



# Annual Information Form

January 18, 2006

**YOUR TRUSTED PARTNER**

today and tomorrow

### **Distribution Notice of this Annual Information Form**

---

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

Portions of the Annual Information Form are presented in the following documents and are incorporated herein by reference:

- the Annual Report to Shareholders (the “Annual Report”), including Management’s Discussion and Analysis, for the fiscal year ended October 31, 2005; and
- the Management Proxy Circular dated as at December 29, 2005 (the “Circular”).

### **Caution Regarding Forward-Looking Statements in this Annual Information Form**

---

From time to time, National Bank of Canada (the “Bank”) makes written and oral forward-looking statements, included in this Annual Information Form, as well as in the Annual Report and in Management’s Discussion and Analysis to which it refers. All such statements are made pursuant to the “safe harbor” provisions of the United States *Private Securities Litigation Reform Act* of 1995. These forward-looking statements include, among others, statements with respect to the economy, market changes, the achievement of strategic objectives, certain risks as well as statements with respect to our beliefs, plans, expectations, anticipations, estimates and intentions. These forward-looking statements are typically identified by the words “may,” “could,” “should,” “would,” “suspect,” “outlook,” “believe,” “anticipate,” “estimate,” “expect,” “intend,” “plan,” and words and expressions of similar import.

By their very nature, such forward-looking statements require us to make assumptions and involve inherent risks and uncertainties, both general and specific. There is significant risk that express or implied projections contained in such statements will not materialize or will not be accurate. A number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking statements. Such differences may be caused by factors, many of which are beyond the Bank’s control, which include, but are not limited to, changes in Canadian and/or global economic and financial conditions (particularly fluctuations in interest rates, currencies and other financial instruments), liquidity, market trends, regulatory developments and competition in geographic areas where the Bank operates, technological changes, consolidation in the Canadian financial services sector, the possible impact on our businesses of international conflicts and other developments including those relating to the war on terrorism and the Bank’s anticipation of and success in managing the risks implied by the foregoing.

The Bank cautions that the foregoing list of important factors is not exhaustive. Investors and others who base themselves on the Bank’s forward-looking statements should carefully consider the above factors as well as the uncertainties they represent and the risk they entail. The Bank therefore cautions readers not to place undue reliance on these forward-looking statements. The Bank does not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time by or on behalf of the Bank except when prescribed by regulation.

# Table of Contents and List of Information Incorporated by Reference

PAGE REFERENCE  
AIF: Annual Information Form  
AR: Annual Report  
MPC: Circular

---

<b>Distribution Notice of this Annual Information Form</b>	AIF – Inside front cover
<b>Caution Regarding Forward-Looking Statements in this Annual Information Form</b>	AIF – Inside front cover
<b>Corporate Structure</b>	
Name, Address and Incorporation	AIF – 1
Subsidiaries of the Bank (Intercorporate Relationships)	AR – 122 and 127
<b>General Development of the Business</b>	
Three-Year History	AIF – 1
<b>Description of Business</b>	
Activities	AR – 17 to 40
Products and Services	AR – 17 to 40
Specialized Skills and Knowledge	AR – 17 to 40
Competitive Conditions	AR – 12 and 13
New Products	AR – 17 to 40
Effects of Environmental Protection Requirements	AIF – 1
Number of Employees	AR – Highlights, 121
Risk Factors	AR – 57 to 65
Assets Under Administration and Assets Under Management	AR – 47 to 49 and 72
Loans by Borrower Category	AR – 73
Investment Policy and Restrictions on Loans and Investments	AR – 57 to 65
Personal, Business and Mortgage Loans	AR – 79, 83 and 84, 93
Provision for Credit Losses	AR – 69 and 93
<b>Dividends</b>	AR – 100 and 101, 128
<b>Management’s Discussion and Analysis</b>	AR – 7 to 74
<b>Foreign GAAP</b>	AR – 116 to 119
<b>Share Capital Structure</b>	AR – 100, 101 (Note 13) and 128
Common Shares	AIF – 2
First Preferred Shares	AIF – 2 and 3
<b>Market for Securities</b>	
Trading Price and Volume	AIF – 3 and 4
Notes on Deposits and Debentures	AIF – 5
Description of Notes	AIF – 5
<b>Prior Sales</b>	AIF – 5

## Table of Contents and List of Information Incorporated by Reference (cont.)

PAGE REFERENCE  
AIF: Annual Information Form  
AR: Annual Report  
MPC: Circular

---

### **Directors and Executive Officers**

Directors	AIF – 6
Executive Officers	AIF – 6
Shareholdings of Directors and Executive Officers	AIF – 7
Cease Trade Orders, Bankruptcies, Penalties or Sanctions	AIF – 7
Conflicts of Interest	AR – 46 and 115
Legal Proceedings	AR – 52 and 107

### **Transfer Agent and Registrar**

AIF – 8

### **Interest of Experts**

AIF – 8

### **Normal Course Issuer Bid of National Bank of Canada**

MPC – 39

### **Information Regarding the Audit and Risk Management Committee of the Board of Directors**

Composition	MPC – 10
Relevant Education and Expertise of Committee Members	MPC – 10
Policy and Procedures for the Pre-Approval of Mandates Assigned to the External Auditor	MPC – 10 and 11
Auditor Fees	MPC – 11
Mandate	AIF – 9 to 13

### **Additional Information**

AIF – 14

### **Appendix**

Appendix A – Notes	AIF– 14 to 16
--------------------	---------------

# Annual Information Form

## CORPORATE STRUCTURE

---

### Name, Address and Incorporation

The Bank is a chartered bank governed by the *Bank Act* (Canada). 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'Hochelega* in 1924 to form Bank Canadian National, which then merged with The Provincial Bank in 1979 to form National Bank of Canada. In 1985, National Bank of Canada acquired The Mercantile Bank of Canada. The head office of the Bank is located at 600 de La Gauchetière West, 4th Floor, Montreal, Quebec, Canada H3B 4L2.

