

NOTICE OF ANNUAL MEETING OF THE HOLDERS OF COMMON SHARES
OF NATIONAL BANK OF CANADA

MANAGEMENT PROXY CIRCULAR

MARCH 30, 2011



**ONE CLIENT,
ONE BANK**

February 11, 2011

Dear Shareholder,

We cordially invite you to join the members of the Board of Directors and management for the Annual Meeting of the Holders of Common Shares of National Bank of Canada to be held at 9:00 a.m. (EDT) on Wednesday, March 30, 2011 at the Centre Mont-Royal, located at 2200 Mansfield Street, Montreal, Quebec, Canada.

The Annual Meeting is an opportunity for us to present our results and current projects, and for you to voice your opinion on the matters put to a vote at this Meeting and ask questions.

At this Meeting, Pierre Bourgie, Shirley A. Dawe and Marcel Dutil will not be seeking to renew their mandates as Bank directors. We would like to thank them for their contribution to the work of the Bank's Board during the years they served as directors. Moreover, Gillian H. Denham joined the Board this past year and Jean Houde and Pierre Thabet are new nominees to fill the director positions.

Once again this year, you will be invited to participate in an advisory vote to have your say on the approach taken by the Board of Directors of the Bank with respect to executive compensation. Detailed information about executive compensation is presented in this Management Proxy Circular.

The proposals to be voted on at this Meeting are also set out in this Circular. Please take the time to examine the information provided concerning these proposals.

The Circular and the 2010 Annual Report, which includes the Consolidated Financial Statements for the year ended October 31, 2010 and the auditors' report thereon, are available on the Bank's website (www.nbc.ca).

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

There will be a live webcast of this Meeting available at www.nbc.ca/investorrelations.

Sincerely,

NATIONAL BANK OF CANADA

(signed) Jean Douville
Chairman of the Board

(signed) Louis Vachon
President and Chief Executive Officer

NOTICE OF ANNUAL MEETING OF THE HOLDERS OF COMMON SHARES OF NATIONAL BANK OF CANADA

Date: **Wednesday, March 30, 2011**
Time: **9:00 a.m. (EDT)**
Place: **Centre Mont-Royal
2200 Mansfield Street
Montreal, Quebec
Canada**

Purposes of the meeting:

1. To receive the Consolidated Financial Statements for the fiscal year ended October 31, 2010 and the auditors' report thereon;
2. To elect the directors;
3. To consider an advisory resolution to accept the approach taken by the Board of Directors of National Bank of Canada (the "Bank") with respect to executive compensation;
4. To appoint Samson Bélair/Deloitte & Touche s.e.n.c.r.l. as auditors;
5. To examine the shareholder proposals, as set out in Schedule A to the Management Proxy Circular (the "Circular"); and
6. To transact any other business which may properly come before the meeting.

By order of the Board of Directors

NATIONAL BANK OF CANADA

(signed) Linda Caty
Vice-President and Corporate Secretary

February 11, 2011

Who can vote

Holders of Common Shares of the Bank whose shares are listed in the Bank's register in their name, the name of a broker or other intermediary, or the name of a duly authorized agent, on February 11, 2011 at 5:00 p.m. (EST), are entitled to receive notice of the Annual Meeting of the Holders of Common Shares of the Bank (the "Meeting") and to cast one vote per Common Share held, subject to the restrictions set out in the *Bank Act* (Canada) (the "Act").

Common Shares outstanding on the record date

On the record date for the Meeting, namely, February 11, 2011, 163,638,325 Common Shares of the Bank were outstanding and eligible to be voted at the Meeting, subject to the restrictions set out in the Act.

Exercising voting rights

Registered holders of Common Shares may exercise their voting rights by attending the Meeting or by completing a form of proxy. Registered holders of Common Shares who are unable to attend the Meeting are asked to complete, date and sign the enclosed form of proxy. Proxies can be returned by mail i) using the pre-addressed, postage-paid envelope provided or ii) to Computershare Trust Company of Canada at 100 University Avenue, 9th Floor, Toronto, Ontario, Canada M5J 2Y1, or by fax to 1-866-249-7775. To be valid, the form of proxy must be received by Computershare Trust Company of Canada no later than 5:00 p.m. (EDT) on Monday, March 28, 2011.

For more information on the procedure to be followed by holders of Common Shares who received a voting instruction form, please refer to "How to Vote" in Section 1 of this Circular and the instructions received from your broker.

For any questions regarding the Circular or the exercise of voting rights, please contact the proxy solicitation firm, Georgeson Shareholder Communications Canada Inc., by calling 1-888-605-8407.

ABBREVIATIONS USED

The following abbreviations are used from time to time in this Management Proxy Circular.

ABCP:	Asset-backed commercial paper
Act:	<i>Bank Act</i> , S.C. 1991, c. 46
Annual Information Form:	The Bank's Annual Information Form, filed on December 9, 2010 and posted on the Bank's website (www.nbc.ca) and on the SEDAR website (www.sedar.com)
ARMC:	Audit and Risk Management Committee of the Board
Auditors:	Following the adoption of International Standards on Auditing (ISA) as Canadian Auditing Standards (CAS) for the audits of financial statements for periods ending on or after December 14, 2010, the term auditors must be replaced by the expression independent auditors. This change, which is effective as of the fiscal year beginning November 1, 2010, will appear in the Bank's next Management Proxy Circular.
Bank:	National Bank of Canada
BIS:	Bank for International Settlements
Board:	Board of Directors of the Bank
Circular:	Management Proxy Circular for the Meeting
Computershare:	Computershare Trust Company of Canada
CRCGC:	Conduct Review and Corporate Governance Committee of the Board
CSA:	Canadian Securities Administrators
DSU:	Deferred stock unit
ESOP:	Employee Share Ownership Plan
FSB:	Financial Stability Board
HRC:	Human Resources Committee of the Board
IC:	Independent Committee of the Board
IFRS:	International Financial Reporting Standards
Meeting:	Annual Meeting of the Holders of Common Shares of National Bank of Canada to be held on Wednesday, March 30, 2011 at 9:00 a.m. (EDT) and any reconvening thereof in case of an adjournment
NBF:	National Bank Financial
NCIB:	Normal course issuer bid of the Bank
OSFI:	Office of the Superintendent of Financial Institutions (Canada)
PCMLTF:	Proceeds of crime (money laundering) and terrorist financing
PSU:	Performance share unit
Regulation 51-102:	<i>Regulation 51-102 Respecting Continuous Disclosure Obligations</i>
RSU:	Restricted stock unit
SAR:	Stock appreciation right
SAR Plan:	Stock Appreciation Rights Plan of the Bank
SB/DT:	Samson Bélair/Deloitte & Touche s.e.n.c.r.l.
SEDAR:	System for Electronic Document Analysis and Retrieval
Stock Option Plan:	Stock Option Plan of the Bank
TSR:	Total Shareholder Return

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CAUTION REGARDING FORWARD-LOOKING STATEMENTS IN THIS MANAGEMENT PROXY CIRCULAR

From time to time, the Bank makes written and oral forward-looking statements, such as those contained in certain filings with Canadian securities regulators, and in other communications, for the purpose of describing the economic environment in which the Bank will operate during fiscal 2011 and the objectives it has set for itself for that period. These forward-looking statements are made pursuant to the “safe harbour” provisions of Canadian and U.S. securities legislation. They include, among others, statements with respect to the economy—particularly the Canadian and U.S. economies—market changes, observations regarding the Bank’s objectives and its strategies for achieving them, Bank projected financial returns and certain risks faced by the Bank. These forward-looking statements are typically identified by future or conditional verbs or words such as “outlook”, “believe”, “anticipate”, “estimate”, “project”, “expect”, “intend”, “plan”, and terms and expressions of similar import.

By their very nature, such forward-looking statements require assumptions to be made and involve inherent risks and uncertainties, both general and specific. Assumptions about the performance of the Canadian and U.S. economies in 2011 and how that will affect the Bank’s business are among the main factors considered in setting the Bank’s strategic priorities and objectives and in determining its financial targets, including provisions for credit losses. In determining its expectations for economic growth, both broadly and in the financial services sector in particular, the Bank primarily considers historical economic data provided by the Canadian and U.S. governments and their agencies. Tax laws in the countries in which the Bank operates, primarily Canada and the United States, are major factors it considers when establishing its effective tax rate. There is a strong possibility that express or implied projections contained in such statements will not materialize or will not be accurate. The Bank recommends that readers not place undue reliance on these statements, as a number of factors, many of which are beyond the Bank’s control, could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking statements. These factors include the management of credit, market and liquidity risks; the strength of the Canadian and U.S. economies and the economies of other countries in which the Bank conducts business; the impact of the movement of the Canadian dollar relative to other currencies, particularly the U.S. dollar; the effects of changes in monetary policy, including changes in interest rate policies of the Bank of Canada and the U.S. Federal Reserve; the effects of competition in the markets in which the Bank operates; the impact of changes in the laws and regulations regulating financial services and enforcement thereof (including banking, insurance and securities); judicial proceedings, regulatory proceedings or claims, class actions or other recourses of various nature; the situation with respect to the restructured notes of the master asset vehicle conduits, in particular the realizable value of underlying assets; the Bank’s ability to obtain accurate and complete information from or on behalf of its clients or counterparties; the Bank’s ability to successfully realign its organization, resources and processes; its ability to complete strategic acquisitions and

integrate them successfully; changes in the accounting policies and methods the Bank uses to report its financial condition, including uncertainties associated with critical accounting assumptions and estimates; the Bank’s ability to recruit and retain key officers; operational risks, including risks related to the Bank’s reliance on third parties to ensure access to the infrastructure essential to the Bank’s business as well as other factors that may affect future results, including changes in trade policies; timely development of new products and services; changes in estimates relating to reserves; changes in tax laws; technological changes; unexpected changes in consumer spending and saving habits; natural disasters; the possible impact on the business from public health emergencies, conflicts, other international events and developments, including those relating to the war on terrorism; and the Bank’s success in anticipating and managing the foregoing risks. A substantial amount of the Bank’s business involves making loans or otherwise committing resources to specific companies, industries or countries. Unforeseen events affecting such borrowers, industries or countries could have a material adverse effect on the Bank’s financial results, businesses, financial condition, or liquidity.

The foregoing list of risk factors is not exhaustive. Additional information about these factors can be found under “Risk Management” and “Factors That Could Affect Future Results” in the Annual Report for the fiscal year ended October 31, 2010. Investors and others who base themselves on the Bank’s forward-looking statements should carefully consider the above factors as well as the uncertainties they represent and the risk they entail. The Bank also cautions readers not to place undue reliance on these forward-looking statements. Except as required by law, the Bank does not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time, by it or on its behalf.

The forward-looking information contained in this document is presented for the purpose of interpreting the information contained herein and may not be appropriate for other purposes.

SECTION 1

VOTING INFORMATION

This Circular is provided in connection with the solicitation of proxies by management of the Bank, for the purposes set forth in the Notice of Meeting, for use at the Meeting to be held at 9:00 a.m. (EDT) on Wednesday, March 30, 2011 at the Centre Mont-Royal, 2200 Mansfield Street, Montreal, Quebec, Canada, and, if adjourned, at any reconvening thereof.

WHO CAN VOTE

Holders of Common Shares of the Bank whose shares are listed in the Bank's register in their name, the name of a securities broker or other intermediary, or the name of a duly authorized agent, on February 11, 2011 at 5:00 p.m. (EST), are entitled to receive notice of the Meeting and to cast one vote per Common Share held, subject to the restrictions set out in the Act.

Registered holders are holders whose Common Shares are registered in their name in the Bank's register. Beneficial owners are holders whose Common Shares are not registered in their name in the Bank's register, but rather are held in their name by a nominee, such as a securities broker, other intermediary or a duly authorized agent.

On the record date for the Meeting, namely, February 11, 2011, 163,638,325 Common Shares of the Bank were outstanding and eligible to be voted at the Meeting, subject to the restrictions set out in the Act.

Holders of Common Shares are entitled to cast one vote per share held on the matters set out in the Notice of Meeting. However, the Act contains provisions prohibiting the exercise of voting rights attached to shares of the Bank beneficially owned by:

- i) the Government of Canada or of a province;
- ii) the government of a foreign country or of any political subdivision of a foreign country;
- iii) an agency of any of these entities;
- iv) a person who has acquired a significant interest in a class of Bank shares (more than 10% of the shares in the class) without the approval of the Minister of Finance (Canada); or
- v) a person who holds a significant interest in a class of shares of another widely held bank or bank holding company with equity of \$8 billion or more.

In addition, no person and no entity controlled by any person may cast votes in respect of any shares beneficially owned by the person or the entity that represent, in the aggregate, more than 20% of the eligible votes.

To the knowledge of the directors and senior management of the Bank, and according to the latest data available, no person beneficially owns, directly or indirectly, or exercises control or direction over more than 10% of the outstanding Common Shares of the Bank.

HOW TO VOTE

Registered Holders – Registered 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 vote on behalf of a registered holder at the Meeting.

Beneficial Owners – To vote in person at the Meeting, beneficial owners must:

- insert their own name as proxyholder in the space provided for this purpose on the voting instruction form;
- not otherwise complete the form as their vote will be taken at the Meeting; and
- return the voting instruction form following the procedure indicated on the form.

Beneficial owners unable to attend the Meeting may also exercise their vote by completing, signing and returning the voting instruction form sent to them by their broker or any other intermediary following the procedure indicated on the form.

The voting instruction form authorizes proxyholders to represent beneficial owners and vote on their behalf at the Meeting. Securities brokers, other Canadian intermediaries and their duly authorized agents are prohibited from exercising the voting rights attached to Common Shares on behalf of beneficial owners unless they are specifically instructed to do so.

Appointment of Proxyholders

The proxyholders already designated in the form of proxy or voting instruction form are directors of the Bank. If a registered holder or beneficial owner wishes to appoint as his or her proxyholder to represent him or her at the Meeting a person other than those whose names are printed on the form of proxy or voting instruction form, he or she may do so by striking out the names appearing thereon and inserting such other person's name in the blank space provided.

If the registered holder or beneficial owner is not a natural person, the form of proxy or voting instruction form must be signed by a duly authorized officer or agent of said registered holder or beneficial owner. A proxyholder need not be a holder of Common Shares of the Bank.

To be valid, the form of proxy must be returned by mail i) in the pre-addressed, postage-paid envelope provided or ii) to Computershare Trust Company of Canada at 100 University Avenue, 9th Floor, Toronto, Ontario, Canada M5J 2Y1, or by fax to 1-866-249-7775, and received no later than 5:00 p.m. (EDT) on Monday, March 28, 2011.

For the voting instruction form to be valid, it must be returned following the procedure indicated on the form.

Exercising Voting Rights

The proxyholder named in the form of proxy or voting instruction form will exercise the voting rights attached to the Common Shares in accordance with the instructions given by the registered holder or beneficial owner.

If no instructions are given, the directors of the Bank designated as proxyholders on the form of proxy or voting instruction form will exercise the voting rights attached to the Common Shares as follows:

- **FOR** the election of each of the director nominees;
- **FOR** the advisory resolution on the Board’s approach to executive compensation;
- **FOR** the appointment of SB/DT as auditors; and
- **AGAINST** Proposals Nos. 1, 2 and 3 presented by a shareholder and set out in Schedule A to this 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 proxyholder has discretionary authority with respect to any amendments or variations proposed at the Meeting to the matters set out in the form of proxy or voting instruction form and any other business which may properly come before the Meeting.

As at the date of this Circular, management of the Bank is not aware that any amendment or other matter is to be presented at the Meeting.

Revocation of Proxies or Voting Instructions

Registered holders may revoke their proxy as follows:

- i) by delivering a written notice to this effect, signed by them or by their duly authorized agent to:
 - the Head Office of the Bank, c/o Corporate Secretary’s Office, National Bank of Canada, 600 De La Gauchetière Street West, 4th Floor, Montreal, Quebec, Canada H3B 4L2, no later than 5:00 p.m. (EDT) on the last business day preceding the date of the Meeting, namely, Tuesday, March 29, 2011, or prior to any reconvening thereof in case of an adjournment; or
 - the Chairman of the Meeting on the day of the Meeting, or, if adjourned, any reconvening thereof; or
- ii) by completing, signing and returning to Computershare Trust Company of Canada, in the manner set out on the form, a new form of proxy bearing a later date than the form already returned.

Beneficial owners may revoke their voting instructions by following their broker’s instructions.

Confidentiality of Votes

To protect the confidential nature of voting, the votes exercised by registered holders are received and compiled for the Meeting by Computershare, the Bank’s registrar and transfer agent, while the votes exercised by beneficial owners are compiled and submitted by intermediaries to Computershare. Computershare submits a copy of a form of proxy to the Bank only when a registered holder clearly wishes to express a personal opinion to management, or when necessary to comply with legal requirements.

SOLICITATION OF PROXIES

The proxies will be solicited by regular or electronic mail, by telephone or in person. Employees, officers, directors or agents of the Bank will solicit the proxies. The Bank will use the services of the proxy solicitation firm Georgeson Shareholder Communications Canada Inc. and estimates that it will pay approximately \$32,000 in fees for these services.

SECTION 2

BUSINESS OF THE MEETING

RECEIPT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND THE AUDITORS' REPORT

The Consolidated Financial Statements of the Bank for the fiscal year ended October 31, 2010 and the auditors' report thereon are an integral part of the 2010 Annual Report of the Bank, which is available on its website (www.nbc.ca) and on the SEDAR website (www.sedar.com).

ELECTION OF DIRECTORS

The number of directors to be elected at the Meeting is 15. Pierre Bourgie stepped down from the Board of Directors of the Bank and its committees in August 2010. Shirley A. Dawe and Marcel Dutil will not be seeking to renew their mandates as directors. Gillian H. Denham joined the Board in October 2010 and is seeking to renew her mandate, while Jean Houde and Pierre Thabet are new director nominees.

The CRCGC recommended to the Board the director nominees. Their names and career profiles are presented in Section 3 of this Circular. This section also presents the names of the reporting issuers⁽¹⁾ as well as public and parapublic corporations on whose boards the nominees currently serve or have served in the past five years.

If no instructions are given, the directors of the Bank designated as proxyholders on the form of proxy or voting instruction form will exercise the voting rights attached to the Common Shares **FOR** the election of each of the director nominees.

All directors elected at the Meeting will hold office until their resignation or the election or appointment of their replacement, or until the close of the next Annual Meeting of the Holders of Common Shares of the Bank.

A majority voting rule is in effect for purposes of electing director nominees. For more information, please refer to the Statement of Corporate Governance Practices in Schedule B to this Circular.

ADVISORY VOTE ON THE APPROACH TO EXECUTIVE COMPENSATION

The Board, assisted by the HRC, is responsible for determining the underlying objectives and principles of the Bank's executive compensation philosophy. The Board's role is to clearly explain to shareholders the key components of this compensation and how its approach is aligned with the Bank's strategic objectives.

By putting its approach to executive compensation to an advisory vote, the Board shows its commitment to the Bank's shareholders and recognizes its responsibility regarding decisions made concerning executive compensation. Moreover, the Board believes it is essential for the holders of Common Shares of the Bank to be well informed and to fully understand the principles on which its compensation-related decisions are based.

The HRC and the Board recommend voting **FOR** the advisory resolution on the Board's approach to executive compensation.

The resolution to be voted on is as follows:

"It is resolved, on an advisory basis and not to diminish the role and responsibilities of the Board of Directors of National Bank of Canada, that the holders of Common Shares accept the approach to executive compensation disclosed in National Bank of Canada's Management Proxy Circular delivered in advance of the Annual Meeting of the holders of Common Shares to be held in 2011."

The above advisory resolution, upon which the holders of Common Shares present or represented by proxy and entitled to vote at the Meeting are asked to vote, is non-binding on the Board. However, the Board will consider the results of the vote when reviewing its approach to executive compensation.

For more information on the Board's approach to executive compensation, please refer to Sections 6 and 7 of this Circular and the information document summarizing its approach to compensation available on the Bank's website (www.nbc.ca).

APPOINTMENT OF AUDITORS

The ARMC and the Board recommend voting **FOR** the appointment of SB/DT as auditors of the Bank for the fiscal year starting November 1, 2010 and ending October 31, 2011.

SB/DT has served as auditors of the Bank for the past five fiscal years.

The resolution regarding the appointment of the auditors must be adopted by a majority of the votes cast by the holders of Common Shares present or represented by proxy and entitled to vote at the Meeting.

For information on the Guidelines for the Management of Services Provided by the External Auditors, please refer to "Information on the Audit and Risk Management Committee of the Board of Directors" in the Annual Information Form.

Auditors' Fees

Each year, the ARMC recommends to the Board that it approve the fees to be paid to the external auditors and the envelopes established under the Guidelines for the Management of Services Provided by the External Auditors. The following table details fees billed by SB/DT to the Bank and to its subsidiaries for various services rendered during the past two fiscal years.

	2010	2009
	(\$)	(\$)
Audit services ⁽¹⁾	4,714,933	5,118,943
Audit-related services ⁽²⁾	1,623,719	1,458,875
Tax consulting ⁽³⁾	75,079	327,748
Other services ⁽⁴⁾	154,248	209,988
Total	6,567,979	7,115,554

- (1) These fees include fees for services related to the audit of the Consolidated Financial Statements of the Bank and the financial statements of its subsidiaries or other services normally provided by the external auditors in connection with statutory or regulatory filings or engagements required by applicable legislation. They also include fees for comfort letters, statutory audits, certification services, consents and assistance with the preparation and review of documents filed with regulators, the interpretation of accounting and financial reporting standards, and translation services for reports to shareholders.
- (2) These fees include fees for certification and related services performed by the Bank's external auditors. They also include fees for services related to the conversion to IFRS, accounting consultations in connection with acquisitions and divestitures and internal control reviews.
- (3) These 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) These fees include fees for consulting services for projects, risk management services, and statutory and/or regulatory compliance services.

VOTING ON SHAREHOLDER PROPOSALS

The Bank received, within the time limits prescribed by the Act, proposals from a shareholder and has included them in this Circular. The full text of the proposals to be voted on by the holders of Common Shares is set out in Schedule A to this Circular.

The Board and management of the Bank recommend voting **AGAINST** Proposals Nos. 1, 2 and 3 for the reasons stated at the end of each of these proposals.

These proposals will be adopted if approved by a majority of the votes cast by the holders of Common Shares present or represented by proxy and entitled to vote at the Meeting.

The deadline by which the Bank must receive proposals from its shareholders for presentation at the Annual Meeting of the Holders of Common Shares to be held in 2012 is Monday, November 14, 2011 at 5:00 p.m. (EST).

(1) In accordance with the definition of this term in Canadian securities legislation, a reporting issuer is an issuer that has made a distribution of securities to the public.

SECTION 3

INFORMATION ON DIRECTOR NOMINEES

The following tables present information about each of the director nominees. This information includes a summary of their career profile, the Board committees of which they are members, their attendance at the meetings of the Board and its committees during the past fiscal year, the names of the reporting issuers as well as public and parapublic corporations on whose boards the nominees currently serve or have served in the past five years, as well as the total number of securities they hold, either in the form of Common Shares of the Bank or DSUs.



Lawrence S. Bloomberg

Non-independent

68, Toronto, Ontario, Canada

Director since August 1999

Main areas of expertise:

- Entrepreneurship
- Finance/risk management
- Financial markets and services
- International markets

Career profile

Mr. Bloomberg is an advisor to National Bank Financial, a Canadian securities brokerage firm, where he served as Co-Chairman of the Board and Co-Chief Executive Officer from 1999 to 2000. Previously, he was Chairman of the Board, President and Chief Executive Officer of First Marathon Inc., a company he founded, which merged with National Bank Financial Inc. in 1999. Mr. Bloomberg has contributed to the development of many financial and non-financial companies. He currently serves as Chairman of the Board of Toronto's Mount Sinai Hospital and sits on the board of directors of the MaRS Discovery District. He has a Bachelor of Commerce from Concordia University and an MBA from McGill University. He has been a CFA since 1970. He is an Officer of the Order of Ontario. Both Concordia University and University of Toronto have awarded him honorary doctorates.

Role on the Board of Directors of the Bank and its committees	Meetings attended (during the past fiscal year)	
Board member	16/17	94.1%

Overall meetings attended (during the past fiscal year)		
	16/17	94.1%

Reporting issuers and public and parapublic corporations	
Director (during the past five years)	Role on boards and committees (as at October 31, 2010)
–	–

Securities held (as at October 31)									
Year	Common Shares ⁽¹⁾	DSUs ⁽²⁾	Total Common Shares and DSUs	Share Price ⁽³⁾ (\$)	Total market value of Common Shares and DSUs (\$)	Minimum required		Meets the Bank's share ownership requirements for directors ⁽⁴⁾	
						(\$)	Shares/ DSUs		
2010	35,750	–	35,750	67.13	2,399,898	350,000	5,214	685.6%	Yes
2009	35,458	–	35,458	56.39	1,999,477	350,000	6,207	571.2%	Yes
2008	100,099	–	100,099	45.21	4,525,476	350,000	7,742	1,292.9%	Yes



André Caillé

Independent

67, Lac-Brome, Quebec, Canada

Director since October 2005

Main areas of expertise:

- Corporate/public sector management
- Finance/risk management
- Governance
- Natural resources

Career profile

Mr. Caillé is a director of several corporations, including Junex Inc., an oil and gas exploration corporation, for which he is a Strategic Advisor. Mr. Caillé has also been a member of the board of directors and of the executive committee of the Quebec Oil and Gas Association since 2009. From 2004 to 2007, he served as Chairman of the World Energy Council. From 1978 to 2005, he held many positions, including Deputy Minister of the Environment of Quebec, President and Chief Executive Officer and Chairman of the Board of Hydro-Québec, and President and Chief Executive Officer of Gaz Métro Inc., formerly known as Gaz Métropolitain Inc. Mr. Caillé is involved with a number of charitable organizations, and is notably Co-Chairman of the Board of the Fondation Père Sablon. He has a Bachelor's in specialized chemistry as well as a Master's and Doctorate in physical chemistry from Université de Montréal. He has been the recipient of many prestigious awards, including the Pierre De Celles Award, and was also made a Knight of the Legion of Honour of the French Republic. He has also received the Order of Canada and is an Officer of the Ordre national du Québec. Université de Montréal, the Institut national de la recherche scientifique and Royal Military College of Canada have all awarded him honorary doctorates.

Role on the Board of Directors of the Bank and its committees	Meetings attended (during the past fiscal year)	
Board member	17/17	100%

Chair and member of the CRCGC	6/6	100%
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Member of the HRC	7/7	100%
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Member of the ARMC	13/14	92.8%
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Chair and member of the IC ⁽⁵⁾	1/1	100%
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Overall meetings attended (during the past fiscal year)		
	44/45	97.7%

Reporting issuers and public and parapublic corporations	
Director (during the past five years)	Role on boards and committees (as at October 31, 2010)
Junex inc.	2008 to date
Quebecor World Inc. ⁽⁶⁾	2005 – 2009

	• Chair of the Compensation Committee
	–

Securities held (as at October 31)									
Year	Common Shares ⁽¹⁾	DSUs ⁽²⁾	Total Common Shares and DSUs	Share Price ⁽³⁾ (\$)	Total market value of Common Shares and DSUs (\$)	Minimum required		Meets the Bank's share ownership requirements for directors ⁽⁴⁾	
						(\$)	Shares/ DSUs		
2010	2,964	8,693	11,657	67.13	782,534	350,000	5,214	223.5%	Yes
2009	2,150	6,806 ⁽⁷⁾	8,956 ⁽⁷⁾	56.39	505,029 ⁽⁷⁾	350,000	6,207	144.2%	Yes
2008	1,332	4,546	5,878	45.21	265,744	350,000	7,742	75.9%	Five-year grace period after taking office to meet requirements ⁽⁸⁾

**Gérard Coulombe****Non-independent**

63, Sainte-Marthe, Quebec, Canada

Director since February 1994

Main areas of expertise:

- Commercial and corporate law
- Corporate/public sector management
- Financial markets and services
- Governance

Career profile

Mr. Coulombe is a Senior Partner of the law firm Lavery, de Billy, L.L.P. where he practices commercial law. From 1977 to 2007, he was Senior Partner at Desjardins Ducharme, L.L.P., where he chaired the board of directors from 2000 to 2007. From 1972 to 1977, he was responsible for negotiating international tax treaties on behalf of the Department of Finance Canada. He is a member of the board of directors of the Club de hockey Canadien, inc. He also serves on the boards of directors of the following subsidiaries of the Bank: FMI Acquisition Inc., National Bank Life Insurance Company, National Bank Group Inc., National Bank Acquisition Holding Inc. and National Bank Trust Inc. Mr. Coulombe is actively involved in several charitable organizations, particularly with the Canadian International Organ Competition. He has a Diploma of Law from University of Ottawa and studied at Oxford University in the United Kingdom where he was a Rhodes scholar. Mr. Coulombe was called to the Quebec Bar in 1969.

Role on the Board of Directors of the Bank and its committees	Meetings attended (during the past fiscal year)	
Board member	17/17	100%

Overall meetings attended (during the past fiscal year)		
	17/17	100%

Reporting issuers and public and parapublic corporations

Director/Trustee (during the past five years)	Role on boards and committees (as at October 31, 2010)
Cominar Real Estate Investment Trust 2007 to date	<ul style="list-style-type: none"> • Member of the Compensation Committee • Member of the Nominating and Corporate Governance Committee

Securities held

(as at October 31)

Year	Common Shares ⁽¹⁾	DSUs ⁽²⁾	Total Common Shares and DSUs	Share Price ⁽³⁾ (\$)	Total market value of Common Shares and DSUs (\$)	Minimum required		Meets the Bank's share ownership requirements for directors ⁽⁴⁾	
						(\$)	Shares/DSUs		
2010	5,868	21,002	26,870	67.13	1,803,783	350,000	5,214	515.3%	Yes
2009	5,356	18,923	24,279	56.39	1,369,093	350,000	6,207	391.1%	Yes
2008	4,884	16,397	21,281	45.21	962,114	350,000	7,742	274.8%	Yes

**Bernard Cyr****Independent**

63, Cap Shediac, New Brunswick, Canada

Director since August 2001

Main areas of expertise:

- Entrepreneurship
- Finance/risk management
- Regional markets
- Retail trade

Career profile

Mr. Cyr has been President of Cyr Holdings Inc., a holding company in the hotel, commercial real estate, restaurant and entertainment sectors, since 1986, and President of Dooly's Inc., an entertainment industry franchiser, since 1993. He was a member of the Bank's Atlantic Canada business development committee from 1996 to 2001. Mr. Cyr plays a very active role in his region. He has served on several boards of directors, has been involved with various charitable organizations, and has participated in several fundraising events. Mr. Cyr has a Bachelor's of Business Administration from Université de Moncton, which also awarded him an honorary doctorate.

Role on the Board of Directors of the Bank and its committees	Meetings attended (during the past fiscal year)	
Board member	16/17	94.1%
Member of the ARMC	14/14	100%
Member of the IC ⁽⁵⁾	1/1	100%

Overall meetings attended (during the past fiscal year)		
	31/32	96.8%

Reporting issuers and public and parapublic corporations

Director (during the past five years)	Role on boards and committees (as at October 31, 2010)
NB Power Group 1998 to date	<ul style="list-style-type: none"> • Member of the Human Resources, Governance and Nominating Committee • Member of the Environment, Health and Safety Committee
Vitalité Health Network 2010 to date	<ul style="list-style-type: none"> • Member of the Finance and Audit Committee • Member of the Human Resources Committee • Member of the Planning and Budget Committee

Securities held

(as at October 31)

Year	Common Shares ⁽¹⁾	DSUs ⁽²⁾	Total Common Shares and DSUs	Share Price ⁽³⁾ (\$)	Total market value of Common Shares and DSUs (\$)	Minimum required		Meets the Bank's share ownership requirements for directors ⁽⁴⁾	
						(\$)	Shares/DSUs		
2010	14,348	–	14,348	67.13	963,181	350,000	5,214	275.1%	Yes
2009	13,180	–	13,180	56.39	743,220	350,000	6,207	212.3%	Yes
2008	11,720	–	11,720	45.21	529,861	350,000	7,742	151.3%	Yes

**Gillian H. Denham****Independent**

50, Toronto, Ontario, Canada

Director since October 2010

Main areas of expertise:

- Finance/risk management
- Financial markets and services
- Human resources
- Retail trade

Career profile

Ms. Denham, who is a Corporate Director, serves as a trustee of Morneau Sobeco Income Fund. From 2001 to 2005, she was Vice Chair, Retail Markets at the Canadian Imperial Bank of Commerce (CIBC). Ms. Denham joined Wood Gundy in 1983, subsequently acquired by CIBC, as an Assistant Vice-President in Corporate Finance. Throughout her career at CIBC, she held progressively more senior roles. From 2006 to 2010, she was a member of the board of directors and Chair of the Human Resources and Compensation Committee of the Ontario Teachers' Pension Plan. Ms. Denham is a member of the board of directors and the audit committee of Upper Canada College. She holds an Honours Business Administration (HBA) from University of Western Ontario School of Business and an MBA (Baker Scholar) from Harvard Business School.

