

STATEMENT OF CORPORATE GOVERNANCE PRACTICES

1. INTRODUCTION

The Board of Directors (the “**Board**”) of National Bank of Canada (the “**Bank**”) believes that sound corporate governance is an essential component of the Bank’s operations and that it benefits its clients, its employees and its shareholders. Consequently, the Board makes corporate governance a top priority.

The Bank’s corporate governance framework consists of clearly defined structures, policies and procedures. The first of these structures is the Board, which is supported by three standing committees: the Audit and Risk Management Committee (the “**ARMC**”), the Conduct Review and Corporate Governance Committee (the “**CRCGC**”) and the Human Resources Committee (the “**HRC**”).

The Board’s corporate governance policies and procedures enable it to achieve its objective of sound corporate governance and comply with the requirements of authorities that regulate the Bank, including the Superintendent of Financial Institutions (Canada), the Canadian Securities Administrators (the “**CSA**”) and the Toronto Stock Exchange.

The mandates of the Board and its three standing committees are available on the Bank’s website.

2. BOARD OF DIRECTORS

2.1. Framework

The Board exercises its role and responsibilities in accordance with applicable legislation, including securities legislation, the Bank’s by-laws, internal policies and procedures, as well as the Charter of Expectations for its directors and its mandate.

It prepares and approves its own mandate as well as that of its Chairman, and regularly assesses and reviews these mandates to ensure they comply with the legislation in force and adequately reflect the duties and responsibilities of the Board and its Chairman. Any changes to these mandates are submitted to the Board for approval, whereas changes to the mandate of the Chairman of the Board are approved in his or her absence.

The Board’s corporate governance practices are also available on the Bank’s website under the heading “Corporate Practices”.

2.2. Roles and responsibilities

The main duty of the Board is to oversee the management of the Bank, safeguard its assets, and ensure its viability, profitability

and development. The Board communicates its orientations to management through the President and Chief Executive Officer of the Bank, who ensures their implementation.

The Bank’s 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.

A) Review and approve strategic planning

The Board periodically reviews and approves the strategic plan in which the Bank establishes its mission, vision, business objectives and strategy, taking into account business opportunities and risks for the Bank. It also examines and approves the business plans relating to the Bank’s main operations and regularly reviews them to ensure they remain appropriate and prudent given the Bank’s economic and business environment, its resources and its results.

The Board is assisted in these duties by the Bank’s President and Chief Executive Officer and the Office of the President.

B) Promote integrity and ethical behaviour

The Board promotes integrity and ethical behaviour within the Bank, specifically with regard to the duty to act with honesty and integrity, abide by the law, treat others with respect, keep information in the strictest confidence, avoid conflicts of interest and respect the Bank.

It ensures that the rules of conduct and ethics are maintained, in particular by adopting a Code of Conduct and Ethics for directors, officers and employees of the Bank and its subsidiaries (the “**Code of Conduct**”), and ensures that the Bank has an ongoing, appropriate and effective process in place to guarantee compliance with these rules. Moreover, the Board ensures that any material breach of the rules of conduct and ethics by a director or senior officer is disclosed in accordance with continuous disclosure obligations. It also ensures that this code is filed with the CSA and available on the Bank’s website.

C) Ensure compliance with applicable legislation and regulations and strong governance

The Board reviews the processes that ensure the Bank’s operations comply with applicable legislation and regulations.

With the support of the ARMC, the Board adopts policies with regard to compliance and regulatory risk and keeps apprised of important changes to laws and regulations applicable to the Bank. It requires that management set up a compliance program to ensure that the Bank complies with its obligations.

The Board periodically reviews and approves, with the assistance of the CRCGC, the Bank's corporate governance practices. It keeps apprised of trends and best practices in order to take them into account when establishing, implementing and overseeing the Bank's corporate governance policies and practices.

D) Ensure risks are effectively managed

Together with the ARMC, the Board reviews and approves the statements, measures and overall targets for the Bank's risk appetite, identifies and understands the major risks to which the Bank is exposed and ensures that appropriate systems are set up to effectively manage said risks.