## GENERAL DEVELOPMENT OF THE BUSINESS

---

### Three-Year History

Fiscal 2004-2005: For fiscal 2005, the Bank posted record net income of \$855 million and met or exceeded all of its financial objectives. Earnings per share amounted to \$4.98 in 2005, up 21% from the \$4.10 recorded in 2004. Target growth was 5% to 10%. Return on common shareholders' equity was 20.7%, well above the target range of 16% to 18%. The Tier 1 capital ratio was 9.6%, whereas the objective was to attain a ratio of more than 8.5%. The dividend payout ratio was 35%, at the lower end of the 35% to 45% target range. In the Personal and Commercial segment, growth was sustained by higher loan volumes with individuals and increased use of bank credit by businesses. Growth in assets under management at Private Investment Management and stronger trading activity by individuals on stock markets helped boost net income in the Wealth Management segment. Lastly, higher trading revenues and lower credit losses in the Financial Markets segment replaced gains on securities and bank financing as key drivers of growth.

Fiscal 2003-2004: The Bank posted record net income of \$725 million for fiscal 2004. In addition, return on common shareholders' equity was 18.8% compared to 16.5% in 2003. Each segment contributed to the Bank's results in fiscal 2003-2004. The increase in the volume of consumer loans for the Personal and Commercial segment was mainly attributable to the contribution of partnerships. With regard to Wealth Management, stock market transactions grew, as did sales of mutual funds and Private Investment Management products. For the Financial Markets segment, revenues from Corporate and Investment Banking and gains on securities largely offset trading activities, demonstrating the soundness of the diversification strategy. Lastly, credit quality remained excellent, as reflected by the reduction in credit losses and impaired loans.

Fiscal 2002-2003: The Bank pursued its strategy to be a super-regional bank in Quebec while being highly selective in choosing its activities outside its core market. It executed this strategy with determination, diligence and discipline as evidenced by the record net income of \$624 million for fiscal 2002-2003. The Bank achieved all its financial objectives and even surpassed several. Moreover, shareholders enjoyed an excellent return on their investment, with total shareholder return reaching 43% for the year ended October 31, 2003.

## DESCRIPTION OF BUSINESS

---

### Effects of Environmental Protection Requirements

In order to address environmental risks and comply with environmental legislation, several years ago the Bank implemented a procedure setting out its environmental responsibilities when granting credit and acquiring property. To date, the risks involved have not had a material impact on the Bank's operations.

# Annual Information Form

## SHARE CAPITAL STRUCTURE

---

The Bank's share capital consists of common shares and two series of First Preferred Shares, Series 15 and 16. The features of each of these classes of shares are described below.

### Common Shares

Common shares of the Bank carry one vote per share. Holders of common shares are entitled to receive dividends, in such amounts and payable at such times as the directors determine. In the event of the liquidation, dissolution or winding-up of the Bank, after payment to the holders of First Preferred Shares of the amounts described in paragraph 3 under "First Preferred Shares" below, the remaining property of the Bank will be distributed equally and rateably among the holders of common shares.

As at October 31, 2005, there were 26,235 registered holders of common shares of the Bank listed with the Registrar.

### First Preferred Shares

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

1) **Issuance in Series**

The First Preferred Shares may be issued in series. The directors may, by resolution, fix the number of shares in, and determine the respective designations, rights, privileges, restrictions and conditions of each series of First Preferred Shares, including the terms and conditions of redemption, purchase or conversion and sinking fund or purchase fund provisions.

2) **Dividends**

Holders of First Preferred Shares are entitled to receive dividends in such amounts and payable at such times as the directors determine. In respect of dividends, holders of any series of First Preferred Shares have priority over the holders of common shares or any other class of shares of the Bank ranking junior to the First Preferred Shares. The 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.

3) **Liquidation, Dissolution or Winding-Up**

In the event of the liquidation, dissolution or winding-up of the Bank, before any amount is paid for any property distributed to the holders of common shares or shares of any other class of 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 up to and including the date of distribution. After payment to the holders of the 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.

4) **Voting Rights**

The holders of First Preferred Shares do not, as such, have any voting rights for the election of directors of the Bank or for any other purpose.

Each series of First Preferred Shares has its own set of terms and conditions.

# Annual Information Form

## Series 15 (Series K) (NA.PR.K)

Subject to obtaining the consent of the Superintendent of Financial Institutions (Canada), the Bank may, at its option, redeem for cash the First Preferred Shares, Series 15 on or after May 15, 2008, in whole or in part, at any time at a price equal to \$26.00 per share if they are redeemed prior to May 15, 2009, at \$25.75 per share if they are redeemed during the 12 months prior to May 15, 2010, at \$25.50 per share if they are redeemed during the 12 months prior to May 15, 2011, at \$25.25 per share if they are redeemed during the 12 months prior to May 15, 2012, and at \$25.00 per share if they are redeemed on or after May 15, 2012, in each case together with all declared and unpaid dividends thereon up to the date fixed for redemption.

The holders of First Preferred Shares, Series 15 will be entitled to receive a quarterly non-cumulative preferential cash dividend, as and when declared by the Board of Directors of the Bank (the "Board"), on the 15th day of February, May, August and November of each year, at a quarterly rate equal to \$0.365625 per share. The first of such dividends was paid on May 15, 2003. It was \$0.416712 per share, based on the closing date of January 31, 2003.

## Series 16 (Series L) (NA.PR.L)

Subject to obtaining the consent of the Superintendent of Financial Institutions (Canada), the Bank may, at its option, redeem for cash the First Preferred Shares, Series 16 on or after May 15, 2010, in whole or in part, at any time at a price equal to \$26.00 per share if they are redeemed prior to May 15, 2011, at \$25.75 per share if they are redeemed during the 12 months prior to May 15, 2012, at \$25.50 per share if they are redeemed during the 12 months prior to May 15, 2013, at \$25.25 per share if they are redeemed during the 12 months prior to May 15, 2014, and at \$25.00 per share if they are redeemed on or after May 15, 2014, in each case together with all declared and unpaid dividends thereon up to the date fixed for redemption.

