

# ANNUAL INFORMATION FORM

December 4, 2014



## **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, 2014 (the "Annual Report") and are incorporated herein by reference.

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

## **EXPLANATORY NOTE**

In this Annual Information Form, unless otherwise noted, the information is presented as at October 31, 2014.

## **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 of 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 2015 and the objectives it has set for itself for that period. These forward-looking statements are made in accordance with current securities legislation in Canada and the United States. 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 2015 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 more detail in the "Risk Management" section beginning on page 61 of the Annual Report, general economic environment and financial market conditions in Canada, the United States and certain other countries in which the Bank conducts business, including regulatory changes 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 (including the U.S. Foreign Account Tax Compliance Act (FATCA)); changes to capital and liquidity guidelines and to the manner in which they are to be presented and interpreted; changes to the credit ratings assigned to the Bank; and potential disruptions to the Bank's information technology systems, including changes in the risks related to cyber attacks.

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 rely 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. Except as required by law, the Bank does not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time, by it or on its behalf.

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

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## ABBREVIATIONS USED

|                                 |  |
|---------------------------------|--|
| <b>Act:</b>                     | <i>Bank Act</i> , S.C. 1991, c. 46   |
| <b>AC</b>                       | Audit Committee of the Board   |
| <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, 2014 |
| <b>Bank:</b>                    | National Bank of Canada  |
| <b>BIS:</b>                     | Bank for 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 LLP   |
| <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, 2014   |
| <b>Meeting:</b>                 | Annual Meeting of the Holders of Common Shares of National Bank of Canada to be held on April 15, 2015   |
| <b>Moody's:</b>                 | Moody's Investors Service Inc.   |
| <b>OSFI:</b>                    | Office of the Superintendent of Financial Institutions (Canada)  |
| <b>RMC:</b>                     | Risk Management Committee of the Board   |
| <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>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 pages 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

The figures for the fiscal years ending October 31, 2011, 2012 and 2013 have been adjusted to retrospectively reflect the changes to accounting standards that came into effect on November 1, 2013. Furthermore, all the comparative figures take into account the effect of the stock dividend of one common share on each issued and outstanding common share, as declared on December 3, 2013 and paid on February 13, 2014. The effect of this dividend was the same as a two-for-one split of common shares.

**Fiscal 2013-2014:** The Bank recorded net income of \$1,538 million for fiscal 2014 compared to \$1,512 million for the corresponding period of 2013. Diluted earnings per share were \$4.32, as against \$4.31 for fiscal 2013. The results for fiscal 2014 included the following amounts, net of income taxes: \$54 million in income attributable to the increase in the fair value of restructured notes net of financing costs relating to the holding of such notes, a \$45 million charge for the impairment in value of intangible assets, \$45 million in charges related to acquisitions, \$10 million in litigation provisions and a \$9 million value adjustment related to the financing of certain unlisted derivative financial instruments. 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 net of financing costs relating to the holding of such notes, a \$29 million charge for the impairment in value of intangible assets, a \$26 million decrease in past services costs further to changes to accounting standards and the Bank's pension plans, \$28 million in charges related to acquisitions, \$21 million in other charges related to the optimization of processes and a \$37 million reversal of provisions for income tax contingencies. Excluding specified items, net income for fiscal 2014 would have been \$1,593 million as against \$1,423 million, for an increase of 12% from fiscal 2013. Diluted earnings per share would have been \$4.48 for fiscal 2014, compared to \$4.04 for fiscal 2013. Common Equity Tier 1 (CET1), Tier 1 and total capital ratios, under Basel III, stood at 9.2%, 12.3% and 15.1%, respectively, as at October 31, 2014, well above regulatory requirements, compared to the ratios of 8.7%, 11.4% and 15.0%, respectively, as at October 31, 2013. The dividend payout ratio excluding specified items remained unchanged at 42% for fiscal 2014 and 2013. Revenues for the Personal and Commercial segment were up 4%, owing to an increase in loan and deposit volumes. Total revenues for the Wealth Management segment, excluding specified items, increased by 16% mainly due to the favourable synergy created by acquisitions, particularly the acquisition of TD Waterhouse Institutional Services, and growth

in assets under administration. Lastly, revenues from the Financial Markets segment were up 11%, with all income categories having contributed to this growth.

