



**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS  
MARCH 10, 2004**

**MANAGEMENT PROXY CIRCULAR**

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January 22, 2004

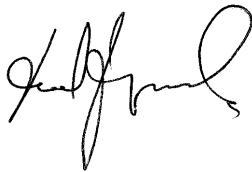
Dear Shareholder,

We are pleased to invite you to attend the Annual Meeting of Shareholders of National Bank of Canada which will be held at 9:30 a.m. on Wednesday, March 10, 2004 at the Fairmont The Queen Elizabeth Hotel, 900 René-Lévesque Boulevard West, Montreal, Quebec.

At this Annual 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 this 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,



**Réal Raymond**  
*President and Chief Executive Officer*

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

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Date: Wednesday, March 10, 2004  
Time: 9:30 a.m. (Eastern time)  
Place: Fairmont The Queen Elizabeth Hotel  
900 René-Lévesque Boulevard West  
Montreal, Quebec

**BUSINESS OF THE MEETING**

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1. To receive the consolidated financial statements for the financial year ended October 31, 2003 and the auditors' report thereon;
2. To consider and, if deemed appropriate, confirm by Special Resolution an amendment to Section 4.1 of By-Law I of the Bank so as to reduce the minimum and maximum number of directors of the Bank;
3. To elect directors;
4. To consider and, if deemed appropriate, confirm by Special Resolution an amendment to Section 4.6 of By-Law I to increase the aggregate remuneration which may be paid to all directors of National Bank of Canada (the "Bank") during a financial year (the Special Resolution is presented in the "Business of the Meeting" section of the Management Proxy Circular (the "Circular"));
5. To appoint the auditor;
6. To consider the shareholder proposals set out in Schedule B of the Circular; and
7. To transact such other business as may properly be brought before the Meeting.

Holders of record of common shares of the Bank at 5:00 p.m. on January 22, 2004 are entitled to receive the Notice of Annual Meeting of Shareholders. On that date, 175,642,659 common shares of the Bank were issued and outstanding. Each holder of common shares is entitled to cast one vote per share held, unless restricted in the *Bank Act*.

*By Order of the Board of Directors,*



**Johanne Dupont**  
*Vice-President and Corporate Secretary*

*Montreal, January 22, 2004*

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 5:00 p.m. on March 8, 2004.

For any questions regarding the Circular, the form of proxy or the exercise of voting rights, please call 1-866-800-2141.

**MANAGEMENT PROXY CIRCULAR**

DATED JANUARY 22, 2004 (unless 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”), for the purposes indicated in the Notice of Meeting, to be held at 9:30 a.m. (Eastern time) on Wednesday, March 10, 2004, at the Fairmont The Queen Elizabeth Hotel, 900 René-Lévesque Boulevard 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 \$33,000. The costs incurred in this regard will be borne by the Bank.

*Voting Common Shares*

Holders of record of common shares of the Bank at 5:00 p.m. on January 22, 2004 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 included on the list of shareholders of the Bank to be entitled to vote. To do so, they must contact the transfer agent 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 22, 2004, the date the register of the Bank was closed, 175,642,659 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 specifically prevent the exercise of voting rights attaching to the shares of the Bank held by a government, whether Canadian, provincial or foreign, as well as any 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*

The names of shareholders whose shares are held in the name of a broker or another intermediary do not appear on the list of shareholders 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 of the Bank. If a shareholder wishes to appoint as a proxyholder a person other than one of those designated in the form of proxy, the shareholder may do so by striking out the names appearing thereon and inserting the name of such person in the blank space provided. If the shareholder is a legal entity, an estate or a trust, the form of proxy must be signed by a duly authorized officer or attorney. A proxyholder is not required to be a shareholder of the Bank. In order to be valid, 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 5:00 p.m. on March 8, 2004.

## SECTION I - VOTING INFORMATION (cont.)

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### *Voting by Proxy*

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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 of the Bank by voting as follows:**

- **FOR** the amendment to Section 4.1 of By-Law I of the Bank to reduce the minimum and maximum number of directors of the Bank;
- **FOR** the election of all nominees proposed as director by the management of the Bank;
- **FOR** the amendment to Section 4.6 of By-Law I of the Bank to increase the aggregate remuneration which may be paid to all the directors of the Bank during a financial year;
- **FOR** the appointment of the auditor;
- **AGAINST** the shareholder proposals set out in Schedule B 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 matters.

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.

### *Revocation of Proxies*

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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, namely, at 5:00 p.m. on March 9, 2004, 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*

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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

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### *Financial Statements and Auditors' Report*

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The consolidated financial statements of the Bank for the financial year ended October 31, 2003 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.

### *Amendment to Section 4.1 of By-Law I of the Bank – Number of Directors*

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At its meeting on January 22, 2004, the Board of Directors (the "Board") passed a resolution amending Section 4.1 of By-Law I of the Bank, regarding the minimum and maximum number of directors making up the Board, such that the Board henceforth consists of no less than twelve (12) and no more than eighteen (18) directors. The previous version of the text of Section 4.1 provided for no less than fifteen (15) and no more than twenty-five (25) directors.

Management of the Bank recommends voting **FOR** the amendment to Section 4.1 of By-Law I of the Bank.

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

WHEREAS, on January 22, 2004, the Board passed a resolution to amend Section 4.1 of By-Law I of the Bank so as to reduce the minimum and maximum number of directors;

WHEREAS such amendment will only take effect after it has been confirmed by way of a Special Resolution of the holders of common shares of the Bank;

On a motion duly made and seconded, it was resolved that:

Section 4.1 of By-Law I of the Bank be amended, as of the date it is confirmed by shareholders, to read as follows:

"Section 4.1 Number of Directors

The Board of Directors shall consist of no less than twelve (12) and no more than eighteen (18) directors.

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

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

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

### *Election of Directors*

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Management of the Bank recommends voting **FOR** the election of all the nominees to the Board listed on the following pages:



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

	<p><b>Director since:</b> August 1999</p> <p><b>Common shareholdings<sup>(1)</sup>:</b> 623,162</p>		<p><b>Director since:</b> March 1998</p> <p><i>Chair of the Audit and Risk Management Committee</i></p> <p><i>Member of the Conduct Review and Corporate Governance Committee</i></p> <p><i>Member of the Ad Hoc Strategic Planning Committee</i></p> <p><b>Common shareholdings:</b> 106,881</p>
<p><b>Lawrence S. Bloomberg</b> <i>Toronto, Ontario</i></p> <p>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.</p> <p>Mr. Bloomberg has extensive expertise in the financial sector, both nationally and internationally. He contributed to the growth of several financial companies before starting his own business and becoming one of the Bank's experts in financial matters. As a result of his involvement in several business organizations, he brings valuable insight and a unique perspective to the Board concerning developments in the financial sector in Canada as well as abroad.</p>		<p><b>Pierre Bourgie</b> <i>Outremont, Quebec</i></p> <p>President and Chief Executive Officer since 1996 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.</p> <p>As a business leader and a director of several companies, Mr. Bourgie brings to the Board his business management skills as well as a keen understanding of corporate governance and the management of international businesses.</p>	
	<p><b>Director since:</b> February 1994</p> <p><i>Member of the Human Resources Committee</i></p> <p><i>Member of the Ad Hoc Nominating Committee for the Chairman of the Board</i></p> <p><b>Common shareholdings:</b> 3,590</p> <p><b>Deferred stock units<sup>(2)</sup>:</b> 7,835</p>		<p><b>Director since:</b> August 2001</p> <p><i>Member of the Audit and Risk Management Committee</i></p> <p><b>Common shareholdings:</b> 5,553</p>
<p><b>Gérard Coulombe</b> <i>Sainte-Marthe, Quebec</i></p> <p>Senior Partner of Desjardins Ducharme Stein Monast, General Partnership, since 1977, 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.</p> <p>Mr. Coulombe sits on the boards of FMI Acquisition Inc., National Bank Life Insurance Company, National Bank Group Inc. and National Bank Acquisition Holding Inc.</p> <p>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.</p>		<p><b>Bernard Cyr</b> <i>Moncton, New Brunswick</i></p> <p>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 is involved with charitable organizations. He was a member of the Bank's business development committee in Atlantic Canada from 1996 to 2001.</p> <p>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.</p>	

(1) Common shareholdings include common shares beneficially owned, controlled or directed.

(2) 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.

	<p><b>Director since:</b> July 1988</p> <hr/> <p><i>Member of the Human Resources Committee</i></p> <hr/> <p><i>Member of the Conduct Review and Corporate Governance Committee</i></p> <hr/> <p><i>Member of the Ad Hoc Nominating Committee for the Chairman of the Board</i></p> <hr/> <p><b>Common shareholdings:</b> 3,213</p> <hr/> <p><b>Deferred stock units:</b> 2,731</p>		<p><b>Director since:</b> March 1998</p> <hr/> <p><i>Member of the Audit and Risk Management Committee</i></p> <hr/> <p><b>Common shareholdings:</b> 20,810</p>
<p><b>Shirley A. Dawe</b> <i>Toronto, Ontario</i></p> <p>Corporate Director and 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 The Hudson's Bay Company.</p> <p>Her wide management and consumer marketing experience brought Ms. Dawe to the boards of directors of numerous public and private companies in Canada and the United States. Her expertise in the retail sector led to her appointment on industry-specific public task forces and to academic and not-for-profit boards.</p> <p>Ms. Dawe brings to the Board a deep understanding of consumer trends and winning business strategies in the North American retail industry coupled with a keen appreciation of corporate governance issues.</p>		<p><b>Nicole Diamond-Gélinas</b> <i>Saint-Barnabé-Nord, Quebec</i></p> <p>Since 1976, President and General Manager of Aspasia Inc., a manufacturer of colour charts, and President of Plastifil 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 <i>Chambre de commerce de Trois-Rivières</i> and was a member of the Mauricie business development committee of the Bank from 1992 to 1998.</p> <p>Ms. Diamond-Gélinas is a member of the Board of Directors of National Bank Life Insurance Company.</p> <p>Ms. Diamond-Gélinas has first-hand experience of the realities and challenges facing small and medium-sized manufacturers as well as a solid grasp of the economic and social dynamics of regional markets.</p>	

	<p><b>Director since:</b> November 1991</p> <hr/> <p><i>Chair of the Conduct Review and Corporate Governance Committee</i></p> <hr/> <p><i>Member of the Audit and Risk Management Committee</i></p> <hr/> <p><i>Member of the Ad Hoc Strategic Planning Committee</i></p> <hr/> <p><b>Common shareholdings:</b> 4,764</p> <hr/> <p><b>Deferred stock units:</b> 5,745</p>		<p><b>Director since:</b> January 1982</p> <hr/> <p><i>Member of the Human Resources Committee</i></p> <hr/> <p><i>Member of the Ad Hoc Nominating Committee for the Chairman of the Board</i></p> <hr/> <p><i>Member of the Ad Hoc Strategic Planning Committee</i></p> <hr/> <p><b>Common shareholdings:</b> 20,122</p> <hr/> <p><b>Deferred stock units:</b> 4,775</p>
<p><b>Jean Douville</b> <i>Bedford, Quebec</i></p> <p>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.</p> <p>Mr. Douville is a member of the Board of Directors of National Bank Life Insurance Company.</p> <p>Mr. Douville brings to the Board in-depth knowledge of a key industrial sector in North America as well as experience managing a large corporation.</p> <p>The Board intends to appoint Mr. Douville as the next Chairman of the Board of the Bank.</p>		<p><b>Marcel Dutil</b> <i>Outremont, Quebec</i></p> <p>Chairman of the Board and Chief Executive Officer of The Canam Manac Group Inc. Mr. Dutil is the founder of this industrial company which mainly designs and manufactures frames, joists, steel decks, semi-trailers and forestry equipment. He also sits on the board of directors of several Canadian and foreign firms.</p> <p>In building his business from the ground up, Mr. Dutil has acquired solid experience in the areas of management and market development, especially international markets.</p>	

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

	<b>Director since:</b> October 2001		<b>Director since:</b> February 1994
	<i>Chair of the Human Resources Committee</i>		<i>Chair of the Ad Hoc Nominating Committee for the Chairman of the Board</i>
	<i>Chair of the Ad Hoc Strategic Planning Committee</i>		<i>Member of the Conduct Review and Corporate Governance Committee</i>
	<i>Member of the Audit and Risk Management Committee</i>		<i>Member of the Audit and Risk Management Committee</i>
<b>Common shareholdings:</b>	23,167	<b>Common shareholdings:</b>	10,146
<b>Deferred stock units:</b>	3,884	<b>Deferred stock units:</b>	12,569

**Jean Gaulin***San Antonio, Texas, United States*

Corporate Director, Mr. Gaulin was Chairman of Ultramar Diamond Shamrock Corporation from January 1, 2000 to January 1, 2002. He was also President and Chief Executive Officer of the Corporation from January 1, 1999 to January 1, 2002. In 1996, following the merger of Ultramar Corporation and Diamond Shamrock Inc., he was named Vice-Chairman, 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 is a member of the Board of Directors of National Bank Financial & Co. Inc.


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

**Paul Gobeil, FCA***Île-des-Soeurs, Quebec*

Vice-Chairman of the Board of Métro Inc., and Chairman of the Board of Export Development Canada. Mr. Gobeil has been a Member of the *Ordre des comptables agréés du Québec* since 1965 and a Fellow since 1986. From 1974 to 1985, he held a number of executive positions at Proviso Inc. Elected as the MNA for Verdun in 1985, he was, until 1989, Minister Responsible for Administration, President of the Treasury Board and then Minister of International Affairs in the Quebec government. He serves on the board of directors of various Canadian organizations.

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

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

	<b>Director since:</b> July 1989		<b>Director since:</b> March 2000		
	<i>Member of the Conduct Review and Corporate Governance Committee</i>		<i>Member of the Human Resources Committee</i>		
	<b>Common shareholdings:</b>		15,086	<b>Common shareholdings:</b>	2,121
	<b>Deferred stock units:</b>			<b>Deferred stock units:</b>	5,213

**Suzanne Leclair***Île-des-Soeurs, 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 is a member of the Board of Directors of National Bank Trust Inc.

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.

**E.A. (Dee) Parkinson-Marcoux***Canmore, Alberta*




An engineer by training, Ms. Parkinson-Marcoux is currently serving as a director of Sustainable Development Technology Canada, an organization focused on the development of technologies to address the production of energy while attempting to reduce the impact of greenhouse gases.

Ms. Parkinson-Marcoux's previous positions include consultant with Southern Pacific Petroleum, an oil-producing company. In addition, she was 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.

Until December 2003, Ms. Parkinson-Marcoux was involved in the development of the production of oil from oil shale in Australia.

She also serves on the boards of directors of an engineering company and a natural resource company.

Ms. Parkinson-Marcoux brings to the Board her solid expertise in the energy, oil and natural resource sectors as well as knowledge of Western Canadian markets.

