



Revised Annual Information Form

This Revised Annual Information Form is filed on February 28, 2005 . It contains only one amendment to the Annual Information Form dated January 18, 2005: please see the section under the heading " Directors and Executive Officers - Cease trade orders and Bankruptcies" at page 6.

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, 2004; and
- the Management Proxy Circular dated as at December 29, 2004 ("Circular").

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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.

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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 2001-2002: The Bank strengthened its position in potentially lucrative markets through major partnership agreements and acquisitions, particularly that of Altamira, a Canadian mutual fund manager and distributor. In addition, the Bank significantly improved the quality of its lending portfolio as evidenced by the level of gross private impaired loans outstanding, which amounted to \$479 million as at October 31, 2002 compared to \$932 million as at October 31, 2001.

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.

Fiscal 2003-2004: The Bank posted record net income of \$725 million for fiscal 2003-2004. 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 Retail 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.

DESCRIPTION OF BUSINESS

EFFECTS OF ENVIRONMENTAL PROTECTION REQUIREMENTS

In order to minimize environmental risk, several years ago the Bank implemented a procedure setting out its environmental responsibilities when granting credit and taking possession of assets. To date, the risks involved have not had a material impact on the Bank's operations.

STRUCTURE OF SHARE CAPITAL AND MARKET FOR SECURITIES

Structure of Share Capital

The Bank's share capital consists of common shares and two series of First Preferred Shares, Series 13 and 15.

Stock exchange listings

The common shares of the Bank as well as the First Preferred Shares, Series 13 and 15 and the notes described below are listed on the Toronto Stock Exchange (the "TSX").

Issue or Class	Ticker Symbol	Newspaper Abbreviation
Common Shares	NA	Nat Bk or Natl Bk
First Preferred Shares		
Series 13	NA.PR.J	Nat Bk s13 or Natl Bk s13
Series 15	NA.PR.K	Nat Bk s15 or Natl Bk s15
Notes		
Nikkei 225 (2009)	NA.NT.J	
Nikkei 225 (2007)	NA.NT.K	

Common Shares

Holders of common shares of the Bank are entitled to one vote per share. They 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.

First Preferred Shares

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

- 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.
- Dividends**
 The 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, the 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.
- 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 on 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.

Series 13 (Series J) (NA.PR.J)

The First Preferred Shares, Series 13, are redeemable in cash at the Bank's option, subject to obtaining the consent of the Superintendent of Financial Institutions (Canada) and upon notice of not more than 60 and not less than 30 days, (i) on August 15, 2005 and on the last day of each period of five years plus one day thereafter (the "conversion date"), in whole at any time or in part from time to time, at a price of \$25 per share, plus all declared and unpaid dividends at the date fixed for redemption and, (ii) after August 15, 2005, other than on a conversion date, in whole but not in part, at a price equal to \$25.50 per share, plus all declared and unpaid dividends at the date fixed for redemption; holders of First Preferred Shares, Series 13 are entitled to receive non-cumulative preferential dividends, payable quarterly in an amount of \$0.40 per share for the first five years and variable thereafter.

They are convertible at the holder's option on August 15, 2005, or a subsequent conversion date, into fully paid First Preferred Shares, Series 14.

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.

Description of notes listed on the Toronto Stock Exchange

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

The Nikkei 225 Protected Index Notes (the "Notes") will mature on April 30, 2009 ("Maturity"). As at January 18, 2005, 1,300,000 Notes were issued at a price of \$10 per Note. The Notes may not be called for redemption by the Bank prior to Maturity. At Maturity, each holder of 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 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 Maturity (rounded down to the nearest cent). No interest will be paid on the Notes, if any, except at Maturity.

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

The Nikkei 225 Protected Index Notes (the "Notes") will mature on March 30, 2007 ("Maturity"). As at January 18, 2005, 1,000,000 Notes were issued at a price of \$10 per Note. The Notes may not be called for redemption by the Bank prior to maturity. At Maturity, each holder of 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 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 Maturity (rounded down to the nearest cent). No interest will be paid on the Notes, if any, except at Maturity.

