

**ANNUAL INFORMATION FORM
("AIF")**

Investment Fund:

NB SPLIT CORP.

Securities Covered by AIF:

**PREFERRED SHARES (TSX: NBF.PR.A)
and
CAPITAL SHARES (TSX: NBF)**

Period Covered by AIF:

JANUARY 1, 2010 TO DECEMBER 31, 2010

Date of AIF:

March 31, 2011

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SECTION 1 - CERTAIN DEFINITIONS

In this AIF:

<u>Term:</u>	<u>Means:</u>
<i>"Administrator"</i>	FA Administration Services Inc.
<i>"Auditor"</i>	Deloitte & Touche LLP
<i>"Board of Directors"</i>	Board of directors of the Company
<i>"Business Day"</i>	Any day, except for a Saturday or Sunday, which is not a statutory or civic holiday in the City of Toronto, Ontario
<i>"Capital Shares"</i>	The Class A Capital Shares of the Company
<i>"CDS"</i>	CDS Clearing and Depository Services Inc.
<i>"CICA"</i>	Canadian Institute of Chartered Accountants
<i>"Company"</i>	NB Split Corp.
<i>"Custodian"</i>	State Street Trust Company Canada
<i>"DBRS"</i>	DBRS Limited
<i>"GAAP"</i>	Generally accepted accounting principles
<i>"Holder"</i>	A holder who holds any of the Securities of the Company, being the Class A Preferred Shares or Class A Capital Shares
<i>"IRC"</i>	Independent Review Committee
<i>"National Bank Shares"</i>	Common shares of the National Bank of Canada
<i>"NAV"</i>	Net asset value
<i>"NBF"</i>	National Bank Financial Inc.
<i>"NI 81-102"</i>	National Instrument 81-102 – <i>Mutual Funds</i>
<i>"NI 81-106"</i>	National Instrument 81-106 – <i>Investment Fund Continuous Disclosure</i>
<i>"NI 81-107"</i>	National Instrument 81-107 – <i>Independent Review Committee for Investment Funds</i>
<i>"Preferred Shares"</i>	The Class A Preferred Shares of the Company
<i>"Prospectus"</i>	The final prospectus of the Company dated January 30, 2007

“ Registrar ”	Computershare Investor Services Inc.
“ Securities ”	The Preferred Shares and/or Capital Shares of the Company, as the case may be
“ Tax Act ”	<i>Income Tax Act</i> (Canada) and the regulations thereunder
“ TSX ”	Toronto Stock Exchange
“ Unit ”	Consists of two Capital Shares and one Preferred Share

Unless otherwise indicated, the information set out in this AIF is current to December 31, 2010.

SECTION 2 - NAME, FORMATION AND HISTORY OF THE COMPANY

2.1 Full Name and Registered Office

Name: NB Split Corp.

Head Office: 130 King Street West, Suite 3200, Toronto, Ontario, M5H 3T9

2.2 Formation

Structure: Mutual fund corporation

Laws: Province of Ontario

Date: December 15, 2006

Manner: Articles of incorporation dated December 15, 2006 (the “**Articles**”)

Termination: The Company will terminate on February 15, 2012

2.3 Constating Documents

The Articles were amended on January 30, 2007 to:

- (1) limit the business that the Company may engage in, as set out in the Prospectus;
- (2) add an unlimited number of (i) Capital Shares, (ii) Preferred Shares and (iii) Class B capital shares, Class C capital shares, Class D capital shares, Class E capital shares, Class B preferred shares, Class C preferred shares, Class D preferred shares and Class E preferred shares, all issuable in series (except for the Capital Shares and the Preferred Shares), to the authorized share capital of the Company;
- (3) remove the rights, privileges, restrictions and conditions attaching to the then existing Class J Shares;

- (4) provide for the rights, privileges, restrictions and conditions attaching to the Class J Shares, Capital Shares, Preferred Shares, Class B capital shares, Class C capital shares, Class D capital shares, Class E capital shares, Class B preferred shares, Class C preferred shares, Class D preferred shares and Class E preferred shares;
- (5) remove the restrictions on the transfer of shares of the Company; and
- (6) remove certain restrictions on who may be a shareholder of the Company.

2.4 Previous Name(s) of the Company

None.

2.5 Major Events

- (1) On *December 15, 2006*, the Company was created.
- (2) On *January 30, 2007*, the Administrator entered into an administration agreement (the "**Administration Agreement**") with the Company to provide administrative services to, and administer the ongoing operations of the Company.
- (3) On *February 22, 2007*, pursuant to the Prospectus and an agency agreement dated January 30, 2007, between NBF, CIBC World Markets Inc., RBC Dominion Securities Inc., TD Securities Inc., HSBC Securities (Canada) Inc., Canaccord Capital Corporation, Desjardins Securities Inc., Raymond James Ltd., Blackmont Capital Inc. and Wellington West Capital Inc. (collectively, the "**Agents**") and the Company, the Company issued 1,436,369 Preferred Shares at a price of \$32.72 per Preferred Share and 2,872,738 Capital Shares at a price of \$18.45 per Capital Share (the "**Offering**"). The Preferred Shares and Capital Shares began trading on the TSX under the symbols "*NBF.PR.A*" and "*NBF*", respectively. Under the Offering, the Company raised gross proceeds of approximately \$100,000,000.
- (4) On *March 12, 2007*, the Company issued an additional 85,319 Preferred Shares and 170,638 Capital Shares pursuant to the Prospectus upon partial exercise of the over-allotment option granted to the Agents who offered the Securities for sale raising gross proceeds of approximately \$5,940,000. The Agents received a fee equal to \$0.982 for each Preferred Share sold and \$1.107 for each Capital Share sold and were reimbursed for reasonable out-of-pocket expenses incurred by them.
- (5) On *August 27, 2009*, the Company announced that DBRS upgraded the rating on the Preferred Shares from Pfd-4 (low) with a Stable trend to Pfd-3.
- (6) On *December 24, 2009*, the Company redeemed 324,208 Preferred Shares on a *pro rata basis* at a price of \$32.72 per Preferred Share as a result of the special annual retraction of Capital Shares by the Holders thereof.

- (7) On *December 29, 2010*, the Company redeemed 235,150 Preferred Shares on a *pro rata basis* at a price of \$32.72 per Preferred Share as a result of the special annual retraction of Capital Shares by the Holders thereof.
- (8) On *March 16, 2011*, the Company announced that DBRS upgraded the rating on the Preferred Shares from Pfd-3 to Pfd-3 (high).

SECTION 3 - INVESTMENT OBJECTIVES, RESTRICTIONS AND PRACTICES

3.1 Investment Objectives

The Company's investment objectives with respect to the Preferred Shares are:

- (a) to provide Holders of Preferred Shares with fixed cumulative preferential quarterly cash distributions in the amount of \$0.3886 per Preferred Share to yield 4.75% per annum on the original issue price of the Preferred Shares; and
- (b) on or about the Redemption Date, to pay the Holders of Preferred Shares an amount equal to the lesser of the original issue price of \$32.72 and the Unit Value (as defined under Section SECTION 5 - *Calculation of Unit Value*), through the redemption of each Preferred Share held on the Redemption Date.

The Company's investment objectives with respect to the Capital Shares are:

- (a) to enable Holders of Capital Shares to participate in any capital appreciation in the National Bank Shares; and
- (b) to enable Holders of Capital Shares to benefit from any increase in the dividends paid on the National Bank Shares in the event that the dividends on the National Bank Shares exceed the amount of the fixed Preferred Share distributions and all expenses of the Company.

The investment objectives with respect to the Preferred Shares and the Capital Shares above are collectively referred to as the "**Investment Objectives**".

3.2 Investment Strategy

The Company was formed to hold National Bank Shares in order to generate quarterly fixed cumulative preferential distributions for the Holders of the Preferred Shares and to enable the Holders of the Capital Shares to participate in any capital appreciation in the National Bank Shares and to benefit from any increase in the dividends payable on the National Bank Shares.

While the Company is technically considered to be a mutual fund corporation under the securities legislation of certain provinces of Canada, the Company is not a conventional mutual fund and has received exemptions from certain requirements of NI 81-102.

The Company differs from conventional mutual funds in a number of respects, most notably as follows: (i) while the Preferred Shares and the Capital Shares of the Company may be

surrendered at any time for redemption, the redemption price is payable monthly whereas the securities of most conventional mutual funds are redeemable daily; (ii) the Preferred Shares and Capital Shares of the Company have a stock exchange listing whereas the securities of most conventional mutual funds do not; and (iii) unlike most conventional mutual funds, the Preferred Shares and Capital Shares are not offered on a continuous basis.

The Company entered into a revolving credit facility with a Canadian chartered bank which may be used, among other things, to fund the payment of a portion of the distributions on the Preferred Shares on a temporary basis, if necessary. The interest rate, fees and expenses under the revolving credit facility are typical of similar credit facilities of this nature. If utilized, the Company expects to repay any amounts borrowed under the revolving credit facility within one year of the date of such borrowing. Any amount outstanding under the revolving credit facility will be repaid using one or more of the following: (i) dividends received on the National Bank Shares held by the Company; (ii) proceeds from the sale of such National Bank Shares; or (iii) revenue from securities lending. To the extent that the revolving credit facility is used, the Company will pledge National Bank Shares as collateral for amounts borrowed thereunder. The amount outstanding under the revolving credit facility at any time will not exceed 5.0% of the aggregate market value of the National Bank Shares held by the Company at the time of borrowing.

See also, Section 8.4 – *Securities Lending, Repurchase Transactions, Etc.*

3.3 Investment Restrictions

The Company is subject to certain investment criteria that, among other things, limit the equity securities that the Company may acquire to National Bank Shares. In addition to the foregoing, the Company has adopted the standard investment restrictions and practices set forth in NI 81-102, which are designed in part to ensure that the investments of the Company are diversified and relatively liquid and to ensure the proper administration of the Company.

3.4 Variances From Investment Objectives, Strategy, Practices & Restrictions

The Company has not sought nor received the approval of the securities regulatory authorities to vary any of the investment restrictions and practices contained in securities legislation, except as follows:

- (a) On January 29, 2007, the Company obtained relief from sections 2.1(1), 2.6(a), 3.3, 10.3, 10.4(1), 12.1(1) and 14.1 of NI 81-102 in order to permit the Company to conduct its operations as described in the Prospectus.

The Company has not sought nor relied on the approval of the IRC and the relevant requirements of NI 81-107 to vary any of the investment restrictions and practices contained in securities legislation, nor to implement a reorganization with, or transfer of assets to, another fund or to proceed with a change of auditor of the Company.

The Company's investment criteria may not be changed without the approval of the Holders of the Preferred Shares and the Capital Shares voting together as a class by a two-thirds majority vote of such Holders who vote in person or by proxy at a meeting called for such purpose.

