NATIONAL BANK OF CANADA

Notice of Annual Meeting of Shareholders
March 8, 2006

Management Proxy Circular

YOUR TRUSTED PARTNER | today and tomorrow

Your participation is important
Please take a few minutes to vote

NATIONAL BANK OF CANADA

January 18, 2006

Dear Shareholder,

We are pleased to invite you to attend the Annual Meeting of Shareholders of National Bank of Canada together with the members of the Board of Directors and management, to be held at 9:30 a.m., on March 8, 2006, at the Fairmont The Queen Elizabeth Hotel, 900 René-Lévesque Boulevard West, Montreal, Quebec.

This Annual Meeting is your Meeting. It is an opportunity for us to inform you of the results of National Bank of Canada and its current projects and, above all, for you to voice your opinion on the items put to a vote at this Meeting.

Your participation is important to us. If you cannot attend this Meeting in person, you can nonetheless express your opinion on the items to be voted on by using the form of proxy or the voting instructions form, which are attached to the Management Proxy Circular.

It is important for you to read the items to be voted on at this Meeting, which are set out in the attached Management Proxy Circular.

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

Sincerely,

Jean Douville
Chairman of the Board

Réal Raymond
President and Chief Executive Officer

Notice of Annual Meeting of Shareholders

Date: **Wednesday, March 8, 2006**
Time: **9:30 a.m. (Eastern time)**
Place: **Fairmont The Queen Elizabeth Hotel**
900 René-Lévesque Boulevard West
Montreal, Quebec
Canada

NATIONAL BANK OF CANADA

Business of the Meeting:

1. Receive the consolidated financial statements for the financial year ended October 31, 2005 and the auditor's report thereon;
2. Elect directors;
3. Appoint the auditor;
4. Consider proposals presented by shareholders, as set out in Schedule A of the Management Proxy Circular; and
5. Transact such other business as may properly be brought before the Meeting.

Holders of record of common shares of National Bank of Canada at 5:00 p.m. on January 18, 2006 are entitled to receive the Notice of Annual Meeting of Shareholders. As at that date, 165,575,844 common shares of the Bank were issued and outstanding. Each holder of common shares is entitled to cast one vote per share held, unless restricted in the *Bank Act* (Canada).

By order of the Board of Directors,

Linda Caty
Vice-President and Corporate Secretary

January 18, 2006

Holders of common shares of the Bank who are unable to attend the Meeting are requested to complete, date and sign the enclosed form of proxy. Proxies may be returned by mail in the postage-paid envelope provided to National Bank Trust Inc., Share Ownership Management, P.O. Box 888, Station B, Montreal, Quebec, Canada H3B 9Z9 or sent by fax to (514) 871-3673. In order to be valid, the form of proxy must reach National Bank Trust Inc. no later than 5:00 p.m. (Eastern time) on March 6, 2006.

For any questions regarding the Circular, the form of proxy or the exercise of voting rights, please call 1-866-337-2628.

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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 Meeting of Holders of Common Shares of the Bank (the "Meeting"), for the purposes indicated in the Notice of Meeting, to be held at 9:30 a.m. (Eastern time) on Wednesday, March 8, 2006, at the Fairmont The Queen Elizabeth Hotel, 900 René-Lévesque Boulevard West, Montreal, Quebec, and at any continuation thereof after an adjournment. The solicitation of proxies will be done by mail, electronically, by telephone or in person. Employees, officers, directors or agents of the Bank will solicit the proxies. The Bank will use the services of an outside agency, Georgeson Shareholder Communications Canada, Inc., to solicit proxies on its behalf. The Bank estimates the cost for such solicitation will be approximately $34,000, which it will assume.

Voting Common Shares

Holders of record of common shares of the Bank at 5:00 p.m. on January 18, 2006, or their duly authorized attorneys, are entitled to receive the Notice of Annual Meeting and to vote at the Meeting. After such date, any persons who acquire common shares of the Bank must request, no later than 10 days before the Meeting, that their name be included on the list of shareholders of the Bank in order to be entitled to vote. To do so, such person must contact the transfer agent by writing to National Bank Trust Inc., Share Ownership Management, P.O. Box 888, Station B, Montreal, Quebec, Canada H3B 9Z9, or by calling one of the following numbers: 1-800-341-1419 or (514) 871-7171.

As at January 18, 2006, the date the register of the Bank was closed, 165,575,844 common shares of the Bank were issued and outstanding.

Holders of common shares are entitled to cast one vote per share held. However, the *Bank Act* (Canada) (the "Act") contains provisions which specifically prohibit the exercise of voting rights attached to the shares of the Bank held by the government of Canada or a province or a government 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 carrying more than 10% of the voting rights attached to the common shares of the Bank.

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

Non-registered Shareholders

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

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

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

To vote in person at the Meeting, 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 enclosed form of proxy are directors and/or officers of the Bank. If a shareholder wishes to appoint a proxyholder other than one of the persons designated in the form of proxy, the shareholder may do so by striking out the names appearing thereon and inserting the name of such person in the blank space provided. If the shareholder is a legal entity, an estate or a trust, the form of proxy must be signed by a duly authorized officer or attorney. A proxyholder is not required to be a shareholder of the Bank. In order to be valid, the form of proxy must be returned by mail in the postage-paid envelope provided to National Bank Trust Inc., Share Ownership Management, P.O. Box 888, Station B, Montreal, Quebec, Canada H3B 9Z9, or by fax to (514) 871-3673, no later than 5:00 p.m. (Eastern time) on March 6, 2006.

Voting by Proxy

Common shares represented by a proxy are to be voted by the proxyholder designated in the enclosed form of proxy in accordance with the directions of the shareholder.

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

- FOR the election of all nominees proposed as director;
- FOR the appointment of the auditor; and
- AGAINST the proposals presented by shareholders 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 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 Meeting. 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 Meeting.

Revocation of Proxies

Shareholders may revoke a 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 West, 4th Floor, Montreal, Quebec, Canada H3B 4L2, no later than the last business day preceding the day of the Meeting, namely, at 5:00 p.m. (Eastern time) on March 7, 2006, or any continuation thereof after an adjournment; or
- the Secretary of the Meeting on the day of the Meeting, or any continuation thereof after an adjournment.

Confidentiality of Votes

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

SECTION 2 | Business of the Meeting

Consolidated Financial Statements and Auditor's Report

The consolidated financial statements of the Bank for the financial year ended October 31, 2005 and the auditor's report thereon are included in the Annual Report of the Bank, which has been mailed to shareholders with this Circular.

Election of Directors

Management of the Bank recommends voting FOR the election to the Board of all nominees, whose names and biographies follow.

The section "Information on Nominees for Election to the Board of Directors" presents the professional experience of the nominees for election to the Board of Directors (the "Board") of the Bank. The names of the public corporations on whose boards the nominees currently serve or have served as director in the past five years are also indicated.

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

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

Appointment of Auditor

On the advice of the Audit and Risk Management Committee and 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 financial year commencing November 1, 2005 and ending October 31, 2006.

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.

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

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

Shareholder Proposals

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

The complete text of the proposals on which the shareholders will be voting is provided in Schedule A of this Circular.

Management of the Bank recommends voting AGAINST shareholder proposals Nos. 1 to 4 for the reasons set out at the end of these proposals.

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

Any proposal a shareholder would like to have included at the Annual Meeting of Shareholders to be held in 2007 must be received within the time limits prescribed in the Act.

Information on Nominees for Election to the Board of Directors

Lawrence S. Bloomberg
Age: 63
Toronto, Ontario

Common shareholdings[(1)]:
623,459

- *Director since August 1999*
- *Meets the 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. Prior to that, Mr. Bloomberg was Chairman of the Board, President and Chief Executive Officer of First Marathon Inc., a company he founded in 1979 and which was integrated with National Bank Financial Inc. in 1999.

Mr. Bloomberg has extensive expertise in the financial sector, both nationally and internationally. He contributed to the growth of several financial companies before starting his own business and becoming one of the Bank's experts in financial matters. As a result of his involvement in several business organizations, he brings valuable insight and a unique perspective to the Board concerning developments in the financial sector in Canada and abroad.

Mr. Bloomberg currently serves as Chairman of the Board of Medical and Related Sciences Discovery District and of Mount Sinai Hospital. In the past five years, he served as a director of Cinram International Inc.

Pierre Bourgie
Age: 49
Outremont, Quebec

Common shareholdings:
104,825

- *Director since March 1998*
- *Chair of the Audit and Risk Management Committee*
- *Member of the Conduct Review and Corporate Governance Committee*
- *Meets the shareholding requirements for directors*
- *Independent*

Mr. Bourgie is 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. He is 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: 62
Lac-Brome, Quebec

Common shareholdings: –

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

Mr. Caillé is a Corporate Director. He was Chairman of the Board of Directors of Hydro-Québec 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 progressively senior executive positions with Gaz Métro Inc., formerly known as Gaz Métropolitain, Inc., where he was President and Chief Executive Officer from 1987 until 1996. He was also Director of Services de protection de l'environnement and Deputy Minister of the Environment of Quebec from 1974 to 1982.

Over the years, Mr. Caillé has received a number of prestigious awards, including the Prix Hommage Pierre-Decelles to recognize his excellence as a manager. 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 and, in this capacity, he presides over meetings of the board of directors of the university. He is also President of the World Energy Council and serves on several boards, including that of The Conference Board of Canada.

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

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

(1) Common shareholdings include common shares beneficially owned, controlled or directed.
(2) For more information, please refer to the heading "Remuneration of Directors" in the "Report of the Conduct Review and Corporate Governance Committee" section of this Circular.

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

Gérard Coulombe
Age: 58
Sainte-Marthe, Quebec

Common shareholdings: 3,952

Deferred Stock Units ("DSUs")[(1)]: 11,144

- *Director since February 1994*
- *Meets the shareholding requirements for directors*
- *Not independent because the law firm in which Mr. Coulombe is a partner provides, for remuneration, legal services to the Bank and its subsidiaries*

Mr. Coulombe has been a Senior Partner of Desjardins Ducharme, L.L.P. since 1977, where he practises business law. He was appointed Chairman of the Board of the firm in 2000. Mr. Coulombe is also Chairman Emeritus of Lex Mundi, Ltd., a global association of more than 150 independent law firms. He was formerly with the Department of Finance Canada where he was responsible for negotiating international tax treaties.

Mr. Coulombe sits on the boards of the 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 vast expertise in business management and corporate law, especially regarding 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: 57
Cap Shediac, New Brunswick

Common shareholdings: 7,805

- *Director since August 2001*
- *Member of the Audit and Risk Management Committee*
- *Meets the 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 franchisor, since 1993. Mr. Cyr serves on the boards of several companies and is involved with charitable organizations. He was a member of the Bank's 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 New Brunswick Power Corporation.

Shirley A. Dawe
Age: 59
Toronto, Ontario

Common shareholdings: 3,871

DSUs: 4,261

- *Director since July 1988*
- *Member of the Human Resources Committee*
- *Member of the Conduct Review and Corporate Governance Committee*
- *Meets the 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 and advisory company, since 1986. From 1969 to 1985, she held progressively senior executive positions with Hudson's Bay Company.

Her wide management and consumer marketing experience brought Ms. Dawe to the boards of directors of numerous public and private companies in Canada and the United States. Her expertise in the retail sector led to her appointment on industry-specific public task forces and to academic and not-for-profit boards.

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 Bon Ton Stores Inc. In the past five years, she served as a director of Moore Corporation Limited, subsequently known as Moore Wallace Incorporated and then, following a transaction, as R.R. Donnelley & Sons Company and of OshKosh B'Gosh, Inc.

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

SECTION 2 | Business of the Meeting (cont.)

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

Nicole Diamond-Gélinas
Age: 61
Saint-Barnabé-Nord, Quebec

Common shareholdings: 22,285

DSUs: 1,684

- *Director since March 1998*
- *Member of the Audit and Risk Management Committee*
- *Meets the 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 is President of Plastifil Inc., a plastics extrusion and injection molding company. She also heads a company specializing in the sale, leasing and servicing of motor vehicles. Actively involved in her region's business community, she is a member of the Chambre de commerce de Trois-Rivières and was a member of the Mauricie business development committee of the Bank from 1992 to 1998. 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 currently serves on the board of the subsidiary National Bank Life Insurance Company.

She 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.

Jean Douville
Age: 62
Bedford, Quebec

Common shareholdings: 5,139

DSUs: 6,117

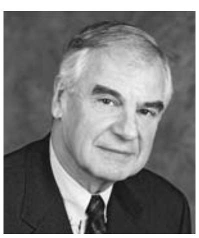
- *Director since November 1991*
- *Chairman of the Board since March 2004*
- *Meets the shareholding requirements for directors*
- *Independent*

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.

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.

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

Mr. Douville currently serves on the board of Genuine Parts Company and Richelieu Hardware Ltd. In the past five years, he served on the boards of Leroux Steel Inc. and Van Houtte Inc.



Marcel Dutil
Age: 63
Outremont, Quebec

Common shareholdings: 20,502

DSUs: 7,488

- *Director since January 1982*
- *Member of the Human Resources Committee*
- *Meets the 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., Groupe Maritime Verreault Inc., Montreal Economic Institute and Manac Inc. In the past five years, he served on the board of Leroux Steel Inc., MAAX Inc., which was privatized in June 2004, and Total Containment, Inc.

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

Jean Gaulin
Age: 63
San Antonio, Texas
United States

Common shareholdings: 23,674

DSUs: 7,486

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

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

Mr. Gaulin served on the board of the subsidiary National Bank Financial & Co. Inc. until January 2, 2005.

He 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 board of Crane Co., RONA Inc. and Saputo Inc. In the past five years, Mr. Gaulin served as a director of Abitibi-Consolidated Inc. and Ultramar Diamond Shamrock Corp.

Paul Gobeil, FCA
Age: 63
Ottawa, Ontario

Common shareholdings: 10,708

DSUs: 18,594

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

Mr. Gobeil is Vice-Chairman of the Board of Metro Inc. and Chairman of the Board of Export Development Canada. He has been a member of the Ordre des comptables agréés du Québec since 1965 and a Fellow since 1986. From 1974 to 1985, he held a number of executive positions at Provigo Inc. Elected as the MNA for 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.