**Fiscal 2012-2013:** The Bank recorded net income of \$1,512 million for fiscal 2013 compared to \$1,597 million for the corresponding period of 2012. Diluted earnings per share were \$4.31 for fiscal 2013, as against \$4.58 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 net of financing costs relating to the holding of such notes, a \$29 million charge for the impairment in value of intangible assets, a \$26 million decrease in past services costs further to changes to accounting standards and the Bank's pension plans, \$28 million in charges related to 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 \$1,423 million as against \$1,359 million, for an increase of 5% from fiscal 2012. Diluted earnings per share would have been \$4.04 for fiscal 2013, compared to \$3.85 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 42% for fiscal 2013 compared to 40% 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%, primarily due to 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 \$1,597 million for fiscal 2012 compared to \$1,254 million for the corresponding period of 2011. Diluted earnings per share were \$4.58 for fiscal 2012, up \$1.21 from \$3.37 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 \$1,359 million as against \$1,263 million, for an increase of 8% from fiscal 2011. Diluted earnings per share would have been \$3.85 for fiscal 2012, compared to \$3.50 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, excluding specified items, was 40% for fiscal 2012. 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%, mostly due to trading revenues, primarily attributable to fixed-income securities.

## 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. On November 12, 2014, the Bank received the highest BOMA BESt certification level for its environmental performance and management of its head office. This recognition is in addition to the distinction the Bank received in May 2014 from Bloomberg Markets magazine, which for the third consecutive year named the Bank as one of the 20 leading banks in the world for its environmental performance.

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.

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 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 19,955 employees on October 31, 2014, at the end of the fiscal year.

## 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.

## 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 (nbc.ca) under "Social Responsibility" and on the SEDAR website (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.

On February 13, 2014, a dividend of one common share for each of the issued and outstanding common shares was paid. The effect was the same as a two-for-one split of common shares.

## CAPITAL STRUCTURE

As at October 31, 2014, 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, 2014, there were 22,394 registered holders of Common Shares in the Bank's register of Common Shares.

### 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 OSFI 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 \$25.00 per share since 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 15<sup>th</sup> 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, 2014. 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, 2014. 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 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 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 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 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, 2014. Each NBC CapS II – Series 1 can be exchanged automatically, without the consent of the holders, for 40 Series 19 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 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 OSFI 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, 2014, in whole or in part, at any time at a price equal to \$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 15<sup>th</sup> 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, 2014. Each NBC CapS II – Series 2 can be exchanged automatically, without the consent of the holders, for 40 Series 23 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 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 28 (Series Q) (NA.PR.Q): Subject to the consent of OSFI 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 15<sup>th</sup> 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 15<sup>th</sup> day of February, May, August and November of each year, in the amount per share determined by multiplying 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, 2014. Subject to the consent of OSFI 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 15<sup>th</sup> 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.

Series 30 (Series S) (NA.PR.S): Subject to the consent of OSFI and the provisions of the Act, the Bank may, at its option, redeem for cash the First Preferred Shares, Series 30 on May 15, 2019 and on May 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 30 are entitled to receive a fixed quarterly non-cumulative preferential cash dividend, as and when declared by the Board, on the 15<sup>th</sup> day of February, May, August and November of each year, at an annual rate equal to \$1.025 per share.

Holders of First Preferred Shares, Series 30 will be entitled, at their option, to convert all of their shares to an equivalent number of First Preferred Shares, Series 31, subject to certain conditions, on May 15, 2019 and on May 15 every five years thereafter.

Series 31: The First Preferred Shares, Series 31 are part of the Bank's authorized share capital, but no shares in this series had been issued as at October 31, 2014. Subject to the consent of OSFI and the provisions of the Act, the Bank may, at its option, redeem for cash the First Preferred Shares, Series 31 on May 15, 2024 and on May 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. On May 15, 2019, or on any other date thereafter that is not a conversion date for First Preferred Shares, Series 31, subject to the consent of the Superintendent and the provisions of the Act, the Bank may redeem for cash the First Preferred Shares, Series

31, in whole or in part, at a price equal to \$25.50 per share, plus all declared and unpaid dividends up to the date set for redemption.

