

# Annual Information Form

December 3, 2013

## **DISTRIBUTION NOTICE OF THIS ANNUAL INFORMATION FORM**

This Annual Information Form must be accompanied by copies of all documents incorporated herein by reference when it is provided to security holders or other interested parties.

Parts of the Annual Information Form are presented in the Annual Report to Shareholders, including Management's Discussion and Analysis for the fiscal year ended October 31, 2013 (the "Annual Report") and are incorporated herein by reference.

The Annual Report is available on the National Bank of Canada (the "Bank") website ([www.nbc.ca](http://www.nbc.ca)) and on the System for Electronic Documents Analysis and Retrieval (SEDAR) website ([www.sedar.com](http://www.sedar.com)).

## **EXPLANATORY NOTE**

In this Annual Information Form, unless otherwise noted, the information is presented as at October 31, 2013.

## **CAUTION REGARDING FORWARD-LOOKING STATEMENTS IN THIS ANNUAL INFORMATION FORM**

From time to time, the Bank makes written and oral forward-looking statements, such as those contained in the "Major Economic Trends" and the "Outlook for National Bank" sections in the Annual Report, in other filings with Canadian securities regulators, and in other communications, for the purpose of describing the economic environment in which the Bank will operate during fiscal 2014 and the objectives it has set for itself for that period. These forward-looking statements are made in accordance with current securities legislation. They include, among others, statements with respect to the economy—particularly the Canadian and U.S. economies—market changes, observations regarding the Bank's objectives and its strategies for achieving them, Bank projected financial returns and certain risks faced by the Bank. These forward-looking statements are typically identified by future or conditional verbs or words such as "outlook," "believe," "anticipate," "estimate," "project," "expect," "intend," "plan," and similar terms and expressions.

By their very nature, such forward-looking statements require assumptions to be made and involve inherent risks and uncertainties, both general and specific. Assumptions about the performance of the Canadian and U.S. economies in 2014 and how that will affect the Bank's business are among the main factors considered in setting the Bank's strategic priorities and objectives and in determining its financial targets, including provisions for credit losses. In determining its expectations for economic growth, both broadly and in the financial services sector in particular, the Bank primarily considers historical economic data provided by the Canadian and U.S. governments and their agencies.

There is a strong possibility that express or implied projections contained in these forward-looking statements will not materialize or will not be accurate. The Bank recommends that readers not place undue reliance on these statements, as a number of factors, many of which are beyond the Bank's control, could cause actual future results, conditions, actions or events to differ significantly from the targets, expectations, estimates or intentions expressed in the forward-looking statements. These factors include strategic risk, credit risk, market risk, liquidity risk, operational risk, regulatory risk, reputation risk, and environmental risk (all of which are described in greater detail in the "Risk Management" section that begins on page 60 of the Annual Report); the general economic environment and financial market conditions in Canada, the United States and certain other countries in which the Bank conducts business, including the effects of uncertainty surrounding U.S. government debt negotiations; changes to regulations affecting the Bank's business, capital and liquidity; the situation with respect to the restructured notes of the master asset vehicle (MAV) conduits, in particular the realizable value of underlying assets; changes in the accounting policies the Bank uses to report its financial condition, including uncertainties associated with assumptions and critical accounting estimates; tax laws in the countries in which the Bank operates, primarily Canada and the United States; and changes to capital and liquidity guidelines and to the manner in which they are to be presented and interpreted.

The foregoing list of risk factors is not exhaustive. Additional information about these factors can be found in the "Risk Management" and "Other Risk Factors" sections of the Annual Report. Investors and others who base themselves on the Bank's forward-looking statements should carefully consider the above factors as well as the uncertainties they represent and the risk they entail. The Bank also cautions readers not to place undue reliance on these forward-looking statements.

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

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## ABBREVIATIONS USED

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<b>ABCP:</b>	Asset-backed commercial paper
<b>AC:</b>	Audit Committee of the Board (constituted on April 24, 2013)
<b>Act:</b>	<i>Bank Act</i> (Canada), S.C. 1991, c. 46
<b>Annual Information Form:</b>	This annual information form
<b>Annual Report:</b>	The Bank's annual report to shareholders, including Management's Discussion and Analysis and the consolidated audited annual financial statements, for the fiscal year ended October 31, 2013
<b>ARMC:</b>	Audit and Risk Management Committee of the Board (dissolved on April 24, 2013)
<b>Bank:</b>	National Bank of Canada
<b>BIS:</b>	Bank of International Settlements
<b>Board:</b>	Board of Directors of the Bank
<b>Circular:</b>	Management Proxy Circular in respect of the most recent annual meeting of holders of Common Shares that involved the election of directors
<b>CPA:</b>	Chartered Professional Accountants
<b>CRCGC:</b>	Conduct Review and Corporate Governance Committee of the Board
<b>CSA:</b>	Canadian Securities Administrators
<b>DBRS:</b>	DBRS Limited
<b>Deloitte:</b>	Deloitte s.e.n.c.r.l.
<b>Fitch Ratings:</b>	Fitch Ratings Ltd.
<b>HRC:</b>	Human Resources Committee of the Board
<b>IFRS:</b>	International Financial Reporting Standards
<b>MAV:</b>	Master Asset Vehicles
<b>MD&amp;A:</b>	Bank Management's Discussion and Analysis for the fiscal year ended October 31, 2013
<b>Meeting:</b>	Annual Meeting of the Holders of Common Shares of National Bank of Canada to be held on April 10, 2014
<b>Moody's:</b>	Moody's Investors Service Inc.
<b>RMC:</b>	Risk Management Committee of the Board (constituted on April 24, 2013)
<b>SEDAR:</b>	System for Electronic Document Analysis and Retrieval
<b>Standard &amp; Poor's:</b>	Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies (Canada) Corporation
<b>Superintendent:</b>	Superintendent of Financial Institutions (Canada)
<b>TSX:</b>	Toronto Stock Exchange

## CORPORATE STRUCTURE

### Name, Address and Incorporation

The Bank is a Canadian bank governed by the Act. The Bank's roots date back to 1859 with the founding of Banque Nationale in Quebec City. The Bank's current charter is the result of a series of amalgamations, first with Banque d'Hochelaga in 1924 to form Bank Canadian National, which then merged with The Provincial Bank of Canada in 1979 to form National Bank of Canada. In 1985, the Bank acquired The Mercantile Bank of Canada. In 1992, the Bank merged with National Bank Leasing Inc., its wholly owned subsidiary. The head office of the Bank is located at 600 De La Gauchetière Street West, 4th Floor, Montreal, Quebec, Canada H3B 4L2.

### Bank Subsidiaries (Intercorporate Relationships)

A list of the main Bank subsidiaries with a description of intercorporate relationships can be found on the page of the Annual Report specified in the Table of Contents of the Annual Information Form and is incorporated herein by reference.

## GENERAL DEVELOPMENT OF THE BUSINESS

### Three Year History

**Fiscal 2012-2013:** The Bank recorded net income of \$1,554 million for fiscal 2013 compared to \$1,634 million for the corresponding period of 2012. Diluted earnings per share were \$8.80 for fiscal 2013, as against \$9.32 for fiscal 2012. The results for fiscal 2013 included the following amounts, net of income taxes: \$104 million in income attributable to the increase in the fair value of restructured notes, a \$29 million charge for the impairment in value of intangible assets, \$28 million in charges related to Wealth Management acquisitions and \$21 million in other charges related to the optimization of processes. A \$37 million reversal of provisions for income tax contingencies was also recorded. The results for fiscal 2012 included the following amounts, net of income taxes: a \$198 million gain net of charges related to the sale of the operations of the subsidiary Natcan Investment Management Inc., \$113 million in income attributable to the increase in the fair value of restructured notes and other commercial paper, \$62 million in severance pay charges and lease terminations, items related to the acquisitions of Wellington West and the full-service investment advisory business of HSBC Securities (Canada) Inc. totalling \$27 million, and \$13 million in write-offs of intangible assets. A \$29 million reversal of provisions for income tax contingencies was also recorded. Excluding specified items, net income for fiscal 2013 would have been \$1,491 million as against \$1,396 million, for an increase of 7% from fiscal 2012. Diluted earnings per share would have been \$8.41 for fiscal 2013, compared to \$7.86 for fiscal 2012. Common Equity Tier 1 (CET1), Tier 1 and total capital ratios under Basel III, stood at 8.7%, 11.4% and 15.0%, respectively, as at October 31, 2013, well above regulatory requirements, compared to the pro forma ratios of 7.3%, 10.1% and 14.1%, respectively, as at October 31, 2012. The dividend payout ratio excluding specified items was 40% for fiscal 2013 compared to 39% for fiscal 2012. Revenues for the Personal and Commercial segment were up 3% owing to an increase in loan volumes but offset by a narrower net interest margin. Total revenues for the Wealth Management segment, excluding specified items, increased by 6% mainly due to the favourable synergy created by acquisitions and growth in assets under administration. Lastly, revenues for the Financial Markets segment were up 6%, of which close to half stemmed from trading revenues.

**Fiscal 2011-2012:** The Bank's consolidated financial statements were prepared in accordance with IFRS as published by the International Accounting Standards Board and set out in the CPA Canada Handbook. These were the first annual consolidated financial statements prepared in accordance with

IFRS and *IFRS 1 First-Time Adoption of International Financial Reporting Standards* was applied. For more information, refer to Note 33 to the Consolidated Financial Statements in the 2012 Annual Report.

The Bank recorded net income of \$1,634 million for fiscal 2012 compared to \$1,296 million for the corresponding period of 2011. Diluted earnings per share were \$9.32 for fiscal 2012, up \$2.40 as against \$6.92 for fiscal 2011. The results for fiscal 2012 included the following amounts, net of income taxes: a \$198 million gain net of charges related to the sale of the operations of the subsidiary Natcan Investment Management Inc., \$113 million in income attributable to the increase in the fair value of restructured notes and other commercial paper, \$62 million in severance pay charges and lease terminations, items related to the acquisitions of Wellington West and the full-service investment advisory business of HSBC Securities (Canada) Inc. totalling \$27 million, a \$13 million write-off of intangible assets and a \$29 million reversal of provisions for income tax contingencies. The results for fiscal 2011 included the following amounts, net of income taxes: a \$19 million severance pay charge related to the rationalization of certain activities, a \$14 million charge related to the acquisition of Wellington West, \$8 million in litigation provisions, as well as an \$11 million reversal of allowances for credit losses taken for loans and credit facilities secured by restructured notes of the MAV conduits and a \$21 million reversal of provisions for income tax contingencies. Excluding specified items, net income for fiscal 2012 would have been \$1,396 million as against \$1,305 million, for an increase of 7% from fiscal 2011. Diluted earnings per share would have been \$7.86 for fiscal 2012, compared to \$7.18 for fiscal 2011. Tier 1 and total capital ratios, according to BIS rules—Basel II—stood at 12.0% and 15.9%, respectively, as at October 31, 2012, compared to 13.6% and 16.9% as at October 31, 2011. The dividend payout ratio was 33% in fiscal 2012; excluding specified items, it would have been 39% for the same period. Revenues for the Personal and Commercial segment were up 3%, owing to an increase in loan volumes but tempered by a narrower net interest margin. Total revenues for the Wealth Management segment, excluding specified items, increased by 9% mainly due to acquisitions. Lastly, revenues for the Financial Markets segment were up 7%, of which two thirds stemmed from trading revenues, primarily attributable to fixed-income securities.

