR)	(A)	(ARM)	(BD)	Com- mittees
National Bank of Canada	15,500	3,500	2,000	N/A	3,500	3,500	2,000	3,500	7,500	3,500	N/A	7,500	7,500	5,000	7,500	1,200	1,200
FMI Acquisition Inc.	500	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0	N/A
National Bank Life Insurance Company	2,500	N/A	N/A	1,800	N/A	N/A	1,800	N/A	N/A	N/A	3,000	N/A	N/A	3,000	N/A	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	N/A	N/A	N/A	N/A	1,000	1,000 <sup>(1)</sup>
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	N/A	N/A	N/A	N/A	1,000	N/A
National Bank Trust Inc.	6,000	N/A	N/A	1,000	N/A	N/A	1,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	500	500

(BD): Board of Directors

(A): Audit Committee

(AH): Ad hoc Human Resources Committee

(ARM)<sup>(2)</sup>: Audit and Risk Management Committee

(C): Credit Committee

(E): Ethics Committee

(G): Conduct Review and Corporate Governance Committee

(HR): Human Resources Committee

(1) There are three committees at National Bank Financial & Co. Inc., namely, an audit committee, a human resources committee and a compliance committee. The members and the chairs of these committees do not receive any remuneration other than meeting fees.

(2) On March 7, 2001, the responsibilities of the Credit Committee and the Audit Committee were assigned to a new committee, the Audit and Risk Management Committee. For more information, please refer to the "Committees of the Board" section in Schedule C of the Circular.

### SECTION III – INFORMATION ON COMPENSATION (cont.)

#### OTHER REMUNERATION PAID TO A DIRECTOR

During the past financial year, only one director received from one of the Bank's subsidiaries remuneration other than that received in his capacity as director. In accordance with a service contract signed in February 2001 with National Bank Financial Inc., Lawrence S. Bloomberg serves as special advisor to National Bank Financial and, as such, receives an annual retainer, commissions, an allowance for business development and reimbursement for various administrative expenses incurred when carrying out his functions. Under the terms of this service contract, Mr. Bloomberg received a total amount of \$1,875,000.

The directors of the Bank who are also full-time 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 reimburse these directors for the expenses they incur to attend meetings.

#### FORMS OF REMUNERATION OF DIRECTORS OF THE BANK

All eligible directors may receive their remuneration for serving on the Board and, if applicable, any committees in the form of common shares of the Bank, deferred stock units ("DSUs"), cash or a combination thereof.

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 credited, which is credited every quarter to an account in the director's name. It is paid out, in the form he or she chooses, as cash, common shares or a combination thereof, at the market value of a common share of the Bank on the date the director leaves the Board.

Additional DSUs are credited to that account when dividends are paid on common shares of the Bank. They are calculated based on the amount of the dividend paid.

#### COMPENSATION PAID TO OFFICERS

##### REPORT OF THE HUMAN RESOURCES COMMITTEE ON THE COMPENSATION OF OFFICERS OF THE BANK

Compensation is one of the ways favoured by the Bank to attract, motivate and retain high-calibre Officers (as defined hereinbelow) who focus on improving the performance of the Bank and shareholders' investment. To that end, the Board mandates the Human Resources Committee (the "Committee") to review general compensation policies and to make recommendations with regard to compensation for the Officers of the Bank.

##### 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 E.A. (Dee) Parkinson-Marcoux.

##### ROLE OF THE HUMAN RESOURCES COMMITTEE

The Committee submits its recommendations to the Board which makes the final decisions with regard to changes to the compensation policy and programs and the total compensation for the Chairman, the Presidents, the Executive Vice-Presidents, the Senior Vice-Presidents and the Vice-Presidents (the "Officers").

The Committee strives to set compensation at a level comparable to that offered by the Bank's comparison market, which comprises a group of Canadian financial institutions and selected Canadian companies. These analyses are supported by the opinion of external compensation specialists.

The recommendations of the Committee are based on the following fundamental principles of the compensation policy:

- The compensation of Officers depends on corporate performance;
- 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 results and business development;
- 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;
- Employee benefits and the pension plan are comparable, on the whole, to those offered by the comparison market.

##### COMPONENTS OF THE COMPENSATION OF OFFICERS OF THE BANK

The compensation of Officers consists of a base salary, an annual bonus and long-term variable compensation.

##### *Base Salary*

The Committee reviews the base salary of each Officer annually taking into account his or her responsibilities, experience and individual performance. To ensure that the base salaries of the Officers are competitive, the Committee uses the median salaries of the Bank's comparison market, adjusted when necessary, to take into consideration the criteria specific to the Bank.

### *Annual Bonus Program*

The Bank offers an annual bonus program to all its employees. 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 of activity are achieved, compared to the results obtained by the five major Canadian banks. The program also considers whether other objectives relating to management quality and customer satisfaction have been achieved. The bonus of each Officer is calculated taking into account his or her contribution to management and financial results.

Certain Officers of the Financial Markets, Treasury and Investment Banking sector participate in an annual bonus program based on the profitability of their respective groups. A specific portion of the bonus amount is deferred. The deferred portion for Jean Turmel is converted into deferred stock units for Officers ("DSUs for Officers") with a value equal to the closing market price of the common shares of the Bank the day preceding the award of the annual bonus. Additional DSUs for Officers are credited to his account as dividend equivalents when dividends are paid on common shares. They are calculated based on the amount of the dividend paid. Mr. Turmel may only cash the DSUs for Officers upon retirement or when he leaves the Bank.

These programs were revised and subsequently approved by the Board in the past financial year.

### *Long-Term Variable Compensation Program*

#### Stock Option Plan

The purpose of the Stock Option Plan is to encourage Officers and other designated persons of the Bank or its subsidiaries 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. The Committee reviews the number and the expiry dates of options previously awarded when making a decision about the award of additional options. After setting the terms and conditions, the Committee awards options, on an annual basis, to Officers and other designated persons of the Bank and its subsidiaries. Options may be exercised in whole or in part before the termination date determined by the 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.

When a vested option is exercised, the participant may choose to buy a common share or to receive a cash amount, equal to the increase in the value of the shares at the close of business on the day before the option is exercised compared to its market value at the close of business on the day before the option was awarded.

Participants in the Stock Appreciation Rights Plan, described hereinbelow, who are Canadian residents may exchange each stock appreciation right held for one stock option governed by the Stock Option Plan at an exercise price representing the market value of a common share at the close of business the day before the exchange.

The maximum number of common shares that may be issued under the Stock Option Plan is 18,930,437. The maximum number of common shares reserved for a participant may not exceed 5% of the total number of common shares issued and outstanding. As at October 31, 2001, 4,517,975 options were outstanding with strike prices ranging between \$11.00 and \$25.20 and maturities between December 2005 and December 2010. During the past financial year, 1,697,000 options were awarded and 563,190 options were exercised at strike prices ranging from \$11.00 to \$25.20. As at October 31, 2001, 2,146,857 options could be exercised at prices ranging between \$11.00 and \$25.20.

The Stock Option Plan was revised by the Board on December 14, 2000.

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

The SAR Plan has the same objectives as the Stock Option Plan. The Committee awards stock appreciation rights ("SARs") 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.

