



# NATIONAL BANK OF CANADA

Fixed Income Presentation

As of July 31, 2017



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# CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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From time to time, the Bank makes written and oral forward-looking statements, such as those contained in the Outlook for National Bank and the Major Economic Trends sections of the 2016 Annual Report, in other filings with Canadian securities regulators, and in other communications, for the purpose of describing the economic environment in which the Bank will operate during fiscal 2017 and the objectives it hopes to achieve for that period. These forward-looking statements are made in accordance with current securities legislation in Canada and the United States. They include, among others, statements with respect to the economy—particularly the Canadian and U.S. economies—market changes, observations regarding the Bank’s objectives and its strategies for achieving them, Bank-projected financial returns and certain risks faced by the Bank. These forward-looking statements are typically identified by future or conditional verbs or words such as “outlook,” “believe,” “anticipate,” “estimate,” “project,” “expect,” “intend,” “plan,” and similar terms and expressions.

By their very nature, such forward-looking statements require assumptions to be made and involve inherent risks and uncertainties, both general and specific. Assumptions about the performance of the Canadian and U.S. economies in 2017 and how that will affect the Bank’s business are among the main factors considered in setting the Bank’s strategic priorities and objectives and in determining its financial targets, including provisions for credit losses. In determining its expectations for economic growth, both broadly and in the financial services sector in particular, the Bank primarily considers historical economic data provided by the Canadian and U.S. governments and their agencies.

There is a strong possibility that express or implied projections contained in these forward-looking statements will not materialize or will not be accurate. The Bank recommends that readers not place undue reliance on these statements, as a number of factors, many of which are beyond the Bank’s control, could cause actual future results, conditions, actions or events to differ significantly from the targets, expectations, estimates or intentions expressed in the forward-looking statements. These factors include credit risk, market risk, liquidity and funding risk, operational risk, regulatory compliance risk, reputation risk, strategic risk and environmental risk, all of which are described in more detail in the Risk Management section beginning on page 48 of the 2016 Annual Report, general economic environment and financial market conditions in Canada, the United States and certain other countries in which the Bank conducts business, including regulatory changes affecting the Bank’s business, capital and liquidity; changes in the accounting policies the Bank uses to report its financial condition, including uncertainties associated with assumptions and critical accounting estimates; tax laws in the countries in which the Bank operates, primarily Canada and the United States (including the U.S. Foreign Account Tax Compliance Act (FATCA)); changes to capital and liquidity guidelines and to the manner in which they are to be presented and interpreted; changes to the credit ratings assigned to the Bank; and potential disruptions to the Bank’s information technology systems, including evolving cyber attack risk.

The foregoing list of risk factors is not exhaustive. Additional information about these factors can be found in the Risk Management section of the 2016 Annual Report. Investors and others who rely on the Bank’s forward-looking statements should carefully consider the above factors as well as the uncertainties they represent and the risk they entail. Except as required by law, the Bank does not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time, by it or on its behalf.

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

# OVERVIEW - NATIONAL BANK OF CANADA



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# NBC AT A GLANCE

NATIONAL BANK IN FIGURES	As at July 31, 2017
Number of employees	21,526
Number of branches	443
Number of banking machines	932
Number of individual clients	2.3 million
Assets	\$240 billion
Assets under management/administration	\$428 billion
Common share price at closing (TSX:NA)	\$56.15
Stock market capitalization	\$19 billion

## HIGHLIGHTS

- ❑ Adjusted diluted EPS up 5% YoY
- ❑ Positive operating leverage of 4.7%
- ❑ Efficiency ratio improved by 250 bps YoY
- ❑ ROE at 18.4%
- ❑ Common Equity Tier 1 ratio at 11.2%

Financial Performance <sup>1</sup>	9 months July 31, 2017	12 months October 31, 2016
Total revenues <sup>2</sup>	\$5,104	\$6,279
Net income	\$1,518	\$1,613
Earnings per share (diluted)	\$4.05	\$4.35
Return on common shareholders' equity	18.4%	15.5%
Efficiency ratio	56.2%	58.2%
Common Equity Tier 1 ratio (Basel III)	11.2%	10.1%
Leverage Ratio	4.0%	3.7%
Liquidity Coverage Ratio (LCR)	134%	134%

(1) Excluding specified items

(2) Taxable equivalent basis

C\$ millions

# HIGHLIGHTS – Q3 2017

(millions of dollars)

ADJUSTED NET INCOME	Q3 17	Q2 17	Q3 16	QoQ	YoY
P&C Banking	240	233	199	3%	21%
P&C Banking <i>excl. sectoral provision adj. <sup>(1)</sup></i>	240	204	199	18%	21%
Wealth Management	112	105	87	7%	29%
Financial Markets	168	175	156	(4%)	8%
US Specialty Finance & International <sup>(2)</sup>	51	40	64	28%	(20%)

(1) Reversal of sectoral provision of \$40M (\$29M after taxes) in Q2-17

(2) NA's reported Q3-16 net income included a \$41 million revaluation gain of ABA

## HIGHLIGHTS (YoY)

### ❑ P&C BANKING

- ❑ Net income up 21%
- ❑ Revenues up 6% due to increase in loans, deposits, and other revenues
- ❑ NIM up 1 bp (YoY) and 3 bps (QoQ) to 2.27%

### ❑ WEALTH MANAGEMENT

- ❑ 29% net income growth
- ❑ Revenues up 12%
- ❑ AUA and AUM up 10% and 13%, respectively

### ❑ FINANCIAL MARKETS

- ❑ Net income up 8%
- ❑ Revenues up 6%

### ❑ US SPECIALTY FINANCE & INTERNATIONAL

- ❑ Credigy and ABA ahead of plan
- ❑ Expects USSF&I contribution to be around 10% of overall results

# LOAN PORTFOLIO OVERVIEW

## LOANS PORTFOLIO OVERVIEW

<i>(billions of dollars)</i>	Q3 17	% of Total
Secured - Mortgage & HELOC	65.9	49%
Secured - Other	4.8	3%
Unsecured	9.4	7%
Credit Cards	2.0	2%
<b>Total Retail</b>	<b>82.1</b>	<b>61%</b>