Monthly prices of securities traded on stock exchanges during the fiscal year ended October 31, 2004

Common Shares (NA)

Date	High (\$)	Low (\$)	Volume
2004/10	48.78	43.65	7,902,487
2004/09	44.02	42.31	11,143,587
2004/08	45.20	42.82	5,701,403
2004/07	45.09	42.52	7,094,219
2004/06	44.84	42.65	8,474,074
2004/05	45.50	42.21	10,491,247
2004/04	47.99	42.72	9,173,737
2004/03	46.71	44.59	11,296,031
2004/02	45.87	43.40	14,264,231
2004/01	45.30	42.41	12,965,044
2003/12	43.48	40.40	12,645,238
2003/11	42.49	40.03	11,879,657

First Preferred Shares, Series 13 (NA.PR.J)

Date	High (\$)	Low (\$)	Volume
2004/10	26.45	25.55	165,496
2004/09	26.70	25.75	34,001
2004/08	26.61	26.25	70,153
2004/07	26.74	26.40	54,156
2004/06	26.69	26.51	387,360
2004/05	26.78	26.28	143,019
2004/04	27.20	26.25	378,620
2004/03	27.35	26.76	125,920
2004/02	27.35	27.01	507,420
2004/01	27.47	26.87	157,905
2003/12	27.33	26.96	18,435
2003/11	27.11	26.70	113,535

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

Date	High (\$)	Low (\$)	Volume
2004/10	27.00	26.18	110,596
2004/09	26.83	26.17	111,804
2004/08	26.85	26.30	126,850
2004/07	26.70	25.50	93,422
2004/06	26.00	25.50	507,189
2004/05	26.15	25.03	320,353
2004/04	27.87	25.25	659,115
2004/03	27.95	27.36	590,974
2004/02	27.85	27.10	118,486
2004/01	27.33	26.65	107,244
2003/12	27.49	26.41	92,832
2003/11	26.97	26.47	86,255

NIKKEI 225 NOTE (2009) (NA.NT.J)

Date	High (\$)	Low (\$)	Volume
2004/10	8.38	8.31	2,100
2004/09	8.35	8.15	6,946
2004/08	8.25	8.25	1,300

NIKKEI 225 NOTE (2007) (NA.NT.K)

Date	High (\$)	Low (\$)	Volume
2004/10	9.26	9.15	3,700
2004/09	9.20	9.05	19,400
2004/08	9.16	9.16	500

Deposit and Debenture Ratings

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

	National Bank of Canada
1. Moody's	
Short-Term	P-1
LT Bank Deposits	A1
LT Debt Senior	A1
LT Debt Subordinated	A2
Issuer Rating	A1
Financial Strength	B-
2. Standard & Poor's	
Short-Term Counterparty	A-1
Long-Term Counterparty	A
Senior Unsecured Debt	A
Subordinated Debt	A-
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+
3. DBRS	
Short-Term Instruments	R-1 (Low)
Deposits & Senior Debt	A
Subordinated Debt	A (Low)
Cumulative Preferred Shares	Pfd-2
Non-Cumulative Preferred Shares	Pfd-2n
4. Fitch/BCA	
Short-Term	F1
Long-Term	A+
Individual	B
Support	2

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, 2004 has been obtained from the respective rating organization's website and is outlined in Appendix A.

Number of Shareholders

As at October 31, 2004, there were 26,961 registered holders of common shares listed with the Registrar.

DIRECTORS AND EXECUTIVE OFFICERS**DIRECTORS**

Since November 1, 1999, the directors whose names appear on page 134 of the Annual Report have held the principal functions described in the "Election of Directors" section of the Circular and in the Management Proxy Circular dated January 22, 2004.

