



**NATIONAL
BANK**

FINANCIAL GROUP

2009

Annual Information Form

January 22, 2009

DISTRIBUTION NOTICE OF THIS ANNUAL INFORMATION FORM

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

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

- the Annual Report to Shareholders, including Management’s Discussion and Analysis, for the fiscal year ended October 31, 2008 (the “Annual Report”); and
- the Management Proxy Circular dated January 9, 2009 (the “Circular”).

The Annual Report and the Circular are available on the National Bank of Canada (the “Bank”) website at www.nbc.ca and on the System for Electronic Documents Analysis and Retrieval (SEDAR) website at www.sedar.com.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS IN THIS ANNUAL INFORMATION FORM

From time to time, the Bank makes written and oral forward-looking statements such as those contained in the *Major Economic Trends and Challenges* section and under *Medium-term Objectives* in the *Overview* section of the Annual Report, in other filings with Canadian regulators and in other communications. All such statements are made pursuant to the safe harbour provisions under the laws of Canada and the United States. These forward-looking statements include, among others, statements with respect to the economy (particularly the Canadian and American economy), market changes, observations regarding the Bank’s objectives and its strategies for achieving them, projected Bank returns and certain risks faced by the Bank. These forward-looking statements are typically identified by future or conditional verbs or words such as “may”, “could”, “should”, “would”, “will”, “project”, “suspect”, “outlook”, “believe”, “anticipate”, “estimate”, “expect”, “intend”, “plan” and words and expressions of similar import.

By their very nature, such forward-looking statements require the Bank to make assumptions and involve inherent risks and uncertainties, both general and specific. The Bank recommends that readers not place undue reliance on these statements, as a number of important factors, many of which are beyond the Bank’s control, could cause actual future results, conditions, actions or events to differ materially from the targets, projections, expectations, estimates or intentions expressed in the forward-looking statements. These factors include, but are not limited to, the management of credit, market and liquidity risks; the strength of the Canadian and United States economies and the economies of other countries in which the Bank conducts business; the impact of the movement of the Canadian dollar relative to other currencies, particularly the U.S. dollar; the effects of changes in monetary policy, including changes in interest rate policies of the Bank of Canada and the United States Federal Reserve; the effects of competition in the markets in which the Bank operates; the impact of changes in the laws and regulations governing financial services (including banking, insurance and securities) and tax laws; judicial decisions and legal proceedings; developments with respect to the restructuring proposal relating to asset-backed commercial paper (“ABCP”) and the impact of a potential failure of the restructuring on the Bank’s balance sheet and the likelihood that the Bank be subject to certain litigation and other related risks; liquidity in the ABCP market and the further deterioration in the credit spreads which may lead to impairment charges on the Bank’s ABCP holdings; the Bank’s ability to obtain accurate and complete information from its clients or counterparties; the Bank’s ability to successfully align its organization, resources and processes; its ability to complete strategic acquisitions and integrate them successfully; changes in the accounting policies and methods the Bank uses to report its financial condition, including uncertainties

associated with critical accounting assumptions and estimates; the Bank’s ability to recruit and retain key officers; operational risks, including risks related to the Bank’s reliance on third parties to provide components of the Bank’s business infrastructure as well as other factors that may affect future results, including changes in trade policies; development of new products and services; changes in estimates related to reserves; technological changes; unexpected changes in consumer spending and saving habits; natural disasters; the possible impact on the business from public health emergencies, conflicts, other international events, and other developments, including those related to the war on terrorism; and the Bank’s success in anticipating and managing the foregoing risks. A substantial amount of the Bank’s business involves making loans or otherwise committing resources to specific companies, industries or countries. Unforeseen events affecting such borrowers, industries or countries could have an adverse effect on the Bank’s financial results, businesses, financial condition or liquidity.

The foregoing list of risk factors is not exhaustive. Additional information about these factors can be found under *Risk Management* and *Factors That Could Affect Future Results* in the Annual Report. Investors and others who base themselves on the Bank’s forward-looking statements should carefully consider the above factors as well as the uncertainties they represent and the risk they entail. The Bank also cautions readers not to place undue reliance on these forward-looking statements. Except as required by law, the Bank does not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time, by it or on its behalf.

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

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MPC: Circular

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ABBREVIATIONS USED

ABCP	Asset-backed commercial paper
Act	<i>Bank Act</i> (Canada)
Annual Report	The Bank's annual report to shareholders, including Management's Discussion and Analysis, for the fiscal year ended October 31, 2008
ARMC	Audit and Risk Management Committee of the Board of Directors
Bank	National Bank of Canada
Board	Board of Directors of the Bank
Circular	Management Proxy Circular Pertaining to the Meeting
CSA	Canadian Securities Administrators
DBRS	DBRS Limited
Fitch Ratings	Fitch Ratings Ltd.
MD&A	Management's Discussion and Analysis for the fiscal year ended October 31, 2008
Meeting	Annual meeting of holders of common shares of National Bank of Canada taking place on Friday, February 27, 2009 at 10:00 a.m. (EST)
Moody's	Moody's Investors Services, Inc.
Nikkei 225 Notes (2009)	Nikkei 225 Protected Index Notes
ROE	Return on common shareholders' equity
SB/DT	Samson Bélair/Deloitte & Touche s.e.n.c.r.l.
SEDAR	System for Electronic Document Analysis and Retrieval
Standard & Poor's	Standard & Poor's, a division of The McGraw-Hill Companies, Inc.
Superintendent	The Superintendent of Financial Institutions (Canada)
TSX	The Toronto Stock Exchange

CORPORATE STRUCTURE

Name, Address and Incorporation

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

GENERAL DEVELOPMENT OF THE BUSINESS

Three Year History

Fiscal 2007-2008: The Bank posted net income of \$776 million for fiscal 2008 as against \$541 million for fiscal 2007. Diluted earnings per share were \$4.67 versus \$3.22 the previous year. ROE was 16.4% for fiscal 2008, compared to 11.5% for 2007. In 2008, the Bank recorded an after-tax charge of \$180 million attributable to the impact of ABCP, an after-tax restructuring charge of \$44 million, an after-tax charge of \$36 million pertaining to the write-off of tangible assets, a gain of \$57 million after taxes stemming from the combination of Montréal Exchange Inc. with TSX Group Inc. and a net gain of \$32 million on the sale of the Bank's subsidiary in Nassau. In 2007, an after-tax charge of \$381 million attributable to the impact of ABCP had been recorded as well as an after-tax restructuring charge of \$5 million resulting from the consolidation of Altamira's activities with those of the Bank and a \$6 million charge for the impairment in value of an intangible asset. Excluding these specified items for fiscal 2008 and 2007, net income increased by 2% to \$947 million in 2008; diluted earnings per share rose by 2% to \$5.75; ROE was 19.7%, at the upper end of the target range of 16% to 21%; the Tier 1 capital ratio was 9.4% under Basel II rules, higher than the 8.0% minimum targeted; finally, the dividend payout ratio was 43%, within the target range of 40% to 50%. The Personal and Commercial segment recorded sound growth in loan and deposit volumes, particularly in consumer loans and residential mortgages. Total revenues for the Wealth

Management segment were down, mainly due to the unfavourable market conditions and negative growth in asset value. Finally, the decline in revenues from the Financial Markets segment was primarily attributable to lower trading revenues and financial market fees, which were themselves linked to market conditions.