SECTION 4 - SECURITIES OFFERED BY THE COMPANY

4.1 Authorized and Issued Securities

The authorized capital of the Company consists of an unlimited number of Capital Shares, an unlimited number of Preferred Shares, an unlimited number of class B, class C, class D and class E capital shares, issuable in series, an unlimited number of class B, class C, class D and class E preferred shares, issuable in series, and an unlimited number of class J shares (the “**Class J Shares**”).

The classes of capital shares other than the Capital Shares and the classes of preferred shares other than the Preferred Shares are collectively referred to as the “**Subsequent Classes**”. If shares of the Subsequent Classes are issued, the holders of any such shares will have no rights in respect of the National Bank Shares.

References in this AIF to a “**Shareholder**” means, unless the context otherwise requires, the owner of the beneficial interest in such Subsequent Classes.

As at March 21, 2011, there were 522,124 Capital Shares, 522,124 Preferred Shares and 150 Class J Shares issued and outstanding.

4.2 Class J Shares

The holders of the Class J Shares are entitled to receive dividends, if, as and when declared by the Board of Directors. However, holders of Class J Shares are not entitled to receive any dividends on the Class J Shares at any time when there are any Capital Shares or Preferred Shares issued and outstanding unless approved by all of the independent directors of the Company.

The holders of the Class J Shares are entitled to one vote per share. The Class J Shares of the Company are retractable at any time. For retractions occurring at a time when any Capital Shares or Preferred Shares are outstanding, the retraction price will be \$1.00 per share; for other retractions, the retraction price will be based on the NAV of the Company. The Class J Shares are redeemable by the Company at any time for a redemption price equal to \$1.00 per share, being the amount paid-up thereon. The Class J Shares rank subsequent to both the Capital Shares and the Preferred Shares with respect to dividends and with respect to distributions upon a retraction, redemption or reduction of capital and distributions on the dissolution, liquidation or winding-up of the Company. Each Class J Share entitles the holder thereof to participate in the distribution of the remaining net assets of the Company on a dissolution, liquidation or winding-up of the Company.

The rights, privileges, restrictions and conditions attaching to the Class J Shares may be amended only with the approval of the holders of Class J Shares subject to a minimum requirement that such approval shall be given either in writing by a resolution signed by all holders of the Class J Shares entitled to vote thereon or by a resolution passed at a meeting of holders of Class J Shares at which holders of at least one-third of the outstanding Class J Shares

are present in person or are represented by proxy and carried by not less than two-thirds of the votes cast at such meeting.

NB Split Holdings Corp. owns all of the 150 issued and outstanding Class J Shares.

4.3 Subsequent Classes of Shares

The Subsequent Classes are issuable in series. Subject to the Articles, the Board of Directors is authorized to fix, before issuance, the designation, rights, privileges, restrictions and conditions attaching to the shares of each series. Except with respect to matters as to which the Holders are entitled by law to vote or as otherwise provided in the Articles, the Holders will not be entitled to vote at meetings of shareholders.

4.4 Certain Provisions of the Capital Shares

(1) Investment Objective

The Capital Shares provide their Holders with a leveraged investment, the value of which is linked to changes in the market price of the National Bank Shares held by the Company. Holders of Capital Shares will be entitled on redemption to the benefit of any capital appreciation in the market price of the National Bank Shares after accrual for administrative and operating expenses of the Company and to benefit from any increase in the dividends payable on the National Bank Shares. The fixed distributions on the Preferred Shares will be funded from the dividends received on the National Bank Shares. If necessary, any shortfall in the distributions on the Preferred Shares will be funded by proceeds from the sale of National Bank Shares. In the event that the dividends paid on the National Bank Shares exceed the amount of the fixed Preferred Share distributions and all expenses of the Company, the excess amount will be paid as dividends on the Capital Shares, as determined by the Board of Directors. If the Unit Value (as defined under SECTION 5 - *Calculation of Unit Value*) is less than or equal to \$32.72 on the Redemption Date (as defined under Section 3.1 - *Investment Objectives*), the Capital Shares will have no value on redemption.

(2) Retraction

The Capital Shares may be surrendered for retraction at any time by the Holders. Holders may surrender their Capital Shares for retraction by exercising a Regular Retraction, a Concurrent Retraction or a Special Annual Retraction, all as described below. Retraction payments for Capital Shares will be made on the 15th day of each month or, where such day is not a Business Day, the preceding Business Day (a "**Retraction Payment Date**") provided the Capital Shares have been surrendered for retraction on or before the tenth Business Day before such Retraction Payment Date (the "**Valuation Date**").

Each retraction privilege described below must be exercised by causing written notice to be received by the Company within the notice periods prescribed herein and in the manner described. Each notice must indicate whether the Capital Shares are being retracted pursuant to a Regular Retraction, Concurrent Retraction or a Special Annual Retraction and, where there is an option, how the Holder wishes to be paid for his or her retracted Capital Shares. Capital

Shares (and Preferred Shares in the case of a Concurrent Retraction or a Special Annual Retraction) will be irrevocably surrendered for retraction upon the delivery of such notice to CDS through a CDS Participant (as defined in Section 4.6 – *Book-Entry Only System*).

(3) **Regular Retraction**

A Holder who surrenders Capital Shares under a regular retraction (a “**Regular Retraction**”) will receive for every two Capital Shares retracted on the Retraction Payment Date the amount, if any, by which 95% of the Unit Value exceeds the aggregate of (i) the average cost to the Company, including commissions, of purchasing a Preferred Share in the market; and (ii) \$0.40. The retraction price of a Capital Share may be more or less than the market price of a Capital Share at the time of retraction.

(4) **Concurrent Retraction**

A Holder who surrenders two Capital Shares together with one Preferred Share under a concurrent retraction (a “**Concurrent Retraction**”) will receive on the Retraction Payment Date an amount equal to 95% of the Unit Value less \$0.40.

(5) **Special Annual Retraction**

A Holder of Capital Shares who surrenders two Capital Shares under a special annual retraction (a “**Special Annual Retraction**”) for the Retraction Payment Date occurring on December 15 in each year commencing in 2008 or, where such day is not a Business Day, the preceding Business Day (each such date being an “**Annual Retraction Payment Date**”) will receive on the applicable Annual Retraction Payment Date the amount, if any, by which the Unit Value exceeds \$32.72.

A Holder who surrenders two Capital Shares together with one Preferred Share under a Special Annual Retraction will receive on the applicable Annual Retraction Payment Date an amount equal to the Unit Value.

Provided a Holder of Capital Shares surrenders 10,000 or more Capital Shares for retraction under a Special Annual Retraction and tenders either one Preferred Share for every two Capital Shares retracted or a cash amount equal to \$32.72 for every two Capital Shares retracted plus in each case a \$0.025 delivery charge for every two Capital Shares retracted payable to the Administrator, such Holder may elect to receive his or her *pro rata* share of the National Bank Shares (rounded down to the nearest whole share) represented by the Capital Shares retracted plus (minus) the Residual Amount (as defined under SECTION 5 - *Calculation of Unit Value*) (payable at the Company’s discretion in cash or by adjustment to the number of National Bank Shares to be delivered to the Holder) as at the relevant Valuation Date, all as determined by the Board of Directors. For greater certainty, the Preferred Shares will not be treated as liabilities and any tax loss carryforwards will not be treated as an asset for these purposes. Any cash so tendered is to be tendered to CDS through a CDS Participant.

(6) **General**

If any Capital Shares are surrendered for retraction (other than in the event of a Concurrent Retraction or a Special Annual Retraction where Preferred Shares are surrendered to the Company), the Company will as soon as practicable thereafter redeem or purchase for cancellation that number of Preferred Shares as is equal to one-half the number of Capital Shares so retracted. The Company will sell National Bank Shares owned by the Company to the extent required to fund such redemptions or purchases and to pay the retraction price for the Capital Shares so retracted. Any and all Capital Shares which have been surrendered to the Company for retraction prior to the relevant Valuation Date are deemed to be outstanding until (but not after) the close of business on the relevant Retraction Payment Date or Annual Retraction Payment Date, unless not redeemed thereon, in which event such Capital Shares shall remain outstanding and be considered to be surrendered for retraction on the following Retraction Payment Date.

The Company will be obligated to redeem Capital Shares only to the extent that the redemption would not be contrary to any applicable law. If the Company is unable for this reason to redeem all of the Capital Shares surrendered for payment on a Retraction Payment Date or Annual Retraction Payment Date, it will redeem on each Retraction Payment Date thereafter, on a *pro rata* basis from shareholders who so surrendered shares, disregarding fractions, such number of Capital Shares not so redeemed as the Company determines it is then permitted to redeem, having regard to its obligation to concurrently redeem or otherwise acquire one Preferred Share for every two Capital Shares so redeemed. The Company will repeat such process on each successive Retraction Payment Date until all such Capital Shares have been redeemed.

(7) **Redemption**

Any Capital Shares outstanding on the Redemption Date will be redeemed by the Company on such date. On such redemption, each Holder will receive for every two Capital Shares redeemed, at the Holder's option, either:

- (a) the amount, if any, by which the Unit Value exceeds \$32.72; or
- (b) provided the Holder tenders to the Company at least 20 Business Days prior to the Redemption Date, a cash amount of \$32.72 for every two Capital Shares redeemed, such Holder's *pro rata* share of the National Bank Shares (rounded down to the nearest whole share) plus (minus) the Residual Amount (payable at the Company's discretion in cash or by adjustment to the number of National Bank Shares to be delivered to the Holder) as at the Redemption Date, all as determined by the Board of Directors. For greater certainty, the Preferred Shares will not be treated as liabilities and any tax loss carryforwards will not be treated as an asset for these purposes. Any cash so tendered is to be tendered to CDS through a CDS Participant.

Notice of redemption will be given to CDS Participants holding Capital Shares on behalf of the beneficial owners thereof at least 45 days prior to the Redemption Date. A Holder of Capital Shares must give written notice to CDS through a CDS Participant at least 20 Business Days

prior to the Redemption Date indicating how the Holder chooses to be paid for his or her redeemed Capital Shares. Holders who do not give the required Business Days' notice will be deemed to have chosen to be paid in cash.

(8) **Automatic Redemption**

If for two consecutive Valuation Dates the aggregate market value of the National Bank Shares held by the Company is \$15,000,000 or less, then the Board of Directors has the right to redeem at the next Annual Retraction Payment Date: (i) all Capital Shares then outstanding for a cash amount for every two Capital Shares equal to the redemption price (as described in 4.4(7)-*Redemption* above) calculated as if such date was the Redemption Date; and (ii) all Preferred Shares then outstanding for a cash amount per share equal to \$32.72. In such circumstances, the Company will not provide Holders of Capital Shares and Preferred Shares with 45 days' prior notice of the redemption but will forthwith issue a press release and will provide Holders of Capital Shares and Preferred Shares with notice of the redemption as soon as practicable.

