

*This short form prospectus constitutes a public offering only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. These securities have not been, and will not be, registered under the United States Securities Act of 1933, as amended or any state securities laws and, subject to certain exceptions, may not be offered, sold or delivered, directly or indirectly, in the United States of America, its territories or possessions, or for the account or benefit of U.S. persons. See "Plan of Distribution".*

**Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada.** Copies of the documents incorporated herein by reference may be obtained on request without charge from the Corporate Secretary, National Bank of Canada, National Bank Tower, 600 de La Gauchetière Street West, Montréal, Québec, H3B 4L2, (514) 394-6081 and are also available electronically at [www.sedar.com](http://www.sedar.com).

## Final Short Form Prospectus

New Issue

June 10, 2008



# NATIONAL BANK OF CANADA

**\$175,000,000**  
**(7,000,000 Shares)**

## Non-cumulative 5-Year Rate Reset First Preferred Shares Series 21

The holders of Non-cumulative 5-Year Rate Reset First Preferred Shares Series 21 (the "Preferred Shares Series 21") in the capital of National Bank of Canada (the "Bank") will be entitled to receive fixed non-cumulative preferential cash dividends, as and when declared by the board of directors of the Bank (the "Board of Directors"), for the initial period commencing on the closing date and ending on and including August 15, 2013 (the "Initial Fixed Rate Period"), payable quarterly on the fifteenth day of February, May, August and November of in each year, at a rate equal to \$0.33594 per share. The initial dividend, if declared, will be payable on November 15, 2008 and will be \$0.55959 per share, based on the anticipated closing date of June 17, 2008. Reference is made to "Details of the Offering".

For each five-year period after the Initial Fixed Rate Period (each a "Subsequent Fixed Rate Period"), the holders of Preferred Shares Series 21 will be entitled to receive fixed non-cumulative preferential cash dividends, as and when declared by the Board of Directors, payable quarterly on the fifteenth day of February, May, August and November of each year, in the amount per share per annum determined by multiplying the Annual Fixed Dividend Rate (as defined herein) applicable to such Subsequent Fixed Rate Period by \$25.00. The Annual Fixed Dividend Rate for the ensuing Subsequent Fixed Rate Period will be determined by the Bank on the 30<sup>th</sup> day prior to the first day of such Subsequent Fixed Rate Period and will be equal to the sum of the Government of Canada Yield (as defined herein) on the date on which the Annual Fixed Dividend Rate is determined plus 2.05%. Reference is made to "Details of the Offering".

## Option to Convert Into First Preferred Shares Series 22

The holders of Preferred Shares Series 21 will have the right, at their option, to convert their shares into Non-cumulative Floating Rate First Preferred Shares Series 22 of the Bank (the "Preferred Shares Series 22"), subject to certain conditions, on August 16, 2013 and on August 16 every five years thereafter. The holders of Preferred Shares Series 22 will be entitled to receive floating rate non-cumulative preferential cash dividends, as and when declared by the Board of Directors, payable quarterly on the fifteenth day of February, May, August and November of each year (the initial quarterly dividend period and each subsequent quarterly dividend period is referred to as a "Quarterly Floating Rate Period"), in the amount per share determined by multiplying the applicable Floating Quarterly Dividend Rate (as defined herein) by \$25.00. The Floating Quarterly Dividend Rate will be equal to the sum of the T-Bill Rate (as defined herein) plus 2.05% (calculated on the basis of the actual number of days elapsed in the applicable Quarterly Floating Rate Period divided by 365) determined on the 30<sup>th</sup> day prior to the first day of the applicable Quarterly Floating Rate Period. Reference is made to "Details of the Offering".

Subject to the provisions of the *Bank Act* (Canada) (the "Bank Act") and to the prior consent of the Superintendent of Financial Institutions Canada (the "Superintendent") and to the provisions described below under "Restrictions on Dividends and Retirement of Shares", on August 16, 2013 and on August 16 every five years thereafter, the Bank may redeem all or any part of the then outstanding Preferred Shares Series 21, at the Bank's option without the consent of the holder, by the

payment of an amount in cash for each such share so redeemed of \$25.00 together with all declared and unpaid dividends to the date fixed for redemption. Reference is made to “Details of the Offering”.

The Preferred Shares Series 21 and the Preferred Shares Series 22 do not have a fixed maturity date and are not redeemable at the option of the holders of Preferred Shares Series 21 or Preferred Shares Series 22. Reference is made to “Risk Factors”.

The Toronto Stock Exchange (the “TSX”) has conditionally approved the listing of the Preferred Shares Series 21. Listing will be subject to the Bank fulfilling all of the requirements of the TSX on or before September 2, 2008.

**Price: \$25.00 per share to yield initially 5.375% per annum**

National Bank Financial Inc., CIBC World Markets Inc., RBC Dominion Securities Inc., BMO Nesbitt Burns Inc., Scotia Capital Inc., TD Securities Inc., Desjardins Securities Inc., HSBC Securities (Canada) Inc., Merrill Lynch Canada Inc., Laurentian Bank Securities Inc. and Brookfield Financial Corp. (collectively, the “Underwriters”), as principals, conditionally offer the Preferred Shares Series 21, subject to prior sale if, as and when issued by the Bank and accepted by the Underwriters in accordance with the conditions contained in the Underwriting Agreement referred to under “Plan of Distribution” and subject to the approval of certain legal matters on behalf of the Bank by McCarthy Tétrault LLP and on behalf of the Underwriters by Ogilvy Renault LLP.

**National Bank Financial Inc., one of the Underwriters, is a wholly-owned subsidiary of the Bank. Therefore, the Bank is a related and connected issuer of National Bank Financial Inc. under applicable securities legislation. See “Plan of Distribution”.**

	<b>Price to the Public</b>	<b>Underwriting Fee<sup>(1)</sup></b>	<b>Net Proceeds to the Bank<sup>(2)(3)</sup></b>
Per share .....	\$25.00	\$0.75	\$24.25
Total.....	\$175,000,000	\$5,250,000	\$169,750,000

- (1) The underwriting fee is \$0.25 for each share sold to certain institutions and \$0.75 per share for all other shares sold. The total represents the underwriting fee assuming no shares are sold to such institutions.
- (2) Before deducting expenses of issue estimated at \$250,000.
- (3) The Bank has granted to the Underwriters an over-allotment option (the “Over-Allotment Option”) to purchase up to an additional 1,050,000 Preferred Shares Series 21 at the offering price hereunder, exercisable at any time but no later than 30 days following the closing date, which option was exercised in full on June 4, 2008. Assuming that the Over-Allotment Option is exercised in full, the total “Price to the Public”, “Underwriting Fee” and “Net Proceeds to the Bank”, before deducting expenses of the offering, will be \$201,250,000, \$6,037,500 and \$195,212,500, respectively (assuming no Preferred Shares Series 21 are sold to those institutions referred to in (1) above). This short form prospectus qualifies the grant of the Over-Allotment Option and the distribution of the Preferred Shares Series 21 issuable upon exercise of the Over-Allotment Option. Reference is made to “Plan of Distribution”.

A purchaser who acquires Preferred Shares Series 21 forming part of the Underwriters’ over-allocation position acquires those securities under this short form prospectus, regardless of whether the over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases.

<b>Underwriters’ Position</b>	<b>Maximum Size</b>	<b>Exercise Period</b>	<b>Acquisition Price</b>
Over-allotment option	1,050,000	At any time but no later than 30 days following the closing date	\$25.00

In connection with this offering, the Underwriters may over-allot or effect transactions which stabilize or maintain the market price of the Preferred Shares Series 21. Reference is made to “Plan of Distribution”.

Subscriptions will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that closing will take place on June 17, 2008 or such later date as may be agreed upon, but in any event not later than July 15, 2008. A “book-entry only” certificate representing the Preferred Shares Series 21 distributed hereunder will be issued in registered form to CDS Clearing and Depository Services Inc. (“CDS”), or its nominee, and will be deposited with CDS on closing of this offering. No physical certificates representing the Preferred Shares Series 21 will be issued to purchasers, except in limited circumstances, and registration will be made in the depository service of CDS. A purchaser of Preferred Shares Series 21 will receive only a customer confirmation from the

registered dealer who is a CDS participant and from or through whom the Preferred Shares Series 21 are purchased. Reference is made to “Depository Services”.

The Bank’s head and registered office is located at the National Bank Tower, 600 de La Gauchetière Street West, Montréal, Québec H3B 4L2.

## TABLE OF CONTENTS

	<u>Page</u>
Caution Regarding Forward-Looking Statements .....	3
Documents Incorporated by Reference .....	4
Currency and Accounting Information .....	5
Eligibility for Investment .....	5
Summary of the Offering .....	6
National Bank of Canada .....	9
Recent Developments .....	9
Consolidated Capitalization of the Bank .....	9
Details of the Offering .....	10
Certain Provisions of the First Preferred Shares as a Class .....	10
Certain Provisions of the Preferred Shares Series 21 as a Series .....	11
Certain Provisions of the Preferred Shares Series 22 as a Series .....	14
Depository Services .....	18
Bank Act Restrictions and Restrictions on Payment of Dividends .....	19
Restraints on Bank Shares under the Bank Act .....	19
Canadian Federal Income Tax Considerations .....	20
Ratings .....	22
Earnings Coverage Ratios .....	22
Prior Sales .....	22
Market for Securities .....	23
Plan of Distribution .....	24
Use of Proceeds .....	25
Transfer Agent and Registrar .....	25
Risk Factors .....	25
Legal Matters .....	26
Statutory Rights of Withdrawal and Rescission .....	26
Certificate of the Bank .....	28
Certificate of the Underwriters .....	29
Auditors’ Consent .....	30

### Caution Regarding Forward-Looking Statements

From time to time, the Bank makes written and oral forward-looking statements such as those contained in the “Major Economic Trends and Challenges” section and under “2008 Objectives” in the “Overview” section of the Bank’s Annual Report for the year ended October 31, 2007, in the “2008 Financial Objectives” section of Bank’s Report to Shareholders for the Quarter ended April 30, 2008, both incorporated by reference in this short form prospectus, in other filings with Canadian securities regulators or the U.S. Securities and Exchange Commission and in other communications, for the purpose of describing the economic environment in which the Bank will operate during fiscal 2008 and the objectives it has set for itself for that period. Such statements are made pursuant to Canadian securities regulations and the provisions of the United States *Private Securities Litigation Reform Act of 1995*. These forward-looking statements include, among others, statements with respect to the economy (in particular, the Canadian and U.S. economies), market changes, the achievement of strategic priorities and objectives, future strategies and actions, the price of Bank shares, certain risks as well as statements with respect to our beliefs, plans, expectations, estimates and intentions. These forward-looking statements are typically identified by the words “may,” “could,” “should,” “would,” “suspect,” “outlook,” “believe,” “anticipate,” “estimate,” “expect,” “intend,” “plan,” and words and expressions of similar import.

By their very nature, such forward-looking statements require the Bank to make assumptions and involve inherent risks and uncertainties, both general and specific. Assumptions about the performance of the Canadian and U.S. economies in

2008 and how that will affect the Bank's business are material factors considered in setting the Bank's strategic priorities and objectives, and in determining its financial targets, including provisions for credit losses. Key assumptions include that economic growth in Canada and the United States will be modest in 2008 and that inflation will remain low in North America. The Bank has also assumed that interest rates in Canada and the United States will decline slightly in 2008 and that the Canadian dollar will likely trade at parity with the U.S. dollar at the end of the year. In determining its expectation for economic growth, both broadly and in the financial services sector, 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 material factors it considers when establishing its sustainable effective tax rate. There is significant risk that express or implied projections contained in such statements will not materialize or will not be accurate. A number of factors 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. Such differences may be caused by factors, many of which are beyond the Bank's control, which include, but are not limited to, the management of credit, market and liquidity risks; the strength of the Canadian and United States 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; 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 or regulatory judgments and legal proceedings; developments with respect to the restructuring proposal relating to asset-backed commercial paper (ABCP) and liquidity in the ABCP market; 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; operational and infrastructure risks; 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 other developments, including those relating to the war on terrorism; and the Bank's success in anticipating and managing the foregoing risks. See "Risk Factors".