Holders of First Preferred Shares, Series 31 are entitled to receive a floating quarterly non-cumulative preferential cash dividend, as and when declared by the Board, on the 15<sup>th</sup> 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 2.40%, 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 31 will be entitled, at their option, to convert all of their shares to an equivalent number of First Preferred Shares, Series 30, subject to certain conditions, on May 15, 2024 and on May 15 every five years thereafter.

Series 32 (Series W) (NA.PR.W): Subject to the consent of OSFI and the provisions of the Act, the Bank may, at its option, redeem for cash the First Preferred Shares, Series 32 on February 15, 2020 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 32 are entitled to receive a quarterly non-cumulative preferential cash dividend, as and when declared by the Board, payable on the 15<sup>th</sup> day of February, May, August and November of each year, at an annual rate equal to \$0.975 per share.

Holders of First Preferred Shares, Series 32 will be entitled, at their option, to convert all of their shares to an equivalent number of First Preferred Shares, Series 33, subject to certain conditions, on February 15, 2020 and on February 15 every five years thereafter.

Series 33: The First Preferred Shares, Series 33 are part of the Bank's authorized share capital, but no shares in this series had been issued as at October 31, 2014. Subject to the consent of OSFI and the provisions of the Act, the Bank may, at its option, redeem for cash the First Preferred Shares, Series 33 on February 15, 2025 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. On February 15, 2020, or on any other date thereafter that is not a conversion date for First Preferred Shares, Series 33, subject to the consent of OSFI and the provisions of the Act, the Bank may redeem for cash the First

Preferred Shares, Series 33, in whole or in part, at a price equal to \$25.50 per share payable in cash, plus all declared and unpaid dividends up to the date set for redemption.

Holders of First Preferred Shares, Series 33 are entitled to receive a floating quarterly non-cumulative preferential cash dividend, as and when declared by the Board, on the 15<sup>th</sup> 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 2.25%, 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 33 will be entitled, at their option, to convert all of their shares to an equivalent number of First Preferred Shares, Series 32, subject to certain conditions, on February 15, 2025 and on February 15 every five years thereafter.

### Automatic Conversion of the Non-viability Contingent Capital (Series 30, 31, 32 and 33)

In accordance with the capital adequacy requirements adopted by OSFI, non-common capital instruments issued after January 1, 2013, including subordinated debt securities and first preferred shares, must include terms providing for the full and permanent conversion of such securities into common shares upon the occurrence of certain trigger events relating to financial viability in order to qualify as regulatory capital.

Preferred Shares Series 30, 31, 32 and 33 therefore provide that these shares will automatically and immediately be converted, on a full and permanent basis, into a specified number of common shares of the Bank as determined using an automatic conversion formula (value of the share, which is \$25.00 for Preferred Shares Series 30, 31, 32 and 33, plus all declared and unpaid dividends for these shares, divided by the conversion price, which for Preferred Shares Series 30, 31, 32 and 33 is the greater of a floor price of \$5.00 (subject to certain adjustments) and the market price of the Bank's common shares or, in the absence of such a market price, their fair value) upon the occurrence of a trigger event.

A trigger event is defined as follows: (i) OSFI publicly announces that the Bank has been advised, in writing, that OSFI is of the opinion that the Bank has ceased, or is about to cease to be viable and that, after the conversion of all Preferred Shares Series 32 and all other contingent instruments issued by the Bank, and taking into account any other factors or circumstances that are considered relevant or appropriate, it is reasonably likely that the viability of the Bank will be restored

or maintained or (ii) a federal or provincial government in Canada publicly announces that the Bank has accepted or agreed to accept a capital injection, or equivalent support, from the federal government or any provincial government or political subdivision or agent or agency thereof without which the Bank would have been determined by OSFI to be non-viable.

## Redemption of Preferred Shares

On February 15, 2014, the Bank completed the redemption of all of the issued and outstanding First Preferred Shares, Series 24 and 26. As February 15, 2014 was not a business day, the redemption price for these shares was paid on the following business day, i.e., February 17, 2014. This redemption was subject to the approval of OSFI.

On September 26, 2014, the Board approved the redemption of all of the First Preferred Shares, Series 16 issued and outstanding on November 15, 2014. The payment of the redemption price was made on Monday, November 17, 2014, being the first business day following such date.

## Second Preferred Shares

Second Preferred Shares are part of the Bank's authorized share capital, but no shares in this category had been issued as at October 31, 2014. 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 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 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.