**Fiscal 2010-2011<sup>(1)</sup>:** The Bank posted net income of \$1,213 million for fiscal 2011, as against \$1,034 million for 2010. Diluted earnings per share were \$6.85 for fiscal 2011, up

<sup>(1)</sup> The figures for fiscal 2010-2011 are presented in accordance with previous Canadian Generally Accepted Accounting Principles.

\$0.91 compared to \$5.94 for fiscal 2010. Results for fiscal 2011 include the following items, net of income taxes: a \$4 million charge related to the acquisition of Wellington West, a \$10 million severance pay charge related to the rationalization of certain activities of the Financial Markets segment, \$8 million in litigation provisions, as well as an \$11 million reversal of allowances for credit losses taken for loans and credit facilities secured by restructured notes of the MAV conduits and a \$21 million reversal of provisions for income tax contingencies. Results for fiscal 2010 included a \$75 million administrative penalty as part of a settlement agreement affecting the ABCP industry as a whole, \$50 million in reversals of provisions for income tax contingencies, after-tax costs related to holding restructured notes of MAV conduits of \$8 million, an after-tax restructuring charge of \$15 million and a \$2 million charge for the impairment in value of an intangible asset. Excluding specified items, net income for fiscal 2011 would have been \$1,203 million as against \$1,084 million, up 11% from fiscal 2010. Diluted earnings per share would have been \$7.00 for fiscal 2011, compared to \$6.25 for fiscal 2010. Tier 1 and total capital ratios, according to BIS rules—Basel II—stood at 13.6% and 16.9%, respectively, as at October 31, 2011, compared to 14.0% and 17.5% as at October 31, 2010. The dividend payout ratio was 40% in fiscal 2011; excluding specified items, it was 39% for the same period. Revenues for the Personal and Commercial segment were up 4%, due to an increase in loan volumes. Total revenues for the Wealth Management segment increased by 14% attributable in part to the acquisition of Wellington West and the strength of brokerage activities. Lastly, revenues for the Financial Markets segment were up 6%. All types of non-trading revenues rose, except net gains on available-for-sale securities. In September 2011, the Bank entered into an agreement with HSBC Bank Canada and certain of its subsidiaries to acquire the full service investment advisory business of HSBC Securities (Canada) Inc.

## DESCRIPTION OF THE BUSINESS

### Business

The description of the Bank's business can be found in the pages of the Annual Report specified in the Table of Contents of the Annual Information Form and is incorporated herein by reference.

### Products and Services

Information on the Bank's products and services can be found in the pages of the Annual Report specified in the Table of

Contents of the Annual Information Form and is incorporated herein by reference.

### Specialized Skills and Knowledge

Information on the required specialized skills and knowledge can be found in the pages of the Annual Report specified in the Table of Contents of the Annual Information Form and is incorporated herein by reference.

### Competitive Conditions

A summary of the competitive conditions in the main markets and geographic areas in which the Bank conducts its business can be found in the pages of the Annual Report specified in the Table of Contents of the Annual Information Form and is incorporated herein by reference.

### New Products

Information on new products can be found in the pages of the Annual Report specified in the Table of Contents of the Annual Information Form and is incorporated herein by reference.

### Intangible Assets

Information on the Bank's intangible assets can be found in the pages of the Annual Report specified in the Table of Contents of the Annual Information Form and is incorporated herein by reference.

### Environmental Protection

Environmental Measures: For several years, the Bank and its subsidiaries have been redoubling their efforts to properly manage the impact their activities may have on the environment. Accordingly, they have adopted various environmentally friendly practices and programs notably aimed at reducing the amount of energy consumed, increasing materials recovered and recycled, managing ecological maintenance products and carrying out space planning projects using a sustainable approach based on Leadership in Energy and Environmental Design (LEED) environmental certification principles.

Moreover, the Bank has participated in the Carbon Disclosure Project (CDP) since 2007. This organization asks large publicly traded Canadian corporations to answer a questionnaire to assess the management of climate change and environmental risks linked to their operations. This voluntary participation

allows the Bank to ensure that its SOFT (Sourcing, Operations, Facilities and Travel) footprint is kept up-to-date. Furthermore, the Bank is now carbon neutral as a result of offsetting 100% of its greenhouse gas emissions by purchasing carbon credits on the voluntary market. In February 2013, thanks to its continued efforts on this front, the Bank became the first-ever recipient of a Carbon Care™ certificate, following a rigorous carbon audit.

Through sound environmental management, the Bank and one of its subsidiaries, National Bank Realty Inc., operate the Bank's buildings and premises in a sustainable manner by following acknowledged standards and adhering to applicable regulations. The Bank has also committed to taking the necessary actions to improve its environmental footprint by steadily reducing its energy use, while encouraging all its partners, service providers and employees to adopt environmentally responsible best practices.

Impact of environmental requirements: For several years, the Bank, as well as some of its subsidiaries, have incorporated environmental criteria into their credit policies and introduced controls to make sure that properties taken as security meet environmental standards. These policies notably cover the management of environmental risks associated with credit origination and the repossession of contaminated assets, and set out the protective measures to be taken to identify and mitigate potential environmental risks, both now and in the future. Accordingly, all real estate financing applications undergo risk classification and, as applicable, a multi-step analysis, including a specific environmental assessment. To date, the risks involved have not had a material impact on the Bank's operations.

## Number of Employees

The Bank had 19,691 employees at the end of the fiscal year ended October 31, 2013.

## Assets under Administration and Assets under Management

Information on the Bank's assets under administration and assets under management can be found in the pages of the Annual Report specified in the Table of Contents of the Annual Information Form and is incorporated herein by reference.

## Loans by Borrower Category

The distribution of gross loans by borrower category can be found in the pages of the Annual Report specified in the Table of

Contents of the Annual Information Form and is incorporated herein by reference.

## Investment Policies and Lending and Investment Restrictions

Information on investment policies and lending and investment restrictions can be found in the pages of the Annual Report specified in the Table of Contents of the Annual Information Form and is incorporated herein by reference.

## Provision for Credit Losses

Information on the provision for credit losses can be found in the pages of the Annual Report specified in the Table of Contents of the Annual Information Form and is incorporated herein by reference.

## Reorganizations

Information on reorganizations within the Bank over the fiscal years ended October 31, 2013 and October 31, 2011 can be found in the pages of the Annual Report specified in the Table of Contents of the Annual Information Form and on page 155 of the Bank's annual report to shareholders for fiscal 2011 and is incorporated herein by reference. The Bank did not carry out any reorganizations requiring disclosure in the Annual Information Form during the fiscal year ended October 31, 2012.

## Social Responsibility

The description of the social and environmental policies implemented by the Bank can be found in the Bank's Social Responsibility Report and is incorporated herein by reference. It is available on the Bank's website ([www.nbc.ca](http://www.nbc.ca)) under "Social Responsibility." and on the SEDAR website ([www.sedar.com](http://www.sedar.com)).

## RISK FACTORS

Information on the main risk factors for the Bank can be found in the pages of the Annual Report specified in the Table of Contents of the Annual Information Form and is incorporated herein by reference.

## ASSET-BACKED SECURITIES OUTSTANDING

Information on the Bank's asset-backed securities outstanding can be found in the pages of the Annual Report specified in the



Table of Contents of the Annual Information Form and is incorporated herein by reference.

## DIVIDENDS

Information on the amount of dividends declared and paid during the three most recently completed fiscal years can be found in the pages of the Annual Report specified in the Table of Contents of the Annual Information Form and is incorporated herein by reference.

## CAPITAL STRUCTURE

As at October 31, 2013, the Bank's authorized share capital consisted of an unlimited number of Common Shares without par value, issuable for a consideration determined by the Board, and an unlimited number of First Preferred Shares without par value, issuable for a maximum aggregate consideration of \$5,000,000,000, or the equivalent thereof in foreign currencies, issuable in series. The Bank's authorized share capital also consisted of 15,000,000 Second Preferred Shares without par value, and issuable for a maximum aggregate consideration of \$300,000,000. The main features of each of these classes and series are described below. The Bank's by-laws and the actual terms and conditions of such shares take precedence over the following summary of share capital.

### Common Shares

The Common Shares carry and are subject to the rights, privileges, restrictions and conditions set out below:

#### Dividends

Holders of Common Shares are entitled to receive dividends, in such amounts and payable at such times as the Board determines.

#### Liquidation, Dissolution or Winding-Up

In the event of the liquidation, dissolution or winding-up of the Bank, after payment to the holders of First Preferred Shares and to the holders of Second Preferred Shares of the amounts described under "First Preferred Shares" and under "Second Preferred Shares" or holders of shares of any other class of Bank shares ranking senior to Common Shares, respectively, the remaining property of the Bank will be distributed rateably among the holders of Common Shares.

#### Voting Rights

Subject to certain restrictions, holders of Common Shares are entitled to cast one vote per share at all meetings of

shareholders of the Bank, except meetings where only holders of a certain class or series of shares are entitled to vote.

As at October 31, 2013, there were 22,737 registered holders of Common Shares in the Bank's register of Common Shares.

On December 3, 2013, the Board declared a stock dividend of one common share on each of the issued and outstanding common shares, payable on February 13, 2014. The effect is the same as a two-for-one split of common shares. All common share numbers and per-share calculations will be adjusted retrospectively to reflect the stock dividend.

### First Preferred Shares

The First Preferred Shares carry and are subject to the rights, privileges, restrictions and conditions set out below:

#### Issuance in Series

First Preferred Shares may be issued, subject to the provisions of the Act, in one or more series. The Board may, by resolution, establish the number of shares in, and determine the respective designations, rights, privileges, restrictions and conditions of each series (other than series already issued and outstanding), including the rate, amount or calculation method and terms and conditions of redemption, purchase or conversion and sinking fund or purchase fund provisions.

#### Dividends

Holders of all series of First Preferred Shares are entitled to receive dividends in such amounts and payable at such times as the Board determines. Holders of any series of First Preferred Shares have priority over the holders of Common Shares, Second Preferred Shares and shares of any other class of Bank shares ranking junior to the First Preferred Shares. In the case of cumulative dividends, the priority will cover all dividends accrued (which for such purpose will be calculated as if such dividends were accruing from day to day) and unpaid. In the case of non-cumulative dividends, the priority will cover all declared and unpaid dividends. Holders of any series of First Preferred Shares are not entitled to any dividends other than those expressly provided for in the rights, privileges, restrictions and conditions attached to such series of First Preferred Shares.

#### Liquidation, Dissolution or Winding-Up

In the event of the liquidation, dissolution or winding-up of the Bank, before any amount is paid or any property distributed to the holders of Common Shares, Second Preferred Shares, or shares of any other class of Bank shares ranking junior to the First Preferred Shares, the holders of each series of First Preferred Shares are entitled to receive (i) an amount equal to



the price at which such shares were issued, (ii) such premium, if any, as has been provided for with respect to such series, and (iii) in the case of cumulative First Preferred Shares, all cumulative accrued and unpaid dividends and, in the case of non-cumulative First Preferred Shares, all non-cumulative dividends declared and remaining unpaid on and including the date of distribution. After payment to the holders of First Preferred Shares of the amounts so payable to them, they may not participate in any further distribution of the property or assets of the Bank.

#### Voting Rights

Subject to the provisions of the Act and except as otherwise provided in the rights, privileges, restrictions and conditions attaching to any series of First Preferred Shares, the holders of First Preferred Shares do not, as such, have any voting rights for the election of directors of the Bank, the appointment of the independent auditor, or for any other purpose nor are they entitled to receive any notice of or attend shareholders' meetings.