The ARMC receives detailed quarterly reports from the Bank's Risk Management sector covering the sector's activities, the general allowance for credit risk, impaired loans and loan losses. Furthermore, the ARMC receives regular reports on compliance with regulatory capital ratios and obligations under the Basel Accords. On the recommendation of the ARMC, the Board annually discusses and approves all major policies concerning the Bank's business-related risks and ensures that such policies are enforced. The ARMC receives reports from and has regular discussions in private with the internal auditor and the independent auditor of the Bank.

E) Oversee management

The Board fulfills its duty to oversee the Bank's business operations by reviewing reports periodically provided by those responsible for the various business lines, and holding discussions with the senior officers of these business lines.

F) Plan and develop management succession

The Board approves the appointment of officers of the Bank and ensures that they are qualified and competent. It oversees the succession planning process for management positions, including, in particular, that of the President and Chief Executive Officer.

The Board, with the assistance of the CRCGC and the HRC, ensures that the President and Chief Executive Officer and other members of management are highly principled and that they foster a culture of integrity throughout the institution.

G) Communicate and disclose financial information with transparency and diligence

The Board promotes transparency and diligence in disclosing information to the Bank's shareholders, investors and clients and to the general public. It ensures that the information presented to shareholders is reliable and provided in a timely manner and prohibits selective disclosure of information. It regularly reviews the Bank's Information Disclosure Policy,

which describes, in particular, the type of information to be disclosed, whether financial or non-financial, and when and how such information may be disclosed.

The Bank has created an Annual and Quarterly Information Disclosure Committee to ensure the implementation and smooth operation of disclosure controls and procedures and financial reporting internal control procedures, as well as a Timely Disclosure Committee to ensure the implementation and smooth operation of procedures for the disclosure of timely material information. These committees review the Bank's Information Disclosure Policy on a regular basis and make recommendations for its approval to the ARMC, the CRCGC and the Board.

H) Develop an approach to compensation that maximizes the Bank's competitiveness and the achievement of its objectives

The HRC assists the Board in the exercise of its duties relating to human resources. In addition, the HRC ensures that the compensation policies and programs implemented are conducive to achieving the Bank's objectives, without however compromising its viability, solvency or reputation.

The Bank's total compensation policies and programs are based on the following principles:

- Recognize executives' contribution;
- Align the vision and expectations of executives with those of shareholders;
- Offer compensation based on the Bank's financial and stock market performance, considering different time horizons; and
- Promote sound risk-taking.

I) Ensure officers comply with share ownership requirements

To ensure that the compensation of Bank officers is closely tied to shareholders' interests, the HRC has instituted share ownership requirements.

Under these rules, officers of the Bank and its designated subsidiaries are required to maintain minimum holdings of Common Shares of the Bank, including vested (but unexpired) and non-vested Performance Share Units ("PSUs"), vested (but unexpired) and non-vested Restricted Stock Units ("RSUs"), vested and non-vested Deferred Stock Units ("DSUs"), vested (but unexercised) Stock Appreciation Rights of the Bank ("SARs") and vested (but unexercised) options, commensurate with each officer's compensation and position. The value of the minimum holdings of Common Shares equals the average base salary for the previous three years received by a given officer multiplied by a factor established under the requirements.

Bank officers have five years from the date of their hiring or promotion to meet these requirements. Moreover, all officers are responsible for ensuring that they comply with the share ownership requirements. If, for any reason, a shortfall should occur, the officer would then have to abstain from selling his or her Bank shares and from exercising his or her vested options and vested SARs (unless the shares are kept) until such time as the minimum requirements are once again met.

The HRC regularly monitors share ownership to ensure that these requirements are met.

2.3. External consultants and access to management

The Board and each of its committees may engage, when they deem it appropriate, legal counsel or other independent external consultants to assist them in carrying out their duties and responsibilities. They can also establish their mandate and set their remuneration. The Bank provides the funds to pay for the services of these external consultants. Before engaging these consultants, the Board or the committee in question assesses the nature of any mandates awarded to these consultants by the Bank in order to make sure that these mandates do not compromise their independence. When the Board or a committee engages consultants for an indefinite period, it annually approves the list of mandates that the Bank plans on entrusting to these external consultants to ensure that these mandates do not compromise their independence.