Mr. Gobeil served on the board of the subsidiary National Bank Financial & Co. Inc. until January 2, 2005.

His corporate governance, financial and accounting management and corporate strategy expertise make him an invaluable asset to the Board.

Mr. Gobeil currently serves on the board of Hudson's Bay Company, DiagnoCure Inc., Canam Group Inc. and Metro Inc. and is a trustee of Yellow Pages Income Fund. In the past five years, he served on the boards of MAAX Inc., which was privatized in June 2004, Nstein Technologies Inc., and BridgePoint International Inc.

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

Réal Raymond
Age: 55
Île-des-Soeurs, Quebec

Common shareholdings: 30,803

DSUs for Officers(1): 87,686

- *Director since November 1999*
- *Meets the 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 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 his responsibilities as Senior Vice-President at the Bank. In November 1999, he was named President – Personal and Commercial Bank and, in July 2001, President and Chief Operating Officer of the Bank.

Mr. Raymond serves on the boards of the subsidiaries National Bank Group Inc., Natcan (Asia) Limited, National Bank Acquisition Holding Inc. and Natcan Acquisition Holding Inc. He was a director of National Bank Trust Inc. until August 31, 2005 and of National Bank Life Insurance Company until December 13, 2005.

Mr. Raymond has an MBA from the Université du Québec à Montréal.

He is involved in many professional and community organizations. Mr. Raymond is the Vice-Chair of the Board of Directors of The Conference Board of Canada, and he currently serves on the boards of the Fondation de l'Université du Québec à Montréal, St. Mary's Hospital Foundation and the Montreal Symphony Orchestra. He is also President of The Montreal Museum of Fine Arts Foundation.

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.

Roseann Runte
Age: 57
Norfolk, Virginia
United States

Common shareholdings: 2,488

DSUs: 5,779

- *Director since April 2001*
- *Member of the Conduct Review and Corporate Governance Committee*
- *Meets the 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 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, especially on education and economic and cultural development. Ms. Runte chairs the Commission on International Education. She is a member of the executive committee of the Club of Rome and serves on the board of the Virginia Advanced Shipbuilding Information Carrier Design Center. In the past, she sat on various boards of directors in the literary, cultural and economic development sectors, and she 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 in Canada and abroad, Ms. Runte brings to the Board her vision of the issues facing markets in a globalized business environment.

Ms. Runte currently serves on the board of The Jean Coutu Group (PJC) Inc.

(1) *For more information, please refer to the "Total Compensation of Named Executive Officers" section of this Circular.*
(2) *For more information, please refer to the heading "Share Ownership Guidelines" in the "Compensation Paid to Officers" section of this Circular.*

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

Marc P. Tellier
Age: 37
Town of Mount Royal, Quebec

Common shareholdings: 112

DSUs: 629

- *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 shareholding requirements for directors*
- *Independent*

Mr. Tellier has been President and Chief Executive Officer of Yellow Pages Group, the leading publisher of telephone directories in Canada, since 2001. He has held a number of management positions in sales and finance throughout his career, including Senior Vice-President - Business 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™" for 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 on the board of YPG Holdings Inc. He also currently serves on the boards of the Yellow Pages Association (YPA) and the Canadian Council of Chief Executives.

For further information about the terms and conditions of the remuneration 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 remuneration received during the most recently completed financial year, please refer to the "Report of the Conduct Review and Corporate Governance Committee" section of this Circular.

To the knowledge of the Bank, no director of the Bank is, at the date of this Circular, or has been, in the 10 years prior to the date of this Circular, a director or an executive officer of any other 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) after the director ceased to act in that capacity, 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 because of an event which occurred while the director was acting in that capacity, or (iii) that while the director was acting in that capacity or in the year after the director ceased to act in that capacity, became bankrupt, made a proposal under any bankruptcy or insolvency legislation, was subject to any proceedings, arrangement or compromise with creditors or instituted any proceedings against the same, or had a receiver, receiver-manager or trustee in bankruptcy appointed to hold its assets, except for:

- Gérard Coulombe, who was, until September 28, 2005, a board member of Centre International de Gestion de Projets G.P., a not-for-profit company, which was adjudged a bankrupt on September 29, 2005;

- Marcel Dutil, who was on the board of Total Containment, Inc. when it was placed under the protection of Chapter 11 of the *United States Bankruptcy Code* on March 4, 2004; and

- Paul Gobeil, who, until November 12, 2001, served on the board of BridgePoint International Inc. and its wholly owned subsidiary BridgePoint International (Canada) Inc. BridgePoint International (Canada) Inc. filed a proposal with its creditors on January 25, 2002. The Toronto Stock Exchange suspended trading on the shares of BridgePoint International Inc. on January 31, 2002 for failure to meet the listing requirements of the Toronto Stock Exchange. The shares of BridgePoint International Inc. were delisted from the Toronto Stock Exchange at the close of business on January 31, 2003.

In addition, to the knowledge of the Bank, no director of the Bank has, in the 10 years prior to the date of this Circular, become bankrupt, made a proposal under any bankruptcy or insolvency legislation, been subject to any proceedings, arrangement or compromise with creditors or instituted any proceedings against the same, or had a receiver, receiver-manager or trustee in bankruptcy appointed to hold its assets.

Report of the Audit and Risk Management Committee

Role of the Committee

The Audit and Risk Management Committee (the "Committee") assists the Board of Directors in reviewing financial statements, financial reporting processes, internal controls, audit processes and management information systems to determine their integrity and effectiveness. It also acts as an intermediary between the Board of Directors and independent oversight functions, namely internal audit, external audit, financial analysis and compliance. It oversees the work of the Bank's internal audit, financial analysis and compliance functions and conducts a detailed review of risk management and control methods.

The Committee ensures the implementation and maintenance of appropriate internal control policies and procedures and manages the external audit process. It also reviews certificates and reports that may be required by regulatory authorities and which come under its purview.

At the end of the most recently completed financial year, the Committee was entirely comprised of independent directors (as defined in the heading "Independence of Directors" in the "Summary of the Corporate Governance Practices of the Bank" section of this Circular). All Committee members are financially literate, as described below, and one member has accounting or financial expertise. Their responsibilities are set out in detail in this Committee's mandate, which was revised this year(1).

Members
Pierre Bourgie, Chair
André Caillé(2)
Bernard Cyr
Nicole Diamond-Gélinas
Jean Gaulin
Paul Gobeil

Description of Financial Literacy of Members

All the Committee members are financially literate and can understand the accounting principles used by the Bank in its financial statements, and assess the general application of such 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 such activities. The members also understand financial reporting internal controls and procedures.

All the Committee members have the experience and knowledge needed to properly fulfill their role as members of the Committee since they serve on boards of directors, are at the helm of their respective companies or have relevant education. In addition, a number of them are, or have been, members of audit committees of various companies.

The Committee has one financial expert, Paul Gobeil. He has two Master's degrees in accounting sciences and accounting from the Université de Sherbrooke, as well as extensive experience in the area of business and finance. Mr. Gobeil 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

As already mentioned, one of the Committee's functions is to manage the external audit process. This year, the Committee reviewed and extended the Guidelines for the Management of Services Provided by the External Auditor.

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

- the specific expertise of the external auditor or its intrinsic knowledge of the Bank's activities allow it to carry out the mandate more effectively by limiting redundancies, and reducing the involvement of the Bank's personnel and the time required to complete the mandate;
- 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 the most recently completed financial year and on the Bank's website (www.nbc.ca).
(2) André Caillé has been a member of the Audit and Risk Management Committee since October 27, 2005.

SECTION 3 | Internal Management (cont.)

These services must be pre-approved by the Committee. A 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 assigned to the external auditor for non-audit services and, if it deems appropriate, renews them on an annual basis.

All the services offered to the Bank and its subsidiaries by the external auditor of the Bank must be pre-approved specifically 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 under financing programs;
(c) approval of an annual envelope to obtain interpretations on the application of generally accepted accounting principles and for additional fees related to audit services; and
(d) approval of an annual envelope for taxation mandates.

Audit mandates that are not presented in (a), non-audit mandates that exceed $100,000, and mandates that will exceed the envelopes presented in (b), (c) and (d) are 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 a specific pre-approval is required under these Guidelines, the Bank's management will be required to 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 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 chart below shows the fees that were billed by SB/DT to the Bank and its subsidiaries for various services rendered during the past two financial years.

	2005 ($)	2004 ($)
Audit services(1)	3,533,917	3,691,258
Audit-related services(2)	55,265	–
Tax consulting(3)	1,486,393	1,242,348
Other services(4)	32,055	40,066
Total	5,107,630	4,973,672

(1) Audit fees include fees for services related to the audit of the financial statements of the Bank and its subsidiaries or other services that are normally provided by the external auditor in connection with statutory or regulatory filings or engagements. These fees also include fees for comfort letters, statutory audits, attest 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 assurance and related services that are 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.

Pierre Bourgie

Pierre Bourgie
Chair
Audit and Risk Management Committee

Report of the Human Resources Committee

Role of the Committee

The Board mandates the Human Resources Committee (the "Committee") to review and approve the human resources policies and programs of the Bank that support the Bank's performance objectives and shareholders' interests.

More specifically, the Committee:

- examines the scope of policies governing the total compensation of the Bank's employees and Officers, while ensuring that they serve the interests of shareholders and ensure the company's long-term growth, and recommends their adoption to the Board;
- 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 Report details the Committee's activities and the compensation of the President and Chief Executive Officer, the Senior Vice-Presidents and the Vice-Presidents (the "Officers") of the Bank.

The Committee is composed of independent members (as defined under the heading "Independence of Directors" in the "Summary of the Corporate Governance Practices of the Bank" section of this Circular) who have a mandate to act in the long-term interests of shareholders and employees. The Committee takes into account all analyses and information provided to it and makes recommendations, which are then submitted to the Board for approval.

To set the total compensation of Officers, the Committee regularly enlists the services of independent external consulting firms in order to obtain their expertise and insight into the trends and practices of the Bank's reference market, which consists of widely held Canadian corporations, including major financial institutions.

The Committee is concerned with the following matters:

- **Succession Planning and Development**
  The Committee oversees the Human Resources strategic planning program and management succession and annually monitors the progress of Officers who hold a key position at the Bank, as well as that of candidates identified in the succession plan. The Committee ensures that the Bank will be able to meet its future needs in terms of filling key positions. As such, it is concerned with fostering the loyalty of key succession candidates by ensuring that their functions are challenging, their compensation is competitive and their competencies are broadened.

- **Pay for Performance**
  The short-term variable compensation of the Bank's President and Chief Executive Officer is based on a review of his performance, which is conducted annually by the Committee. At the beginning of the year, the Committee therefore approves a set of individual and corporate performance objectives, which include criteria to benchmark the Bank's financial performance against that of its reference market, the monitoring of the Bank's strategic plan, the quality of risk management, and the level of client satisfaction as well as human resources management indicators. The Committee monitors the achievement of these objectives throughout the year and at the end of the year.

  The Committee also monitors the performance of other Bank Officers. Each year, the President and Chief Executive Officer of the Bank submits performance appraisals to the Committee for its review.

- **Share Ownership Guidelines for Officers**
  The Committee ensures that Officer compensation is closely aligned with long-term shareholder interests. Guidelines have therefore been established for Officer share ownership and are followed up on an ongoing basis to monitor compliance. In addition, specific conditions have been set for the exercise of stock options granted to Officers, as described under the "Stock Option Plan" section of this Circular.

- **Disclosure**
  The Committee considers it essential that shareholders and the Bank's other stakeholders have a clear understanding of the components of Officer compensation and decisions made by the Committee during the year. To do so, it ensures that relevant information is clearly conveyed to them.

Jean Gaulin

Jean Gaulin
Chair
Human Resources Committee

Committee's Achievements in the 2004-2005 Financial Year
During the 2004-2005 financial year, the Committee analyzed various strategic orientations relating to Officer compensation and organizational issues. More specifically, the Committee:

- performed the annual review of the compensation paid to Bank Officers;
- approved the total direct compensation and the short-term variable compensation program for officers of National Bank Financial Group;
- carried out the performance appraisal of the President and Chief Executive Officer;
- reviewed, together with the President and Chief Executive Officer, the annual performance appraisals of Bank Officers who report directly to him;
- examined the Officer competency profile in order to ensure succession planning and development of Bank Officers and monitored, in particular, the succession plan of the Senior Vice-President - Finance, Technology and Corporate Affairs;
- reviewed the Bank's Post-Retirement Allowance Program;
- reviewed the Bank's pension plans and approved a funding policy;
- reviewed the investment policy of the Pool Fund for Participating Pension Plans of the Bank;
- reviewed the 2006-2008 Human Resources strategic plan; and
- reviewed the Bank's medium- and long-term compensation programs and reiterated its decision to maintain the Stock Option Plan.

Compensation Paid to Officers
Principles Governing Officer Compensation
The principles governing Officer compensation on which the Committee bases itself are outlined below, as are certain components of total compensation.

Compensation is one of the 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 Committee sets the target total compensation at the median of the reference market, which comprises widely held Canadian companies, including major financial institutions, adjusted to take into consideration characteristics specific to the Bank.

To ensure an independent perspective and to keep abreast of market trends and best practices regarding officer compensation, the Committee regularly seeks advice from external consultants. In the past financial year, the Committee retained the services of two consulting firms, Hay Group Limited and McLagan Partners Inc.

The following table presents the fees paid to external specialists based on the type of mandate assigned to them.

External Specialists	Fees Paid
Hay Group Limited	
Mandates concerning the compensation of Bank Officers	$ 97,760
McLagan Partners Inc.	
Mandates concerning the compensation of officers of National Bank Financial Group	$ 149,365
Total fees paid	$ 247,125

The recommendations of the Committee 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 segments, thereby allowing for 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 according to the Officer's line level and capacity to influence the Bank's short-, medium- and long-term results; and
- employee benefits and the pension plan are comparable, on the whole, to those offered by the reference market.

SECTION 3 | Internal Management (cont.)

Components of the Compensation of Officers of the Bank
Compensation for Bank Officers consists of three components, complemented by a benefits package:

- base salary;
- annual variable compensation program; and
- medium- and long-term variable compensation programs.

The table below presents the target value of each component of total direct compensation based on the line level of the function.

