READ THIS DOCUMENT FIRST

SCOTIABANK PENSION PLAN FOR FORMER EMPLOYEES OF NATIONAL TRUST COMPANY (THE "PLAN")

SURPLUS SHARING PROPOSAL

IMPORTANT INSTRUCTION SHEET

What is this?

This package contains details of a proposal to share the surplus under the Plan with eligible members. Please read these documents carefully, since we will be asking you to complete and return some of the enclosed forms.

(Si vous désirez obtenir une version en langue française de cette trousse d'information, veuillez appeler au Centre d'appels du Service de pensions pour les anciens employés du Trust National – sans frais – au 1-888-895-9933.)

What is in here?

We are including several documents in this information package. Each document is labelled alphabetically and is colour-coded to assist in its identification. If you are missing any of the listed documents, or if you would prefer to receive these documents in French, please contact the Pension Services Call Centre for Former National Trust Employees by calling toll-free 1-888-895-9933.

A. Letter from Mr. R.L. Brooks, National Trust Company (**white** document).

B. A Report from the National Trust Pension Surplus Member Group Committee (the "Committee"), the Committee which was formed to represent eligible members of the Plan in discussions with National Trust Company regarding the Plan surplus (**yellow** document).

C. A report entitled "Detailed Description of the Surplus Sharing Proposal", to help you to better understand how it would apply to you (**green** document).

D. Two copies of a "Personal Information Statement" (**blue** document) which provides an estimate of the amount you might receive if the proposal proceeds, along with a **blue** stamped self-addressed envelope to mail back one copy of the statement to confirm the accuracy of your personal information.

E. An "Authorization and Retainer Form" (**orange** document) which will allow you to indicate your support for the surplus sharing proposal and by which you may retain Koskie Minsky LLP, the lawyers retained by the Committee, to act on your behalf, and an **orange** stamped self-addressed envelope.

F. Details regarding upcoming "Information Sessions" which will be held in major centres across Canada to explain the surplus sharing proposal (**pink** document).

What should you do next?

First, you should read all of the enclosed documents very carefully, as they explain in detail the proposal to share the surplus assets in the Plan. (Please note that while every effort has been made to ensure the accuracy of these materials, in case of discrepancy, the legal documents related to the surplus sharing proposal, and the official Plan text, will govern.)

Second, review the information on your "Personal Information Statement" (the **blue** document), and, after making any required corrections to your personal information, sign the form, fill in the remaining requested information, and return one copy of the completed document in the **blue** envelope, saving one copy for your records.

Third, if after reading the enclosed materials you agree with the proposal to distribute the surplus and you wish to retain Koskie Minsky LLP, fill out the "Authorization and Retainer Form" (the **orange** form) and check the "Yes" box, and mail the form in the enclosed **orange** stamped self-addressed envelope. If you wish to wait until you attend an information session, that's fine – you can hand your form in at the session.

Finally, if there is an information session scheduled in your area, please make plans to attend the information session held at the time and location most convenient for you. You do not need to RSVP for these sessions. We look forward to meeting with you.

If you cannot attend an information session and you have questions about the proposal, please contact Koskie Minsky LLP, the lawyers representing the Committee, at 1-800-451-3225 (toll-free) or by e-mail at nationaltrustpension@koskieminsky.com.

If you have any questions about your benefits under the Plan, please contact the Pension Services Call Centre for Former National Trust Employees by calling toll-free 1-888-895-9933.

National Trust Company
Executive Offices, Scotia Plaza
44 King Street West
Toronto, Ontario
Canada M5H 1H1

A

National Trust

October 30, 2006

Subject: Scotiabank Pension Plan for Former Employees of National Trust Company (the "Plan")

Dear Member or Former Member of the Plan:

As you may recall, we wrote to you on August 8, 2005 to tell you about discussions which were taking place regarding a proposal to share surplus assets among members and former members of the Plan (the "eligible members") and National Trust Company ("National Trust"). The proposal involved terminating the Plan and, after securing all promised pension benefits and making certain other adjustments, sharing the surplus assets remaining in the Plan equally (50/50) between National Trust and eligible members.

Over the past year or so, National Trust and a committee composed of eligible members (the "Committee"), with the assistance of our respective legal and actuarial advisors, reviewed and discussed the details of the proposal to ensure that it would be fair and equitable for all categories of eligible members. I am pleased to report that we have reached an agreement on all aspects of the proposed surplus sharing. We now wish to present the details of that agreement to you and other eligible members for your approval. <u>This proposal is conditional and will not proceed unless required court and pension regulatory approvals are obtained.</u> Another condition of implementation is that the proposal be supported by a significant majority of eligible members. Accordingly, we ask that you familiarize yourself with the proposal, and that you show your support for the proposal in the manner described in the enclosed documents.