EXECUTIVE OFFICERS

Since November 1, 1999, the officers mentioned on pages 137 and 138 of the Annual Report 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, TD Bank Financial Group
Jean Blouin:	from 1998 to 2000, Manager – Investment and Interest Rate Department, <i>Fédération des caisses Desjardins du Québec</i>
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; from 2002-2003, 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.
René Collette:	from 1994 to 2000, Account Manager, New Brunswick, Royal Bank of Canada
Éric Girard:	from 1998 to 2000, Chief Trader, Financial Engineering Group, National Bank Financial
Marc Godin:	from 1997 to 2000, Chief Financial Officer, Western Europe, Telesystem Ltd.; from 2000 to 2001, Partner, IUGO Venture Inc.; and from 2001 to 2003, President, Marc Godin & Associés Inc.
Jacynthe Hotte:	from 1997 to 2002, Assistant Vice-President – Corporate Banking, National Bank of Canada; in 2002, Managing Director, Bank Financing, National Bank Financial
Lynn Jeannot:	from 1998 to 2002, Executive Director, Institute of Canadian Bankers
Alice Keung:	from 1999 to 2000, Senior Director – Commercial Business Units, Information Technology, Air Canada; and 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
Benoît Marcotte:	from 1994 to 2003, Senior Vice-President – Sales Management and Network Administration, National Bank Financial
Jacques Naud:	from 1996 to 2000, Regional Manager, Bank of Montreal
Luc Papineau:	from 1998 to 2001, Vice-President and Branch Manager, Merrill Lynch Canada Inc.
Ricardo Pascoe:	from 1996 to 2000, Managing Partner, Veritas Capital Management LLC, Greenwich, CT; 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; and from 2002 to 2003, Global Head of Markets, Commerzbank Securities, London, England
Greg A. Reed:	from 1997 to 2002, Director, McKinsey & Company; and from 2002 to 2003, Senior Director, McKinsey & Company
Chantale Reid:	from 1998 to 2001, MBA student and self-employed consultant; and from 2001 to 2002, Vice-President – Operations, MédiSolution Ltée
Kevin Smith:	from 1997 to 2001, Vice-President – Human Resources, GATX Rail Canada; and from 2001 to 2004, Manager – Employee Relations, Air Canada

SHAREHOLDINGS OF DIRECTORS AND EXECUTIVE OFFICERS

The Directors and Executive Officers of the Bank as a group beneficially own less than 1% of the outstanding common shares of the Bank.

CEASE TRADE ORDERS OR BANKRUPTCIES

To the knowledge of the Bank, no officer mentioned on pages 137 and 138 of the Annual Report of the Bank and no director mentioned on page 134 of the Annual Report of the Bank has been, in the 10 years prior to the date of this Annual Information Form, a director or an officer of any other company, that while that person was acting in that capacity, (a) was the subject of a cease trade or similar order or an order that denied it access to any exemption under securities legislation, for a period of more than 30 consecutive days, or (b) 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 assets of the director or officer, except for:

- Marcel Dutil, a director of the Bank, who was on the board of directors of Total Containment Inc. when it was placed under the protection of Chapter 11 of the *United States Bankruptcy Code* on March 4, 2004;
- E.A. (Dee) Parkinson-Marcoux, a director of the Bank until December 17, 2004, who was on the board of Southern Pacific Petroleum when it was placed in receivership in December 2003; and
- Paul Gobeil, a director of the Bank, was on the board of directors of BridgePoint International Inc. and of its wholly owned subsidiary, BridgePoint International (Canada) inc. until November 12, 2001. BridgePoint International (Canada) inc. made a proposal to its creditors on January 25, 2002 and BridgePoint International Inc. was advised by the Toronto Stock Exchange on January 31, 2002 that trading on its shares was suspended.

TRANSFER AGENT AND REGISTRAR

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

For any correspondence:

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

INTEREST OF EXPERTS

Samson Bélair/Deloitte & Touche, S.E.N.C.R.L. are the auditors who prepared the Auditors' Report and the report on Canadian generally accepted audit standards.

BOARD OF DIRECTORS AND ITS COMMITTEES

The main duty of the Board is to oversee the management of the Bank, safeguard its assets, and ensure its viability, profitability and development. To do so, it is assisted by three committees: the Audit and Risk Management Committee, the Conduct Review and Corporate Governance Committee, and the Human Resources Committee.

A summary of the mandate of the Board and its three committees is included in the Circular in the “Corporate Governance” section. In addition, the mandates of the Board and of the Audit and Risk Management Committee are reproduced below in their entirety. These mandates may be amended from time to time without prior notice. Consequently, we invite you to contact the Corporate Secretary’s Office of the Bank at 600 de La Gauchetière West, 4th Floor, Montreal, Quebec, Canada H3B 4L2 in order to obtain the most recent version of these mandates.