(9) **Distributions**

Holders of Capital Shares are entitled to receive any dividends that the Board of Directors may declare subject to the prior rights of the Holders of the Preferred Shares. It is currently the policy of the Board of Directors to declare and pay quarterly dividends in an amount equal to the dividends received by the Company on the National Bank Shares minus the distributions payable on the Preferred Shares and accruals for all administrative and operating expenses. The amount of quarterly distributions actually paid on the Capital Shares, if any, will vary depending upon the value of the National Bank Shares acquired and the actual dividends paid on the National Bank Shares from time to time.

In addition, if the Company realizes capital gains on the sale of National Bank Shares and would be liable to pay tax thereon, the Company may declare a capital gains dividend on the Capital Shares. Such dividend will minimize any tax payable by the Company and, as such, should benefit the Company and its shareholders. If such dividend was to be payable, the Company expects that such dividend would be payable in Capital Shares rather than in cash. As a result, the cash which would otherwise have been distributed or used to pay tax will remain invested in National Bank Shares for the benefit of the Holders of Capital Shares. A capital gains dividend payable in Capital Shares will increase the aggregate adjusted cost base to the Holders of Capital Shares of their Capital Shares. Immediately following payment of such dividend in Capital Shares, the number of Capital Shares outstanding will be automatically consolidated such that the number of Capital Shares outstanding will be equal to the number of Capital Shares outstanding immediately prior to such payment.

The following is a table showing the distributions per Capital Share announced by the Company during 2010 and the quarter-ending February 28, 2011:

	<u>Distribution</u>
February, 2010	\$0.0339
May	\$0.0339
August	\$0.0339

November	\$0.0339
February, 2011	\$0.0339

(10) **Voting Rights**

Except as required by law, Holders of Capital Shares will not be entitled to receive notice of, to attend or to vote at any meetings of shareholders of the Company (including with respect to reductions of capital and share consolidations) other than meetings of the Holders of Capital Shares. Holders of Capital Shares will not be entitled to vote any of the National Bank Shares held by the Company. The independent directors of the Company will determine the manner in which the National Bank Shares will be voted at any meeting of the shareholders of the National Bank of Canada.

(11) **Modifications**

The Articles provide that the Company shall not, without the prior approval of the Holders of Capital Shares, (i) amend the rights, privileges, restrictions and conditions attached to the Capital Shares; (ii) amend the provisions in the Articles relating to the restrictions on the business that the Company may carry on; (iii) change (other than a change permitted by applicable law without the consent of securityholders of a mutual fund) any contract or enter into any contract as a result of which the basis for calculating the fees or other expenses that are charged to the Company could result in an increase in charges to the Company; (iv) change the Company's auditors; or (v) wind up or dissolve voluntarily.

In addition, approval of amendments to the provisions of the Capital Shares may be given by a special resolution carried by an affirmative vote of not less than two thirds of the votes cast at a meeting of the Holders of Capital Shares duly called and held for such purpose at which the Holders of 10% of the outstanding Capital Shares are present in person or represented by proxy or, if no quorum is present at such meeting, at an adjourned meeting at which the Holders of Capital Shares then present would constitute the quorum.

(12) **Priority**

The Capital Shares will rank subsequent to the Preferred Shares and prior to the Class J Shares with respect to the payment of dividends, distributions upon a redemption, retraction or return of capital and distributions upon a dissolution, liquidation or winding-up of the Company.

4.5 Certain Provisions of the Preferred Shares

(1) **Distributions**

Holders of the Preferred Shares will be entitled to receive quarterly fixed cumulative preferential distributions equal to \$0.3886 per Preferred Share. On an annualized basis, this would represent a yield on the Preferred Share offering price of approximately 4.75%. Quarterly distributions on the Preferred Shares are expected to be paid by the Company on or before the 15th day of March, June, September and December in each year. Such distributions are expected to consist of Ordinary Dividends (as defined under Section 10.8 - *Tax Treatment of*

Distributions on Preferred and Capital Shares) but may include non-taxable returns of capital and capital gains dividends.

Preferred Share distributions will be funded from the dividends received on the National Bank Shares. If necessary, any shortfall in the distributions on the Preferred Shares will be funded by proceeds from the sale of National Bank Shares. Based on the current dividends paid on the National Bank Shares, it is not expected that the Company would have to sell any National Bank Shares to fund the Preferred Share distributions. However, future changes in the dividend policy by the National Bank of Canada may require the Company to further reduce the NAV per Unit in order to sustain the dividend on the Preferred Shares.

Any portion of Preferred Share distributions which is derived from the proceeds of sale of the National Bank Shares will, for tax purposes, consist of a non-taxable return of capital or a combination of a capital gains dividend and a non-taxable return of capital.

The following is a table showing the distributions per Preferred Share announced by the Fund during 2010 and the quarter-ending February 28, 2011:

	<u>Distribution</u>
February, 2010	\$0.3886
May	\$0.3886
August	\$0.3886
November	\$0.3886
February, 2011	\$0.3886

(2) **Retraction**

The Preferred Shares may be surrendered for retraction at any time. Retraction payments for Preferred Shares will be made on the Retraction Payment Date provided the Preferred Shares have been surrendered for retraction on or before the Valuation Date.

The retraction privilege described below must be exercised by causing written notice to be received by the Company within the notice period prescribed herein and in the manner described under Section 4.6 - *Book-Entry Only System*. Preferred Shares will be irrevocably surrendered for retraction upon the delivery of such notice to CDS through a CDS Participant.

A Holder who surrenders a Preferred Share for retraction will receive on the Retraction Payment Date the amount, if any, by which 95% of the Unit Value exceeds the aggregate of (i) the average cost to the Company, including commissions, of purchasing two Capital Shares in the market; and (ii) \$0.40.

(3) **General**

If any Preferred Shares are surrendered for retraction (other than in the event of a Concurrent Retraction or a Special Annual Retraction where Capital Shares are surrendered to the Company), the Company will as soon as practicable thereafter purchase for cancellation that number of Capital Shares which is equal to twice the number of Preferred Shares so retracted. The Company will sell National Bank Shares owned by the Company to the extent required to

fund such redemptions or purchases and to pay the retraction price for the Preferred Shares so retracted. Preferred Shares which have been surrendered to the Company for retraction prior to the relevant Valuation Date are deemed to be outstanding until (but not after) the close of business on the relevant Retraction Payment Date, unless not redeemed thereon, in which event such Preferred Shares shall remain outstanding and be considered to be surrendered for retraction on the following Retraction Payment Date.

The Company will be obligated to redeem Preferred Shares only to the extent that such redemption would not be contrary to any applicable law. If the Company is unable for this reason to redeem all of the Preferred Shares surrendered for payment on a Retraction Payment Date, it will redeem on each Retraction Payment Date thereafter, on a *pro rata* basis from shareholders who so surrendered shares, disregarding fractions, such number of Preferred Shares not so redeemed as the Company determines it is then permitted to redeem, having regard to its obligation to concurrently redeem or otherwise acquire two Capital Shares for each Preferred Share redeemed. The Company will repeat such process on each successive Retraction Payment Date until all such Preferred Shares have been redeemed.

(4) **Redemption**

Any Preferred Shares still outstanding on the Redemption Date will be redeemed by the Company on such date at a price per share equal to the lesser of \$32.72 and the Unit Value.

In addition, the Company may redeem Preferred Shares on any Annual Retraction Payment Date for \$32.72 per share. The Company will only redeem Preferred Shares in these circumstances to the extent that unmatched Capital Shares have been tendered for retraction under the Special Annual Retraction. Where less than all the Preferred Shares are to be so redeemed, Preferred Shares shall be redeemed on a *pro rata* basis or in such other manner as is approved by the Board of Directors.

Notice of redemption will be given to CDS Participants holding Preferred Shares on behalf of the beneficial owners thereof at least 45 days prior to the Redemption Date and at least seven Business Days prior to any other date of redemption.

(5) **Redemption at Premium**

Preferred Shares may be redeemed by the Company at any time prior to the Redemption Date at a price which, beginning February 15, 2008, was equal to \$34.03 and which has declined by \$0.33 each year to be equal to \$32.72 after February 15, 2011.

Notice of such redemption will be given to CDS Participants holding Preferred Shares on behalf of the beneficial owners thereof at least seven Business Days prior to the date of redemption.

(6) **Automatic Redemption**

If for two consecutive Valuation Dates the aggregate market value of the National Bank Shares held by the Company is \$15,000,000 or less, then the Board of Directors has the right to redeem at the next Annual Retraction Payment Date: (i) all Capital Shares then outstanding for a cash amount for every two Capital Shares equal to the redemption price (as described in 4.5(4)-

Redemption above) calculated as if such date was the Redemption Date; and (ii) all Preferred Shares then outstanding for a cash amount per share equal to \$32.72. In such circumstances, the Company will not provide Holders of Capital Shares and Preferred Shares with 45 days' prior notice of the redemption but will forthwith issue a press release and will provide Holders of Capital Shares and Preferred Shares with notice of the redemption as soon as practicable.

(7) **Voting Rights**

Except as required by law, Holders of Preferred Shares will not be entitled to receive notice of, to attend or to vote at any meeting of shareholders of the Company (including with respect to reductions of capital and share consolidations of the Capital Shares) other than meetings of the Holders of Preferred Shares. Holders of Preferred Shares will not be entitled to vote any of the National Bank Shares held by the Company. The independent directors of the Company will determine the manner in which the National Bank Shares will be voted at any meeting of the shareholders of National Bank of Canada.

(8) **Modifications**

The Articles provide that the Company shall not, without the prior approval of the Holders of Preferred Shares, (i) amend the rights, privileges, restrictions and conditions attaching to the Preferred Shares; (ii) amend the provisions in the Articles relating to the restrictions on the business that the Company may carry on; (iii) change (other than a change permitted by applicable law without the consent of securityholders of a mutual fund) any contract or enter into any contract as a result of which the basis for calculating the fees or other expenses that are charged to the Company could result in an increase in charges to the Company; (iv) change the Company's auditors; or (v) wind up or dissolve voluntarily.

In addition, approval of amendments to the provisions of the Preferred Shares may be given by a special resolution carried by an affirmative vote of not less than two thirds of the votes cast at a meeting of the Holders of Preferred Shares duly called and held for such purpose at which the Holders of 10% of the outstanding Preferred Shares are present in person or represented by proxy or, if no quorum is present at such meeting, at an adjourned meeting at which the Holders of Preferred Shares then present would constitute the quorum.

(9) **Priority**

The Preferred Shares will rank prior to the Capital Shares and the Class J Shares with respect to the payment of dividends, distributions upon a redemption, retraction or return of capital and distributions upon a dissolution, liquidation or winding-up of the Company.

(10) **Credit Rating**

On March 19, 2008, DBRS announced that the rating of certain structured preferred shares with significant exposure to the financial sector, which includes the Company's Preferred Shares, have been placed "Under Review with Developing Implications".