No SARs were awarded to Canadian residents during the financial year ended October 31, 2001.

The SAR Plan was revised by the Board on December 14, 2000.

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

For the financial year ended October 31, 2001, the compensation received by the Chairman of the Board and Chief Executive Officer consisted of a base salary, an annual bonus and stock options.

The base salary of the Chairman of the Board and Chief Executive Officer was maintained at the same level as that of the previous financial year. In this regard, the Committee considers that the existing salary level, which attempts to recognize the responsibilities and performance of the Chairman of the Board and Chief Executive Officer, is below the average of base salaries paid to chief executive officers of companies within the comparison market, despite taking into account criteria specific to the Bank.

### SECTION III – INFORMATION ON COMPENSATION (cont.)

Moreover, the Committee awarded André Bérard an annual bonus of \$1,083,920 in recognition of his special contribution to the 2000-2001 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 in the “Summary of Total Compensation of Named Executive Officers”, namely, the extent to which the financial objectives set for the Bank and its sectors were achieved and the Bank’s financial performance in relation to that of the other five major Canadian banks. The Committee then took into consideration Mr. Bérard’s performance with regard to the objectives set for the 2000-2001 financial year.

During the financial year ended October 31, 2001, the Committee awarded Mr. Bérard 265,000 stock options.

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

**Robert Parizeau, Chair  
Gérard Coulombe  
François J. Coutu  
Shirley A. Dawe  
Marcel Dutil  
E.A. (Dee) Parkinson-Marcoux**

### PERFORMANCE OF THE BANK IN 2001

Despite an economic context marked by uncertainty and apprehension about a prolonged recession, particularly after the events in the fall, the Bank had an outstanding year. Income before goodwill charges for the financial year ended October 31, 2001 reached a record \$582 million, for an increase of 10%. Excluding discontinued operations, income before goodwill charges amounted to \$627 million, representing a 26% increase over fiscal 2000, while return on common shareholders’ equity was 17.2% as against 15% for the previous year.

In October 2001, the Bank had concluded a firm agreement to sell its asset-based lending operations in the United States. Consequently, the results for the activity are presented under “Discontinued Operations” in the notes to the consolidated financial statements for the financial year ended October 31, 2001 and the comparative figures for 2000 in the Bank’s Annual Report. This transaction is part of the Bank’s strategy to focus on its core business, especially personal banking, wealth management and banking services for small and medium-sized enterprises in Canada.

Another important transaction involved a strategic alliance with Global Payments Inc., for the sale of the Bank’s merchant credit card operations. The Bank wanted to join forces with a specialized company that had both the expertise and the size needed to optimize this business activity. As a result of the sale of its merchant credit card operations, the Bank recorded a gain of \$76 million on a taxable equivalent basis.

The Personal Banking and Wealth Management sector recorded income before goodwill charges of \$275 million in 2001 compared to \$268 million in 2000. These results were obtained despite a significant downturn in brokerage activities which mirrored market corrections. This performance was due to the improvement in the interest spread for personal banking activities. Loans rose by about 4% and deposits also grew by close to 4%.

The economic slowdown affected the Commercial Banking sector in Canada. Income before goodwill charges for 2001 totalled \$110 million compared to \$120 million a year earlier. This decrease was attributable to the increase in expected loan losses. The contribution before the provision for credit losses and income taxes remained relatively unchanged as the decline in loan volumes was offset by an improvement in the interest spread.

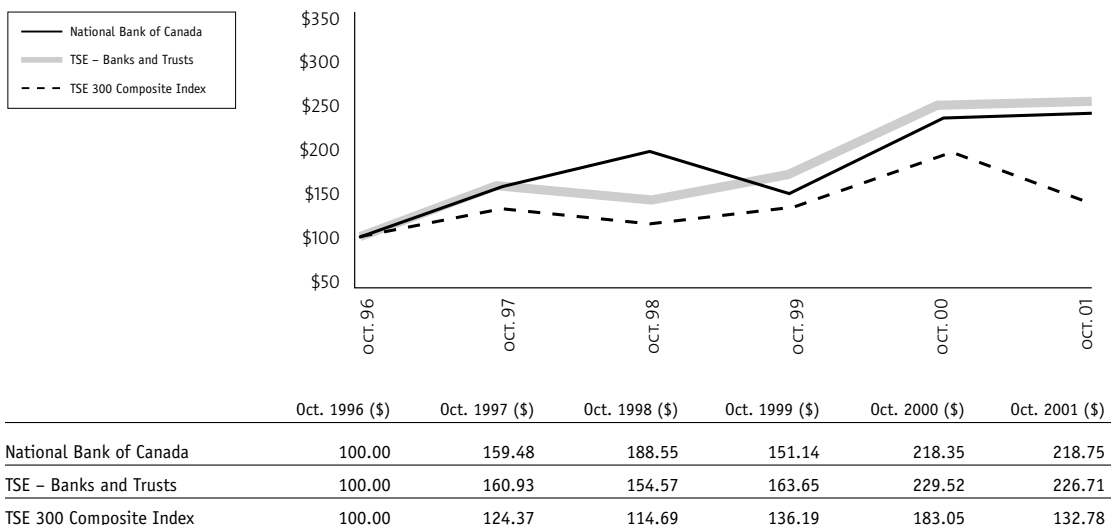
The Financial Markets, Treasury and Investment Banking sector turned in a very strong performance generating income before goodwill charges of \$217 million, for a 22% increase. These results were primarily due to the Treasury sector, particularly its asset and liability matching operations, and Corporate Banking’s credit sector, which took advantage of business opportunities to significantly boost its revenues.

In short, it was an excellent year. The Bank pursued its strategic plan to focus on its core activities which will guarantee success for the future.

### 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, 1996 and the cumulative total return on the TSE 300 Composite Index and the Banks and Trusts Index for the five most recently completed financial years, assuming dividends are fully reinvested at the market price on each dividend payment date.

## TOTAL RETURN INDEX VALUES



## TOTAL COMPENSATION OF NAMED EXECUTIVE OFFICERS

### 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, during each of the three most recently completed financial years. The persons named in this table are collectively the "Named Executive Officers".

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation			All Other Compensation (\$)
		Salary (\$)	Bonus <sup>(1)</sup> (\$)	Other Annual Compensation <sup>(2)</sup> (\$)	Awards		Payouts Long-Term Bonus Program (\$)	
					Securities Awarded <sup>(3)</sup> Under SARs (#)	Options (#)		
<b>André Bérard</b> Chairman of the Board and Chief Executive Officer	2001	680,000	1,083,920	2,928	nil	265,000	N/A	N/A
	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
<b>Réal Raymond</b> <sup>(4)</sup> President and Chief Operating Officer	2001	461,800	800,000	653	nil	88,300	N/A	N/A
	2000	385,000	500,000	74	122,000	nil	N/A	N/A
	1999	250,000	456,500	28	N/A	N/A	N/A	N/A
<b>Jean Turmel</b> President – Financial Markets, Treasury and Investment Bank	2001	500,000	3,243,333	24,470	nil	88,300	1,621,667 <sup>(5)</sup>	N/A
	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
<b>Louis Vachon</b> Senior Vice-President Treasury and Financial Markets	2001	250,000	2,103,200	35	nil	30,000	N/A	N/A
	2000	234,000	1,021,400	104	29,000	nil	N/A	N/A
	1999	200,000	356,400	95	16,000	nil	N/A	N/A
<b>G.F. Kym Anthony</b> President and Chief Executive Officer National Bank Financial Inc.	2001	374,600	1,950,452	100,916	N/A	N/A	N/A	N/A
	2000	400,000	2,902,400	nil	N/A	N/A	N/A	N/A
	1999	83,300	387,500	nil	N/A	N/A	N/A	N/A

(1) Excluding all portions of bonuses paid in the form of DSUs for Officers. For more information, refer to the "Annual Bonus Program" section of the Circular.