We realize that there is a great deal to read in this information package, and that some of it is quite technical. It is important that you read through it, however, so that you understand the proposal fully. The enclosed Instruction Sheet lists the various documents which we have enclosed and clearly explains what you have to do. We are very pleased with this surplus sharing proposal, as we feel that it is a fair and equitable deal for all concerned. The time spent reading through the documents will be well worth it.

OVER→

Before going further, please let us reassure you about one fundamental and very important matter. For those of you who are still entitled to pension benefits from the Plan (that is, if your pension benefits have not already been paid to you in full), the pension benefits which you have earned under the Plan or the pension you may be currently receiving are completely safe and secured by pension assets held in trust. National Trust will take all necessary precautions to ensure that any proposal to terminate the Plan and share the surplus will in no way jeopardize the amount, safety, or security of your pension benefits. You will continue to be entitled to those pension benefits, and your right to receive them will not be diminished no matter what decision is ultimately made regarding surplus sharing or the future of the Plan.

After reading the enclosed documents, if you agree to the distribution of surplus as proposed, please provide your consent to the proposal by following the instructions contained in this information package. We strongly encourage you to show your support for the proposal: we feel that it is a fair deal for all concerned, and it cannot be implemented without a high level of support.

Once we have received sufficient support from the eligible members, National Trust and the Committee will proceed with the necessary legal steps to implement the proposal. While we cannot predict how long this process will take, National Trust and the Committee will make all reasonable efforts to obtain the necessary approvals in as short a period of time as possible. Due to the complex nature of the process, however, please note that the surplus distribution is not expected to occur before the end of 2007.

Should you have any questions regarding the proposal to wind up the Plan and share the surplus, please feel free to contact Koskie Minsky LLP, legal advisors to the Committee, using the contact information provided in the Committee's report which is enclosed in this package. If you have any questions about your pension benefits, you may contact the Pension Services Call Centre for Former National Trust Employees by calling toll-free 1-888-895-9933.

Yours very truly,

R.L. Brooks
Chairman, President & Chief Executive Officer, National Trust Company

B

REPORT FROM THE NATIONAL TRUST PENSION SURPLUS MEMBER GROUP COMMITTEE*

October 30, 2006

Dear Pension Plan Member:

Re: Surplus Sharing Proposal Regarding The Scotiabank Pension Plan for Former Employees of National Trust Company (the "Plan")

This is a report from the National Trust Pension Surplus Member Group Committee (the "Committee") regarding an agreement reached with National Trust Company ("National Trust") concerning the sharing of surplus assets remaining in the Plan (the "Proposal").

The Committee is comprised of former employees of National Trust (including pensioners) residing across Canada. There is also a Negotiating Committee, who have specifically been involved with negotiating the Proposal. The Negotiating Committee is comprised of Stuart Galbraith, Dexter Halsall, John Jamieson, Danny Murphy, Edward O'Brien and Robert Smallhorn. Their contact information is listed on the final page of this document.•

Our legal team at Koskie Minsky LLP includes lawyers Mark Zigler, Ari Kaplan, and Robyn Matlin, with the assistance of the Koskie Minsky LLP Communications Department. Koskie Minsky LLP is working with Marcel Rivest of Rivest Schmidt in Montreal, a lawyer who is advising the Committee as to the laws applicable in Quebec. The Committee also has retained the services of an independent actuary, Steve Eadie of Robertson Eadie and Associates Ltd.

Please read this Report carefully, as you will be asked to vote on the Proposal by returning the enclosed orange Authorization and Retainer Form to Koskie Minsky LLP, which will authorize them to act on your behalf regarding the implementation of the Proposal, including the execution of the Surplus Sharing Agreement on your behalf. There is no out-of-pocket cost to you for these services. You are also invited to attend information sessions (times and locations of which are set out in this package on the pink Information Sessions Schedule). National Trust, Committee members, their respective legal counsel, and National Trust's actuary, Hewitt Associates, will be present at these sessions.

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* Affiliated with AFTER, the Association For The Equitable Recovery of the National Trust Pension Surplus.

• A full list of the names of, and contact information for, the Committee Members can be found at http://www.koskieminsky.com/client_links/NationalTrust/contact_us.aspx.

CONTENTS

The contents of this Report are as follows:

1. INTRODUCTION

When we last reported to you in August 2005, we explained that a member group had formed to protect and advance the rights of members in regard to the surplus in the Plan. As explained in the August 2005 communication, a group of us formed the Association for the Equitable Recovery of the National Trust Pension Surplus ("AFTER") in 1999, to seek a distribution of the surplus to Plan members. AFTER was made up of members and former members of the Plan who were affected by the June 30, 1999 partial wind-up of the Plan.

