



Notice of Annual and Special Meeting
of Common Shareholders

Notice of Special Meeting
of First Preferred Shareholders

March 7, 2007

Management Proxy Circular



Your participation is important
Please take a few minutes to vote



January 16, 2007

Dear Shareholder,

You are cordially invited to join the members of the Board of Directors and management for the Annual and Special Meeting of Common Shareholders and the Special Meeting of First Preferred Shareholders of National Bank of Canada, to be held at 9:30 a.m. (EST) on Wednesday, March 7, 2007 at the Fairmont The Queen Elizabeth Hotel, 900 René-Lévesque Boulevard West, Montreal, Quebec, Canada.

The event is an opportunity for us to present the results of National Bank of Canada and its current projects and, above all, for you to voice your opinion on the matters put to a vote at these Meetings.

Your participation is important to us. If you cannot attend in person, you can nonetheless express your opinion on the matters put to a vote by using the forms of proxy or voting instructions forms enclosed with the Management Proxy Circular.

The matters that will be put to a vote at these Meetings are detailed for your consideration in the enclosed Management Proxy Circular. Please read this information carefully.

There will be a live webcast of these Meetings in the Investor Relations section of National Bank of Canada's website at www.nbc.ca.

Sincerely,

A handwritten signature in black ink, appearing to read "Jean Douville".

Jean Douville
Chairman of the Board

A handwritten signature in black ink, appearing to read "Réal Raymond".

Réal Raymond
President and Chief Executive Officer



**NOTICE OF ANNUAL AND SPECIAL MEETING OF COMMON SHAREHOLDERS
NOTICE OF SPECIAL MEETING OF FIRST PREFERRED SHAREHOLDERS**

Date: **Wednesday, March 7, 2007**
Time: **9:30 a.m. (EST)**
Place: **Fairmont The Queen Elizabeth Hotel
900 René-Lévesque Boulevard West
Montreal, Quebec
Canada**

Business of the Annual and Special Meeting of Common Shareholders:

1. Receipt of the consolidated financial statements for the financial year ended October 31, 2006 and the auditor's report thereon;
2. Election of directors;
3. Appointment of auditor;
4. Consideration of and, where applicable, confirmation by resolution of an amendment to Section 4.5 of By-Law I of the Bank to fix the quorum for meetings of the Board of Directors to a majority of the directors in office (resolution presented in the "Amendment to Section 4.5 of By-Law I of the Bank" section of the Management Proxy Circular (the "Circular");
5. Consideration of and, where applicable, confirmation by special resolution of an amendment to Section 1 of By-Law II of the Bank to amend the description of the authorized share capital in order to increase the aggregate consideration limit for which First Preferred Shares may be issued (special resolution presented in the "Amendment to Section 1 of By-Law II of the Bank" section of the Circular);
6. Consideration of and, where applicable, confirmation by resolution of an increase in the number of common shares reserved for the Bank's Stock Option Plan (the "Stock Option Plan") and an amendment to Section 5 of said plan reflecting such change (resolution presented in the "Increase in the Number of Reserved Shares" section of the Circular);
7. Consideration of and, where applicable, confirmation by resolution of an amendment to Section 13 of the Bank's Stock Option Plan, "Amendment and Termination of the Plan" (resolution presented in the "Amendment Procedure for the Stock Option Plan" section of the Circular);
8. Consideration of and, where applicable, confirmation by resolution of an amendment to Subsection 2(n) and Paragraph 6(b)(i) of the Bank's Stock Option Plan to authorize conditional expiration dates, in certain circumstances, for options granted by the Bank under said plan (resolution presented in the "Conditional Expiration Dates" section of the Circular);
9. Consideration of the shareholder proposals, as set out in Schedule A to the Circular; and
10. Consideration of any other business as may be properly brought before the Meeting.

Business of the Special Meeting of First Preferred Shareholders:

1. Consideration of and, where applicable, confirmation by special resolution of an amendment to Section 1 of By-Law II of the Bank to amend the description of the authorized share capital in order to increase the aggregate consideration limit for which First Preferred Shares may be issued (special resolution presented in the "Amendment to Section 1 of By-Law II of the Bank" section of the Circular).

Holders of record of common shares and First Preferred Shares of National Bank of Canada at 5:00 p.m. (EST) on January 16, 2007 are entitled to receive a Notice of Meeting. As at that date, 162,544,220 common shares and 16,000,000 First Preferred Shares of the Bank were issued and outstanding. Each holder of common shares and each holder of First Preferred Shares is entitled to cast one vote per share held on each of the items indicated in the Notice of Meeting related to their respective class of shares, unless restricted in the *Bank Act* (Canada).

By order of the Board of Directors,



Linda Caty
Vice-President and Corporate Secretary

January 16, 2007

Shareholders who are unable to attend the meetings are requested to complete, date and sign the appropriate form of proxy. Proxies should be returned in the postage-paid envelope provided, or by mail to Computershare Trust Company of Canada at 100 University Avenue, 9th Floor, Toronto, Ontario, Canada M5J 2Y1, or forwarded by fax to 1-866-249-7775. In order to be valid, forms of proxy must reach Computershare Trust Company of Canada no later than 5:00 p.m. (EST) on March 5, 2007.

For any questions regarding the Circular, the form of proxy or the exercise of voting rights, please contact the proxy solicitation firm Georgeson Shareholder Communications Canada Inc. by calling 1-866-288-5879.

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SECTION 1 Voting Information**Solicitation of Proxies**

This Management Proxy Circular (the “Circular”) is provided in connection with the solicitation by the management of National Bank of Canada (the “Bank”) of proxies to be used at the Annual and Special Meeting of Common Shareholders and the Special Meeting of First Preferred Shareholders of the Bank (the “Meetings”) for the purposes indicated in the Notice of Meeting, to be held at 9:30 a.m. (EST) on Wednesday, March 7, 2007, at the Fairmont The Queen Elizabeth Hotel, 900 René-Lévesque Boulevard West, Montreal, Quebec, Canada, and at any continuation thereof after an adjournment. The solicitation of proxies will be done by mail, by fax, by telephone or in person. Employees, officers, directors or agents of the Bank will solicit the proxies. The Bank will use the services of a proxy solicitation firm, Georgeson Shareholder Communications Canada Inc. The fees for the services provided by this firm will be paid by the Bank, and are estimated to be approximately \$34,000.

Voting Rights of Common and First Preferred Shares

Holders of record of common shares and holders of record of First Preferred Shares of the Bank at 5:00 p.m. (EST) on January 16, 2007, or their duly authorized attorneys, are entitled to receive a Notice of Meeting and to vote at the Meetings on the matters set out in their respective Notice of Meeting. After such date, any persons who acquire common shares or First Preferred Shares of the Bank must request, no later than 10 days before the date of the Meetings, that their name be included on the register of shareholders of the Bank in order to be entitled to vote. To do so, they must contact the transfer agent of the Bank, Computershare Trust Company of Canada, in writing at 100 University Avenue, 9th Floor, Toronto, Ontario, Canada M5J 2Y1, or by telephone at 1-888-838-1407.

As at January 16, 2007, the date the register of shareholders of the Bank was closed, 162,544,220 common shares and 16,000,000 First Preferred Shares of the Bank were issued and outstanding.

Holders of common shares and First Preferred Shares are entitled to cast one vote per share held on the matters set out in their respective Notice of Meeting. However, the *Bank Act* (Canada) (the “Act”) contains provisions specifically prohibiting the exercise of voting rights attached to shares of the Bank held by a government, be it the government of Canada or of a province or of a foreign country, as well as any agency thereof.

To the knowledge of the directors and officers of the Bank, no individual or corporation beneficially owns, directly or indirectly, or exercises control or direction over common shares or First Preferred Shares carrying more than 10% of the voting rights attached to the common shares or First Preferred Shares of the Bank.

Holders of common shares or First Preferred Shares of the Bank may vote in person at the Meetings or may complete, sign and return the appropriate form of proxy. These forms of proxy authorize a proxyholder to represent and vote on behalf of the holder of common shares or First Preferred Shares at the Meetings.

Non-registered Shareholders

The names of shareholders whose shares are held in the name of a broker or other intermediary (“non-registered shareholders”) do not appear on the register of shareholders of the Bank.

To exercise the voting rights attached to the shares they hold, non-registered shareholders who do not wish to attend the Meetings must:

- complete the voting instructions form sent to them by their broker or by any other intermediary in accordance with the instructions provided on the form; and
- return their voting instructions to their broker or other intermediary in one of the ways provided for on the form.

To vote in person at the Meetings, non-registered shareholders must:

- insert their name as the proxyholder in the space provided for this purpose on the voting instructions form; and
- return the voting instructions form to their broker or other intermediary in one of the ways provided for on the form.

SECTION 1 Voting Information (cont.)**Appointment of Proxyholders**

The proxyholders designated in the forms of proxy are directors of the Bank. If a shareholder wishes to appoint a proxyholder other than one of the persons designated in the forms of proxy, the shareholder may do so by striking out the names appearing thereon and inserting the name of the person chosen in the blank space provided. If the shareholder is a legal entity, an estate or a trust, the appropriate 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 forms of proxy must be returned in the postage-paid envelope provided, or by mail to Computershare Trust Company of Canada at 100 University Avenue, 9th Floor, Toronto, Ontario, Canada M5J 2Y1, or forwarded by fax to 1-866-249-7775, no later than 5:00 p.m. (EST) on March 5, 2007.

Voting by Proxy

Common shares or First Preferred Shares represented by a proxy are to be voted by the proxyholder designated in the form of proxy in accordance with the instructions given.

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

- FOR the election of all nominees proposed as directors;
- FOR the appointment of the auditor;
- FOR the amendment to Section 4.5 of By-Law I of the Bank to fix the quorum for meetings of the Board of Directors (the "Board") to a majority of the directors in office;
- FOR the amendment to Section 1 of By-Law II of the Bank to amend the description of the authorized share capital in order to increase the aggregate consideration limit for which First Preferred Shares may be issued;
- FOR the increase in the number of common shares reserved for the Bank's Stock Option Plan and the amendment to Section 5 of said plan reflecting such change;
- FOR the amendment to Section 13 of the Stock Option Plan, "Amendment and Termination of the Plan";
- FOR the amendment to Subsection 2(n) and Paragraph 6(b)(i) of the Stock Option Plan to authorize conditional expiration dates, in certain circumstances, for options granted by the Bank under said plan;
- FOR shareholder proposal No. 1 set out in Schedule A to the Circular; and
- AGAINST shareholder proposal Nos. 2 to 10 set out in Schedule A to the Circular.

If no instructions are given, any other proxyholder will have discretionary authority when exercising the voting rights attached to the common shares or First Preferred Shares concerning these matters.

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

As at the date hereof, management of the Bank is not aware of any amendment or other matter which may properly come before the Meetings.

Revocation of Proxies

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

- the Head Office of the Bank, c/o Corporate Secretary's Office, National Bank of Canada, 600 de La Gauchetière Street West, 4th Floor, Montreal, Quebec, Canada H3B 4L2, no later than 5:00 p.m. (EST) on the last business day preceding the date of the Meetings, namely, March 6, 2007, or any continuation thereof after an adjournment; or
- the Chairman of the Meetings on the day of the Meetings, or any continuation thereof after an adjournment.

Confidentiality of Votes

In order to protect the confidential nature of voting by proxy, the votes exercised by proxy are received and compiled for the Meetings by Computershare Trust Company of Canada, transfer agent and registrar of the Bank. Computershare Trust Company of Canada submits a copy of a form of proxy to the Bank only when a shareholder clearly wishes to express a personal opinion to management or when necessary to comply with legal requirements.

SECTION 2 Business of the Meetings**Consolidated Financial Statements and Auditor's Report**

The consolidated financial statements of the Bank for the year ended October 31, 2006 and the auditor's report thereon are included in the Annual Report of the Bank, which is available on the Bank's website (www.nbc.ca) and on the website of the System for Electronic Document Analysis and Retrieval ("SEDAR") (www.sedar.com).

Election of Directors

Management of the Bank recommends voting FOR the election of all the nominees to the Board whose names and biographies are presented in the "Information on Nominees for Election to the Board of Directors" section of the Circular. This section highlights the professional experience of the nominees and presents the names of the reporting issuers on whose boards the nominees currently serve or have served as directors in the past five years.

All directors elected at the Annual and Special Meeting of Common Shareholders will hold office until their resignation or the election or appointment of their replacement, or until the close of the subsequent Annual Meeting of the Bank.

The Bank has introduced majority voting, which will apply for purposes of electing nominees as directors. For more information on majority voting, refer to the "Majority Voting" heading in the "Report of the Conduct Review and Corporate Governance Committee" section of the Circular.

Appointment of Auditor

On the advice of the Audit and Risk Management Committee and of the Board, management of the Bank recommends voting FOR the appointment of Samson Bélair/Deloitte & Touche s.e.n.c.r.l. ("SB/DT") as auditor of the Bank for the year commencing November 1, 2006 and ending October 31, 2007.

SB/DT has served as auditor of the Bank during the previous five financial years. PricewaterhouseCoopers LLP also served as auditor of the Bank in 2002 and 2003.

The resolution regarding the appointment of the auditor must be adopted by a majority of the votes cast by the holders of common shares present or represented by proxy and entitled to vote at the Annual and Special Meeting of Common Shareholders.

For more information on the auditor's fees in the past two financial years, refer to the "Report of the Audit and Risk Management Committee" section of the Circular.

Amendment to Section 4.5 of By-Law I of the Bank

Under the Act, the quorum required to hold Board meetings may be determined in the by-laws. Accordingly, Section 4.5 of By-Law I of the Bank provides that eight directors in office shall constitute a quorum for Board meetings.

On December 14, 2006, the Board adopted a resolution to amend Section 4.5 of By-Law I of the Bank, whereby a majority of the directors in office would constitute the quorum required for Board meetings.

The Board considers that a quorum consisting of a majority of the directors holding office is a good corporate governance practice, as such a quorum can be adjusted to reflect the number of directors in office. Moreover, the currently required quorum, namely, eight directors in office, was determined at a time when the Board was much larger. In fact, in recent years, the Board of the Bank has decreased in size pursuant to the recommendations of the Canadian Securities Administrators ("CSA") and other bodies that promote corporate governance best practices.

The resolution to amend the quorum required for meetings of the Board must be adopted by a majority of the votes cast by the holders of common shares present or represented by proxy and entitled to vote at the Annual and Special Meeting of Common Shareholders.

Management of the Bank recommends voting FOR the amendment to Section 4.5 of By-Law I of the Bank to fix the quorum for meetings of the Board to a majority of the directors in office.

The resolution is as follows:

WHEREAS Section 4.5 of By-Law I of the Bank provides that eight directors in office shall constitute a quorum;

WHEREAS, on December 14, 2006, the Board of Directors of the Bank passed a resolution to amend Section 4.5 of By-Law I of the Bank whereby a majority of the directors in office would constitute the quorum for meetings of the Board;

SECTION 2 Business of the Meetings (cont.)

WHEREAS this amendment shall come into force only upon being confirmed by a resolution of the holders of Common Shares of the Bank;

NOW, THEREFORE, on a motion duly made and seconded, BE IT RESOLVED:

THAT Section 4.5 of By-Law I of the Bank, approved by the Board of Directors of the Bank on December 14, 2006 and described below, be confirmed:

“Section 4.5 Quorum

A majority of the directors in office shall constitute a quorum.

Business submitted at any meeting of the directors shall be decided by a majority vote of the directors present.”

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

Amendment to Section 1 of By-Law II of the Bank

Section 1 of By-Law II of the Bank provides that First Preferred Shares may be issued for an aggregate consideration of not more than \$1,000,000,000.

As at October 31, 2006, \$400,000,000 in First Preferred Shares of the Bank were outstanding. In addition, other First Preferred Shares were created and reserved for future issue by the Bank through two innovative capital instruments, namely, \$225,000,000 in units of NBC Capital Trust, which are convertible and exchangeable under certain conditions into First Preferred Shares of the Bank, and US \$300,000,000 in First Preferred Shares of NB Capital Corporation, a subsidiary of the Bank, which are convertible under certain conditions into First Preferred Shares of the Bank. Consequently, the aggregate consideration limit fixed at \$1,000,000,000 for the issue of First Preferred Shares has almost been reached.

In order to allow the Bank the necessary flexibility to optimize its capital structure, on December 14, 2006, the Board adopted a resolution to amend the description of authorized share capital in order to increase to \$5,000,000,000 the aggregate consideration limit for which First Preferred Shares may be issued.

Special Resolutions of Holders of Common Shares

Special resolutions authorizing an increase in the aggregate consideration limit for which First Preferred Shares may be issued must be adopted by two thirds of the votes cast by the holders of common shares present or represented by proxy and entitled to vote at the Annual and Special Meeting of Common Shareholders.

Management of the Bank recommends voting FOR the amendment to Section 1 of By-Law II of the Bank to amend the description of the authorized share capital in order to increase the aggregate consideration limit for which First Preferred Shares may be issued.

The special resolutions are as follows:

WHEREAS Section 1 of By-Law II of the Bank provides that First Preferred Shares may be issued for an aggregate consideration of not more than \$1,000,000,000;

WHEREAS on December 14, 2006, the Board of Directors of the Bank adopted a resolution to amend Section 1 of By-Law II of the Bank in order to increase to \$5,000,000,000 the aggregate consideration limit for which First Preferred Shares may be issued;

WHEREAS this amendment shall come into force only upon confirmation by a special resolution of the holders of Common Shares and approval by a special resolution of the holders of First Preferred Shares of the Bank;

NOW, THEREFORE, on a motion duly made and seconded, BE IT RESOLVED:

THAT the amendment to Section 1 of By-Law II of the Bank, approved by the Board of Directors of the Bank on December 14, 2006 and described below, be confirmed:

“1. AUTHORIZED SHARE CAPITAL

The authorized share capital of the Bank shall consist of an unlimited number of First Preferred Shares, without par value, which may be issued for an aggregate consideration of not more than five billion dollars (\$5,000,000,000) or the equivalent thereof in foreign currencies; fifteen million (15,000,000) Second Preferred Shares, without par value, which may be issued for an aggregate consideration of not more than three hundred million dollars (\$300,000,000) or the equivalent thereof in foreign currencies; and an unlimited number of Common Shares, without par value, which may be issued for such consideration as the Directors may determine.”

SECTION 2 Business of the Meetings (cont.)

THAT this amendment shall only take effect when approved by the holders of the First Preferred Shares of the Bank by special resolution; the foregoing resolution becomes null and void and without effect if the holders of First Preferred Shares of the Bank do not approve this amendment;

THAT any officer or director of the Bank be authorized to sign any and all documents and take any and all measures necessary or advisable in order to give full force and effect to the foregoing resolutions.

Special Resolutions of Holders of First Preferred Shares

Any amendment to By-Law II of the Bank also requires the approval of the holders of the First Preferred Shares of the Bank by a special resolution passed separately. Consequently, management submits the special resolutions, as presented below, for approval by two thirds of the votes cast by the holders of First Preferred Shares present or represented by proxy and entitled to vote at the Special Meeting of First Preferred Shareholders.

Management of the Bank recommends voting **FOR** the amendment to Section 1 of By-Law II of the Bank to amend the description of the authorized share capital in order to increase the aggregate consideration limit for which First Preferred Shares may be issued.

The special resolutions are as follows:

WHEREAS Section 1 of By-Law II of the Bank provides that First Preferred Shares may be issued for an aggregate consideration of not more than \$1,000,000,000;

WHEREAS on December 14, 2006, the Board of Directors of the Bank adopted a resolution to amend Section 1 of By-Law II of the Bank in order to increase to \$5,000,000,000 the aggregate consideration limit for which First Preferred Shares may be issued;

WHEREAS this amendment shall come into force only upon confirmation by a special resolution of the holders of Common Shares and approval by a special resolution of the holders of First Preferred Shares of the Bank;

NOW, THEREFORE, on a motion duly made and seconded, BE IT RESOLVED:

THAT the amendment to Section 1 of By-Law II of the Bank, adopted by the Board of Directors of the Bank on December 14, 2006 and described below, be approved:

“1. AUTHORIZED SHARE CAPITAL

The authorized share capital of the Bank shall consist of an unlimited number of First Preferred Shares, without par value, which may be issued for an aggregate consideration of not more than five billion dollars (\$5,000,000,000) or the equivalent thereof in foreign currencies; fifteen million (15,000,000) Second Preferred Shares, without par value, which may be issued for an aggregate consideration of not more than three hundred million dollars (\$300,000,000) or the equivalent thereof in foreign currencies; and an unlimited number of Common Shares, without par value, which may be issued for such consideration as the Directors may determine.”

THAT this amendment shall only take effect when also confirmed by the holders of the Common Shares of the Bank by special resolution; the foregoing resolution becomes null and void and without effect if the holders of Common Shares of the Bank do not confirm this amendment;

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

Amendments to the Stock Option Plan

Given the number of options granted and exercised in recent years, the Bank wishes to increase the number of shares reserved for the Stock Option Plan (the “Reserve”). For more information concerning the Stock Option Plan, refer to the “Stock Option Plan of the Bank” heading in the “Report of the Human Resources Committee” section of the Circular.

In addition, further to the adoption by the Toronto Stock Exchange (the “TSX”) of new rules regarding security based compensation arrangements such as the stock option plans set up by TSX-listed issuers, the Bank considers it necessary to amend the Stock Option Plan by:

- redefining the power of the Board to amend certain aspects of the Stock Option Plan without having to obtain shareholder approval; and
- establishing conditional expiration dates.

SECTION 2 Business of the Meetings (cont.)

Increase in the Number of Reserved Shares

The Stock Option Plan was established on September 30, 1993 and adopted at the Annual Meeting of Shareholders held in February 1994.

The Stock Option Plan is an essential tool for attracting the best candidates and retaining key employees, given the Bank's size in relation to its main competitors in the financial services industry. The Stock Option Plan remains an effective incentive for the Bank's officers to work in the long-term interests of its shareholders and to ensure the Bank's long-term growth.

Management of the Bank is sensitive to the importance shareholders attach to additional share issues. Accordingly, the Bank has devised procedures that ensure sound management of the Stock Option Plan. Thus, since the adoption of the Stock Option Plan, the Bank makes only one grant per financial year, on a specific date, without taking into account the officers hired or appointed during the period. This annual grant date has never been retroactively amended. In addition, the Stock Option Plan specifically provides that the exercise price of options already granted may under no circumstances be decreased, regardless of fluctuations in the price of the Bank's common shares. Officers can therefore only benefit from the options granted to them provided that the Bank's share price increases steadily over the long term. Finally, executive officers on the Executive Committee of the Bank must disclose their intention to exercise any stock options of the Bank in a news release five business days prior to the intended exercise date, regardless of the date of the grant. They must also keep, upon exercising stock options granted since December 2002, an amount equal to the gain resulting from the exercise of vested options, after tax considerations, in the form of common shares of the Bank for one year.

In December 2002, the Bank adopted share ownership guidelines, which provide that Bank officers are required to maintain minimum holdings of the Bank's common shares, including deferred stock units ("DSUs"), vested stock appreciation rights ("SARs") and vested stock options, proportionate to each officer's compensation and position. For more information, refer to the "Share Ownership Guidelines for Officers of the Bank" heading in the "Officer Compensation" section of the Circular.

Furthermore, since 2002, the Board has granted a portion of the long-term compensation of the President and Chief Executive Officer in the form of DSUs. Moreover, since 2003, Senior Vice-Presidents on the Executive Committee may elect to receive up to 30% of their long-term compensation in the form of DSUs instead of stock options. In December 2005, all Bank officers became eligible for this plan.

These changes helped stabilize the number of options granted in recent years, as indicated in the table below.