(2) 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 Ownership Plan of the Bank; the aggregate value of these benefits for the financial year ended October 31, 2001 does not exceed the lesser of: \$50,000 or 10% of the annual salary and bonuses paid to Named Executive Officers. In addition, for G.F. Kym Anthony, this amount includes \$67,200 received as deferred compensation for prior years (1999/2000).

(3) 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 Option Plan" and the "Stock Appreciation Rights Plan" sections of the Circular.

(4) Réal Raymond held the position of President – Personal and Commercial Bank until July 4, 2001.

(5) With regard to the bonus for 2001, Jean Turmel received 33% of his bonus in the form of DSUs for Officers representing 57,896 units based on a price of \$28.01 per common share, i.e., the price of common shares of the Bank on the day before the annual bonus was awarded.

### SECTION III – INFORMATION ON COMPENSATION (cont.)

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

The table below specifies the number of options awarded to Named Executive Officers under the Stock Option Plan during the financial year ended October 31, 2001. These options, 25% of which were exercisable by their holders as of December 2001, with a further 25% exercisable as of December 2002, another 25% exercisable as of December 2003, and the remainder as of December 2004, expire on December 31, 2010. During the 30-day period prior to the options being awarded, the closing price of the common shares of the Bank on The Toronto Stock Exchange fluctuated between \$23.00 and \$25.20.

#### OPTIONS AWARDED DURING THE FINANCIAL YEAR ENDED OCTOBER 31, 2001

Name	Number of Options Awarded	% of Total Options & SARs Awarded to Employees During Financial Year	Exercise Price of an Option (\$)	Market Value of a Common Share on the Day Preceding the Award (\$)	Expiry Date
<b>André Bérard</b>	265,000	14.9	24.90	24.90	31/12/2010
<b>Réal Raymond</b>	88,300	5.0	24.90	24.90	31/12/2010
<b>Jean Turmel</b>	88,300	5.0	24.90	24.90	31/12/2010
<b>Louis Vachon</b>	30,000	1.7	24.90	24.90	31/12/2010
<b>G.F. Kym Anthony</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, 2001, the total value realized, and the number and value of unexercised in-the-money options/SARs outstanding as at October 31, 2001. The value of unexercised options at financial year-end is equal to the difference between the exercise price of the options and the closing price of common shares of the Bank on The Toronto Stock Exchange on the last business day of the financial year, namely, \$24.25 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 closing price of common shares of the Bank on The Toronto Stock Exchange on the last business day of the financial year, namely, \$24.25 per common share.

#### OPTIONS/SARs EXERCISED BY THE NAMED EXECUTIVE OFFICERS DURING THE FINANCIAL YEAR ENDED OCTOBER 31, 2001 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>	18,400	331,200	501,600	568,000	3,547,575	1,371,375
<b>Réal Raymond</b>	nil	nil	108,750	185,550	946,200	631,350
<b>Jean Turmel</b>	nil	nil	224,500	225,800	1,618,200	631,350
<b>Louis Vachon</b>	nil	nil	45,250	29,750	50,025	150,075
<b>G.F. Kym Anthony</b>	N/A	N/A	N/A	N/A	N/A	N/A

(1) The amounts indicated are based on a price of \$24.25 per common share, namely, the closing price on the last business day of the financial year ended October 31, 2001.

#### **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 its 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 highly competitive securities sector, National Bank Financial Inc. offers two variable compensation programs.

The short-term variable compensation program represents 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 National Bank Financial & Co. Inc., which has a majority of outside directors.

A deferred stock unit plan enables certain officers and employees of National Bank Financial & Co. Inc. and its subsidiaries to share in the company's profits. The amounts granted to participants are converted into deferred stock units with a value equal to the closing price of the common shares of the Bank the day preceding the award of the annual bonus. The deferred stock units are vested over a four-year period commencing one year after they are granted and can only be converted into cash when participants retire or leave the company.

The compensation of G.F. Kym Anthony is approved by the Human Resources Committee of the Board of Directors of National Bank Financial & Co. Inc.

#### **RETIREMENT BENEFITS FOR NAMED EXECUTIVE OFFICERS**

##### **PENSION PLAN**

With the exception of G.F. Kym Anthony, 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 Executive Officers at the level of Chairman or President 2% of average eligible earnings, defined as the average earnings for the 60 highest-paid consecutive months, based on salary and the annual bonus. For the Senior Vice-President level, the calculation is based on 25% of the annual bonus paid, up to a maximum of 20% of salary. This pension is then reduced by 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* (Canada), 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.

G.F. Kym Anthony does not participate in any pension plan.

##### **POST-RETIREMENT ALLOWANCE PROGRAM**

With the exception of G.F. Kym Anthony, the Named Executive Officers of the Bank are also 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. In order to calculate this supplemental pension for the Chairman and Presidents, the annual bonus recognized is limited to 100% of their salary while for the Senior Vice-President, average eligible earnings are limited to \$250,000. The payment conditions of the allowance are identical to those of the pension plan.

### SECTION III – INFORMATION ON COMPENSATION (cont.)

#### 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 at the level of Chairman, President and Senior Vice-President.

#### PENSIONS PAYABLE AS OF AGE 60

Average Eligible Earnings <sup>(1)</sup>	CHAIRMAN OR PRESIDENT					Average Eligible Earnings <sup>(1)</sup>	SENIOR VICE-PRESIDENT				
	Years of Participation <sup>(2)(3)</sup>						Years of Participation <sup>(2)(3)</sup>				
	15	20	25	30	35		15	20	25	30	35
(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	
450,000	132,048	176,497	220,947	265,397	310,516	150,000	41,853	50,464	59,075	67,686	76,678
600,000	177,048	236,497	295,947	355,397	415,516	175,000	49,270	57,881	66,492	75,103	84,095
750,000	222,048	296,497	370,947	445,397	520,516	200,000	56,686	65,297	73,909	82,520	91,511
900,000	267,048	356,497	445,947	535,397	625,516	225,000	64,103	72,714	81,325	89,936	98,928
1,050,000	312,048	416,497	520,947	625,397	730,516	250,000	71,520	80,131	88,742	97,353	106,345
1,200,000	357,048	476,497	595,947	715,397	835,516	300,000	71,520	80,131	88,742	97,353	106,345
1,350,000	402,048	536,497	670,947	805,397	940,516						
1,500,000	447,048	596,497	745,947	895,397	1,045,516						

(1) The sum of the amounts in the "Salary" and "Bonus" columns of the "Summary of Total Compensation of Named Executive Officers" table of the Circular is used to calculate the average eligible earnings.