The composition of the Audit and Risk Management Committee, the description of the financial expertise of its members and a summary of the policies and procedures for awarding contracts for non-audit services offered by the external auditors are presented in the “Corporate Governance” section of the Circular. Moreover, the breakdown of the fees by category for the services offered by the external auditors is presented under the “Auditor Fees” section of the Circular.

Mandate of the Board

“1. Composition and Characteristics of the Board

- 1.1 The Board of Directors is composed of directors who possess extensive complementary knowledge, competencies and skills, as well as relevant expertise enabling them to make an active, informed and profitable contribution to the management of the Bank, the conduct of its business and the orientation of its development.
- 1.2 Directors have the necessary time and interest to perform their duties effectively.
- 1.3 Directors act with integrity and exercise impartial judgment in performing their duties and fulfilling their responsibilities. Directors are bound by the provisions of the Code of Professional Conduct and other rules of ethics applicable to directors, officers and employees of the Bank and its subsidiaries.

2. Independence of the Board

- 2.1 A majority of the members of the Board are directors who are not persons affiliated with the Bank, within the meaning of the *Bank Act* (hereinafter the “Act”) and are “unrelated directors” within the meaning of the applicable guidelines of the TSX.
- 2.2 The Board, either directly or through one of its committees, adopts structures and procedures to ensure the Board functions independently of management.
- 2.3 Directors are required to disclose any conflict of interest to the Chairman of the Board or to the Chair of the Conduct Review and Corporate Governance Committee.

3. Duties and Responsibilities

The Board of Directors oversees the management of the Bank either directly or through its committees. The responsibility of the Board is to safeguard the assets of the Bank, ensure its viability, profitability, sustainability and development, and obtain assurance that a control environment exists. The Board assigns responsibility for managing and directing the operations of the Bank to management. The Board expressly assumes the following functions:

Strategic Planning Process

- 3.1 Review, discuss and approve periodically the strategic plan through which the Bank establishes its mission, vision, business objectives and strategy, taking into account the opportunities and risks for the Bank, as well as the business plans relating to the main operations of the Bank.
- 3.2 Review and approve the business plans relating to the Bank’s main operations and update them regularly to ensure they remain appropriate and prudent given the Bank’s economic and business environment, its resources and its results.
- 3.3 Review the Bank’s actual operating and financial results in relation to projected results based on its business objectives, its strategic plan and its business plans.
- 3.4 Review and approve operating budgets.

Assessing Risks

- 3.5 Review and approve the overall risk philosophy and risk tolerance of the Bank, recognize and understand the major risks to which the Bank is exposed and ensure that appropriate systems are set up for effective management of those risks.
- 3.6 Require that management report on the major risks to which the Bank is exposed, the integrity of procedures and controls to manage those risks and the overall effectiveness of the risk management process.
- 3.7 Require that management adopt a process aimed at determining the Bank's appropriate level of capital in terms of the risks assumed.
- 3.8 Discuss and approve all the major policies of the Bank, particularly the rules pertaining to the acceptance, oversight, management and reporting of material risks to which the Bank is exposed as well as changes thereto with respect to risk management.
- 3.9 Approve the declarations and reports relating to compliance with Canada Deposit Insurance Corporation (CDIC) Standards of Sound Business and Financial Practices or any declaration required by other regulatory authorities.

Description of the Functions of the Chairman of the Board

- 3.10 Approve the description of the functions of the Chairman of the Board without directors who are members of management and the Chairman of the Board being present.

Succession Planning and Remuneration for Directors

- 3.11 Approve the appointment of any new nominee for election as director, review and approve directors' remuneration, the form of remuneration, and the allowances given to directors, and take charge of the succession planning process for the Board of Directors.

Assessing the Effectiveness of the Board of Directors

- 3.12 Assess the effectiveness of the Board and of its committees, based on a process implemented by the Conduct Review and Corporate Governance Committee.

Succession Planning for Senior Management

- 3.13 Select and evaluate the President and Chief Executive Officer, set his compensation, and ensure succession planning.
- 3.14 Approve the appointment of qualified and competent members of senior management, set their compensation, ensure their training and development, and plan their succession.

Hiring of Outside Advisors

- 3.15 The Board of Directors can retain the services of outside advisors, at the Bank's expense.

External Auditors

- 3.16 Recommend to the shareholders the appointment of the external auditors and approve their remuneration.