The Preferred Shares were initially rated Pfd-2 (low) by DBRS but on December 23, 2008, DBRS lowered its rating to Pfd-4 (low) with a Stable Trend. On August 27, 2009, DBRS upgraded the

rating on the Company's Preferred Shares from Pfd-4 (low) with a Stable trend to Pfd-3. On March 16, 2011, the rating was further upgraded to pfd-3 (high).

Credit ratings are intended to provide investors with an independent measure of the credit quality of an issue of securities. The credit rating accorded to the Preferred Shares by DBRS is not a recommendation to purchase, hold or sell Preferred Shares as such ratings do not comment as to market price or suitability for a particular investor. There is no assurance that any rating will remain in effect for any given period of time or that any rating will not be revised or withdrawn entirely by DBRS in the future if in its judgment circumstances so warrant.

The rating assigned by DBRS represents an evaluation of the Preferred Shares based solely on credit related factors. It does not reflect the risk that market related factors, such as fluctuations in the value of underlying securities, may affect the valuation of the Preferred Shares. See "Maintaining a Credit Rating" under Section 14.1(2) – *Risks Related to Preferred Shares*.

4.6 Book-Entry Only System

Registration of interests in and transfers of the Capital Shares and Preferred Shares are made only through a book-entry only system administered by CDS. Capital Shares and Preferred Shares must be purchased, transferred and surrendered for retraction or redemption through a participant in the CDS Depository System (a "**CDS Participant**"). All rights of an owner of Capital Shares or Preferred Shares must be exercised through, and all payments or other property to which such owner is entitled will be made or delivered by, CDS or the CDS Participant through which the owner holds such Capital Shares or Preferred Shares. Upon purchase of any Capital Shares or Preferred Shares, the owner will receive only the customary confirmation. References in this AIF to a Holder of Capital Shares or Preferred Shares mean, unless the context otherwise requires, the owner of the beneficial interest in such shares.

The ability of a beneficial owner of Capital Shares or Preferred Shares to pledge the Capital Shares or Preferred Shares or otherwise take action with respect to such owner's interest in such shares (other than through a CDS Participant) may be limited due to the lack of a physical certificate.

An owner of Capital Shares or Preferred Shares who desires to exercise retraction privileges thereunder must do so by causing a CDS Participant to deliver to CDS (at its office in the City of Toronto, Ontario), on behalf of the owner, a written notice (the "**Retraction Notice**") of the owner's intention to retract shares sufficiently in advance of the relevant notice date so as to permit the CDS Participant to deliver notice to CDS by the required time. Any expenses associated with the preparation and delivery of a Retraction Notice shall be for the account of the owner exercising the retraction privilege. Where a beneficial owner of Capital Shares is required to tender cash to the Company in connection with a Special Annual Retraction or a redemption of Capital Shares, such cash must be tendered to CDS through the relevant CDS Participant.

By causing a CDS Participant to deliver a Retraction Notice to CDS, an owner shall be deemed to have irrevocably surrendered his or her shares for retraction and appointed such CDS

Participant to act as his or her exclusive settlement agent with respect to the exercise of the retraction privilege and the receipt of payment in connection with the settlement of obligations arising from such exercise.

Any Retraction Notice which CDS determines to be incomplete, not in proper form or not duly executed shall for all purposes be void and of no effect, and the retraction privilege to which it relates shall be considered for all purposes not to have been exercised thereby. In the event of a determination that a Retraction Notice is incomplete, not in proper form or not duly executed, CDS shall promptly notify the CDS Participant which delivered the Retraction Notice. A failure by a CDS Participant to exercise retraction privileges or to give effect to the settlement thereof in accordance with the owner's instructions will not give rise to any obligations or liability on the part of the Company to the CDS Participant or the owner.

The Company has the option to terminate registration of the Capital Shares and Preferred Shares through the book-entry only system, in which case certificates for Capital Shares and Preferred Shares in fully registered form will be issued to beneficial owners of such shares or their nominees.

4.7 Information and Reports to Holders

The Company furnishes to Holders such financial statements (including semi-annual unaudited and annual audited financial statements, accompanied by management reports of fund performance) and other reports as are from time to time required by applicable law, including prescribed forms needed for the completion of Holders' tax returns under the Tax Act and equivalent provincial legislation.

The Company complies with all of the continuous disclosure requirements applicable to it as a reporting issuer under applicable securities laws. Prior to any meeting of Holders, the Company provides to Holders (along with notice of such meeting) all such information as is required by applicable law to be provided to Holders.

SECTION 5 - CALCULATION OF UNIT VALUE

A "Unit" is considered to consist of two Capital Shares and one Preferred Share. The "Unit Value" is defined as:

- (a) the amount received by the Company on the disposition of that number of National Bank Shares represented by the Unit's *pro rata* share of the National Bank Shares. In respect of any retraction by a Holder on a Valuation Date and the calculation of Unit Value under this paragraph for such purpose, the number of National Bank Shares to be disposed of will be rounded down to the nearest whole share; or
- (b) in the event that the Administrator determines that it is not practicable to sell a *pro rata* share of the National Bank Shares (for example, where a relatively small number of shares are tendered for cash retraction), the Company may fund such retractions in whole or in part out of cash on hand. Unit Value in this case will be

calculated using, and paid on the basis of, the closing price for National Bank Shares on the TSX on the trading day immediately preceding the relevant Valuation Date (as defined below) or the date on which Unit Value is calculated; or, if no trading in National Bank Shares occurred on such day on the TSX, the closing price for National Bank Shares on such other exchange or market as the Administrator may select on such day; or, if no closing price is available from any exchange or market for National Bank Shares, the average of the bid and ask prices for such shares at close of trading on the TSX on such day;

less, in either case, brokerage fees, commissions and all other transaction costs relating to such sale plus (minus) the *pro rata* share of the amount (the "**Residual Amount**") by which the value of the other assets of the Company (excluding any refundable taxes not then available to the Company) exceed (are less than) the liabilities (including any extraordinary liabilities and accrued termination costs) of the Company as at the relevant Valuation Date and the redemption value of the Class J Shares, all as determined by the Board of Directors. For greater certainty, the Preferred Shares will not be treated as liabilities and the amount of any tax loss carryforwards will not be treated as an asset for these purposes.

If, on the Redemption Date, the Company is entitled to a refund of refundable taxes but such refund is not immediately available, the Company will either defer payment of a portion of the redemption price until the refund is received by the Company or take steps to monetize or otherwise convert the refund into cash. In any event, for purposes of calculating the Residual Amount for redemptions on the Redemption Date, any refundable taxes not then available to the Company will be treated as an asset equal to the net realizable value thereof as determined by the Board of Directors.

Any net capital or non-capital losses available to the Company on the Redemption Date will not be treated as an asset either on or subsequent to the Redemption Date, in the calculation of Unit Value.

If it is not possible to sell National Bank Shares due to the cessation or suspension of trading of the National Bank Shares on the stock exchanges or markets on which National Bank Shares are normally traded, the Company will sell those National Bank Shares, which can then be lawfully sold and the applicable portion of such proceeds from such sale will be paid on the Retraction Payment Date (as defined herein) and the remaining National Bank Shares required to be sold to fund the cash retraction of the relevant shares will be sold by the Company as soon as possible following the resumption of trading of such National Bank Shares and the applicable portion of such proceeds therefrom paid within five Business Days following such sale.

Unit Value is ordinarily calculated between 4:00 p.m. and 6:00 p.m. (Toronto time) on a Valuation Date. The Company currently publishes the Unit Value of the Capital Shares and the Preferred Shares daily on its website - www.nbsplit.com.

For financial statement reporting purposes, the fair value of the Company's investments are measured in accordance with CICA Handbook Section 3855: Financial Instruments - *Recognition and Measurement*, which for publicly listed securities is based on the closing bid price on the recognized stock exchange on which the investments are listed or principally traded. Pursuant to

NI 81-106, investment funds are required to calculate their net asset value in accordance with Canadian GAAP. The Canadian securities regulatory authorities have published amendments to NI 81-106 that remove the requirement that net asset value for redemptions and subscriptions be calculated in accordance with Canadian GAAP effective September 8, 2008. As a result of the amendments, the net asset value of investment funds will continue to be calculated based on the fair value of investments using the close or last trade price. The Net Assets per unit for financial reporting purposes and net asset value per unit for pricing purposes could be different due to the use of different valuation techniques.

SECTION 6 - RESPONSIBILITY FOR COMPANY OPERATIONS

The Board and the senior officers of the Company direct the business, operations and affairs of the Company. The Company has retained the Administrator to provide certain administrative services to, and to administer the operations of, the Company.

6.1 Purchase and Sale of National Bank Shares

National Bank Shares purchased by the Company may be purchased from NBF, as principal. Any National Bank Shares acquired by the Company from NBF, as principal, will be purchased in accordance with the rules of the applicable stock exchange and the price paid (inclusive of all transaction costs, if any) to NBF will not be greater than the price which would have been paid (inclusive of all transactions costs, if any) if the acquisition had been made through the facilities of the principal stock exchange on which the National Bank Shares are listed and posted for trading, at the time of purchase from NBF. All such principal transactions will be approved by a majority of the independent directors of the Company and no commissions will be paid to NBF in respect of any such principal transactions. NBF may realize a gain or a loss in respect of National Bank Shares it sells as principal to the Company in these circumstances. Any carrying costs and other expenses incurred by NBF on behalf of the Company from the time of purchase of the National Bank Shares will be for the account of the Company.

The Company expects to sell National Bank Shares to fund the retraction or redemption of any Capital Shares or Preferred Shares, following the receipt of any stock dividends, or to meet obligations of the Company in respect of liabilities including extraordinary liabilities. Subject to the receipt of all necessary regulatory approvals, some or all of the National Bank Shares being sold may be purchased by NBF, as principal. Any National Bank Shares sold by the Company to NBF, as principal, will be sold in accordance with the rules of the applicable stock exchange, and the price paid (inclusive of all transaction costs, if any) by NBF will not be less than the price which would have been paid (inclusive of all transaction costs, if any) if the sale had been made through the facilities of the principal stock exchange on which the National Bank Shares are listed and posted for trading, at the time of sale to NBF. All such principal transactions will be approved by a majority of the independent directors of the Company and no commissions will be paid to NBF in respect of any such principal transactions.

The Company may, from time-to-time, engage, or cause the Administrator to engage, a qualified external investment advisor other than NBF to purchase or sell National Bank Shares on the Company's behalf.

The Company does not have any brokerage arrangements.

6.2 Administrator

(1) Contact Information

FA Administration Services Inc.
95 Wellington Street West, Suite 1400
Toronto, Ontario M5J 2N7
(416) 642-1289 or (877) 642-1289
info@firstasset.com ♦ www.firstasset.com

(2) Duties and Services Provided

The Administrator provides administrative services to, and administers the operations of, the Company pursuant to the Administration Agreement dated January 30, 2007.