(2) Years of service credited on the normal retirement date for the purposes of the pension plan have been estimated as follows:

- André Bérard: 37 years
- Réal Raymond: 35 years
- Jean Turmel: 24 years
- Louis Vachon: 26 years

However, the maximum number of years recognized for the purposes of 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.

#### EMPLOYMENT CONTRACT AND TERMINATION OF EMPLOYMENT

On November 30, 2000, the Board 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 and Chief Operating Officer 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.

National Bank Financial Inc. and G.F. Kym Anthony have signed an agreement stating the terms and conditions of his compensation in the event that his employment is terminated either by National Bank Financial Inc. or following a change in control. The terms and conditions of this agreement are in line with the program described above, and entitle him to a separation allowance equal to his base salary and his average annual bonus for the past two years for a period of 24 months, up to the normal retirement age.

## INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS

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

As at January 1, 2002, total loans outstanding (other than routine indebtedness as defined by Canadian securities legislation) granted notably to directors and Executive Officers of the Bank, as defined below, amounted to approximately \$268,847,771. This total includes mortgage loans for an aggregate amount of approximately \$247,514,080, personal loans for an aggregate amount of approximately \$19,504,036 and investment loans for the purchase of securities of the Bank or its subsidiaries for an aggregate amount of approximately \$1,829,655. None of these loans was granted to a director with the exception of a loan granted to Lawrence S. Bloomberg. For the purposes of this section, the term "Executive Officers" includes: the Chairman of the Board and Chief Executive Officer, the Vice-Chairman of the Board, the President and Chief Operating Officer, the President – Financial Markets, Treasury and Investment Bank, the Executive Vice-Presidents, the Senior Vice-Presidents, and 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 loans granted to directors and 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, 2001 (\$)	Balance as at January 1, 2002 (\$)
<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.	1,272,000	848,000
<b>Michel Tremblay</b> <sup>(2)</sup>			
Senior Vice-President – Wealth Management National Bank of Canada and President Natcan Investment Management Inc.	Loan granted by National Bank of Canada	183,017	163,017

(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 5% 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.

TABLE OF INDEBTEDNESS OF DIRECTORS AND 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, 2001 (\$)	Balance as at January 1, 2002 (\$)
<b>G.F. Kym Anthony</b>			
President and Chief Executive Officer National Bank Financial Inc.	Loans granted by National Bank Financial Inc.	2,216,669 <sup>(1)</sup>	1,333,347
<b>Lawrence S. Bloomberg</b>			
Director National Bank of Canada and Special Advisor National Bank Financial Inc.	Loan granted by National Bank Financial Inc.	866,669 <sup>(1)</sup>	641,630
<b>Yves G. Breton</b>			
President National Bank Discount Brokerage Inc.	Loans granted by National Bank of Canada	18,000 <sup>(1)</sup> 55,031 <sup>(2)</sup>	9,088 49,127
<b>Pierre Brunet</b>			
Vice-Chairman of the Board National Bank of Canada and Advisor to Management National Bank Financial Inc.	Loan granted by National Bank of Canada	866,669 <sup>(1)</sup>	641,630
<b>Germain Carrière</b>			
President and Chief Operating Officer Individual Investor Services National Bank Financial Inc.	Loans granted by National Bank Financial Inc.	1,716,669 <sup>(1)</sup> 315,199 <sup>(2)</sup>	1,077,156 108,717
<b>Frank De Vries</b>			
Senior Vice-President – United States National Bank of Canada	Loan granted by National Bank of Canada	US \$577,241 <sup>(2)</sup>	US \$558,718

**SECTION III – INFORMATION ON COMPENSATION (cont.)**

TABLE OF INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS OTHER THAN UNDER SECURITIES PURCHASE PLANS (cont.)

Name and Principal Occupation	Involvement of the Bank or a Subsidiary	Largest Amount Outstanding During the Financial Year Ended October 31, 2001 (\$)	Balance as at January 1, 2002 (\$)
<b>Douglas Kemp-Welch</b> <sup>(3)</sup>	Loan granted by National Bank of Canada	618,249 <sup>(2)</sup>	616,471
<b>Michel Labonté</b> Senior Vice-President Finance and Control National Bank of Canada	Loan granted by National Bank of Canada	45,000 <sup>(1)</sup>	22,720
<b>Mario Lecaldare</b> Executive Vice-President and General Manager National Bank Financial Inc.	Loans granted by National Bank of Canada	716,864 <sup>(1)</sup> 258,000 <sup>(2)</sup>	440,429 689,562
<b>Enrico Pallotta</b> Senior Vice-President Corporate Banking, Canada National Bank of Canada	Loans granted by National Bank of Canada	101,373 <sup>(1)</sup> 580,000 <sup>(2)</sup>	61,751 496,202
<b>Denis Pellerin</b> Senior Vice-President Operational and Market Risk Management National Bank of Canada	Loans granted by National Bank of Canada	90,000 <sup>(1)</sup>	45,441
<b>Réal Raymond</b> President and Chief Operating Officer National Bank of Canada	Loans granted by National Bank of Canada	504,766 <sup>(2)</sup>	134,778
<b>Louis Vachon</b> Senior Vice-President Treasury and Financial Markets National Bank of Canada	Loan granted by National Bank of Canada	135,000 <sup>(1)</sup>	68,161
<b>W. David Wood</b> Executive Vice-President and Chief Administration Officer National Bank Financial Inc.	Loans granted by National Bank Financial Inc. and National Bank of Canada	1,405,480 <sup>(1)</sup>	770,431

(1) This amount represents one or more personal leveraged loans granted to a director or Executive Officer in order to finance the participant's equity commitments under the NB Affiliate Fund co-investment program. All leveraged loans bear interest at the federal prescribed rate published monthly and are secured by a pledge of the participant's interest in the affiliated partnership. This program provides Officers and eligible employees of the Bank's group of companies the opportunity to co-invest with NB Capital Equity Fund, LP, a company in which the Bank holds an indirect interest in equity and equity-related securities exchangeable or convertible into equity securities of private and sometimes public companies. Officers and eligible employees are offered credit facilities by members of the Bank's group of companies or its affiliates, 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 equal to 50% of the participant's total commitment. Recourse for the balance of the leveraged loan will be limited to the participant's partnership interest and distributions thereon.

(2) This amount represents a loan or the sum of loans granted to a director or Executive Officer of the Bank, which must be disclosed in accordance with the relevant securities legislation. The loan or loans may have been granted in the form of either of the following:

- A personal loan 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 rate, which ranges between half of the Bank's prime rate and the prime rate, or as a loan granted under a relocation agreement;
- A loan secured by a mortgage on the borrower's main residence, which exceeds the Executive Officer's annual salary; it is granted according to the standards applicable to clients, except for the interest rate, which is 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.

(3) Douglas Kemp-Welch held the position of Senior Vice-President – Ontario and Western Canada, National Bank of Canada, until December 10, 2001.

## **SECTION IV – OTHER INFORMATION**

### **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. Until August 31, 2001, this policy provided coverage of \$100,000,000 with a deductible of \$1,000,000 per claim. When this insurance was renewed on September 1, 2001, the deductible was increased to \$10,000,000.