In addition to the rights, privileges, restrictions and conditions described above, each series of First Preferred Shares has its own set of terms and conditions, which are summarized below.

Series 16 (Series L) (NA.PR.L): Subject to the consent of the Superintendent and the provisions of the Act, the Bank, at its option, has been able to redeem for cash the First Preferred Shares, Series 16 since May 15, 2010, in whole or in part, at any time at a price equal to \$25.25 per share if they are redeemed during the 12 months prior to May 15, 2014, and at \$25.00 per share if they are redeemed on or after May 15, 2014, plus, in all cases, all declared and unpaid dividends up to the date set for redemption.

Holders of First Preferred Shares, Series 16 are entitled to receive a quarterly non-cumulative preferential cash dividend, as and when declared by the Board, on the 15th day of February, May, August and November of each year, at a quarterly rate equal to \$0.303125 per share.

Series 17: The First Preferred Shares, Series 17, are part of the Bank's authorized share capital, but no shares in this series had been issued as at October 31, 2013. Each NBC CapS – Series 1 is exchangeable at any time, upon prior notice, for 40 Series 17 First Preferred Shares, which pay semi-annual non-cumulative cash dividends and are redeemable at the Bank's option, subject to the prior approval of OSFI, since June 30, 2011, but are not redeemable at the option of the holders.

Series 18: The First Preferred Shares, Series 18, are part of the

Bank's authorized share capital, but no shares in this series had been issued as at October 31, 2013. Each NBC CapS – Series 1 can be exchanged automatically, without the consent of the holders, for 40 Series 18 First Preferred Shares, upon the occurrence of any one of the following events: (i) proceedings are commenced for the winding-up of the Bank; (ii) OSFI takes control of the Bank; (iii) the Bank has a Tier 1 capital ratio of less than 5% or a total capital ratio of less than 8%; or (iv) OSFI has directed the Bank to increase its capital or to provide additional liquidity and the Bank elects such automatic exchange or the Bank fails to comply with such direction to the satisfaction of OSFI. Series 18 First Preferred Shares pay semi-annual non-cumulative cash dividends and are redeemable at the option of the Bank, subject to the prior approval of OSFI, since June 30, 2011, but are not redeemable at the option of the holders.

Series 19: The First Preferred Shares, Series 19, are part of the Bank's authorized share capital, but no shares in this series had been issued as at October 31, 2013. Each NBC CapS II – Series 1 can be exchanged automatically, without the consent of the holders, for 40 Series 19 First Preferred Shares of the Bank upon the occurrence of one of the following events: (i) proceedings are commenced for the winding-up of the Bank; (ii) OSFI 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) OSFI 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 OSFI. Series 19 First Preferred Shares pay semi-annual non-cumulative cash dividends and are redeemable at the Bank's option, subject to the prior approval of OSFI, since June 30, 2013, but are not redeemable at the option of the holders.

Series 20 (Series M) (NA.PR.M): Subject to the consent of the Superintendent and the provisions of the Act, the Bank, at its option, has been able to redeem for cash the First Preferred Shares, Series 20 since May 15, 2013, in whole or in part, at any time at a price equal to \$26.00 per share if they are redeemed during the 12 months prior to May 15, 2014, at \$25.75 per share if they are redeemed during the 12 months prior to May 15, 2015, at \$25.50 per share if they are redeemed during the 12 months prior to May 15, 2016, at \$25.25 per share if they are redeemed during the 12 months prior to May 15, 2017, and at \$25.00 per share if they are redeemed on or after May 15, 2017, plus, in all cases, all declared and unpaid dividends up to the date set for redemption.

Holders of First Preferred Shares, Series 20 are entitled to receive a quarterly non-cumulative preferential cash dividend, as and when declared by the Board, on the 15th day of

February, May, August and November of each year, at a quarterly rate equal to \$0.375 per share.

Series 23: The First Preferred Shares, Series 23 are part of the Bank's authorized share capital, but no shares in this series had been issued as at October 31, 2013. Each NBC CapS II – Series 2 can be exchanged automatically, without the consent of the holders, for 40 Series 23 First Preferred Shares of the Bank upon the occurrence of one of the following events: (i) proceedings are commenced for the winding-up of the Bank; (ii) OSFI 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) OSFI 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 OSFI. Series 23 First Preferred Shares pay semi-annual non-cumulative cash dividends and are redeemable at the Bank's option, subject to the prior approval of OSFI, since July 31, 2013, but are not redeemable at the option of the holders.

Series 24 (Series O) (NA.PR.O): Subject to the consent of the Superintendent and the provisions of the Act, the Bank may, at its option, redeem for cash the First Preferred Shares, Series 24 on February 15, 2014 and on February 15 every five years thereafter, in whole or in part, at a price equal to \$25.00 per share, plus all declared and unpaid dividends up to the date set for redemption.

Holders of First Preferred Shares, Series 24 are entitled to receive a fixed quarterly non-cumulative preferential cash dividend, as and when declared by the Board, on the 15th day of February, May, August and November of each year, at an annual rate equal to \$1.65 per share, during the initial period ending February 15, 2014. Thereafter, holders of First Preferred Shares, Series 24 are entitled to receive a fixed quarterly non-cumulative preferential cash dividend, as and when declared by the Board, on the 15th day of February, May, August and November of each year, in the amount per share per annum determined by multiplying the sum of the Government of Canada bond yield on the applicable fixed rate calculation date plus 4.63%, by \$25.00.

Holders of First Preferred Shares, Series 24 will be entitled, at their option, to convert all of their shares to an equivalent number of First Preferred Shares, Series 25, subject to certain conditions, on February 15, 2014 and on February 15 every five years thereafter.

Series 25: The First Preferred Shares, Series 25 are part of the Bank's authorized share capital, but no shares in this series had been issued as at October 31, 2013. Subject to the consent

of the Superintendent and the provisions of the Act, the Bank may, at its option, redeem for cash the First Preferred Shares, Series 25, in whole or in part, at a price equal to \$25.00 per share on February 15, 2019 and on February 15 every five years thereafter, or at \$25.50 per share on any other date on or after February 15, 2014, plus, in all cases, all declared and unpaid dividends up to the date set for redemption.

Holders of First Preferred Shares, Series 25 are entitled to receive a floating quarterly non-cumulative preferential cash dividend, as and when declared by the Board, on the 15th day of February, May, August and November of each year, in the amount per share determined by multiplying the sum of the 90-day Government of Canada Treasury Bill rate on the applicable floating rate calculation date plus 4.63%, by \$25.00, calculated on the basis of the actual number of days elapsed in such period divided by 365.

Holders of First Preferred Shares, Series 25 will be entitled, at their option, to convert all of their shares to an equivalent number of First Preferred Shares, Series 24, subject to certain conditions, on February 15, 2019 and on February 15 every five years thereafter.

Series 26 (Series P) (NA.PR.P): Subject to the consent of the Superintendent and the provisions of the Act, the Bank may, at its option, redeem for cash the First Preferred Shares, Series 26 on February 15, 2014 and on February 15 every five years thereafter, in whole or in part, at a price equal to \$25.00 per share, plus all declared and unpaid dividends up to the date set for redemption.

Holders of First Preferred Shares, Series 26 are entitled to receive a fixed quarterly non-cumulative preferential cash dividend, as and when declared by the Board, on the 15th day of February, May, August and November of each year, at an annual rate equal to \$1.65 per share, during the initial period ending February 15, 2014. Thereafter, holders of First Preferred Shares, Series 26 are entitled to receive a fixed quarterly non-cumulative preferential cash dividend, as and when declared by the Board, on the 15th day of February, May, August and November of each year, in the amount per share per annum determined by multiplying the sum of the Government of Canada bond yield on the applicable fixed rate calculation date plus 4.79%, by \$25.00.

Holders of First Preferred Shares, Series 26 will be entitled, at their option, to convert all of their shares to an equivalent number of First Preferred Shares, Series 27, subject to certain conditions, on February 15, 2014 and on February 15 every five years thereafter.

Series 27: The First Preferred Shares, Series 27 are part of the Bank's authorized share capital, but no shares in this series had been issued as at October 31, 2013. Subject to the consent of the Superintendent and the provisions of the Act, the Bank may, at its option, redeem for cash the First Preferred Shares, Series 27, in whole or in part, at a price equal to \$25.00 per share on February 15, 2019 and on February 15 every five years thereafter, or at \$25.50 per share on any other date on or after February 15, 2014, plus, in all cases, all declared and unpaid dividends up to the date set for redemption.

Holders of First Preferred Shares, Series 27 are entitled to receive a floating quarterly non-cumulative preferential cash dividend, as and when declared by the Board, on the 15th day of February, May, August and November of each year, in the amount per share determined by multiplying the sum of the 90-day Government of Canada Treasury Bill rate on the applicable floating rate calculation date plus 4.79%, by \$25.00, calculated on the basis of the actual number of days elapsed in such period divided by 365.

Holders of First Preferred Shares, Series 27 will be entitled, at their option, to convert all of their shares to an equivalent number of First Preferred Shares, Series 26, subject to certain conditions, on February 15, 2019 and on February 15 every five years thereafter.

Series 28 (Série Q) (NA.PR.Q): Subject to the consent of the Superintendent and the provisions of the Act, the Bank may, at its option, redeem for cash the First Preferred Shares, Series 28 on November 15, 2017 and on November 15 every five years thereafter, in whole or in part, at a price equal to \$25.00 per share, plus all declared and unpaid dividends up to the date set for redemption.

Holders of First Preferred Shares, Series 28 are entitled to receive a fixed quarterly non-cumulative preferential cash dividend, as and when declared by the Board, on the 15th day of February, May, August and November of each year, at an annual rate equal to \$0.95 per share, during the initial period ending November 15, 2017. Thereafter, holders of First Preferred Shares, Series 28 are entitled to receive a fixed quarterly non-cumulative preferential cash dividend, as and when declared by the Board, on the 15th day of February, May, August and November of each year, in the amount per share determined by multiplying the interest rate, equal to the sum of the Government of Canada bond yield on the applicable fixed rate calculation date plus 2.43%, by \$25.00.

Holders of First Preferred Shares, Series 28 will be entitled, at their option, to convert all of their shares to an equivalent number of First Preferred Shares, Series 29, subject to certain

conditions, on November 15, 2017 and on November 15 every five years thereafter.

Series 29: The First Preferred Shares, Series 29 are part of the Bank's authorized share capital, but no shares in this series had been issued as at October 31, 2013. Subject to the consent of the Superintendent and the provisions of the Act, the Bank may, at its option, redeem for cash the First Preferred Shares, Series 29, in whole or in part, at a price equal to \$25.00 per share on November 15, 2022 and on November 15 every five years thereafter, or at \$25.50 per share on any other date on or after November 15, 2017, plus, in all cases, all declared and unpaid dividends up to the date set for redemption.

Holders of First Preferred Shares, Series 29 are entitled to receive a floating quarterly non-cumulative preferential cash dividend, as and when declared by the Board, on the 15th day of February, May, August and November of each year, in the amount per share determined by multiplying the sum of the 90-day Government of Canada Treasury Bill rate on the applicable floating rate calculation date plus 2.43%, by \$25.00, calculated on the basis of the actual number of days elapsed in such period divided by 365.

Holders of First Preferred Shares, Series 29 will be entitled, at their option, to convert all of their shares to an equivalent number of First Preferred Shares, Series 28, subject to certain conditions, on November 15, 2017 and on November 15 every five years thereafter.