Calendar Year	Number of Options Granted
2006	1,493,504
2005	943,200
2004	1,468,260
2003	1,376,900

When the Stock Option Plan was established, the Reserve was set at 8,000,000 common shares. In March 2001, the Reserve was increased by 13,931,712 common shares. Since the Stock Option Plan was adopted, 20,170,654 stock options have been granted, of which 9,102,813 were exercised and 4,712,548 were cancelled. As at January 8, 2007, there were 6,355,293 options outstanding and only 6,473,606 common shares available for future grants under the Stock Option Plan.

Accordingly, on December 14, 2006, the Board authorized that the number of common shares issuable under the Stock Option Plan be increased to 16,000,000, representing an increase in the Reserve of 3,171,101 common shares, subject to the approval of the required regulatory authorities and of the holders of common shares. As at January 16, 2007, 162,544,220 common shares of the Bank were issued and outstanding. If this increase is confirmed, the total number of common shares in the Reserve will represent approximately 9.84% of the total number of issued and outstanding common shares of the Bank.

The resolutions concerning the increase in the Reserve must be adopted by a majority of the votes cast by the holders of common shares present or represented by proxy and entitled to vote at the Annual and Special Meeting of Common Shareholders.

Management of the Bank recommends voting FOR the increase in the Reserve and the amendments to the related provisions of the Stock Option Plan.

The resolutions are as follows:

WHEREAS on December 14, 2006, the Board of Directors adopted a resolution increasing the number of Common Shares reserved for future issuance pursuant to the Bank's Stock Option Plan;

WHEREAS on January 12, 2007, the Toronto Stock Exchange approved the amendments to the Bank's Stock Option Plan to increase the number of Common Shares reserved pursuant to said plan;

WHEREAS this increase in the number of Common Shares reserved for the Bank's Stock Option Plan shall take effect only once it has been confirmed by a resolution of the holders of Common Shares of the Bank;

SECTION 2 Business of the Meetings (cont.)

NOW, THEREFORE, on a motion duly made and seconded, BE IT RESOLVED:

THAT the replacement of the first sentence of Section 5 of the Stock Option Plan of the Bank with the text below, approved by the Board of Directors of the Bank on December 14, 2006, be confirmed:

“The maximum number of options that can be issued under the plan during its term is set at 16,000,000 Common Shares, representing approximately 9.84% of the Bank’s issued and outstanding Common Shares as at January 16, 2007.”

THAT 16,000,000 Common Shares of the Bank be reserved for the Bank’s Stock Option Plan;

THAT any officer or director of the Bank be authorized to sign any and all documents and take any and all measures necessary or advisable in order to give full force and effect to the foregoing resolutions.

Amendment Procedure for the Stock Option Plan

New TSX rules on the amendment procedure for stock option plans stipulate that, in order for an issuer to amend such a plan or an agreement or entitlement under such a plan, it must be specified in the plan whether an amendment requires security holder approval. This amendment procedure must be approved by the security holders when the plan is initially adopted or at the time of a subsequent amendment.

For this reason, the Bank proposes to amend the provisions of the Stock Option Plan pertaining to its amendment or termination. If the Stock Option Plan is not so amended, any amendment to the Stock Option Plan, including administrative amendments, will require shareholder approval. In the Bank’s opinion, this would unduly complicate the administration of the Stock Option Plan without providing any real benefit to shareholders.

Further to the new amendment procedure set out in this proposal, the following amendments to the Stock Option Plan cannot be adopted by the Board without obtaining shareholder approval:

- an increase in the number of common shares reserved for the Stock Option Plan;
- a reduction in the exercise price or purchase price or a cancellation of options for the purpose of re-issuing new options in replacement thereof;
- an extension of the term of an option beyond its original expiration date;
- an amendment to the class of eligible participants allowing the introduction or re-introduction of non-employee directors of the Bank on a discretionary basis; and
- an amendment allowing security based payments granted under the Stock Option Plan to be transferable or assignable other than for ordinary estate settlement purposes.

However, the Board can, for example, amend the Stock Option Plan without shareholder approval, subject to amendments requiring such approval, for any of the following purposes:

- the interruption, termination or repeal of the Stock Option Plan;
- an amendment to the provisions governing the cancellation of a security or the repeal of the Stock Option Plan that does not entail an extension of the original expiration date;
- an amendment affecting the day-to-day administration of the Stock Option Plan, including, without limiting the scope of the foregoing:
 - (i) the identity of the Stock Option Plan administrator(s);
 - (ii) the composition of the committee(s) administering and/or supervising the administration of the Stock Option Plan;
 - (iii) the delegation of powers to the administrator(s) by the administration or supervision committee(s) of the Stock Option Plan;
 - (iv) the interpretation of the Stock Option Plan; and
 - (v) the procedure(s) established to administer the Stock Option Plan;
- the identity of the Stock Option Plan participants (i.e., the identity of the persons to whom the options are granted or could be granted), excluding non-employee directors of the Bank;
- subject to the rules established by the TSX, the number of options granted to each participant;
- a reduction in the term of options granted or any change in the exercise dates of options;
- an amendment to the provisions of the Stock Option Plan concerning the vesting period;
- an amendment to the procedures for exercising options;
- the addition of a cashless exercise feature, payable in cash or securities, which provides for a full deduction of the total number of underlying securities from the Stock Option Plan reserve;
- an amendment to the content of a stock option agreement between the Bank and a participant as well as an amendment to the content or the form of the standard stock option agreement;
- an amendment to the conditions governing the cancellation of options, namely, in the event of termination of employment, disability exceeding 30 months, death, retirement or authorized leave exceeding 12 months;
- an amendment to conditions for the adjustment of options;
- an amendment to provisions governing the tax treatment of options granted;
- an amendment to the provisions of the SAR Plan; and
- an amendment to the provisions regarding legislation applicable to the Stock Option Plan.

SECTION 2 Business of the Meetings (cont.)

The resolution concerning the amendment procedure for the Stock Option Plan must be adopted by a majority of the votes cast by the holders of common shares present or represented by proxy and entitled to vote at the Annual and Special Meeting of Common Shareholders.

Management of the Bank recommends voting **FOR** the amendments to the Stock Option Plan to modify the amendment procedure for the Stock Option Plan.

The resolution is as follows:

WHEREAS on December 14, 2006, the Board of Directors adopted a resolution approving the amendments to the Bank's Stock Option Plan modifying the amendment procedure for such plan;

WHEREAS on January 12, 2007, the Toronto Stock Exchange approved the amendment procedure for the Stock Option Plan of the Bank;

WHEREAS the amendments to the Bank's Stock Option Plan modifying the amendment procedure shall come into force only upon being confirmed by a resolution of the holders of Common Shares of the Bank;

NOW, THEREFORE, on a motion duly made and seconded, BE IT RESOLVED:

THAT the amendment to Section 13 of the Bank's Stock Option Plan, approved by the Board of Directors of the Bank on December 14, 2006 and described below, be confirmed:

"13. Amendment and Termination of the Plan

a) Amendment to the Plan upon Shareholder Approval

The Board may not make the following amendments to the Plan without shareholder approval:

- (i) an increase in the number of reserved shares;
- (ii) a reduction in the exercise price or purchase price or a cancellation of options for the purpose of re-issuing new options in replacement thereof;
- (iii) an extension to the term of an option beyond its original expiration date;
- (iv) an amendment to the class of eligible participants allowing the introduction or re-introduction of non-employee directors of the Bank on a discretionary basis; and
- (v) an amendment allowing security based payments granted under the Plan to be transferable or assignable other than for ordinary estate settlement purposes.

b) Amendment and Termination of the Plan by the Board

Subject to paragraph (a), the Board may at any time suspend or terminate the Plan in whole or in part or amend it in such respects as the Board may deem appropriate without having to obtain shareholder approval.

Subject to other provisions of the Plan, the Board shall be required to obtain the consent of the Participant in the event that the amendment, suspension or termination of the Plan affects the entitlements and responsibilities resulting from an option already granted to a Participant under the Plan.

Without limiting the scope of the foregoing, the Board may amend the Plan for one or more of the following reasons, without having to obtain shareholder approval:

- (i) to amend the eligibility criteria and the limits for participating in the Plan;
- (ii) to amend the conditions for granting and exercising options;
- (iii) to make additions, amendments or deletions to the Plan in order to comply with the legislation governing the Plan or the requirements of a regulatory body or stock exchange;
- (iv) to correct or rectify any ambiguity, incorrect stipulation or omission in the text of the Plan; and
- (v) to amend provisions relating to the administration of the Plan.

The Board may also amend features of an option granted to a Participant (including the exercise price, the exercise conditions or the expiration date of an option) without having to obtain shareholder approval, provided the following conditions are met:

- (i) the amendments do not reduce the exercise price of an option or extend the expiration date of options already awarded;
- (ii) the Board had prior authority to award the amended option; and
- (iii) the amendment does not materially prejudice the rights of the participants affected by such amendment."

SECTION 2 Business of the Meetings (cont.)

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

Conditional Expiration Dates

Under TSX rules, an option can terminate on a fixed expiration date (the “Fixed Term”) or a certain number of days after this fixed date (the “Conditional Expiration Date”), if the Fixed Term falls within, or immediately after, a black out period during which insiders of the Bank are prohibited from exercising options they hold (the “Black Out Period”), provided that the Stock Option Plan and, in particular, the Conditional Expiration Date have been approved by security holders.

Consequently, on December 14, 2006, the Board adopted an amendment to the Stock Option Plan setting 10 business days as the maximum period during which options may be exercised after the Fixed Term if the date falls during or immediately after a Black Out Period.

Therefore, if the Fixed Term falls within a Black Out Period, the options in question may be exercised within 10 business days of the end of the Black Out Period. However, if the Fixed Term falls within 10 business days of the end of the Black Out Period (e.g., two days later), the options may be exercised after the Fixed Term during a period of 10 business days less the number of business days elapsed between the end of the Black Out Period and the Fixed Term (in this example, eight days).

All eligible participants in the Stock Option Plan may avail themselves of Conditional Expiration Dates in accordance with the same terms and conditions, and the Board may not amend these at its discretion.

Participants eligible for the Stock Option Plan may only use the Conditional Expiration Dates if neither the Bank nor its insiders are the subject of a cease trade order.

The inclusion of Conditional Expiration Dates in the Stock Option Plan will mitigate problems arising from the lengthy Black Out Periods the Bank imposes on its insiders and the very short periods during which they can exercise their options.

The resolutions allowing options granted under the Stock Option Plan to expire on a Conditional Expiration Date must be adopted by a majority of the votes cast by the holders of common shares present or represented by proxy and entitled to vote at the Annual and Special Meeting of Common Shareholders.

Management of the Bank recommends voting FOR the amendments to the Stock Option Plan authorizing Conditional Expiration Dates for options granted by the Bank under the Stock Option Plan.

The resolutions are as follows:

WHEREAS on December 14, 2006, the Board of Directors adopted a resolution authorizing conditional expiration dates for options granted by the Bank pursuant to its Stock Option Plan;

WHEREAS on January 12, 2007, the Toronto Stock Exchange approved the amendments to the Bank’s Stock Option Plan authorizing conditional expiration dates for options granted by the Bank under such plan;

WHEREAS these amendments shall come into force only upon being confirmed by a resolution of the holders of Common Shares of the Bank;

NOW, THEREFORE, on a motion duly made and seconded, BE IT RESOLVED:

THAT the amendment to Subsection 2(n) of the Bank’s Stock Option Plan, approved by the Board of Directors of the Bank on December 14, 2006 and described below, be confirmed:

“2 n) Option Expiration Date

The date on which the Option expires. This date shall be no later than the tenth (10th) anniversary of the date of the Award (for the purposes of this definition, the “Fixed Expiration Date”). However, if the Fixed Expiration Date falls within or immediately after a period during which a Participant who is also an insider of the Bank is prohibited from exercising Options (for the purposes of this definition, the “Black Out Period”), the expiration date of the Options shall then exceed (i) the end date of the Black Out Period by ten (10) business days if the Fixed Expiration Date falls during the Black Out Period or (ii) the Fixed Expiration Date by a number of business days equal to ten (10) business days less the number of business days elapsed between the end of the Black Out Period and the Fixed Expiration Date, if the Fixed Expiration Date falls no later than ten (10) business days after the end of the Black Out Period, as applicable (for the purposes of this definition, the “Conditional Expiration Date”). All Plan Participants may benefit from a Conditional Expiration Date, which cannot be modified at the discretion of either the Committee or the Board. Conditional Expiration Dates will only be available to Plan Participants if neither the Bank nor any insider of the Bank is the subject of a cease trade order.”

SECTION 2 Business of the Meetings (cont.)

THAT the amendment to Paragraph 6(b)(i) of the Bank's Stock Option Plan, approved by the Board of Directors of the Bank on December 14, 2006 and described below, be confirmed:

"6 b) Term of Options and Period of Exercise

i) The term of the Options awarded is ten (10) years (for the purposes of this definition, the "Fixed Term"). However, if the Fixed Term expires within or immediately after a period during which a Participant who is also an insider of the Bank is prohibited from exercising Options (for the purposes of this definition, the "Black Out Period"), the term of the Options shall then be extended (i) for ten (10) business days after the end of the Black Out Period if the Fixed Term ends during the Black Out Period or (ii) for a number of business days equal to ten (10) business days less the number of business days elapsed between the end of the Black Out Period and the end of the Fixed Term, if the Fixed Term ends no later than ten (10) business days after the end of the Black Out Period, as applicable (for the purposes of this definition, the "Conditional Term"). All Plan Participants may benefit from a Conditional Term, which cannot be modified at the discretion of either the Committee or the Board. Conditional Terms will only be available to Plan Participants if neither the Bank nor any insider of the Bank is the subject of a cease trade order."

THAT any officer or director of the Bank be authorized to sign any and all documents and take any and all measures necessary or advisable in order to give full force and effect to the foregoing resolutions.

Shareholder Proposals

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

The complete text of the proposals on which the holders of common shares will be voting is provided in Schedule A to the Circular.

Management of the Bank recommends voting FOR proposal No. 1 and AGAINST proposal Nos. 2 to 10 for the reasons set out at the end of these proposals.

The 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 Annual and Special Meeting of Common Shareholders.

Any proposal a shareholder would like to have included at the Annual Meeting of Shareholders to be held in 2008 must be submitted to the Bank no later than 5:00 p.m. (EST) on October 18, 2007.

SECTION 2 Business of the Meetings (cont.)

Information on Nominees for Election to the Board of Directors

**Lawrence S. Bloomberg**

Age: 64

Toronto, Ontario, Canada

Common shareholdings⁽¹⁾: 623,575

- Director since August 1999
- Exceeds the Bank's shareholding requirements for directors⁽²⁾
- Not independent because he acts as an advisor to a subsidiary of the Bank

Mr. Bloomberg is an 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. Previously, Mr. Bloomberg was Chairman of the Board, President and Chief Executive Officer of First Marathon Inc., a company he founded in 1979, which was merged into National Bank Financial Inc. in 1999.

Mr. Bloomberg has extensive expertise in the financial sector, both nationally and internationally. Prior to and after starting his own business, he contributed to the development of many financial and non-financial companies. He brings valuable insight and a unique perspective to the Board on financial sector developments in Canada and abroad.

Mr. Bloomberg currently serves as Chairman of the Board of Mount Sinai Hospital and sits on the board of directors of the MaRS Discovery District.

In the past five years, Mr. Bloomberg served as a director of Cinram International Inc.

**Pierre Bourgie**

Age: 50

Outremont, Quebec, Canada

Common shareholdings: 106,169

- Director since March 1998
- Chair of the Audit and Risk Management Committee
- Member of the Conduct Review and Corporate Governance Committee
- Exceeds the Bank's shareholding requirements for directors
- Independent

Mr. Bourgie has been President and Chief Executive Officer of Société Financière Bourgie (1996) Inc., a diversified investment company, since 1996, and President of Montreal Partners Inc., a merchant bank specializing in business financing, since 1998. He is also President of Ipso Facto, a real estate limited partnership, and actively involved in a number of economic, community and cultural organizations.

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 international business management.

Mr. Bourgie currently serves on the board of Saputo Inc. In the past five years, he served as a director of Canam Group Inc., HearUSA, Inc. and Hydro-Québec.

**André Caillé**

Age: 63

Lac-Brome, Quebec, Canada

Common shareholdings: 174

DSUs: 1,267

- Director since October 2005
- Member of the Audit and Risk Management Committee
- Member of the Human Resources Committee
- Has a period of five years from the date of his appointment to meet the Bank's shareholding requirements for directors
- Independent

Mr. Caillé is a Corporate Director. He was Chairman of Hydro-Québec's board of directors from April to September 2005 and served as the utility company's President and Chief Executive Officer from October 1996 to April 2005. From 1982 until 1987, Mr. Caillé held various senior executive positions with Gaz Métro Inc. (formerly known as Gaz Métropolitain Inc.), including President and Chief Executive Officer from 1987 to 1996. He was also Director of Environmental Protection Services and Deputy Minister of the Environment of Quebec from 1974 to 1982.

Throughout his career, Mr. Caillé has been the recipient of many prestigious awards, including the Prix Hommage Pierre-Decelles in recognition of his outstanding management. He was also made a Knight of the Legion of Honour of the French Republic in June 2004.

In 2003, Mr. Caillé became Chancellor of the Université de Montréal where he presides over meetings of the university's board of directors. He also serves as President of the World Energy Council, sits on several boards of directors, and is Co-Chair of the Board of Directors of the Fondation Père Marcel de la Sablonnière, s.j.

Mr. Caillé brings to the Board extensive knowledge of the energy and environmental sectors and experience in managing large corporations.

Mr. Caillé currently serves as a director on the board of Quebecor World Inc. In the past five years, he served as a director and as Chairman of the Board of Directors of Hydro-Québec.

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

(2) For more information, refer to the "Compensation of Directors" heading in the "Report of the Conduct Review and Corporate Governance Committee" section of the Circular.

SECTION 2 Business of the Meetings (cont.)

Information on Nominees for Election to the Board of Directors (cont.)

**Gérard Coulombe**

Age: 59

Sainte-Marthe, Quebec, Canada

Common shareholdings: 4,067

DSUs: 12,511

- Director since February 1994
- Exceeds the Bank's shareholding requirements for directors
- Not independent because the law firm in which he is a partner is paid for the legal services it provides to the Bank and its subsidiaries

Mr. Coulombe has been a Senior Partner at Desjardins Ducharme, L.L.P. since 1977, where he practises business law and has chaired the board of directors since 2000. Mr. Coulombe is also Chair Emeritus of Lex Mundi, Ltd., a global association of more than 150 independent law firms. He was responsible for negotiating international tax treaties on behalf of the Department of Finance Canada.

Mr. Coulombe is a member of the boards of directors of the Bank's subsidiaries FMI Acquisition Inc., National Bank Life Insurance Company, National Bank Group Inc., National Bank Acquisition Holding Inc. and National Bank Trust Inc.

He has extensive expertise in business management and corporate law, especially with respect to financial institutions and crown corporations, as well as the creation of financial and industrial consortiums. He is also an authority on corporate governance matters.

In the past five years, Mr. Coulombe served as a director of Sodisco-Howden Group Inc., which was privatized in February 2005.

**Bernard Cyr**

Age: 58

Cap Shediac, New Brunswick, Canada

Common shareholdings: 8,641

- Director since August 2001
- Member of the Audit and Risk Management Committee
- Exceeds the Bank's shareholding requirements for directors
- Independent

Mr. Cyr has been 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., an entertainment industry franchiser, since 1993. Mr. Cyr serves on several boards of directors and is involved with charitable organizations. He was a member of the Bank's Atlantic Canada business development committee from 1996 to 2001.

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

Mr. Cyr currently serves on the board of NB Power Group.

**Shirley A. Dawe**

Age: 60

Toronto, Ontario, Canada

Common shareholdings: 4,203

DSUs: 4,923

- Director since July 1988
- Member of the Human Resources Committee
- Member of the Conduct Review and Corporate Governance Committee
- Exceeds the Bank's shareholding requirements for directors
- Independent

Ms. Dawe is a Corporate Director and has been President of Shirley Dawe Associates Inc., a Toronto-based management consulting firm specializing in the retail industry, since 1986. From 1969 to 1985, she held various senior executive positions with Hudson's Bay Company.

Her extensive 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 retail industry expertise led to her appointment on industry-specific public task forces and on boards of academic and non-profit organizations.

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.

Ms. Dawe currently serves on the boards of Birks & Mayors Inc. and The Bon Ton Stores Inc.

In the past five years, Ms. Dawe served as a director of OshKosh B'Gosh, Inc., and Moore Corporation Limited, subsequently renamed Moore Wallace Incorporated and now known as R.R. Donnelley & Sons Company.

SECTION 2 Business of the Meetings (cont.)

Information on Nominees for Election to the Board of Directors (cont.)



Nicole Diamond-Gélinas
 Age: 62
Saint-Barnabé-Nord, Quebec, Canada
 Common shareholdings: 22,624
 DSUs: 2,870

- *Director since March 1998*
- *Member of the Audit and Risk Management Committee*
- *Exceeds the Bank's shareholding requirements for directors*
- *Independent*

Ms. Diamond-Gélinas has been President and General Manager of Aspasie Inc., a manufacturer of colour charts, since 1976 and President of Plastifil Inc., a plastics extrusion and injection molding company, since 1998. She also heads Trois-Rivières Ford Lincoln Inc., a company specializing in the sale, leasing and servicing of motor vehicles. Actively involved in her region's business community, she is a member of the Chambre de commerce et d'industries de Trois-Rivières and was a member of the Mauricie business development committee of the Bank from 1992 to 1998. She has been Vice-Chair of the Board of Directors of the Fondation du Centre hospitalier régional de Trois-Rivières since September 2005.

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.

Ms. Diamond-Gélinas also currently serves on the board of the Bank's subsidiary National Bank Life Insurance Company.



Jean Douville
 Age: 63
Bedford, Quebec, Canada
 Common shareholdings: 5,296
 DSUs: 6,316

- *Director since November 1991*
- *Chairman of the Board since March 2004*
- *Exceeds the Bank's shareholding requirements for directors*
- *Independent*

Mr. Douville has been Chairman of the Board of the Bank since March 10, 2004. He is also Chairman of the Board of UAP Inc., a company specializing in the distribution and reconditioning of 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 became President of the company in 1981, and was subsequently appointed Chief Executive Officer in 1982 and then Chairman of the Board in 1994.

Before being appointed as Chairman of the Bank's Board, he was successively Chair of the Audit and Risk Management Committee and Chair of the Conduct Review and Corporate Governance Committee of the Board.

Mr. Douville brings to the Board in-depth knowledge of a key industrial sector in North America as well as experience in managing a large corporation.

Mr. Douville currently serves on the boards of Genuine Parts Company and Richelieu Hardware Ltd.

In the past five years, Mr. Douville served on the boards of Leroux Steel Inc., which now operates under the corporate name 9137-7101 Québec inc., and Van Houtte Inc.



Marcel Dutil
 Age: 64
Outremont, Quebec, Canada
 Common shareholdings: 20,655
 DSUs: 8,642

- *Director since January 1982*
- *Member of the Human Resources Committee*
- *Exceeds the Bank's shareholding requirements for directors*
- *Independent*

Mr. Dutil is Chairman of the Board and Chief Executive Officer of Canam Group Inc. He is the founder of this industrial company, which mainly designs and manufactures frames, joists and steel decks.

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.

Mr. Dutil currently serves on the boards of Canam Group Inc., The Jean Coutu Group (PJC) Inc., Montreal Economic Institute and Manac Inc.