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 \$237,000.

### **CORPORATE GOVERNANCE**

The Statement of Corporate Governance Practices of the Bank Incorporating the Guidelines of The Toronto Stock Exchange is presented in Schedule D of the Circular. In the current context of financial market globalization, expanding financial services and the tightening of regulations governing financial institutions in Canada, the Bank reviews its corporate governance practices regularly to ensure their continued effectiveness and relevance. The Statement of Corporate Governance Practices of the Bank was reviewed by the Conduct Review and Corporate Governance Committee and approved by the Bank's Board of Directors. In addition, Schedule C of the Circular contains a description of the various Board committees, including their mandates and activities.

### **MINUTES**

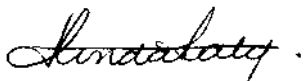
A copy of the minutes of the Annual and Special Meeting of Common Shareholders of the Bank held on March 7, 2001 has been mailed to shareholders with the Circular.

### **ADDITIONAL INFORMATION**

The Bank will 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, 2001 together with the accompanying auditors' report, a copy of any subsequent quarterly financial statements and a copy of the Management Proxy Circular of the Bank in respect of its most recent annual 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 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, January 24, 2002

## SCHEDULE A

### SHAREHOLDER PROPOSAL

A proposal was 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 and Statement of Shareholder:

**It is proposed that the Board of Directors of National Bank of Canada, in conjunction with the Canadian Bankers Association and the federal government, study the advisability of maintaining offshore subsidiaries in tax havens and that it submit a report in that regard to shareholders no later than five months prior to the date of the annual meeting in 2003.**

Tax havens are the bane of the global economy: tax evasion, money laundering, terrorism, criminal activity, illegal transactions, refuge for drug money, etc. They pose a constant threat to the legal economy. Jeffrey Robinson, a U.S. author, exposed to what extent tax havens are a blight on the world as a whole, and Canada in particular which, according to him, is seen as a "candy store" by criminal organizations.

Banks are one of the places, if not the main place, where the proceeds of the illegal economy are exchanged. As good corporate citizens, they should conduct themselves in the best interest of their shareholders and take the necessary measures to counter the corrupt and harmful effects of the global scourge that tax havens represent.

#### Bank's Position:

The Bank does business around the world and is called on to operate in various jurisdictions in order to meet the needs of its clients.

Regulatory authorities in Canada impose strict obligations on Canadian corporations and financial institutions relating, among other things, to laundering the proceeds of crime and combatting terrorism. The Bank is bound by these rules and all the mechanisms and controls instituted by governments and international bodies.

The Bank and its subsidiaries cooperate with the various authorities to ensure that the free flow of capital is not used for undesirable ends such as money laundering. Consequently, the Bank has adopted rigorous procedures and mechanisms for checking and detecting suspicious financial transactions. These procedures and mechanisms comply with North American and international rules and requirements in this regard.

In making its strategic business decisions, the Bank is always mindful of the best interests of its shareholders and clients while ensuring that it complies with the laws, regulations and procedures of the various jurisdictions in which it operates. Given the above, the Bank respects and will continue to respect the guidelines and legal obligations imposed by Canadian and international authorities that apply to it when it operates in different jurisdictions.

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

## SCHEDULE B

### BOARD AND COMMITTEE MEETINGS

#### RECORD OF ATTENDANCE BY DIRECTORS

for the financial year ended October 31, 2001

Director	Attendance at Board and Committee Meetings		Director	Attendance at Board and Committee Meetings	
	Board	Committees		Board	Committees
<b>Pierre Beaudoin</b> <sup>(1) (G)</sup>	8/12	1/3	<b>Jean Gaulin</b> <sup>(3)</sup>	-	-
<b>André Bérard</b> <sup>(2)</sup>	13/14	-	<b>Paul Gobeil</b> <sup>(A) (AH) (ARM) (C) (G)</sup>	14/14	35/36
<b>Lawrence S. Bloomberg</b>	12/14	-	<b>Suzanne Leclair</b> <sup>(A) (ARM)</sup>	13/14	13/13
<b>Pierre Bourgie</b> <sup>(ARM) (C) (G)</sup>	14/14	17/20	<b>Bernard Lemaire</b> <sup>(4) (AH) (G)</sup>	10/14	14/15
<b>Gérard Coulombe</b> <sup>(HR)</sup>	14/14	8/9	<b>J.-Robert Ouimet</b> <sup>(5) (A) (ARM) (C)</sup>	11/14	4/12
<b>François J. Coutu</b> <sup>(AH) (ARM) (C) (HR)</sup>	11/14	25/34	<b>Robert Parizeau</b> <sup>(AH) (G) (HR)</sup>	14/14	26/26
<b>Bernard Cyr</b> <sup>(3)</sup>	3/3	-	<b>E.A. (Dee) Parkinson-Marcoux</b> <sup>(6) (HR)</sup>	11/14	4/6
<b>Shirley A. Dawe</b> <sup>(AH) (G) (HR)</sup>	11/14	24/26	<b>Réal Raymond</b> <sup>(2)</sup>	13/14	-
<b>Nicole Diamond-Gélinas</b> <sup>(A) (ARM)</sup>	14/14	13/13	<b>Roseann Runte</b> <sup>(3)</sup>	6/7	-
<b>Jean Douville</b> <sup>(A) (ARM)</sup>	12/14	13/13	<b>Jean Turmel</b> <sup>(2)</sup>	14/14	-
<b>Marcel Dutil</b> <sup>(HR)</sup>	13/14	9/9	<b>Dennis Wood</b> <sup>(7) (G)</sup>	8/9	1/3

(1) Mr. Beaudoin resigned on October 16, 2001.

(2) Mr. Bérard, Mr. Raymond and Mr. Turmel attended meetings of the various committees from time to time at the invitation of the committees.

(3) These three directors were appointed during the financial year. Ms. Runte was appointed in April, Mr. Cyr in August and Mr. Gaulin in October.

(4) Mr. Lemaire was a member of the Conduct Review and Corporate Governance Committee until March 2001.

(5) Mr. Ouimet was a member of the Audit and Risk Management Committee until June 21, 2001.

(6) Ms. Parkinson-Marcoux was appointed to the Human Resources Committee in March 2001.

(7) Mr. Wood was elected to the Board and appointed to the Conduct Review and Corporate Governance Committee in March 2001.

#### SUMMARY OF THE NUMBER OF BOARD AND COMMITTEE MEETINGS

for the financial year ended October 31, 2001<sup>(8)</sup>

Board of Directors	14	Audit and Risk Management Committee (ARM)	8
Conduct Review and Corporate Governance Committee (G)	6	Credit Committee (C)	6
Human Resources Committee (HR)	9	Audit Committee (A)	5
Ad hoc Human Resources Committee (AH)	11		

(8) On March 7, 2001, the responsibilities of the Credit Committee and the Audit Committee were assigned to a new committee, the Audit and Risk Management Committee. For more information, please refer to the "Committees of the Board" section in Schedule C of the Circular.