Given that it involved legal issues concerning the distribution of surplus on a partial wind up, AFTER became involved in the court case of *Monsanto Canada Inc. v. Ontario (Superintendent of Financial Services)* ("*Monsanto*"), and ultimately successfully intervened in this matter before the Supreme Court of Canada. The Supreme Court issued a decision in July 2004 and confirmed that, as a matter of Ontario law, if there is a partial wind up of a registered pension plan affecting members under Ontario jurisdiction, any existing surplus attributable to the Ontario portion of the wound up part of the plan must be paid out (although the decision did not state how or to whom the surplus must be paid).[†]

[†] The effect of the *Monsanto* decision is discussed in more detail below.

Prior to the completion of the *Monsanto* case, National Trust agreed to commence negotiations to share the Plan surplus. AFTER formed the Committee at that time, with a view to reaching a global settlement to cover **all** plan members, not just those affected by the 1999 partial wind up of the Plan, who would participate in the global settlement instead of having to separately pursue their rights under the partial wind up.

In August 2005, you were invited to sign an "Authorization and Membership Form" which allowed you to join the National Trust Pension Surplus Member Group, to indicate your support for the continued negotiations to reach a preliminary agreement to terminate the Plan and share the resulting surplus in an equitable manner with National Trust. We are pleased to report that approximately 75% of eligible members returned their signed forms, which shows that there is a high level of support among eligible members to reach a final agreement. Since August 2005, the Committee and National Trust have been addressing the remaining details of such an agreement to share the surplus.

We are pleased to announce that we have concluded negotiations with National Trust and have reached an agreement that is conditional on a number of things, including obtaining sufficient support from the eligible Plan members. This conditional agreement forms the Proposal which is described in detail in this information package. **We, along with our legal counsel and actuary, support the Proposal and recommend that you consent to it.** National Trust and The Bank of Nova Scotia (referred to in this document as "Scotiabank" or the "Bank") also support the Proposal. Its essential components are described in the next section of this Report and more details are contained in the document included in this package entitled "Detailed Description of the Surplus Sharing Proposal" (the green document). Please read this Report carefully and ensure that you have reviewed all of the documents in this package.

The termination of the Plan and surplus distribution can only occur if we receive support from a sufficient number of those eligible to participate, in order to satisfy the regulatory requirements of all jurisdictions in which there are Plan members. **Although the requirements are different in each province, it will be difficult to proceed without the support of at least 70% of the eligible members. To support the Proposal check the "YES" box on the enclosed orange Authorization and Retainer Form, then sign it and mail it in the enclosed orange envelope addressed to Koskie Minsky LLP. Please note that even if you signed the Authorization and Membership Form in 2005, you MUST still sign the enclosed Authorization and Retainer Form included in this package and check the "YES" box to consent to the Proposal.**

2. RATIONALE FOR AGREEING TO A SURPLUS SHARING ARRANGEMENT

The main questions that people have asked the Committee involve who owns the surplus and why the Plan must be terminated.

The Committee sought a legal opinion on these issues. Our lawyers advised that while a pension plan is ongoing, it is not possible to say that any party "owns" the surplus that exists at any one time. Often, such as in the case of the Plan, it is usually lawful for the employer to use surplus for "contribution holidays" – meaning as a credit or partial credit against its own contributions to the pension plan. National Trust has been in this position for many years and could continue to take contribution holidays as long as there is sufficient surplus to pay its contributions in respect of members actively accruing service in the Plan. Neither the Plan members nor National Trust can unilaterally withdraw surplus from the Plan. The only way to require a distribution of all of the surplus from a pension plan is to terminate it (wind it up). Even where there has been a partial wind up, as was the case under the Plan, ownership of the surplus attributable to the partial wind up remains an outstanding question, and disputes over ownership can result in lengthy litigation with a risk of no recovery.

If the Proposal proceeds, the Plan would be terminated, and all of the vested and accrued rights and benefits would be calculated, and secured or paid out as required. Any remaining assets not required to provide the pension benefits earned by the members would be available to distribute as surplus, following the payment of expenses and after making other adjustments called for under the Proposal. Only National Trust, however, is in a position to wind up the Plan unilaterally. The Plan members do not have the same unilateral right, and would have to seek an order from the pension regulator in this regard. That would no doubt be contested by National Trust, and the pension regulator might not approve such a wind-up. **The only way to avoid lengthy and expensive litigation (in which there is no guarantee of success) to access surplus for eligible Plan members is to reach an agreement with National Trust.**

Even in circumstances where a pension plan is wound up, in whole or in part, determining who owns the surplus in a pension plan is not straightforward. It is a complex legal question that requires a review and analysis of the Plan's historical documentation. Koskie Minsky LLP has advised us that, while they believe that the Plan members may have a good claim for the entire surplus if the Plan were wound up, National Trust does not agree. Inevitably, a dispute over surplus ownership would result in lengthy, complex and expensive litigation.