<i>(billions of dollars)</i>	Q3 17	% of Total
Real Estate	8.9	7%
Finance and Insurance	5.3	4%
Retail & Wholesale Trade	5.2	4%
Agriculture	4.8	4%
Other services	4.6	3%
Oil & Gas	2.0	1%
Other <sup>(1)</sup>	21.0	16%
<b>Total Wholesale</b>	<b>51.8</b>	<b>39%</b>

<b>Total Gross Loans and Acceptances</b>	<b>133.9</b>	<b>100%</b>
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(1) Includes Mining, Manufacturing, Utilities, Transportation, Prof. Services, Construction, Communication, Government and Education & Health Care

## HIGHLIGHTS

- ❑ Modest exposure to unsecured retail lending
- ❑ Secured retail loans accounts for 52% of total loans
- ❑ Wholesale portfolio is well-diversified across industries
- ❑ O&G Producers/Services account approximately 1% of total loans

# REGIONAL DISTRIBUTION OF CANADIAN LOANS

As at July 31, 2017

REGION	RETAIL			WHOLESALE			TOTAL
	Secured Mortgages & HELOC	Secured Others	Unsecured and Credit Card	Oil & Gas Sector	Commercial	Corporate Banking and Other <sup>(1)</sup>	
Quebec	28.3%	2.0%	5.4%	0.0%	18.1%	4.8%	58.6%
Ontario	12.9%	0.9%	1.1%	0.1%	3.3%	4.4%	22.7%
Oil Regions (AL/SK/NL)	5.0%	0.3%	0.4%	1.4%	0.9%	1.8%	9.8%
BC / MB	3.9%	0.5%	0.3%	0.0%	0.8%	0.5%	6.0%
Maritimes (NB/NS/PE) and Territories	1.2%	0.1%	0.5%	0.0%	0.6%	0.5%	2.9%

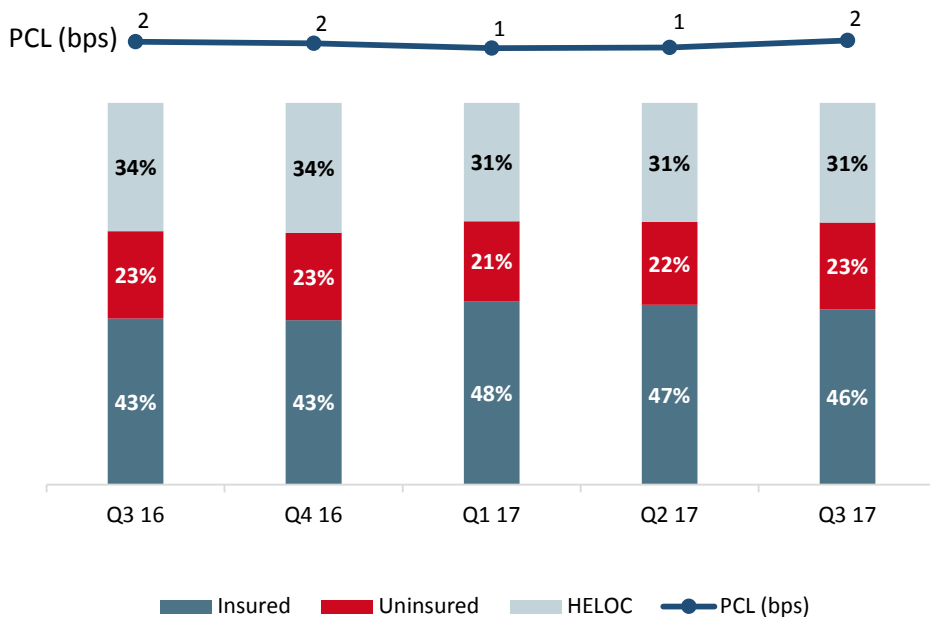
<sup>(1)</sup> Includes Corporate, Other FM and Government portfolios

## HIGHLIGHTS

- ❑ Loan portfolio concentrated in regions with stronger job growth
- ❑ Limited small commercial or unsecured retail lending in the oil regions

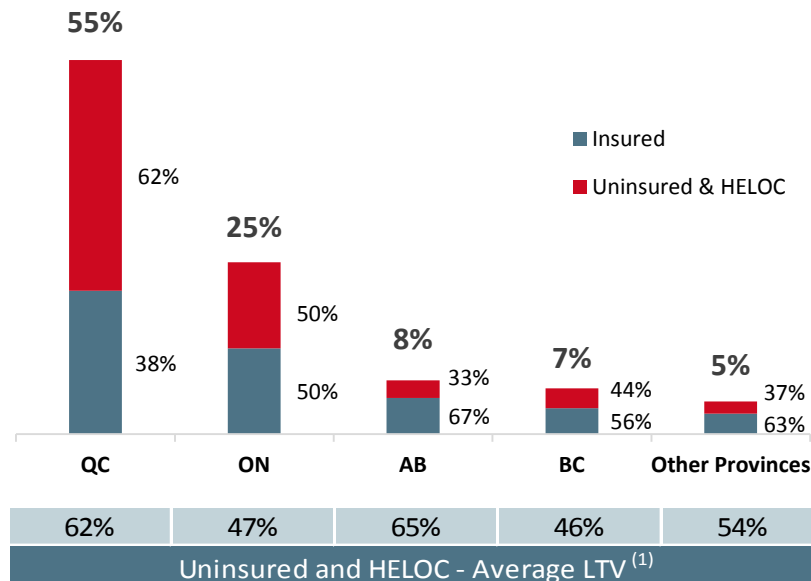
# RETAIL MORTGAGE AND HELOC PORTFOLIO

## CANADIAN RETAIL MORTGAGE PORTFOLIO DISTRIBUTION



## DISTRIBUTION BY CANADIAN PROVINCE

As at July 31, 2017



(1) Average LTV are updated using Teranet-National Bank sub-indices by area and property type.