Fiscal 2006-2007: The Bank posted net income of \$541 million for fiscal 2007 as against \$871 million for fiscal 2006. Diluted earnings per share were \$3.22 versus \$5.13 the previous year. ROE was 11.5% for fiscal 2007, compared to 20.1% for 2006. In 2007, the Bank purchased \$2,138 million of ABCP to relieve its individual retail clients and certain other clients from the uncertainties related to the liquidity problem in this market. An after-tax charge, taking into account the resulting reduction in variable compensation, of \$365 million related to the adjustment of the value of ABCP was recorded. Excluding this specified item and certain others for 2006 and 2007, net income rose 9% to \$933 million in 2007; diluted earnings per share climbed 12% to \$5.65, exceeding the target range of 5% to 10%; ROE was 20.0%, at the upper end of the target range of 16% to 20%; the Tier 1 capital ratio stood at 9.0%, higher than the 8.5% minimum targeted; and the dividend payout ratio was 40%, at the lower end of the target range of 40% to 50%. The Personal and Commercial segment reported robust growth in retail loans, with the largest increases observed in consumer loans. Wealth Management also posted growth in net income, fuelled by the strength of retail brokerage, private investment management and mutual fund activities. At Financial Markets, higher trading revenues accounted for half of the increase in net income.

Fiscal 2005-2006: For fiscal 2006, the Bank posted record net income of \$871 million and met or exceeded all of its financial objectives. Diluted earnings per share amounted to \$5.13 in 2006, up from the \$4.90 recorded in 2005. Target growth for the Bank in 2006 was 5% to 10%, excluding certain results from 2005, such as the gain on the disposal of investments in South America and the reversal of the general allowance for credit risk. At \$5.05, diluted earnings per share in fiscal 2006, excluding the gain on the sale of shareholder management activities and the gain related to the MasterCard initial public offering, were 10% higher than in the previous fiscal year. ROE was 20.1%, higher than the target range of 16% to 18%. The Tier 1 capital ratio was 9.9% as at October 31, 2006, meeting the objective of a ratio greater than 8.5%. The dividend payout ratio of 38% was within the target range of 35% to 45% of net income. All of the Bank's business segments contributed to net income growth. Personal and Commercial Banking posted 8% net income growth, thanks to the strong increase in consumer loans and commercial loans and deposits. The segment also grew its insurance and foreign exchange revenues, and improved its efficiency ratio, while credit losses were up slightly. Wealth Management saw its net income leap 29% from its 2005 level, driven by private investment management and mutual fund revenues, together with a significant improvement in productivity. Net income for the Financial Markets segment was 16% higher than in the previous year, mainly because of higher gains on securities and a reduction in the efficiency ratio. Lastly, credit quality remained excellent in 2006 while specific credit losses stood relatively at the same level as in 2005 and gross impaired loans declined 10%.

DESCRIPTION OF THE BUSINESS

Environmental Policies

For several years, the Bank and its subsidiaries have been redoubling their efforts to manage the impact of their activities on the environment. Accordingly, they have adopted various environmentally friendly practices and programs notably aimed at reducing the amount of energy, paper and materials they use, increasing the amount recovered and recycled, limiting waste and minimizing the environmental impact of space planning projects.

In order to protect and enhance the quality of the environment, the Bank, together with its subsidiaries, has also supported companies in the environment sector by providing them with financing, and has contributed, through donations and sponsorships, to non-profit environmental organizations.

Through its environmental policy, a subsidiary of the Bank, National Bank Realty Inc., in its role as building manager, has committed to operate the buildings it manages in a sound manner and in accordance with recognized standards and current regulations. This subsidiary has committed to take the necessary actions to improve its environmental performance at every level and promote exemplary environmental practices to all its partners, suppliers and employees.

Effects of Environmental Protection Requirements

Over the past few years, the Bank, as well as certain of its subsidiaries, has incorporated environmental criteria into its credit policies and introduced controls to ensure that property taken as security by the Bank conforms to environmental standards. These policies notably cover the management of environmental risks associated with credit granting and the possession of contaminated assets, as well as set out the protective measures to be taken to identify and mitigate potential environmental risks, both now and in the future. Accordingly, all housing development financing applications undergo various stages of analysis, including an environmental-impact analysis based on the specific case. To date, the risks involved have not had a material impact on the Bank's operations.

DIVIDENDS

In their last three fiscal years, the following subsidiaries of the Bank declared dividends to the benefit of shareholders that are neither subsidiaries of the Bank nor the Bank itself:

Natcan Investment Management Inc.

Share Class/Series	Dividend per share (2008 Fiscal Year*)	Dividend per share (2007 Fiscal Year*)	Dividend per share (2006 Fiscal Year*)
Class A Common	\$16.21	\$10.57	\$11.08
Class D Common	\$961.948	N/A	N/A

* Ended October 31. Class D Common shares were created on December 21, 2007.

National Bank Group Inc.

Share Class/Series	Dividend per share (2008 Fiscal Year*)	Dividend per share (2007 Fiscal Year*)	Dividend per share (2006 Fiscal Year*)
Class A Preferred, Series 1	\$0.27704560	\$0.3281400	\$0.2958936
Class A Preferred, Series 2	\$0.02770456	\$0.03281400	\$0.02958936
Class A Preferred, Series 3	\$0.02770456	\$0.03281400	\$0.02958936
Class A Preferred, Series 4	\$0.02770456	\$0.03281400	\$0.02958936
Class A Preferred, Series 5	\$0.03463070	\$0.0410175	\$0.0369867
Class B Preferred, Series 1	\$0.27704560	\$0.3281400	\$0.2958936
Class B Preferred, Series 2	\$0.02770456	\$0.03281400	\$0.02958936
Class B Preferred, Series 3	\$0.02770456	\$0.03281400	\$0.02958936
Class B Preferred, Series 4	\$0.02770456	\$0.03281400	\$0.02958936
Class B Preferred, Series 5	\$0.03463070	\$0.0410175	\$0.0369867

* Ended November 30.

NB Capital Corporation

Share Class/Series	Dividend per share (2008 Fiscal Year*)	Dividend per share (2007 Fiscal Year*)	Dividend per share (2006 Fiscal Year*)
Adjustable Rate Cumulative Senior Preferred Shares	US \$183.50	US \$270.00	US \$251.12
8.35 % Non-cumulative Exchangeable Preferred Stock, Series A	US \$62.63	US \$83.50	US \$83.50

* Ended December 31. NB Capital Corporation was liquidated on October 31, 2008 and dissolved on November 3, 2008. The dividend amount is for the period up to the dissolution date.

Le Fonds d'Investissement Actions-Croissance PME inc.