Role on the Board of Directors of the Bank and its committees	Meetings attended (during the past fiscal year)	
Board member ⁽⁹⁾	2/2	100%
Member of the HRC ⁽¹⁰⁾	–	–

Reporting issuers and public and parapublic corporations		
Director/Trustee (during the past five years)	Role on boards and committees (as at October 31, 2010)	
Morneau Sobeco Income Fund	2008 to date	• Member of the Audit Committee
Ontario Teachers' Pension Plan	2006 – 2010	–

Overall meetings attended (during the past fiscal year)		
	2/2	100%

Securities held (as at October 31)									
Year	Common Shares ⁽¹⁾	DSUs ⁽²⁾	Total Common Shares and DSUs	Share Price ⁽³⁾ (\$)	Total market value of Common Shares and DSUs (\$)	Minimum required		Meets the Bank's share ownership requirements for directors ⁽⁴⁾	
						(\$)	Shares/DSUs		
2010	30	57	87	67.13	5,840	350,000	5,214	1.6%	Five-year grace period after taking office to meet requirements ⁽¹¹⁾
(as at December 31)									
2010	4,956	57	5,013	68.52	343,491	350,000	5,108	98.1%	Five-year grace period after taking office to meet requirements ⁽¹¹⁾

**Nicole Diamond-Gélinas****Independent**

66, Saint-Barnabé-Nord, Quebec, Canada

Director since March 1998

Main areas of expertise:

- Entrepreneurship
- Finance/risk management
- Industry
- Regional markets

Career profile

Ms. Diamond-Gélinas has been President of Aspasie Inc., a manufacturer and printer of colour charts, since 1988 and President of Plastifil Inc., a synthetic colour fibre manufacturer, since 1998. She also heads Trois-Rivières Ford Lincoln Inc., a company specializing in the sale, leasing and servicing of motor vehicles. She was a member of the Bank's Mauricie business development committee from 1992 to 1998. Ms. Diamond-Gélinas currently serves on the board of a Bank subsidiary, National Bank Life Insurance Company. Actively involved in her community, Ms. Diamond-Gélinas chairs the board of directors of the Fondation du Centre hospitalier régional de Trois-Rivières inc. She has degrees in administration and education from Université Laval.

Role on the Board of Directors of the Bank and its committees	Meetings attended (during the past fiscal year)	
Board member	17/17	100%
Member of the ARMC	14/14	100%

Reporting issuers and public and parapublic corporations		
Director (during the past five years)	Role on boards and committees (as at October 31, 2010)	
–	–	

Overall meetings attended (during the past fiscal year)		
	31/31	100%

Securities held (as at October 31)									
Year	Common Shares ⁽¹⁾	DSUs ⁽²⁾	Total Common Shares and DSUs	Share Price ⁽³⁾ (\$)	Total market value of Common Shares and DSUs (\$)	Minimum required		Meets the Bank's share ownership requirements for directors ⁽⁴⁾	
						(\$)	Shares/DSUs		
2010	25,413	8,127	33,540	67.13	2,251,540	350,000	5,214	643.2%	Yes
2009	24,796	6,873	31,669	56.39	1,785,815	350,000	6,207	510.2%	Yes
2008	24,024 ⁽¹²⁾	5,363	29,387 ⁽¹²⁾	45.21	1,328,586 ⁽¹²⁾	350,000	7,742	379.5%	Yes


Jean Douville
Independent

67, Bedford, Quebec, Canada

Director since November 1991

Main areas of expertise:

- Corporate/public sector management
- Governance
- Industry
- International markets

Career profile

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, merchandising and remanufacturing of automotive parts and replacement accessories for cars, trucks and heavy vehicles. He 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 1992. Since 2005, he has also been on the board of directors of Richelieu Hardware Ltd. Before being appointed Chairman of the Bank's Board, he was successively Chair of the ARMC and Chair of the CRCGC. He has a Bachelor of Arts in Political and Social Science from University of Ottawa. He obtained his Law degree from University of Ottawa in 1967 and was called to the Quebec Bar the following year.

Role on the Board of Directors of the Bank and its committees	Meetings attended (during the past fiscal year)	
Chairman and Board member ⁽¹³⁾	17/17	100%

Overall meetings attended (during the past fiscal year)	17/17	100%
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Reporting issuers and public and parapublic corporations		
Director (during the past five years)		Role on boards and committees (as at October 31, 2010)
Genuine Parts Company	1992 to date	–
Richelieu Hardware Ltd.	2005 to date	• Member of the Human Resources and Corporate Governance Committee

Securities held (as at October 31)									
Year	Common Shares ⁽¹⁾	DSUs ⁽²⁾	Total Common Shares and DSUs	Share Price ⁽³⁾ (\$)	Total market value of Common Shares and DSUs (\$)	Minimum required		Meets the Bank's share ownership requirements for directors ⁽⁴⁾	
						(\$)	Shares/DSUs		
2010	7,301	7,567	14,868	67.13	998,089	350,000	5,214	285.1%	Yes
2009	6,742	7,267	14,009	56.39	789,968	350,000	6,207	225.7%	Yes
2008	6,231	6,890	13,121	45.21	593,200	350,000	7,742	169.4%	Yes


Jean Gaulin
Independent

68, Laguna Beach, California, United States

Director since October 2001

Main areas of expertise:

- Corporate/public sector management
- Finance/risk management
- Human resources
- Natural resources

Career profile

Mr. Gaulin is a Corporate Director. He is currently Chairman of the Board of RONA Inc. and a member of the boards of directors of Saputo Inc. and Bombardier Recreational Products Inc. These companies operate in retail sales, food and motorized recreational vehicles respectively. He was Chairman of the Board of Ultramar Diamond Shamrock Corporation from January 1, 2000 to January 1, 2002 where he was also President and Chief Executive Officer from January 1, 1999 to January 1, 2002. Mr. Gaulin is involved in many charitable organizations. He chairs the Friends of Polytechnique of Montreal foundation. He has a Bachelor's in Chemical Engineering and Science from École Polytechnique de Montréal. He is an Officer of the Ordre national du Québec and has been awarded an honorary doctorate from Université de Montréal.

Role on the Board of Directors of the Bank and its committees	Meetings attended (during the past fiscal year)	
Board member	17/17	100%
Chair and member of the HRC	7/7	100%
Member of the ARMC	12/14	85.7%
Member of the IC ⁽⁵⁾	1/1	100%

Overall meetings attended (during the past fiscal year)	37/39	94.8%
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Reporting issuers and public and parapublic corporations		
Director (during the past five years)		Role on boards and committees (as at October 31, 2010)
Saputo Inc.	2003 to date	• Member of the Corporate Governance and Human Resources Committee
RONA Inc.	2004 to date	• Chairman of the Board • Chair of the Nominating and Corporate Governance Committee
Crane Co.	2001 – 2007	–

Securities held (as at October 31)									
Year	Common Shares ⁽¹⁾	DSUs ⁽²⁾	Total Common Shares and DSUs	Share Price ⁽³⁾ (\$)	Total market value of Common Shares and DSUs (\$)	Minimum required		Meets the Bank's share ownership requirements for directors ⁽⁴⁾	
						(\$)	Shares/DSUs		
2010	24,835 ⁽¹⁴⁾	9,258	34,093	67.13	2,288,663	350,000	5,214	653.8%	Yes
2009	25,831	8,891	34,722	56.39	1,957,974	350,000	6,207	559.4%	Yes
2008	25,134	8,431	33,565	45.21	1,517,474	350,000	7,742	433.5%	Yes



Paul Gobeil, FCA
Independent

68, Ottawa, Ontario, Canada
Director since February 1994

Main areas of expertise:

- Corporate/public sector management
- Finance/risk management
- Governance
- Retail trade

Career profile

Mr. Gobeil is a Corporate Director. He is Vice-Chairman of the Board of Metro Inc., a corporation in the food industry. Elected as a member of the Quebec National Assembly (MNA) for the riding of Verdun in 1985, he was Minister Responsible for Administration and President of the Treasury Board and subsequently Minister of International Affairs in the Quebec government until 1989. Mr. Gobeil previously held a number of positions in the food industry, including Vice-President, Finance and Administration at Provigo Inc. Throughout his career, Mr. Gobeil has been a member of a number of boards of directors as well as economic, social and cultural organizations. Mr. Gobeil has been a member of the Ordre des comptables agréés du Québec since 1965, and a Fellow since 1986. He has Master's degrees in Commerce (accounting) and Accounting Sciences from Université de Sherbrooke. He also completed the Executive Education Program at Harvard Business School. He was awarded an honorary doctorate from Université de Sherbrooke.

Role on the Board of Directors of the Bank and its committees

	Meetings attended (during the past fiscal year)	
Board member	17/17	100%
Chair and member of the ARMC	14/14	100%
Member of the CRCGC	6/6	100%

Overall meetings attended (during the past fiscal year)

	37/37	100%
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Reporting issuers and public and parapublic corporations

Director/Trustee (during the past five years)		Role on boards and committees (as at October 31, 2010)
Metro Inc.	1990 to date	<ul style="list-style-type: none"> • Vice-Chairman of the Board of Directors • Member of the Executive Committee
DiagnoCure Inc.	2005 to date	<ul style="list-style-type: none"> • Member of the Audit and Risk Management Committee
MDN inc.	2009 to date	<ul style="list-style-type: none"> • Chair of the Audit Committee • Member of the Human Resources, Governance and Nomination Committee
Yellow Media Inc. ⁽¹⁵⁾	2010 to date	<ul style="list-style-type: none"> • Member of the Corporate Governance and Nominating Committee • Member of the Audit Committee
Canam Group Inc.	1992 – 2008	–
Export Development Canada	2002 – 2007	–
Hudson's Bay Company ⁽¹⁶⁾	2003 – 2006	–
Yellow Pages Income Fund ⁽¹⁵⁾	2004 – 2010	–

Securities held

(as at October 31)

Year	Common Shares ⁽¹⁾	DSUs ⁽²⁾	Total Common Shares and DSUs	Share Price ⁽³⁾ (\$)	Total market value of Common Shares and DSUs (\$)	Minimum required		Meets the Bank's share ownership requirements for directors ⁽⁴⁾	
						(\$)	Shares/ DSUs		
2010	13,727	31,934	45,661	67.13	3,065,223	350,000	5,214	875.7%	Yes
2009	12,943	29,334	42,277	56.39	2,384,000	350,000	6,207	681.1%	Yes
2008	12,227	26,158	38,385	45.21	1,735,386	350,000	7,742	495.8%	Yes



Jean Houde
Independent

65, Montreal, Quebec, Canada
New nominee

Main areas of expertise:

- Corporate/public sector management
- Finance and risk management
- Financial markets and services
- Human resources

Career profile

Mr. Houde was recently appointed Chairman of the Board of Finance Montréal – Quebec's financial cluster, an organization that promotes initiatives in Montreal's financial industry. He is also on the board of directors of Innovassur, assurances générales inc. From 2010 until recently, he was also a business development advisor at SB/DT, an accounting firm. From 2005 to 2009, he was Deputy Minister of Finance of Quebec. Prior to that, he was Chairman of the Board and President and Chief Executive Officer of Investissement Québec. From 1990 to 2003, Mr. Houde held several positions at the Bank. He joined the Bank as Senior Vice-President – Human Resources and when he left, he was Senior Vice-President – Corporate Affairs. He has a law degree and an MBA from Université Laval. Mr. Houde was called to the Quebec Bar in 1971.

Role on the Board of Directors of the Bank and its committees

New nominee	–	–
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Overall meetings attended (during the past fiscal year)

	–	–
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Reporting issuers and public and parapublic corporations

Director (during the past five years)		Role on boards and committees (as at October 31, 2010)
Gaz Métro Inc.	2010 to date	–

Securities held

(as at October 31)

Year	Common Shares ⁽¹⁾	DSUs ⁽²⁾	Total Common Shares and DSUs	Share Price ⁽³⁾ (\$)	Total market value of Common Shares and DSUs (\$)	Minimum required		Meets the Bank's share ownership requirements for directors ⁽⁴⁾	
						(\$)	Shares/ DSUs		
2010	3,625 ⁽¹⁷⁾	–	3,625	67.13	243,346	350,000	5,214	69.5%	Five-year grace period after taking office to meet requirements ⁽¹⁸⁾

(as at December 31)

2010	5,300	–	5,300	68.52	363,156	350,000	5,108	103.7%	Five-year grace period after taking office to meet requirements ⁽¹⁸⁾
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**Louise Laflamme****Independent**

58, Rosemère, Quebec, Canada

Director since November 2008

Main areas of expertise:

- Corporate/public sector management
- Finance/risk management
- Financial markets and services
- Human resources

Career profile

Ms. Laflamme is a Corporate Director. She was Senior Vice-President and Advisor to the Chief Executive Officer of the Montréal Exchange Inc.⁽¹⁹⁾ until her departure on June 30, 2008, after 11 years with this exchange dedicated to the development of the Canadian derivatives market. In this capacity, Ms. Laflamme served as Chief Financial Officer and was also responsible for human resources and administration. Her professional background includes 12 years at the accounting firm Raymond, Chabot, Martin, Paré & Co.⁽²⁰⁾ and various internal audit and financial management positions at companies in a number of sectors. An accountant by training, Ms. Laflamme has been a member of the Ordre des CGA du Québec since 1977.

Role on the Board of Directors of the Bank and its committees	Meetings attended (during the past fiscal year)	
Board member	17/17	100%
Member of the HRC ⁽²¹⁾	4/4	100%
Member of the ARMC	14/14	100%

Overall meetings attended (during the past fiscal year)	
	35/35 100%

Reporting issuers and public and parapublic corporations	
Director (during the past five years)	Role on boards and committees (as at October 31, 2010)
–	–

Securities held (as at October 31)									
Year	Common Shares ⁽¹⁾	DSUs ⁽²⁾	Total Common Shares and DSUs	Share Price ⁽³⁾ (\$)	Total market value of Common Shares and DSUs (\$)	Minimum required		Meets the Bank's share ownership requirements for directors ⁽⁴⁾	
						(\$)	Shares/DSUs		
2010	2,789	1,574	4,363	67.13	292,888	350,000	5,214	83.6%	
2009	1,070	608	1,678	56.39	94,622	350,000	6,207	27.0%	Five-year grace period after taking office to meet requirements ^(4,2)
2008	200 ⁽²³⁾	–	200	45.21	9,042	350,000	7,742	2.5%	
<i>(as at December 31)</i>									
2010	4,789	1,574	6,363	68.52	435,993	350,000	5,108	124.5%	Yes

**Roseann Runte****Independent**

63, Ottawa, Ontario, Canada

Director since April 2001

Main areas of expertise:

- Academia
- Corporate/public sector management
- Governance
- International markets

Career profile

Ms. Runte has served as President and Vice-Chancellor of Carleton University in Ottawa since July 1, 2008. She also served as President of Old Dominion University in Norfolk, Virginia from 2001 to 2008 and as President of Victoria University in University of Toronto from 1994 to 2001. Ms. Runte is a member of the Executive Advisory Council of SunGard Higher Education Inc. and a director of LifeNet Health. She has also served on various boards of directors in the literary, cultural and economic development sectors. She is the author of many books and articles, notably on education and economic and cultural development. She has a Bachelor's in French from New York University and a Master's degree and a Doctorate from University of Kansas. She has received many honorary doctorate degrees from several universities and many distinctions, including the Queen Elizabeth II Golden Jubilee Medal. She is also a member of the Order of Canada.

Role on the Board of Directors of the Bank and its committees	Meetings attended (during the past fiscal year)	
Board member	17/17	100%
Member of the CRCGC	6/6	100%
Member of the IC ⁽⁵⁾	1/1	100%

Overall meetings attended (during the past fiscal year)	
	24/24 100%

Reporting issuers and public and parapublic corporations	
Director (during the past five years)	Role on boards and committees (as at October 31, 2010)
The Jean Coutu Group (PJC) Inc.	2004 – 2006

Securities held (as at October 31)									
Year	Common Shares ⁽¹⁾	DSUs ⁽²⁾	Total Common Shares and DSUs	Share Price ⁽³⁾ (\$)	Total market value of Common Shares and DSUs (\$)	Minimum required		Meets the Bank's share ownership requirements for directors ⁽⁴⁾	
						(\$)	Shares/DSUs		
2010	4,766	13,107	17,873	67.13	1,199,814	350,000	5,214	342.7%	Yes
2009	4,169	11,656	15,825	56.39	892,372	350,000	6,207	254.9%	Yes
2008	3,616	9,899	13,515	45.21	611,013	350,000	7,742	174.5%	Yes

**Marc P. Tellier****Independent**

42, Montreal, Quebec, Canada

Director since March 2005

Main areas of expertise:

- Corporate/public sector management
- Finance/risk management
- Human resources
- Telecommunications and media

Career profile

Mr. Tellier has been President and Chief Executive Officer of Yellow Media Inc. and the companies that preceded it, since 2001. It is the leading Internet company in Canada with its network of companies including Yellow Pages Group Inc., Trader Corporation and Canpages Inc. He was previously President and Chief Executive Officer of Bell ActiMedia Inc. Since 2003, he has led acquisitions totalling \$4.5 billion. In addition, Mr. Tellier serves on the board of directors of the Yellow Pages Association (YPA) and the Sainte-Justine Hospital Foundation, and is also a member of the Canadian Council of Chief Executives. Mr. Tellier has a Bachelor's degree in Economics from University of Ottawa. In 2000, Mr. Tellier was named one of Canada's Top 40 Under 40™.

Role on the Board of Directors of the Bank and its committees	Meetings attended (during the past fiscal year)	
Board member	17/17	100%
Member of the HRC	7/7	100%
Overall meetings attended (during the past fiscal year)	24/24	100%

Reporting issuers and public and parapublic corporations		Role on boards and committees (as at October 31, 2010)
Director/Trustee (during the past five years)		
Yellow Media Inc. ⁽¹⁵⁾	2010 to date	–
Yellow Pages Income Fund ⁽¹⁵⁾	2003 – 2010	–
YPG Holdings Inc. ⁽²⁴⁾	2003 – 2010	–

Securities held (as at October 31)									
Year	Common Shares ⁽¹⁾	DSUs ⁽²⁾	Total Common Shares and DSUs	Share Price ⁽³⁾ (\$)	Total market value of Common Shares and DSUs (\$)	Minimum required		Meets the Bank's share ownership requirements for directors ⁽⁴⁾	
						(\$)	Shares/DSUs		
2010	2,024	6,324	8,348	67.13	560,401	350,000	5,214	160.1%	Yes
2009	1,630	5,182	6,812	56.39	384,129	350,000	6,207	109.7%	Yes
2008	1,142	3,810	4,952	45.21	223,880	350,000	7,742	63.9%	Five-year grace period after taking office to meet requirements ⁽²⁵⁾

**Pierre Thabet****Independent**

53, St-Georges, Quebec, Canada

New nominee

Main areas of expertise:

- Entrepreneurship
- Finance/risk management
- Industry
- Regional markets

Career profile

Mr. Thabet has been President of Boa-Franc s.e.n.c, a Canadian manufacturer of pre-finished hardwood floors, since 1983. He has devoted his entire career to his business. He also sits on the board of Canam Group Inc., which operates plants specializing in the design and manufacture of construction products and solutions. Mr. Thabet is involved in local economic and social organizations. He recently became an entrepreneur-trainer at the École d'entrepreneurship de Beauce, a school dedicated to training entrepreneurs in all industries. He was the honorary chair of the 2007-2008 fundraising campaign for the Fondation du Centre hospitalier Beauce-Étchemin and the 22nd Gala de l'entreprise beauceronne. He has a Bachelor's degree in Administration, specializing in Accounting, from Université de Moncton.

Role on the Board of Directors of the Bank and its committees	Meetings attended (during the past fiscal year)	
New nominee	–	–
Overall meetings attended (during the past fiscal year)	–	–

Reporting issuers and public and parapublic corporations		Role on boards and committees (as at October 31, 2010)
Director (during the past five years)		
Groupe Canam inc.	2006 to date	• Member of the Human Resources Committee

Securities held (as at October 31)									
Year	Common Shares ⁽¹⁾	DSUs ⁽²⁾	Total Common Shares and DSUs	Share Price ⁽³⁾ (\$)	Total market value of Common Shares and DSUs (\$)	Minimum required		Meets the Bank's share ownership requirements for directors ⁽⁴⁾	
						(\$)	Shares/DSUs		
2010	71,598 ⁽²⁶⁾	–	71,598	67.13	4,806,374	350,000	5,214	1,373.1%	Five-year grace period after taking office to meet requirements ⁽¹⁸⁾

**Louis Vachon****Non-independent**

48, Beauséjour, Quebec, Canada

Director since August 2006

Main areas of expertise:

- Corporate/public sector management
- Finance/risk management
- Financial markets and services
- International markets

Career profile

Mr. Vachon has been President and Chief Executive Officer of the Bank since June 2007. He is responsible for the strategies, orientations and development of National Bank Financial Group. From August 2006 to May 2007, he held the position of Chief Operating Officer of the Bank responsible for all its operating units. He was Chairman of the Board of Natcan Investment Management Inc. from November 2004 to September 2006, and of National Bank Financial from January 2005 to September 2006. From September 2005 to September 2006, he also held the position of President and Chief Executive Officer of National Bank Financial Inc. In 1986, he joined Lévesque Beaubien Geoffrion Inc., now National Bank Financial Inc., where he served as Vice-President until 1990. From 1990 to 1996, he was employed by BT Bank of Canada, the Canadian subsidiary of Bankers Trust, where he served as President and Chief Executive Officer from 1994 to 1996. Mr. Vachon returned to the Bank in 1996 and, in 1997, he was appointed Senior Vice-President – Treasury and Financial Markets. Mr. Vachon is a member of the boards of directors of the following Bank subsidiaries: National Bank Group Inc., National Bank Acquisition Holding Inc. and Natcan Acquisition Holdings Inc. He has served on the board of directors of the Canadian Council of Chief Executives since June 2009. Mr. Vachon has a Master's in International Finance from The Fletcher School. He also has a Bachelor's degree in Economics from Bates College, as well as being a chartered financial analyst. In 2001, he was also named one of Canada's Top 40 Under 40™.

Role on the Board of Directors of the Bank and its committees	Meetings attended (during the past fiscal year)	
Board member	17/17	100%

Overall meetings attended (during the past fiscal year)		
	17/17	100%

Reporting issuers and public and parapublic corporations	
Director (during the past five years)	Role on boards and committees (as at October 31, 2010)
Montréal Exchange Inc. ⁽¹⁹⁾	2000 – 2008 –

Securities held ⁽²⁷⁾ (as at October 31)				
Year	Common Shares ⁽¹⁾	Share Price ⁽³⁾ (\$)	Total market value of Common Shares (\$)	Meets the Bank's share ownership requirements ⁽²⁸⁾
2010	34,782	67.13	2,334,916	Yes
2009	33,320	56.39	1,878,915	Yes
2008	16,512	45.21	746,508	Yes

NOTES REGARDING THE TABLES OF DIRECTOR NOMINEES:

- (1) This number includes Common Shares directly or indirectly beneficially owned or controlled.
- (2) For more information, please refer to "Compensation of the Directors of the Bank and its Subsidiaries for the Fiscal Year Ended October 31, 2010" in Section 4 of this Circular.
- (3) These amounts represent the price of Common Shares of the Bank on the Toronto Stock Exchange at the close of trading on October 31 of each year. However, since October 31, 2009 and 2010 were not business days, this is the closing price of the Common Shares of the Bank on the Toronto Stock Exchange on the previous business day, namely, October 30, 2009 and October 29, 2010, respectively.
- (4) For more information, please refer to "Share Ownership Requirements" in Section 4 of this Circular.
- (5) The Board disbanded the IC on May 27, 2010. For more information, please refer to "Independent Committee" in Section 5 of this Circular.
- (6) Quebecor World Inc. was then known as World Color Press Inc. until a plan of arrangement was entered into with Quad/Graphics Inc. in July 2010.
- (7) The number of DSUs held by Mr. Caillé as at October 31, 2009 and disclosed in the Management Proxy Circular dated February 12, 2010 should have read 6,806 not 8,606. As a result, the total number of Common Shares and DSUs and the total market value of the Common Shares and the DSUs as at October 31, 2009 have been adjusted in this Circular.
- (8) Mr. Caillé had five years from his appointment as a Bank director on October 27, 2005 to meet the Bank's share ownership requirements for directors.
- (9) Ms. Denham joined the Board on October 27, 2010.
- (10) Ms. Denham was appointed a member of the HRC on October 28, 2010.
- (11) Ms. Denham has five years from the date she took office as a Bank director, namely, October 27, 2010, to meet the share ownership requirements for directors.
- (12) The figures disclosed in the Management Proxy Circular dated January 9, 2009 included Preferred Shares held by Ms. Diamond-Gélinas.
- (13) As Chairman of the Board, Mr. Douville is invited to attend the meetings of the Board's standing committees.
- (14) Mr. Gaulin donated 1,560 Bank Common Shares during the fiscal year.
- (15) On November 1, 2010, Yellow Media Inc. announced the completion of the plan of arrangement pursuant to which the Yellow Pages Income Fund income trust structure was converted into a dividend paying publicly traded corporation named Yellow Media inc.

- (16) Hudson's Bay Company became a private company in 2006.
- (17) Mr. Houde already owns Common Shares of the Bank.
- (18) If elected at the Meeting, the nominee will have five years from the date he or she takes office, namely, March 30, 2011, to meet the share ownership requirements for directors.
- (19) Further to the combination of Montréal Exchange Inc. and TSX Group Inc. on May 1, 2008, this company is now called TMX Group Inc.
- (20) The accounting firm Raymond, Chabot, Martin, Paré & Co. is now named Raymond Chabot Grant Thornton & Co. L.L.P.
- (21) Ms. Laflamme was appointed a member of the HRC on March 31, 2010.
- (22) Ms. Laflamme has five years from the date she took office as a Bank director, namely, November 3, 2008, to meet the share ownership requirements for directors.
- (23) Ms. Laflamme owned Common Shares of the Bank prior to her appointment on November 3, 2008.
- (24) On January 1, 2006, YPG Holdings Inc. amalgamated with Yellow Pages Holdings Inc. to form YPG Holdings Inc., which then changed its name on February 11, 2010 to become Yellow Media Inc. It was part of the plan of arrangement completed on November 1, 2010 and thus ceased to exist. Under this plan, Yellow Pages Income Fund was converted into a publicly traded corporation named Yellow Media Inc.
- (25) Mr. Tellier had five years from the date he took office as a Bank director, namely, March 2, 2005, to meet the share ownership requirements for directors.
- (26) Mr. Thabet already owns Common Shares of the Bank.
- (27) As an executive director of the Bank, Mr. Vachon does not receive any compensation for participating in the activities of the Board and its committees. For more information about Mr. Vachon's compensation, including the values of his PSUs, RSUs and options, please refer to Section 7 of this Circular.
- (28) For more information, please refer to "Share Ownership Requirements" in Section 6 of this Circular.

To the knowledge of the Bank, no director nominee is, at the date of this Circular, or has been, during the 10 years prior to the date of this Circular, a director, chief executive officer or chief financial officer of any company, including the Bank, that while the nominee was acting in such capacity, or after the nominee ceased to act in such capacity, and as a result of an event which occurred while the nominee was performing his or her duties, was the subject of one of the following orders that was in effect for more than 30 consecutive days, namely, any cease trade or similar order or any order that denied it access to any exemption under securities legislation.

To the knowledge of the Bank, no director nominee is, at the date of this Circular, or has been, in the 10 years prior to the date of this Circular, a director or executive officer of any company, including the Bank, that while the nominee was acting in such capacity or within a year of the nominee ceasing to act in such capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or became subject to, or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold its assets, except for:

- André Caillé, who, until July 21, 2009, served on the board of directors of Quebecor World Inc., a company placed under the protection of the *Companies' Creditors Arrangements Act* (Canada) and Chapter 11 of Title 11 (*Bankruptcy*) of the *United States Code* on January 21, 2008. Quebecor World Inc. was delisted from the New York Stock Exchange on January 22, 2008. Quebecor World Inc. emerged from court protection in the United States and in Canada on July 21, 2009. It then became known as World Color Press Inc. until a plan of arrangement was entered into with Quad/Graphics Inc. in July 2010;
- Gérard Coulombe, who, until September 28, 2005, was a board member of Centre International de Gestion de Projets G.P., a non-profit company adjudged bankrupt on September 29, 2005. Centre International de Gestion de Projets G.P. was discharged from bankruptcy on April 4, 2008; and
- Paul Gobeil, who, until November 12, 2001, was on the boards of BridgePoint International Inc. and its wholly owned subsidiary BridgePoint International (Canada) Inc. On January 25, 2002, BridgePoint International (Canada) Inc. filed a proposal with its creditors. The Toronto Stock Exchange suspended trading on the shares of BridgePoint International Inc. on January 31, 2002 for failure to meet Toronto Stock Exchange listing requirements. The shares of BridgePoint International Inc. were delisted from the Toronto Stock Exchange at the close of business on January 31, 2003. Moreover, an interim receiver was appointed from February 13 to March 3, 2003. BridgePoint International (Canada) Inc. was discharged from the proposal on December 17, 2003.

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

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

- Under an administrative settlement agreement approved by a panel of the Toronto Stock Exchange in August 1998, Lawrence S. Bloomberg agreed to pay a \$250,000 fine, not as a result of any personal misconduct, but as President and Chief Executive Officer of First Marathon Securities Limited for compliance inadequacies in 1993, 1994 and 1995, and issues arising from the participation of certain officers and employees of that company in matters relating to the financing, sale of securities and operations of Cartaway Resources Corp. between July 1995 and June 1996.

MEETINGS OF THE BANK'S BOARD AND ITS COMMITTEES AND ATTENDANCE OF DIRECTORS

Number of Meetings of the Bank's Board and its Committees and Attendance of Directors

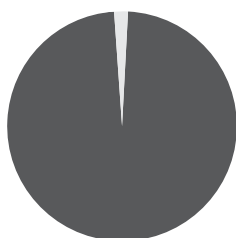
In "Career Profile" in Section 3 of this Circular, the Bank discloses the members of each Board committee and the number of meetings they attended during the past fiscal year.

The following table presents the total number of meetings of the Bank's Board and its committees held during the fiscal year ended October 31, 2010 and the attendance of the directors at all the meetings.

Board and its committees	Number of meetings	Attendance rate at all the meetings (%)
Board	17	98.3
CRCGC	6	96.0
HRC	7	97.6
ARMC	14	95.5
IC	1	100
Total	45	97.6

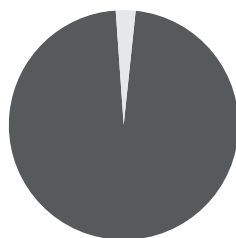
Attendance at the Meetings of the Bank's Board and its Committees

The following diagrams present the attendance of the directors at the meetings of the Bank's Board and its committees during the fiscal year ended October 31, 2010. On average, the directors attended 98.3% of the Board meetings and 97.1% of the meetings of the committees on which they serve.



Board

■ Attendance – 98.3%
■ Absence – 1.7%



Committees

■ Attendance – 97.1%
■ Absence – 2.9%

Attendance During the Fiscal Year Ended October 31, 2010 of Directors Who Are Not Standing for Re-election

Name of Director	Role on the Board of Directors of the Bank and its committees	Meetings attended		Total meetings attended	
		Meetings attended	Attendance rate	Total meetings attended	Attendance rate
Pierre Bourgie ⁽¹⁾	Board member	12/14	85.7%	25/29	86.2%
	Member of the CRCGC	4/5	80.0%		
	Member of the ARMC	9/10	90.0%		
Shirley A. Dawe	Board member	17/17	100%	30/30	100%
	Member of the CRCGC	6/6	100%		
	Member of the HRC	7/7	100%		
Marcel Dutil	Board member	17/17	100%	24/25	96.0%
	Member of the HRC	6/7	85.7%		
	Member of IC	1/1	100%		

(1) Mr. Bourgie stopped serving on the Bank's Board and its committees in August 2010.