The foregoing list of important factors is not exhaustive. When relying on the Bank's forward-looking statements to make decisions, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. The Bank does not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by or on behalf of the Bank unless required by applicable laws.

#### **Documents Incorporated by Reference**

The following documents have been filed with the securities regulatory authorities in each province of Canada and are specifically incorporated by reference into, and form an integral part of, this short form prospectus:

- (a) the Bank's Annual Information Form dated January 16, 2008;
- (b) the Unaudited Consolidated Financial Statements for the quarter ended April 30, 2008, which include comparative unaudited consolidated financial statements for the quarter ended April 30, 2007, together with the Management's Discussion and Analysis as contained in the Bank's Report to Shareholders for the Second Quarter 2008;
- (c) the Audited Consolidated Financial Statements for the year ended October 31, 2007, which include comparative consolidated financial statements for the year ended October 31, 2006, together with the Management's Discussion and Analysis as contained in the Bank's Annual Report for the year ended October 31, 2007;
- (d) the Auditors' Report issued to the shareholders of the Bank on the consolidated financial statements as at October 31, 2007 and 2006 and for the years then ended;
- (e) the Management Proxy Circular dated January 11, 2008 in connection with the Bank's annual meeting of shareholders held on February 29, 2008;
- (f) the Bank's Material Change Report dated November 29, 2007 concerning the charge of \$365 million, after tax and compensation adjustments, relating to its holding of ABCP recorded in the fourth quarter ended October 31, 2007; and

- (g) the Bank's Material Change Report dated December 21, 2007 concerning the decision of Michel Tremblay, Chief Operating Officer, Personal and Commercial Banking and Wealth Management, to leave the Bank.

**Any documents of the type referred to in the preceding paragraph and any unaudited consolidated interim financial statements for three, six or nine month financial periods, any information circulars, any material change reports (excluding confidential material change reports), any business acquisition reports and any other disclosure documents filed by the Bank with a securities regulatory authority in Canada after the date of this short form prospectus and prior to the completion or withdrawal of this offering, are deemed to be incorporated by reference in this short form prospectus.**

**Any statement contained in a document incorporated or deemed to be incorporated by reference herein or contemplated in this short form prospectus will be deemed to be modified or superseded for purposes of this short form prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement will not be deemed an admission for any purpose that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded will not be deemed, except as so modified or superseded, to constitute a part of this short form prospectus.**

#### **Currency and Accounting Information**

Unless otherwise indicated, all dollar amounts appearing in this short form prospectus are stated in Canadian dollars.

Unless otherwise indicated, all amounts appearing under "Consolidated Capitalization of the Bank" and "Earnings Coverage Ratios" are derived from the consolidated financial statements of the Bank, which are presented in accordance with Canadian generally accepted accounting principles.

#### **Eligibility for Investment**

In the opinion of McCarthy Tétrault LLP, counsel to the Bank, and Ogilvy Renault LLP, counsel to the Underwriters, the Preferred Shares Series 21 to be issued under this short form prospectus and the Preferred Shares Series 22, if issued on the date hereof, would be, at that time, qualified investments under the *Income Tax Act* (Canada) (the "Tax Act") and the regulations thereunder for trusts governed by registered retirement savings plans, registered retirement income funds, registered education savings plans, deferred profit sharing plans and registered disability savings plans.

## Summary of the Offering

*This summary is qualified by the detailed information appearing elsewhere in this short form prospectus. For a definition of certain terms used in this summary, refer to “Details of the Offering”.*

**Issue:** Non-cumulative 5-Year Rate Reset First Preferred Shares Series 21.

**Amount:** \$175,000,000 (7,000,000 shares).

**Price and Yield:** \$25.00 per share to yield initially 5.375% per annum.

### Principal Characteristics of the Preferred Shares Series 21

**Dividends:** Fixed non-cumulative preferential cash dividends, as and when declared by the Board of Directors, subject to the provisions of the Bank Act, for the initial period commencing on the closing date and ending on and including August 15, 2013 (the “Initial Fixed Rate Period”), payable quarterly on the fifteenth day of February, May, August and November of each year, at a rate equal to \$0.33594 per share. The initial dividend, if declared, will be payable on November 15, 2008 and will be \$0.55959 per share, based on the anticipated closing date of June 17, 2008.

For each five-year period after the Initial Fixed Rate Period (each, a “Subsequent Fixed Rate Period”), fixed non-cumulative preferential cash dividends, as and when declared by the Board of Directors, subject to the provisions of the Bank Act, payable quarterly on the fifteenth day of February, May, August and November of each year, in the amount per share per annum determined by multiplying the Annual Fixed Dividend Rate applicable to such Subsequent Fixed Rate Period by \$25.00. The “Annual Fixed Dividend Rate” for the ensuing Subsequent Fixed Rate Period will be determined by the Bank on the 30<sup>th</sup> day (a “Fixed Rate Calculation Date”) prior to the first day of such Subsequent Fixed Rate Period and will be equal to the sum of the Government of Canada Yield on the applicable Fixed Rate Calculation Date plus 2.05%.

If the Board of Directors does not declare a dividend, or any part thereof, on the Preferred Shares Series 21 on or before the dividend payment date for a particular quarter, then the entitlement of the holders of the Preferred Shares Series 21 to receive such dividend, or to any part thereof, for such quarter will be forever extinguished.

**Redemption:** Subject to the provisions of the Bank Act and to the prior consent of the Superintendent and to the provisions described below under “Restrictions on Dividends and Retirement of Shares”, on August 16, 2013 and on August 16 every five years thereafter, on not more than 60 nor less than 30 days’ notice, the Bank may redeem all or any part of the then outstanding Preferred Shares Series 21, at the Bank’s option without the consent of the holder, by the payment of an amount in cash for each such share so redeemed of \$25.00 together with all declared and unpaid dividends to the date fixed for redemption.

**Conversion into Preferred Shares Series 22:** Holders of Preferred Shares Series 21 will, subject to the automatic conversion provisions and the right of the Bank to redeem those shares, have the right, at their option, to convert, on August 16, 2013 and on August 16 every five years thereafter (a “Series 21 Conversion Date”), any or all of their Preferred Shares Series 21 into an equal number of Preferred Shares Series 22 upon giving to the Bank notice thereof not earlier than 30 days prior to, but not later than 5:00 p.m. (Montréal time) on the 15th day preceding, a Series 21 Conversion Date.

***Automatic  
Conversion  
Provisions:***

If the Bank determines, after having taken into account all shares tendered for conversion by holders of Preferred Shares Series 21 and Preferred Shares Series 22, as the case may be, that there would be outstanding on such Series 21 Conversion Date less than 600,000 Preferred Shares Series 21, such remaining number of Preferred Shares Series 21 will automatically be converted on such Series 21 Conversion Date, without the consent of the holders, into an equal number of Preferred Shares Series 22. Additionally, if the Bank determines that, after conversion, there would be outstanding on such Series 21 Conversion Date less than 600,000 Preferred Shares Series 22 then no Preferred Shares Series 21 will be converted into Preferred Shares Series 22.

***Voting Rights:***

Subject to the provisions of the Bank Act, the holders of Preferred Shares Series 21 will not be entitled as such to receive notice of, attend, or vote at, any meeting of the shareholders of the Bank unless and until the first time at which the Board of Directors has not declared the whole dividend on the Preferred Shares Series 21 in any quarter. In that event, subject as hereinafter provided, the holders of Preferred Shares Series 21 will be entitled to receive notice of, and to attend, meetings of shareholders at which directors of the Bank are to be elected and will be entitled to one vote for each Preferred Share Series 21 held. The voting rights of the holders of the Preferred Shares Series 21 will forthwith cease upon payment by the Bank of the first dividend on the Preferred Shares Series 21 to which the holders are entitled thereunder subsequent to the time such voting rights first arose until such time as the Bank may again fail to declare the whole dividend on the Preferred Shares Series 21 in respect of any quarter, in which event such voting rights will become effective again and so on from time to time.

**Principal Characteristics of the Preferred Shares Series 22**

***Dividends:***

Floating rate non-cumulative preferential cash dividends, as and when declared by the Board of Directors, subject to the provisions of the Bank Act, payable quarterly on the fifteenth day of February, May, August and November of each year, in the amount per share determined by multiplying the applicable Floating Quarterly Dividend Rate by \$25.00.

On the 30th day prior to the commencement of the initial quarterly dividend period beginning on August 16, 2013, and on the 30<sup>th</sup> day prior to the first day of each subsequent quarterly dividend period (the initial quarterly dividend period and each subsequent quarterly dividend period is referred to as a “Quarterly Floating Rate Period”), the Bank will determine the Floating Quarterly Dividend Rate for the ensuing Quarterly Floating Rate Period. The “Floating Quarterly Dividend Rate” will be equal to the sum of the T-Bill Rate plus 2.05% (calculated on the basis of the actual number of days elapsed in the applicable Quarterly Floating Rate Period divided by 365) determined on the 30th day prior to the first day of the applicable Quarterly Floating Rate Period.

If the Board of Directors does not declare a dividend, or any part thereof, on the Preferred Shares Series 22 on or before the dividend payment date for a particular quarter, then the entitlement of the holders of the Preferred Shares Series 22 to receive such dividend, or to any part thereof, for such quarter will be forever extinguished.

***Redemption:***

Subject to the provisions of the Bank Act and to the prior consent of the Superintendent and to the provisions described below under the heading “Restrictions on Dividends and Retirement of Shares”, on not more than 60 nor less than 30 days’ notice, the Bank may redeem all or any part of the then outstanding Preferred Shares Series 22, at the Bank’s option without the consent of the holder, by the payment of an amount in cash for each such share so redeemed of (i) \$25.00 together with all declared and unpaid dividends to the date fixed for redemption in the case of redemptions on August 16, 2018 and on August 16 every five years thereafter, or (ii) \$25.50 together with all declared and unpaid dividends to the date fixed for redemption in the case of redemptions on any other date on or after August 16, 2013.

***Conversion into  
Preferred Shares  
Series 21:***

Holders of Preferred Shares Series 22 will, subject to the automatic conversion provisions and the right of the Bank to redeem those shares, have the right, at their option, to convert, on August 16, 2018 and on August 16 every five years thereafter (a “Series 22 Conversion Date”), any or all of their Preferred Shares Series 22 into an equal number of Preferred Shares Series 21 upon giving to the Bank written notice thereof not earlier than 30 days prior to, but not later than 5:00 p.m.

(Montréal time) on the 15th day preceding, a Series 22 Conversion Date.

***Automatic  
Conversion  
Provisions:***

If the Bank determines, after having taken into account all shares tendered for conversion by holders of Preferred Shares Series 22 and Preferred Shares Series 21, as the case may be, that there would be outstanding on such Series 22 Conversion Date less than 600,000 Preferred Shares Series 22, such remaining number of Preferred Shares Series 22 will automatically be converted on such Series 22 Conversion Date, without the consent of the holders, into an equal number of Preferred Shares Series 21. Additionally, if the Bank determines that, after conversion, there would be outstanding on such Series 22 Conversion Date less than 600,000 Preferred Shares Series 21 then no Preferred Shares Series 22 will be converted into Preferred Shares Series 21.