Share Class/Series	Dividend per share (2008 Fiscal Year*)	Dividend per share (2007 Fiscal Year*)	Dividend per share (2006 Fiscal Year*)
Class A, Series 1	–	–	\$0.856
Class A, Series 93	–	–	\$0.856
Class A, Series 94	–	–	\$0.856
Class A, Series 95	–	–	\$0.856
Class A, Series 96	–	–	\$0.856
Class A, Series 97	–	–	\$0.856
Class A, Series 98	–	–	\$0.856
Class A, Series 99	–	–	\$0.856
Class A, Series 2000	–	–	\$0.856
Class A, Series 2001	–	–	\$0.856
Class A, Series 2002	–	–	\$0.856
Class A, Series 2003	–	–	\$0.856
Class A, Series 2005	–	–	\$0.856
Class A, Series 2006	–	–	\$0.856
Class A, Series 2007	–	–	N/A
Class A, Series 2008	–	N/A	N/A
Class A, Series D	–	–	\$0.856
Class A, Series D2	–	N/A	N/A

* Ended December 31.

National Bank Funds Corporation

Share Class/Series	Dividend per share (2008 Fiscal Year*)	Dividend per share (2007 Fiscal Year*)	Dividend per share (2006 Fiscal Year*)
National Bank Strategic Yield Class, Investor and Advisor Series	\$2.228132	\$1.187749	\$1.121092
National Bank Strategic Yield Class, Institutional Series	\$2.262707	\$1.203631	\$1.132182
National Bank Strategic Yield Class, M Series	\$2.285382	\$1.214163	\$1.140039

*Ended September 30.

NBC Capital Trust

Share Class/Series	Dividend per unit (2008 Fiscal Year*)	Dividend per unit (2007 Fiscal Year*)	Dividend per unit (2006 Fiscal Year*)
NBC CapS – series 1	\$53.29	\$53.29	\$ 28.835

*Ended December 31.

NBC Asset Trust

Share Class/Series	Dividend per unit (2008 Fiscal Year*)	Dividend per unit (2007 Fiscal Year*)	Dividend per unit (2006 Fiscal Year*)
NBC CapS II – series 1	\$67.89	N/A	N/A
NBC CapS II – series 2	\$37.235	N/A	N/A

*Ended December 31.

SHARE CAPITAL STRUCTURE

As at October 31, 2008, the Bank's share capital consisted of an unlimited number of common shares without par value, which may be issuable for a maximum aggregate consideration determined by the Board, and an unlimited number of First Preferred Shares without par value, which may be issuable for a maximum aggregate consideration of \$5,000,000,000 or the equivalent thereof in foreign currencies, issued in several series (Series 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25, 26 and 27). The Bank's share capital also consisted of 15,000,000 Second Preferred Shares without par value, which may be issuable for a maximum aggregate consideration of \$300,000,000. Each of these classes and series is described below. The following summary of share capital is qualified in its entirety by the Bank's by-laws and the actual terms and conditions of such shares.

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 Board determines. In the event of the liquidation, dissolution or winding-up of the Bank, after payment to the holders of First Preferred Shares and to the holders of Second Preferred Shares of the amounts described under "First Preferred Shares" and under "Second Preferred Shares", respectively, the remaining property of the Bank will be distributed rateably among the holders of common shares.

As at October 31, 2008, there were 24,354 registered holders of common shares of the Bank in the Bank's register.

First Preferred Shares

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

Issuance in Series

First Preferred Shares may be issued from time to time in one or more series. The Board 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

Holders of First Preferred Shares are entitled to receive dividends in such amounts and payable at such times as the Board determines. In respect of dividends, holders of any series of First Preferred Shares have priority over the holders of common shares, Second Preferred Shares or any other class of shares of the Bank ranking junior to the First Preferred Shares. Holders of any series of First Preferred Shares are not entitled to any dividends other than those expressly provided for in the rights, privileges, restrictions and conditions attached to such series of First Preferred Shares.

Liquidation, Dissolution or Winding-Up

In the event of the liquidation, dissolution or winding-up of the Bank, before any amount is paid or any property distributed to the holders of common shares, to the holders of Second Preferred 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 First Preferred Shares of the amounts so payable to them, they may not participate in any further distribution of the property or assets of the Bank.

Voting Rights

Holders of First Preferred Shares do not, as such, have any voting rights for the election of directors of the Bank, the appointment of external auditors, or for any purpose other than that prescribed by law, nor shall they be entitled to receive any notice of or attend shareholder meetings.

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

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

Subject to the consent of the Superintendent, since May 15, 2008, the Bank may, at its option, redeem for cash the First Preferred Shares, Series 15 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.

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, on the 15th day of February, May, August and November of each year, at a quarterly rate equal to \$0.365625 per share.

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

Subject to the consent of the Superintendent, 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.

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, at a quarterly rate equal to \$0.303125 per share.

Series 17

The First Preferred Shares, Series 17 are part of the Bank's authorized share capital, but no share in this series had been issued or traded as at October 31, 2008. Subject to the consent of the Superintendent, the Bank may, at its option, redeem for cash the First Preferred Shares, Series 17 on or after June 30, 2011, in whole or in part, at any time at a price equal to \$26.00 per share if they are redeemed on or prior to June 30, 2012, at \$25.75 per share if they are redeemed during the 12 months prior to June 30, 2013, inclusively, at \$25.50 per share if they are redeemed during the 12 months prior to June 30, 2014, inclusively, at \$25.25 per share if they are redeemed during the 12 months prior to June 30, 2015, inclusively, and at \$25.00 per share if they are redeemed after June 30, 2015, in each case together with all declared and unpaid dividends thereon up to the date fixed for redemption.

Holders of First Preferred Shares, Series 17 will be entitled to receive a semi-annual non-cumulative preferential cash dividend, as and when declared by the Board, on the last day of June and the last day of December of each year, at a rate equal to \$0.469 per share.

Series 18

The First Preferred Shares, Series 18 are part of the Bank's authorized share capital, but no share in this series had been issued or traded as at October 31, 2008. Subject to the consent of the Superintendent, the Bank may, at its option, redeem for cash the First Preferred Shares, Series 18 on or after June 30, 2011, in whole or in part, at any time at a price equal to \$26.00 per share if they are redeemed on or prior to June 30, 2012, at \$25.75 per share if they are redeemed during the 12 months prior to June 30, 2013, inclusively, at \$25.50 per share if they are redeemed during the 12 months prior to June 30, 2014, inclusively, at \$25.25 per share if they are redeemed during the 12 months prior to June 30, 2015, inclusively, and at \$25.00 per share if they are redeemed after June 30, 2015, in each case together with all declared and unpaid dividends thereon up to the date fixed for redemption.

Holders of First Preferred Shares, Series 18 will be entitled to receive a semi-annual non-cumulative preferential cash dividend, as and when declared by the Board, on the last day of June and the last day of December of each year, at a rate equal to \$0.60 per share.