#### Redemption of Preferred Shares

On December 3, 2013, the Board approved the redemption of all of the issued and outstanding First Preferred Shares, Series 24 and 26. This redemption is subject to the approval of the Superintendent.

#### Second Preferred Shares

The Second Preferred Shares are part of the Bank's authorized share capital, but no shares in this class had been issued as at October 31, 2013. The Second Preferred Shares carry and are subject to the rights, privileges, restrictions and conditions set out below:

#### Rank

Second Preferred Shares rank senior to the Common Shares and the shares of any other class of Bank shares that rank junior to the Second Preferred Shares, but rank junior to the First Preferred Shares with regard to dividends and return of capital in the event of the liquidation, dissolution or winding-up of the Bank.

#### Issuance in Series

Second Preferred Shares may be issued from time to time in one or more series. The Board may, by resolution, subject to the provisions of the Act, set the number of shares in, and determine the respective designations, rights, privileges, restrictions and conditions of each series, including the rate, amount or calculation method and terms and conditions of redemption, purchase or conversion and sinking fund or purchase fund provisions.

#### Dividends

Holders of Second Preferred Shares are entitled to receive dividends in such amounts and payable at such times as the Board determines. With respect to dividends, holders of any series of Second Preferred Shares have priority over the holders of Common Shares or any other class of Bank shares ranking junior to the Second Preferred Shares. In the case of cumulative dividends, the priority will cover all dividends accrued (which for such purpose will be calculated as if such dividends were accruing from day to day) and unpaid. In the case of non-cumulative dividends, the priority will cover all declared and unpaid dividends. The holders of any series of Second Preferred Shares are not entitled to any dividends other than those expressly provided for in the rights, privileges, restrictions and conditions attached to such series of Second Preferred Shares.

#### Liquidation, Dissolution or Winding-Up

In the event of the liquidation, dissolution or winding-up of the Bank, before any amount is paid or any property distributed to the holders of Common Shares or shares of any other class of Bank shares ranking junior to the Second Preferred Shares, the holders of each series of Second Preferred Shares are entitled to receive (i) an amount equal to the price at which such shares were issued, (ii) such premium, if any, as has been provided for with respect to such series, and (iii) in the case of cumulative Second Preferred Shares, all cumulative accrued and unpaid dividends, and in the case of non-cumulative Second Preferred Shares, all non-cumulative dividends declared and remaining unpaid up to and including the date of distribution. After payment to the holders of the Second Preferred Shares of the amounts so payable to them, they will not be entitled to share in any further distribution of the property or assets of the Bank.

#### Voting Rights

Subject to the provisions of the Act and except as otherwise provided in the rights, privileges, restrictions and conditions attaching to any series of Second Preferred Shares, the holders of Second Preferred Shares do not, as such, have any voting rights for the election of directors of the Bank, the appointment of the independent auditor, or for any other purpose nor are

they entitled to receive any notice of or attend shareholders' meetings.

#### Restrictions on Bank Shares under the Act

The 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.

Subject to certain exceptions specified in the Act, no person may be a major shareholder of a bank if the bank has equity of \$12 billion or more. While the equity of the Bank is less than \$12 billion and the 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 \$12 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 a) the aggregate of shares of any class of voting shares of a bank beneficially owned by that person, by entities controlled by that person and by any person acting jointly or in concert with that person is more than 20% of all of the outstanding shares of that class of shares; or b) the aggregate of shares of any class of non-voting shares of a bank beneficially owned by that person, by entities controlled by that person and by any person acting jointly or in concert with that person is more than 30% of all of the outstanding shares of that class of shares.

Furthermore, no person may have a significant interest in any class of shares of a bank, without approval under the 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 acting jointly or in concert with that person exceeds 10% of all of the outstanding shares of that class of shares of such bank. Subject to certain exceptions, the 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.

#### Notes

Information on the Bank's notes can be found in the pages of the Annual Report specified in the Table of Contents of the Annual Information Form and is incorporated herein by reference.

## Ratings

The table below details the ratings assigned to the Bank's outstanding securities by the following credit rating agencies as at October 31 2013. Credit ratings must not be construed as recommendations to purchase, sell or hold securities of the Bank. Ratings may not reflect the potential impact of all risks. Ratings may be revised or withdrawn at any time by the rating agencies. The Bank has made customary payments to each of the ratings agencies in connection with the assignment of ratings and/or may have made such payments in respect of other services during the past two years.

The Bank's borrowing costs and ability to raise funds are closely linked to its credit ratings. The Bank considers its credit ratings to be the primary factor affecting its ability to access capital markets at a reasonable cost. While the Bank maintains large holdings of liquid assets to support its operations, a downgrade of its ratings could adversely affect the cost, size and nature of its future issues, its ability to enter into normal course derivative or hedging transactions, as well as the costs associated with such transactions. The Bank regularly reviews the level of increased collateral its trading counterparties would require in the event of a downgrade in its credit rating.

	Moody's		Standard & Poor's		DBRS		Fitch Ratings	
	Rating	Outlook	Rating	Outlook	Rating	Outlook	Rating	Outlook
Short-Term Senior Debt	P-1	Stable	A-1	Stable	R-1 (middle)	Stable	F1	Stable
Long-Term Senior Debt	Aa3	Stable	A	Stable	AA (low)	Stable	A+	Stable
Subordinated Debt	Baa1	Stable	BBB+	Stable	A (high)	Stable	A	Stable
Preferred Shares	Baa3	Stable	P-2	Stable	Pfd-2	Stable	BBB-	Stable

**MARKET FOR SECURITIES<sup>(1) (2)</sup>****Trading Price and Volume**

As at October 31, 2013, the Common Shares and the First Preferred Shares, Series 16, 20, 24, 26 and 28 of the Bank (described below) are listed in Canada on the TSX. The First Preferred Shares, Series 17, 18, 19, 23, 25, 27 and 29 and the Second Preferred Shares are part of the Bank's authorized share capital, but no shares of these series or of that class had been issued as at October 31, 2013.

<b>Issue or Class</b>	<b>Ticker Symbol</b>	<b>Newspaper Abbreviation</b>
<b>Common Shares</b>	NA	Nat Bk or Natl Bk
<b>First Preferred Shares</b>		
Series 16	NA.PR.L	Nat Bk s16 or Natl Bk s16
Series 20	NA.PR.M	Nat Bk s20 or Natl Bk s20
Series 24	NA.PR.O	Nat Bk s24 or Natl Bk s24
Series 26	NA.PR.P	Nat Bk s26 or Natl Bk s26
Series 28	NA.PR.Q	Nat Bk s28 or Natl Bk s28

The following table shows the monthly price ranges and trading volumes of each of the Bank's securities listed on the TSX for the fiscal year ended October 31, 2013.

		2012/11	2012/12	2013/01	2013/02	2013/03	2013/04	2013/05	2013/06	2013/07	2013/08	2013/09	2013/10
<b>Common Shares (NA)</b>	High (\$)	77.83	78.23	80.33	79.99	78.68	76.45	77.59	76.90	79.48	82.64	86.05	89.71
	Low (\$)	75.00	76.59	77.00	77.07	73.67	71.77	73.75	72.14	74.01	76.84	81.71	84.30
	Volume	7,637,932	13,108,218	8,751,772	8,038,865	13,508,801	16,185,596	15,079,434	13,678,924	12,000,217	10,406,592	10,749,588	8,364,893
<b>Series 15<sup>(3)</sup> (NA.PR.K)</b>	High (\$)	25.83	25.81	25.25	-	-	-	-	-	-	-	-	-
	Low (\$)	25.43	25.15	25.21	-	-	-	-	-	-	-	-	-
	Volume	90,993	543,566	93,774	-	-	-	-	-	-	-	-	-
<b>Series 16 (NA.PR.L)</b>	High (\$)	25.74	25.95	25.93	25.78	25.70	25.79	25.58	25.53	25.28	25.08	25.35	25.33
	Low (\$)	25.50	25.57	24.72	25.52	25.52	25.40	25.40	24.50	25.00	24.24	24.90	24.96
	Volume	41,016	35,428	1,068,059	301,062	37,611	109,330	117,011	283,183	81,053	119,801	121,993	158,576
<b>Series 20 (NA.PR.M)</b>	High (\$)	27.00	26.75	26.94	27.15	26.89	26.98	26.61	26.46	26.34	26.18	26.54	26.79
	Low (\$)	26.52	26.30	26.44	26.54	26.62	26.40	26.42	25.91	25.80	25.24	26.00	25.98
	Volume	44,557	60,499	96,406	79,332	44,567	82,627	57,957	141,417	94,027	92,488	80,985	102,986
<b>Series 21<sup>(4)</sup> (NA.PR.N)</b>	High (\$)	25.70	25.57	25.75	25.50	25.68	25.60	25.35	25.28	25.29	25.00	-	-
	Low (\$)	24.99	25.03	25.25	25.21	25.21	25.02	25.05	25.23	24.96	24.97	-	-
	Volume	33,615	65,543	37,141	55,968	84,728	67,748	165,250	33,550	50,685	4,584	-	-
<b>Series 24 (NA.PR.O)</b>	High (\$)	26.75	26.56	26.85	26.55	26.55	26.34	25.94	25.95	25.96	25.70	25.60	25.80
	Low (\$)	26.02	26.25	26.08	26.10	26.15	25.80	25.57	25.60	25.40	25.41	25.43	25.12
	Volume	124,150	53,436	65,486	34,996	57,181	35,477	37,944	72,820	28,601	32,120	30,590	43,893
<b>Series 26 (NA.PR.P)</b>	High (\$)	26.90	26.70	26.85	26.25	26.29	26.38	25.89	25.98	26.10	25.60	25.65	25.80
	Low (\$)	26.20	26.37	26.05	26.01	26.07	25.70	25.72	25.70	25.30	25.34	25.42	25.06
	Volume	19,453	14,680	36,700	44,917	25,071	45,481	24,506	31,763	46,240	31,775	32,698	49,954
<b>Series 28 (NA.PR.Q)</b>	High (\$)	25.90	26.24	26.62	26.50	26.50	26.48	26.95	26.25	25.78	25.45	25.50	25.72
	Low (\$)	25.27	25.75	26.16	26.24	26.17	26.00	26.10	25.08	25.11	24.46	24.96	25.13
	Volume	2,528,410	272,559	761,148	203,333	212,952	140,864	143,479	112,273	143,103	213,282	170,556	130,584

(1) This section does not include debt classified as deposits.

(2) It is possible that the securities of the Bank may be listed on other exchanges by certain investors, brokers or other persons, without the Bank's consent or intervention.

(3) On December 5, 2012, the Board approved the redemption of all of the issued and outstanding First Preferred Shares, Series 15. This redemption was completed on January 15, 2013.

(4) On May 23, 2013, the Board approved the redemption of all outstanding First Preferred Shares, Series 21. This redemption was completed on August 16, 2013. Given the redemption of all the remaining First Preferred Shares, Series 21, the conversion rights were not exercised and no first Preferred Shares, Series 22 were issued.



The following table shows the monthly price range and trading volume of the Bank's security listed on the Luxembourg Stock Exchange that was traded in fiscal 2013<sup>(1)</sup>.

<b>Date<sup>(2)</sup></b>	<b>High</b>	<b>Low</b>	<b>Volume</b>
Floating-rate bond (NatlBank Canada 88-87 28/08s)	-	-	nil

### Prior Sales

Information concerning prior sales can be found in the pages of the Annual Report specified in the Table of Contents of the Annual Information Form and is incorporated herein by reference.