	<p><b>Director since:</b> November 1999</p> <hr/> <p><b>Common shareholdings:</b> 29,641</p> <hr/> <p><b>Deferred stock units for officers<sup>(1)</sup>:</b> 38,089</p>		<p><b>Director since:</b> April 2001</p> <hr/> <p><i>Member of the Conduct Review and Corporate Governance Committee</i></p> <hr/> <p><b>Common shareholdings:</b> 2,107</p> <hr/> <p><b>Deferred stock units:</b> 3,263</p>
<p><b>Réal Raymond</b> <i>Île-des-Soeurs, Quebec</i></p> <p>President and Chief Executive Officer of National Bank of Canada since March 2002. 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 and in July 2001, President and Chief Operating Officer of National Bank of Canada.</p> <p>Mr. Raymond is a member of the Board of Directors of National Bank Life Insurance Company, National Bank Group Inc., National Bank Acquisition Holding Inc. and National Bank Trust Inc.</p> <p>He is involved in many professional and community organizations, including as a member of the Board of Directors of the <i>Fondation de l'Université du Québec à Montréal</i> (UQAM) and Vice-Chair of the Conference Board of Canada. Mr. Raymond has an MBA from UQAM.</p> <p>Mr. Raymond brings to the Board his varied expertise in the field of banking as well as an in-depth understanding of business operations and strategies in several sectors of activity.</p>		<p><b>Roseann Runte</b> <i>Norfolk, Virginia, United States</i></p> <p>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 serves on 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.</p> <p>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.</p>	
	<p><b>Director since:</b> September 1998</p> <hr/> <p><b>Common shareholdings:</b> 19,079</p> <hr/> <p><b>Deferred stock units for officers<sup>(1)</sup>:</b> 170,091</p>	<p>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 many senior management positions within the Bank. During the past few years, he has been involved in various organizations in the finance and securities sectors.</p> <p>Mr. Turmel is a member of the Board of Directors of National Bank Financial &amp; Co. Inc., National Bank Financial Inc., National Bank Financial Ltd., Natcan Investment Management Inc., National Bank Group Inc., National Bank Acquisition Holding Inc. and FMI Acquisition Inc.</p> <p>Mr. Turmel has exceptional expertise in the Bank's key sectors of activity, especially securities, brokerage and treasury. 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.</p>	
<p><b>Jean Turmel</b> <i>Outremont, Quebec</i></p>			

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

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

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Each director elected at the Meeting will hold office until the close of the subsequent annual meeting of the Bank.

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 C of the Circular.

André Bérard, François J. Coutu and Dennis Wood will not be standing for re-election.

### *Amendment to Section 4.6 of By-Law I – Aggregate Remuneration of Directors*

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Under the Act, banks are required to set the aggregate remuneration of directors by way of a by-law. In 2002, shareholders approved a resolution to increase the aggregate remuneration paid to directors to \$1,300,000. New regulatory issues confronting the Bank and the complexity of the environment in which the Bank and its subsidiaries operate have contributed to the heavier workload of directors. There are now many more situations in which directors may be held personally liable; moreover, the amount of preparation required on their part and the number of meetings that they must attend to discharge their responsibilities have increased substantially.

For these reasons, the Bank deems it appropriate to increase the aggregate remuneration which may be paid to all directors on the Board of the Bank during a financial year to \$1,800,000 for their duties in such capacity.

Consequently, on December 18, 2003, the Board passed a resolution which, subject to the approval thereof by the holders of common shares by way of a Special Resolution, amends Section 4.6 of By-Law I of the Bank to read that henceforth the aggregate remuneration which may be paid to all the directors of the Bank during a financial year may not exceed \$1,800,000.

Management of the Bank recommends that shareholders vote **FOR** the amendment to Section 4.6 of By-Law I of the Bank.

In order to be passed, this Special Resolution must be approved by not 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 on December 18, 2003, the Board passed 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 a financial year;

WHEREAS this amendment shall take effect only after it has been confirmed by a Special Resolution passed by the holders of common shares of the Bank;

Now, 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 deleting the amount of \$1,300,000 and replacing it with the amount of \$1,800,000 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 eight hundred thousand dollars (\$1,800,000). 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.”

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

### *Appointment of Auditor*

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Management of the Bank recommends voting **FOR** the appointment of the accounting firm Samson Bélaïr/Deloitte & Touche s.e.n.c.r.l., as the sole auditor of the Bank for the financial year commencing November 1, 2003 and ending October 31, 2004.

Samson Bélair/Deloitte & Touche s.e.n.c.r.l. acted as auditor of the Bank in 2000, 2001, 2002 and 2003, whereas PricewaterhouseCoopers LLP acted as auditor of the Bank in 1999, 2000, 2002 and 2003. Pursuant to Canadian securities regulations, the documents regarding the change of auditors are presented in Schedule A.

In order to be passed, the proposal regarding the appointment of the auditor 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, 2003, the fees paid to Samson Bélair/Deloitte & Touche s.e.n.c.r.l. and PricewaterhouseCoopers LLP for services rendered to the Bank and its subsidiaries were as follows:

	Samson Bélair/Deloitte & Touche s.e.n.c.r.l.	PricewaterhouseCoopers LLP
Audit and audit-related services	\$ 2,256,713	\$ 1,678,269
Tax consulting and other services	\$ 2,122,385	\$ 467,021
<b>Total</b>	<b>\$ 4,379,098</b>	<b>\$ 2,145,290</b>

### *Shareholder Proposals*

Eleven shareholder proposals were received by the Bank within the time limits prescribed in the Act.

A translation of the complete text of the proposals is provided in Schedule B of the Circular.

Management of the Bank recommends voting **AGAINST** proposals 1 to 11 for the reasons set out after these proposals.

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

Any proposal which a shareholder would like to have included at the Annual Meeting of Shareholders to be held in 2005 must be received no later than 5:00 p.m. (Eastern time) on December 10, 2004.

### *Shareholder Rights Plan*

The Shareholder Rights Plan adopted by shareholders of the Bank at its annual meeting in March 2001 will expire on March 7, 2004. As the Bank deems that the mechanisms for considering a takeover bid provided for under Canadian securities legislation would give it sufficient time to evaluate the bid, the Shareholder Rights Plan will not be renewed.

## **SECTION III – INFORMATION ON COMPENSATION**

### *Forms of Remuneration of Directors of the Bank*

All eligible directors may receive their retainers and meeting fees for serving on the Boards of Directors and, if applicable, any committees of the Bank or its subsidiaries, in the form of common shares of the Bank, deferred stock units (“DSUs”), cash or a combination thereof. Moreover, an additional retainer is paid in the form of shares only.

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, and 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.

The directors, with the exception of those who are also officers of the Bank, do not participate in any stock option plan.

**SECTION III – INFORMATION ON COMPENSATION (cont.)***Remuneration Paid to Directors*

The directors receive the following fees for serving on the Boards of Directors and committees of the Bank and its subsidiaries designated below:

**National Bank of Canada**

Annual retainer of a director	
• In cash or in the form of common shares or DSUs <sup>(1)</sup> :	\$ 25,000
• In the form of common shares only <sup>(2)</sup> :	\$ 7,500
Committee chair retainers <sup>(3)</sup>	
• In cash or in the form of common shares or DSUs:	\$ 10,000
• In the form of common shares only:	\$ 5,000
Committee member retainers (including committee chairs)	
• In cash or in the form of common shares or DSUs:	\$ 3,500
• In the form of common shares only:	\$ 2,500
Board and committee meeting fees <sup>(1)</sup>	\$ 1,500 per meeting

**National Bank Financial & Co. Inc.**

Annual retainer of a director <sup>(4)</sup>	
• In cash or in the form of common shares or DSUs:	\$ 15,000
Committee chair retainers <sup>(5)</sup>	
• In cash or in the form of common shares or DSUs:	\$ 7,500
Committee member retainers (including committee chairs) <sup>(6)</sup>	
• In cash or in the form of common shares or DSUs:	\$ 2,500
Board and committee meeting fees	\$ 1,500 per meeting

**National Bank Life Insurance Company**

Annual retainer of a director	
• In cash or in the form of common shares or DSUs:	\$ 6,000
Committee chair retainers	
• In cash or in the form of common shares or DSUs:	\$ 3,000
Committee member retainers (including committee chairs)	
• In cash or in the form of common shares or DSUs:	\$ 1,800
Board and committee meeting fees	\$ 1,000 per meeting

**National Bank Trust Inc.**

Annual retainer of a director	
• In cash or in the form of common shares or DSUs:	\$ 6,000
Committee chair retainers	
• In cash or in the form of common shares or DSUs:	\$ 1,000
Committee member retainers (including committee chairs)	
• In cash or in the form of common shares or DSUs:	\$ 1,000
Board and committee meeting fees	\$ 500 per meeting

**FMI Acquisition Inc.**

Annual retainer	
• In cash:	\$ 500

(1) Since May 29, 2003, the retainer for directors of the Bank has been \$25,000 and meeting fees have been \$1,500. The retainer was previously \$17,000 and meeting fees were \$1,200.

(2) Since May 29, 2003, an additional annual retainer has been paid only in the form of shares to directors as follows: \$7,500 per director; \$5,000 per director who is a committee chair; and \$2,500 per director who is a committee member (including the chair).

(3) Mr. Bérard received additional annual compensation of \$300,000 as Chairman of the Board.

(4) Since October 1, 2003, the retainer for directors of National Bank Financial & Co. Inc. has been \$15,000, versus \$10,000 previously.

(5) Since October 1, 2003, the retainer for directors who are committee chairs has been \$7,500, versus \$4,000 previously.

(6) Since October 1, 2003, the retainer for directors who are committee members (including the chair) has been \$2,500, versus \$1,000 previously.

### *Other Remuneration Paid to a Director*

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During the past financial year, only one director received, directly 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. and renewed in October 2002, Lawrence S. Bloomberg serves as 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 duties. For the financial year ended October 31, 2003, Mr. Bloomberg received a total amount of \$1,478,615 for services rendered.

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.

*See next page*

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

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### *Compensation Paid to Officers*

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#### Report of the Human Resources Committee on the Compensation of Officers of the Bank



The Board mandates the Human Resources Committee to supervise and approve the human resources policies and practices of the Bank that support the Bank's performance objectives and shareholders' interests.

More specifically, the Committee:

- reviews and comments on the Bank's management succession plan, executive succession planning and the profiles of the Presidents, the Senior Vice-Presidents and the Vice-Presidents (the "Officers") likely to be promoted;
- reviews the content and recommends that the Board adopt policies in matters of total compensation for employees and Officers of the Bank while ensuring that they are in keeping with shareholders' interests and the Bank's long-term growth;
- appraises the performance of the President and Chief Executive Officer, reviews the performance appraisals of other Officers submitted by the President and Chief Executive Officer;
- annually reviews the total compensation of all Officers based on their performance; and
- oversees the management of the pension plans and pool fund.

In exercising its role and responsibilities, the Committee applies four major corporate governance principles:

#### **Independence**

The Committee analyzes the information and recommendations received, taking into consideration management's perspectives and shareholders' interests. To this end, the Committee works directly with internal and external compensation consultants and reviews the practices of widely held companies in Canada, including major financial institutions, to ensure that the Bank provides competitive compensation to its Officers.

#### **Performance follow-up**

Each year, the Committee follows up the Officer performance appraisal program by:

- approving the performance objectives set at the beginning of the year. The objectives include criteria to benchmark the Bank's financial performance against that of the banking industry, monitoring of the Bank's strategic plan, the customer satisfaction level and human resources management indicators;
- periodically monitoring achievement of the pre-determined performance objectives throughout the year and at the end of the year; and
- awarding incentive compensation that is clearly linked to industry performance objectives, as compared with the performance of other Canadian banks.

#### **Succession planning and development**

The Committee oversees the management succession program and monitors the progress of Officers who have a key position in the Bank, as well as identified candidates in the succession plan. The Committee is concerned with fostering the loyalty of the key succession candidates by ensuring that their functions are challenging, their compensation is competitive and their skills are broadened.

#### **Quality of communications**

The Committee considers it essential to inform the shareholders of the work done and decisions made during the year and to show that the Committee members act openly on behalf of shareholders and ensure that their interests are protected.

Jean Gaulin  
*Committee Chair*

### *Composition of the Human Resources Committee*

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The Committee is comprised of six directors who are neither Officers nor former Officers of the Bank. The Committee is chaired by Jean Gaulin, with the other members being Gérard Coulombe, François J. Coutu, Shirley A. Dawe, Marcel Dutil and E.A. (Dee) Parkinson-Marcoux.

#### **Committee's Achievements in the 2002-2003 Financial Year**

During the 2002-2003 financial year, the Committee analyzed various strategic orientations relating to Officer compensation and organizational issues. More specifically, the Committee:

- reviewed the cash compensation of Bank Officers both in terms of base salary and incentive compensation;
- analyzed the possibility of introducing a medium-term profit-sharing plan to replace part of the compensation paid under the Stock Option Plan;
- reviewed the provisions applicable under the share ownership guidelines for Bank Officers;
- carried out the annual performance appraisal of the President and Chief Executive Officer of the Bank and reviewed the appraisal with the Board;
- examined the annual performance appraisals of the other Bank Officers submitted by the President and Chief Executive Officer; and
- examined succession planning and development for all Bank Officers.

The 2002-2003 financial year was marked by the reorganization of the Bank's Executive Committee and the portfolio of responsibilities delegated to certain members. The role of the Executive Committee is to:

- define the Bank's culture and philosophy;
- approve and pursue the strategic initiatives of the Bank;
- manage the succession process for each of the main entities of the Bank; and
- ensure a balance between customer satisfaction, employee commitment and shareholder value.

#### **Principles Governing Officer Compensation**

Compensation is one of the drivers used by the Bank to attract, motivate and retain high-calibre Officers who focus on improving the performance of the Bank and generating value for shareholders.

The Committee sets total compensation at the median total compensation of the comparison market, which comprises widely held Canadian companies, including major financial institutions, adjusted to take into consideration characteristics specific to the Bank. In doing so, the Committee solicits the opinion of external compensation specialists.

The recommendations of the Committee are based on the following guiding principles:

- the compensation of Officers is linked to the creation of shareholder value;
- the annual bonus program supports the Bank's strategic objectives and offers fully competitive total cash compensation, which may exceed or be below market practices if justified by financial results and business development;
- the long-term variable compensation program aligns Officers' interests with the long-term interests of the Bank's shareholders and the Bank's long-term growth;
- the proportion of variable compensation in relation to base salary increases in line with the function's level of responsibility; and
- employee benefits and the pension plan are comparable, on the whole, to those offered by the comparison market.