Communication and Disclosure

- 3.17 Approve policies on the communication and disclosure of information to shareholders, investors and the general public.
- 3.18 Ensure that measures are in place to receive feedback from Bank shareholders.

Integrity and Ethics

- 3.19 Ensure that the rules of conduct and ethics are maintained, in particular by adopting a code of professional conduct for directors, officers and employees of the Bank and its subsidiaries and ensure that the Bank has an ongoing, appropriate and effective process to guarantee compliance with these rules.
- 3.20 Require that management set up a compliance program to ensure that the Bank complies with the Act, applicable regulations and any other obligations.

Material Transactions

- 3.21 Discuss and approve any activity, contract or agreement of any nature whatsoever which is not compatible with the Bank's mission or does not fall within its normal course of business.
- 3.22 Review and approve policies with respect to major initiatives and activities.

Related Party Transactions

- 3.23 Approve any related party transaction under section 497 of the Act which would cause the aggregate of loans and guarantees granted by the Bank or its subsidiaries to such related party to exceed 2% of the Bank's regulatory capital.

Governance of Major Subsidiaries

- 3.24 Discuss and determine the structure and general corporate governance principles applicable to the Bank's major subsidiaries in order to enhance the effectiveness of the oversight carried out by the Bank's Board of Directors.
- 3.25 Ensure that procedures are in place for communication between the boards and committees of the Bank's main subsidiaries and those of the Bank.

Exclusive Powers

- 3.26 Approve all matters that the Act assigns exclusively to directors, in particular the approval of dividends and procedures to resolve conflicts of interest.

Residual Powers

- 3.27 Assume any responsibility not delegated to management.

4. Board CommitteesTypes of Committees

- 4.1 The Board is responsible for overseeing the management of the Bank and may set up the appropriate committees to assist it in this role.
- 4.2 The Board may review the types of committees from time to time, appoint members thereto, delegate the appropriate powers thereof and approve the mandate therefor.

Composition

- 4.3 The Board committees are composed of directors who are not members of management.
- 4.4 Candidates who have been Board members for at least one year are eligible to sit on a committee, unless otherwise decided by the Board of Directors.

Committee Mandates

- 4.5 Each Board committee has a mandate describing the role and responsibilities of the committee which is approved by the Board of Directors.
- 4.6 The mandates define the responsibilities of the committees and determine whether the committees are to make decisions or formulate recommendations to the Board.

Minutes of Committees

- 4.7 Each Board committee records the minutes of each committee meeting, which are subsequently made available to the Board.

Ad Hoc or Special Committees

- 4.8 The Board may, from time to time, set up appropriate *ad hoc* committees.

5. Expectations of the Board Regarding ManagementDuty to Report

- 5.1 Management is responsible for the day-to-day management of the Bank's operations pursuant to the powers delegated by the Board and in accordance with the laws and regulations applicable to the Bank.
- 5.2 Management facilitates the Board's oversight role regarding the business operations and internal administration of the Bank by submitting accurate, complete, relevant and timely information and reports to the members of the Board. Management must report to the Board by providing informed opinions regarding, for example, the Bank's main objectives, strategies, plans and policies."

Mandate of the Audit and Risk Management Committee

“1. Mission

- 1.1 The Audit and Risk Management Committee (the “Committee”) assists the Board of Directors by:
 - a) reviewing financial statements, 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 of Directors and the independent oversight functions (internal and external audit and compliance); and
 - c) carrying out a detailed review of risk management and the control methods used therefor.
- 1.2 The external auditors of the Bank are required to report directly to the Committee and to submit reports to the Board of Directors and to the Committee as representatives of the shareholders.
- 1.3 The Committee fulfills its responsibilities in place of the Board and the shareholders by assuming the functions set out in section 10 hereof.

2. Composition

- 2.1 The Committee is composed of no less than three members appointed annually by the Board of Directors from among the directors of the Bank.
- 2.2 A majority of the members of the Committee are directors who are not persons affiliated with the Bank within the meaning of the *Bank Act* (hereinafter “BA”) and all are “unrelated directors” within the meaning of the rules of the Toronto Stock Exchange (“TSX”).
- 2.3 Each of the members of the Committee is “independent” in accordance with Regulation 52-110 Respecting Audit Committees (“52-110”).
- 2.4 No officer or employee of the Bank or of a subsidiary of the Bank may be a member of the Committee.
- 2.5 Each of the Committee members is “financially literate” within the meaning of 52-110⁽¹⁾, and at least one member has “accounting or related financial expertise” within the meaning of the TSX rules⁽²⁾.