The holders of First Preferred Shares, Series 16 will be entitled to receive a quarterly non-cumulative preferential cash dividend, as and when declared by the Board, on the 15th day of February, May, August and November of each year, as of May 15, 2005, at a quarterly rate equal to \$0.303125 per share. The first of such dividends was paid on May 15, 2005. It was \$0.202367 per share, based on the closing date of April 8, 2005.

## MARKET FOR SECURITIES

---

### Trading Price and Volume

The common shares, First Preferred Shares, Series 15 and Series 16, and the notes of the Bank (described below) are listed on the Toronto Stock Exchange (the "TSX") in Canada.

Issue or Class	Ticker Symbol	Newspaper Abbreviation
Common shares	NA	Nat Bk, Natl Bk or Nat Bk (NA)
First Preferred Shares		
Series 15	NA.PR.K	Nat Bk s15, Natl Bk s15 or Nat Bk (NA.PR.K)
Series 16	NA.PR.L	Nat Bk s16, Natl Bk s16 or Nat Bk (NA.PR.L)
Notes		
Nikkei 225 (2009)	NA.NT.J	
Nikkei 225 (2007)	NA.NT.K	

## Annual Information Form

The tables below show the monthly price range and trading volume of each of the Bank's securities listed on the TSX for the fiscal year ended October 31, 2005.

### Common Shares (NA)

Date	High (\$)	Low (\$)	Volume
2005/10	60.64	57.37	7,831,270
2005/09	62.31	56.76	14,206,969
2005/08	58.23	55.03	7,638,987
2005/07	58.78	54.30	8,029,934
2005/06	55.41	52.84	11,436,779
2005/05	53.24	51.49	11,260,028
2005/04	53.66	51.60	9,909,336
2005/03	55.69	51.31	14,194,593
2005/02	53.24	48.55	9,750,599
2005/01	49.97	47.70	7,689,792
2004/12	49.75	46.70	7,181,187
2004/11	49.46	46.05	10,344,842

### First Preferred Shares, Series 15 (NA,PR,K)

Date	High (\$)	Low (\$)	Volume
2005/10	27.00	26.31	277,827
2005/09	27.25	26.47	69,657
2005/08	26.95	26.10	82,809
2005/07	26.90	26.30	282,540
2005/06	27.30	26.75	277,726
2005/05	26.90	26.25	53,439
2005/04	26.90	26.20	37,574
2005/03	26.94	26.02	84,937
2005/02	27.29	26.42	871,457
2005/01	28.00	27.03	44,230
2004/12	30.50	26.91	62,631
2004/11	27.30	26.51	97,355

### First Preferred Shares, Series 16 (NA,PR,L)

Date	High (\$)	Low (\$)	Volume
2005/10	25.35	24.70	252,643
2005/09	25.49	25.02	229,019
2005/08	25.19	24.90	360,614
2005/07	25.40	24.91	341,394
2005/06	25.74	24.95	831,031
2005/05	25.00	24.31	264,866
2005/04	24.50	24.05	245,788
2005/03*	24.45	23.85	592,038

\* This series of preferred shares was listed on the TSX in March 2005.

### Nikkei 225 Notes (2009) (NA,NT,J)

Date	High (\$)	Low (\$)	Volume
2005/10	9.15	8.95	2,900
2005/09	9.10	8.45	7,345
2005/08	9.01	8.80	5,000
2005/07	8.96	8.82	11,567
2005/06	8.90	8.75	10,400
2005/05	8.75	8.65	3,900
2005/04	8.81	8.61	15,704
2005/03	8.65	8.48	12,846
2005/02	8.75	8.60	17,360
2005/01	8.75	8.62	22,120
2004/12	8.63	8.40	23,400
2004/11	8.50	8.30	33,400

### Nikkei 225 Notes (2007) (NA,NT,K)

Date	High (\$)	Low (\$)	Volume
2005/10	10.00	9.84	41,500
2005/09	10.00	9.60	20,400
2005/08	9.99	9.40	21,796
2005/07	9.48	9.30	7,800
2005/06	9.29	9.25	11,700
2005/05	9.40	9.25	17,322
2005/04	9.45	9.35	19,680
2005/03	9.44	9.30	42,510
2005/02	9.50	9.30	11,770
2005/01	9.41	9.30	7,790
2004/12	9.31	9.22	4,900
2004/11	9.31	9.13	36,345

# Annual Information Form

## Notes on Deposits and Debentures

The table below provides the credit ratings assigned to the Bank's outstanding securities by rating agencies.

<b>1. Moody's Investors Service</b>		<b>Bank</b>	<b>3. Dominion Bond Rating Service</b>		<b>Bank</b>
Short-Term	P-1		Short-Term Instruments	R-1 (Middle)	
Long-Term Bank Deposits	A1		Deposits and Senior Debt	A (High)	
Long-Term Senior Debt	A1		Subordinated Debt	A	
Long-Term Subordinated Debt	A2		Cumulative Preferred Shares	Pfd-2 (High)	
Issuer Rating	A1		Non-Cumulative Preferred Shares	Pfd-2 (High) n	
Financial Strength	B-				
<b>2. Standard &amp; Poor's</b>		<b>Bank</b>	<b>4. Fitch Ratings</b>		<b>Bank</b>
Short-Term Counterparty	A-1		Short-Term	F1	
Long-Term Counterparty	A		Long-Term	A+	
Senior Unsecured Debt	A		Individual	B	
Subordinated Debt	A-		Support	2	
Commercial Paper (Canadian scale)	A-1 (Mid)				
Commercial Paper (Global scale)	A-1				
Preferred Stock (Canadian scale)	P-2 (High)				
Preferred Stock (Global scale)	BBB+				

The ratings should not be construed as a recommendation to buy, sell or hold Bank securities. Ratings may be revised or withdrawn at any time by the rating agencies.

A definition of the categories of each rating as at October 31, 2005 has been obtained from the websites of the respective rating agencies and is provided in Appendix A of this Annual Information Form.