3. *CHAIRMAN OF THE BOARD OF DIRECTORS*

The Chairman of the Board is independent as defined by the CSA.

He assumes the leadership of the Board with a view to ensuring the interests of the Bank, its shareholders and its clients, and leads the Board's activities. He also fulfills the responsibilities assigned to him under applicable legislation. He promotes the highest standards of integrity and probity within the Board as well as the highest standards of corporate governance and ensures compliance with the regulatory requirements applicable to the Bank.

He ensures that the Board effectively and independently fulfills its duties and responsibilities and assigns tasks to Board members, as necessary. He also ensures that the committees of the Board fulfill the responsibilities that were assigned to them by the Board and that the results of their activities are reported to the Board when necessary.

He ensures that the Board has the necessary resources and information to fulfill its mandate and responsibilities. He ensures that the independent directors meet without any members of the Bank's management being present at the end of each Board meeting and chairs these *in camera* meetings. Working with the Conduct Review and Corporate Governance

Committee, he supervises the process for assessing the performance of the Board, the committees and the directors. The mandate of the Chairman of the Board can be found under "More About Us" on the Bank's website.

4. *COMMITTEES CREATED BY THE BOARD*

The Board delegates some of its powers to committees that it sets up in accordance with applicable legislation and its needs. Committee members and Chairs are appointed from among the directors and must meet the eligibility requirements of all applicable legislation as well as the independence standards of the CSA. The Bank discloses the list of the members of each committee in its annual Management Proxy Circular.

The committee members are scheduled to meet, without any members of the Bank's management, who are invited to committee meetings from time to time, being present, at each of their committee meetings. They regularly report to the Board on their activities.

Based on the recommendations of the CRCGC, the Board develops and approves the mandates of each Board committee as well as those of the committee Chairs. The Board committees regularly review their respective mandates and that of their Chair and recommend them for approval to the Board, to ensure that they adequately reflect how they function, as well as their activities and responsibilities, and those of their Chair, while complying with the legislation in force.

5. *SELECTION OF DIRECTOR NOMINEES, ELECTION AND OVERSIGHT*

5.1. Size and composition of the Board

The Board is composed of 12 to 18 directors, in accordance with applicable legislation and By-Law I – General By-Law of the Bank ("**By-Law I**"). The Board, together with the CRCGC, periodically reviews its size and composition to verify its effectiveness, within the limits set out in applicable legislation and By-Law I.

Directors must meet all the eligibility criteria set out in the Bank Act (Canada), any other legislation applicable to the Bank, and any internal rules established by the Board. A majority of the directors are Canadian residents. Moreover, a maximum of two thirds of the directors may be affiliated with the Bank in accordance with the *Bank Act*.

A) *Competencies*

The Board is composed of directors who possess extensive complementary knowledge and competencies, 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 future development.

The Board's expectations with regard to its members, both in terms of their individual experience and their contribution to the Board, are specified in the Charter of Expectations, which is prepared by the CRCGC and approved by the Board.

Selection criteria setting out the aptitudes sought when nominating a new director for election or when nominating an existing director for re-election, as applicable, are determined by the CRCGC and approved by the Board. They promote balance in terms of the knowledge and competencies of directors to ensure that the Board can fulfill its role in all respects.

Director nominees must demonstrate several aptitudes, including sufficient financial knowledge given the scope and complexity of the Bank's business, and solid business judgment. Moreover, director nominees must distinguish themselves through their ability to make objective and informed decisions, their impartial judgment, and their capacity to assume positions of responsibility on Board committees.

B) Independence

A majority of the members of the Board and all the members of the Board's committees are independent, as defined by the CSA. The Board, either directly or through one of its committees, adopts structures and procedures to ensure the Board functions independently of management.

The CRCGC regularly assesses the independence of the members of the Board in accordance with CSA criteria using, among other things, information provided semi-annually by directors or otherwise reported to the CRCGC. The Board then reviews the CRCGC's assessment of independence.

The members of the Board and of the committees who are independent are scheduled to meet without any members of the Bank's management being present, at each Board meeting.