In the past five years, Mr. Dutil served on the boards of Leroux Steel Inc., which now operates under the corporate name 9137-7101 Québec inc., MAAX Inc., which was privatized in June 2004, Total Containment, Inc., and Groupe Maritime Verreault Inc.

SECTION 2 Business of the Meetings (cont.)

Information on Nominees for Election to the Board of Directors (cont.)

**Jean Gaulin**

Age: 64

San Antonio, Texas, United States

Common shareholdings: 23,903

DSUs: 7,728

- *Director since October 2001*
- *Chair of the Human Resources Committee*
- *Member of the Audit and Risk Management Committee*
- *Exceeds the Bank's shareholding requirements for directors*
- *Independent*

Mr. Gaulin is a Corporate Director. He was Chairman of the Board of Directors of Ultramar Diamond Shamrock Corporation from January 1, 2000 to January 1, 2002, and President and Chief Executive Officer 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 of the Board of Directors, President and Chief Operating Officer of Ultramar Diamond Shamrock Corporation. Prior to the merger, he was Chairman of the Board of Directors and Chief Executive Officer of Ultramar Corporation. He is also involved in a number of charitable organizations.

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

Mr. Gaulin currently serves on the boards of Crane Co., RONA Inc., Saputo Inc., and Bombardier Recreational Products Inc.

In the past five years, Mr. Gaulin served as a director of Abitibi-Consolidated Inc. and Ultramar Diamond Shamrock Corporation.

**Paul Gobeil, FCA**

Age: 64

Ottawa, Ontario, Canada

Common shareholdings: 10,955

DSUs: 20,942

- *Director since February 1994*
- *Chair of the Conduct Review and Corporate Governance Committee*
- *Member of the Audit and Risk Management Committee*
- *Exceeds the Bank's shareholding requirements for directors*
- *Independent*

Mr. Gobeil is Vice-Chairman of the Board of Metro Inc. and Chairman of the Board of Directors of Export Development Canada. He has been a Member of the Ordre des comptables agréés du Québec since 1965 and a Fellow since 1986. Elected as a member of the Quebec National Assembly (MNA) for the riding of Verdun in 1985, he was, until 1989, successively Minister Responsible for Administration, President of the Treasury Board and Minister of International Affairs in the Quebec government. From 1974 to 1985, he held a number of executive positions at Provigo Inc.

Mr. Gobeil brings to the Board a wealth of expertise in corporate governance, financial and accounting management and corporate strategy.

Mr. Gobeil is currently Chairman of the Board of Directors of DiagnoCure Inc., serves on the board of Canam Group Inc., is Vice-Chairman of the Board of Directors of Metro Inc. and a trustee of Yellow Pages Income Fund.

In the past five years, Mr. Gobeil served on the boards of MAAX Inc., which was privatized in June 2004, Nstein Technologies Inc. and Hudson's Bay Company.

SECTION 2 Business of the Meetings (cont.)

Information on Nominees for Election to the Board of Directors (cont.)

**Réal Raymond**

Age: 56

Île-des-Sœurs, Quebec, Canada

Common shareholdings: 31,350

DSUs for officers⁽¹⁾: 109,513

- Director since November 1999
- Exceeds the Bank's shareholding requirements for officers⁽²⁾
- Not independent because he is an executive officer of the Bank

Mr. Raymond has been President and Chief Executive Officer of the Bank since March 2002. He is responsible for the strategies, orientations and development of the Bank and its subsidiaries. Mr. Raymond has held a number of key positions since joining the Bank in 1970, including that of Senior Vice-President – Treasury and Financial Markets from 1992 to 1997. In 1997, he joined Lévesque Beaubien Geoffrion Inc., now National Bank Financial Inc., where he served as Senior Executive Vice-President – Corporate Financing, while maintaining the responsibilities of 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 the Bank.

Mr. Raymond serves on the boards of the subsidiaries of National Bank Group Inc., Natcan (Asia) Limited, National Bank Acquisition Holding Inc. and Natcan Acquisition Holdings Inc.

Mr. Raymond, who graduated from Université Laval in administration, has an MBA from the Université du Québec à Montréal and a diploma from the Institute of Canadian Bankers. In 1990, he successfully completed the renowned Executive Management Program at the University of Michigan.

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

Involved in many professional and community organizations, Mr. Raymond sits on the boards of directors of St. Mary's Hospital Foundation, the Cercle des présidents du Québec, is a member of the Canadian Council of Chief Executives, the Montreal Symphony Orchestra and the Fondation de l'UQAM. In addition, he is Governor of the Quebec Association of MBAs and President of The Montreal Museum of Fine Arts Foundation. At the national level, he is Vice-Chair of the Board of Directors of The Conference Board of Canada.

**Roseann Runte**

Age: 58

Norfolk, Virginia, United States

Common shareholdings: 2,652

DSUs: 6,803

- Director since April 2001
- Member of the Conduct Review and Corporate Governance Committee
- Exceeds the Bank's shareholding requirements for directors
- Independent

Ms. Runte has been President of Old Dominion University in Norfolk, Virginia since July 1, 2001. She also served as President of Victoria University in the University of Toronto from 1994 to 2001. She has a Ph.D. in French Literature from The University of Kansas. She is the author of many books and articles, notably on education and economic and cultural development. Ms. Runte chairs the Commission on International Education, is a member of the executive committee of the Club of Rome, and serves on the board of the Virginia Advanced Carrier and Shipbuilding Integration Center. She was also recently appointed a member of the Virginia National Economic Defense Authority. In the past, she served on various boards of directors in the literary, cultural and economic development sectors and served as President of the Canadian Commission for Unesco from 1992 to 1996. She also served on the board of Expo 2000 in Germany.

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

In the past five years, Ms. Runte served on the board of The Jean Coutu Group (PJC) Inc.

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

(2) For more information, refer to the "Share Ownership Guidelines for Officers of the Bank" heading in the "Officer Compensation" section of the Circular.

SECTION 2 Business of the Meetings (cont.)

Information on Nominees for Election to the Board of Directors (cont.)

**Marc P. Tellier**

Age: 38

Town of Mount Royal, Quebec, Canada

Common shareholdings: 265

DSUs: 1,536

- *Director since March 2005*
- *Member of the Human Resources Committee*
- *Has a period of five years from the date of his appointment to meet the Bank's shareholding requirements for directors*
- *Independent*

Mr. Tellier has been President and Chief Executive Officer of Yellow Pages Group Co., Canada's largest directories publisher, since 2002. He was previously President and Chief Executive Officer of Bell ActiMedia Inc., a company acquired through the most important leveraged buyout in Canadian history. In August 2003, he completed one of the largest-ever initial public offerings in Canada, and since then has completed acquisitions totalling \$4 billion. He has held a number of management positions in sales and finance throughout his career, including Senior Vice-President – Partnership Development at Bell Canada. He was also President and Chief Executive Officer of Sympatico-Lycos Inc., the leading Canadian Internet portal. Mr. Tellier was named one of Canada's "Top 40 Under 40™" in 2000.

Mr. Tellier brings to the Board management experience in the Canadian communications and media industry.

Mr. Tellier currently serves as a trustee of the Yellow Pages Income Fund and as a director of YPG Holdings Inc. He also sits on the boards of directors of the Yellow Pages Association (YPA), the Canadian Council of Chief Executives, Sainte-Justine Hospital Foundation, Students on Ice Foundation and Lower Canada College.

**Louis Vachon**

Age: 44

Beaconsfield, Quebec, Canada

Common shareholdings: 15,946

- *Director since August 2006*
- *Exceeds the Bank's shareholding requirement for officers*
- *Not independent because he is an executive officer of the Bank*

Mr. Vachon has been the Bank's Chief Operating Officer since August 2006. He is responsible for the Bank's operating units: Personal and Commercial Banking, Wealth Management and Financial Markets. From January 2005 to July 2006, he was Chairman of the Board of National Bank Financial Group and Natcan Investment Management Inc., in addition to holding the position of President and Chief Executive Officer of National Bank Financial Inc., which he assumed in September 2005. In 1986, he joined Lévesque Beaubien Geoffrion Inc., now National Bank Financial Inc., where he served as Vice-President until 1990. From 1994 to 1996, he was President and Chief Executive Officer of BT Bank of Canada, the Canadian subsidiary of Bankers Trust, which he joined in 1990. Mr. Vachon returned to the Bank in 1996, and in 1997, he was appointed Senior Vice-President – Treasury and Financial Markets.

Mr. Vachon brings to the Board solid, well-rounded experience in various sectors of the financial industry, including investment management, risk management, business development, financial engineering and securities brokerage. He also developed his strategic and operational skills in a multicultural environment in Canada and the United States.

Mr. Vachon serves on the board of the Montreal Exchange Inc. and has a Master's in International Finance from The Fletcher School. He was also named one of Canada's "Top 40 Under 40™" in 2002.

SECTION 2 Business of the Meetings (cont.)

For further information about the terms and conditions of the compensation of directors, the number of meetings held by the Board and its committees, as well as the attendance record of directors at such meetings and the compensation paid to them during the most recently completed financial year, refer to the “Report of the Conduct Review and Corporate Governance Committee” section of the Circular.

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

- Gérard Coulombe, who, until September 28, 2005, was a board member of Centre International de Gestion de Projets G.P., a non-profit company, adjudged bankrupt on September 29, 2005;
- Marcel Dutil, who, until March 2004, served on the board of Total Containment, Inc. when it was placed under the protection of Chapter 11 of Title 11 of the *United States Code* on March 4, 2004; and
- Paul Gobeil, who, until November 12, 2001, was on the boards of BridgePoint International Inc. and its wholly owned subsidiary BridgePoint International (Canada) Inc. On January 25, 2002, BridgePoint International (Canada) Inc. filed a proposal with its creditors. The TSX suspended trading on the shares of BridgePoint International Inc. on January 31, 2002 for failure to meet TSX listing requirements. The shares of BridgePoint International Inc. were delisted from the TSX at the close of business on January 31, 2003.

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

Furthermore, to the knowledge of the Bank, no director of the Bank has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority, or has entered into a settlement agreement with a securities regulatory authority, or has been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in deciding whether to vote for a proposed director. Moreover, in the opinion of the Bank, no disclosure concerning a settlement agreement entered into by a director of the Bank before December 31, 2000 is likely to be considered important to a reasonable investor in deciding whether to vote for a proposed director.

SECTION 3 Internal Management

Report of the Audit and Risk Management Committee

Role of the Committee

The Audit and Risk Management Committee (for the purposes of this report, the “Committee”) assists the Board in reviewing financial statements, processes for presenting and disclosing financial information, internal controls, audit processes and management information systems in order to determine their integrity and effectiveness. It also acts as an intermediary between the Board and the persons responsible for the independent monitoring functions, namely, internal audit, external audit and corporate compliance.

The Committee ensures that appropriate internal control policies and procedures are implemented and maintained and manages the external audit process. It supervises the work of the Bank’s internal audit, financial analysis and corporate compliance functions and conducts a detailed review of the Bank’s risk management, including related control practices and the principal risks related to financial and other disclosures. It also reviews any certifications and reports required by regulatory authorities which come under its purview.

The Committee is composed entirely of “independent” directors (as defined under the “Independence of Directors” heading in the “Summary of the Corporate Governance Practices of the Bank” section of the Circular). The duties and responsibilities of the Committee are set out in detail in its mandate, which is reviewed annually.⁽¹⁾

Members

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

Description of Financial Literacy of Members

All the Committee members are financially literate and, as such, can understand the accounting principles used by the Bank in its financial statements and assess the general application of these principles. They also have relevant experience preparing, auditing, analyzing or evaluating financial statements that present a level of complexity generally comparable to the complexity of the financial statements of the Bank, or supervising persons engaged in these types of activities. The members also understand the financial reporting internal controls and procedures in place at the Bank.

All Committee members have acquired the necessary experience and knowledge to fulfill their duties as Committee members from having served as chief executive officers or directors of other corporations and through current or past experience on other corporate audit committees, in addition to their academic background.

The Committee has one financial expert, namely, Paul Gobeil, who has two Master’s degrees, one in accounting sciences and one in accounting, from the Université de Sherbrooke, as well as extensive experience in business and finance. He has been a member of the Ordre des comptables agréés du Québec since 1965 and a Fellow since 1986.

Guidelines for the Management of Services Provided by the External Auditor

One of the Committee’s duties is to manage the external audit process. Accordingly, it annually reviews the Guidelines for the Management of Services Provided by the External Auditor.

The Guidelines state that a mandate may be entrusted to the external auditor for non-audit services if the following conditions are met:

- the specific expertise of the auditor or its intrinsic knowledge of the Bank’s activities allow it to carry out the mandate more effectively;
- the accepted mandate or the services rendered do not compromise the independence of the external auditor within the prevailing regulatory framework; and
- the mandate is authorized according to the conditions stated below.

⁽¹⁾ The text of this mandate is reproduced in its entirety in the “Information on the Audit and Risk Management Committee of the Board of Directors” section of the National Bank of Canada Annual Information Form for fiscal 2006 and on the Bank’s website (www.nbc.ca).

SECTION 3 Internal Management (cont.)

These services must be pre-approved by the Committee. A pre-approval policy containing specific provisions may be adopted provided it meets the following conditions:

- policies and procedures for pre-approval are detailed;
- the Committee is informed of each non-audit service; and
- the procedures do not involve delegation of Committee responsibilities to management.

The Committee reviews the pre-approval mechanisms for mandates entrusted to the external auditor and, if it deems appropriate, renews them on an annual basis. These mechanisms are as follows:

- All services offered to the Bank and its subsidiaries by the external auditor of the Bank must be specifically pre-approved by the Committee. The various pre-approval terms and conditions are:
 - (a) detailed annual approval of all audit services;
 - (b) approval of an annual envelope for obtaining comfort letters in connection with financing programs;
 - (c) approval of an annual envelope for obtaining interpretations on the application of generally accepted accounting principles and additional work in connection with audits that have already received pre-approval; and
 - (d) approval of an annual envelope for tax mandates.

Audit mandates not included in (a), mandates described in (b), (c) and (d) exceeding \$100,000, and mandates exceeding the envelopes presented in (b), (c) and (d) will be subject to specific pre-approval, as described below.

- The Committee has delegated the responsibility of approving the awarding of specific mandates to its Chair. Consequently, whenever specific pre-approval is required under these Guidelines, the Bank's management must submit a written request to the Committee Chair. It is management's responsibility to determine whether a service is included in the set of pre-approved services. Management must consult with the Committee Chair in all potentially ambiguous cases.

Auditor Fees

The Committee is responsible for overseeing the fees paid to the external auditor for all work done. The table below details fees billed by SB/DT to the Bank and to its subsidiaries for various services rendered during the past two financial years.

	2006 (\$)	2005 ⁽⁵⁾ (\$)
Audit services ⁽¹⁾	5,048,873	3,613,502
Audit-related services ⁽²⁾	133,750	113,865
Tax consulting ⁽³⁾	1,695,104	1,501,089
Other services ⁽⁴⁾	54,765	32,055
Total	6,932,492	5,260,511

(1) Audit fees include fees for services related to the audit of the consolidated financial statements of the Bank and the financial statements of its subsidiaries or other services normally provided by the external auditor in connection with statutory or regulatory filings or engagements required by applicable legislation. These fees also include fees for comfort letters, statutory audits, certification services, consents and assistance with the preparation and review of documents filed with regulators, as well as in connection with the interpretation of accounting and financial reporting standards.

(2) Audit-related fees include certification and related services performed by the Bank's auditor. These services also include accounting consultations in connection with acquisitions and divestitures and internal control reviews.

(3) Tax consulting fees include fees for assistance in tax planning, during restructurings, and when taking a tax position, as well as the preparation and review of income and other tax returns and tax opinions.

(4) Other fees include fees for financial services (business recovery), risk management services, legislative and/or regulatory compliance services and merger integration services.

(5) The data for fiscal 2005 have been restated for purposes of comparison with data for fiscal 2006. Administration fees billed by SB/DT and fees paid to the Canadian Public Accountability Board were then added.



Pierre Bourgie
Chair

Audit and Risk Management Committee

SECTION 3 Internal Management (cont.)**Report of the Human Resources Committee****Role of the Committee**

The Human Resources Committee (for the purposes of this report, the “Committee”) assists the Board with its human resources responsibilities. As part of its mandate, the Committee reviews and approves the human resources policies and programs of the Bank and some of its subsidiaries to ensure that they support the Bank’s strategic and financial objectives. In addition, the Committee oversees the strategic succession planning programs for Bank officers appointed by the Board, namely, the President and Chief Executive Officer, the Chief Operating Officer, the Co-Presidents and Co-Chief Executive Officers of National Bank Financial Group (“NBFG”), the Senior Vice-Presidents and the Vice-Presidents of the Bank (the “Officers of the Bank”). It also oversees the programs covering the other NBFG officers, namely, the Senior Vice-Presidents and Vice-Presidents (the “Officers of NBFG”).

The Committee studies all of the analyses and information presented to it and submits recommendations to the Board.

The Committee is composed entirely of independent members (as defined under the “Independence of Directors” heading in the “Summary of the Bank’s Corporate Governance Practices” section of the Circular), none of whom have been officers of the Bank. The duties and responsibilities of the Committee are detailed in its mandate, which is reviewed annually.⁽¹⁾

Compensation Policies and Programs

The Committee examines the scope of policies governing the total compensation of employees and Officers of the Bank and Officers of NBFG to ensure that such policies serve the interests of shareholders and promote the Bank’s long-term growth, and recommends their adoption to the Board. It also annually reviews the total compensation of all officers based on their performance, and oversees management of the pension plans and the Pool Fund for Participating Pension Plans of the Bank.

The Committee pays particular attention to the performance-based compensation of the Bank’s President and Chief Executive Officer. This component of compensation is based on a review of his overall performance. At the beginning of the year, the Committee therefore approves a set of individual and corporate objectives and monitors the extent to which they are achieved throughout the year and at year-end. The Committee also annually appraises the prudence with which the President and Chief Executive Officer has managed the Bank’s operations and the risks to which the Bank is exposed, and reports thereon to the Board.

Human Resources Risk Management

The Committee ensures that the Bank has programs that encompass the various aspects of human resources management, specifically, the recruitment process, the allocation of decision-making authority, the segregation of incompatible functional responsibilities, the communication to personnel of their responsibilities and the effective supervision of personnel.

Succession Planning and Development

The Committee annually monitors the progress of persons holding key positions at the Bank, as well as that of candidates identified in the succession plan. In this way, the Committee ensures that the Bank will be able to meet its future needs in terms of filling key positions by making sure that candidates’ functions are challenging, their compensation is competitive and their competencies are broadened.

Disclosure

The Committee considers it essential that shareholders and the Bank’s other stakeholders have a clear understanding of all components of officer compensation and decisions made by the Committee during the year. To this end, it ensures that relevant information is clearly conveyed in a timely manner. The Report of the Human Resources Committee therefore aims to account for its activities and the compensation of the Officers of the Bank and Officers of NBFG.



Jean Gaulin
Chair
Human Resources Committee

⁽¹⁾ The text of this mandate is reproduced in its entirety on the Bank’s website (www.nbc.ca).

SECTION 3 Internal Management (cont.)**Committee's Achievements in Fiscal 2006**

During the most recently completed financial year, the Committee analyzed various strategic orientations relating to officer compensation and organizational issues. In particular, the Committee was interested in the following:

Performance Assessment and Total Compensation of Officers

The Committee set the total compensation of officers based on the Bank's results in relation to predetermined objectives and each officer's individual performance. Accordingly, the Committee exercised an oversight role regarding the performance of all Bank officers. For this purpose, the President and Chief Executive Officer of the Bank submitted a report to the Committee on officers' performance for the Committee's review.

The Committee ensured the competitiveness of the total compensation (i.e., base salary and target percentages of short-, medium- and long-term variable compensation) of the President and Chief Executive Officer as well as the Officers of the Bank and Officers of NBFG based on data for the reference market, which is comprised of widely held Canadian companies, including major financial institutions. The Committee then submitted appropriate recommendations to the Board for approval.

In addition, the Committee examined the scope of various compensation programs for specific groups of employees or all employees of the Bank and NBFG and verified that these programs serve the interests of shareholders and ensure the Bank's long-term growth.

The Committee studied a number of aspects of medium- and long-term compensation programs. Furthermore, it contemplated introducing a medium-term compensation program to replace a portion of the compensation paid under the Stock Option Plan. It also revised the long-term compensation programs of NBFG and validated the eligibility criteria of the Bank's Stock Option Plan.

The Committee assumes the strategic oversight of the pension plans of the Bank and NBFG in addition to the Pool Fund for Participating Pension Plans of the Bank. The retirement committees assist the Committee in carrying out its mandate and submit their recommendations to it for approval. During the most recently completed financial year, the Committee:

- reviewed the composition of the retirement committees and approved the appointment of new members;
- reviewed and approved the audited consolidated financial statements of the Pool Fund for Participating Pension Plans of the Bank for the financial year ended December 31, 2005;
- approved the appointment of the external auditors of the pension plans of the Bank, as well their remuneration for the 2006 calendar year; and
- revised the investment policy of the Pool Fund for the Participating Pension Plans of the Bank.

Officer Succession Planning and Development

Within the scope of its mandate, the Committee:

- reviewed the profiles of candidates for the position of Chief Operating Officer of the Bank. The Committee recommended to the Board that Louis Vachon be appointed to this position. This appointment, which was effective August 1, 2006, is in line with the Bank's strategic plan and is intended primarily to improve operational efficiency by creating synergy among operating units. It also allows the President and Chief Executive Officer to focus more closely on the Bank's strategic development, client and investor relations, and risk management;
- reviewed the profiles of candidates for the positions of Co-President and Co-Chief Executive Officer of NBFG in order to make recommendations to the Board; and
- reviewed officers' qualifications to ensure succession planning and development of Officers of the Bank and Officers of NBFG.

Independent External Advisors

To obtain the information needed to make informed decisions and to keep abreast of market trends and best practices regarding officer compensation, the Committee regularly seeks advice from independent external advisors. During the most recently completed financial year, the Committee retained the services of two consulting firms, Hay Group Limited and McLagan Partners Inc.

Hay Group Limited provides advisory services to the Committee with a view to determining the value of compensation programs for officers and employees of the Bank compared with those offered for similar positions in the financial services sector and in other businesses similar in size to the Bank. McLagan Partners Inc., which specializes in the financial markets sector, advised the Committee in establishing the value of compensation programs for officers and employees of NBFG.

In addition to the mandates carried out on behalf of the Committee during the most recently completed financial year, both firms executed other mandates for the Bank. In particular, they provided market data to the Bank on management and non-management positions at the Bank and NBFG. The following table presents the fees paid to Hay Group Limited and McLagan Partners Inc. in fiscal 2006.

SECTION 3 Internal Management (cont.)

Independent External Advisors	Fees Paid
Hay Group Limited	
Advisory mandates concerning compensation carried out for the Committee	\$ 79,091
Other mandates carried out for the Bank	\$ 30,653
McLagan Partners Inc.	
Advisory mandates concerning compensation carried out for the Committee	\$ 53,515
Other mandates carried out for the Bank	\$ 56,290
Total fees relating to advisory mandates concerning compensation carried out for the Committee	\$ 132,606
Total fees for other mandates carried out for the Bank	\$ 86,943

Philosophy and Guiding Principles Governing Officer Compensation

Compensation is one of the main tools used by the Bank to attract, motivate and foster the loyalty of high-calibre officers who are focused on improving the performance of the Bank and generating value for shareholders. The guiding principles on which the Committee bases itself therefore seek to reward top-performing officers, while aligning their interests with those of shareholders.