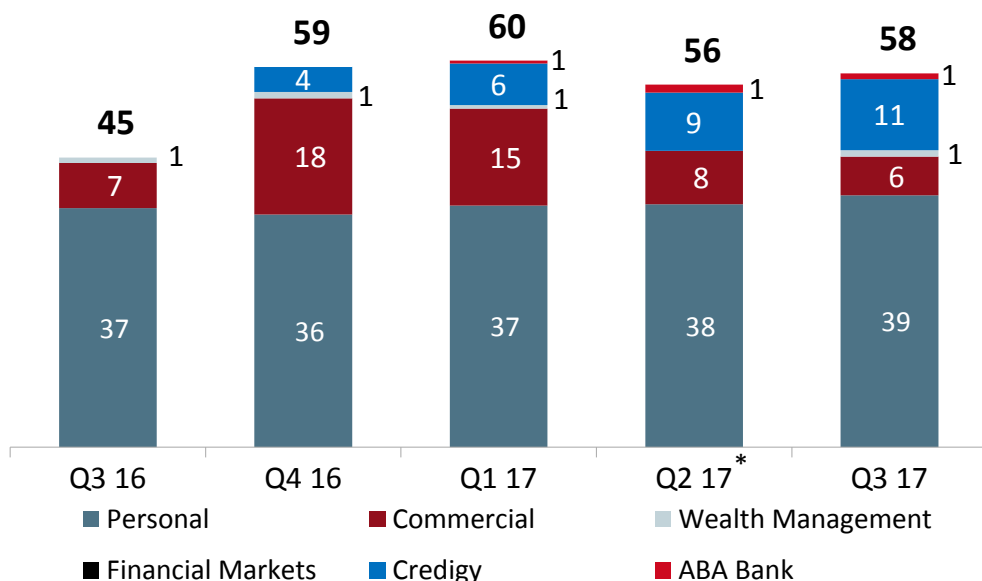
## HIGHLIGHTS

- Insured mortgages represent 46% of the total portfolio
- Outside Central Canada, greater than 60% of the portfolio is insured mortgages
- The average LTV<sup>(1)</sup> on the uninsured mortgages and HELOC portfolio was approximately 58%
- Uninsured mortgages and HELOC in GTA and GVA represent 8% and 2% of the total portfolio and have an average LTV<sup>(1)</sup> of 43% and 44% respectively



# PROVISION FOR CREDIT LOSSES

(millions of dollars)



\* Excluding changes in the sectoral provision and the increase of the collective allowance.

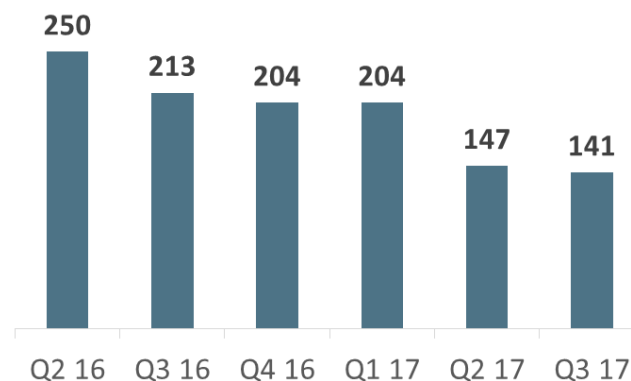
PCLs (in bps)	Q3 17	Q2 17	Q1 17	Q4 16	Q3 16
Personal	24	24	23	23	24
Commercial	8	11	20	23	10
Wealth Management	3	-	2	4	3
Credigy	81	80	69	38	-
ABA Bank	32	49	23	18	-
Financial Markets	-	-	-	-	-
<b>Total Specific Provisions</b>	<b>18</b>	<b>18</b>	<b>19</b>	<b>19</b>	<b>15</b>

## HIGHLIGHTS

- Specific provisions for credit losses are stable at 18bps
- \$ 6 million transferred from the sectoral allowance
- Performance of Credigy and ABA portfolios continue to meet expectations
- PCL target maintained at 15-25bps

## OIL AND GAS SECTORAL ALLOWANCE

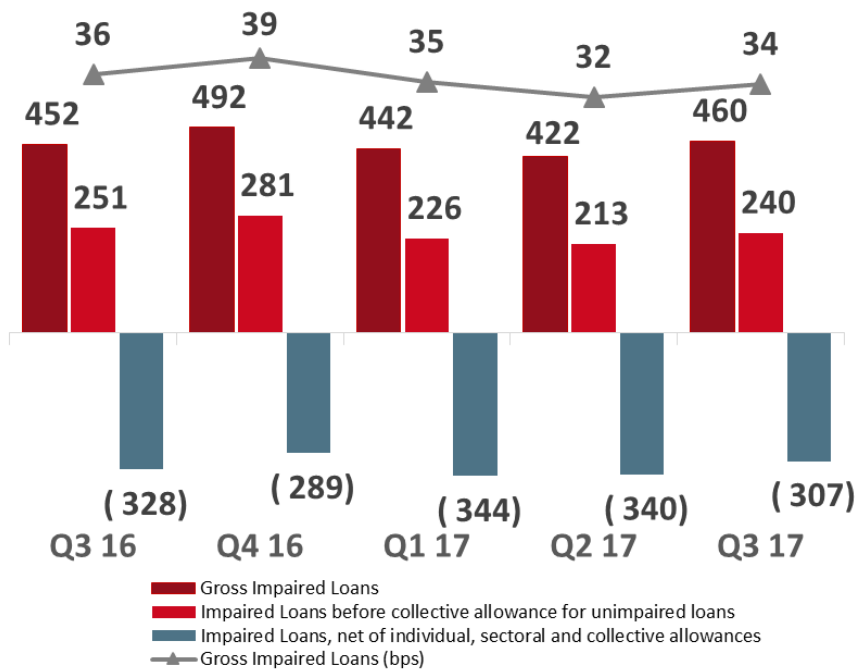
(millions of dollars)



# IMPAIRED LOANS AND BA'S AND FORMATION

(millions of dollars)

## IMPAIRED LOANS AND BA'S



## IMPAIRED LOANS AND BA'S FORMATION <sup>(1)</sup>

(millions of dollars)	Q3 17	Q2 17	Q1 17	Q4 16	Q3 16
Personal	13	18	23	17	11
Commercial (excluding O&G)	1	22	(11)	24	(23)
Oil & Gas	35	(8)	(32)	36	29
Corporate Banking	-	-	-	-	-
Wealth Management	1	1	-	2	(1)
Credigy	-	-	-	-	-
ABA Bank	10	2	1	1	1
<b>Total</b>	<b>60</b>	<b>35</b>	<b>(19)</b>	<b>80</b>	<b>17</b>

(1) Formations include new accounts, disbursements, principal repayments, and exchange rate fluctuation and exclude write-offs.