Lastly, the Board ensures that the roles of Chairman of the Board and President and Chief Executive Officer are separate.

C) Integrity of directors

The directors of the Bank act with integrity and exercise impartial judgment in performing their duties and fulfilling their responsibilities. In that regard, directors are bound by the provisions of the Code of Conduct and Ethics and other rules of conduct and ethics applicable to directors, officers and employees of the Bank, and annually undertake in writing to comply with this Code.

Director nominees must have a reputation for acting with integrity and honesty, be recognized as persons who fulfill their fiduciary duties towards the companies for which they serve or served as director. They must have respected all the important

aspects of the rules of conduct for directors and officers of said company. The CRCGC conducts a background and reference check on all director nominees before they are elected and thereafter at least every five years, in accordance with the guidelines issued by the Superintendent of Financial Institutions (Canada) and the directors annually confirm in writing that they do not have a criminal record.

D) Conflicts of interest

Directors annually undertake, in writing, to comply with the Bank's standards with regard to conflicts of interest. They must avoid all real, potential or apparent conflict of interest situations with the Bank. A director with an interest in a contract or a material transaction with the Bank must disclose the nature and scope of his or her interest to the Chairman of the Board or the Chair of the CRCGC, in accordance with applicable legislation. He or she must abstain from participating in deliberations or leave the meeting of the Board during the review of the contract or transaction and must abstain from voting on the matter, barring exceptions provided for by applicable legislation.

E) Availability and outside directorships

Board and committee members are required to attend at least 75% of all meetings to which they are convened, unless the CRCGC deems that factors beyond their control prevented them from doing so. Directors are to prepare adequately for the meetings in order to be able to actively participate in discussions during the meetings of the Board and the committees on which they serve.

Directors must inform the Chair of the CRCGC or the Chairman of the Board before accepting an invitation to serve on another board. Together with the Chairman of the Board, the Chair of the CRCGC assesses whether the director would be involved in a real, apparent or potential conflict of interest and whether the director would remain fully capable of performing his or her duties as a director of the Bank.

The Board believes that the fact that a director of the Bank serves on the board of directors of another reporting issuer does not necessarily adversely affect his or her ability to exercise his or her independent judgment and to act in the best interest of the Bank. The Board does not limit the number of boards on which directors may serve, but it regularly reviews this information to verify each director's ability to properly fulfill his or her role at the Bank.

The Bank maintains a list of all the directorships of its directors and director nominees. In its Management Proxy Circular, the Bank discloses the names of the reporting issuers as well as public and parapublic corporations on whose boards the director nominees currently serve or have served in the past five years.

F) **Change in status**

Directors must inform the Chairman of the Board or the Chair of the CRCGC as soon as possible of any change in their professional or personal status that could have an impact on their role as directors. The Chairman of the Board or the Chair of the CRCGC then submits a report to the Board, containing the appropriate recommendations.

G) **Board succession planning**

The Board oversees its succession planning process implemented by the CRCGC, which includes establishing and regularly reviewing a list of potential director nominees, taking into account predetermined criteria.

H) **Gender parity**

The Board feels that diversity among the members of the Board enriches discussion and therefore recognizes the importance of increasing the number of women directors and striving for parity between men and women on the Board.

Accordingly, the Board is continuing its efforts to find more women candidates who meet the various selection criteria and has set an objective to have women nominees for half of all directorships that become vacant in the future.

5.2. Performance assessment

The Board regularly assesses its performance and effectiveness as well as that of its committees, the Chairman of the Board, the committee Chairs and the directors in fulfilling their mandates, in keeping with a process implemented by the CRCGC.

The CRCGC is responsible for establishing and overseeing the process whereby each director can confidentially assess the effectiveness and contribution of the Board and its Chairman, of the Board committees and their respective Chairs, as well as assess his or her own contribution as a Board and committee member. It may call upon independent consultants for assistance with this duty.