INDEPENDENCE

Independence of Director Nominees

The following table outlines the independence, as defined in the standards established by the CSA, of director nominees, as at the date of the Circular.

Director nominees	Independent	Non-independent	Reason for non-independence
Lawrence S. Bloomberg		√	Advisor to certain subsidiaries of the Bank
André Caillé (CRCGC Chair, HRC, ARMC)	√		
Gérard Coulombe		√	The law firm of which he is a partner provides legal services to the Bank and some of its subsidiaries
Bernard Cyr (ARMC)	√		
Gillian H. Denham (HRC)	√		
Nicole Diamond-Gélinas (ARMC)	√		
Jean Douville (Chairman of the Board)	√		
Jean Gaulin (HRC Chair, ARMC)	√		
Paul Gobeil (ARMC Chair, CRCGC)	√		
Jean Houde	√		
Louise Laflamme (HRC, ARMC)	√		
Roseann Runte (CRCGC)	√		
Marc P. Tellier (HRC)	√		
Pierre Thabet	√		
Louis Vachon		√	President and Chief Executive Officer of the Bank

Independence of Directors Who Are Not Standing for Re-election

Throughout their mandates, Pierre Bourgie, Shirley A. Dawe and Marcel Dutil have been independent directors as defined in the standards established by the CSA.

OUTSIDE DIRECTORSHIPS

The Bank discloses the list of reporting issuers and public and parapublic corporations on whose boards each director nominee currently serves or has served in the past five years in “Career Profile” in Section 3 of this Circular.

Outside Directorships of the Directors Who Are Not Standing for Re-election

The following table lists the reporting issuers on whose boards the directors who are not standing for re-election currently serve.

Director	Reporting issuers		Role on boards and committees (as at October 31, 2010)
Pierre Bourgie	Saputo Inc.	1997 to date	<ul style="list-style-type: none"> Member of the Corporate Governance and Human Resources Committee
Shirley A. Dawe	Birks & Mayors Inc.	1999 to date	<ul style="list-style-type: none"> Chair of the Compensation Committee
	The Bon-Ton Stores, Inc.	2002 to date	<ul style="list-style-type: none"> Member of the Executive Committee Member of the Human Resources and Compensation Committee
Marcel Dutil	Canam Group Inc.	1972 to date	<ul style="list-style-type: none"> Chairman of the Board of Directors
	The Jean Coutu Group (PJC) Inc.	1995 to date	<ul style="list-style-type: none"> Member of the Audit Committee

Reporting issuers with more than one director nominee of the Bank as a director, as well as the committees of the reporting issuers on which the director nominee serves, if applicable, are indicated in the table below:

Cross Directorships of Director Nominees

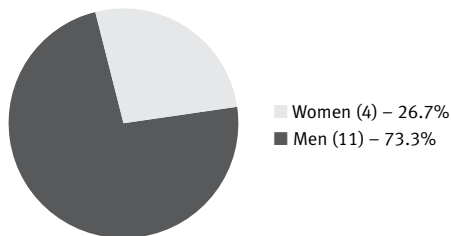
Reporting issuer	Director	Committee(s) of the reporting issuer on which the director nominee serves
Yellow Media Inc.	Paul Gobeil	<ul style="list-style-type: none"> Corporate Governance and Nominating Committee Audit
	Marc P. Tellier	–

COMPOSITION OF THE BOARD

Male/Female Representation on the Board

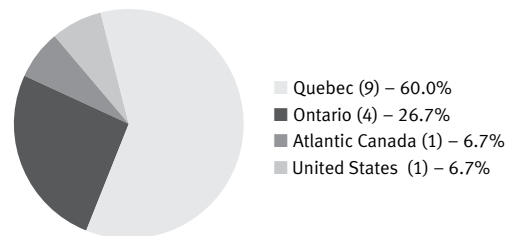
The Board feels that diversity among the members of the Board enriches discussion and therefore recognizes the importance of increasing the number of female directors and striving for parity between men and women on the Board. Accordingly, the Board is continuing its efforts to find more female candidates 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.

The following chart shows the ratio of male/female representation on the Board of the current slate of director nominees.



Geographical Representation on the Board

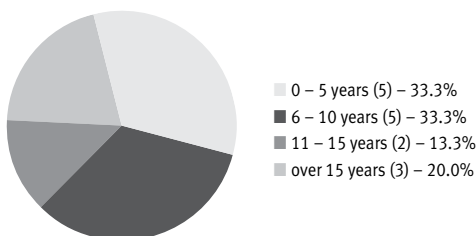
The following chart shows the geographical representation on the Board of the current slate of director nominees.



Time Served on the Board

The maximum period that a director may serve on the Board is 15 years unless the Board, on the recommendation of the CRCGC, decides that, because of exceptional circumstances, it is in the Bank’s best interest to recommend the director for re-election. The computation of this 15-year period started in 1998 for the four directors that were already in office at that time.

The following chart shows the time served on the Board of the current slate of director nominees.



AREAS OF EXPERTISE OF DIRECTOR NOMINEES

The Board ensures that its members reflect the wide range of knowledge and skills needed to oversee the management of the Bank.

The following table presents the four main areas of expertise of the director nominees in the following sectors.

	Academia	Commercial and corporate law	Corporate/public sector management	Entrepreneurship	Finance/Risk management	Financial markets and services	Governance	Human resources	Industry	International markets	Natural resources	Regional markets	Retail trade	Telecommunications and media
Lawrence S. Bloomberg				√	√	√				√				
André Caillé			√		√		√				√			
G�rard Coulombe		√	√			√	√							
Bernard Cyr				√	√							√	√	
Gillian H. Denham					√	√		√					√	
Nicole Diamond-G�linas				√	√				√			√		
Jean Douville			√				√		√	√				
Jean Gaulin			√		√			√			√			
Paul Gobeil			√		√		√						√	
Jean Houde			√		√	√		√						
Louise Laflamme			√		√	√		√						
Roseann Runte	√		√				√			√				
Marc P. Tellier			√		√			√						√
Pierre Thabet				√	√				√			√		
Louis Vachon			√		√	√				√				

SECTION 4

DIRECTOR COMPENSATION

COMPENSATION OF THE DIRECTORS OF THE BANK AND ITS SUBSIDIARIES FOR THE FISCAL YEAR ENDED OCTOBER 31, 2010

The compensation paid to the members of the Bank's Board and its committees did not increase during the fiscal year ended October 31, 2010 and has not been increased or indexed since 2007. As part of its annual review of director compensation, the CRCGC included a survey of the compensation paid by reporting issuers in the Bank's peer group and, in the fiscal year ahead, will address the possibility of increasing this compensation so that it will be adequate compared to the peer group.

To align the interests of the members of the Board with those of the 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, DSUs or a combination of all three, at the director's option. The directors do not receive stock options. They do not participate in any other compensation mechanism that offers Bank shares nor a pension plan. Moreover, directors do not benefit from any banking product or service at preferred rates or reduced fees related exclusively to their status as directors.

The Bank reimburses directors for expenses incurred to attend meetings of the Board and its committees, including transportation and accommodation. The Bank reimburses Jean Douville up to \$25,000 annually for accommodation expenses in serving as Chairman of the Board and for his business promotion activities on behalf of the Bank.

Under By-Law I – General By-Law approved by the Bank's shareholders, the total compensation that may be paid to directors for serving on the Board and its committees during a fiscal year may not exceed \$1,800,000. During fiscal 2010, this compensation totalled \$1,550,833.33.

For more information on director compensation, please refer to the Statement of Corporate Governance Practices in Schedule B to this Circular.

Share Ownership Requirements

In order to maintain the trust of shareholders and ensure that directors' interests are aligned with those of shareholders, certain share ownership requirements have been implemented. Consequently, all directors are required to hold Common Shares of the Bank or DSUs 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. For more information, please refer to "Director compensation and share ownership requirements" in the Statement of Corporate Governance Practices of the Bank in Schedule B to this Circular.

Requirements	Minimum required
Five times the annual retainer payable to Board members	5 X \$70,000 = \$350,000
Minimum share ownership requirements based on the closing price of the Bank's Common Shares on the Toronto Stock Exchange on October 31, 2010 ⁽¹⁾	\$350,000 / \$67.13 = 5,214 Common Shares

(1) As October 31, 2010 was not a business day, this is the closing price of the Common Shares of the Bank on the Toronto Stock Exchange on the previous business day, namely, October 29, 2010.

Share Ownership Requirements

(as at October 31, 2010)

Director nominees	Securities held	Percentage of minimum requirements	Requirements met
Lawrence S. Bloomberg	35,750	685.6%	Yes
André Caillé	11,657	223.5%	Yes
Gérard Coulombe	26,870	515.3%	Yes
Bernard Cyr	14,348	275.1%	Yes
Gillian H. Denham	87	1.6%	– ⁽¹⁾
<i>as at December 31, 2010</i>	5,013	98.1%	– ⁽¹⁾
Nicole Diamond-Gélinas	33,540	643.2%	Yes
Jean Douville	14,868	285.1%	Yes
Jean Gaulin	34,093	653.8%	Yes
Paul Gobeil	45,661	875.7%	Yes
Jean Houde	3,625	69.5%	– ⁽¹⁾
<i>as at December 31, 2010</i>	5,300	103.7%	– ⁽¹⁾
Louise Laflamme	4,363	83.6%	– ⁽¹⁾
<i>as at December 31, 2010</i>	6,363	124.5%	Yes
Roseann Runte	17,873	342.7%	Yes
Marc P. Tellier	8,348	160.1%	Yes
Pierre Thabet	71,598	1,373.1%	– ⁽¹⁾
Louis Vachon	–	–	Yes ⁽²⁾

(1) These nominees have five years from the date they took office (namely, November 3, 2008 for Ms. Laflamme, October 27, 2010 for Ms. Denham, and, if they are elected at the Meeting, March 30, 2011 for Messrs. Houde and Thabet) to meet these requirements.

(2) For more information on the share ownership requirements applicable to Mr. Vachon, please refer to "Share Ownership Requirements" in Section 6 of this Circular.

SECTION 4 DIRECTOR COMPENSATION (cont.)

Annual Compensation of the Directors of the Bank and its Subsidiaries for the Fiscal Year Ended October 31, 2010

National Bank of Canada

Board

Member	Cash ⁽¹⁾	\$ 45,000
	Common Shares	\$ 25,000
Chairman of the Board	Cash ⁽¹⁾	\$ 200,000

Board Committees

Member	ARMC:	
	Cash ⁽¹⁾	\$ 12,500
	Common Shares	\$ 7,500
	CRCGC and HRC:	
	Cash ⁽¹⁾	\$ 10,000
	Common Shares	\$ 5,000
	IC⁽²⁾:	
	Cash ⁽¹⁾	\$ 875
	Common Shares	\$ 625
	Meeting fees	\$ 1,500
Committee Chair ⁽³⁾	ARMC:	
	Cash ⁽¹⁾	\$ 15,000
	Common Shares	\$ 10,000
	CRCGC and HRC:	
	Cash ⁽¹⁾	\$ 12,500
	Common Shares	\$ 7,500
	IC⁽²⁾:	
Cash ⁽¹⁾	\$ 2,500	
	Common Shares	\$ 1,250

Subsidiaries of National Bank of Canada

National Bank Life Insurance Company

Director	Cash ⁽¹⁾	\$ 17,000
Committee member	Cash ⁽¹⁾	\$ 3,000
Committee chair	Cash ⁽¹⁾	\$ 1,500

National Bank Trust Inc.

Director	Cash ⁽¹⁾	\$ 12,000
Committee member	Cash ⁽¹⁾	\$ 2,000
Committee chair	Cash ⁽¹⁾	\$ 1,000

FMI Acquisition Inc.

Director	Cash ⁽¹⁾	\$ 500
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- (1) Excluding the part of director compensation that must be paid in the form of Common Shares for their role on the Bank's Board and its committees, directors may elect to receive the cash portion of their compensation in the form of cash, Common Shares, DSUs or a combination of all three.
- (2) The compensation of the members and the Chair of the IC is calculated on a quarterly basis. These amounts are only paid for quarters in which an IC meeting is held. The IC met only once during fiscal 2010. The Board abolished the IC on May 27, 2010.
- (3) The Chairs of the Board committees receive compensation as members and Chairs of their respective committees.

SECTION 4 DIRECTOR COMPENSATION (cont.)

Compensation Paid to the Directors for the Fiscal Year Ended October 31, 2010

The following table presents the compensation paid to the Bank's directors for serving on the boards of directors and board committees of the Bank and its subsidiaries.

Name	Fees earned (\$) ⁽¹⁾		Share-based awards (\$) ⁽²⁾				Total compensation for the activities of the Board and its committees (\$)	All other compensation (\$)	Total compensation (\$)	Breakdown of cash compensation for activities of the Board and its committees ⁽⁴⁾
	Board retainer ⁽³⁾	Retainer as a member of the HRC, CRCGC, ARMC and IC (including meeting fees for the IC)	Common Shares	Board retainer ⁽³⁾	Common Shares	DSUs				
Lawrence S. Bloomberg	45,000		25,000				70,000	336,043 ⁽⁵⁾	406,043	100% in cash
Pierre Bourgie⁽⁶⁾ (ARMC, CRCGC)	37,500	18,750	20,833.33		10,416.67		87,500		87,500	100% in cash
André Caillé (CRCGC Chair, HRC, ARMC, IC Chair)			25,000	45,000	26,875 ⁽⁷⁾	49,875 ⁽⁸⁾	146,750		146,750	100% in DSUs
Gérard Coulombe			25,000	45,000			70,000	32,500 ⁽⁹⁾	102,500	100% in DSUs
Bernard Cyr (ARMC, IC)			70,000		23,000		93,000		93,000	100% in Common Shares
Shirley A. Dawe (CRCGC, HRC)	45,000	20,000	25,000		10,000		100,000		100,000	100% in cash
Gillian H. Denham⁽¹⁰⁾ (HRC)			2,083.33	3,750			5,833.33		5,833.33	100% in DSUs
Nicole Diamond-Gélinas (ARMC)			25,000	45,000	7,500	12,500	90,000	20,000 ⁽¹¹⁾	110,000	100% in DSUs
Jean Douville (Chairman of the Board)	245,000 ⁽¹²⁾		25,000				270,000		270,000	100% in cash
Marcel Dutil (HRC, IC)			25,000	45,000	5,625	12,375	88,000		88,000	100% in DSUs
Jean Gaulin (HRC Chair, ARMC, IC)	45,000	37,375 ⁽¹³⁾	25,000		20,625 ⁽¹⁴⁾		128,000		128,000	100% in cash
Paul Gobeil (ARMC Chair, CRCGC)			25,000	45,000	22,500 ⁽¹⁵⁾	37,500 ⁽¹⁶⁾	130,000		130,000	100% in DSUs
Louise Laflamme⁽¹⁷⁾ (HRC, ARMC)			30,625	39,375	11,979.17	16,770.83	98,750		98,750	12.5% in Common Shares and 87.5% in DSUs ⁽¹⁸⁾
Roseann Runte (CRCGC, IC)			25,000	45,000	5,625	12,375	88,000		88,000	100% in DSUs
Marc P. Tellier (HRC)			25,000	45,000	5,000	10,000	85,000		85,000	100% in DSUs
Louis Vachon⁽¹⁹⁾	-		-	-			-		-	-
Total							1,550,833.33			

- (1) For the purposes of this table and in accordance with paragraph 3(b) of Item 7 of Form 51-102F6 of the CSA's Regulation 51-102, fees include all fees awarded, earned, paid, or payable in cash for services as a director, including annual retainer fees, fees for attending meetings of a Board committee or for chairing a Board committee, and meeting fees.
- (2) For the purposes of this table and in accordance with paragraph 3.1 of Item 3 of Form 51-102F6 of the CSA's Regulation 51-102, share-based awards include award amounts based on the grant date fair value of the award of shares and DSUs for the fiscal period in question.
- (3) The annual retainer paid for service on the Board of Directors totalled \$70,000, of which \$25,000 was paid in the form of Common Shares and \$45,000 in the form of cash, Common Shares, DSUs or a combination of all three, as elected by the director.
- (4) Excluding the part of director compensation that must be paid in the form of Common Shares for their role on the Bank's Board and its committees, directors may elect to receive the cash portion of their compensation in the form of cash, Common Shares, DSUs or a combination of all three. This column presents the election made by each director for payment of cash compensation for activities of the Board and its committees during the fiscal year ended October 31, 2010.
- (5) Under a service contract entered into in November 2004 with National Bank Financial Inc., Mr. Bloomberg acts as an advisor to National Bank Financial Inc. and National Bank Financial Ltd. As such, he receives an annual retainer, commissions, a business development allowance and reimbursement of various administrative fees incurred when carrying out his duties. For the fiscal year ended October 31, 2010, Mr. Bloomberg received a total of \$336,043.
- (6) Mr. Bourgie ceased to be member of the Bank's Board of Directors and its committees in August 2010. As a result, his compensation was prorated.
- (7) Includes a retainer of \$8,750 as Chair of the CRCGC and the IC.
- (8) Includes a retainer of \$15,000 as Chair of the CRCGC and the IC.
- (9) Mr. Coulombe received \$17,000 in DSUs for serving on the board of directors of National Bank Life Insurance Company, \$3,000 in DSUs as a member of the Ethics Committee of this Bank subsidiary, \$12,000 in DSUs as a member of the Board of Directors of National Bank Trust Inc. and \$500 in cash as a member of the board of FMI Acquisition Inc.
- (10) Ms. Denham joined the Board on October 27, 2010 and was appointed a member of the HRC on October 28, 2010. As a result, her compensation was prorated.
- (11) Ms. Diamond-Gélinas received \$17,000 in cash for serving on the board of directors of National Bank Life Insurance Company and \$3,000 in cash as a member of the Audit Committee of this Bank subsidiary.
- (12) Includes a retainer of \$200,000 as Chairman of the Board.
- (13) Includes a retainer of \$12,500 as Chair of the HRC.
- (14) Includes a retainer of \$7,500 as Chair of the HRC.
- (15) Includes a retainer of \$10,000 as Chair of the ARMC.
- (16) Includes a retainer of \$15,000 as Chair of the ARMC.
- (17) Ms. Laflamme was appointed a member of the HRC on March 31, 2010. As a result, her compensation was prorated.
- (18) Ms. Laflamme elected to receive 50% of her compensation in Common Shares and 50% in DSUs for the first quarter, and 100% in DSUs for the following quarters.
- (19) As a Bank executive, Mr. Vachon receives no compensation as a director of the Bank or any of its subsidiaries. For more information about Mr. Vachon's compensation, including the values of his PSUs, RSUs and options, please refer to Section 7 of this Circular.

SECTION 5

INFORMATION ON THE BOARD AND ITS COMMITTEES

THE BOARD

The main duty of the Board is to oversee the management of the Bank, safeguard its assets, and ensure its viability, profitability and development. It has also adopted a mandate which is reproduced in its entirety in Schedule C to this Circular and may be found under “More About Us” on the Bank’s website (www.nbc.ca).

HIGHLIGHTS OF FISCAL 2010

- **Composition of the Board and independence** – As at October 31, 2010, the Board was composed of 15 directors, 12 of whom are independent, i.e., 80%;
- **Attendance** – The directors attended, on average, 98.3% of the meetings of the Board and 97.1% of the meetings of the committees of the Board on which they serve, as described in more detail in the respective career profiles of each director nominee in Section 3 of this Circular;
- **In camera meetings** – During fiscal 2010, the independent directors regularly met in camera, without any members of the Bank’s management or the non-independent directors being present;
- **Cross directorships** – As at October 31, 2010, two directors, Paul Gobeil and Marc P. Tellier, were serving on the board of directors of another reporting issuer, Yellow Media Inc., of which Mr. Tellier is the President and Chief Executive Officer;
- **Advisory vote on executive compensation** – At the Annual Meeting of the Holders of Common Shares held on March 31, 2010, the holders of Common Shares voted 98.55% in favour of the advisory resolution on the Board’s approach to executive compensation. The other voting results are available on the SEDAR website (www.sedar.com);
- **Meetings with shareholder groups** – Members of the Bank’s management met, at the request of the Board, with representatives of shareholder groups to discuss various topics of interest including the Board’s approach to the Bank’s executive compensation;
- **Board succession** – The directors had several discussions about its succession planning and added to its evergreen list of potential candidates. The Board looks for competencies in the candidates that complement those of the current members;
- **Assessment process** – The Board’s assessment process was conducted in the form of one-on-one meetings between each director and Jean Douville, Chairman of the Board. At the meetings, the directors had the opportunity to discuss with him their thoughts on the performance of the Board, the Board committees on which they serve, the Chairs of each Board committee and their own contribution. Each director also submitted to André Caillé, Chair of the CRCGC, their comments on the performance of the Chairman of the Board. Mr. Caillé was also available to meet with directors who wished to discuss the Chairman’s performance. Further to these one-on-one meetings, the CRCGC held a meeting, at which Mr. Douville was a guest, to review and discuss the comments gathered from the one-on-one meetings, and assessed the relevance of changing or improving the performance and effectiveness of the Board, the Board committees, the Chairman of the Board (in the absence of Mr. Douville), the committee Chairs and each director. The CRCGC then reported to the Board; and
- **Continuing education** – The directors attended several training sessions on topics of interest to the Bank in order to enhance their knowledge about areas relating to their duties. In particular, the directors attended sessions on the conversion to IFRS, the Basel III Accord and the Internal Capital Adequacy Assessment Process (ICAAP). For more information on continuing education, please refer to the Statement of Corporate Governance Practices in Schedule B to this Circular.

CORPORATE GOVERNANCE PRACTICES

The Statement of Corporate Governance Practices is presented in Schedule B to this Circular. The Bank’s corporate governance practices stipulate, in particular:

- the promotion, by the Board, of integrity and ethical behaviour within the Bank;
- share ownership requirements applicable to directors and all officers of the Bank and its designated subsidiaries;
- the election of directors through majority voting, namely, a 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;
- that, barring exceptions, the maximum period that a director may serve on the Board is 15 years;
- that the directors of the Bank do not receive stock options and do not participate in any Bank pension plan;
- the selection criteria for director nominees, which include, other than the knowledge and competencies of the nominees, their ability to make objective and informed decisions, their impartial judgment, their leadership, their integrity and honesty and their availability to fulfill their role as a director;
- that half of all nominees selected for directorships that become vacant in the future be women in order to increase the number of female directors and strive for parity between men and women on the Board;
- that the independent members of the Board are scheduled to meet in camera, without any members of the Bank’s management being present, at each meeting of the Board or its committees;
- that the roles of Chairman of the Board and President and Chief Executive Officer are separate;
- that the Board review and approve the overall risk philosophy and risk appetite of the Bank and ensure that the Bank’s management sets up appropriate systems for effective management of those risks;
- that the mandates of the Board and its Chairman, as well as those of the Board’s committees and their respective chairs, be available on the Bank’s website (www.nbc.ca); and
- the annual assessment of the Board, its members and the members of its committees, including the Chairman of the Board and the committee Chairs.

BOARD COMMITTEES

In performing its duties, the Board is assisted by three standing committees: the ARMC, the CRCGC, and the HRC. The Board may also create *ad hoc* committees for specific purposes, whenever the situation so requires.

With the assistance of the CRCGC, the Board develops and approves mandates describing the role and responsibilities of each of its committees. The text of the mandate of each committee can be found in its entirety under “More About Us” on the Bank’s website (www.nbc.ca). The text of the mandate of the ARMC can also be found in its entirety in the Bank’s Annual Information Form. The Statement of Corporate Governance Practices of the Bank in Schedule B to this Circular contains additional information on the Board’s committees, namely, their authority to hire legal counsel or other independent consultants.

The Board’s committees are composed exclusively of independent directors, as defined in the standards established by the CSA, and the committee members are scheduled to meet without the Bank’s management being present at each of their meetings. For more information on the concepts of independent directors and conflicts of interest, please refer to the Statement of Corporate Governance Practices in Schedule B to this Circular. The list of committee members appears in the description of each committee in this section of the Circular.

Independent Committee

On May 27, 2010, the Board, on the recommendation of the Independent Committee, abolished this committee created in August 2007 to examine the facts surrounding the ABCP file and to recommend to the Board the measures to be taken to safeguard the interests of the Bank and its shareholders. When the committee was disbanded, its members were André Caillé, the Committee Chair, Bernard Cyr, Marcel Dutil, Jean Gaulin and Roseann Runte. The committee met only once in 2010.

AUDIT AND RISK MANAGEMENT COMMITTEE



Members

André Caillé
Bernard Cyr
Nicole Diamond-Gélinas
Jean Gaulin
Paul Gobeil, Chair
Louise Laflamme

Independence of Members

The ARMC is composed exclusively of independent directors, as defined in the standards established by the CSA.

Competencies of Members

All the members of the ARMC are “financially literate” within the meaning of CSA rules relating to audit committees. All ARMC members have acquired the necessary experience and knowledge to adequately fulfill their duties as ARMC members from having served as chief executive officers or directors of other corporations or through their academic background. Several of them serve or have served on the audit committees of various corporations. For more information about the expertise and experience of each member of the ARMC, please refer to the Information on the Audit and Risk Management Committee of the Board of Directors section of the Bank’s Annual Information Form.

Mandate of the Audit and Risk Management Committee

The ARMC assists the Board in audit and risk management matters.

The main duties and responsibilities of the ARMC are described below.

Financial reporting

- Review and recommend to the Board for approval, the consolidated financial statements of the Bank and the related external auditors’ reports, Management’s Discussion and Analysis, press releases concerning material financial information, audit processes, and management information systems, and all other material financial information, in order to ensure their integrity, the effectiveness of processes and compliance with applicable accounting standards. The ARMC recommends the approval thereof to the Board before the statements are publicly disclosed.

Compliance and External Auditors

- Act as an intermediary between the Board and the Bank’s independent oversight functions, namely, Internal Audit, Corporate Compliance and the external auditors;
- Oversee the work of Internal Audit and Corporate Compliance;
- Obtain reasonable assurance that the Bank and its subsidiaries have the policies, programs, procedures, structures and management systems required to comply with legislation, regulations, guidelines, and the codes of conduct that govern them, and that these are operational and aligned with sound industry practices;
- Review, evaluate and approve the Bank’s internal control procedures;
- Recommend to the Board the appointment and compensation of the external auditors, or their dismissal, if applicable, and confirm the nature and scope of their mandate;
- Review the independence of the external auditors and periodically assess the performance of the lead engagement partner and his team;
- Provide prior approval of all mandates given to external auditors, in accordance with the Guidelines for the Management of Services Provided by the External Auditors; and
- Approve the Bank’s anti-PCMLTF policy and ensure that the policy enabling the Bank to meet its obligations to detect and deter PCMLTF are applied and monitored.

Risk Management

- Review and approve the statements, measures and overall targets for the Bank’s risk appetite, and recommend their adoption to the Board;
- Carry out a review of risk management and risk management controls;
- Review and recommend to the Board the adoption of policies for managing significant risks to which the Bank is exposed, and review those policies periodically;
- Approve the credits of clients that exceed the powers delegated to the members of the Bank’s management and which are defined in the Credit Risk Management Policy of the Bank; and
- Approve all material aspects of risk rating systems and related parameters.

Capital, Liquidity and Funding Management

- Review and recommend to the Board the adoption of liquidity and funding management, capital management, and stress testing policies, including the approval of stress testing scenarios.

The duties and responsibilities of the ARMC are described more fully in its mandate, which is revised periodically. The text of the mandate can be found in its entirety under “More About Us” on the Bank’s website (www.nbc.ca) and in the Bank’s Annual Information Form.

Achievements During the Fiscal Year

The members of the ARMC met 14 times during the past fiscal year. In addition to the matters identified at the beginning of the year and its responsibilities under its mandate, in particular, reviewing and approving the credits that exceed the powers delegated to members of the Bank’s management, the ARMC dealt with *ad hoc* files.

The following matters were among those dealt with by the ARMC during the past fiscal year:

- recommendation to the Board that SB/DT be reappointed as the external auditors of the Bank for the fiscal year ending October 31, 2010;
- review and approval of the quarterly consolidated financial statements, the audited annual consolidated financial statements, the Annual Report, the Annual Information Form and the press releases for the declaration of dividends and complementary financial information;
- review of the conclusions of the external auditors concerning the annual consolidated financial statements and the discussion with the external auditors concerning the annual and quarterly consolidated financial statements;
- review of the annual report on internal control over financial reporting;
- review and approval of Internal Audit’s annual plan;
- review of various sensitivity analyses related to credit risk;
- review of Internal Audit’s annual report;
- review of the progress reports concerning the adoption of IFRS;
- review and approval of the assumptions retained for the capital stress-testing scenarios;
- review of the methodology for determining the general allowance for credit risk;
- review of the annual report of the Chief Compliance Officer and the Legislative Compliance Program;
- review and recommendation to the Board of the Strategic Investment Policy;
- review and approval of the mandate of the Global Risk Committee;
- review of the annual report on the fight against PCMLTF;
- review and approval of the external audit program for the fiscal year ending October 31, 2010;
- assessment of the performance of Corporate Compliance;
- review of the assessment of the external auditors;
- review of the annual report on corporate investments;
- review of the annual report on litigation against the Bank and its subsidiaries; and
- review and recommendation to the Board of the Liquidity Contingency Plan and the Capital Contingency Plan of the Bank.

CONDUCT REVIEW AND CORPORATE GOVERNANCE COMMITTEE



Members

- André Caillé, Chair
- Shirley A. Dawe
- Paul Gobeil
- Roseann Runte

Independence of Members

The CRCGC is composed exclusively of independent directors, as defined in the standards established by the CSA.

Competencies of Members

All the members of the CRCGC have the experience and competencies required to contribute effectively to the performance of the CRCGC’s mandate. All CRCGC members have acquired the necessary experience and knowledge to adequately fulfill their duties as CRCGC members from having served as chief executive officers or directors of other corporations or members of other conduct review and corporate governance committees or through their academic background.

Mandate of the Conduct Review and Corporate Governance Committee

In addition to assuming the responsibilities assigned to it under the Act, the CRCGC assists the Board in overseeing implementation of and compliance with the Bank’s corporate governance rules, policies and procedures, and in keeping abreast of legislative and regulatory changes and market trends relating to governance.

The main duties and responsibilities of the CRCGC are described below.

Composition and function of the Board and its committees

- Develop and periodically revise the selection criteria for electing or re-electing directors and the Board’s Charter of Expectations for Directors;
- Make recommendations regarding the composition of the Board and ensure succession planning for directors;
- Draw up the list of director nominees for each of the Bank’s annual meetings;
- Assess, on an annual basis, the independence of directors who are standing for re-election, and develop and periodically revise the Director Independence Policy;
- Ensure that orientation and continuing education programs for directors are in place;
- Periodically review the mandates of the Board, the Board committees and the committee Chairs; and
- Make recommendations to the Board regarding director compensation.

Oversight of governance matters

- Prepare the Bank’s governance rules, policies and procedures;
- Review and approve the standards of conduct and ethical behaviour, including the Code of Professional Conduct applicable to directors, officers and employees of the Bank;
- Ensure that controls are in place for adequate management and monitoring of related party transactions at the Bank; and
- Ensure that measures are in place to obtain feedback from stakeholders to make sure that the Bank communicates effectively with its shareholders.

Assessment of the Board, its committees and directors

- Establish a process for assessing the performance and effectiveness of the Board overall, its committees, the Chairman of the Board, the Chairs of the Board committees and the directors.

The duties and responsibilities of the CRCGC are described more fully in its mandate, which is revised periodically. The text of the mandate can be found in its entirety under “More About Us” on the Bank’s website (www.nbc.ca).

Achievements During the Fiscal Year

The members of the CRCGC met six times during the past fiscal year. In addition to the matters identified at the beginning of the year and its responsibilities under its mandate, the CRCGC dealt with *ad hoc* files.

The following matters were among those dealt with by the CRCGC during the past fiscal year:

- assessment of the independence, eligibility and availability of the Board members;
- review of recent developments pertaining to governance and conduct review and recommendation to the Board of certain changes to the Bank’s governance practices;
- review and recommendation to the Board of the Management Proxy Circular (including replies to the shareholder proposals received) and the form of proxy for the next Annual Meeting of the Holders of Common Shares of the Bank;
- review and recommendation to the Board of the appointment of the Chairman of the Board, the composition of the Board committees and the appointment of their committee Chairs;
- review of the report on complaints from Bank clients and of the Office of the Client Ombudsman;
- review of amendments to regulations concerning insider reporting;
- review of the file on Board succession and the selection of potential candidates to replace directors who will have completed 15 consecutive annual mandates by 2013;
- recommendation of director nominees for the next Annual Meeting of the Holders of Common Shares of the Bank;

- review of the proposed methodology for assessing the Board, the Chairman of the Board, committees and committee Chairs, and the review of the results of this assessment;
- review and recommendation to the Board of the policy for reporting irregularities relating to accounting, internal accounting or auditing controls;
- review of the compensation of the members of the Board;
- review and recommendation to the Board of the mandates of the Board, the Chairman of the Board, the Board committees and their Chairs;
- review of the report concerning the application of the Bank’s Code of Professional Conduct; and
- revision of the selection criteria for electing or re-electing directors, the Charter of Expectations for Directors, and the Director Independence Policy.

