



Annual Information Form

January 16, 2007

Distribution Notice of this Annual Information Form

This Annual Information Form must be accompanied by copies of all documents incorporated herein by reference when it is provided to security holders or other interested parties.

Portions of the Annual Information Form are presented in the following documents and are incorporated herein by reference:

- The Annual Report to Shareholders (the “Annual Report”), including Management’s Discussion and Analysis (the “MD&A”) for the 2006 fiscal year; and
- The Management Proxy Circular dated as at January 16, 2007 (the “Circular”).

Caution Regarding Forward-Looking Statements in this Annual Information Form

From time to time, National Bank of Canada (the “Bank”) makes written and oral forward-looking statements in this Annual Information Form, in other filings with Canadian regulators or the United States Securities and Exchange Commission, in reports to shareholders, in press releases and in other communications. All such statements are made pursuant to Canadian securities regulations and the provisions of the United States *Private Securities Litigation Reform Act of 1995*. These forward-looking statements include, among others, statements with respect to the economy, market changes, the achievement of strategic objectives, certain risks as well as statements with respect to our beliefs, plans, expectations, estimates and intentions. These forward-looking statements are typically identified by the words “may,” “could,” “should,” “would,” “suspect,” “outlook,” “believe,” “anticipate,” “estimate,” “expect,” “intend,” “plan,” and words and expressions of similar import.

By their very nature, such forward-looking statements require us to make assumptions and involve inherent risks and uncertainties, both general and specific. There is significant risk that express or implied projections contained in such statements will not materialize or will not be accurate. A number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking statements. Such differences may be caused by factors, many of which are beyond the Bank’s control, which include, but are not limited to, the management of credit, market and liquidity risks; the strength of the Canadian and United States economies and the economies of other countries in which the Bank conducts business; the impact of the movement of the Canadian dollar relative to other currencies, particularly the U.S. dollar; the effects of changes in monetary policy, including changes in interest rate policies of the Bank of Canada; the effects of competition in the markets in which the Bank operates; the impact of changes in the laws and regulations regulating financial services and enforcement thereof (including banking, insurance and securities); judicial judgments and legal proceedings; the Bank’s ability to obtain accurate and complete information from or on behalf of its clients or counterparties; the Bank’s ability to successfully realign its organization, resources and processes; its ability to complete strategic acquisitions and integrate them successfully; changes in the accounting policies and methods the Bank uses to report its financial condition, including uncertainties associated with critical accounting assumptions and estimates; operational and infrastructure risks; other factors that may affect future results, including changes in trade policies, timely development of new products and services, changes in estimates relating to reserves, changes in tax laws, technological changes, unexpected changes in consumer spending and saving habits; natural disasters; the possible impact on the business from public health emergencies, conflicts, other international events and other developments, including those relating to the war on terrorism; and the Bank’s success in anticipating and managing the foregoing risks.

The Bank cautions that the foregoing list of important factors is not exhaustive. Investors and others who base themselves on the Bank’s forward-looking statements should carefully consider the above factors as well as the uncertainties they represent and the risk they entail. The Bank also cautions readers not to place undue reliance on these forward-looking statements.

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CORPORATE STRUCTURE

Name, Address and Incorporation

National Bank of Canada is a chartered bank governed by the *Bank Act* (Canada). The Bank's roots date back to 1859 with the founding of Banque Nationale in Quebec City. The Bank's current charter is the result of a series of amalgamations, first with Banque d'Hochelega in 1924 to form Bank Canadian National, which then merged with The Provincial Bank of Canada in 1979 to form National Bank of Canada. In 1985, National Bank of Canada acquired The Mercantile Bank of Canada. In 1992, the Bank merged with National Bank Leasing Inc., its wholly owned subsidiary. The head office of the Bank is located at 600 De La Gauchetière Street West, 4th Floor, Montreal, Quebec, Canada H3B 4L2.

GENERAL DEVELOPMENT OF THE BUSINESS

Three Year History

Fiscal 2005-2006: For fiscal 2006, the Bank posted record net income of \$871 million and met or exceeded all of its financial objectives. Diluted earnings per share amounted to \$5.13 in 2006, up from the \$4.90 recorded in 2005. Target growth for the Bank in 2006 was 5% to 10%, excluding certain results from 2005, such as the gain on the disposal of investments in South America and the reversal of the general allowance for credit risk. In fiscal 2006, the \$5.05 diluted earnings per share, excluding the gain on the sale of shareholder management activities and the gain related to the MasterCard IPO, was 10% higher than in the previous fiscal year. Return on common shareholders' equity was 20.1%, higher than the target range of 16% to 18%. The Tier I capital ratio was 9.9% as at October 31, 2006, meeting the objective of a ratio greater than 8.5%. The dividend payout ratio of 38% was within the target range of 35% to 45% of net income. All of the Bank's business segments contributed to the net income growth. Personal and Commercial Banking posted an 8% net income growth, thanks to the strong increase in consumer loans and commercial loans and deposits. The segment also grew its insurance and foreign exchange revenues, and improved its efficiency ratio, while credit losses were up slightly. Wealth Management saw its net income leap 29% from its 2005 level, driven by private investment management and mutual fund revenues, together with a significant improvement in productivity. Net income for the Financial Markets segment was 16% higher than in the previous year, mainly because of securities gains increases and a reduction in the efficiency ratio. Lastly, credit quality remained excellent in 2006 while specific credit losses stood relatively at the same level as in 2005 and gross impaired loans declined 10%.

Fiscal 2004-2005: For fiscal 2005, the Bank posted record net income of \$855 million and met or exceeded all of its financial objectives. Diluted earnings per share amounted to \$4.90 in 2005, up 21% from the \$4.05 recorded in 2004. Target growth was 5% to 10%. Return on common shareholders' equity was 20.7%, well above the target range of 16% to 18%. The Tier 1 capital ratio was 9.6%, whereas the objective was to attain a ratio of more than 8.5%. The dividend payout ratio was 35%, at the lower end of the 35% to 45% target range. In the Personal and Commercial segment, growth was sustained by higher loan volumes with individuals and increased use of bank credit by businesses. Growth in assets under management at Private Investment Management and stronger trading activity by individuals on stock markets helped boost net income in the Wealth Management segment. Lastly, higher trading revenues and lower credit losses in the Financial Markets segment replaced gains on securities and bank financing as key drivers of growth.

Fiscal 2003-2004: The Bank posted record net income of \$725 million for fiscal 2004. In addition, return on common shareholders' equity was 18.8% compared to 16.5% in 2003. Each segment contributed to the Bank's results in fiscal 2003-2004. The increase in the volume of consumer loans for the Personal and Commercial segment was mainly attributable to the contribution of partnerships. With regard to Wealth Management, stock market transactions grew, as did sales of mutual funds and Private Investment Management products. For the Financial Markets segment, revenues from Corporate and Investment Banking and gains on securities largely offset trading activities, demonstrating the soundness of the diversification strategy. Lastly, credit quality remained excellent, as reflected by the reduction in credit losses and impaired loans.

DESCRIPTION OF THE BUSINESS

Effects of Environmental Protection Requirements

In order to address environmental risks and comply with environmental legislation, the Bank implemented a procedure several years ago setting out its environmental responsibilities when granting credit and acquiring property. To date, the risks involved have not had a material impact on the Bank's operations.