### Description of Notes

#### Nikkei 225 Protected Index Notes (2009) (NA.NT.J)

The Nikkei 225 Protected Index Notes (the "NA.NT.J Notes") will mature on April 30, 2009 ("NA.NT.J Maturity"). As at January 18, 2005, 1,300,000 NA.NT.J Notes had been issued at a price of \$10 per Note. The NA.NT.J Notes may not be called for redemption by the Bank prior to NA.NT.J Maturity. As at that date, each holder of NA.NT.J Notes will receive in respect of each Note held the greater of (a) \$10 and (b) the repurchase price (as defined below) which will be computed by reference to the Nikkei 225 Index. The repurchase price of each NA.NT.J Note will be equal to the aggregate of \$10 and the amount obtained by multiplying \$10 by 100% of the appreciation rate of the Nikkei 225 Index from the date of issue to the date of NA.NT.J Maturity (rounded down to the nearest cent). No interest will be paid on the NA.NT.J Notes, if any, except at NA.NT.J Maturity.

#### Nikkei 225 Protected Index Notes (2007) (NA.NT.K)

The Nikkei 225 Protected Index Notes (the "NA.NT.K Notes") will mature on March 30, 2007 ("NA.NT.K Maturity"). As at January 18, 2005, 1,000,000 NA.NT.K Notes were issued at a price of \$10 per NA.NT.K Note. The NA.NT.K Notes may not be called for redemption by the Bank prior to maturity. At that date, each holder of NA.NT.K Notes will receive in respect of each NA.NT.K Note held the greater of (a) \$10 and (b) the repurchase price (as defined below) which will be computed by reference to the Nikkei 225 Index. The repurchase price of each NA.NT.K Note will be equal to the aggregate of \$10 and the amount obtained by multiplying \$10 by 100% of the appreciation rate of the Nikkei 225 Index from the date of issue to the date of NA.NT.K Maturity (rounded down to the nearest cent). No interest will be paid on the Notes, if any, except at NA.NT.K Maturity.

### Prior Sales

The Bank sold three subordinated debt securities issues during the financial year ended October 31, 2005. These issues are not listed on the Canadian stock market.

- \$350,000,000 of debentures maturing on December 22, 2019, issued on December 20, 2004;
- \$586,300,000 of deposit notes maturing on April 20, 2010, issued on April 20, 2005 (US \$500,000,000);
- \$239,150,000 of deposit notes maturing on November 1, 2009, issued on October 28, 2005 (US \$250,000,000).

# Annual Information Form

## DIRECTORS AND EXECUTIVE OFFICERS

---

### Directors

Since November 1, 2000, the directors whose names appear on page 124 of the Annual Report of the Bank have held the principal functions described in the “Information on Nominees for Election to the Board of Directors” section of the Circular.

### Executive Officers

Since November 1, 2000, the executive officers whose names appear on pages 125 and 126 of the Annual Report of the Bank have held various management, executive or senior executive positions at the Bank, with the exception of the following.

Guy Benoît:	from 1998 to 2003, Vice-President – Central District, Toronto-Dominion Bank
Jean-François Bureau:	from 1996 to 2001, Vice-President – Corporate Finance, Le Groupe Vidéotron ltée; from 2001 to 2002, Vice-President – Mezzanine Loans and Investments, EdgeStone Capital Partners Inc.; from 2002 to 2003, Senior Vice-President and Chief Financial Officer, Cable Satisfaction International Inc.
Linda Caty:	from 1998 to 2003, Vice-President and Corporate Secretary, National Bank of Canada; from 2003 to 2004, Corporate Secretary, BCE Inc.
Sylvie Chagnon:	from 1999 to 2002, Managing Director – Operations, Canadian Imperial Bank of Commerce; from 2002 to 2003, Vice-President – Administrative Services, Organizing Committee for the XI FINA World Championships – Montréal 2005; from 2003 to 2005, Senior Manager – Internal Audit, National Bank of Canada
Diane Dery:	from 1997 to 2000, Manager – Business Advisory Services, Caisse Desjardins de Sainte-Foy; from 2000 to 2005, Regional Director, Desjardins Corporate Financial Centre – Hautes-Marées
Pascal Duquette:	from 1998 to 2004, International Equities Manager, Canadian National Railway (CN)
Pierre Fitzgibbon:	from 1999 to 2000, Chief Executive Officer, TIW Asia, Telesystem International Wireless Inc.; from 2000 to 2002, Chief Executive Officer, New World PCS Limited, Hong Kong; from 2002 to 2005, Vice-Chairman of the Board and Managing Director – Corporate and Investment Banking, National Bank Financial Inc.
Charles Guay:	from 1998 to 2001, District Vice-President, Fidelity Investments Canada Limited
Lynn Jeannot:	from 1998 to 2002, Executive Director, Canadian Bankers’ Institute
D. William Kennedy:	from 1995 to 2002, Legal Counsel, Montréal Exchange; from 2002 to 2003, Legal Counsel, National Bank of Canada
Alice Keung:	from 1999 to 2000, Senior Director – Commercial Business Units, Information Technology, Air Canada; from 2000 to 2003, Vice-President, Information Technology and Chief Information Officer, Air Canada
Olivier H. Lecat:	from 1997 to 2001, Vice-President – Corporate and Investment Banking, Internal Audit Services, Royal Bank of Canada
André Mondor:	from 1998 to 2000, General Manager – Major Accounts and Customer Services, XEROX Canada Ltd.; from 2000 to 2001, General Manager – Global Document Services, XEROX Canada Ltd.; from 2001 to 2003, Vice-President – Sales and Service Strategies, National Bank of Canada
Ricardo Pascoe:	from 1996 to 2000, Managing Partner, Veritas Capital Management LLC, Greenwich, Connecticut; from 2000 to 2002, Executive General Manager – Americas, Commerzbank Capital Markets Corp., New York and Global Head of Fixed Income Trading and Global Head of Alternative Investment Strategies, Commerzbank Securities; from 2002 to 2003, Global Head of Markets, Commerzbank Securities, London, England
Chantale Reid:	from 1998 to 2001, MBA student and self-employed consultant; from 2001 to 2002, Vice-President – Operations, MédiSolution ltée

# Annual Information Form

## Shareholdings of Directors and Executive Officers

The directors and executive officers of the Bank, as a group, beneficially own less than 2% of the outstanding common shares of the Bank.