## HIGHLIGHTS

- ❑ GIL ratio remains low at 34bps due to strong performance in Canadian P&C
- ❑ Increase in formations due to 1 legacy, well-collateralized account in ABA, and 2 accounts in O&G

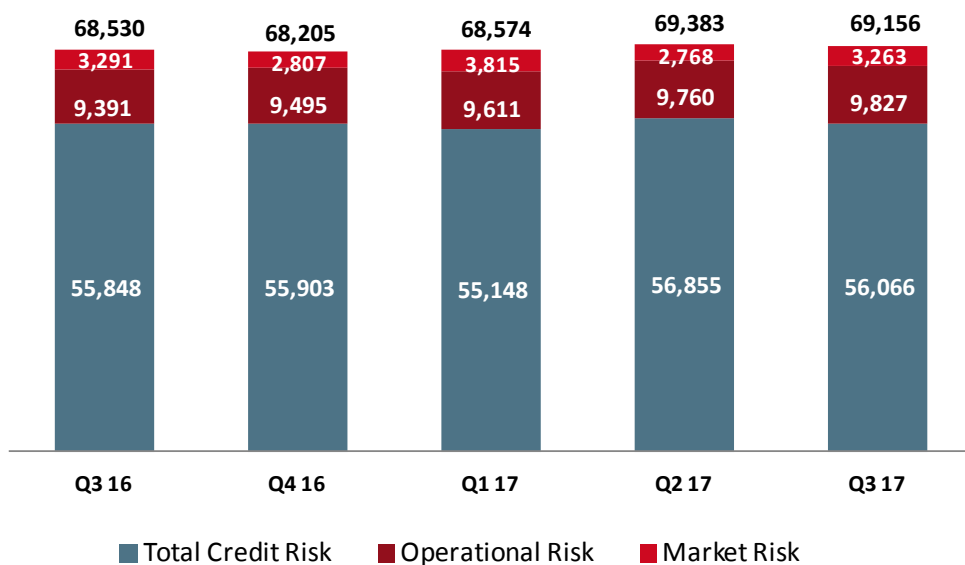
# CAPITAL, LIQUIDITY AND FUNDING



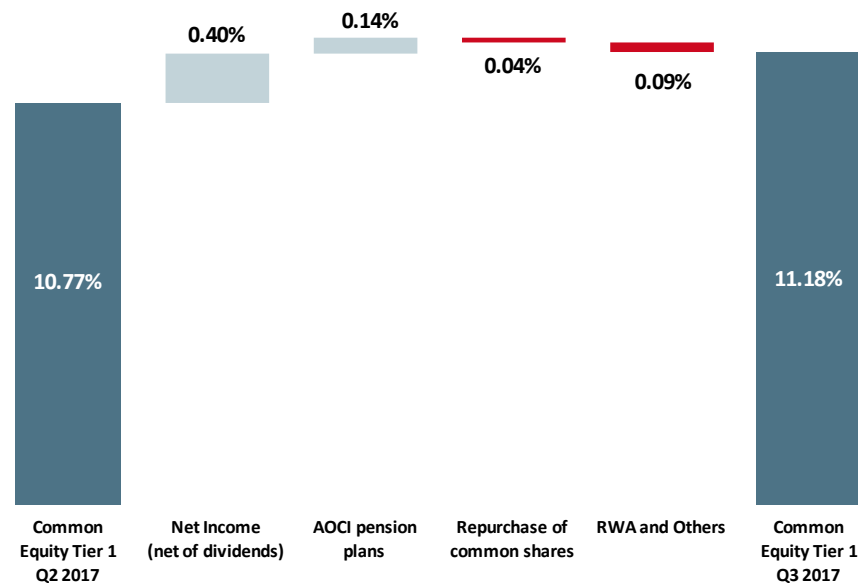
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# STRONG CAPITAL POSITION

## TOTAL RISK-WEIGHTED ASSETS UNDER BASEL III



## COMMON EQUITY TIER 1 UNDER BASEL III EVOLUTION (QoQ)



## HIGHLIGHTS

- ❑ Common Equity Tier 1 ratio at 11.2%
- ❑ Total capital ratio at 15.5%
- ❑ Leverage ratio at 4.0%
- ❑ Liquidity coverage ratio at 134%

# FUNDING STRATEGY

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The key objectives of the NBC funding strategy are to:

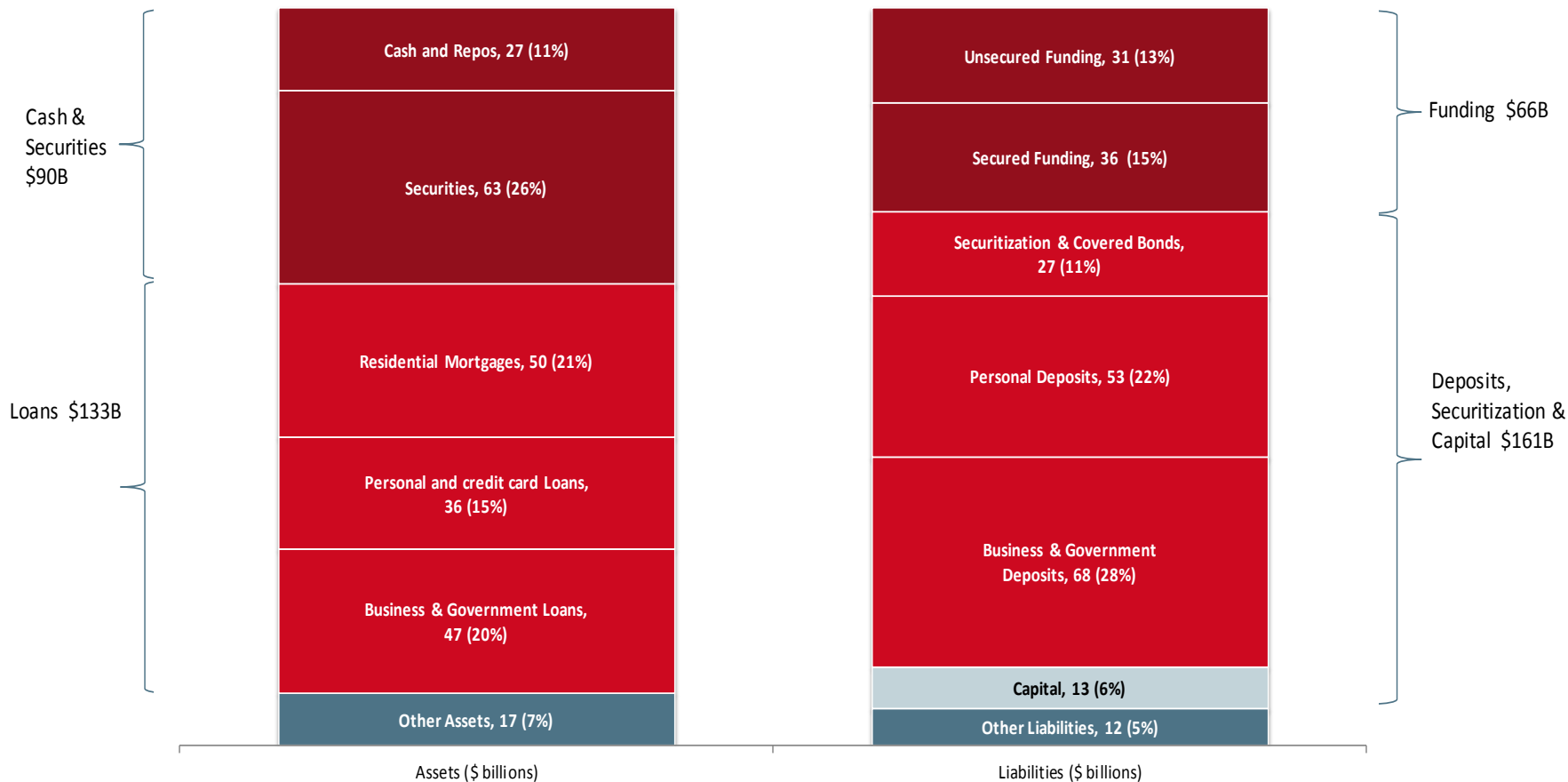
- ❑ support the organic growth of the Bank through prudent liquidity and funding management, to withstand severe stresses;
- ❑ fund core banking activities with stable deposits and securitization;
- ❑ fund securities portfolio with secured and unsecured wholesale funding;
- ❑ limit short-term wholesale funding; and
- ❑ maintain an active access to wholesale funding markets, and ensure diversification.

NBC funding framework includes the following focus points:

- ❑ implement a diversified deposit strategy, which includes new initiatives, on a regular basis, to further increase the deposits balance;
- ❑ monitor and control liquidity risk exposure and funding needs across all the Bank's entities, business segments and currencies, using a well-developed funds transfer pricing system; and
- ❑ integrate the regulatory framework (OSFI liquidity guidelines and principles, Basel III Liquidity framework) in the day-to-day liquidity management and the long-term funding plan.

# FUNDING STRATEGY

Balance Sheet (240 B\$)  
as at July 2017



# LIQUIDITY COVERAGE RATIO (LCR)

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## **NBC average LCR: 134%** (as of July 31, 2017)

- ❑ The LCR shows NBC's strong capacity to withhold a severe short-term stress scenario; being well above the 100% regulatory requirement and demonstrating the Bank's solid liquidity position;
- ❑ NBC's wholesale funding is well positioned with a proportion of wholesale funding, including securitization, with maturities lower than 12 months of approximately 36% (as of July 31, 2017);
- ❑ NBC's long term profile of its wholesale funding allows the Bank to hold a more optimal liquidity cushion.

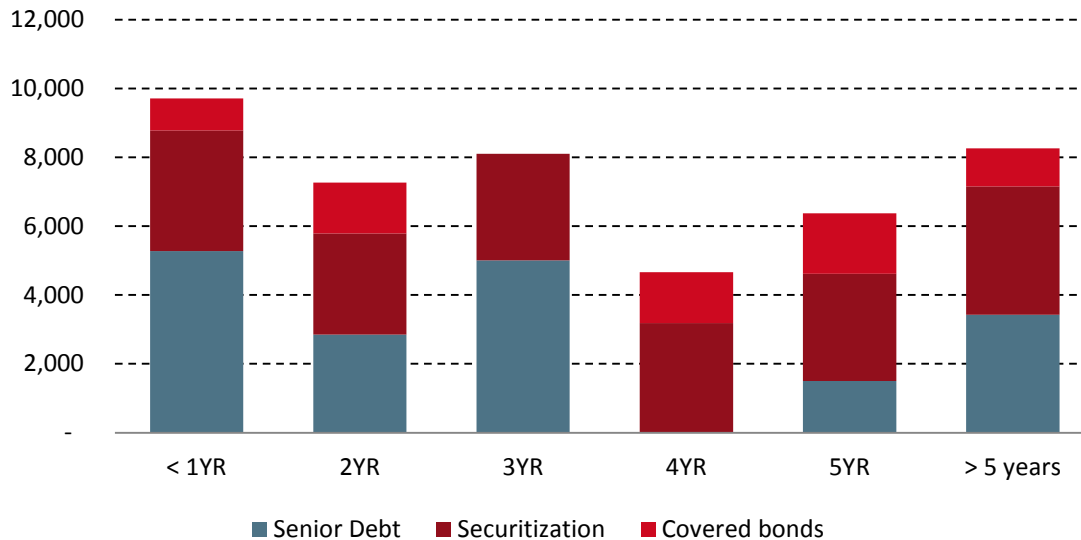
*Additional information on the Bank's liquidity position can be found in pp. 71-77 of the 2016 Annual Report, as well as on pp. 30-34 of the Q3 2017 Report to Shareholders.*