Moreover, time is an important factor which we on the Committee have taken into account. The surplus available may decrease over time because the longer the Plan continues, the longer National Trust is able to use surplus for contribution holidays. While the Plan continues, surplus may also be used for any new Plan members that National Trust chooses to enrol in the Plan. Market factors, and the investment performance of the pension fund, may also affect how much surplus there is in the Plan from time to time.

On the other hand, even if National Trust decided to voluntarily initiate a complete wind-up of the Plan, pension legislation and court jurisprudence dictate that it would need the support of the Plan members to access any of the surplus.

In the face of all of these factors, an agreement between the members and National Trust to wind up the Plan and share the surplus on a 50/50 basis is a compromise that avoids spending time and money on years of litigation at the risk of getting nothing, and benefits the members and eligible former members of the Plan as well as National Trust. This is a fair deal and a "win-win" situation.

We believe very strongly that the set of terms contained in the Proposal is the best settlement available and we encourage you to support the Proposal by voting "YES" on your enclosed orange Authorization and Retainer Form.

3. THE PLAN SURPLUS AND HIGHLIGHTS OF THE PROPOSAL

Amount of Surplus

Hewitt Associates advises that based on wind-up calculations as of May 31, 2006, the Plan had a surplus of approximately $164 million. Surplus can, however, fluctuate significantly since it is sensitive to changes in asset values and to changes in market interest rates used to determine liabilities. Further, the actual cost of the wind up and implementation of the Proposal are not yet known. Your blue Personal Information Statement enclosed with this package contains an estimate of your surplus share based on a surplus share to the members of $40 million, which takes into account all guaranteed amounts under the Proposal (these are explained below), and all expenses of the Proposal.

Background

On August 14, 1997, Scotiabank acquired National Trust, after publicly announcing its intention to buy the company on June 24, 1997. Following the acquisition, the majority of the active members of the Plan became employees of Scotiabank, and Scotiabank became a participating employer under the Plan. The date of a member's transfer from National Trust to Scotiabank is referred to as the member's "Integration Date", a date which is not the same date for all Plan members. The Integration Date for most members was August 2, 1999. For members transferred to Scotiabank employment, the Plan was substantially redesigned to mirror the benefits provided under the Scotiabank Pension Plan, for future service after the Integration Date.[‡] The provisions of the Plan in effect prior to the Integration Date continue to apply for service up to such date.

As discussed in detail below, a partial wind-up of the Plan was declared, related to the reorganization of National Trust following the acquisition of National Trust by Scotiabank. The partial wind up affected 933 Plan members whose employment was terminated, who retired, or who were advised of their termination of employment, between August 14, 1997 and June 30, 1999.

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‡ Note that members who became disabled while they were still employed by National Trust ("pre-integration date disabled members") have not moved to Scotiabank employment and therefore do not have integration dates.

Highlights

The specifics of the Proposal are discussed in greater detail in the green document entitled "Detailed Description of the Surplus Sharing Proposal" included in this package. The main highlights, however, include the following:

a) **Transfer of Pension Assets and Liabilities to the Scotiabank Pension Plan:** Pension assets and liabilities for active Plan members, and members who are on long-term disability and were employed by Scotiabank at the time they became disabled, will be transferred to the Scotiabank Pension Plan (i.e. a Replacement Plan) in respect of benefits for post-integration date service for these members.

b) **Enhancements to Past Service Benefits:** The Plan will be amended immediately prior to the wind up to provide pre-retirement indexation of benefits accrued before the integration date, for certain active and former members. This is being done to enhance the pension benefits which these members earned before their transfer to Scotiabank, in lieu of the past service upgrades they might have otherwise received under the Plan were it not being terminated The cost of this improvement will be paid out of the surplus prior to Plan wind up and surplus sharing.

c) **Future Service for Active and Disabled Members:** When the Plan is wound up, active and disabled members will stop earning future pension benefits. To compensate for this, active members, and members who are on long-term disability and were employed by Scotiabank at the time they became disabled, will become members of the Scotiabank Pension Plan and will earn future service benefits under that pension plan. Disabled members who were employed by National Trust at the time they became disabled will become members of another Scotiabank Group pension plan and will earn benefits under that pension plan. A portion of the surplus taken "off the top" will be transferred to the Scotiabank Pension Plan or paid to National Trust, as appropriate, to cover the expected cost of these benefits. The Scotiabank Pension Plan and the other Scotiabank Group pension plan are collectively referred to in this Report as the "Replacement Plan".

d) **Fees and Expenses:** Both National Trust's and the Committee's reasonable legal, actuarial and other fees and expenses incurred on or after March 4, 2003 in connection with the negotiation and implementation of the Proposal will be paid **"off the top"** from the surplus prior to splitting the remaining surplus 50/50.