## Cease Trade Orders, Bankruptcies, Penalties or Sanctions

To the Bank's knowledge, no director or executive officer of the Bank is, as at the date of this Annual Information Form, or has been, within the 10 years before that date, a director or executive officer of any company, that while that director or executive officer was acting in that capacity, (i) was the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days, or (ii) was subject to an event that resulted, after the director or executive officer ceased to be a director or executive officer, in the company being the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days, or (iii) or within a year of the director or executive officer ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee in bankruptcy appointed to hold its assets, except for the following:

- Gérard Coulombe, who was, until September 28, 2005, a board member of Centre International de Gestion de Projets G.P., a not-for-profit company, which was adjudged a bankrupt on September 29, 2005;
- Marcel Dutil, who was on the board of Total Containment, Inc. when it was placed under the protection of Chapter 11 of the *United States Bankruptcy Code* on March 4, 2004;
- Paul Gobeil, who, until November 12, 2001, served on the boards of BridgePoint International Inc. and its wholly owned subsidiary BridgePoint International (Canada) Inc. BridgePoint International (Canada) Inc. filed a proposal with its creditors on January 25, 2002. The TSX suspended trading on the shares of BridgePoint International Inc. on January 31, 2002 for failure to meet the listing requirements of the TSX. The shares of BridgePoint International Inc. were delisted from the TSX at the close of business on January 31, 2003; and
- Alice Keung, who, until June 2003, was an executive officer at Air Canada, which filed for bankruptcy protection on April 1, 2003 under the *Companies' Creditors Arrangement Act* and under Chapter 11 of the *United States Bankruptcy Code*.

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

Moreover, to the Bank's knowledge, 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 any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision. In addition, in the opinion of the Bank, no information about a settlement agreement entered into by a director or executive officer of the Bank before December 31, 2000 is likely to be considered important to a reasonable investor in making an investment decision.

## Annual Information Form

### **TRANSFER AGENT AND REGISTRAR**

---

National Bank Trust Inc.  
Share Ownership Management  
1100 University  
9th Floor  
Montreal, Quebec  
Canada H3B 2G7  
Telephone: (514) 871-7171  
                  1-800-341-1419  
Fax: (514) 871-7442

### **Mailing address:**

National Bank Trust Inc.  
Share Ownership Management  
P.O. Box 888, Station B  
Montreal, Quebec, Canada H3B 9Z9

### **INTEREST OF EXPERTS**

---

The external auditor of the Bank is Samson Bélair/Deloitte & Touche, s.e.n.c.r.l., who has prepared the Auditors' Report to shareholders in respect of the consolidated financial statements of the Bank.

# Annual Information Form

## INFORMATION REGARDING THE AUDIT AND RISK MANAGEMENT COMMITTEE OF THE BOARD OF DIRECTORS

### Mandate

#### MISSION AND MAIN RESPONSIBILITIES

The Audit and Risk Management Committee (the “Committee”) assists the Board of Directors (the “Board”) by:

- a) reviewing the consolidated financial statements of the Bank, processes for presenting and disclosing financial information, internal controls, audit processes and management information systems in order to determine their integrity and effectiveness;
- b) acting as intermediary between the Board and the independent oversight functions (internal and external audit and compliance);
- c) supervising the work of Internal Audit;
- d) carrying out a detailed review of risk management and risk management controls.

The external auditors of the Bank report directly to the Committee and submit reports to the Board and to the Committee as representatives of the shareholders.

The Committee fulfills its responsibilities on behalf of the Board and the shareholders by assuming the functions set out in section 8 hereof.

#### COMPOSITION AND INDEPENDENCE

The Committee is composed of no less than three members, who are appointed annually by the Board from among the directors of the Bank.

Each of the members of the Committee is “independent” within the meaning of the Multilateral Instrument respecting audit committees of the Canadian Securities Administrators (the “Instrument”).

Each of the Committee members is “financially literate” within the meaning of the Instrument<sup>(1)</sup> and at least one member has accounting or related financial expertise.

#### 1. Chair

The Chair of the Committee is designated by the Board. If the designated Chair is unable to chair a meeting of the Committee, the Committee selects one of the members of the Committee present to act as Chair for that meeting.

The Chair of the Committee may ask the Chairman of the Board to have certain matters for which the Committee is responsible discussed at meetings of the Board.

The duties of the Chair of the Committee are set out in the mandate of the Chair.

*(1) According to the Instrument, “financially literate” means the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Bank’s financial statements.*

#### 2. Secretary

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

#### 3. Meetings and Calling of Meetings

Meetings of the Committee are held at least once per quarter, on the date and at the time and place set by the Board, and the members of the Committee are informed thereof annually and in writing, with no further notice required.

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 of the Bank, one of the members of the Committee, the Senior Vice-President – Risk Management, the Senior Vice-President – Finance, Technology and Corporate Affairs, the external auditors or the chief internal auditor.

A notice specifying the purpose, place, date and time of each unscheduled meeting shall be sent to each of the Committee members by mail or by any other means of telephone or electronic communication no less than 24 hours prior to the time and date set for the meeting.

Unscheduled meetings of the Committee may be held without notice, when all members of the Committee are present or when members who are absent waive in writing the notice of such meeting.

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

The external auditors are entitled to receive the notices calling meetings of the Committee, to attend the audit portion thereof and to be heard at such meetings.

The Committee may call a meeting of the Board to consider any matters that are of concern to the Committee.

The Committee members meet in camera at the end of each meeting under the direction of the Chair of the Committee.

#### 4. Quorum

A majority of the Committee members constitutes a quorum.

Quorum shall exist 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 203(1) of

# Annual Information Form

## INFORMATION REGARDING THE AUDIT AND RISK MANAGEMENT COMMITTEE OF THE BOARD OF DIRECTORS

### Mandate (cont.)

the *Bank Act* (Canada) (the “Act”) (disclosure of interest) shall be considered as attending for the purposes of quorum.

