

Address

delivered by **André Caillé**

Chair of the Independent Committee

at the Annual Meeting of Shareholders

Mount Royal Centre

Montreal, February 29, 2008



(Check against delivery)

Thank you Mr. Vachon.
Good morning ladies and gentlemen,

As Mr. Vachon just mentioned, the Bank's Board of Directors formed an independent committee made up exclusively of directors who did not hold any asset-backed commercial paper, or ABCP, to handle this matter.

The mandate given to this committee, which I chair, was to analyze the facts surrounding the liquidity problems affecting the global ABCP market, assess the consequences for the Bank and its subsidiaries, and recommend to the Board measures to safeguard the Bank's interests.

The Board feels it is appropriate that I, as Chair of the Independent Committee, speak to you today about how certain recommendations were made and how the Board ratified and applied those recommendations.

The collapse of the subprime mortgage market in the United States affected financial institutions around the world. It triggered a crisis of confidence that affected ABCP in Canada, despite the fact that only a small portion of Canadian ABCP was linked to the U.S. subprime market.

The crisis of confidence paralyzed non-bank ABCP trading. The Bank's management promptly notified the Audit and Risk Management Committee and the Board of Directors. We immediately decided to exclude from the decision-making process any member of the Board who held ABCP either directly or indirectly through mutual funds or pooled funds.

The Board took the initiative of establishing an independent committee to analyze and make recommendations to the Board so its decisions would be completely impartial and in the interests of the Bank and its stakeholders.

The Independent Committee and the Board also decided to engage the services of outside accounting and legal firms to make sure they had expert advice and an independent viewpoint with regard to governance.

After weighing its options, the Bank rapidly came to the conclusion that in order to protect its individual clients from the uncertainties of the market, it had to purchase the ABCP they held.

National Bank therefore decided to acquire, at 100% of the acquisition cost plus accrued interest, all ABCP held directly or in the public mutual funds and pooled funds of Bank subsidiaries by all its individual clients, without exception.

Moreover, National Bank chose to extend this measure to its corporate clients, provided they had holdings of \$2 million or less purchased from the Bank, National Bank Financial or National Bank Direct Brokerage.

Management then analyzed the files of each corporate client individually. The Independent Committee is satisfied with the way the guidelines were applied.

In all, the Bank purchased the commercial paper held by more than 250,000 of its individual and corporate clients for a total of \$2.1 billion.

As indicated in the Management Proxy Circular, five members of the Board of Directors and three members of the Office of the President held ABCP. After analysis, the Independent Committee decided that the directors and officers of the Bank who held ABCP should be part of the transaction to purchase the ABCP held by individuals, just like all the other clients covered by this transaction.

We concluded that they, too, were individual clients who had entrusted their savings to National Bank and as such should not be penalized for doing business with their bank.

It is important to point out that the commercial paper held by certain Bank officers, including Louis Vachon, was held indirectly through money market funds.

The ABCP in these funds, like that held in all of the Bank's mutual funds, was purchased. Because of the nature of mutual funds, which are group savings solutions where all unitholders are treated equally, it was impossible to treat certain unitholders differently from others.

The Bank's decision to purchase the ABCP held by its individual clients was well received by financial commentators and the media.

The Board, on the recommendation of the Independent Committee, also arranged to have each of the members of the Office of the President place an amount equal to the value of their personal interests in the purchased ABCP in trust.

This measure enabled the Independent Committee and the Board to work on the ABCP issue with management until the matter was resolved, while avoiding any appearance of conflict of interest.

Mr. Vachon presented several proposals to the Independent Committee regarding the treatment of his assets in trust so that those assets would be aligned with the investments of commercial or corporate clients not covered by the purchase transaction and our shareholders. We understand Mr. Vachon's desire, as CEO, to show his solidarity with the Bank's shareholders and corporate clients. It's a gesture I would like to commend.

However, the Committee maintained that it would be better for him to postpone making such a decision until the matter was resolved.

I would like to take this opportunity to set the record straight.

The Bank first got involved in the ABCP market in 1998. Prior to joining National Bank Financial in January 2005, Mr. Vachon was with the Bank's Treasury Department and had no involvement with ABCP. When the crisis hit, he had been President and CEO for 73 days. Fortunately, because of his training, he was very knowledgeable in the area and was well equipped to help us manage the situation.

The Committee I chair did not seek to assign blame but to find solutions and I, like all Board members, know who helped us find those solutions.

After an in-depth analysis of the way commercial paper had been managed at the Bank since 1998, conducted with the help of our outside advisors on the recommendation of our legal counsel, the Board of Directors reiterated its full confidence in management.

The Bank therefore undertook this large-scale transaction in full compliance with all applicable banking and securities regulations.

In conclusion, the Bank sought to develop a balanced policy. It set guidelines for determining who would be covered by the purchase transaction and to what extent. Management then applied those guidelines on a case-by-case basis.

We obviously cannot comment publicly on the individual files of our clients. I can assure you, however, that nobody was given special treatment or a free pass.

The Independent Committee and your Board of Directors worked diligently to find creative solutions to an unexpected problem and did so in a balanced manner with respect to the interests of our company, its shareholders and its clients. I am proud to still be contributing to the resolution of this situation with my colleagues on the Independent Committee and the Board.

I will be pleased to answer your questions during the question period reserved for shareholders later in this meeting.

Thank you for your attention.

Mr. Chairman, ladies and gentlemen, thank you. 🇩🇪