The fees and expenses of much of the *Monsanto* litigation or in regard to the negotiation of the surplus sharing arrangement incurred **prior to March 4, 2003 will be paid from National Trust's or the Surplus Sharing Group's respective surplus shares.** In other words, the fees and expenses incurred in regard to AFTER's participation in *Monsanto* and their early involvement in negotiations with National Trust to attain a sharing arrangement, will be paid from the members' surplus share. These payments will be subject to the necessary regulatory and court approval.

For those who made contributions to AFTER, these contributions will be refunded from the members' share to you at the time of the surplus distribution.

The total fees and expenses incurred by AFTER and the Committee to-date are estimated to be approximately $1 million, half of which was incurred in connection with the *Monsanto* appeals and representation of AFTER members prior to March 4, 2003.

e) **Wind Up:** The Plan will be fully wound up (terminated).

f) **50/50 Surplus Split:** The **remaining** surplus will be split equally between National Trust and the Surplus Sharing Group, subject to payment of AFTER's legal fees for the *Monsanto* litigation and pre-March 2003 expenses, which will come out of the members' share.

g) **Distribution Among Surplus Sharing Group Members:** Subject to certain exceptions described more fully in the green document included in this package, the Surplus Sharing Group's share of the surplus will be allocated in accordance with a pro-rata distribution based on the value of each member's entitlement under the Plan or the value of the entitlement previously paid to each member. For members who were part of the partial wind up of the Plan, their surplus payment will be adjusted so that the surplus shares payable to the affected members will, in the Committee's view, be commensurate with the expected surplus shares that would be payable under a separately negotiated settlement with similar features to the Proposal but limited to the partial wind-up members only. There is also a $500 minimum payment for all members of the Surplus Sharing Group, and a special minimum for pensioners or persons receiving a survivor pension from the Plan (see below).

h) **Minimum Surplus Payment for Pensioners and Survivors:** Pensioners, and members of the Surplus Sharing Group receiving a survivor pension from the Plan, will receive a surplus payment which at a minimum is equal to the estimated cost of providing annual inflation adjustments to their pension of 1.25% per year for life. This is to compensate for the *ad hoc* pension increases that may otherwise have been paid were the Plan not being terminated.

i) **Tax Sheltering:** Certain tax sheltering options will be available to Surplus Sharing Group members who qualify. See the Detailed Description of the Surplus Sharing Proposal in this package (the green document) for further information.

j) **Deceased Members:** If a member of the Surplus Sharing Group dies after the date the Plan is terminated, the surplus share they would have received will be paid to their beneficiary or estate.

Surplus Breakdown*

Total Estimated Surplus as at May 31, 2006	$164 million
Less Transfer for Future Pension Costs	$53 million
Less Enhancements to Past Service Benefits	$27 million
Less Estimated Fees and Expenses§	$3 million
Total Estimated Amount Available for Sharing	$81 million
Total Estimated 50% Surplus Sharing Group Share	$40.5 million
Less Expenses for Costs Incurred Before March 4, 2003 and for *Monsanto*	$0.5 million
Net Estimated Surplus Shared Among the Surplus Sharing Group	**$40 million**

4. THE SURPLUS SHARING GROUP

To receive a share of surplus under the Proposal, you must be an eligible member, which includes all members affected by the 1999 partial plan wind up and all current active Plan members and pensioners, deferred vested members and other former members who were entitled to a pension or other payment from the Plan on or after June 24, 1997 (being the day Scotiabank announced the purchase of National Trust) (collectively the "Surplus Sharing Group").** The Surplus Sharing Group includes approximately 4,992 people.

5. THE *MONSANTO* DECISION AND THE PARTIAL WIND UP GROUP

You have likely heard about the decision of the Supreme Court of Canada in *Monsanto Canada Inc. v. Ontario (Superintendent of Financial Services)* (the "*Monsanto* decision") with respect to which, as discussed above, AFTER successfully intervened to help bring about this Proposal. The *Monsanto* decision states that, as a matter of Ontario law, if there is a partial wind up of a pension plan, any surplus attributable to the wound up part of the plan must be paid out (although the decision did not state to whom or how the surplus must be paid).

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* All amounts are estimates as of May 31, 2006.

§ The $3 million estimate is for fees and expenses related to the Proposal. Other fees and expenses, related to the termination of the Plan and estimated at $2 million, have been taken into account in the surplus estimate shown above.