## Credit Ratings

The table below details the ratings assigned to the Bank's outstanding securities by the following credit rating agencies as at October 31, 2014. Credit ratings must not be construed as recommendations to purchase, sell or hold securities of the Bank. Credit ratings may not reflect the potential impact of all risks. Credit 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 one of the main factors that influence 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 credit ratings could adversely affect the cost, size and term 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           | ---      | A-1                       | ---      | R-1<br>(middle)               | Stable  | F1            | Stable  |
| Canadian Commercial Paper | ---           | ---      | A-1<br>(middle)           | ---      | ---                           | ---     | ---           | ---     |
| Long-Term Senior Debt     | Aa3           | Negative | A                         | Negative | AA<br>(low)                   | Stable  | A+            | Stable  |
| Subordinated Debt         | Baa1          | Stable   | BBB+                      | ---      | A<br>(high)                   | Stable  | A             | Stable  |
| Preferred Shares          | Baa3<br>(hyb) | Stable   | P-2 (low) <sup>(1)</sup>  | ---      | Pfd-2 <sup>(2)</sup>          | Stable  | BBB-          | Stable  |
| Preferred Shares (NVCC)   | Baa3<br>(hyb) | Stable   | P-3 (high) <sup>(1)</sup> | ---      | Pfd-2 <sup>(2)</sup><br>(low) | Stable  | ---           | ---     |

<sup>(1)</sup> On September 29, 2014, Standard & Poor's lowered the rating of certain Tier 1 preferred shares issued by Canadian banks, including the Bank's First Preferred Shares, on the basis that under the Basel III framework, including the capital conservation buffer mechanism and non-viability contingent capital requirement applicable to preferred shares issued as of January 1, 2013, increase the risk that Tier 1 preferred shares will absorb greater losses due to the non-payment of dividends or their conversion to common shares. Consequently, the Bank's First Preferred Shares issued as of January 1, 2013 that contain non-viability contingent capital clauses, i.e., Preferred Shares Series 30 and 32, have a P-3 (high) rating. The Bank's First Preferred Shares issued prior to January 1, 2013 that do not contain non-viability contingent capital clauses, i.e., Preferred Shares Series 16, 20 and 28, have a P-2 (low) rating.

<sup>(2)</sup> On July 7, 2014, DBRS lowered the rating of certain Tier 1 preferred shares issued by Canadian banks, including the Bank's First Preferred Shares. The Bank's First Preferred Shares issued as of January 1, 2013 that contain non-viability contingent capital clauses, i.e., Preferred Shares Series 30 and 32, have a Pfd-2 (low) rating. The Bank's First Preferred Shares issued prior to January 1, 2013 that do not contain non-viability contingent capital clauses, i.e., Preferred Shares Series 16, 20 and 28, have a Pfd-2 rating.

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

As at October 31, 2014, the Common Shares and the First Preferred Shares, Series 16, 20, 28, 30 and 32 of the Bank (described below) were listed in Canada on the TSX. The First Preferred Shares, Series 17, 18, 19, 23, 29, 31 and 33 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, 2014.

| <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 <sup>(3)</sup>      | NA.PR.L              | Nat Bk s16 or Natl Bk s16     |
| Series 20                     | NA.PR.M              | Nat Bk s20 or Natl Bk s20     |
| Series 28                     | NA.PR.Q              | Nat Bk s28 or Natl Bk s28     |
| Series 30                     | NA.PR.S              | Nat Bk s30 or Natl Bk s30     |
| Series 32                     | NA.PR.W              | Nat Bk s32 or Natl Bk s32     |

<sup>(1)</sup> This section does not include debt classified as deposits.

<sup>(2)</sup> 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.

<sup>(3)</sup> On September 26, 2014, the Board approved the redemption of all of the issued and outstanding First Preferred Shares, Series 16 on November 15, 2014. The payment of the redemption price was made on Monday, November 17, 2014, being the first business day following such date.

