

Address

delivered by **Jean Gaulin**

Committee Human Resources Chair

National Bank Financial Group

at the Annual Meeting of Shareholders

Centre des congrès de Québec

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**NATIONAL
BANK**

FINANCIAL GROUP

(Check against delivery)

Ladies and Gentlemen,

As Chair of the Human Resources Committee, I would like to share with you the reasons behind our decision regarding the compensation of the Bank's executive officers.

While the financial sector has experienced massive losses in Europe, Asia and the United States and the stock markets have seen an unprecedented downturn, National Bank has been one of the few banks to generate profits, even after write-offs, over the past two years – specifically \$541 million in 2007 and \$776 million in 2008. Furthermore, it has not needed an injection of government funds and has not been forced to issue equity, thereby preventing a dilution of shareholder value.

It was against this backdrop that the Human Resources Committee, which is made up exclusively of independent members of the Board who are themselves shareholders, made its recommendations with regard to officer compensation for 2007 and 2008 to the Board.

In establishing bonuses for Mr. Vachon and the members of the Office of the President, the Committee adhered to its policy of considering the criteria set at the beginning of the fiscal year and comparing the Bank's financial results with those of the other 5 major Canadian banks.

- For instance, the Bank's return on equity was 16.4%, which was below the target of 20.9% but well above the average of 12.2% for the other 5 major Canadian banks.
- Diluted earnings per share grew 45%, significantly better than the average 41% decrease for the other 5 major banks in 2008. Even after excluding asset write-offs, the Bank's earnings per share were up 1.8%, far ahead of the other banks, for which earnings per share were down an average 9.1% in 2008.
- The Bank's total shareholder return for fiscal 2008 was -13.1%, much higher than that of the other 5 major banks at -21.8% and that of the TSX at -31.4%.
- The Tier 1 capital ratio, a key indicator of the Bank's financial health, was 9.4%, above the target ratio of 8% and, as I mentioned earlier, without having to issue equity.

However, in spite of this exceptional performance given the global economic situation, Mr. Vachon and the members of the Office of the President did not receive a bonus in 2007 and only received a partial bonus in 2008. Furthermore, Mr. Vachon did not receive a salary increase either year, at his request.

In addition, up to 84% of the Chief Executive Officer's compensation is variable. The mid- and long-term portions of his compensation are not immediately paid and are contingent on the Bank's future performance. If the Bank's share price does not rise, Mr. Vachon suffers the same consequences as any other shareholder. For example, the options granted to Mr. Vachon over the last five years currently have no value and those which expired in December 2008 were worth only 40% of the estimated value on their grant date. Mid- and long-term compensation is designed to encourage our President and his team to focus all of their efforts on achieving the best possible returns for our shareholders. This is even more important during a recession as it is more difficult, though not impossible, to grow earnings.

The Committee is of the opinion that Mr. Vachon's compensation is appropriate given the Bank's positive results in this difficult climate. In spite of the challenges facing the global financial sector, the Bank's management, under Mr. Vachon's leadership, is currently putting in place a series of strategic initiatives to position the Bank for the next growth period.

The Committee has every confidence in Mr. Vachon's leadership and ability to continue implementing the Bank's strategy of developing a comprehensive client-centric offering, promoting a leadership culture and optimizing its organizational efficiency.

I will be happy to answer any questions you may have during the shareholder question period later in the meeting.

Thank you for your attention.