Pursuant to the Administration Agreement, the Administrator is required to exercise its powers and discharge its duties honestly, in good faith and in the best interests of the Company and shall exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Under the Administration Agreement, the Administrator is not liable for any error of judgment or for any loss suffered by the Company in connection with the matters to which the Administration Agreement relates, except a loss resulting from the wilful misconduct, bad faith, gross negligence or reckless disregard by it of its obligations and duties under the Administration Agreement or in cases where the Administrator fails to act honestly and in good faith with a view to the best interests of the Company or to exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

The Administrator and its directors, officers and employees shall be indemnified by the Company from and against all claims, demands, losses (other than loss of profits), actions, causes of action, charges, debts, costs, expenses, damages, liabilities or obligations (including judgments, fines, penalties, amounts paid in settlement and legal costs on a solicitor and client basis) in connection therewith, brought, commenced or prosecuted against any of such indemnified parties or in respect of any act, deed, matter or thing whatsoever made, done, acquiesced in or omitted in or about or in relation to the execution of the Administrator's duties and the provision of the services under the Administration Agreement, except as may be incurred as a result of the wilful misconduct, bad faith, gross negligence or reckless disregard of the Administrator or any of its directors, officers, or employees, as the case may be in carrying out its obligations under the Administration Agreement.

(3) Termination Provisions

Holders of Capital Shares and Preferred Shares, by a two-thirds majority vote at a meeting called and held for such purpose, may cause the Administration Agreement to be terminated upon not less than six months' notice. On such termination, the Administrator will be entitled to a termination payment from the Company equal to the average monthly fee paid to the

Administrator for the four months immediately preceding the date of termination multiplied by the number of months remaining in the term of the Administration Agreement. The Administration Agreement may also be terminated by the Company if the Administrator has committed certain events of bankruptcy or insolvency or is in material breach of the terms thereof and such breach has not been cured within 60 days after notice thereof has been given to the Administrator. The Administrator will not be entitled to a termination payment under such circumstances.

6.3 Directors and Officers of the Company

The names, municipality of residence, position with the Company and principal occupation of each of the directors and officers of the Company are as follows:

<i>Name and Municipality of Residence</i>	<i>Office with the Company</i>	<i>Principal Occupation</i>
AKKAWI, Z. EDWARD Toronto, Ontario	Vice-President, Operations	Chief Operating Officer, General Counsel, Corporate Secretary and Director of First Asset
CARR, DOUGLAS King City, Ontario	Director ^(A)	Corporate Director ⁽¹⁾
DAVIS, BRIAN Toronto, Ontario	Director and Chief Executive Officer	Executive Vice President, Corporate Development and Governance, NBF ^{(2) (3)}
EVANS, TIM Oakville, Ontario	Director, Chief Financial Officer and Corporate Secretary	Director, NBF ⁽⁴⁾
LEGRESLEY, DAVID Toronto, Ontario	Director	Corporate Director ⁽⁵⁾
TAYLOR, DAVID Toronto, Ontario	Director ^(A)	Corporate Director ⁽⁶⁾
ROBB, IAIN A. Toronto, Ontario	Director ^(A)	Partner, Gowling Lafleur Henderson LLP ⁽⁷⁾

(A) Member of the Audit Committee.

(1) Prior to September 1, 2007, Mr. Carr was Senior Vice-President, Finance and Chief Financial Officer of the Hospitals of Ontario Pension Plan.

(2) Mr. Davis was a lawyer at Torys LLP between June, 1986 and November, 2005.

(3) NBF is an investment dealer engaged in advisory and brokerage services as well as institutional brokerage, investment banking, corporate finance and securities clearing services.

(4) Mr. Evans was an Associate Vice President at AIC Investment Services Inc. between June, 2002 and March, 2003 and a Vice President at Berkshire Securities Inc. between March, 2003 and July, 2005.

(5) Mr. LeGresley was Vice-Chair of NBF until September, 2008.

(6) Mr. Taylor was a partner at KPMG LLP between October 1975 and September 2005.

(7) Gowling Lafleur Henderson LLP is a Canadian law firm.

Unless otherwise indicated, all of the directors and officers of the Company have held their principal occupation for the five years preceding the date hereof.

6.4 Custodian

(1) Contact Information

State Street Trust Company Canada
30 Adelaide Street East, Suite 1200
Toronto, Ontario M5C 3G6

(2) Duties and Services Provided

The Custodian serves as custodian of the Company pursuant to a custodial agreement dated February 22, 2007 between the Company and Custodian (the “**Custodial Agreement**”).

The Company is responsible for payment of the fees of the Custodian which are included in the ongoing expenses of the Company. The Custodian may appoint sub-custodians in Canada to hold assets of the Company in Canada. In addition, the Custodian may, for the purpose of more expeditiously effecting portfolio transactions outside Canada, hold Company assets outside Canada or appoint sub-custodians outside Canada. All sub-custodians must be appointed pursuant to a sub-custodian agreement on terms and conditions similar to the terms and conditions of the Custodial Agreement which shall contain adequate provision for the Company, acting through the Custodian, to enforce its rights. Any sub-custodian must meet the guidelines prescribed by NI 81-102, and if further delegation is made, adequate provision must also be made for the Company, acting through the Custodian and sub-custodian(s), to enforce its rights.

Pursuant to the Custodial Agreement, the Custodian will be indemnified out of the Company assets in certain circumstances, including from any direct loss, liability, claim or expenses (including reasonable legal counsel fees and disbursements) suffered or incurred by the Custodian arising from or in connection with the performance of its duties under the agreement except with respect to liabilities or expenses occasioned by or resulting from the fraud, wilful default, negligence, breach or wrongful act of the Custodian or any of its employees, directors or officers in the performance of the Custodian’s duties or obligations under the agreement.

(3) Termination Provisions

The Custodial Agreement may be terminated by the Company or Custodian on 60 days’ prior written notice, and may be terminated immediately if a party is in material breach of its obligations under the agreement and has failed to cure such breach within 30 days of receiving written notice of the breach, or in the event any involuntary action or proceeding is initiated against another party under any applicable insolvency, bankruptcy or reorganization legislation or similar law.

6.5 Auditor

Deloitte & Touche LLP
181 Bay Street, Suite 1400
Toronto, Ontario M5J 2V1

The Auditors have been auditors of the Company since its formation.

6.6 Registrar and Transfer Agent

(1) Contact Information

Computershare Investor Services Inc.
100 University Avenue, 8th Floor
Toronto, Ontario M5J 2Y1

(2) Duties and Services Provided

The Registrar acts as transfer agent and registrar for the Company providing certain record-keeping, Holder reporting and general administration services pursuant to a registrar, transfer agency and distribution agency agreement between the Company and Registrar dated February 22, 2007 (the “**Registrar, Transfer Agency and Distribution Agency Agreement**”). The register of securities of the Company are kept by the Registrar in Toronto, Ontario.

The Company is responsible for payment of the fees and reimbursement of expenses of the Registrar, which are included in the ongoing expenses of the Company. Pursuant to the Registrar, Transfer Agency and Distribution Agency Agreement, the Company agrees to indemnify the Registrar in certain circumstances, including from any liability which may arise out of acts performed or omitted to be performed by it in accordance with the agreement, except liability arising out of negligence, wilful misconduct or bad faith on the part of the Registrar.

(3) Termination Provisions

The Registrar, Transfer Agency and Distribution Agency Agreement may be terminated on 90 days’ prior written notice.

SECTION 7 - CONFLICTS OF INTEREST

The information provided in this Section SECTION 7 is as at March 21, 2011.

NBF may receive certain fees at normal market rates for the purchase and sale of the National Bank Shares or the purchase for cancellation of Capital Shares and Preferred Shares. Certain of the officers and directors of the Company are currently employees of NBF. The Company and its senior officers and directors have undertaken to file insider trading reports, as if the Company was not a mutual fund, in accordance with applicable provincial securities legislation, for themselves. The Company has undertaken to use all reasonable efforts to cause all future senior officers and directors to file insider trading reports as if the Company was not a mutual fund, in accordance with applicable provincial securities legislation and to deliver to

each applicable provincial securities regulatory authority an undertaking to file insider trading reports in accordance with applicable provincial securities legislation. Each of National Bank of Canada and the Company have severally agreed to advise promptly each of the provincial securities regulatory authorities in the event it is unsuccessful in causing any of its applicable officers or directors to comply with the foregoing reporting requirements. The foregoing undertakings shall remain in full force until such time as all of the Capital Shares and Preferred Shares have been redeemed, retracted or purchased for cancellation.

7.1 Principal Holders of Securities

NB Split Holdings Corp. owns all of the 150 issued and outstanding Class J Shares.

To the knowledge of the Company, no person or company owns, beneficially, either directly or indirectly, more than 10% of the outstanding Securities. All of the Securities are registered in the name of CDS & Co.

As at March 21, 2011, none of the directors and senior officers of the Company owned any of the outstanding securities of the Administrator, other than Mr. Akkawi, who indirectly owns or controls approximately 15%.

The members of the IRC do not own any securities of the Company, the Administrator or any person or company that provides services to the Company or the Administrator.

7.2 Affiliated Entities of the Company

No person or company that provides services to the Company in relation to the Company is an affiliated entity of the Company.

7.3 Services Not Exclusive

The Administrator is engaged in a variety of investment management and other business activities. The services of the Administrator under the Administration Agreement are not exclusive and nothing in the Administration Agreement prevents the Administrator or any of its affiliates from providing similar services to other investment funds and other clients (whether or not their investment objectives, strategies and policies are similar to those of the Company), or from engaging in other activities.

SECTION 8 - COMPANY GOVERNANCE

8.1 Independent Review Committee

The Company has appointed Messrs. Douglas A. S. Mills, Carl M. Solomon and Henry J. Knowles as members of its IRC. The Company shares its IRC with GlobalBanc Advantaged 8 Split Corp. ("**Global Corp.**"). The relationship with the IRC is administered by the Administrator. The costs and expenses associated with the IRC are shared with Global Corp. The Company has agreed to indemnify each IRC member as permitted under NI 81-107 and has entered into an indemnity agreement to that effect with each IRC member.

The IRC is responsible for overseeing conflicts of interest matters relating to the Company, which are identified by the Company. NI 81-107 requires the Company to have policies and procedures relating to conflicts of interest. The mandate of the IRC is to review and provide input or recommendations to the Company on all conflict of interest matters that the Company has referred to the IRC. The IRC has adopted a written charter which it will follow when performing its functions and will be subject to requirements to conduct regular assessments and provide reports to the Company and its Holders in respect of its functions. In performing their duties, members of the IRC are required to act honestly, in good faith and in the best interests of the Company and to exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

There has been no change in the composition of the IRC since it was initially formed.

8.2 Business Practices, Sales Practices, Risk Management Controls and Internal Conflicts of Interest

The Company has adopted certain conflict policies (the “**Conflict Policies**”), which address a variety of matters which could give rise to conflict of interests or potential conflicts of interest as identified by the Company. The Company and its directors and officers must adhere to these Conflict Policies which have been reviewed by the IRC, and cannot deviate from these Conflict Policies without consultation with the IRC.