	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%
Members of the Executive Committee(1)	30%	22%	48%
Senior Vice-Presidents	45%	18%	37%
Vice-Presidents	58%	20%	22%

(1) Excluding Louis Vachon, Chairman of the Board and Chief Executive Officer of National Bank Financial Group, Chairman of the Board of Natcan Investment Management Inc. and Senior Vice-President. For more information on the compensation of Mr. Vachon, refer to the "Annual Bonus Program for Officers on the Policy Committee of National Bank Financial Group" section of this Circular.

Base Salary
The Committee annually reviews the base salaries of Bank Officers, including those of the Named Executive Officers (the "Named Executive Officers") whose compensation is presented in the "Summary of Total Compensation of Named Executive Officers" section of this Circular. Taking into account each Officer's level of responsibility, experience, leadership and sustained contribution, the Committee makes appropriate adjustments when necessary. Similarly, in order to ensure that Officers' base salaries are competitive, the Committee uses the median salaries of the Bank's reference market, adjusted to take into consideration characteristics specific to the Bank.

Annual Variable Compensation Programs
Annual Bonus Program of the Bank
The Bank offers an annual bonus program to all its employees.

Under the terms of this program, the value of the envelope to be shared is calculated according to:

- the Bank's financial results versus 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);
- the Bank's financial performance compared with that of the five other major Canadian banks; and
- the financial results of each business segment.

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 and, when warranted by financial results, the payout potential can reach double the target.

Moreover, 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.

More specifically, the target annual bonus envelope for the President and Chief Executive Officer, the Senior Vice-Presidents on the Executive Committee (excluding Louis Vachon) 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 and maximum percentages.

SECTION 3 | Internal Management (cont.)

Return on Equity (80%)	% Achieved
Threshold[1] = the lesser of: 90% of budgeted ROE 75% of average ROE for the five other major Canadian banks	0%
Target[2] = budgeted ROE	100%
Maximum[3] = the higher of: 110% of budgeted ROE 125% of average ROE for the five other major Canadian banks	200%

Growth in Earnings per Share (20%)	
Zero growth (if average GEPS for the five other major Canadian banks is negative, this average will serve as the threshold)	0%
Target = budgeted GEPS	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 may be paid. However, if the results achieved are between the threshold and the target, the bonus envelope created will be greater than 0% but less than 100% of the target.*
(2) *Target: If the objective budgeted at the beginning of the year is fully achieved, the bonus envelope created will be in line with the annual bonus target level of Officers.*
(3) *Maximum: If the financial results exceed the objectives set at the beginning of the year, the bonus envelope will be greater than 100% of the target, with the maximum payout capped at 200%.*

Annual Bonus Program for Officers on the Policy Committee of National Bank Financial Group

The officers on the Policy Committee of National Bank Financial Group participate in a separate annual bonus program. A bonus envelope is created based on a predetermined percentage of the pre-tax income of National Bank Financial Group.

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 market price of the common shares of the Bank on the Toronto Stock Exchange on the day preceding the grant. Additional RSUs are credited to the officer's account and calculated proportionately to the dividends paid on common shares. The RSUs vest over three years at the rate of one third each year and mature 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 common shares of the Bank on the Toronto Stock Exchange for the 20 days preceding the vesting date of the units.

Medium- and Long-Term Variable Compensation Programs

Summary

The Bank grants stock options on an annual basis to all of its Officers, except for Officers who were not Canadian residents and who receive exclusively stock appreciation rights. In addition, Officers may choose to receive a portion of their long-term compensation in the form of deferred stock units ("DSUs") instead of stock options. Officers on the Policy Committee of National Bank Financial Group and one Bank Officer, receive a portion of their compensation as RSUs. Finally, Officers are required to comply with the share ownership guidelines.

All these plans are described below.

Stock Option Plan

The purpose of the Stock Option Plan is to encourage Officers and other designated persons of the Bank or its subsidiaries to contribute to the growth of shareholder investment by giving them the opportunity to benefit from the appreciation in the value of the common shares of the Bank. Each year, when granting options, the Committee reviews the number and the term of previously granted options. After setting the terms and conditions, the Committee grants options, on an annual basis, to Officers and other designated persons of the Bank and its subsidiaries.

Options vest over four years at the rate of 25% annually. They may be exercised in whole or in part before the expiration date determined by the Committee at the time they are granted, up to a maximum of 10 years. Options expire on the expiration date or, under certain circumstances provided for in the Stock Option Plan, within prescribed periods. No options may be exercised in the first year after they are granted. Officers may exercise their vested options between the 2nd business day and 30th calendar day following publication of the Bank's quarterly financial statements.

In order to further align the interests of Officers on the Bank's Executive Committee with those of shareholders, the Board added specific conditions to the exercise of option grants. 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 exercise date.

SECTION 3 | Internal Management (cont.)

As at October 31, 2005, 5,613,970 options were outstanding with strike prices ranging from $11.00 to $48.20 and expiring between December 2005 and December 2014. During the most recently completed financial year, 1,468,260 options were granted and 1,760,263 options were exercised at strike prices ranging from $11.00 to $41.00. As at October 31, 2005, 2,192,403 options could be exercised at prices ranging from $11.00 to $41.00. The maximum number of common shares that may be issued under the Stock Option Plan is 18,930,437. This ceiling was approved by the shareholders at the Bank's Annual Meeting of Shareholders on March 7, 2001.

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 abides by this rule. No member is reserved a number of common stock options that exceeds 5% of the total number of shares issued and outstanding.

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

<u>Stock Appreciation Rights Plan</u>
The Stock Appreciation Rights Plan ("SAR Plan") has the same objectives and respects the same application criteria as the Stock Option Plan.

The Committee grants common stock appreciation rights ("SARs") to Officers and other designated persons of the Bank and its subsidiaries. Plan members may receive, on the exercise date of the SAR, a cash amount equal to the difference between the market price of a common share on the exercise date of the SAR and the exercise price of the SAR.

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

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

<u>DSU Plan for Officers</u>
The objective of the DSU Plan for Officers ("DSU Plan") is to align the interests of Bank Officers more closely with those of shareholders by tying a portion of their compensation to the future value of the Bank's common shares. A DSU is a right which has a value equal to the closing price of a common share of the Bank on the Toronto Stock Exchange on the day preceding the grant. Additional DSUs are credited to the Officer's account and are calculated proportionately to the dividends paid on common shares. DSUs vest over four years at the rate of 25% annually, 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 for cash by filing up to eight notices of redemption of DSUs no later than December 1 of the first calendar year after the calendar year in which the Officer ceased to be employed at the Bank.

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 have been able, at their option, to receive up to 30% of their long-term compensation in the form of DSUs rather than stock options. Since December 2005, eligibility for this plan has been extended to all Bank Officers.

The DSU Plan was revised on September 30, 2004.

<u>RSU Plan</u>
The RSU Plan ("RSU Plan") was approved to further ensure that the compensation of certain Officers is competitive and to foster retention. Under the RSU Plan, a fixed 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 are credited to the Officer's account and calculated proportionately to the dividends paid on common shares. 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.

The RSU Plan has been in effect since the start of the 2004-2005 financial year.

Share Ownership Guidelines
The Bank requests that Officers maintain minimum holdings of Bank common shares, including DSUs and vested SARs and stock options, proportionate to each Officer's compensation and position. 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
- 2.0 for the Executive Committee members
- 1.5 for the Senior Vice-Presidents
- 1.0 for the Vice-Presidents

Existing Officers were given a period of three years as of December 20, 2002 to meet these minimum shareholding requirements. As at December 20, 2005, all such Officers, including Named Executive Officers, held a portion of their assets in common shares of the Bank in compliance with these Guidelines. Any new Officers hired or promoted after December 20, 2002 have a period of five years to meet these requirements.

The Share Ownership Guidelines were passed by the Board on December 20, 2002.

Employee Share Ownership Plan
The aim of the Employee Share Ownership Plan is to foster a stronger bond between the Bank and all its employees. Under this Plan, employees who meet the eligibility criteria may contribute up to 8% of their gross salary per year by way of payroll deductions. The Bank's contribution consists in paying an amount equal to 25% of the employee's contribution, up to $1,500 per year. After one year of continuous membership, the Bank's contributions are vested in the employee. Subsequent contributions vest immediately.

Compensation of the President and Chief Executive Officer for 2004-2005
As part of its mandate, the Committee reviews the total compensation package of the President and Chief Executive Officer in August of each year to ensure that it is fully competitive with the median of the Bank's reference market, adjusted to take into account characteristics specific to the Bank. Committee members mandated Hay Group Limited to conduct a market study on which they based their decisions.

The target value of Réal Raymond's compensation components was deemed to be adequate and was therefore maintained:

- a base salary of $1,000,000;
- an annual bonus at target set at 100% of base salary. The actual bonus may vary between 0% and 200% depending on the annual financial results achieved; and
- long-term compensation at target, comprised of options and DSUs for Officers, representing 400% of base salary at the time of the grant.

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

- the development of competitive advantages enabling the Bank to consolidate its strategic positioning within the financial industry;
- 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 creation and maintenance of a corporate image based on the ongoing development of client service quality and significant involvement in the community;
- the risk profile and credit quality of the Bank;
- the existence of appropriate management information systems and a risk classification system for the purposes of effective risk management; and
- the development and maintenance of positive relationships with shareholders, clients, employees, governments and other regulatory authorities, as well as communities.

SECTION 3 | Internal Management (cont.)

Assessment of the performance of the President and Chief Executive Officer in 2004-2005
At the beginning of each year, the Committee approves the annual objectives of the Bank's President and Chief Executive Officer. For the 2004-2005 financial year, the objectives set concerned the criteria for developing the Bank's strategy, managing succession, mobilizing the organization to achieve the Bank's objectives and developing its human capital. The following target results were also set for the creation of value for shareholders and clients:

- ROE greater than 16%;
- GEPS of more than 5%;
- Tier 1 capital ratio maintained at a minimum of 8.5%; and
- 1% increase in the number of "very satisfied" clients.

The 2004-2005 financial year was a banner year in which the Bank exceeded all its target financial objectives and even attained new record highs, particularly in net income and ROE.

More specifically, the Bank posted net income of $855 million, up 18% over $725 million in 2003-2004. Return on shareholders' equity rose to 20.65% for the same period, versus 18.8% a year earlier.

As a result of this outstanding performance, earnings per share rose to $4.98, a 21% increase over the previous year. The Tier 1 capital ratio remained stable at 9.6% despite a significant increase in assets. In addition, the dividend payout ratio was 35% in 2005, in line with the target range of between 35% and 45%.

This financial success is representative of a firmly anchored growth strategy that clearly demonstrates the organization's level of maturity. The long-term vision of the Bank's President and Chief Executive Officer is being delivered through realistic objectives based on the Bank's strengths and competitive advantages while taking into account market and bank industry trends.

Under Mr. Raymond's leadership, the Bank was able to demonstrate its ability to achieve sustainable and recurring growth. In-depth knowledge of its markets and its ongoing search for risk management excellence should allow it to maintain a solid position in the banking industry. Moreover, the Bank's inroads in the area of insurance will help diversify its activities and ensure greater income stability, and hence better distribution of future economic risks. Note that the Bank's gross impaired loan ratio stood at 6.8% of total adjusted tangible capital and provisions, outperforming the Canadian banking industry average.

Appropriate strategy and the focus on client service quality boosted the number of very satisfied clients by 8% in four years, thereby ranking the Bank as the most admired financial institution in Quebec according to a joint survey by *Revue Commerce* and Léger Marketing Inc.

Development of human capital has always been a high priority for the Bank. In recent years, however, no effort has been spared to provide employees with a rewarding work environment, characterized by respect and integrity. The Bank is proud to be among the *50 Best Employers in Canada*, a prestigious title awarded by Hewitt Associates to recognize organizations with sound management practices that support the pursuit of their growth strategy.

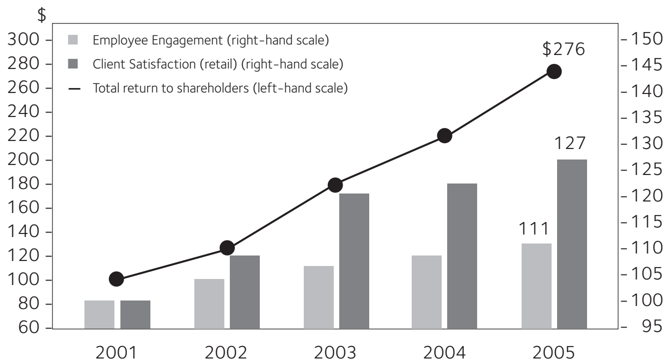
Moreover, the Bank's community involvement clearly demonstrates its concern for the social environment. Such involvement undoubtedly helps develop and consolidate lasting relationships with clients, business partners and investors. Mr. Raymond, in fact, participated in 25 days of meetings, bringing together more than 530 investors. *Revue Commerce* underscored Mr. Raymond's contribution to the business community in Quebec by naming him the personality of the month in March 2005. He was also named CEO of the Year in December 2005 in Montreal daily *La Presse*. Moreover, in 2005, the Bank ranked 15th on the list of the *50 Best Corporate Citizens in Canada* published in *Corporate Knight*s magazine.

As a result of the performance of Mr. Raymond and his management team, the price of Bank shares grew steadily from $48.78 to $59.14, during the most recently completed financial year for a total return to shareholders (including dividends) of 25.1%.

Mr. Raymond and his management team have successfully created balance among employee aspirations, client satisfaction and shareholder expectations. Maintaining such a balance is paramount for a company that requires ready access to capital and whose long-term financial performance hinges on the ability of its employees to establish trusting and enduring relationships with a diverse and knowledgeable clientele.

Of course, these three elements are intertwined. Motivated employees, through their individual actions and gestures, lead to more satisfied clients who, in turn, fuel a company's growth thereby enabling it to meet shareholders' expectations.

The following chart illustrates the evolution in the past five years of employee engagement and client satisfaction as it relates to total return to shareholder levels.



For comparative purposes, the three indicators have been expressed as 100 in 2001. In 2002 and subsequent years, all three indicators have steadily progressed. Between 2001 and 2005, the percentage of "very satisfied" clients grew 27% and employee engagement climbed 11%. Over the same period, a $100 investment in common shares of the Bank in 2001 increased 176%.