### ESCROWED SECURITIES

As at October 31, 2013, the securities listed in the table below are, to the Bank's knowledge, all the voting securities of the Bank held in escrow. Computershare Trust Company of Canada is the custodian, as escrow agent, of said securities. These securities will be released on the dates and as per the conditions set out in the escrow agreements, including the degree to which the specified financial objectives are achieved.

<b>Designation of class</b>	<b>Number of securities held in escrow</b>	<b>Percentage of class</b>
Common Shares	1,332,134	0.82%

Additional information can be found in the pages of the Annual Report specified in the Table of Contents of the Annual Information Form and is incorporated herein by reference.

### NORMAL COURSE ISSUER BID OF THE BANK

The description of the normal course issuer bid currently in effect at the Bank can be found in the page of the Annual Report specified in the Table of Contents of the Annual Information Form and is incorporated herein by reference.

(1) This section does not include debt classified as deposits.

(2) There was no trading activity in fiscal 2013.

## DIRECTORS AND EXECUTIVE OFFICERS

### Directors

As at October 31, 2013, the following were members of the Board. A director may not stand for re-election more than 15 times unless the Board, on the recommendation of the CRCGC, decides that, because of exceptional circumstances, it is in the Bank's best interest to recommend the director for re-election. The computation of this 15-year period started in 1999 for directors in office at that time. The main positions they have held since November 1, 2008 are also specified. All directors elected at the Meeting will hold office until their resignation, the election or appointment of their replacement, or until the close of the subsequent annual meeting of holders of Common Shares of the Bank. For further information, please consult the Circular.

<b>BERTRAND, Maryse</b> <sup>(2) (3) (5)</sup> (Quebec, Canada)	Vice-President – Real Estate Services, Legal Services and General Counsel for CBC/Radio-Canada since September 2009. Partner with the law firm Davies Ward Phillips & Vineberg L.L.P. from January 1989 to July 2009. Bank director since April 2012.
<b>BOIVIN, Pierre</b> <sup>(2) (4)</sup> (Quebec, Canada)	President and Chief Executive Officer of Claridge Inc. since September 2011. President and Chief Executive Officer of the Club de hockey Canadien, Inc. from October 1999 to June 2011. President and Chief Executive Officer of evenko from October 1999 to June 2011. Bank director since April 2013.
<b>BLOOMBERG, Lawrence S.</b> (Ontario, Canada)	Advisor to National Bank Financial since October 2000. Bank director since August 1999.
<b>CAILLÉ, André</b> <sup>(1) (3) (4) (5)</sup> (Quebec, Canada)	Corporate director. Senior Strategic Consultant at Junex Inc. since April 2008. Bank director since October 2005.
<b>COULOMBE, Gérard</b> <sup>(3) (4)</sup> (Quebec, Canada)	Partner at the law firm Lavery, de Billy L.L.P. since October 2007. From February 1977 to September 2007, Senior Partner at Desjardins Ducharme L.L.P. and Chairman of its Board of Directors from March 2000 to September 2007. Bank director since February 1994.
<b>CYR, Bernard</b> <sup>(1) (5)</sup> (New Brunswick, Canada)	President of Cyr Holdings Inc. since 1986 and President of Dooly's Inc. since January 1993. Bank director since August 2001.
<b>DENHAM, Gillian H.</b> <sup>(4)</sup> (Ontario, Canada)	Corporate director. Bank director since October 2010.
<b>DOUVILLE, Jean</b> (Quebec, Canada)	Corporate director. Chairman of the Board of the Bank since March 2004. Bank director since November 1991.
<b>FORTIN, Richard</b> <sup>(1) (2)</sup> (Quebec, Canada)	Corporate director. Member of the Board of Directors of Alimentation Couche-Tard Inc. since 1988. Bank director since August 2013.
<b>GOBEIL, Paul</b> <sup>(1) (2) (5)</sup> <b>FCPA, FCA</b> (Quebec, Canada)	Corporate director. Vice-Chairman of the Board of Directors of Metro Inc. since October 1990. Bank director since February 1994.
<b>HOUDE, Jean</b> <sup>(1) (2) (3) (5)</sup> (Quebec, Canada)	Chairman of the Board of Directors of Gaz Métro Inc. since December 2011. Chairman of the Board of Directors of Finance Montréal – Quebec's financial cluster since November 2010. Deputy Minister of Finance of Quebec from September 2005 to August 2009. Bank director since March 2011.
<b>LAFLAMME, Louise</b> <sup>(1) (2) (5)</sup> (Quebec, Canada)	Corporate director. Bank director since November 2008.
<b>RUNTE, Roseann</b> <sup>(3)</sup> (Ontario, Canada)	President and Vice-Chancellor of Carleton University in Ottawa since July 2008. Bank director since April 2001.
<b>SAPUTO, Lino A. Jr.</b> <sup>(4)</sup> (Quebec, Canada)	Chief Executive Officer of Saputo Inc. since 2004 and Vice-Chairman of the Board of Directors of Saputo Inc. since 2011. Bank director since April 2012.
<b>THABET, Pierre</b> <sup>(2)</sup> (Quebec, Canada)	President of Boa-Franc, s.e.n.c. since 1983. Bank director since March 2011.
<b>VACHON, Louis</b> (Quebec, Canada)	President and Chief Executive Officer of the Bank since June 2007. Bank director since August 2006.

(1) Member of the AC

(2) Member of the RMC

(3) Member of the CRCGC

(4) Member of the HRC

(5) On April 24, 2013, the ARMC was dissolved and replaced by two committees, namely, the AC and the RMC. Maryse Bertrand, André Caillé, Bernard Cyr, Paul Gobeil, Jean Houde and Louise Laflamme were members of the ARMC from November 1, 2012 to April 23, 2013.

## Executive Officers

The following are the Bank's executive officers, as defined in subsection 1.1(1) of *Regulation 51-102 Continuous Disclosure Obligation* (Quebec) as at October 31, 2013. The positions they have held both at the Bank and outside the Bank since November 1, 2008 are also specified.

<b>BILODEAU, Stéphane</b> (Quebec, Canada)	<b>Executive Vice-President – Operations and Strategic Initiatives Office since February 2013</b> From July 2012 to February 2013, Executive Vice-President – Operations, National Bank of Canada; from December 2011 to July 2012, Senior Vice-President – IT Delivery Management, Technological Transformation of Business Processes, Operations, Personal and Commercial Banking, National Bank of Canada; from May 2010 to December 2011, Senior Vice-President – IT Delivery Management, Technological Transformation, Operations, Personal and Commercial Banking, National Bank of Canada; and from November 2007 to June 2009, Executive Vice-President and Chief Operating Officer, Montréal Exchange Inc.
<b>BONNELL, William</b> (Quebec, Canada)	<b>Executive Vice-President – Risk Management since June 2012</b> From November 2010 to June 2012, Senior Vice-President – Risk Management, National Bank of Canada; and from November 2007 to November 2010, Vice-President – Market Risk, National Bank of Canada.
<b>FAGNOULE, Dominique</b> (Quebec, Canada)	<b>Executive Vice-President – Information Technology and Organizational Performance since April 2013</b> From February 2009 to April 2013, Chief Information Officer, BNP Paribas – Personal Finance; from January 1999 to January 2009, General Manager – Retail Banking Information Systems at Fortis.
<b>GIARD, Diane</b> (Quebec, Canada)	<b>Executive Vice-President – Personal and Commercial Banking since May 2012</b> From September 2011 to May 2012, Executive Vice-President – Marketing, National Bank of Canada; from May 2011 to September 2011, Senior Vice-President – Customer Experience and Distribution Strategy, Scotiabank; and from March 2006 to May 2011, Senior Vice-President – Quebec, Eastern Ontario and Montreal region, Scotiabank.
<b>JEANNIOT, Lynn</b> (Quebec, Canada)	<b>Executive Vice-President – Human Resources and Corporate Affairs since September 2008</b>
<b>LAVALLÉE, Jacques</b> (Quebec, Canada)	<b>Interim Senior Vice-President – Internal Audit since October 2013 and Senior Manager – Internal Audit since March 2010</b> From January 2001 to November 2009, Senior Vice-President – Operations and Technology, Caisse de dépôt et placement du Québec.
<b>LEGGETT, Karen</b> (Quebec, Canada)	<b>Executive Vice-President – Marketing since May 2012</b> From October 2009 to May 2012, Senior Vice-President – Cards and Payment Solutions, Royal Bank of Canada; from November 2008 to October 2009, Senior Vice-President – Home Equity Financing, Royal Bank of Canada.
<b>PAIEMENT, Luc</b> (Quebec, Canada)	<b>Executive Vice-President – Wealth Management and Co-President and Co-Chief Executive Officer, National Bank Financial since September 2008</b>
<b>PARENT, Ghislain</b> (Quebec, Canada)	<b>Chief Financial Officer and Executive Vice-President – Finance and Treasury since August 2011</b> From July 2010 to August 2011, Senior Vice-President – Internal Audit, National Bank of Canada; from April 2009 to May 2010, Senior Vice-President and Chief Financial Officer, Caisse de dépôt et placement du Québec; and from November 2002 to April 2009, Senior Vice-President – Finance and Operations, Caisse de dépôt et placement du Québec.
<b>PASCOE, Ricardo</b> (Ontario, Canada)	<b>Executive Vice-President – Financial Markets and Co-President and Co-Chief Executive Officer, National Bank Financial since September 2008</b>
<b>VACHON, Louis</b> (Quebec, Canada)	<b>President and Chief Executive Officer of the Bank since June 2007</b> For more details, please refer to the information included in the list of directors on the previous page.

## Shareholdings of Directors and Executive Officers

As at October 31, 2013, all the directors and executive officers of the Bank directly or beneficially owned or controlled 295,772 Common Shares, i.e., 0.18% of the Bank's issued and outstanding Common Shares.

## Cease Trade Orders, Bankruptcies, Penalties or Sanctions

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

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

- Paul Gobeil, who, until May 8, 2012 was a board member of Yellow Media Inc., a corporation whose recapitalization plan under the *Canada Business Corporations Act* was approved on September 6, 2012 by the majority of its creditors and shareholders. The recapitalization plan was implemented and took effect on December 20, 2012;
- Pierre Boivin, who, until November 26, 2009, was a board member of TopTent Inc., a corporation that filed a commercial proposal with its creditors on April 30, 2010. On August 3, 2010, TopTent Inc. was discharged from the proposal;
- André Caillé, who, until July 21, 2009, was a board member of Quebecor World Inc., a company placed under the protection of the *Companies' Creditors Arrangement Act* (Canada) and Chapter 11 of Title 11 (*Bankruptcy*) of the *United States Code* on January 21, 2008. Quebecor World Inc. was delisted from the New York Stock Exchange on

January 22, 2008. Quebecor World Inc. emerged from Canadian and U.S. creditor protection on July 21, 2009. It then became known under the corporate name World Color Press Inc. until a plan of arrangement was entered into with Quad/Graphics Inc. was completed in July 2010; and

- Gérard Coulombe, who, until September 28, 2005, was a board member of Centre International de Gestion de Projets G.P., a non-profit company adjudged bankrupt on September 29, 2005. Centre International de Gestion de Projets G.P. was discharged from bankruptcy on April 4, 2008.

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

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

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

## CONFLICTS OF INTEREST

To the knowledge of the Bank, no director or officer of the Bank has an existing or potential material conflict of interest with the Bank or any of its subsidiaries. Information on related party transactions can be found in the pages of the Annual Report

specified in the Table of Contents of the Annual Information Form and is incorporated herein by reference.