***Voting Rights:***

Subject to the provisions of the Bank Act, the holders of Preferred Shares Series 22 will not be entitled as such to receive notice of, attend, or vote at, any meeting of the shareholders of the Bank unless and until the first time at which the Board of Directors has not declared the whole dividend on the Preferred Shares Series 22 in any quarter. In that event, subject as hereinafter provided, the holders of Preferred Shares Series 22 will be entitled to receive notice of, and to attend, meetings of shareholders at which directors of the Bank are to be elected and will be entitled to one vote for each Preferred Share Series 22 held. The voting rights of the holders of the Preferred Shares Series 22 will forthwith cease upon payment by the Bank of the first dividend on the Preferred Shares Series 22 to which the holders are entitled thereunder subsequent to the time such voting rights first arose until such time as the Bank may again fail to declare the whole dividend on the Preferred Shares Series 22 in respect of any quarter, in which event such voting rights will become effective again and so on from time to time.

***Priority:***

The Preferred Shares Series 21 and Preferred Shares Series 22 will rank on a parity with every other series of First Preferred Shares of the Bank and are entitled to preference over the common shares of the Bank and over any other shares of the Bank ranking junior to the First Preferred Shares with respect to the payment of dividends and upon any distribution of assets in the event of the liquidation, dissolution or winding-up of the Bank.

***Tax on Preferred  
Share Dividends:***

The Bank will elect, in the manner and within the time provided under Part VI.1 of the Tax Act to pay tax at a rate such that corporate shareholders who hold Preferred Shares Series 21 and Preferred Shares Series 22 will not be required to pay tax on dividends received on such shares under Part IV.1 of such Act.

## National Bank of Canada

The Bank, a chartered bank subject to the provisions of the Bank Act, was formed through a series of amalgamations and its roots date back to 1859 with the founding of Banque Nationale in Québec City. The Bank's head and registered office is located at the National Bank Tower, 600 de La Gauchetière Street West, Montréal, Québec H3B 4L2.

### Subsidiaries

A list of the principal subsidiaries directly or indirectly owned or controlled by the Bank as at October 31, 2007 is included in the Bank's Annual Report for the year ended October 31, 2007.

### Business of the Bank

The Bank maintains offices and provides services in each of the Canadian provinces. It offers a full range of financial services to individuals, commercial enterprises, financial institutions and governments both in Canada and abroad.

Additional information with respect to the Bank's business is included in the Bank's Annual Report for the year ended October 31, 2007.

### Recent Developments

The Pan-Canadian Investors Committee for Third-Party Structured ABCP (the "Committee") announced on June 5, 2008 that the Ontario Superior Court of Justice (the "Court") has sanctioned the Committee's plan (the "Plan") to restructure 20 of the trusts covered by last summer's Montreal Accord, affecting \$32 billion of notes. The Court accepted a proposed amendment to the Plan that would allow certain noteholders, under specified conditions, to pursue claims of fraud against ABCP dealers. Leave to appeal from the Sanction Order rendered by the Court on June 5th 2008 must be sought by a contesting party within 21 days from said judgment or within such delay as may be extended by the Court.

Subject to a potential appeal, implementation of the Plan is expected to be completed by the end of June.

See "Caution Regarding Forward-Looking Statements" and "Risk Factors".

### Consolidated Capitalization of the Bank

The following table sets forth the consolidated capitalization of the Bank as at April 30, 2008, before and after giving effect to the sale by the Bank of the Preferred Shares Series 21. This table should be read in conjunction with the Bank's consolidated interim financial statements (unaudited) and the Bank's Management's Discussion and Analysis for the six months ended April 30, 2008:

	<u>As at April 30,</u> <u>2008</u>	<u>As adjusted as at</u> <u>April 30, 2008<sup>(1)(2)</sup></u> (unaudited) (\$ millions)
<b>Subordinated Debentures</b> .....	1,683	2,183
<b>Innovative Instruments<sup>(3)</sup></b> .....	927	927
<b>Shareholders' Equity</b> .....		
Preferred .....	573	774
Common .....	1,599	1,599
Contributed Surplus .....	34	34
Accumulated other comprehensive income (loss) .....	(78)	(78)
Retained Earnings .....	<u>2,998</u>	<u>2,998</u>
Total Shareholders' Equity .....	<u>5,126</u>	<u>5,327</u>
<b>Total Capitalization</b> .....	<u>7,736</u>	<u>8,437</u>

Notes:

- (1) Adjusted to give effect to the receipt of anticipated gross proceeds from the sale of the Preferred Shares Series 21 (including the proceeds from the sale of the Preferred Shares Series 21 pursuant to the Over-Allotment Option).
- (2) Adjusted to give effect to the receipt of gross proceeds from the issue of Series 6 Medium Term Notes on May 1, 2008.

- (3) Represents \$225 million of NBC CapS – Series 1 issued by NBC Capital Trust, US\$300 million of preferred shares issued by NB Capital Corporation and \$400 million of NBC CapS II – Series 1 issued by NBC Asset Trust; for more information on the classification of the innovative capital instruments, refer to notes 12 and 16 of the audited consolidated financial statements of the Bank for the year ended October 31, 2007 and to note 12 of the interim consolidated financial statements of the Bank for the second quarter ended April 30, 2008.

### **Details of the Offering**

The authorized capital of the Bank consists of: (i) an unlimited number of Common Shares, without par value; (ii) an unlimited number of First Preferred Shares, without par value, issuable for a maximum aggregate consideration of \$5 billion or the equivalent thereof in foreign currencies; and (iii) 15 million Second Preferred Shares, without par value, issuable for a maximum aggregate consideration of \$300 million or the equivalent thereof in foreign currencies. As at June 9, 2008, there were 159,106,767 Common Shares, 22.9 million First Preferred Shares and no Second Preferred Shares issued and outstanding.

The following is a summary of the rights, privileges, restrictions and conditions of the First Preferred Shares as a class, the Preferred Shares Series 21 as a series and the Preferred Shares Series 22 as a series:

#### **Certain Provisions of the First Preferred Shares as a Class**

##### ***Issuable in Series***

The First Preferred Shares may be issued, from time to time, in one or more series with such series designation, rights, privileges, restrictions and conditions as the Board of Directors may determine by resolution.

##### ***Priority***

The First Preferred Shares of each series will rank on a parity with First Preferred Shares of every other series and are entitled to preference over the Second Preferred Shares, the Common Shares and any other shares of the Bank ranking junior to the First Preferred Shares with respect to the payment of dividends and upon any distribution of assets in the event of liquidation, dissolution or winding-up of the Bank.

##### ***Creation and Issue of Shares***

Pursuant to the Bank Act, the Bank may not, without the approval of the holders of the First Preferred Shares, create any other class of shares ranking equal with or superior to the First Preferred Shares. In addition, the Bank may not, without the prior approval of the holders of the First Preferred Shares as a class given as specified below under “Shareholder Approvals” (in addition to such approvals as may be required by the Bank Act or any other legal requirement), (i) create or issue any shares ranking in priority to or *pari passu* with the First Preferred Shares; or (ii) create or issue any additional series of First Preferred Shares, unless at the date of such creation or issuance all cumulative dividends up to and including the dividend payment for the last completed period for which such cumulative dividends are payable, have been declared and paid or set aside for payment in respect of each series of cumulative First Preferred Shares then issued and outstanding, and all declared and unpaid non-cumulative dividends have been paid or set aside for payment in respect of each series of non-cumulative First Preferred Shares then issued and outstanding. Currently, there are no outstanding First Preferred Shares which carry the right to cumulative dividends.

##### ***Voting Rights***

The holders of the First Preferred Shares are not entitled to any voting rights as a class except as provided below or by law or in the rights, privileges, restrictions and conditions attaching to any series of First Preferred Shares, and except with respect to the right to vote on certain matters as specified under “Approval of the Holders of the First Preferred Shares”.

##### ***Approval of the Holders of the First Preferred Shares***

The approval of all amendments to the provisions attaching to the First Preferred Shares as a class and any other approval to be given by the holders of the First Preferred Shares may be given in writing by the holders of not less than all of the outstanding First Preferred Shares or by a resolution passed by the affirmative vote of not less than 66 2/3% of the votes cast at a meeting of holders of First Preferred Shares duly held for the purpose of considering the subject matter of such resolution at which a quorum of the outstanding First Preferred Shares is represented in person or by proxy. A quorum at any

meeting of holders of First Preferred Shares is a majority of the outstanding First Preferred Shares, except at an adjourned meeting for which there is no quorum requirement.

## **Certain Provisions of the Preferred Shares Series 21 as a Series**

### ***Definition of Terms***

The following definitions are relevant to the Preferred Shares Series 21.

**“Annual Fixed Dividend Rate”** means, for any Subsequent Fixed Rate Period, the rate of interest (expressed as a percentage rate rounded down to the nearest one hundred-thousandth of one percent (with 0.000005% being rounded up)) equal to the sum of the Government of Canada Yield on the applicable Fixed Rate Calculation Date plus 2.05%.

**“Bloomberg Screen GCAN5YR Page”** means the display designated as page “GCAN5YR<INDEX>” on the Bloomberg Financial L.P. service (or such other page as may replace the GCAN5YR page on that service) for purposes of displaying Government of Canada Bond yields.

**“Fixed Rate Calculation Date”** means, for any Subsequent Fixed Rate Period, the 30<sup>th</sup> day prior to the first day of such Subsequent Fixed Rate Period.

**“Government of Canada Yield”** on any date means the yield to maturity on such date (assuming semi-annual compounding) of a Canadian dollar denominated non-callable Government of Canada bond with a term to maturity of five years as quoted as of 10:00 a.m. (Montréal time) on such date and which appears on the Bloomberg Screen GCAN5YR Page on such date; provided that, if such rate does not appear on the Bloomberg Screen GCAN5YR Page on such date, the Government of Canada Yield will mean the average of the yields determined by two registered Canadian investment dealers, other than National Bank Financial Inc., selected by the Bank, as being the yield to maturity on such date (assuming semi-annual compounding) which a Canadian dollar denominated non-callable Government of Canada bond would carry if issued in Canadian dollars at 100% of its principal amount on such date with a term to maturity of five years.

**“Initial Fixed Rate Period”** means the period commencing on the closing date and ending on and including August 15, 2013.

**“Subsequent Fixed Rate Period”** means for the initial Subsequent Fixed Rate Period, the period commencing August 16, 2013 and ending on and including August 15, 2018, and for each succeeding Subsequent Fixed Rate Period, the period commencing on the day immediately following the end of the immediately preceding Subsequent Fixed Rate Period and ending on and including August 15 in the fifth year thereafter.

### ***Issue Price***

The Preferred Shares Series 21 will have an issue price of \$25.00 per share.

### ***Dividends***

During the Initial Fixed Rate Period, the holders of the Preferred Shares Series 21 will be entitled to receive fixed quarterly non-cumulative preferential cash dividends, as and when declared by the Board of Directors, subject to the provisions of the Bank Act, on the fifteenth day of each of February, May, August and November of each year, at a rate equal to \$0.33594 per share. The initial dividend, if declared, will be payable on November 15, 2008 and will be \$0.55959 per share, based on the anticipated closing date of June 17, 2008.

During each Subsequent Fixed Rate Period after the Initial Fixed Rate Period, the holders of Preferred Shares Series 21 will be entitled to receive fixed non-cumulative preferential cash dividends, as and when declared by the Board of Directors, subject to the provisions of the Bank Act, payable quarterly on the fifteenth day of each of February, May, August and November of each year, in the amount per share per annum determined by multiplying the Annual Fixed Dividend Rate applicable to such Subsequent Fixed Rate Period by \$25.00.

The Annual Fixed Dividend Rate applicable to a Subsequent Fixed Rate Period will be determined by the Bank on the Fixed Rate Calculation Date. Such determination will, in the absence of manifest error, be final and binding upon the

Bank and upon all holders of Preferred Shares Series 21. The Bank will, on the Fixed Rate Calculation Date, give written notice of the Annual Fixed Dividend Rate for the ensuing Subsequent Fixed Rate Period to the registered holders of the then outstanding Preferred Shares Series 21.