The Committee sets the target total compensation for officers at the median of the Bank's reference market, taking into consideration characteristics specific to the Bank.

The Committee's decisions and recommendations are based on the following guiding principles:

- the target total compensation of officers is competitive with the median of the Bank's reference market;
- the annual variable compensation program ties the cash component of compensation to the level of achievement of the Bank's strategic objectives, taking into account the financial results of the Bank and its various units, thereby ensuring fully competitive cash compensation;
- the long-term variable compensation program aligns officers' compensation 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 with the officer's line level and capacity to influence the Bank's short-, medium- and long-term results; and
- employee benefits and pension plans are comparable, on the whole, to those offered by the reference market.

Officer Compensation

The compensation of Officers of the Bank and Officers of NBFG varies according to the Bank's results and the individual performance of each officer to ensure they receive competitive compensation when results meet expectations, and higher compensation when they exceed set objectives. Compensation paid to officers consists of the following components:

- base salary;
- annual variable compensation program;
- medium- and long-term variable compensation programs; and
- employee benefits and pension plans.

The mix of short-term compensation (base salary and annual variable compensation) and medium- and long-term variable compensation is a function of the officer's level of responsibility (except for the Co-Presidents and Co-Chief Executive Officers of NBFG, for whom the industry requires a higher proportion of short-term variable compensation). The table below presents the target value of each component of total direct compensation for Officers of the Bank, according to line level.

	Percentage Weight of Target Total Direct Compensation		
	Base Salary	Target Annual Variable Compensation	Target Medium- and Long-Term Compensation
President and Chief Executive Officer	17%	17%	66%
Chief Operating Officer ⁽¹⁾	20%	20%	60%
Members of the Executive Committee ⁽²⁾	29%	19%	52%
Co-Presidents and Co-Chief Executive Officers of NBFG	6%	85%	9%
Senior Vice-Presidents	43%	22%	35%
Vice-Presidents	56%	23%	21%

(1) Louis Vachon was appointed Chief Operating Officer on August 1, 2006 and his total compensation was then revised.

(2) The Executive Committee is the Bank's primary management forum. In addition to the President and Chief Executive Officer, the Chief Operating Officer and the Co-Presidents and Co-Chief Executive Officers of NBFG, the Executive Committee is composed of Senior Vice-Presidents reporting directly to either the President and Chief Executive Officer or the Chief Operating Officer.

SECTION 3 Internal Management (cont.)

Base Salary

The Committee annually reviews the base salaries of officers, including those whose compensation is presented in the “Summary of Total Compensation of Named Executive Officers” section of the Circular (the “Named Executive Officers”). Taking into account each officer’s level of responsibility, experience and sustained contribution, the Committee makes the appropriate adjustments, as required. Similarly, in order to ensure that officers’ base salaries are competitive, the Committee uses the median salaries of the Bank’s reference market adjusted, if necessary, to take into consideration characteristics specific to the Bank.

Annual Variable Compensation Programs

Annual Bonus Program of the Bank

The Bank offers all its employees an annual bonus program that aims to reward them for their contribution to the financial results of their business unit and of the Bank as a whole. The value of the envelope to be shared is therefore calculated according to:

- the Bank’s financial results compared to the objectives set at the beginning of the year. The two financial indicators used to calculate the bonus envelope are return on equity (“ROE”) and growth in earnings per share (“GEPS”). For fiscal 2006, target ROE was set at 18.35% and GEPS, at 5%;
- the Bank’s financial performance compared with that of the five other major Canadian banks. As shown in the table below, this indicator is used only to establish the threshold below which no bonus is paid as well as the maximum to be achieved so that the bonus paid can be greater than the target bonus, without however exceeding 200%; and
- the financial results of each business unit of the Bank.

The program specifies the minimum, target and maximum annual bonus as a percentage of base salary. These percentages vary based on the line level of the position held in order to recognize the capacity of each level to influence the Bank’s results.

Lastly, the bonus paid is based not only on the Bank’s financial results, but also on such criteria as client satisfaction, management quality and individual performance.

The target annual bonus envelope for the President and Chief Executive Officer, the Chief Operating Officer, the Senior Vice-Presidents on the Executive Committee (excluding the Co-Presidents and Co-Chief Executive Officers of NBFG, whose program is described in the “Annual Bonus Program for Officers of NBFG on the Policy Committee of NBFG” heading of this section of the Circular) and the other Senior Vice-Presidents of the Bank is determined using two weighted performance criteria. The following table presents the parameters used to create the bonus envelope and the results needed to achieve the target or maximum percentages.

	Envelope (as a % of target)
Return on Equity (80% of envelope)	
Threshold ⁽¹⁾ = the lesser of:	
90% of budgeted ROE and	
75% of average ROE for the five other major Canadian banks	0%
Target ⁽²⁾ = budgeted ROE (18.35% in fiscal 2006)	100%
Maximum ⁽³⁾ = the higher of:	
110% of budgeted ROE and	
125% of average ROE for the five other major Canadian banks	200%
Growth in Earnings per Share (20% of envelope)	
Zero growth (if average GEPS for the five other major Canadian banks is negative, the average will serve as the threshold)	0%
Target = budgeted GEPS (5% in fiscal 2006)	100%
Maximum = 200% of budgeted GEPS	200%

(1) *Threshold: If the financial results do not reach this level, no bonus envelope is created and therefore no bonus is paid. However, if the results achieved are between the threshold and the target, the bonus envelope will be greater than 0% but less than 100% of the target.*

(2) *Target: If the objectives set at the beginning of the year are achieved, the bonus envelope is aligned with the annual bonus target level of officers.*

(3) *Maximum: If financial results exceed the objectives set at the beginning of the year, the bonus envelope is greater than 100% of the target, without however exceeding 200%.*

In addition, the program provides that the Board may increase the total envelope, by up to 15%, to take into account special situations, without however exceeding the maximum of 200%.

Annual Bonus Program for NBFG Officers on the NBFG Policy Committee

The Policy Committee is the primary management forum of NBFG. The Officers of NBFG who are members of this committee, including Luc Paiement and Ricardo Pascoe, participate in a separate annual bonus program. The bonus envelope is based on a predetermined percentage of NBFG’s pre-tax income.

SECTION 3 Internal Management (cont.)

In order to foster retention, one third of the annual bonus is paid to each officer in the form of restricted stock units (“RSUs”). The value of these units corresponds to the closing price of the Bank’s common shares on the Toronto Stock Exchange on the day preceding the grant. Additional RSUs are credited to the officer’s account equal in amount to the dividends paid on the common shares. RSUs vest evenly over three years and expire at the end of the third year. A cash payment will be equal to the number of vested RSUs multiplied by the price corresponding to the average closing market price of the Bank’s common shares on the Toronto Stock Exchange for the 20 days preceding the vesting date of the RSUs.

Annual Bonus Programs of NBFG Administrative Personnel and Specialists

NBFG also offers variable compensation programs to all its administrative personnel and specialists to reward employees for their contribution to the financial results of the various business units and of NBFG as a whole.

The bonus envelope for administrative personnel is based on the financial results of the Bank, of NBFG and of the relevant business units, and the attainment of predetermined strategic objectives. Bonuses are allocated based on the employee’s line level and individual contribution to the attainment of the objectives.

The bonus envelopes created for NBFG specialists vary from unit to unit, and may be a function of the income generated by the unit, the direct contribution or the overall profitability of NBFG. Bonuses are allocated based on the ability to generate income, the business relationship with clients, as well as the level of responsibility, experience and performance of individual employees.

These programs are established on the basis of those offered for similar positions in the reference market, namely, the investment industry.

Medium- and Long-Term Variable Compensation Programs

The Bank grants stock options on an annual basis to all of its officers and other designated persons of the Bank and its subsidiaries, except for officers who are not Canadian residents who receive exclusively SARs. Moreover, officers may elect to receive a portion of this long-term compensation in the form of DSUs instead of stock options. Officers on the Policy Committee of NBFG and some Officers of the Bank receive a portion of their compensation as RSUs. Lastly, Officers of the Bank are required to comply with the Share Ownership Guidelines, as set forth in the “Share Ownership Guidelines for Bank Officers” section of the Circular.

All these plans are described hereafter.

Stock Option Plan of the Bank

The purpose of the Bank’s Stock Option Plan (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 investments by tying a portion of their compensation to increases in the value of the Bank’s common shares. Each option entitles the holder to purchase one common share at a price equal to the closing price of the Bank’s common shares on the Toronto Stock Exchange on the day preceding the grant. Each year, when granting options, the Committee reviews the number and term of previously granted options. After setting the conditions, the Committee grants options, on an annual basis, to officers and other designated persons of the Bank and its subsidiaries. Since the Stock Option Plan was adopted, the Bank makes only one grant per financial year, on a specific date, without taking into account the officers hired or appointed during the financial year. This annual award date has never been retroactively amended.

Options vest over four years at the rate of 25% per year. They may be exercised in whole or in part before the expiration date determined by the Committee at the time they are granted, but such period cannot exceed 10 years. Options expire on their expiration date or, under certain circumstances provided for in the Stock Option Plan, within prescribed periods. All non-vested options will be forfeited on the date of the plan member’s death or following 30 continuous months of absence due to disability. Retired plan members retain options vested before their retirement for a period of three years. If the plan member resigns or is dismissed for cause, all unexercised options will be forfeited on the departure date or on the date the member ceases to be eligible. In the event of termination of employment, an extension for the termination of the options of up to 18 months may be granted. No options may be exercised in the first year after they are granted. Officers may exercise their vested options between the 2nd business day following publication of the Bank’s interim consolidated financial statements and the 30th calendar day following that date. Options are not transferable, except as part of an estate settlement.

To further align the interests of officers on the Bank’s Executive Committee with those of shareholders, the Board has added specific conditions under which options can be exercised. Accordingly, each officer on the Bank’s Executive Committee must, upon exercising stock options granted since December 2002, keep the amount equal to the gain resulting from the exercise of vested options, after tax considerations, in the form of common shares of the Bank for one year. Moreover, officers on the Bank’s Executive Committee must disclose their intention to exercise any stock options of the Bank, regardless of the grant date, by way of a news release, five business days prior to the intended exercise date. Lastly, the Stock Option Plan specifically provides that the price of options already granted cannot be lowered, under any circumstances, to reflect changes in the price of the Bank’s common shares. Officers can therefore only benefit from the options granted to them provided that the Bank’s share price increases steadily over the long term.

SECTION 3 Internal Management (cont.)

During the most recently completed financial year, 943,200 options were granted and 1,074,308 options were exercised at prices ranging from \$11.00 to \$48.20. During the previous financial year, 1,468,260 options were granted and 1,760,263 options were exercised. As at October 31, 2006:

- 5,391,912 options were outstanding with strike prices ranging from \$13.50 to \$61.44 and expiring between December 2006 and December 2015;
- 2,494,166 options could be exercised at prices ranging from \$13.50 to \$48.20; and
- the maximum number of common shares that could still be issued was 13,321,347.

The maximum number of common shares reserved for a member may not exceed 5% of the total number of common shares issued and outstanding. The Bank strictly abides by this rule and no member holds options on a number of common shares that exceeds 5% of the total number of common shares issued and outstanding.

No amendment was made to the Stock Option Plan in fiscal 2006.

This year, management of the Bank is proposing that holders of common shares approve amendments to the Stock Option Plan. For more information, refer to the "Amendments to the Stock Option Plan" section of the Circular.

Stock Appreciation Rights Plan of the Bank

The Bank's Stock Appreciation Rights Plan (the "SAR Plan") has the same objectives and respects the same granting and exercise criteria as the Stock Option Plan.

The Committee grants SARs to officers and other designated persons of the Bank and its subsidiaries. SAR Plan members may receive, on the exercise date of the SARs, a cash amount equal to the difference between the closing price of the common shares of the Bank on the Toronto Stock Exchange on the day preceding the exercise date and the closing price on the day preceding the grant.

As in the case of stock options, SARs may not be exercised before the vesting date and have a maximum term of 10 years as of the grant date. Furthermore, unexercised SARs expire on their expiration date, or when a plan member resigns or is dismissed for cause.

During the most recently completed financial year, only plan members who were not Canadian residents were granted SARs.

No amendment was made to the SAR Plan in fiscal 2006.

Restricted Stock Unit Plan of the Bank

The Bank's Restricted Stock Unit Plan (the "RSU Plan") was approved to further ensure that the compensation of certain officers and other designated persons of the Bank and its subsidiaries is competitive and to foster retention. Under the RSU Plan, a predetermined percentage of the officer's base salary is paid in the form of RSUs. The value of these units corresponds to the closing price of the common shares of the Bank on the Toronto Stock Exchange on the day preceding the grant. Additional RSUs equal in amount to the dividends paid on common shares are credited to the officer's account. RSUs vest only at the end of the third year after the grant date, which is also the maturity date. A cash payment will be equal to the number of vested units multiplied by the price corresponding to the average closing price of the common shares of the Bank on the Toronto Stock Exchange for the 20 days preceding the vesting date of the units. If the plan member resigns or is dismissed for cause, all non-vested RSUs are cancelled.

No amendment was made to the RSU Plan in fiscal 2006.

Deferred Stock Unit Plan for Officers of the Bank

The objective of the Deferred Stock Unit Plan for Officers of the Bank (the "DSU Plan") is to align the interests of Officers of the Bank 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 is a right that has a value equal to the closing price of the Bank's common shares on the Toronto Stock Exchange on the day preceding the grant. Additional DSUs equal in amount to the dividends paid on common shares are credited to the officer's account. DSUs vest over four years at the rate of 25% per year, and may only be cashed when the officer retires or leaves the Bank. In general, the member may then request that all or some of his or her vested DSUs be redeemed by filing up to eight notices of redemption of DSUs on or before December 1 of the first calendar year after the calendar year in which the officer ceased to be in the Bank's employ.

The long-term compensation of the President and Chief Executive Officer includes 125% of his base salary paid in the form of DSUs. In addition, since 2003, Senior Vice-Presidents on the Executive Committee may elect to receive up to 30% of their long-term compensation in the form of DSUs instead of stock options. Since December 2005, eligibility to this plan has been extended to all Officers of the Bank.

No amendment was made to the DSU Plan in fiscal 2006.

SECTION 3 Internal Management (cont.)

Deferred Compensation Plans of NBFG

NBFG offers two deferred compensation plans to its key employees.

- The first plan is a retention program for key employees in the Institutional Services and Infrastructure sectors. Management selects eligible employees on an annual basis and grants a cash award that takes into account the employee's line level and individual contribution. Awards are payable in cash as they vest. Awards vest over three years at a rate of 50% at the end of the first year and 25% at the end of each of the following two years. Effective December 2006, this plan will be replaced by the Bank's Stock Option Plan and the RSU Plan described above.
- The second plan of NBFG is exclusively for Individual Investor Services employees. This deferred compensation plan was established to foster retention of key employees and thereby promote growth in income and continuous improvement in profitability in this sector. Plan participants can defer a portion of their annual compensation and thereby benefit from the deferral of income tax on that compensation. This plan also enables the employer to make a contribution to key employees in this sector. The total contribution envelope of the employer is established based on NBFG's profitability and is distributed to groups of eligible employees with the highest individual contributions in terms of income generated. The amounts awarded by the employer and the deferred compensation of the employee may be invested in deferred units according to six investment choices, as chosen by the participant, who may subsequently modify the fund allocation among the six proposed investments, once a year. The units deposited in the employer's account vest at the rate of 25% each financial year. The value of vested units is payable, under certain conditions, to employees when their employment is terminated or when they retire.

Share Ownership Guidelines for Officers of the Bank

The Committee ensures that the compensation of Officers of the Bank is closely tied to the long-term interests of shareholders. Share Ownership Guidelines for Officers of the Bank have therefore been implemented and are monitored on a regular basis to ensure compliance.

Officers of the Bank are required to maintain minimum holdings of Bank common shares, including DSUs, vested SARs and vested stock options, proportionate to each officer's compensation and function. The value of the minimum holdings of common shares equals the previous three years' average base salary received by a given officer multiplied by a factor established under the Bank's Share Ownership Guidelines, as follows:

- 5.0 for the President and Chief Executive Officer;
- 4.0 for the Chief Operating Officer;
- 2.0 for members of the Executive Committee;
- 1.5 for Senior Vice-Presidents;
- 1.0 for Vice-Presidents.

As at the date of the Circular, all Officers of the Bank, including the Named Executive Officers, held a portion of their assets in common shares of the Bank, in compliance with these Guidelines. New Bank officers have a five-year grace period starting on the date of their appointment or promotion to meet these requirements.

The Share Ownership Guidelines were passed by the Board on December 19, 2002.

Employee Share Ownership Plan for Canadian Employees of the Bank and its Designated Subsidiaries

The aim of the Employee Share Ownership Plan (the "ESO Plan") is to build a stronger sense of belonging among Bank employees. Under the ESO 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. The Bank's contributions are vested after the employee has completed one year of continuous membership in the plan. Subsequent contributions vest immediately.

Compensation of the President and Chief Executive Officer for Fiscal 2006

The Committee's mandate includes conducting a review of the total compensation package of the President and Chief Executive Officer in August of each year to ensure it is fully competitive with the median of the Bank's reference market, adjusted to take into account characteristics specific to the Bank. To this end, Committee members mandated Hay Group Limited to conduct a market study on which they based their decisions.

The target value of Mr. Raymond's compensation components was deemed adequate and therefore maintained. These components are:

- a base salary of \$1,000,000;
- a target annual bonus set at 100% of base salary. The actual bonus may vary between 0% and 200% of base salary depending on the annual financial results achieved as well as Mr. Raymond's contribution and overall performance; and
- target long-term compensation, comprised of options and DSUs for Officers of the Bank, representing 400% of base salary at the time of the grant.

SECTION 3 Internal Management (cont.)

Criteria for Assessing the Performance 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 other major Canadian banks;
- the development of competitive advantages enabling the Bank to consolidate its strategic positioning within the financial industry;
- the Bank's risk profile and credit quality;
- the creation and maintenance of a solid corporate image based on the ongoing development of quality customer service and significant involvement in the community;
- the management of human resources, including strategic senior management succession planning; and
- the development and maintenance of positive relationships with shareholders, clients, employees, governments and other regulatory authorities, as well as communities.

A written description of the responsibilities of the President and Chief Executive Officer, related to the above elements, was established and approved by the Committee.

Assessment of the Performance of the President and Chief Executive Officer for Fiscal 2006

At the beginning of each financial year, the Committee approves the annual objectives of the Bank's President and Chief Executive Officer. For fiscal 2006, the objectives concerned the criteria related to achieving the Bank's three-year plan, improving efficiency by maintaining growth in expenses below growth in revenues, mobilizing the Bank in pursuit of its objectives and developing human capital. Target objectives were also set for the creation of shareholder and client value.

The table below summarizes the performance indicators and results obtained in fiscal 2006.

	Target	Result	Result versus target
Return on equity	> 16%	20.1%	Exceeded target
Growth in earnings per share	> 5%	10.3%	Exceeded target
Tier 1 capital ratio	More than 8.5%	9.9%	Exceeded target
Rate of very satisfied clients	Increase of 100 basis points	Increase of 220 basis points	Exceeded target

During the most recently completed financial year, the Bank demonstrated its ability to execute its strategy and exceed its financial objectives, while maintaining superior levels of customer satisfaction and employee engagement. In fact, all of the financial targets set for fiscal 2006 were surpassed.

The results obtained with respect to each component of its strategic plan enabled the Bank to once again – and for the fourth year in a row – post record results. The Bank further consolidated its position as Quebec's leading bank without adversely affecting the quality of its portfolio or hurting its profit margins.

In particular, the Bank declared net income of \$871 million for the year, up from \$855 million in fiscal 2005. This profitability record was set on the strength of higher revenues and productivity gains in each of the main business segments. This was reflected in the Bank's efficiency ratio which improved 90 basis points, from 64.9% in fiscal 2005 to 64.0%.

As a result of this performance, diluted earnings per share (excluding specified items) rose to \$5.05, a 10.3% increase over fiscal 2005. The Tier 1 capital ratio also increased to 9.9%, up from 9.6% at the end of the previous fiscal year.

Moreover, the Bank's ratio of gross impaired loans to total adjusted capital and allowances improved substantially from 6.8% at the end of fiscal 2005 to 5.9% as at October 31, 2006.

Net income for each of the Bank's main business segments, namely, Personal and Commercial, Wealth Management and Financial Markets, was up by 8%, 29% and 16% respectively over fiscal 2005.

The Personal and Commercial segment saw significant gains in mortgage-secured loans, investment loans under partnership agreements, energy sector financing and loans granted to Quebec-based businesses. In Wealth Management, the Bank currently holds over 8% of the savings that Canadians entrust to major banking institutions – a share that far exceeds the relative size of the Bank. The Financial Markets segment, with its increasingly diverse range of activities, has posted the highest revenue growth in the industry since 2000, while keeping revenue volatility below that of its peers.

As regards customer satisfaction, the percentage of "very satisfied" clients has risen 20% in five years, with satisfaction ratings up among both individual and business clients.

SECTION 3 Internal Management (cont.)

These excellent results stem from a successful growth strategy based on customer satisfaction, employee engagement and the deployment of high-performance products that meet market expectations.

Moreover, the Bank's community involvement clearly demonstrates its concern for the social environment. It is through such involvement that the Bank develops and consolidates lasting relationships with its clients, business partners and investors. In this regard, Mr. Raymond is the Bank's main spokesperson vis-à-vis shareholders. In addition to the annual meeting and quarterly conference calls, his involvement extends to speaking at financial services conferences in Canada, regularly visiting major North American financial centres, and making presentations to institutional investors, financial analysts and credit rating agencies.

Under Mr. Raymond's leadership, the Bank remained committed to building a flexible, people-oriented organization and to providing a work environment that fosters innovation and personal development. The Bank is therefore proud to be recognized, for the third consecutive year, as one of the *50 Best Employers in Canada*, a prestigious title awarded by Hewitt Associates Corp. to recognize organizations with sound management practices that support the pursuit of their growth strategy.

This recognition is one of the many distinctions earned by the Bank in 2006. In March 2006, the Bank also made the list of the 150 most admired companies in Quebec for the fourth straight year, and was ranked second among financial institutions. This endorsement underscores the Bank's efforts to offer clients a level of service that surpasses their expectations and also reflects the Bank's standing within the community. Mr. Raymond was also named personality of the week in the March 12, 2006 edition of *La Presse*, in large part due to the Bank's total return on common shares of 25.1% in 2005.

The price of Bank shares also rose in fiscal 2006, from \$59.14 to \$61.25, and the dividend payout ratio was 38%, exceeding the Bank's target range of 35% to 45%. Mr. Raymond and his management team were instrumental in creating this value and returning a portion of the Bank's earnings to investors.

Mr. Raymond and his management team therefore continued to maintain the balance between employee aspirations, client satisfaction and shareholder expectations.

Bonuses Granted for Fiscal 2006

For fiscal 2006, Mr. Raymond's annual bonus envelope was determined in accordance with the terms and conditions of the annual bonus program described previously. More specifically, the value of this envelope was calculated based on the results of the two performance indicators of the Bank's annual bonus program, as outlined below:

Return on Equity (80%)	ROE	% achieved
Threshold = the lesser of:		
90% of budgeted ROE (90% of 18.35%, i.e. 16.5%) and		
75% of average ROE for the five other major Canadian banks (75% of 24%, i.e. 18%)	16.52%	0%
Target = budgeted ROE (fiscal 2006)	18.35%	100%
Maximum = the higher of:		
110% of budgeted ROE (110% of 18.35%, i.e. 20.2%) and		
125% of average ROE for the five other major Canadian banks (125% of 24%, i.e. 30%)	30%	200%
Result	20.05%	114.59%

Growth in Earnings per Share (20%)	GEPS	% achieved
Zero growth (if average GEPS for the five other major Canadian banks is negative, this average will serve as the threshold)	0%	0%
Target = budgeted GEPS (fiscal 2006)	5%	100%
Maximum = 200% of budgeted GEPS	10%	200%
Result	10.3%	200%

SECTION 3 Internal Management (cont.)