The following terms are used for the purposes of Sections 5, 6 and 7 of this Circular pertaining to the HRC, the Named Executive Officers and their compensation:

The Bank's management (as at October 31, 2010):

- the President and Chief Executive Officer and the members of the Office of the President, namely:
- the Chief Financial Officer and Executive Vice-President – Finance, Risk and Treasury;
- the Executive Vice-President – Wealth Management and Co-President and Co-Chief Executive Officer, NBF;
- the Executive Vice-President – Financial Markets and Co-President and Co-Chief Executive Officer, NBF;
- the Executive Vice-President – Personal and Commercial Banking;
- the Senior Vice-President – Operations and Strategic Initiatives Office;
- the Senior Vice-President – Information Technology, Sourcing and Organizational Performance; and
- the Senior Vice-President – Human Resources and Corporate Affairs.

Named Executive Officers:

- “Named Executive Officers” means the President and Chief Executive Officer, the Chief Financial Officer and the three most highly compensated members of the Bank’s management as defined in Regulation 51-102 of the CSA, namely:

Louis Vachon	President and Chief Executive Officer
Patricia Curadeau-Grou	Chief Financial Officer and Executive Vice-President – Finance, Risk and Treasury
Ricardo Pascoe	Executive Vice-President – Financial Markets and Co-President and Co-Chief Executive Officer, NBF
Luc Paiement	Executive Vice-President – Wealth Management and Co-President and Co-Chief Executive Officer, NBF
Réjean Lévesque	Executive Vice-President – Personal and Commercial Banking

Executives:

- “Executives” means the members of the Bank’s management, the Senior Vice-Presidents and the Vice-Presidents of the Bank, all direct reports of the members of the Bank’s management who are employees of Bank subsidiaries, as well as any employees of the Bank whom the HRC considers to hold an equivalent function.

HUMAN RESOURCES COMMITTEE



Members

- André Caillé
- Shirley A. Dawe
- Gillian H. Denham
- Marcel Dutil
- Jean Gaulin, Chair
- Louise Laflamme
- Marc P. Tellier

Independence of Members

The HRC is composed exclusively of independent directors, as defined in the standards established by the CSA.

Competencies of Members

All HRC members have the competencies in the area of human resources, executive compensation and risk management as a result of their serving or having served in such roles as chief executive officers or senior leaders within large corporations or through their academic background.

In fiscal 2010, as part of its ongoing process to increase its competency, the HRC adopted a mechanism to self-assess its members’ expertise and experience.

Mandate of the Human Resources Committee

The HRC supports the Board in exercising its duties relating to human resources and its governance responsibilities concerning compensation. The HRC ensures in particular that the compensation policies and programs implemented are conducive to achieving the Bank’s strategic and financial objectives, without however compromising its viability, solvency or reputation.

The main duties and responsibilities of the HRC are described below.

Compensation Policies, Programs and Practices

- Review and approve the Bank’s total compensation policies and programs, including equity incentive plans as well as the other employment conditions and staff benefits applicable to the Named Executive Officers, other Executives, certain designated employees and employees of the Bank. The HRC recommends to the Board that it approve new compensation programs or any material changes to existing programs;
- Check, on a regular basis, that the Bank’s compensation policies, programs and practices promote the achievement of the Bank’s business objectives without compromising its viability, solvency or reputation;
- Ensure that the Bank’s compensation policies, programs and practices are in compliance with the regulations and standards in effect; and
- Ensure that the compensation paid to Executives of the Bank and its designated subsidiaries is closely tied to shareholders’ long-term interests and to do so, ensure regular follow-up of share ownership requirements.

President and Chief Executive Officer

- Set the annual key performance indicators and objectives linked to the compensation of the President and Chief Executive Officer and recommend to the Board that it approve the targets set for his short-term variable compensation;
- Appraise, on an annual basis, the accomplishments and performance of the President and Chief Executive Officer with respect to the annual objectives and key performance indicators as well as the prudence with which he has managed the Bank’s operations and the risks to which the Bank is exposed and report to the Board;
- Approve and recommend to the Board that it approve the compensation of the President and Chief Executive Officer; and
- Review and approve the description of the duties of the President and Chief Executive Officer.

Other Members of Management

- Receive and review, on an annual basis, the report of the President and Chief Executive Officer on the performance of the other members of management and the prudence with which they have managed the Bank’s operations and the risks to which it is exposed; and
- Recommend to the Board that it approve the compensation of the other members of management.

Succession Planning

- Periodically review the profile of Executives possessing the necessary competencies to hold senior management positions as well as the executive succession and development plan, and assist the Board in monitoring the succession planning process; and
- Review the general terms and conditions of all agreements signed between the Bank and a member of the Bank’s management in the event of termination or change of control.

Pension Plan

- Ensure oversight of the pension plans of the Bank and its subsidiaries and of the Pool Fund for Participating Pension Plans of the Bank; and
- Receive and review, at least once a year, the reports on the decisions and activities of the Retirement Committee of the Bank, the financial position and returns of the pension plans of the Bank and its subsidiaries.

Shareholder Disclosure and Governance

- Disclose clearly to shareholders the Board’s approach to executive compensation, particularly through the statement of compensation of the Named Executive Officers, which presents the Compensation Discussion and Analysis as well as the decisions made by the HRC, as required under applicable securities legislation and Toronto Stock Exchange rules.

The duties and responsibilities of the HRC are described in its mandate, which is periodically reviewed. The text of the HRC’s mandate can be found in its entirety under “More About Us” on the Bank’s website (www.nbc.ca).

Achievements During the Fiscal Year

The members of the HRC met seven times during the past fiscal year. In addition to the matters identified at the beginning of the year and its responsibilities under its mandate, the HRC dealt with *ad hoc* files.

The main topics that held the attention of the HRC during the last fiscal are the following:

Compensation Policies, Programs and Practices

- Approval of the short-term variable compensation and the mid- and long-term compensation awards for all employees for fiscal 2009;
- Approval of the fiscal 2010 performance targets for the variable compensation programs for all employees;
- Recommendation to the Board that it approve the variable compensation program for Financial Markets executives and specialists;
- Recommendation to the Board that it approve the compensation for fiscal 2009 for portfolio managers at Natcan Investment Management Inc. (“Natcan”) and the variable compensation program for Natcan portfolio managers for fiscal 2010;
- Approval of the fiscal 2010 salary policy for the Bank and its subsidiaries;
- Approval of the changes to be made to the commission program for NBF Investment Advisors;
- Approval of the annual salary adjustments for Executives of the Bank and its subsidiaries;
- Review of the competitiveness of the compensation of Financial Markets executives;
- Review of the fiscal 2011 Incentive Compensation Program (ICP) of the Bank;
- Follow-up on the number of shares in the Bank’s share reserve for issue under the Stock Option Plan; and
- Approval of the changes that will be made in fiscal 2011 to the size of mid- and long-term compensation awards.

President and Chief Executive Officer

- Recommendation to the Board that it approve the fiscal 2010 performance target for the variable compensation program applicable to the President and Chief Executive Officer;
- Fiscal 2009 performance appraisal of the President and Chief Executive Officer;
- Review of the results for fiscal 2009 and recommendation to the Board that it approve the short-term variable compensation and the mid- and long-term compensation awards for the President and Chief Executive Officer;
- Review of the competitiveness of the total compensation of the President and Chief Executive Officer and recommendation to the Board that it approve the adjustment to his base salary; and
- Approval of the description of the duties of the President and Chief Executive Officer.

Other members of the Bank's management

- Review of the report of the President and Chief Executive Officer on the performance of the other members of the Bank's management for fiscal 2009;
- Recommendation to the Board that it approve the short-term variable compensation and the mid- and long-term compensation awards for the other members of the Bank's management for fiscal 2009; and
- Review of the competitiveness of the compensation of the other members of management and recommendation to the Board that it approve the adjustments to the base salary of some of them.

Succession Planning

- Review of the succession plan for the Bank and its subsidiaries, considering the competency profile of Executives; and
- Review of the diversity of the Bank's workforce as at December 31, 2009.

Pension Plans

- Review of the alternatives for the pension plans of the Bank and its subsidiaries;
- Review of the Investment Policy for the pension fund of the Bank; and
- Approval of the current target allocation limits and management objectives of the Pool Fund for Participating Pension Plans of the Bank.

Shareholder Disclosure

- Approval of the Policy Concerning the Advisory Vote and Communications with Shareholders;
- Review and approval of Sections 5, 6 and 7 of the Management Proxy Circular for the Annual Meeting on March 31, 2010; and
- Review and approval of the document entitled "The Board of Directors' Approach to the Compensation of the Bank's Executives prepared for the Annual Meeting on March 31, 2010."

Compensation Governance

- Approval of the compensation-related mandates for independent external consultants for fiscal 2010;
- Review of the summary of the meetings with external governance authorities, including the Canadian Coalition for Good Governance;
- Review, at every regular meeting, of the progress of the action plan on compensation submitted by the Bank to the OSFI;
- Review of the report of the Bank's Internal Audit department on variable compensation programs;
- Review of the report of the Bank's Corporate Compliance and Internal Audit departments on the work carried out in the Financial Markets sector in fiscal 2010; and
- Review of the report of findings on compliance with the share ownership requirements by Executives.

SECTION 6

INFORMATION ON COMPENSATION

An information document summarizing the Board's approach to executive compensation is also available on the Bank's website (www.nbc.ca).

MESSAGE TO SHAREHOLDERS

The members of the Board recognize the importance of giving shareholders an opportunity to fully understand the principles on which we base decisions about the compensation of the Bank's Executives, including how they are paid, and what they were paid in fiscal 2010.

Consequently, we would like to share the compensation philosophy adopted by the Board and our appraisal of the performance of the President and Chief Executive Officer, as well as inform you of the compensation-related decisions made concerning the Named Executive Officers and the other Executives, and which are described in the Compensation Discussion and Analysis that follows.

Our priority: Generating a sustained and growing level of net income

The Bank's priority is to consistently deliver returns to its shareholders that match or exceed those of its Canadian peers. The Bank is targeting 5-10% annual net income growth and continuous productivity improvement while maintaining sound risk management practices.

To achieve this objective, the Bank's management adopted a clear strategy and a detailed transformation plan. The purpose of this transformation is to be a leader in client experience with the ability to provide best-in-class financial advice, solutions and service to Bank clients, regardless of their point of entry. The central component of this strategy is the *One client, one bank* initiative. With this framework, the Bank can focus on its long-term priorities, while meeting short-term challenges.

Our compensation philosophy

We believe that the Bank's continued success would not be possible without the contribution of talented, experienced and qualified Executives and employees. In order to attract and retain these individuals in a fiercely competitive market, the Bank has a compensation philosophy based on the following guiding principles.

- OFFER **competitive compensation** in order to attract, motivate and retain qualified officers
- RECOGNIZE Executives' contribution with fair and equitable compensation based on their roles and responsibilities
- OFFER **performance-based compensation, considering the different time horizons and encouraging sensible risk taking**
 - PAY **competitive compensation** when results meet expectations, higher compensation when results exceed set objectives, and lower compensation when they fall short of expectations
 - OFFER a level of variable compensation that encourages **reasonable risk-taking** which is in line with the Bank's **risk appetite**
 - ENSURE symmetry between the level of **variable compensation** and the **level of risk incurred** over time
 - ENGAGE Executives to focus on **enhancing the performance of the Bank and the value of shareholders' investment**
- REQUIRE Executives to hold a minimum number of Common Shares of the Bank, in order to align their interests with those of the Bank's shareholders

The Bank's performance is the main factor that guides our decisions on compensation. Our decision-making relies on the application of short-, mid- and long-term variable compensation programs, using different financial metrics, and allowing risks to be spread over a broader time horizon. As a result, more than 75% of the target direct compensation (the compensation paid when results meet objectives) of the Named Executive Officers is variable or "at risk," i.e., it depends on the extent to which a combination of corporate and individual objectives are achieved and the Bank's share price. The compensation of the Named Executive Officers contains the following elements:

Global compensation elements		Objectives and return/risk relationship
Fixed:	Base salary	It acknowledges the level of responsibility, expertise, competency and experience
Variable (returns based on level of risk):		
Short term	Annual bonus	The value is linked to the growth in available net income
Mid term	Performance share unit (PSU)	The final value varies based on the growth of the Bank's total shareholder return (TSR) over three years compared to the growth in the S&P/TSX Banks Sub-index
Long term	Stock options	The final value is linked to the price of the Bank's Common Shares over no more than 10 years
Other:	Employee benefits, pension plans and perquisites	These provide Executives with assistance and security

Compensation of the President and Chief Executive Officer: performance-based compensation

The compensation of Louis Vachon, the President and Chief Executive Officer, is based on the extent to which he achieves the quantitative and qualitative performance objectives that the Board approved at the start of the fiscal year.

During this period of uncertainty concerning the global financial system, it was reassuring to note that in fiscal 2010 the Bank increased its net income by 21%, maintained the quality of its credit portfolio, as well as a solid Tier 1 capital level and liquidity profile.

However, the situation on financial markets and the substantial investments required as part of the *One client, one bank* initiative limited the Bank's capacity to meet its short-term financial objective set at the beginning of the year in establishing Mr. Vachon's annual bonus, which was growth in available net income of 31%.

However, the Board is of the opinion that the initiatives and strategies implemented as part of the *One client, one bank* transformation are generating tangible results in the short term and favouring the Bank's growth in the medium term, thereby ensuring its sustainability. Overall, the Board is very satisfied with the progress made by Mr. Vachon and his team in 2010.

Mr. Vachon's total direct compensation was \$5,213,800, representing 96% of his target total direct compensation, which is what he would have received had the Bank's financial results been identical to the objectives set at the start of the fiscal year. The details of Mr. Vachon's compensation are presented in "Information on the Compensation of the Named Executive Officers" in Section 7 of this Circular.

Conclusion

Because shareholders have a keen interest in executive compensation, the Board believes that it is important to explain to shareholders the key components of this compensation and how the Board's compensation philosophy complies with the Bank's strategic objectives and is aligned with best practices. For more information on the Bank's compensation philosophy and the individual compensation of the Named Executive Officers, please refer to Sections 6 and 7 of this Circular.

The Board has complete confidence in the future of the Bank and the members of management. The Bank is built on a solid foundation and has a clear and well targeted strategy. Its management and the more than 18,000 employees form a strong, devoted team that deploys all the efforts needed to ensure the Bank's success and sustainability.

(signed) Jean Douville
Chairman of the Board of Directors

(signed) Jean Gaulin
Chair of the Human Resources Committee

HIGHLIGHTS

The Bank reported solid financial results for fiscal 2010. Available net income totalled \$971 million, up 22% from 2009. TSR was 40% as against 32% the previous fiscal year. Earnings per share advanced 20% to \$5.94.

- Diluted earnings per share, excluding specified items, reached \$6.25 (for more information, see the Bank’s 2010 Annual Report), exceeding the record performance in 2009;
- The superior quality of the credit portfolio was maintained so that at fiscal year-end the Bank posted the lowest ratio of credit losses of all Canadian financial institutions, both in absolute and relative terms; and
- The Bank’s Tier 1 capital ratio also placed it among the leaders in the industry in Canada and worldwide.

The following table presents the financial performance as well as changes in the Bank’s financial results and the total direct compensation of the President and Chief Executive Officer over the past four fiscal years.

Results	Financial performance			
	2010	2009	2008	2007
Available net income	\$971 million	\$795 million	\$744 million	\$520 million
Return on equity	17.0%	15.6%	16.4%	11.5%
Diluted earnings per Common Share	\$5.94	\$4.94	\$4.67	\$3.22
Tier 1 capital ratio in accordance with Basel II	14.0%	10.7%	9.4%	– (1)
Share price as at October 31	\$67.13 ⁽²⁾	\$56.39 ⁽²⁾	\$45.21	\$54.65
TSR	40%	32%	(13)%	(7)%
Total direct compensation of the President and Chief Executive Officer	\$5.2 million	\$5.6 million	\$4.7 million	\$3.9 million

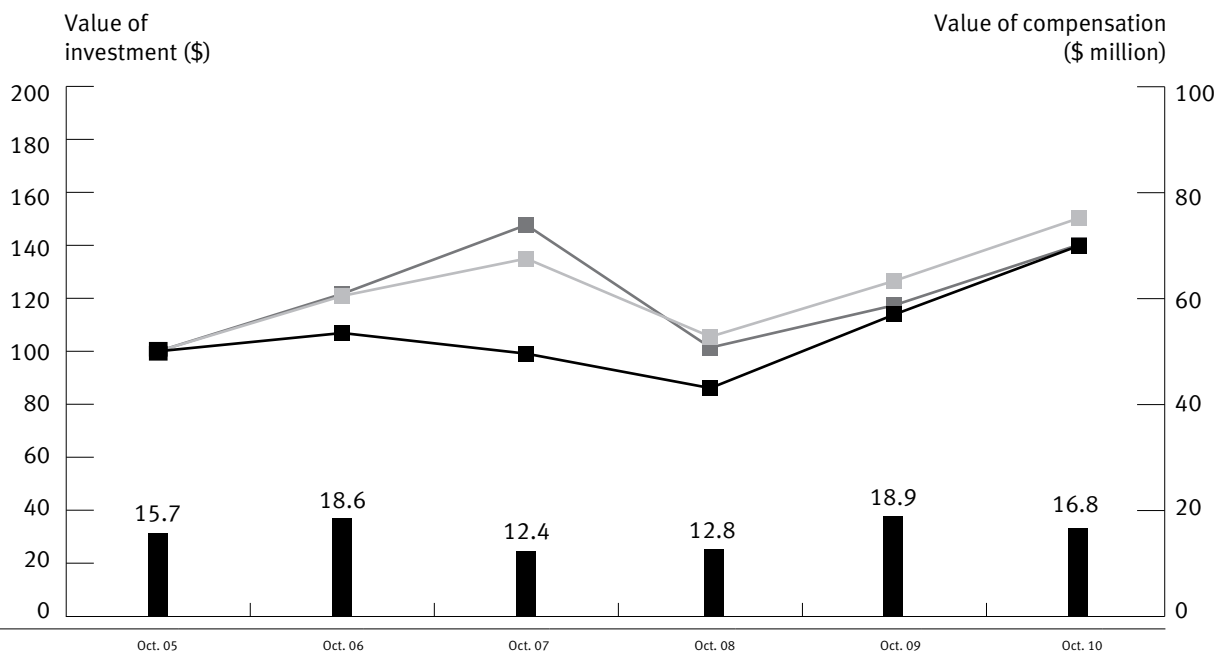
(1) Ratios calculated in accordance with the BIS Basel I rules in 2007.

(2) As October 31, 2009 and 2010 were not business days, the share price on the previous business day, namely, October 30, 2009 and October 29, 2010, were used.

Relationship Between the Return on Bank Shares and the Compensation of Named Executive Officers

The following performance graph shows the cumulative total return on a \$100 investment in Common Shares of the Bank on October 31, 2005, compared to the total cumulative return of the S&P/TSX Banks Sub-index and the S&P/TSX Composite Index for the past five fiscal years, assuming dividends are fully reinvested at the market price on each dividend payment date.

The bar chart shows the total compensation (excluding compensation in the form of dividends accumulated during the fiscal year and credited in the form of additional PSUs, RSUs and DSUs under the PSU, RSU and DSU plans) paid to the Named Executive Officers in position at the end of each fiscal year.



■ Total compensation of the five Named Executive Officers (\$ millions)	15.7	18.6	12.4	12.8	18.9	16.8
■ Bank	100.00	106.90	99.10	86.10	113.90	139.80
■ S&P/TSX Banks Sub-index	100.00	120.90	135.00	105.50	126.60	150.20
■ S&P/TSX Composite Index	100.00	121.70	147.70	101.40	117.40	140.20

The above chart shows an increase in the cumulative total return on the Bank's shares between 2005 and 2006, with a decrease in fiscal 2007 and fiscal 2008, followed by a steep climb in 2009 and 2010.

The value of the compensation of the five Named Executive Officers in position at the end of each year followed a similar curve except in 2008 and 2010. In 2007, the compensation of the Named Executive Officers was reduced by 33% owing to the ABCP impairment charge. Moreover, during this same period, the cumulative total return on the Bank's Common Shares declined by 7%. In 2008, the level of total compensation was similar to 2007. Although the Bank's available net income recorded 43% growth compared to 2007, the market did not yet reflect this result because of the difficult economic environment that had set in toward the end of summer 2008. In 2009, the curves representing share return and compensation moved in tandem. In 2010, compensation decreased by 11% because the growth objective for available net income set at the beginning of the year was only partially achieved. However, the total cumulative return on the Bank's Common Shares increased by 23%.

COMPENSATION GOVERNANCE

Independence of Members

The HRC has put in place procedures to ensure its independence from the Bank's management and to have access to relevant information. The HRC members, as per the HRC mandate, are therefore scheduled to meet in camera, without members of the Bank's management being present, at each of their meetings. This practice was followed at each of the seven meetings in 2010.

If necessary, the HRC may communicate directly with the Senior Vice-President – Human Resources and Corporate Affairs, or any other member of management. The HRC may also inquire about any question it deems relevant and, to that end, has full access to the books, records and premises, management and employees of the Bank, including Risk Management and independent oversight functions, such as Internal Audit and Corporate Compliance.

Although the President and Chief Executive Officer, Louis Vachon, and the Senior Vice-President – Human Resources and Corporate Affairs, Lynn Jeannot, are invited to attend the meetings of the HRC, they do not have voting rights on any item. They must withdraw from the meeting when requested and are not part of discussions concerning their own compensation.

Independent External Consultants

The HRC has the authority to retain, when it deems appropriate, the services of independent consultants to assist it in performing its duties and provide it with the necessary information on market trends and best practices regarding compensation policies and programs as well as the competitiveness of the compensation of the Bank's management.

In fiscal 2010, in keeping with good governance practices, the Bank adopted guidelines on the hiring of external compensation consultants. The objective is to ensure consultants' independence vis-à-vis management so that the HRC members can effectively perform their oversight duties with regard to compensation.

These guidelines enable the HRC to choose the external consultants deemed most qualified and to ensure their independence in carrying out the mandates awarded by the HRC by clarifying the following elements:

- All contracts awarded and the associated professional fees for all work related to the compensation of the President and Chief Executive Officer or members of the Bank's management must be approved in writing by the Chair of the HRC;
- The Chair of the HRC and its members will only approve the work that they feel would not compromise the independence of the external consultant;
- The Chair of the HRC receives the external consultant's report;
- The Chair of the HRC has at all times private access to the external consultant;
- At the request of the Chair of the HRC, the external consultants meet with the other HRC members to present the findings of their study;
- Each year, the HRC members examine the performance, independence and compensation of each external consultant given a mandate during the fiscal year; and
- The external consultant whose services were retained for a given mandate will be apprised of these guidelines and must undertake to follow them.

During the past fiscal year, the HRC retained the services of Hay Group Limited ("Hay Group") to confirm the competitiveness of the target compensation (base salary, variable compensation programs and indirect compensation) of the positions held by the Bank's management with that paid by companies in the Bank's peer group, by adjusting downward the peer group data to take into account the Bank's relative size and the difference between the level of responsibility associated with the Bank's positions and that of comparable peer group positions.

The HRC also mandated the McLagan consulting firm for a study on the competitiveness of the compensation of the Executives of the Financial Markets sector.

SECTION 6 INFORMATION ON COMPENSATION (cont.)

Each year the Bank takes part in different compensation surveys conducted by the Hay Group and McLagan consulting firm on market practices and compensation levels for management and non-management positions at the Bank and specialists of the Financial Markets sector. The following table presents the fees paid to the Hay Group and McLagan in the past three fiscal years.

Independent External Consultants	Fees Paid in	Fees Paid in	Fees Paid in
	2010	2009	2008
Hay Group			
Advisory mandates on compensation carried out for the HRC	\$ 75,559	\$ 52,452	\$ 71,773
Other mandates carried out for the Bank	\$ 19,110	\$ 20,750	\$ 18,076
McLagan			
Advisory mandates on compensation carried out for the HRC	\$ 10,600	N/A	N/A
Other mandates carried out for the Bank	\$ 33,650	\$ 80,870	\$ 10,228
Total fees			
Total fees relating to advisory mandates on compensation carried out for the HRC	\$ 86,159	\$ 52,452	\$ 71,773
Total fees for other mandates carried out for the Bank	\$ 52,760	\$101,620	\$ 28,304

Approval Process for Compensation Policies and Programs

The HRC's role is to review and approve the different compensation elements by developing or applying policies and programs, while ensuring compliance with governance principles. It also recommends to the Board that it approve new compensation programs or any material changes to programs.

At the beginning of each fiscal year, the HRC therefore approves the performance objectives of the President and Chief Executive Officer, reviews the performance objectives set for the other members of the Bank's management, and recommends that the Board approve the targets set for the variable compensation program offered to the President and Chief Executive Officer.

The HRC also approves on an annual basis the mandates to be assigned to independent external consultants for market studies on total compensation. During the year, their findings are first reviewed by the Bank's management.

During the annual review of the total target compensation of the members of the Bank's management, the HRC reads the results of the studies, receives the recommendations of the President and Chief Executive Officer on the other members of management, and then conducts its own review in order to make its recommendations to the Board.

At the end of the fiscal year, in order to determine the value of short-, mid – and long-term variable compensation to be awarded, the HRC appraises the performance of the President and Chief Executive Officer by comparing his results against the objectives set at the start of the fiscal year. For the other members of the Bank's management, the HRC considers the appraisal report from the President and Chief Executive Officer. The HRC also takes into account the variable compensation envelopes created by applying the programs.

Each year, the HRC receives a letter signed by three executives in internal control functions, confirming the accuracy of the application of the variable compensation programs and the financial results used to calculate the bonus envelopes for the Bank's management, Executives, Financial Markets specialists and all employees.

While the HRC is assisted in this process by the Bank's management and independent external consultants when needed, it has the authority to recommend to the Board that it approve the different compensation elements.

Compensation and Risk Management

The HRC ensures that the Bank's compensation policies and programs respect the regulations and standards in effect, promote sound risk management and ensure that compensation paid is closely tied to the Bank's financial performance and shareholder return.

It is therefore important for the HRC to be fully aware of the risks that could affect the Bank's performance. It benefits from the expertise of three of its members who also serve on the ARMC, and the continuing education designed to meet the needs of its members concerning prudent risk management. The HRC also calls on the expertise of the different sectors at the Bank, such as Compensation, Finance and Risk Management, which cooperate in designing and reviewing programs. Moreover, the HRC also officially meets with the Chief Financial Officer and Executive Vice-President – Finance, Risk and Treasury in order to discuss the framework and principles of sound risk management and the symmetry between variable compensation and the level of risk incurred.

In 2009, the G-20 adopted the Principles for Sound Compensation Practices issued by the FSB⁽¹⁾. The Office of the Superintendent of Financial Institutions (OSFI) is responsible for monitoring the implementation of these principles. Other groups that promote good governance, such as the Canadian Coalition for Good Governance, have also made known their expectations regarding sound compensation risk management practices.

(1) The FSB is an international organization that succeeded the Financial Stability Forum in April 2009, which had been created by the G7 to promote the stability of the international financial system.

Given the changes in the regulatory and prescriptive frameworks and new exemplary practices, the HRC paid particular attention, over the past two fiscal years, to reviewing certain compensation programs in order to align them with best practices.

The following table presents how the Bank's policies, programs and practices are aligned with the FSB principles:

FSB PRINCIPLES	IMPLEMENTATION BY THE BANK
The firm's board of directors must play an active role in the design, operation, and evaluation of compensation schemes.	
1. The firm's board of directors must actively oversee the compensation system's design and operation.	<p>In order to properly fulfill this responsibility, the Board must ensure the HRC members are competent:</p> <ul style="list-style-type: none"> - As part of its ongoing process to increase its level of competency, the HRC adopted a mechanism to self-assess its members' expertise and experience. - Two new members joined the HRC in 2010 enabling it to benefit from their recognized expertise in the financial services industry and risk management as concerns compensation. - The continuing education program for Board members ensures that compensation governance is aligned with prudent risk management.
2. The firm's board of directors must monitor and review the compensation system to ensure the system operates as intended.	<ul style="list-style-type: none"> - The HRC adopted guidelines for hiring external compensation consultants in order to ensure the independence of the firms retained. - The Internal Audit sector annually presents to the HRC the results of its analysis of any material differences between the compensation paid and payable under the Bank's total compensation policies and programs. - Risk Management representatives participate in each HRC meeting. They report on the progress of the work to tie the value of the annual bonus envelopes for Executives and specialists of the Financial Markets sector to the Internal Capital Adequacy Assessment Process.
3. Staff engaged in financial and risk control must be independent, have appropriate authority and be compensated in a manner that is independent of the business areas they oversee and commensurate with their key role in the firm.	<ul style="list-style-type: none"> - Employees in finance and risk control positions at the Bank receive competitive total compensation. The value of their total variable compensation is linked to the Bank's results, not the results of the business lines to which they render their services. The portion of their variable compensation is balanced with their fixed compensation.
Compensation arrangements, including bonuses, must properly reflect risk and the timing and composition of payments to be sensitive to the time horizon of risks. Payments should not be finalized over short periods where risks are realized over long periods.	
4. Compensation must be adjusted for all types of risk.	<ul style="list-style-type: none"> - At the start of fiscal 2010, a trigger was added to all variable compensation programs so that no annual bonus envelope can be created if the Bank does not meet the minimum regulatory capital required by regulatory authorities. - The Risk Management sector is finalizing a methodology to measure the level of risk assumed by the different Bank sectors as part of the Internal Capital Adequacy Assessment Process.
5. Compensation outcomes should be symmetric with risk outcomes.	<ul style="list-style-type: none"> - Compensation envelopes for Executives and specialists in the Financial Markets sector are directly linked to the profitability of the sector's business units. - A risk metric is currently used to trigger and subsequently establish the percentage of the annual bonus envelope created for certain groups in the Financial Markets sector. - The Risk Management sector is developing a risk metric framework, based on economic capital, for establishing the value of the bonus envelopes for all groups in the Financial Markets sector. - Effective fiscal 2011, Financial Markets specialists will no longer be eligible for semi-annual bonuses.

FSB PRINCIPLES

IMPLEMENTATION BY THE BANK

<p>6. Compensation payout schedules must be sensitive to the time horizon of risks.</p>	<ul style="list-style-type: none"> - The annual bonus programs applicable to Executives and specialists in the Financial Markets sector have a portion that is paid in cash and a portion that is deferred over three years. All annual bonuses lower than \$100,000 are paid in cash. Above this threshold, the percentage of the portion of the bonus deferred varies as follows: \$100,000 – \$400,000 = 30% \$400,000 – \$1 million = 35% \$1 million and over = 40% For the Executives of the Financial Markets sector, the deferred portion corresponds to 40% of their total annual bonus. The total deferred compensation of the Executive Vice-President – Financial Markets, and Co-President and Co-Chief Executive Officer, NBF, represents 50% of his total direct compensation. - The Bank adopted a policy giving it the right to claw back the deferred portion of compensation in specific circumstances: <ul style="list-style-type: none"> • When an employee is found guilty of dishonesty or unethical behaviour with respect to his employment; • When an employee is found guilty of misconduct and losses are incurred in that fiscal year or subsequently (for up to three years); or • When a unit's financial results must be restated and reissued and employee compensation is based on those results (clawback).
<p>7. The mix of cash, equity and other forms of compensation must be consistent with risk alignment.</p>	<ul style="list-style-type: none"> - In general, the Bank considers that the level of risk assumed by an Executive or a specialist is closely linked to his or her line level. This is why the Bank pays particular attention to how the elements making up compensation complement each other. Depending on line level, total compensation may consist of base salary, short-, mid- and long-term variable compensation, pension plans, employee benefits, and perquisites. - The HRC considers the weighting of salary in relation to the value of the total compensation of each member of the Bank's management in order to ensure an adequate ratio between the values of fixed and variable compensation.