** Please see the green document entitled "Detailed Description of the Surplus Sharing Proposal" included in this package for more information on these groups of eligible members.

The *Monsanto* decision affects the legal rights of those Surplus Sharing Group members whose pension and surplus entitlements are governed by the laws of Ontario and who were included in the 1999 partial wind up of the Plan. The majority of the members affected by the 1999 partial wind-up were Ontario members, although there were some others in other provinces (collectively, the Plan members affected by the 1999 partial wind-up, are referred to in this Report as the "Partial Wind Up Members"). As mentioned above, the partial wind up was related to the corporate reorganization of National Trust, following the acquisition of National Trust by Scotiabank. The partial wind up was effective June 30, 1999 and affected the following Partial Wind Up Members:

- members who terminated/retired between August 14, 1997 and June 30, 1999; and
- members who were given notice of termination prior to June 30, 1999, with an actual termination date after June 30, 1999.

In order to provide you with complete information regarding the Proposal, the Committee sought information regarding the amount of surplus which may be attributable to the partial wind-up, so you can compare it to the amount of surplus expected to be available for sharing with the Partial Wind Up Members under the Proposal.

At the time of the partial wind-up, Hewitt Associates prepared an Actuarial Report on the Partial Plan Wind-Up. The calculation date for that report was October 31, 1999. The report identified the liabilities for the pension benefits paid to members affected by the partial wind-up. As per the requirements of the Financial Services Commission of Ontario, the report also identified the maximum amount of Plan assets that could be allocated as of October 31, 1999 to the partial wind-up. The maximum amount of assets that could be allocated to the partial wind-up exceeded the partial wind-up liabilities by $28.9 million at October 31, 1999.

This amount was not allocated to the partial wind-up at October 31, 1999. Arguments could be made to allocate a smaller amount of assets to the partial wind-up.

Should an amount of assets be allocated to the partial wind-up at October 31, 1999, then all of the partial wind-up liabilities, including benefits and eligible expenses, would need to be paid from the allocated assets from that point forward. Any remaining assets would then need to be invested on behalf of the partial wind-up stakeholders (i.e. both the members affected by the partial wind-up and the plan sponsor). Separate investments have not been established for the assets associated with the partial wind-up. Specific expenses would need to be identified and allocated to the partial wind-up.

Had all of the partial wind-up liabilities been settled and the maximum amount of remaining assets, as described above, been set aside at October 31, 1999, then we estimate that the assets might have grown to between $30 and $44 million approximately by May 31, 2006. If the $28.9 million had been invested using the same procedures as used for the continuing plan, it would have grown to approximately $44 million between October 31, 1999 and May 31, 2006. If the $28.9 million amount had been invested in shorter term investments, as is common in wind-up situations, it might have grown to approximately $30 million as of May 31, 2006. This estimated range of the potential remaining assets exceeds the range of actual assets that would likely be available to the partial wind-up at May 31, 2006 since not all of the liabilities were settled at October 31, 1999 and are more expensive to settle now; expenses have not been allocated to the partial wind-up; and the original amount of assets is the maximum that could be assigned to the partial wind-up and is therefore likely overstated. Further, all assets and liabilities related to the non-Ontario members under the partial wind-up would have to be treated separately from those related to the Ontario members under the partial wind-up.

Therefore, the amount that could be assigned to the partial wind-up group at May 31, 2006 (i.e. estimated at between $30 to $44 million) is, in our view, considerably higher than the actual amount that would likely be assigned if these members try to establish a separate agreement.

For comparison purposes, the amount of estimated surplus as of May 31, 2006 to be shared 50/50 between the Partial Wind-up Members and National Trust under the Proposal is $28 million after settlement of all the partial wind-up liabilities and payment of all expenses.

(It should be noted that these amounts are total amounts, not the amounts necessarily payable to the Partial Wind Up Members. Under the Proposal, for example, that total surplus amount is to be shared between the Surplus Sharing Group and National Trust in the manner described in this Report.)

Although it is impossible to know what a surplus distribution and sharing arrangement in connection with the partial wind up of the Plan would look like, you should be aware that it could differ from the surplus sharing arrangement described in the Proposal. Under the Proposal, surplus will be shared 50/50 between the Surplus Sharing Group and National Trust, subject to certain adjustments and subject to payment of fees and expenses. There is no way of telling what sort of surplus sharing, if any, could be achieved if Partial Wind Up Members wished to reject the Proposal to try to obtain a separate deal for the surplus attributable to the 1999 partial wind-up.