Bonuses granted in 2004-2005
In 2004-2005, Mr. Raymond's annual bonus envelope was determined based on the previously described terms and conditions of the annual bonus program. More specifically, the value of this envelope was determined 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 18.25%, i.e. 16.4%) and 75% of average ROE for the five other major Canadian banks (75% of 16.2%, i.e. 12.15%)	12.15%	0%
Target = budgeted ROE (2004-2005)	18.25%	100%
Maximum = the higher of: 110% of budgeted ROE (110% of 18.25%, i.e. 20.1%) and 125% of average ROE for the five other major Canadian banks (125% of 16.2%, i.e. 20.25%)	20.25%	200%
Result	**20.65%**	**200%**

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 (2004-2005)	8.90%	100%
Maximum = 200% of budgeted GEPS	17.80%	200%
Result	**21.50%**	**200%**

Mr. Raymond's total bonus envelope therefore represents 200% of his base salary, or the maximum payout fixed by the terms and conditions of the Bank's annual bonus program previously described under the "Annual Bonus Program of the Bank" section of this Circular.

In light of the Bank's financial results and Mr. Raymond's performance appraisal for the most recently completed financial year, the Committee awarded Mr. Raymond a bonus of $2,000,000.

The President and Chief Executive Officer was also granted 177,400 stock options and 20,350 DSUs for Officers, based on the target percentage of base salary fixed for calculating his long-term compensation:

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

The "Summary of Total Compensation of Named Executive Officers" table of this Circular presents Mr. Raymond's compensation in detail.

In closing, the Committee, on behalf of the Board, re-affirms its confidence in the leadership of Mr. Raymond, the Bank's President and Chief Executive Officer. It is of the opinion that the strategic vision of the President and his management team will help maximize present and future shareholder value. In addition, the Committee believes that compensation policies and practices are in line with the Bank's financial performance and also comply with its reference market's practices, taking into account characteristics specific to the Bank.

This report is submitted by the Human Resources Committee. At the end of the financial year ended October 31, 2005, the Human Resources Committee was composed of four independent directors:

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

Total Compensation of Named Executive Officers

Summary of Total Compensation of Named Executive Officers

The following table is presented pursuant to Canadian securities legislation and shows the total compensation paid by the Bank and its subsidiaries to the Named Executive Officers during each of the three most recently completed financial years.

		Annual Compensation			Long-Term Compensation			All Other Compensation[4]
					Awards		Payouts	
Name and Principal Position	Year	Salary ($)	Bonus ($)[1]	Other Annual Compensation ($)[2]	SARs (#)	Securities Under[3] Options (#)	Long-Term Bonus Program ($)	($)
Réal Raymond	2005	1,000,000	2,000,000	0	Nil	177,400	1,250,304[5]	N/A
President and Chief Executive Officer	2004	879,123	1,500,000	0	Nil	262,400	1,250,790	N/A
	2003	764,821	1,300,000	0	Nil	198,400	947,100	N/A
Pierre Fitzgibbon[6]	2005	268,644	1,210,000[7]	2,794	Nil	29,300	N/A	N/A
Senior Vice-President — Finance, Technology	2004	193,462	1,962,207	2,686	Nil	N/A	71,204	N/A
and Corporate Affairs	2003	175,000	1,248,867	448	Nil	N/A	52,852	N/A
Louis Vachon	2005	400,000	3,442,214	0	Nil	37,400	N/A	1,721,106[8]
Chairman of the Board and Chief Executive Officer	2004	250,000	2,309,440	2,419	Nil	55,000	N/A	989,760
National Bank Financial Group,	2003	250,000	2,519,641	892	Nil	28,000	N/A	1,079,847
Chairman of the Board								
Natcan Investment Management Inc. and								
Senior Vice-President								
Michel Tremblay	2005	440,000	616,000	0	Nil	28,800	191,631[9]	616,000[10]
Senior Vice-President	2004	413,480	451,220	591	Nil	28,060	126,091	658,245
Personal Banking and Wealth Management	2003	358,246	300,000	0	Nil	31,500	140,384	627,289
Patricia Curadeau-Grou	2005	317,800	400,000	323	Nil	24,900	68,198[11]	N/A
Senior Vice-President	2004	310,347	320,000	235	Nil	35,000	157,132	N/A
Risk Management	2003	266,959	270,000	538	Nil	45,000	N/A	N/A
Michel Labonté[12]	2005	307,500	387,000	0	Nil	N/A	N/A	N/A
Senior Vice-President	2004	300,328	275,000	810	Nil	35,000	157,132[13]	N/A
Special Projects	2003	248,548	250,000	370	Nil	31,500	140,384	N/A
G.F. Kym Anthony[14]	2005	268,493	3,094,945	0	Nil	N/A	N/A	2,043,175[15]
Former President and Chief Executive Officer	2004	400,000	3,283,333	35,094	Nil	55,000	N/A	1,641,667[16]
National Bank Financial Group	2003	400,000	1,577,333	11,016	Nil	28,000	N/A	788,667[16]
and former Senior Vice-President								

(1) The figures in this column include the annual bonuses earned during the financial year ended October 31, 2005.
(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 Employee Share Ownership Plan of the Bank. The aggregate value of these other benefits for the financial year ended October 31, 2005 does not exceed the lesser of: $50,000 or 10% of the salary and bonuses paid annually to the Named Executive Officers.
(3) The information in this column was revised so that it will henceforth contain the most recent stock grant to the Named Executive Officers instead of the one approved 12 months earlier. These securities were granted under the Stock Option Plan of the Bank. For further information, refer to the "Stock Option Plan" section of this Circular.
(4) The figures in this column represent the portion of the annual bonus earned but not vested during each financial year ended October 31.
(5) Under the DSU Plan for Officers (for more information, please refer to the "DSU Plan for Officers" section of this Circular), a portion of the long-term compensation of Mr. Raymond was paid in December 2005, representing 20,350 DSUs for Officers based on a price of $61.44. The total number of DSUs for Officers held by Mr. Raymond as at October 31, 2005 was 66,842 for a market value of $3,953,036, based on a share price of $59.14 as at October 31, 2005.
(6) Pierre Fitzgibbon has held the position of Senior Vice-President – Finance, Technology and Corporate Affairs since July 1, 2005. Previously, Mr. Fitzgibbon was Vice-Chairman and Managing Director – Corporate and Investment Banking at National Bank Financial.
(7) This amount includes a bonus of $1,075,000 paid to Pierre Fitzgibbon by National Bank Financial for his contribution to the company's financial results for the first half of the 2004-2005 financial year.
(8) Under the Annual Bonus Program for officers on the Policy Committee of National Bank Financial Group, Louis Vachon receives a third of his bonus in the form of RSUs. The number of RSUs held by Mr. Vachon as at October 31, 2005 was 18,195 unvested RSUs, for a market value of $1,076,052, based on a share price of $59.14 as at October 31, 2005.
(9) Michel Tremblay chose to receive a portion of his long-term compensation in DSUs for Officers in December 2005, representing 3,119 DSUs for Officers, based on a price of $61.44. The total number of DSUs for Officers held by Mr. Tremblay as at October 31, 2005 was 6,298 or 904 vested DSUs for Officers, for a market value of $53,463 and 5,394 unvested DSUs for Officers for a market value of $319,001. The market value of $372,464 representing vested and unvested DSUs for Officers was based on a share price of $59.14 as at October 31, 2005.
(10) Michel Tremblay is eligible for medium-term compensation equal to 140% of his base salary, 50% of which is paid in cash and 90% in RSUs (for more information, please refer to the "RSU Plan" section of this Circular).
(11) Patricia Curadeau-Grou chose to receive a portion of her long-term compensation in DSUs for Officers in December 2005, representing 1,110 DSUs for Officers, based on a price of $61.44. The total number of DSUs for Officers held by Ms. Curadeau-Grou as at October 31, 2005 was 3,339 unvested DSUs for Officers, for a market value of $197,468, determined on the basis of a share price of $59.14 as at October 31, 2005.
(12) Michel Labonté held the position of Senior Vice-President – Finance, Technology and Corporate Affairs until June 30, 2005.
(13) The total number of DSUs for Officers held by Mr. Labonté as at October 31, 2005 was 6,958 or 904 vested DSUs for Officers for a market value of $53,463 and 6,054 unvested DSUs for Officers for a market value of $358,034. The market value of $411,497 representing vested and unvested DSUs for Officers was based on a share price of $59.14 as at October 31, 2005.
(14) G.F. Kym Anthony stepped down as President and Chief Executive Officer of National Bank Financial Group and Senior Vice-President on July 1, 2005.
(15) Following the departure of G.F. Kym Anthony, it was agreed that he would be paid a lump sum of $2,043,175.
(16) Following the departure of G.F. Kym Anthony, these amounts will not be paid.

Options Granted in December 2005

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, the options granted in December 2005 will be vested over the next four years, in equal portions of 25%, as of December 2006. These options will expire on December 7, 2015. 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 $57.64 and $61.47.

Name	Number of Options Granted (#)	% of Total Options & SARs Granted to Employees in December 2005(1)	Option Exercise Price ($)	Market Value of a Common Share on the Date Preceding the Grant ($)	Expiration Date
Réal Raymond	177,400	18.7	61.44	61.44	7/12/2015
Pierre Fitzgibbon	29,300	3.1	61.44	61.44	7/12/2015
Louis Vachon	37,400	3.9	61.44	61.44	7/12/2015
Michel Tremblay	28,800	3.0	61.44	61.44	7/12/2015
Patricia Curadeau-Grou	24,900	2.6	61.44	61.44	7/12/2015
Michel Labonté	N/A	N/A	N/A	N/A	N/A
G.F. Kym Anthony	N/A	N/A	N/A	N/A	N/A

(1) The total number of options and SARs granted to employees in December 2005 has declined due to the DSU Plan for Officers being extended to a wider pool.

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.

SECTION 3 | Internal Management (cont.)

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 and, lastly, the number and value of unexercised options/SARs outstanding as at October 31, 2005. 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, $59.14 per common share.

Options/SARs Exercised by Named Executive Officers During the Financial Year Ended October 31, 2005, 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	111,300	3,264,543	246,855	533,485	6,790,980	9,127,308
Pierre Fitzgibbon	0	0	0	0	0	0
Louis Vachon	0	0	121,725	101,575	4,091,379	1,724,400
Michel Tremblay	35,000	1,023,329	42,600	77,260	1,169,452	1,477,294
Patricia Curadeau-Grou	73,900	2,341,026	77,350	66,350	2,037,574	1,040,532
Michel Labonté	53,500	1,885,877	85,600	81,700	2,639,307	1,480,537
G.F. Kym Anthony	57,600	1,606,607	0	40,700	0	871,254

(1) *The amounts indicated are based on a price of $59.14 per common share, namely, the closing price on the last business day of the financial year ended October 31, 2005.*

Under the Bank's long-term compensation programs, only the Stock Option Plan allows issuance of the Bank's equity securities. As at October 31, 2005, 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 securityholders	5,613,970	$35.76	8,781,685
Equity compensation plans not approved by securityholders	N/A	N/A	N/A
Total	5,613,970	$35.76	8,781,685

Retirement Benefits for Named Executive Officers

Pension Plan and Post-Retirement Allowance Program

The Named Executive Officers of the Bank participate in a defined benefit pension plan and the Post-Retirement Allowance Program. A pension, up to the maximum pension permitted by law, 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% 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, depending on conditions that vary according to level:

  - for the President and Chief Executive Officer, the eligible annual bonus is limited to 100% of the base salary; and
  - for Named Executive Officers at the Senior Vice-President level, who are Executive Committee members, the calculation has been based on 50% of the annual bonus (up to 35% of base salary) since January 1, 2006. The average pensionable earnings are limited to $700,000.

The normal retirement age is 60. However, these pension plans allow for early retirement, with the employer's consent, as of 55 years of age. The pension is reduced by the lesser of:

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

Moreover, Officers at the level of President or Senior Vice-President contribute 9% of their salary to the Pension Plan, or up to $13,180 per annum. At retirement, the accumulated sum exceeding the basic contribution is converted to a supplementary pension, subject to the application of legal limits.

Recent Changes

Since January 1, 2005, the Post-Retirement Allowance Program has covered any Bank employee who has attained the maximum pension payable by law for a registered plan. Recognized years of service in the Post-Retirement Allowance Program are the same as for the registered plan.

In May 2005, the Bank also developed a funding policy for its pension plans. This policy clarifies risk sharing between the Bank and its employees, sets the priorities to be established in the event of a surplus or deficit, and provides mechanisms to reduce cost variability and possible future deficits.

Estimated Annual Pensions Payable at Retirement

The following tables contain the estimated annual pensions payable under the Bank's Pension Plan and the Post-Retirement Allowance Program to Named Executive Officers of the Bank at the level of President and Senior Vice-President.

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

					President
Average Pensionable Earnings(3)					Years of Membership
	15	20	25	30	35
($)	($)	($)	($)	($)	($)
1,000,000	296,814	396,194	495,663	595,132	694,777
1,500,000	446,814	596,194	745,663	895,132	1,044,777
2,000,000	596,814	796,194	995,663	1,195,132	1,394,777
2,500,000	746,814	996,194	1,245,663	1,495,132	1,744,777

(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 this Circular are used to calculate the average pensionable earnings, subject to the maximums set out above.*

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

Average Pensionable Earnings[(3)]					Senior Vice-President Years of Membership
	15	20	25	30	35
($)	($)	($)	($)	($)	($)
300,000	86,814	116,194	145,663	175,132	204,777
400,000	116,814	156,194	195,663	235,132	274,777
500,000	146,814	196,194	245,663	295,132	344,777
600,000	176,814	236,194	295,663	355,132	414,777
700,000	206,814	276,194	345,663	415,132	484,777

(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 this Circular are used to calculate the average pensionable earnings, subject to the maximums set out above.*

Estimated Pensions of Named Executive Officers

The years of service credited as at October 31, 2005 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, 2005 and the projected years of service until age 60 are presented in the following table:

Name	Years of Service Credited as at October 31, 2005	Estimated Years of Service Credited on Normal Retirement Date	Estimated Annual Pension Payable at Age 60
Réal Raymond	30.7	35.0	$ 1,054,000
Pierre Fitzgibbon	5.3[(1)]	14.4	$ 92,000
Louis Vachon	7.8	24.6	$ 165,000
Michel Tremblay	5.7	15.8	$ 127,000
Patricia Curadeau-Grou	14.2	24.1	$ 150,000
Michel Labonté	12.6	12.7	$ 79,000
G.F. Kym Anthony	0.7	0.7	N/A

(1) *Mr. Fitzgibbon was credited five years at hiring. The related cost is spread over the projected length of his active career.*

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

The table below shows the cost of membership in the two plans for the 2004-2005 financial year for the Bank for each of the Named Executive Officers in the Bank's employ at the date of this Circular, as well as the estimated capital required as at October 31, 2005 to fund the pension accumulated as at that date and payable as of age 60 throughout retirement.