In view of these principles, the Bank's goal is to:

- engage employees and Officers to achieve the objective of increasing shareholder value and customer satisfaction by:
  - maintaining a portion of total compensation at risk in order to reflect their ability to influence the Bank's results;
  - establishing a direct link between short-term performance bonuses and the Bank's results in terms of customer satisfaction, growth in earnings per share and return on equity in comparison to the corresponding results of the five major Canadian banks; and
  - taking individual performance into account to determine the amount of the short-term bonus;
- maintain internal and external equity with respect to compensation;
- set the base salary of all Bank employees according to:
  - responsibilities assumed;
  - actual performance; and
  - skills and competencies demonstrated.

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

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### **Review of Officers' Total Compensation for the 2002-2003 Financial Year**

In order to make the total compensation of the Bank's Officers more competitive with that of the Bank's comparison market (taking into consideration the characteristics specific to the Bank) and given the broader responsibilities delegated to certain Officers pursuant to changes in the organizational structure in the previous 24 months, the Committee approved recommendations to revise the total compensation of certain Officers. As a result:

- the base salaries of certain Officers were increased to maintain them at the median of the Bank's comparison market. The Committee ensured that overall, the payroll size would remain comparable, given the changes in the organizational structure;
- the percentage of the target short-term bonus was increased for Vice-Presidents for the 2002-2003 financial year;
- the percentage of the target short-term bonus was increased for Senior Vice-Presidents on the Executive Committee for the 2003-2004 financial year;
- the target percentage of long-term compensation was increased for the President and Chief Executive Officer and Senior Vice-Presidents on the Executive Committee.

### **Components of the Compensation of Officers of the Bank**

The total direct compensation of Officers of the Bank consists of a cash component (namely, base salary and an annual bonus) and long-term variable compensation, which is complemented by a benefits package. The target value of each of these components (excluding benefits) varies in line with the level of responsibility. Of this compensation, base salary may represent 18% to 58%; the annual bonus, 18% to 20%; and long-term variable compensation, 22% to 64%.

#### Base Salary

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

- (1) how well the Bank's overall financial results ("Return on Equity" (ROE) and "Growth in Earnings per Share" (GEPS)) and that of its business segments are met versus the objectives set at the beginning of the year; and
- (2) the Bank's financial performance compared to that of the five major Canadian banks.

The Bank's annual bonus program was amended slightly during the 2002-2003 financial year primarily to:

- assign greater importance to the Bank's relative performance compared to that of the five major Canadian banks; and
- more closely align the interests of shareholders with those of employees on the basis of growth in earnings per share rather than growth in net income.

Moreover, the bonus paid to each Officer, including the President and Chief Executive Officer, is based not only on the Bank's financial results, but also on such criteria as customer satisfaction, management quality and the individual performance of the Officers.

Lastly, certain Officers in the Financial Markets, Treasury and Investment Bank segment participate in an annual bonus program based on the profitability of their respective groups. Under this program, an amount equal to 30% of the bonus paid is deferred. In the case of Jean Turmel, the deferred portion amounts to one third of the bonus amount and is converted into deferred stock units for Officers ("DSUs for Officers") with a value equal to the closing market price of the Bank's common shares the day preceding the award of the annual bonus. Additional DSUs for Officers are credited to the Officer's account and are calculated proportionately to the dividends paid. DSUs for Officers may only be cashed when the Officer retires or leaves the Bank.

### **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 and its subsidiaries to contribute to the growth of shareholder investment by giving them the opportunity to benefit from the appreciation in the value of the common shares of the Bank. Each year, when awarding options, the Committee reviews the number and the expiry dates of options previously awarded. 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 maturity date or, in the event of certain circumstances provided for in the Stock Option Plan, they expire in a specific timeframe. No options may be exercised in the first year after they are awarded.

In keeping with market practices at the other major Canadian banks, the Bank also extended the period during which Officers can exercise options. The exercise period for options, previously 15 business days, is now between the second and thirtieth calendar day following publication of the Bank's quarterly financial statements.

In order to further align the interests of Officers who sit on the Bank's Executive Committee with those of shareholders, the Board added a condition to the exercise of option awards. Accordingly, each Officer on the Bank's Executive Committee must, upon exercising stock options, hold the amount equivalent to the gain, after tax considerations, in the form of common shares of the Bank for one year. Effective February 1, 2004, Officers on the Bank's Executive Committee must also give prior notice of five business days of their intention to exercise stock options of the Bank.

As at October 31, 2003, 6,131,515 options were outstanding with strike prices ranging between \$11.00 and \$30.95 and expiring between December 2005 and December 2012. During the past financial year, 1,542,700 options were awarded and 861,732 options were exercised at strike prices ranging from \$11.00 to \$30.95. As at October 31, 2003, 2,784,767 options could be exercised at prices ranging between \$11.00 and \$28.01. The maximum number of common shares that may be issued under the Stock Option Plan is 18,930,437. This maximum number was approved by the shareholders at the annual meeting on March 7, 2001.

The maximum number of common shares reserved for a participant may not exceed 5% of the total number of common shares issued and outstanding. The Bank abides by this rule; no participant is reserved a number of common stock options that exceeds 5% of the total number of shares issued and outstanding.

The Stock Option Plan was revised by the Board on October 24, 2002.

#### Stock Appreciation Rights Plan

The Stock Appreciation Rights Plan (the "SAR Plan") has the same objectives as the Stock Option Plan. The Committee awards common 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, 2003. The SAR Plan was revised by the Board on December 14, 2000.

#### Deferred Stock Unit Plan for Officers

The objective of the Deferred Stock Unit Plan for Officers ("DSUs for Officers") is also to align the interests of certain Bank Officers more closely with those of shareholders by tying a portion of their compensation to the future value of the Bank's common shares. A DSU for Officers 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. Additional DSUs for Officers are credited to the Officer's account and are calculated pro rata to the amount of dividends paid. DSUs for Officers may only be cashed when the Officer retires or leaves the Bank.

During the 2002-2003 financial year, the Committee recommended that a portion (30%) of the annual long-term bonus of the President and Chief Executive Officer be paid in the form of DSUs for Officers rather than stock options. A decision was also made to broaden the plan as of the 2003-2004 financial year so that Senior Vice-Presidents on the Executive Committee could, on a discretionary basis, receive up to 30% of their annual long-term bonus in the form of DSUs for Officers rather than stock options.

#### Employee Share Ownership Plan

The Bank encourages share ownership through its Employee Share Ownership Plan. Under this Plan, employees who meet the eligibility criteria may contribute up to 8% of their gross salary per year by way of payroll deductions. The Bank's contribution consists in paying an amount equal to 25% of the employee's contribution, up to \$1,500 per year. After one year of continuous participation, the Bank's contributions are vested in the employee. Moreover, any subsequent contribution is vested as soon as it is made.

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

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### Share Ownership

Since 2002, the Bank has requested that its Officers maintain minimum holdings of Bank common shares, including DSUs for Officers, SARs and vested stock options, proportionate to each Officer's compensation and position. In 2003, the value of the minimum holdings of common shares is a multiple of the previous three years' average base salary received by a given Officer. The guidelines are as follows:

- (i) 5.0 for the President and Chief Executive Officer
- (ii) 2.0 for Executive Committee members
- (iii) 1.5 for Senior Vice-Presidents
- (iv) 1.0 for Vice-Presidents

Existing Officers are given a period of three years as of December 20, 2002 to meet these minimum shareholding requirements. In the case of new Officers hired or promoted after this date, this period is extended to five years.

### Compensation of the President and Chief Executive Officer

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

- the financial results obtained by the Bank versus the objectives set at the beginning of the financial year and the results obtained by the five major Canadian banks;
- the development of competitive advantages enabling the Bank to consolidate its strategic positioning within the financial industry;
- the continued development of customer service quality;
- the risk profile and credit quality of the Bank; and
- the relationships with shareholders, customers, employees, governments and communities.

As President and Chief Executive Officer, Réal Raymond's annual base salary was set at \$860,000 in September 2003, and is situated at the average of the Bank's comparison market, adjusted to take into account the characteristics specific to the Bank.

Under the annual bonus program, Mr. Raymond received a bonus of \$1,300,000 to underscore his contribution to the Bank's outstanding results in 2002-2003. The Committee also awarded Mr. Raymond 169,600 stock options. In accordance with the amendments to the Deferred Stock Unit Plan for Officers, Mr. Raymond received 23,100 DSUs for Officers. (For more information, refer to the "Deferred Stock Unit Plan for Officers" section of the Circular.)

The Bank recorded the best financial performance in its history for the year ended October 31, 2003, posting net income of \$624 million. It was on target for all financial objectives, and even exceeded several of them. At \$3.37, earnings per share were up 21% over \$2.79 in 2002 (excluding the impairment charge for an investment), compared to projected growth of between 5% and 10%. Return on common shareholders' equity of 16.5% was above the target range of 14% to 16% and is comparable to the average of 16.88% for the other banks. The Bank's capitalization ratio was maintained, with the Tier 1 capital ratio standing at 9.6%, which is also above the target range of 8.75% to 9.50%. The dividend payout ratio in 2003 was 32%, in line with the target range of between 30% and 45%.

Under Mr. Raymond's leadership, the Bank's strategy to be a super-regional bank dominant in the banking market in Quebec, while being highly selective in operations outside its natural market, has been successful. The Bank's lead market position in personal banking in Quebec enabled it to ramp up product profitability whereas that of the other banks suffered at the hands of cut-throat competition in the Ontario market. As for the SME market, 2003 marked a return to growth.

The Bank also made huge strides in rolling out its wealth management strategy. The Wealth Management business line, deployed in the branch network for high net worth clients, has lived up to expectations in terms of growing the financial assets entrusted to the Bank, savings retention and loan renewal. In addition, assets under management rose at National Bank Financial and at National Bank Securities, whose mutual funds stood out from bank fund families for their delivery of growth and returns. The acquisition of Altamira contributed to the Bank's earnings, as projected, despite the very difficult market context. Cost synergies were achieved more rapidly, offsetting lower-than-anticipated revenue.

Lastly, the Bank's capital market operations continued to do well. Solid results in fixed-income securities partly made up for the downturn in corporate financing. Treasury, for its part, continued to post solid profits by virtue of its multiple revenue sources. However, making the acquisition of Putnam Lovell cost-effective proved to be a major challenge, given the weak demand for merger and acquisition advisory services in the financial industry. Mr. Raymond and his team took aggressive steps to remedy the situation, including shedding low-potential deficit operations.

With respect to customer satisfaction, Mr. Raymond's sustained efforts to mobilize all employees to provide superior customer service throughout the Bank paid off. The development of new products such as GICs and Strategic Portfolios, extended branch business hours, enhanced functionalities through electronic delivery channels such as the Internet, and targeted action to eliminate the most obvious irritants have resulted in significantly higher satisfaction levels among individuals and businesses.

In addition, the quality of the loan portfolio was maintained, as reflected in the provision for credit losses which totalled \$177 million for fiscal 2003, down 42% from the \$305 million provision taken in 2002.

Mr. Raymond maintained a high profile in business circles and the community by participating in over 40 public events during the year, including 27 meetings which brought together more than 700 investors and analysts.

In closing, given the performance of Mr. Raymond and his team, the Bank's share price rose by 39% in one year, for a total return to shareholders, including dividends, of 43%.

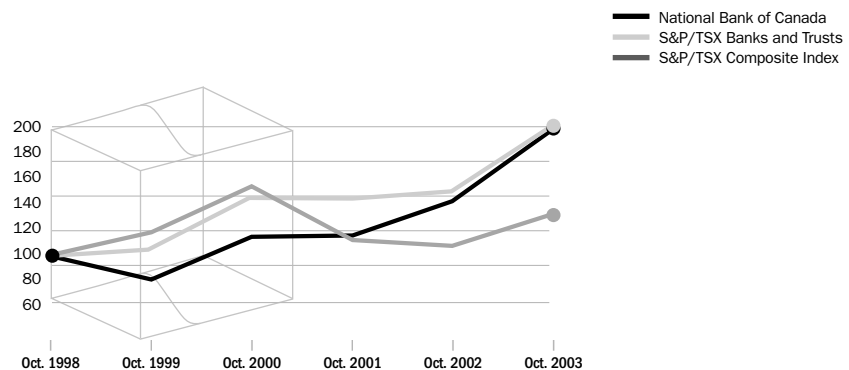
**This report is submitted by the Human Resources Committee in accordance with Canadian securities legislation.**

**Jean Gaulin, Chair  
G rard Coulombe  
Fran ois J. Coutu  
Shirley A. Dawe  
Marcel Dutil  
E.A. (Dee) Parkinson-Marcoux**

### *Performance Graph for Common Shares of the Bank*

The following performance graph shows the cumulative total return for \$100 invested in common shares of the Bank on October 31, 1998, with the total cumulative return of the S&P/TSX Banks and Trusts subindex and the S&P/TSX Composite Index for the five most recently completed financial years, assuming dividends are fully reinvested at the market price on each dividend payment date.

#### **Five-Year Cumulative Total Return on a \$100 Investment**



	Oct. 1998 (\$)	Oct. 1999 (\$)	Oct. 2000 (\$)	Oct. 2001 (\$)	Oct. 2002 (\$)	Oct. 2003 (\$)
National Bank of Canada	100.00	80.17	115.82	116.03	144.87	<b>207.83</b>
S&P/TSX Banks and Trusts	100.00	105.87	148.48	146.67	152.87	<b>211.65</b>
S&P/TSX Composite Index	100.00	118.75	159.61	115.77	106.88	<b>135.57</b>

**SECTION III – INFORMATION ON COMPENSATION (cont.)***Total Compensation of Named Executive Officers of the Bank***Summary of Total Compensation of Named Executive Officers**

The following table, presented in accordance with Canadian securities legislation, shows the total compensation paid by the Bank and its subsidiaries to each of the Named Executive Officers, 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 (\$)	Other Annual Compensation (1) (\$)	Awards		Payouts	
					Securities Awarded Under (2)		Long-Term Bonus	
					SARs (#)	Options (#)	Program (\$)	
<b>Réal Raymond</b> President and Chief Executive Officer	2003	764,821 <sup>(3)</sup>	1,300,000	0	Nil	169,600	947,100 <sup>(4)</sup>	N/A
	2002	692,137	800,000	4,339	Nil	149,940	450,000	N/A
	2001	461,800	800,000	653	Nil	88,300	N/A	N/A
<b>Jean Turmel</b> President – Financial Markets, Treasury and Investment Bank	2003	500,000	3,833,200	36	Nil	113,000	1,916,598 <sup>(5)</sup>	N/A
	2002	500,000	3,567,333	4,037	Nil	124,900	1,783,667	N/A
	2001	500,000	3,243,333	24,470	Nil	88,300	1,621,667	N/A
<b>Louis Vachon</b> Senior Vice-President Treasury and Financial Markets	2003	250,000	3,142,857	892	Nil	37,000	N/A	N/A
	2002	250,000	2,009,582	169	Nil	28,300	N/A	N/A
	2001	250,000	2,103,200	35	Nil	30,000	N/A	N/A
<b>Michel Tremblay</b> Senior Vice-President – Personal Banking and Wealth Management	2003	358,246	300,000	0	Nil	37,000	N/A	627,289 <sup>(6)</sup>
	2002	350,000	400,000	0	Nil	28,300	N/A	535,603 <sup>(6)</sup>
	2001	200,000	620,000	22	Nil	30,000	N/A	400,490 <sup>(6)</sup>
<b>G.F. Kym Anthony</b> President and Chief Executive Officer National Bank Financial	2003	400,000	1,901,070	11,016	Nil	37,000	N/A	N/A
	2002	370,000	2,750,273	83,008	Nil	42,800	N/A	N/A
	2001	374,600	1,950,452	100,916	N/A	N/A	N/A	N/A

(1) The amounts in this column only represent benefits relating to loans granted at preferred interest rates to Named Executive Officers. The Named Executive Officers have the use of a leased car and may, at their option, participate in the Employee Share Ownership Plan of the Bank; the aggregate value of these other benefits for the financial year ended October 31, 2003 does not exceed the lesser of: \$50,000 or 10% of the salary and bonuses paid annually to the Named Executive Officers. It should be noted that for G.F. Kym Anthony, this amount was paid to him under the EdgeStone Affiliate Fund co-investment program.