# MATURITY PROFILE

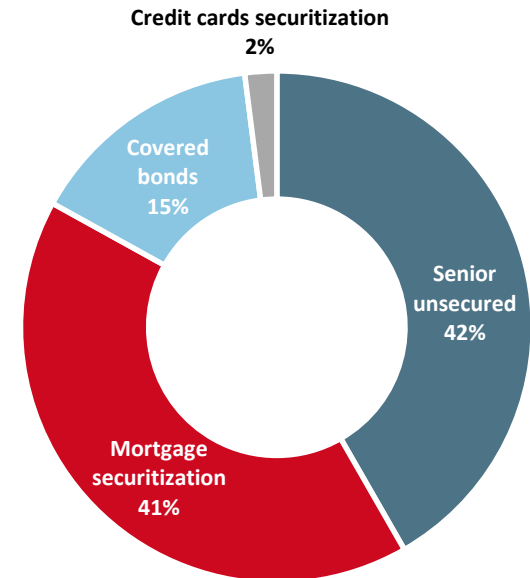
(C\$ millions)

- Diversified funding by instrument, tenor, and currency

## TERM FUNDING



## TERM FUNDING



- Term Funding includes all negotiable products with terms at issuance greater than or equal to 1 year. Excludes capital issuances.
- Securitization includes Credit card securitization and Mortgage securitization. Mortgage securitization represents NBC participation into Canadian residential mortgages programs sponsored by a Canadian Federal Government Agency (Canada Housing Trust™).



# DIVERSIFIED FUNDING PLATFORMS

## Unsecured Wholesale Funding Platforms

- ❑ Benchmark C\$ Senior Unsecured
  - ❑ US\$ Senior Unsecured MTN program
  - ❑ C\$ MTN shelf
  - ❑ US\$ Commercial Paper programs
- ❑ Yankee CDs
  - ❑ Euro MTN program

## Securitization and Covered Bond Programs

- ❑ Canadian Mortgage Bonds (CMB)
- ❑ Canadian Credit Card Trust II (CCCT II)
- ❑ Legislative Global Covered Bond Program (conventional mortgages, CMHC-Registered Program)

## Recent Offerings

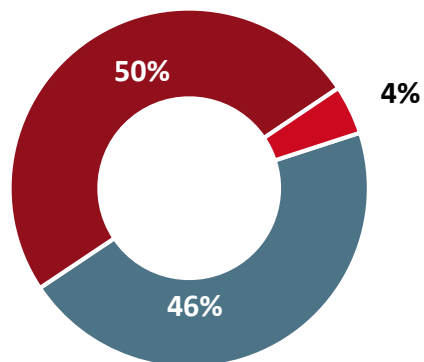
Canadian					
Currency	Principal (in millions)	Tenor	Product	Coupon	Maturity
C\$	750	5Y	Senior Unsecured	1.957%	Jun-22
Foreign					
Currency	Principal (in millions)	Tenor	Product	Coupon	Maturity
€	750	7Y	Covered Bonds	0.0%	Sep-23
US\$	300	3Y	Senior Unsecured	\$3M LIBOR + 60	Jan-20
US\$	500	3Y	Senior Unsecured	\$3M LIBOR + 56	Jun-20
US\$	1,000	3Y	Senior Unsecured	2.150%	Jun-20

# DEPOSITS BREAKDOWN

(C\$ millions)

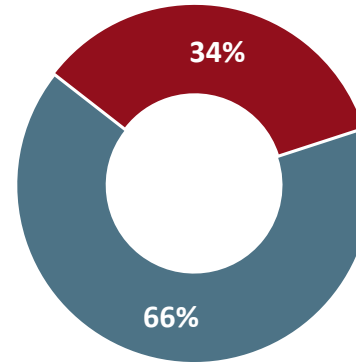
- Committed to deposit growth and diversification

### By Counterparty



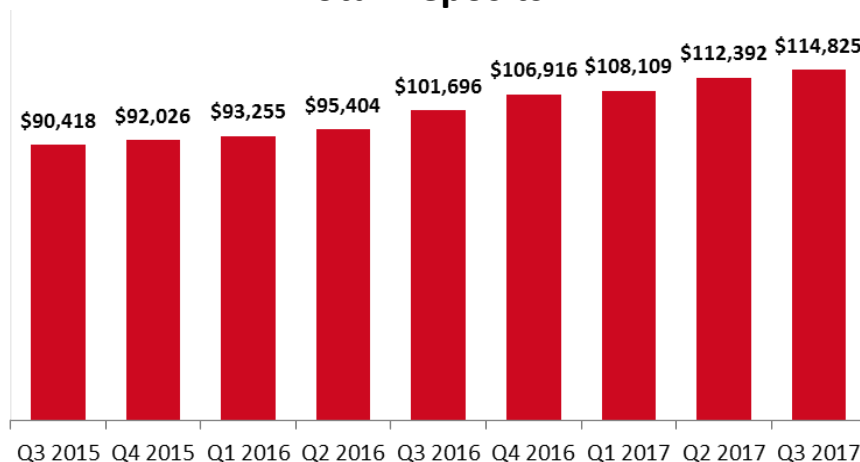
■ Personal ■ Business and Government ■ Deposit-taking Institutions

### By Type

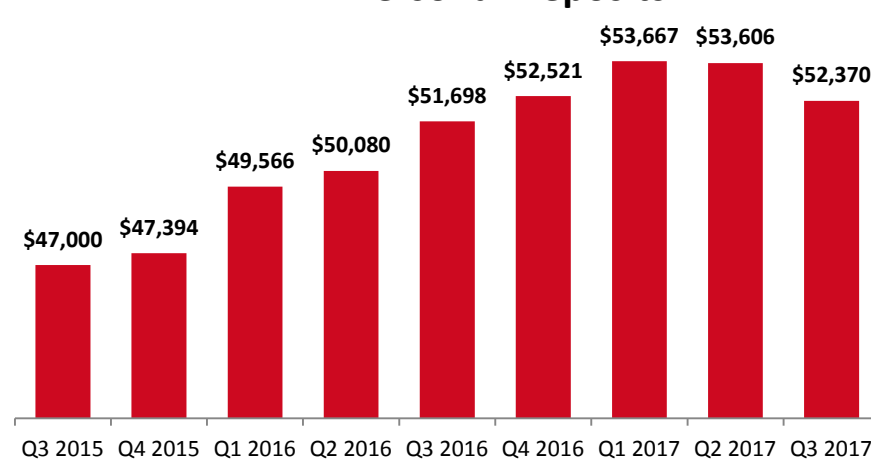


■ On Demand or After Notice ■ Fixed Term

### Total Deposits



### Personal Deposits



# NBC CREDIT RATINGS

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Credit Rating Agency	Short-term	Long-term Senior Debt	Outlook	Covered Bonds
S&P	A-1	A	Stable	
Moody's	P-1	A1	Negative*	Aaa
DBRS	R-1 (mid)	AA (low)	Negative*	AAA
Fitch	F1	A+	Stable	AAA