Series 19

The First Preferred Shares, Series 19 are part of the Bank's authorized share capital, but no share in this series had been issued or traded as at October 31, 2008. Subject to the provisions of the Act, including obtaining the consent of the Superintendent, the Bank may, at its option, redeem for cash the First Preferred Shares, Series 19 on or after June 30, 2013, in whole or in part, at any time at a price equal to \$26.00 per share if they are redeemed on or prior to June 30, 2014, at \$25.75 per share if they are redeemed during the 12 months prior to June 30, 2015, inclusively, at \$25.50 per share if they are redeemed during the 12 months prior to June 30, 2016, inclusively, at \$25.25 per share if they are redeemed during the 12 months prior to June 30, 2017, inclusively, and at \$25.00 per share if they are redeemed after June 30, 2017, in each case together with all declared and unpaid dividends thereon up to the date fixed for redemption.

Holders of First Preferred Shares, Series 19 will be entitled to receive a semi-annual non-cumulative preferential cash dividend, as and when declared by the Board, on the last day of June and the last day of December of each year, at a rate equal to \$0.6875 per share, subject to certain adjustments.

Series 20 (Series M) (NA.PR.M)

Subject to the provisions of the Act, including obtaining the consent of the Superintendent, the Bank may, at its option, redeem for cash the First Preferred Shares, Series 20 on or after May 15, 2013, in whole or in part, at any time at a price equal to \$26.00 per share if they are redeemed during the 12 months prior to May 15, 2014, at \$25.75 per share if they are redeemed during the 12 months prior to May 15, 2015, at \$25.50 per share if they are redeemed during the 12 months prior to May 15, 2016, at \$25.25 per share if they are redeemed during the 12 months prior to May 15, 2017, and at \$25.00 per share if they are redeemed on or after May 15, 2017, in each case together with all declared and unpaid dividends thereon up to the date fixed for redemption.

Holders of First Preferred Shares, Series 20 are entitled to receive a quarterly non-cumulative preferential cash dividend, as and when declared by the Board, on the 15th day of February, May, August and November of each year, at a quarterly rate equal to \$0.375 per share.

Series 21 (Series N) (NA.PR.N)

Subject to the provisions of the Act, including obtaining the consent of the Superintendent, the Bank may, at its option, redeem for cash the First Preferred Shares, Series 21 on August 16, 2013 and on August 16 every five years thereafter, in whole or in part, at a price equal to \$25.00 per share, together with all declared and unpaid dividends thereon up to the date fixed for redemption.

Holders of First Preferred Shares, Series 21 are entitled to receive a fixed quarterly non-cumulative preferential cash dividend, as and when declared by the Board, on the 15th day of February, May, August and November of each year, at a quarterly rate equal to \$0.33594 per share.

Holders of First Preferred Shares, Series 21 will be entitled at their option to convert their shares to First Preferred Shares, Series 22, subject to certain conditions, on August 16, 2013 and on August 16 every five years thereafter.

Series 22

The First Preferred Shares, Series 22 are part of the Bank's authorized share capital, but no share in this series had been issued or traded as at October 31, 2008. Subject to the provisions of the Act, including obtaining the consent of the Superintendent, on not more than 60 nor less than 30 days' notice, the Bank may, at its option, redeem for cash the First Preferred Shares, Series 22, in whole or in part, at a price equal to \$25.00 per share on August 16, 2008 and on August 16 every five years thereafter, or at \$25.50 per share on any other date on or after August 16, 2013, in each case together with all declared and unpaid dividends thereon up to the date fixed for redemption.

Holders of First Preferred Shares, Series 22 will be entitled to receive a floating rate quarterly non-cumulative preferential cash dividend determined based on the Treasury Bill rate, as and when declared by the Board, on the 15th day of February, May, August and November of each year, in the amount per share determined by multiplying the applicable floating quarterly dividend rate by \$25.00.

Series 23

The First Preferred Shares, Series 23 are part of the Bank's authorized share capital, but no share in this series had been issued or traded as at October 31, 2008. Subject to the provisions of the Act, including obtaining the consent of the Superintendent, the Bank may, at its option, redeem for cash the First Preferred Shares, Series 23 on or after July 31, 2013, in whole or in part, at any time at a price equal to \$26.00 per share if they are redeemed on or prior to June 30, 2014, at \$25.75 per share if they are redeemed during the 12 months prior to June 30, 2015, inclusively, at \$25.50 per share if they are redeemed during the 12 months prior to June 30, 2016, inclusively, at \$25.25 per share if they are redeemed during the 12 months prior to June 30, 2017, inclusively, and at \$25.00 per share if they are redeemed after June 30, 2017, in each case together with all declared and unpaid dividends thereon up to the date fixed for redemption.

Holders of First Preferred Shares, Series 23 will be entitled to receive a semi-annual non-cumulative preferential cash dividend, as and when declared by the Board, on the last day of June and the last day of December of each year, at a rate equal to \$0.75 per share, subject to certain adjustments.

Series 24 (Series O) (NA.PR.O)

Subject to the provisions of the Act, including obtaining the consent of the Superintendent, the Bank may, at its option, redeem for cash the First Preferred Shares, Series 24 on February 15, 2014 and on February 15

every five years thereafter, in whole or in part, at a price equal to \$25.00 per share, together with all declared and unpaid dividends thereon up to the date fixed for redemption.

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

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

Series 25

Subject to the provisions of the Act, including obtaining the consent of the Superintendent, on not more than 60 nor less than 30 days' notice, the Bank may, at its option, redeem for cash the First Preferred Shares, Series 25, in whole or in part, at a price equal to \$25.00 per share on February 15, 2019 and on February 15 every five years thereafter, or at \$25.50 per share on any other date on or after February 15, 2014, in each case together with all declared and unpaid dividends thereon up to the date fixed for redemption.

Holders of First Preferred Shares, Series 25 will be entitled to receive a floating quarterly non-cumulative preferential cash dividend, as and when declared by the Board, on the 15th day of February, May, August and November of each year, in the amount per share determined by multiplying the interest rate, equal to the sum of the Treasury Bill rate, subject to certain conditions, on the calculation date plus 4.63%, by \$25.00, calculated on the basis of the number of days elapsed in the period.

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

Series 26

The First Preferred Shares, Series 26 are part of the Bank's authorized share capital, but no share in this series had been issued or traded as at October 31, 2008. The First Preferred Shares, Series 26 will be issued following the closing of the offering announced on January 22, 2009. Subject to the provisions of the Act, including obtaining the consent of the Superintendent, the Bank may, at its option, redeem for cash the First Preferred Shares, Series 26 on February 15, 2014 and on February 15 every five years thereafter, in whole or in part, at a price equal to \$25.00 per share, together with all declared and unpaid dividends thereon up to the date fixed for redemption.

Holders of First Preferred Shares, Series 26 will be entitled to receive a fixed quarterly non-cumulative preferential cash dividend, as and when declared by the Board, on the 15th day of February, May, August and November of each year, at an annual rate equal to \$1.65 per share, during the initial period ending February 15, 2014. Thereafter, holders of First Preferred Shares, Series 26 will be entitled to receive a fixed quarterly non-cumulative

preferential cash dividend, as and when declared by the Board, on the 15th day of February, May, August and November of each year, in the amount per share per annum determined by multiplying the interest rate, equal to the sum of the Government of Canada yield on the calculation date plus 4.79%, by \$25.00.