There are no formal risk management policies, practices or guidelines, however the Company is managed in accordance with the investment objectives, strategy, practices and restrictions set out in SECTION 3 - *Investment Objectives, Restrictions and Practices*, and which are monitored regularly by appropriate personnel to ensure compliance therewith.

8.3 Use of Derivatives

The Company does not utilize derivatives.

8.4 Securities Lending, Repurchase Transactions, Etc.

In order to generate additional returns, the Company may lend National Bank Shares to securities borrowers acceptable to the Company pursuant to the terms of a securities lending agreement under which (i) the borrower will pay to the Company a negotiated securities lending fee and will make compensation payments to the Company equal to any distributions received by the borrower on the securities borrowed; (ii) the securities loans must qualify as “securities lending arrangements” for the purposes of the Tax Act; and (iii) the Company will receive collateral security. The Custodian as securities lending agent for the Company, will be responsible for the ongoing administration of the securities loans, including the obligation to mark-to-market the collateral on a daily basis. All securities lending arrangements will comply with the provisions of NI 81-102 and will be approved by all of the independent directors of the Company.

The Company has not yet engaged in securities lending and does not currently intend to engage in any securities lending, repurchase or reverse purchase transactions. Prior to commencing

any securities lending, the Company will adopt written policies and procedures that prescribe the risk management procedures applicable to securities lending.

8.5 Voting Securities of Other Funds

The Company did not own securities of other investment funds during the year.

8.6 Proxy Voting

The independent directors of the Company will determine the manner in which the National Bank Shares will be voted at any meeting of the shareholders of the National Bank of Canada. The proxies associated with the National Bank Shares are voted by the Company in a manner which it believes will maximize the value of the Company's investments and the economic interests of the Holders over the long-term. The Company maintains guidelines for the voting of proxies, however, each vote is ultimately cast on a case-by-case basis, taking into consideration the relevant facts and circumstances at the time of the vote. The Company may vote contrary to such guidelines, if it determined it would be in the best interest of the Company to do so.

The Company's guidelines do not expressly address the procedures that are to be followed when a vote presents a conflict between the interests of the Holders and those of any affiliate or associate of the Company, however all proxies are voted with a view to the best interests of the Company by the independent directors.

The policies and procedures that the Company follows when voting proxies relating to the National Bank Shares are available at www.nbsplit.com, or on request, at no cost, by calling or writing the Company. The Company's proxy voting record for the most recent period ended June 30 of each year is available free of charge to any Holder upon request at any time after August 31 of that year and is available at www.nbsplit.com.

8.7 Short-Term Trading

The Company has no policies and procedures relating to the monitoring, detection and deterrence of short-term trades of Securities by Holders.

SECTION 9 - FEES AND EXPENSES

9.1 Fees

<u>Fee Payable To:</u>	<u>Amount and Description</u>
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Administrator	A monthly fee of 1/12 of 0.25% of the market value of the National Bank Shares held by the Company. The administration fee is calculated daily and payable monthly in arrears on or before the 10 th Business Day following the last day of each month. The Administrator may pay operating expenses on behalf of the Company as and when incurred for which the Administrator will be reimbursed.
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<u>Fee Payable To:</u>	<u>Amount and Description</u>
DBRS	\$15,000 annual rating maintenance fee.
IRC	The Company pays a fee to each IRC member. See 11.1 - <i>Independent Review Committee</i> .
Directors	The Company pays a fee to certain directors. See Section 11.2 - <i>Directors</i>

9.2 Expenses

The Company is responsible for all expenses incurred in connection with the operation and administration of the Company. These expenses include, without limitation: (a) mailing and printing expenses for periodic reports to Holders of Preferred Shares and Capital Shares; (b) fees payable to the Custodian for acting as custodian of the assets of the Company; (c) fees payable to the registrar and transfer agent with respect to the Preferred Shares and Capital Shares; (d) fees payable to members of the Board of Directors of the Company; (e) fees payable to the members of the IRC and expenses in connection with the IRC; (f) fees payable to the Auditors and legal advisors of the Company; (g) regulatory filing, stock exchange and licensing fees; and (h) expenditures incurred upon the termination of the Company. The Company is also responsible for any extraordinary expenses of the Company which may be incurred from time to time.

Expenses also include expenses of any action, suit or other proceedings in which or in relation to which any board member, the Administrator, the Custodian, the Valuation Agent, the Registrar and in certain cases their respective directors, officers, employees consultants and/or agents, and any IRC member is entitled to indemnity by the Company.

The Company is also responsible for all commissions and other costs of portfolio transactions. All such expenses are subject to an independent audit and report thereon to the Custodian and the Company provides reasonable access to its books and records for such purpose.

As long as the Unit Value of the Company is above the par value of the Preferred Shares, then all of the expenses of the Company are born by the Capital Shares. If the Unit Value of the Company falls to or below the par value of the Preferred Shares, then the expenses of the Company are born by the Preferred Shares until such time as the Unit Value of the Company returns to levels above the par value of the Preferred Shares.

9.3 Administration Fee Rebate or Distribution Programs

The Company does not have any arrangements that result, directly or indirectly, in one Holder paying as a percentage of the Holder's investment in the Company an administration fee that differs from that payable by another Holder.

SECTION 10 - INCOME TAX CONSIDERATIONS

10.1 General

In the opinion of Blake, Cassels & Graydon LLP, the following summary presents the principal Canadian federal income tax considerations generally applicable to a Holder of Capital Shares or Preferred Shares who, for purposes of the Tax Act, is resident in Canada, deals at arm's length and is not affiliated with the Company, and holds the Capital Shares or Preferred Shares as capital property.

This summary is based upon the current provisions of the Tax Act, the specific proposals for amendments to the Tax Act which have been publicly announced by the Minister of Finance (Canada) prior to the date hereof (the "**Proposed Amendments**") and counsel's understanding of the current published administrative policies and assessing practices of the Canada Revenue Agency (the "**CRA**"). This summary also relies on a certificate of the Company as to certain factual matters. This summary is not applicable to holders an interest in which would be a tax shelter investment for the purposes of the Tax Act. This summary does not deal with the mark-to-market rules in the Tax Act and holders that are "financial institutions" as defined in the Tax Act for purposes of these rules should consult their own tax advisors. This summary assumes that Holders have not elected to compute the taxpayer's Canadian tax results using a currency other than Canadian dollars. This summary is not exhaustive of all possible Canadian federal income tax consequences and, except for the Proposed Amendments, does not take into account or anticipate any changes in law or in the administrative policies and assessing practices of the CRA, whether by legislative, governmental or judicial action, nor does it take into account provincial, territorial or foreign income tax legislation or considerations.

This summary is of a general nature only and is not intended to be, and should not be construed to be, legal or tax advice to any prospective investor. Accordingly, prospective investors should consult their own tax advisors for advice with respect to the income tax consequences of investing in Capital Shares or Preferred Shares having regard to their own particular circumstances, including the advisability and effect of electing, pursuant to subsection 39(4) of the Tax Act, to have all Canadian securities (including the Capital Shares and Preferred Shares) owned by them deemed to be capital properties and the deductibility of interest on monies borrowed to acquire Capital Shares or Preferred Shares.

This summary is based on the assumptions that the Capital Shares and Preferred Shares will at all times be listed on a designated stock exchange in Canada (such as the TSX) and that the Company has elected in accordance with the Tax Act to have each "Canadian security" (as defined in the Tax Act) treated as capital property. It is also based on the assumption the Company was not established and will not be maintained primarily for the benefit of non-residents of Canada and that at no time will the fair market value of shares of the Company held by persons who are non-residents of Canada and or partnerships (other than Canadian partnerships under the Tax Act) exceed 50% of the fair market value of all outstanding shares of the Company.

10.2 Status

Following the closing of the Offering, the Company qualified as a “mutual fund corporation” and a “financial intermediary corporation”, as defined in the Tax Act. The Company has advised counsel that it has filed the necessary election under the Tax Act so that it was deemed to be a “public corporation” effective from the beginning of its first taxation year, and therefore qualified as a mutual fund corporation throughout its first taxation year. The Company has further advised counsel that it intends to continue to so qualify throughout each subsequent taxation year in which any Capital Shares or Preferred Shares remain outstanding and this summary assumes this will be the case.

10.3 Dividends

Dividends received by the Company on the National Bank Shares held by it will be included in its income but will be deductible in computing its taxable income. The Company will generally be liable to pay a 33 1/3% refundable tax under Part IV of the Tax Act on all such dividends received by it on the National Bank Shares. However, any Part IV tax that is paid will be fully refunded to the Company on the payment by the Company of sufficient dividends (other than capital gains dividends as defined below) in the year or in subsequent taxation years in accordance with the provisions of the Tax Act in that regard.

As the Company will be a “financial intermediary corporation” as defined in the Tax Act, it will not be subject to tax under Part VI.1 of the Tax Act on dividends that it pays on the Preferred Shares or Capital Shares.

10.4 Capital Gains

The Company has advised counsel that it has elected, pursuant to subsection 39(4) of the Tax Act, to have the National Bank Shares (and any other Canadian securities) deemed to be capital properties.

The Company may realize a capital gain (or sustain a capital loss) upon the disposition of a National Bank Share (including the disposition of a National Bank Share if required to fund the fixed quarterly distributions payable on the Preferred Shares) to the extent that the proceeds of disposition therefor, net of reasonable costs of disposition, exceed (or are less than) the Company's adjusted cost base of such share. The amount of any such capital loss otherwise determined may, in certain circumstances described in the Tax Act, be reduced by the amount of dividends previously received by the Company on the National Bank Shares. One half of any capital gain will be a taxable capital gain and one half of any capital loss will be an allowable capital loss. Any allowable capital loss realized by the Company in a taxation year from the disposition of a National Bank Share may be deducted against taxable capital gains realized by the Company in the year. Allowable capital losses for a taxation year in excess of taxable capital gains may be carried back and deducted in any of the three preceding taxation years or carried forward and deducted in any subsequent taxation year against taxable capital gains to the extent and under the circumstances described in the Tax Act. As a mutual fund corporation, the Company maintains a capital gains dividend account in respect of net capital gains realized by the Company and from which it may elect to pay dividends (“**capital gains dividends**”) which

are treated as capital gains in the hands of the shareholders of the Company. See “*Tax Treatment of Distributions on Preferred Shares and Capital Shares*” below.

The Company, being a mutual fund corporation, will be entitled to refunds in accordance with the provisions of the Tax Act of substantially all tax payable by it with respect to net taxable capital gains upon payment of sufficient capital gains dividends or in respect of sufficient redemptions of Capital Shares or Preferred Shares.

10.5 Other Income

Interest income and securities lending fees earned by the Company will be included in computing its income.