(2) These securities were awarded under the Stock Appreciation Rights Plan and the Stock Option Plan of the Bank. For further information, refer to the “Stock Option Plan” and the “Stock Appreciation Rights Plan” sections of the Circular.

(3) On September 1, 2003, the base salary of Réal Raymond was increased from \$750,000 to \$860,000.

(4) Under the Deferred Stock Unit Plan for Officers (see “Deferred Stock Unit Plan” section for further information), a portion of the long-term compensation of Mr. Raymond was paid in DSUs for Officers in December 2003, representing 23,100 units based on a price of \$41.00 per share. The total number of DSUs for Officers held by Mr. Raymond as at October 31, 2003 was 14,886, valued at \$461,787, based on an average price of \$31.02 per share. (This aggregate amount excludes the November 2003 dividend payment and the December 2003 award.)

(5) With regard to the bonus for 2003, Jean Turmel received 33% of his bonus in the form of DSUs for Officers in two installments representing 23,059 units based on a price of \$36.15 per share, and 26,415 units based on a price of \$41.00 per share. The total number of DSUs for Officers held by Mr. Turmel as at October 31, 2003 was 142,698, valued at \$4,410,721, based on an average price of \$30.91 per share. (This aggregate amount excludes the November 2003 dividend payment and the December 2003 award.) For further information, refer to the “Annual Bonus Program” section of the Circular.

(6) Dividends from Natcan Investment Management Inc. shares and remuneration from Altamira.

**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, 2003. These options are exercisable by their holders as follows: 25% as of December 2003; with a further 25% exercisable as of December 2004, another 25% exercisable as of December 2005, and the remainder as of December 2006. These options expire on December 12, 2012. 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 \$29.39 and \$32.47.

**Options Awarded During the Financial Year Ended October 31, 2003**

Name	Number of Options Awarded (#)	% of Total Options & SARs Awarded to Employees During the Financial Year	Option Exercise Price (\$)	Market Value of a Common Share on the Day Preceding the Award (\$)	Expiry Date
<b>Réal Raymond</b>	169,600	10.8	30.95	30.95	12/12/2012
<b>Jean Turmel</b>	113,000	7.2	30.95	30.95	12/12/2012
<b>Louis Vachon</b>	37,000	2.4	30.95	30.95	12/12/2012
<b>Michel Tremblay</b>	37,000	2.4	30.95	30.95	12/12/2012
<b>G.F. Kym Anthony</b>	37,000	2.4	30.95	30.95	12/12/2012

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, 2003, the aggregate value realized, and the number and value of unexercised in-the-money options/SARs outstanding as at October 31, 2003. 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, \$40.91 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, \$40.91 per common share.

**Options/SARs Exercised by the Named Executive Officers During the Financial Year Ended October 31, 2003, 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>Réal Raymond</b>	61,000	1,159,592	196,135	356,705	3,707,468	2,876,091
<b>Jean Turmel</b>	28,500	521,550	348,375	281,325	6,876,199	2,633,829
<b>Louis Vachon</b>	0	0	59,825	80,475	1,095,208	684,763
<b>Michel Tremblay</b>	0	0	22,075	73,225	331,418	882,473
<b>G.F. Kym Anthony</b>	0	0	10,700	69,100	138,030	414,090

<sup>(1)</sup> The amounts indicated are based on a price of \$40.91 per common share, namely, the closing price on the last business day of the financial year ended October 31, 2003.

**Compensation of the Officers of National Bank Financial**

Most of the officers of National Bank Financial receive a base salary, an annual bonus, long-term variable compensation, and a benefits package to attract and retain the best employees in the highly competitive securities sector.

The compensation of the Named Executive Officer is approved by the Human Resources Committee of the Board of Directors of National Bank Financial & Co. Inc., which is comprised of a majority of outside, independent directors. These directors are: Jean Gaulin, Chair, Pierre Ducros, Paul Gobeil and Robert Parizeau.

**Base Salary**

In order to establish the base salary of its officers, National Bank Financial refers to the salaries of its comparison market, which consists of national brokerage firms associated with the major Canadian banks. It also takes into consideration the characteristics specific to National Bank Financial, the level of responsibility, experience and individual performance.

**Annual Bonus Program**

National Bank Financial offers an annual bonus program which is an important part of the compensation of officers at National Bank Financial. Under this program, bonuses are awarded every six months based on the company's overall profitability and, where applicable, on the profitability of the sectors under the responsibility of each officer. They are also determined by taking into account the achievement of the company's objectives and the officer's individual performance. For certain officers, a third of the bonuses is deferred and is payable in cash over a three-year period.

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

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### Long-Term Variable Compensation Program

The long-term variable compensation program enables certain officers and employees of National Bank Financial to share in the company's pre-tax income. It provides for either bonuses to be granted or deferred stock units to be created.

Participants eligible for bonuses can acquire them over a three-year period as follows: 50% payable at the end of the reference year, 25% payable at the end of the second year and 25% payable at the end of the third year.

Participants eligible for deferred stock units receive phantom stock units of the Bank at a value equal to the market value, based on the average closing price of a regular board lot on The Toronto Stock Exchange for the five trading days immediately prior to the date of the award. The value of the units varies according to the price of Bank shares. In order to encourage participants to remain with National Bank Financial, the deferred stock units vest over a four-year period beginning the year after they are awarded. They may only be converted to cash at the time of retirement, death or upon termination of employment.

G.F. Kym Anthony, President and Chief Executive Officer, does not participate in the long-term variable compensation program.

### Benefits

A competitive benefits package completes the compensation of National Bank Financial officers.

## *Retirement Benefits for Named Executive Officers of the Bank*

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### **Pension Plan**

With the exception of G.F. Kym Anthony, the Named Executive Officers of the Bank participate in a defined benefit pension plan. For each year of service credited, the plan grants a pension equal to 2% of average pensionable earnings, defined as the average earnings for the 60 highest-paid consecutive months. Compensation consequently varies according to level. For Named Executive Officers at the level of President, it is based on the salary and the annual bonus. For the Senior Vice-President level, the calculation is based on salary and 25% of the annual bonus (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 membership 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 (\$1,833 effective January 1, 2004). The normal retirement age is 60. However, the plan allows for early retirement, with the employer's consent, as of 55 years of age. 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 member's age and years of service falls short of 90.

### **Post-Retirement Allowance Program**

With the exception of G.F. Kym Anthony, who does not participate in any pension plan, 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, the annual bonus recognized is limited to 100% of the salary for the President and Chief Executive Officer and to \$571,000 for the President – Financial Markets, Treasury and Investment Bank, while for the Senior Vice-Presidents, average pensionable earnings are limited to \$250,000. The payment conditions of the allowance are identical to those of the pension plan.

At the meeting of the Board of Directors on June 20, 2002, it was decided that as of January 1, 2003, the Post-Retirement Allowance Program would be funded in the form of a retirement agreement.

### **Estimated Annual Benefits Payable at Retirement**

The following tables contain 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 President and Senior Vice-President.

**Pensions Payable as of Age 60**

Average Pensionable Earnings <sup>(1)</sup>	PRESIDENT				
	Years of Membership <sup>(2) (3)</sup>				
	15	20	25	30	35
(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
1,050,000	311,870	416,327	520,784	625,241	730,129
1,200,000	356,870	476,327	595,784	715,241	835,129
1,350,000	401,870	536,327	670,784	805,241	940,129
1,500,000	446,870	596,327	745,784	895,241	1,045,129

Average Pensionable Earnings <sup>(1)</sup>	SENIOR VICE-PRESIDENT				
	Years of Membership <sup>(2) (3)</sup>				
	15	20	25	30	35
(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
200,000	56,870	69,114	77,182	85,250	93,749
225,000	64,370	77,531	85,599	93,667	102,166
250,000	71,870	85,947	94,016	102,084	110,583
300,000	71,870	85,947	94,016	102,084	110,583

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

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

· Réal Raymond:	35 years
· Jean Turmel:	24 years
· Louis Vachon:	24 years
· Michel Tremblay:	16 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 member'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.

**Other Retirement Benefits**

André Bérard will leave his position as Chairman and member of the Board at the 2004 Annual Meeting. In recognition of Mr. Bérard's years of service as Chairman and Chief Executive Officer and in keeping with a current Canadian bank practice regarding former presidents and chief executive officers, the Bank will award Mr. Bérard the following benefits: use of an office, the services of a part-time secretary, and use of a company car and chauffeur until January 2010, namely, until age 70. In the interim, should Mr. Bérard assume a position as officer or director which includes these benefits, they would be automatically withdrawn.

**Termination of Employment Policy**

On November 30, 2000, the Board adopted a policy whereby certain Executive Officers would receive a separation allowance in the event their employment was 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 business combination, resulting in one shareholder beneficially owning in excess of 20% of the voting shares of the Bank. Under the terms of this policy, the President and Chief Executive Officer as well as 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 previous 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 policy and would be entitled to receive a separation allowance equal to their base salary and average annual bonus for the previous three years (or the target annual bonus in the case of 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 up to 12 months in which to exercise the options or SARs.

National Bank Financial Inc. and G.F. Kym Anthony have entered into an agreement which sets out 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 policy described above, and would provide a separation allowance equal to his base salary and his average annual bonus for the previous two years for a period of 24 months, up to the normal retirement age.

**SECTION III – INFORMATION ON COMPENSATION (cont.)***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, 2004, total loans outstanding (other than routine indebtedness as defined by Canadian securities legislation and excluding investment loans for the purchase of shares of the Bank or its subsidiaries) granted to directors, officers and employees of the Bank amounted to approximately \$605,791,398. This total includes mortgages for an aggregate amount of approximately \$371,871,664, personal loans for an aggregate amount of approximately \$233,919,733. Outstanding investment loans for the purchase of shares of the Bank or its subsidiaries totalled an aggregate amount of approximately \$1,008,209. For the purposes hereof, the term “Executive Officers” means the senior officers of the Bank within the meaning of section 485.1 of the *Bank Act* and includes: the President and Chief Executive Officer, the President – Financial Markets, Treasury and Investment Bank, the Senior Vice-Presidents, and other members of the management of the Bank or a subsidiary who perform a policy-making function in respect of the Bank.

The table below shows loans granted to directors and Executive Officers of the Bank, in accordance with Canadian securities legislation.

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

Name and Principal Occupation	Involvement of the Bank or a Subsidiary	Largest Amount Outstanding During the Financial Year Ended October 31, 2003 (\$)	Balance as at January 1, 2004 (\$)
<b>G.F. Kym Anthony</b> President and Chief Executive Officer National Bank Financial Inc.	Loans granted by National Bank of Canada and National Bank Financial Inc.	1,655,471 <sup>(1)</sup> 5,594,038 <sup>(2)</sup>	1,469,606 5,900,012
<b>Richard Barriault</b> Vice-President – Taxation National Bank of Canada	Loan granted by National Bank of Canada	9,961 <sup>(1)</sup>	9,256
<b>Jean-Paul Caron</b> Vice-President – Corporate Affairs National Bank of Canada	Loans granted by National Bank of Canada	62,616 <sup>(2)</sup>	62,604
<b>Pierre Dubreuil</b> Senior Vice-President Greater Montreal and Southern Quebec National Bank of Canada	Loans granted by National Bank of Canada	2,481 <sup>(1)</sup> 212,108 <sup>(2)</sup>	2,314 181,416
<b>Johanne Dupont</b> Vice-President and Corporate Secretary National Bank of Canada	Loan granted by National Bank of Canada	31,624 <sup>(2)</sup>	30,623
<b>Marc Godin</b> Vice-President – Finance and Control National Bank of Canada	Loan granted by National Bank Discount Brokerage Inc.	87,220 <sup>(2)</sup>	60,267
<b>Michel Labonté</b> Senior Vice-President – Finance, Technology and Corporate Affairs National Bank of Canada	Loan granted by National Bank of Canada	19,342 <sup>(1)</sup>	18,981
<b>Réjean Lévesque</b> Senior Vice-President Northern and Eastern Quebec National Bank of Canada	Loan granted by National Bank of Canada	6,640 <sup>(1)</sup>	6,171
<b>Martin Ouellet</b> Vice-President and Treasurer National Bank of Canada	Loan granted by National Bank of Canada	9,961 <sup>(1)</sup>	9,256

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

Name and Principal Occupation	Involvement of the Bank or a Subsidiary	Largest Amount Outstanding During the Financial Year Ended October 31, 2003 (\$)	Balance as at January 1, 2004 (\$)
<b>Luc Papineau</b>			
Senior Vice-President Sales and Personal Banking National Bank of Canada	Loans granted by National Bank of Canada	294,226 <sup>(2)</sup>	282,707
<b>Ricardo Pascoe</b>			
Senior Vice-President Capital Markets National Bank of Canada	Loan granted by National Bank of Canada	2,550,000 <sup>(2)</sup>	2,550,000
<b>Denis Pellerin</b>			
Senior Vice-President Operational and Market Risk Management National Bank of Canada	Loan granted by National Bank of Canada	38,683 <sup>(1)</sup>	37,961
<b>Nicole Rondou</b>			
Vice-President – Compliance National Bank of Canada	Loan granted by National Bank of Canada	3,320 <sup>(1)</sup>	3,085
<b>Louis Vachon</b>			
Senior Vice-President Treasury and Financial Markets National Bank of Canada	Loan granted by National Bank of Canada	58,024 <sup>(1)</sup>	56,942

<sup>(1)</sup> This amount represents one or more personal leveraged loans (the "Leveraged Loans") granted to Executive Officers in order to finance the participant's equity commitments under the EdgeStone Affiliate Fund co-investment program. All Leveraged Loans bear interest at the federal prescribed rate published monthly and are secured by a pledge of the participant's interest in the limited partnerships comprising the EdgeStone Affiliate Fund co-investment program. This program provides officers and eligible employees of the Bank and of entities affiliated with the Bank the opportunity to co-invest with EdgeStone Capital Equity Fund II, L.P., EdgeStone Capital Mezzanine Fund II, L.P., and EdgeStone Capital Venture Fund, L.P. (collectively, the "Main Funds") and with the Bank or a company in which the Bank holds an indirect interest. Officers and eligible employees are offered credit facilities by the Bank or its affiliates in particular through limited recourse Leveraged Loans. Leveraged Loans bear interest and will mature on the earliest of: (i) the 10th anniversary date of the applicable Main Fund, (ii) the termination of the applicable Affiliate Fund limited partnership, (iii) the sale or disposition of the applicable Affiliate Fund 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 (equity and leveraged portion). Recourse for the balance of the Leveraged Loans is limited to the participant's Affiliate Fund limited partnership interest and the distributions thereon.