Name	Cost for the Bank for 2004-2005	Estimated Capital Required as at October 31, 2005
Réal Raymond	$ 395,000	$14,398,000
Pierre Fitzgibbon	$ 25,000	$ 40,000
Louis Vachon	$ 55,000	$ 670,000
Michel Tremblay	$ 94,000	$ 708,000
Patricia Curadeau-Grou	$ 68,000	$ 1,354,000
Michel Labonté	$ 59,000	$ 1,112,000

The amounts presented in the table above are estimates based on a series of assumptions and employment conditions that can change over time. The method used to perform these calculations may also differ from that used by other companies, thus possibly challenging the relevance of any such comparison.

The underlying assumptions for the calculations are the same as those used for the Bank's financial statements:

- A discount rate of 6.25%, i.e., the rate applicable at the beginning of the financial year, was used to determine the cost for the Bank for 2004-2005; a discount rate of 5.50%, i.e., the rate applicable at the end of the financial year, was used to determine the estimated capital required as at October 31, 2005.
- Retirement age according to the earlier of:
  - Sum of age and the average of the years of membership and service is equal to 92; and
  - Age 58 (born in 1947 or earlier), age 59 (born between 1948 and 1952), age 60 (born after 1952) or actual age if older.
- Salary increases: Assuming that an annual increase of 3.5% is applied to the salary and current annual premium until the projected retirement date.
- Officer contributions: The value of the benefits payable by the Officer's contributions is included in calculating the estimated capital required as at October 31, 2005, but the employee's contributions are excluded from the calculations of the cost for the Bank in 2005.
- Vesting by the employer: after two years of membership.

Detailed Tables of Total Compensation of the Named Executive Officers in the Bank's Employ
The following tables present the estimated value of the total compensation of the Named Executive Officers in the Bank's employ at the date of this Circular 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 estimated annual cost of retirement benefits.

Réal Raymond

President and Chief Executive Officer	2005	2004	2003
Cash Compensation			
Base salary	$ 1,000,000	$ 879,123	$ 764,821
Annual bonus	$ 2,000,000	$ 1,500,000	$ 1,300,000
Cash Total	$ 3,000,000	$ 2,379,123	$ 2,064,821
Stock-Based Compensation			
Stock options(1)	$ 2,749,700	$ 2,749,952	$ 2,063,360
DSUs(2)	$ 1,250,304	$ 1,250,790	$ 947,100
Total Equity Value	$ 4,000,004	$ 4,000,742	$ 3,010,460
Direct Compensation	$ 7,000,004	$ 6,379,865	$ 5,075,281
Annual Cost of Retirement Benefits(3)	$ 395,000	$ 328,000	$ 277,000
Total Compensation	$ 7,395,004	$ 6,707,865	$ 5,352,281

(1) *Estimated value of stock options calculated using the Black-Scholes model: $15.50 in December 2005, $10.48 in December 2004 and $10.40 in December 2003.*
(2) *Portion of long-term compensation paid in DSUs for Officers, i.e., 125% of base salary. DSU value based on the grant price, i.e, $61.44 for the grant on December 7, 2005, $48.20 for the grant on December 9, 2004 and $41.00 for the grant on December 11, 2003.*
(3) *Value of the Bank's contribution for adding a year to the pension fund, based on the assumptions used in the Bank's Annual Report in each of those years.*

Pierre Fitzgibbon

	2005(1)	2005(2)	2004(2)	2003(2)
Cash Compensation				
Base salary	$ 99,419	$ 169,225	$ 193,462	$ 175,000
Annual bonus	$ 135,000	$ 1,075,000	$ 1,962,207	$ 1,248,867
Cash Total	$ 234,419	$ 1,244,225	$ 2,155,669	$ 1,423,867
Stock-Based Compensation				
Stock options(3)	$ 454,150	N/A	N/A	N/A
Other long-term program (4)	N/A	N/A	$ 71,204	$ 52,852
DSUs	N/A	N/A	N/A	N/A
Total Equity Value	$ 454,150	N/A	$ 71,204	$ 52,852
Direct Compensation	$ 688,569	$ 1,244,225	$ 2,226,873	$ 1,476,719
Annual Cost of Retirement Benefits(5)	$ 25,000	N/A	N/A	N/A
Total Compensation	$ 713,569	$ 1,244,225	$ 2,226,873	$ 1,476,719

(1) *Mr. Fitzgibbon has held the position of Senior Vice-President — Finance, Technology and Corporate Affairs of National Bank of Canada since July 1, 2005.*
(2) *Mr. Fitzgibbon was Vice-Chairman and Managing Director — Corporate and Investment Banking at National Bank Financial until June 30, 2005.*
(3) *Estimated value of stock options calculated using the Black-Scholes model: $15.50 in December 2005.*
(4) *Under the long-term compensation program of National Bank Financial Group.*
(5) *Value of the Bank's contribution for adding a year to the pension fund, based on the assumptions used in the Bank's Annual Report in each of those years.*

SECTION 3 | Internal Management (cont.)

Louis Vachon Chairman of the Board and Chief Executive Officer – National Bank Financial Group and Chairman of the Board – Natcan Investment Management Inc. and Senior Vice-President	2005	2004	2003
Cash Compensation			
Base salary	$ 400,000	$ 250,000	$ 250,000
Annual bonus (including deferred portion for 2003 and 2004)	$ 3,442,214	$ 3,299,200	$ 3,599,488
Bonus paid in RSUs(1)	$ 1,721,106	N/A	N/A
Total Cash Value	$ 5,563,320	$ 3,549,200	$ 3,849,488
Stock-Based Compensation			
Stock options(2)	$ 579,700	$ 576,400	$ 291,200
DSUs	N/A	N/A	N/A
Total Equity Value	$ 579,700	$ 576,400	$ 291,200
Direct Compensation	$ 6,143,020	$ 4,125,600	$ 4,140,688
Annual Cost of Retirement Benefits(3)	$ 55,000	$ 16,000	$ 12,000
Total Compensation	$ 6,198,020	$ 4,141,600	$ 4,152,688

(1) Under the RSU Plan, which came into force in 2004-2005, a third of the bonus must be paid in RSUs. The value of the RSUs is based on the grant price as at December 7, 2005, i.e, $61.44.
(2) Estimated value of stock options calculated using the Black-Scholes model: $15.50 in December 2005, $10.48 in December 2004 and $10.40 in December 2003.
(3) Value of the Bank's contribution for adding a year to the pension fund, based on the assumptions used in the Bank's Annual Report in each of those years.

Michel Tremblay Senior Vice-President – Personal Banking and Wealth Management	2005	2004	2003
Cash Compensation			
Base salary	$ 440,000	$ 413,480	$ 358,246
Annual bonus	$ 616,000	$ 451,220	$ 300,000
Cash Total	$ 1,056,000	$ 864,700	$ 658,246
Stock-Based Compensation			
RSUs(1)	$ 616,000	N/A	N/A
Stock options(2)	$ 446,400	$ 294,069	$ 327,600
DSUs(3)	$ 191,631	$ 126,091	$ 140,384
Other long-term program(4)	N/A	$ 658,245	$ 627,289
Total Equity Value	$ 1,254,031	$ 1,078,405	$ 1,095,273
Direct Compensation	$ 2,310,031	$ 1,943,105	$ 1,753,519
Annual Cost of Retirement Benefits(5)	$ 94,000	$ 24,000	$ 21,000
Total Compensation	$ 2,404,031	$ 1,967,105	$ 1,774,519

(1) Under the RSU Plan, which came into force in 2004-2005, the value of the RSUs is based on the grant price on December 7, 2005, i.e, $61.44.
(2) Estimated value of stock options calculated using the Black-Scholes model: $15.50 in December 2005, $10.48 in December 2004 and $10.40 in December 2003.
(3) Under the DSU Plan for Officers, a portion (up to 30%) of long-term compensation can be received in the form of DSUs. DSU value based on the grant price, i.e, $61.44 for the grant on December 7, 2005, $48.20 for the grant on December 9, 2004 and $41.00 for the grant on December 11, 2003.
(4) Under the long-term compensation program of Natcan Investment Management Inc.
(5) Value of the Bank's contribution for adding a year to the pension fund, based on the assumptions used in the Bank's Annual Report in each of those years.

Patricia Curadeau-Grou Senior Vice-President – Risk Management	2005	2004	2003
Cash Compensation			
Base salary	$ 317,800	$ 310,347	$ 266,959
Annual bonus	$ 400,000	$ 320,000	$ 270,000
Cash Total	$ 717,800	$ 630,347	$ 536,959
Stock-Based Compensation			
Stock options(1)	$ 385,950	$ 366,800	$ 468,000
DSUs(2)	$ 68,198	$ 157,132	N/A
Total Equity Value	$ 454,148	$ 523,932	$ 468,000
Direct Compensation	$ 1,171,948	$ 1,154,279	$ 1,004,959
Annual Cost of Retirement Benefits(3)	$ 68,000	$ 21,000	$ 19,000
Total Compensation	$ 1,239,948	$ 1,175,279	$ 1,023,959

(1) Estimated value calculated using the Black-Scholes model: $15.50 in December 2005, $10.48 in December 2004 and $10.40 in December 2003.
(2) Under the DSU Plan for Officers, a portion (up to 30%) of the long-term compensation can be received in the form of DSUs. DSU value based on the grant price on December 7, 2005, i.e, $61.44 and $48.20 for the grant on December 9, 2004.
(3) Value of the Bank's contribution for adding a year to the pension fund, based on the assumptions used in the Bank's Annual Report in each of those years.

SECTION 3 | Internal Management (cont.)

Michel Labonté Senior Vice-President – Special Projects	2005	2004	2003
Cash Compensation			
Base salary	$ 307,500	$ 300,328	$ 248,548
Annual bonus	$ 387,000	$ 275,000	$ 250,000
Cash Total	$ 694,500	$ 575,328	$ 498,548
Stock-Based Compensation			
Stock options(1)	N/A	$ 366,800	$ 327,600
DSUs(2)	N/A	$ 157,132	$ 140,384
Total Equity Value	N/A	$ 523,932	$ 467,984
Direct Compensation	$ 694,500	$ 1,099,260	$ 966,532
Annual Cost of Retirement Benefits(3)	$ 59,000	$ 50,000	$ 44,000
Total Compensation	$ 753,500	$ 1,149,260	$ 1,010,532

(1) *Estimated value calculated using the Black-Scholes model: $10.48 in December 2004 and $10.40 in December 2003.*

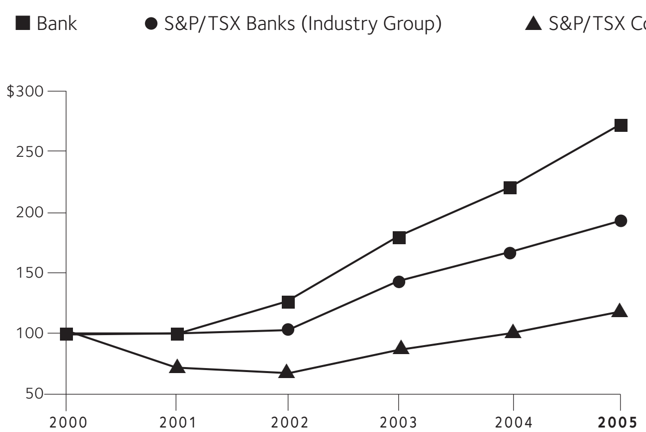
(2) *Under the DSU Plan for Officers, a portion (up to 30%) of the long-term compensation can be received in the form of DSUs. DSU value based on the grant price, i.e. $48.20 for the grant on December 9, 2004 and $41.00 for the grant on December 11, 2003.*

(3) *Value of the Bank's contribution for adding a year to the pension fund, based on the assumptions used in the Bank's Annual Report in each of those years.*

Performance of Common Shares of the Bank

The following performance graph shows the cumulative total return for $100 invested in common shares of the Bank on October 31, 2000, as compared to the total cumulative return of the S&P/TSX Banks (Industry Group) 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. 2000 ($)	Oct. 2001 ($)	Oct. 2002 ($)	Oct. 2003 ($)	Oct. 2004 ($)	Oct. 2005 ($)
National Bank of Canada	100.00	100.17	125.06	179.42	220.64	276.06
S&P/TSX Banks (Industry Group)	100.00	98.78	102.95	142.54	166.61	194.06
S&P/TSX Composite	100.00	72.54	66.97	84.94	98.64	117.51

Termination of Employment Policy
On November 30, 2000, the Board adopted a policy whereby certain executive officers would receive a separation allowance in the event their employment was terminated by the Bank following a change in control. A change in control notably means any change in the ownership of Bank shares following the acquisition of shares, a merger or a business combination, resulting in one shareholder beneficially owning in excess of 20% of the voting shares of the Bank. Under the terms of this policy, the President and Chief Executive Officer would be entitled to a separation allowance equal to his base salary and average annual bonus for the previous three years (or the target annual bonus for eligible executive officers who have been in their position for less than three years) for a period of 36 months, up to the normal retirement age. Certain other executive officers of the Bank are also covered by this policy and would be entitled to receive a separation allowance equal to their base salary and average annual bonus for the previous three years (or the target annual bonus in the case of eligible executive officers who have been in their position for less than three years) for a period of 18 to 24 months, up to the normal retirement age. In all cases, the separation allowance would also include an amount equal to the estimated value of the stock options and SARs that would have been granted to them had their employment not been terminated. Moreover, under the terms of this policy, all stock options and SARs already granted would vest immediately and the executive officers would have up to 12 months in which to exercise the options or SARs.

