



OUR **ADVICE:** A CAPITAL ASSET

An introduction to
National Bank Financial



**NATIONAL
BANK**

FINANCIAL



National Bank Financial: At your service since 1902

Our mission is to manage the world's most important investments: yours.

More than a century ago, when many of our current competitors did not yet exist, National Bank Financial was already leading the way for Canadian investors. In fact, we still are.

Developing new and innovative solutions to meet the changing needs of our clients is a tradition our firm has maintained to this day. National Bank Financial is one of the six largest investment dealers in Canada, with 3,200 employees (including more than 750 Investment Advisors) and an 86-branch network that extends from coast to coast. The firm has approximately 300,000 individual investor clients, for whom it manages over \$42 billion in assets.

National Bank Financial is a subsidiary of the National Bank of Canada, one of the country's seven major chartered banks. In addition to its 500 Canadian branches, the National Bank of Canada has offices world-wide. Its asset base is close to \$84 billion, giving National Bank Financial a solid, reliable and dynamic ally.

Clearly, National Bank Financial is a serious partner committed to helping you meet your financial needs.

Our advice: A capital asset

As a full-service investment dealer, National Bank Financial offers access to a broad range of investment products and services. But that's just the beginning...

Our real priority lies elsewhere: before we even mention the various investment vehicles available to help you reach your goals, we focus our energy – and our people – on providing you with objective, well-researched information and wise counsel.

This is what makes your **Investment Advisor's** role so important. The first step in establishing our business relationship will be to refer you to him or her. Then, by taking the time to fully understand your situation and your goals, and by keeping in touch with you regularly, he or she will be able to find the perfect match between NBF's knowledge, products and services and your particular situation.

You will soon realize what a capital asset his or her advice can be.

Your own Investment Advisor: A definite advantage

Most other financial institutions don't provide you with your own Investment Advisor. Why do we think it's so important?

For three main reasons:

Because your Investment Advisor is an experienced investment professional working for your benefit

There's a common myth that Investment Advisors are just middlemen. Nothing could be farther from the truth. Sure, you need someone to execute the financial transactions you make through our firm... but an advisor is much more than a middleman. He or she is also the best-placed expert when it comes to providing that intangible but essential ingredient for successful investing – advice. Dealing with an Investment Advisor is about more than just securities and trading. It is about developing a long-term relationship with an investment professional who has the benefit of the best training in the business. This person is your expert – always there to provide information and advice in keeping with your financial situation, current market conditions and tax concerns. This advice can also help in other areas of financial concern: choice of a term for your mortgage, taxes, etc. In other words, it's the assurance that you will never have to navigate the world of finance alone, and that you will have a solid quarterback to help you guide any other financial intermediaries that you might use in their work.

Because your Investment Advisor gives you access to a comprehensive range of investment vehicles

Since myths are so pervasive, allow us to debunk another one: your Investment Advisor doesn't deal only with the stock market. In fact, stocks account for only 40% of the more than \$40 billion in assets National Bank Financial manages for its individual investor clients; the remaining

60% is other types of investments. In an environment that grows steadily more complex, your Investment Advisor's training and experience are the vital link between the problem and the solution, between your *overall* financial needs and the *many* appropriate investment vehicles.

Because your Investment Advisor is objective

National Bank Financial Investment Advisors have no vested interest in any particular product. We do not issue stocks or bonds, and as such, we have no interest in selling one product over another. This ensures maximum objectivity and allows your Investment Advisor to put all of his or her expertise to use in helping you build the portfolio that best suits your needs.

When you deal with a National Bank Financial Investment Advisor, you gain three significant advantages:

- You obtain clear, straightforward information and explanations that shed light on the often complex world of investment.
- You benefit from the unbiased advice of an experienced investment professional.
- You enjoy access to the complete range of investment vehicles that can be negotiated by a financial institution: fixed-income securities, stocks, mutual funds, etc.

With a clear road map, you always know where you're going. Your Investment Advisor will help you build a personal investment strategy, suited to your future goals.

Your National Bank Financial investment account

Your National Bank Financial Investment Advisor can help you choose from different kinds of accounts, depending on your personal financial needs and investment strategies.