## **LEGAL PROCEEDINGS AND REGULATORY ACTIONS**

Information on litigation to which the Bank is a party can be found in the pages of the Annual Report specified in the Table of Contents of the Annual Information Form and is incorporated herein by reference.

## **TRANSFER AGENT AND REGISTRAR**

The Bank's registers are maintained in Montreal by:

Computershare Trust Company of Canada  
1500 University, Suite 700  
Montreal, Quebec, Canada H3A 3S8

Telephone: 1-888-838-1407  
Fax: 1-888-453-0330  
E-mail address: [www.investorcentre.com/service](http://www.investorcentre.com/service)  
Website: [computershare.com](http://computershare.com)

Mailing address:

Computershare Trust Company of Canada  
100 University Avenue, 9th Floor  
Toronto, Ontario, Canada M5J 2Y1

## **INTERESTS OF EXPERTS**

Deloitte is the Bank's auditor and is independent within the meaning given to this term in the Code of Ethics of the Ordre des comptables professionnels agréés du Québec. This firm has prepared the Auditor's Report to shareholders in respect of the Bank's consolidated financial statements.

## INFORMATION ON THE AUDIT COMMITTEE

The mandate of the Committee appears in Appendix B.

### Composition of the Committee and Financial Literacy of Members

The AC is made up entirely of independent directors, as defined by the CSA. As at October 31, 2013, the Committee members were André Caillé, Bernard Cyr, Richard Fortin, Paul Gobeil, Jean Houde (who has served as Chair since April 24, 2013), and Louise Laflamme. Maryse Bertrand, a director of the Bank, was a member of the ARMC until it was dissolved and replaced on April 24, 2013 by two distinct committees, namely, the AC and the RMC.

The Board has determined that all the Committee members are “financially literate” within the meaning of CSA rules relating to audit committees. All the Committee members have acquired the experience and knowledge required to adequately fulfill their duties as Committee members, from having served as chief executive officers or directors of other corporations or through their education. Several of them serve or have served on the audit committees of various corporations. The text below summarizes the education and experience of each Committee member that are relevant to the performance of their responsibilities.

Maryse Bertrand, a Committee member until April 24, 2013, has a Bachelor’s in Civil Law from McGill University and was called to the Quebec Bar in 1981. She has been Vice-President – Real Estate Services, Legal Services and General Counsel for CBC/Radio-Canada since September 2009. She is responsible for the Real Estate portfolio of CBC/Radio-Canada across Canada and abroad and for the General Counsel’s offices in Montreal, Toronto and Ottawa, the Corporate Secretariat and for the administration of the Access to Information and Privacy laws. She was a partner specializing in corporate law and mergers and acquisitions at Davies Ward Phillips & Vineberg L.L.P. from 1989 to 2009, where she played a key role in cross-border and Canadian transactions and was a member of its Management Committee from 2000 to 2005. She was a member of the Audit Committee at La Senza Corporation from 1993 to 2003. Maryse Bertrand had been a member of the ARMC since April 2012.

André Caillé has a Bachelor’s in Specialized Chemistry as well as a Master’s and Doctorate in Physical Chemistry. He was a member of the Audit Committee of Quebecor World Inc. from

December 2008 to July 2009. He was President and Chief Executive Officer and a member of the Board of Directors of Hydro-Québec from 1996 to 2005 and served as Chairman of the Board from April to September 2005. From 1987 to 1996, he was President and Chief Executive Officer of Gaz Métro Inc. André Caillé was a member of the ARMC from October 2005 until it was dissolved on April 24, 2013 and has been a member of the AC since that date.

Bernard Cyr has a Bachelor’s in Business Administration. He has been the President of Dooly’s Inc. since January 1993. He has been the President of Cyr Holdings Inc., a holding company in the hotel, commercial real estate, restaurant and entertainment sectors, since 1986. He was a member of the Board of Directors and several committees of the Vitalité Health Network, including its Finance and Audit Committee, from June 2010 to June 2012. Bernard Cyr was a member of the ARMC from March 2002 until it was dissolved on April 24, 2013 and has been a member of the AC since that date.

Richard Fortin has a Bachelor’s degree in Management (with a major in Finance). He has been a member of the Board of Directors of Alimentation Couche-Tard Inc. since 1988. He has also served on the Board of Directors of Transcontinental Inc. since 2004 and been a member of its Audit Committee since 2004, which he has chaired since 2008. He has held a number of positions in finance at Alimentation Couche-Tard Inc., including Executive Vice-President and Chief Financial Officer. He was a director and member of the Audit Committee of Rona Inc. from 2009 to 2013. He has served on the Board of Directors and Audit Committee of National Bank Life Insurance, a Bank subsidiary, since August 2005 and has chaired the Committee since February 2013. He was the first recipient of “The Aces of Finance” Homage Award, presented by the Quebec Chapter of Financial Executives International (FEI Canada) in recognition of his exceptional career as a financial executive. Richard Fortin has been a director and AC member since August 2013.

Paul Gobeil, FCPA, FCA, has a Master’s in Commerce (Accounting) and another in Accounting Sciences. He has been a member of the Ordre des comptables professionnels agréés du Québec since 1965 and a Fellow since 1986. He has extensive experience in finance and business, and has been Vice-Chairman of the Board of Metro Inc. since 1990. He was a director and member of the Audit Committee of Munich Reinsurance Company of Canada from May 1992 until February 2013 and Chair of the Audit Committee from February 2003 until February 2013. He was also a director and member of the Audit Committee of Temple Insurance Company from May 1992 until February 2013 and Chair of the Audit Committee from May



2002 until February 2013. He was a member of the Yellow Pages Income Fund<sup>(1)</sup> from May 2004 to November 2010 and a director and a member of the Audit Committee of Yellow Media Inc.<sup>(1)</sup> from November 2010 to May 2012. He held a number of management positions at Provigo Inc. from 1974 to 1985, including Vice-President, Finance and Administration. Paul Gobeil was a member of the ARMC from March 2001 and Chair of the Committee from May 2008 until it was dissolved on April 24, 2013 and has been a member of the AC since that date.

Jean Houde (Chair of the AC) was called to the Quebec Bar in 1971 and obtained an MBA in 1972. He has been Chairman of the Board of Finance Montréal – Quebec's financial cluster since 2010. He has also been Chairman of the Board of Directors of Gaz Métro Inc. since December 2011. He has been a director and member of the Audit Committee of InnovAssur, Assurances générales Inc. since February 2010. He serves on the Board of Directors of JOA Groupe Holding, is Vice-Chairman of the Board and has been a member of its Audit Committee since April 2012. He headed the transition team for the merger of Investissement Québec and the Société générale de financement du Québec in 2010. He was Deputy Minister of Finance of Quebec from September 2005 to August 2009. From June 2003 to September 2005, he was Chairman of the Board and President and Chief Executive Officer of Investissement Québec. From 1990 to 2003, Jean Houde held a number of positions at National Bank of Canada, where he was responsible for internal audit and the group of economists as well as being a member of the Executive Committee. Jean Houde was a member of the ARMC from March 2011 until it was dissolved on April 24, 2013 and has been a member of the AC since that date.

Louise Laflamme, an accountant by training, has been a member of the Ordre des comptables professionnels agréés du Québec since 1977. From 1997 to 2008, she held different positions within the Montréal Exchange Inc., including Executive Vice-President and Chief Financial Officer. From 1991 to 1997, she held internal audit positions at Hydro-Québec and worked in external audit at accounting firm Raymond, Chabot, Martin, Paré & Associés from 1973 to 1985. Louise Laflamme was a member of the ARMC from November 2008 until it was dissolved on April 24, 2013 and has been a member of the AC since that date.

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<sup>(1)</sup> On November 1, 2010, Yellow Media Inc. announced the conclusion of a plan of arrangement pursuant to which Yellow Pages Income Fund's income trust structure was converted into a publicly traded corporation, which was then called YPG Financing Inc.

## **GUIDELINES FOR THE MANAGEMENT OF SERVICES PROVIDED BY THE INDEPENDENT AUDITOR AND FEES PAID**

The Bank's AC has put in place guidelines restricting the services that may be provided by the independent auditor in order to maintain its independence, which is essential to ensuring the smooth functioning of the Bank's operations and maintaining the confidence of its shareholders, investors and the general public. The Bank acknowledges that the audit work gives the independent auditor knowledge of the Bank that enables it to carry out other work more effectively and therefore deems it desirable, in certain circumstances, to entrust other work to it besides the annual audit in compliance with the regulatory framework governing the Bank and the independent auditor.

These guidelines state that a mandate may be assigned to the independent auditor for non-audit services provided the following conditions are met: the services are not on the list of prohibited services set out in the guidelines; the specific expertise of the independent auditor or its intrinsic knowledge of the Bank's activities allows it to carry out the mandate more effectively; the accepted mandate or the services rendered do not compromise the independence of the independent auditor within the prevailing regulatory framework; and the mandate is authorized as per the guidelines. The guidelines stipulate that the services must be preapproved by the AC in accordance with the following conditions: pre-approval policies and procedures are detailed; the AC is informed of each non-audit service; and procedures do not include delegation of the AC's responsibilities to Bank management. The Committee has delegated responsibility for approving the awarding of specific mandates to its Chair. Consequently, whenever a specific pre-approval is required under these guidelines, Bank management must consult the Chair of the AC in the event of ambiguity, to determine whether a service is included in the pre-approved services.

Each year, the AC recommends to the Board that it approve the fees to be paid to the independent auditor and the envelopes established under the Guidelines for the Management of Services Provided by the Independent Auditor. The following table details fees billed by Deloitte to the Bank and to its subsidiaries for various services rendered during the past two fiscal years.

	2013 (\$)	2012 (\$)
Audit fees	4,933,902	5,323,794
Audit-related fees	957,547	1,274,629
Tax fees	168,936	68,937
Other fees	134,626	43,543
<b>Total</b>	<b>6,195,011</b>	<b>6,710,903</b>

The audit fees include fees for services related to the audit of the consolidated financial statements of the Bank and the financial statements of its subsidiaries or other services normally provided by the independent auditor in connection with statutory or regulatory filings or engagements required by applicable legislation. They also include fees for comfort letters, statutory audits, certification services, consents and assistance with the preparation and review of documents filed with regulators, the interpretation of accounting and financial reporting standards and the translation of reports to shareholders.

The fees for audit-related services include fees for certification and related services performed by the Bank's independent auditor. They also include fees for services related to the conversion to IFRS (only for fiscal year 2012), accounting consultations in connection with acquisitions and divestitures and internal control reviews.

Tax fees include fees for assistance in tax planning, during restructurings, and when taking a tax position, as well as the preparation and review of income and other tax returns and tax opinions.

Other fees include fees for consulting services for projects, risk management services and statutory and/or regulatory compliance services.

## **ADDITIONAL INFORMATION**

Additional information on the Bank is available on its website ([www.nbc.ca](http://www.nbc.ca)) and on the SEDAR website ([www.sedar.com](http://www.sedar.com)). The Bank's financial information is published in the consolidated financial statements and the MD&A, both of which are part of the Annual Report. The Annual Report can also be obtained on the SEDAR website.