3. Chair

- 3.1 The Chair of the Committee is designated by the Board of Directors. If the designated Chair is unable to chair a meeting of the Committee, said Committee selects one of the members of the Committee present to act as Chair for that meeting.
- 3.2 Any member who has sat on the Committee for two years is eligible to become the Chair, unless otherwise decided by the Board of Directors.
- 3.3 The term of a Committee member appointed Chair of the Committee may not exceed four years, unless otherwise decided by the Board of Directors.
- 3.4 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 of Directors.

4. Secretary

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

5. Meetings and Calling of Meetings

- 5.1 Meetings of the Committee are held on the date and at the time and place set by the Board of Directors, and the members of the Committee are informed thereof annually and in writing, with no further notice required.
- 5.2 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 external auditors as well as 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 telephonic or electronic communication no less than 24 hours prior to the time and date set for the meeting.

(1) According to 52-110, “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) According to TSX rules, “accounting or related financial expertise” is the ability to analyze and interpret a full set of financial statements including the notes attached thereto, in accordance with Canadian generally accepted accounting principles.

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

- 5.3 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.
- 5.4 The external auditors are entitled to receive the notices calling meetings of the Committee, to attend the audit and risk management portions thereof and to be heard at such meetings.
- 5.5 The Committee may call a meeting of the Board of Directors to consider any matters that are of concern to the Committee.
- 5.6 The Committee members may meet in camera, as needed, under the direction of the Chair of the Committee.

6. *Quorum*

- 6.1 A majority of the Committee members constitutes a quorum.
- 6.2 Quorum shall exist for the entire meeting so that the Committee members may legitimately deliberate and make a decision. However, any director who is not present at any particular time during the meeting for the purposes of subsection 203(1) BA (disclosure of interest) shall be considered as attending for the purposes of quorum.
- 6.3 Subject to sections 6.1 and 6.2 above, the decisions made by the Committee concerning matters submitted for its consideration shall be made by a majority vote of the members present.

7. *Minutes*

- 7.1 The minutes of each meeting of the Committee are entered by the Secretary in a register specially held for such purpose.
- 7.2 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 of Directors, for information.
- 7.3 The Chair of the Committee makes an oral report on the deliberations of each meeting at a subsequent meeting of the Board of Directors.

8. *Vacancy*

- 8.1 A vacancy on the Committee is filled by the Board of Directors as it deems appropriate. Failure to fill a vacancy does not invalidate the decisions of the Committee, provided there is a quorum.

9. *Hiring of Outside Advisors*

- 9.1 The Committee has the following powers:
 - a) to engage independent legal counsel or other advisors as it determines necessary to carry out its duties;
 - b) to set and pay the compensation for any advisors employed by the Committee; and
 - c) to communicate directly with the internal and external auditors.

10. *Functions and Responsibilities*

The functions of the Committee are as follows:

10.1 *Audit*

Internal Control

- 10.1.1 Review, on an annual basis, the mandate of the internal audit function and ensure that it has the necessary resources to fulfill its mandate and the responsibilities established.
- 10.1.2 Require management to implement and maintain appropriate internal control procedures; review, evaluate and approve those procedures.
- 10.1.3 Review the effectiveness of the internal control policies and procedures of the Bank with the Senior Vice-President – Internal Audit or any officer or employee of the Bank acting in a similar capacity.
- 10.1.4 Review the internal auditors' reports on a quarterly or annual basis. Ensure that the necessary measures are taken to follow up the suggestions resulting from such report(s).
- 10.1.5 Take cognizance of the recommendations of management of the Bank with respect to the appointment or dismissal of the Senior Vice-President – Internal Audit or any officer or employee of the Bank acting in a similar capacity, and make the appropriate recommendations to the Board thereon.
- 10.1.6 Review and approve the annual internal audit plan and ensure the independence and effectiveness of this function.
- 10.1.7 Require that the internal audit function be free of all influences that might adversely affect its ability to assume its responsibilities in an objective manner.
- 10.1.8 Ensure cooperation between the internal and external auditors of the Bank.
- 10.1.9 Meet with the Senior Vice-President – Internal Audit of the Bank without management being present.

