



MANDATE

CONDUCT REVIEW AND CORPORATE GOVERNANCE COMMITTEE

MISSION AND MAIN RESPONSIBILITIES

The Conduct Review and Corporate Governance Committee (the "Committee") assists the Board of Directors (the "Board") of National Bank of Canada (the "Bank") by:

- a) assuming the responsibilities assigned to a conduct review committee under the *Bank Act* (Canada) (the "Act"), and;
- b) overseeing the implementation of, and compliance with, corporate governance rules, procedures and policies at the Bank.

The Committee fulfills its responsibilities on behalf of the Board and shareholders by assuming the duties and responsibilities set out in section 8 hereof.

COMPOSITION AND INDEPENDENCE

The Committee is composed of no less than three members, who are appointed annually by the Board from among the directors of the Bank.

Each of the members of the Committee is "independent" within the meaning of the regulations of the Canadian Securities Administrators.

1. CHAIR

The Chair of the Committee is designated by the Board. If the designated Chair is unable to chair a meeting of the Committee, the Committee selects a Chair from the members present for that meeting.

The Chair of the Committee may ask the Chairman of the Board to have certain matters for which the Committee is responsible submitted to the Board.

The duties of the Chair of the Committee are set out in the mandate of the Chair.

2. SECRETARY

The Secretary of the Bank, an Assistant Secretary, or any other person designated by the Secretary, acts as Secretary of the Committee.

3.



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MEETINGS AND CALLING OF MEETINGS

Meetings of the Committee are held at least once per quarter, on the dates and at the times and places set by the Board. The Committee members are informed annually in writing thereof, without any further notice required.

An unscheduled meeting may be called at any time by the Chair of the Committee, the Chairman of the Board, the President and Chief Executive Officer, or one of the Committee members.

A notice specifying the purpose, place, date and time of each unscheduled meeting must be sent to each Committee member by mail or any other means of telephone or electronic communication no less than 24 hours before the time and date set for the meeting.

Unscheduled Committee meetings may be held without notice when all Committee members are present or when the absent members provide a written waiver of notice of meeting.

Meetings of the Committee may be held by telephone or any other means that enables all participants to communicate with each other adequately and simultaneously. Persons participating in a meeting by telephone or any other means of communication are deemed to have attended the meeting.

The external auditors are entitled to receive the notices calling meetings of the Committee, to attend the conduct review portion thereof and to be heard at such meetings.

The Committee may call a meeting of the Board to discuss matters of interest to the Committee.

The Committee members meet in camera at the end of each regular meeting of the Committee, under the direction of the Chair of the Committee.

4. QUORUM

A majority of the Committee members constitutes a quorum.

Quorum shall exist for the entire meeting so that the Committee members can legitimately deliberate and make decisions. However, any director who is not present at any particular time during the meeting for the purposes of subsection 203(1) of the Act (disclosure of interest) shall be considered as attending for the purposes of quorum.

Notwithstanding the foregoing, matters submitted to any meeting of the Committee that require a decision shall be approved by a majority vote of the members present. Should only two members be present and quorum be attained, decisions shall be unanimous.

5. MINUTES

The minutes of each meeting of the Committee, duly approved by the Committee, are entered by the Secretary in a register kept specifically for that purpose.

Once approved, the minutes of each Committee meeting are submitted for information to the members of the Board at a subsequent meeting of the Board.

The Chair of the Committee makes an oral report on the deliberations of each meeting of the Committee at a subsequent meeting of the Board.



6. VACANCY

A vacancy on the Committee is filled by the Board as it deems appropriate. Failure to fill a vacancy does not invalidate the decisions of the Committee, provided there is a quorum.

7. HIRING OF EXTERNAL ADVISORS

The Committee has the authority:

- a) to engage legal counsel and other independent counsel as it determines necessary to carry out its duties and responsibilities;
- b) to set and pay the compensation of any external advisors employed by the Committee; and
- c) to communicate directly with the Vice-President and Corporate Secretary.

8. DUTIES AND RESPONSIBILITIES

The Committee has the following duties and responsibilities:

A) CONDUCT REVIEW

(i) Related Party Transactions

Require management of the Bank to implement procedures in compliance with the provisions of Part XI of the Act regarding related party transactions.

Review said procedures and their effectiveness for ensuring that the Bank respects the provisions of the Act regarding related party transactions.

Review the practices of the Bank to ensure that any related party transactions that could have a material effect on the stability or solvency of the Bank are identified.

Establish criteria to define related party transactions having a nominal or immaterial value, in accordance with the guidelines set out or subject to approval by the Superintendent of Financial Institutions.

Approve the general terms and conditions of loans granted to senior officers, other than margin loans, if such terms and conditions are more favourable than market terms and conditions*.

Approve the general terms and conditions of mortgage loans granted to the spouse of a senior officer, if such terms and conditions are more favourable than market terms and conditions.

* *Subsection 501(2) of the Act defines the expression "market terms and conditions" as follows:*
"(a) in respect of a service or a loan facility or a deposit facility offered to the public by the bank in the ordinary course of business, terms and conditions that are no more or less favourable than those offered to the public by the bank in the ordinary course of business; and
(b) in respect of any other transaction, (i) terms and conditions, including those relating to price, rent or interest rate, that might reasonably be expected to apply in a similar transaction in an open market under conditions requisite to a fair transaction between parties who are at arm's length and who are acting prudently, knowledgeably and willingly, or (ii) if the transaction is one that would not reasonably be expected to occur in an open market between parties who are at arm's length, terms and conditions, including those relating to price, rent or interest rate, that would reasonably be expected to provide the bank with fair value, having regard to all the circumstances of the transaction, and that would be consistent with the parties to the transaction acting prudently, knowledgeably and willingly."