In the opinion of our actuary, using the 2006 numbers prepared by Hewitt Associates, Partial Wind Up Members will receive under this Proposal surplus amounts that are commensurate with the amounts they would receive under a 50/50 split of surplus attributable to the 1999 partial wind up of the Plan, net of expenses. One of the objectives of the Committee in negotiating the Proposal was, as much as possible, to put Partial Wind Up Members in a similar position under the Proposal as they would be under a 50/50 split involving only partial wind up surplus.

If you are a Partial Wind Up Member and you wanted to try to get a better deal than that offered under the current Proposal, you would have to undertake legal action on your own, at your own expense. This would mean going to court to litigate exactly how much surplus is at stake (as we noted above, the amount shown above is only an estimate, using one of many possible methods of calculating partial wind-up surplus), and who owns it. There is, of course, no guarantee that you could obtain any surplus sharing deal at all, or a deal that is better than the current Proposal. You could litigate the case and lose, obtaining zero recovery, and you would incur substantial legal fees regardless of the result. **We believe that the Proposal is preferable to the Partial Wind Up Members pursuing further litigation to try and obtain more surplus, given the delay and uncertainty involved.**

The surplus distribution under the Proposal, if it proceeds, will be in full satisfaction of any rights Partial Wind Up Members may have had under the 1999 partial wind up, including any rights Partial Wind Up Members in Ontario may have following the *Monsanto* decision.

It is the view of the Committee (which includes members affected by the 1999 partial wind up of the Plan), after considering the result of the *Monsanto* decision and consulting with our lawyers, that the agreed-upon Proposal provides fair and equitable treatment of all members of the Surplus Sharing Group and that, without protracted and expensive litigation, Partial Wind Up Members would not be successful in establishing claims that would give them any better surplus distribution results. Moreover, as noted above, in order to try to achieve a better deal than the Proposal, a separate process would have to be commenced with different legal counsel, at the expense of those individuals pursuing such process.

If you have any questions about this (or any other aspect of this Report), please contact Koskie Minsky LLP at 1-800-451-3225 or nationaltrustpension@koskieminsky.com. **You should also feel free to seek independent legal advice, at your own expense, should you wish to do so.**

6. THE COMMITTEE UNANIMOUSLY RECOMMENDS THE PROPOSAL

We recommend the Proposal to everyone in the Surplus Sharing Group. As indicated above, there is no guarantee that National Trust would wind up the Plan by itself and, if it failed to do so, the surplus could not be accessed unilaterally either by the members or by National Trust. Furthermore, the question of who owns the surplus is a very contentious issue, and the only way to avoid lengthy and expensive litigation over this issue and to guarantee that all eligible members will receive a share of the surplus is to reach an agreement with National Trust.

We have taken steps to ensure that all categories of eligible members are protected as much as possible from any potential loss as a result from winding up the Plan. Pensions will be guaranteed through the purchase of an annuity with one of more reputable Canadian insurance companies. These amounts will also be insured through Assuris, the insurance industry guarantee fund.

The Committee has had the benefit of legal counsel and independent actuarial advice throughout the discussions with National Trust. Our lawyers and our actuary recommend this Proposal. We believe that, under the circumstances, the Proposal is reasonable, fair and is the best possible deal for the members and eligible former members of the Plan. The Proposal is a result of years of negotiation and we do not believe that further negotiations would have led to a better deal. **We unanimously recommend that you consent to the Proposal by checking the "YES" box on the orange Authorization and Retainer Form that is included with this package, signing the form and returning it to Koskie Minsky LLP in the enclosed orange envelope. National Trust and the Bank also support the Proposal. You must return the Authorization and Retainer Form even if you previously returned a membership form to Koskie Minsky LLP in 2005, as the 2005 Authorization Form does not constitute your consent to the Proposal. <u>Every vote counts.</u>**

If the Proposal does not receive the requisite level of support from the Surplus Sharing Group, it cannot go forward. As stated, it will be difficult to proceed without the support of at least 70% of the eligible members. We encourage everyone to vote "YES" and to return their orange Authorization and Retainer Form to Koskie Minsky LLP as soon as possible and before December 15, 2006.

The Proposal is Beneficial for Active Members

If you are an active member of the Plan, you will continue to earn pension benefits under the Replacement Plan substantially similar to the benefits you were earning under the Plan. Also, before it is terminated, an amendment to the Plan will be made to enhance the pension benefits which you earned before your transfer to Scotiabank, in lieu of the past service upgrades you might have otherwise received under the Plan were it not being terminated. In other words, the Committee is of the opinion that you will not be prejudiced in any way as a result of this Proposal. In addition to receiving these enhanced pension benefits and continuing pension accruals, you are also going to be receiving a share of the surplus. If the Plan were not going to be wound up, you would not be receiving surplus at this time (i.e. the time of the distribution). Further, in the absence of this wind up, there would be no guarantee that this surplus payment would ever be coming to you. We recommend the Proposal to active Plan members.