The assessment process is conducted through one-on-one meetings. Guidelines, prepared by the Corporate Secretary's Office and approved by the CRCGC, are given to each director to help him or her prepare for these meetings and to facilitate their conduct. The guidelines include suggested topics and questions for discussion at these meetings, including the Board's responsibilities, its relationship with management, its activities and its composition, the structure and activities of the committees, the material prepared for Board and committee meetings and the timeliness of their distribution to directors.

Each director then meets individually with the Chairman of the Board to discuss his or her assessment of the performance of

the Board, the performance of each Board committee on which he or she serves and the committee Chair, if applicable, and his or her own performance as a member of the Board. Each director also gives his or her comments on the performance of the Chairman of the Board to the Chair of the CRCGC or meets with him as needed.

Following these one-on-one meetings, the CRCGC holds a meeting where members discuss and review the comments made during the one-on-one meetings, and assess the appropriateness of any modifications or enhancements in respect of the performance and effectiveness of the Board, its committees, the Chairman of the Board, the committee Chairs and individual directors. A report is then presented to the Board.

5.3. Election and re-election

A) Election

The Board has delegated to the CRCGC the responsibility of selecting director nominees for vacant positions and determining whether it is appropriate to re-elect each existing director.

The CRCGC:

- Manages the process, establishes the criteria used to select directors and periodically reviews them to ensure they continue to comply with legislative and regulatory requirements, respect the Charter of Expectations, and meet the Board's current and future needs;
- Compiles and regularly reviews an evergreen list of potential director nominees who meet the selection criteria identified by the Board taking into account the suggestions made by directors and management. If deemed appropriate, the Committee may also retain the services of an external recruitment consultant;
- Before recommending new director nominees to the Board, the Committee considers the aptitudes, knowledge and competencies of the new nominees as well as how these complement those of the other directors, and assesses the extent to which the candidate meets the Board's selection criteria and needs; it organizes one or more meetings with this candidate and certain Board members in order to obtain all the relevant information required; and
- After it has completed the process, it submits its recommendations to the Board, which approves all new director nominees.

B) Re-election

The CRCGC annually assesses the eligibility and availability of directors nominated for re-election, based on their past performance assessments, their attendance at meetings of the Board and the committees on which they serve, their independence, their competence, and their length of service on the Board. After it has completed the assessment process, the CRCGC submits its recommendations to the Board.

C) Majority voting

A director nominee will be deemed not to have received the support of shareholders, even if he or she is elected, where the number of votes withheld exceeds the number of votes cast in favour of his or her election at an annual meeting of the holders of Common Shares. A director elected under such circumstances must immediately tender his or her resignation to the CRCGC, which, omitting exceptional circumstances, will submit a recommendation to that effect to the Board. Where applicable, within 90 days of receiving the final voting results, the Board will issue a press release announcing the resignation of the director in question or explaining the reasons justifying its decision not to accept such resignation. Majority voting would not, however, apply in the event the director's election is contested.

D) Term of a director and Board vacancies

A director's term usually expires at the close of the next annual meeting of the holders of Common Shares of the Bank after his or her election. Vacancies on the Board are filled in accordance with applicable legislation.

A director may not seek to renew his or her mandate more than 15 times unless the Board, on the recommendation of the CRCGC, decides that, because of exceptional circumstances, it is advisable for said director to stand for re-election. The computation of this sequence of 15 renewals started when this rule was adopted in 1998 for directors in office at that time.

5.4. Orientation and continuing education of directors

To enable directors to familiarize themselves with the Bank's operations and business segments, and also broaden the knowledge they need to carry out their duties, the Board, through the CRCGC, and taking into account each director's needs and knowledge, has implemented an orientation and continuing education program.

A) Orientation program

The orientation program for new directors provides them with an overview of the Bank, including its operations, activities and main challenges. More specifically, new directors receive training on the following subjects: the role of the Board and its

committees, the role of directors, the Bank's vision, its main sectors of activity, its business challenges, its audit and control system, its human resources and its client base. Directors receive a copy of the Code of Conduct and Ethics, with which they must comply.

Moreover, new directors attend information sessions with the Chairman of the Board, the President and Chief Executive Officer, and the Bank's senior officers.

B) Directors' Handbook

Directors are given a handbook containing a series of documents outlining, in particular, their duties and the scope of their responsibilities.