Mr. Raymond's total bonus envelope therefore represents 131.67% of his base salary.

Given Mr. Raymond's contribution and the appraisal of his overall performance during the most recently completed financial year, the Committee granted Mr. Raymond an annual bonus of \$1,500,000.

The Committee also agreed to grant Mr. Raymond long-term compensation comprised of 191,500 options and 18,970 DSUs for Officers of the Bank, in accordance with the target percentages of base salary fixed for calculating his long-term compensation, namely:

- 125% of base salary in DSUs for Officers of the Bank; and
- 275% of base salary in stock options.

Mr. Raymond's compensation is detailed in the "Summary of Total Compensation of Named Executive Officers" table of the Circular.

Consequently, the Committee is of the opinion that the strategic vision of Mr. Raymond and his management team will contribute to optimizing present and future shareholder value.

Lastly, it is the view of the Committee that the level of compensation of officers is appropriate given the Bank's scope and shareholder value added, that the compensation policies and practices are in line with the Bank's financial performance and its reference market's practices, taking into account characteristics specific to the Bank.

This report is submitted by the Committee. At the end of the financial year ended October 31, 2006, the Committee was comprised of the following five independent directors:

Jean Gaulin, Chair
André Caillé
Shirley A. Dawe
Marcel Dutil
Marc P. Tellier

SECTION 3 Internal Management (cont.)

Total Compensation of Named Executive Officers

Summary of Total Compensation of Named Executive Officers

The following table is presented pursuant to Canadian securities legislation. It details 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.

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation			All Other Compensation ⁽⁴⁾
		Salary (S)	Bonus (S) ⁽¹⁾	Other Annual Compensation (S) ⁽²⁾	Awards		Payouts	
					SARs (#)	Options (#)	Securities	
							Under ⁽³⁾	
Réal Raymond President and Chief Executive Officer	2006	1,000,000	1,500,000	0	Nil	191,500	1,250,123 ⁽⁵⁾	N/A
	2005	1,000,000	2,000,000	0	Nil	177,400	1,250,304	N/A
	2004	879,123	1,500,000	0	Nil	262,400	1,250,790	N/A
Pierre Fitzgibbon Senior Vice-President Finance, Technology and Corporate Affairs	2006	321,137 ⁽⁶⁾	333,000	6,801	Nil	32,400	N/A	N/A
	2005	268,644	1,210,000	2,794	Nil	29,300	N/A	N/A
	2004	193,462	1,962,207	2,686	Nil	N/A	71,204	N/A
Louis Vachon ⁽⁷⁾ Chief Operating Officer	2006	444,164 ⁽⁸⁾	2,930,790	0	Nil	125,400	N/A	1,366,644 ⁽⁹⁾
	2005	400,000	3,442,214	0	Nil	37,400	N/A	1,721,106
	2004	250,000	2,309,440	2,419	Nil	55,000	N/A	989,760
Ricardo Pascoe ⁽¹⁰⁾ Co-President and Co-Chief Executive Officer, NBFG and Senior Vice-President	2006	256,022 ⁽¹¹⁾	2,169,282	0	Nil	30,300	N/A	1,084,642 ⁽¹²⁾
	2005	250,000	2,063,454	0	Nil	13,400	N/A	1,031,727
	2004	250,000	2,162,907	0	Nil	16,000	N/A	498,389
Luc Paiement ⁽¹⁰⁾ Co-President and Co-Chief Executive Officer, NBFG and Senior Vice-President	2006	300,000	2,018,238	3,727	Nil	21,200	130,680 ⁽¹³⁾	1,009,120 ⁽¹⁴⁾
	2005	300,000	1,881,445	1,248	Nil	16,000	N/A	941,723
	2004	300,000	1,691,078	12,863	Nil	16,000	N/A	845,539

(1) The figures in this column include the annual bonuses earned and acquired during each financial year ended October 31.

(2) The figures in this column only represent benefits relating to loans granted at preferred interest rates to Named Executive Officers. The Named Executive Officers also have the use of a leased car and may, at their option, participate in the ESO Plan. The aggregate value of these other benefits for the year ended October 31, 2006 does not exceed the lesser of: \$50,000 or 10% of the salary and bonuses paid annually to the Named Executive Officers.

(3) These securities were granted under the Stock Option Plan. For more information, refer to the "Stock Option Plan of the Bank" heading in the "Report of the Human Resources Committee" section of the Circular.

(4) The figures in this column represent the portion of the annual bonus earned but not acquired during each financial year ended October 31. For Luc Paiement, the amount in this column also includes total contributions made by National Bank Financial Inc. during each financial year on his behalf to the National Bank Financial Inc. employee Group Registered Retirement Savings Plan (RRSP).

(5) Réal Raymond received 18,970 DSUs for Officers of the Bank at a price of \$65.90 in December 2006 under the DSU Plan. For more information, refer to the "Deferred Stock Unit Plan of the Bank" heading in the "Report of the Human Resources Committee" section of the Circular. The total number of DSUs for Officers of the Bank held by Réal Raymond as at October 31, 2006 was 89,811, for a market value of \$5,500,924, based on a share price of \$61.25 as at October 31, 2006.

(6) Pierre Fitzgibbon's base salary was adjusted on September 4, 2006, from \$320,000 to \$335,000.

(7) Louis Vachon held the position of Chairman of the Board and Chief Executive Officer of NBFG, Chairman of the Board of Natcan Investment Management Inc. and Senior Vice-President until July 31, 2006.

(8) Louis Vachon's base salary was adjusted on August 1, 2006, from \$400,000 to \$600,000.

(9) Under the Annual Bonus Program for officers on the Policy Committee of NBFG, Louis Vachon received one third of his bonus in his capacity as Chairman of the Board and Chief Executive Officer of NBFG in the form of RSUs. The number of RSUs held by Louis Vachon as at October 31, 2006 was 6,258 vested RSUs and 42,811 non-vested RSUs, for a market value of \$3,005,476, based on a share price of \$61.25 as at October 31, 2006.

(10) Ricardo Pascoe and Luc Paiement have held the position of Co-President and Co-Chief Executive Officer of NBFG and Senior Vice-President since September 4, 2006.

(11) Ricardo Pascoe's base salary was adjusted on September 4, 2006 from \$250,000 to \$300,000.

(12) Under the Annual Bonus Program for officers on the Policy Committee of National Bank Financial Group, Ricardo Pascoe received one third of his bonus in the form of RSUs. The number of RSUs held by Ricardo Pascoe as at October 31, 2006 was 3,745 vested RSUs and 25,425 non-vested RSUs, for a market value of \$1,786,663, based on a share price of \$61.25 as at October 31, 2006.

(13) Under the DSU Plan, Luc Paiement received 1,983 DSUs for Officers of the Bank at a price of \$65.90 in December 2006. For more information, refer to the "Deferred Stock Unit Plan of the Bank" heading in the "Report of the Human Resources Committee" section of the Circular. As at October 31, 2006, Luc Paiement had no DSUs for Officers of the Bank.

(14) Under the Annual Bonus Program for officers on the Policy Committee of National Bank Financial Group, Luc Paiement received one third of his bonus in the form of RSUs. The number of RSUs held by Luc Paiement as at October 31, 2006 was 23,207 non-vested RSUs, for a market value of \$1,421,429, based on a share price of \$61.25 as at October 31, 2006.

SECTION 3 Internal Management (cont.)

Options Granted in December 2006

The table below specifies the number of options granted to Named Executive Officers during the most recently completed calendar year. Under the Stock Option Plan, options granted in December 2006 will vest over the next four years, in equal portions of 25%, starting in December 2007. These options will expire on December 13, 2016. During the 30 business days prior to the options being granted, the closing price of the common shares of the Bank on the Toronto Stock Exchange fluctuated between \$61.36 and \$65.90.

Name	Number of Options Granted (#)	% of Total Options & SARs Granted to Employees in December 2006	Option Exercise Price (\$)	Market Value of a Common Share on the Date Preceding the Grant (\$)	Expiration Date
Réal Raymond	191,500	12.41	65.90	65.90	13/12/2016
Pierre Fitzgibbon	32,400	2.10	65.90	65.90	13/12/2016
Louis Vachon	125,400	8.13	65.90	65.90	13/12/2016
Ricardo Pascoe	30,300	1.96	65.90	65.90	13/12/2016
Luc Paiement	21,200	1.37	65.90	65.90	13/12/2016

Since the initial approval of the Stock Option Plan and the SAR Plan, as well as during the most recently completed financial year, the Bank has not repriced downward any options or SARs held by its officers and Named Executive Officers.

The following table lists, for each of the Named Executive Officers, the number of securities affected by options/SARs exercised during the most recently completed financial year, the aggregate value realized as well as the number and value of unexercised options/SARs outstanding as at October 31, 2006. The value of unexercised options/SARs at financial year-end is equal to the difference between the exercise price of the options/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, \$61.25.

Options/SARs Exercised by the Named Executive Officers during the Financial Year Ended October 31, 2006, 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 ⁽¹⁾	
			Exercisable (#)	Unexercisable (#)	Exercisable (\$)	Unexercisable (\$)
Réal Raymond	149,940	4,797,210	292,000	515,800	6,719,040	5,861,760
Pierre Fitzgibbon	0	0	0	29,300	0	0
Louis Vachon	0	0	158,800	101,900	5,184,855	1,102,088
Ricardo Pascoe	0	0	19,000	40,400	355,950	460,350
Luc Paiement	0	0	25,775	40,125	638,618	450,623

(1) The amounts indicated are based on a price of \$61.25 per common share, namely, the closing price of the common shares of the Bank on the Toronto Stock Exchange on the last business day of the financial year ended October 31, 2006.

Under the Bank's long-term compensation programs, only the Stock Option Plan allows for the issuance of the Bank's equity securities. As at October 31, 2006, pursuant to Canadian securities legislation, the following table shows the situation of the Stock Option Plan.

Plan Category	Number of Securities to Be Issued upon Exercise of Outstanding Options, Warrants or Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity compensation plans approved by security holders	5,391,912	\$41.40	7,929,435
Equity compensation plans not approved by security holders	N/A	N/A	N/A
Total	5,391,912	\$41.40	7,929,435

SECTION 3 Internal Management (cont.)

Retirement Benefits for Named Executive Officers***Pension Plan and Post-Retirement Allowance Program***

The Named Executive Officers of the Bank participate in the defined benefit pension plan and the Post-Retirement Allowance Program, except for Luc Paiement who participates in the National Bank Financial Inc. employee Group Registered Retirement Savings Plan described under the “Pension Plan of Luc Paiement” heading of this section of the Circular. A pension, up to the maximum pension prescribed by applicable legislation, is payable under the registered pension plan, while the Post-Retirement Allowance Program provides for any supplemental pension, where applicable. The combined effect of these two plans can be defined as follows:

- For each year of credited service, the plans grant a life pension equal to 2% (except for Louis Vachon whose conditions are described below) of the average pensionable earnings, defined as the average earnings for the 60 highest-paid consecutive months. Pensionable earnings include the salary and the bonus, which is subject to conditions that vary according to line level:
 - for the President and Chief Executive Officer and the Chief Operating Officer, the eligible annual bonus is limited to 100% of base salary;
 - for Senior Vice-Presidents who are members of the Executive Committee, the calculation has, since January 1, 2006, been based on 50% of the annual bonus (up to 35% of base salary). The average annual pensionable earnings are limited to \$700,000.

When Louis Vachon was appointed to the position of Chief Operating Officer, he was granted additional retirement conditions under the Post-Retirement Allowance Program, with the Board’s approval. As a result, five additional years of credited service were recognized for Mr. Vachon as at August 1, 2006. In addition, his annual pension rate will be 4% per year from August 1, 2006 to July 31, 2010, 2.5% per year from August 1, 2010 to July 31, 2017 and 2% for each year thereafter, up to a total pension of 70% of average salary at retirement.

These terms and conditions equal five years of credited service as at August 1, 2006, two years of credited service for each year between August 1, 2006 and July 31, 2010, 1.25 years of credited service for each year between August 1, 2010 and July 31, 2017 and one year of credited service for each year thereafter, up to a maximum of 35 years of credited service. The figures in the following tables are based on this number of years of credited service.

Pursuant to the pension plans, the normal retirement age is 60. However, these pension plans allow for early retirement starting at age 55, subject to the Bank’s consent. In such case, the pension is reduced by the lesser of:

- 4% for each year prior to age 60, or
- 2% for each year by which the sum of the age and years of service falls short of 90.

Moreover, the President and Chief Executive Officer, the Chief Operating Officer and the Senior Vice-Presidents contribute 9% of their respective salary to the pension plan, up to a maximum of \$13,180 per year. At retirement, the accumulated sum exceeding the basic contribution is converted to a supplementary pension, subject to the limits imposed by applicable legislation.

Recent Changes

The Board passed a resolution amending the provisions of the plans, effective January 1, 2007, in order to index the pensions payable by 2.18%, which corresponds to 50% of the increase in the Consumer Price Index between July 2004 and July 2006. The pensions of employees who have been retired for less than two years were indexed at a lesser rate, prorated to the number of months they have been retired, while pensions under the Post-Retirement Allowance Program that already stood at \$200,000 per year were not indexed.

The years of credited service as at October 31, 2006 and estimated on the normal retirement date, as well as the estimated annual pension payable at age 60 on the basis of average compensation as at October 31, 2006 and the projected years of service until age 60, are presented in the following table.

Name	Years of Credited Service as at October 31, 2006	Estimated Years of Credited Service on Normal Retirement Date	Estimated Annual Pension Payable at Age 60
Réal Raymond	31.7	35.0	\$ 1,193,000
Pierre Fitzgibbon	6.3 ⁽¹⁾	14.4	\$ 109,000
Louis Vachon	14.1 ⁽¹⁾	35.0 ⁽²⁾	\$ 270,000
Ricardo Pascoe	3.1	17.0	\$ 102,000
Luc Paiement	N/A	N/A	N/A

(1) Pierre Fitzgibbon and Louis Vachon were each credited five years upon their respective appointments to their current positions. The cost related to these additional years is spread over the projected length of their active careers.

(2) In addition to the five years mentioned in note (1) above, under the terms of the agreement reached at the time of his appointment, Louis Vachon will be credited with 2 years of service for each year between August 1, 2006 and July 31, 2010; 1.25 years of service for each year between August 1, 2010 and July 31, 2017; and 1 year of service for each year thereafter, up to a maximum of 35 years.

SECTION 3 Internal Management (cont.)

The maximum number of years recognized for the purposes of the Post-Retirement Allowance Program is 35.

The following table details the estimated annual pensions payable to Named Executive Officers of the Bank under the Pension Plan and Post-Retirement Allowance Program.

Estimated Pensions Payable as of Age 60⁽¹⁾⁽²⁾

Average Pensionable Earnings ⁽³⁾	Years of Credited Service				
	15	20	25	30	35
(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
300,000	86,816	116,091	145,560	175,029	204,545
400,000	116,816	156,091	195,560	235,029	274,545
500,000	146,816	196,091	245,560	295,029	344,545
600,000	176,816	236,091	295,560	355,029	414,545
700,000 ⁽⁴⁾	206,816	276,091	345,560	415,029	484,545
1,000,000	296,816	396,091	495,560	595,029	694,545
1,500,000	446,816	596,091	745,560	895,029	1,044,545
2,000,000	596,816	796,091	995,560	1,195,029	1,394,545
2,500,000	746,816	996,091	1,245,560	1,495,029	1,744,545

- (1) The estimated pensions do not take into account the pension generated by the additional contributions accumulated by the Named Executive Officer.
- (2) The pension is payable for life, but reduced to take into account the amount payable under the Canada Pension Plan or the Quebec Pension Plan. Upon the member's death, 60% of the pension is payable to the member's spouse. If there is no spouse, part of the pension is payable to the dependent children.
- (3) The amounts in the "Salary" and "Bonus" columns of the "Summary of Total Compensation of Named Executive Officers" table of the Circular are used to calculate the average pensionable earnings, subject to the maximums set out above.
- (4) For Named Executive Officers at the level of Senior Vice-President who are members of the Executive Committee, average pensionable earnings are limited to \$700,000.

The following table details, for each of the Named Executive Officers, the change in accrued pension benefit obligation between October 31, 2005 and October 31, 2006, including the annual pension benefit expense for the Bank with respect to their participation in retirement plans for fiscal 2006.

It should be noted that the amounts in the table below are estimates and are based on assumptions and employment conditions that can vary over time. The method used to calculate these amounts may also differ from that used by another company, which could call into question the relevance of a comparison.

Name	Accrued Pension Benefit Obligation as at October 31, 2005 ⁽¹⁾	Annual Cost of Retirement Benefits for Fiscal 2006 ⁽²⁾	Change in Obligation Related to Compensation ⁽³⁾	Change in Obligation Related to Other Items ⁽⁴⁾	Accrued Pension Benefit Obligation as at October 31, 2006 ⁽¹⁾
Réal Raymond	\$ 14,398,000	\$ 451,000	\$ 0	\$ 1,621,000	\$ 16,470,000
Pierre Fitzgibbon	\$ 40,000	\$ 104,000	\$ 53,000	\$ 32,000	\$ 229,000
Louis Vachon	\$ 670,000	\$ 124,000	\$ 1,984,000	\$ 236,000	\$ 3,014,000
Ricardo Pascoe	\$ 125,000	\$ 50,000	\$ 118,000	\$ 40,000	\$ 333,000
Luc Paiement	N/A	N/A	N/A	N/A	N/A

- (1) The accrued pension benefit obligation represents the present value of the pension benefit for years of credited service up to October 31, 2005 or October 31, 2006. These values were calculated using the same assumptions as those used for the Bank's financial statements, in particular, a discount rate of 5.50% as at October 31, 2005 and a discount rate of 5.25% as at October 31, 2006. The value of benefits payable by the officer's contributions is included in the calculation of the accrued pension benefit obligation.
- (2) The annual cost of retirement benefits represents the present value of the pension benefit accumulated during fiscal 2006. This value was calculated using the same assumptions as those used for the Bank's financial statements, in particular, the discount rate applicable at the beginning of fiscal 2006, i.e., 5.50%. Contributions made by the officer are excluded from the calculation of the annual cost of pension benefits.
- (3) The change in the obligation related to compensation includes the impact of the changes in base salary, the increase in maximum pensionable earnings following appointments, plan amendments or attributions of years of credited service. For Louis Vachon, the amount of \$1,984,000 breaks down as follows: \$1,185,000 related to the increase in his base salary and his maximum pensionable earnings following his appointment, and \$799,000 related to the recognition of additional years of credited service. For Pierre Fitzgibbon, the change is due to the increase in his pensionable earnings. For Ricardo Pascoe, the change is due to the increase in his pensionable earnings and the increase in his maximum pensionable earnings.
- (4) The change in the obligation related to other items reflects the amounts attributable to interest accruing on the obligation at the beginning of the financial year, contributions paid by the officer, actuarial gains and losses other than those associated with compensation levels, and changes in actuarial assumptions. The most significant of these changes for fiscal 2006 relates to the reduction in the discount rate from 5.50% to 5.25%.

SECTION 3 Internal Management (cont.)

Pension Plan of Luc Paiement

Luc Paiement participates in the National Bank Financial Inc. employee Group Registered Retirement Savings Plan (the "Group RRSP"). The Group RRSP is a collection of individual retirement savings plans registered in the name of each participating employee. Employees can invest their contributions in several investment funds through National Bank Securities Inc., the Group RRSP provider. Employees assume the financial risks of their investments. They may contribute 2%, 3% or 4% of their base salary, up to \$3,333.33 per year. The employer's contribution is equivalent to 30% of the employee's contribution, up to \$1,000 per year.

In fiscal 2006, Mr. Paiement contributed \$3,333.33 to the Group RRSP and his employer contributed \$1,000 on his behalf.

Detailed Tables of Total Compensation of Named Executive Officers

The following tables present the estimated value of the total compensation of the Named Executive Officers for the three most recently completed financial years. Estimated total compensation includes all variable compensation, whether paid in cash or stock-based, for each of the Named Executive Officers, as well as the annual cost of retirement benefits.

Réal Raymond*President and Chief Executive Officer*

	2006	2005	2004
Cash Compensation			
Base salary	\$ 1,000,000	\$ 1,000,000	\$ 879,123
Annual bonus	\$ 1,500,000	\$ 2,000,000	\$ 1,500,000
Cash Total	\$ 2,500,000	\$ 3,000,000	\$ 2,379,123
Stock-Based Compensation			
Stock options ⁽¹⁾	\$ 2,749,940	\$ 2,749,700	\$ 2,749,952
DSUs ⁽²⁾	\$ 1,250,123	\$ 1,250,304	\$ 1,250,790
Total Equity Value	\$ 4,000,063	\$ 4,000,004	\$ 4,000,742
Direct Compensation	\$ 6,500,063	\$ 7,000,004	\$ 6,379,865
Annual Cost of Retirement Benefits⁽³⁾	\$ 451,000	\$ 395,000	\$ 328,000
Total Compensation	\$ 6,951,063	\$ 7,395,004	\$ 6,707,865

(1) Estimated value of stock options calculated using the Black-Scholes model (for compensation purposes): \$14.36 in December 2006, \$15.50 in December 2005 and \$10.48 in December 2004.

(2) Portion of long-term compensation paid in DSUs for Officers of the Bank, i.e., 125% of base salary. The DSU value was based on the grant price, i.e., \$65.90 for the grant on December 13, 2006, \$61.44 for the grant on December 7, 2005, and \$48.20 for the grant on December 9, 2004.

(3) Present value of the retirement benefit accumulated during the financial year and determined based on the assumptions used in the Bank's Annual Report for each of those years.

Pierre Fitzgibbon*Senior Vice-President**Finance, Technology and Corporate Affairs*

	2006	2005 ⁽¹⁾	2005 ⁽²⁾	2004 ⁽²⁾
Cash Compensation				
Base salary	\$ 321,137	\$ 99,419	\$ 169,225	\$ 193,462
Annual bonus	\$ 333,000	\$ 135,000	\$ 1,075,000	\$ 1,962,207
Cash Total	\$ 654,137	\$ 234,419	\$ 1,244,225	\$ 2,155,669
Stock-Based Compensation				
Stock options ⁽³⁾	\$ 465,264	\$ 454,150	N/A	N/A
Other long-term compensation ⁽⁴⁾	N/A	N/A	N/A	\$ 71,204
Total Equity Value	\$ 465,264	\$ 454,150	N/A	\$ 71,204
Direct Compensation	\$ 1,119,401	\$ 688,569	\$ 1,244,225	\$ 2,226,873
Annual Cost of Retirement Benefits⁽⁵⁾	\$ 104,000	\$ 25,000	N/A	N/A
Total Compensation	\$ 1,223,401	\$ 713,569	\$ 1,244,225	\$ 2,226,873

(1) Pierre Fitzgibbon has held the position of Senior Vice-President – Finance, Technology and Corporate Affairs since July 1, 2005.

(2) Pierre Fitzgibbon was Vice-Chairman of the Board and Managing Director – Corporate and Investment Banking at National Bank Financial Inc. until June 30, 2005.

(3) Estimated value of stock options calculated using the Black-Scholes model (for compensation purposes): \$14.36 in December 2006 and \$15.50 in December 2005.

(4) Under the long-term compensation program of NCFG.