DIVIDENDS

In their last three fiscal years, the following subsidiaries of the Bank declared the following dividends to the benefit of shareholders that are neither subsidiaries of the Bank nor the Bank itself :

Natcan Investment Management Inc.

| Share Class/Series | Dividend per share (Fiscal Year 2006*) | Dividend per share (Fiscal Year 2005*) | Dividend per share (Fiscal Year 2004*) |
|--------------------|---|---|---|
| Class A Common | \$ 11.08 | \$ 8.30 | \$ 10.13 |

* Ending October 31

National Bank Group Inc.

| Share Class/Series | Dividend per share (Fiscal Year 2006*) | Dividend per share (Fiscal Year 2005*) | Dividend per share (Fiscal Year 2004*) |
|-----------------------------|---|---|---|
| Class A Preferred, series 1 | \$ 0.2958936 | \$ 0.1959936 | \$ 0.1689344 |
| Class A Preferred, series 2 | \$ 0.02958936 | \$ 0.01959936 | \$ 0.01689344 |
| Class A Preferred, series 3 | \$ 0.02958936 | \$ 0.01959936 | \$ 0.01689344 |
| Class A Preferred, series 4 | \$ 0.02958936 | \$ 0.01959936 | \$ 0.01689344 |
| Class A Preferred, series 5 | \$ 0.0369867 | \$ 0.0244992 | \$ 0.0211168 |
| Class B Preferred, series 1 | \$ 0.2958936 | \$ 0.1959936 | \$ 0.1689344 |
| Class B Preferred, series 2 | \$ 0.02958936 | \$ 0.01959936 | \$ 0.01689344 |
| Class B Preferred, series 3 | \$ 0.02958936 | \$ 0.01959936 | \$ 0.01689344 |
| Class B Preferred, series 4 | \$ 0.02958936 | \$ 0.01959936 | \$ 0.01689344 |
| Class B Preferred, series 5 | \$ 0.0369867 | \$ 0.0244992 | \$ 0.0211168 |

* Ending November 30

NB Capital Corporation

| Share Class/Series | Dividend per share (Fiscal Year 2006*) | Dividend per share (Fiscal Year 2005*) | Dividend per share (Fiscal Year 2004*) |
|--|---|---|---|
| Adjustable Rate Cumulative Senior Preferred Shares | US \$251.12 | US \$201.32 | US \$158.40 |
| 8.35 % Non-cumulative Exchangeable Preferred Stock, Series A | US \$83.50 | US \$83.50 | US \$83.50 |

* Ending December 31

Le Fonds d'Investissement Actions-Croissance PME inc.

| Share Class/Series | Dividend per share (Fiscal Year 2006*) | Dividend per share (Fiscal Year 2005*) | Dividend per share (Fiscal Year 2004*) |
|----------------------|---|---|---|
| Class A, series 1 | \$ 0.856 | Nil | \$ 0.429 |
| Class A, series 93 | \$ 0.856 | Nil | \$ 0.429 |
| Class A, series 94 | \$ 0.856 | Nil | \$ 0.429 |
| Class A, series 95 | \$ 0.856 | Nil | \$ 0.429 |
| Class A, series 96 | \$ 0.856 | Nil | \$ 0.429 |
| Class A, series 97 | \$ 0.856 | Nil | \$ 0.429 |
| Class A, series 98 | \$ 0.856 | Nil | \$ 0.429 |
| Class A, series 99 | \$ 0.856 | Nil | \$ 0.429 |
| Class A, series 2000 | \$ 0.856 | Nil | \$ 0.429 |
| Class A, series 2001 | \$ 0.856 | Nil | \$ 0.429 |
| Class A, series 2002 | \$ 0.856 | Nil | \$ 0.429 |
| Class A, series 2003 | \$ 0.856 | Nil | \$ 0.429 |
| Class A, series 2005 | \$ 0.856 | Nil | Nil |
| Class A, series 2006 | \$ 0.856 | Nil | Nil |
| Class A, series D | \$ 0.856 | Nil | \$ 0.429 |

* Ending December 31

National Bank Funds Corporation

| Share Class/Series | Dividend per share (Fiscal Year 2006*) | Dividend per share (Fiscal Year 2005*) | Dividend per share (Fiscal Year 2004*) |
|--|---|---|---|
| National Bank Strategic Yield Class, Investor/Advisor Series | \$ 1.121092 | \$ 0.433419 | \$ 0.476598 |
| National Bank Strategic Yield Class, Institutional Series | \$ 1.132182 | \$ 0.436628 | \$ 0.477059 |
| National Bank Strategic Yield Class, M Series | \$ 1.140039 | \$ 0.439062 | \$ 0.476779 |

* Ending September 30

SHARE CAPITAL STRUCTURE

The Bank's share capital consists of an unlimited number of common shares without par value, of a limited number of First Preferred Shares without par value, issued in five series (Series 15, 16, 17, 18 and Z), as well as of a limited number of Second Preferred shares without par value. Each of these classes and series is described below.

Common Shares

Common shares of the Bank carry one vote per share. Holders of common shares are entitled to receive dividends, in such amounts and payable at such times as the Board of Directors of the Bank (the "Board") determines. In the event of the liquidation, dissolution or winding-up of the Bank, after payment to the holders of First Preferred Shares and to the holders of Second Preferred Shares of the amounts described in paragraph 3 under "First Preferred Shares" and in paragraph 4 under "Second Preferred Shares", respectively, the remaining property of the Bank will be distributed equally and rateably among the holders of common shares.

As at October 31, 2006, there were 25,531 registered holders of common shares of the Bank listed with the Registrar.

First Preferred Shares

The First Preferred Shares, as a class, carry and are subject to the rights, privileges and conditions set out below:

1) Issuance in Series

The First Preferred Shares may be issued in series. The Board may, by resolution, fix the number of shares in, and determine the respective designations, rights, privileges, restrictions and conditions of, each series of First Preferred Shares, including the terms and conditions of redemption, purchase or conversion and sinking fund or purchase fund provisions.

2) Dividends

Holders of First Preferred Shares are entitled to receive dividends in such amounts and payable at such times as the Board determines. In respect of dividends, holders of any series of First Preferred Shares have priority over the holders of common shares or any other class of shares of the Bank ranking junior to the First Preferred Shares. Holders of any series of First Preferred Shares are not entitled to any dividends other than those expressly provided for in the rights, privileges, restrictions and conditions attached to such series of First Preferred Shares.

3) Liquidation, Dissolution or Winding-Up

In the event of the liquidation, dissolution or winding-up of the Bank, before any amount is paid for any property distributed to the holders of common shares or shares of any other class of shares ranking junior to the First Preferred Shares, the holders of each series of First Preferred Shares are entitled to receive (i) an amount equal to the price at which such shares were issued, (ii) such premium, if any, as has been provided for with respect to such series, and (iii) in the case of cumulative First Preferred Shares, all cumulative accrued and unpaid dividends, and in the case of non-cumulative First Preferred Shares, all non-cumulative dividends declared and remaining unpaid up to and including the date of distribution. After payment to the holders of First Preferred Shares of the amounts so payable to them, they may not participate in any further distribution of the property or assets of the Bank.

4) Voting Rights

Holders of First Preferred Shares do not, as such, have any voting rights for the election of directors of the Bank or for any purpose other than that prescribed by law.

Each series of First Preferred Shares has its own set of terms and conditions.

Series 15 (Series K) (NA.PR.K)

Subject to the consent of the Superintendent of Financial Institutions (Canada), the Bank may, at its option, redeem for cash the First Preferred Shares, Series 15 on or after May 15, 2008, in whole or in part, at any time at a price equal to \$26.00 per share if they are redeemed prior to May 15, 2009, at \$25.75 per share if they are redeemed during the 12 months prior to May 15, 2010, at \$25.50 per share if they are redeemed during the 12 months prior to May 15, 2011, at \$25.25 per share if they are redeemed during the 12 months prior to May 15, 2012, and at \$25.00 per share if they are redeemed on or after May 15, 2012, in each case together with all declared and unpaid dividends thereon up to the date fixed for redemption.

Holders of First Preferred Shares, Series 15 will be entitled to receive a quarterly non-cumulative preferential cash dividend, as and when declared by the Board, on the 15th day of February, May, August and November of each year, at a quarterly rate equal to \$0.365625 per share. The first of such dividends was paid on May 15, 2003. It was \$0.416712 per share, based on the closing date of January 31, 2003.