All of our various types of accounts give you five distinct advantages:

- They allow you to keep your securities with us. All your investments will appear on a regular statement, which greatly facilitates overall investment management.
- All interest and dividends earned by your investments, plus the capital at maturity, are automatically and immediately credited to your account without you ever having to ask for them.
- The majority of your year-end tax receipts are also consolidated. This cuts down on the number of slips you receive from us, which makes life much easier when it's time to do your tax return.
- All of our accounts pay a competitive rate of interest on cash balances.
- Last, all of our accounts are protected by the Canadian Investor Protection Fund (CIPF).

Although we offer many different types of accounts, some of which are designed for very specific investment strategies (such as futures and commodities accounts, for instance), most of our clients choose one of the following four accounts.

Regular (cash) account

This is an account in which you deposit money used to make your investment transactions. When you buy or sell a security, the appropriate amount is debited from or credited to the account on the settlement date (usually three business days following the transaction). Note that any cash balance

you leave in the account will earn competitive interest. Cash accounts are available in Canadian or U.S. funds, which is practical for investors who have funds in U.S. currency or who regularly trade in U.S. stocks: this eliminates the need to convert your money into U.S. dollars every time you trade, thus saving you the costs associated with currency conversion.

Margin account (account with borrowing privileges)

A margin account is the same as a cash account, except that it includes a line of credit, determined by the value of your investments. In other words, you can borrow money – to finance additional investments or for any other purpose – based on securities that you already own, which are then used as collateral. Margin accounts are available in Canadian or U.S. funds.

Short account

This type of account is for experienced investors who engage in short selling. This account is available in Canadian and U.S. dollars.

RRSPs, RRIFs, RESPs and other tax-deferred accounts

These accounts are designed to hold investments you want to keep in a tax-deferred plan, such as a retirement savings plan (RRSP), retirement income fund (RRIF) or education savings plan (RESP). Locked-in retirement accounts (LIRAs) and life income funds (LIFs), which are used to hold assets transferred from an employer-sponsored pension fund, also fit into this category. In this type of account, dividends, interest and capital gains remain sheltered from tax until withdrawn.

An Investment Advisor you can trust.
A long-term plan that makes sense for you.
Strategies that work. All part of your relationship with National Bank Financial.

Investment vehicles

Diversification is the key to a successful investment strategy. National Bank Financial is perfectly positioned to help you diversify your portfolio with various kinds of securities in different financial markets.

The table on the next page shows the most common investment vehicles available through our firm and how they fit in with different investment strategies.

How you use and interpret this information will depend on your particular investor profile. We recommend using it as a checklist when discussing your strategy with your National Bank Financial Investment Advisor.

Make sure also to contact your Investment Advisor should you require more in-depth information on the even wider range of products and services that we offer.

Main investment vehicles	Objectives			
	Guaranteed return and protection of capital	Long-term capital growth with minimum volatility	Significant capital growth with a certain volatility	Regular income
Bonds	•			•
Savings bonds	•			•
Retirement savings bonds	•	•		•
Foreign currency bonds				•
Real-return bonds	•	•		•
Strip bonds	•	•		
Treasury bills and commercial paper	•			
Investment certificates and term deposits	•			•
Mortgage-backed securities	•			•
Preferred shares		•		•
Principal-protected notes	•	•		
Income trust units				•
Common shares		•	•	
Canadian mutual funds		•	•	•
U.S. mutual funds		•	•	•
International mutual funds		•	•	•
Exchange-traded funds		•	•	•
Hedge funds		•	•	
Options and derivative products			•	
Structured products		•	•	

Other options and services

Partnership Accounts™

National Bank Financial Baskets

FullAccess™ Service

National Bank Financial Turnkey Solutions
(discretionary portfolio management)

Financial analysis and projections

Insurance services

Annuities

Estate settlement services

Online Services

- > Online Portfolio
- > Market information
- > Research

Financial research

- > Companies
- > Economy

Fixed-income securities

This asset class encompasses a wide range of products with the rate of return and value at maturity guaranteed by the issuer. Guaranteed investment certificates (GICs) are probably the most common. However, there are also bonds, savings bonds, stripped coupons and other securities issued by governments and other government-guaranteed organizations, which offer a threefold advantage over GICs. First, they are not limited to a maximum term of 5 years. Government-issued fixed-income securities are available with terms of 30 days to 30 years, which is very useful when considering long-range investment projects, such as saving for retirement. Second, they are guaranteed unconditionally and without limit by the issuer, whereas GICs and other deposit certificates are covered by deposit insurance up to only \$100,000 per issuer. Third, and perhaps most important, they can be resold at any time. Many of the world's most senior corporations also issue bonds. Although corporate bonds may carry more investment risk than government-issued or guaranteed bonds because they rely only on the financial health of the company, they can also play a useful part in building your portfolio.