(5) Present value of the retirement benefit accumulated during the financial year and determined based on the assumptions used in the Bank's Annual Report for each of those years.

SECTION 3 Internal Management (cont.)

Louis Vachon Chief Operating Officer	2006 ⁽¹⁾	2006 ⁽²⁾	2005	2004
Cash Compensation				
Base salary	\$ 144,164	\$ 300,000	\$ 400,000	\$ 250,000
Annual bonus (including deferred portion for 2004)	\$ 197,500	\$ 2,733,290	\$ 3,442,214	\$ 3,299,200
Bonus paid as RSUs ⁽³⁾	N/A	\$ 1,366,644	\$ 1,721,106	N/A
Cash Total	\$ 341,664	\$ 4,399,934	\$ 5,563,320	\$ 3,549,200
Stock-Based Compensation				
Stock options ⁽⁴⁾	\$ 1,800,744	N/A	\$ 579,700	\$ 576,400
Total Equity Value	\$ 1,800,744	N/A	\$ 579,700	\$ 576,400
Direct Compensation	\$ 2,142,408	\$ 4,399,934	\$ 6,143,020	\$ 4,125,600
Annual Cost of Retirement Benefits ⁽⁵⁾	\$ 72,000	\$ 52,000	\$ 55,000	\$ 16,000
Total Compensation	\$ 2,214,408	\$ 4,451,934	\$ 6,198,020	\$ 4,141,600

(1) Louis Vachon has held the position of Chief Operating Officer since August 1, 2006.

(2) Louis Vachon held the position of Chairman of the Board and Chief Executive Officer of NBFG, Chairman of the Board of Natcan Investment Management Inc. and Senior Vice-President until July 31, 2006.

(3) Louis Vachon received one third of his annual bonus in his capacity as Chairman of the Board and Chief Executive Officer of NBFG in the form of RSUs. For fiscal 2006, the value was established based on the price of the grant on December 12, 2006, namely, \$65.90.

(4) Estimated value of stock options calculated using the Black-Scholes model (for compensation purposes): \$14.36 in December 2006, \$15.50 in December 2005 and \$10.48 in December 2004.

(5) Present value of the retirement benefit accumulated during the financial year and determined based on the assumptions used in the Bank's Annual Report for each of those years.

Ricardo Pascoe

Co-President and Co-Chief Executive Officer, NBFG
and Senior Vice-President

	2006	2005	2004
Cash Compensation			
Base salary	\$ 256,022	\$ 250,000	\$ 250,000
Annual bonus (including deferred portion for 2004)	\$ 2,169,282	\$ 2,063,454	\$ 2,661,296
Bonus paid as RSUs ⁽¹⁾	\$ 1,084,642	\$ 1,031,727	N/A
Cash Total	\$ 3,509,946	\$ 3,345,181	\$ 2,911,296
Stock-Based Compensation			
Stock options ⁽²⁾	\$ 435,108	\$ 207,700	\$ 167,680
Total Equity Value	\$ 435,108	\$ 207,700	\$ 167,680
Direct Compensation	\$ 3,945,054	\$ 3,522,881	\$ 3,078,976
Annual Cost of Retirement Benefits ⁽³⁾	\$ 50,000	\$ 36,000	\$ 13,000
Total Compensation	\$ 3,995,054	\$ 3,588,881	\$ 3,091,976

(1) Ricardo Pascoe receives one third of his annual bonus in the form of RSUs. For fiscal 2006, the value was established based on the price of the grant on December 12, 2006, namely, \$65.90.

(2) Estimated value of stock options calculated using the Black-Scholes model (for compensation purposes): \$14.36 in December 2006, \$15.50 in December 2005 and \$10.48 in December 2004.

(3) Present value of the retirement benefit accumulated during the financial year and determined based on the assumptions used in the Bank's Annual Report for each of those years.

SECTION 3 Internal Management (cont.)

Luc Paiement

Co-President and Co-Chief Executive Officer, NCFG
and Senior Vice-President

	2006	2005	2004
Cash Compensation			
Base salary	\$ 300,000	\$ 300,000	\$ 300,000
Annual bonus (including deferred portion for 2004)	\$ 2,018,238	\$ 1,881,445	\$ 2,536,617
Bonus paid as RSUs ⁽¹⁾	\$ 1,009,120	\$ 940,723	N/A
Cash Total	\$ 3,327,358	\$ 3,122,168	\$ 2,836,617
Stock-Based Compensation			
Stock options ⁽²⁾	\$ 304,432	\$ 248,000	\$ 167,680
DSUs ⁽³⁾	\$ 130,680	N/A	N/A
Total Equity Value	\$ 435,112	\$ 248,000	\$ 167,680
Direct Compensation	\$ 3,762,470	\$ 3,370,168	\$ 3,004,297
Annual Cost of Retirement Benefits ⁽⁴⁾	N/A	N/A	N/A
Total Compensation	\$ 3,762,470	\$ 3,370,168	\$ 3,004,297

(1) Luc Paiement receives one third of his annual bonus in the form of RSUs. For fiscal 2006, the value was established based on the price of the grant on December 12, 2006, namely, \$65.90.

(2) Estimated value of stock options calculated using the Black-Scholes model (for compensation purposes): \$14.36 in December 2006, \$15.50 in December 2005 and \$10.48 in December 2004.

(3) Under the DSU Plan for Officers of the Bank, Luc Paiement elected to receive a portion of up to 30% of his long-term compensation in the form of DSUs. The DSU value was based on the price of the grant, namely, \$65.90 in December 2006.

(4) Luc Paiement does not participate in the Bank's defined benefit pension plan. Over the past three financial years, he participated in the National Bank Financial Inc. employee Group RRSP and employer contributions totalled \$1,000 per year.

Termination of Employment Policy

On August 31, 2006, the Board adopted amendments to the Policy whereby the President and Chief Executive Officer, the Chief Operating Officer and the Senior Vice-Presidents who are members of the Executive Committee (the "eligible executive officers") would receive a separation allowance in the event their employment were to be terminated by the Bank following a change of control. The compensating measures are applicable when the following two events occur:

- a change of control of the Bank, as defined below; and
- a dismissal (without cause) resulting from a Bank initiative during the two-year period following the change of control, or the resignation of an officer further to a significant reduction in compensation or responsibilities or a transfer to another organization, against his or her wishes, during the two-year period following the change of control.

Moreover, the Policy now specifies that, in the case of voluntary resignation, dismissal (for cause), demotion or termination of employment based on an unsatisfactory performance, the Policy is not applicable.

"Change of control" means any change in the ownership of Bank shares following the acquisition of shares, a merger or a business combination resulting in one incorporated or unincorporated entity beneficially owning in excess of 50% of the voting shares of the Bank.

Pursuant to this Policy, eligible executive officers would be entitled to a separation allowance equal to their base salary and their average annual bonus for the previous three years (or the target annual bonus for eligible executive officers who have been in their respective positions for less than three years) for a period of 24 months, up to the normal retirement age.

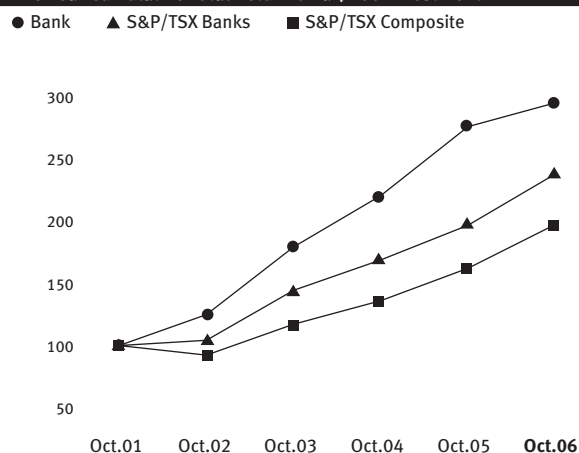
As at the date of the Circular, the Bank had not concluded any other termination of employment agreement.

SECTION 3 Internal Management (cont.)

Performance of Common Shares of the Bank

The following performance graph shows the cumulative total return for a \$100 investment in common shares of the Bank on October 31, 2001, as compared to the total cumulative return of the S&P/TSX Banks 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. 2001 (\$)	Oct. 2002 (\$)	Oct. 2003 (\$)	Oct. 2004 (\$)	Oct. 2005 (\$)	Oct. 2006 (\$)
National Bank of Canada	100.00	124.80	179.10	220.30	275.60	294.70
S&P/TSX Banks	100.00	104.20	144.30	168.70	196.50	237.60
S&P/TSX Composite	100.00	92.32	117.10	135.99	162.00	197.11

Report of the Conduct Review and Corporate Governance Committee

Role of the Committee

The Conduct Review and Corporate Governance Committee (for the purposes of this report, the “Committee”) assists the Board by overseeing the implementation of and compliance with corporate governance rules, procedures and policies, ensuring compliance with rules of professional conduct and supervising the management and monitoring of related party transactions.

The Committee establishes and annually reviews the mandates of the Board and its committees, as well as those of the Chairman of the Board and the committee Chairs. It also periodically reviews the Summary of the Bank’s Corporate Governance Practices provided below, the size and composition of the Board and its committees as well as various rules and guidelines applicable to directors, in particular regarding share ownership, conflict of interest disclosure, and selection and succession. Furthermore, the Committee establishes and oversees the performance evaluation process applied to the Board, the committees, the Chairman of the Board, the committee Chairs and the directors, and ensures that orientation and continuing education programs for directors are maintained.

The Committee ensures compliance with the Code of Professional Conduct and the existence of mechanisms for the disclosure of information to clients, and oversees the application of a review process for complaints from clients who obtained products or services in Canada.

The Committee is composed entirely of independent directors (as defined under the “Independence of Directors” heading in this section of the Circular). The duties and responsibilities of the Committee are detailed in its mandate, which is reviewed annually.⁽¹⁾

Members

Paul Gobeil, Chair
 Pierre Bourgie
 Shirley A. Dawe
 Roseann Runte

(1) The text of this mandate is reproduced in its entirety on the Bank’s website (www.nbc.ca).

SECTION 3 Internal Management (cont.)

Summary of the Bank's Corporate Governance Practices

The Bank is strongly committed to corporate governance and aims to enforce strict standards in this regard. The Bank, which keeps abreast of developments in this area at all times, complies with the corporate governance guidelines of the CSA. The Bank firmly believes that sound corporate governance is an essential component of its operations and that it is in the best interests of its shareholders, clients and all its partners to have policies and practices in place that generally comply with corporate governance best practices. The following statement details the Bank's corporate governance practices.

Composition of the Board of Directors**Independence of Directors**

Independence standards. More than two thirds of the Bank's directors, including the Chairman of the Board, are independent. The Bank complies with the independence standards established by the CSA with respect to the independence of Board members and Audit and Risk Management Committee members. The independence of the directors is determined annually by the Board, based on the recommendations of the Committee, in light of applicable regulations and corporate governance best practices. Furthermore, the Board verifies whether there are any material relationships between the Bank and the directors in accordance with the CSA criteria, including any material relationship which could, in the view of the Board, be reasonably expected to interfere with the exercise of a member's independent judgment or his or her ability to act in the Bank's best interests.

Independence is also determined using information provided by the directors in a semi-annually completed questionnaire, which includes, in particular, information about outside board memberships and the relationship that directors have with the Bank, if any. The independent members of the Board meet in camera after each regularly scheduled meeting of the Board.

Non-independent directors. At the end of the most recently completed financial year and as at the date of the Circular, the Board is of the opinion that 11 of the 15 Bank directors were independent. The four non-independent directors are Lawrence S. Bloomberg, Louis Vachon and Réal Raymond, who are employees or officers of the Bank or of one of its subsidiaries, as well as Gérard Coulombe, who is a partner at Desjardins Ducharme, L.L.P., a law firm that provides remunerated legal services to the Bank and its subsidiaries. The following table recapitulates the independent status of nominees for election to the Board.

Directors	Independent	Non-Independent	Reason for Non-Independence
Lawrence S. Bloomberg		✓	Advisor to a subsidiary of the Bank
Pierre Bourgie (ARM Chair, G)	✓		
André Caillé (HR, ARM)	✓		
Gérard Coulombe		✓	Partner of a law firm that provides legal services to the Bank and its subsidiaries
Bernard Cyr (ARM)	✓		
Shirley A. Dawe (G, HR)	✓		
Nicole Diamond-Gélinas (ARM)	✓		
Jean Douville	✓		
Marcel Dutil (HR)	✓		
Jean Gaulin (HR Chair, ARM)	✓		
Paul Gobeil (G Chair, ARM)	✓		
Réal Raymond		✓	President and Chief Executive Officer
Roseann Runte (G)	✓		
Marc P. Tellier (HR)	✓		
Louis Vachon		✓	Chief Operating Officer

- *Audit and Risk Management Committee (ARM)*
- *Conduct Review and Corporate Governance Committee (G)*
- *Human Resources Committee (HR)*

Outside board memberships. The Bank lists all boards on which its directors serve. In the "Information on Nominees for Election to the Board of Directors" section of the Circular, it discloses, among other things, the names of the reporting issuers on whose boards each director currently serves or has served in the previous five years. The Board adopted a directive under which all directors must notify the Committee Chair or the Chairman of the Board before accepting an invitation to serve on another board. The Chairman of the Board and the Committee Chair assess whether the director, in accepting the outside board membership, would be involved in a real or apparent conflict of interest and whether the director would remain capable of performing his or her duties as a director of the Bank.

SECTION 3 Internal Management (cont.)Size of the Board

The Committee is responsible for periodically reviewing the size of the Board to ensure its effectiveness, based on the competencies, aptitudes and experience sought by the Board, developing and periodically reviewing the selection criteria for directors to ensure they reflect regulatory requirements, the expectations and current and future needs of the Board, and reviewing the existing procedures from time to time so that said criteria can be applied. This year, the Board is composed of 15 directors. The Committee is of the opinion that this number is appropriate because it enables the Board to bring together the required competencies, knowledge, qualifications and diversity to foster frank discussions and a spirit of cooperation among directors.

Nomination of Directors and Re-election

Charter of Expectations. The Board believes that its performance depends, in particular, on the abilities, skills and experience of its members. In this context, the Board has adopted a Charter of Expectations for directors that formally sets out the Board's expectations of the directors as individuals and in terms of their contribution to the Board. In particular, the Charter of Expectations describes the aptitudes considered when nominating a director and, if applicable, when recommending the re-election of an existing director. It also states the requirements for ensuring that directors discharge their duties adequately and effectively. The Charter of Expectations advocates individual knowledge and qualifications that complement those of other directors, thus permitting the Board to properly fulfill all aspects of its role.

Nomination. The Committee, which is composed entirely of independent directors, administers the nomination process for new directors, and submits its recommendations to the Board. After consulting with the Chairman of the Board, the Committee recommends the nomination of directors who meet the following selection criteria: expertise enabling them to make an active, informed and profitable contribution to the management, the conduct of the business, the orientation and the development of the Bank; the availability of the candidate; a reputation for honesty and integrity; an understanding of regional, national and international issues; and a potential contribution that complements that of other Board members. The Committee also considers independence criteria in recommending new directors for election to the Board. The Board's expectations for new directors are discussed with potential nominees prior to their nomination in order to ensure that they are sufficiently available and competent to properly fulfill their role.

Re-election. The Committee annually assesses the eligibility and availability of directors who are candidates for re-election. In addition, a directive from the Bank provides that, barring any exceptional circumstances, a director's total mandate shall be limited to 15 years. The computation of a 15-year tenure commenced in 1998 for directors serving on the Board at that time.

Majority voting. The Bank adopted a policy statement whereby any nominee for election as a director for whom the number of votes withheld exceeds the number of votes cast in his or her favour at an Annual Meeting of Shareholders will be deemed not to have received the support of shareholders, even if he or she is elected. A director elected in such circumstances must immediately tender his or her resignation to the Committee, and the Committee will submit a recommendation to the Board. Within 90 days of receiving the final voting results, the Board will issue a press release announcing the resignation of the director or explaining the reasons justifying its decision not to accept such resignation.

Orientation and Continuing Education

Directors follow an orientation and continuing education program that allows them to become more familiar with the operations of the Bank and its segments and broaden their knowledge in general. The program is composed of three parts: (i) orientation of new directors; (ii) individual meetings between new directors and executive officers; and (iii) continuing education provided by Bank representatives with special expertise or by external consultants.

Orientation. The orientation program for new directors is intended to provide them with an overview of the Bank, its operations, its activities and its main challenges. More specifically, new directors receive training, in particular, on the role of the Board, its committees and directors, the Bank's vision, its main sectors of activity and business challenges, the audit and control system as well as the Bank's client base and human resources. New directors also participate in meetings with the Bank's Executive Committee members, the President and Chief Executive Officer, and the Chairman of the Board.

Directors' Handbook. Directors are given a Directors' Handbook which describes, in particular, the duties and responsibilities of directors, the Bank's organizational structure, its obligations as a reporting issuer, its policies and practices, as well as the mandates of the Board, its committees, the Chairman of the Board and the committee Chairs. The Directors' Handbook also contains the Bank's By-Laws and Code of Professional Conduct.

Continuing education. As part of regularly scheduled Board meetings, directors attend presentations given on various aspects of the Bank's operations by Bank representatives with special expertise. From time to time, they also attend training sessions given by external consultants.

SECTION 3 Internal Management (cont.)***Mandate of the Board***

The Board exercises its role and responsibilities in accordance with the Bank's By-Laws, internal policies and procedures, as well as applicable laws and regulations, including the Act and the laws and regulations of the CSA. The Board reviews its mandate annually to ensure that it adequately reflects how the Board functions, as well as its operations and responsibilities, and that it complies with existing regulations. The Board's mandate is provided in Schedule B to the Circular.

Mandate of the Chairman of the Board

The mandate of the Chairman of the Board defines his duties with respect to his relations with directors, committees, shareholders and executive officers. The Committee annually reviews the mandate to ensure that it properly reflects the duties and responsibilities of the Chairman of the Board.

Strategic Planning

The Board discusses, approves and regularly reviews the strategic plan in which the Bank sets out its mission, vision, business objectives and strategies, taking into account the opportunities and risks for the Bank, as well as the business plans relating to its main operations. The Board also approves the business plans relating to the Bank's main operations and regularly reviews them to ensure they remain appropriate and prudent given the Bank's economic and business environment, resources and results.

Supervision of Management

The Board oversees the management of the Bank by reviewing regular reports submitted by those in charge of its various segments and through discussions with the senior management of those segments. Within the scope of its supervisory role, the Board, assisted by the Human Resources Committee, oversees management by relying on the overall performance appraisal of the President and Chief Executive Officer based on the objectives set at the beginning of the year and by studying the report presented by the President and Chief Executive Officer to the Board on the individual performance of executive officers. In particular, the Board ensures, insofar as possible, that the President and Chief Executive Officer and other executive officers help create and maintain a culture of integrity within the Bank, notably by promoting the Code of Professional Conduct and related policies.

Succession Planning

The Board supervises the training, development and succession planning process for senior management, including the President and Chief Executive Officer. The Board fulfills these obligations in conjunction with the Human Resources Committee.

Risk Management

Together with the Audit and Risk Management Committee, the Board examines and approves the Bank's overall risk philosophy and risk tolerance; recognizes, identifies and understands the main risks facing the Bank (including credit, market and operational risks, as well as outsourcing risks); and ensures that appropriate systems have been implemented for effective management of such risks. The Audit and Risk Management Committee receives detailed quarterly reports from the Bank's Risk Management sector on the sector's activities, the general allowance for credit risk, impaired loans and loan losses, and compliance with regulatory capital ratios and obligations under the Basel Accord. The Board adopts and annually reviews all the major policies concerning the Bank's activity-related risks and ensures that such policies are implemented. The Audit and Risk Management Committee has discussion sessions on a regular basis, and in private, with the internal auditor and the external auditor. For more information on the Bank's risk management structure and systems, refer to the "Risk Management Approach" section in the Bank's 2006 Annual Report.

Communication with Clients, Shareholders, Investors and the General Public

Information disclosure. The Board advocates transparency in disclosing information to shareholders, investors, clients and the general public. For this purpose, the Bank has ratified an information disclosure policy which describes, in particular, the type of information to be disclosed, be it financial or other information, and when and how such information can be disclosed, in order to ensure complete, accurate and timely disclosure to stakeholders and prevent selective disclosure of information.

Disclosure Committee. The Bank set up a Disclosure Committee whose role is to ensure that information disclosure controls and procedures and financial reporting internal control procedures are implemented and operational. This Committee annually reviews the Bank's Disclosure Policy and recommends it for approval to the Audit and Risk Management Committee.

Measures for recording stakeholder reactions. The Board ensures that measures are implemented to gather the reactions of all Bank stakeholders. The Bank responds to questions from shareholders, investors and financial analysts through the Investor Relations Department, the Corporate Secretary's Office or Computershare Trust Company of Canada, the Bank's transfer agent and registrar. Clients with concerns or special needs may contact their branch or TelNat. If a complaint cannot be resolved through regular administrative channels, clients may contact the Bank's Ombudsman. The stakeholders may contact the independent directors and the Chairman of the Board by e-mail at boardofdirectors@nbc.ca. Moreover, the Bank has adopted a policy for reporting irregularities relating to accounting, internal accounting controls and auditing matters (the "Whistleblowing Policy") and procedures concerning (i) the receipt, retention and treatment of complaints received regarding accounting, internal accounting controls or auditing matters and (ii) the reporting by employees of the Bank of any concerns regarding accounting or auditing matters on a confidential and anonymous basis.

SECTION 3 Internal Management (cont.)**Internal Control and Management Information Systems**

The Audit and Risk Management Committee assists the Board by examining audit and internal control processes and management information systems to verify their integrity and effectiveness. Assisting it in this function, the Disclosure Committee ensures that the President and Chief Executive Officer and the Senior Vice-President – Finance, Technology and Corporate Affairs have the necessary information to make the certifications required by regulation based on their most recent assessment and to communicate to the Audit and Risk Management Committee any deficiency deemed material or significant in the design of internal controls which could adversely affect the Bank's ability to provide reliable financial reporting, and any fraud, whether material or not, involving management or other employees with a significant role in relation to the Bank's internal controls. In addition, the Bank's internal control policies and procedures are reviewed on a regular basis by the Bank's Internal Auditor.

Corporate Governance

Lastly, the Board mandated the Committee to study, prepare, implement and supervise the Bank's corporate governance rules, policies and procedures.

Business Ethics**Code of Professional Conduct**

Application and content. The Bank adopted a Code of Professional Conduct (the "Code"), which sets out the obligations of its employees, officers and directors relating to professional conduct, to the extent that it applies to them. Specifically, the Code describes the duty to act with honesty and integrity, abide by the law, treat others fairly and respectfully, keep information in the strictest confidence, avoid conflicts of interest and respect the organization. The Code is available in its entirety in both English and French on the Bank's website (www.nbc.ca) and on SEDAR's website (www.sedar.com).

Code updates and non-compliance. The Committee reviews the Code at least every two years and approves updates, if any. The Bank's management must report any material breach of the Code to the Committee and submit an annual report to it on the procedure ensuring compliance with the Code. In the event of a material breach of the Code by a director or officer, the Board would disclose the omission through a material change report filed with the CSA.

Conflict of Interest

Duty to report. The directors have a duty to report any conflict of interest to the Board. Directors do not participate in the discussions and abstain from voting when any decision is made by the Board regarding a company to which they are related.

Independent judgment. In order to ensure directors' independent judgment during the review of operations and contracts in which a director or officer has a material interest, the Committee, in conjunction with the Chairman of the Board, also reviews the outside directorships of directors by examining such elements as: the sector of the company concerned, the business ties between the company and the Bank, the number of outside boards on which the director in question serves, and the number of Bank directors already serving on the board of the company.