Series 16 (Series L) (NA.PR.L)

Subject to the consent of the Superintendent of Financial Institutions (Canada), the Bank may, at its option, redeem for cash the First Preferred Shares, Series 16 on or after May 15, 2010, in whole or in part, at any time at a price equal to \$26.00 per share if they are redeemed prior to May 15, 2011, at \$25.75 per share if they are redeemed during the 12 months prior to May 15, 2012, at \$25.50 per share if they are redeemed during the 12 months prior to May 15, 2013, at \$25.25 per share if they are redeemed during the 12 months prior to May 15, 2014, and at \$25.00 per share if they are redeemed on or after May 15, 2014, in each case together with all declared and unpaid dividends thereon up to the date fixed for redemption.

Holders of First Preferred Shares, Series 16 will be entitled to receive a quarterly non-cumulative preferential cash dividend, as and when declared by the Board, on the 15th day of February, May, August and November of each year, at a quarterly rate equal to \$0.303125 per share. The first of such dividends was paid on May 15, 2005. It was \$0.202637 per share, based on the closing date of March 15, 2005.

Series 17

The First Preferred Shares, Series 17 are part of the Bank's authorized share capital, but no share in this series had been issued or traded as at October 31, 2006. Subject to the consent of the Superintendent of Financial Institutions (Canada), the Bank may, at its option, redeem for cash the First Preferred Shares, Series 17 on or after June 30, 2011, in whole or in part, at any time at a price equal to \$26.00 per share if they are redeemed on or prior to June 30, 2012, at \$25.75 per share if they are redeemed during the 12 months prior to June 30, 2013, inclusively, at \$25.50 per share if they are redeemed during the 12 months prior to June 30, 2014, inclusively, at \$25.25 per share if they are redeemed during the 12 months prior to June 30, 2015, inclusively, and at \$25.00 per share if they are redeemed on or after June 30, 2015, in each case together with all declared and unpaid dividends thereon up to the date fixed for redemption.

Holders of First Preferred Shares, Series 17 will be entitled to receive a semi-annual non-cumulative preferential cash dividend, as and when declared by the Board, on the last day of June and the last day of December of each year, at a rate equal to \$0.469 per share.

Series 18

The First Preferred Shares, Series 18 are part of the Bank's authorized share capital, but no share in this series had been issued or traded as at October 31, 2006. Subject to the consent of the Superintendent of Financial Institutions (Canada), the Bank may, at its option, redeem for cash the First Preferred Shares, Series 18 on or after June 30, 2011, in whole or in part, at any time at a price equal to \$26.00 per share if they are redeemed on or prior to June 30, 2012, at \$25.75 per share if they are redeemed during the 12 months prior to June 30, 2013, inclusively, at \$25.50 per share if they are redeemed during the 12 months prior to June 30, 2014, inclusively, at \$25.25 per share if they are redeemed during the 12 months prior to June 30, 2015, inclusively, and at \$25.00 per share if they are redeemed on or after June 30, 2015, in each case together with all declared and unpaid dividends thereon up to the date fixed for redemption.

Holders of First Preferred Shares, Series 18 will be entitled to receive a semi-annual non-cumulative preferential cash dividend, as and when declared by the Board, on the last day of June and the last day of December of each year, at a rate equal to \$0.60 per share.

Series Z

The First Preferred Shares, Series Z are part of the Bank's authorized share capital, but no share in this series had been issued or traded as at October 31, 2006. Subject to the provisions of the *Bank Act* (Canada), including obtaining the consent of the Superintendent of Financial Institutions (Canada), the Bank may, at its option, redeem for cash the First Preferred Shares, Series Z on or after September 3, 2007, in whole or in part, at any time at pre-set redemption prices, together with all declared and unpaid dividends thereon up to the date fixed for redemption.

Holders of First Preferred Shares, Series Z will be entitled to receive a non-cumulative preferential cash dividend, as and when declared by the Board, out of the assets of the Bank available for such purpose, at the rate of 8.45% per annum. If declared, dividends on the First Preferred Shares, Series Z will be payable quarterly in arrears on the 30th day of March, June, September and December of each year, or, if such day is not a business day, on the next business day.

Second Preferred Shares

The Second Preferred Shares are part of the Bank's authorized share capital, but no share in this class had been issued or traded as at October 31, 2006. The Second Preferred Shares carry and are subject to the rights, privileges and conditions set out below:

1) Rank

The Second Preferred Shares rank before the common shares and the shares of all other classes of shares of the Bank that rank junior to the Second Preferred Shares, but rank junior to the First Preferred Shares with regard to dividends and reimbursement of capital in the event of liquidation, dissolution or winding up of the Bank.

2) Issuance in Series

The Second Preferred Shares may be issued in series. The Board may, by resolution, fix the number of shares in, and determine the respective designations, rights, privileges, restrictions and conditions of, each series of Second Preferred Shares, including the terms and conditions of redemption, purchase or conversion and sinking fund or purchase fund provisions.

3) Dividends

Holders of Second Preferred Shares are entitled to receive dividends in such amounts and payable at such times as the Board determines. With respect to dividends, holders of any series of Second Preferred Shares have priority over the holders of common shares or any other class of shares of the Bank ranking junior to the Second Preferred Shares. The holders of any series of Second Preferred Shares are not entitled to any dividends other than those expressly provided for in the rights, privileges, restrictions and conditions attached to such series of Second Preferred Shares.

4) Liquidation, Dissolution or Winding-Up

In the event of the liquidation, dissolution or winding-up of the Bank, before any amount is paid for any property distributed to the holders of common shares or shares of any other class of shares ranking junior to the Second Preferred Shares, the holders of each series of Second Preferred Shares are entitled to receive (i) an amount equal to the price at which such shares were issued, (ii) such premium, if any, as has been provided for with respect to such series, and (iii) in the case of cumulative Second Preferred Shares, all cumulative accrued and unpaid dividends, and in the case of non-cumulative Second Preferred Shares, all non-cumulative dividends declared and remaining unpaid up to and including the date of distribution. After payment to the holders of the Second Preferred Shares of the amounts so payable to them, they may not participate in any further distribution of the property or assets of the Bank.

5) Voting Rights

Holders of Second Preferred Shares do not, as such, have any voting rights for the election of directors of the Bank or for any purpose other than that prescribed by law.

MARKET FOR SECURITIES

Trading Price and Volume

The common shares, the First Preferred Shares, Series 15 and 16, and the notes of the Bank (described below) are listed on the Toronto Stock Exchange (the "TSX") in Canada. The First Preferred Shares, Series 17, 18 and Z, and the Second Preferred Shares are part of the authorized capital of the Bank, but no shares of these series or of that class had been issued or traded as at October 31, 2006.

| Issue or Class | Ticker Symbol | Newspaper Abbreviation |
|------------------------|---------------|---|
| Common Shares | NA | Nat Bk, Natl Bk or Nat Bk (NA) |
| First Preferred Shares | | |
| Series 15 | NA.PR.K | Nat Bk s15, Natl Bk s15 or Nat Bk (NA.PR.K) |
| Series 16 | NA.PR.L | Nat Bk s16, Natl Bk s16 or Nat Bk (NA.PR.L) |
| Notes | | |
| Nikkei 225 (2009) | NA.NT.J | |
| Nikkei 225 (2007) | NA.NT.K | |

The following tables show the monthly price ranges and trading volumes of each of the Bank's securities listed on the TSX for the 2006 fiscal year.