Stocks

Stocks are generally shares of publicly owned companies, bought and sold on stock exchanges; although the category also includes related products. Through its offices in London, Geneva and New York, as well as via strategic alliances with a number of global partners, National Bank Financial has access to all the major financial markets around the world. In Canada, we are members of the Montreal, TSX and TSX Venture exchanges. In addition to the Investment Dealers Association (Canada), we belong to the Securities Industry Association (United States) and the Financial Services Authority (United Kingdom).

We have 140 investment and corporate banking professionals working out of Toronto, Montreal, Calgary and Vancouver who are highly regarded by issuing corporations. This helps ensure priority access for our clients to the best new share issues.

Mutual funds

Mutual funds represent an ideal way to diversify your holdings without having to invest huge sums of money. For a modest investment, you can purchase units of a fund that invests in a well-diversified portfolio of securities. Some funds buy mainly bonds and other debt securities (fixed-income funds), others focus primarily on stocks (equity funds) and still others are called “balanced” funds because of the mix of securities in their portfolio. A number of funds also operate internationally, which allows you to diversify your investments geographically. With more than 4,000 funds available in Canada, choosing the right one is not easy. In fact, there are almost as many mutual funds in Canada as there are companies listed on the Toronto Stock Exchange! But don't worry: your Investment Advisor makes it his or her business to study the content and performance of mutual funds, and will help you identify those most appropriate for your portfolio.

Partnership Accounts™

These accounts are an option for investors who prefer to pay for National Bank Financial advice, execution and services in the form of an annual fee, rather than through commissions. For more details on fees related to our services, please refer to the section on this subject.

National Bank Financial Baskets

“Baskets” are model portfolios designed by our Investment Committee, in which you can invest for a very reasonable fee. With a single order to buy, you acquire a diversified selection of securities (stocks, bonds, coupons, etc.). This innovative approach offers you the best of two worlds: you do not have to purchase securities one at a time, or have to make do with units in a mutual fund, yet you enjoy the advantages of both. You also obtain considerable savings on transaction costs and benefit from professional management. National Bank Financial offers an assortment of baskets: the Top 15 Basket (Canadian stocks), the U.S. Basket, the Growth Basket, the Dividend Basket, the Bond Basket, the Stripped Coupon Basket, the Corporate Bond Basket, the Income Trust Basket and the Asset Allocation Basket. This last option is a diversified portfolio featuring a solid mix of stocks, fixed-income securities and cash equivalents. All of our baskets are managed on a discretionary basis by our teams of experts.

FullAccess™ Service

FullAccess Service offers you direct access to the cash balance in your account, 24/7. With personalized cheques, an exclusive client card (like a bank debit card) and an optional prestige credit card, you can make deposits and withdraw money from your National Bank Financial account as if it were a regular bank account. Uninvested cash balances also benefit from a higher interest rate than the already competitive rate we pay normally. Certain criteria apply.

National Bank Financial Turnkey Solutions (discretionary portfolio management)

Our *Turnkey Solutions* are designed for investors who would like to delegate management of their assets to a team of investment experts without having to be consulted about each and every investment decision. This family of discretionary portfolio management services offers a range of solutions to suit virtually any portfolio, including *Ambassador Portfolio Service* and *Private Wealth Management Service*. These options allow you to choose from our internal portfolio management team, as well as a dozen of the world's most renowned money managers. Following an initial meeting at which we help you identify your investment objectives, investment horizon and investor profile, the discretionary management team takes over the daily management of your portfolio, keeping you informed on a regular basis.

Financial analysis and projections

Your National Bank Financial Investment Advisor has a number of specialized tools to help take all the aspects of your financial situation into account. With our exclusive *Copernicus* software, your Investment Advisor will produce an investment policy statement tailored to your own objectives and investor profile. As your portfolio builds and your investments evolve, they will be continually compared to this investment policy statement to make sure you stay on track. Moreover, this application can be used to create a detailed assessment of your financial situation and long-term goals to better enable your Investment Advisor to give you the most strategic advice. *Retirement Forecaster* is another exclusive software program we have developed, as its name implies, to help you and your Investment Advisor determine the kind of retirement income you can

expect, based on your current or anticipated savings patterns and the type of investments you make. Finally, in addition to these planning tools, your Investment Advisor also has a number of state-of-the-art portfolio management tools on hand. One of the most renowned of these is the *Cræsus* system, tailor-made for National Bank Financial and considered by many to be the best in the country.

