

FOREIGN EXCHANGE DISCLOSURE

July 2022

At National Bank of Canada ("NBC"), we strive on maintaining the highest standards in all our professional activities and commit to conducting business with ethics and integrity. This document¹ aims at providing our clients and other market participants ("counterparties") an understanding of our trading practices in the wholesale foreign exchange market.

NBC is committed to adhering to the principles set out in the FX Global Code (the "Code") which sets out globally recognized principles of good practice in the wholesale foreign exchange market and is designed to promote a robust, fair, liquid, open, and appropriately transparent market, to help build and maintain market confidence, and in turn, to improve market functioning.

The Code does not impose legal or regulatory obligations on market participants, nor does it substitute for regulation, but rather it is intended to serve as a supplement to any and all local laws, rules, and regulations by identifying global good practices and processes. NBC conducts its business in compliance with the principles set out in the Code, applicable laws, rules and regulations in each jurisdiction in which it does business.

1. Principal Trading

NBC transacts in the foreign exchange market with its counterparties as principal. As such, NBC will act at arm's-length with respect to transactions with counterparties. NBC does not act as agent, fiduciary, financial advisor or in any similar capacity on behalf of a counterparty and consequently does not assume any obligation that an entity acting in such capacity normally would have. Counterparties are expected to evaluate the appropriateness of any transaction based on factors including, but not limited to, its own circumstances, risk assessment and the appraisal of the transaction's merits.

2. Market Making

NBC acts as a market maker and, as such, maintains a portfolio of positions in inventory. NBC's positions are a result of NBC's own interests and of trades with or orders received from multiple counterparties which may have competing interests.

When NBC is requested to work a counterparty's order, NBC is indicating a

¹ This document may be updated from time to time in order to address changing regulatory, industry and other developments

willingness to enter into the trade at the price requested by the counterparty. NBC will exercise its discretion with care and diligence in deciding whether to work an order, which orders it would be willing to execute and when it would be willing to execute them, including whether to execute all or part of the order. As such, NBC's receipt of an order or any indication of working an order received from a counterparty does not create a contract between the counterparty and NBC.

While managing various trading interests from potentially competing counterparties, NBC will always strive to remain fair and reasonable. NBC has policies and controls to (i) mitigate and manage actual and potential conflicts of interest and (ii) detect actual or attempted market misconduct and market manipulation. Nonetheless, it's possible that NBC may trade prior to or alongside a counterparty's transaction or impending transaction in order to execute its own transactions or to facilitate executions with other counterparties, to manage risk, to source liquidity or for other reasons.

NBC's trading activities as a principal and a market maker may have an impact on the prices it offers a counterparty on a transaction and the availability of liquidity at levels necessary to execute the counterparty's order. These activities may unintentionally trigger or prevent from triggering stop-loss orders, barriers, knock-outs, knock-ins and similar conditions.

Unless otherwise stated, all quotes provided by NBC to a counterparty are inclusive of any markup ("all-in" prices) above the price at which NBC may be able to transact, expects to transact or has transacted, with other counterparties. The following factors may be taken into consideration for pricing an order,

including, but not limited to, the product being requested, the counterparty's creditworthiness, NBC's inventory strategy and overall risk management strategies, the overall client relationship and operational costs involved.

Based on the analysis of these factors, NBC may offer different prices to different counterparties for the same or fundamentally similar transactions. Counterparties should not assume that NBC has held, acquired, or would acquire inventory to execute the transaction at the order price level or that there exists a tradable market at that level. Furthermore, prices published by NBC are indicative and may be discontinued at anytime without prior notice.

For additional disclosure on order handling (including benchmark or window orders), please contact your relationship manager at NBC.

3. Communication

Counterparties may execute foreign exchange transactions with NBC over telephone and/or electronically. Orders or order cancellations will be considered received by NBC only when NBC acknowledges receipt of such order or cancellation. NBC is not responsible for any adverse market movement between the time a counterparty sends an order and the time the order is actually

accepted.

All communication channels used by NBC to execute transactions with counterparties are recorded, maintained, and may be monitored for compliance purposes.

4. Electronic Trading Activities and “Last Look” Practice

“Last Look” is a risk mitigating practice commonly utilized in bilateral electronic trading activities. When NBC receives an order it has a final opportunity to accept or reject the order based on several factors including, but not limited to, latency (time elapsed), prevailing market prices, the counterparty's available credit, market liquidity, NBC's own inventory and NBC's own internal risk limits. The analysis of these factors will start immediately upon receiving the order and a decision will be communicated following the completion of the review.

When reviewing prevalent market rates, NBC will determine if current market prices have moved beyond a pre-determined parameter. The same parameter applies to both buy and sell counterparty orders. If NBC determines that current market prices have moved beyond this parameter, NBC will reject the order irrespective of whether NBC would have incurred a gain or a loss had the order otherwise been accepted. The symmetrical parameter is subject to change at NBC's sole discretion and may vary by counterparty based on factors including,

but not limited to, connection type, trading platform used and trading behavior. NBC will not use the information obtained from the counterparty's order to undertake hedging activities prior to the acceptance of the order.

5. Information Handling and Market Color

Safeguarding the confidentiality and security of our counterparties' information is fundamental to how NBC conducts its business. NBC has many policies and controls that are intended to safeguard counterparties' confidential information. However, as part of its obligations as a regulated entity, NBC may be required to disclose counterparties' information. For example, NBC may disclose counterparty information (i) to regulators pursuant to its regulatory reporting obligations or (ii) in the course of regulatory investigations or legal proceedings.

NBC may share with counterparties its views on the general state of, and trends in, the market, also referred to as market color. As such, this type of communication is restricted to information that is aggregated and anonymized.

NBC analyzes all information pertaining to executed and attempted orders on an individual and aggregate basis for numerous reasons, including, but not limited to,



**NATIONAL
BANK**

FINANCIAL MARKETS

counterparty risk management, sales coverage, and counterparty relationship management.

Should you have any questions after reading this document, please contact FXdisclosure-info@bnc.ca.