If the Board of Directors does not declare a dividend, or any part thereof, on the Preferred Shares Series 21 on or before the dividend payment date for a particular quarter, then the entitlement of the holders of the Preferred Shares Series 21 to receive such dividend, or to any part thereof, for such quarter will be forever extinguished.

Reference is also made to “Restrictions on Dividends and Retirement of Shares” and “Bank Act and Restrictions on Payment of Dividends”.

### ***Redemption***

The Preferred Shares Series 21 will not be redeemable prior to August 16, 2013. Subject to the provisions of the Bank Act and to the prior consent of the Superintendent and to the provisions described below under the heading “Restrictions on Dividends and Retirement of Shares”, on August 16, 2013 and on August 16 every five years thereafter, the Bank may redeem all or any part of the then outstanding Preferred Shares Series 21, at the Bank’s option without the consent of the holder, by the payment of an amount in cash for each such share so redeemed of \$25.00 together with all declared and unpaid dividends to the date fixed for redemption.

Notice of any redemption will be given by the Bank at least 30 days and not more than 60 days prior to the date fixed for redemption. If less than all the outstanding Preferred Shares Series 21 are at any time to be redeemed, the shares to be redeemed will be redeemed *pro rata*, disregarding fractions. Reference is also made to the provisions described below under the heading “Bank Act Restrictions and Restrictions on Payment of Dividends”.

The Preferred Shares Series 21 do not have a fixed maturity and are not redeemable at the option of the holders. See “Risk Factors”.

### ***Conversion of Preferred Shares Series 21 into Preferred Shares Series 22***

Holders of Preferred Shares Series 21 will have the right, at their option, on August 16, 2013 and on August 16 every five years thereafter (a “Series 21 Conversion Date”), to convert, subject to the restrictions on conversion described below and the payment or delivery to the Bank of evidence of payment of the tax (if any) payable, all or any of their Preferred Shares Series 21 registered in their name into Preferred Shares Series 22 on the basis of one Preferred Share Series 22 for each Preferred Share Series 21. The conversion of Preferred Shares Series 21 may be effected not earlier than the 30<sup>th</sup> day prior to, but not later than 5:00 p.m. (Montréal time) on the 15<sup>th</sup> day preceding, a Series 21 Conversion Date.

The Bank will, at least 30 days and not more than 60 days prior to the applicable Series 21 Conversion Date, give notice in writing to the then registered holders of the Preferred Shares Series 21 of the above-mentioned conversion right. On the 30<sup>th</sup> day prior to each Series 21 Conversion Date, the Bank will give notice in writing to the then registered holders of the Preferred Shares Series 21 of the Annual Fixed Dividend Rate for the next succeeding Subsequent Fixed Rate Period.

Holders of Preferred Shares Series 21 will not be entitled to convert their shares into Preferred Shares Series 22 if the Bank determines that there would remain outstanding on a Series 21 Conversion Date less than 600,000 Preferred Shares Series 22, after having taken into account all Preferred Shares Series 21 tendered for conversion into Preferred Shares Series 22 and all Preferred Shares Series 22 tendered for conversion into Preferred Shares Series 21. The Bank will give notice in writing thereof to all registered holders of Preferred Shares Series 21 at least seven days prior to the applicable Series 21 Conversion Date. Furthermore, if the Bank determines that there would remain outstanding on a Series 21 Conversion Date less than 600,000 Preferred Shares Series 21, after having taken into account all Preferred Shares Series 21 tendered for conversion into Preferred Shares Series 22 and all Preferred Shares Series 22 tendered for conversion into Preferred Shares Series 21, then, all of the remaining outstanding Preferred Shares Series 21 will automatically be converted into Preferred Shares Series 22 on the basis of one Preferred Share Series 22 for each Preferred Share Series 21 on the applicable Series 21 Conversion Date, without the consent of the holders, and the Bank will give notice in writing thereof to the then registered holders of such remaining Preferred Shares Series 21 at least seven days prior to the Series 21 Conversion Date.

If the Bank gives notice to the registered holders of the Preferred Shares Series 21 of the redemption of all the Preferred Shares Series 21, the Bank will not be required to give notice as provided hereunder to the registered holders of the

Preferred Shares Series 21 of an Annual Fixed Dividend Rate or of the conversion right of holders of Preferred Shares Series 21 and the right of any holder of Preferred Shares Series 21 to convert such Preferred Shares Series 21 will cease and terminate in that event.

### ***Purchase for Cancellation***

Subject to the provisions of the Bank Act, the prior consent of the Superintendent, and the provisions described below under the heading “Restrictions on Dividends and Retirement of Shares”, the Bank may at any time purchase for cancellation any Preferred Share Series 21 in the open market at the lowest price or prices at which in the opinion of the Board of Directors such shares are obtainable.

### ***Restrictions on Dividends and Retirement of Shares***

So long as any of the Preferred Shares Series 21 are outstanding, the Bank will not, without the approval of the holders of outstanding Preferred Shares Series 21 given as specified below:

- (a) pay any dividends on the Common Shares or any other shares ranking junior to the Preferred Shares Series 21 (other than stock dividends payable in shares ranking junior to the Preferred Shares Series 21);
- (b) redeem, purchase or otherwise retire any Common Shares or any other shares ranking junior to the Preferred Shares Series 21 (except out of the net cash proceeds of a substantially concurrent issue of shares ranking junior to the Preferred Shares Series 21);
- (c) redeem, purchase or otherwise retire less than all the Preferred Shares Series 21; or
- (d) except pursuant to any purchase obligation, sinking fund, retraction privilege or mandatory redemption provisions attaching to any series of preferred shares of the Bank, redeem, purchase or otherwise retire any other shares ranking on a parity with the Preferred Shares Series 21;

unless, in each such case, all dividends up to and including the dividend payment date for the last completed period for which dividends will be payable will have been declared and paid or set apart for payment in respect of each series of cumulative First Preferred Shares then issued and outstanding and on all other cumulative shares ranking on a parity with the First Preferred Shares and there will have been paid or set apart for payment all declared dividends in respect of each series of non-cumulative First Preferred Shares (including the Preferred Shares Series 21) then issued and outstanding and on all other non-cumulative shares ranking on a parity with the First Preferred Shares. See “Bank Act Restrictions and Restrictions on Payment of Dividends”.

### ***Issue of Additional Series of First Preferred Shares***

The Bank may issue other series of First Preferred Shares ranking on a parity with the Preferred Shares Series 21 without the authorization of the holders of the Preferred Shares Series 21, if at the date of such issuance all cumulative dividends up to and including the dividend payment date for the last completed period for which such cumulative dividends shall be payable shall have been declared and paid or set apart for payment in respect of each series of cumulative First Preferred Shares then issued and outstanding, if any, and any declared and unpaid non-cumulative dividends shall have been paid or set apart for payment in respect of each series of non-cumulative First Preferred Shares then issued and outstanding.

### ***Amendments to Preferred Shares Series 21***

The Bank will not, without the approval of the holders of the Preferred Shares Series 21 given as specified below under “Shareholder Approvals”, delete or vary any rights, privileges, restrictions and conditions attaching to the Preferred Shares Series 21. In addition to the aforementioned approval, the Bank will not without, but may from time to time with, the prior approval of the Superintendent, make any such deletion or variation which might affect the classification afforded the Preferred Shares Series 21 from time to time for capital adequacy requirements pursuant to the Bank Act and the regulations and guidelines thereunder.

### ***Shareholder Approvals***

The approval of any amendments to the rights, privileges, restrictions and conditions attaching to the Preferred Shares Series 21 may be given by a resolution carried by the affirmative vote of not less than 66<sup>2</sup>/<sub>3</sub>% of the votes cast at a meeting of holders of Preferred Shares Series 21 at which a majority of the outstanding Preferred Shares Series 21 is represented or, if no such quorum is present at such meeting, at any adjourned meeting at which shareholders then present or represented by proxy would form the necessary quorum.

### ***Rights on Liquidation***

In the event of the liquidation, dissolution or winding-up of the Bank, the holders of the Preferred Shares Series 21 will be entitled to receive \$25.00 per share together with all dividends declared and unpaid to the date of payment before any amount will be paid or any assets of the Bank distributed to the holders of any shares ranking junior to the Preferred Shares Series 21. The holders of the Preferred Shares Series 21 will not be entitled to share in any further distribution of the assets of the Bank.

### ***Voting Rights***

Subject to the provisions of the Bank Act, the holders of Preferred Shares Series 21 as such will not be entitled to receive notice of, attend, or vote at, any meeting of the shareholders of the Bank unless and until the first time at which the rights of such holders to any undeclared dividends have become extinguished as described above under "Dividends". In that event, the holders of Preferred Shares Series 21 will be entitled to receive notice of, and to attend, meetings of shareholders at which directors of the Bank are to be elected and will be entitled to one vote for each Preferred Share Series 21 held. The voting rights of the holders of the Preferred Shares Series 21 will forthwith cease upon payment by the Bank of the first quarterly dividend on the Preferred Shares Series 21 to which the holders are entitled subsequent to the time such voting rights first arose. At such time as the rights of such holders to any undeclared dividends on the Preferred Shares Series 21 have again become extinguished, such voting rights will become effective again and so on from time to time.

In connection with any action to be taken by the Bank which requires the approval of the holders of Preferred Shares Series 21 voting as a series or as part of the class, each such share will entitle the holder thereof to one vote.

### ***Tax Election***

The Bank will elect, in the manner and within the time provided under Part VI.1 of the Tax Act, to pay tax at a rate such that corporate shareholders who hold Preferred Shares Series 21 will not be required to pay tax on dividends received on the Preferred Shares Series 21 under Part IV.1 of such Act.

### ***Business Days***

If any action is required to be taken by the Bank on a day that is not a business day, then such action will be taken on the next succeeding day that is a business day.

### **Certain Provisions of the Preferred Shares Series 22 as a Series**

#### ***Definition of Terms***

The following definitions are relevant to the Preferred Shares Series 22.

**"Floating Quarterly Dividend Rate"** means, for any Quarterly Floating Rate Period, the rate of interest (expressed as a percentage rate rounded down to the nearest one hundred-thousandth of one percent (with 0.000005% being rounded up)) equal to the sum of the T-Bill Rate on the applicable Floating Rate Calculation Date plus 2.05% (calculated on the basis of the actual number of days elapsed in such Quarterly Floating Rate Period divided by 365).

**"Floating Rate Calculation Date"** means, for any Quarterly Floating Rate Period, the 30<sup>th</sup> day prior to the first day of such Quarterly Floating Rate Period.

**“Quarterly Commencement Date”** means the 16<sup>th</sup> day of each of February, May, August and November in each year.

**“Quarterly Floating Rate Period”** means, for the initial Quarterly Floating Rate Period, the period commencing on August 16, 2013 and ending on and including November 15, 2013, and thereafter the period from and including the day immediately following the end of the immediately preceding Quarterly Floating Rate Period to but excluding the next succeeding Quarterly Commencement Date.

**“T-Bill Rate”** means, for any Quarterly Floating Rate Period, the average yield expressed as a percentage per annum on three-month Government of Canada Treasury Bills, as reported by the Bank of Canada, for the most recent treasury bills auction preceding the applicable Floating Rate Calculation Date.

### ***Issue Price***

The Preferred Shares Series 22 will have an issue price of \$25.00 per share.

### ***Dividends***

The holders of the Preferred Shares Series 22 will be entitled to receive floating rate non-cumulative preferential cash dividends as and when declared by the Board of Directors, subject to the provisions of the Bank Act, payable quarterly on the fifteenth day of each of February, May, August and November of each year, in the amount per share determined by multiplying the applicable Floating Quarterly Dividend Rate by \$25.00.

The Floating Quarterly Dividend Rate for each Quarterly Floating Rate Period will be determined by the Bank on the 30<sup>th</sup> day prior to the first day of each Quarterly Floating Rate Period. Such determination will, in the absence of manifest error, be final and binding upon the Bank and upon all holders of Preferred Shares Series 22. The Bank will, on the Floating Rate Calculation Date, give written notice of the Floating Quarterly Dividend Rate for the ensuing Quarterly Floating Rate Period to all registered holders of the then outstanding Preferred Shares Series 22.