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

Series 27

The First Preferred Shares, Series 27 are part of the Bank's authorized share capital, but no share in this series had been issued or traded as at October 31, 2008. Subject to the provisions of the Act, including obtaining the consent of the Superintendent, on not more than 60 nor less than 30 days' notice, the Bank may, at its option, redeem for cash the First Preferred Shares, Series 27, in whole or in part, at a price equal to \$25.00 per share on February 15, 2019 and on February 15 every five years thereafter, or at \$25.50 per share on any other date on or after February 15, 2014, in each case together with all declared and unpaid dividends thereon up to the date fixed for redemption.

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

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

Second Preferred Shares

The Second Preferred Shares are part of the Bank's authorized share capital, but no share in this class had been issued or traded as at October 31, 2008. The Second Preferred Shares carry and are subject to the rights, privileges, restrictions and conditions set out below:

Rank

The Second Preferred Shares rank before the common shares and the shares of all other classes of shares of the Bank that rank junior to the Second Preferred Shares, but rank junior to the First Preferred Shares with regard to dividends and reimbursement of capital in the event of the liquidation, dissolution or winding-up of the Bank.

Issuance in Series

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

Dividends

Holders of Second Preferred Shares will be entitled to receive dividends in such amounts and payable at such times as the Board determines. With respect to dividends, holders of any series of Second Preferred Shares have priority over the holders of common shares or any other class of shares of the Bank ranking junior to the Second Preferred Shares. The holders of any series of Second Preferred Shares are not entitled to any dividends other than those expressly provided for in the rights, privileges, restrictions and conditions attached to such series of Second Preferred Shares.

Liquidation, Dissolution or Winding-Up

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

Voting Rights

Holders of Second Preferred Shares do not, as such, have any voting rights for the election of directors of the Bank, the appointment of external auditors, or for any purpose other than that prescribed by law, nor shall they be entitled to receive any notice of or attend shareholder meetings.

MARKET FOR SECURITIES

Trading Price and Volume

The common shares, the First Preferred Shares, Series 15, 16, 20, 21, 24 and 25, and the Nikkei 225 (2009) notes of the Bank (described below) are listed on the TSX in Canada. The First Preferred Shares, Series 17, 18, 19, 22 and 23, and the Second Preferred Shares are part of the Bank's authorized share capital, but no shares of these series or of that class had been issued or traded as at October 31, 2008.

<u>Issue or Class</u>	<u>Ticker Symbol</u>	<u>Newspaper Abbreviation</u>
Common Shares	NA	Nat Bk or Natl Bk
First Preferred Shares		
Series 15	NA.PR.K	Nat Bk s15 or Natl Bk s15
Series 16	NA.PR.L	Nat Bk s16 or Natl Bk s16
Series 20	NA.PR.M	Nat Bk s20 or Natl Bk s20
Series 21	NA.PR.N	Nat Bk s21 or Natl Bk s21
Series 24	NA.PR.O	Nat Bk s24 or Natl Bk s24
Nikkei 225 Notes (2009)	NA.NT.J	

The following tables show the monthly price ranges and trading volumes of each of the Bank's securities listed on the TSX for fiscal 2008. The First Preferred Shares, Series 24 and 25 were listed on the TSX on January 14, 2009. The First Preferred Shares, Series 26 and 27 will be listed on the TSX following the closing of the offering announced on January 22nd, 2009.

Common shares (NA)

Date	High	Low	Volume
2008/10	\$50.98	\$38.00	22,104,910
2008/09	\$54.58	\$46.27	33,457,591
2008/08	\$52.84	\$46.61	12,603,839
2008/07	\$52.67	\$44.65	16,410,966
2008/06	\$55.39	\$49.97	15,776,471
2008/05	\$54.79	\$51.58	11,996,697
2008/04	\$54.21	\$47.60	12,958,815
2008/03	\$50.47	\$43.60	18,615,438
2008/02	\$53.60	\$48.26	11,947,810
2008/01	\$52.48	\$44.51	13,735,907
2007/12	\$55.20	\$49.51	10,255,033
2007/11	\$54.60	\$49.01	17,807,847

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

Date	High	Low	Volume
2008/10	\$23.50	\$20.00	335,467
2008/09	\$24.00	\$23.39	243,841
2008/08	\$23.69	\$22.92	156,088
2008/07	\$23.74	\$22.60	156,544
2008/06	\$24.84	\$23.45	77,013
2008/05	\$24.91	\$24.27	260,413
2008/04	\$24.99	\$24.50	186,400
2008/03	\$25.47	\$24.62	103,693
2008/02	\$25.96	\$25.18	71,153
2008/01	\$25.74	\$24.31	104,838
2007/12	\$25.19	\$24.21	146,169
2007/11	\$25.29	\$23.01	230,947

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

Date	High	Low	Volume
2008/10	\$20.20	\$16.00	177,299
2008/09	\$20.26	\$19.77	166,639
2008/08	\$20.28	\$18.50	378,738
2008/07	\$20.29	\$17.70	199,370
2008/06	\$20.89	\$19.25	192,052
2008/05	\$21.59	\$20.49	210,659
2008/04	\$21.22	\$20.29	164,137
2008/03	\$22.25	\$20.41	242,105
2008/02	\$22.99	\$22.10	119,631
2008/01	\$25.00	\$21.55	189,779
2007/12	\$21.99	\$20.11	461,347
2007/11	\$21.45	\$19.65	451,484

First Preferred Shares, Series 20 (NA.PR.M)

Date	High	Low	Volume
2008/10	\$24.92	\$21.05	84,588
2008/09	\$25.05	\$24.31	115,571
2008/08	\$24.90	\$24.00	76,197
2008/07	\$25.09	\$23.25	106,067
2008/06	\$25.15	\$24.50	259,609
2008/05	\$25.49	\$24.96	192,683
2008/04	\$25.02	\$24.80	653,427

First Preferred Shares, Series 21 (NA.PR.N)

Date	High	Low	Volume
2008/10	\$25.49	\$22.55	311,620
2008/09	\$25.73	\$25.00	87,859
2008/08	\$25.93	\$25.30	105,249
2008/07	\$25.99	\$24.80	165,820
2008/06	\$25.07	\$24.80	422,864

Nikkei 225 Notes (2009) (NA.NT.J)

Date	High	Low	Volume
2008/10	\$9.85	\$9.45	12,100
2008/09	\$9.77	\$9.75	19,300
2008/08	\$9.80	\$9.70	34,400
2008/07	\$9.75	\$9.63	6,300
2008/06	\$9.67	\$9.60	10,600
2008/05	\$9.79	\$9.51	20,500
2008/04	\$9.65	\$9.25	23,050
2008/03	\$9.60	\$9.27	15,400
2008/02	\$9.70	\$9.42	5,133
2008/01	\$9.55	\$9.50	3,200
2007/12	\$9.79	\$9.26	1,950
2007/11	\$10.05	\$9.70	7,600

The following tables show the monthly price ranges and trading volumes of each of the Bank's securities listed on the Luxembourg Stock Exchange and traded in fiscal 2008.