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, 2014.

|                                       |           | 2013/11   | 2013/12    | 2014/01    | 2014/02              | 2014/03    | 2014/04    | 2014/05    | 2014/06    | 2014/07    | 2014/08    | 2014/09    | 2014/10    |
|---------------------------------------|-----------|-----------|------------|------------|----------------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Common Shares (NA)                    | High (\$) | 93.92     | 92.96      | 90.22      | 87.00                | 44.82      | 45.77      | 47.22      | 46.29      | 49.41      | 52.31      | 53.97      | 53.09      |
|                                       | Low (\$)  | 90.36     | 88.00      | 82.91      | 43.25 <sup>(1)</sup> | 43.52      | 44.31      | 45.10      | 45.13      | 45.24      | 47.79      | 50.56      | 48.71      |
|                                       | Volume    | 9,578,638 | 14,245,098 | 15,023,013 | 18,906,697           | 21,584,566 | 14,965,114 | 17,178,898 | 17,189,690 | 20,310,246 | 19,049,460 | 23,301,656 | 20,270,474 |
| Series 16 <sup>(2)</sup><br>(NA.PR.L) | High (\$) | 25.40     | 25.38      | 25.30      | 25.22                | 25.45      | 25.55      | 25.46      | 25.70      | 25.62      | 25.58      | 25.54      | 25.32      |
|                                       | Low (\$)  | 25.22     | 25.04      | 24.97      | 25.02                | 25.14      | 25.09      | 25.18      | 25.17      | 25.18      | 25.30      | 25.26      | 24.97      |
|                                       | Volume    | 101,187   | 99,985     | 175,756    | 87,644               | 182,400    | 91,853     | 305,331    | 65,758     | 59,853     | 43,327     | 46,643     | 65,311     |
| Series 20<br>(NA.PR.M)                | High (\$) | 26.60     | 26.61      | 26.50      | 26.22                | 26.35      | 26.45      | 26.50      | 26.76      | 26.71      | 26.69      | 26.75      | 26.75      |
|                                       | Low (\$)  | 26.20     | 26.13      | 26.00      | 26.00                | 26.15      | 26.02      | 26.26      | 26.31      | 26.18      | 26.30      | 26.60      | 26.28      |
|                                       | Volume    | 128,900   | 46,113     | 105,435    | 165,849              | 140,503    | 103,339    | 59,824     | 81,943     | 68,634     | 91,490     | 64,090     | 257,848    |
| Series 24 <sup>(3)</sup><br>(NA.PR.O) | High (\$) | 25.38     | 25.38      | 25.41      | 25.01                | -          | -          | -          | -          | -          | -          | -          | -          |
|                                       | Low (\$)  | 25.21     | 25.29      | 24.96      | 24.98                | -          | -          | -          | -          | -          | -          | -          | -          |
|                                       | Volume    | 55,643    | 37,892     | 108,830    | 12,318               | -          | -          | -          | -          | -          | -          | -          | -          |
| Series 26 <sup>(4)</sup><br>(NA.PR.P) | High (\$) | 25.43     | 25.35      | 25.41      | 25.00                | -          | -          | -          | -          | -          | -          | -          | -          |
|                                       | Low (\$)  | 25.22     | 25.29      | 24.96      | 24.98                | -          | -          | -          | -          | -          | -          | -          | -          |
|                                       | Volume    | 32,975    | 34,238     | 84,659     | 7,069                | -          | -          | -          | -          | -          | -          | -          | -          |
| Series 28<br>(NA.PR.Q)                | High (\$) | 25.84     | 26.00      | 25.74      | 26.00                | 25.98      | 26.04      | 26.05      | 25.84      | 26.04      | 25.94      | 26.19      | 26.14      |
|                                       | Low (\$)  | 25.40     | 25.21      | 24.86      | 25.15                | 25.73      | 25.65      | 25.50      | 25.40      | 25.71      | 25.77      | 25.77      | 25.56      |
|                                       | Volume    | 110,106   | 109,520    | 547,006    | 194,086              | 332,742    | 99,336     | 114,076    | 75,931     | 84,785     | 38,416     | 262,911    | 67,428     |
| Series 30<br>(NA.PR.S)                | High (\$) | -         | -          | -          | 25.21                | 25.48      | 25.95      | 25.95      | 25.71      | 25.94      | 25.87      | 25.84      | 25.67      |
|                                       | Low (\$)  | -         | -          | -          | 24.90                | 25.17      | 25.20      | 25.20      | 25.20      | 25.49      | 25.50      | 25.53      | 25.26      |
|                                       | Volume    | -         | -          | -          | 1,842,577            | 832,150    | 732,517    | 354,768    | 379,296    | 400,401    | 196,369    | 662,604    | 258,043    |
| Series 32<br>(NA.PR.W)                | High (\$) | -         | -          | -          | -                    | -          | -          | -          | -          | -          | -          | -          | 25.06      |
|                                       | Low (\$)  | -         | -          | -          | -                    | -          | -          | -          | -          | -          | -          | -          | 24.65      |
|                                       | Volume    | -         | -          | -          | -                    | -          | -          | -          | -          | -          | -          | -          | 2,387,160  |

<sup>(1)</sup> On February 13, 2014, a dividend of one common share for each of the issued and outstanding common shares was paid. The effect was the same as a two-for-one split of common shares.