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 is attained, decisions must be unanimous.

#### 5. Minutes

The minutes of each meeting of the Committee are entered by the Secretary in a register kept for that purpose.

The minutes of each meeting of the Committee, duly approved by the Committee, are attached to the agenda of a subsequent meeting of the Board, for information.

The Chair of the Committee makes an oral report on the deliberations of each meeting of the Committee at a subsequent meeting of the Board.

#### 6. 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. Hiring of Outside Advisors

The Committee has the authority:

- a) to engage independent counsel and other advisors as it determines necessary to carry out its duties;
- b) to set and pay the compensation of any advisors employed by the Committee; and
- c) to communicate directly with the internal and external auditors.

#### 8. Functions and Responsibilities

The functions and responsibilities of the Committee are as follows:

##### a) Internal Control

Require management to implement and maintain appropriate internal control procedures; review, evaluate and approve such procedures.

Review the effectiveness of the internal control policies and procedures of the Bank with the Senior Vice-President – Internal Audit.

##### (i) Internal Audit

Ensure the independence and effectiveness of Internal Audit, in particular by requiring that the function be free of any influence that could adversely affect its ability to

objectively assume its responsibilities and ensuring that it reports to an appropriate line level.

Review, on an annual basis, the mandate of Internal Audit, examine and approve its annual plan, and ensure that the function has the necessary resources to fulfill its mandate and responsibilities.

Review the internal auditors’ reports on a quarterly or annual basis. Ensure that the necessary steps are taken to follow up on the report recommendations.

Evaluate the adequacy, relevance, quality and clarity of the information presented by Internal Audit to the Committee.

Participate in drawing up a succession plan for the Senior Vice-President – Internal Audit, take cognizance of the recommendations of management of the Bank with respect to the appointment or dismissal of the Senior Vice-President – Internal Audit and make the appropriate recommendations to the Board thereon.

Assess the overall performance of the internal audit function and help determine the compensation of the Senior Vice-President – Internal Audit.

Meet with the Senior Vice-President – Internal Audit without management being present.

Review any document required by the Superintendent of Financial Institutions (Canada) and the recommendations made by regulatory authorities or the internal or external auditors and report thereon to the Board.

Ensure cooperation between the internal and external auditors of the Bank.

##### (ii) External Audit

Oversee the work of the external auditors appointed by the shareholders to express an opinion on the Bank’s consolidated financial statements based on their audit or to perform other audit, review or attest services for the Bank, including the review of the consolidated quarterly financial statements and the resolution of disagreements between management and the external auditors regarding financial reporting.

Make recommendations to the Board of the Bank regarding the appointment of the external auditors and their compensation and review the nature and scope of their work.

# Annual Information Form

## INFORMATION REGARDING THE AUDIT AND RISK MANAGEMENT COMMITTEE OF THE BOARD OF DIRECTORS

### Mandate (cont.)

Review and discuss the written report of the external auditors detailing all factors that might have an impact on their independence and objectivity; recommend measures to be taken by the Board to ensure the independence of the external auditors.

Meet with the external auditors and management to discuss the annual consolidated financial statements, the documents required by the Superintendent of Financial Institutions (Canada) or transactions that could adversely affect the financial well-being of the Bank.

Discuss with the external auditors the quality and acceptability of the accounting principles applied in preparing the consolidated financial statements.

Review the annual management letter from the external auditors of the Bank and follow up on the corrective measures taken by management.

Meet regularly with the external auditors of the Bank without management being present.

Assess the overall performance of the external auditors, including for all audit and non-audit services, and analyze the impact of such services on the independence of the auditors.

Adopt a policy and specific procedures for the engagement of non-audit services and ensure the following conditions are met:

- a) the pre-approval policies and procedures are detailed as to the particular service;
- b) the Committee is informed of each non-audit service; and
- c) the procedures do not include the delegation of Committee responsibilities to management.

These mandates as well as those not covered by the above policy must be approved by the Committee.

Review and approve the Bank's hiring policies regarding partners, employees and former partners and employees of the present and former external auditors of the Bank.

#### (iii) Financial Reporting and Analysis

Review, on an annual basis, the mandate of Financial Analysis and ensure that the function has the resources needed to fulfill its mandate and responsibilities.

Review the Bank's consolidated financial statements, MD&A and earnings press releases and recommend their approval to the Board before they are publicly disclosed. Review the financial statements of certain subsidiaries.

Review such investments and transactions that could adversely affect the financial well-being of the Bank as the external auditors or any officer may bring to its attention.

Ensure that adequate procedures are in place for the review of the Bank's public disclosure of financial information extracted or derived from its consolidated financial statements and periodically assess the adequacy of those procedures.

Obtain from management information about material changes introduced by organizations such as stock exchanges or the Canadian Securities Administrators and changes to Canadian generally accepted accounting principles that could have an impact on the preparation and/or disclosure of the consolidated financial statements of the Bank and the financial statements of its subsidiaries and inform the Board accordingly, if applicable.

Review management's report on any dispute, notice of assessment or any other claim of a similar nature which could have a material impact on the financial position of the Bank and ensure that such material claims are properly disclosed in the consolidated financial statements.

Meet with representatives of the Office of the Superintendent of Financial Institutions (Canada) at the request of that organization and report to the Board.

#### (iv) Corporate Compliance

Ensure the independence and effectiveness of Corporate Compliance, in particular by requiring that the function be free of any influence that could adversely affect its ability to objectively assume its responsibilities and ensuring that it reports to an appropriate line level.

Review and approve, on an annual basis, the mandate of Corporate Compliance and ensure that the function has the resources needed to fulfill its mandate and responsibilities.

Review management's annual report on the Bank's level of compliance with the Act, applicable regulations and any other obligations, and recommend approval thereof to the Board.

# Annual Information Form

## INFORMATION REGARDING THE AUDIT AND RISK MANAGEMENT COMMITTEE OF THE BOARD OF DIRECTORS

### Mandate (cont.)

Review management's annual report on the corporate compliance program and recommend approval thereof to the Board.