Floating-rate bond (NatBank Canada 88-87 31/08s)

Date	High	Low	Volume
2007/12	US \$77.50	US \$77.50	nil

Floating-rate bond (NatBank Canada 03-08 29/08t)

This security has matured and was delisted from the Luxembourg Stock Exchange on February 28, 2008.

Date	High	Low	Volume
2008/01	€100.04	€100.04	nil
2007/12	€100.05	€99.97	nil
2007/11	€100.05	€100.05	nil

Floating-rate bond (NatBank Canada 04-09 14/10t)

Date	High	Low	Volume
2007/11	£100.05	£100.05	nil

Floating-rate bond (NatBankCanada 08-09 28/11t)

This security was listed on the Luxembourg Stock Exchange on May 30, 2008.

Date	High	Low	Volume
2008/05	US \$100	US \$100	nil

Notes

The table below provides the ratings assigned to the Bank's outstanding securities by the following approved rating organizations as at October 31, 2008:

Moody's

Short-Term
Long-Term Bank Deposit
Long-Term Senior Debt
Long-Term Subordinated Debt
Issuer Rating
Financial Strength
Preferred Shares

Standard & Poor's

Short-Term Counterparty
Long-Term Counterparty
Senior Unsecured Debt
Subordinated Debt
Commercial Paper (Canadian scale)
Commercial Paper (Global scale)
Preferred Stock (Canadian scale)
Preferred Stock (Global scale)

DBRS

Short-Term Instruments
Deposits and Senior Debt
Subordinated Debt
Cumulative Preferred Shares
Non-Cumulative Preferred Shares

Fitch Ratings

Short-Term
Long-Term
Individual
Support
Subordinated Debt

The ratings should not be construed as recommendations to buy, sell or hold Bank securities. Approved rating organizations may revise or withdraw their ratings at any time.

The definition of the different ratings as at October 31, 2008 was obtained from the websites of the respective approved rating organizations and is provided in Appendix A of this Annual Information Form.

Description of Notes

Nikkei 225 Notes (2009) (NA.NT.J)

The Nikkei 225 Notes (2009) will mature on April 30, 2009. As at October 31, 2008, there were 1,100,000 outstanding Nikkei 225 Notes (2009) issued at a price of \$10.00 per note. The Bank cannot redeem the Nikkei 225 Notes (2009) prior to April 30, 2009. At that date, each holder of Nikkei 225 Notes (2009) will receive in respect of each note held the greater of (a) \$10.00 or (b) the repurchase price (as defined below) which will be computed by reference to the Nikkei 225 Index. The redemption price of each Nikkei 225 Note (2009) will be equal to the aggregate of \$10.00 and the amount obtained by multiplying \$10.00 by 100% of the appreciation rate of the Nikkei 225 Index between the issue date and April 30, 2009, rounded down to the nearest cent. No interest will be paid on Nikkei 225 Notes (2009), if any, except at maturity.

ESCROWED SECURITIES

As at October 31, 2008, the securities listed in the table below are, to the Bank's knowledge, all the voting securities of the Bank held in escrow:

Designation of class	Number of escrowed securities	Percentage of the class
Common Shares	307,124	0.19%

Note: Computershare Trust Company of Canada is the custodian, as escrow agent, of the 307,124 securities in the above table. These securities will be released on the dates and as per the conditions set out in the escrow agreements, including based on the degree to which established financial objectives are achieved.

DIRECTORS AND EXECUTIVE OFFICERS

Directors

Since November 1, 2003, the Bank directors whose names appear in the *Additional Information* section of the Annual Report have held the principal functions described in Section 3 of the Circular. All directors elected at the Meeting hold office until their resignation or the election or appointment of their replacement or until the close of the subsequent annual meeting of holders of common shares of the Bank.

Executive Officers

The following are the Bank's executive officers, as defined in subsection 1.1(1) of National Instrument 51-102 *Continuous Disclosure Obligation*, as at October 31, 2008. The positions they have held both at the Bank and outside the Bank since November 1, 2003 are also indicated:

Bank

P-1
Aa2
Aa2
Aa3
Aa2
B-
A1

Bank

A-1
A
A
A-
A-1 (Mid)
A-1
P-2 (High)
BBB+

Bank

R-1 (Middle)
AA (Low)
A (High)
Pfd-1 (Low)
Pfd-1 (Low)

Bank

F1
A+
B
BBB-
A

CIESLAK, John B. (Ontario, Canada)	Senior Vice-President – Technology, Business Intelligence and Organizational Performance from August 2000 to April 2007, Executive Vice-President, Chief Information Officer and Chief Administration Officer, TSX Group Inc. (Toronto Stock Exchange)
CURADEAU-GROU, Patricia (Quebec, Canada)	Chief Financial Officer and Executive Vice-President – Finance, Risk and Treasury from May 2007 to September 2008, Executive Vice-President – Finance, Risk and Treasury; and from August 1998 to May 2007, Senior Vice-President – Risk Management
DESROCHERS, Gisèle (Ontario, Canada)	Senior Vice-President – Strategic Initiatives Office from May 2007 to September 2008, Senior Vice-President – Human Resources and Corporate Affairs; and from March 2002 to May 2007, Senior Vice-President – Human Resources and Operations
JEANNIOT, Lynn (Quebec, Canada)	Senior Vice-President – Human Resources and Corporate Affairs from June 2008 to September 2008, Senior Vice-President – Human Resources; from August 2005 to June 2008, Vice-President – Human Resources; and from January 2002 to August 2005, Vice-President – Marketing and Public Affairs
LECAT, Olivier H. (Quebec, Canada)	Senior Vice-President – Internal Audit
LÉVESQUE, Réjean (Quebec, Canada)	Executive Vice-President – Personal and Commercial Banking from May 2007 to March 2008, Senior Vice-President – Electronic Payment Solutions and Operations; from February 2006 to May 2007, Senior Vice-President – Retail Financial Solutions; from July 2005 to February 2006, Senior Vice-President – Operations Review Program; and from May 2002 to July 2005, Senior Vice-President – Commercial Banking, Northern and Eastern Quebec, and International
PAIEMENT, Luc (Quebec, Canada)	Executive Vice-President – Wealth Management and Co-President and Co-Chief Executive Officer, National Bank Financial from September 2006 to October 2008, Co-President and Co-Chief Executive Officer, National Bank Financial and Senior Vice-President; and from November 2002 to July 2008, President – Individual Investor Services, National Bank Financial
PASCOE, Ricardo (Ontario, Canada)	Executive Vice-President – Financial Markets and Co-President and Co-Chief Executive Officer, National Bank Financial from September 2006 to September 2008, Co-President and Co-Chief Executive Officer, National Bank Financial and Senior Vice-President; from March 2005 to September 2006, Senior Vice-President - Treasury and Financial Markets; from November 2004 to March 2005, Senior Vice-President - Treasury and Trading; and from September 2003 to November 2004, Senior Vice-President - Capital Markets
VACHON, Louis (Quebec, Canada)	President and Chief Executive Officer from August 2006 to May 2007, Chief Operating Officer; from November 2004 to September 2006, Chairman of the Board of Natcan Investment Management Inc.; from January 2005 to September 2006, Chairman of the Board of National Bank Financial Group; from September 2005 to September 2006, President and Chief Executive Officer of National Bank Financial Inc.; and from January 1998 to January 2005, Senior Vice-President - Treasury and Financial Markets

Shareholdings of Directors and Executive Officers

As at October 31, 2008, the directors and executive officers of the Bank directly or indirectly beneficially owned or controlled 396,582 common shares, i.e., less than 0.25% of the Bank's issued and outstanding common shares.