Common shares (NA)

| Date | High (\$) | Low (\$) | Volume |
|---------|-----------|----------|------------|
| 2006/10 | 61.94 | 58.27 | 14,117,948 |
| 2006/09 | 61.95 | 59.25 | 10,129,670 |
| 2006/08 | 63.38 | 58.02 | 9,118,197 |
| 2006/07 | 60.50 | 56.00 | 9,538,747 |
| 2006/06 | 62.09 | 55.89 | 12,455,536 |
| 2006/05 | 62.76 | 58.05 | 8,732,501 |
| 2006/04 | 65.00 | 62.02 | 8,470,885 |
| 2006/03 | 65.38 | 62.50 | 14,699,797 |
| 2006/02 | 65.84 | 61.11 | 9,608,451 |
| 2006/01 | 63.35 | 59.37 | 14,668,647 |
| 2005/12 | 62.82 | 58.26 | 13,621,600 |
| 2005/11 | 64.00 | 58.76 | 8,853,643 |

First Preferred Shares, Series 15 (NA.PR.K)

| Date | High (\$) | Low (\$) | Volume |
|---------|-----------|----------|---------|
| 2006/10 | 27.59 | 27.00 | 214,811 |
| 2006/09 | 27.49 | 26.75 | 270,405 |
| 2006/08 | 26.85 | 26.48 | 55,595 |
| 2006/07 | 27.25 | 26.15 | 62,571 |
| 2006/06 | 27.00 | 26.26 | 97,275 |
| 2006/05 | 26.40 | 26.06 | 106,210 |
| 2006/04 | 27.30 | 26.06 | 86,931 |
| 2006/03 | 27.50 | 27.10 | 109,626 |
| 2006/02 | 27.48 | 26.66 | 66,524 |
| 2006/01 | 27.40 | 26.55 | 208,892 |
| 2005/12 | 27.40 | 26.90 | 67,261 |
| 2005/11 | 27.45 | 26.50 | 106,762 |

First Preferred Shares, Series 16 (NA.PR.L)

| Date | High (\$) | Low (\$) | Volume |
|---------|-----------|----------|---------|
| 2006/10 | 25.83 | 25.41 | 353,011 |
| 2006/09 | 25.71 | 25.21 | 92,720 |
| 2006/08 | 25.30 | 24.97 | 96,585 |
| 2006/07 | 25.34 | 24.66 | 142,633 |
| 2006/06 | 25.37 | 24.81 | 198,952 |
| 2006/05 | 25.15 | 24.80 | 126,742 |
| 2006/04 | 26.00 | 24.65 | 163,886 |
| 2006/03 | 26.45 | 25.70 | 146,188 |
| 2006/02 | 25.89 | 25.59 | 127,414 |
| 2006/01 | 26.25 | 25.25 | 140,615 |
| 2005/12 | 25.99 | 25.40 | 97,726 |
| 2005/11 | 25.70 | 24.90 | 242,131 |

Nikkei 225 Notes (2009) (NA.NT.I)

| Date | High (\$) | Low (\$) | Volume |
|---------|-----------|----------|--------|
| 2006/10 | 9.60 | 9.25 | 13,950 |
| 2006/09 | 9.55 | 9.25 | 8,650 |
| 2006/08 | 9.60 | 9.25 | 5,430 |
| 2006/07 | 9.55 | 9.28 | 9,340 |
| 2006/06 | 9.55 | 9.40 | 7,680 |
| 2006/05 | 9.85 | 9.55 | 14,950 |
| 2006/04 | 10.00 | 9.75 | 12,830 |
| 2006/03 | 9.85 | 9.55 | 19,100 |
| 2006/02 | 9.80 | 9.55 | 18,800 |
| 2006/01 | 9.73 | 9.41 | 39,500 |
| 2005/12 | 9.55 | 9.15 | 26,400 |
| 2005/11 | 9.22 | 8.93 | 16,839 |

Nikkei 225 Notes (2007) (NA.NT.K)

| Date | High (\$) | Low (\$) | Volume |
|---------|-----------|----------|--------|
| 2006/10 | 11.06 | 10.60 | 10,350 |
| 2006/09 | 10.80 | 9.95 | 17,600 |
| 2006/08 | 10.79 | 10.10 | 12,300 |
| 2006/07 | 10.60 | 10.35 | 10,910 |
| 2006/06 | 10.85 | 10.36 | 6,580 |
| 2006/05 | 11.10 | 10.80 | 6,500 |
| 2006/04 | 11.35 | 11.05 | 4,500 |
| 2006/03 | 11.10 | 10.50 | 11,875 |
| 2006/02 | 10.90 | 10.70 | 8,691 |
| 2006/01 | 10.90 | 10.50 | 31,660 |
| 2005/12 | 10.70 | 10.26 | 19,000 |
| 2005/11 | 10.30 | 9.90 | 39,780 |

The following tables show the monthly price ranges and trading volumes of each of the Bank's securities listed on the Luxembourg Stock Exchange for the 2006 fiscal year.

Floating-rate bond (NatBkCan 3.405% 03-08 29/08t)

| Date | High (€) | Low (€) | Volume* |
|---------|-------------|---------------------|------------|
| 2006/10 | 100.1618d** | | 10,000,000 |
| 2006/09 | | Security not traded | |
| 2006/08 | | Security not traded | |
| 2006/07 | | Security not traded | |
| 2006/06 | | Security not traded | |
| 2006/05 | 100.16i*** | | |
| 2006/04 | | Security not traded | |
| 2006/03 | | Security not traded | |
| 2006/02 | | Security not traded | |
| 2006/01 | | Security not traded | |
| 2005/12 | 100.13i*** | | |
| 2005/11 | | Security not traded | |

Floating-rate bond (NatBkCan 5.24563% 04-09 16/10t)

| Date | High (€) | Low (€) | Volume* |
|---------|------------|---------------------|---------|
| 2006/10 | 100.17i*** | | |
| 2006/09 | | Security not traded | |
| 2006/08 | | Security not traded | |
| 2006/07 | | Security not traded | |
| 2006/06 | | Security not traded | |
| 2006/05 | 100.08i*** | | |
| 2006/04 | | Security not traded | |
| 2006/03 | | Security not traded | |
| 2006/02 | | Security not traded | |
| 2006/01 | | Security not traded | |
| 2005/12 | 100.10i*** | | |
| 2005/11 | | Security not traded | |

Floating-rate bond (NatBkCan 5.47375% 05-10 20/10t)

| Date | High (€) | Low (€) | Volume* |
|---------|------------|---------------------|---------|
| 2006/10 | | Security not traded | |
| 2006/09 | | Security not traded | |
| 2006/08 | | Security not traded | |
| 2006/07 | | Security not traded | |
| 2006/06 | 100.04i*** | | |
| 2006/05 | | Security not traded | |
| 2006/04 | | Security not traded | |
| 2006/03 | | Security not traded | |
| 2006/02 | | Security not traded | |
| 2006/01 | | Security not traded | |
| 2005/12 | | Security not traded | |
| 2005/11 | | Security not traded | |

Floating-rate bond (NatBkCan 5.52% 02-07 10/10t)

| Date | High (€) | Low (€) | Volume* |
|---------|------------|---------------------|---------|
| 2006/10 | 100.12i*** | | |
| 2006/09 | | Security not traded | |
| 2006/08 | | Security not traded | |
| 2006/07 | | Security not traded | |
| 2006/06 | | Security not traded | |
| 2006/05 | | Security not traded | |
| 2006/04 | | Security not traded | |
| 2006/03 | | Security not traded | |
| 2006/02 | | Security not traded | |
| 2006/01 | | Security not traded | |
| 2005/12 | 100.18i*** | | |
| 2005/11 | | Security not traded | |

Floating-rate bond (NatBkCan 5.625% 88-87 31/08s)

| Date | High (€) | Low (€) | Volume* |
|---------|-----------|---------------------|---------|
| 2006/10 | 80.50i*** | | |
| 2006/09 | | Security not traded | |
| 2006/08 | | Security not traded | |
| 2006/07 | | Security not traded | |
| 2006/06 | 80.50i*** | | |
| 2006/05 | | Security not traded | |
| 2006/04 | | Security not traded | |
| 2006/03 | | Security not traded | |
| 2006/02 | | Security not traded | |
| 2006/01 | | Security not traded | |
| 2005/12 | | Security not traded | |
| 2005/11 | | Security not traded | |

Notes about prices and volumes for securities listed on the Luxembourg Stock Exchange:

* Volumes for Bank securities listed on the Luxembourg Stock Exchange are expressed in euros (€), and do not express the number of securities traded.

** The letter "d" after a monetary value indicates a block trade, i.e., any trade of a block of a security at an actual price, not a quote.

*** The letter "i" after a monetary value indicates a quote. As no securities were traded on the market, the quote assigns a value to the purchase made in the relevant month.