Tailor-made computer programs show you a variety of retirement scenarios, using real figures – not unrealistic generalizations.

Insurance services

Protecting your income and ensuring your estate's transfer to your heirs according to your wishes should be part of your investment strategy. Your Investment Advisor and the experts at our insurance subsidiary, NBF Financial Services, work as a multidisciplinary team to provide you with professional counsel on the issues of income protection and estate planning.

Annuities

While a retirement income fund (RRIF) is usually the preferred option for converting your accumulated RRSP capital to an income stream, in certain situations, annuities may provide a number of benefits. We offer a complete line of annuities via NBF Financial Services.

Estate Settlement Services

If you are acting as the executor of an estate, National Bank Financial can provide you with help in either of two ways. You can let us take charge of the entire process, or you can use our *À la Carte Estate Settlement Service* and let our professionals carry out the individual tasks that you assign them.

Online Services

Online Services features a set of interactive functions exclusively for our clients. Along with secure, direct access to your investment portfolio, you will have detailed stock market information just a few clicks away. Our latest market research, widely recognized year after year as among the best in Canada, will be yours to download. And *Online Services* has a variety of very useful calculation, simulation and projection tools.

Financial research

Our Research Department's publications are available to all our clients. For more information, see the section on this subject.

Retirement Savings Plans (RRSPs) and Retirement Income Funds (RRIFs)

Technically speaking, these are not actually investments themselves, but "envelope plans" that can hold a great variety of investments and shelter them from taxes. RRSPs and RRIFs are essential instruments for anyone who wants to ensure a comfortable retirement. A recognized expert in the field, National Bank Financial manages more than \$14 billion in retirement savings assets and offers the *Transition* RRSP, which can contain both fixed-income securities and mutual funds; and the *Portfolio* RRSP, a self-directed RRSP that offers maximum flexibility and control. Simply choose the solution that best meets your financial objectives.

Locked-in Retirement Accounts (LIRAs) and Life Income Funds (LIFs)

LIRAs and LIFs are similar to RRSPs and RRIFs, but for individuals who have accumulated assets in an employer-sponsored pension fund. Some pension funds allow you to withdraw your accumulated contributions when you leave the employer and transfer them to a LIRA, tax free. Unlike an RRSP, you cannot withdraw the funds from a LIRA; however, this can still be an advantageous solution because you retain control over

your investments and do not have to be tied to a previous employer. When the time comes to move from a savings vehicle to an income distribution vehicle, all assets in a LIRA must be transferred to a LIF, which, like a RRIF, is a vehicle for paying out retirement income. RRSPs, RRIFs, LIRAs and LIFs are all available through our Investment Advisors, making National Bank Financial the perfect place to centralize your retirement planning.

Education Savings Plans (RESPs)

Like retirement savings plans (RRSPs), education savings plans (RESPs) are “envelope plans” in which your investments can grow in a tax-sheltered environment. Income tax is payable only when the earnings are withdrawn. The difference is that RRSPs are designed for retirement income, while RESPs are used to finance the post-secondary education of individuals you designate as beneficiaries, usually your children or grandchildren. Here, too, National Bank Financial offers a number of solutions, one of which will be just right for you.

Tax-Free Savings Account (TFSA)

Unlike tax-deferred accounts (RRSP, RRIF, RESP, etc.), the TFSA is truly a tax-free account: not only are your investments sheltered from taxation while they appreciate, but you can withdraw your money – including any earned income and capital gains – without paying any tax on it. The TFSA is not tied to a specific use, and you can make withdrawals whenever you want or need to. As part of an integrated strategy, this is an ideal complement to tax-deferred accounts.

Other services

A variety of other services are available through National Bank Financial, all of which are designed to meet specific financial needs or strategies. These include the purchase of foreign currencies, transactions on options markets and futures contracts. If you have any questions about a service that is not listed here, please ask your Investment Advisor.