<sup>(2)</sup> These amounts represent a loan or the sum of loans granted to an 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 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. This also includes a margin account, which is considered a personal loan allowing the investor to borrow against the value of the securities held in his portfolio. Portfolio securities are used as security. This account is granted in accordance with standards applicable to clients, except that the interest rate may vary between the prime rate plus 0.5% and the interest rate offered to clients.
- A loan secured by a mortgage on the borrower's main residence, which exceeds the Executive Officer's annual salary, is granted according to the standards applicable to clients, except for the interest rate, which will be the rate posted for the Bank's clients less 2%; however, Executive Officers who obtained a loan prior to December 31, 2002 benefit from the previous conditions for a transition period of 36 months ending December 31, 2005; i.e., the loan is granted according to standards applicable to clients, except for the interest rate offered at one third of the client rate of the Bank on the first \$50,000 and at the Bank's client rate less 5% on the amount in excess thereof, but such rate cannot ever be lower than the rate applied to the first \$50,000.
- A loan secured by a mortgage on the borrower's secondary residence, granted at market terms and conditions.

## SECTION IV – OTHER INFORMATION

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### *Liability Insurance for Directors and Officers*

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The Bank is covered by public liability insurance for directors and Officers of the Bank and its subsidiaries. This policy provides coverage of \$100,000,000 with a deductible of \$10,000,000 per claim.

This insurance covers directors and Officers of the Bank for acts committed in the performance of their duties as directors or Officers. Illegal acts and those committed for personal gain are excluded from this coverage. The annual premium paid by the Bank is \$1,082,000.

### *Repurchase of Shares*

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The Bank currently has a normal course issuer bid (the "Issuer Bid") in place under which it may repurchase for cancellation, from time to time and during a given period (hereafter referred to), a given number of common shares through The Toronto Stock Exchange. The Issuer Bid as filed allows for the purchase of up to 8,700,000 common shares representing approximately 5% of the outstanding common shares, which shares are subsequently cancelled. In the opinion of the Board, the purchase of the common shares pursuant to the Issuer Bid constitutes an appropriate use of the Bank's surplus funds.

The Issuer Bid, which commenced on December 8, 2003, will run for a period ending on the earlier of (i) the date on which the Bank repurchases the maximum number of common shares, i.e., 8,700,000, or (ii) the date on which the Bank otherwise decides not to repurchase further shares, which shares are subsequently cancelled or (iii) on December 7, 2004. The price that the Bank pays for any common share which it purchases shall be the prevailing market price of a common share on The Toronto Stock Exchange on the purchase date.

To the knowledge of the Bank, its directors and Officers, after reasonable verification, as at the date hereof, the Bank repurchased 9,100,000 common shares as part of its previous normal course issuer bid, representing approximately 5% of the common shares outstanding at the time the issuer bid was made on January 15, 2003.

### *Corporate Governance*

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The Statement of Corporate Governance Practices of the Bank Incorporating The Toronto Stock Exchange Guidelines is presented in Schedule E of the Circular. The Statement of Corporate Governance Practices of the Bank was reviewed by the Conduct Review and Corporate Governance Committee and approved by the Board. In addition, Schedule D of the Circular contains a description of the Board committees, their mandates and activities.

### *Minutes*

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A copy of the minutes of the Annual Meeting of Common Shareholders of the Bank held on March 12, 2003 has been mailed to shareholders with the Circular.

### *Additional Information*

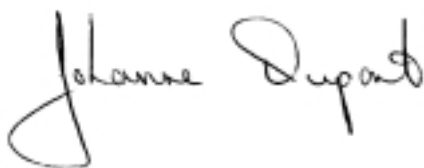
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The Bank will provide to any person, upon request, a copy of the Annual Report, the Annual Information Form together with any document incorporated therein by reference, the annual consolidated financial statements for the financial year ended October 31, 2003 together with the accompanying auditors' report, any subsequent quarterly report and the Management Proxy Circular of the Bank in respect of its most recent Meeting that involved the election of directors. To obtain copies of these documents, send your request to the Corporate Secretary's Office of the Bank, 600 de La Gauchetière West, 4th Floor, Montreal, Quebec, Canada H3B 4L2.

### *Approval of the Board of Directors*

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



**Johanne Dupont**  
*Vice-President and Corporate Secretary*

*Montreal, January 22, 2004*

## SCHEDULE A

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December 23, 2003

### VIA SEDAR

Commission des valeurs mobilières du Québec  
Alberta Securities Commission  
British Columbia Securities Commission  
Manitoba Securities Commission  
New Brunswick Securities Commission  
Securities Commission of Newfoundland & Labrador  
Nova Scotia Securities Commission  
Ontario Securities Commission  
Prince Edward Island Securities Commission  
The Saskatchewan Securities Commission  
Government of Northwest Territories  
Government of Nunavut  
Government of Yukon

Dear Sirs/Mesdames:

Subject: National Bank of Canada ("National Bank")  
National Policy Statement 31 - *Change of Auditors of a Reporting Issuer*

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The Board of Directors of National Bank confirms its intention to recommend, at the annual meeting of shareholders to be held on March 10, 2004, the continued appointment of Samson Bélair / Deloitte & Touche s.e.n.c.r.l. as auditor and to act as sole auditor of National Bank beginning with its 2004 fiscal year. Furthermore, the Board of Directors determined at the Board meeting held on December 4, 2003, not to put PricewaterhouseCoopers LLP forward for reappointment as National Bank's second auditor.

In accordance with the National Policy Statement 31, please find enclosed:

- a) the required notice of change of auditor;
- b) a letter from Samson Bélair / Deloitte & Touche s.e.n.c.r.l., the auditor to continue its appointment with National Bank; and
- c) a letter from PricewaterhouseCoopers LLP, the auditor which will not be proposed for reappointment at the annual meeting of shareholders to be held on March 10, 2004.

On behalf of National Bank, the undersigned hereby confirms that the notice and letters referred to above have been reviewed by the Board of Directors of National Bank.

Yours truly,

A handwritten signature in black ink that reads "Johanne Dupont".

*Johanne Dupont*  
Vice-President and Corporate Secretary

Encls.

c.c.: Alain Côté, Samson Bélair / Deloitte & Touche s.e.n.c.r.l.  
Marc-André Pinard, PricewaterhouseCoopers LLP

**SCHEDULE A (cont.)**

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**NOTICE OF CHANGE OF AUDITOR**  
**CANADIAN SECURITIES ADMINISTRATORS**  
**NATIONAL POLICY STATEMENT 31**

National Bank of Canada (“National Bank”) hereby gives notice, pursuant to National Policy Statement 31, as follows:

1. Currently, National Bank engages two audit firms, being Samson Bélair / Deloitte & Touche s.e.n.c.r.l. and PricewaterhouseCoopers LLP. The Audit and Risk Management Committee of National Bank conducted an extensive review of National Bank’s audit requirements, including the practice of using, in Canada, the services provided by two global auditing firms. As a consequence, the Board of Directors selected Samson Bélair / Deloitte & Touche s.e.n.c.r.l. to continue its appointment as auditor and to act as sole auditor of National Bank beginning with its 2004 fiscal year.
2. At the Board meeting held on December 4, 2003, the Board of Directors determined not to put PricewaterhouseCoopers LLP forward for reappointment as National Bank’s second auditor. As such, the Board of Directors intends to propose, at the annual meeting of shareholders to be held on March 10, 2004, the reappointment of Samson Bélair / Deloitte & Touche s.e.n.c.r.l., as its sole auditor.
3. There has been no adverse or qualified opinion or denial of opinion or reservation contained in the auditors’ reports on National Bank’s annual consolidated financial statements for the two fiscal years preceding the date of this notice, being the reports of Samson Bélair / Deloitte & Touche s.e.n.c.r.l. and PricewaterhouseCoopers LLP for the fiscal years ended October 31, 2002 and October 31, 2003, other than the impact, for fiscal year ended October 31, 2002, of the general allowance for credit losses required by the Superintendent of Financial Institutions Canada. Since January 31, 2002, National Bank’s general allowance for credit risk has been in accordance with Canadian generally accepted accounting principles with the accounting treatment of the Superintendent of Financial Institutions Canada.
4. There have been no reportable events (including disagreements, unresolved issues or consultations) in connection with the audits of the two most recent fiscal years and with any subsequent period to date.

Signed in Montréal, Québec on December 15, 2003.



Johanne Dupont  
Vice-President and Corporate Secretary

**SCHEDULE A (cont.)**

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Samson Bélair/Deloitte & Touche, S.E.N.C.R.L.  
Assurance and Advisory Services  
1 Place Ville-Marie  
Suite 3000  
Montreal, QC H3B 4T9  
Tel.: (514) 393-7115  
Fax: (514) 390-4111  
www.deloitte.ca

**Samson Bélair  
Deloitte  
& Touche**

December 15, 2003

**VIA SEDAR**

Commission des valeurs mobilières du Québec  
Alberta Securities Commission  
British Columbia Securities Commission  
Manitoba Securities Commission  
New Brunswick Securities Commission  
Securities Commission of Newfoundland & Labrador  
Nova Scotia Securities Commission  
Ontario Securities Commission  
Prince Edward Island Securities Commission  
The Saskatchewan Securities Commission  
Government of Northwest Territories  
Government of Nunavut  
Government of Yukon

Dear Sirs/Madams:

**Subject: National Bank of Canada ("National Bank")**  
**National Policy Statement 31 - *Change of Auditors of a Reporting Issuer***

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We acknowledge receipt of a Notice of Change of Auditor (the "Notice") dated December 15, 2003 delivered to us by National Bank.

Pursuant to paragraph 4.7 of National Policy Statement 31, please accept this letter as confirmation of Samson Bélair / Deloitte & Touche s.e.n.c.r.l. that we have reviewed the Notice and based on our knowledge as at the time of receipt of the Notice, we agree with the information and each of the statements contained therein.

Yours truly,


Chartered Accountants

c.c.: Johanne Dupont, Vice-President and Corporate Secretary, National Bank of Canada  
Marc-André Pinard, PricewaterhouseCoopers LLP

## SCHEDULE A (cont.)



December 15, 2003

**VIA SEDAR**

Commission des valeurs mobilières du Québec  
Alberta Securities Commission  
British Columbia Securities Commission  
Manitoba Securities Commission  
New Brunswick Securities Commission  
Securities Commission of Newfoundland & Labrador  
Nova Scotia Securities Commission  
Ontario Securities Commission  
Prince Edward Island Securities Commission  
The Saskatchewan Securities Commission  
Government of Northwest Territories  
Government of Nunavut  
Government of Yukon

Dear Sirs/Mesdames:

Subject: National Bank of Canada ("National Bank")  
National Policy Statement 31 - *Change of Auditors of a Reporting Issuer*

We acknowledge receipt of a Notice of Change of Auditor (the "Notice") dated December 15, 2003 delivered to us by National Bank.

Pursuant to paragraph 4.7 of National Policy Statement 31, please accept this letter as confirmation of PricewaterhouseCoopers LLP that we have reviewed the Notice and based on our knowledge as at the time of receipt of the Notice, we agree with the information and each of the statements contained therein.

Yours very truly,

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP".

Chartered Accountants

c.c.: Johanne Dupont, Vice-President and Corporate Secretary, National Bank of Canada  
Alain Côté, Samson Bélair / Deloitte & Touche s.e.n.c.r.l.

**PricewaterhouseCoopers LLP**  
**Chartered Accountants**  
1250 René-Lévesque Boulevard West  
Suite 2800  
Montréal, Québec  
Canada H3B 2G4  
Telephone +1 (514) 205 5000  
Facsimile +1 (514) 876 1502

## SCHEDULE B

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### *Shareholder Proposals*

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Proposals 1 to 5 inclusively have been submitted to the management of the Bank by the Association for the Protection of Quebec Savers and Investors, a shareholder located at 82 Sherbrooke West, Montreal, Quebec H1X 2X3.

Proposal 6 has been submitted to the management of the Bank by Global Benefits, located at 545 Wilson Ave., Toronto, Ontario M3H 1V2, on behalf of U.A. Canadian Pipeline Industry National Pension Trust Fund.

Proposals 7 to 11 inclusively have been submitted to the management of the Bank by Lowell Weir, CA, shareholder, residing at 4 Armoyan Court, Bedford, Nova Scotia B4A 3L5.

### *Proposal No. 1*

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**Proposal and statement of the shareholder:**

**"It is proposed that the company pass a by-law to prohibit the chief executive officer from sitting on the board of directors of any other listed company that is unrelated.**

The position of chief executive officer is the most important one in a business corporation. It is therefore normal for the incumbent to dedicate most of his time, energy and skills to the advancement of the company that he heads. Moreover, given the substantial compensation package associated with this position, the chief executive officer should limit his commitments to third parties. The so-called advantages of business relations that are often used to justify a chief executive officer serving on the boards of other companies will not be jeopardized because such relations can be developed, and are already actually developed, through various other means. We would like the chief executive officer to avoid being unduly influenced in his management by factors outside the company by focusing exclusively on the organization he heads, and by refraining from sitting on boards of directors of listed companies that are unrelated."

**Position of the Bank**

The President and Chief Executive Officer of the Bank currently does not serve on any board of directors of any listed company that is unrelated.

The Bank expects each employee to be totally dedicated to his or her duties. Under the Bank's Code of Professional Conduct, all employees, officers and directors of the Bank must also avoid any real, possible or apparent conflicts of interest.

In the matter of officers serving on outside boards of directors, the Bank's Board of Directors has already approved a policy for all Bank employees, including the President and Chief Executive Officer, which sets out the procedure to follow for prior authorization.

Therefore, an officer who is a member of the Board of Directors of the Bank must request authorization from the Board before accepting an appointment as a director of a profit corporation that is not affiliated with the Bank.