Credit Ratings

The table below provides the credit ratings assigned to the Bank's outstanding securities by the following rating agencies:

| | | | |
|--|--------------|--|-------------|
| 1. Moody's Investors Service, Inc. | Bank | 3. Dominion Bond Rating Service Limited | Bank |
| Short-Term | P-1 | Short-Term Instruments | R-1 (Mid) |
| Long-Term Bank Deposits | A1 | Deposits and Senior Debt | AA (Low) |
| Long-Term Senior Debt | A1 | Subordinated Debt | A (High) |
| Long-Term Subordinated Debt | A2 | Cumulative Preferred Shares | Pfd-1 (Low) |
| Issuer Rating | A1 | Non-Cumulative Preferred Shares | Pfd-1 (Low) |
| Financial Strength | B- | | |
| | | | |
| 2. Standard & Poor's, a division of The McGraw-Hill Companies, Inc. | Bank | 4. Fitch Ratings Ltd. | Bank |
| Short-Term Counterparty | A-1 | Short-Term | F1 |
| Long-Term Counterparty | A | Long-Term | A+ |
| Senior Unsecured Debt | A | Individual | B |
| Subordinated Debt | A- | Support | 2 |
| Commercial Paper (Canadian scale) | A-1 (Middle) | | |
| Commercial Paper (Global scale) | A-1 | | |
| Preferred Stock (Canadian scale) | P-2 (High) | | |
| Preferred Stock (Global scale) | BBB+ | | |

The ratings should not be construed as recommendations to buy, sell or hold Bank securities. Rating agencies may revise or withdraw their ratings at any time.

The definition of the different ratings as at October 31, 2006 was obtained from the websites of the respective rating agencies and is provided in Appendix A of this Annual Information Form.

Description of Notes

Nikkei 225 Protected Index Notes (2009) (NA.NT.J)

The Nikkei 225 Protected Index Notes (the "NA.NT.J Notes") will mature on April 30, 2009 ("NA.NT.J Maturity"). As at October 31, 2006, 1,100,000 NA.NT.J Notes had been issued at a price of \$ 10 per Note. The NA.NT.J Notes may not be called for redemption by the Bank prior to NA.NT.J Maturity. At that date, each holder of NA.NT.J Notes will receive in respect of each Note held the greater of (a) \$10 and (b) the repurchase price (as defined below) which will be computed by reference to the Nikkei 225 Index. The repurchase price of each NA.NT.J Note will be equal to the aggregate of \$10 and the amount obtained by multiplying \$10 by 100% of the appreciation rate of the Nikkei 225 Index from the date of issue to NA.NT.J Maturity (rounded down to the nearest cent). No interest will be paid on NA.NT.J Notes, if any, except at NA.NT.J Maturity.

Nikkei 225 Protected Index Notes (2007) (NA.NT.K)

The Nikkei 225 Protected Index Notes (the "NA.NT.K Notes") will mature on March 30, 2007 ("NA.NT.K Maturity"). As at October 31, 2006, 1,000,000 NA.NT.K Notes were issued at a price of \$ 10 per Note. The NA.NT.K Notes may not be called for redemption by the Bank prior to NA.NT.K Maturity. At that date, each holder of NA.NT.K Notes will receive in respect of each NA.NT.K Note held the greater of (a) \$10 and (b) the repurchase price (as defined below) which will be computed by reference to the Nikkei 225 Index. The repurchase price of each NA.NT.K Note will be equal to the aggregate of \$10 and the amount obtained by multiplying \$10 by 100% of the appreciation rate of the Nikkei 225 Index from the date of issue to NA.NT.K Maturity (rounded down to the nearest cent). No interest will be paid on NA.NT.K Notes, if any, except at NA.NT.K Maturity.

PRIOR SALES

The Bank sold one subordinated debt securities issue during fiscal 2006. That issue is not listed on a Canadian stock market:

- Subordinated indebtedness (Series 4 Medium-Term Notes) totalling \$500,000,000, sold in tranches, maturing on November 2, 2020, issued on November 2, 2005.

ESCROWED SECURITIES

The securities listed in the table below are, to the Bank's knowledge, all the voting securities of the Bank held in escrow:

Escrowed Securities

| Designation of class | Number of Securities held in Escrow | Percentage of class |
|----------------------|-------------------------------------|---------------------|
| Common | 476,119 | 0.29% |

Note: The above-listed securities are held in escrow by First Republic Trust Company (as escrow agent), and are to be released from escrow as at such date on which all conditions precedent for their release are satisfied, including the absence of claims between the parties to the escrow agreement.

DIRECTORS AND EXECUTIVE OFFICERS

Directors

Since November 1, 2001, the directors whose names appear on page 122 of the Annual Report of the Bank have held the principal functions described in the "Information on Nominees for Election to the Board of Directors" section of the Circular on pages 11 to 17. All directors hold office until their resignation or the election or appointment of their replacement, or until the close of the subsequent annual meeting of the Bank.

Executive Officers

Since November 1, 2001, the executive officers whose names appear on pages 123 and 124 of the Annual Report of the Bank have held various management, executive or senior executive positions at the Bank, except for:

| | |
|---|---|
| Guy Benoit: (Québec, Canada) | from 1998 to 2003, Vice-President – Central District, Toronto-Dominion Bank |
| Chantal Brien: (Québec, Canada) | from 2003 to 2004, Associate Advisor, Société Conseil Mercer Ltée |
| Alain Brunet: (Québec, Canada) | from 1997 to 2003, Senior Vice-President, Marketing, and member of the Executive Committee, Standard Life Insurance Company of Canada; 2003, Senior Vice-President, Marketing and Sales, Individual Markets, and member of the Executive Committee, Standard Life Insurance Company of Canada; from 2003 to 2006, Senior Vice-President, Retail Markets, and member of the Executive Committee, Standard Life Insurance Company of Canada |
| Jean-François Bureau: (Québec, Canada) | from 2001 to 2002, Vice-President – Mezzanine Loans and Investments, EdgeStone Capital Partners Inc.; from 2002 to 2003, Senior Vice-President and Chief Financial Officer, Cable Satisfaction International Inc. |
| Linda Caty: (Québec, Canada) | from 2003 to 2004, Corporate Secretary, BCE Inc. |
| Diane Déry: (Québec, Canada) | from 2000 to 2005, General Manager, Business Financial Centre, Caisse Desjardins des Hautes-Marées (a credit union) |
| Pascal Duquette: (Québec, Canada) | from 1998 to 2004, International Equities Manager, Canadian National Railway (CN) |

| | |
|--|--|
| Pierre Fitzgibbon: (Québec, Canada) | from 2000 to 2002, Chief Executive Officer, New World PCS Limited, Hong Kong |
| Gary Flowers: (Ontario, Canada) | from 1997 to 2003, Vice-President, National Accounts Group, Commercial Banking, Toronto-Dominion Bank; from 2001 to 2004, Senior Vice-President, CBC King & Bay and National Accounts Group, Toronto-Dominion Bank; from 2004 to 2006, Senior Vice-President, National Accounts Group, Toronto-Dominion Bank |
| Lynn Jeannot: (Québec, Canada) | from 1998 to 2002, Executive Director, Canadian Bankers' Institute |
| Alice Keung: (Québec, Canada) | from 2000 to 2003, Vice-President, Information Technology and Chief Information Officer, Air Canada |
| Nicolas Milette: (Québec, Canada) | from 1999 to 2001, Investment Advisor, RBC Dominion Securities Inc. |
| Ricardo Pascoe: (Ontario, Canada) | from 2000 to 2002, Executive General Manager – Americas, Commerzbank Capital Markets Corp., New York and Global Head of Fixed Income Trading and Global Head of Alternative Investment Strategies, Commerzbank Securities; from 2002 to 2003, Global Head of Markets, Commerzbank Securities, London, UK |
| Bernard Sévigny: (Québec, Canada) | from 1999 to 2006, Vice-President (Business Intelligence), DMR Consulting, a Fujitsu Company. |

Shareholdings of Directors and Executive Officers

The directors and executive officers of the Bank, as a group, beneficially own, collectively, less than 2% of the outstanding common shares of the Bank.