Firms must publicly disclose clear, comprehensive, and timely information about compensation. Stakeholders, including shareholders, should be adequately informed on a timely basis on compensation policies to exercise effective monitoring.

<p>8. Supervisory review of compensation practices must be rigorous and sustained, and deficiencies must be addressed promptly with supervisory action.</p>	<ul style="list-style-type: none"> - During fiscal 2010, the Bank made a commitment to the OSFI to review certain compensation programs and practices to ensure that they are aligned with FSB principles.
<p>9. Firms must disclose clear, comprehensive and timely information about their compensation practices to facilitate constructive engagement by all stakeholders.</p>	<ul style="list-style-type: none"> - The Board recognizes the importance of giving shareholders an opportunity to fully understand the principles on which decisions about the compensation of Executives, including how they are paid and what they are paid, are based. - In February 2009, the Bank was the first Canadian bank to put its approach to executive compensation to an advisory vote of its shareholders. - The Bank has adopted a policy for an advisory vote on compensation and shareholder disclosure. - The Bank has implemented a process for collecting and handling questions, comments or suggestions from shareholders or shareholder associations, in order to give them the opportunity to make their concerns known or better understand the Bank's approach to executive compensation. - The information on the Bank's website (www.nbc.ca) is updated regularly. - The Management Proxy Circular details the Bank's compensation policies, programs and practices.

Shareholder Disclosure

The Bank has also implemented a process for collecting and handling questions, comments or suggestions from shareholders or shareholder associations, in order to give them the opportunity to make their concerns known or better understand the Board's approach to executive compensation. Through an annual advisory vote, shareholders can express their position on executive compensation, details of which are found in Sections 6 and 7 of this Circular. For more information, please refer to Contacting the Board of Directors in Section 8 of this Circular.

COMPENSATION DISCUSSION AND ANALYSIS

This compensation discussion and analysis explains in detail the philosophy and underlying principles of executive compensation. It also explains why the HRC recommended to the Board that each of the compensation elements for fiscal 2010 be paid to the Named Executive Officers.

The information presented in the compensation discussion and analysis of the Named Executive Officers is in accordance with the policies, programs and decisions made by the HRC and ratified by the Board during the fiscal year or preceding fiscal years. The HRC reviewed, approved and recommended to the Board that it approve the content of this section.

Strategic Objectives of the Compensation Policy

The Bank's priority is to consistently deliver returns to its shareholders that match or exceed those of its Canadian peers. To achieve this objective, the Bank is targeting 5-10% annual net income growth and continuous productivity improvement while maintaining sound risk management practices.

The Bank's compensation philosophy supports this objective by aligning the Bank's vision, values and business strategy over time and by clearly establishing the rationale for the approach to compensation. The Bank's compensation philosophy is based on four guiding principles as presented in the Message to Shareholders in this section of this Circular.

Starting from these principles, the total compensation policy incorporates the reflection, creation and management of the various compensation components, such as salary, variable compensation and benefits. The Bank's compensation policy can be summarized as follows.

1. **Offer competitive compensation** – The Bank aims to position its target compensation at the applicable peer group median, when results meet expectations. To do this, the Bank continually benchmarks trends in its peer group. The Bank's peer group is generally defined by the potential talent pool for which the Bank competes to recruit qualified employees. It includes the corporations in the Canadian financial services industry with which the Bank competes for the investment dollars of current and potential shareholders.

The Bank strives to ensure a fair balance and consistency in the composition of the compensation it offers, while making sure that this compensation is competitive on the market. The Bank's compensation includes direct compensation components, such as base salary and variable compensation programs, as well as indirect components such as benefits that provide employees and their families with assistance and security in their personal and family life.

2. **Recognize Executives' contribution** – The Bank offers salaries that reflect its Executives' level of responsibility, expertise, competency and experience.

3. **Offer performance-based compensation, considering the different time horizons and encouraging sensible risk taking** – The Bank offers short-, mid- and long-term variable compensation programs, developed from different financial metrics, allowing risks to be spread over a broader time horizon.

The Bank's financial performance is the main factor that guides decisions on compensation. Therefore, the Bank offers performance-based compensation that varies depending on the nature and level of contribution:

- The compensation programs are designed to reward Executives for their specific contribution to the annual results achieved and motivate them to maintain their performance over time and grow shareholder value in the long term;
- The compensation programs offered to employees in positions of control are structured to ensure their independence in carrying out their duties; and
- The variable compensation programs offered to some specialists reward, in particular, their contribution to generating revenues within the Bank's risk tolerance limits.

Additional measures are taken to balance risk and return, to meet regulatory and prescriptive requirements as well as ensure the Bank's sustainability. More specifically, controls are in place in the various programs for Executives and specialists of the Financial Markets sector:

- A policy prohibiting Executives and specialists from purchasing financial instruments designed to hedge against a decline in the value of equity securities awarded as compensation, or that the Executives or specialists hold directly or indirectly, or to offset such a decline;
- A portion of the annual bonuses of Executives and specialists, who may have a material impact on the Bank's risk profile, is deferred over three years; and
- A clawback clause for deferred compensation applies in certain circumstances.

Lastly, no annual bonus envelope can be created if the Bank does not meet the minimum regulatory capital required by regulatory authorities. This measure applies to all short-term variable compensation programs including those offered to the Bank's management, the Executives and specialists of the Financial Markets sector, and those offered to all other employees of the Bank and its subsidiaries.

4. **Require Executives to own Bank shares and help employees do the same** – The Bank requires Executives to hold a minimum number of Common Shares and offers a share ownership plan to employees of the Bank and its designated subsidiaries.

Benchmarking

Each year, the HRC reviews the target total compensation of members of the Bank’s management in relation to that offered by the companies in the Bank’s peer group.

The Bank’s policy is to position the target total compensation of each member of the Bank’s management in the median (the 50th percentile) of the peer group adjusted downward to take into account the Bank’s particular characteristics, including its relative size, in accordance with the Hay Group report. Target total compensation includes base salary, target annual bonus and mid- and long-term variable compensation.

The peer group used to establish the value of compensation varies according to the Bank’s business lines. For members of the Bank’s management, the companies that form the peer group:

- belong to the Canadian banking or financial services industry;
- serve a comparable client group;
- attract a similar profile of employees, professionals and experts; and
- have a large number of shareholders.

In 2010, the peer group did not change compared to the peer group used in 2009. It was composed of the following companies for positions held by the Bank’s management:

Canadian banks	Canadian insurance industry companies
Bank of Montreal	Great-West Lifeco Inc.
Canadian Imperial Bank of Commerce	Industrial Alliance Insurance and Financial Services Inc.
Royal Bank of Canada	Manulife Financial Corporation
The Bank of Nova Scotia	Power Financial Corporation
The Toronto-Dominion Bank	Sun Life Financial Inc.

Leadership Development, Performance Management and Succession Planning

The Board is of the opinion that the contribution of talented Executives and employees is essential for the Bank to be successful. That is why recognition of this contribution is an integral part of the compensation philosophy. Therefore, in 2009, as part of the implementation of its *One client, one bank* approach, the Bank reviewed its leadership development, performance management and career and succession planning processes. This integrated process makes it possible to measure Executives’ leadership and performance on an annual basis. Executives prepare an action plan, which consists primarily of three main dimensions:

- annual objectives relative to their role and mandate;
- annual objectives relative to leadership development and commitment to desired values and behaviours; and
- annual objectives relative to the achievement of financial, strategic and organizational targets.

A development plan complements the action plan. Regular follow-up is performed by the Bank’s management at meetings to review and discuss each of these dimensions and ensure that Executives’ career development and action plans are implemented.

Components of Executive Compensation

Depending on their role and responsibilities, Executives’ total compensation may consist of base salary, short-, mid- and long-term incentive bonuses, pension plans, employee benefits, and perquisites.

Variable compensation programs are directly linked to predetermined performance metrics in order to align the vision, strategies and decisions over time. They are based on different financial metrics so as to spread risks over a broader time horizon.

SECTION 6 INFORMATION ON COMPENSATION (cont.)

The table below summarizes all components of total compensation. A more detailed presentation of programs is provided in “Description of Programs” in this section of the Circular.

Base salary

Eligibility	All Executives
Objectives	Reward Executives’ level of responsibility, expertise, competency and relevant experience

Variable/risk-based compensation programs and performance metrics

	Annual compensation: risk-based awards	Deferred compensation: risk-based payments	
	Short term	Mid term	Long term
Time horizon	1 year	3 years	10 years or longer
Type of program	Annual Bonus Program	RSU Plan PSU Plan	Stock Option Plan DSU Plan
Performance metric	Available net income	RSU Plan : N/A PSU Plan : Growth in TSR	Growth in the Bank’s Common Share price
Range of performance metrics		RSU Plan: N/A PSU Plan:	N/A
Threshold	80% of 2010 available net income	75% of relative TSR	
Target	Target available net income for 2010	100% of relative TSR	
Maximum	120% of 2010 available net income	125% of relative TSR	
Eligibility	The Bank’s management and the majority of Executives and employees	RSU Plan: certain Executives PSU Plan: the President and Chief Executive Officer and certain members of the Bank’s management	The Bank’s management and the majority of Executives
Objectives	Provide all eligible employees with an incentive to achieve sustained and growing earnings Strengthen cooperation among all business segments Reward individual performance	Promote the achievement of objectives for the sustained growth in value for holders of Common Shares by tying a portion of the value of Executive compensation to the future value of the Common Shares of the Bank	Promote the achievement of objectives for the sustained growth in value for holders of Common Shares by tying a portion of the value of Executive compensation to the appreciation of the value of the Common Shares of the Bank

Indirect compensation

	Pension plans	Employee benefits	Perquisites
Eligibility	The majority of Executives	All Executives	The majority of Executives
Objectives	Encourage long-term retention of Executives by rewarding their continued service at the Bank and contributing to their post-retirement income	Provide Executives and their families with assistance and security so that they can focus on their professional responsibilities and on achieving the Bank’s objectives	Offer Executives a limited number of benefits to complement their total compensation. For fiscal 2010, this includes a vehicle (or a car allowance), a parking space and the services of a financial consultant

Breakdown of Target Total Direct Compensation

Variable (risk-based) compensation represents a large portion of total direct compensation. It includes the annual bonus, the value of which varies between 0% and 200% of the target bonus as it is linked directly to the Bank achieving its financial objectives. Over the past four fiscal years, the annual bonus of the President and Chief Executive Officer has varied as follows:

Year	Annual bonus as a % of base salary			
	Minimum %	Target %	Maximum %	Bonus awarded as a % of salary
2010	0	125	250	102
2009	0	125	250	165
2008	0	125	250	93
2007	0	125	250	0

Variable (risk-based) compensation also includes deferred compensation. The value of the final amount paid is risk-based because it depends on the future value or the appreciation in the future value of the Bank's Common Shares.

The following table presents the breakdown as a percentage of the total direct compensation of the Named Executive Officers.

	Breakdown as a % of the total direct compensation				Total
	Fixed	Variable (risk-based)			
	Annual Base salary	Risk-based award	Risk-based award		
		Short term Annual bonus	Mid term PSU/RSU	Long term Options/DSU	
President and Chief Executive Officer	16%	20%	24%	40%	100%
Bank Executives who hold a corporate function	22% – 29%	20% – 22%	0% – 16%	39% – 51%	100%
Bank Executives who head a business line	8% – 22%	22% – 33%	16% – 45%	15% – 39%	100%

Description of Programs

Base salary

Base salary makes up the fixed portion of total compensation. To determine the salary of each member of the Bank's management, the HRC considers the member's level of responsibility, expertise, competency and experience. Moreover, the HRC considers the weighting of base salary in relation to the value of the total compensation of each member of the Bank's management in order to ensure an adequate ratio between the values of fixed and variable compensation.

In order to ensure the competitiveness of the base salaries offered to the Bank's management, including the Named Executive Officers, the HRC reviews, on an annual basis, the comparison of their salary with the median salaries of the Bank's peer group. The comparisons take into account the relative size of the Bank and the differences in the responsibilities associated with the positions at the Bank and those of comparable peer group positions.

Short-Term Variable Compensation Programs

Annual Bonus Program

The Bank is of the opinion that sustained growth in available net income will promote long-term growth in shareholder value. To do this, the Bank directly links short-term variable compensation to growth in available net income.

Summary

Eligibility	Bank's management and the majority of Executives and employees
Performance metric	Growth in available net income
Award of bonuses	Individual bonuses are determined in relation to: <ul style="list-style-type: none"> – the extent to which individual annual objectives are met and results obtained – the assessment of leadership behaviours and adherence to the Bank's values – the extent to which financial, strategic and organizational targets are achieved
Form of bonuses	Bonuses are paid annually in cash

SECTION 6 INFORMATION ON COMPENSATION (cont.)

The purpose of this program is to tie the annual compensation of the majority of Executives and employees to the Bank's growth objectives and rally them around the *One client, one bank* approach. The annual bonus program is based on the following principles:

- promote cooperation among the business segments;
- assess the Bank's financial performance in absolute terms;
- provide an incentive to outperform objectives; and
- generate a minimum level of available net income before any bonuses are paid.

The target bonus for Executives and employees who participate in the program is established based on their position level. The bonus can vary between 0% and 200% of the target bonus based on results obtained.

Application of the program for fiscal 2010

At the end of fiscal 2009, the Bank set its financial objectives for fiscal 2010 based on the economic outlook and market conditions at the time. For fiscal 2010, the growth objective for available net income was set at 31% (\$1,040 million) in relation to the available net income reported in 2009, i.e., \$795 million.

In 2010, available net income was \$971 million. The creation of the annual bonus envelopes of the Bank's management represented 66.66% of their target bonus envelopes. This percentage was established in a linear manner within the following limits:

Financial objectives (\$ millions)	results 2009	threshold 2010	actual results 2010	target 2010	maximum 2010
Available net income	\$795	\$832	\$971	\$1,040	\$1,248
% of envelope created		0 %	66.66 %	100 %	200 %

The Board has the authority, following a recommendation from the HRC, to increase the bonuses, on an exceptional basis, by a percentage not exceeding 15% of the value of the target bonuses (without however exceeding the maximum of 200% of the base salary), in order to take into account specific situations.

Moreover, the HRC approves and recommends to the Board the annual bonuses to be awarded to each member of the Bank's management, in light of the achievement of their annual objectives and results, the assessment of their leadership behaviours and their ability to adhere to and instill the organization's values, as well as their contribution to the achievement of financial, strategic and organizational performance targets.

For more information on the performance indicators of the Named Executive Officers, please refer to Section 7 of this Circular.

For information purposes, the majority of Bank employees are eligible for the annual bonus program. The Bank also offers different programs to specific groups of employees, through which it is able to reward group and individual contributions to the results of the Bank and their business segment.

Annual bonus program for Executives of the Financial Markets sector

The Executives of the Financial Markets sector participate in a separate annual bonus program. The purpose of this program is to reward group and individual contributions to the results of this sector.

Summary

Eligibility	Executives of the Financial Markets sector
Performance metric	Income before income taxes for the Financial Markets sector
Award of bonuses	Individual bonuses are determined in relation to: <ul style="list-style-type: none"> – the extent to which annual objectives and expected results in the Financial Markets sector are achieved – the assessment of leadership behaviours and adherence to the Bank's values – the extent to which financial, strategic and organizational targets are achieved
Payment methods	Bonuses are paid annually as follows: <ul style="list-style-type: none"> – 60% in cash – 40% in RSUs

The bonus envelope is based on a predetermined percentage of the income before income taxes of the Financial Markets sector. Bonuses are calculated and paid annually, based on year-end results.

In keeping with good governance practices, 40% of the annual bonus paid to each Executive is deferred in the form of RSUs. The value of these units corresponds to the closing price of the Bank's Common Shares on the Toronto Stock Exchange on the day preceding the grant. Additional RSUs are credited to the Executive's account in an amount equal to the dividends paid on the Common Shares. RSUs vest evenly over three years and expire at the end of the third year. A cash payment will be equal to the number of vested RSUs multiplied by the price corresponding to the average closing price of the Bank's Common Shares on the Toronto Stock Exchange for the 20 days preceding the vesting date of the RSUs.

Annual bonus program for specialists of the Financial Markets sector

A variable compensation program is also offered to all the specialists of the Financial Markets sector in order to reward them for their individual contribution to the financial results of their various business units and of the sector as a whole.

Summary

Eligibility	Specialists of the Financial Markets sector
Performance metric	Profitability of the business units in the Financial Markets sector
Award of bonuses	The envelopes are distributed as follows: – 70% within the business unit – 30% to all business units
Payment methods	Bonuses are paid as follows: – a cash portion – a deferred portion (established relative to the bonus amount)

The variable compensation formulas used to determine the bonus envelopes of the Financial Markets specialists are directly related to the profitability of the business sectors where they work, and vary from one business unit to another in order to ensure their competitiveness on the market. The envelope created for each business unit is distributed as follows:

- 70% within the business unit based on individual contributions to the capacity to generate income, business relationships with clients and the degree of individual responsibility assumed; and
- 30% to all business units on a discretionary basis as recognition for qualitative results that promote expected behaviours and organizational values such as cooperation between business lines.

In keeping with good governance practices, a portion of the annual bonus for specialists is deferred in the form of RSUs. The following table presents the rate in effect for fiscal 2010.

Rate in effect for fiscal 2010

Portion of annual bonus	% deferred
Up to \$100,000	0%
\$100,000 – \$400,000	30% of the portion
\$400,000 – \$1,000,000	35% of the portion
\$1,000,000 and over	40% of the portion

Deferred Compensation – Mid-Term Variable Compensation Programs

Performance Share Unit Plan

During fiscal 2009, the Bank introduced a PSU Plan for the Named Executive Officers. The purpose of the PSU Plan is to tie a portion of executive compensation to the future value of the Bank's Common Shares.

Summary

Eligibility	Named Executive Officers
Performance metric	Growth in the Bank's TSR compared to the growth in the S&P/TSX Banks Sub-index (relative TSR)
Vesting and term of grant	3 years
Valuation method	The final value of PSUs is determined according to the Bank's Common Share price, then adjusted upward or downward depending on relative TSR

The parameters of the PSU Plan are as follows:

- A number of PSUs is granted annually based on the price of the Bank's Common Shares (on the day preceding the grant);
- PSUs vest three years after the grant date;
- Dividend equivalents are paid in the form of additional PSUs; and
- At expiry, the payout value will first be based on the market price of the Bank's Common Shares and then adjusted upward or downward depending on the TSR obtained by the Bank compared to the TSR of the S&P/TSX Banks Sub-index. This adjustment is calculated as follows:

$$\frac{\text{Annual compound growth of the Bank's TSR over 3 years}}{\text{Annual compound growth of the S\&P/TSX Banks' TSR over 3 years}} = \text{relative TSR}$$

The adjustment to the payout value, based on the relative TSR result, will be established in a linear manner within the following limits:

Relative TSR Result	Adjustment range
≥ 1.25	125%
= 1.00	100%
≤ 0.75	75%

When the result is within the established range, a linear calculation is carried out. The payout may at no time exceed the maximum of 125% and may not be below the threshold of 75%.

The HRC has reviewed stress tests presenting a number of possible scenarios of the Bank’s performance and examined the consequences of these scenarios on the value of PSUs. The HRC has evaluated the possible values over three-year periods of expected, exceptional and weak performance. The HRC concluded that granting PSUs makes it possible to establish an appropriate relationship between this compensation element and total shareholder return.

Restricted Stock Unit Plan

The purpose of the RSU Plan is to tie a portion of the value of executive compensation to the future value of the Bank’s Common Shares.

Summary

Eligibility	Certain Executives of the Bank
Performance metric	Growth in the price of the Bank’s Common Shares
Vesting and term of grant	3 years
Valuation method	<ul style="list-style-type: none"> – The value of the RSUs granted is equal to a predetermined percentage of the Executive’s base salary – The number of RSUs granted depends on: <ul style="list-style-type: none"> • the dollar value of the grant • the closing price of the Bank’s Common Shares on the day preceding the grant date – Dividend equivalents are paid in the form of additional RSUs – A cash payment will be equal to the number of vested RSUs multiplied by the price corresponding to the average closing price of the Bank’s Common Shares on the Toronto Stock Exchange for the 20 days preceding the vesting date of the units

In 2010, a portion of Ricardo Pascoe’s annual bonus was paid to him in RSUs. No other member of the Bank’s management received RSUs.

Deferred Compensation – Long-Term Variable Compensation Programs

Stock Option Plan of the Bank

The Bank’s Stock Option Plan has the following objectives:

- Earn the loyalty of the Bank’s management and motivate them to contribute to the Bank’s success; and
- Encourage the Bank’s management to increase the value of the investment of holders of Common Shares.

Summary

Eligibility	Bank’s management and the majority of Executives
Performance metric	Growth in the price of the Bank’s Common Shares
Term of grant	10 years
Vesting	Options vest over four years at the rate of 25% per year
Valuation method	The number of options granted is based on: <ul style="list-style-type: none"> – the dollar value of the grant – the Black-Scholes value

Each stock option entitles the holder to purchase one Common Share at a price equal to the closing price of the Bank’s Common Shares on the Toronto Stock Exchange on the day preceding the grant. Each year, when granting options, the HRC takes into account the number and term of previously granted options.

Options vest over four years at the rate of 25% per year. No options may be exercised in the first year after they are granted. Executives may exercise their vested options between the second business day following release of the Bank’s interim or annual consolidated financial statements and the 30th calendar day following that date.

SECTION 6 INFORMATION ON COMPENSATION (cont.)

Vested options may be exercised only by a plan member or his or her estate and are not transferable. They may be exercised in whole or in part before the expiration date set by the HRC at the time they are granted, but such period cannot exceed 10 years. Options expire on their expiration date or when employment at the Bank is terminated. Effective March 1, 2009, the options held by a Stock Option Plan member who retires from the Bank continue to vest in accordance with the terms and conditions in effect. He or she has five years (instead of three) to exercise his or her vested options. For information on the treatment of options depending on the reason for departure, please refer to the “Conditions applicable in the event of termination of employment” table in Section 7 of this Circular.

In accordance with the special amendment procedure approved by the holders of Common Shares on March 7, 2007, the Stock Option Plan stipulates that certain material amendments to the Stock Option Plan require shareholder approval, while certain minor changes can be approved by the Board without shareholder approval. Subject to certain conditions, the Board may also amend some features of the options already granted. The Board did not modify the Stock Option Plan during fiscal 2010.

Option grant process

The HRC grants options, on an annual basis, to eligible Executives and other designated persons of the Bank and its subsidiaries. Since the Stock Option Plan was adopted, the Bank has made only one grant per fiscal year, on a specific date, without taking into account the Executives hired or appointed during the fiscal year. This annual grant date has never been amended retroactively.

Moreover, the Board has set specific conditions under which options can be exercised. Accordingly, each member of the Bank’s management must, upon exercising 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.

The Stock Option Plan clearly stipulates that the price of options already granted cannot be lowered, under any circumstances, to reflect changes in the price of the Bank’s Common Shares. Executives can therefore only benefit from the options granted to them provided the Bank’s share price increases steadily over the long term.

The number of Common Shares reserved for a member may not exceed 5% of the total number of Common Shares issued and outstanding. Under the Bank’s long-term compensation programs, only the Stock Option Plan allows for the issuance of the Bank’s equity securities. Pursuant to Canadian securities legislation, the following table shows the situation of the Stock Option Plan as at October 31, 2010.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants or rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a) (c)
Equity compensation plans approved by security holders	8,485,086	\$50.92	4,285,499
Equity compensation plans not approved by security holders	–	–	–
Total	8,485,086	\$ 50.92	4,285,499

The table below presents the total number of options granted in December of each year and exercised in the past three fiscal years, as well as the reserve for future grants at the end of each fiscal year.

	Options granted in December ⁽¹⁾	Value at grant date ⁽²⁾ (\$)	Total value of grant (\$)	Options exercised during the fiscal year	Options outstanding at fiscal year-end ⁽³⁾	Options available for future grants at fiscal year-end ⁽¹⁾	Total options outstanding and available for grant at fiscal year-end
2010	1,623,808	15.31	24,846,721	877,577	8 485,086	4 285,499	12 770,585
2009	1,863,160	13.41	24,984,976	906,457	7,798,096	5,850,066	13,648,162
2008	2,357,740	8.72	20,559,493	1,006,511	6,711,730	7,842,889	14,554,619

(1) The number of options available for future grants at the end of fiscal 2010 represented 2.64% of the total number of Common Shares outstanding. Of this number, 1,623,808 options were granted in December 2010, which represents 1.0% of the total number of Common Shares outstanding at fiscal year-end.

(2) The value of options was determined by using the Black-Scholes model (for compensation purposes) in 2010 and 2009, and 25% of the share price on the grant date for fiscal 2008.

(3) The number of options outstanding at the end of fiscal 2010 represented 5.2% of the total number of Common Shares outstanding at this date.

Stock Appreciation Rights Plan of the Bank

The objective of the SAR Plan of the Bank is the same as that of the Stock Option Plan and adheres to the same granting and vesting conditions.

Summary

Eligibility	Executives who are Canadian non-residents
Performance metric	Growth in the price of the Bank's Common Shares
Term of grant	10 years
Vesting	SARs vest over four years at the rate of 25% per year
Valuation method	The number of SARs granted depends on: <ul style="list-style-type: none"> – the dollar value of the grant – the Black-Scholes value

The HRC grants SARs to Executives and other designated employees of the Bank and its subsidiaries who are Canadian non-residents. For their part, SAR beneficiaries can receive, on the exercise date, a cash amount equal to the difference between the closing price of the Bank's Common Shares on the Toronto Stock Exchange the day before the exercise date and the closing price the day before the grant date.

Like stock options, SARs may not be exercised before the vesting date and have a maximum term of 10 years as of the grant date. Moreover, unexercised SARs shall be forfeited on the date they expire or the date the beneficiary resigns or is dismissed for cause.

Only Canadian non-residents received SARs in fiscal 2010. No SARs have been granted to Canadian members of the Bank's management or Executives since 1999. All unexercised SARs granted in 1999 expired in December 2009.

Deferred Stock Unit Plan

Executives can elect to receive a portion of their stock options in the form of DSUs. The purpose of the Plan is to tie a portion of executive compensation to the future value of the Bank's Common Shares.

Summary

Eligibility	Bank's management and the majority of Executives
Performance metric	Growth in the price of the Bank's Common Shares
Term of grant	Period of active employment (DSUs cannot be exercised as long as the holder is employed)
Vesting	DSUs vest over four years at the rate of 25% per year
Valuation method	<ul style="list-style-type: none"> – Executives of the Bank may elect to receive up to 60% of their long-term compensation in the form of DSUs – The number of DSUs granted depends on: <ul style="list-style-type: none"> • the dollar value of the grant • the closing price of the Bank's Common Shares on the day preceding the grant date – Dividend equivalents are paid in the form of additional DSUs – A plan member may cash vested DSUs by filing a notice of redemption during a fixed period after termination of employment – DSUs may be cashed only when an officer retires or leaves the Bank

NBF Deferred Compensation Plan

NBF offers a deferred compensation plan to its key Individual Investor Services employees. This deferred compensation plan was established to promote growth in income and continuous improvement in profitability and foster retention of key employees.

Summary

Eligibility	Executives and employees of NBF Individual Investor Services
Performance metric	Available net income
Employee contribution	Voluntary – up to 15% of annual compensation
Employer contribution	<ul style="list-style-type: none"> – The employer contribution is based on the Bank's profitability – Individual bonuses are distributed to certain employees with the highest individual contributions based on income generated
Form of bonuses	The employee may invest his contribution and the employer's contribution among six investment vehicles. The employee receives deferred units of the investment vehicle chosen.

Employee contribution

Under the Plan, employees may elect to defer up to 15% of their annual compensation until their retirement, as they do not participate in any pension plan.

Employees may invest their contribution among six investment vehicles and can modify the fund allocation among the six investments, once a year. Deferred stock units, the value of which is linked to the performance of the Bank's Common Shares, are one of the investments proposed under the Plan.

Employer contribution

The Plan also permits employees to invest the employer contribution among the same six proposed investments and modify the fund allocation among the six investments once a year.

The amounts granted by the employer vest at the rate of 25% per year. The value of the vested units is payable, under certain conditions, upon termination of employment or on retirement.

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

The Bank offers an ESOP to all its Canadian employees, including those at its designated subsidiaries. The aim of the ESOP is to build a stronger sense of belonging among Bank employees.

Summary

Eligibility	Members of the Bank's management, Executives and all Canadian employees
Performance metric	Growth in the price of the Bank's Common Shares
Vesting and term of grant	After the employee has completed one year of continuous membership in the ESOP. Subsequent contributions vest immediately
Valuation method	<ul style="list-style-type: none"> – Employees may contribute up to 8% of their gross salary per year – Contributions are made by way of payroll deductions – The Bank matches 25% of the employee's contribution, up to \$1,500 per year

Employee Benefit and Perquisite Programs

The Bank offers the Bank's management and the majority of Executives the same benefit programs as all its employees. The purpose of these programs is to provide Executives and their families with assistance and security so that they can focus on their professional responsibilities and on achieving the Bank's objectives. In addition, the Bank's management and the majority of Executives benefit from perquisites that are comparable to those offered by the competition.

Summary

Eligibility	Bank's management and the majority of Executives
Plans offered	<p>Employee benefits:</p> <ul style="list-style-type: none"> – Medical and dental care – Life and accident insurance – Income protection in case of disability <p>Perquisites:</p> <ul style="list-style-type: none"> – Banking services at no charge or at a reduced rate (offered to all employees) – Use of a vehicle and a parking space – Financial consultant fees reimbursed
Valuation method	<p>Employee benefit programs:</p> <ul style="list-style-type: none"> – Basic coverage in accordance with plan terms and conditions – Option to increase basic coverage, if the Executive pays additional premiums – Benefits taxable in accordance with the prescribed legislation in effect <p>Perquisites:</p> <ul style="list-style-type: none"> – Set annual limit – Benefits taxable in accordance with the prescribed legislation in effect

Pension Plan and Post-Retirement Allowance Program

The Bank offers all eligible employees, including the Bank's management, a registered defined benefit pension plan and a Post-Retirement Allowance Program ("PRAP"). The purpose of these plans is to encourage long-term retention of Executives by recognizing their continued service at the Bank and by contributing to their post-retirement income.

The benefits accrued under the defined benefit pension plan and the PRAP form an integral part of the total compensation offered by the Bank. A pension is payable under the registered pension plan up to the maximum pension prescribed by current legislation, while the PRAP provides for any supplemental pension.

Summary

Definition of plans	The contributory defined benefit pension plan is subject to regulations governing retirement plans under federal jurisdiction The PRAP aims to fully or partly offset the impact of the limits prescribed under tax legislation with respect to pension benefits provided by a registered plan
Normal retirement age (without pension reduction)	Pursuant to the pension plans, the normal retirement age for the members of the Bank's management is 60
Years of credited service	The number of years of credited service for purposes of the PRAP is limited to 35
President and Chief Executive Officer	<ul style="list-style-type: none"> – Two years of credited service for each year of membership between August 1, 2006 and July 31, 2010, 1.25 years of credited service for each year of membership between August 1, 2010 and July 31, 2017 and one year of credited service for each year of membership thereafter, up to 35 years of credited service – These conditions for crediting years of service were approved taking into account all of Louis Vachon's years of service at the Bank and its subsidiaries where no pension plan was offered
Other members of management	<ul style="list-style-type: none"> – One year of credited service per year of membership – Certain members designated by the Board accumulate 1.5 years of credited service per year of membership between the ages of 50 and 60 (or within 10 years of their appointment by the Board) – No member may accumulate more than 35 years of credited service
Pension formula	2% of the average pensionable earnings for each year of credited service (up to a maximum of 35 years) As of age 60, the pension is reduced to take into account the benefits payable under the Canada or Quebec Pension Plan
Pensionable earnings	Average pensionable earnings correspond to the average earnings for the 60 highest-paid consecutive months. Pensionable earnings include the base salary and the annual bonus, which is subject to limits that vary according to line level
President and Chief Executive Officer	– The eligible annual bonus is limited to 100% of base salary
Other members of management	<ul style="list-style-type: none"> – 50% of the annual bonus is allowed (up to 35% of base salary) – Average annual pensionable earnings are capped at \$700,000, except for certain members designated by the Board whose cap is \$1,000,000
Contributions of the members of management	9% of pensionable earnings, up to \$16,295 per year At retirement, the accumulated sum exceeding the basic contributions is converted into a supplemental pension, subject to the limits imposed by applicable legislation
Reduction for early retirement	These plans allow for early retirement starting at age 55, with the Bank's consent The applicable reduction for a plan member who has been a member for 10 years or more is the lesser of: <ul style="list-style-type: none"> – 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 The applicable reduction for a plan member who has been a member for less than 10 years is determined on an actuarial equivalent basis

Share Ownership Requirements

The HRC ensures that the long-term interests of the Executives of the Bank and its designated subsidiaries are closely tied to those of holders of Common Shares. Share ownership requirements were therefore implemented in 2002 concerning the value of Common Shares of the Bank held by Executives of the Bank and its designated subsidiaries, and are monitored by the HRC on a regular basis to ensure compliance.