Authorization is subject to the following criteria: (i) the appointment is not directly or indirectly in conflict with the operations of the Bank or one of its subsidiaries; (ii) the appointment does not adversely affect the independent judgment of the employee in the performance of his or her duties; (iii) as a director, the employee undertakes to protect at all times the confidential and privileged information obtained while performing his or her duties at the Bank or its subsidiaries; (iv) the appointment may not be reasonably perceived as possibly affecting the employee's performance; (v) for corporations other than a personal holding company or a professional association, the appointment is made in the Bank's interest because it will make a positive contribution to the business of the Bank or of its subsidiaries and the advancement of its employees, and it will allow the Bank or its subsidiaries to fulfil their role in the community; and (vi) the corporation or entity to which the employee is appointed as director does not have operations that compete with the Bank or its subsidiaries.

The Bank's Board of Directors reviews each of the above criteria in every case to determine if it is in the Bank's interest to authorize an officer who is a member of the Board to serve on the board of directors of another corporation.

The fact that this policy exists shows that the Bank is in line with the general objective expressed in the shareholder's proposal. The Bank, however, considers that it is preferable to be flexible regarding the matter and that prohibiting the Chief Executive Officer from sitting on boards of directors would not be in the Bank's best interest.

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

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**SCHEDULE B (cont.)**

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*Proposal No. 2*

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**Proposal and statement of the shareholder:**

"It is proposed that the company disclose, in the Management Proxy Circular, all the boards of directors of companies whose stock is traded on North American stock exchanges and on which the nominees to the Board currently serve or have served in the past five years.

The independence of a board of directors is the best guarantee of good corporate governance. Shareholders are entitled to demand that they be better informed about the board members of the company in which they invest. They do not wish to have merely a brief overview of the main positions previously held by the nominees to the board. Under the principle of transparency, investors should be able to know the previous board experience of a person whose role it will be to represent them on the board. Investors want to be able to form a solid opinion of the board of directors and analyze possible sources of conflict of interest. The independence of board members is central to the current reform of corporate governance. Shareholders should be allowed to verify the degree of independence of a board of directors, particularly since they are called upon to appoint the members. Shareholders have the right to complete and accurate information in order to determine their level of confidence in a board of directors."

**Position of the Bank:**

Each director's profile in the Circular aims first and foremost to emphasize the director's contribution to the Board and, in this regard, presents their skills, qualifications and abilities (please refer to the "Election of Directors" section of the Circular). This information is felt to be of greater value to shareholders so that they may exercise their voting rights in an informed manner.

A list of the board of directors of the major subsidiaries of the Bank on which the nominees to the Board serve is already included in the nominee profiles in the Circular.

All external directorships held by the directors are reviewed and approved by the Conduct Review and Corporate Governance Committee.

A list of the boards of directors of public companies on which the nominees to the Board serve or have served in the previous five years is already public information. It is found in the "Directory of Directors" published annually by the *Financial Post*. Shareholders who do not have this directory may contact the Corporate Secretary's Office of the Bank to consult its copies.

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

*Proposal No. 3*

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**Proposal and statement of the shareholder:**

"It is proposed that in addition to the compensation program of executive officers, the company disclose, in the Management Proxy Circular, their termination clauses and the conditions and circumstances justifying their projected benefits.

For a number of years now, officer compensation has been at the heart of discussions on good corporate governance. In recent months, investors have been scandalized by a number of excesses concerning compensation and separation allowances. These unpleasant surprises have caused much embarrassment and even resulted in litigation for the companies concerned. It has become apparent that there is definitely a problem regarding the discrepancy between the performance of officers and their company and executive compensation and bonuses. The Senate Committee on Banking, Trade and Commerce specifically mentioned in its June 2003 report that "a fundamental cause of unethical corporate behaviour is excessive executive compensation" (p. 60). It is vital for shareholders to arrive at an informed opinion on all the parameters included in the compensation program. Publication of detailed information will enable shareholders to verify if there is a connection between officer compensation and annual corporate performance, and will help restore investor confidence in corporate executives."

**Position of the Bank:**

The "Information on Compensation" section of the Circular includes a "Termination of Employment Policy" section for Executive Officers, which sets out the terms, conditions and circumstances for the granting of a separation allowance for some officers.

The Bank considers that it provides appropriate information on the subject in compliance with securities regulation provisions.

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

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**SCHEDULE B (cont.)**

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*Proposal No. 4*

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**Proposal and statement of the shareholder:**

"It is proposed that the Bank disclose the total retirement pension awarded to each of the senior executive officers and the related annual costs, and that it further declare any actuarial deficit for these plans.

Pension plans are included as part of the total compensation of officers, and have even become an increasingly important element of the compensation package. In recent years, retirement benefits have proliferated to the same extent as stock options. Since pension plans are major long-term corporate commitments, it is not enough to mention the annual value of the pension and other benefits payable to officers at retirement. Shareholders should be able to assess the aggregate value of the retirement package awarded to each executive officer and the resulting costs for the company. This information is highly relevant since the benefits awarded to the senior officers who are retiring can be compared with their previous compensation, the length of their commitment and their contribution to the organization's success. Investors will thus be in a position to make an overall assessment regarding the competency of the compensation committee and the board of directors in this regard."

**Position of the Bank:**

The "Information on Compensation" section of the Circular includes "Retirement Benefits for Named Executive Officers of the Bank," which sets out the terms and conditions of the pension plan and the post-retirement allowance program.

Information about the annual costs of the pension plan and its actuarial surplus or deficit is contained in Note 13 to the Bank's financial statements and under "Pension Plan and Other Employee Future Benefits" in the Annual Report.

It should be noted that the Bank cannot provide an estimate of total possible pension costs to be paid by the Bank without knowing the number of years that its retirees will live.

The Bank therefore considers that relevant information has already been disclosed to shareholders in the Circular and the financial statements of the Bank, and that the information already contained in the Annual Report does not need to be repeated in the Circular.

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

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*Proposal No. 5*

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**Proposal and statement of the shareholder:**

"It is proposed that the Bank pass a by-law requiring that its Executive Officers and any other person considered to be an insider give prior public notice of 10 calendar days for any trading in the Bank's stock, including the exercising of stock options.

Senior management and board members of a company have insider information about the company's financial condition and short- and medium-term outlook. Their trading in the company's stock is likely to affect its price since investors are aware that such insiders have first-hand information not available to the public. For many years, stock exchange trading rules have required that such trading activity be disclosed within a certain period *thereafter*, but this requirement is clearly inadequate. By the time trading activity is reported to the competent authorities and made public, stock price will already have been affected. In all fairness, shareholders and other investors should be informed sufficiently *in advance* of intended trading so that they can assess its significance and possible consequences. It should be noted that the practice of disclosure in advance of intended trading activity is actually one of the recommendations of the U.S. Conference Board in its Blue Ribbon Task Force Report on Public Trust and Private Enterprise."

**Position of the Bank:**

While it is not up to the Bank to pass judgment on the merits of the rules set out in securities legislation, for the sake of greater transparency, the Bank has implemented an internal guideline requiring, effective February 1, 2004, that Executive Committee members of the Bank give prior notice of five business days when disclosing in advance their intention to exercise call options on Bank shares.

The Bank considers that this measure, combined with strict compliance with other rules governing insider trading in Bank shares, provides a high degree of disclosure and protection for shareholders.

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

**SCHEDULE B (cont.)**

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*Proposal No. 6*

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**Proposal and statement of the shareholder:**

**"Resolved, that the shareholders of National Bank of Canada ("Company") request that the Board of Directors and its Audit Committee adopt a policy stating that the public accounting firm retained by our Company to audit the Company's financial statements will perform only audit and audit-related work for the Company and not provide tax or other services.**

The role of independent auditors in ensuring the integrity of the financial statements of public corporations is fundamentally important to the efficient and effective operation of the financial markets. David Smith, president and CEO of the Canadian Institute of Chartered Accountants, recently stated: "The independence and objectivity of auditors is critical to public and investor confidence in the integrity of financial statements, and to our capital markets." "Chartered Accountants Adopt New Auditor Independence Standard," Dec. 4, 2003.

We believe that utilizing the public accounting firm retained by our Company to audit the financial statements for tax and other services that generate fees in excess of those earned for the audit threatens its independence. According to the most recent Proxy Circular, our Company paid Samson Belair/Deloitte and Touche \$2,141,300 to provide audit services, but \$2,653,900 for tax services and \$438,065 for other services, such as information technology.

We believe that the Board and the Audit Committee should adopt a policy that limits the public accounting firm retained to audit the Company's financial statements to performing only audit and audit-related work and urge your support for this proposal."

**Position of the Bank:**

The Board of Directors and the Audit and Risk Management Committee consider that the independence of the external auditors of the Bank is critical to the proper conduct of its business and to continued public, investor and shareholder confidence.

As early as February 2002, the Board of Directors of the Bank, on the recommendation of its Audit and Risk Management Committee, approved the Guidelines for the Management of Services Provided by External Auditors. The Board of Directors amended these Guidelines at its meeting of December 4, 2003 based on the New Auditor Independence Standard recently issued by the Public Interest and Integrity Committee of the Canadian Institute of Chartered Accountants, and on proposed Multilateral Instrument 52-110 issued by Canadian securities commissions.

The amended Guidelines confirmed that the Audit and Risk Management Committee is responsible for assigning engagements to the external auditors. The Audit and Risk Management Committee pre-approves professional fee envelopes for audit work, advisory services regarding the application of accounting principles, comfort letters for loan or investment projects and tax advisory services. Any other engagement assigned to an audit firm or any overrun on pre-authorized envelopes must be specifically pre-approved by the Chair of the Audit and Risk Management Committee.

The Audit and Risk Management Committee considers that it may be beneficial for the Bank to use the services of external audit firms for non-audit engagements. Given the special expertise of external auditors or their knowledge of corporate operations, they can perform ad hoc engagements diligently and effectively, in the best interests of the Bank and its shareholders.

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

*Proposal No. 7*

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**Proposal and statement of the shareholder:**

**"Whereas the information provided to the Shareholders in the Management Proxy Circular dated March 13, 2002 lacked proper disclosure with regard to the Amendment to Section 4.6 of ByLaw I-Aggregate Remuneration of Directors, and**

**Whereas the Chairman and Director Gobeil misled shareholders who posed questions on the Amendment, it is proposed that:**

- (a) The Amendment to Section 4.6 of By Law I made on March 13, 2002 be declared null and void.
- (b) The Remuneration paid to directors under this Amendment be returned to the Bank by the directors involved.
- (c) The Chairman and Mr. Gobeil tender their resignations to the Board and the Bank and further are not eligible for reappointment for a period of six years. All share options to individuals to be cancelled.
- (d) A independent investigation be conducted to determine why the necessary and proper disclosure was not made by directors and officers responsible to make same.

## SCHEDULE B (cont.)

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Details:

The Management Proxy Circular failed to disclose that the increase in the Aggregate Remuneration was required to provide a salary of \$ 300,000 to Mr. Berard in the capacity of Chairman of the Board. Upon questioning at the meeting, Mr. Berard and Director Berard posed answers which were at best misleading.”

**Position of the Bank:**

The Bank considers that the information provided with respect to the proposal concerning the amendment to Section 4.6 of By-Law I - Aggregate Remuneration of Directors on page 8 of the Management Proxy Circular for the Annual Meeting of Shareholders held on March 13, 2002 was complete and in full compliance with the provisions of the regulations in force. At no time have Mr. Bérard and Mr. Gobeil misled shareholders. Having provided adequate and appropriate information regarding the matter, the Bank believes that there is no need to respond to the demands contained in the proposal.

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

### *Proposal No. 8*

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**Proposal and statement of the shareholder:**

“Whereas the by-law’s of the Bank require a Shareholder to obtain the support of shareholders holding in excess of 5% of the outstanding common shares of the Bank in order to nominate candidates for election to the Board of Directors of the Bank, and

Whereas in excess of 97% of the common shares of the Bank are held by intermediaries rendering it virtually for a shareholder to even identify the owners of 5% of the common shares.

It is proposed that the by-law be amended to change the 5% limit to 0.5%.

Details:

The by-law is out of date with current shareholding practices and prevents shareholders from having a voice in the nomination of candidates for the office of director.”

**Position of the Bank:**

The proposal is based on the assumption that the need to hold not less than 5% of Bank shares in order to nominate candidates to the Board of Directors is set by the Bank’s internal by-laws. This requirement is, in fact, contained in section 143(4) of the *Bank Act*, which stipules that “A proposal may include nominations for the election of directors if the proposal is signed by one or more holders of shares representing in the aggregate not less than 5 per cent of the shares or 5 per cent of the shares of a class of shares of the bank entitled to vote at the meeting to which the proposal is presented.”

The Bank is therefore in compliance with the provisions of the Act, which can only be amended by legislation.

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

### *Proposal No. 9*

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**Proposal and statement of the shareholder:**

“Whereas certain subsidiaries of the Bank are being audited by auditors other than those appointed by the shareholders of the bank; and

Whereas certain subsidiaries of the bank have at the direction of management stopped having their accounts audited; and

Whereas personnel of the bank are confused as to the actual subsidiaries (and subsidiaries of the subsidiaries) of the bank.

It is proposed that:

- (a) The auditors appointed by the shareholders ensure the listing of subsidiaries (and subsidiaries of the subsidiaries) provided to shareholders in the annual report in complete and that a financial statement exists for each subsidiary.
- (b) The auditors appointed by the shareholders audit the records of all subsidiaries (and subsidiaries of the subsidiaries) of the bank.

## SCHEDULE B (cont.)

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Details:

Despite a number of requests, the Bank is unwilling or unable to provide a proper listing of subsidiaries and a set of audited financial statements for the subsidiaries. Certain subsidiaries are audited by auditors not appointed by the shareholders. Others are not audited, I am told at the direction of management. I failed to encounter one staff member who had a total understanding of the bank's corporate structure."

### **Position of the Bank:**

The list of subsidiaries in the Annual Report complies with National Instrument 44-101 of the Canadian securities administrators. Under this Instrument, an issuer must describe the intercorporate relationships among the issuer and the issuer's subsidiaries at the financial year end. A subsidiary may be omitted if its total assets and operating revenues do not exceed 10% of the consolidated assets and consolidated operating revenues of the issuer.

Furthermore, the Bank meets the requirements of section 329(1) of the *Bank Act* under which the Bank is to take "all necessary steps to ensure that each of its subsidiaries has as its auditor the auditor or one of the auditors of the bank." The Act provides, however, that the previously stated principle does not apply to any subsidiary whose total assets are not a material part of the assets of the Bank. The Bank therefore complies with both the principle and exception provided by the Act.