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

Report of the Conduct Review and Corporate Governance Committee

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

The Committee establishes and regularly reviews the mandates of the Board and its committees, and those of the Chairman of the Board and the committee Chairs. It also reviews the report on corporate governance submitted to the shareholders, provided below, the size and composition of the Board and its committees as well as various rules and guidelines applicable to directors, particularly regarding share ownership, conflicts of interest, selection and succession. The Committee establishes and oversees a process to assess the performance and effectiveness of the Board of Directors, its committees and directors, and sees that orientation and education programs for directors are maintained.

The Committee ensures compliance with the Code of Professional Conduct and that mechanisms exist for disclosing information to clients, and oversees application of the process for reviewing complaints of clients who obtained products or services in Canada.

At the end of the most recently completed financial year, the Committee was entirely composed of independent directors (defined under the heading "Independence of Directors" in this section of the Circular).

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

Summary of the Corporate Governance Practices of the Bank
In June 2005, the Corporate Governance Guidelines of the Canadian Securities Administrators (the "CSA Guidelines") came into force. The Bank, which keeps abreast of developments in this area at all times, complies fully with these new rules. Corporate governance practices are, in fact, an essential component of the Bank's operations. The Bank's policies and practices comply with the best practices approved by specialized corporate governance bodies, as shown in the statement of the Bank's corporate governance practices set out below.

Board of Directors

Composition of the Board

- Independence of Directors
  Definition. The Bank complies with the definition of "independence" pursuant to the CSA Guidelines with respect to both the independence of members of the Board and of members of the Audit and Risk Management Committee.

  Independent majority. The majority of the directors, including the Chairman of the Board, are independent. The independence of the directors is determined annually by the Board, based on the recommendations of the Conduct Review and Corporate Governance Committee, in light of the regulations in force and corporate governance best practices. The information provided by the directors in a semi-annual questionnaire listing all the relevant data is also used in determining independence. 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 this Circular, the Conduct Review and Corporate Governance Committee was of the opinion that 11 of the 14 Bank directors were independent. The three non-independent directors are Lawrence S. Bloomberg and Réal Raymond, employees or Officers of the Bank or of one of its subsidiaries, as well as Gérard Coulombe, a partner of Desjardins Ducharme, L.L.P., a law firm that provides legal services to the Bank and its subsidiaries for which it receives remuneration.

  Outside board memberships. The Bank lists all the boards on which its directors serve. In the "Information on Nominees for Election to the Board of Directors" section, it discloses the names of the public companies on whose boards each director currently serves or has served in the previous five years. The Board issued a directive under which all directors must notify the Chair of the Conduct Review and Corporate Governance Committee before accepting an invitation to serve on another board. Together with the Chairman of the Board, the Chair of the Conduct Review and Corporate Governance Committee assesses whether directors will be involved in conflict of interest situations or apparent conflicts of interest and whether they remain capable of performing their functions as a director of the Bank.

- Nomination of Directors and Re-election
  Charter of Expectations. The Board has created a Charter of Expectations in order to formally set out the requirements of the Board concerning directors, both in terms of individual characteristics and their contribution to the Board. The Charter of Expectations describes in particular the aptitudes considered in nominating a director and recommending an existing director for re-election, if applicable. 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 fit with those of the other directors so that the Board can properly fulfill all the aspects of its role.

  Nomination. The Conduct Review and Corporate Governance Committee, in cooperation with the Chairman of the Board, administers the nomination process for new directors and forwards its recommendations to the Board. This Committee is entirely composed of independent directors. The Committee recommends the nomination of new directors meeting the following main selection criteria: expertise enabling them to make an active, informed and profitable contribution to the management of the Bank, the conduct of its business, and its orientation and development, availability, a reputation for honesty and integrity, an understanding of regional, national and international issues and a personal contribution that complements that of the other members of the Board. The Board's expectations for new directors are discussed with potential candidates prior to their nomination in order to ensure that they are sufficiently available and competent to properly fulfill their role.

  Re-election. The Conduct Review and Corporate Governance Committee also annually assesses the eligibility and availability of directors who are candidates for re-election. Thus, barring any exceptional circumstances, a director may not have his mandate renewed for more than 15 successive years. The computation of a 15-year tenure commences in 1998 for directors serving on the Board at that time.

  Majority voting. The Bank also adopted a policy whereby any nominee for election as a director at the Annual Meeting of Shareholders, for whom the number of votes withheld exceeds the number of votes cast in his or her favor, 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 Conduct Review and Corporate Governance Committee, which 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 the resignation.

- Orientation and Continuing Education
  Directors follow an orientation and continuing education program so that they can become familiar with and broaden their knowledge of the operations of the Bank and its subsidiaries. The program is composed of three parts: orientation of new directors, continuing education in the form of training sessions and presentations made by different professionals, and individual meetings between directors and executive officers. The program provides an overview of the Bank, how it functions, its operations and its main challenges.

  Presentations. Presentations are made to directors on various aspects of the Bank's operations during regular Board meetings. During the most recently completed financial year, directors attended presentations regarding wealth management in the Personal Banking segment, regulatory developments concerning the Act and the bank/insurance sector, the Bank's strategic planning, banking partnerships, the role of the Board in managing certain risks, as well as sources and use of capital.

  Orientation. As part of their orientation program, new directors receive training concerning, in particular, the functioning of the Board and the Bank's vision, main segments and business challenges, the audit and control system and the Bank's client base and human resources. The new directors also participate in training sessions in the form of meetings with the Bank's Executive Committee members, the President and Chief Executive Officer, and the Chairman of the Board.

  Directors' Handbook. Directors are also given a Directors' Handbook, which describes the responsibilities and obligations of directors, the Bank's organizational structure, the mandates of the Board and its committees as well as the mandates of the Chairman of the Board and the committee Chairs. In addition, it contains the Bank's Code of Professional Conduct.

- Size of the Board
  The Committee is responsible for reviewing the size of the Board from time to time in order to ensure its effectiveness based on the competencies, aptitudes and experience sought by the Board, for developing and periodically reviewing the selection criteria for directors so as to reflect regulatory requirements, expectations and current and future needs of the Board, and for reviewing the existing procedures from to time to time so that the said criteria can be applied. This year, the Board is composed of 14 directors, and the Committee and the Board are of the opinion that this number is appropriate since the required competencies, knowledge, skills and qualifications can be brought together while promoting open discussion and a spirit of cooperation among directors.

Mandate of the Board

During the most recently completed financial year, the Board reviewed and amended its mandate so as to adequately reflect what the Board does and how, while ensuring compliance with new regulations. The Board's complete mandate is provided in Schedule B of this Circular.

- Strategic Planning
  Under its mandate, the Board is responsible, in particular, for overseeing the Bank's operations in relation to its business objectives and strategic plan. The Board therefore periodically reviews and approves the strategic plan in which the Bank establishes its mission, vision, objectives and strategy. In this regard, it considers business opportunities and related risks as well as business plans covering the Bank's major activities. Thus, in the most recently completed financial year, presentations were made to the Board on three-year strategic plans for the various Bank segments. These presentations typically include strategic orientations and initiatives, related challenges and risks, and relevant financial considerations. They allow the Board to have an overview and a detailed picture of the current status and future projects of each Bank segment and of the Bank in general so that it can adequately and effectively oversee the Bank's operations.

- Oversight of Management
  The Board fulfills its oversight function of management by receiving regular reports from the various segments and through discussions with the senior management of these segments. It also oversees management, assisted by the Human Resources Committee, by relying on the 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 performance of executive officers. The Board, in particular, ensures as much as possible that the President and Chief Executive Officer and the 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 and through the performance review of senior management. It also oversees the training, development and succession planning process for senior management. 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; it recognizes, identifies and understands the Bank's main risks (including credit, market and operational risks as well as outsourcing risks) and ensures that appropriate systems are set up for the effective management of such risks. At least quarterly, the Audit and Risk Management Committee receives detailed reports from the Bank's Risk Management sector on the sector's activities, the general allowance for credit risk, impaired loans and loan losses, compliance with regulatory capital ratios and obligations under the Basel Accord. The Board annually reviews and adopts all the major policies concerning the Bank's activity-related risks while ensuring their implementation. The Audit and Risk Management Committee converses on a regular basis, and in private, with the internal auditor and with the external auditor. For more information on risk management structure and systems, please refer to the "Risk Management Approach" section in the Bank's 2005 Annual Report.

- Communicating with Clients, Shareholders, Investors and the Public
  Information disclosure. The Board is an advocate of transparency in disclosing information to all shareholders, investors, clients and the general public. For this purpose, the Bank has ratified an information disclosure policy, which describes in particular the information to be disclosed, whether it is financial or other information, when it can be disclosed and by what means. It therefore establishes complete, accurate and timely disclosure procedures between the Bank, its clients, its shareholders, financial analysts, media and the general public and prohibits the selective distribution of information. The Bank also set up a Disclosure Committee whose mission is to ensure that information disclosure procedures and controls and internal financial reporting control procedures are implemented and operational. This Committee reviews the Bank's disclosure policy on a regular basis and recommends it for approval to the Board.

  Measures for recording reactions of stakeholders. The Board sees to it 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 National Bank Trust Inc., the Bank's transfer agent and registrar. Clients with special concerns or needs may contact their branch or TelNat. If a complaint cannot be resolved through the regular administrative channels, clients may contact the Bank's Ombudsman. Interested parties may contact the independent directors and the Chairman of the Board by e-mail at: boardofdirectors@nbc.ca. Moreover, the Bank has established the 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 possibility for any person, including employees, to report any irregularity regarding accounting, internal accounting controls or auditing matters on a confidential and anonymous basis.

- Internal Control and Management Information Systems
  The Board, in conjunction with the Audit and Risk Management Committee and the Disclosure Committee, examines audit and internal control processes and management information systems to ensure their integrity and effectiveness. Moreover, in cooperation with the internal auditor and management, the Bank's policies and internal control mechanisms are reviewed regularly.

- Corporate Governance
  Lastly, through the Conduct Review and Corporate Governance Committee, the Board is responsible for studying, preparing, implementing and overseeing the Bank's corporate governance rules, policies and procedures.

Business Ethics

- Code of Professional Conduct

  Application and content. The Bank has 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 it applies to them. The Code contains, in particular, the duty to act honestly and with integrity, to follow the law, to treat others equitably and with respect, to keep information in the strictest confidence, to avoid conflicts of interest and to respect the organization. The complete Code of Professional Conduct is available in both English and French on the website of the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.

  Update and failure to comply with the Code. The Conduct Review and Corporate Governance Committee reviews the Code itself at least every two years and approves any updates. The Bank's management must report any major violations of the Code to the Committee, and submit an annual report to the Committee on the procedure guaranteeing compliance with the Code. In the event of a breach of the Code by a director or an Officer, the Board will disclose the omission, particularly through a notice of material change filed with the Canadian Securities Administrators.

- Conflict of Interest

  Duty to report. The directors have a duty to report any conflict of interest to the Chairman of the Board or to the Chair of the Conduct Review and Corporate Governance Committee. 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 an Officer has a material interest, the Conduct Review and Corporate Governance Committee, in conjunction with the Chairman of the Board, reviews the directorships of directors by examining in particular the following aspects: the sector of the contemplated company, the business ties between said company and the Bank, the number of outside boards on which the director in question serves as well as the number of Bank directors already serving on the board of such company.

  Measures to encourage and promote an ethical business culture. The Board advocates a culture of ethical business conduct and integrity throughout the Bank. In order to achieve this objective, it attributes great importance to compliance with the Code. Moreover, a Disclosure Committee was set up to ensure that financial information is adequately communicated. Lastly, the Bank implemented its Whistleblowing Policy.

Remuneration

- Remuneration of Directors

  Principles. In order to provide adequate remuneration and recognize the ongoing and increasing complexity of the Bank's business, the Board, on the recommendation of the Conduct Review and Corporate Governance Committee, has adopted a remuneration program for directors. The purpose of this program is to provide the Bank with the tools required to recruit and retain qualified individuals to serve as members of the Board and contribute to the Bank's success. 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 offers directors remuneration that is commensurate with that of its reference market.

  Retainer and meeting fees. A retainer is paid to directors for serving on the Board. Committee members and committee Chairs, as well as the Chairman of the Board, receive additional remuneration. Board members are also paid fees for their attendance at meetings of the Board and of the committees on which they serve. For more information about the amounts allocated, please refer to the "Remuneration Paid by the Bank and its Subsidiaries to Directors" table and the "Record of Attendance and Remuneration of Directors" table of this Circular, which describe the remuneration paid to directors in the most recently completed financial year. In addition, the Bank and its subsidiaries reimburse directors for the expenses they incur to attend meetings.

  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 which 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 are credited to that account when dividends are paid on common shares. DSUs can only be cashed when the director leaves the Board. Directors have five years from the date they take office to attain this level of shares or DSUs. A portion of the retainer for directors as well as part of the remuneration paid to committee members and Chairs must be paid in the form of Bank shares. Directors may choose to receive their annual retainer and meeting fees in the form of cash and/or common shares and/or 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 this Circular.

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

Other remuneration paid to a director. During the most recently completed financial year, only one director received, directly from one of the Bank's subsidiaries, remuneration other than that received in his capacity as a Bank director. Under a service contract entered into in November 2004 with National Bank Financial Inc., Lawrence S. Bloomberg serves as advisor to National Bank Financial Inc. and National Bank Financial Ltd. and, as such, received 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, 2005, Mr. Bloomberg received a total of $636,178.

- Compensation of Officers
  The Human Resources Committee is responsible for determining the total compensation of the Officers of the Bank. It therefore regularly reviews the existing compensation plans so as to ensure that they promote the achievement of the Bank's business objectives without, however, being prejudicial to its sustainability, solvency and reputation. The Committee examines and recommends that the Board approve the salary policy, the total compensation programs, the distribution method, and other employment conditions as well as any amendments that may be made to them from time to time. The Human Resources Committee is also responsible for examining the various components of Officer compensation, such as the salary increase envelope and individual increases, the annual bonus envelope and the long-term variable compensation envelope and awards, and for recommending that said components be approved by the Board. For more information about Officer compensation, please refer to the "Report of the Human Resources Committee" section of this Circular.