Review the Bank's *Policy on Third Party Asset Administration and Management Risk* and recommend approval thereof to the Board.

Review the quarterly report of the Vice-President – Compliance on the status of compliance at the Bank.

Establish 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 employees of the Bank of concerns regarding questionable accounting or auditing matters.

#### (v) Corporate Compliance at National Bank Financial

Review, on an annual basis, the mandate of Corporate Compliance at National Bank Financial and ensure that the function has the resources needed to fulfill its mandate and responsibilities.

Review the quarterly report of the Ultimate Designated Person and the annual report of the Chief Compliance Officer of National Bank Financial with respect to compliance and non-financial risk management matters relating to National Bank Financial and determine what actions, if any, are necessary to address any compliance deficiencies identified in these reports.

#### b) Risk Management

Review, on an annual basis, the mandate of Risk Management and ensure that the function has the resources needed to fulfill its mandate and responsibilities.

Review the declarations, reports and/or other attestations required by any regulatory authority that fall within the Committee's purview and recommend the approval thereof to the Board.

Require management to report to the Committee on the existence of an environment at the Bank that supports appropriate, effective and prudent management of its operations and of the risks to which it is exposed and that contributes to the achievement of its business objectives. Report thereon to the Board.

Require management to report to the Committee on the fact that the Bank is "in control", i.e., that its operations are managed in accordance with strategic, risk, capital, liquidity and funding management processes, that such processes are carried out in a control environment, that major problems are identified, and that the Bank takes timely action to address them. Report thereon to the Board.

#### (i) Risk Management

Identify the material risks to which the Bank is exposed.

Ensure that the risk management function has sufficient independence, status and visibility and that it is reviewed periodically.

Review and recommend to the Board the adoption of policies for managing material risks, notably policies related to credit risk, market risk, structural risk, reputational risk, fiduciary risk and operational risk including outsourcing risk, and ensure that such policies are implemented. Review these policies at least once a year.

Require management to report to the Committee on the existence at the Bank of a process for proactively detecting, assessing and managing material risks and on compliance with policies and control measures. Report thereon to the Board.

#### (ii) Capital, Liquidity and Funding Management

Identify the Bank's capital, liquidity and funding needs.

Review and recommend to the Board the adoption of liquidity and funding management and capital management policies. Review these policies at least once a year.

Require management to report to the Committee on the existence at the Bank of capital, liquidity and funding management processes and on compliance with policies and control measures. Report thereon to the Board.

#### (iii) Credit

Subject to the fourth paragraph of this subsection, approve the credits of clients, by borrower and by group of borrowers, that exceed the powers delegated to Bank officers and which are defined in the credit risk management policies of the Bank.

# Annual Information Form

## INFORMATION REGARDING THE AUDIT AND RISK MANAGEMENT COMMITTEE OF THE BOARD OF DIRECTORS

### Mandate (cont.)

Review and recommend to the Board, subject to the provisions set out in section 497 of the Act<sup>(2)</sup>, any transaction between the Bank and a related party as defined in the Act, except transactions of nominal or immaterial value, personal loans, mortgage loans, lines of credit and financial services granted to officers, as set out in the Conditions of loans and financial services applicable to transactions with senior officers and their related parties, which forms an integral part of the *Policy Governing the Management and Monitoring of National Bank of Canada Related Party Transactions*.

Review changes in impaired loans, ensure that they are monitored and approve the taking of provisions for any impaired loan in accordance with the rules set forth in the Bank's *Credit Risk Management Policy*.

Approve the uncommitted credit facilities of financial institutions, governments, corporations and other similar Canadian or foreign borrowers, arranged by the Bank for internal control, which exceed the loaning limits of Bank officers.

Receive reports analyzing the economic situation of a given sector of activity in which the Bank has a certain exposure and review portfolio limits in this sector of activity based on management's recommendations.

Receive and examine the quarterly reports of the Bank on credit losses and impaired loans.

#### (iv) Basel Accord

Ensure that rigour and discipline are incorporated into risk management policies, operational controls and credit risk reports and report thereon to the Board.

Review and recommend all material aspects of risk rating systems and related parameters to the Board for approval.

Receive, at least once a year, a report on the efficiency of the Bank's risk rating systems and related parameters and report thereon to the Board.

#### c) Varia

Act as an audit and risk management committee for Natcan Trust Company or, if necessary, for any other subsidiary of the Bank where allowed under its incorporating act, and exercise 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.

Regularly assess the performance and effectiveness of the Committee and periodically review its mandate.

Exercise any other duty assigned to it by the Board and submit to it the recommendations it deems appropriate with respect to matters that fall within its purview.

(2) Any related party transaction must receive Board approval if such transaction results in increasing the aggregate loan and guarantees granted by the Bank or its subsidiaries to a related party to more than 2% of the regulatory capital of the Bank.

# Annual Information Form

## ADDITIONAL INFORMATION

---

Additional information on the Bank is available on its website at [www.nbc.ca](http://www.nbc.ca) and on the website of the System for Electronic Documents Analysis and Retrieval (SEDAR) at [www.sedar.com](http://www.sedar.com). Financial information of the Bank appears in the consolidated financial statements and in Management's Discussion and Analysis for the most recently completed fiscal year.

The Bank undertakes to provide to any person, 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 statements for the fiscal year ended October 31, 2005 together with the accompanying auditors' report, a copy of any subsequent quarterly report, a copy of the Circular in respect of its most recent Annual Meeting of Shareholders that involved the election of directors, and a copy of any document that is incorporated by reference into a preliminary short form prospectus or a short form prospectus whenever the securities of the Bank are part of a distribution. The Circular dated December 29, 2005, enclosed with the Notice of the Annual Meeting of Shareholders dated December 29, 2005 for the meeting scheduled for March 8, 2006, contains additional information such as the remuneration and indebtedness of directors and executive officers, the principal holders of Bank shares and stock options. 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: NOTES

---

### *1. Moody's Investors Service, Inc. ("Moody's")*

#### **Short Term P-1**

Issuers rated Prime-1 (or supporting institutions) have a superior ability to repay short-term debt obligations.