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Approve the terms and conditions of financial services (other than loans or guarantees) offered to senior officers, their spouses or their children who are less than 18 years of age, if such terms and conditions are more favourable than market terms and conditions and the said financial services are also offered to employees of the Bank under the same terms and conditions.

Within 90 days of the end of each fiscal year, report to the Superintendent of Financial Institutions on the Committee's activities during the year as regards the aforementioned responsibilities.

(ii) Professional Ethics

Oversee the implementation of conflict resolution procedures approved by the Board including measures for identifying potential conflict situations and for restricting the use of confidential information.

As necessary, but at least every two years, check the text of the Code of Professional Conduct applicable to directors, officers and employees of the Bank and its subsidiaries, and approve any updates thereto as required.

Require management to report to the Committee annually on the existence at the Bank of a process designed to ensure compliance with the Code of Professional Conduct.

Require management to notify the Committee in a timely manner of all important cases of non-compliance with the Code of Professional Conduct, i.e., cases that could have a significant negative impact on the image and reputation of the Bank and its subsidiaries.

(iii) Disclosure of Information

Oversee the implementation of procedures and mechanisms approved by the Board to disclose information to Bank customers, regardless of the type of information to be disclosed to them pursuant to the Act and its regulations, and ensure that the Bank respects such procedures and mechanisms.

Oversee the application of a procedure approved by the Board to review complaints from persons who have requested or obtained products or services from the Bank in Canada, and ensure that this procedure is respected by the Bank.

Ensure that officers or employees of the Bank are designated to implement this procedure and handle such complaints.

B) CORPORATE GOVERNANCE

(i) Composition of the Board

Periodically review the size of the Board in order to ensure its effectiveness, taking into consideration the competencies, skills and experience sought by the Board and make recommendations thereon to the Board.

Develop and periodically review the criteria used to select directors to ensure that these criteria comply with regulatory requirements, as well as the current and future needs and expectations of the Board in terms of the knowledge, competencies and experience of directors; occasionally review current procedures regarding the selection of new directors to ensure that the selection criteria are applied.



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Ensure the Board's succession planning by administering, together with the Chairman of the Board, the process for selecting new directors in effect at the Bank taking into account the pre-established criteria. Subsequently submit recommendations thereon to the Board.

Review the policies regarding the length of the directors' mandate and make recommendations thereon to the Board.

Adopt any other rule, policy or procedure concerning corporate governance.

Periodically review the guidelines with respect to Bank share ownership under which directors are required to hold a minimum number of shares or deferred stock units.

Assess on an annual basis the independence, eligibility and availability of the directors who are standing for re-election.

(ii) Assessment of Performance

Establish a process for assessing the effectiveness of the Board, its committees, the Chairman of the Board, the chairs of the committees and the directors in fulfilling their mandates. Carry out such assessments regularly, examine the results and report to the Board thereon.

(iii) Orientation and Education of Directors

Ensure the implementation of an orientation program for new directors and an ongoing education program on the operations of the Bank and its subsidiaries that take into account the knowledge and various needs of the directors of the Bank.

(iv) Board Committees

Review the composition and mandate of each committee of the Board as well as the mandates of committee chairs and make recommendations to the Board regarding the creation of new committees, changes to the mandates of Board committees and their respective chairs or the dissolution of Board committees.

Examine the composition of committees taking into account regulatory requirements and the specific needs of the Bank and recommend to the Board the appointment of directors to Board committees.

(v) Mandate of the Board

Review the mandate of the Board, which sets out expectations for directors and management and defines the role and responsibilities of the Board, and recommend approval thereof by the Board.

(vi) Description of the Duties of the Chairman of the Board and the Chairs of the Committees of the Board

Develop and review the mandate of the Chairman of the Board, which describes the duties of the Chairman, and recommend approval thereof to the Board, without directors who are members of management or the Chairman of the Board being present.

Develop and review the mandates of the chairs of the committees of the Board, which describe their duties, and recommend approval of such mandates to the Board, without directors who are members of management or the chairs of the committees being present.



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(vii) Conflict of Interest

Review on a regular basis the list of the boards on which the directors of the Bank serve in order to ensure that there is no conflict of interest.

(viii) Director Compensation and Allowances

Submit to the Board any recommendations deemed relevant on the compensation and allowances payable to the directors of the Bank.

Approve the Bank's taking out of a civil liability insurance policy for directors and officers of the Bank and its subsidiaries.

(ix) Annual Regulatory Disclosure

Approve the annual report of the Bank with respect to corporate governance, taking into account all regulatory requirements applicable in the circumstances.

(x) Management Proxy Circular

Review and recommend to the Board the approval of the Management Proxy Circular excluding the section on human resources and officer compensation.

C) VARIA

Act as a conduct review and corporate governance committee for Natcan Trust Company and, if necessary, for any other subsidiary of the Bank where allowed under its incorporating act, and exercise all the duties incumbent upon such committee in accordance with the *Trust and Loan Companies Act* (Canada) or any other applicable legislative or regulatory provision.

Regularly assess the effectiveness of the Committee and periodically review its mandate.

Exercise any other function assigned to it by the Board and submit to the Board the recommendations the Committee deems appropriate with respect to matters that fall within its purview.