Board Committees

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

- Independence
  The Board committees are composed exclusively of independent directors. After each regular committee meeting, they meet in camera, i.e., without the presence of members of management, who are invited from time to time to committee meetings. A list of committee members is found at the end of each committee's report in this Circular.

- Mandates
  Committee mandates. The committees reviewed their respective mandates in order to adequately reflect what they do and how, while ensuring compliance with new regulations. The mandate of each committee can be found in the "*Corporate Information*" section of the Bank's website (www.nbc.ca).

  Mandates of Board Committee Chairs. The Board also established mandates for the Chair of each committee in order to formalize and properly identify their respective responsibilities. These mandates establish their duties in holding committee meetings, their role regarding the composition and dynamics 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 this Circular.

SECTION 3 | Internal Management (cont.)

- External Advisors
  General powers. The Board committees have the necessary authorization to hire external consultants and set their remuneration, 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 names of these consultants, a description of their respective mandates and the fees paid to them can be found in the "Principles Governing Officer Compensation" section of this Circular.

Evaluation

- Role of the Conduct Review and Corporate Governance Committee
  The Conduct Review and Corporate Governance Committee is responsible for implementing an evaluation process of the performance and effectiveness of the Board, its committees and the directors in executing their mandate. In the most recently completed financial year, the Board, through the Conduct Review and Corporate Governance Committee, reviewed and amended its evaluation process in order to update the process so as to gather more qualitative information and to bring the process into line with the responsibilities described in the mandates of the Board and its committees. The results are discussed at a meeting of the Conduct Review and Corporate Governance Committee, and a report is subsequently submitted to the Board. The self-assessment results allow the needs of the Board to be identified in terms of knowledge and expertise in certain specific areas.

  Evaluation of the Board and its committees. The evaluation questionnaires of the Board and of its committees are sent to an outside firm, which compiles and analyzes the results in order to maintain privacy and confidentiality. The analysis is then sent to the Chair of the Conduct Review and Corporate Governance Committee, who discusses the analysis with the Committee members and then makes an overall report thereon to the Board. The Board evaluation questionnaire considers the main responsibilities of the Board as determined in its mandate, its operations, its composition and its relations with management. The evaluation questionnaire for Board committees covers basically the same aspects, addressing more specifically the functions of each committee, as described in their respective mandates.

  Individual self-assessment. Individual self-assessment results are sent to the Chairman of the Board. One-on-one meetings are then held to expand on certain aspects considered in the evaluation questionnaire and based on the previously described Charter of Expectations for Directors. The Chairman of the Board is also subject to a review by all Board members as part of a process overseen by the Conduct Review and Corporate Governance Committee.

Paul Gobeil
Chair
Conduct Review and Corporate Governance Committee

Remuneration Paid by the Bank and Its Subsidiaries to Directors

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

National Bank of Canada	
Annual retainer of a director	
• In cash:	$ 25,000
• In common shares:	$ 7,500
Retainer of the Chairman of the Board:	$ 200,000(1)
Committee Chair annual retainers	
• In cash:	$ 10,000
• In common shares:	$ 5,000
Committee member annual retainers (including committee Chairs)	
• In cash:	$ 3,500
• In common shares:	$ 2,500
Board and committee meeting fees:	$ 1,500
National Bank Financial & Co. Inc.(2)	
Annual retainer of a director	
• In cash:	$ 15,000
Committee Chair annual retainers	
• In cash:	$ 7,500
Committee member annual retainers (including committee Chairs)	
• In cash:	$ 2,500
Board and committee meeting fees:	$ 1,500
National Bank Life Insurance Company	
Annual retainer of a director	
• In cash:	$ 6,000
Committee Chair annual retainers	
• In cash:	$ 3,000
Committee member annual retainers (including committee Chairs)	
• In cash:	$ 1,800
Board and committee meeting fees:	$ 1,000
National Bank Trust Inc.	
Annual retainer of a director	
• In cash:	$ 6,000
Committee Chair annual retainers	
• In cash:	$ 1,000
Committee member annual retainers (including committee Chairs)	
• In cash:	$ 1,000
Board and committee meeting fees:	$ 500
FMI Acquisition Inc.	
Annual retainer of a director	
• In cash:	$ 500

(1) *The retainer paid to the Chairman of the Board was increased from $150,000 to $200,000 on August 1, 2005. As of March 1, 2005, the Chairman of the Board has received an annual allowance of $25,000 for accommodation expenses.*

(2) *As of January 2, 2005, no director of the Bank has served on the Board of Directors of National Bank Financial & Co. Inc.*

SECTION 3 | Internal Management (cont.)

For more information about the remuneration received by individual directors during the financial year, please refer to the "Record of Attendance and Remuneration of Directors" table below.

Summary of the Number of Board and Committee Meetings

held during the financial year ended October 31, 2005

Board of Directors	13
Conduct Review and Corporate Governance Committee (G)	6
Human Resources Committee (HR)	7
Audit and Risk Management Committee (ARM)	14

Record of Attendance and Remuneration of Directors

for the financial year ended October 31, 2005

Director	Attendance at Meetings		Retainer and Committee Chair and Member Remuneration	Retainer and Committee Chair and Member Remuneration in the Form of Shares (monetary value)	Meeting Fees	Total Remuneration
	Board	Committees	($)	($)	($)	($)
Lawrence S. Bloomberg	13/13	–	25,000	7,500	19,500	52,000
Pierre Bourgie (ARM Chair, G)	13/13	18/20	42,000	17,500	46,500	106,000
Gérard Coulombe	13/13	2/2	26,750	8,750	22,500	58,000
Bernard Cyr (ARM)	12/13	13/14	28,500	10,000	37,500	76,000
Shirley A. Dawe (G, HR)	13/13	13/13	32,000	12,500	39,000	83,500
Nicole Diamond-Gélinas (ARM)	13/13	14/14	28,500	10,000	40,500	79,000
Jean Douville	13/13	–	162,500	7,500	19,500	189,500
Marcel Dutil (HR)	12/13	7/7	28,500	10,000	28,500	67,000
Jean Gaulin (HR Chair, ARM)	13/13	21/21	42,000	17,500	51,000	110,500
Paul Gobeil (G Chair, ARM)	12/13	20/20	42,000	17,500	48,000	107,500
Réal Raymond	13/13	–	–	–	–	–
Roseann Runte (G)	13/13	6/6	28,500	10,000	28,500	67,000
Marc P. Tellier (HR)	7/7	4/5	19,000	6,667	16,500	42,167
Total			505,250	135,417	397,500	1,038,167

- *As Chairman of the Board, Mr. Douville regularly attends the meetings of the Board committees but receives no remuneration or meeting fees.*
- *The Bank does not offer a stock option plan to its directors.*
- *Messrs. Bloomberg and Raymond do not serve on any Board committee.*
- *Mr. Coulombe ceased to be a member of the Human Resources Committee on March 2, 2005.*
- *Mr. Raymond is not compensated for serving on the Board.*
- *Mr. Tellier joined the Board and the Human Resources Committee on March 2, 2005.*
- *Jean Turmel resigned from the Board on March 2, 2005. During the financial year ended October 31, 2005, he attended three Board meetings. As a member of management, Mr. Turmel was not compensated for serving on the Board.*
- *Suzanne Leclair resigned from the Board on March 2, 2005. During the financial year ended October 31, 2005, she attended four Board meetings and two committee meetings, and received total remuneration of $21,208 (a retainer of $9,500, $9,000 in meeting fees and $2,708 in shares).*
- *E.A. (Dee) Parkinson-Marcoux resigned from the Board on December 17, 2004. During the financial year ended October 31, 2005, she attended two Board meetings and one committee meeting, and received total remuneration of $10,917 (a retainer of $4,750, $4,500 in meeting fees and $1,667 in shares).*
- *André Caillé has been a member of the Board and the Audit and Risk Management Committee since October 27, 2005. No meetings of the Board or the Audit and Risk Management Committee were held between his appointment and the end of the financial year.*

SECTION 4 | Other Information

Indebtedness of Directors, Officers and Employees

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

Aggregate Indebtedness

As at December 1, 2005[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, Officers, employees and former directors, Officers and employees of the Bank or any of its subsidiaries was as follows:

Purpose	To the Bank or Its Subsidiaries ($)	To Another Entity ($)
Share purchases	2,884,946	N/A
Other	562,339,083	N/A

(1) *Information about the aggregate indebtedness was obtained on November 30 and December 1, 2005.*

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

The table below shows the indebtedness, during the most recently completed financial year of the Bank, of each individual who is, or during the most recently completed financial year was, 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 by the Bank or any of its subsidiaries, or any other entity if the indebtedness is the subject of a guarantee provided by the Bank or any of its subsidiaries.

Name and Principal Position	Involvement of Bank or Subsidiary	Largest Amount Outstanding During Financial Year Ended October 31, 2005 ($)	Amount Outstanding as at December 1, 2005 ($)	Financially Assisted Securities Purchases During Financial Year Ended October 31, 2005	Security for Indebtedness	Amount Forgiven During Financial Year Ended October 31, 2005 ($)
Securities Purchase Programs						
Pascal Duquette President, Chief Executive Officer and Chief Investment Officer Natcan Investment Management Inc.	Indebtedness to National Bank of Canada	477,627[2]	679,048[2]	N/A	N/A	N/A
Other Programs						
G.F. Kym Anthony[3]	Indebtedness to National Bank of Canada	1,265,370[4]	1,179,070[4]	N/A	N/A	N/A
Yves G. Breton President, National Bank Direct Brokerage Inc.	Indebtedness to National Bank of Canada	5,016[5]	255,229[5]	N/A	N/A	N/A
Gisèle Desrochers Senior Vice-President Human Resources and Operations	Indebtedness to National Bank of Canada	528,201[6]	529,650[6]	N/A	N/A	N/A
Pierre Dubreuil Senior Vice-President Greater Montreal and Southern Quebec	Indebtedness to National Bank of Canada	229,397[6] 163,418[5]	221,736[6] 169,053[5]	N/A N/A	N/A N/A	N/A N/A
Pierre Fitzgibbon Senior Vice-President Finance, Technology and Corporate Affairs	Indebtedness to National Bank of Canada	530,700[4] 23,920[5]	491,252[4] 42,699[5]	N/A N/A	N/A N/A	N/A N/A
Charles Guay President and Chief Executive Officer National Bank Securities Inc.	Indebtedness to National Bank of Canada	109,721[5] 376,421[6]	54,412[5] 313,718[6]	N/A N/A	N/A N/A	N/A N/A

SECTION 4 | Other Information (cont.)

Name and Principal Position	Involvement of Bank or Subsidiary	Largest Amount Outstanding During Financial Year Ended October 31, 2005 ($)	Amount Outstanding as at December 1, 2005 ($)	Financially Assisted Securities Purchases During Financial Year Ended October 31, 2005	Security for Indebtedness	Amount Forgiven During Financial Year Ended October 31, 2005 ($)
Alice Keung Senior Vice-President Information Technology	Indebtedness to National Bank of Canada	192,282(6)	191,676(6)	N/A	N/A	N/A
Olivier H. Lecat Senior Vice-President Internal Audit	Indebtedness to National Bank of Canada	N/A	50,023(5)	N/A	N/A	N/A
Ricardo Pascoe Senior Vice-President Treasury and Financial Markets	Indebtedness to National Bank of Canada	1,580,402(5) 3,145,380(6)	280,886(5) 3,130,692(6)	N/A N/A	N/A N/A	N/A N/A
Benoît Villeneuve Vice-President Finance	Indebtedness to National Bank of Canada	176,081(6)	175,696(6)	N/A	N/A	N/A

(1) *For the purposes hereof, the term "Executive Officers" has the meaning assigned in paragraph 1.1(1) of National Instrument 51-102* Continuous Disclosure Obligations *and includes the President and Chief Executive 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%, subject to the usual prepayment clauses, and at least 5% of the principal is repayable on June 30 of each year.*

(3) *G.F. Kym Anthony stepped down as President and Chief Executive Officer of National Bank Financial Group and Senior Vice-President on July 1, 2005.*

(4) *This amount represents one or more personal leveraged loans (the "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 Affiliate Fund limited partnership, (iii) the sale or disposal of the applicable 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 Affiliate Fund limited partnership interest and the distributions thereon.*

(5) *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. For Ricardo Pascoe, this amount represents loans granted at market conditions, except for $100,000, which bears interest at half of the Bank's prime rate. 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.*

(6) *This amount represents one or more loans secured by a mortgage on the borrower's main residence that 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%; however, Executive Officers who obtained a loan prior to December 31, 2002 benefit from the previous conditions for a transition period ending December 31, 2005; i.e., the loan is granted according to standards applicable to clients, except for the interest rate, which is offered at one third of the client rate of the Bank on the first $50,000 and at the Bank's client rate less 5% on the amount in excess thereof, but such rate shall at no time be lower than the rate applied to the first $50,000. 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.*

SECTION 4 | Other Information (cont.)

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 paid by the Bank for this insurance is $725,325, and the policy expires on September 1, 2006.

Repurchase of Shares

As at the date of this 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, from time to time and during the period stipulated hereinafter, a maximum of 8,400,000 common shares representing approximately 5% of the outstanding common shares of the Bank.

In the opinion of the Board, the purchase of the common shares pursuant to the Issuer Bid constitutes an appropriate use of the Bank's surplus funds. This Issuer Bid commenced on January 13, 2005 and will end on January 12, 2006. The price that the Bank pays for any common share which it purchases shall be the prevailing market price of a common share on the Toronto Stock Exchange on the purchase date.

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

Minutes

A copy of the minutes of the Annual Meeting of Common Shareholders of the Bank held on March 2, 2005 has been mailed to shareholders, together with this Circular.

Additional Information

Further information about the Bank may be obtained from its website at www.nbc.ca and from the SEDAR website at www.sedar.com.

Financial information concerning 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 provide to any person, upon request, a copy of the Annual Report, a copy of the Annual Information Form together with a copy of any document incorporated therein by reference, a copy of the annual consolidated financial statements for the financial year ended October 31, 2005 with the accompanying auditors' report, a copy of any subsequent quarterly report and a copy of the Management Proxy Circular of the Bank in respect of its most recent Meeting that involved the election of directors. To obtain copies of these documents, please send your request to the Corporate Secretary's Office of the Bank, 600 de La Gauchetière West, 4th Floor, Montreal, Quebec, Canada H3B 4L2.