#### **Long-Term Bank Deposits A1**

Banks rated "A" for deposits offer good credit quality. However, elements may be present that suggest a susceptibility to impairment over the long term.

#### **Long-Term Senior Debt A1**

"A1" debts are judged to be of high quality by all standards.

#### **Long-Term Subordinated Debt A2**

Banks rated "A" possess exceptional intrinsic financial strength. Typically, they will be major institutions with highly valuable and defensible business franchises, strong financial fundamentals, and a very attractive and stable operating environment.

#### **Issuer Rating A1**

Determines the ability of the Bank to honour senior unsecured financial obligations and contracts. Obligations rated "A" are considered upper-medium grade and are subject to low credit risk.

#### **Financial Strength B-**

Banks rated "B" possess strong intrinsic financial strength. Typically, they will be institutions with valuable and defensible business franchises, good financial fundamentals, and a predictable and stable operating environment.

Moody's appends numerical modifiers "1," "2" and "3" to each generic rating classification from "Aa" 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.

## Annual Information Form

### 2. Standard & Poor's, a division of The McGraw-Hill Companies, Inc. ("Standard & Poor's")

#### **A and 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 on the obligation is still strong.

#### **P2 (High) corresponds to 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.

#### **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.

#### **Plus (+) or minus (-)**

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

#### **A-1 (Mid)**

Short-term obligations rated "A-1 (Mid)" reflect a strong capacity for the obligor to meet its financial commitment on the obligation. Obligations rated "A-1 (Mid)" on the Canadian commercial paper rating scale would qualify for a rating of "A1" on Standard & Poor's global short-term rating scale.

### 3. Dominion Bond Rating Service Limited ("DBRS")

#### **Short-term debt**

The DBRS short-term debt rating scale is meant to give an indication of the risk that a borrower will not fulfill its near-term debt obligations in a timely manner. Every DBRS rating is based on quantitative and qualitative considerations relevant to the borrowing entity. Each rating category is denoted by the subcategories "high," "middle," and "low."

#### **R-1 (Middle)**

Short-term debt rated "R-1 (middle)" is of superior credit quality and, in most cases, ratings in this category differ from "R-1 (high)" credits by only a small degree. Given the extremely tough definition DBRS has established for the "R-1 (high)" category, entities rated "R-1 (middle)" are also considered strong credits, and typically exemplify above average strength in key areas of consideration for the timely repayment of short-term liabilities.

#### **A and A (Low)**

The DBRS long-term rating scales are meant to give an indication of the risk that a borrower will not fulfill its full obligations in a timely manner, with respect to both interest and principal commitments. Every DBRS rating is based on quantitative and qualitative considerations relevant to the borrowing entity. Each rating category is denoted by the subcategories "high" and "low." The absence of either a "high" or "low" designation indicates the rating is in the "middle" of the category. The "AAA" and "D" categories do not utilize "high," "middle" and "low" as different grades.

Long-term rated "A" is satisfactory credit quality. Protection of interest and principal is still substantial, but the degree of strength is less than that of "AA" rated entities. While "A" is a respectable rating, entities in this category are considered to be more susceptible to adverse economic conditions and have greater cyclical tendencies than higher-rated securities.

#### **Pfd-2 and Pfd-2n**

The DBRS preferred share rating scale is used in the Canadian securities market and is meant to give an indication of the risk that a borrower will not fulfill its full obligations in a timely manner, with respect to both dividend and principal commitments. Every DBRS rating is based on quantitative and qualitative considerations relevant to the borrowing entity. Each rating category is denoted by the subcategories "high" and "low." The absence of either a "high" or "low" designation indicates the rating is in the "middle" of the category.

## Annual Information Form

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 to companies whose senior bonds are rated in the “A” category.

The “n” designation will be attached to all ratings for securities that are non-cumulative. DBRS believes that the risk added under the non-cumulative covenant is a market risk and not a credit risk. This supports the DBRS view that ratings on equally ranking cumulative and non-cumulative securities should be the same, with the “n” used to alert subscribers to the additional potential for missed dividend payments that exist with non-cumulative issues, if default should occur.

### 4. Fitch Ratings Ltd. (“Fitch Ratings”)

#### **Short term FI**

A short term rating has a time horizon of less than 12 months for most obligations or up to three years for U.S. public finance securities, and thus places greater emphasis on the liquidity necessary to meet commitments in a timely manner. International credit ratings assess the capacity to meet foreign or local currency commitments. Both foreign and local currency ratings are internationally comparable assessments.

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

#### **Long term**

International credit ratings assess the capacity to meet foreign or local currency commitments. Both foreign and local currency ratings are internationally comparable assessments.

#### **A+**

High credit quality. An “A” rating denotes a low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.

#### **Individual**

Individual ratings are assigned only to banks. These ratings, which are internationally comparable, attempt to assess how a bank would be viewed if it were entirely independent and could not rely on external support. These ratings are designed to assess a bank’s exposure to, appetite for, and management of risk, and thus represent the view of Fitch Ratings regarding the likelihood that a bank would run into significant difficulties such that it would require support.

The principal factors analyzed to evaluate the bank and determine these ratings include profitability and balance sheet integrity (including capitalization), franchise, management, operating environment, and prospects. Finally, consistency is an important consideration, as is a bank’s size (in terms of equity capital) and diversification (in terms of involvement in a variety of activities in different economic and geographical sectors).

#### **B**

A “B” rating denotes a strong bank. There are no major concerns regarding the bank. Characteristics may include strong profitability and balance sheet integrity, franchise, management, operating environment or prospects.

#### **Support 2**

A “2” rating denotes a bank for which there is a high probability of external support. The potential provider of support is highly rated in its own right and has a high propensity to provide support to the bank in question. This probability of support indicates a minimum long-term rating floor of “BBB-.”

Annual Information Form dated January 18, 2006.



**YOUR TRUSTED PARTNER**

today and tomorrow

[www.nbc.ca](http://www.nbc.ca)