Cease Trade Orders, Bankruptcies, Penalties or Sanctions

Directors

For further information on cease trade orders, bankruptcies, penalties or sanctions concerning the Bank's directors, consult Section 3 of the Circular.

Executive Officers

To the Bank's knowledge, no director or executive officer of the Bank is, at the date of this Annual Information Form, or has been, during the 10 fiscal years prior to the date of the Annual Information Form, a director, chief executive officer or chief financial officer of any company that, while that person 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, chief executive officer or chief financial 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. To the Bank's knowledge, no executive officer of the Bank is, at the date of this Annual Information Form, or has been, during the 10 fiscal years prior to

the date of the Annual Information Form, a director or executive officer of any company that, while that person was acting in that capacity, or within a year of that person 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 appointed to hold its assets.

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

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

TRANSFER AGENT AND REGISTRAR

Computershare Trust Company of Canada
1500 University, Suite 700
Montreal, Quebec, Canada H3A 3S8
Telephone: 1-888-838-1407
Fax: 1-888-453-0330
E-mail: service@computershare.com
Internet: www.computershare.com

Mailing address:

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

MATERIAL CONTRACTS

The Bank has not concluded any material contracts to be submitted under CSA rules.

INTERESTS OF EXPERTS

SB/DT are the Bank's external auditors and are independent within the meaning given to this term in the Code of Ethics of the Ordre des comptables agréés du Québec. This firm has prepared the Auditors' Report to shareholders in respect of the Bank's consolidated financial statements.

INFORMATION ON THE AUDIT AND RISK MANAGEMENT COMMITTEE OF THE BOARD OF DIRECTORS

The mandate of the ARMC follows. For additional information on this Committee, please see Section 5 of the Circular.

MANDATE

Audit and risk management committee

MISSION AND MAIN RESPONSIBILITIES

The Audit and Risk Management Committee (the "Committee") assists the Board of Directors (the "Board") of National Bank of Canada (the "Bank") 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 Audit, external audit and Corporate Compliance);
- c) supervising the work of Internal Audit and Corporate Compliance;
- 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 report 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 duties and responsibilities 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 Multilateral Instrument 52-110 respecting Audit Committees of the Canadian Securities Administrators (the "Instrument").

Each of the Committee members is "financially literate" within the meaning of the Instrument 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 a Chair from one of the members of the Committee present 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 submitted to the Board.

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

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**

Committee meetings are held at dates, times and locations established by the Board. The Committee meets at least once per quarter. The members of the Committee are informed annually in writing thereof, without any 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, one of the members of the Committee, the Senior Vice-President – Internal Audit, the Chief Financial Officer and Executive Vice-President – Finance, Risk and Treasury, the Senior Vice-President – Finance, Taxation and Investor Relations, or by the external auditors.

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

Unscheduled Committee meetings may be held without notice, when all Committee members are present or when the absent members provide a written waiver of notice of meeting.

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

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 discuss matters of interest to the Committee.

The Committee members meet in camera at the end of each regular Committee 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 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 be attained, decisions shall be unanimous.

5. **Minutes**

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

Once approved, the minutes of each Committee meeting are submitted for information to the members of the Board at a subsequent meeting of the Board.

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 External Advisors**

The Committee has the authority:

- a) to engage legal counsel and other independent advisors as it determines necessary to carry out its duties;
- b) to set and pay the compensation of any external advisors employed by the Committee; and
- c) to communicate directly with the external auditors, the Senior Vice-President – Internal Audit, the Chief Financial Officer and the Executive Vice-President – Finance, Risk and Treasury, the Senior Vice-President – Finance, Taxation and Investor Relations, the Vice-President – Corporate Compliance, or any other member of management.

8. Duties and Responsibilities

The Committee has the following duties and responsibilities:

A) Finance and Corporate Compliance

Require management to implement and maintain appropriate internal control procedures, and 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, the Chief Financial Officer and the Executive Vice-President – Finance, Risk and Treasury, the Senior Vice-President – Finance, Taxation and Investor Relations, and the Vice-President – Corporate Compliance.

(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, annually, the mandate and the nature and scope of the work 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 quarterly and annual reports of Internal Audit and ensure that the necessary steps are taken to follow up on report recommendations.

Review, as required, the reports of the Senior Vice-President – Internal Audit on the major recommendations for which the recommended corrective action has not been taken.

Participate in drawing up a succession plan for the Senior Vice-President – Internal Audit, take cognizance of the recommendations of the President and Chief Executive Officer 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 assess the performance and participate in determining 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 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 interim consolidated 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.

Ensure that the scope of the audit plan is appropriate, i.e., that it is risk based and addresses major areas of concern.

Discuss with the external auditors the quality of the financial statements and ensure that the financial statements present fairly the financial position, results of operations and the cash flows of the Bank.

Study and discuss the report produced by the external auditors detailing all elements susceptible to have an influence 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 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 action 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 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 external auditors to perform non-audit services and ensure the following conditions are met:

- a) the pre-approval policies and procedures are detailed as regards the service required;
- 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 the 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 and the nature and scope of the work of Financial Analysis and ensure that the function has the necessary resources to fulfill its mandate and responsibilities.

Review the Bank's consolidated financial statements, MD&A and annual and interim earnings press releases and recommend their approval to the Board before this information is publicly disclosed.

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

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 the Committee's attention.

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 Superintendent of Financial Institutions at the request of that organization and report on such meeting 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, on an annual basis, the mandate and the nature and scope of the work of Corporate Compliance and ensure that the function has the resources needed to fulfill its mandate and responsibilities.

Review the Chief Compliance Officer's annual report on the Bank's level of compliance with applicable laws and regulations and other obligations, and recommend approval thereof to the Board.

Review, on an annual basis, the legislative compliance program and recommend approval thereof to the Board.

Review the annual and quarterly reports of Corporate 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. Ensure that this policy is implemented and review it annually.

Review the Corporate Third Party Asset Administration and Management Risk Policy of the Bank and recommend the adoption or revision of the policy to the Board. Ensure that this policy is implemented and review it annually.

Review, as necessary, the report of Corporate Compliance on the irregularities or concerns related to accounting or auditing matters at the Bank that have been reported to the Ombudsman of the Bank, as well as the results of any related investigation. Examine the number of reported irregularities or concerns, regardless of whether or not they are founded.