<sup>(2)</sup> On September 26, 2014, the Board announced its intention to redeem all of the issued and outstanding First Preferred Shares, Series 16 on November 15, 2014. The payment of the redemption price was made on Monday, November 17, 2014, being the first business day following such date.

<sup>(3)</sup> On December 3, 2013, the Board approved the redemption of all of the issued and outstanding First Preferred Shares, Series 24. This redemption was completed on February 17, 2014.

<sup>(4)</sup> On December 3, 2013, the Board approved the redemption of all of the issued and outstanding First Preferred Shares, Series 26. This redemption was completed on February 17, 2014.

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 2014<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, 2014, the securities listed in the table below were, 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               | 977,110                                    | 0.298%                     |

Additional information 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.

### NORMAL COURSE ISSUER BID OF THE BANK

The description of the Bank's normal course issuer bid 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.

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

(2) There was no trading activity in fiscal 2014.

## DIRECTORS AND EXECUTIVE OFFICERS

### Directors

As at October 31, 2014, 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 main positions they have held since November 1, 2009 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. On December 3 2014, Karen Kinsley, former President and Chief Executive Officer of Canada Mortgage and Housing Corporation (CMHC) became a Bank director. Gérard Coulombe will not be a candidate for re-election at the Meeting. For further information, please consult the Circular.

|  |   |
|--|---|
| <b>BACHAND, Raymond<sup>(2)</sup></b><br>(Quebec, Canada)    | Corporate director. Strategic Advisor for the law firm Norton Rose Fulbright Canada LLP since January 2014. Member of the Quebec National Assembly for the riding of Outremont from December 2005 to September 2013. Minister of Economic Development, Innovation and Export Trade from February 2006 to June 2009. Minister of Tourism from April 2007 to December 2008. Minister responsible for the Montréal region from April 2007 to September 2012. Minister of Finance from April 2009 to September 2012. Minister of Revenue from August 2010 to September 2012 and Official Opposition critic for finance from September 2012 to September 2013. Bank director since October 2014. |
| <b>BERTRAND, Maryse<sup>(2)(3)</sup></b><br>(Quebec, Canada) | Vice-President – Real Estate Services, Legal Services and General Counsel for CBC/Radio-Canada since September 2009. Bank director since April 2012.  |
| <b>BLOOMBERG, Lawrence S.</b><br>(Ontario, Canada)           | Advisor to National Bank Financial since October 2000. Bank director since August 1999.   |
| <b>BOIVIN, Pierre<sup>(1)(4)</sup></b><br>(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 September 1999 to June 2011. President and Chief Executive Officer of evenko Management Inc. from September 1999 to June 2011. Bank director since April 2013.   |
| <b>CAILLÉ, André<sup>(1)(3)(4)</sup></b><br>(Quebec, Canada) | Corporate director. Senior Strategic Consultant at Junex Inc. since April 2008. Bank director since October 2005.   |
| <b>COULOMBE, Gérard<sup>(3)(4)</sup></b><br>(Quebec, Canada) | Partner at the law firm Lavery, de Billy LLP since October 2007. Bank director since February 1994.   |
| <b>DENHAM, Gillian H.<sup>(4)</sup></b><br>(Ontario, Canada) | Corporate director. Bank director since October 2010.   |
| <b>FORTIN, Richard<sup>(1)(2)</sup></b><br>(Quebec, Canada)  | Corporate director. Member of the Board of Directors of Alimentation Couche-Tard inc. since May 1988. Bank director since August 2013.  |
| <b>HOUDE, Jean<sup>(3)</sup></b><br>(Quebec, Canada)         | Chairman of the Board of Directors of National Bank of Canada since April 2014. 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 from November 2010 to March 2014. Bank director since March 2011.   |
| <b>LAFLAMME, Louise<sup>(1)(2)</sup></b><br>(Quebec, Canada) | Corporate director. Bank director since November 2008.  |
| <b>PAYETTE, Julie</b><br>(Quebec, Canada)                    | Director of the Montreal Science Centre since July 2013. Scientific delegate for Québec in the United States from October 2011 to September 2013. Fellow at the Woodrow Wilson International Center for Scholars in Washington D.C. from January 2011 to August 2011. Bank director since April 2014.   |
| <b>RUNTE, Roseann<sup>(3)</sup></b><br>(Ontario, Canada)     | President and Vice-Chancellor of Carleton University in Ottawa since July 2008. Bank director since April 2001.   |
| <b>SAPUTO, Lino A. Jr.<sup>(4)</sup></b><br>(Quebec, Canada) | Chief Executive Officer of Saputo Inc. since March 2004 and Vice-Chairman of the Board of Directors of Saputo Inc. since August 2011. Bank director since April 2012.   |
| <b>THABET, Pierre<sup>(2)</sup></b><br>(Quebec, Canada)      | President of Boa-Franc Inc. since September 1983. Bank director since March 2011.   |
| <b>VACHON, Louis</b><br>(Quebec, Canada)                     | President and Chief Executive Office 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