Summary

Positions covered	Bank's management and the majority of Executives
Minimum participation requirement	Multiple of previous three years' average base salary
Period for meeting requirements	Maximum of five years following appointment
Valuation method	The minimum number of shares that must be held is calculated by dividing the value of the minimum holdings of Common Shares of the Bank by the share price

The Bank's management and the majority of Bank Executives are required to maintain minimum holdings of Common Shares of the Bank, including vested (but unexpired) and non-vested RSUs, vested (but unexpired) and non-vested PSUs, vested and non-vested DSUs and vested (but unexercised) options, commensurate with each Executive'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 Executive multiplied by a factor established under the Bank's share ownership requirements, as follows:

Position	Multiple of previous three years' average base salary
President and Chief Executive Officer	5x
Bank's management ⁽¹⁾	2x
Senior Vice-Presidents (or equivalent)	1.5x
Vice-Presidents (or equivalent)	1x

(1) Excluding the President and Chief Executive Officer.

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

Effective November 1, 2009, Financial Markets Executives and certain specialists must comply with the requirements and maintain minimum holdings of Common Shares of the Bank, including vested (but unexpired) and non-vested RSUs, vested and non-vested DSUs and vested (but unexercised) options equal to twice their average base salary for the previous three years. Under the program, they have five years from November 1, 2009 to meet these requirements.

SECTION 7

INFORMATION ON THE COMPENSATION OF THE NAMED EXECUTIVE OFFICERS

In December 2010, the HRC examined the results obtained for the Bank as a whole relative to the targets set at the beginning of the fiscal year and recommended to the Board that it approve the variable compensation payable to the Named Executive Officers based on the results obtained and each one's individual contribution.

The tables below present, for each of the Named Executive Officers, a summary of their career profile, results for fiscal 2010 compared to the targets set at the beginning of the year, target compensation and the compensation paid for fiscal 2010, as recommended by the HRC and approved by the Board. A description of the factors that led to those decisions and an overview of the compensation paid to them over the previous three fiscal years are also presented.



Louis Vachon
President and Chief Executive Officer

Career profile

Louis Vachon has been President and Chief Executive Officer of the Bank since June 2007. He is responsible for the strategies, orientations and development of National Bank Financial Group. He is supported by the other members of management who, with him, make up the Office of the President. At the time of his appointment, he was Chief Operating Officer of the Bank, a position he had held since August 2006.

He was Chairman of the Board of Natcan Investment Management Inc. from November 2004 to September 2006. He also served as President and Chief Executive Officer of NBF from September 2005 to September 2006.

Mr. Vachon has a Master's in International Finance from The Fletcher School and a Bachelor's degree in Economics from Bates College. In 2001, he was named one of Canada's Top 40 Under 40™.

2010 achievements and objectives

The Bank delivered solid financial results in fiscal 2010 while pursuing its long-term objectives.

Even considering specified items, net income for the fiscal year reached a record high of \$1,034 million, up 21% compared to 2009 and earnings per share advanced 20% to reach \$5.94.

Return on shareholders' equity was 17.0% (15.6% in 2009), and the Tier 1 capital ratio—BIS under Basel II—was particularly strong at 14.0% (10.7% in 2009).

The credit quality of the Bank's loan portfolio remained at enviable levels compared to the Big 5 banks. This situation is partly attributable to prudent risk management, which is solidly entrenched Bank-wide, as well as the Bank's strategic positioning in Quebec, a province that was not hit as hard by economic difficulties.

The uncertainty of financial markets and the large investments required as part of the *One client, one bank* transformation limited the Bank's capacity to meet its short-term financial objectives for fiscal 2010. Consequently, even though diluted earnings per share excluding specified items were \$6.25, exceeding the record established the previous year, it represented an increase of only 0.5% whereas Mr. Vachon's objective was 2.3%.

The following table compares the 2010 results to the 2010 targets.

2010 financial objectives	2010 results	2010 targets
Growth in diluted earnings per share (excluding specified items)	0.5%	2.3%
Diluted earnings per share	\$6.25	\$6.36
Revenue growth (taxable equivalent basis) excluding specified items	0.7%	4.2%
Loan loss ratio	24 basis points	35-40 basis points

The main driver of the Bank's solid financial performance during the year was the successful deployment of the Bank's long-term strategy, the *One client, one bank* transformation. The objective set by the Board at the start of the fiscal year to implement Phase I of the strategic plan—the alignment of distribution and operations along client needs—was completed in 2010. Work to make our organization more efficient and emphasize teamwork among all sectors to fully meet clients' needs and expectations continued in fiscal 2010.

In 2010, the Bank pursued its efforts to bring about a shift in culture, in accordance with Mr. Vachon's initial objective. The Bank's most recent organizational survey demonstrated that employees' overall engagement level is high. This engagement has also been recognized externally, with the Bank once again appearing on the Hewitt 50 Best Employers list. The Bank was also selected by Waterstone Human Capital as having one of the 10 most admired corporate cultures in Quebec and Atlantic Canada.

Decision of the Board concerning 2010 total compensation

At the request of the HRC, the Hay Group carried out a comparative study of the total compensation of the Bank's management, including that of Mr. Vachon, in the spring of 2010. As indicated in "Benchmarking" in Section 6 of this Circular, the companies that form the peer group:

- belong to the Canadian banking or financial services industry;
- serve a comparable client group;
- attract a similar profile of employees, professionals and experts; and
- have a large number of shareholders.

In 2010, the peer group for the position of President and Chief Executive Officer was made up of the following companies:

Canadian banks	Canadian insurance industry companies
Bank of Montreal	Great-West Lifeco Inc.
Canadian Imperial Bank of Commerce	Industrial Alliance Insurance and Financial Services Inc.
Royal Bank of Canada	Manulife Financial Corporation
The Bank of Nova Scotia	Power Financial Corporation
The Toronto-Dominion Bank	Sun Life Financial Inc.

The Hay Group adjusted the results of the study downward to take the Bank's particular characteristics into account including its relative size.

The HRC carefully reviewed the study results and recommended to the Board that it approve raising Mr. Vachon's base salary from \$850,000 to \$869,125, representing an increase of 2.25% annually. The Board approved this recommendation and the salary increase came into effect on August 30, 2010. Mr. Vachon's total compensation will be re-examined by the HRC in fiscal 2011.

Decisions on variable compensation paid in 2010

The Bank's performance is the main factor that guides the HRC's decisions on compensation. This decision-making relies on the application of short-, mid- and long-term variable compensation programs, using different financial metrics, allowing risks to be spread over a broader time horizon.

The HRC assessed Mr. Vachon's performance for 2010 taking into account the results associated with the Bank's short-, medium- and long-term objectives, risk management and the strategic, organizational and operational priorities that are conducive to creating sustainable value for shareholders.

The HRC also took the following factors into consideration:

- diluted earnings per share, excluding specified items, of \$6.25, higher than in 2009;
- excellent quality of the credit portfolio;
- a strong capital base and liquidity position; and
- the Bank's excellent positioning in terms of the new capital adequacy requirements established by international regulatory authorities in the wake of the recent global financial crisis.

In determining Mr. Vachon's variable compensation for fiscal 2010, the HRC considered the fact that the Bank generated a competitive total shareholder return, while making major investments to ensure its long-term growth.

Therefore, the Board approved the following compensation, in accordance with the HRC's recommendation:

	Target variable compensation		Variable compensation awarded
	% of salary	(\$)	(\$)
Annual bonus	125	1,086,400	884,000
Mid-term compensation	150	1,303,700	1,303,700
Long-term compensation	250	2,172,800	2,172,800
Total		4,562,900	4,360,500

SECTION 7 INFORMATION ON THE COMPENSATION OF THE NAMED EXECUTIVE OFFICERS (cont.)

The table below summarizes the calculation of the annual bonus.

Base salary		Target %		Program result		Amount
\$869,125	X	125%	X	66.66%	=	\$724,000
Discretionary adjustment approved by the Board						
\$869,125	X	125%	X	15%	=	\$160,000
Total						\$884,000

For more information on the calculation of the annual bonus, please refer to “Annual Bonus Program” in Section 6 of this Circular.

In 2010, Mr. Vachon’s total performance-related compensation (\$4,360,500) represented 84% of his total direct compensation (\$5,213,800), and his total deferred compensation (\$3,476,500) represented 67% of his total direct compensation.

	2010	2009	2008
	(\$)	(\$)	(\$)
Cash Compensation			
Base salary	853,300	806,453	800,000
Annual bonus	884,000	1,400,000	743,900
Cash Total	1,737,300	2,206,453	1,543,900
Estimated Share-Based Compensation ⁽¹⁾			
PSUs ⁽²⁾	1,303,700	1,275,000	–
RSUs	–	–	1,200,000
Options ⁽³⁾	2,172,800	2,125,000	2,000,000
Estimated Total Equity Value	3,476,500	3,400,000	3,200,000
Total Direct Compensation	5,213,800	5,606,453	4,743,900
Other Compensation ⁽⁴⁾	208,559	185,607	175,057
Value of Retirement Plan ⁽⁵⁾	297,000	356,000	241,000
Estimated Value of Total Compensation	5,719,359	6,148,060	5,159,957

- (1) This compensation ties the interests of the Executive to the appreciation in value of the Common Shares of the Bank. The actual value of such share-based compensation will therefore be based on the value of the Common Shares of the Bank when paid out or exercised.
- (2) Mid-term variable compensation under the Bank’s PSU Plan. Mr. Vachon was awarded 18,985 PSUs. The value was determined on the basis of the award price, namely, \$68.67 in December 2010. For more information, please refer to “Performance Share Unit Plan” in Section 6 of this Circular.
- (3) Mr. Vachon was awarded 141,920 options. The estimated value of options was calculated by using the Black-Scholes model (for compensation purposes) in 2010 and 2009, and 25% of the share price on the grant date in 2008, i.e., \$15.31 in December 2010, \$13.41 in December 2009 and \$8.72 in December 2008. The exercise price is \$68.67 for options granted in 2010, \$58.49 for options granted in 2009 and \$34.87 for options granted in 2008.
- (4) These amounts represent the dividends accumulated during the fiscal year and credited in the form of additional PSUs and RSUs under the PSU and RSU plans. The total value of other benefits for the fiscal year ended October 31, 2010 did not exceed the lesser of: \$50,000 or 10% of base salary and bonuses paid annually to the Named Executive Officers.
- (5) Present value of the retirement benefit vested during the fiscal year and compensatory change during the fiscal year based on the assumptions used in the Bank’s Annual Report for each of those years. The value of the retirement plan for 2008 was also calculated in accordance with the new provisions of Form 51-102F6 of CSA Regulation 51-102.



Patricia Curadeau-Grou

Chief Financial Officer and Executive
Vice-President – Finance, Risk and Treasury

Career profile

As Chief Financial Officer and Executive Vice-President – Finance, Risk and Treasury, Patricia Curadeau-Grou oversees the Risk Management, Finance, Taxation and Investor Relations, Corporate Treasury, Internal Audit, Financial Accounting, Financial Performance Management and Strategy sectors. Until May 2007, she served as Senior Vice-President – Risk Management, a position she had held since 1998.

During her tenure, Ms. Curadeau-Grou has created a strong risk management-based culture. With the support of her team, she has implemented sophisticated management systems, securing the Bank a solid position among the major Canadian banks. Her achievements in terms of risk management are recognized in financial markets.

Ms. Curadeau-Grou has a Bachelor's degree in Finance and Marketing from McGill University. She has also participated in several seminars at Harvard University. Since 2007, she has been a member of the Women's Executive Network Hall of Fame for Canada's most powerful women. She received this honour after being named one of Canada's Most Powerful Women: Top 100 three times.

2010 achievements and objectives

- The Bank maintained its prudent approach to capital management to protect itself from the deterioration of markets and ensure the sound growth of its activities.
- The credit quality of the Bank's loan portfolio remained among the best in the Canadian banking industry. Overall, the specific provision for credit losses in 2010 represented 0.24% of average loans and acceptances, better than the 2010 target.
- As at October 31, 2010, the Tier 1 and total capital ratios were the highest in the Canadian industry at 14% and 17.5% respectively, compared to 10.7% and 14.3% as at October 31, 2009, according to the BIS rules under Basel II. This increase in the capital ratios was largely due to the Bank's adoption of the Advanced Internal Ratings-Based Approach for credit risk rather than the Standardized Approach used previously as well as growth in retained earnings.
- The Bank implemented stand-alone policies to govern the independent valuation of positions in financial instruments as well as the reserves taken on trading portfolios. These guidelines are in line with current accounting principles and take into account any changes expected with the transition to IFRS.
- Strict cost management contributed to the Bank's solid results. As part of the first phase of the strategic plan, the Bank generated large recurring annual savings, owing to more sustained efficiency of business operations.

The following table compares the 2010 results to the 2010 targets.

2010 financial objectives	2010 results	2010 targets
Loan loss ratio	24 basis points	35-40 basis points
Tier 1 capital ratio	13.99%	> 8.75%

Decision of the Board concerning 2010 total compensation

Given the positioning of Ms. Curadeau-Grou's compensation in relation to the peer group median, the HRC recommended that the Board approve raising Ms. Curadeau-Grou's base salary from \$410,000 to \$419,225, which represents an increase of 2.25% annually. The Board approved this recommendation and the base salary adjustment came into effect on August 30, 2010.

Decisions on variable compensation paid in 2010

The HRC assessed Ms. Curadeau-Grou's performance for 2010 taking into account the results associated with the short-, medium- and long-term objectives of the Bank and the sectors reporting to her in terms of the management of the Bank's risk, treasury and finances, as well as her contribution to strategic, organizational and operational priorities.

The HRC acknowledged the exceptional quality of the credit portfolio that was maintained through prudent risk management enabling the Bank to close its fiscal year with the lowest credit loss ratio of all Canadian financial institutions, both in absolute and relative terms.

The HRC also considered the work accomplished in implementing the fundamental regulatory changes relating to accounting standards and capital management. On October 31, 2010, the Tier 1 capital ratio was 14.0%, making the Bank an industry leader both in Canada and worldwide.

SECTION 7 INFORMATION ON THE COMPENSATION OF THE NAMED EXECUTIVE OFFICERS (cont.)

Therefore, the Board approved the following compensation, in accordance with the HRC's recommendation:

	% of salary	Target variable compensation (\$)	Variable compensation awarded (\$)
Annual bonus	100	419,225	319,500
Mid-term compensation	70	293,500	293,500
Long-term compensation	175	733,600	771,500
Total		1,446,325	1,384,500

For more information on the calculation of the annual bonus, please refer to "Annual Bonus Program" in Section 6 of this Circular.

In 2010, Ms. Curadeau-Grou's total performance-related compensation (\$1,384,500) represented 77% of her total direct compensation (\$1,796,112), and her total deferred compensation (\$1,065,000) represented 59% of her total direct compensation.

	2010 (\$)	2009 (\$)	2008 (\$)
Cash Compensation			
Base salary	411,612	400,640	400,000
Annual bonus	319,500	534,000	194,292
Cash Total	731,112	934,640	594,292
Estimated Share-Based Compensation ⁽¹⁾			
PSUs ⁽²⁾	293,500	287,000	–
RSUs	–	–	280,000
Options ⁽³⁾	308,600	534,415	432,442
DSUs ⁽⁴⁾	462,900	229,047	185,334
Estimated Total Equity Value	1,065,000	1,050,462	897,776
Total Direct Compensation	1,796,112	1,985,102	1,492,068
Other Compensation ⁽⁴⁾	96,137	70,603	34,777
Value of Retirement Plan ⁽⁵⁾	83,000	92,000	60,000
Estimated Value of Total Compensation	1,975,249	2,147,705	1,586,845

- (1) This compensation ties the interests of the Executive to the appreciation in value of the Common Shares of the Bank. The actual value of such share-based compensation will therefore be based on the value of the Common Shares of the Bank when paid out or exercised.
- (2) Mid-term variable compensation under the Bank's PSU Plan. Ms. Curadeau-Grou was awarded 4,273 PSUs. The value was determined on the basis of the award price, namely, \$68.67 in December 2010. For more information, please refer to "Performance Share Unit Plan" in Section 6 of this Circular.
- (3) Ms. Curadeau-Grou was awarded 20,156 options. The estimated value of options was calculated by using the Black-Scholes model (for compensation purposes) in 2010 and 2009, and 25% of the share price on the grant date in 2008, i.e., \$15.31 in December 2010, \$13.41 in December 2009 and \$8.72 in December 2008. The exercise price is \$68.67 for options granted in 2010, \$58.49 for options granted in 2009 and \$34.87 for options granted in 2008.
- (4) Under the DSU Plan for the Executives of the Bank, Ms. Curadeau-Grou elected to receive 60% of her long-term compensation in the form of DSUs in 2010. Ms. Curadeau-Grou was awarded 6,741 DSUs. The value of the DSUs was established according to the price of the grant, namely, \$68.67 in December 2010, \$58.49 in December 2009, and \$34.87 in December 2008. For more information, please refer to the table presenting the main components of the DSU Plan for the Executives of the Bank in Section 6 of this Circular.
- (5) These amounts represent the dividends accumulated during the fiscal year and credited in the form of additional PSUs, DSUs and RSUs under the PSU, DSU and RSU plans. The total value of other benefits for the fiscal year ended October 31, 2010 did not exceed the lesser of: \$50,000 or 10% of base salary and bonuses paid annually to the Named Executive Officers.
- (6) Present value of the retirement benefit vested during the fiscal year and compensatory change during the fiscal year based on the assumptions used in the Bank's Annual Report for each of those years. The value of the retirement plan for 2008 was also calculated in accordance with the new provisions of Form 51-102F6 of CSA Regulation 51-102.



Ricardo Pascoe

Executive Vice-President – Financial Markets and
Co-President and Co-Chief Executive Officer, NBF

Career profile

Ricardo Pascoe was appointed Co-President and Co-Chief Executive Officer of NBF in September 2006 and Executive Vice-President – Financial Markets in September 2008. He is responsible for activities related to institutional equities and fixed-income securities, derivatives, corporate and investment banking, U.S. operations and proprietary trading. Mr. Pascoe is Co-Chairman of the Board of NBF and Chairman of the Board of NBC Financial Services Inc. He joined the Bank in 2003 as Senior Vice-President – Treasury and Financial Markets.

Mr. Pascoe held various strategic executive positions in London and New York at institutions specializing in capital markets, derivatives and portfolio management.

He is recognized by the international markets as a derivatives expert.

He has a Master’s in Economics from Columbia University and an MBA from the University of Western Ontario.

2010 achievements and objectives

- The sector’s revenue decreased 2% from 2009, and net income excluding specified items declined 2% compared to the previous year.
- Experts in fixed income, equities, derivatives and foreign exchange operations were brought together onto a state-of-the-art trading floor in Toronto.
- The Bank led or joint-led 45 deals for more than 15% of all public sector debt issuance, placing it in fourth position in 2010 in the Thomson Reuters underwriting league tables.
- The number of corporate and commercial clients actively using interest rate, energy and foreign exchange risk management products experienced double-digit growth in 2010.
- The Bank was the designated broker for 37% of all exchange-traded funds (ETFs) listed in Canada and maintained a top quartile position in secondary market trading of ETFs.

The following table compares the 2010 results to the 2010 targets.

2010 financial objectives	2010 results	2010 targets
Increase revenues at Financial Markets	(2)%	4%
Increase income before income taxes at Financial Markets	(2)%	4%

Decision of the Board concerning 2010 total compensation

In 2010, the HRC considered Mr. Pascoe’s target total compensation to be competitive compared to that offered by companies in the Bank’s peer group, adjusted to take into consideration the Bank’s relative size. Therefore, no change was made to his target total compensation.

Decisions on variable compensation paid in 2010

The HRC assessed Mr. Pascoe’s performance in 2010 taking into account the results associated with the short-, medium- and long-term growth and performance objectives of the Bank and the Financial Markets sector, and the prudence with which Mr. Pascoe directed his sector. The HRC also took into consideration his contribution to the Bank’s strategic, organizational and operational priorities.

The HRC acknowledged the Financial Markets sector’s capacity in pursuing its strategic plan, despite volatile market conditions. It also considered the fact that Financial Markets was well positioned to address the challenges of an increasingly competitive environment by prioritizing the internal alignment of resources along client lines while emphasizing teamwork and cooperation with other Bank divisions.

SECTION 7 INFORMATION ON THE COMPENSATION OF THE NAMED EXECUTIVE OFFICERS (cont.)

Therefore, the Board approved the following compensation, in accordance with the HRC's recommendation:

	Target variable compensation		Variable compensation awarded
	% of salary	(\$)	(\$)
Total annual bonus ⁽¹⁾ in cash:	N/A	N/A	1,952,400
in RSUs:	N/A	N/A	956,000
Mid-term compensation	150	675,000	675,000
Long-term compensation	175	787,500	771,500
Total		N/A	4,354,900

(1) Mr. Pascoe's total annual bonus is composed of two elements:

- a target annual bonus set at 210% of base salary. The bonus paid may vary from 0% to 420% of base salary depending on the results of the Bank's annual bonus program. For more information on the calculation of the annual bonus, please refer to "Annual Bonus Program" in Section 6 of this Circular; and
- an annual bonus set at 0.40% of income before income taxes generated by the Financial Markets sector, a portion of which is deferred as RSUs.

In 2010, Mr. Pascoe's total performance-related compensation (\$4,354,900) represented 91% of his total direct compensation (\$4,804,900), and his total deferred compensation (\$2,402,500) represented 50% of his total direct compensation.

	2010	2009	2008
	(\$)	(\$)	(\$)
Cash Compensation			
Base salary	450,000	448,773	300,000
Annual bonus	1,952,400	2,204,000	1,008,800
Cash Total	2,402,400	2,652,773	1,308,800
Estimated Share-Based Compensation ⁽¹⁾			
Annual portion of the bonus paid as RSUs ⁽²⁾	956,000	1,256,000	504,400
PSUs ⁽³⁾	675,000	675,000	–
Options ⁽⁴⁾	771,500	763,458	434,988
Estimated Total Equity Value	2,402,500	2,694,458	939,388
Total Direct Compensation	4,804,900	5,347,231	2,248,188
Other Compensation ⁽⁵⁾	140,474	107,819	116,189
Value of Retirement Plan ⁽⁶⁾	74,000	146,000	65,000
Estimated Value of Total Compensation	5,019,374	5,601,050	2,429,377

- (1) This compensation ties the interests of the Executive to the appreciation in value of the Common Shares of the Bank. The actual value of such share-based compensation will therefore be based on the value of the Common Shares of the Bank when paid out or exercised.
- (2) Mr. Pascoe received 33% of his total annual bonus in the form of RSUs for Bank Executives at a price of \$68.67 in December 2010, pursuant to the RSU Plan for Bank Executives. Mr. Pascoe was thus awarded 13,922 RSUs. For more information, please refer to "Restricted Stock Unit Plan" in Section 6 of this Circular.
- (3) Mid-term variable compensation under the Bank's PSU Plan. Mr. Pascoe was awarded 9,830 PSUs. The value was determined on the basis of the award price, namely, \$68.67 in December 2010. For more information, please refer to "Performance Share Unit Plan" in Section 6 of this Circular.
- (4) Mr. Pascoe was awarded 50,392 options. The estimated value of options was calculated by using the Black-Scholes model (for compensation purposes) in 2010 and 2009, and 25% of the share price on the grant date in 2008, i.e., \$15.31 in December 2010, \$13.41 in December 2009 and \$8.72 in December 2008. The exercise price is \$68.67 for options granted in 2010, \$58.49 for options granted in 2009 and \$34.87 for options granted in 2008.
- (5) These amounts represent the dividends accumulated during the fiscal year and credited in the form of additional PSUs and RSUs under the PSU and RSU plans. The total value of other benefits for the fiscal year ended October 31, 2010 did not exceed the lesser of: \$50,000 or 10% of base salary and bonuses paid annually to the Named Executive Officers.
- (6) Present value of the retirement benefit vested during the fiscal year and compensatory change during the fiscal year based on the assumptions used in the Bank's Annual Report for each of those years. The value of the retirement plan for 2008 was also calculated in accordance with the new provisions of Form 51-102F6 of CSA Regulation 51-102.

**Luc Paiement**

Executive Vice-President – Wealth Management and
Co-President and Co-Chief Executive Officer, NBF

Career profile

Luc Paiement was appointed Co-President and Co-Chief Executive Officer of NBF in September 2006 and Executive Vice-President – Wealth Management in September 2008. He is responsible for all activities related to wealth management at the Bank and its subsidiaries. Mr. Paiement is Co-Chairman of the Board of NBF and Chairman of the Board of National Bank Direct Brokerage Inc., Innocap Investment Management Inc., Natcan Investment Management Inc. and National Bank Trust Inc.

Mr. Paiement has a Bachelor of Commerce from Concordia University and was recognized in 1999 in the prestigious Canada's Top 40 Under 40™.

2010 achievements and objectives

- The Wealth Management segment's total revenues increased 2.8% in 2010 and assets under management grew 11.4%.
- Private Wealth 1859, created to serve the high-net-worth segment, achieved ambitious targets for number of clients and assets under management.
- For the Partnerships business, a total of 25 new distribution agreements were signed with brokers/dealers.
- The Bank enhanced its offering with changes to certain mutual fund families and the introduction of new products managed by external portfolio managers.
- The Bank's Managed Portfolios and Meritage Portfolios™ each surpassed the \$1 billion mark in assets under management.

The following table compares the 2010 results to the 2010 targets.

2010 financial objectives	2010 results	2010 targets
Increase revenues at Wealth Management	2.8%	9.0%
Grow assets under management	11.4%	7.4%

Decision of the Board concerning 2010 total compensation

In 2010, the HRC considered Mr. Paiement's target total compensation to be competitive compared to that offered by companies in the Bank's peer group, adjusted to take into consideration the Bank's relative size. Therefore, no change was made to his target total compensation.

Decisions on variable compensation paid in 2010

The HRC assessed Mr. Paiement's achievements in 2010 taking into account the results associated with the short-, medium- and long-term growth and performance objectives of the Bank and the Wealth Management sector. The HRC also took into consideration his contribution to the Bank's strategic, organizational and operational priorities.

The HRC recognized the notable progress made in forging effective cooperation among the Bank's business units and leveraging distribution channels in and outside Quebec. It also considered the progress made in the full line-up of retail investment offerings to address the needs of each of the Bank's client segments.

Therefore, the Board approved the following compensation, in accordance with the HRC's recommendation:

	% of salary	Target variable compensation (\$)	Variable compensation awarded (\$)
Annual bonus	210	997,500	664,900
Mid-term compensation	150	712,500	712,500
Long-term compensation	175	831,250	771,500
Total		2,541,250	2,148,900

For more information on the calculation of the annual bonus, please refer to "Annual Bonus Program" in Section 6 of this Circular.

SECTION 7 INFORMATION ON THE COMPENSATION OF THE NAMED EXECUTIVE OFFICERS (cont.)

In 2010, Mr. Paiement's total performance-related compensation (\$2,148,900) represented 82% of his total direct compensation (\$2,623,900), and his total deferred compensation (\$1,484,000) represented 57% of his total direct compensation.

	2010	2009	2008
	(\$)	(\$)	(\$)
Cash Compensation			
Base salary	475,000	473,714	300,000
Annual bonus	664,900	1,300,000	1,008,800
Cash Total	1,139,900	1,773,714	1,308,800
Estimated Share-Based Compensation ⁽¹⁾			
Annual portion of the bonus paid as RSUs	-	-	504,400
PSUs ⁽²⁾	712,500	712,500	-
Options ⁽³⁾	462,900	534,415	304,502
DSUs ⁽⁴⁾	308,600	229,047	130,484
Estimated Total Equity Value	1,484,000	1,475,962	939,386
Total Direct Compensation	2,623,900	3,249,676	2,248,186
Other Compensation ⁽⁵⁾	98,181	90,335	89,992
Value of Retirement Plan ⁽⁶⁾	80,000	110,000	74,000
Estimated Value of Total Compensation	2,802,081	3,450,011	2,412,178
Other Non-Recurring Deferred Compensation ⁽⁷⁾	-	-	5,852,385

- (1) This compensation ties the interests of the Executive to the appreciation in value of the Common Shares of the Bank. The actual value of such share-based compensation will therefore be based on the value of the Common Shares of the Bank when paid out or exercised.
- (2) Mid-term variable compensation under the Bank's PSU Plan. Mr. Paiement was awarded 10,376 PSUs. The value was determined on the basis of the award price, namely, \$68.67 in December 2010. For more information, please refer to "Performance Share Unit Plan" in Section 6 of this Circular.
- (3) Mr. Paiement was awarded 30,236 options. The estimated value of options was calculated by using the Black-Scholes model (for compensation purposes) in 2010 and 2009, and 25% of the share price on the grant date in 2008, i.e., \$15.31 in December 2010, \$13.41 in December 2009 and \$8.72 in December 2008. The exercise price is \$68.67 for options granted in 2010, \$58.49 for options granted in 2009 and \$34.87 for options granted in 2008.
- (4) Under the DSU Plan for the Executives of the Bank, Mr. Paiement elected to receive 40% of his long-term compensation in the form of DSUs in 2010. Mr. Paiement was awarded 4,494 DSUs. The value of the DSUs was established according to the price of the grant, namely, \$68.67 in December 2010, \$58.49 in December 2009, and \$34.87 in December 2008. For more information, please refer to the table presenting the main components of the DSU Plan for the Executives of the Bank in Section 6 of this Circular.
- (5) These amounts represent the dividends accumulated during the fiscal year and credited in the form of additional PSUs, DSUs and RSUs under the PSU, DSU and RSU plans. The total value of other benefits for the fiscal year ended October 31, 2010 did not exceed the lesser of: \$50,000 or 10% of base salary and bonuses paid annually to the Named Executive Officers.
- (6) Present value of the retirement benefit vested during the fiscal year and compensatory change during the fiscal year based on the assumptions used in the Bank's Annual Report for each of those years. The value of the retirement plan for 2008 was also calculated in accordance with the new provisions of Form 51-102F6 of CSA Regulation 51-102.
- (7) Mr. Paiement received a conversion allowance in the form of deferred units under the deferred compensation plan of NBF in order to offset the reduction in his target total compensation.

**Réjean Lévesque**

Executive Vice-President –
Personal and Commercial Banking

Career profile

Réjean Lévesque has been Executive Vice-President – Personal and Commercial Banking since March 2008. He is responsible for Personal and Commercial Banking as well as the International and Insurance sectors. Mr. Lévesque is Chairman of the Board of National Bank Life Insurance Company.

From May 2007 to February 2008, he was responsible for the Operations group. From 2005 to 2007, he was responsible for the Retail Financial Solutions team, including Electronic Payment Solutions. He was Senior Vice-President – Commercial Banking, Northern and Eastern Quebec from 2002 to 2005.

In May 2010, Mr. Lévesque was appointed Chair of the Canadian Bankers Association's Executive Council.

Mr. Lévesque has a Bachelor of Administration from McGill University with majors in finance and international trade, and an MBA from the Université du Québec à Montréal as well as a Fellow's diploma from the Institute of Canadian Bankers.

2010 achievements and objectives

- The Personal and Commercial sector recorded strong results in 2010, with income before income taxes climbing 16.5% compared to 2009.
- The number of Personal Banking clients reached 2.3 million, and Commercial Banking clients numbered approximately 130,000 for 2010.
- The sector achieved growth in loan volumes and increased its Quebec market share in commercial lending.
- Insurance activities continued to grow, amounting to a 5% increase in revenues.
- Under its branch modernization program, the Bank renovated or relocated 54 branches in 2010.
- Over 300 client-facing positions were created in the branches.

The following table compares the 2010 results to the 2010 targets.

2010 financial objectives	2010 results	2010 targets
Increase income before income taxes at Personal and Commercial Banking	16.5%	11.4%
Increase revenues at Personal and Commercial Banking	5.8%	6.6%
Loan loss ratio	37 basis points	45 basis points

Decision of the Board concerning 2010 total compensation

Given the positioning of Mr. Lévesque's total compensation in relation to the peer group median, the HRC recommended to the Board that it approve raising his base salary from \$410,000 to \$419,225, which represents an increase of 2.25% annually. The Board approved this recommendation and the salary adjustment came into effect on August 30, 2010.