If the Board of Directors does not declare a dividend, or any part thereof, on the Preferred Shares Series 22 on or before the dividend payment date for a particular Quarterly Floating Rate Period, then the entitlement of the holders of the Preferred Shares Series 22 to receive such dividend, or to any part thereof, for such Quarterly Floating Rate Period will be forever extinguished.

Reference is also made to “Restrictions on Dividends and Retirement of Shares” and “Bank Act and Restrictions on Payment of Dividends”.

### ***Redemption***

Subject to the provisions of the Bank Act and to the prior consent of the Superintendent and to the provisions described below under the heading “Restrictions on Dividends and Retirement of Shares”, on not more than 60 nor less than 30 days’ notice, the Bank may redeem all or any part of the then outstanding Preferred Shares Series 22, at the Bank’s option without the consent of the holder, by the payment of an amount in cash for each such share so redeemed of (i) \$25.00 together with all declared and unpaid dividends to the date fixed for redemption in the case of redemptions on August 16, 2018 and on August 16 every five years thereafter, or (ii) \$25.50 together with all declared and unpaid dividends to the date fixed for redemption in the case of redemptions on any other date on or after August 16, 2013.

Notice of any redemption will be given by the Bank at least 30 days and not more than 60 days prior to the date fixed for redemption. If less than all the outstanding Preferred Shares Series 22 are at any time to be redeemed, the shares to be redeemed will be redeemed *pro rata*, disregarding fractions. Reference is also made to the provisions described below under the heading “Bank Act Restrictions and Restrictions on Payment of Dividends”.

The Preferred Shares Series 22 do not have a fixed maturity date and are not redeemable at the option of the holders. See “Risk Factors”.

### ***Conversion of Preferred Shares Series 22 into Preferred Shares Series 21***

Holders of Preferred Shares Series 22 will have the right, at their option, on August 16, 2018 and on August 16 every five years thereafter (a “Series 22 Conversion Date”), to convert, subject to the restrictions on conversion described below and the payment or delivery to the Bank of evidence of payment of the tax (if any) payable, all or any of their Preferred Shares Series 22 registered in their name into Preferred Shares Series 21 on the basis of one Preferred Share Series 21 for each Preferred Share Series 22. The conversion of Preferred Shares Series 22 may be effected not earlier than the 30<sup>th</sup> day prior to, but not later than 5:00 p.m. (Montréal time) on the 15th day preceding, a Series 22 Conversion Date.

The Bank will, at least 30 days and not more than 60 days prior to the applicable Series 22 Conversion Date, give notice in writing to the then holders of the Preferred Shares Series 22 of the above-mentioned conversion right. On the 30<sup>th</sup> day prior to each Series 22 Conversion Date, the Bank will give notice in writing to the then registered holders of Preferred Shares Series 22 of the Annual Fixed Dividend Rate for the next succeeding Subsequent Fixed Rate Period.

Holders of Preferred Shares Series 22 will not be entitled to convert their shares into Preferred Shares Series 21 if the Bank determines that there would remain outstanding on a Series 22 Conversion Date less than 600,000 Preferred Shares Series 21, after having taken into account all Preferred Shares Series 22 tendered for conversion into Preferred Shares Series 21 and all Preferred Shares Series 21 tendered for conversion into Preferred Shares Series 22. The Bank will give notice in writing thereof to all registered holders of the Preferred Shares Series 22 at least seven days prior to the applicable Series 22 Conversion Date. Furthermore, if the Bank determines that there would remain outstanding on a Series 22 Conversion Date less than 600,000 Preferred Shares Series 22, after having taken into account all Preferred Shares Series 22 tendered for conversion into Preferred Shares Series 21 and all Preferred Shares Series 21 tendered for conversion into Preferred Shares Series 22, then, all, but not part, of the remaining outstanding Preferred Shares Series 22 will automatically be converted into Preferred Shares Series 21 on the basis of one Preferred Share Series 21 for each Preferred Share Series 22 on the applicable Series 22 Conversion Date, without the consent of the holders, and the Bank will give notice in writing thereof to the then registered holders of such remaining Preferred Shares Series 22 at least seven days prior to the Series 22 Conversion Date.

If the Bank gives notice to the registered holders of the Preferred Shares Series 22 of the redemption on a Series 22 Conversion Date of all the Preferred Shares Series 22, the Bank will not be required to give notice as provided hereunder to the registered holders of the Preferred Shares Series 22 of an Annual Fixed Dividend Rate or of the conversion right of holders of Preferred Shares Series 22 and the right of any holder of Preferred Shares Series 22 to convert such Preferred Shares Series 22 will cease and terminate in that event.

### ***Purchase for Cancellation***

Subject to the provisions of the Bank Act, the prior consent of the Superintendent and the provisions described below under the heading “Restrictions on Dividends and Retirement of Shares”, the Bank may at any time purchase for cancellation any of the Preferred Shares Series 22 in the open market at the lowest price or prices at which in the opinion of the Board of Directors such shares are obtainable.

### ***Restrictions on Dividends and Retirement of Shares***

So long as any of the Preferred Shares Series 22 are outstanding, the Bank will not, without the approval of the holders of outstanding Preferred Shares Series 22 given as specified below:

- (a) pay any dividends on the Common Shares or any other shares ranking junior to the Preferred Shares Series 22 (other than stock dividends payable in shares of the Bank ranking junior to the Preferred Shares Series 22);
- (b) redeem, purchase or otherwise retire any Common Shares or any other shares ranking junior to the Preferred Shares Series 22 (except out of the net cash proceeds of a substantially concurrent issue of shares ranking junior to the Preferred Shares Series 22);
- (c) redeem, purchase or otherwise retire less than all the Preferred Shares Series 22 then outstanding; or

- (d) except pursuant to any purchase obligation, sinking fund, retraction privilege or mandatory redemption provisions attaching to any series of preferred shares of the Bank, redeem, purchase or otherwise retire any other shares ranking on a parity with the Preferred Shares Series 22;

unless, in each such case, all dividends up to and including the dividend payment date for the last completed period for which dividends will be payable will have been declared and paid or set apart for payment in respect of each series of cumulative First Preferred Shares then issued and outstanding and on all other cumulative shares ranking on a parity with the First Preferred Shares and there will have been paid or set apart for payment all declared dividends in respect of each series of non-cumulative First Preferred Shares (including the Preferred Shares Series 22) then issued and outstanding and on all other non-cumulative shares ranking on a parity with the First Preferred Shares. See “Bank Act Restrictions and Restrictions on Payment of Dividends”.

#### ***Issue of Additional Series of First Preferred Shares***

The Bank may issue other series of First Preferred Shares ranking on a parity with the Preferred Shares Series 22 without the authorization of the holders of the Preferred Shares Series 22, if at the date of such issuance all cumulative dividends up to and including the dividend payment date for the last completed period for which such cumulative dividends shall be payable shall have been declared and paid or set apart for payment in respect of each series of cumulative First Preferred Shares then issued and outstanding, if any, and any declared and unpaid non-cumulative dividends shall have been paid or set apart for payment in respect of each series of non-cumulative First Preferred Shares then issued and outstanding.

#### ***Amendments to Preferred Shares Series 22***

The Bank will not, without the approval of the holders of the Preferred Shares Series 22 given as specified below under “Shareholder Approvals”, delete or vary any rights, privileges, restrictions and conditions attaching to the Preferred Shares Series 22. In addition to the aforementioned approval, the Bank will not without, but may from time to time with, the prior approval of the Superintendent, make any such deletion or variation which might affect the classification afforded the Preferred Shares Series 22 from time to time for capital adequacy requirements pursuant to the Bank Act and the regulations and guidelines thereunder.

#### ***Shareholder Approvals***

The approval of any amendments to the rights, privileges, restrictions and conditions attaching to the Preferred Shares Series 22 may be given by a resolution carried by the affirmative vote of not less than  $66\frac{2}{3}\%$  of the votes cast at a meeting of holders of Preferred Shares Series 22 at which a majority of the outstanding Preferred Shares Series 22 is represented or, if no such quorum is present at such meeting, at any adjourned meeting at which shareholders then present or represented by proxy would form the necessary quorum.

#### ***Rights on Liquidation***

In the event of the liquidation, dissolution or winding-up of the Bank, the holders of the Preferred Shares Series 22 will be entitled to receive \$25.00 per share together with all dividends declared and unpaid to the date of payment before any amount will be paid or any assets of the Bank distributed to the holders of any shares ranking junior to the Preferred Shares Series 22. The holders of the Preferred Shares Series 22 will not be entitled to share in any further distribution of the assets of the Bank.

#### ***Voting Rights***

Subject to the provisions of the Bank Act, the holders of Preferred Shares Series 22 as such will not be entitled to receive notice of, attend, or vote at, any meeting of the shareholders of the Bank unless and until the first time at which the rights of such holders to any undeclared dividends have become extinguished as described above under “Dividends”. In that event, the holders of Preferred Shares Series 22 will be entitled to receive notice of, and to attend, meetings of shareholders at which directors of the Bank are to be elected and will be entitled to one vote for each Preferred Share Series 22 held. The voting rights of the holders of the Preferred Shares Series 22 will forthwith cease upon payment by the Bank of the first quarterly dividend on the Preferred Shares Series 22 to which the holders are entitled subsequent to the time such voting rights first arose. At such time as the rights of such holders to any undeclared dividends on the Preferred Shares Series 22 have again become extinguished, such voting rights will become effective again and so on from time to time.

In connection with any action to be taken by the Bank which requires the approval of the holders of Preferred Shares Series 22 voting as a series or as part of the class, each such share will entitle the holder thereof to one vote.

### ***Tax Election***

The Bank will elect, in the manner and within the time provided under Part VI.1 of the Tax Act, to pay tax at a rate such that corporate shareholders who hold Preferred Shares Series 22 will not be required to pay tax on dividends received on the Preferred Shares Series 22 under Part IV.1 of such Act.

### ***Business Days***

If any action is required to be taken by the Bank on a day that is not a business day, then such action will be taken on the next succeeding day that is a business day.

### **Depository Services**

Except as otherwise provided below, the Preferred Shares Series 21 and Preferred Shares Series 22 will be issued in “book-entry only” form and must be purchased, transferred, redeemed, converted or exchanged through participants (“Participants”) in the depository service of CDS or its nominee, which include securities brokers and dealers, banks and trust companies. On the closing date, the Bank will cause a global certificate representing the Preferred Shares Series 21 to be delivered to, and registered in the name of, CDS or its nominee. Except as described below, no purchaser of Preferred Shares Series 21 or Preferred Shares Series 22, as applicable, will be entitled to a certificate or other instrument from the Bank or CDS evidencing that purchaser’s ownership thereof, and no purchaser will be shown on the records maintained by CDS except through a book-entry account of a Participant acting on behalf of such purchaser. Each purchaser of Preferred Shares Series 21 or Preferred Shares Series 22, as applicable, will receive a customer confirmation of purchase from the registered dealer from which the Preferred Shares Series 21 or Preferred Shares Series 22, as applicable, are purchased in accordance with the practices and procedures of that registered dealer. The practices of registered dealers may vary, but generally customer confirmations are issued promptly after execution of a customer order. CDS will be responsible for establishing and maintaining book-entry accounts for its Participants having interests in the Preferred Shares Series 21 or Preferred Shares Series 22, as applicable.