## SCHEDULE C

### COMMITTEES OF THE BOARD

The Bank's Board of Directors delegates responsibilities to various committees in order to increase its effectiveness. The Board adopted a structure comprised of three standing committees, namely, the Audit and Risk Management Committee, the Human Resources Committee and the Conduct Review and Corporate Governance Committee, and approved the mandates thereof. In addition, an ad hoc Human Resources Committee was created this year in order to make recommendations to the Board regarding succession to the position of Chairman of the Board and Chief Executive Officer. The committees, through the various committee chairs, must provide the Board with a report on their deliberations. A record of attendance by directors and a summary of the number of committee meetings held are presented in Schedule B of the Circular.

#### AUDIT AND RISK MANAGEMENT COMMITTEE

This year, the Bank's Board of Directors approved the creation of the Audit and Risk Management Committee. The responsibilities previously vested in the Credit Committee and the Audit Committee were assigned to this new committee, in addition to risk management responsibilities. This committee was set up in response to the profound changes affecting the financial services sector in the area of risk management. The Committee monitors the methods used to present the Bank's financial information and ensures that effective internal control measures are in place. It is also responsible for reviewing the Bank's credit policies and procedures and providing the Board with assurance that the risks to which the Bank is exposed have been identified, and are being managed and controlled in an effective and appropriate manner.

The Committee is comprised of six outside directors, at least one of whom has a professional designation and experience in accounting or financial analysis.

#### Members<sup>(1)</sup>

Jean Douville, Chair  
 Pierre Bourgie  
 François J. Coutu  
 Nicole Diamond-Gélinas  
 Paul Gobeil  
 Suzanne Leclair

(1) J.-Robert Ouimet was a member of this Committee until June 21, 2001.

#### Mandate and activities

The Committee:

- reviews all financial information documents, notably the quarterly and annual financial statements of the Bank, and recommends approval thereof to the Board of Directors;
- monitors the investments and transactions which could adversely affect the Bank's financial health;
- reviews management's reports on disputes and other claims which could have a material impact on the financial position of the Bank;

- monitors the process by which the internal auditor is appointed or removed and makes recommendations concerning the appointment and remuneration of the external auditors; examines, on an annual basis, the mandate, nature and scope of internal and external audit work;
- ensures cooperation between internal audit personnel and external auditors and sees that the necessary measures are taken to follow up on the recommendations of the internal and external auditors;
- reviews and discusses with external auditors their written reports detailing all factors that could have an impact on their independence and objectivity; recommends measures to be taken by the Board to ensure the independence of external auditors;
- meets with representatives from the Office of the Superintendent of Financial Institutions Canada ("OSFI");
- ensures the implementation of a corporate compliance program which is in line with banking regulations and OSFI guidelines and in this regard reviews an annual compliance report from management;
- reviews and approves loans exceeding the powers delegated to management;
- approves any transaction between the Bank and its related parties in accordance with the provisions of the Act and makes recommendations thereon to the Board of Directors;
- ensures that non-performing loans are monitored and approves the loan loss provisions and general allowance of the Bank;
- approves and reviews, at least once a year, the effectiveness of policies on market risk, capital, liquidity and funding management;
- reviews the Outsourcing Risk Management Policy and makes recommendations thereon to the Board of Directors; and
- reviews the annual self-assessment reports of the Bank on the compliance of policies, procedures and controls with the standards of the Canada Deposit Insurance Corporation ("CDIC").

#### HUMAN RESOURCES COMMITTEE

This Committee supervises and approves Bank policies and practices with regard to human resources.

The Committee is comprised of six outside directors of the Bank.

#### Members

Robert Parizeau, Chair  
 Gérard Coulombe  
 François J. Coutu  
 Shirley A. Dawe  
 Marcel Dutil  
 E.A. (Dee) Parkinson-Marcoux

## **Mandate and activities**

The Committee:

- reviews and recommends that the Board adopt policies in matters of total compensation for employees and Officers of the Bank;
- appraises the performance of Officers and annually reviews their total compensation based on the objectives assigned to them and the results achieved;
- studies various aspects of the compensation of Officers and submits recommendations to the Board as appropriate;
- examines and comments on the Bank's management succession plan, executive succession planning, as well as the profiles of Officers likely to be promoted; and
- oversees the management of the pension plans and pool fund.

### CONDUCT REVIEW AND CORPORATE GOVERNANCE COMMITTEE

This Committee is responsible for monitoring matters relating to corporate governance and strengthening the Bank's corporate governance rules. As part of its review function, the Committee also oversees the application of specific provisions of the Act and ensures compliance therewith.

The Committee is comprised of five outside directors of the Bank.

#### **Members<sup>(1)</sup>**

Paul Gobeil, Chair  
Pierre Bourgie  
Shirley A. Dawe  
Robert Parizeau  
Dennis Wood

(1) Pierre Beaudoin was a member of this Committee until October 16, 2001.

## **Mandate and activities**

The Committee:

- makes recommendations to the Board concerning the adoption of the Bank's orientations, policies and practices with respect to corporate governance and ensures compliance;
- drafts and reviews the criteria for selecting new directors as well as the procedure for selecting and appointing new directors, and makes recommendations thereon to the Board; periodically reviews the structure, mandate and composition of the Board's committees;
- appraises the performance and effectiveness of the Board and its committees and periodically submits reports on the results obtained to the Board;
- periodically examines the impact of the Board's size and composition on its activities;
- organizes and reviews training programs for directors and proposes a new orientation program for new directors of the Bank;
- makes recommendations concerning the remuneration and allowances for directors;

- monitors recent developments concerning corporate governance, particularly the modernization of CDIC Standards of Sound Business and Financial Practices, and reviews its corporate governance practices in light of recent developments;
- reviews Bank procedures which ensure that transactions with related parties of the Bank comply with the Act and reviews Bank practices in order to identify any transactions with related parties that could have an adverse effect on the Bank's stability or solvency; establishes assessment criteria for determining whether the value of transactions with related parties of the Bank are nominal or immaterial to the Bank;
- monitors the mechanisms and procedures established by the Board governing conflicts of interest, use of confidential information, disclosure of information to clients in accordance with the requirements of the Act, and the settlement of customer complaints; and
- reviews the Code of Ethics that applies to directors, officers and employees of the Bank and its subsidiaries.

### AD HOC HUMAN RESOURCES COMMITTEE

This Committee was created on January 25, 2001.

The Committee was comprised of five outside directors of the Bank.

#### **Members**

Robert Parizeau, Chair  
François J. Coutu  
Shirley A. Dawe  
Paul Gobeil  
Bernard Lemaire

## **Mandate and activities**

The Committee:

- examined and evaluated internal and external candidates for the positions of President and Chief Executive Officer and Chairman of the Board;
- held individual meetings and discussions with outside directors in order to obtain their opinion regarding the abilities and qualities of the proposed candidates;
- consulted with outside advisors; and
- made recommendations to the Board of Directors regarding:
  - i) the separation of the functions of Chief Executive Officer and Chairman of the Board
  - ii) the appointment of a President and Chief Executive Officer
  - iii) the appointment of a Chairman of the Board, and
  - iv) the transitional measures

The ad hoc Human Resources Committee ceased its activities on July 5, 2001.