Obtain information from Corporate Compliance on significant changes in laws and regulations, industry compliance issues, new trends and regulatory risks.

(v) Corporate Compliance at National Bank Financial Inc.

Review, on an annual basis, the mandate, nature and scope of the work of Corporate Compliance at National Bank Financial Inc. and ensure that it has the necessary resources to carry out 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 Inc. with respect to compliance and non-financial risk management matters relating to National Bank Financial Inc. 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.

Examine the certifications, declarations and/or reports required by a regulatory authority and 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 significant problems are identified, and that management takes action to address them; and report thereon to the Board.

Examine the quarterly reports by Risk Management on:

- a) the status of credit, market, liquidity and operational risk at the Bank;
- b) the model and quantification of the Bank’s general allowance;
- c) changes in work related to operational and reputational risk management (quantitative and qualitative);
- d) compliance with policies on:
 - operational risk management
 - outsourcing
 - reputational risk resulting from complex structured finance transactions

(i) Risk Management

Review and approve the overall risk philosophy and risk tolerance of the Bank.

Understand the significant risks to which the Bank is exposed and the techniques used to measure and manage those risks.

Review and recommend to the Board the adoption of policies for managing significant risks, notably policies related to credit risk, market risk, structural risk, reputational risk, fiduciary risk and operational risk including outsourcing risk and risk related to money laundering and terrorist financing activities. Ensure these policies are implemented and review them at least once a year.

Require that management 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

Understand the Bank’s capital, liquidity and funding needs.

Review liquidity and funding management and capital management policies and recommend their adoption to the Board. Ensure these policies are implemented and review them 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.

Review and recommend to the Board, subject to the provisions set out in section 497 of the Act, 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.

Review 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.

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

(iv) Combatting Money Laundering and Terrorist Financing Activities

Appoint a designated officer to be responsible for applying the program to combat money laundering and terrorist financing activities (MLTFA) at the Bank.

Approve the Bank’s anti-MLTFA policies and procedures.

Ensure that policies and procedures enabling the Bank to meet its obligations to detect and deter MLTFA are developed, applied, monitored and reviewed.

Ensure that the designated officer establishes an annual self-assessment program to evaluate the effectiveness of anti-MLTFA procedures adopted by the Bank and to suggest corrective measures for risk management systems, if necessary.

Require that the designated officer draft a report on the annual self-assessment which includes the following information: a summary of the assessment’s findings, the main elements of anti-MLTFA policies and procedures and the level of adherence to them.

Obtain assurance from Internal Audit that a system of independent controls has been put into place to monitor the quality of these procedures.

Require Internal Audit to present the independent controls performed and any deficiencies detected, as well as a summary of steps that have been or will be taken to address any deficiencies.

(v) *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 the Board the recommendations it deems appropriate with respect to matters that 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. The Bank's financial information appears in the consolidated financial statements and the MD&A, both of which are part of the Annual Report. The Annual Report and the Circular are also available on the SEDAR website.

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

APPENDIX A

MOODY'S

Short-Term

P-1

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

Long-Term Bank Deposit

Aa2

Banks rated “Aa” for deposits offer excellent credit quality, but are rated lower than Aaa banks because their susceptibility to long-term risks appears somewhat greater. The margins of protection may not be as great as with Aaa-rated banks, or fluctuations of protective elements may be of greater amplitude.

Long-Term Senior Debt

Aa2

Obligations rated “Aa” are judged to be of high quality and are subject to very low credit risk.

Long-Term Subordinated Debt

Aa3

Obligations rated “Aa” are judged to be of high quality and are subject to very low credit risk.

Issuer Rating

Aa2

Determines the ability of entities to honour senior unsecured financial obligations and contracts. Obligations rated “Aa” are judged to be of high quality and are subject to very 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.

Preferred Shares

A

Bonds 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.

A “+” modifier is appended to ratings below the “A” category and a “-” modifier is appended to ratings above the “E” category to distinguish those banks that fall in intermediate categories.

STANDARD & POOR'S

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.

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

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.

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.

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.

Long-Term Debt

The DBRS long-term debt rating scale 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 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.

AA (Low)

Long-term debt rated “AA” is of superior credit quality, and protection of interest and principal is considered high. In many cases they differ from long-term debt rated “AAA” only to a small degree. Given the extremely restrictive definition DBRS has for the “AAA” category, entities rated “AA” are also considered to be strong credits, typically exemplifying above-average strength in key areas of consideration and unlikely to be significantly affected by reasonably foreseeable events.

A (High)

Long-term debt rated “A” is of 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 entities.

Preferred Shares

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.

Pfd-1 (Low)

Preferred shares rated “Pfd-1” are of superior credit quality, and are supported by entities with strong earnings and balance sheet characteristics. Pfd-1 securities generally correspond with companies whose senior bonds are rated in the “AAA” or “AA” categories. As is the case with all rating categories, the relationship between senior debt ratings and preferred share ratings should be understood as one where the senior debt rating effectively sets a ceiling for the preferred shares issued by the entity. However, there are cases where the preferred share rating could be lower than the normal relationship with the issuer’s senior debt rating.

FITCH RATINGS

Short-Term

A short-term rating has a time horizon of less than 13 months for most obligations, or up to three years for US public finance, in line with industry standards, to reflect unique risk characteristics of bond, tax, and revenue anticipation notes that are commonly issued with terms up to three years. Short-term ratings thus place greater emphasis on the liquidity necessary to meet financial commitments in a timely manner. Both “foreign currency” and “local currency” ratings are internationally comparable assessments.

F1

Highest credit quality. Indicates the strongest capacity for timely payment of financial commitments; may have an added “+” to denote any exceptionally strong credit feature.

Long-Term

International Long-Term Credit Ratings (LTCR) may also be referred to as Long-Term Ratings. When assigned to most issuers, it is used as a benchmark measure of probability of default and is formally described as an Issuer Default Rating (IDR). The major exception is within public finance, where IDRs will not be assigned as market convention has always focused on timeliness and does not draw analytical distinctions between issuers and their underlying obligations. When applied to issues or securities, the LTCR may be higher or lower than the issuer rating (IDR) to reflect relative differences in recovery expectations.

A+ and A

High credit quality. “A” ratings denote expectations of low credit risk. The capacity for 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.

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

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 a bank and determine these ratings include profitability and balance sheet integrity (including capitalization), franchise, management, operating environment, and prospects. Consistency is also 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

Support ratings offer judgement of a potential supporter’s (either a sovereign state’s or an institutional owner’s) propensity to support a bank and of its ability to support it. Its ability to support is set by the potential supporter’s own long-term debt rating, both in foreign currency and, where appropriate, in local currency. Support ratings have a direct link to long-term debt ratings, but they do not, nevertheless, assess the intrinsic credit quality of a bank. Rather, they communicate judgement on whether the bank would receive support should this become necessary. It is emphasized that these ratings are exclusively the expression of Fitch’s opinion even though the principles underlying them may have been discussed with the relevant supervisory authorities and/or owners.

2

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 22, 2009



**NATIONAL
BANK**

FINANCIAL GROUP