Measures to encourage and promote an ethical business culture. The Board advocates a culture of ethical business conduct and integrity throughout the Bank and, for this reason, attributes great importance to compliance with the Code. Moreover, a Disclosure Committee was set up by the Bank to ensure that financial information is adequately reported. Lastly, the Bank introduced a Whistleblowing Policy.

Compensation**Compensation of Directors**

Principles. In order to provide adequate compensation and recognize the increasing complexity of its activities, the Board, on the recommendation of the Committee, has adopted a compensation program for directors. The purpose of this program is to give the Bank the necessary tools to recruit and retain qualified individuals to serve as members of the Board. The program also aims to align the interests of the members of the Board more closely with those of the Bank's shareholders. The Bank periodically reviews the fees paid to the directors in order to offer them adequate compensation in line with the Bank's reference market.

Retainer and meeting fees. A retainer is paid to directors for serving on the Board. Furthermore, the Chairman of the Board, committee Chairs and committee members receive additional compensation related to these positions. Until October 31, 2006, Board members were also paid fees for their attendance at meetings of the Board and of the committees on which they served. Since November 1, 2006, directors have been paid in the form of annual flat fees and no longer receive attendance meeting fees. Moreover, following a review of market trends, the Board approved an increase in director fees, including an increase in the portion of compensation paid in the form of common shares. Indeed, the Board approved payment of directors' compensation in the form of retainers in order to compensate directors for their overall duties and not only for their participation or attendance at meetings. The Bank and its subsidiaries also reimburse directors for the expenses they incur to attend meetings. For more information about the amounts allocated, refer to the "Compensation Paid by the Bank and Its Subsidiaries to Directors" table and the "Statement of Compensation of Directors" table in the Circular, which describe the compensation paid to directors in the most recently completed financial year.

SECTION 3 Internal Management (cont.)

Holding of shares or DSUs and share ownership requirements. Directors are required to hold Bank common shares or DSUs valued at not less than five times the amount of their annual retainer as a director of the Bank. A DSU is a right that has a value equal to the market value of a common share of the Bank at the time the DSUs are credited, i.e., quarterly, to an account in the director's name. Additional DSUs equal in amount to the dividends paid on the common shares are also credited to the account. DSUs can only be cashed when the director retires from the Board. Directors have five years from the date they take office to attain the mandatory level of shares or DSUs according to the Bank's shareholding requirements. Annual retainers for a director are paid entirely in the form of common shares or DSUs, or a combination of both, until these requirements have been met. In addition, a portion of the retainer for directors as well as part of the compensation paid to committee members and Chairs must be paid in the form of Bank shares even if requirements have been met by the directors. Directors may also elect to receive their retainer, and prior to October 31, 2006 could elect to receive their meeting fees, in the form of cash, common shares and DSUs. The number of shares and DSUs held by the directors is indicated in the "Information on Nominees for Election to the Board of Directors" section of the Circular.

Directors who are also Officers of the Bank. The directors who are also Officers of the Bank do not receive any compensation in their capacity as directors of the Bank or any of its subsidiaries.

Other compensation paid to a director. During the most recently completed financial year, only one director received, directly from the Bank or one of its subsidiaries, compensation other than that received in his capacity as a Bank director. Further to a service contract entered into in November 2004 with National Bank Financial Inc., Lawrence S. Bloomberg acts as an advisor to National Bank Financial Inc. and National Bank Financial Ltd. and, as such, receives an annual retainer, commissions, a business development allowance and reimbursement for various administrative expenses incurred when carrying out his duties. For the financial year ended October 31, 2006, Mr. Bloomberg received other compensation totalling \$432,135.

Compensation of Officers

The Human Resources Committee is responsible for determining the total compensation of the Officers of the Bank. It reviews the scope of total compensation policies applicable to employees and officers, ensuring that they serve the interests of shareholders and promote the Bank's long-term growth, and recommends their approval to the Board. The Human Resources Committee also conducts an annual review of the compensation of all officers, taking into account their performance. For more information about officer compensation, refer to the "Report of the Human Resources Committee" section of the Circular.

Board Committees

The Board is assisted by three committees in the performance of its duties: the Conduct Review and Corporate Governance Committee, the Audit and Risk Management Committee, and the Human Resources Committee.

Independence

The Board committees are composed entirely of independent directors. After each regularly scheduled committee meeting, they hold meetings in camera, in the absence of members of management invited from time to time to committee meetings. A list of the committee members is found at the end of each committee's report in the Circular.

Mandates

Mandates of Board committees. The committees annually review their respective mandates to ensure that they adequately reflect their activities and responsibilities and comply with regulatory requirements, and recommend approval thereof to the Board. Each committee's mandate is provided in the "Corporate Information" section of the Bank's website (www.nbc.ca).

Mandates of Board committee Chairs. The committees annually review the mandate of their respective Chairs in order to ensure that it adequately reflects their responsibilities and recommend approval thereof to the Board. These mandates set out the duties of the committee Chairs in holding committee meetings, their role regarding the composition and functioning of the committees and their relationship with the senior management of the Bank.

Audit and Risk Management Committee. The summary of the financial literacy of the members of the Audit and Risk Management Committee, the policies and procedures for awarding contracts for non-audit services, and a description of the fees paid to the auditor can be found in the "Report of the Audit and Risk Management Committee" section of the Circular.

Ad Hoc Committee for the Selection of the Chief Operating Officer. In fiscal 2006, the Board set up an ad hoc committee to select a Chief Operating Officer. This ad hoc committee is composed of the Chairman of the Board and the Chairs of the three Board committees.

SECTION 3 Internal Management (cont.)External Advisors

General powers. The Board committees have the necessary authority to retain legal counsel or other independent advisors as they deem necessary to carry out their duties and responsibilities. They also have the necessary authority to set their compensation, at the Bank's expense.

Services of human resources consultants. The Human Resources Committee retained the services of human resources consultants during the most recently completed financial year. The name of these independent external advisors, a description of their respective mandates and the fees paid to them can be found in the "Independent External Advisors" section of the Circular.

AssessmentRole of the Committee

The Committee is in charge of the process for assessing the performance and effectiveness of the Board, its committees, the Chairman of the Board, committee Chairs and directors in executing their respective mandates. To this end, assessment questionnaires are completed annually in strict confidence by the directors. The assessment process results are examined and discussed at a Committee meeting, and a report is subsequently submitted to the Board. Areas of possible improvement as well as the needs of the Board and its committees in terms of knowledge and expertise can be identified by the assessment results.

Assessment of the Board and its committees. In order to maintain privacy, confidentiality and impartiality, the assessment questionnaires of the Board and of its committees are sent to an independent outside firm, which compiles and analyzes the results. The Board assessment questionnaire covers the main responsibilities of the Board as determined in its mandate, its operations, its functioning, its composition, its overall performance, its relations with management, the quality of information provided and the level of its members' knowledge. The assessment questionnaire for the Board committees basically covers the same aspects, addressing more specifically the duties and responsibilities of each committee, as described in their respective mandates.

Review of the Chairman of the Board and committee Chairs. The Chairman of the Board is subject to a review by all Board members. Committee Chairs are subject to a review by the members of the committees that they chair. The assessment questionnaires cover the duties and responsibilities described in the mandate of the Chairman of the Board and of each committee Chair. As with the assessments of the Board and its committees, the assessment questionnaires are sent to an independent outside firm, which compiles and analyzes the results. This analysis is then sent to the Chair of the Committee.

Individual self-assessment. The aim of the self-assessment questionnaire for directors is to assess the personal contribution of each Board member with regard to the tasks entrusted to the Board and in terms of the attitude, behaviour and personal contribution of each Board member. Individual self-assessment results are provided to the Chairman of the Board, who meets with each director individually to discuss the operation of the Board, certain aspects considered in the questionnaire and results of this assessment based on the previously described Charter of Expectations for Directors.



Paul Gobeil
Chair
Conduct Review and Corporate Governance Committee

SECTION 3 Internal Management (cont.)

Compensation Paid by the Bank and Its Subsidiaries to Directors

Fees paid to the Bank's directors for serving on the Boards of Directors and committees of the Bank and its subsidiaries for the financial year ended October 31, 2006:

National Bank of Canada

Annual retainer of a director:

- In cash: \$ 25,000
- In common shares: \$ 7,500

Annual retainer of the Chairman of the Board:

\$ 200,000⁽¹⁾

Annual retainers of committee Chairs:

- In cash: \$ 10,000
- In common shares: \$ 5,000

Annual retainers of committee members (including committee Chairs):

- In cash: \$ 3,500
- In common shares: \$ 2,500

Board and committee meeting fees:

\$ 1,500

Quarterly retainer for Ad Hoc Committee Chair:

- In cash: \$ 2,500
- In common shares: \$ 1,250

Quarterly Ad Hoc Committee member retainer (including committee Chair):

- In cash: \$ 875
- In common shares: \$ 625

Ad Hoc Committee meeting fees:

\$ 1,500

National Bank Life Insurance Company

Annual retainer of a director:

- In cash: \$ 6,000

Annual retainer of committee members:

- In cash: \$ 1,800

Board and committee meeting fees:

\$ 1,000

National Bank Trust Inc.

Annual retainer of a director:

- In cash: \$ 6,000

Board and committee meeting fees:

\$ 500

FMI Acquisition Inc.

Annual retainer of a director:

- In cash: \$ 500

(1) The Chairman of the Board also receives an annual retainer as a director and an annual allowance of \$25,000 for accommodation expenses.

SECTION 3 Internal Management (cont.)

The following statement provides more information on the subject of fees paid to each director during the most recently completed financial year.

Statement of Compensation of Directors

During the financial year ended October 31, 2006

Directors	Board Member Retainer (\$)		Committee Chair Compensation (\$)		Committee Member Compensation (\$)		Meeting Fees (\$)	Total Compensation (\$)
	In Common		In Common		In Common			
	In Cash	Shares	In Cash	Shares	In Cash	Shares		
Lawrence S. Bloomberg	25,000	7,500	-	-	-	-	16,500	49,000
Pierre Bourgie (ARM Chair, G, Ad Hoc)	25,000	7,500	10,000	5,000	7,875	5,625	63,000	124,000
André Caillé (HR, ARM)	25,000	7,500	-	-	5,833	4,167	46,500	89,000
Gérard Coulombe	25,000	7,500	-	-	-	-	16,500	49,000
Bernard Cyr (ARM)	25,000	7,500	-	-	3,500	2,500	30,000	68,500
Shirley A. Dawe (G, HR)	25,000	7,500	-	-	7,000	5,000	31,500	76,000
Nicole Diamond-Gélinas (ARM)	25,000	7,500	-	-	3,500	2,500	40,500	79,000
Jean Douville (Ad Hoc)	225,000	7,500	-	-	875	625	33,000	267,000
Marcel Dutil (HR)	25,000	7,500	-	-	3,500	2,500	27,000	65,500
Jean Gaulin (HR Chair, Ad Hoc Chair, ARM)	25,000	7,500	12,500	6,250	7,875	5,625	64,500	129,250
Paul Gobeil (G Chair, ARM, Ad Hoc)	25,000	7,500	10,000	5,000	7,875	5,625	63,000	124,000
Réal Raymond	-	-	-	-	-	-	-	-
Roseann Runte (G)	25,000	7,500	-	-	3,500	2,500	22,500	61,000
Marc P. Tellier (HR)	25,000	7,500	-	-	3,500	2,500	25,500	64,000
Louis Vachon	-	-	-	-	-	-	-	-
Total	525,000	97,500	32,500	16,250	54,833	39,167	480,000	1,245,250

- The Bank does not offer a stock option plan to its directors.
- As Chairman of the Board, Mr. Douville regularly attends the meetings of the Board committees but receives no compensation or meeting fees. In the most recently completed financial year, Mr. Douville did, however, receive compensation for being a member of the Ad Hoc Committee.
- Messrs. Bloomberg, Coulombe, Raymond and Vachon did not serve on any Board committee.
- Mr. Caillé joined the Human Resources Committee on March 8, 2006.
- Mr. Vachon joined the Board on August 1, 2006.
- Messrs. Raymond and Vachon are not paid for serving on the Board.

Summary of the Number of Board and Committee Meetings

During the financial year ended October 31, 2006

Board of Directors	11
Conduct Review and Corporate Governance Committee	4
Human Resources Committee	7
Audit and Risk Management Committee	16
Ad Hoc Committee	11

SECTION 3 Internal Management (cont.)

Record of Attendance of Directors

Directors	Attendance at Board Meetings	Attendance at Committee Meetings
Lawrence S. Bloomberg	11/11	–
Pierre Bourgie	11/11	ARM: 16/16 G: 4/4 Ad Hoc: 11/11
André Caillé	11/11	HR: 5/5 ARM: 15/16
Gérard Coulombe	11/11	–
Bernard Cyr	9/11	ARM: 11/16
Shirley A. Dawe	10/11	G: 4/4 HR: 7/7
Nicole Diamond-Gélinas	11/11	ARM: 16/16
Jean Douville	11/11	Ad Hoc: 11/11
Marcel Dutil	11/11	HR: 7/7
Jean Gaulin	11/11	HR: 7/7 ARM: 14/16 Ad Hoc: 11/11
Paul Gobeil	11/11	G: 4/4 ARM: 16/16 Ad Hoc: 11/11
Réal Raymond	10/11	–
Roseann Runte	11/11	G: 4/4
Marc P. Tellier	11/11	HR: 6/7
Louis Vachon	2/2	–

- Mr. Caillé joined the Human Resources Committee on March 8, 2006.
- Mr. Vachon joined the Board on August 1, 2006.
- Mr. Cyr was unable to attend some Board and Audit and Risk Management Committee meetings due to health reasons.

SECTION 4 Other Information

Indebtedness of Directors, Executive Officers and Employees

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

Aggregate Indebtedness

As at December 18, 2006,⁽¹⁾ aggregate indebtedness outstanding to the Bank or any of its subsidiaries (other than loans repaid in full and routine indebtedness as defined by Canadian securities legislation) of directors, executive officers, employees and former directors, executive officers and employees of the Bank or any of its subsidiaries was as follows:

Purpose	To the Bank or Its Subsidiaries (\$)	To Another Entity (\$) ⁽²⁾
Securities purchases	3,629,418	N/A
Other	614,791,871	N/A

(1) Information on the aggregate indebtedness was obtained as at December 18 and 22, 2006.

(2) Loans granted by another entity which are the subject of a guarantee, a letter of credit provided by the Bank or any of its subsidiaries, a support agreement or other similar arrangement or understanding.

SECTION 4 | Other Information (cont.)

Indebtedness of Directors and Executive Officers Under Securities Purchase and Other Programs

The table below presents the indebtedness, during the most recently completed financial year of the Bank, of each individual who is, or was during the most recently completed financial year, a director or Executive Officer⁽¹⁾ of the Bank, of each proposed nominee for election as a director of the Bank, and of each associate of any such director, Executive Officer or proposed nominee. The loans are granted either by the Bank or any of its subsidiaries, or any other entity, if the indebtedness is the subject of a guarantee, a letter of credit provided by the Bank or any of its subsidiaries, a support agreement, or other similar arrangement or understanding.

Name and Principal Position	Involvement of Bank or Subsidiary	Largest Amount Outstanding During Financial Year Ended October 31, 2006 (\$)	Amount Outstanding as at December 18, 2006 (\$)	Financially Assisted Securities Purchases During Financial Year Ended October 31, 2006	Security for Indebtedness	Amount Forgiven During Financial Year Ended October 31, 2006 (\$)
Securities Purchase Programs						
Pascal Duquette President and Chief Executive Officer, Natcan Investment Management Inc.	Indebtedness to National Bank of Canada	679,048 ⁽²⁾	643,901 ⁽²⁾	N/A	N/A	N/A
Other Programs						
Pierre Fitzgibbon Senior Vice-President Finance, Technology and Corporate Affairs	Indebtedness to National Bank of Canada	168,707 ⁽³⁾ 457,541 ⁽⁴⁾	131,906 ⁽³⁾ 459,879 ⁽⁴⁾	N/A N/A	N/A N/A	N/A N/A
Charles Guay President and Chief Executive Officer, Altamira and National Bank Securities Inc. and Senior Vice-President, Mutual Funds	Indebtedness to National Bank of Canada	167,113 ⁽³⁾ 225,624 ⁽⁵⁾	96,448 ⁽³⁾ 180,148 ⁽⁵⁾	N/A N/A	N/A N/A	N/A N/A
Alice Keung Senior Vice-President Information Technology	Indebtedness to National Bank of Canada	191,980 ⁽⁵⁾	167,485 ⁽⁵⁾	N/A	N/A	N/A
Olivier H. Lecat Senior Vice-President Internal Audit	Indebtedness to National Bank of Canada	100,255 ⁽³⁾	100,000 ⁽³⁾	N/A	N/A	N/A
Luc Paiement Co-President and Co-Chief Executive Officer, National Bank Financial Group and Senior Vice-President	Indebtedness to National Bank of Canada	388,856 ⁽⁴⁾	390,849 ⁽⁴⁾	N/A	N/A	N/A
Benoit Villeneuve Vice-President Finance	Indebtedness to National Bank of Canada	175,953 ⁽⁵⁾	162,858 ⁽⁵⁾	N/A	N/A	N/A

SECTION 4 Other Information (cont.)

- (1) For the purposes of this section, the term “Executive Officers” has the meaning set out in paragraph 1.1(1) of National Instrument 51-102 Continuous Disclosure Obligations and includes the President and Chief Executive Officer, the Chief Operating Officer, the Senior Vice-Presidents, the Vice-Presidents in charge of a principal business unit, division or function of the Bank as well as any members of management of the Bank or its subsidiaries who perform a policy-making function in respect of the Bank.
- (2) This amount represents loans granted by the Bank for acquiring common shares in the capital stock of 9130-1564 Québec inc. These loans are granted under the long-term bonus program of Natcan Investment Management Inc. and are secured by a movable hypothec for repayment of the loans. The principal bears interest at the prime rate of the Bank less 2% and, subject to the usual prepayment clauses, at least 5% of the principal is repayable on June 30 of each year.
- (3) This amount represents one or more personal loans granted to purchase sundry goods and investments, according to the standards applicable to clients, except for the interest rate, which ranges between half of the prime rate and the Bank's prime rate, or a loan under a relocation agreement. This amount may also represent the balance of a personal line of credit, granted according to the standards applicable to clients, except for the interest rate, which ranges between the prime rate less 3% (but not less than the prime rate divided by 2) and the Bank's prime rate. The aggregate of the personal loans granted and the amounts authorized as a personal line of credit is not to exceed 50% of the annual gross salary of the borrower for the reduced-rate portion. The excess will be loaned at the prime rate for these products. This amount may also represent any unpaid balance on the MasterCard account, bearing interest at the rate granted to the average client divided by 2.
- (4) This amount represents one or more personal leveraged loans (“Leveraged Loans”) granted 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 interests in each limited partnership comprising the EdgeStone Affiliate Fund co-investment program. This program provides officers and eligible employees of the Bank and the entities that are part of the same group as the Bank the opportunity to co-invest with EdgeStone Capital Equity Fund II-A, L.P., EdgeStone Capital Equity Fund II-B, L.P., and EdgeStone Capital Venture Fund II, L.P. (collectively, the “Main Funds”) and 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 the entities that are part of the same group as the Bank (the “Lender”) through limited recourse Leveraged Loans. The Leveraged Loans bear interest and will mature on the earliest of: i) the 10th anniversary date of the establishment of the applicable Main Fund, ii) the dissolution of the applicable EdgeStone Affiliate Fund limited partnership, iii) the sale or disposal of the applicable EdgeStone Affiliate Fund limited partnership interest held by a participant, or iv) the date the principal amount of the Leveraged Loans 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). The Lender's recourse for the balance of the Leveraged Loans is limited to the participant's EdgeStone Affiliate Fund limited partnership interest and the distributions thereon.
- (5) This amount represents one or more loans secured by a mortgage on the borrower's main residence which exceeds the borrower's annual salary. Such a loan 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%. This amount may also represent one or more loans secured by a mortgage on the borrower's secondary residence granted at market terms and conditions. Furthermore, this amount may represent an All-In-One loan; namely, a margin loan secured by a mortgage on the borrower's principal residence (provided it is a single family dwelling). Such a loan is granted at the prime rate less 2% (but not less than the prime rate divided by 2). All-In-One loans secured by a mortgage on any other real estate owned by the borrower are granted at market terms and conditions.

Liability Insurance for Directors and Officers

The Bank has a liability insurance policy for the directors and officers of the Bank and its subsidiaries. This policy protects directors and officers under circumstances where the Bank cannot indemnify them or it is not authorized to do so. The policy provides coverage of up to \$100,000,000, with no deductible.

The annual premium for this insurance is \$689,059. The policy expires on August 31, 2007.

Repurchase of Shares

As at the date of the Circular, the Bank had a normal course issuer bid (the “Issuer Bid”) in place under which it could repurchase for subsequent cancellation through the Toronto Stock Exchange (the “TSX”), from time to time and during the period stipulated hereinafter, a maximum of 8,278,000 common shares representing approximately 5% of the outstanding common shares of the Bank.

In the opinion of the Board, the repurchase of common shares under the Issuer Bid constitutes an appropriate use of the Bank's surplus funds. The Issuer Bid commenced on January 23, 2006 and will end on January 22, 2007. The price paid by the Bank for any common share it purchases is the prevailing market price of a common share on the TSX on the purchase date.

Shareholders may obtain, free of charge, a copy of the notice of intention regarding the current Issuer Bid of the Bank, which was approved by the TSX, by writing to the Corporate Secretary's Office of the Bank at 600 de La Gauchetière West, 4th Floor, Montreal, Quebec, Canada H3B 4L2.

SECTION 4 Other Information (cont.)**Minutes**

A copy of the minutes of the Annual Meeting of Common Shareholders of the Bank held on March 8, 2006 was mailed to shareholders, together with the Circular.

Additional Information

Additional information about the Bank may be obtained from its website (www.nbc.ca) and from the SEDAR website (www.sedar.com).

Financial information on the Bank can be found in the consolidated financial statements and Management's Discussion and Analysis for the Bank's most recently completed financial year.

The Bank will, upon request, promptly provide to any shareholder, free of charge, a copy of the Annual Report, a copy of the Annual Information Form together with a copy of any document incorporated therein by reference, a copy of the annual consolidated financial statements for the financial year ended October 31, 2006 with the accompanying auditor's report, a copy of any subsequent quarterly report and a copy of the Management Proxy Circular of the Bank with respect to its most recent Meeting involving the election of directors. To obtain copies of these documents, please send your request to the Corporate Secretary's Office of the Bank at 600 de La Gauchetière West, 4th Floor, Montreal, Quebec, Canada H3B 4L2.

Approval of the Board of Directors

The Board has approved the content of the Circular and the mailing thereof to shareholders.



Linda Caty
Vice-President and Corporate Secretary
January 16, 2007

SCHEDULE A Shareholder Proposals**Shareholder Proposals**

Proposal Nos. 1, 2, 3, 4, 5 and 6 were presented to the management of the Bank by the Mouvement d'éducation et de défense des actionnaires (MÉDAC), 82 Sherbrooke Street West, Montreal, Quebec, Canada H2X 1X3.

Proposal Nos. 7, 8, 9 and 10 were presented to the management of the Bank by Mr. Lowell Weir, 4 Armoyn Court, Bedford, Nova Scotia, Canada B4A 3L5.

Proposal No. 1*Shareholder proposal and statement [Translation]:*

"It is proposed that the Bank disclose to shareholders in the Management Proxy Circular the names of the "consulting firms" retained by the Board for compensation-related matters, the nature of their mandates and, if mandated by the Bank's management or the Board, the fees and any other form of compensation paid to them.