An all-star research team

National Bank Financial's Research Department is recognized by experts as one of the best in Canada.

Our *Economics and Strategy* team monitors major economic trends and keeps a close watch on social and political events that can affect both domestic and international financial markets. Analysts cover all the major sectors and publish timely, in-depth reports on a great number of companies that they follow systematically.

This team of research analysts and economists puts a wealth of useful information at your disposal. You may obtain their publications in two ways:

- Ask your Investment Advisor.
- Download copies from our Web site using *Online Services*, our highly secure interactive site exclusively for National Bank Financial clients.

You will also automatically receive our *Investment Strategy* newsletter on a quarterly basis with your Portfolio Statement. This publication reviews market trends and offers asset mix, duration and sector rotation recommendations for your portfolio, as well as suggested weightings for equity investments in foreign markets.

As a client, you will benefit from our research in two ways:

- You can consult a variety of reports as you need them.
- You will be secure in the knowledge that your Investment Advisor is basing his or her recommendations on reliable analyses, the quality of which is recognized by authorities in the profession.

A wealth of information

To help you keep learning more about the investment universe and the many options available to you, we provide an extensive, free library of resource material.

We want our publications to provide you with useful information to round out your discussions with your Investment Advisor. They cover a wide range of subjects and investment vehicles, as you can see from the following partial list:

- *Your Retirement Savings Plan*
- *The Portfolio RRSP*
- *The Transition RRSP*
- *Your Retirement Income*
- *A Good Education: The Best Investment*
- *Investment Funds*
- *Fixed-Income Securities*
- *Baskets*
- *Partnership Accounts™*
- *FullAccess™ Service*
- *Ambassador Portfolio Service*
- *Private Wealth Management Service*

Feel free to ask your Investment Advisor for this material. Most of these publications can also be downloaded from our Web site: **www.nbfinc.com**. Finally, don't hesitate to visit our Web site's "Learning Centre" section, where you will find a wealth of useful information offered in collaboration with the Investor Learning Centre of Canada.

Services and fees

Like any financial institution, we charge for our services. These charges cover our business relationship as a whole – including the valuable counsel and service provided by your Investment Advisor. It's worth repeating that when it comes to investing, advice is a valuable commodity that is ultimately far less costly than ignorance!

Our remuneration can be broken down into four broad categories:

Basic services fee

We charge an annual fee for all the basic services associated with opening and maintaining an investment account at National Bank Financial. Primarily, this fee covers your access to the expertise of an Investment Advisor, to the proprietary research by our *Financial Research Department* and to your online portfolio; it also sustains coverage of the account by the Canadian Investor Protection Fund and the processing and production of the account statements and tax reporting documents related to your investments. However, since we waive this basic services fee for all clients who generate sufficient revenue by consuming other products and services, only a small percentage of our clients actually end up paying it.

Spread

At all financial institutions, a spread is built into fixed-income investments. For example, banks pay out a certain rate of interest when you deposit money or purchase a GIC, then charge a higher rate when they lend that money back out in the form of a mortgage or other loan. The difference between these

two rates is the bank's spread. Investment dealers also build spreads into their fixed-income transaction rates by purchasing bonds, debentures or treasury bills directly from the issuers in extremely large quantities at a certain yield, and then reselling them back to individual investors in much smaller quantities at a slightly lower yield. The difference between these two rates is a spread that covers the cost of doing business and the financial risk of holding large quantities of securities in inventory. Note that this spread has already been taken into account when the interest rate is posted: the yield to maturity quoted to you by your Investment Advisor is exactly what you will get.

Commissions or management fees

- Commissions are charged when you purchase or sell stocks. These commissions are clearly detailed on the transaction confirmations you receive. Commissions also apply to most mutual fund transactions. Note, however, that while commissions are applied to specific transactions, they also cover all the counsel and information you receive from your Investment Advisor.
- Management fees based on the value of your portfolio can replace commissions in some cases. Automatically used for the *Turnkey Solutions (discretionary portfolio management)*, this method of remuneration can also be applied to non-discretionary accounts. The *Partnership Account™* option allows you to replace commissions with a fixed percentage management fee. This would be of interest to clients who wish to have an actively managed, diversified portfolio and prefer to pay an annual fee rather than seeing a commission or spread associated with each transaction. Certain criteria apply.