The external auditors nominated by the shareholders issue an audit report on the Bank's consolidated financial statements, which include all the entities controlled by the Bank. They perform their audit in accordance with Canadian generally accepted auditing standards and carry out the procedures they deem necessary to express an opinion on the Bank's consolidated financial statements. The external auditors determine the nature and scope of their work, which may include up to a complete audit of a subsidiary, if necessary.

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

## *Proposal No. 10*

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### **Proposal and statement of the shareholder:**

"Whereas Management of the Bank dissuades shareholders from asking questions during the business portion of the annual meeting; and

Whereas the question period for shareholders is abruptly cut off each year to enable management to hold a press conference and eat lunch.

It is proposed that:

- (a) The shareholders be given ample opportunity to ask questions during all segments of the meeting.
- (b) All shareholders be given the opportunity to listen to and participate in the press conference following the meeting.

Details:

Despite a number of requests, the Bank is unwilling or unable to provide sufficient time to properly answer questions from shareholders. As a shareholder has one opportunity a year to ask questions on their investment, sufficient time must be set forth to answer all questions asked."

### **Position of the Bank:**

Every year, the Chair of the Annual Meeting of Shareholders states the practices of the Bank, allowing shareholders to express their views and ensuring the good conduct of the meeting.

The Bank aims to ensure that each shareholder who so wishes may ask questions during the question period provided on the agenda, within a reasonable time and in compliance with the rights of each individual and the meeting as a whole. Shareholders who have made proposals in the Circular may also present their point of view within a reasonable time and respond to other stakeholders, if applicable. Officers and department heads of the Bank are available after the meeting to meet individually with shareholders who have specific matters they would like to discuss.

Management generally holds a press conference after the Annual Meeting of Shareholders. The press conference is not part of the Annual Meeting and is reserved exclusively for journalists. All shareholders who so wish may, however, view the press conference on the large screen in the room in which the meeting was held.

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

**SCHEDULE B (cont.)**

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*Proposal No. 11*

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**Proposal and statement of the shareholder:**

"Whereas pursuant to the 2002 Annual Report the Bank has \$249,046,674.00 outstanding in loans to "Executive Officers and Directors" of the bank; and

Whereas "Executive Officers and Directors" are defined as:

- (1) The President and Chief Executive Officer
- (2) The President -Financial Markets, Treasury and Investment Bank
- (3) The Senior Vice Presidents of the Bank
- (4) Other Officers of the bank or one of its subsidiaries who perform a policy making function on behalf of the bank

It is proposed that:

- (1) The Bank prepare a detailed breakdown of the loans by individual together with applicable details such as interest rates, benefits provided and security given together with a reconciliation to the table outlining compensation to Named Officers of the Bank.

Details:

Present information supplied in the Management Proxy Circular is confusing and inadequate to allow shareholders to understand the risks and costs associated with these non arms length transactions."

**Position of the Bank:**

Information concerning the loans granted by the Bank in the normal course of business to its directors, Officers and employees appears in the Management Proxy Circular.

The total loans outstanding presented in the Management Proxy Circular with respect to the Annual Meeting of March 12, 2003 include not only loans to Officers and directors, but also those to all employees of the Bank. Mortgage loans alone account for \$226,273,240 of the aggregate amount.

Pursuant to securities regulations, which are very specific on the matter, information of this nature is disclosed on an individual basis only. Under the circumstances, the Bank considers that it is providing appropriate information.

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

## SCHEDULE C

### *Summary of the Number of Board and Committee Meetings*

held during the financial year ended October 31, 2003

Board of Directors	13
Conduct Review and Corporate Governance Committee (G)	5
Human Resources Committee (HR)	6
Audit and Risk Management Committee (ARM)	12
<i>Ad Hoc</i> Strategic Planning Committee (AH 1)	3
<i>Ad Hoc</i> Nominating Committee for the Chairman of the Board (AH 2)	2

### *Record of Attendance by Directors*

for the financial year ended October 31, 2003

Director	Attendance at Board and Committee Meetings	
	Board	Committees
André Bérard	13/13	–
Lawrence S. Bloomberg	13/13	–
Pierre Bourgie (G) (ARM) (AH 1)	13/13	18/20
Gérard Coulombe (HR) (AH 2)	13/13	8/8
François J. Coutu (HR) (AH 2)	12/13	7/8
Bernard Cyr (ARM)	13/13	12/12
Shirley A. Dawe (G) (HR) (AH 2)	12/13	13/13
Nicole Diamond-Gélinas (ARM)	13/13	12/12
Jean Douville (G) (ARM) (AH 1)	13/13	19/20
Marcel Dutil (HR) (AH 1) (AH 2)	11/13	11/11
Jean Gaulin (HR) (ARM) (AH 1)	13/13	17/17
Paul Gobeil (G) (ARM) (AH 1) (AH 2)	12/13	21/22
Suzanne Leclair (G)	12/13	5/5
E.A. (Dee) Parkinson-Marcoux (HR)	13/13	6/6
Réal Raymond	13/13	–
Roseann Runte (G)	13/13	5/5
Jean Turmel	13/13	–
Dennis Wood (G)	11/13	5/5

## SCHEDULE D

### *Committees of the Board*

The main duty of the Board of Directors (the “Board”) is to oversee the management of the Bank either directly or through its committees. The responsibility of the Board is to protect the assets of the Bank, to ensure its viability, profitability, long-term survival and development, and to obtain assurances of sound management. The Board delegates some of its responsibilities to committees in order to increase its effectiveness. The Board has, in fact, adopted a structure comprised of three standing committees—the Audit and Risk Management Committee, the Human Resources Committee and the Conduct Review and Corporate Governance Committee—and reviewed and approved the mandates thereof in the current year. The committees, through their respective chairs, are required to report to the Board on their deliberations. In 2003, the Board also approved the creation of an *Ad Hoc* Strategic Planning Committee and an *Ad Hoc* Nominating Committee for the Chairman of the Board. A summary of the number of Board and committee meetings held during the financial year ended October 31, 2003 is presented in Schedule C of the Management Proxy Circular (the “Circular”).

#### **Audit and Risk Management Committee**

The Board of Directors has entrusted certain of its powers to the Audit and Risk Management Committee in order to assist it in overseeing the management of the Bank. In this regard, the Committee reviews the financial statements, financial reporting processes and internal controls as well as audit processes and management information systems in order to determine their integrity and effectiveness. In addition, it oversees, on behalf of the Board, independent functions such as internal and external audits, and the corporate compliance function.

It also conducts a detailed review of risk management and the control methods used therefor.

The Committee is comprised of six outside and unrelated directors. All Committee members are financially literate and at least one member has accounting or financial expertise.

#### Members

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

#### **Mandate and activities**

In order to assume its responsibilities, the Committee:

#### **Audit component**

- requires management to implement and maintain appropriate internal control procedures and review the effectiveness of these procedures;
- recommends to the Board the appointment or dismissal of the internal auditor and makes recommendations regarding the appointment and remuneration of the external auditors;
- ensures cooperation between the Internal Audit sector and the external auditors;
- reviews and approves the annual internal audit plan;
- reviews the nature and scope of the work of the external auditors for the Bank as well as their remuneration;
- reviews internal and external auditors’ reports on a quarterly or annual basis and ensures that the necessary measures are taken to follow up the suggestions resulting from such reports;
- reviews and discusses the report prepared by the external auditors detailing all factors that might have an impact on their independence and objectivity, and recommends measures to be taken by the Board to ensure the independence of the external auditors; and

- reviews the annual report of management on the compliance of the Bank with the regulations governing it.

#### **Financial Analysis component**

- reviews and recommends to the Board the approval of information documents containing audited or unaudited financial information, notably the annual information form and press releases for the publication of the quarterly and annual consolidated statements of the Bank;
- reviews the quarterly and annual consolidated financial statements of the Bank and recommends their approval to the Board, and reviews the unaudited financial statements of certain subsidiaries;
- reviews all investments and transactions that could adversely affect the financial well-being of the Bank as the external auditors or management may bring to its attention;
- reviews 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 condition of the Bank and ensures that such material claims are properly disclosed in the financial statements; and
- meets, at least annually, with the representatives of the Office of the Superintendent of Financial Institutions Canada (“OSFI”).

#### **Risk Management component**

- reviews the declarations and reports regarding compliance with the Canada Deposit Insurance Corporation Standards of Sound Business and Financial Practices;
- requires management to report to the Committee on the existence of a control 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, and reports thereon to the Board;
- requires management to report to the Committee on the fact that the Bank is “in control”, namely, 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 major problems are identified; and that the Bank takes timely action to address them and report thereon to the Board;
- reviews and recommends to the Board the adoption of major risk management policies, including policies related to credit risk, market risk, structural risk, fiduciary risk and operational risk, and reviews these policies annually;
- reviews changes in impaired loans, ensures that they are monitored and approves a provision therefor, according to the rules established in the Credit Risk Management Policy of the Bank; and
- reviews and recommends to the Board, subject to the provisions set out in section 497 of the *Bank Act* (the “Act”), any transaction between the Bank and a related party.

#### **Human Resources Committee**

The Board of Directors has entrusted certain powers to the Human Resources Committee in order to assist it in overseeing the management of the Bank. In this regard, the Committee reviews and approves the Bank’s practices and policies with respect to human resources.

The Committee is comprised of six outside directors of the Bank. Only one director is related within the meaning of The Toronto Stock Exchange Guidelines.

#### Members

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

**SCHEDULE D (cont.)****Mandate and activities**

In order to assume its responsibilities, the Committee:

- reviews and approves the description of the duties of the President and Chief Executive Officer and the annual objectives he must achieve;
- periodically reviews the management succession plan of the Bank, the succession planning process for senior management of the Bank as well as the profile of officers possessing the necessary competencies to hold senior management positions at the Bank;
- annually, appraises the performance of officers and reviews their total compensation based on the objectives assigned to them and the results achieved;
- reviews and recommends annually to the Board, the adoption of the salary policies and approach with respect to total compensation applicable to the Named Executive Officers, other Officers and employees of the Bank;
- studies the various components of compensation for Officers and makes recommendations to the Board, when appropriate;
- reviews and recommends to the Board that it approve an annual report on the compensation paid to Officers;
- approves the amendments made from time to time to the terms and conditions of the Stock Option Plan, the Stock Appreciation Rights Plan and the Deferred Stock Unit Plan for Officers;
- reviews and recommends to the Board, where applicable, amendments to the Employee Pension Plan and the Pension Plan for Designated Employees;
- revises and approves the mandate of the Retirement Committee and appoints the internal and external members; and
- approves the financial statements of the pension plans and the Pool Fund of the Participating Pension Plans of the Bank.

**Conduct Review and Corporate Governance Committee**

The Board of Directors has entrusted certain powers to the Conduct Review and Corporate Governance Committee in order to assist it in overseeing the management of the Bank. The Committee assumes the responsibilities assigned to a conduct review committee under the Act. It also oversees the implementation of corporate governance rules, procedures and policies at the Bank as well as compliance therewith.

The Committee is comprised of seven outside and unrelated directors of the Bank.

**Members**

Jean Douville, Chair	Suzanne Leclair
Pierre Bourgie	Roseann Runte
Shirley A. Dawe	Dennis Wood
Paul Gobeil	

**Mandate and activities**

In order to assume its responsibilities, the Committee:

**Conduct Review component**

- reviews Bank procedures which ensure that transactions with related parties of the Bank comply with the Act as well as Bank practices in order to identify any related party transactions that could have an adverse effect on the Bank's stability or solvency, and establishes assessment criteria for determining whether the value of related party transactions is nominal to the Bank;
- oversees the mechanisms and procedures established by the Board governing conflicts of interest, use of confidential information, communication to customers of information required to be disclosed under the Act, and the consideration of customer complaints; and

- reviews the Code of Professional Conduct that applies to directors, Officers and employees of the Bank and its subsidiaries.

**Corporate Governance component**

- makes recommendations to the Board concerning the adoption of the Bank's corporate governance orientations, policies and practices and ensures compliance therewith;
- prepares and reviews the mandate of the Chairman of the Board, which sets out the functions to be assumed by the Chairman, and recommends approval thereof to the Board;
- reviews the mandate of the Board of Directors, which sets out its expectations for directors and management and defines the roles and responsibilities of the Board, and recommends approval thereof to the Board;
- prepares and reviews the selection criteria for directors as well as the procedure for selecting new directors and makes recommendations thereon to the Board, and periodically reviews the mandate and composition of Board committees;
- assesses the performance and effectiveness of the Board and its committees;
- organizes orientation programs for new directors of the Bank as well as continuing professional development programs regarding the operations of the Bank and its subsidiaries;
- periodically reviews the size of the Board in order to ensure its effectiveness;
- makes recommendations concerning directors' remuneration and allowances;
- approves the Annual Report of the Bank with respect to corporate governance, taking into account applicable regulatory requirements; and
- reviews and recommends to the Board that it approve the Management Proxy Circular, excluding the portion relating to human resources and compensation.

**Ad Hoc Strategic Planning Committee and Ad Hoc Nominating Committee for the Chairman of the Board**

The *Ad Hoc* Strategic Planning Committee was set up by the Board of Directors as part of strategic planning for the 2003 financial year in order to work with the President and Chief Executive Officer thereon.

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

**Members**

Jean Gaulin, Chair	Marcel Dutil
Pierre Bourgie	Paul Gobeil
Jean Douville	

The Board of Directors deemed it appropriate this year to approve the creation of an ad hoc nominating committee for the next Chairman of the Board as of March 2004.

The Committee was comprised of five outside directors of the Bank. Only one director is related within the meaning of The Toronto Stock Exchange Guidelines.

**Members**

Paul Gobeil, Chair	Shirley A. Dawe
G�rard Coulombe	Marcel Dutil
Fran�ois J. Coutu	

## SCHEDULE E

### Corporate Governance

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

Toronto Stock Exchange  
Guidelines

Corporate Governance Practices  
of the Bank

## RESPONSIBILITY FOR STEWARDSHIP

### 1

The board of directors should explicitly assume responsibility for the stewardship of the bank

and specifically for:

- The mission of the Board is to oversee the management of the Bank, protect its assets, and ensure its profitability, long-term survival and development with a view to enhancing the return on shareholder investment. Furthermore, it is assured of sound management by requiring that management set up, in particular, a compliance program ensuring observance by the Bank of all regulations governing it.
- The Board assumes various duties related to strategic planning, risk assessment, assessment of its effectiveness, succession planning for directors and senior management, as well as the communication and disclosure of information. The Board also adheres to the rules of conduct and ethics, notably by adopting a Code of Professional Conduct for directors, Officers and employees of the Bank.
- The Board expects management to be responsible for the day-to-day management and conduct of the Bank's operations. In order to facilitate the Board's oversight role, management provides the Board with an informed opinion specifically on the objectives, strategies, plans and major policies of the Bank.
- This year, the Board reviewed its mandate in depth in order to define its mission, its main duties and its expectations of management more clearly.