- 10.1.10 Review any document specified by the Superintendent of Financial Institutions and the recommendations made by regulatory authorities or the internal or external auditors and report thereon to the Board of Directors.

External Auditors

- 10.1.11 Be directly responsible for overseeing the work of the external auditors engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Bank, including the resolution of disagreements between management and the external auditors regarding financial reporting.
- 10.1.12 Make recommendations to the Board of Directors of the Bank regarding the appointment of external auditors and their remuneration.
- 10.1.13 Review and discuss the written report prepared by the external auditors detailing all factors that might have an impact on their independence and objectivity; recommend measures to be taken by the Board of Directors to ensure the independence of the external auditors.
- 10.1.14 Review the nature and scope of the work of the external auditors for the Bank as well as their remuneration.
- 10.1.15 Meet with the external auditors and management to discuss the annual financial statements, the documents required by the Superintendent or transactions that could adversely affect the financial well-being of the Bank.
- 10.1.16 Discuss with the external auditors the quality and acceptability of the accounting principles applied in financial reports.
- 10.1.17 Review the annual management letter on internal control from the external auditors of the Bank and ensure that measures subsequently taken by management are followed up.
- 10.1.18 Meet regularly with the external auditors of the Bank without management being present.
- 10.1.19 Assess the overall performance of the external auditors, including all audit and non-audit services, and analyze the impact of such services on the independence of the auditors.
- 10.1.20 Pre-approve all non-audit services to be provided to the Bank or its subsidiary entities by the external auditors, unless it has adopted specific policies and procedures to retain non-audit services and the following conditions have been met:
- a) the policies and procedures for pre-approval are detailed as to the targeted services;
 - b) the Committee is informed of each non-audit service; and
 - c) the procedures do not involve the delegation to management of Committee responsibilities.
- 10.1.21 Review and approve the hiring policies of the Bank with regard to partners, employees and former partners and employees of the present and former external auditors of the Bank.

Financial Reporting and Analysis

- 10.1.22 Review, on an annual basis, the mandate of the financial analysis function and ensure that it has the resources needed to carry out its mandate and the responsibilities established.
- 10.1.23 Review the quarterly and annual consolidated financial statements of the Bank, the corresponding Management's Discussion and Analysis and relevant news releases, and recommend approval thereof to the Board of Directors of the Bank prior to their publication. Review the unaudited financial statements of certain subsidiaries.
- 10.1.24 Review all investments and transactions that could adversely affect the financial well-being of the Bank, particularly when brought to its attention by the external auditors or management.
- 10.1.25 Review and recommend to the Board of Directors the approval of information documents containing earnings guidance or audited or unaudited financial information, notably the annual information form and news releases for the publication of quarterly and annual consolidated financial statements of the Bank.
- 10.1.26 Periodically ensure that adequate procedures are in place for the review of the Bank's public disclosure of financial information.
- 10.1.27 Obtain from management information about material changes introduced by organizations such as stock exchanges or the Canadian Securities Administrators and changes made to accounting principles and standards which could have an impact on the preparation and/or disclosure of the financial statements of the Bank and its subsidiaries and inform the Board of Directors accordingly, if applicable.
- 10.1.28 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 financial statements.
- 10.1.29 Meet with representatives of the Office of the Superintendent of Financial Institutions at the request of that organization and report to the Board of Directors.
- 10.1.30 Take cognizance of the minutes of the meetings of the Audit Committee of National Bank Financial Inc. and, if necessary, of any other Bank subsidiary with an audit committee.

Corporate Compliance

- 10.1.31 Review, on an annual basis, the mandate of the corporate compliance function and ensure that it has the resources needed to carry out its mandate and the responsibilities established.
- 10.1.32 Review management's annual report on the Bank's level of compliance with the BA, applicable regulations and any other obligations, and recommend approval thereof to the Board.
- 10.1.33 Review the annual report of the corporate compliance function on compliance at the Bank's subsidiaries.