## SCHEDULE D

### CORPORATE GOVERNANCE

Statement of Corporate Governance Practices of the Bank Incorporating the Guidelines of The Toronto Stock Exchange

#### Toronto Stock Exchange Guidelines

**1. The board of directors should explicitly assume responsibility for the stewardship of the bank and more particularly, for:**

**(a) the adoption of a strategic planning process;**

**(b) the identification of the principal risks associated with the business of the bank and ensuring the implementation of appropriate systems to manage these risks;**

**(c) succession planning, including appointing, training and monitoring senior management;**

**(d) a communications policy;**

**(e) the integrity of internal control and management information systems.**

#### Corporate Governance Practices of the Bank

- The Board of Directors oversees the management of the business and affairs of the Bank either directly or through its committees. The objectives of the Board are to protect the Bank's assets and to ensure its viability, profitability, continuity and development.
- The Board reviews the Bank's business objectives and approves management's strategies and business plans required to achieve these objectives. Periodically, a Board meeting is devoted to a strategic planning session. Follow-up is done on a regular basis to allow directors to see changes in strategies and to ensure that they are carried out.
- The Board, through its Audit and Risk Management Committee, discusses the principal risks of the Bank and monitors the appropriate policies and systems to manage the risks related, in particular, to credit, capital, liquidity, foreign exchange, interest rate and securities portfolio management.
- A presentation is made annually to the Human Resources Committee on the results of the appraisal and the succession plan, determining the strengths and weaknesses of the Bank's officers and establishing development needs, as necessary.
- The Board sets up systems to ensure effective communication between the Bank, its shareholders, its clients, financial analysts, the media and the public. The Audit and Risk Management Committee reviews, in particular, press releases presenting financial results and the Annual Information Form, and makes recommendations to the Board. The Board emphasizes transparency in the communication of information to all shareholders, clients and the general public. The Bank periodically reviews its disclosure policies so that disclosure of information is complete, accurate and timely. The Bank's quarterly reports and related conference calls are made available in real time on the Bank's website ([www.nbc.ca](http://www.nbc.ca)).
- The Bank answers questions from shareholders, investors and financial analysts through its Investor Relations Department, the Corporate Secretary's Office or National Bank Trust Inc., the Bank's transfer agent and registrar.
- The Act requires that the Bank implement mechanisms to communicate information to clients concerning interest rates, bank fees and the cost of borrowing. The Bank has set up such systems, which are reviewed annually by the Conduct Review and Corporate Governance Committee.
- The Ombudsman of the Bank handles customer complaints that could not be settled through the administrative channels set up within the Bank.
- The Board, through its Audit and Risk Management Committee in consultation with the internal auditor and management of the Bank, examines the integrity of both the internal and external procedures for presenting the Bank's financial information as well as the effectiveness of the Bank's internal control mechanisms. Each year, the Bank's Internal Audit sector submits a report on the quality of the Bank's internal control system to this committee.

## Toronto Stock Exchange Guidelines

## Corporate Governance Practices of the Bank

**2. A majority of the directors should be “unrelated”.**

- As at October 31, 2001, five directors were related to the Bank according to the definition of an “unrelated director”<sup>(1)</sup> provided by The Toronto Stock Exchange. The Conduct Review and Corporate Governance Committee is of the opinion that the other directors are unrelated to the Bank. To the best of its knowledge, the Bank does not have a major shareholder who could cast a majority of votes to elect members of the Board.
- The Bank complies with the provisions of the Act concerning the authorized number of directors “affiliated with the Bank”. As at October 31, 2001, eight of the 21 directors were “affiliated with the Bank”<sup>(2)</sup> as defined by the Act. Consequently, the Bank complies with the requirements of the Act and the guidelines of The Toronto Stock Exchange.

**3. The application of the definition of “unrelated director” to the circumstances of each director should be the responsibility of the board, as well as the disclosure on an annual basis of the analysis of the application of the principles supporting this conclusion and whether the board has a majority of unrelated directors.**

- The Board, through the Conduct Review and Corporate Governance Committee, is responsible for overseeing the application of the definition of “unrelated director” under the guidelines of The Toronto Stock Exchange. This committee analyzed all the business and related party relationships of the directors with the Bank or its subsidiaries, as applicable. It was determined that the majority of directors are unrelated to the Bank.

**4. The board should appoint a committee of directors composed exclusively of outside, i.e. non-management, directors, a majority of whom are unrelated, and assign to such committee the responsibility for proposing new nominees to the board and for assessing directors on an ongoing basis.**

- The Board has assigned the Conduct Review and Corporate Governance Committee the duty of submitting nominees to the Board for the position of director. This committee is composed exclusively of outside directors who are unrelated to the Bank.
- The objective of the Board is to recruit directors who have competencies, abilities and pertinent expertise in growth markets. The Board also takes into consideration the nominees’ place of residence and knowledge of regional and national issues. The Conduct Review and Corporate Governance Committee periodically reviews selection criteria for directors. These criteria guide the committee in making its recommendations to the Board. This committee is also mandated to re-assess each year the eligibility and availability of directors who are nominated for re-election.

**5. The board should implement a process to be monitored by the appropriate committee, for assessing the effectiveness of the board and the committees of the board, as well as the contribution of individual directors.**

- The Conduct Review and Corporate Governance Committee is delegated by the Board to implement a process allowing the committee to assess the effectiveness of the Board and its committees. Accordingly, directors must complete a self-assessment questionnaire concerning the overall performance of the Board and its committees, of the availability of information required for decision-making and the capacity, in terms of knowledge, of the members of the Board and the committees to process this information for each strategic activity of the Board and the committees. The questionnaire also covers the directors’ evaluation of the general operation of the Board and its committees; for example, the frequency of meetings, the participation rate of the members and the attendance of meetings by members.
- In order to ensure an impartial process, the duly completed questionnaires are sent to an independent firm of experts to compile the results. On receipt of the results, the Chair of the Conduct Review and Corporate Governance Committee apprises the committee members of the results of the self-assessment. The complete study of the results is transmitted to the committee members and to the chairs of the other committees. The Chair of the Conduct Review and Corporate Governance Committee reports on the results of the self-assessment to the Board and presents the recommendations of this committee.

(1) An “unrelated director” is a “director who is independent of management and is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director’s ability to act with a view to the best interests of the corporation, other than interests and relationships arising from shareholding.”

(2) A director “affiliated with the Bank” is a director who is an officer or an employee of the Bank or of a corporation controlled by the Bank or a person who, directly or through companies with whom such person is affiliated, maintains significant relationships with the Bank covering a range of business or shareholding situations, as defined more fully in banking regulations, as well as the spouse of such person.

**SCHEDULE D (cont.)**

**Toronto Stock Exchange Guidelines**

**Corporate Governance Practices of the Bank**

**6. Provide an orientation and training program for new recruits to the board.**

- This year, the Conduct Review and Corporate Governance Committee proposed a new orientation program for new directors on the Bank's Board in order to give them an overview of the Bank and its operations. Meetings are arranged with key Senior Management personnel so that directors can discuss with them the main activities and major challenges facing the Bank.
- The Conduct Review and Corporate Governance Committee set up a training program for directors, which was implemented following consultation with directors to identify the training needs of the members of the Board.
- The Directors' Handbook, which describes the responsibilities and obligations of directors, the organizational structure and the mandates of the Board and its committees, is distributed to all directors.
- Special presentations are made to directors at regular meetings on technical, strategic and corporate governance issues, among other topics.