Approval of the Board of Directors

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

Linda Caty
Vice-President and Corporate Secretary
January 18, 2006

SCHEDULE A | Shareholder Proposals

Shareholder proposals
Proposals No. 1 and 2 have been submitted to the management of the Bank by the Mouvement d'Éducation et de Défense des Actionnaires (MÉDAC), 82 Sherbrooke West, Montreal, Quebec H2X 1X3.

Proposals No. 3 and 4 have been submitted to the management of the Bank by Mr. Lowell Weir, 4 Armoyan Court, Bedford, Nova Scotia B4A 3L5.

Proposal No. 1
Shareholder proposal and statement [Translation]:
"It is proposed that the Bank include in its Annual Report the financial statements of its subsidiaries in tax havens.

In the interests of transparency and out of respect for shareholders' right to information, the right of shareholders to examine the financial statements of a bank's subsidiaries was enshrined in subsection 310(2) of the *Bank Act* (Canada). Maintaining numerous bank subsidiaries in tax havens means depriving Canada and the Federated States of major revenues that otherwise would have been directed to meet the needs of taxpayers. This situation has become a public issue throughout Canada. If the bank were to publish its subsidiaries' financial statements in States of convenience, shareholders would be able to pass judgment on the nature of the transactions conducted there and possibly make an informed decision about the bank's activities in the leading centres of drug money laundering, tax evasion and tax scams.

The Bank's arguments to date for justifying its presence in tax havens are mollifying, evasive and hollow. They must be reviewed and rebalanced as seen fit by shareholders, institutional investors, portfolio managers and pension funds concerned about the interests of the Bank and of those funding it."

Position of the Bank
The Bank complies with the requirements of the *Bank Act* (Canada) concerning the content and presentation of its financial statements and those of its subsidiaries. Accordingly, the results of all subsidiaries of the Bank, including its foreign subsidiaries, are included in the Bank's consolidated financial statements as indicated in Note 1 to those statements, the whole in accordance with Canadian generally accepted accounting principles.

Including the financial statements of only certain subsidiaries in the Annual Report would place emphasis on those subsidiaries and could mislead the reader as to their relative importance. Moreover, including the financial statements of each subsidiary of the Bank in the Annual Report of the Bank would result in a voluminous report that would be very costly to publish for all shareholders.

Under the provisions of subsection 310(2) of the *Bank Act*, any shareholder may examine the financial statements of the Bank or any of its subsidiaries at the Bank's head office. However, this subsection does not require the Bank to publish the financial statements of its subsidiaries in the Annual Report.

Furthermore, the Bank feels that in a context of globalization and client service excellence, it is in the best interests of its shareholders and clients to maintain a presence in international banking centres while complying with the provisions of tax and anti-money laundering laws and regulations implemented both in Canada and in the individual countries in which the Bank operates.

For these reasons, management recommends voting AGAINST this proposal.

SCHEDULE A | Shareholder Proposals (cont.)

Proposal No. 2

Shareholder proposal and statement [Translation]:

"It is proposed that any increase in the compensation of executive officers, as well as awards of stock options, pensions and benefits payable upon termination of employment first be submitted for approval to the shareholders before becoming effective.

In recent years, executive officer compensation and other benefits relating to their employment, termination of employment or retirement have become grossly excessive, scandalizing a growing number of shareholders. Shareholders are always being confronted with a done deal, without being given any say about the relevance or merit of the decisions or recommendations of the Board of Directors. This is not fair or reasonable; nor does it reflect the principles of sound corporate governance. Even current practices are offensive to shareholders in obstructing their right to examine and approve the recommendations of their Board of Directors.

It is high time that shareholders or their proxies be no longer considered inconsequential and infinitely expendable in the business of the financial institutions that they sustain with their funds. Shareholders are the ones who take the risks, not the indecently remunerated officers assigned to administer their affairs."

Position of the Bank

The *Bank Act* (Canada) makes it clear that it is the directors' responsibility to manage or supervise the management of the business and affairs of the Bank. The *Bank Act* gives the shareholder certain specific rights, such as the right to elect the directors, the right to appoint the auditor, the right to vote on proposals presented at the Annual Meeting of Shareholders and the right to examine the financial statements of the Bank and its subsidiaries.

The *Bank Act* also states that the directors may form committees and delegate such powers and assign such duties to them as they consider appropriate. Accordingly, the Board of Directors has delegated the responsibility for recommending the total compensation approach, including the annual review of the policy and various programs pertaining to officer compensation to the Human Resources Committee, a committee made up of independent members.

The Human Resources Committee makes sure that the compensation programs are aligned with the Bank's business objectives, and also that they are competitive—an essential element in recruiting and retaining key employees. The Committee evaluates the performance of the President and Chief Executive Officer and reviews, together with him, the annual performance appraisals of Bank officers, who report directly to him. It also reviews the total compensation of all officers annually in light of their performance, including base salary, annual bonuses and long-term variable compensation. Furthermore, it recommends to the Board of Directors whether or not to establish separation allowances for certain executive officers in the event their employment is terminated.

In order to properly discharge its responsibilities, the Human Resources Committee has access to detailed information on such matters as officer performance, the total compensation programs, and trends and practices in the market where the Bank operates. In addition, the Committee periodically seeks the advice of independent external specialists. It would be extremely difficult for the shareholders to come to a clear and informed conclusion about the compensation of the officers at an Annual Meeting of Shareholders without having access to the information on which the Human Resources Committee bases its recommendations. Finally, the Bank's ability to hire quality key personnel as and when necessary would be severely limited if certain terms and conditions of employment always had to be submitted to the shareholders for their prior approval. It therefore seems preferable to continue to give this responsibility to the Human Resources Committee and the Board of Directors.

For these reasons, management recommends voting AGAINST this proposal.

SCHEDULE A | Shareholder Proposals (cont.)

Proposal No. 3
Shareholder proposal and statement:
"It is proposed that the termination of employment policy adopted by the Board on November 30, 2000 be eliminated immediately.

On November 30, 2000 the Board adopted a policy whereby certain executive officers would receive a separation allowance in the event their employment was terminated by the Bank following a change of control. A 'change of control' notably means any change in the ownership of Bank shares following the acquisition of shares, a merger or a business combination, resulting in one shareholder beneficially owning in excess of 20% of the voting shares of the Bank. Under the terms of this policy, the President and Chief Executive Officer would be entitled to a separation allowance equal to his base salary and annual average bonus for the previous three years. Certain other executive officers of the bank are also covered under these plans. The plan also contains provisions for instant vesting of granted option and payment for "future option" not yet granted.

Termination of employment policies such as the Bank's policy are detrimental to the interests of the shareholder. These policies entrench management and contribute to management complacency. Most senior executives are parties to sophisticated employment contracts and do not require protection under these types of programs.

In the case of the National Bank, the Bank's common shares have substantially appreciated in value over the last eighteen months and senior executives have been handsomely rewarded for their efforts."

Position of the Bank
The main purpose of the termination of employment policy adopted by the Board is to ensure that the executive officers covered by this policy continue to act in the interest of the Bank and its shareholders and, if applicable, to support any process leading to a change of control even if that process might go against their personal interests. This policy has a very narrow scope, as it is intended only for a small group of individuals and would apply only if the Bank were to terminate the employment of one of those individuals without cause following a change in control approved by the Finance Minister.

This policy helps preserve the Bank's value in the event of an acquisition by endeavouring to maintain stability at the executive level. Moreover, it reduces the risk of legal recourse being taken against the Bank by an executive officer who is dismissed further to a change in control.

This policy provides for the payment of indemnities comparable to those paid by large public companies likely to undergo a change in control and, as such, enables the Bank to recruit and retain high-calibre executive officers.

It is appropriate that the Bank possess all necessary mechanisms to mitigate the uncertainty and lack of stability associated with possible merger and acquisition transactions and thereby protect its shareholders' long-term interests.

For these reasons, management recommends voting AGAINST this proposal.

SCHEDULE A | Shareholder Proposals (cont.)

Proposal No. 4

Shareholder proposal and statement:

"It is proposed that the quality of the minutes recorded in connection with the holding of the Annual General Meeting of the Shareholders of the Bank be recorded in much greater detail. Further it is proposed that the minutes of the previous meeting be submitted to the shareholders for approval at the current Annual General Meeting of the Shareholders of the Bank.

The present minutes submitted to shareholders are extremely limited. Quite often the minutes do not contain an accurate portrayal of meeting discussions. In fact, on several matters, the minutes recorded would appear inaccurate to the point of being totally misleading. Further, the Corporate Secretary refuses to entertain any corrections to the minutes."

Position of the Bank

The minutes of the Annual Meeting of Shareholders is a summary of the essential elements of the items discussed and decisions made at the Annual Meeting. The Secretary is required to briefly and accurately report on points raised and decisions made at the Annual Meeting, in accordance with the program for the meeting. The minutes of an annual meeting accurately describe the essential elements of the meeting. They are not a report and need not contain transcripts of the addresses given or a detailed description of discussions held during the meeting.

The Bank keeps a record of minutes of its Annual Meetings of Shareholders, in accordance with the *Bank Act* (Canada). Furthermore, although not required by law, the Bank sends all shareholders a copy of the minutes of the previous year's annual meeting for information purposes once they have been reviewed by the Chairman of the Board. Lastly, the *Bank Act* does not require that the Bank's shareholders approve the minutes drafted for an annual meeting.

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") is to oversee the management of the Bank, safeguard its assets, and ensure its viability, profitability and development. To do so, it is assisted by three committees: the Audit and Risk Management Committee, the Conduct Review and Corporate Governance Committee and the Human Resources Committee (the "Committees"). The Board assigns responsibility for managing and directing the operations of the Bank to management. The Board assumes the functions set out in the mandate hereof.

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. Directors 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 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
   In order to carry out its mission, the Board, either directly or through its committees, has the following functions:

   Strategic Planning Process
   Review, discuss and approve on an annual basis the strategic plan in which the Bank establishes its mission, vision, business objectives and strategy, taking into account the opportunities and risks for the Bank, as well as the business plans relating to the main operations of the Bank.

   Review and approve the 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.

   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 the major policies of the Bank, particularly the rules pertaining to the acceptance, oversight, management and reporting of significant risks to which the Bank is exposed as well as changes thereto with respect to risk management.

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

   Approve all material aspects of risk ratings and assessment processes.

SCHEDULE B | Mandate of the Board of Directors (cont.)

Description of the Functions of the Chairman of the Board
Approve the description of the functions of the Chairman of the Board without directors who are members of management or the Chairman of the Board being present.

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

Succession Planning and Remuneration for Directors
Approve the appointment of any new nominee for the position of director, review and approve directors' remuneration, the way remuneration 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.

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 the process implemented by the Conduct Review and Corporate Governance Committee.

Review the mandate of the Board periodically.

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.

Hiring of External Advisors
The Board has the authority to:

(a) engage independent counsel and other advisors as it determines necessary to carry out its duties; and
(b) set and pay the remuneration of any advisors employed by the Board.

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

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.

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 ensure 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 ethics 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 that the Bank complies with the *Bank Act* (Canada) (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.

Material Transactions
Discuss and approve any activity, contract or agreement of any nature whatsoever which is not compatible with the Bank's mission or does not fall within its normal course of business.

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

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 oversight 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.

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.

Residual Powers
Assume any responsibility not delegated to management.

SCHEDULE B | Mandate of the Board of Directors (cont.)

2. Board Committees

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.

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

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.

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

Ad Hoc or Special Committees
The Board may, from time to time, form appropriate *ad hoc* or special 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 respecting the rules of conduct and ethics, the amount of time directors must devote to their duties, and the requisite competencies. 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 one's needs and knowledge.

4. Expectations of the Board Regarding Management

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 is to facilitate the Board's oversight role regarding the business operations and internal administration of the Bank by submitting accurate, complete, relevant and timely information and reports to the members of the Board. Management must report to the Board by providing informed opinions regarding, for example, the Bank's main objectives, strategies, plans and policies.

Information for Shareholders

Stock Exchange Listings

The common shares of the Bank as well as the First Preferred Shares, Series 15 and 16 are listed on the Toronto Stock Exchange.

Issue or Class	Ticker Symbols	Newspaper Abbreviations
Common Shares	NA	Nat Bk, Natl Bk or Nat BK (NA)
First Preferred Shares		
Series 15	NA.PR.K	Nat Bk s15, Natl Bk s15 or Nat Bk (NA.PR.K)
Series 16	NA.PR.L	Nat Bk s16, Natl Bk s16 or Nat Bk (NA.PR.L)

Dividends

Dividend dates in fiscal 2005-2006
(Subject to approval by the Board of Directors of the Bank)

Ex-dividend Dates	Record Dates	Payment Dates
Common Shares:		
December 23, 2005	December 29, 2005	February 1, 2006
March 28, 2006	March 30, 2006	May 1, 2006
June 20, 2006	June 22, 2006	August 1, 2006
September 26, 2006	September 28, 2006	November 1, 2006
First Preferred Shares, Series 15 and 16:		
January 11, 2006	January 13, 2006	February 15, 2006
April 12, 2006	April 17, 2006	May 15, 2006
July 5, 2006	July 7, 2006	August 15, 2006
October 11, 2006	October 13, 2006	November 15, 2006

Quarterly Report Publication Dates in Fiscal 2005-2006

First quarter	March 2, 2006
Second quarter	May 25, 2006
Third quarter	August 31, 2006
Fourth quarter	November 30, 2006

Information for Shareholders

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Montreal, Quebec, Canada H3B 4L2
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Telex: 0525181
(Nabacan Montreal)
Website: www.nbc.ca

Transfer Agent and Registrar

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

National Bank Trust Inc.
Share Ownership Management
1100 University, 12th Floor
Montreal, Quebec, Canada H3B 2G7
Telephone: (514) 871-7171
1-800-341-1419
Fax: (514) 871-7442

Mailing address:
National Bank Trust Inc.
Share Ownership Management
P.O. Box 888, Station B
Montreal, Quebec, Canada H3B 9Z9

Other shareholder inquiries
can 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: (514) 394-0296
Fax: (514) 394-6196
E-mail: investorrelations@nbc.ca
Website: www.nbc.ca/investorrelations

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