\* NBC and the other Canadian D-SIBs are under negative watch by Moody's and DBRS, due to the pending Canadian bail-in legislation.

# TLAC AND CANADIAN BAIL-IN REGIME UPDATE

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## **Total Loss Absorbing Capacity (TLAC)**

In November 2015, the Financial Stability Board (FSB) finalized the international TLAC standard for all Global Systemically Important Banks (G-SIBs).

On June 16, 2017, the Government of Canada published, in draft for public comment, regulations providing the details of the conversion, issuance and compensation regimes for bail-in instruments to be issued by the Canadian D-SIBs.

In the unlikely circumstances where OSFI has determined that a D-SIB has ceased (or is about to cease) to be viable, the Governor in Council may grant an order directing the CDIC to convert all or a portion of certain shares and liabilities of the D-SIB into common shares of that D-SIB.

The TLAC framework, which OSFI is extending to the 6 Canadian D-SIBs it supervises, is designed to ensure that each systemically important bank has sufficient loss absorbing capacity to support its recapitalization in the unlikely event of its failure.

Final regulations are expected during fall 2017, with an implementation date 180 days later.

## **Canadian TLAC Ratios**

To build that additional loss absorbing capacity, by November 1<sup>st</sup>, 2021, all Canadian D-SIBs will be bound by:

- TLAC Ratio: 21.5% of Risk-Weighted Assets (RWA);
- TLAC Leverage Ratio: 6.75% of Total exposure.

# TLAC AND CANADIAN BAIL-IN REGIME UPDATE

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## What are the expected key features of bail-in-able debt instruments?

- ✓ Senior unsecured debt instruments with original term > 400 days issued after the implementation date
- ✓ Issued by the D-SIB
- ✓ Tradeable and transferable (i.e. with a CUSIP or an ISIN)
- ✓ Convertible into common shares of the D-SIB upon Canadian regulators' discretionary decision that the D-SIB has ceased or is about to cease to be viable

## What will NOT be bail-in-able debt instruments?

- ✗ Legacy senior unsecured debt instruments, issued prior to the implementation date
- ✗ Short-term instruments with an original term less than 400 days
- ✗ Deposits, Covered bonds, Derivatives, Structured notes, Secured instruments

## Specificities of the Canadian Bail-in Regime

- ❑ Clear regulatory description of bail-in-able instruments
- ❑ No Creditor Worse Off Principle through the unique CDIC Compensation Regime
- ❑ Grandfathering of Legacy Senior unsecured debt
- ❑ Convertible into common shares of the D-SIB upon Canadian regulators' discretionary decision: no contractual trigger
- ❑ No pre-determined bail-in conversion ratio
- ❑ In a liquidation scenario, bail-in debt ranks *pari passu* with all other senior unsecured liabilities.

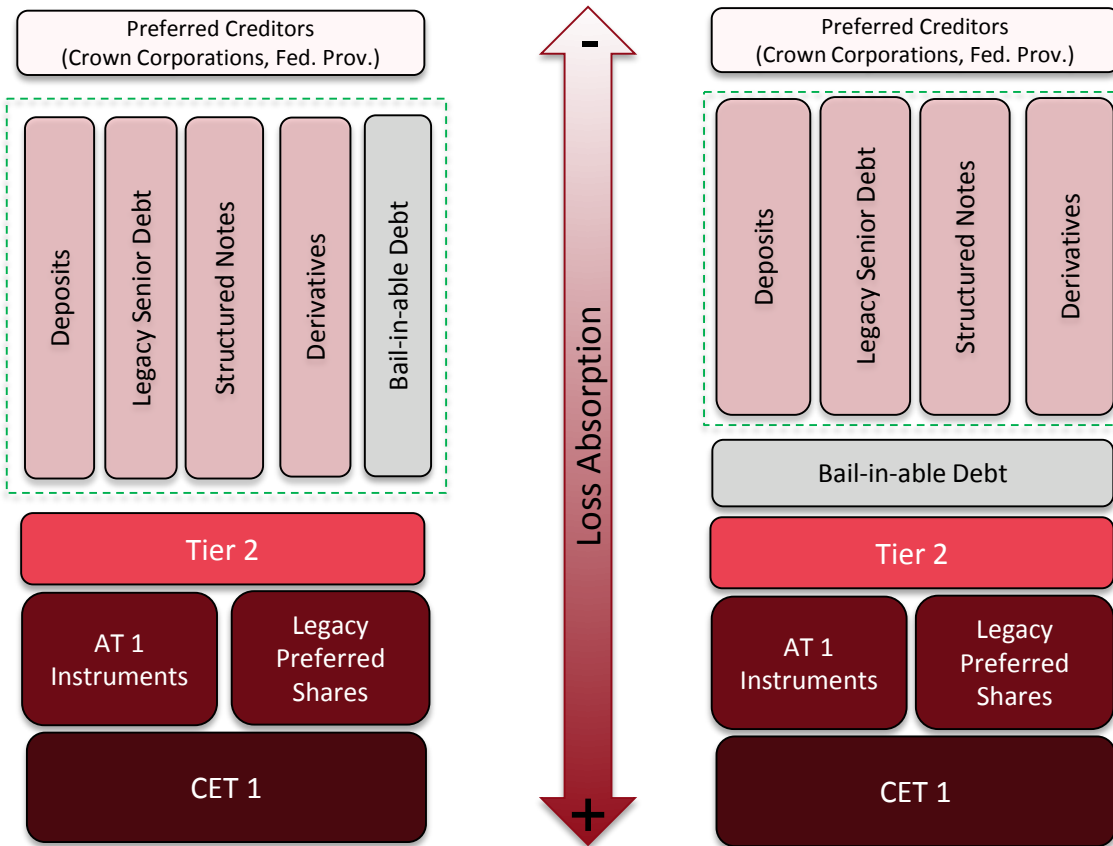
# TLAC AND CANADIAN BAIL-IN REGIME UPDATE

## Liquidation Waterfall

In a liquidation scenario, bail-in debt ranks *pari passu* with all other senior unsecured liabilities.