Decisions on variable compensation paid in 2010

The HRC assessed Mr. Lévesque's achievements in 2010 taking into account the results associated with the short-, medium- and long-term growth and performance objectives of the Bank and the Personal and Commercial sector. The HRC also took into consideration his contribution to the Bank's strategic, organizational and operational priorities.

The HRC recognized that the Personal and Commercial Banking sector was the main driver of revenue and net income growth compared to the previous year. The HRC also recognized that the efforts invested to develop a proactive sales culture based on teamwork contributed to the growth in the Personal and Commercial Banking sector.

Therefore, the Board approved the following compensation, in accordance with the HRC's recommendation:

	% of salary	Target variable compensation (\$)	Variable compensation awarded (\$)
Annual bonus	100	419,225	279,500
Mid-term compensation	70	293,500	293,500
Long-term compensation	175	733,600	771,500
Total		1,446,325	1,344,500

SECTION 7 INFORMATION ON THE COMPENSATION OF THE NAMED EXECUTIVE OFFICERS (cont.)

For more information on the calculation of the annual bonus, please refer to “Annual Bonus Program” in Section 6 of this Circular.

In 2010, Mr. Lévesque’s total performance-related compensation (\$1,344,500) represented 77% of his total direct compensation (\$1,756,112), and his total deferred compensation (\$1,065,000) represented 61% of his total direct compensation.

	2010	2009	2008
	(\$)	(\$)	(\$)
Cash Compensation			
Base salary	411,612	400,640	329,679
Annual bonus	279,500	534,000	162,789
Cash Total	691,112	934,640	492,468
Estimated Share-Based Compensation ⁽¹⁾			
PSUs ⁽²⁾	293,500	287,000	–
RSUs	–	–	280,000
Options ⁽³⁾	308,600	534,415	617,760
DSUs ⁽⁴⁾	462,900	229,047	–
Estimated Total Equity Value	1,065,000	1,050,462	897,760
Total Direct Compensation	1,756,112	1,985,102	1,390,228
Other Compensation ⁽⁵⁾	46,060	22,765	2,256
Value of Retirement Plan ⁽⁶⁾	72,000	80,000	1,251,000
Estimated Value of Total Compensation	1,874,172	2,087,867	2,643,484

- (1) This compensation ties the interests of the Executive to the appreciation in value of the Common Shares of the Bank. The actual value of such share-based compensation will therefore be based on the value of the Common Shares of the Bank when paid out or exercised.
- (2) Mid-term variable compensation under the Bank’s PSU Plan. Mr. Lévesque was awarded 4,273 PSUs. The value was determined on the basis of the award price, namely, \$68.67 in December 2010. For more information, please refer to “Performance Share Unit Plan” in Section 6 of this Circular.
- (3) Mr. Lévesque was awarded 20,156 options. The estimated value of options was calculated by using the Black-Scholes model (for compensation purposes) in 2010 and 2009, and 25% of the share price on the grant date in 2008, i.e., \$15.31 in December 2010, \$13.41 in December 2009 and \$8.72 in December 2008. The exercise price is \$68.67 for options granted in 2010, \$58.49 for options granted in 2009 and \$34.87 for options granted in 2008.
- (4) Under the DSU Plan for the Executives of the Bank, Mr. Lévesque elected to receive 60% of his long-term compensation in the form of DSUs in 2010. Mr. Lévesque was awarded 6,741 DSUs. The value of the DSUs was established according to the price of the grant, namely, \$68.67 in December 2010, \$58.49 in December 2009, and \$34.87 in December 2008. For more information, please refer to the table presenting the main components of the DSU Plan for the Executives of the Bank in Section 6 of this Circular.
- (5) These amounts represent the dividends accumulated during the fiscal year and credited in the form of additional PSUs, DSUs and RSUs under the PSU, DSU and RSU plans. The total value of other benefits for the fiscal year ended October 31, 2010 did not exceed the lesser of: \$50,000 or 10% of base salary and bonuses paid annually to the Named Executive Officers.
- (6) Present value of the retirement benefit vested during the fiscal year and compensatory change during the fiscal year based on the assumptions used in the Bank’s Annual Report for each of those years. The value of the retirement plan for 2008 was also calculated in accordance with the new provisions of Form 51-102F6 of CSA Regulation 51-102. For 2008, the value of the retirement plan takes into account the compensatory changes further to Mr. Lévesque’s appointment as Executive Vice-President – Personal and Commercial Banking on March 3, 2008.

SECTION 7 INFORMATION ON THE COMPENSATION OF THE NAMED EXECUTIVE OFFICERS (cont.)

Summary of Compensation of Named Executive Officers

The following table is presented pursuant to Canadian securities legislation. It details the total compensation paid by the Bank and its subsidiaries to each of the Named Executive Officers during the past three fiscal years.

Name and principal position	Year	Salary	Share-based awards		Option-based awards		Non-equity incentive compensation plan		Value of retirement plan	All other compensation	Total compensation
			(1) (2) (3) (4)	(5)	Annual incentive plans	Long-term incentive plans	(6)	(7)			
		(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Louis Vachon	2010	853,300	1,303,700	2,172,800	884,000	–	297,000	208,559	5,719,359		
President and Chief Executive Officer	2009	806,453	1,275,000	2,125,000	1,400,000	–	356,000	185,607	6,148,060		
	2008	800,000	1,200,000	2,000,000	743,900	–	241,000	175,057	5,159,957		
Patricia Curadeau-Grou	2010	411,612	756,400	308,600	319,500	–	83,000	96,137	1,975,249		
Chief Financial Officer and Executive Vice-President – Finance, Risk and Treasury	2009	400,640	516,047	534,415	534,000	–	92,000	70,603	2,147,705		
	2008	400,000	465,334	432,442	194,292	–	60,000	34,777	1,586,845		
Ricardo Pascoe	2010	450,000	1,631,000	771,500	1,952,400	–	74,000	140,474	5,019,374		
Executive Vice-President – Financial Markets and Co-President and Co-Chief Executive Officer, NBF	2009	448,773	1,931,000	763,458	2,204,000	–	146,000	107,819	5,601,050		
	2008	300,000	504,400	434,988	1,008,800	–	65,000	116,189	2,429,377		
Luc Paiement	2010	475,000	1,021,100	462,900	664,900	–	80,000	98,181	2,802,081		
Executive Vice-President – Wealth Management and Co-President and Co-Chief Executive Officer, NBF	2009	473,714	941,547	534,415	1,300,000	–	110,000	90,335	3,450,011		
	2008	300,000	6,487,269	304,502	1,008,800	–	74,000	89,992	8,264,563		
Réjean Lévesque	2010	411,612	756,400	308,600	279,500	–	72,000	46,060	1,874,172		
Executive Vice-President – Personal and Commercial Banking	2009	400,640	516,047	534,415	534,000	–	80,000	22,765	2,087,867		
	2008	329,679	280,000	617,760	162,789	–	1,251,000	2,256	2,643,484		

- (1) The Named Executive Officers are eligible for mid-term compensation equal to a percentage of their respective base salary: 150% for Messrs. Vachon, Pascoe and Paiement, and 70% for Ms. Curadeau-Grou and Mr. Lévesque. This compensation is paid in the form of PSUs. The number of PSUs awarded for fiscal 2010 was as follows: 18,985 for Mr. Vachon, 4,273 for Ms. Curadeau-Grou, 9,830 for Mr. Pascoe, 10,376 for Mr. Paiement and 4,273 for Mr. Lévesque. The value was determined on the basis of the award price, namely, \$68.67 in December 2010. These PSUs will only vest at the end of 2013 and their value will then be calculated according to the Plan. For more information, please refer to "Performance Share Unit Plan" in Section 6 of this Circular.
- (2) Ms. Curadeau-Grou, Messrs. Paiement and Lévesque each received DSUs for Bank Executives at a price of \$68.67 in December 2010, pursuant to the DSU Plan for Bank Executives. Ms. Curadeau-Grou was awarded 6,741 DSUs, Mr. Paiement, 4,494 DSUs and Mr. Lévesque, 6,741 DSUs. For more information, please refer to "Deferred Stock Unit Plan" in Section 6 of this Circular.
- (3) Mr. Pascoe received 33% of his total annual bonus in the form of RSUs for Bank Executives at a price of \$68.67 in December 2010, pursuant to the RSU Plan for Bank Executives. Mr. Pascoe was thus awarded 13,922 RSUs. For more information, please refer to "Restricted Stock Unit Plan" in Section 6 of this Circular.
- (4) As at October 31, 2010, the number and value of PSUs, RSUs and DSUs held by the Named Executive Officers, based on a share price of \$67.13 as at October 29, 2010 (as October 31 was not a business day, this is the closing price of the Bank's Common Shares on the Toronto Stock Exchange on the previous business day), were as follows:

Name	Total PSUs held as at October 31, 2010		Total RSUs held as at October 31, 2010		Total DSUs held as at October 31, 2010	
	Number	Value (\$)	Number	Value (\$)	Number	Value (\$)
Louis Vachon	22,489	1,509,657	62,912	4,223,276	–	–
Patricia Curadeau-Grou	5,062	339,821	14,679	985,431	19,624	1,317,387
Ricardo Pascoe	11,906	799,230	37,893	2,543,759	–	–
Luc Paiement	12,567	843,632	10,550	708,238	13,235	888,440
Réjean Lévesque	5,062	339,821	8,737	586,534	5,061	339,747

SECTION 7 INFORMATION ON THE COMPENSATION OF THE NAMED EXECUTIVE OFFICERS (cont.)

- (5) The number of options awarded for fiscal 2010 was as follows: 141,920 for Mr. Vachon, 20,156 for Ms. Curadeau-Grou, 50,392 for Mr. Pascoe, 30,236 for Mr. Paiement and 20,156 for Mr. Lévesque. The value was determined using the Black-Scholes model. The assumptions used to establish the value of the options for compensation purposes differ from those used in the notes to the financial statements of the Bank as the value of the option is not amortized (for accounting purposes) over the term of the option. The assumptions used for compensation purposes are the following:

	2010	2009	2008
Exercise price	\$68.67	\$58.49	\$34.87
Estimated value of the options	\$15.31	\$13.41	\$ 8.72
Risk-free interest rate	3.57%	3.67%	–
Expected life of the options	10 years	10 years	–
Expected volatility	27.50%	32.50%	–
Expected dividend yield	3.84%	0%	–

For more information, please refer to “Stock Option Plan of the Bank” in Section 6 of this Circular.

- (6) The amounts in this column include the annual bonuses earned during each fiscal year ended October 31 and paid in cash.
 (7) Present value of the retirement benefit vested during the fiscal year and compensatory change during the fiscal year based on the assumptions used in the Bank’s Annual Report for each of those years. The value of the retirement plan for 2008 was also calculated in accordance with the new provisions of Form 51-102F6 of CSA Regulation 51-102 on the statement of the compensation of the Named Executive Officers. For more information, please refer to the table “Defined benefit pension plans” in this section of the Circular.
 (8) The amounts in this column represent dividends accumulated during the fiscal year and credited in the form of additional PSUs, DSUs and RSUs under the PSU, DSU and RSU plans. The total value of other benefits for the fiscal year ended October 31, 2010 did not exceed the lesser of: \$50,000 or 10% of base salary and bonuses paid annually to the Named Executive Officers.
 (9) The value of total compensation for fiscal 2008 was revised to take into account the revised value of the retirement plan, calculated pursuant to the new provisions of Form 51-102F6 of CSA Regulation 51-102.

Share Ownership

As at October 31, 2010, all of the Named Executive Officers held the required value of Common Shares of the Bank, including PSUs, DSUs, RSUs and options, in compliance with the requirements in effect at that date. The table below presents the shareholdings of the Named Executive Officers at that date.

Name and title	Requirement Multiple of previous three years’ average salary	Share ownership ⁽¹⁾			Actual multiple	
		Securities held, value added of vested options, PSUs, DSUs and RSUs (\$)	Value added of non-vested options (\$)	Total value (\$)	Based on securities held, value added of vested options, PSUs, DSUs and RSUs	Based on the total value (including value added of non-vested options)
Louis Vachon President and Chief Executive Officer	5 X	16,996,014	8,261,576	25,257,590	20.2 X	30.1 X
Patricia Curadeau-Grou Chief Financial Officer and Executive Vice-President – Finance, Risk and Treasury	2 X	6,367,128	1,863,720	8,230,848	15.5 X	20.1 X
Ricardo Pascoe Executive Vice-President – Financial Markets and Co-President and Co-Chief Executive Officer, NBF	2 X	5,531,291	1,991,814	7,523,105	13.8 X	18.8 X
Luc Paiement Executive Vice-President – Wealth Management and Co-President and Co-Chief Executive Officer, NBF	2 X	5,643,304	1,394,292	7,037,596	11.9 X	14.8 X
Réjean Lévesque Executive Vice-President – Personal and Commercial Banking	2 X	2,990,530	2,278,189	5,268,719	7.3 X	12.9 X

- (1) Value determined on October 29, 2010 based on the closing price of the Bank’s Common Shares on the Toronto Stock Exchange, namely, \$67.13 (as October 31, 2010 was not a business day, this is the closing price of the Bank’s Common Shares on the Toronto Stock Exchange on the previous business day).

SECTION 7 INFORMATION ON THE COMPENSATION OF THE NAMED EXECUTIVE OFFICERS (cont.)

Share-Based and Option-Based Awards Outstanding

The following table indicates, for each Named Executive Officer, all awards outstanding at the end of the fiscal year ended on October 31, 2010. For more information on the grant process, please refer to Section 6 of this Circular.

	Award date	Number of securities underlying unexercised options (#)	Option exercise price (\$)	Option expiration date	Value of unexercised in-the-money options ⁽¹⁾ (\$)	Number of shares or units of shares that have not vested (#)	Market value or payment of share-based awards that have not vested ⁽²⁾ (\$)
Louis Vachon	December 7, 2000	30,000	24.90	December 7, 2010	1,266,900	–	–
	December 13, 2001	28,300	28.01	December 13, 2011	1,107,096	–	–
	December 12, 2002	37,000	30.95	December 12, 2012	1,338,660	–	–
	December 11, 2003	28,000	41.00	December 11, 2013	731,640	–	–
	December 9, 2004	55,000	48.20	December 9, 2014	1,041,150	–	–
	December 7, 2005	37,400	61.44	December 7, 2015	212,806	–	–
	December 13, 2006	125,400	65.90	December 13, 2016	154,242	–	–
	December 12, 2007	196,464	53.85	December 12, 2017	2,609,042	25,466	1,709,559
	December 10, 2008	229,360	34.87	December 10, 2018	7,399,154	37,446	2,513,717
	December 9, 2009	158,464	58.49	December 9, 2019	1,369,129	22,489	1,509,657
Total		925,388			17,229,819	85,401	5,732,933
Patricia Curadeau-Grou	December 11, 2003	45,000	41.00	December 11, 2013	1,175,850	–	–
	December 9, 2004	35,000	48.20	December 9, 2014	662,550	–	–
	December 7, 2005	24,900	61.44	December 7, 2015	141,681	–	–
	December 13, 2006	32,400	65.90	December 13, 2016	39,852	–	–
	December 12, 2007	46,620	53.85	December 12, 2017	619,114	8,100	543,780
	December 10, 2008	49,592	34.87	December 10, 2018	1,599,838	13,074	877,681
		December 9, 2009	39,852	58.49	December 9, 2019	344,321	9,102
Total		273,364			4,583,206	30,276	2,032,479
Ricardo Pascoe	December 11, 2003	30,000	41.00	December 11, 2013	783,900	–	–
	December 9, 2004	16,000	48.20	December 9, 2014	302,880	–	–
	December 7, 2005	13,400	61.44	December 7, 2015	76,246	–	–
	December 13, 2006	30,300	65.90	December 13, 2016	37,269	–	–
	December 12, 2007	42,720	53.85	December 12, 2017	567,322	–	–
	December 10, 2008	49,884	34.87	December 10, 2018	1,609,258	15,740	1,056,599
		December 9, 2009	56,932	58.49	December 9, 2019	491,892	34,059
Total		239,236			3,868,767	49,799	3,342,989
Luc Paiement	December 12, 2002	19,300	30.95	December 12, 2012	698,274	–	–
	December 11, 2003	14,600	41.00	December 11, 2013	381,498	–	–
	December 9, 2004	16,000	48.20	December 9, 2014	302,880	–	–
	December 7, 2005	16,000	61.44	December 7, 2015	91,040	–	–
	December 13, 2006	21,200	65.90	December 13, 2016	26,076	589	39,510
	December 12, 2007	29,904	53.85	December 12, 2017	397,125	1,384	92,934
	December 10, 2008	34,920	34.87	December 10, 2018	1,126,519	13,547	909,438
		December 9, 2009	39,852	58.49	December 9, 2019	344,321	16,607
Total		191,776			3,367,733	32,127	2,156,710
Réjean Lévesque	December 12, 2002	3,400	30.95	December 12, 2012	123,012	–	–
	December 11, 2003	15,300	41.00	December 11, 2013	399,789	–	–
	December 9, 2004	16,000	48.20	December 9, 2014	302,880	–	–
	December 7, 2005	7,700	61.44	December 7, 2015	43,813	–	–
	December 13, 2006	13,000	65.90	December 13, 2016	15,990	–	–
	December 12, 2007	32,500	53.85	December 12, 2017	431,600	–	–
	December 10, 2008	70,844	34.87	December 10, 2018	2,285,427	8,737	586,534
		December 9, 2009	39,852	58.49	December 9, 2019	344,321	9,102
Total		198,596			3,946,832	17,839	1,197,552

(1) The value of unexercised in-the-money options at the end of the fiscal year is established by calculating the difference between the closing price of the Common Shares of the Bank on the Toronto Stock Exchange as at October 29, 2010, namely, \$67.13 (as October 31, 2010 was not a business day, this is the closing price of the Bank's Common Shares on the Toronto Stock Exchange on the previous business day), and the exercise price of the options, multiplied by the number of unexercised options.

(2) The market value or payment of share-based awards that have not vested is calculated by multiplying the number of share units by the closing price of Common Shares of the Bank on the Toronto Stock Exchange on October 29, 2010, namely, \$67.13 (as October 31, 2010 was not a business day, this is the closing price of the Bank's Common Shares on the Toronto Stock Exchange on the previous business day).

SECTION 7 INFORMATION ON THE COMPENSATION OF THE NAMED EXECUTIVE OFFICERS (cont.)

Incentive Plan Awards – Value at Vesting or Value Earned During the Fiscal Year

The following table indicates the value of the awards at vesting or the value earned during the fiscal year ended October 31, 2010. For more information on the grant process, please refer to Section 6 of this Circular.

Nom	Option-based awards Value vested during the year ⁽¹⁾ (\$)	Share-based awards Value vested during the year ⁽²⁾ (\$)	Non-equity incentive compensation Value earned during the fiscal year (\$)
Louis Vachon	2,200,884	131,070	–
Patricia Curadeau-Grou	497,507	177,928	–
Ricardo Pascoe	482,113	1,503,097	–
Luc Paiement	341,841	934,726	–
Réjean Lévesque	605,261	15,855	–

- (1) The amount represents the theoretical total value if the options had been exercised on the vesting date, established by calculating the difference between the closing price of the Common Shares of the Bank on the Toronto Stock Exchange and the exercise price. On the vesting date, the share price was \$64.07, while the exercise price of options varied between \$34.87 and \$65.90.
- (2) The amount represents the value of the share units (PSUs, RSUs, DSUs) on the vesting date, based on the closing price of the Common Shares of the Bank on the Toronto Stock Exchange on the vesting date.

Retirement Plans for Named Executive Officers

All the Named Executive Officers of the Bank participate in the defined benefit pension plan and the Post-Retirement Allowance Program. The provisions of these plans are described under “Pension Plan and Post-Retirement Allowance Program” in Section 6 of this Circular.

The following table details, for each of the Named Executive Officers, years of credited service as at October 31, 2010, annual benefits payable, changes in the accrued pension benefit obligation between November 1, 2009 and October 31, 2010, including compensatory and non-compensatory changes with respect to their membership in retirement plans for fiscal 2010.

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

Defined benefit pension plans⁽¹⁾⁽²⁾

Name	Years of credited service #	Annual benefits payable ⁽³⁾⁽⁴⁾		Accrued pension benefit obligation at start of fiscal year ⁽⁵⁾ (\$)	Compensatory change ⁽⁶⁾ (\$)	Non-compensatory change ⁽⁷⁾ (\$)	Accrued obligation at year-end ⁽⁵⁾ (\$)
		At fiscal year-end (\$)	At age 65 (\$)				
Louis Vachon	21.9	479,000	764,000	4,400,000	297,000	534,000	5,231,000
Patricia Curadeau-Grou	21.8	201,000	313,000	2,349,000	83,000	464,000	2,896,000
Ricardo Pascoe	7.1	61,000	186,000	571,000	74,000	124,000	769,000
Luc Paiement	3.8	36,000	169,000	272,000	80,000	76,000	428,000
Réjean Lévesque	24.1	174,000	250,000	2,563,000	72,000	459,000	3,094,000

- (1) The amounts in the “Salary” column of the table “Summary of Compensation of Named Executive Officers” in this section of the Circular and annual bonuses paid are used to calculate the average pensionable earnings. To this end, the eligible bonus is limited to 100% of base salary for Mr. Vachon and 50% of the annual bonus is recognized for the other Named Executive Officers (up to 35% of base salary). However, average pensionable earnings are subject to the caps set out in Note 2 to this table.
- (2) Average maximum pensionable earnings are capped at \$1,000,000 for Ms. Curadeau-Grou and Mr. Lévesque, and at \$700,000 for Mr. Paiement and Mr. Pascoe.
- (3) The estimated pensions do not take into account the pension generated by the additional contributions accumulated by the Named Executive Officer.
- (4) The pension is payable for life, but reduced to take into account the benefits payable under the Canada or 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.

Significant actuarial assumptions

	2010	2009
Accrued Pension Benefit Obligation as at October 31, 2010		
Discount rate	5.75%	6.75%
Rate of compensation increase	3.00%	3.50%

The value of benefits payable by the Executive’s contributions is included in the calculation of the accrued obligation.

- (5) The accrued obligation represents the present value of the pension benefit for years of credited service up to October 31, 2009 or October 31, 2010. These values were calculated using the same assumptions as those used for the Bank's consolidated financial statements.
- (6) The compensatory change includes the annual cost of retirement benefits and the impact of changes in base salary, the increase in maximum pensionable earnings following appointments, plan amendments or allocations of years of credited service.
- (7) The non-compensatory change reflects the amounts attributable to interest accruing on the obligation at the beginning of the fiscal year, contributions paid by the Named Executive Officer, actuarial gains and losses other than those associated with compensation levels, and changes in actuarial assumptions. The most significant of these changes for fiscal 2010 relates to the decrease in the discount rate from 6.75% to 5.75%.

Employment Contract

The Bank entered into an employment contract with Luc Paiement on October 29, 2008, which stipulates that in the event that he is dismissed without cause or he resigns, all deferred units granted to him as at October 31, 2008 as a conversion allowance will vest on the termination date. All the deferred units would then be paid according to the terms and conditions of the Deferred Compensation Plan of NBF. For more information, please refer to "NBF Deferred Compensation Plan" in Section 6 of this Circular.

At fiscal year-end, no other termination of employment agreement with any Named Executive Officer had been concluded or was in effect.

Termination of Employment Policy in the Event of a Change of Control

Under the Bank's Termination of Employment Policy, the President and Chief Executive Officer and the other members of the Bank's management would receive severance in the event their employment were to be terminated by the Bank following a change of control. The compensatory measures are applicable when the following two events occur:

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

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

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

Pursuant to this policy, the Bank's management would be entitled to severance equal to their base salary and their average annual bonus for the previous three years (or the target annual bonus for the Bank's management in their respective positions for less than three years) for a period of 24 months, up to the normal retirement age.

No amendments were made to the Termination of Employment Policy in fiscal 2010.

SECTION 7 INFORMATION ON THE COMPENSATION OF THE NAMED EXECUTIVE OFFICERS (cont.)

Conditions applicable in the event of termination of employment

The table below summarizes the conditions applicable to the Named Executive Officers in the event of termination owing to a voluntary resignation, dismissal for cause, dismissal without cause, change of control or retirement.

Event	Conditions applicable
Voluntary resignation	<ul style="list-style-type: none"> - Base salary and employee benefit programs cease to apply - No annual bonus is paid - Vested PSUs and RSUs are paid out and non-vested PSUs and RSUs are cancelled - Vested unexercised options and non-vested options are cancelled - Vested DSUs are paid out and non-vested DSUs are cancelled - Pension benefit paid at its actuarial value or as a deferred benefit
Dismissal for cause	<ul style="list-style-type: none"> - Base salary and employee benefit programs cease to apply - No annual bonus is paid - Vested PSUs and RSUs are paid out and non-vested PSUs and RSUs are cancelled - Vested unexercised options and non-vested options are cancelled - Vested DSUs are paid out and non-vested DSUs are cancelled - Pension benefit paid at its actuarial value or as a deferred benefit
Dismissal without cause	<ul style="list-style-type: none"> - Severance equal to three weeks of salary per year of service for up to 18 months plus an amount equal to the average annual bonus for the previous three years - Non-vested PSUs and RSUs vest immediately and are paid out at the Bank's average share price during the previous 20 days - A period is determined during which non-vested options continue to vest. Vested unexercised options and non-vested options are cancelled at the end of the period - Vested DSUs are paid out and non-vested DSUs are cancelled - Pension benefit paid at its actuarial value or as a deferred benefit
Change of control and termination of employment	<ul style="list-style-type: none"> - Severance equal to base salary and average annual bonus for the previous three years is paid for a period of 24 months, up to the normal retirement age - Non-vested PSUs and RSUs vest immediately and are paid out at the Bank's average share price during the previous 20 days - Non-vested options vest immediately and Executives have a maximum of 12 months to exercise their options - DSUs vest immediately and Executives have 12 months to redeem their DSUs - The period covered by the severance is recognized as eligible service under the pension plan, provided that severance is paid in instalments
Retirement	<ul style="list-style-type: none"> - Base salary ceases to apply - Retiree benefits apply (on the same basis as other Bank employees) - Annual bonus is prorated to the number of months worked - PSUs and RSUs continue to vest in accordance with the same timeframe had retirement not been taken and are paid out when vested - Since March 1, 2009, non-vested options continue to vest in accordance with the same timeframe had retirement not been taken and Executives have a five-year period to exercise their options - DSUs vest immediately and Executives have a maximum of 23 months to redeem their DSUs - The pension benefit is paid monthly

Estimated Value of Conditions Applicable in the Event of Termination of Employment

The table below indicates the estimated additional amounts that would have been paid to the Named Executive Officers had their employment terminated on October 31, 2010.

Name	Reason for termination	Estimated additional value ⁽¹⁾ (\$)
Louis Vachon	Retirement	0
	Voluntary resignation	0
	Dismissal for cause	0
	Dismissal without cause ⁽²⁾	1,319,116
	Change of control and termination of employment ⁽³⁾	3,067,559
Patricia Curadeau-Grou	Retirement	0
	Voluntary resignation	0
	Dismissal for cause	0
	Dismissal without cause ⁽²⁾	733,258
	Change of control and termination of employment ⁽³⁾	1,292,947
Ricardo Pascoe	Retirement	0
	Voluntary resignation	0
	Dismissal for cause	0
	Dismissal without cause ⁽²⁾	1,235,674
	Change of control and termination of employment ⁽³⁾	5,882,482
Luc Paiement	Retirement	0
	Voluntary resignation	0
	Dismissal for cause	0
	Dismissal without cause ⁽²⁾	3,436,181
	Change of control and termination of employment ⁽³⁾	4,475,737
Réjean Lévesque	Retirement	0
	Voluntary resignation	0
	Dismissal for cause	0
	Dismissal without cause ⁽²⁾	846,954
	Change of control and termination of employment ⁽³⁾	1,237,731

(1) The estimated additional value refers to severance that would have been paid. No additional value from the retirement plan would have been payable regardless of the reason for termination.

(2) If a Named Executive Officer had had his or her employment terminated on October 31, 2010 further to dismissal without cause, he or she would have been entitled to accelerated vesting of any share-based compensation already granted in the fiscal years prior to 2010. For additional information on outstanding share-based awards, please refer to this section of the Circular. Based on the Bank's share price on that date, the value of such accelerated vesting would have been \$5,732,933 for Mr. Vachon and \$3,342,989 for Mr. Pascoe. For Ms. Curadeau-Grou, Messrs. Paiement and Lévesque, the value would have been less than that indicated in this section of the Circular, as they elected to receive a portion of their long-term compensation in the form of DSUs instead of options. The adjusted value would therefore have been \$1,325,252 for Ms. Curadeau-Grou, \$1,548,066 for Mr. Paiement and \$926,355 for Mr. Lévesque.

(3) If a Named Executive Officer had had his or her employment terminated on October 31, 2010 further to a change of control, he or she would have been entitled to accelerated vesting of any share-based or option-based compensation already granted in the fiscal years prior to 2010. For additional information on outstanding share-based and option-based awards for fiscal years prior to 2010, please refer to this section of the Circular. Based on the Bank's share price on October 29, 2010 (as October 31, 2010 was not a business day), the value of such accelerated vesting would have been \$13,994,508 for Mr. Vachon, \$3,896,198 for Ms. Curadeau-Grou, \$5,334,803 for Mr. Pascoe, \$3,551,002 for Mr. Paiement and \$3,475,741 for Mr. Lévesque.

SECTION 8

OTHER INFORMATION

INDEBTEDNESS OF DIRECTORS, EXECUTIVE OFFICERS AND EMPLOYEES

Aggregate Indebtedness

As at January 14, 2011, 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 current and former directors, executive officers⁽¹⁾ and employees of the Bank and its subsidiaries stood as follows:

Purpose	To the Bank or its subsidiaries (\$)	To another entity (\$) ^(A)
Securities purchases	\$ 1,598,695 ^(B)	–
Other	\$ 12,325,672	–

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

(B) This amount consists of loans for various securities purchases, but no loans were granted by the Bank during the fiscal year ended on October 31, 2010 to a director, executive officer or a director nominee of the Bank specifically to subscribe for or purchase Bank securities.

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

The following table presents the indebtedness⁽²⁾ of each individual who is, or was during the most recently completed fiscal year, a director or executive officer of the Bank, of each director nominee of the Bank, and of each related person of any such director, executive officer or nominee. These loans exclude loans repaid in full and routine indebtedness.

Name and principal position	Involvement of Bank or subsidiary	Largest amount outstanding during fiscal year ended October 31, 2010 (\$)	Amount outstanding as at January 14, 2011 (\$)	Financially assisted securities purchases during fiscal year ended October 31, 2010	Security for indebtedness	Amount forgiven during fiscal year ended October 31, 2010 (\$)
Securities purchase programs						
–	–	–	–	–	–	–
Other Programs						
John B. Cieslak						
Senior Vice-President – Information Technology, Sourcing and Organizational Performance	National Bank Financial Ltd. / Lender	\$ 185,832 ⁽³⁾	\$ 162,853 ⁽³⁾	–	–	–
Luc Paiement						
Executive Vice-President – Wealth Management and Co-President and Co-Chief Executive Officer, NBF	Bank / Lender	\$ 154,414 ⁽⁴⁾	\$ 114,445 ⁽⁴⁾	–	–	–
Ricardo Pascoe						
Executive Vice-President – Financial Markets and Co-President and Co-Chief Executive Officer, NBF	Bank / Lender	US \$ 1,600,000 ⁽⁵⁾	US \$ 1,594,182 ⁽⁵⁾	–	–	–

(1) For the purposes of this section and in accordance with subsection 1.1(1) of the CSA's Regulation 51-102, the executive officers are the Chairman of the Board, the President and Chief Executive Officer, the Vice-Presidents in charge of a principal business unit, division or function of the Bank, and officers of the Bank or its subsidiaries who perform a policy-making function in respect of the Bank.

(2) These loans are granted by the Bank or one of its subsidiaries or by another entity if the indebtedness is the subject of a guarantee or a letter of credit provided by the Bank or one of its subsidiaries, a support agreement or other similar arrangement or understanding.

(3) This amount represents a margin granted by National Bank Financial Ltd. to borrow against the value of securities the borrower holds in his portfolio. The securities in the portfolio are used as collateral. Such a loan is extended according to the standards applicable to clients, including the interest rate, which ranges between Prime and Prime plus 1.5%, depending on the type of account and the amount borrowed.