C) Continuing education program

As part of scheduled meetings of the Board and the committees on which they serve, directors regularly attend presentations and training sessions offered by Bank representatives or, from time to time, external consultants with the requisite expertise, in order to enhance their knowledge about areas relating to their duties. During the year, directors attend presentations by the heads of each business segment about their strategic issues and business plans. At least 10% of the time designated annually for the regular meetings of the Board is devoted to continuing education. Moreover, the Bank encourages directors to participate in training programs designed to enhance the knowledge they need to carry out their duties. The Chairman of the Board or the Chair of the CRCGC may authorize the reimbursement of expenses incurred for this training.

5.5. Director compensation

The Board aims to offer directors adequate compensation that reflects the increasing complexity of the Bank's operations, and which enables the Bank to both recruit and retain qualified individuals to serve on the Board, and align their interests with those of the Bank's shareholders. Every year, it reviews and approves the compensation, form of compensation and allowances to directors to ensure that they reflect the importance of the function and that the incentive compensation measures do not impair the director's ability to fulfill his or her role and responsibilities.

The Board has adopted, on the recommendation of the CRCGC, a compensation program that is reviewed periodically to ensure that it is in line with the Bank's peer group. The aggregate compensation that may be paid to directors for serving on the Board and its committees during a fiscal year may not exceed the aggregate amount specified in By-Law I as approved by the Bank's shareholders.

Directors receive a retainer for serving on the Board. In addition to the retainer for the Board, the Chairman of the Board,

committee Chairs and committee members receive additional compensation related to these positions. To align the interests of the members of the Board with those of shareholders, director compensation includes a portion that must be paid in Common Shares of the Bank, with the remaining portion paid in cash, Common Shares, deferred stock units or a combination of all three, at the director's option.

The directors do not receive stock options for these duties. They do not participate in any other compensation mechanism that offers Bank shares nor a pension plan. Moreover, they do not benefit from life insurance for which the Bank pays the premiums and they do not benefit from any banking product or service at preferred rates or reduced fees related exclusively to their status as directors.

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

The Bank and its subsidiaries reimburse directors for the expenses incurred to attend meetings, including transportation and accommodation expenses.

5.6. Share ownership requirements for directors

Certain share ownership requirements have been implemented in order to maintain the trust of shareholders and ensure that directors' interests are aligned with those of shareholders. Consequently, all directors are required to hold Common Shares of the Bank or deferred stock units with a total value equal to or greater than five times the annual retainer payable to Board members. Directors have five years from the date they take office to meet these requirements. Once they have met the minimum requirements, directors may elect to receive their retainer in the form of cash, Common Shares or deferred stock units, subject to the portion of their retainer that must be paid in the form of Common Shares of the Bank. In fact, a portion of the directors' retainer, as well as a portion of the retainer paid to committee members and committee Chairs, must be paid in the form of Common Shares of the Bank even to directors who have met the minimum requirements.

6. MEASURES FOR COLLECTING THE VIEWS OF STAKEHOLDERS AND COMMUNICATION

The Board ensures that measures are implemented to obtain feedback. The Bank responds to questions from shareholders, investors, financial analysts and the media through its Investor Relations Department, Public Relations Department, Corporate Secretary's Office or registrar and transfer agent. The Bank responds to clients with concerns or special needs through its branch or telephone banking representatives. If a complaint cannot be resolved through regular administrative channels, these clients may contact the Bank's Ombudsman.

In its Management Proxy Circular, the Bank provides an e-mail and a postal address that people can use to contact the Bank's Board, a Board committee, the Chairman of the Board or a director, including an independent director. The Corporate Secretary is responsible for ensuring effective communication between the Board, the Bank's management and shareholders.

7. PROCEDURE FOR REPORTING IRREGULARITIES

The ARMC establishes a policy for reporting irregularities relating to accounting, internal accounting controls and auditing matters at the Bank and oversees its implementation. This policy sets out the process for the receipt, retention and handling of such complaints and concerns, as well as the anonymous and confidential communication by any person or Bank employee of concerns relating to accounting or auditing matters. This policy is available on the Bank's website.