## 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, 2014. The positions they have held both at the Bank and outside the Bank since November 1, 2009 are also specified.

|  |   |
|--|---|
| <b>BILODEAU, Stéphane</b><br>(Quebec, Canada)          | <b>Executive Vice-President – Operations and Strategic Initiatives Office since February 2013</b><br>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.  |
| <b>BONNELL, William</b><br>(Quebec, Canada)            | <b>Executive Vice-President – Risk Management since June 2012</b><br>From November 2010 to June 2012, Senior Vice-President – Risk Management, National Bank of Canada. From November 2007 to November 2010, Vice-President – Market Risk, National Bank of Canada.   |
| <b>FAGNOULE, Dominique</b><br>(Quebec, Canada)         | <b>Executive Vice-President – Information Technology since October 2013</b><br>From April 2013 to October 2013, Executive Vice-President – Information Technology and Organizational Performance, National Bank of Canada. From February 2009 to April 2013, Chief Information Officer, BNP Paribas – Personal Finance.   |
| <b>GIARD, Diane</b><br>(Quebec, Canada)                | <b>Executive Vice-President – Personal and Commercial Banking since May 2012</b><br>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, Bank of Nova Scotia. From March 2006 to May 2011, Senior Vice-President – Quebec, Eastern Ontario and Montreal region, Bank of Nova Scotia.   |
| <b>HANCZAKOWSKI, Jean-François</b><br>(Quebec, Canada) | <b>Senior Vice-President – Internal Audit since February 2014</b><br>From July 2012 to February 2014, Vice-President – Operations, Financial Markets and Securities, National Bank of Canada. From December 2011 to July 2012, Vice-President – Processes, Financial Markets, National Bank of Canada. From September 2011 to December 2011, Vice-President – Operations, Financial Markets and Market Operators Support, National Bank of Canada. From October 2010 to September 2011, Vice-President – Market Operators Support, National Bank of Canada. From October 2009 to September 2010, Vice-President – Front Office Support, Financial Markets, National Bank of Canada. |
| <b>JEANNIOT, Lynn</b><br>(Quebec, Canada)              | <b>Executive Vice-President – Human Resources and Corporate Affairs since September 2008</b>  |
| <b>LEGGETT, Karen</b><br>(Quebec, Canada)              | <b>Executive Vice-President - Marketing and Corporate Strategy since January 2014</b><br>From May 2012 to January 2014, Executive Vice-President – Marketing, National Bank of Canada. From October 2009 to May 2012, Senior Vice-President – Cards and Payment Solutions, Royal Bank of Canada.  |
| <b>PAIEMENT, Luc</b><br>(Quebec, Canada)               | <b>Executive Vice-President – Wealth Management, Chairman of the Board, President and Chief Executive Officer, National Bank Financial Ltd., Co-President and Co-Chief Executive Officer, National Bank Financial Inc. since April 2014</b><br>From September 2008 to April 2014, Executive Vice-President – Wealth Management and Co-President and Co-Chief Executive Officer, National Bank Financial, National Bank of Canada.   |
| <b>PARENT, Ghislain</b><br>(Quebec, Canada)            | <b>Chief Financial Officer and Executive Vice-President – Finance and Treasury since August 2011</b><br>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.   |
| <b>PASCOE, Ricardo</b><br>(New York, USA)              | <b>Executive Vice-President – Financial Markets since April 2014</b><br>From September 2008 to April 2014, Executive Vice-President – Financial Markets and Co-President and Co-Chief Executive Officer, National Bank Financial, National Bank of Canada.  |
| <b>VACHON, Louis</b><br>(Quebec, Canada)               | <b>President and Chief Executive Officer of the Bank since June 2007</b><br>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, 2014, all the directors and executive officers of the Bank directly or beneficially owned or controlled 536,152 Common Shares, i.e., 0.16 % 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, except for:

- Gillian H. Denham, who, since June 2012, has been a member of the Board of Directors of Penn West Petroleum Ltd., a company that was subject to cease trade orders further to the July 2014 announcement by Penn West Petroleum Ltd. of the review of some of its accounting practices and the decision to restate its financial statements. These orders are no longer in effect as of September 23, 2014.

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:

- 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 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, which 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 his or her assets.

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, 7<sup>th</sup> floor  
Montreal, Quebec, Canada H3A 3S8

Telephone: 1-888-838-1407  
Fax: 1-888-453-0330  
Email address: [service@computershare.com](mailto:service@computershare.com)  
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, 2014, the Members of this Committee were Pierre Boivin, who is the Chair of this Committee, André Caillé, Richard Fortin and Louise Laflamme.

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.

Pierre Boivin studied Commerce at McGill University. He has been a member of the Board of Directors of Canadian Tire Corporation, Limited and its Audit Committee since May 2013. From January 2005 to January 2014, he was a member of the Board of Directors of Sirius XM Canada Holdings Inc. and a member of its Audit Committee. From August 2008 to June 2012, he served on the Board of Directors of Questerre Energy Corporation and was a member of its Audit Committee from March 2011 to June 2012. He has been a member and Chair of the AC since April 10, 2014.

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 Audit and Risk Management Committee of the Board from October 2005 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. Mr. Fortin 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. In 2012, 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 member of the AC since August 2013.

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 Audit and Risk Management Committee from November 2008 until it was dissolved on April 24, 2013 and has been a member of the AC since that date.

## 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.

|                    | 2014<br>(\$)     | 2013<br>(\$)     |
|--------------------|------------------|------------------|
| Audit fees         | 4,930,066        | 4,933,902        |
| Audit-related fees | 1,383,218        | 957,547          |
| Tax fees           | 104,092          | 168,936          |
| Other fees         | 260,957          | 134,626          |
| <b>Total</b>       | <b>6,758,333</b> | <b>6,195,011</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 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 ([nbc.ca](http://nbc.ca)) and on the SEDAR website ([sedar.com](http://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, free of charge and 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 in accordance with legislation 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

A short-term obligation rated "A-1" is rated in the highest category by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is strong.

#### Canadian Commercial Paper: A-1 (middle)

An obligation rated "A-1(middle)" on the Canadian commercial paper rating corresponds to an "A-1" rating on Standard & Poor's global short-term rating scale. This rating reflects a

strong capacity for the obligor to meet its financial commitment on the obligation.

#### Long-Term Senior Debt: A

An obligation rated "A" is 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+

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.

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

A "P-2" rating corresponds to a "BBB" rating on the Standard & Poor's global 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.

#### Preferred Shares: P-3/BB

A "P-3" rating corresponds to a "BB" rating on the Standard & Poor's global scale. An obligation rated "BB" is regarded as having significant speculative characteristics. While such obligations will likely have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposures to adverse conditions.

#### 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 moderate. 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. The Committee meets 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, 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; The Committee periodically assesses the relevance of requesting proposals to select a firm to be appointed as independent auditor;

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 key elements of Management 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, 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 OCTOBER 29, 2014.  
APPROVED BY THE CONDUCT REVIEW AND CORPORATE GOVERNANCE COMMITTEE ON OCTOBER 30, 2014.  
APPROVED BY THE BOARD OF DIRECTORS ON OCTOBER 30, 2014.