Neither the Bank nor the Underwriters will assume any liability for: (i) any aspect of the records relating to the beneficial ownership of the Preferred Shares Series 21 or Preferred Shares Series 22, as applicable, held by CDS or the payments relating thereto; (ii) maintaining, supervising or reviewing any records relating to the Preferred Shares Series 21 or Preferred Shares Series 22, as applicable; or (iii) any advice or representation made by or with respect to CDS and any representation contained in this short form prospectus and relating to the rules governing CDS or any action to be taken by CDS or at the direction of its Participants. The rules governing CDS provide that it acts as the agent and depository for the Participants. As a result, Participants must look solely to CDS and persons, other than Participants, having an interest in the Preferred Shares Series 21 or Preferred Shares Series 22, as applicable, must look solely to Participants for payments made by or on behalf of the Bank to CDS in respect of the Preferred Shares Series 21 or Preferred Shares Series 22, as applicable.

If: (i) required by applicable law; (ii) the book-entry system ceases to exist; (iii) the Bank determines, or CDS notifies the Bank in writing, that CDS is no longer willing or able to discharge properly the responsibilities as depository with respect to the Preferred Shares Series 21 or Preferred Shares Series 22, as applicable, and the Bank is unable to locate a qualified successor; or (iv) the Bank at its option elects, or is required by law, to terminate the book-entry system, then certificates representing the Preferred Shares Series 21 or Preferred Shares Series 22, as applicable, will be issued to holders thereof or their nominees.

### ***Manner of Effecting Conversion, Transfer or Redemption***

A conversion, transfer or redemption of Preferred Shares Series 21 or Preferred Shares Series 22, as applicable, will be effected through records maintained by CDS or its nominee with respect to interests of Participants, and on the records of Participants with respect to interests of persons other than Participants. Holders of Preferred Shares Series 21 or Preferred Shares Series 22, as applicable, who are not Participants, but who desire to purchase, sell, convert or otherwise transfer ownership of or other interests in the Preferred Shares Series 21 or Preferred Shares Series 22, may do so only through Participants.

Reference is also made to “Bank Act Restrictions and Restrictions on Payment of Dividends” and also to “Restraints on Bank Shares under the Bank Act”.

### ***Payment of Dividends and Other Amounts***

Payments of dividends and other amounts in respect of the Preferred Shares Series 21 or Preferred Shares Series 22, as applicable, will be made by the Bank to CDS or its nominee, as the case may be, as registered holder of the Preferred Shares Series 21 or Preferred Shares Series 22, as applicable. As long as CDS or its nominee is the registered owner of the Preferred Shares Series 21 or Preferred Shares Series 22, as applicable, CDS or its nominee, as the case may be, will be considered the sole owner of the Preferred Shares Series 21 or Preferred Shares Series 22, as applicable, for the purposes of receiving payments on the Preferred Shares Series 21 or Preferred Shares Series 22, as applicable.

The Bank expects that CDS or its nominee, upon receipt of any payment in respect of the Preferred Shares Series 21 or Preferred Shares Series 22, as applicable, will credit, on the date such payment is received, the Participants’ accounts with payments in amounts proportionate to their respective beneficial interests in the Preferred Shares Series 21 or Preferred Shares Series 22, as applicable, as shown on the records of CDS or its nominee. The Bank also expects that payments by the Participants to the owners of beneficial interests in such Preferred Shares Series 21 or Preferred Shares Series 22, as applicable, held through such Participants will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in “street name”, and will be the responsibility of such Participants. The responsibility and liability of the Bank in respect of the Preferred Shares Series 21 or Preferred Shares Series 22, as applicable, issued in book-entry form is limited to making payment of any amount due on such Preferred Shares Series 21 or Preferred Shares Series 22, as applicable, to CDS or its nominee.

### **Bank Act Restrictions and Restrictions on Payment of Dividends**

Under the Bank Act, the Bank, with the prior consent of the Superintendent, may redeem or purchase any of its shares, including the Preferred Shares Series 21 and Preferred Shares Series 22, unless there are reasonable grounds for believing that the Bank is, or the redemption or purchase would cause the Bank to be, in contravention of any regulation made under the Bank Act respecting the maintenance by banks of adequate capital and adequate and appropriate forms of liquidity, or any direction to the Bank made by the Superintendent pursuant to Subsection 485(3) of the Bank Act regarding its capital or its liquidity. No such direction to the Bank has been made to date.

The Bank is prohibited under the Bank Act from paying or declaring a dividend if there are reasonable grounds for believing that the Bank is, or the payment would cause the Bank to be, in contravention of any regulation made under the Bank Act respecting the maintenance by banks of adequate capital and adequate and appropriate forms of liquidity, or any directive to the Bank made by the Superintendent pursuant to Subsection 485(3) of the Bank Act regarding its capital or its liquidity. As at the date hereof, this limitation would not restrict a payment of quarterly dividends on the Preferred Shares Series 21 and Preferred Shares Series 22. Further, no such directive to the Bank has been made to date.

Pursuant to agreements made between (i) the Bank, Computershare Trust Company of Canada and NBC Capital Trust and (ii) the Bank, Computershare Trust Company of Canada and NBC Asset Trust (together with NBC Capital Trust, the “Trusts”), the Bank has covenanted with the holders of the outstanding Trust Capital Securities of the Trusts (individually, the NBC CapS – Series 1 and the NBC CapS II – Series 1 and, collectively, the “NBC CapS”) that, if the Trusts fail to pay in full a required distribution on any series of NBC CapS, the Bank will refrain from declaring dividends of any kind on its common shares or preferred shares until the month commencing immediately after the third month (with respect to the NBC CapS II – Series 1), or fourth month (with respect to the NBC CapS – Series 1), in which the Bank ordinarily declares dividends from time to time on the common shares or the preferred shares, unless the Trusts first pay the required distribution (or the unpaid portion thereof) to the respective holders of NBC CapS.

### **Restraints on Bank Shares under the Bank Act**

The Bank Act contains restrictions on the issue, transfer, acquisition, beneficial ownership and voting of all shares of a chartered bank. The following is a summary of such restrictions. No person shall be a major shareholder of a bank if the bank has equity of \$8 billion or more. While the equity of the Bank is less than \$8 billion and the Bank Act would otherwise permit a person to own up to 65% of any class of shares of the Bank, the Bank is deemed to be a bank to which the ownership restrictions for banks with equity of \$8 billion or more apply until the Minister of Finance (Canada) specifies, on application by the Bank, that these restrictions no longer apply to the Bank.

A person is a major shareholder of a bank where: (i) the aggregate of shares of any class of voting shares beneficially owned by that person, by entities controlled by that person and by any person associated or acting jointly or in concert with that person is more than 20% of that class of voting shares; or (ii) the aggregate of shares of any class of non-voting shares beneficially owned by that person, by entities controlled by that person and by any person associated or acting jointly or in concert with that person is more than 30% of that class of non-voting shares. No person, or persons acting jointly or in concert, shall have a significant interest in any class of shares of a bank, including the Bank, unless the person first receives the approval of the Minister of Finance (Canada). For purposes of the Bank Act, a person has a significant interest in a class of shares of a bank where the aggregate of any shares of the class beneficially owned by that person, by entities controlled by that person and by any person associated or acting jointly or in concert with that person exceeds 10% of all of the outstanding shares of that class of shares of such bank.

The Bank Act also prohibits the registration of a transfer or issue of any shares of the bank to Her Majesty in Right of Canada or of a province or any agent or agency of Her Majesty in either of those rights, or to the government of a foreign country or any political subdivision, agent or agency of any of them.

Purchasers of the Preferred Shares Series 21 may be required to furnish declarations relative to ownership in a form prescribed by the Bank.

### **Canadian Federal Income Tax Considerations**

In the opinion of McCarthy Tétrault LLP, counsel to the Bank, and Ogilvy Renault LLP, counsel to the Underwriters, the following is a summary of the principal Canadian federal income tax considerations generally applicable to a purchaser of Preferred Shares Series 21 acquired pursuant to this short form prospectus who, within the meaning of the Tax Act, is resident at all relevant times in Canada or deemed to be a resident of Canada, deals at arm's length with the Bank, is not affiliated with the Bank, holds the Preferred Shares Series 21 or Preferred Shares Series 22 as capital property and is not exempt from tax under Part I of the Tax Act.

Generally, the Preferred Shares Series 21 and the Preferred Shares Series 22 will be capital property to a purchaser provided the purchaser does not hold such shares in the course of carrying on a business of trading or dealing in securities and does not acquire them as part of an adventure in the nature of a trade. Certain purchasers who might not otherwise be considered to hold Preferred Shares Series 21 or Preferred Shares Series 22 as capital property may, in certain circumstances, be entitled to have them and all other "Canadian securities", as defined in the Tax Act, treated as capital property by making the irrevocable election permitted by subsection 39(4) of the Tax Act.

This summary is not applicable to a purchaser that is a "financial institution" for the purposes of the "mark to market rules", to a purchaser, an interest in which would be a "tax shelter investment" or a purchaser to whom the "functional currency" reporting rules apply, each as defined in the Tax Act. Such purchasers should consult their own tax advisors. Furthermore, this summary is not applicable to a purchaser that is a "specified financial institution", as defined in the Tax Act, that receives or is deemed to receive, alone or together with persons with whom it does not deal at arm's length, in the aggregate dividends in respect of more than 10% of the Preferred Shares Series 21 or the Preferred Shares Series 22, as the case may be, outstanding at the time the dividend is received. This summary also assumes that all issued and outstanding Preferred Shares Series 21 or Preferred Shares Series 22 are listed on a designated stock exchange in Canada (as defined in the Tax Act) at such times as dividends (including deemed dividends) are paid or received on such shares.

**This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any particular purchaser. Accordingly, prospective purchasers are urged to consult their own tax advisors with respect to their particular circumstances.**

This summary is based upon the current provisions of the Tax Act, the regulations thereunder, all specific proposals to amend the Tax Act and the regulations publicly announced by the Minister of Finance prior to the date hereof (the "Proposals") and counsel's understanding of the current administrative practices and assessing policies published in writing by the Canada Revenue Agency (the "CRA"). This summary does not otherwise take into account any changes in law or in administrative practices or assessing policies, whether by legislative, administrative or judicial decision or action, nor does it take into account or consider any provincial, territorial or foreign income tax considerations, which may be different from those discussed herein. No assurance can be given that the Proposals will be enacted as proposed or at all.

## ***Dividends***

Dividends (including deemed dividends) received on the Preferred Shares Series 21 or the Preferred Shares Series 22 by an individual (other than certain trusts) will be included in the individual's income and will be subject to the gross-up and dividend tax credit rules applicable to taxable dividends received by individuals from taxable Canadian corporations, including the enhanced dividend tax credit rules applicable to any dividends designated by the Bank as "eligible dividends" in accordance with the Tax Act.

Dividends (including deemed dividends) on the Preferred Shares Series 21 and the Preferred Shares Series 22 received by a corporation will be included in computing income and will generally be deductible in computing the taxable income of the corporation.

The Preferred Shares Series 21 and the Preferred Shares Series 22 will be "taxable preferred shares" as defined in the Tax Act. The terms of the Preferred Shares Series 21 and the Preferred Shares Series 22 require the Bank to make the necessary election under Part VI.1 of the Tax Act so that corporate shareholders will not be subject to tax under Part IV.1 of the Tax Act on dividends paid (or deemed to be paid) by the Bank on the Preferred Shares Series 21 and the Preferred Shares Series 22.

A private corporation, as defined in the Tax Act, or any other corporation controlled, whether by reason of a beneficial interest in one or more trusts or otherwise, by or for the benefit of an individual (other than a trust) or a related group of individuals (other than trusts), will generally be liable to pay a  $33\frac{1}{3}\%$  refundable tax under Part IV of the Tax Act on dividends received (or deemed to be received) on the Preferred Shares Series 21 and the Preferred Shares Series 22 to the extent such dividends are deductible in computing its taxable income.