(4) This amount represents one or more personal leveraged loans ("Leveraged Loans") granted to finance the participant's equity commitments under the EdgeStone Affiliate Fund co-investment program. All Leveraged Loans bear interest at the federal prescribed rate published quarterly 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 provided officers and eligible employees of the Bank and some of its subsidiaries the opportunity to co-invest with EdgeStone Capital Equity Fund II-A, L.P., EdgeStone Capital Equity Fund II-B, L.P., EdgeStone Capital Mezzanine Fund II, L.P., EdgeStone Capital Venture Fund, 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 one of its subsidiaries (the "Lender") through limited recourse Leveraged Loans. The Leveraged Loans bear interest and will mature on the earliest of: (i) the 10th anniversary date of the establishment of the applicable Main Fund, (ii) the dissolution of the applicable EdgeStone Affiliate Fund limited partnership, (iii) the sale or disposal of the applicable EdgeStone Affiliate Fund limited partnership interest held by a participant, or (iv) the date the principal amount of the Leveraged Loans otherwise becomes due and payable. The Lender will have personal recourse against the participant equal to 50% of the participant's total commitment (equity and leveraged portion). The Lender's recourse for the balance of the Leveraged Loans is limited to the participant's EdgeStone Affiliate Fund limited partnership interest and the distributions thereon.

(5) This amount represents loans in U.S. dollars granted by the Bank to purchase a second home with interest at the current LIBOR rate, plus 2%, amortized over a 25-year period. The interest rate on such a loan is the one applicable to clients. Collateral mortgages were granted to secure the loans.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

The Bank has purchased a liability insurance policy for the directors and officers of the Bank and its subsidiaries. This policy covers directors and officers under circumstances where the Bank is not able to or not permitted to indemnify them. The policy provides aggregate coverage of up to \$100,000,000, with no deductible.

The annual premium for this insurance is \$520,000. The policy expires on August 31, 2011 and is renewable.

SHARE REPURCHASE PROGRAM

On January 31, 2011, the NCIB in place at the Bank since February 1, 2010 ended. The Bank did not repurchase any of its Common Shares under this NCIB.

An NCIB began on February 1, 2011 and will end no later than January 31, 2012. This NCIB allows the Bank to repurchase for cancellation, on the Toronto Stock Exchange, a maximum of 4,903,162 Common Shares, representing approximately 3% of its outstanding Common Shares. The price paid by the Bank for any Common Shares it repurchases under this NCIB will be the market price of the Common Shares on the Toronto Stock Exchange on the purchase date.

In the opinion of the Board, the repurchase of Common Shares under this NCIB represents an appropriate use of the Bank's surplus funds.

As at February 11, 2011, the Bank had not repurchased any Common Shares under the terms of this NCIB.

Shareholders may obtain, free of charge, a copy of the notice of intent regarding this NCIB of the Bank, which 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 the Holders of Common Shares of the Bank held on March 31, 2010 was mailed to the holders of Common Shares, together with this Circular. The minutes may also be found on the SEDAR website (www.sedar.com).

ADDITIONAL INFORMATION

Financial information about the Bank can be found in the comparative consolidated financial statements and Management's Discussion and Analysis for the most recently completed fiscal year, which are included in the Annual Report.

The Bank will, upon request, promptly provide any shareholder, free of charge, with 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 Consolidated Financial Statements for the fiscal year ended October 31, 2010 with the accompanying auditors' report, a copy of any subsequent interim report and a copy of the Management Proxy Circular of the Bank with respect to its most recent Annual Meeting of the Holders of Common Shares of the Bank involving the election of directors. To obtain copies of these documents, please send your request to the Corporate Secretary's Office of the Bank at 600 De La Gauchetière West, 4th Floor, Montreal, Quebec, Canada H3B 4L2.

These documents as well as additional information about the Bank may be obtained from its website (www.nbc.ca) and from the SEDAR website (www.sedar.com).

CONTACTING THE BOARD

The Board considers it important to allow Bank shareholders and clients as well as other stakeholders to comment on subjects concerning the Bank, particularly the Board's approach to executive compensation. Bank shareholders and clients and other stakeholders may contact the Board, a Board committee, the Chairman of the Board, a Chair of a Board Committee or a director, including an independent director, by e-mail at: boardofdirectors@nbc.ca or by mail c/o the Corporate Secretary's Office of the Bank at 600 De La Gauchetière West, 4th Floor, Montreal, Quebec, Canada H3B 4L2.

APPROVAL OF THE BOARD

The Board has approved the content of this Circular and its mailing to the Holders of Common Shares.

NATIONAL BANK OF CANADA

(signed) Linda Caty
Vice-President and Corporate Secretary

February 11, 2011

SCHEDULE A

SHAREHOLDER PROPOSALS

SHAREHOLDER PROPOSALS

The Bank has reproduced below the proposals and submissions by one shareholder in their original form without making any changes whatsoever.

The *Mouvement d'Éducation et de Défense des Actionnaires* (MÉDAC), 82 Sherbrooke Street West, Montreal, Quebec, Canada H2X 1X3, submitted Proposals Nos. 1, 2 and 3 to the Bank.

Proposal No. 1

Shareholder proposal and statement (translation):

“The compensation of the most highly compensated executive officer should be justified to the employees who contribute to his success and that of the company. It is proposed that the Board of Directors adopt a policy stipulating the internal equity ratio that it deems “ethically acceptable” and that it justify this in the Management Proxy Circular.

Rationale

At 2010 annual general meetings, we raised shareholder awareness of the difference that exists between the compensation of the most highly compensated executive officer and the average employee's salary. At banks, this gap varied from between 28 times, a ratio that we deem reasonable, and 156 times, an unacceptable ratio.

In their book *Plaidoyer pour un nouveau capitalisme*, the authors, Yvan Allaire and Mihaela Firsirotu, stressed the importance of “boards of directors fully assuming their fiduciary responsibility in this matter and establishing compensation policies that are in the long-term interest of the business and not just for the shareholders in the short term. It is their responsibility to weigh how collegiality, solidarity and mutual trust within the company will be supported or made weaker by the business's compensation policies. Boards of directors must make sure that the types and levels of executive compensation do not raise questions about the political and social legitimacy of their business in particular, and about the free enterprise system in general.”

Moreover, given that a large part of chief executive compensation varies in accordance with short-term objectives and share price, and that this type of compensation rewards excessive risk-taking and short-term performance, an excessive ratio is of great concern, as the future of the business and shareholders' equity are jeopardized over time.

During the past year, this inequity between the compensation of the most highly compensated executive officer compared to employees was raised in various ways:

- Senator Céline Hervieux-Payette tabled a bill proposing that the compensation of presidents and chief executive officers not be more than 20 times greater than the annual average industrial wage in Canada, as calculated by Statistics Canada;
- The U.S. financial reform package, adopted in July 2010, stipulated that businesses would be required to disclose the median compensation of their employees so that shareholders could see the real difference with the compensation of the most highly compensated executive officer;
- The ranking of Canadian businesses in terms of responsible investing was published by Corporate Knights Inc. in the *Globe and Mail*, which uses the concept of internal equity to evaluate the “social” performance of an organization.

The Board of Directors must urgently cap the total compensation paid to executive officers (salaries, short- and long-term bonuses, retirement bonuses, etc.) as a multiple of the average compensation of employees.”

Position of the Bank:

The Board assigns great importance to the human resources management practices at the Bank and believes that the Bank's continued success would not be possible without the contribution of talented, experienced and qualified executives and employees. To attract and retain these individuals, the Bank offers competitive compensation and recognizes their contribution with fair and equitable compensation based on their roles and responsibilities.

As indicated in Section 5 of the Circular, the Board, supported by the HRC, annually reviews not only the compensation policies and procedures applicable to the Bank's management but also those applicable to all employees in order to make sure that they receive adequate compensation, both in terms of internal equity and competitiveness. The Board makes sure that existing policies and programs are competitive for both the Bank's employees and management, while serving the interests of shareholders and ensuring the Bank's long-term prosperity.

Every year, studies comparing the Bank's compensation policies and practices to the companies in its peer group are carried out for all job levels.

To ensure that the Bank achieves and even exceeds the objectives set by the Board at the beginning of the year, all Bank employees, including management, are eligible for a variable compensation program. However, total executive compensation includes a larger portion of variable compensation because executives have more influence over the Bank's short-, mid- and long-term results. It is therefore important that part of their compensation be tied directly to the Bank's results for the fiscal year and that another part be tied to the Bank's future growth. However, the total compensation granted to the President and Chief Executive Officer is capped and cannot exceed his target total direct compensation by more than 20%.

In 2011, as a result of the qualities of the Bank's management policies and practices, it made the list of “Montreal's Top Employers”, a regional edition of “Canada's Top 100 Employers”, presented annually by Mediacorp Canada. This regional edition was created in 2006 to recognize Montreal-based businesses that offer an exceptional work environment. Last October, National Bank Financial Group was also named to the prestigious “50 Best Employers in Canada” list.

The Board believes that the compensation of all Bank employees, including management, is based on clearly defined criteria and objectives and therefore the use of equity ratios is not justified.

Furthermore, the Board monitors regulatory developments and best practices for executive compensation disclosure standards. In particular, it will consider any repercussions in Canada stemming from the implementation by the Securities and Exchange Commission of rules on the disclosure of equity ratios that will apply to U.S. companies in 2011 and the possible presentation standards that may result.

For these reasons, the Board and management of the Bank recommend voting **AGAINST** this proposal.

Proposal No. 2

Shareholder proposal and statement (translation):

“It is proposed that the Board of Directors adopt a policy stipulating that the Bank undertake to dispose of all subsidiaries and branches in tax havens, as defined by the OECD.

Rationale

The Organisation for Economic Co-operation and Development (OECD) defines a tax haven as a jurisdiction that imposes no or only nominal taxes; where there is a lack of transparency; where there are administrative practices that prevent the effective exchange of information with other countries for tax purposes; and where businesses are recognized as corporate entities even with no substantial activity.

According to Statistics Canada, Canadian direct foreign investment in tax havens rose from \$94 billion to \$146 billion between 2003 and 2008. This represents more than 20% of Canadian foreign investments made by individuals or businesses. This is not a new problem. In 2002, the Auditor General expressed concern over the erosion of the tax base due to hundreds of millions of dollars being transferred to tax havens to avoid paying taxes in Canada.

This problem has concerned MÉDAC for a number of years, which led it in 2005 to submit a shareholder proposal requesting that tax havens be closed.

Whereas the very notion of a tax haven refers to the possibility of avoiding taxes in the original jurisdiction, which directly opposes the principles of solidarity, justice and redistribution;

Whereas banks benefit from tax havens, both through offshore banking centres for their clients' use, and by their ability to keep a portion of their profits there;

Whereas Canadian banks and their clients must finance their fair share of public services that they benefit from directly or indirectly, in particular by being able to count on a well-trained, healthy workforce;

Whereas one of the causes of the latest financial crisis was insufficiently ethical investing;

Whereas offshore banking centres facilitated the creation of numerous investment funds where regulation is lacking and taxation practically non-existent; and that it has been proven that the financial crisis was caused and exacerbated by new types of complex financial instruments and derivatives widely held in these funds;

Whereas the complex financial products could have features that lead to financial instability and, as a result, these products must be subject to strict regulations and governance standards that tax havens lack;

Whereas Canadian banks enjoy a special competitive situation and a privileged status with both the Bank of Canada and the Finance Department;

It is urgent that Canadian banks cease all operations in tax havens and that they leave as soon as possible.”

Position of the Bank:

The Bank is very sensitive to questions related to tax evasion.

Neither the Bank nor its subsidiaries conduct business in tax havens or other financial centres that do not comply with the international standards set by the Organisation for Economic Co-operation and Development (“OECD”). Similarly, the Bank and its subsidiaries do not provide their clients with services aimed at facilitating tax evasion by means of such tax havens or other financial centres.

The Bank supports the efforts made by Canada and other G20 countries to fight against tax havens, in particular, by favouring transparency and the exchange of tax information between countries.

The Bank's international operations are subject to Canadian laws and regulations, as well as those in force in each of the countries where it conducts business, in order to deter illegal activities including tax evasion and money laundering. The Bank complies with, and intends to continue to comply with, these rules and has therefore implemented control procedures and mechanisms to ensure such compliance.

For these reasons, the Board and management of the Bank recommend voting **AGAINST** this proposal.

Proposal No. 3

Shareholder proposal and statement (translation):

“It is proposed that the compensation committee give shareholders more information with regard to the peer group used to compare the degree of competitiveness of executive compensation and the importance of this comparison when setting compensation.

Rationale

Studies show that disclosing compensation has had the perverse effect of causing the compensation of executives to constantly increase. Specifically, a recent study shows that 50% of increases in the compensation of presidents and chief executive officers in the United States from 1992 to 2006 was the result of bidding wars created by benchmarking. Other researchers have demonstrated that businesses tend to use peer groups where executive compensation is often higher than the compensation of their executives.

This method damages the healthy relationship that should exist between compensation and an organization’s performance. According to the Canadian Coalition for Good Governance, who warned against relying too much on this method for setting executive compensation, “Whatever happens, we must be careful not to exaggerate the importance of comparing with the peer group when designing the compensation structure.”

At present, shareholders have very little information on how the basis for comparison is chosen or on the positioning of the business versus its peers:

- the rank of the business compared to the other businesses identified as comparable by the compensation committee concerning each component and the total compensation of the five named executive officers;
- the rank of the business among its peers based on the different financial performance indicators.

Shareholders also have very little information on the importance that the compensation committee places on these data in the process of setting compensation: the choice of peer group (national or international), the percentile rank targets and which components of compensation.

We believe it is essential that this information be included with the information supplied with the compensation policy. As a well known compensation consultant recently said, “The businesses that make up the peer group will influence your compensation policy more than any other data. It is therefore essential to make the necessary effort to choose the right peer group.”

MÉDAC considers it crucial to know the effects of such a tool in setting executive compensation and that it be kept in check with an ethically and socially acceptable internal equity ratio.”

Position of the Bank:

The Bank’s compensation policies and programs are designed to ensure sustained growth for shareholders over time, promote sound risk management at the Bank, offer performance-based compensation and recruit and retain talented, experienced and qualified executives and employees.

To attract and retain these individuals in a fiercely competitive market, the Bank strives to make sure that the makeup of the compensation it offers is well balanced and consistent while remaining competitive. It therefore aims to position its target total compensation at the median of its peer group.

In this respect, one of the HRC’s responsibilities is to compare the target total compensation of Bank executives to that offered by companies in the Bank’s peer group to ensure it is competitive. The Bank’s peer group is generally defined by the potential talent pool that the Bank competes for to recruit qualified employees. The peer group also includes corporations in the Canadian financial services industry with which the Bank competes for the investment dollars of existing and potential shareholders.

Companies in the Bank’s peer group, presented in Section 6 of the Circular, have the following characteristics:

- belong to the Canadian banking or financial services industry;
- serve a comparable client group;
- attract a similar profile of employees, professionals and experts; and
- have a large number of shareholders.

To perform this comparative analysis, the HRC calls on the services of independent external consultants to obtain the necessary information on peer group trends and best practices regarding compensation policies and programs, as well as the competitiveness of the compensation offered to Bank executives.

As described in Section 6 of the Circular, the HRC commissions the Hay Group to annually review and compare the target total compensation of the Bank’s management with that paid in the peer group by adjusting downward, using its own method, the peer group data to take into account the Bank’s relative size and the difference between the level of responsibility associated with the Bank’s positions and that of comparable peer group positions.

Although the companies with which the Bank compares itself are bigger, the target total compensation identified by the Hay Group does not match that paid by those companies, but rather is equal to the compensation adjusted to take the Bank’s particular characteristics into account.

As a result, the Board believes that shareholders already receive the most relevant information sought by the shareholder.

For these reasons, the Board and management of the Bank recommend voting **AGAINST** this proposal.

SCHEDULE B

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 all of its stakeholders—clients, employees and 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, the ARMC, the CRCGC and the HRC 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.

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 and the changes to the mandate of the Chairman of the Board are approved in his or her absence.

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 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) Strategic planning

The Board periodically reviews and approves a 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 reviews and approves the business plans relating to the Bank’s main operations and reviews them regularly 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 management.

B) Integrity and ethics

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 Professional Conduct 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 to guarantee compliance with these rules. Moreover, the Board ensures that any material breach of the rules of ethics and professional conduct by a director or senior officer is disclosed in accordance with continuous disclosure obligations. It also ensures that the Code of Conduct is filed with the CSA and available on the Bank’s website.

C) Compliance with legislation and 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) Risk management

Together with the ARMC, the Board reviews and approves the statements, measures and overall targets for the Bank’s risk appetite, recognizes and understands the major risks to which the Bank is exposed and ensures that appropriate systems are set up for effective management of those 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, and 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 external auditors of the Bank.

E) Management oversight

The Board fulfills its duty regarding the oversight of the Bank’s business operations by reviewing reports periodically provided by those responsible for the various business lines, and discussing with the senior officers of these business lines.

F) Management succession planning and development

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 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) Communication and disclosure of financial information

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 in what manner 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) Executive compensation

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:

- offer competitive compensation in order to attract, motivate and retain qualified officers;
- reward officers for obtaining results that contribute to the Bank's financial success in the short, medium and long term;
- pay competitive compensation when results meet expectations, higher compensation when results exceed set objectives, and lower compensation when they fall short of expectations;
- engage officers to focus on enhancing the Bank's performance and the value of shareholders' investment; and
- require officers to hold Common Shares of the Bank, in order to align their interests with those of the Bank's shareholders.

I) Share ownership requirements

To ensure that the compensation of Bank officers is closely tied to shareholders' interests, the HRC has implemented 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 previous three years' average base salary 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 share certificates are kept) until such time as the minimum requirements were once again met.

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

2.3 External consultants and access to management

The Board and each of its committees may hire, 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. Moreover, the ARMC and the HRC annually approve 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. COMMITTEES CREATED BY THE BOARD

The Board may delegate 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.

Together with 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.

4. SELECTION OF DIRECTOR NOMINEES, ELECTION, OVERSIGHT AND COMPENSATION

4.1 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 the orientation of its 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 prepared 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 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. Moreover, the Board ensures that the roles of Chairman of the Board and President and Chief Executive Officer are separate.

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.

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 other rules of ethics applicable to directors and employees of the Bank, and annually undertake in writing to comply with the Code of Conduct.

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 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 must avoid all real, potential or apparent conflict of interest situations with the Bank. Therefore, 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. Directors annually undertake in writing to comply with the Bank's standards with regard to conflicts of interest.

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.

The Bank maintains a list of all the directorships of its directors and its 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, which contains 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 female directors and striving for parity between men and women on the Board. Accordingly, the Board is continuing its efforts to find more female 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.

4.2 Performance assessment

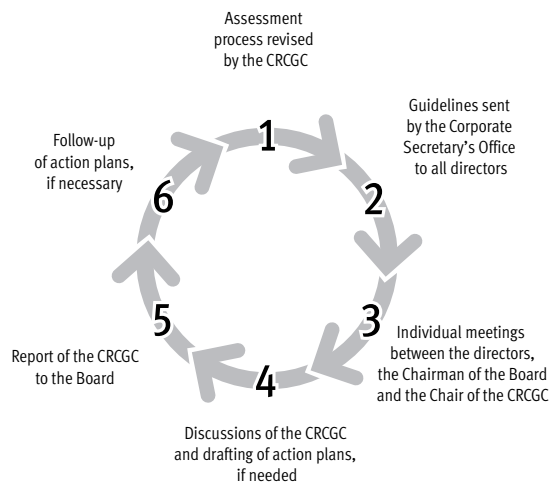
The Board regularly assesses its performance and effectiveness as well as that of its committees, the Chairman of the Board, the committee Chairs and the directors in fulfilling their mandates, in keeping with a process implemented by the CRCGC.

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 consist of 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.



4.3 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.

After it has completed the process, the CRCGC submits its recommendations to the Board, which approves all new director nominees.

The CRCGC compiles and regularly reviews a list of potential 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 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 will submit a recommendation 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.

The maximum period that a director may serve on the Board is 15 years unless the Board, on the recommendation of the CRCGC, decides that, because of exceptional circumstances, it is in the Bank’s best interest to recommend the director for re-election. The computation of this 15-year period started in 1998 for directors in office at that time.

4.4 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, 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 as directors.

C) Continuing education program

As part of scheduled Board meetings, directors regularly attend presentations and training seminars 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, at its expense, in training programs designed to enhance the knowledge they need to carry out their duties, subject to the prior approval of the Chairman of the Board or the Chair of the CRCGC and the director’s obligation to report thereon to the Board.

4.5 Director compensation and share ownership requirements

The Board aims to offer directors adequate compensation that recognizes the increasing complexity of the Bank's activities, enables the Bank to recruit and retain qualified individuals to serve on the Board, and also aligns the interests of the members of the Board with those of the Bank's shareholders. Every year, it reviews and approves compensation, the form of compensation and the 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.

Therefore, 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 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 retainers related to these positions. Moreover, the Bank and its subsidiaries also reimburse directors for the expenses incurred to attend meetings, including transportation and accommodation expenses. The Bank discloses in its annual Management Proxy Circular the compensation paid to the directors during the most recent fiscal year.

The compensation program for directors is also designed to align the interests of the members of the Board with those of the Bank's shareholders. Accordingly, a director's annual retainer is paid entirely in the form of Common Shares or DSUs, or a combination thereof, until the share ownership requirements for Bank directors have been met. Under these rules, all directors are required to hold Common Shares of the Bank or DSUs with a total value equal to or greater than five times the annual retainer received as a Board member. Directors have five years from the date they take office to meet these requirements. When they have met the minimum requirements, directors may elect to receive their retainer in the form of cash, Common Shares or DSUs, subject to the part of their retainer that must be paid in the form of Common Shares of the Bank. In fact, part of the directors' retainer, as well as part 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.

The directors of the Bank 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. 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.

5. MEASURES FOR COLLECTING THE VIEWS OF STAKEHOLDERS AND COMMUNICATION

The Board ensures that measures are implemented to obtain feedback from all stakeholders. 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 stakeholders 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.

6. 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.

SCHEDULE C

MANDATE OF THE BOARD OF DIRECTORS

COMPOSITION

1. **Composition** – The Board of Directors (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 National Bank of Canada (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.
2. **Eligibility** – A majority of the members of the Board must consist of directors who are Canadian residents. A maximum of two thirds of the members of the Board are persons affiliated with the Bank in accordance with the *Bank Act* (Canada) (the “Act”).
3. **Independence** – A majority of the members of the Board are independent as defined by the Canadian Securities Administrators. The Board, either directly or through one of its committees, adopts structures and procedures to ensure the Board functions independently of management.
4. **In Camera Meetings** – The members of the Board who are independent are scheduled to meet regularly, without any members of the Bank’s management being present, at the end of each Board meeting under the direction of the Chairman of the Board.
5. **Hiring of Independent External Consultants** – The Board may hire, when it deems appropriate, legal counsel or other independent external consultants to assist it in carrying out its duties and responsibilities. It sets and pays the remuneration of external consultants it hires. The Bank provides the funds necessary to pay for the services of these external consultants.

INTEGRITY AND CONFLICT OF INTEREST

6. **Integrity** – 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.
7. **Conflict of Interest** – 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 in accordance with the Act.
8. **Change in Function or Status** – Directors must inform the Chairman of the Board or the Chair of the Conduct Review and Corporate Governance Committee as soon as possible of any change in professional or personal status that could have an impact on their role as directors.

ROLES AND RESPONSIBILITIES

General

9. The main duty of the Board is to oversee the management of the Bank, safeguard its assets, and ensure its viability, profitability and development. In discharging its duties, the Board is assisted by three committees: the Audit and Risk Management Committee, the Conduct Review and Corporate Governance Committee, and the Human Resources Committee. The Board assigns responsibility for managing and directing the operations of the Bank to management. The Board assumes the duties and responsibilities set out herein.
10. The Board actively participates in reviewing and approving major strategies and business objectives.
11. The Board regularly obtains reasonable assurance that the Bank is operating within an appropriate control framework and that risk management is assured.
12. The Board ensures that it is effectively governed.
13. The Board reviews the processes that ensure the Bank’s operations comply with applicable legislation and regulations.

Strategic Planning Process

14. The Board:
 - a) Periodically reviews and approves a strategic plan in which the Bank establishes its mission, vision, business objectives and strategy, taking into account the business opportunities and risks for the Bank;
 - b) Reviews and approves the business plans relating to the Bank’s main operations and reviews them regularly to ensure they remain appropriate and prudent given the Bank’s economic and business environment, its resources and its results;
 - c) Reviews and approves the Bank’s operating results as well as its actual versus projected financial results, in light of the Bank’s business objectives, strategic plan and business plans; and
 - d) Reviews and approves operating budgets and material expenses not included in the operating budget.

Risk Management

15. The Board:
 - a) Reviews and approves the overall risk philosophy and risk appetite of the Bank, recognizes and understands the major risks to which the Bank is exposed and ensures that appropriate systems are set up for effective management of those risks;
 - b) Requires 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. Requires that management adopt an internal process for assessing capital adequacy that takes into account the risks deemed important for the Bank;
 - c) Reviews and approves the Bank’s organizational structure and risk controls. Plans an independent assessment of risk controls and procedures implemented to ensure their effectiveness;
 - d) Requires that management adopt a process aimed at determining the Bank’s appropriate level of capital in terms of the risks assumed and oversees its implementation and application;
 - e) Discusses and approves all major policies of the Bank, including those setting acceptance, monitoring, management and reporting rules for material risks to which the Bank is exposed, as well as changes to risk management policies;
 - f) Approves all certifications, reports and any other declarations required from time to time by a regulatory authority and that fall within the Board’s purview;
 - g) Approves all material aspects of risk ratings and assessment processes;
 - h) Ensures that the Bank’s risk management activities, however organized, have sufficient independence, status and visibility, and are subject to periodic reviews; and
 - i) Includes a review of requisite or related changes in risk management and controls in its review of the changes in strategies or new business initiatives.

Mandate of the Chairman of the Board

16. The Board:
- a) Approves the mandate of the Chairman of the Board and reviews it from time to time in the absence of the members of the Bank's management who serve on the Board and the Chairman of the Board; and
 - b) Annually appoints the Chairman of the Board from among the members of the Board, sets his compensation and assesses his performance.

Succession Planning and Director Compensation

17. The Board approves the appointment of any new nominee for the position of director, reviews and approves directors' compensation, how that compensation is paid, and the allowances given to directors to ensure that they reflect the importance of the function of director and that the incentive measures provided for in the compensation programs do not adversely affect the role and responsibilities of this function.
18. The Board oversees its succession planning process implemented by the Conduct Review and Corporate Governance Committee.

Assessing the Effectiveness of the Board and Reviewing its Mandate

19. The Board regularly assesses the performance and effectiveness of the Board, its committees and directors, in accordance with a process implemented by the Conduct Review and Corporate Governance Committee.
20. The Board regularly evaluates and reviews its mandate.

Succession Planning for Management

21. The Board approves the appointment of officers and ensures that they are qualified and competent.
22. On the recommendation of the Human Resources Committee, the Board approves the annual objectives and key performance indicators relating to the compensation of the President and Chief Executive Officer.
23. On the recommendation of the Human Resources Committee, the Board approves the compensation of the President and Chief Executive Officer and the members of the Office of the President.
24. With the support of the Human Resources Committee, the Board oversees the succession planning process for management positions, including, in particular, that of President and Chief Executive Officer.

External Auditors

25. On the recommendation of the Audit and Risk Management Committee, the Board recommends to the shareholders the appointment of the external auditors and approves their remuneration.

Communication and Disclosure

26. The Board approves the policies on the communication and disclosure of information to shareholders, investors and the general public.
27. The Board ensures that the information presented to shareholders is reliable and provided in a timely manner.
28. The Board reviews and approves the annual consolidated financial statements of the Bank and related external auditors' report, the interim consolidated financial statements of the Bank, the annual and interim Management's Discussion and Analysis, the processes for presenting and disclosing annual and interim financial information, the audit processes and management information systems and all other material financial information, including the Annual Information Form or press releases and documents designated by the Office of the Superintendent of Financial Institutions in order to ensure their integrity, the effectiveness of processes and compliance with applicable accounting standards.
29. The Board ensures that measures are in place to receive feedback from Bank clients, shareholders, investors as well as any other stakeholders, including financial analysts. In that regard, the Board designates one person to receive all comments.

Integrity and Ethics

30. The Board ensures that the rules of conduct and ethics are maintained, in particular by adopting a code of professional conduct for directors, officers and employees of the Bank and its subsidiaries, and that the Bank has an ongoing, appropriate and effective process to guarantee compliance with these rules.
31. The Board ensures that any material breach of the code of ethics and professional conduct by a director or member of management is disclosed in accordance with continuous disclosure obligations.
32. The Board requires that management set up a compliance program to ensure the Bank's compliance with the Act, applicable laws and regulations and any other obligations.
33. The Board 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.

Material Transactions

34. The Board discusses and approves any activity, contract or agreement that is not in line with the Bank's mission, is not in its normal course of business or that exceeds the materiality thresholds set by the Board from time to time.
35. The Board reviews and approves policies with respect to major initiatives and activities.

Governance

36. The Board regularly reviews and approves sound governance practices.
37. The Board discusses and determines the structure and general corporate governance principles applicable to the principal business units, divisions and functions of the group comprising the Bank and its subsidiaries in order to enhance the effectiveness of the oversight carried out by the Board.
38. The Board ensures that procedures are in place for communication between the Board and its committees and the principal business units, divisions and functions of the group comprising the Bank and its subsidiaries.

Exclusive Powers

39. The Board approves all matters that the Act assigns exclusively to directors, in particular the approval of dividends, certain related party transactions as provided for in the Act, and procedures to resolve conflicts of interest.

Residual Powers

40. The Board assumes any responsibility not delegated to management.

BOARD COMMITTEES

Types of Committees

41. The Board is responsible for overseeing the management of the Bank and may set up the appropriate committees to assist it in this role.
42. The Board may, from time to time, review the types of committees it forms, appoint members and delegate the appropriate authority to such committees, and approve their respective mandates.

Composition

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

Committee Mandates

44. 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 committee chairs. The mandates describe their respective roles and responsibilities.
45. The Board delegates responsibility for approving and reviewing committee mandates to each committee.

Minutes of Committee Meetings

46. 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

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

EXPECTATIONS OF THE BOARD REGARDING DIRECTORS

48. The Board requires that directors comply with this mandate, particularly with regard to the amount of time directors must devote to their duties, the competency requirements, and the rules of conduct and ethics. The directors must also comply with the Charter of Expectations for directors.
49. Together with the Conduct Review and Corporate Governance Committee, the Board oversees the implementation of orientation programs for new directors and continuing education programs on the operations of the Bank and its subsidiaries for all Bank directors that take into account each director's needs and knowledge.

EXPECTATIONS OF THE BOARD REGARDING MANAGEMENT

50. 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.
51. Management facilitates Board oversight of business operations and internal administration of the Bank by providing members of the Board with accurate, complete, relevant and timely information and reports. Management reports to the Board, providing it with informed opinions on such matters as the Bank's objectives, strategies, plans and material policies.

APPROVED BY THE CONDUCT REVIEW AND CORPORATE GOVERNANCE COMMITTEE ON OCTOBER 28, 2010.

APPROVED BY THE BOARD OF DIRECTORS ON OCTOBER 28, 2010.

INFORMATION FOR SHAREHOLDERS

Head Office

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

Registrar and Transfer Agent

For information about stock transfers, address changes, dividends, lost share certificates, tax forms and estate transfers, shareholders are asked to directly contact Computershare, the Bank's registrar and transfer agent, at the address and telephone numbers below.

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

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

Other inquiries may be addressed to:

Investor Relations
National Bank Financial Group
National Bank Tower
600 De La Gauchetière West, 7th Floor
Montreal, Quebec, Canada H3B 4L2
Telephone: 1-866-517-5455
Fax: 514-394-6196
E-mail address: investorrelations@nbc.ca
Website: www.nbc.ca/investorrelations

Contacting the Board of Directors

Bank shareholders and clients and other stakeholders may contact the Board, a Board committee, the Chairman of the Board, a Chair of a Board Committee or a director, including an independent director, by e-mail at: boardofdirectors@nbc.ca or by mail c/o the Corporate Secretary's Office of the Bank at 600 De La Gauchetière West, 4th Floor, Montreal, Quebec, Canada H3B 4L2.