10.6 Issue and Other Expenses

The Company is entitled to deduct an amount equal to the reasonable expenses that it incurred in the course of issuing Capital Shares and Preferred Shares. Such issue expenses, including the Agents’ fees, will be deductible by the Company rateably over a five-year period subject to reduction in any taxation year which is less than 365 days. Generally, the Company will also be entitled to deduct reasonable administrative expenses and interest payable by it on money borrowed to purchase the National Bank Shares. Any non-capital losses incurred by the Company may generally be carried forward or back in accordance with the rules and limitations contained in the Tax Act and deducted in computing the taxable income of the Company.

10.7 Net Tax Liability

As a result of the deductions and refunds of tax described above, the Company has advised counsel that it does not anticipate that it will be subject to any material net non-refundable tax liability.

10.8 Tax Treatment of Distributions on Preferred and Capital Shares

Taxable dividends (“**Ordinary Dividends**”) received by a Holder will be included in computing the Holder’s income.

In the case of a Holder that is an individual, Ordinary Dividends will be subject to the gross-up and dividend tax credit rules under the Tax Act applicable to taxable dividends received from a taxable Canadian corporation. An enhanced gross-up and credit will apply for eligible dividends paid to shareholders. The Company expects that Ordinary Dividends will qualify as eligible dividends for this purpose.

An Ordinary Dividend on the Preferred Shares or Capital Shares received by a corporation other than a “specified financial institution” (as defined in the Tax Act) will normally be deductible by the corporation in computing its taxable income.

In the case of a Holder that is a specified financial institution, Ordinary Dividends received on the Preferred Shares or Capital Shares will only be deductible in computing its taxable income if either:

- (a) the specified financial institution did not acquire the Preferred Shares or Capital Shares, as applicable, in the ordinary course of its business; or
- (b) at the time of receipt of the dividend by the specified financial institution,
 - (i) the Preferred Shares or Capital Shares, as applicable, are listed on a designated stock exchange in Canada, and
 - (ii) dividends are received in respect of not more than 10% of the issued and outstanding Preferred Shares or Capital Shares, as applicable, by
 - (A) the specified financial institution, or
 - (B) the specified financial institution and persons with whom it does not deal at arm's length.

For these purposes, a beneficiary of a trust will be deemed to receive the amount of any dividend received by the trust and designated to that beneficiary, effective at the time the dividend was received by the trust, and a member of a partnership will be considered to have received that partner's share of a dividend received by the partnership, effective at the time the dividend was received by the partnership.

A Holder of Preferred Shares which is a corporation other than a private corporation or a financial intermediary corporation will generally be subject to a 10% tax under Part IV.1 of the Tax Act in respect of any Ordinary Dividends received by it on the Preferred Shares to the extent that such dividends are deductible in computing its taxable income.

A Holder which is a "private corporation" (as defined in the Tax Act) or any other corporation controlled, whether because of a beneficial interest in one or more trusts or otherwise, by or for the benefit of an individual (other than a trust) or a related group of individuals (other than trusts) will generally be liable to pay a refundable tax under Part IV of the Tax Act, generally imposed at the rate of 33 1/3%, on Ordinary Dividends received on the Preferred Shares or Capital Shares to the extent that such dividends are deductible in computing its taxable income. When tax under Part IV.1 of the Tax Act also applies to an Ordinary Dividend received by a particular corporation, the rate of tax under Part IV of the Tax Act payable by such corporation is reduced to 23 1/3%.

The amount of any capital gains dividend received by a Holder of Preferred Shares or Capital Shares from the Company will be considered to be a capital gain of such Holder from the disposition of capital property in the taxation year of the Holder in which the capital gains dividend is received. See "*Redemptions, Retractions and Other Dispositions of Preferred Shares or Capital Shares*" below.

Returns of capital to a Holder of Preferred Shares or Capital Shares are not subject to tax but will reduce the adjusted cost base of such Preferred Shares or Capital Shares to the Holder. Where reductions to a Holder's adjusted cost base of Preferred Shares or Capital Shares for a taxation year would result in the adjusted cost base becoming a negative amount, such amount will be treated as a capital gain realized by the Holder in that taxation year, and the Holder's adjusted cost base of such Preferred Shares or Capital Shares, as the case may be, will then be nil immediately after the time when the capital gain is realized.

Capital Shares received by a Holder of Capital Shares as payment of a capital gains dividend will be deemed to have been acquired by such Holder at a cost equal to the amount of such dividend. For the purpose of determining the adjusted cost base to a Holder of Capital Shares, when Capital Shares are acquired, the cost of the newly acquired Capital Shares will be averaged with the adjusted cost base of any Capital Shares owned by the Holder as capital property immediately before that time. A consolidation of Capital Shares following a capital gains dividend paid in the form of Capital Shares is not regarded as a disposition of Capital Shares and does not affect the total adjusted cost base to a Holder of Capital Shares.

A person acquiring Securities may become taxable on income or capital gains accrued or realized before such person acquired such Securities.

10.9 Redemptions, Retractions and Other Dispositions of Preferred Shares or Capital Shares

A Holder who disposes of or who is deemed to dispose of a Capital Share or a Preferred Share, including a disposition to the Company (whether on a retraction, redemption or otherwise), will realize a capital gain (or sustain a capital loss) equal to the amount by which the proceeds of disposition, net of reasonable costs of disposition, exceed (or are less than) the Holder's adjusted cost base of such share.

Where the Holder of a Preferred Share or Capital Share is a corporation, a trust of which a corporation is a beneficiary or a partnership of which a corporation is a member, in certain circumstances the amount of any capital loss otherwise determined may be reduced by the amount of Ordinary Dividends previously received on the share. These rules may also apply where a trust or partnership is a member of a partnership or a beneficiary of a trust that owns Preferred Shares or Capital Shares.

The portion of a capital gain that must be included in income as a taxable capital gain and the portion of a capital loss that is an allowable capital loss is one half. A Holder of Capital Shares or Preferred Shares that is a "Canadian-controlled private corporation" (as defined in the Tax Act) throughout a taxation year may be liable to pay an additional refundable tax of $6\frac{2}{3}\%$ on its "aggregate investment income" for the year, which is defined to include taxable capital gains.

The proceeds of disposition to a Holder of Capital Shares who elects an *in specie* distribution of a *pro-rata* share of National Bank Shares upon a qualifying retraction of 10,000 or more Capital

Shares will be the fair market value of such National Bank Shares, plus or minus the Residual Amount, if any, and the fair market value of such National Bank Shares will be the cost to the Holder of such National Bank Shares.

Individuals (other than certain trusts) realizing net capital gains or receiving dividends may be subject to an alternative minimum tax under the Tax Act.

10.10 Eligibility for Investment

Provided the Preferred Shares or the Capital Shares are listed on a designated stock exchange in Canada (which includes the TSX), the Securities will be qualified investments under the Tax Act for trusts governed by registered retirement savings plans, registered retirement income funds, registered disability savings plans, registered education savings plans, deferred profit sharing plans and tax-free savings accounts.

Provided that the holder of a tax-free savings account or, pursuant to certain Tax Proposals released on March 22, 2011 (the "**March 22 Proposals**"), the annuitant under a registered retirement savings plan or registered retirement income fund does not hold a significant interest in the Company or any person or partnership that does not deal at arm's length with the Company for purposes of the Tax Act, and provided that such holder or annuitant deals at arm's length with the Company for purposes of the Tax Act, the Securities will not be a prohibited investment for a trust governed by such tax-free savings account or, pursuant to the March 22 Proposals, such registered retirement savings plan or registered retirement income fund.

SECTION 11 - REMUNERATION OF DIRECTORS AND INDEPENDENT REVIEW COMMITTEE

11.1 Independent Review Committee

For their services as members of the IRC for the Company and Global Corp., the IRC members are paid an annual fee (as set out in the table below) and are reimbursed for their expenses. Such fees and expenses are allocated on a *pro rata* basis among the Company and Global Corp. For the most recently completed financial year, the IRC members received the following amounts in fees and in reimbursement of expenses for its services to both the Company and Global Corp.:

	<i>Aggregate Annual Fees*</i>	<i>Expenses Reimbursed</i>	<i>Indemnities Paid</i>
Mills, Douglas**	\$12,500.00	\$61.10	Nil
Solomon, Carl	\$10,000.00	\$26.82	Nil
Knowles, Henry	\$10,000.00	\$36.23	Nil

**Plus applicable taxes*

*** Chair of the IRC*

11.2 Directors

For serving as directors of the Company, the independent directors of the Company are paid an annual fee (as set out in the table below) and are reimbursed for their expenses. For the most recently completed financial year, the independent directors received the following amounts in fees and in reimbursement of expenses:

<i>Director</i>	<i>Annual Fee</i>	<i>Fees Paid in 2010</i>	<i>Expenses Reimbursed</i>
Carr, Douglas	\$8,500.00	\$8,500.00	\$Nil
Robb, Iain	\$8,500.00	\$8,500.00	\$ Nil
Taylor, David	\$8,500.00	\$8,500.00	\$ Nil

None of the other directors or officers are entitled to any fees for serving as directors or officers, as the case may be. Such directors and officers are entitled to be reimbursed for their expenses, but none had any expenses for the most recently completed financial year.

SECTION 12 - MATERIAL CONTRACTS

The only material contracts entered into by the Company or the Administrator with respect to the Company, other than those entered into in the ordinary course of business, are as follows:

- (a) The Articles;
- (b) The Administration Agreement; and
- (c) The Custodial Agreement.

Prospective or existing Holders can obtain copies of the foregoing on SEDAR at www.sedar.com or may examine such documents during normal business hours at the principal office of the Company.

SECTION 13 - LEGAL AND ADMINISTRATIVE PROCEEDINGS

The Company is not involved in any material legal proceedings, nor is the Company aware of existing or pending legal or arbitration proceedings involving the Company.

SECTION 14 - OTHER MATERIAL INFORMATION

14.1 Risk Factors

There are risks and other considerations which investors should carefully consider before investing (or continuing to invest) in Securities, including but not limited to the following:

(1) Risks Related to Both Classes of Shares

No Assurances on Achieving Objectives - There is no assurance that the Company will be able to achieve its investment objectives. There is no assurance that the Company will be able to pay distributions on the Preferred Shares and the Capital Shares. The funds available for

distribution to Holders of Preferred Shares and Capital Shares will depend, in part, on the dividends paid on the National Bank Shares.

Loss of Investment - An investment in the Company is appropriate only for investors who have the capacity to absorb a loss of some or all of their investment.

No Guaranteed Return - There is no guarantee that an investment in the Company will earn any positive return in the short or long term.

Concentration Risk - The Company's portfolio will consist only of the National Bank Shares and, as a result, will not be diversified and the value of the Preferred Shares and Capital Shares may be more volatile than the value of a more broadly diversified portfolio and may fluctuate substantially over short periods of time in response to economic conditions and regulatory changes that specifically affect National Bank. The value of the Capital Shares and Preferred Shares will vary with the value of the National Bank Shares. The value of the National Bank Shares will be influenced by factors which are not within the control of the Company or the Administrator including the financial performance of National Bank, interest rates and other financial market conditions. Accordingly, the value of Capital Shares and Preferred Shares will vary from time to time.