## ***Dispositions***

A holder who disposes of or is deemed to dispose of the Preferred Shares Series 21 or the Preferred Shares Series 22 (including on redemption of the shares or other acquisition by the Bank, but excluding on a conversion) will generally realize a capital gain (or sustain a capital loss) to the extent that the proceeds of disposition, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base of such shares to the holder thereof. The amount of any deemed dividend arising on the redemption or acquisition by the Bank of Preferred Shares Series 21 or the Preferred Shares Series 22 will generally not be included in computing the proceeds of disposition of a holder for purposes of computing the capital gain or capital loss arising on the disposition of such shares. See "Redemption" below. If the shareholder is a corporation, any such capital loss may in certain circumstances be reduced by the amount of any dividends, including deemed dividends, which have been received on such shares to the extent and under circumstances prescribed by the Tax Act. Analogous rules apply to a partnership or trust of which a corporation, trust or partnership is a member or beneficiary.

Generally, one-half of any such capital gain will be included in computing the holder's income as a taxable capital gain and one-half of any such capital loss may be deducted from the holder's taxable capital gains in accordance with the rules contained in the Tax Act. Any such capital gain realized by an individual may give rise to a liability for alternative minimum tax. Taxable capital gains of a Canadian controlled private corporation (as defined in the Tax Act) may be subject to an additional refundable tax at a rate of  $6\frac{2}{3}\%$ .

## ***Redemption***

If the Bank redeems for cash or otherwise acquires the Preferred Shares Series 21 or the Preferred Shares Series 22, other than by a purchase in the manner in which shares are normally purchased by a member of the public in the open market, the holder will be deemed to have received a dividend equal to the amount, if any, paid by the Bank, including any redemption premium, in excess of the paid-up capital of such shares at such time as computed for purposes of the Tax Act. See "Dividends" above. The difference between the amount paid and the amount of the deemed dividend will be treated as proceeds of disposition for the purposes of computing the capital gain or capital loss arising on the disposition of such shares. See "Dispositions" above. In the case of a corporate shareholder, it is possible that in certain circumstances all or part of the amount so deemed to be a dividend may be treated as proceeds of disposition and not as a dividend.

## ***Conversion***

The conversion of a Preferred Share Series 21 into a Preferred Share Series 22 and a Preferred Shares Series 22 into a Preferred Shares Series 21 will be deemed not to be a disposition of property and accordingly will not give rise to any

capital gain or capital loss. The cost to a holder of a Preferred Share Series 22 or Preferred Share Series 21, as the case may be, received on the conversion will be deemed to be equal to the holder's adjusted cost base of the Preferred Share Series 21 or Preferred Share Series 22, as the case may be, immediately before the conversion.

### ***Alternative Minimum Tax***

A capital gain realized, or a dividend received or deemed to be received, by an individual or a trust (other than certain specified trusts) may give rise to a liability for alternative minimum tax.

### **Ratings**

The Preferred Shares Series 21 are provisionally rated "Pfd-1 (low)" by DBRS. A "Pfd-1" rating is the highest of five categories available from DBRS for preferred shares. A reference to "high" or "low" reflects the relative strength within the rating category.

The Preferred Shares Series 21 are provisionally rated "P-2 (High)" by Standard & Poor's Ratings Services ("S&P"), a division of The McGraw-Hill Companies (Canada) Corporation, using the S&P Canadian scale for preferred shares and are provisionally rated "BBB+" using S&P's global scale for preferred shares. The "P-2" rating is the second highest of the five categories used by S&P on its Canadian preferred share scale. The "BBB" rating is the fourth highest of the nine categories used by S&P on its global scale. A reference to "high" or "low" or "+/-" reflects the relative strength within the rating category.

The Preferred Shares Series 21 are provisionally rated A1 by Moody's Investors Service, Inc. ("Moody's"), a subsidiary of Moody's Corporation. An A rating by Moody's is the third highest of the nine categories used by Moody's. The modifier "1" indicates that the obligation ranks at the higher of the "A" rating category.

Prospective purchasers of Preferred Shares Series 21 should consult the rating organization with respect to the interpretation and implications of the foregoing provisional ratings. None of the foregoing ratings should be construed as a recommendation to buy, sell or hold the Preferred Shares Series 21. The foregoing ratings may be revised or withdrawn at any time by the respective rating organization.

### **Earnings Coverage Ratios**

The Bank's dividend requirements on its outstanding First Preferred Shares, after giving effect to the issue of the Preferred Shares Series 21 to be distributed under this short form prospectus, assuming complete exercise of the Over-Allotment Option to purchase up to an additional 1,050,000 Preferred Shares Series 21, and adjusted to a before-tax equivalent using a statutory income tax rate of 33.45% for the 12 months ended October 31, 2007 and for the 12 months ended April 30, 2008 (assuming the issuance of the Preferred Shares Series 20 on the first day of such period), amounted to \$64 million for the 12 months ended October 31, 2007 and for the 12 months ended April 30, 2008 respectively. The Bank's disbursement requirements for innovative capital instruments for the 12 months ended October 31, 2007 and the 12 months ended April 30, 2008 (assuming the issuance of the NBC CapS II -Series 1 on the first day of such period) amounted to \$65 million and \$66 million, respectively. The Bank's interest requirements for subordinated debentures for the 12 months ended October 31, 2007 and April 30, 2008 (assuming the issuance of the Series 6 Medium Term Notes on the first day of such period), amounted to \$128 million and \$118 million, respectively. The Bank's earnings before income taxes, non-controlling interest, debentures and innovative capital instruments for the 12 months ended October 31, 2007 and April 30, 2008 were \$800 million and \$632 million respectively (\$1,375 million and \$1,207 million respectively when excluding the charge related to available for sale ABCP (\$575 million)), which are 3.11 times and 2.55 times the Bank's aggregate dividend, disbursement on innovative capital instruments and interest requirements for these periods, respectively (5.35 times and 4.87 times respectively when excluding the charge related to ABCP), after giving effect to the issue of the Preferred Shares Series 21, assuming full exercise of the Over-Allotment Option.

### **Prior Sales**

On April 16, 2008, the Bank issued 6,000,000 Non-Cumulative Fixed Rate First Preferred Shares Series 20 (the "Preferred Shares Series 20"), and on April 23, 2008, the Bank issued an additional 900,000 Preferred Shares Series 20 following the exercise of an over-allotment option, all at a price of \$25.00 per share to yield 6.00%.

On January 22, 2008, NBC Asset Trust (the "Trust"), a closed-end trust established by Natcan Trust Company, a subsidiary of the Bank, issued 400,000 non-voting transferable trust units called Trust Capital Securities – Series 1 or "NBC

CapS II – Series 1” at a price of \$1,000 per NBC CapS II – Series 1. This offering provided the Bank with a cost-effective means of raising regulatory capital. The NBC CapS II – Series 1 are not redeemable for or exchangeable into preferred shares of the Bank at the option of the holder. Each NBC CapS II – Series 1 will be exchanged automatically, without the consent of the holders, for 40 newly issued non-cumulative, perpetual First Preferred Shares, Series 19 of the Bank upon the occurrence of one of the following events: (i) proceedings are commenced for the winding-up of the Bank; (ii) the Superintendent takes control of the Bank; (iii) the Bank posts a Tier 1 capital ratio of less than 5% or a total capital ratio of less than 8%; or (iv) the Superintendent has directed the Bank to increase its capital or to provide additional liquidity and the Bank elects to cause such automatic exchange or the Bank does not comply with such direction to the satisfaction of the Superintendent.

### **Market for Securities**

The Common Shares, the First Preferred Shares Series 15, 16 and 20, and the Nikkei 225 (2009) notes are listed on the TSX under the symbols “NA”, “NA.PR.K”, “NA.PR.L” “NA.PR.M.” and “NA.NT.J”, respectively.

The following tables show the monthly price ranges and total monthly volumes of shares or notes traded on the TSX for each month in the twelve month period ended May 31, 2008 and for the 9-day period ended June 9, 2008.

<b>Month</b>	<b><u>Common Shares (NA)</u></b>		<b>Total Volume</b>
	<b>High</b>	<b>Low</b>	
June 1 to 9, 2008	\$55.38	\$53.26	4,204,416
May 2008	\$54.78	\$51.60	12,072,297
April 2008	\$54.21	\$47.60	12,958,815
March 2008	\$50.47	\$43.60	18,615,438
February 2008	\$53.60	\$48.26	11,947,810
January 2008	\$52.48	\$44.51	13,735,907
December 2007	\$55.20	\$49.51	10,255,033
November 2007	\$54.60	\$49.01	17,807,847
October 2007	\$57.16	\$49.99	19,319,102
September 2007	\$56.10	\$51.55	23,074,662
August 2007	\$60.98	\$53.10	31,047,397
July 2007	\$63.23	\$60.46	10,634,905
June 2007	\$64.94	\$60.70	18,208,397

<b>Month</b>	<b><u>First Preferred Shares Series 15 (NA.PR.K)</u></b>		<b>Total Volume</b>
	<b>High</b>	<b>Low</b>	
June 1 to 9, 2008	\$24.84	\$24.68	10,055
May 2008	\$24.91	\$24.50	260,413
April 2008	\$24.99	\$24.50	186,400
March 2008	\$25.47	\$24.62	103,693
February 2008	\$25.96	\$25.18	71,153
January 2008	\$25.74	\$24.31	104,838
December 2007	\$25.19	\$24.21	146,169
November 2007	\$25.29	\$23.01	230,947
October 2007	\$25.65	\$24.26	179,789
September 2007	\$26.30	\$25.00	321,450
August 2007	\$26.44	\$25.81	73,338
July 2007	\$26.95	\$25.63	88,133
June 2007	\$26.50	\$25.27	388,600

<b>Month</b>	<b><u>First Preferred Shares Series 16 (NA.PR.L)</u></b>		<b>Total Volume</b>
	<b>High</b>	<b>Low</b>	
June 1 to 9, 2008	\$20.89	\$20.50	66,757
May 2008	\$21.36	\$20.49	210,659
April 2008	\$21.22	\$20.29	164,137
March 2008	\$22.25	\$20.41	242,105
February 2008	\$22.99	\$22.10	119,631
January 2008	\$25.00	\$21.55	189,779
December 2007	\$21.99	\$20.11	461,347

November 2007	\$21.45	\$19.65	451,484
October 2007	\$23.12	\$20.80	214,678
September 2007	\$23.76	\$22.75	249,211
August 2007	\$24.60	\$23.52	117,980
July 2007	\$24.87	\$23.64	137,036
June 2007	\$25.12	\$23.23	208,701

**First Preferred Shares Series 20 (NA.PR.M)**

<b>Month</b>	<b>High</b>	<b>Low</b>	<b>Total Volume</b>
June 1 to 9, 2008	\$25.10	\$24.96	139,444
May 2008	\$25.48	\$24.96	192,683
April 2008	\$25.02	\$24.80	653,427

**Nikkei 225(2009) Notes (NA.NT.J)**

<b>Month</b>	<b>High</b>	<b>Low</b>	<b>Total Volume</b>
June 1 to 9, 2008	\$9.67	\$9.60	8,200
May 2008	\$9.79	\$9.51	20,500
April 2008	\$9.65	\$9.25	23,050
March 2008	\$9.60	\$9.27	15,400
February 2008	\$9.70	\$9.42	5,133
January 2008	\$9.55	\$9.50	3,200
December 2007	\$9.79	\$9.26	1,950
November 2007	\$10.05	\$9.70	7,600
October 2007	\$10.49	\$10.00	18,450
September 2007	\$10.20	\$9.75	11,500
August 2007	\$10.20	\$9.30	21,300
July 2007	\$10.65	\$10.50	12,300
June 2007	\$10.99	\$10.25	17,950

**Plan of Distribution**

Pursuant to an agreement (the “Underwriting Agreement”) dated June 3, 2008 between the Bank and the Underwriters, the Bank has agreed to sell and the Underwriters have jointly and not solidary agreed to purchase on June 17, 2008, or on such other date not later than July 15, 2008 as may be agreed upon, subject to the terms and conditions contained therein, all but not less than all of the 7,000,000 Preferred Shares Series 21 at a price of \$25.00 per share payable in cash to the Bank against delivery of the Preferred Shares Series 21. The Underwriting Agreement provides that the Underwriters will be paid an underwriting fee per share equal to \$0.25 with respect to Preferred Shares Series 21 sold to certain institutions and \$0.75 with respect to all other Preferred Shares Series 21. Assuming no Preferred Shares Series 21 are sold to such institutions, the underwriting fee would be \$5,250,000.