In recent years, the stratospheric compensation levels of executive officers in public corporations have met with general disapproval. It is time for shareholders to put the brakes on. According to prominent French press columnist Jean-François Khan:

"When the top brass vote in favour of astronomical compensation, golden retirements or huge bonuses for themselves, it proves how incredibly and ridiculously out of touch they are with reality. No one is 600 times – much less 1,400 times – more intelligent than another. Stock options should be taxed at 90%."

The culture of insatiable greed, which has permeated so many public companies, is a corrosive and destructive element at the root of much publicized scandals throughout the industrialized world."

Position of the Bank:

To ensure it has all the information it needs to make informed decisions and to keep abreast of market trends and best practices regarding officer compensation, the Board retains the services of external compensation consulting firms to determine a fair level of compensation, meaning a level that enables it to attract and retain the kind of talent needed for the success of the organization. The nature of the mandates assigned to these firms by the Board or management is determined only at the time they are assigned.

The Board is sensitive to shareholder concerns as regards the control exercised by the Board and its use of discretion in establishing officer compensation. The Board is of the opinion that it is reasonable to report on the fees paid to external firms retained by the Board and on the nature of the mandates entrusted to them. Moreover, the Bank already discloses the information requested by the shareholder in accordance with current regulatory requirements.

More detailed information is provided in the "Independent External Advisors" section of the Circular.

For these reasons, management recommends voting FOR this proposal.

Proposal No. 2*Shareholder proposal and statement [Translation]:*

"It is proposed that compensation paid to executive officers be established in relation to the average salary of employees, the Bank's expenses and its financial success.

The ratio of executive compensation, including stock options, to the average salary of Bank employees should be disclosed. Moreover, compensation should be based on financial results. A recent study of the Ontario Municipal Employee Retirement System (OMERS) showed no correlation between executive compensation and the financial success of more than 60 Canadian publicly-listed companies, including Royal Bank. It would therefore be logical to conclude that the Bank's executive compensation is set arbitrarily, in disregard of good governance principles and shareholder interests."

Position of the Bank:

The Board considers compensation an essential management tool for attracting and retaining high-calibre, top-performing officers. It is therefore critical to offer compensation that is competitive with the Bank's reference market and not based on the average salary of employees.

The Human Resources Committee annually reviews total compensation policies for employees and officers to ensure they serve the interests of shareholders and promote the organization's long-term success.

The Board considers it necessary to tie in the compensation of the Bank's officers with the Bank's financial results. It is for this reason that the proportion of the variable compensation paid to officers varies from 44% to 94% of their target total direct compensation, depending on their line level and activity sector.

SCHEDULE A Shareholder Proposals (cont.)

The purpose of the Bank's short-term variable compensation programs is to encourage officers and employees not only to achieve, but to surpass, the financial objectives set by the Bank at the beginning of the year. In fact, the financial criteria used to determine the level of results achieved are directly related to return on shareholder equity. Lastly, minimum thresholds for financial results must be reached in order for programs to be applied, and individual contributions to those results are necessary in order for bonuses to be paid. For more information, refer to the "Medium- and Long-Term Variable Compensation Programs" heading of the "Report of the Human Resources Committee" section in the Circular.

The Board is of the opinion that the total compensation policy for executive officers is based on well-defined criteria and objectives and that the compensation paid is directly related to the Bank's financial results.

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

Proposal No. 3*Shareholder proposal and statement [Translation]:*

"It is proposed that stock options awarded to executive officers be closely aligned with the Bank's Added Economic Value (AEV).

Stock options granted to officers favour short-term share price growth, and are therefore detrimental to the interests of the Bank's shareholders. Robert Bertram, Executive Vice-President of the powerful Ontario Teachers' Pension Plan, says, 'If options vest immediately, you might as well give them cash and get it over with. Don't go through the illusion that you are trying to tie them into shareholder value. [...] Clearly the shareholders' interests are not being taken care of in those plans.'

The cost of options and exercising them must be linked to the creation of value for shareholders. If earnings increase faster than indebtedness, AEV is positive, which means that officers have created value for shareholders. If AEV is negative, they have jeopardized shareholders' equity, even if the stock trades at a higher price in the short term."

Position of the Bank:

Over the past three years, the Board has considered whether it is appropriate to maintain the Bank's Stock Option Plan in its current form. It has examined a number of scenarios and concluded that the existing program remains appropriate given the various restrictions on the vesting and exercise of options and the Bank's strategic vision implemented in recent years in terms of credit risk management.

In order to further align the interests of Bank officers with those of shareholders, the Stock Option Plan provides for options to vest over a four-year period, at a rate of 25% per year. Each officer on the Bank's Executive Committee must, upon exercising stock options granted after December 2002, keep for one year, in the form of common shares of the Bank, an amount equal to the gain resulting from such exercise, after tax treatment. Moreover, officers who are members of the Bank's Executive Committee are required to disclose their intention to exercise their stock options, regardless of the date on which the options were granted, by way of a news release issuable five business days prior to the intended exercise date.

The Stock Option Plan clearly provides that the price of an option may under no circumstances be lowered after the grant. Thus, Plan participants can benefit from the options granted to them only if the stock price steadily increases in the long term.

The Board is of the opinion that the Stock Option Plan remains appropriate in its current form and is aligned with the Bank's total compensation strategy, which aims to further the long-term interests of its shareholders and the Bank's long-term growth.

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

Proposal No. 4*Shareholder proposal and statement [Translation]:*

"It is proposed that women occupy a minimum of one third of the seats on the Board of Directors of the Bank within three years.

The percentage of women serving as bank directors is ridiculously low, due to a long-standing, archaic tradition that relegates women to the lower echelons in major financial institutions, despite the fact that over 50% of university graduates are female. In Quebec, 24 government corporations are now required to appoint women to 50% of the seats on their boards of directors. This example should be followed in the long run by the Bank, where female representation on the Board of Directors has not kept up with the times, reflecting the situation prevalent among the vast majority of boards of public corporations where male representation continues to dominate. Statistics show that 30% of Canadian corporations have no more than one female director on their boards; 12% have two; 4%, three; 1%, four; and 1%, five, as is the case for National Bank of Canada."

Position of the Bank:

As previously described, when selecting directors the Conduct Review and Corporate Governance Committee assesses nominees, as part of the nomination process for new directors, on the basis of various selection criteria, namely, their expertise, availability, reputation for honesty and integrity, understanding of regional, national and international issues, independence and the compatibility of their potential contribution with that of other Board members, without any gender bias. The primary consideration is to have the most qualified directors so that the Board can fully assume its role of overseeing the management of the Bank's business.

SCHEDULE A Shareholder Proposals (cont.)

The Bank is very sensitive to the issue of female representation on its Board of Directors. It has three female directors, accounting for 20% of the seats on the Board, which places the Bank in the median of its reference market.

The Bank is pleased to see the growing number of female university graduates, and is convinced that many of them will go on to become high-calibre nominees for directorships or management positions within the Bank as and when they become available. It would be contrary to best corporate governance practices to expand the size of the Board simply to recruit new female nominees.

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

Proposal No. 5

Shareholder proposal and statement [Translation]:

“It is proposed that the Annual Report include a comprehensive summary of the financial statements of the Bank’s subsidiaries.

Subsection 157(2) of the *Canada Business Corporations Act* and Subsection 310(2) of the *Bank Act* stipulate that shareholders of a corporation and their personal representatives may, upon request, examine the financial statements of subsidiaries during the usual business hours of the corporation and make extracts free of charge. Refusing to grant a shareholder’s request to examine the statements of subsidiaries could result in significant legal costs for a company as well as jeopardize or infringe on shareholders’ rights. One way in which the Bank can respect such rights is to include a summary of the financial statements of its subsidiaries in its Annual Report.

Informed shareholders, in fact, can only exercise their vote if they possess accurate, audited information of all the company’s operations, including those of the subsidiaries whose financial statements are currently beyond the scrutiny of shareholders. The culture of secrecy contravenes the principles of good governance. It is illogical and incongruous for public companies to be both open and closed!”

Position of the Bank:

Contrary to the claim made by the shareholder submitting this proposal, the Bank respects the right of shareholders to examine the financial statements of its subsidiaries and is transparent in this regard. Any shareholder who so requests is allowed to review the financial statements of the Bank’s subsidiaries, in compliance with the relevant provisions of the *Bank Act* (Canada), at the Bank’s Head Office during regular business hours. Recourse to the courts is not necessary for a shareholder to gain access to the financial statements of the Bank and its subsidiaries.

In view of this situation, management considers it unreasonable for the Bank to be required to include a summary of its subsidiaries’ financial statements in its Annual Report given that they are already indirectly included in its consolidated financial statements. These statements provide the shareholder reviewing them with an overview of the financial position of both the Bank and its subsidiaries.

Lastly, management is of the opinion that agreeing to such a request would unnecessarily lengthen the Annual Report and increase its production costs.

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

Proposal No. 6

Shareholder proposal and statement [Translation]:

“Given the serious concerns voiced by many observers and regulators concerning the effects of hedge funds on the stability of the financial system, it is proposed that the Bank make publicly available information on its direct or indirect participation in this type of activity.

La puissance des hedge funds menace la planète finance [The power of hedge funds threatens the financial community (Translation)] was the headline on *Le Monde économie* on October 3, 2006. The newspaper article focused on Amaranth, the US speculative fund that posted losses in excess of US \$6 billion (more than 50% of its assets) within a two-day period through speculative trading on the gas market. The article also made reference to the collapse of another US hedge fund, LTCM, which compelled the US Federal Reserve to lower interest rates to avert a ripple effect in the financial system. The October 5, 2006 issue of *La Presse* printed a recommendation by the Investment Dealers Association of Canada (IDA) to regulate speculative funds in order to protect investors. These funds, which have tripled in recent years, operate predominantly out of tax havens and continue to be non-transparent and beyond the reach of controls. They are regulated only indirectly through monitoring by their lending institutions.”

Position of the Bank:

The Bank, either directly or indirectly through its subsidiaries, retains the services of portfolio fund managers of “absolute return” funds (also known as “hedge funds”) to manage segregated funds using its own capital and those of certain clients. Portfolio managers are authorized to direct trading related to such accounts, but not to transfer funds or securities out of these accounts. All trading is monitored on a daily basis by the Bank’s risk management systems. The aggregate value at risk for the Bank includes such trading and is subject to the same approval process as other investment activities. Management is therefore of the opinion that special disclosure is not necessary given that these activities are adequately monitored and present low risk.

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

SCHEDULE A	Shareholder Proposals (cont.)
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Proposal No. 7*Shareholder proposal and statement:***“Independent Committee on Shareholder Proposals**

It is proposed that the Bank set up a proactive policy on proposals from shareholders by establishing an Independent Committee excluding Management to evaluate proposals submitted from Bank shareholders. Currently, proposals from shareholders are automatically rejected by Management without (in my opinion) proper and due consideration. A review of proposals submitted in the last seven years provides support for this assertion.

Year	Number Of Proposals	Number Supported by Management	Number Subsequently Implemented by the Bank
2006	4	0	0
2005	4	0	1
2004	11	0	2
2003	4	0	1
2002	1	0	0
2001	4	0	1
2000	6	0	5

It is recommended that the Independent Committee review proposals submitted and provide recommendation to Management and shareholders.”

Position of the Bank:

Bank management scrupulously examines each proposal submitted by shareholders and determines whether it should be included in the Management Proxy Circular in accordance with the criteria established by the *Bank Act* (Canada). The Bank then adopts a position, based on its own interests and those of shareholders, on proposals to be included. Any Bank sectors affected by the proposal participate in developing the position to be adopted by management. The Conduct Review and Corporate Governance Committee, which is comprised entirely of independent members, studies the proposals received, as well as management’s recommendations thereon, and approves such recommendations, as applicable.

The Bank is sensitive to requests submitted by shareholders. There have been many occasions where management has been receptive to the principle at the core of a proposal but refrained from taking a position in its favour either because of the wording or because of ambiguities in the related regulations. On such occasions, management made the necessary changes to respond affirmatively to the shareholder’s concerns, without, however, adopting the proposal. In other situations, as is the case this year, management has recommended that shareholders vote in favour of a proposal.

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

Proposal No. 8*Shareholder proposal and statement:***“Annual Meeting-Alternate Language of Meeting**

It is proposed that in alternating years, the Annual Meeting of the Bank be conducted in English.

In the last several years the Bank has raised the profile of the Bank in English Canada and the United States, adding a large number of English speaking shareholders.”

Position of the Bank:

The Bank’s Annual Meeting of Shareholders is usually held in Montreal. As meeting attendees are primarily French-speaking, management feels the meeting should be conducted in French. However, a simultaneous interpretation service is offered to all those who attend, whether in person or via the Bank’s webcast. Moreover, those who wish to address the meeting may do so in French or English. Lastly, the officers present at the Annual Meeting are able to answer questions in English.

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

SCHEDULE A | Shareholder Proposals (cont.)**Proposal No. 9*****Shareholder proposal and statement:*****“Rotational Annual Meeting**

It is proposed that the Bank hold the Annual Meeting at locations throughout Canada on a rotational basis.

National Bank maintains a large and growing presence among Canadian investors. In recognition of this growing shareholder interest outside its traditional Quebec base, it is proposed that the Annual Meeting be rotated throughout Canada.”

Position of the Bank:

As stated in its mission, the Bank “builds on its position of strength in Quebec to continue its expansion elsewhere in Canada and in other select markets.” Management is therefore of the opinion that the Bank’s Annual Meeting of Shareholders – an important public relations event – be held in Quebec where most of its clients are located. Holding the annual meeting in a city other than where the Bank’s Head Office is located would cause certain logistical challenges and by extension higher costs. Moreover, most public issuers hold their annual meeting in the city where their head office is located. Finally, all shareholders can access the annual meeting via the webcast, either live or at a later time, from any location.

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

Proposal No. 10***Shareholder proposal and statement:*****“Elimination of Discrimination by Language in the Selection of a Chief Executive Officer**

It is proposed that the Bank eliminate its current (unofficial) policy of discriminating against non-francophone candidates for the position of Chief Executive Officer. It is in the best interests of all shareholders that the position is given to the most qualified candidate.”

Position of the Bank:

Selecting the Chief Executive Officer is a task to which the Board attaches the greatest importance. To assist it in this task, the Board creates, on an as-needed basis, an ad hoc committee composed entirely of independent members who must first identify the qualifications required for this position and subsequently evaluate candidates. Once the specific criteria for each position have been met, all senior officers of the Bank, including the Chief Executive Officer, are selected in a neutral process based on a number of objective criteria such as expertise, knowledge, competencies and management qualities.

Management deems that no discrimination on the basis of language occurs at the Bank. In fact, the Bank is committed to fostering a work environment that is free of all discrimination and has implemented a number of controls to prevent cases of discrimination, namely, a code of professional conduct and a policy on harassment. We are also the only financial institution to have signed a memorandum of understanding in this regard with the Canadian Human Rights Commission. Bank employees or officers who feel they are victims of discrimination have recourse to various channels through which they may file a complaint and seek appropriate assistance (such as the Employees’ Ombudsman). The Bank does its utmost to prevent discriminatory actions and, should such situations arise, ensures appropriate corrective measures are taken as quickly as possible.

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

SCHEDULE B Mandate of the Board of Directors

Mission and Main Responsibilities

The main duty of the Board of Directors (the “Board”) of National Bank of Canada (the “Bank”) is to oversee the Bank’s management, safeguard its assets, and ensure its viability, profitability and development. The Board is assisted by three committees: the Audit and Risk Management Committee, the Conduct Review and Corporate Governance Committee and the Human Resources Committee. It assigns responsibility for managing and directing the operations of the Bank to management and assumes the duties and responsibilities set out herein.

Composition and Independence

The Board is composed of directors who possess extensive complementary knowledge, competencies and skills, as well as relevant expertise enabling them to make an active, informed and profitable contribution to the management of the Bank, the conduct of its business and the orientation of its development.

Directors have the necessary time and interest to perform their duties effectively.

Directors act with integrity and exercise impartial judgment in performing their duties and fulfilling their responsibilities. They are bound by the provisions of the Code of Professional Conduct and other rules of ethics applicable to directors, officers and employees of the Bank and its subsidiaries.

A majority of the members of the Board are directors who are “independent” within the meaning of the regulations of the Canadian Securities Administrators.

The members of the Board who are independent regularly meet *in camera* at the end of each Board meeting under the direction of the Chairman of the Board.

The Board, either directly or through one of its committees, adopts structures and procedures to ensure the Board functions independently of management.

Directors are required to disclose any conflict of interest to the Chairman of the Board or to the Chair of the Conduct Review and Corporate Governance Committee.

1. Duties and Responsibilities

The Board, either directly or through its committees, has the following duties and responsibilities:

(i) Strategic Planning

Review, discuss and periodically approve a strategic plan in which the Bank establishes its mission, vision, business objectives and strategy, taking into account the business opportunities and risks for the Bank, as well as the business plans relating to the main operations of the Bank.

Review, discuss and periodically approve business plans relating to the Bank’s main operations and have them updated regularly to ensure they remain appropriate and prudent given the Bank’s economic and business environment, its resources and its results.

Review and approve the Bank’s actual operating and financial results in relation to projected results based on its business objectives, its strategic plan and its business plans.

Review and approve operating budgets.

(ii) Assessing Risks

Review and approve the overall risk philosophy and risk tolerance of the Bank, recognize and understand the major risks to which the Bank is exposed and ensure that appropriate systems are set up for effective management of those risks.

Require that management report on the major risks to which the Bank is exposed, the integrity of procedures and controls to manage those risks and the overall effectiveness of the risk management process.

Plan an independent assessment of risk controls and procedures implemented by the Bank.

Require that management adopt a process aimed at determining the Bank’s appropriate level of capital in terms of the risks assumed and oversee its implementation and application.

Discuss and approve all major policies of the Bank, including those setting acceptance, monitoring, management and reporting rules for material risks to which the Bank is exposed, as well as changes to risk management policies.

Approve all certifications, reports and any other declarations required from time to time by a regulatory authority and that fall within the Board’s purview.

Approve all material aspects of risk ratings and assessment processes.

(iii) Description of the Duties of the Chairman of the Board

Approve the description of the duties assumed by Chairman of the Board when the directors who are members of management or the Chairman of the Board is not present.

Assess, on an annual basis, the performance of the Chairman of the Board.

(iv) Succession Planning and Director Compensation

Approve the appointment of any new nominee for the position of director, review and approve directors’ compensation, how that compensation is paid, and the allowances given to directors, and oversee the succession planning process for the Board introduced by the Conduct Review and Corporate Governance Committee.

(v) Assessing the Effectiveness of the Board and Revising its Mandate

Regularly assess the effectiveness of the Board, its committees and its directors, in accordance with a process implemented by the Conduct Review and Corporate Governance Committee.

Review the mandate of the Board periodically.

(vi) Succession Planning for Senior Management

Select and evaluate the President and Chief Executive Officer, set his compensation, and ensure succession planning.

Approve the appointment of qualified and competent members of senior management, set their compensation, ensure their training and development, and plan their succession.

(vii) External Auditors

Recommend to the shareholders the appointment of the external auditors and approve their remuneration.

SCHEDULE B | Mandate of the Board of Directors (cont.)
(viii) Communication and Disclosure

Approve policies on the communication and disclosure of information to shareholders, investors and the general public.

Ensure that measures are in place to receive feedback from Bank clients, shareholders, investors as well as any other stakeholders, including financial analysts.

(ix) Integrity and Ethics

Ensure that the rules of conduct and ethics are maintained, in particular by adopting a code of professional conduct for directors, officers and employees of the Bank and its subsidiaries and that the Bank has an ongoing, appropriate and effective process to guarantee compliance with these rules.

Ensure that any material breach of the code of professional conduct by a director or member of senior management is disclosed in accordance with continuous disclosure obligations.

Require that management set up a compliance program to ensure Bank compliance with the Act, applicable regulations and any other obligations.

Ensure, to the extent possible, that the Chief Executive Officer and other members of senior management are highly principled and that they foster a culture of integrity throughout the organization.

Review and approve sound internal governance policies.

(x) Material Transactions

Discuss and approve any activity, contract or agreement that is not compatible with the Bank's mission or is not in its normal course of business.

Review and approve policies with respect to major initiatives and activities.

(xi) Governance of Major Subsidiaries

Discuss and determine the structure and general corporate governance principles applicable to the Bank's major subsidiaries in order to enhance the effectiveness of the supervision carried out by the Board.

Ensure that procedures are in place for communication between the Board and committees of the Bank and those of its main subsidiaries.

(xii) Exclusive Powers

Approve all matters that the Act assigns exclusively to directors, in particular the approval of dividends, certain related party transactions under the Act, and procedures to resolve conflicts of interest.

(xiii) Residual Powers

Assume any responsibility not delegated to management.

2. Board Committees
(i) Types of Committees

The Board is responsible for overseeing the management of the Bank and may set up the appropriate committees to assist it in this role.

The Board may, from time to time, review the types of committees, appoint members and delegate the appropriate authority to such committees, and approve their respective mandates.

(ii) Composition

The directors appoint the Committee members and ensure that each committee's composition complies with all applicable regulations.

(iii) Committee Mandates

Together with the Conduct Review and Corporate Governance Committee, the Board develops and approves the mandates of each Board committee as well as those of the Chairman of the Board and committee chairs. The mandates describe their respective roles and responsibilities.

(iv) Committee Minutes

The Board committees record the minutes of each of their meetings, and the minutes are made available to the Board.

(v) Special or Ad Hoc Committees

The Board may, from time to time, form appropriate special or ad hoc committees.

3. Expectations of the Board Regarding Directors

The Board requires that directors comply with the obligations set out in the "Composition and Independence" section hereof insofar as concerns the rules of conduct and ethics, the amount of time directors must devote to their duties, and the requisite competencies. The directors must also comply with the Charter of Expectations for directors.

Together with the Conduct Review and Corporate Governance Committee, the Board oversees the implementation of orientation programs for new directors and ongoing education programs on the operations of the Bank and its subsidiaries for all Bank directors that take into account each director's needs and knowledge.

4. Expectations of the Board Regarding Management
(i) Duty to Report

Management is responsible for the day-to-day management of the Bank's operations pursuant to the powers delegated by the Board and in accordance with the laws and regulations applicable to the Bank.

Management facilitates the Board's supervision of business operations and internal administration of the Bank by the members of the Board by providing the Board with accurate, complete, relevant and timely information and reports. Management reports to the Board, providing it with informed opinions on such matters as the Bank's objectives, strategies, plans and policies.

Head Office

National Bank of Canada
National Bank Tower
600 de La Gauchetière West, 4th Floor
Montreal, Quebec, Canada H3B 4L2
Telephone: 514-394-5000
Website: www.nbc.ca

Transfer Agent and Registrar

For information about stock transfers, address changes, dividends, lost share certificates, tax forms and estate transfers, shareholders are requested to contact Computershare Trust Company of Canada, the Bank's Transfer Agent and Registrar, at the address and telephone numbers below.

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

For all correspondence (mailing address):
Computershare Trust Company of Canada
100 University Avenue, 9th Floor
Toronto, Ontario, Canada M5J 2Y1

Other shareholder inquiries may be addressed to:

Investor Relations
National Bank of Canada
National Bank Tower
600 de La Gauchetière West, 7th Floor
Montreal, Quebec, Canada H3B 4L2
Telephone: 1-866-517-5455
Fax: 514-394-6196

E-mail address: investorrelations@nbc.ca
Website: www.nbc.ca/investorrelations

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