Administration fees

As in all financial institutions, fees are charged for specific services, such as the administration work involved in offering our self-directed *Portfolio* RRSPs, RESPs or RRIFs and *Transition* RRSPs. Aside from these registered plans, administration fees are usually charged only in particular situations or for particular services, which are listed in the brochure *Disclosures and information about the protection of your assets*.

How are your assets protected?

Protecting your assets is one of our highest concerns.

Anyone who decides to invest his or her money soon becomes familiar with the notion of risk. And one of every investor's first and most important decisions is to establish a personal level of tolerance with respect to market volatility – an easy task when based on a judicious investment strategy. However, choosing a financial institution to which to entrust your money must not be associated with risk of any sort. Your choice should not be a gamble, and at no time should your money be endangered by the possible insolvency of the firm concerned.

National Bank Financial clients are particularly fortunate in this regard, as they benefit from the most solid protection the industry has to offer. The three major elements of this protection are:

- coverage by the Canadian Investor Protection Fund, in the highly unlikely event that our firm were to become insolvent;
- extremely rigorous procedures for administering all assets on deposit;
- and the recognized solidity of our firm.

Please read on for more information.

Canadian Investor Protection Fund

Coverage above and beyond deposit insurance.

Membership in the Investment Dealers Association of Canada means that all funds entrusted to us are covered by the Canadian Investor Protection Fund (CIPF), created to protect the investing public in the event of the insolvency or bankruptcy of a member firm.

CIPF insures your accounts for up to \$1 million. It also provides separate coverage of up to \$1 million for your combined registered retirement accounts (RRSP, RRIF, LIRA, LIF). Certain other types of account (RESP, intervivos trust, etc.) are also protected, each with a separate \$1 million coverage. Full details can be found in the Canadian Investor Protection Fund brochure, available from your National Bank Financial Investment Advisor or on the Internet at www.cipf.ca.

Note that cash balances of up to \$100,000 in registered plan accounts are covered by traditional deposit insurance as well, since these amounts are held by our registered plan trustee.

Additional information

Fixed-income securities, such as bonds, strip bonds and treasury bills, enjoy their own guarantee with respect to yield and maturity value. This guarantee is unconditional and unlimited for securities issued by a government or one of its agencies. However, the value of other securities, such as common stocks or investment funds, is dependent on market fluctuations and is in no way guaranteed. Lastly, as National Bank of Canada and National Bank Financial are separate corporations, the securities offered by the latter are not guaranteed by the former, with the exception of certain of those issued by the Bank itself.

Rigorous management practices

The securities industry in Canada increasingly depends on electronic transfers, which tend to eliminate the risks associated with transporting securities in physical form. This changing reality involves highly advanced safety mechanisms.

A fundamental difference

An important distinction should be made between the procedures used by investment dealers to safeguard your securities and the way banks handle the money you deposit. When you leave money on deposit at a bank, in either a demand account or a term deposit, your funds are pooled together with those of other clients. The bank then lends that money to individuals or corporations in need of capital. Your relationship with the bank is therefore one of a creditor: you are lending the bank your cash in exchange for a stated rate of interest and a promise of repayment. Your loan is secured by the bank's assets and guaranteed by deposit insurance to a maximum of \$100,000. In dealing with us, or any other investment dealer, you are not a creditor – you have simply left your securities in “storage” until such time as you decide to sell them.

How are securities held?

With few exceptions, none of the securities that you purchase through our firm are sent to you or physically held on our premises. Instead, they are entrusted to the custody of centralized clearing agencies, which serve to make financial transactions conducted in Canada both more efficient and more secure.

Clearing agencies operate in this manner: when Smith, a client of financial institution ABC, sells 100 shares of Alcan to Jones, a client of financial institution XYZ, the change of ownership is simply reflected by offsetting journal entries in each institution's account with the clearing agency. Corresponding entries in each firm's internal accounts are then made: ABC will show the 100 shares being removed from Smith's account and replaced by a cash sum equivalent to the amount of the transaction, and XYZ will show the same number of shares being added to Jones' account in exchange for the same cash sum. In the past, when ownership was reflected by physical certificates held directly by the financial institution, the Alcan share certificate would have had to be returned to the transfer agent to be destroyed and replaced by another certificate issued in the name of the new owner. Given that millions of securities transactions are initiated by Canadian investors each year, it is evident that problems would ensue if each transaction still involved cancelling one certificate and issuing another. Furthermore, the settlement period for securities transactions has been shortened to three business days, and eventually will drop to one business day. This reduction of the time allowed for settlement makes the efficiency of centralized clearing even more essential.