Cease Trade Orders, Bankruptcies, Penalties or Sanctions

To the Bank's knowledge, no director or executive officer of the Bank is, at the date of this Annual Information Form, or has been, within 10 years before the date of the Annual Information Form, a director or executive officer of any company that, while that person was acting in that capacity, (i) was the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days, or (ii) was subject to an event that resulted, after the director or executive officer ceased to be a director or executive officer, in the company being the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days, or (iii) within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets, except for:

- Jean-François Bureau, who, in 2002, was head of Finance at Cable Satisfaction International Inc., for the purpose of supervising its restructuring, which included a 2003 filing for protection under the *Companies' Creditors Arrangement Act* (Canada);
- Gérard Coulombe, who was, until September 28, 2005, a board member of Centre International de Gestion de Projets G.P., a not-for-profit company, which was adjudged a bankrupt on September 29, 2005;
- Marcel Dutil, who was on the board of Total Containment, Inc. when it was placed under the protection of Chapter 11 (Bankruptcy) of the *United States Code* on March 4, 2004;
- Paul Gobeil, who, until November 12, 2001, served on the boards of BridgePoint International Inc. and its wholly owned subsidiary BridgePoint International (Canada) Inc. BridgePoint International (Canada) Inc. filed a proposal with its creditors on January 25, 2002. The TSX suspended trading on the shares of BridgePoint International Inc. on January 31, 2002 for failure to meet the listing requirements of the TSX. The shares of BridgePoint International Inc. were delisted from the TSX at the close of business on January 31, 2003; and
- Ms. Alice Keung, who was, until June 2003, an officer of Air Canada, which, on April 1, 2003, filed for protection under the *Companies' Creditors Arrangement Act* (Canada) and Chapter 11 (Bankruptcy) of the *United States Code*.

In addition, to the knowledge of the Bank, no director or executive officer of the Bank has, within the 10 years before the date of this Annual Information Form, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director or executive officer.

Furthermore, to the knowledge of the Bank, no director or executive officer of the Bank has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority, or has been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision. Moreover, in the opinion of the Bank, no disclosure of a settlement agreement entered into by a director or executive officer of the Bank before December 31, 2000 would likely be important to a reasonable investor in making an investment decision.

LEGAL PROCEEDINGS

In March and April 2006, National Bank Securities Inc. (“NBSI”) was ordered by the Autorité des marchés financiers (Quebec), the Ontario Securities Commission and the New Brunswick Securities Commission to pay administrative sanctions totalling \$25,300 for failure to timely file an Annual Information Form in respect of five funds managed by NBSI. The sanctions were imposed after NBSI’s argument that such filing was not necessary because of a prior exemption from the requirement to file public disclosure documents in respect of the funds was rejected further to a regulatory change that came into force after the exemption was granted.

TRANSFER AGENT AND REGISTRAR

Computershare Trust Company of Canada
1500 University, Suite 700
Montreal, Quebec, Canada H3A 3S8
Telephone: 1-888-838-1407
Fax: 1-888-453-0330
E-mail: service@computershare.com
Internet: www.computershare.com

Mailing address:

Computershare Trust Company of Canada
100 University Avenue, 9th Floor
Toronto, Ontario, Canada M5J 2Y1

INTERESTS OF EXPERTS

Samson Bélair/Deloitte & Touche s.e.n.c.r.l. is the external auditor of the Bank. This firm has prepared the Auditors’ Report to shareholders in respect of the Bank’s consolidated financial statements.

INFORMATION ON THE AUDIT AND RISK MANAGEMENT COMMITTEE OF THE BOARD OF DIRECTORS

Below please find the mandate of the Audit and Risk Management Committee of the Board. For additional information on this committee, please see the section entitled “Report of the Audit and Risk Management Committee” in the Circular.

Mandate

Mission and Main Responsibilities

The Audit and Risk Management Committee (the “Committee”) assists the Board of Directors (the “Board”) of National Bank of Canada (the “Bank”) by:

- a) reviewing the consolidated financial statements of the Bank, processes for presenting and disclosing financial information, internal controls, audit processes and management information systems in order to determine their integrity and effectiveness;
- b) acting as intermediary between the Board and the independent oversight functions (Internal Audit, external audit and Corporate Compliance);
- c) supervising the work of Internal Audit and Corporate Compliance;
- d) carrying out a detailed review of risk management and risk management controls.

The external auditors of the Bank report directly to the Committee and report to the Board and to the Committee as representatives of the shareholders.

The Committee fulfills its responsibilities on behalf of the Board and the 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 Multilateral Instrument 52-110 respecting Audit Committees of the Canadian Securities Administrators (the “Instrument”).

Each of the Committee members is “financially literate” within the meaning of the Instrument⁽¹⁾ and at least one member has “accounting or related financial expertise”.

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 one of the members of the Committee 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. 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 members of the Committee 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, one of the members of the Committee, the Senior Vice President – Internal Audit, the Senior Vice-President – Risk Management, the Senior Vice-President – Finance, Technology and Corporate Affairs, or by the external auditors.

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 which 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 audit 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 Committee meeting under the direction of the Chair of the Committee.

(1) According to the Instrument, “financially literate” means the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised in reading the Bank’s financial statements.

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 *Bank Act* (Canada) (the “Act”) (disclosure of interest) shall be considered as attending for the purposes of quorum.

Notwithstanding the foregoing, the decisions made by the Committee concerning matters submitted for its consideration shall be made 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 advisors as it determines necessary to carry out its duties;
- b) to set and pay the compensation of any external advisors employed by the Committee; and
- c) to communicate directly with the external auditors, the Senior Vice-President – Internal Audit, the Senior Vice-President – Risk Management, the Senior Vice-President – Finance, Technology and Corporate Affairs, the Vice-President – Corporate Compliance and any other member of management.

8. Duties and Responsibilities

The Committee has the following duties and responsibilities:

A) Finance and Corporate Affairs

Require management to implement and maintain appropriate internal control procedures, and review, evaluate and approve such procedures.

Review the effectiveness of the internal control policies and procedures of the Bank with the Senior Vice-President – Internal Audit, the Senior Vice-President – Finance, Technology and Corporate Affairs and the Vice-President – Corporate Compliance.

(i) Internal Audit

Ensure the independence and effectiveness of Internal Audit, in particular by requiring that the function be free of any influence that could adversely affect its ability to objectively assume its responsibilities and ensuring that it reports to an appropriate line level.

Review, annually, the mandate and the nature and scope of the work of Internal Audit, examine and approve its annual plan, and ensure that the function has the necessary resources to fulfill its mandate and responsibilities.

Review the quarterly and annual reports of Internal Audit and ensure that the necessary steps are taken to follow up on report recommendations.

Review, as required, the reports of the Senior Vice-President – Internal Audit on the major recommendations for which the recommended corrective action has not been taken.

Participate in drawing up a succession plan for the Senior Vice-President – Internal Audit, take cognizance of the recommendations of the President and Chief Executive Officer of the Bank with respect to the appointment or dismissal of the Senior Vice-President – Internal Audit and make the appropriate recommendations to the Board thereon.

Assess the overall performance of the internal audit function, and assess the performance and participate in determining the compensation of the Senior Vice-President – Internal Audit.

Meet with the Senior Vice-President – Internal Audit without management being present.

Review any document required by the Superintendent of Financial Institutions and the recommendations made by regulatory authorities or the internal or external auditors and report thereon to the Board.

Ensure cooperation between the internal and external auditors of the Bank.

(ii) External Audit

Oversee the work of the external auditors appointed by the shareholders to express an opinion on the Bank's consolidated financial statements based on their audit or to perform other audit, review or attest services for the Bank, including the review of the interim consolidated financial statements and the resolution of disagreements between management and the external auditors regarding financial reporting.

Make recommendations to the Board of the Bank regarding the appointment of the external auditors and their compensation and review the nature and scope of their work.

Ensure that the scope of the audit plan is appropriate, i.e., that it is risk based and addresses major areas of concern.