Fluctuations in Net Asset Value and Funds Available for Distribution - The Unit Value and the funds available for distribution will vary according to, among other things, the value of National Bank Shares acquired by the Company, the dividends paid and interest earned thereon and the volatility of such securities. Fluctuations in the market value of the National Bank Shares may occur for a number of reasons beyond the control of the Company or the Administrator.

Holders of Capital Shares are entitled to receive dividends that the Board of Directors may declare, subject to the prior rights of the Holders of the Preferred Shares. The amount of the quarterly dividends actually paid on the Capital Shares, if any, will vary depending upon the value of the National Bank Shares and the actual dividends paid on the National Bank Shares from time to time. Based on the most recent dividends paid, the National Bank Shares currently generate enough yield to pay the fixed cumulative quarterly dividends on the Preferred Shares in the amount of \$0.3886 per Preferred Share and the expenses of the Company. The Preferred Share distributions are funded from the dividends received on the National Bank Shares. If necessary, any short fall in the distributions on the Preferred Shares will be funded by proceeds from the sale of National Bank Shares. Based on the current dividends paid on the National Bank Shares, it is not expected that the Company will have to sell any National Bank Shares to fund the Preferred Share distributions. However, future changes in the dividend policy by National Bank may require the Company to further reduce net asset value per Unit in order to sustain the dividends on the Preferred Shares. The value of the National Bank Shares and the dividends paid thereon may fluctuate from time to time for a number of reasons beyond the control of the Company or the Administrator.

Trading Price of Securities - The Preferred Shares and Capital Shares may trade in the market at a premium or discount to the Unit Value and there can be no assurance that Preferred Shares

and Capital Shares will trade at a price equal to the Unit Value. This risk is separate and distinct from the risk that the Unit Value may decrease.

Retractions - If Holders of a substantial number of Preferred Shares or Capital Shares exercise their retraction rights, the number of such shares outstanding and the NAV of the Company could be significantly reduced with the effect of decreasing the liquidity of the Preferred Shares and Capital Shares in the market and increasing the management expense ratio of the Company. Furthermore, if such redemptions are material, the Company may have to sell portfolio assets in order to fund the payment of the redemption proceeds, thereby decreasing the assets available for investment. If the asset levels do not recover, the Company may not generate sufficient revenue in order to cover its operating expenses which may lead to further sales of portfolio assets to cover those expenses.

Multi-Class (or Series) Structure - The Securities of the Company are available in more than one class (or series). If the Company cannot pay the expenses or satisfy the obligations of the Company entered into by the Company for the sole benefit of one of those classes (or series) of Securities using that class (or series) of Security's proportionate share of the assets of the Company, the Company may have to pay those expenses or satisfy those obligations out of another class (or series) of Security's proportionate share of the assets, which would lower the investment return of such other class (or series) of Security. In addition, a creditor of the Company may seek to satisfy its claim from the assets of the Company as a whole, even though its claim or claims relate only to a particular class (or series) of Security.

Operating History - The Company does not have a prolonged operating history.

Changes in Legislation - There can be no assurance that income tax laws and government incentive programs relating to the treatment of mutual fund corporations under the Tax Act will not be changed in a manner which adversely affects the distributions received by the Holders of Preferred Shares or Capital Shares.

Mutual Fund Policies - The Company is considered to be a mutual fund but does not generally operate in accordance with the policies of Canadian securities regulators applicable to conventional mutual funds.

Conflicts of Interest - The Administrator is engaged in a variety of investment management, investment advisory and other business activities. The services of the Administrator under the Administration Agreement are not exclusive and nothing in the Administration Agreement prevents the Administrator or any of its affiliates from providing similar services to other investment funds and other clients (whether or not their investment objectives, strategies and policies are similar to those of the Company), or from engaging in other activities.

Securities Lending - The Company may engage in securities lending. Although the Company will receive collateral for the loans and such collateral will be marked-to-market, the Company will be exposed to the risk of loss should the borrower default on its obligation to return the borrowed securities and the collateral be insufficient to reconstitute the portfolio of loaned securities.

No Ownership Interest - An investment in Capital Shares or Preferred Shares does not constitute an investment in the National Bank Shares. Holders of Capital Shares and Preferred Shares will not own the National Bank Shares held by the Company or have any voting rights in respect of the National Bank Shares.

Static Portfolio - The Company's portfolio is a static portfolio consisting of the National Bank Shares. The Company's portfolio is not "actively" managed and would not necessarily be modified or adjusted to mitigate the effect of National Bank experiencing financial difficulty or a substantial change in its core businesses.

Sensitivity to Interest Rates - The market price of the Preferred Shares and Capital Shares may be affected by the level of interest rates prevailing from time to time. In addition, any decrease in the value of the Preferred Shares and Capital Shares resulting from an increase in interest rates may also negatively affect the market price of the Preferred Shares or Capital Shares. Holders of Preferred Shares or Capital Shares who wish to redeem or sell their Preferred Shares or Capital Shares prior to the Redemption Date will therefore be exposed to the risk that the Unit Value or the market price of the Preferred Shares or Capital Shares may be negatively affected by interest rate fluctuations.

Tax Proposals Regarding Mutual Fund Corporation Status - The tax treatment of the Company and its shareholders depends, in part, upon the Company being a "mutual fund corporation" under the Tax Act. On September 16, 2004, the Minister of Finance (Canada) released certain proposals to amend the Tax Act (the "September 2004 Tax Proposals") pursuant to which a corporation, such as the Company, would lose its status as a mutual fund corporation if at any time after 2004 the aggregate fair market value of all issued and outstanding shares of the corporation held by one or more non-resident persons and/or by partnerships (other than Canadian partnerships under the Tax Act) is more than 50% of the aggregate fair market value of all the issued and outstanding shares of the corporation, unless no more than 10% (based on fair market value) of the corporation's property is, at any time, "taxable Canadian property" under the Tax Act and certain other types of "specified property" (as defined under the September 2004 Tax Proposals). The September 2004 Tax Proposals currently do not provide any means of rectifying the loss of mutual fund corporation status. On December 6, 2004, the Minister of Finance (Canada) tabled a Notice of Ways and Means Motion to implement measures proposed in the 2004 Federal Budget. Such motion was incorporated into Bill C-33, which received Royal Assent on May 13, 2005. Such notice did not include the September 2004 Tax Proposals and this fact was specifically referred to in the accompanying release.

The Preferred Shares and Capital Shares of the Company are marketed only in Canada and it is not anticipated that more than 10% of the fair market value of the Company's assets will, at any time, consist of taxable Canadian property and other specified property, with the result that the Company does not anticipate that the September 2004 Tax Proposals (even if enacted in their current form) would lead to a loss of mutual fund corporation status for the Company.

Tax Proposals Regarding Losses and Expenses - On October 31, 2003, the Department of Finance released, for public consultation, certain proposals to amend the Tax Act (the "October 31 Proposed Amendments") which would require, for taxation years

commencing after 2004, that there be a reasonable expectation of profit from a business or property for a taxpayer to realize a loss from such business or property, and that make it clear that profit in this sense does not include capital gains. As part of the February 23, 2005 Federal Budget, the Department of Finance announced that it has developed a more modest legislative initiative and that it will, at an early opportunity, release an alternative tax proposal for comment. No such proposal has been released to date. Under the October 31 Proposed Amendments, the taxpayer will have a loss for a taxation year from a particular source that is a business or property only if, in that year, it is reasonable to expect that the taxpayer will realize a cumulative profit from the business or property during the time that the taxpayer carried on, and can reasonably be expected to carry on, the business, or has held, and can reasonably be expected to hold, the property. If the deduction of losses of the Company was limited in a particular year under the October 31 Proposed Amendments or any alternative tax proposals, the taxable income of the Company in future years would be increased, and the Company may increase the amount of capital gains dividends paid to Holders in order to obtain a refund of tax with respect to net realized capital gains.

(2) **Risks Particular to Preferred Shares**

Credit Rating - There can be no assurance that the current rating on the Preferred Shares of Pfd-3 (high) by DBRS will remain in effect or not be revised. If such rating is withdrawn or revised, there may be an adverse effect on the market price of the Preferred Shares. DBRS's rating of the Preferred Shares is on a preferred security rating scale that ranges from Pfd-1 to Pfd-5, which represents the range from highest to lowest quality of rated securities. The assignment of a "(high)" or "(low)" modifier within each of the five preferred security rating categories indicates relative standing within such category. According to the DRBS preferred share rating scale, securities rated in the Pfd-3 rating category are of adequate credit quality.

Sensitivity to Unit Value - As long as the Unit Value of the Company is above the par value of the Preferred Shares, then all of the expenses of the Company are born by the Capital Shares. If the Unit Value of the Company falls to or below the par value of the Preferred Shares, then the expenses of the Company are born by the Preferred Shares until such time as the Unit Value of the Company returns to levels above the par value of the Preferred Shares.

(3) **Risks Particular to Capital Shares**

Leverage - An investment in Capital Shares is subject to the additional risk that the Capital Shares represent a leveraged investment and therefore the potential returns on such shares is amplified both to the benefit and detriment of the Capital Shares. Holders of the Capital Shares will enjoy a form of leverage in that any capital appreciation in the National Bank Shares (after payment of any accrued and unpaid distributions on the Preferred Shares, redemption or retraction values of the Preferred Shares and expenses) will be for the benefit of the Holders of the Capital Shares. In the event of a decrease in the value of the Company's underlying investment in the National Bank Shares, this leverage will work to the disadvantage of Holders of the Capital Shares, with the result that any net capital loss incurred by the Company on its investment in the National Bank Shares will effectively first be for the account of the Holders of the Capital Shares. If the Unit Value is less than or equal to \$32.72 plus accrued and unpaid distributions on the Preferred Shares on the Redemption Date, the Capital Shares will have

no value. An investment in Capital Shares is appropriate only for investors who have the capacity to absorb a loss of some or all of their investment.

Readers may wish to consult their own investment advisors for advice in connection with an investment (or continuing to invest) in the Capital Shares or Preferred Shares.

SECTION 15 - EXEMPTIONS AND APPROVALS

Except as discussed in Section 3.4 - *Variances From Investment Objectives, Strategy, Practices & Restrictions*, the Company has not applied for, or obtained exemptive relief from, any provisions of NI 81-102, National Instrument 81-105 - *Mutual Fund Sales Practices* or National Policy Statement No. 39 - *Mutual Funds*.

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- Additional information about the Company is available in the Company's management reports of fund performance and financial statements.
- You can get a copy of these documents at no cost by calling us at (416) 642-1289, or toll-free at 1-877-642-1289 or by e-mail at info@firstasset.com, or from your dealer.
- These documents and other information about the Company, such as information circulars and material contracts, are also available at www.nbsplit.com or at www.sedar.com. For greater certainty, neither those websites nor any of the information on those websites, are incorporated by reference in this AIF.