Banks, trust companies and investment dealers have worked together to create these clearing agencies, and it is standard industry practice to entrust them with the custody of negotiable securities whenever possible.* Like all other Canadian financial institutions, we deal with the following clearing agencies: the Canadian Depository for Securities Limited (CDS) and the Canadian Derivatives Clearing Corporation (CDCC) for Canadian securities, the Depository Trust Corporation (DTC) for U.S. securities and Euroclear for European securities.

* Exceptions include treasury bills, municipal bonds, government-issued savings bonds and guaranteed investment certificates, which we keep in our vaults in Toronto and Montreal.

The Canadian Depository for Securities Limited (CDS)

CDS, created in 1970, is Canada's primary depository system, clearing more than 90% of all securities transactions made on Canadian financial markets. CDS is owned jointly by the Investment Dealers Association of Canada (IDA), the members of the Toronto Stock Exchange and Canada's largest banks and trust companies. CDS is headquartered in Toronto and has offices in Montreal, Calgary, Vancouver and Halifax. Its membership includes 11 banks, 12 trust companies and 69 investment dealers. CDS currently holds over \$2 trillion on deposit and handles over 50 million securities trades annually.

The securities held by CDS in physical form are kept in vaults located in Vancouver, Calgary, Toronto and Montreal. As a general rule, there is a direct relationship between the location of the issuer's head office or its transfer agent and the city in which CDS keeps the certificates. For instance, Province of Ontario and Ontario Hydro bonds are customarily held in CDS's Toronto vault, while Province of British Columbia bonds are kept in its Vancouver vault. In other words, the factor that determines a certificate's physical location is usually your choice of investment, rather than the address of the financial institution handling your transactions.

Segregation

The term "in segregation" refers to how securities held for our clients are accounted for at CDS. "In segregation" means that our clients' fully paid securities are accounted for separately from margin securities or any other security that we hold, such as those which are not completely paid, or those belonging to our firm. This ensures that in the highly unlikely event that National Bank Financial were to become insolvent, creditors seeking repayment would have absolutely no access to securities owned by our clients. Highly evolved accounting mechanisms and regular verification by independent auditors as well as by the industry's self-regulating organizations serve to enforce this fundamental segregation rule.

A system that has proven its worth

The safekeeping practices used by Canadian investment dealers have evolved over time to keep pace with the growth of our industry. Millions of shares and billions of dollars of bonds and treasury bills are traded each day, with an exceedingly low rate of error. This system, although complex, makes it possible to have efficient, liquid markets while providing ample protection for Canadian investors. If you have any questions about the above, or would like additional information about the operational side of the securities industry, your Investment Advisor will be glad to be of service.

National Bank Financial: A century of rock-solid service

The best protection for your money is in the proven strength of your financial institution.

Founded in 1902, National Bank Financial has had over a century of experience in developing sound, cautious business practices. This has helped us successfully adapt to the ongoing evolution of every different economic environment.

Today, after having witnessed the countless socio-political and economic changes that have characterized the 20th century, we remain resolutely on the same course. In each and every circumstance, we provide our clients with the assurance that they have placed their trust in a firm whose strength is unrivalled – a firm that will be with them today and tomorrow, helping them reach their investment goals.

With over \$42 billion in assets, National Bank Financial is one of the six largest investment dealers in Canada. Approximately 750 Investment Advisors serve close to 300,000 clients from coast to coast. National Bank Financial is a subsidiary of National Bank of Canada, one of the country's seven largest chartered Canadian banks, which boasts an asset base of approximately \$84 billion, providing us with a reliable, dynamic partnership.

These facts and figures speak for themselves, and attest to the wisdom of our clients' choice in selecting our firm.

How to reach us

*With 86 branches coast to coast,
we are easily accessible.*

To contact us, you may visit our Web site, **www.nbfinc.com**, to find the branch nearest you; simply click on the “Find us” button. Or, for general investor information, feel free to e-mail us at **info@nbf.ca**.

We look forward to hearing from you.

MANAGING
THE WORLD'S
MOST IMPORTANT
INVESTMENTS:

YOURS!



www.nbf.ca