Discuss with the external auditors the quality of the financial statements and ensure that the financial statements present fairly the financial position, results of operations and the cash flows of the Bank.

Review and discuss the written report of the external auditors detailing all factors that might have an impact on their independence and objectivity; recommend measures to be taken by the Board to ensure the independence of the external auditors.

Meet with the external auditors and management to discuss the annual consolidated financial statements, the documents required by the Superintendent of Financial Institutions or transactions that could adversely affect the financial well-being of the Bank.

Discuss with the external auditors the quality and acceptability of the accounting principles applied in preparing the consolidated financial statements.

Review the annual management letter from the external auditors of the Bank and follow up on the corrective action taken by management.

Meet regularly with the external auditors of the Bank without management being present.

Assess the overall performance of the external auditors, including all audit and non-audit services, and analyze the impact of such services on the independence of the auditors.

Adopt a policy and specific procedures for the engagement of external auditors to perform non-audit services and ensure the following conditions are met:

- a) the pre-approval policies and procedures are detailed as regards the service required;
- b) the Committee is informed of each non-audit service; and
- c) the procedures do not include the delegation of Committee responsibilities to management.

These mandates as well as those not covered by the above policy must be approved by the Committee.

Review and approve the Bank's hiring policies regarding the partners, employees and former partners and employees of the present and former external auditors of the Bank.

(iii) Financial Reporting and Analysis

Review, on an annual basis, the mandate and the nature and scope of the work of Financial Analysis and ensure that the function has the necessary resources to fulfill its mandate and responsibilities.

Review the Bank's consolidated financial statements, MD&A and annual and interim earnings press releases and recommend their approval to the Board before this information is publicly disclosed.

Ensure that adequate procedures are in place to oversee the Bank's public disclosure of financial information extracted or derived from its consolidated financial statements and periodically assess the adequacy of those procedures.

Review such investments and transactions that could adversely affect the financial well-being of the Bank as the external auditors or any officer may bring to the Committee's attention.

Obtain from management information about material changes introduced by organizations such as stock exchanges or the Canadian Securities Administrators and changes to Canadian generally accepted accounting principles that could have an impact on the preparation and/or disclosure of the consolidated financial statements of the Bank and the financial statements of its subsidiaries and inform the Board accordingly, if applicable.

Review management's report on any dispute, notice of assessment or any other claim of a similar nature which could have a material impact on the financial position of the Bank and ensure that such material claims are properly disclosed in the consolidated financial statements.

Meet with representatives of the Superintendent of Financial Institutions at the request of that organization and report on such meeting to the Board.

(iv) Corporate Compliance

Ensure the independence and effectiveness of Corporate Compliance, in particular by requiring that the function be free of any influence that could adversely affect its ability to objectively assume its responsibilities and ensuring that it reports to an appropriate line level.

Review, on an annual basis, the mandate and the nature and scope of the work of Corporate Compliance and ensure that the function has the resources needed to fulfill its mandate and responsibilities.

Review the Chief Compliance Officer's annual report on the Bank's level of compliance with applicable laws and regulations and other obligations, and recommend approval thereof to the Board.

Review, on an annual basis, the legislative compliance program and recommend approval thereof to the Board.

Review the annual and quarterly reports of Corporate Compliance on the status of compliance at the Bank.

Establish a policy and procedures for (i) the receipt, retention and treatment of complaints received by the Bank regarding accounting, internal accounting controls or auditing matters, and (ii) the confidential, anonymous submission by employees of the Bank of concerns regarding questionable accounting or auditing matters. Ensure that this policy is implemented and review it annually.

Review the Third Party Asset Administration and Management Risk Policy of the Bank and recommend the adoption or revision of the policy to the Board. Ensure that this policy is implemented and review it annually.

Review, as necessary, the report of Corporate Compliance on the irregularities or concerns related to accounting or auditing matters at the Bank that have been reported to the Ombudsman of the Bank, as well as the results of any related investigation. Examine the number of reported irregularities or concerns, regardless of whether or not they are founded.

Obtain information from Corporate Compliance on significant changes in laws and regulations, industry compliance issues, new trends and regulatory risks.

(v) Corporate Compliance at National Bank Financial Inc.

Review, on an annual basis, the mandate and the nature and scope of the work of Corporate Compliance at National Bank Financial Inc. and ensure that the function has the resources needed to fulfill its mandate and responsibilities.

Review the quarterly report of the Ultimate Designated Person and the annual report of the Chief Compliance Officer of National Bank Financial Inc. with respect to compliance and non-financial risk management matters relating to National Bank Financial Inc. and determine what actions, if any, are necessary to address any compliance deficiencies identified in these reports.

B) Risk Management

Review, on an annual basis, the mandate of Risk Management and ensure that the function has the resources needed to fulfill its mandate and responsibilities.

Examine the certifications, declarations and/or reports required by a regulatory authority and that fall within the Committee's purview and recommend the approval thereof to the Board.

Require management to report to the Committee on the existence of an environment at the Bank that supports appropriate, effective and prudent management of its operations and of the risks to which it is exposed and that contributes to the achievement of its business objectives. Report thereon to the Board.

Require management to report to the Committee on the fact that the Bank is "in control", i.e., that its operations are managed in accordance with strategic, risk, capital, liquidity and funding management processes, that such processes are carried out in a control environment, that significant problems are identified, and that management takes action to address them; and report thereon to the Board.

Examine the quarterly reports by Risk Management on:

- a) the status of credit, market, liquidity and operational risk at the Bank;
- b) the model and quantification of the Bank's general allowance;
- c) changes in work related to operational and reputational risk management (quantitative and qualitative);
- d) compliance with policies on:
 - operational risk management
 - outsourcing
 - reputational risk resulting from complex structured finance transactions

(i) Risk Management

Review and approve the overall risk philosophy and risk tolerance of the Bank.

Understand the significant risks to which the Bank is exposed and the techniques used to measure and manage those risks.

Review and recommend to the Board the adoption of policies for managing significant risks, notably policies related to credit risk, market risk, structural risk, reputational risk, fiduciary risk and operational risk including outsourcing risk. Ensure that these policies are implemented and review them at least once a year.

Require that management report to the Committee on the existence at the Bank of a process for proactively detecting, assessing and managing material risks and on compliance with policies and control measures. Report thereon to the Board.

(ii) Capital, Liquidity and Funding Management

Understand the Bank's capital, liquidity and funding needs.

Review liquidity and funding management and capital management policies and recommend their adoption to the Board. Ensure these policies are implemented and review them at least once a year.

Require management to report to the Committee on the existence at the Bank of capital, liquidity and funding management processes and on compliance with policies and control measures. Report thereon to the Board.

(iii) Credit

Subject to the fourth paragraph of this subsection, approve the credits of clients, by borrower and by group of borrowers, that exceed the powers delegated to Bank officers and which are defined in the credit risk management policies of the Bank.

Review and recommend to the Board, subject to the provisions set out in section 497 of the Act⁽²⁾, any transaction between the Bank and a related party as defined in the Act, except transactions of nominal or immaterial value, personal loans, mortgage loans, lines of credit and financial services granted to officers, as set out in the Conditions of loans and financial services applicable to transactions with senior officers and their related parties, which forms an integral part of the Policy Governing the Management and Monitoring of National Bank of Canada Related Party Transactions.

Review changes in impaired loans, ensure that they are monitored and approve the taking of provisions for any impaired loan in accordance with the rules set forth in the Bank's Credit Risk Management Policy.

Approve the uncommitted credit facilities of financial institutions, governments, corporations and other similar Canadian or foreign borrowers, arranged by the Bank for internal control, which exceed the loaning limits of Bank officers.

Review reports analyzing the economic situation of a given sector of activity in which the Bank has a certain exposure and review portfolio limits in this sector of activity based on management's recommendations.

Review the quarterly reports of the Bank on credit losses and impaired loans.

(iv) Basel Accord

Ensure that rigour and discipline are incorporated into risk management policies, operational controls and credit risk reports and report thereon to the Board.