**7. The board should examine its size with a view to determining the impact of the number of directors upon effectiveness, and undertake, where appropriate, a program to reduce the number of directors to a number which facilitates more effective decision-making.**

- The Board, through the Conduct Review and Corporate Governance Committee, periodically examines the impact of its size and composition on its activities in order to maintain a balance between the directors' competencies and experience that will support the Bank's strategic orientations and requirements in the future.
- The retirement age of directors is being gradually lowered from 70 to 65 according to a procedure proposed by the Conduct Review and Corporate Governance Committee and approved by the Board.

**8. The board should review the adequacy and form of the compensation of directors in light of the risks and responsibilities involved in being an effective director.**

- The Conduct Review and Corporate Governance Committee periodically examines the compensation of directors and makes recommendations thereon to the Board. The committee therefore takes into consideration the types of compensation and the amounts paid to directors of Canadian financial institutions and comparable public Canadian companies.
- The Board has established ownership requirements, according to which directors must hold a minimum of 2,000 shares.
- The Bank offers directors the possibility of receiving all or a portion of their compensation directly in the form of stock, cash, deferred stock units, or any combination thereof.

**9. The committees of the board of directors should generally be composed of outside directors, a majority of whom are unrelated directors.**

- The Audit and Risk Management Committee, the Human Resources Committee and the Conduct Review and Corporate Governance Committee are composed exclusively of directors who are non-management members. None of the directors on the Audit and Risk Management Committee or the Conduct Review and Corporate Governance Committee is a related director of the Bank. Only one director on the Human Resources Committee is related to the Bank.

**10. The board of directors should assume responsibility for developing the approach to governance issues, or assign such responsibility to a committee of the board. The committee would, among other things, be responsible for responding to the TSE guidelines.**

- The Conduct Review and Corporate Governance Committee is responsible for preparing and overseeing the Bank's approach to corporate governance and it makes recommendations thereon to the Board. It monitors corporate governance issues that apply to the Bank. This committee and the Board examine and approve the manner in which the Bank responds to the guidelines of The Toronto Stock Exchange. This year, the committee met six times.

## Toronto Stock Exchange Guidelines

## Corporate Governance Practices of the Bank

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| <p><b>11. (a) The board of directors, together with the CEO, should develop position descriptions for the board and for the CEO, involving the definition of the limits to management's responsibilities.</b></p> <p><b>11. (b) The board should approve or develop the general objectives of the bank which the CEO is responsible for meeting.</b></p>   | <ul style="list-style-type: none"><li>• Mandates or position descriptions have been prepared for the Board and its committees as well as for the Chairman of the Board and Chief Executive Officer, specifying their respective responsibilities.</li><li>• The Board has delegated certain specific authority to management. The responsibilities that are not expressly assigned to management remain vested in the Board.</li><li>• The Act limits the powers that may be delegated by the Board to management; more specifically, the declaration of dividends and the approval of annual financial statements are matters within the exclusive purview of the Board.</li><li>• The general objectives that the Chairman of the Board and Chief Executive Officer must achieve are based on the Bank's performance objectives established in the strategic plan, which is approved by the Board. The mandate of the Chairman of the Board and Chief Executive Officer provides for the presentation to the Board of an analysis of the achievement of the strategies of the major sectors of the Bank and its subsidiaries.</li></ul> |
| <p><b>12. (a) The board should have in place appropriate structures and procedures to ensure that the board can function independently of management. An appropriate structure would be to: (i) appoint a chair of the board who is not a member of management with responsibility to ensure that the board discharges its responsibilities or (ii) adopt alternate means such as assigning this responsibility to a committee of the board or to a director, sometimes referred to as the "lead director".</b></p> <p><b>12. (b) Appropriate procedures may involve the board meeting on a regular basis without management present or may involve expressly assigning the responsibility for administering the board's relationship to management to a committee of the board.</b></p> | <ul style="list-style-type: none"><li>• The Board has assigned responsibility for ensuring the Board's effectiveness and independence to the Conduct Review and Corporate Governance Committee.</li><li>• As of March 13, 2002, the functions of Chairman of the Board and of President and Chief Executive Officer of the Bank will be separate. The Chairman of the Board will be responsible for ensuring that the Board discharges its responsibilities effectively and independently. The Conduct Review and Corporate Governance Committee has examined a position description for the Chairman of the Board, which was approved by the Board.</li><li>• In order to increase the Board's independence from management, the outside directors periodically hold in camera meetings under the leadership of the Chair of the Conduct Review and Corporate Governance Committee. During the past financial year, outside directors met in camera seven times. These meetings are followed by a discussion with the Chairman of the Board and Chief Executive Officer.</li></ul>   |
| <p><b>13. (a) The audit committee should be composed only of outside directors.</b></p>  | <ul style="list-style-type: none"><li>• The Audit and Risk Management Committee is composed exclusively of outside directors of the Bank.</li></ul>   |
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## SCHEDULE D (cont.)

### Toronto Stock Exchange Guidelines

**13. (b) The role and responsibilities of the audit committee should be specifically defined so as to provide appropriate guidance to audit committee members as to their duties. The audit committee duties should include oversight responsibility for management reporting on internal control. While it is management's responsibility to design and implement an effective system of internal controls, it is the responsibility of the audit committee to ensure that management has done so.**

**13. (c) The audit committee should have direct communication channels with the internal and external auditors to discuss and review specific issues as appropriate.**

**14. The board of directors should implement a system that enables an individual director to engage an outside advisor at the expense of the bank in appropriate circumstances. The engagement of the outside advisor should be subject to the approval of an appropriate committee of the board.**

### Corporate Governance Practices of the Bank

- This year, the Bank's Board of Directors approved the creation of the Audit and Risk Management Committee. The responsibilities previously vested in the Credit Committee and the Audit Committee were assigned to this new committee, in addition to risk management responsibilities. This committee was set up in response to the profound changes affecting the financial services sector in the area of risk management. The committee is responsible for assuring the Board that the risks to which the Bank is exposed are identified and that they are properly and effectively managed and controlled. This committee was also set up as a result of the adoption of new Standards of Sound Business and Financial Practices focusing on risk management and solid corporate governance. The Audit and Risk Management Committee analyzes, examines and monitors issues related to the management of material financial and non-financial risks to which the Bank is exposed.
- The Board approved the mandate of the Audit and Risk Management Committee. The audit function of the committee's mandate provides that the committee is to examine quarterly and annual consolidated financial statements, make recommendations to the Board regarding the appointment of external auditors, their compensation and their independence, and assess in conjunction with the auditors and management the adequacy of internal controls and the integrity of the procedures established by the Bank to identify and manage risk. The committee also examines the adequacy of the established procedures in order to comply with the laws and regulations applicable to the Bank.
- The Audit and Risk Management Committee periodically meets with internal and external auditors in the absence of other management members in order to discuss specific issues with them.
- A director may, if necessary, engage outside advisors at the expense of the Bank, by authority of the Conduct Review and Corporate Governance Committee, or in the event of an emergency, by authority of the Chair of this committee.

## **GENERAL INFORMATION**

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