The Proposal is Beneficial for Pensioners

If you are a pensioner or the spouse of a former pensioner who is receiving a survivor pension from the Plan, we recommend this Proposal to you. There is no guarantee that surplus would otherwise ever be coming to you. Further, your pension will be guaranteed through the purchase of an annuity with one or more reputable Canadian insurance companies, and your annuity will be guaranteed by the insurer for the insurance industry, Assuris. Under the Proposal, you will also receive a minimum surplus amount equal to the value of inflation indexation of your pension at a rate of 1.25% per year for the rest of your life. (Note that this value is the minimum surplus amount that you will be entitled to under the Proposal – the indexation will not actually be added to your pension.) Although we cannot predict future inflation, and cannot compare this estimated surplus amount to the value of the inflation increases (if any) that might have been made to your pension had the Plan not been winding up, the Proposal is beneficial because you will be getting your money now (i.e. at the time of distribution), rather than having to wait for indexation to be granted on your pension. Further, the indexation that you may have been previously receiving from time to time on your pension was not guaranteed, but was discretionary, so there was no guarantee that you would get any indexation in the future. But, under the Proposal, you will be guaranteed to receive your surplus share. We recommend the Proposal to pensioners.

The Proposal is Beneficial for Partial Wind Up Members

For the reasons set out earlier in this Report, we recommend the Proposal to the Partial Wind Up Members to avoid protracted litigation and because it is the best way to reap the benefits of the *Monsanto* decision. We recommend the Proposal to the Partial Wind Up Members.

The Proposal is Beneficial for Other Members

Other members of the Surplus Sharing Group will not receive surplus payments without the implementation of the Proposal or through protracted litigation. The surplus amount under the Proposal is in addition to your entitlements already received under the Plan. We recommend the Proposal to the other members of the Plan.

7. INFORMATION SESSIONS

There will be information sessions that you can attend in person to learn about the Proposal. The details of the information sessions, including times and locations, are described in the enclosed pink Information Sessions sheet. Members from the Committee, a lawyer from Koskie Minsky LLP, as well as the representatives of National Trust, their legal advisors, and the Plan's actuary, will all be at the information sessions to describe the Proposal to you and answer your questions. **At these sessions, you will have the opportunity to speak with a Koskie Minsky LLP lawyer without National Trust's presence.**

If there is an information session scheduled in your area, we encourage you to attend it, if at all possible. You may send your Authorization and Retainer Form to Koskie Minsky LLP before then, or you can also hand deliver it at a session. We look forward to seeing you there.

8. CONTACT KOSKIE MINSKY LLP WITH ANY QUESTIONS

If you cannot attend an information session or you have any questions about the Proposal, please contact Koskie Minsky LLP at 1-800-451-3225 (toll-free) or by email at nationaltrustpension@koskieminsky.com. If you have any questions about your pension benefits, you may contact the Pension Services Call Centre for Former National Trust Employees, at 1-888-895-9933 (toll-free).

9. RETAINING KOSKIE MINSKY LLP

Again, once you have read this Report, and the rest of the information in this package, please fill out and vote "YES" on the orange Authorization and Retainer Form to support the Proposal and return the Form to Koskie Minsky LLP in the orange envelope. The Form will authorize Koskie Minsky LLP to:

1. continue to act on your behalf;
2. receive all notices and formal documentation relating to the settlement as may be required by a court or pension regulators;
3. sign a formal Surplus Sharing Agreement, which will implement the terms of the Proposal on your behalf;
4. release claims in exchange for your share of surplus; and
5. represent you before the courts and regulators, as necessary, in order to obtain approval for the Proposal.

Failing to check the "YES" box and returning a blank Form is tantamount to not supporting the Proposal.

There is no cost to you for the services of Koskie Minsky LLP. National Trust and the Committee have agreed that the legal and actuarial costs of the Committee and the members of the Surplus Sharing Group who retained Koskie Minsky LLP will be paid from the surplus as part of the implementation of the Proposal. As well, reimbursement (from the members' share) will be made to those who contributed to legal fees earlier in the surplus sharing negotiation process and the *Monsanto* litigation.

10. NEXT STEPS

Once we have received a sufficient number of signed Authorization and Retainer Forms, we will enter into a formal surplus sharing agreement with National Trust. This Agreement, and the associated request to wind up the Plan and withdraw the surplus, must then be approved by the applicable courts and regulators. Please note that even if the Proposal is accepted by the Surplus Sharing Group, we do not expect that the surplus distribution will occur before the end of 2007.

Thank you in advance for your continued support.

Sincerely,

The National Trust Pension Surplus Member Group Committee

Negotiating Committee Members		
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