Review and recommend all material aspects of risk rating systems and related parameters to the Board for approval.

Receive, at least once a year, a report on the efficiency of the Bank's risk rating systems and related parameters and report thereon to the Board.

C) Varia

Act as an audit and risk management committee for Natcan Trust Company or, 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* or any other applicable legislative or regulatory provision.

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

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

⁽²⁾ Any related party transaction must receive Board approval if such transaction results in increasing the aggregate loan and guarantees granted by the Bank or its subsidiaries to a related party to more than 2% of the regulatory capital of the Bank.

ADDITIONAL INFORMATION

Additional information on the Bank is available on its website at www.nbc.ca and on the System for Electronic Documents Analysis and Retrieval (SEDAR) website at www.sedar.com. The Bank's financial information appears in the consolidated financial statements and in Management's Discussion and Analysis for the most recently completed fiscal year, both of which are part of the Annual Report. The Annual Report is available on SEDAR.

The Bank will provide to any person, upon request, 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 together with the accompanying auditor's report and Management's Discussion and Analysis for the 2006 fiscal year, a copy of any subsequent quarterly report, a copy of the Circular in respect of its most recent Annual Meeting of Shareholders that involved the election of directors, and a copy of any document that is incorporated by reference into a preliminary short form prospectus or a short form prospectus whenever the securities of the Bank are part of a distribution. The Circular, enclosed with the Notice of the Annual Meetings of Shareholders for the meetings scheduled for March 7, 2007, contains additional information such as the compensation and indebtedness of directors and executive officers, the principal holders of Bank Securities and stock options. Copies of these documents may be obtained upon request from the Corporate Secretary's Office of the Bank, 600 De La Gauchetière Street West, 4th Floor, Montreal, Quebec, Canada H3B 4L2.

APPENDIX A: NOTES

1. Moody's Investors Service, Inc. ("Moody's")

Short-Term P-1

Issuers rated Prime-1 (or supporting institutions) have a superior ability to repay short-term debt obligations.

Long-Term Bank Deposits A1

Banks rated A for deposits offer good credit quality. However, elements may be present that suggest a susceptibility to impairment over the long term.

Long-Term Senior Debt A1

Obligations rated A are considered upper-medium grade and are subject to very low credit risk. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category.

Long-Term Subordinated Debt A2

Obligations rated A are considered upper-medium grade and are subject to very low credit risk. The modifier 2 indicates a mid-range ranking.

Issuer Rating A1

Determines the ability of the Bank to honour senior unsecured financial obligations and contracts. Obligations rated "A" are considered upper medium grade and are subject to low credit risk.

Financial Strength B-

Banks rated "B" possess strong intrinsic financial strength. Typically, they will be institutions with valuable and defensible business franchises, good financial fundamentals, and a predictable and stable operating environment.

Moody's appends numerical modifiers "1," "2" and "3" to each generic rating classification from "Aa" through "Caa." The modifier "1" indicates that the obligation ranks in the higher end of its generic rating category; the modifier "2" indicates a mid-range ranking; and the modifier "3" indicates a ranking in the lower end of that generic rating category.

A "+" modifier is appended to ratings below the "A" category and a "-" modifier is appended to ratings above the "E" category to distinguish those banks that fall in intermediate categories.

2. Standard & Poor's, a division of The McGraw-Hill Companies, Inc. ("Standard & Poor's")

A

An obligation rated "A" is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong.

P2 (High) corresponds to BBB+

An obligation rated "BBB" exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

Plus (+) or minus (-)

The ratings from "AA" to "CCC" may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

A-1

A short-term obligation rated "A-1" is rated in the highest category by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is strong.

A-1 (Mid)

Short-term obligations rated "A-1 (Mid)" reflect a strong capacity for the obligor to meet its financial commitment on the obligation. Obligations rated "A-1 (Mid)" on the Canadian commercial paper rating scale would qualify for a rating of "A1" on Standard & Poor's global short-term rating scale.

3. Dominion Bond Rating Service Limited ("DBRS")

Short-Term Debt

The DBRS® short-term debt rating scale is meant to give an indication of the risk that a borrower will not fulfill its near-term debt obligations in a timely manner. Every DBRS rating is based on quantitative and qualitative considerations relevant to the borrowing entity. Each rating category is denoted by the subcategories "high," "middle," and "low."

R-1 (Middle)

Short-term debt rated "R-1 (middle)" is of superior credit quality and, in most cases, ratings in this category differ from "R-1 (high)" credits by only a small degree. Given the extremely tough definition DBRS has established for the "R-1 (high)" category, entities rated "R-1 (middle)" are also considered strong credits, and typically exemplify above average strength in key areas of consideration for the timely repayment of short-term liabilities.

AA (Low) and A (High)

The DBRS® long-term debt rating scale is meant to give an indication of the risk that a borrower will not fulfill its full obligations in a timely manner with respect to both interest and principal commitments. Every DBRS rating is based on quantitative and qualitative considerations relevant to the borrowing entity. Each rating category is denoted by the subcategories "high" and "low." The absence of either a "high" or "low" designation indicates the rating is in the "middle" of the category. The "AAA" and "D" categories do not utilize "high," "middle" and "low" as different grades.

Long-term debt rated AA is of superior credit quality, and protection of interest and principal is considered high. In many cases they differ from long-term debt rated AAA only to a small degree. Given the extremely restrictive definition DBRS has for the AAA category, entities rated AA are also considered to be strong credits, typically exemplifying above-average strength in key areas of consideration and unlikely to be significantly affected by reasonably foreseeable events.

Long-term debt rated "A" is of satisfactory credit quality. Protection of interest and principal is still substantial, but the degree of strength is less than that of "AA" rated entities. While "A" is a respectable rating, entities in this category are considered to be more susceptible to adverse economic conditions and have greater cyclical tendencies than higher-rated entities.

Pfd-1 (low)

The DBRS® preferred share rating scale is used in the Canadian securities market and is meant to give an indication of the risk that a borrower will not fulfill its full obligations in a timely manner, with respect to both dividend and principal commitments. Every DBRS rating is based on quantitative and qualitative considerations relevant to the borrowing entity. Each rating category is denoted by the subcategories “high” and “low.” The absence of either a “high” or “low” designation indicates the rating is in the “middle” of the category.

Preferred shares rated Pfd-1 are of superior credit quality, and are supported by entities with strong earnings and balance sheet characteristics. Pfd-1 securities generally correspond with companies whose senior bonds are rated in the AAA or AA categories.

4. Fitch Ratings Ltd. (“Fitch Ratings”)**Short-Term F1**

A short term rating has a time horizon of less than 12 months for most obligations or up to three years for U.S. public finance securities, and thus places greater emphasis on the liquidity necessary to meet commitments in a timely manner. International credit ratings assess the capacity to meet foreign or local currency commitments. Both “foreign currency” and “local currency” ratings are internationally comparable assessments.

An “F1” rating indicates the strongest capacity for timely payment of financial commitments.

Long-Term

International credit ratings assess the capacity to meet foreign or local currency commitments. Both foreign and local currency ratings are internationally comparable assessments.

A+

High credit quality. An “A” rating denotes a low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.

Individual

Individual ratings are assigned only to banks. These ratings, which are internationally comparable, attempt to assess how a bank would be viewed if it were entirely independent and could not rely on external support. These ratings are designed to assess a bank’s exposure to, appetite for, and management of risk, and thus represent the view of Fitch Ratings regarding the likelihood that a bank would run into significant difficulties such that it would require support.

The principal factors analyzed to evaluate a bank and determine these ratings include profitability and balance sheet integrity (including capitalization), franchise, management, operating environment, and prospects. Consistency is also an important consideration.

B

A “B” rating denotes a strong bank. There are no major concerns regarding the bank. Characteristics may include strong profitability and balance sheet integrity, franchise, management, operating environment or prospects.

Support 2

A “2” rating denotes a bank for which there is a high probability of external support. The potential provider of support is highly rated in its own right and has a high propensity to provide support to the bank in question. This probability of support indicates a minimum long-term rating floor of “BBB-.”



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