## STRATEGIC PLANNING PROCESS

### 1 (a)

the adoption of a strategic planning process;

- The Board periodically reviews and approves the strategic plan by which the Bank determines its mission, vision, business objectives and strategy. To do so, the Board takes into account business opportunities and risks for the Bank, as well as business plans concerning its major operations.
- The Board approved the strategic planning exercise during which a preliminary report was submitted to the Board on the main challenges, orientations and strategic objectives of the Bank. At the end of this process, the corporate strategic plan and the strategic plans for the business segments were subsequently approved by the Board. The Board also set up an *Ad Hoc* Strategic Planning Committee with a mandate to assist the President and Chief Executive Officer in strategic planning.

## PRINCIPAL RISKS

### 1 (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;

- The Board, through its Audit and Risk Management Committee, regularly identifies and assesses the principal risks of the Bank; namely, credit risk, market risk, structural risk, fiduciary risk and operational risk, including outsourcing risk. The Board annually adopts and reviews policies regarding these risks, while ensuring their implementation.
- The Board approves the report on compliance with Canada Deposit Insurance Corporation Standards of Sound Business and Financial Practices.

**SCHEDULE E (cont.)***Toronto Stock Exchange  
Guidelines**Corporate Governance Practices  
of the Bank***SUCCESSION PLANNING****1 (c)****succession planning,  
including appointing,  
training and monitoring  
senior management;**

- The Board analyzes and approves the appointment of the President and Chief Executive Officer as well as of Executive Officers, and sees to their training, coaching and succession planning.
- The Human Resources Committee annually reviews the profile of Officers who possess the required competencies to hold senior management positions at the Bank, as well as the Bank's succession plan, and determines development needs, as applicable.
- The Human Resources Committee submits a report to the Board following the annual appraisal of the performance of Executive Officers and of the prudence with which they manage the Bank's operations.
- The President and Chief Executive Officer annually submits a succession plan to the Human Resources Committee, including the progress made by the Officers identified in the plan.

**COMMUNICATIONS POLICY****1 (d)****a communications policy;**

- The Board emphasizes transparency in the communication of information to all shareholders, investors, clients and the general public.
- A policy approved by the Board in 2002 establishes the procedures for complete, accurate and timely communication between the Bank and its shareholders, clients, financial analysts, the media and the public, and prohibits the selective distribution of information by stipulating that information must be distributed to the general public.
- The Audit and Risk Management Committee reviews in particular the Bank's annual and quarterly consolidated financial statements, the related press releases, the Annual Information Form and management's analysis of the financial condition and operating results of the Bank before these are approved by the Board.
- The Bank responds to requests from shareholders, investors and financial analysts through its Investor Relations Department, its Corporate Secretary's Office or National Bank Trust Inc., the Bank's transfer agent and registrar. 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)).
- Since 2003, the Bank has produced an annual social responsibility report detailing its commitment to the community.
- Clients with concerns or special needs may contact their branch or TelNat. Should a dispute not be settled through the existing administrative channels, clients may contact the Ombudsman of the Bank.

## INTEGRITY OF INTERNAL CONTROL

### 1 (e)

**the integrity of internal control and management information systems.**

- The Board, through its Audit and Risk Management Committee, examines audit and internal control processes as well as management information systems to determine their integrity and effectiveness. In consultation with the internal auditor and the Bank's management, the Committee examines the effectiveness of the Bank's policies and internal control mechanisms.
- The Audit and Risk Management Committee requires that the Internal Audit function be free of any influence that could adversely affect its ability to assume its responsibilities objectively.
- An annual Internal Audit plan is submitted to the Committee for its consideration and approval, ensuring the independence and effectiveness of Internal Audit.
- A formal procedure was developed to enable the President and Chief Executive Officer and the Senior Vice-President – Finance, Technology and Corporate Affairs to certify the integrity and accuracy of the financial information disclosed and the existence of controls surrounding this disclosure.

## INDEPENDENCE OF THE BOARD OF DIRECTORS

### 2

**A majority of the directors should be "unrelated".**

- The Conduct Review and Corporate Governance Committee is of the opinion that as at October 31, 2003, 13 of the 18 directors of the Bank; namely, more than the majority of the directors, met the definition of an "unrelated director"<sup>(1)</sup> as set out by The Toronto Stock Exchange.
- In addition, the Bank meets the requirements of the *Bank Act* (the "Act") concerning the authorized number of directors who were "affiliated with the bank"<sup>(2)</sup>. As at October 31, 2003, six of the 18 directors were "affiliated with the bank" according to this definition.

<sup>(1)</sup> 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."

<sup>(2)</sup> 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, debt or shareholding situations, as well as the spouse of such person.

**SCHEDULE E (cont.)***Toronto Stock Exchange  
Guidelines**Corporate Governance Practices  
of the Bank***UNRELATED DIRECTORS****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, ensures compliance with The Toronto Stock Exchange Guidelines.
- The Committee analyzed all business and related party relationships maintained by the directors with the Bank or its subsidiaries to determine if certain Bank directors met the criteria for the definition of an “unrelated director”.
- Five of the 18 directors of the Bank are considered to be related, as defined by The Toronto Stock Exchange.

**NOMINEES COMMITTEE****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 Conduct Review and Corporate Governance Committee, together with the Chairman of the Board, administers the selection process for new directors and submits its recommendations to the Board. This Committee is composed exclusively of outside directors who are unrelated to the Bank.
- The Committee recruits and proposes nominees for director, who must have a broad complementary range of abilities and competencies. Pertinent expertise that enables them to make an active, informed and profitable contribution to managing the Bank, conducting its business and guiding its development is also sought. In its assessment of nominees, the Committee also takes into consideration their availability and reputation for integrity and honesty, as well as their knowledge of regional and national issues.
- The Committee periodically reviews selection criteria for directors to ensure that they take into account regulatory requirements, expectations as well as the Board's current and future needs with respect to the abilities, competencies and experience of the directors.
- The Committee annually reviews the eligibility and availability of directors who are nominated for re-election. *(For information about the Board meeting attendance of directors, see Schedule C of the Circular.)*
- In 2003, the Board also approved the creation of an *Ad Hoc* Nominating Committee, whose principal mandate was to recommend a nominee to the Board for the position of Chairman of the Board as of March 2004. *(For information about the composition and mandate of this Committee, see Schedule D of the Circular.)*

## ASSESS THE EFFECTIVENESS OF THE BOARD

### 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 performance and effectiveness of the Board and its committees while executing their mandate.
- As part of this process, directors must complete a self-assessment questionnaire concerning the performance of the Board and its committees. They evaluate in particular the availability of information required for decision-making and the ability 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.
- 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 and reports to the Board by presenting its recommendations.

## ORIENTATION AND EDUCATION PROGRAM FOR DIRECTORS

### 6

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

- An orientation program for directors was set up by the Conduct Review and Corporate Governance Committee in three parts; namely, orientation of new directors, continued education in the form of information sessions and individual meetings with directors and senior management members. The program is designed to provide an overview of the Bank and its operations, and to promote exchanges with senior management members so as to allow new directors to become familiar with the main activities of the Bank and its major challenges.
- 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 and regularly updated.

## APPROPRIATE SIZE FOR THE BOARD

### 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, annually reviews its size and composition to maintain the proper geographic and industry representation as well as complementary experience and expertise to foster exchange and discussion with directors and effective decision-making.
- In this regard, the Board deemed it appropriate to reduce its size from 20 to 18 directors.

**SCHEDULE E (cont.)**Toronto Stock Exchange  
GuidelinesCorporate Governance Practices  
of the Bank**COMPENSATION OF DIRECTORS****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 adequacy and form of directors' compensation based on their responsibilities, 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 Canadian companies.
- The directors, except for those who are also officers, do not benefit, and have never benefited, from any stock option plan.
- In order to link the interests of directors to those of shareholders, the Board has established share ownership requirements under which directors must hold a minimum of 2,000 shares. In addition, a portion of their compensation must be paid in the form of Bank shares. *(For information about the compensation paid to directors in 2003, see the "Remuneration Paid to Directors" section of the Circular.)*

**COMMITTEES AND OUTSIDE DIRECTORS****9**

**The committees of the board of directors should generally be composed of outside directors<sup>(3)</sup>, a majority of whom are unrelated directors.**

- The Audit and Risk Management Committee, the Human Resources Committee, the Conduct Review and Corporate Governance Committee, the *Ad Hoc* Strategic Planning Committee and the *Ad Hoc* Nominating Committee are composed exclusively of directors who are non-management members.
- Directors serving on the Audit and Risk Management Committee, the Conduct Review and Corporate Governance Committee, and the *Ad Hoc* Strategic Planning Committee are all unrelated to the Bank, whereas a single director serving on the Human Resources Committee and the *Ad Hoc* Nominating Committee is considered related to the Bank. *(For information about the composition and mandates of the committees, see Schedule D of the Circular.)*

**CORPORATE GOVERNANCE PHILOSOPHY****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 studying, applying and overseeing corporate governance rules, procedures and policies for the Bank. More specifically, it has the responsibility of examining, on a regular basis, and approving the manner in which the Bank responds to The Toronto Stock Exchange Guidelines. *(For information about the mandate of this committee, see Schedule D of the Circular.)*

<sup>(3)</sup> An "outside director" is a director who is a non-management member.

## DEFINITION OF DUTIES

### 11

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. The board should approve or develop the general objectives of the Bank which the CEO is responsible for meeting.

- The Board and each committee act in accordance with a mandate that sets out their role, duties and responsibilities. This year, the mandates of the Board, the Conduct Review and Corporate Governance Committee, the Audit and Risk Management Committee and the Human Resources Committee were reviewed. *(For information about the mandates of the Board and its committees, see page 56 of the 2003 Annual Report and Schedule D of the Circular.)*
- A description of the duties of the President and Chief Executive Officer is prepared by the Human Resources Committee to define his responsibilities.
- The Board annually approves the general objectives of the Bank. On the basis of these objectives, the Human Resources Committee determines the target objectives to be achieved by the President and Chief Executive Officer during the financial year, and then reviews his performance based on the objectives achieved.
- The quarterly report to shareholders includes an analysis of the Bank's results and gauges performance based on the achievement of the objectives set for the current year.

## INDEPENDENCE OF THE BOARD

### 12

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". Appropriate procedures may involve that the board meet 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.

- In order to ensure the Board's independence from management, the duties of Chairman of the Board and of President and Chief Executive Officer of the Bank have been separated since March 13, 2002. The Chairman of the Board, who is no longer a management member, is therefore responsible, among other things, for ensuring that the Board discharges its responsibilities effectively and independently, in consultation with the Conduct Review and Corporate Governance Committee.
- The Conduct Review and Corporate Governance Committee prepares and reviews the mandate of the Chairman of the Board by proposing a description of duties which must be approved by the Board.
- Outside directors periodically hold in camera meetings under the leadership of the Chair of the Conduct Review and Corporate Governance Committee. These meetings provide a forum for exchanges and promote more open discussion among the members. During the past financial year, outside directors met in camera four times.

**SCHEDULE E (cont.)***Toronto Stock Exchange  
Guidelines**Corporate Governance Practices  
of the Bank***AUDIT COMMITTEE****13**

**The audit committee should be composed only of outside directors. 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 should have direct communication channels with the internal and external auditors to discuss and review specific issues as appropriate. 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.**

- The Audit and Risk Management Committee is composed exclusively of outside unrelated directors of the Bank.
- The members of the Audit and Risk Management Committee are financially literate and at least one member has accounting or financial experience.
- The Board reviewed and approved the mandate of the Audit and Risk Management Committee, which sets out the duties and responsibilities assigned to this Committee's members, both in audit and risk management matters. *(For information about the composition and mandate of this Committee, see Schedule D of the Circular.)*
- The Audit and Risk Management 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. 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.
- As part of its audit responsibilities, the Committee reviews quarterly and annual consolidated financial statements, makes recommendations to the Board regarding the appointment of external auditors and their compensation, and assesses, in consultation with the internal auditor and management, the effectiveness of policies and internal control procedures.
- The Audit and Risk Management Committee reviews and discusses the report prepared by the external auditors detailing all the elements likely to affect their independence and objectivity.
- As part of its risk management responsibilities, the Committee ensures that a proactive detection, assessment and management process exists for material risks and compliance with policies and control measures, in addition to reviewing and recommending to the Board the adoption of various risk management policies for the material risks to which the Bank is exposed.
- The Audit and Risk Management Committee regularly meets with internal and external auditors in the absence of other management members in order to discuss specific issues with them. External auditors help, as guests, in the audit function of all meetings of the Committee.

**OUTSIDE ADVISORS****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.**

- Each mandate of the Board and of its three main committees allows directors to engage the services of outside advisors, at the expense of the Bank, subject to the approval of the Conduct Review and Corporate Governance Committee or, in the event of an emergency, by authority of the Chair of this Committee.

## INFORMATION FOR SHAREHOLDERS

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### *Stock exchange listings*

The common shares of the Bank as well as the First Preferred Shares, Series 13 and 15 are listed on The Toronto Stock Exchange.

Issue or Class	Ticker Symbols	Newspaper Abbreviations
Common Shares	NA	Nat Bk or Natl Bk
First Preferred Shares		
Series 13	NA.PR.J	Nat Bk s13 or Natl Bk s13
Series 15	NA.PR.K	Nat Bk s15 or Natl Bk s15

### *Dividends*

#### **Dividend dates in fiscal 2003-2004**

(Subject to approval by the Board of Directors of the Bank)

Ex-dividend dates	Record dates	Payment dates
Common Shares		
December 23, 2003	December 29, 2003	February 1, 2004
March 23, 2004	March 25, 2004	May 1, 2004
June 24, 2004	June 28, 2004	August 1, 2004
September 21, 2004	September 23, 2004	November 1, 2004
Series 13 and Series 15 Preferred Shares		
January 7, 2004	January 9, 2004	February 15, 2004
April 7, 2004	April 12, 2004	May 15, 2004
July 7, 2004	July 9, 2004	August 15, 2004
October 6, 2004	October 8, 2004	November 15, 2004

### *Quarterly report publication dates in fiscal 2003-2004*

First quarter	February 26, 2004
Second quarter	May 27, 2004
Third quarter	August 26, 2004
Fourth quarter	December 2, 2004

### **HEAD OFFICE**

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### **TRANSFER AGENT AND REGISTRAR**

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For information about stock transfers, address changes, dividends, lost stock certificates, tax forms and estate transfers, shareholders are requested to contact the Transfer Agent, National Bank Trust Inc., at the address or telephone numbers below.

National Bank Trust Inc.  
Share Ownership Management  
1100 University, 9th Floor  
Montreal, Quebec H3B 2G7  
Telephone: (514) 871-7171  
1-800-341-1419  
Fax: (514) 871-7442

For any correspondence:  
National Bank Trust Inc.  
Share Ownership Management  
P.O. Box 888, Station B  
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Other shareholder inquiries  
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