The Bank will provide to any shareholder, upon request, a copy of the Annual Information Form together with a copy of any document incorporated therein by reference, a copy of the annual consolidated financial statements together with the

accompanying auditor's report and MD&A, a copy of any subsequent interim report, a copy of the Circular in respect of its most recent annual meeting of holders of Common Shares that involved the election of directors, and a copy of any document that is incorporated by reference into a prospectus, short form or other, whenever the securities of the Bank are part of a distribution. The Circular contains additional information, such as the compensation and indebtedness of directors and executive officers of the Bank and securities authorized for issuance under equity compensation plans. Copies of these documents may be obtained upon request from the Corporate Secretary's Office of the Bank, 600 De La Gauchetière Street West, 4th Floor, Montreal, Quebec, Canada H3B 4L2.

## APPENDIX A – EXPLANATION OF RATINGS

The following descriptions of the ratings categories assigned by each of the rating agencies are provided as prescribed by law and were taken from the agencies' respective websites. They do not constitute an endorsement by the Bank of the categories or of the application by the respective rating agencies of their criteria and analyses. More information can be obtained from the respective rating agencies.

### Moody's

#### Short-Term Senior Debt: P-1

The ratings assigned by Moody's to short-term obligations are opinions of the ability of the issuer to honour short-term financial obligations with an original maturity of 13 months or less. A "P-1" rating indicates that an issuer has a superior ability to repay short-term debt obligations.

#### Long-Term Senior Debt: Aa3

The ratings assigned by Moody's to long-term obligations are opinions of the relative credit risk of fixed-income obligations with an original maturity of one year or more. Obligations rated "Aa" are judged to be of high quality and subject to very low credit risk.

#### Subordinated Debt: Baa1

#### Preferred Shares: Baa3

An issue rated "Baa" is considered to be medium-grade, but subject to moderate credit risk and, as such, may possess certain speculative characteristics.

#### Other Information

Moody's appends numerical modifiers "1," "2" and "3" to each generic rating classification from "Aaa" through "Caa." The modifier "1" indicates that the obligation ranks in the higher end of its generic rating category; the modifier "2" indicates a mid-range ranking; and the modifier "3" indicates a ranking in the lower end of that generic rating category.

### Standard & Poor's

#### Short-Term Senior Debt: A-1

Standard & Poor's "A-1" rating assigned to short-term obligations represents its highest evaluation and indicates that the obligor's capacity to meet its financial commitment on the obligation is strong.

#### Long-Term Senior Debt: A

An obligation rated "A" is considered somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitment is still strong.

#### Subordinated Debt: BBB+

Obligations rated "BBB" exhibit adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

#### Preferred Shares: P-2/BBB

A "P-2" rating corresponds to a "BBB" rating on the Standard & Poor's world scale. An obligation rated "BBB" exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

#### Other Information

The ratings from "AAA" to "CCC" may be modified by adding a plus or minus sign to show relative standing within the major rating categories.

### DBRS

#### Short-Term Senior Debt: R-1 (middle)

Short-term debt rated "R-1 (middle)" is of superior credit quality and ratings in this category only differ from "R-1 (high)" by a relatively modest degree. Unlikely to be significantly vulnerable to future events.

#### Long-Term Senior Debt: AA (low)

Long-term debt rated "AA" is of superior credit quality, and the capacity for payment of financial obligations is considered high. Credit quality differs from AAA only to a small degree and it is unlikely to be significantly vulnerable to future events.

Subordinated Debt: A (high)

Long-term debt rated “A” is of good credit quality. The capacity for payment of financial obligations is considered substantial, but of lesser credit quality than AA. May be vulnerable to future events, but qualifying negative factors are considered manageable.

Preferred Shares: Pfd-2

Preferred shares rated “Pfd-2” are of satisfactory credit quality. Protection of dividends and principal is still substantial, but earnings, the balance sheet, and coverage ratios are not as strong as Pfd-1 rated companies. Generally, Pfd-2 ratings correspond with companies whose senior bonds are rated in the “A” category.

Other Information

The “R-1” and “R-2” rating categories can be further qualified with the subcategories “high,” “middle” and “low.”

All long-term rating categories other than AAA and D also contain the subcategories “high” and “low.” The absence of either designation indicates that the rating is in the middle of the category.

## Fitch Ratings

Short-Term Senior Debt: F1

“F1” indicates the strongest intrinsic capacity for timely payment of financial commitments.

Long-Term Senior Debt: A+

Subordinated Debt: A

“A” ratings denote expectations of low default risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to adverse business or economic conditions than is the case for higher ratings.

Preferred Shares: BBB-

“BBB-” ratings indicate that expectations of default risk are currently low. The capacity for payment of financial commitments is considered adequate but adverse business or economic conditions are more likely to impair this capacity.

Other Information

The modifiers “+” or “-” may be appended to a rating to specify relative status within major rating categories.

## APPENDIX B – AUDIT COMMITTEE MANDATE

### NATIONAL BANK OF CANADA

#### AUDIT COMMITTEE

The Audit Committee (the “Committee”) is formed by the Board of Directors (the “Board”) of National Bank of Canada (the “Bank”). It oversees the work of the internal auditor and the independent auditor, the financial reporting and analysis process, the Bank’s internal controls, and the application of the policy for reporting irregularities.

#### MANDATE

#### CREATION

1. The Committee is created by the Board of the Bank.

#### COMPOSITION

2. **Composition** – The Committee is composed of no fewer than three members. Each of the Committee members is “financially literate” within the meaning of *Regulation 52-110 respecting Audit Committees*.

3. **Eligibility** – A majority of the members of the Committee consists of directors who are not affiliated with the Bank in accordance with the *Bank Act* (the “Act”).

4. **Independence** – Each of the members of the Committee is independent as defined by the Canadian Securities Administrators.

5. **Guests** – The Chairman of the Board can attend each of the meetings of the Committee, as a guest. The Committee may invite any other person it deems necessary or desirable to attend all or part of the meetings of the Committee.

#### 6. Appointment and Vacancy

a) **Appointment** – Each member of the Committee is designated annually by the Board from among the directors of the Bank.

b) **Term of Mandate** – All members carry out their duties until a successor is appointed, unless they resign, are relieved of their duties or no longer sit as directors.

c) **Vacancy** – A vacancy on the Committee is filled by the Board as it deems appropriate. Failure to fill a vacancy does not invalidate the decisions of the Committee, provided there is a quorum.

#### 7. Chair

a) **Appointment** – The Chair of the Committee is designated by the Board from among the members of the Committee. If the designated Chair is unable to chair a meeting of the Committee, the Committee selects a Chair from the members of the Committee present for that meeting.

b) **Duties** – The duties of the Chair of the Committee are set out in the mandate of the Chair. The Chair of the Committee may ask the Chairman of the Board to have certain matters for which the Committee is responsible submitted to the Board.

8. **Secretary** – The Secretary of the Bank, an Assistant Secretary, or any other person designated by the Secretary, acts as Secretary of the Committee.

### MEETINGS AND CALLING OF MEETINGS

9. **Regular Meetings** – Committee Meetings are held on the dates and at the times and locations established by the Board, at least once per quarter. The Committee members are informed annually in writing thereof, without any further notice required.

10. **In Camera Meetings** – The Committee members are scheduled to meet, without any members of the Bank’s Management being present, at each Committee meeting, under the direction of the Chair of the Committee.

#### 11. Unscheduled Meetings

a) **Meetings** – An unscheduled meeting may be called at any time by the Chair of the Committee, the Chairman of the Board, the President and Chief Executive Officer, one of the Committee members, the Senior Vice-President – Internal Audit, the Chief Financial Officer and Executive Vice-President – Finance and Treasury, the Senior Vice-President – Finance, Taxation and Investor Relations, the Chief Compliance Officer of the Bank or by the independent auditor.



b) **Notices** – A notice specifying the purpose, place, date and time of each unscheduled meeting must be sent to each Committee member by mail or any other means of telephone or electronic communication, no less than 24 hours before the time and date set for the meeting, unless the Chair of the Committee, the Chairman of the Board or the President and Chief Executive Officer deems it necessary to call a meeting on shorter notice, in which case notice will be no less than two hours.

c) **Without Notice** – Unscheduled Committee meetings may be held without notice when all Committee members are present or when the absent members provide a written waiver of notice of meeting. The presence of a member constitutes a waiver of this notice of meeting, except if this member is present to specifically oppose the review of any question, claiming that the meeting was not called in due form.

12. **Means of Communication** – Meetings of the Committee may be held by telephone or any other means that enables all participants to communicate with each other adequately and simultaneously. Persons participating in a meeting by telephone or any other means of communication are deemed to have attended the meeting.

13. **Internal Auditor and Independent Auditor** – The internal auditor and the independent auditor are entitled to receive the notices calling meetings of the Committee, to attend and to be heard at such meetings.

### **QUORUM**

14. **Principle** – A quorum of a Committee meeting is attained when a majority of the Committee members attend such meeting.

15. **Duration** – Quorum shall be maintained for the entire meeting so that the Committee members can legitimately deliberate and make decisions. However, any director who is not present at any particular time during the meeting for the purposes of subsection 182(3) of the Act shall be considered as attending for the purposes of quorum.

16. **Vote** – Notwithstanding the foregoing, the decisions made by the Committee concerning matters submitted for its consideration shall be made by a majority vote of the members present. Should only two members be present and quorum be attained, decisions shall be unanimous.

17. **Absence of Quorum** – If quorum is not attained at a meeting of the Committee, the Chairman of the Board may, at

the request of the Chair of the Committee, act as a member of the Committee for that meeting and have the right to vote.

### **MINUTES**

18. **Recording** – The minutes of each meeting of the Committee, duly approved by the Committee, are entered by the Secretary in a register kept specifically for that purpose.

19. **Distribution** – The minutes of each Committee meeting are submitted for information to the members of the Board at a subsequent meeting of the Board.

20. **Report to the Board** – The Chair of the Committee makes an oral report on the deliberations of each meeting of the Committee and the recommendations of said Committee at a subsequent meeting of the Board.

### **ROLES AND RESPONSIBILITIES**

#### **Internal Audit**

21. **Responsibilities** – The Committee:

a) **Mandate and Annual Audit Plan** – Reviews and approves, annually, the mandate, the nature and the scope of the work of the internal audit oversight function, as well as the annual audit plan;

b) **Resources and Budget** – Ensures that the internal audit oversight function has the necessary resources to fulfill its mandate and responsibilities and approves its budget annually;

c) **Independence and Effectiveness** – Ensures the independence and effectiveness of the internal audit oversight function, including by requiring that it be free of any influence that could adversely affect its ability to objectively assume its responsibilities, and that it have sufficient stature and authority within the Bank, by ensuring that the internal audit oversight function reports to an appropriate line level, by ensuring that the Senior Vice-President – Internal Audit has direct access to the Chair of the Committee and the President and Chief Executive Officer and access to the information required, and by meeting regularly with him without Management being present in order to discuss, in particular, the questions she raises regarding relations between the internal audit oversight function and the Bank's Management and the access to the information required;

d) **Performance** – Assesses at least once a year the effectiveness of the internal audit oversight function and processes and conducts a benchmarking analysis from time

to time of the internal audit oversight function and processes with the assistance of independent external consultants;

e) **Head of the Oversight Function** – Takes cognizance of the recommendations of the President and Chief Executive Officer of the Bank concerning the appointment and removal of the Senior Vice-President – Internal Audit and makes the appropriate recommendations thereon to the Board; appraises, on an annual basis, the performance of the Senior Vice-President – Internal Audit, helps determine the compensation and succession planning for the Senior Vice-President – Internal Audit and makes the appropriate recommendations thereon to the Board after taking cognizance of the recommendations of the Chief Financial Officer and Executive Vice-President – Finance and Treasury;

f) **Reports** – Reviews the report of the Senior Vice-President – Internal Audit, discusses the main audit reports and ensures that the necessary steps are taken to follow up on important report recommendations.