The obligations of the Underwriters under the Underwriting Agreement may be terminated at their discretion upon the occurrence of certain stated events. The Underwriters are, however, obligated to take up and pay for all of the Preferred Shares Series 21 if any are purchased under the Underwriting Agreement.

The Bank has granted the Underwriters the Over-Allotment Option, exercisable at any time but no later than 30 days following the closing date, to purchase up to an additional 1,050,000 Preferred Shares Series 21 at the offering price (the “Option Shares”). This short form prospectus qualifies the grant of the Over-Allotment Option and the distribution of the Option Shares issuable upon exercise of the Option. The Underwriters have elected to exercise in full the Over-Allotment Option on June 4, 2008. The Underwriters will be paid an underwriting fee equal to \$0.25 per Option Share sold to certain institutions and \$0.75 with respect to all other Option Shares. A purchaser who acquires Preferred Shares Series 21 forming part of the Underwriters’ over-allocation position acquires those securities under this short form prospectus, regardless of whether the over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases.

The TSX. has conditionally approved the listing of the Preferred Shares Series 21. Listing will be subject to the Bank fulfilling all of the requirements of the TSX on or before September 2, 2008.

Neither the Preferred Shares Series 21 nor the Preferred Shares Series 22 have been or will be registered under the *Securities Act of 1933* of the United States of America, as amended (the “1933 Act”) or any state securities laws and may not be offered or sold within the United States, territories or possessions or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the 1933 Act) except in transactions exempt from the registration requirements of the 1933 Act.

Pursuant to policy statements of the Autorité des marchés financiers (Québec) and the Ontario Securities Commission, the Underwriters may not, throughout the period of distribution under this short form prospectus, bid for or purchase the Preferred Shares Series 21. The foregoing restriction is subject to certain exceptions, as long as the bid or purchase is not engaged in for the purpose of creating actual or apparent active trading in or raising the price of such securities. These exceptions include a bid or purchase permitted under the Universal Market Integrity Rules administered by Market Regulation Services Inc. relating to market stabilization and passive market making activities and a bid or purchase made for and on behalf of a customer when the order was not solicited during the period of distribution. In connection with this offering and subject to the foregoing and to applicable law, the Underwriters may over-allot or effect transactions which stabilize or maintain the market price of the Preferred Shares Series 21 at levels other than those which might otherwise prevail on the open market. Such transactions, if commenced, may be discontinued at any time.

**National Bank Financial Inc., one of the Underwriters, is an indirect wholly-owned subsidiary of the Bank. As a result, the Bank is a connected or related issuer to National Bank Financial Inc. under applicable legislation. The decision to distribute the Preferred Shares Series 21 and the determination of the terms of the distribution were made through negotiation between the Bank and the Underwriters. CIBC World Markets Inc., an Underwriter, in respect of which the Bank is not a related or connected issuer, has participated in the structuring and pricing of the offering and in the due diligence activities performed by the Underwriters for the offering. National Bank Financial Inc. will not receive any benefit in connection with this offering other than a portion of the Underwriters’ fee payable by the Bank.**

#### **Use of Proceeds**

The net proceeds to the Bank from the sale of the Preferred Shares Series 21, after deducting the estimated expenses of issue and the underwriting fee (assuming no Preferred Shares Series 21 are sold to institutions and assuming full exercise of the Over-Allotment Option), will amount to \$194,962,500. Such proceeds will be used for general banking purposes. The purpose of this issue is to enlarge the Bank’s Tier 1 capital base.

#### **Transfer Agent and Registrar**

Computershare Trust Company of Canada, at its principal offices in the cities of Vancouver, Calgary, Winnipeg, Toronto and Montréal, will be the transfer agent and registrar for the Preferred Shares Series 21 and the Preferred Shares Series 22.

#### **Risk Factors**

An investment in Preferred Shares Series 21 is subject to certain risks.

The value of Preferred Shares Series 21 and the Preferred Shares Series 22, respectively, will be affected by the general credit worthiness of the Bank. We refer you to the risks described in the documents incorporated by reference in this short form prospectus, including under the sections entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” contained in the Bank’s Annual Report for the year ended October 31, 2007 and the Bank’s Report to Shareholders for the Second Quarter 2008. This analysis discusses, among other things, known material trends and events, and risks or uncertainties, including the successful resolution of the ABCP market restructuring, that are reasonably expected to have a material effect on the Bank’s business, financial condition or results of operations.

Real or anticipated changes in credit ratings on the Preferred Shares Series 21 or the Preferred Shares Series 22, if any, may affect the market value of the Preferred Shares Series 21 and the Preferred Shares Series 22, respectively. In addition, real or anticipated changes in credit ratings can affect the cost at which the Bank can transact or obtain funding, and thereby affect the Bank’s liquidity, business, financial condition or results of operations.

The Preferred Shares Series 21 and the Preferred Shares Series 22 are non-cumulative and dividends are payable at the discretion of the Board of Directors. Reference is made to “Earnings Coverage Ratios”, which is relevant to an

assessment of the risk that the Bank will be unable to pay dividends on the Preferred Shares Series 21 or the Preferred Shares Series 22.

The Preferred Shares Series 21 rank, and the Preferred Shares Series 22 will, if issued, rank, equally with other First Preferred Shares of the Bank in the event of an insolvency or winding-up of the Bank. If the Bank becomes insolvent or is wound-up, the Bank's assets must be used to pay deposit liabilities and other debt, including subordinated debt, before payments may be made on the Preferred Shares Series 21 or Preferred Shares Series 22.

Prevailing yields on similar securities will affect the market value of the Preferred Shares Series 21 and the Preferred Shares Series 22. Assuming all other factors remain unchanged, the market value of the Preferred Shares Series 21 and the Preferred Shares Series 22 will decline as prevailing yields for similar securities rise, and will increase as prevailing yields for similar securities decline. Spreads over the Government of Canada Yield, T-Bill Rate and comparable benchmark rates of interest for similar securities will also affect the market value of the Preferred Shares Series 21 and the Preferred Shares Series 22 in an analogous manner.

The redemption or purchase by the Bank of the Preferred Shares Series 21 and the Preferred Shares Series 22 is subject to the consent of the Superintendent and other restrictions contained in the Bank Act. Reference is made to "Bank Act Restrictions and Restrictions on Payment of Dividends".

Neither the Preferred Shares Series 21 nor the Preferred Shares Series 22 have a fixed maturity date and are not redeemable at the option of the holders of Preferred Shares Series 21 or Preferred Shares Series 22, as applicable. The ability of a holder to liquidate its holdings of Preferred Shares Series 21 or Preferred Shares Series 22, as applicable, may be limited.

The dividend rate in respect of the Preferred Shares Series 21 and the Preferred Shares Series 22 will reset every five years and quarterly, respectively. In each case, the new dividend rate is unlikely to be the same as, and may be lower than, the dividend rate for the applicable preceding dividend period.

An investment in the Preferred Shares Series 21, or in the Preferred Shares Series 22, as the case may be, may become an investment in Preferred Shares Series 22, or in Preferred Shares Series 21, respectively, without the consent of the holder in the event of an automatic conversion in the circumstances described under "Conversion of Preferred Shares Series 21 into Preferred Shares Series 22" and "Conversion of Preferred Shares Series 22 into Preferred Shares Series 22" above. Upon the automatic conversion of the Preferred Shares Series 21 into Preferred Shares Series 22, the dividend rate on the Preferred Shares Series 22 will be a floating rate that is adjusted quarterly by reference to the T-Bill Rate which may vary from time to time while, upon the automatic conversion of the Preferred Shares Series 22 into Preferred Shares Series 21, the dividend rate on the Preferred Shares Series 21 will be, for each five-year period, a fixed rate that is determined by reference to the Government of Canada Yield on the 30<sup>th</sup> day prior to the first day of each such five-year period.

Stock market volatility may affect the market price of the Preferred Shares Series 21 and the Preferred Shares Series 22 for reasons unrelated to the Bank's performance.

There can be no assurance that an active trading market will develop for the Preferred Shares Series 21 after the offering or for the Preferred Shares Series 22 following the issuance of any of those shares, or if developed, that such a market will be sustained at the offering price of the Preferred Shares Series 21 or the issue price of the Preferred Shares Series 22.

### **Legal Matters**

Legal matters in connection with the issue and sale of the Preferred Shares Series 21 will be passed upon, on behalf of the Bank, by McCarthy Tétrault LLP and, on behalf of the Underwriters, by Ogilvy Renault LLP. The partners, associates and counsel of each of McCarthy Tétrault LLP and Ogilvy Renault LLP beneficially own, directly or indirectly, less than 1% of the issued and outstanding securities of the Bank or of any associate or affiliate of the Bank.

### **Statutory Rights of Withdrawal and Rescission**

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a short form prospectus and any amendment. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the short form prospectus and any

amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revision of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal advisor.

## Certificate of the Bank

Dated: June 10, 2008

This short form prospectus, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by the *Bank Act* (Canada) and the regulations thereunder and by the securities legislation of all provinces of Canada.

*(Signed)* LOUIS VACHON  
President and  
Chief Executive Officer

*(Signed)* JEAN DAGENAIS  
Senior Vice-President and  
Chief Financial Officer

On behalf of the Board of Directors

*(Signed)* PAUL GOBEIL  
Director

*(Signed)* GÉRARD COULOMBE  
Director

## Certificate of the Underwriters

Dated: June 10, 2008

To the best of our knowledge, information and belief, this short form prospectus, together with the documents incorporated by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by the *Bank Act* (Canada) and the regulations thereunder and by the securities legislation of all provinces of Canada.

NATIONAL BANK FINANCIAL INC.

By: *(Signed)* MAUDE LEBLOND

CIBC WORLD MARKETS INC.

By: *(Signed)* PAUL ST-MICHEL

RBC DOMINION SECURITIES INC.

By: *(Signed)* RAJIV BAHL

BMO NESBITT BURNS INC.

By: *(Signed)* PIERRE-OLIVIER  
PERRAS

SCOTIA CAPITAL INC.

By: *(Signed)* ÉRIC MICHAUD

TD SECURITIES INC.

By: *(Signed)* JONATHAN BROER

DESJARDINS SECURITIES INC.

By: *(Signed)* THOMAS L. JARMAI

HSBC SECURITIES (CANADA) INC.

By: *(Signed)* LUC BUISSON

MERRILL LYNCH CANADA INC.

By: *(Signed)* RYAN VOEGELI

LAURENTIAN BANK SECURITIES INC.

By: *(Signed)* PIERRE GODBOUT

BROOKFIELD FINANCIAL CORP.

By: *(Signed)* MARK MURSKI

### **Auditors' Consent**

We have read the Short Form Prospectus dated June 10, 2008 relating to the offering of \$175,000,000 of Non-cumulative 5-Year Rate Reset First Preferred Shares Series 21 of National Bank of Canada (the "Bank"). We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the incorporation by reference in the above-mentioned prospectus of our report to the Shareholders of the Bank on the Consolidated Balance Sheets of the Bank as at October 31, 2007 and 2006 and the Consolidated Statements of Income, Comprehensive Income, Changes in Shareholders' Equity and Cash Flows for the years then ended. Our report is dated November 28, 2007.

*(Signed)* Samson Bélair / Deloitte & Touche s.e.n.c.r.l.  
Chartered Accountants  
Montréal, Canada  
June 10, 2008