## Conversion Waterfall

In a conversion scenario, bail-in debt is partially or totally converted into common shares.



## Unique CDIC Compensation Regime

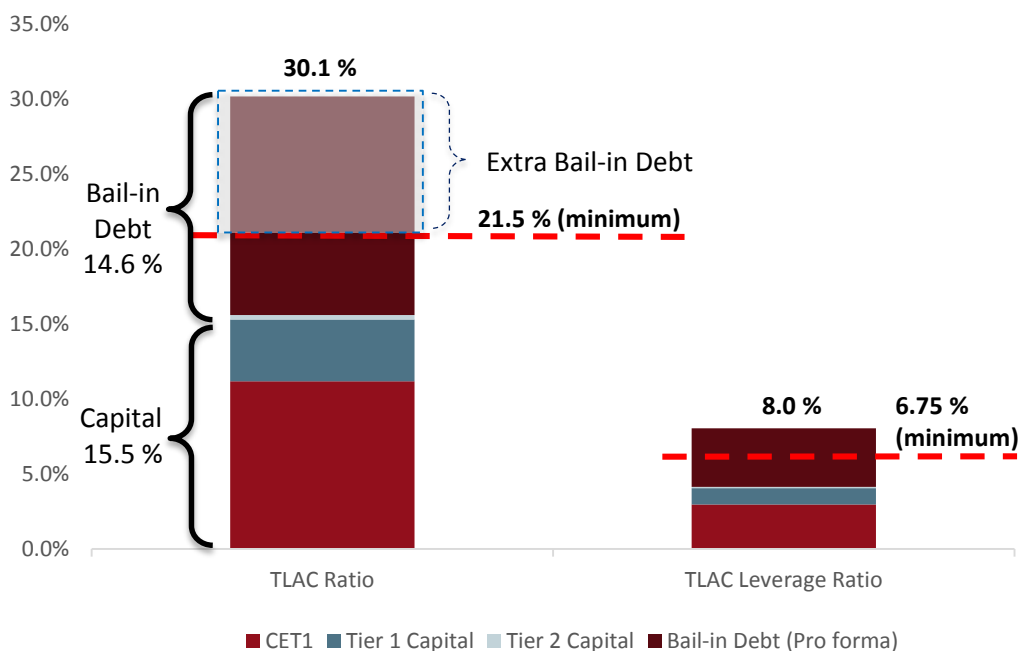
Shareholders and creditors may seek compensation should they be left **worse off** as a result of CDIC's actions to resolve a failed bank (including bail-in) than they would have been if the bank had been liquidated.

For illustration purposes only. The respective size of each box representing a liability layer is not indicative of any actual volumes.

# TLAC AND CANADIAN BAIL-IN REGIME UPDATE

Starting Q1 2022, all D-SIBs will be required to maintain a TLAC risk weighted ratio of at least 21.5% and a TLAC leverage ratio of 6.75%. In addition, D-SIBs will likely be expected to hold operating buffers above the minimum TLAC ratios.

Pro Forma TLAC Ratios as of Q3 2017 by rolling upcoming maturities<sup>(1)</sup>



- ❑ Upcoming maturities are sufficient to be rolled into bail-in debt: approximately \$10B of Senior debt maturing between Q2 2018 and Q4 2021.
- ❑ By rolling existing maturities, NBC would exceed the minimum TLAC regulatory ratios by Q1 2022.
- ❑ NBC will optimize its funding activities to manage its TLAC ratios to a desired level.

(1) TLAC Ratios are estimated: as any other Canadian D-SIB, NBC has not issued any Bail-in debt as of Q3 2017. Numbers are estimated based on outstanding Senior debt which would theoretically qualify as TLAC-eligible pursuant to the draft TLAC criteria as published in recent consultation papers, as if these were applicable.

# APPENDIX



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# LEGISLATIVE COVERED BOND PROGRAMME

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<b>Programme size</b>	□ CAD\$ 10,000,000,000
<b>Outstanding benchmark covered bonds</b>	□ €1B 1.25% 12/18; €1B 1.5% 03/21; €1B 0.5% 01/22; USD\$ 750M 1.3% 04/18; and €750M 0.0% 09/23
<b>Ratings</b>	□ Aaa / AAA / AAA by Moody's, Fitch & DBRS
<b>Asset percentage minimum and maximum</b>	□ 80-93%
<b>Currency</b>	□ Any
<b>Guarantor</b>	□ NBC Covered Bond (Legislative) Guarantor L.P.
<b>Listing</b>	□ London, U.K.
<b>Law</b>	□ Canadian Legislative Framework ( <i>National Housing Act</i> )
<b>LTV</b>	□ 80% Maximum
<b>Collateral pool eligibility</b>	□ Canadian uninsured residential mortgage loans
<b>Tenor</b>	□ Any Allowed
<b>Coupon</b>	□ Fixed / Float
<b>Bullet Type</b>	□ Soft Bullet



# QUESTIONS?

**Mr. Jean Dagenais, Senior Vice-President, Finance**

[Jean.Dagenais@nbc.ca](mailto:Jean.Dagenais@nbc.ca)

**Mr. Eric Girard, Senior Vice-President, Corporate Treasury**

[Eric.Girard@nbc.ca](mailto:Eric.Girard@nbc.ca)

Additional information can be found via these web links:

<https://www.nbc.ca/en/about-us/investors/investor-relations.html>

<https://www.nbc.ca/en/about-us/investors/investor-relations/capital-debt-information.html>



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