10.2 Risk Management

- 10.2.1 Review, on an annual basis, the mandate of the risk management function and ensure that it has the resources needed to carry out its mandate and the responsibilities established.
- 10.2.2 Review the declarations and reports regarding compliance with the CDIC Standards of Sound Business and Financial Practices or any other declaration required by other regulatory authorities and recommend the approval thereof to the Board of Directors.
- 10.2.3 Require management to report to the Committee on the existence of a control environment⁽³⁾ 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 of Directors.
- 10.2.4 Require management to report to the Committee on the fact that the Bank is "in control," namely, 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 of Directors.

Risk Management

- 10.2.5 Identify the material risks to which the Bank is exposed.
- 10.2.6 Ensure that the risk management function has sufficient independence, status and visibility, and that it is reviewed periodically.
- 10.2.7 Review and recommend to the Board of Directors the adoption of policies for managing material risks, notably policies related to credit risk, market risk, structural risk, fiduciary risk and operational risk including outsourcing risk, and ensure that they are implemented. Review these policies at least once a year.
- 10.2.8 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 of Directors.

Capital, Liquidity and Funding Management

- 10.2.9 Identify the Bank's capital, liquidity and funding needs.
- 10.2.10 Review and recommend to the Board of Directors the adoption of liquidity and funding management and capital management policies. Review these policies at least once a year.
- 10.2.11 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 of Directors.

Credit

- 10.2.12 Subject to subsection 10.2.14 below, approve the credits of clients, by borrower and by group of borrowers, which exceed the powers delegated to Bank officers and which are defined in the credit risk management policies of the Bank.
- 10.2.13 Review and recommend to the Board of Directors, subject to the provisions set out in section 497 BA⁽⁴⁾, any transaction between the Bank and a related party as defined in the BA, 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*.

- (3) **Control environment:** The environment that results from the following factors: approach to governance, management style, organizational structure, resource commitments, communication style, procedures and controls and the level of adherence thereto, the conduct of personnel, and human resource policies and practices.
- (4) Any transaction with a related party must be approved by the Board of Directors 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.

- 10.2.14 Review changes in impaired loans, ensure that they are monitored and approve the taking of provisions for any impaired loans, according to the rules established in the Credit Risk Management Policy of the Bank.
- 10.2.15 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.
- 10.2.16 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 on the basis of management's recommendations.
- 10.2.17 Receive and examine the quarterly reports of the Bank on loan losses and non-performing loans.

10.3 Varia

- 10.3.1 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.
- 10.3.2 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* or any other applicable legislative or regulatory provision.
- 10.3.3 Exercise any other duty assigned to it by the Board of Directors and submit to it the recommendations it deems appropriate with respect to matters which fall within its purview."

ADDITIONAL INFORMATION

Additional information on the Bank is available on its website at www.nbc.ca and on the SEDAR website at www.sedar.com. Financial information on 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, 2004 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, 2004 enclosed with the Notice of the Annual Meeting of Shareholders dated January 13, 2005 for the meeting scheduled for March 2, 2005 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 West, 4th Floor, Montreal, Quebec, Canada H3B 4L2.

APPENDIX A – RATING DEFINITIONS

1. Moody's

Short Term – P-1

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

LT Debt Senior – A1

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

LT Debt Subordinated – 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.

LT Bank Deposits – Rating 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.

Financial Strength – Rating 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.

A “-” modifier will be appended to ratings above the “E” category to distinguish those banks that fall in intermediate categories.

Issuer Ratings 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.

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.

2. 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.

P-2 (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 “A-1” on Standard & Poor's global short-term rating scale.

3. DBRS

R-1 (Low)

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

Short term rated R-1 (Low) is of satisfactory credit quality. The overall strength and outlook for key liquidity, debt and profitability ratios is not normally as favourable as with higher rating categories, but these considerations are still respectable. Any qualifying negative factors that exist are considered manageable, and the entity is normally of sufficient size to have some influence in the industry.

A and A (Low)

The DBRS long-term rating scales 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.

Preferred shares rated Pfd-2 are 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.

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

Short term

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.

Short term F1

Highest credit quality. 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. "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 our view on the likelihood that it would run into significant difficulties such that it would require support.

The principal factors we analyze 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

The "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

The "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-."