#### Independent Auditor

##### 22. **Responsibilities** – The Committee:

a) **Appointment and Remuneration** – Submits to the Board its recommendations with regard to the choice of candidate for independent auditor proposed by the Board to the shareholders, and with regard to its reappointment, removal and remuneration;

b) **Audit Plan and Engagement Letter** – Approves the annual audit plan prepared by the independent auditor after ensuring that the scope of the plan is appropriate, namely, that the plan is risk-based and addresses the most important issues. Together with the independent auditor, the Committee reviews all the key changes to the plan; assesses whether any change to the independent auditor's materiality level and/or proposed scope continues to ensure a quality audit; agrees to the scope and the terms of the audit engagement and approves the engagement letter;

c) **Independence** – Obtains guarantees with regard to the independence of the auditor;

d) **Oversight** – Oversees the work of the independent auditor to issue an opinion on the Bank's consolidated financial statements based on its audit or to perform other audit, review or attest services for the Bank, including the review of the interim consolidated financial statements and the resolution of disagreements between Management and the independent auditor regarding financial reporting;

e) **Compliance of Financial Statements and Other Financial Information** – (i) Discusses with the independent auditor the quality of the financial statements and ensures that the financial statements present fairly, in all material respects, the financial performance and cash flows of the Bank; (ii) Meets with the independent auditor and Management to discuss the results of the audit, the interim and annual consolidated financial statements, any related documents, the audit report, the documents required by the Office of the Superintendent of Financial Institutions, or any concern of the independent auditor, including in particular, the key areas of risk for material misstatement of the financial statements, the areas of significant independent auditor judgment, the estimates/models judged to be "aggressive" or "conservative" within an acceptable range, significant or unusual transactions, difficult or contentious matters noted during the audit, changes in the audit scope or strategy, internal control deficiencies identified during the course of the audit, areas of financial statement disclosures that could be improved, and the role of other audit firms, if applicable; (iii) Discusses with the independent auditor the quality and acceptability of the accounting principles applied in preparing the consolidated financial statements; (iv) Reviews the annual management letter from the independent auditor of the Bank and follows up on the corrective action taken by Management; (v) Obtains all important correspondence between the independent auditor and Management about audit findings;

f) **Meetings with the Auditor** – Meets regularly with the independent auditor of the Bank without Management being present to understand all questions that might have been raised by the auditor with Management during the audit and how those questions were resolved, and reviews any questions that could be raised by the independent auditor;

g) **Practices and Independence of the Independent Auditor** – At least once a year, obtains and reviews a report by the independent auditor which explains: (i) its internal practices concerning quality control; (ii) all the important questions stemming from its most recent review of quality controls, or the latest control by peers, or following investigations carried out by professional or government authorities in the previous five years regarding one or more of its mandates and the measures taken regarding these questions; (iii) the internal procedures that the independent auditor takes to ensure its independence; and (iv) the details concerning the business relationship it has with the Bank;

h) **Assessment of Overall Performance** – At least once a year and before the independent auditor tables its report on the annual financial statements, formally assesses the

effectiveness and contribution of the independent auditor, its competencies, resources and independence, its support and communication skills; takes into account the opinion of the Bank's Management and the Senior Vice-President – Internal Audit in order to assess the overall performance of the independent auditor for all services and reports annually to the Board on the effectiveness of the independent auditor;

i) **Assessment and Rotation of the Partner Responsible for the Audit Mandate** – Reviews and assesses the competencies, performance and independence of the partner of the independent audit firm responsible for the audit at the Bank and his team, and discusses the appropriate time and procedure for rotating the partner, concurring partners and all other partners who are active members of the audit team;

j) **Prior Approval of Mandates Given to the Independent Auditor** – Provides prior approval of mandates given to the independent auditor in accordance with the Guidelines Relating to Mandates to the Independent Auditor (the "Guidelines"), including the mandates for all non-audit services. To that effect, the Committee adopts a policy and specific procedures for the engagement of the independent auditor to perform non-audit services and ensures that the conditions in these policies and procedures are met. The Committee may delegate this approval authority to one of its members. The member of the Committee to whom this approval authority is delegated must present any decisions to the Committee at the next scheduled meeting;

k) **Hiring Policies** – Reviews and approves the Bank's hiring policies regarding partners, employees and former partners and employees of the present and former independent auditors of the Bank.

23. **Independent Auditor's Report** – The independent auditor of the Bank reports directly to the Committee and reports to the Board and Committee as a representative of the shareholders including to present, via a letter, the main recommendations concerning internal controls.

## **Finance**

24. **Responsibilities** – The Committee:

a) **Mandate** – Reviews and approves, annually, the mandate, and the nature and scope of the finance oversight function;

b) **Resources and Budget** – Ensures that the finance oversight function has the necessary resources to fulfill its

mandate and responsibilities and approves its budget annually;

c) **Independence and Effectiveness** – Ensures the independence and effectiveness of the finance oversight function, including by requiring that it be free of any influence that could adversely affect its ability to objectively assume its responsibilities, and that it have sufficient stature and authority within the Bank, by ensuring that the finance oversight function reports to an appropriate line level, by ensuring that the Chief Financial Officer and Executive Vice-President – Finance and Treasury has direct access to the Chair of the Committee and access to the information required, and by meeting regularly with him without Management being present in order to discuss, in particular, the questions he raises regarding relations between the finance oversight function and the Bank's Management and the access to the information required;

d) **Performance** – Assesses at least once a year the effectiveness of the finance oversight function and processes and conducts a benchmarking analysis from time to time of the finance oversight function and processes with the assistance of independent external consultants;

e) **Head of the Oversight Function** – Takes cognizance of the recommendations of the President and Chief Executive Officer of the Bank concerning the appointment and removal of the Chief Financial Officer and Executive Vice-President – Finance and Treasury and makes the appropriate recommendations thereon to the Board; appraises, on an annual basis, the performance of the Chief Financial Officer and Executive Vice-President – Finance and Treasury, helps determine the compensation and succession planning for him and makes the appropriate recommendations thereon to the Board after reviewing the recommendations of the President and Chief Executive Officer;

f) **Financial Information** – Reviews the annual consolidated financial statements of the Bank and the related independent auditor's report, the interim consolidated financial statements of the Bank, the annual and interim Management's Discussion and Analysis, the Annual Information Form, press releases concerning material financial information, audit processes and management information systems and all other material financial information, in order to ensure their integrity, the effectiveness of processes, if applicable, and compliance with applicable accounting standards. The Committee recommends the approval thereof to the Board before the statements are publicly disclosed;

g) **Accounting Standards** – Asks Management and the independent auditor about changes to Canadian accounting

standards that could have an impact on the preparation and/or disclosure of the consolidated financial statements of the Bank and those of its subsidiaries and informs the Board thereof, if applicable;

h) **Dispute, Notice of Assessment or Any Other Claim** – Takes cognizance of any oral or written report from Management on any dispute, notice of assessment or any other claim of a similar nature that could have a material impact on the financial position of the Bank, and ensures that such material claims are properly disclosed in the consolidated financial statements;

i) **Taxation** – Takes cognizance of any oral or written report from Management relating to tax planning and risks;

j) **Certification** – Reviews the process whereby the Chief Executive Officer and the Chief Financial Officer certify the integrity of the interim and annual financial statements of the Bank and other information for which certification is required;

k) **Public Disclosure** – Ensures that adequate procedures are in place to oversee the Bank's public disclosure of financial information extracted or derived from its consolidated financial statements and periodically assesses the adequacy of those procedures;

l) **Investments and Transactions** – Reviews such investments and transactions that could adversely affect the financial well-being of the Bank whenever the independent auditor, Internal Audit or any member of Management brings them to the Committee's attention.

### Internal Control

25. **Responsibilities** – The Committee:

a) **Procedures** – Requires Management to implement and maintain appropriate internal control procedures and, at least once a year, reviews, evaluates and approves such procedures;

b) **Effectiveness** – Reviews the effectiveness of the internal control policies and procedures of the Bank. Ensures that Management diligently applies measures to correct all important control problems identified during this review and that a process is implemented to track progress in order to correct deficiencies.

### Reporting Irregularities

26. **Policy on Reporting Irregularities** – The Committee establishes a policy and procedures for (i) the receipt, retention and treatment of complaints received by the Bank regarding

accounting, internal accounting controls or auditing matters; and (ii) the confidential, anonymous submission by any person of concerns regarding questionable accounting or auditing matters. It ensures that this policy is implemented and reviews it annually.

27. **Report on Irregularities** – The Committee reviews, as necessary, the report of Corporate Compliance on the irregularities or concerns related to accounting or auditing matters at the Bank that have been reported to the Ombudsman of the Bank, as well as the results of any related investigation. It examines the number of reported irregularities or concerns, whether or not they are founded.

### *VARIA*

28. **Duties as Intermediary** – The Committee acts as intermediary between the Board, the independent auditor, and the internal audit and finance oversight functions, and ensures cooperation between Internal Audit and the independent auditor.

29. **Engagement of Independent Consultants** – The Committee may, when it deems appropriate, engage legal counsel or other independent consultants to help it carry out its duties and responsibilities. It sets the remuneration and compensates the consultants it engages. The Bank provides the funds necessary to pay for the services of these consultants.

30. **Power of Inquiry** – The Committee may inquire about any question it deems relevant and, to that end, has complete access to the books, registers, facilities, Management and employees of the Bank.

31. **Superintendent** – The Committee meets with representatives of the Office of the Superintendent of Financial Institutions at the request of that organization and reports on such meetings to the Board.

32. **Communication** – The Committee may communicate directly with the independent auditor, the Senior Vice-President – Internal Audit, the Chief Financial Officer and Executive Vice-President – Finance and Treasury, the Senior Vice-President – Finance, Taxation and Investor Relations, the Chief Compliance Officer, and any other member of Management or employee of the Bank.

33. **Board Meeting** – The Chair of the Committee may call a meeting of the Board to discuss matters of interest to the Committee.

34. **Certifications, Declarations and Reports** – The Committee examines the certifications, declarations and/or reports required by a regulatory authority and that fall within the Committee’s purview, and recommends the approval thereof to the Board.

35. **Subsidiaries** – The Committee acts as an audit committee for Natcan Trust Company and, if necessary, can act for any other subsidiary of the Bank where allowed under its incorporating act, and exercises all the duties incumbent upon such committee in accordance with the *Trust and Loan Companies Act* (Canada) or any other applicable legislative or regulatory provision.

36. **Mandate of the Committee** – The Committee regularly assesses and reviews its mandate by submitting the revised text, for approval, to the Conduct Review and Corporate Governance Committee, which then recommends it for approval to the Board.

37. **Review of Documents and Various Recommendations** – The Committee reviews any document designated by the Superintendent of Financial Institutions, any document required pursuant to applicable laws and the recommendations made by regulatory authorities or the internal auditor or the independent auditor and reports thereon to the Board.

38. **Other Duties** – The Committee shall exercise any other duty required under the applicable legislation or regulations or that the Board occasionally assigns to it. The Committee submits to the Board all recommendations it deems appropriate with respect to matters that fall within its purview.

APPROVED BY THE AUDIT COMMITTEE ON MAY 23 , 2013.

APPROVED BY THE CONDUCT REVIEW AND CORPORATE GOVERNANCE COMMITTEE ON MAY 24, 2013.

APPROVED BY THE BOARD OF DIRECTORS ON MAY 24, 2013.

