Headnote

Mutual Reliance Review System for Exemptive Relief Applications – relief granted from independent underwriter requirement to permit registrant to underwrite 100% of notes issued by a related party, subject to certain conditions

Applicable British Columbia Provisions

National Instrument 33-105 *Underwriting Conflicts*, ss. 2.1 and 5.1

IN THE MATTER OF THE SECURITIES LEGISLATION OF THE PROVINCES OF BRITISH COLUMBIA, ALBERTA, ONTARIO, QUÉBEC, NEW BRUNSWICK, NOVA SCOTIA, PRINCE EDWARD ISLAND, NEWFOUNDLAND AND LABRADOR

AND

IN THE MATTER OF THE MUTUAL RELIANCE REVIEW SYSTEM FOR EXEMPTIVE RELIEF APPLICATIONS

AND

IN THE MATTER OF NATIONAL BANK OF CANADA AND NATIONAL BANK FINANCIAL INC.

MRRS DECISION DOCUMENT

WHEREAS the local securities regulatory authority or regulator (the “Decision Maker”) in each of British Columbia, Alberta, Ontario, Québec, New Brunswick, Nova Scotia, Prince Edward Island, Newfoundland and Labrador (collectively, the “Jurisdictions”) has received an application from National Bank Financial Inc. (“NBF”) and National Bank of Canada (the “Issuer”) for a decision under the securities legislation of the Jurisdictions (the “Legislation”) that the requirement contained in the Legislation regarding acting as an underwriter in connection with a distribution of securities of an issuer made by means of a prospectus where the issuer is a “related issuer” of the registrant (the “Independent Underwriter Requirements”), shall not apply to NBF in respect of the proposed distributions (the “Offerings”) of an aggregate amount of up to $500,000,000 of notes (the “Notes”) of the Issuer to be made under a short form shelf prospectus (the “Prospectus”) and prospectus supplements (the “Prospectus Supplements”) expected to be filed with the Decision Maker in each of the Jurisdictions;

AND WHEREAS under the Mutual Reliance System for Exemptive Relief Applications (the “System”), the Commission des valeurs mobilières du Québec is the principal regulator for this application;

AND WHEREAS, unless otherwise defined, the terms herein have the meaning set out in National Instrument 14-101 Definitions or in Québec Commission Notice 14-101;

AND WHEREAS NBF has represented to the Decision Makers that:

1. The Issuer is a bank governed by the *Bank Act* (Canada). The Issuer's head office and principal place of business is located at 600, de la Gauchetière Street West, Montreal, Québec, H3B 4L2.

2. The Issuer is a "reporting issuer" or the equivalent not in default under the Legislation of any of the provinces of Canada.

3. NBF is registered as a dealer under the Legislation of each of the Jurisdictions and has its head office and principal place of business in Québec.

4. NBF is a wholly-owned subsidiary of the Issuer.

5. The Offerings will consist of Notes of up to seven designations, issuable in series. Each designation of Notes will provide the holder with a return at maturity representing the return of a basket of securities managed by NBF (collectively, the "Baskets"). Capital of the Notes will not be guaranteed.

6. The Prospectus will qualify the offering of Notes of seven designations, e.g. the NBF Top-15 Basket Linked Notes, the NBF U.S. Basket Linked Notes, the NBF Growth Basket Linked Notes, the NBF Dividend Basket Linked Notes, the NBF Stripped Coupon Basket Linked Notes, the NBF Bond Basket Linked Notes and the NBF Asset Allocation Basket Linked Notes. Each issue of Notes will be made under a Prospectus Supplement and will constitute a new series of Notes of all relevant designations. The issue price of each Offering, along with other information regarding each issue of Notes, will be set forth in the Prospectus Supplement that will accompany the Prospectus.

7. All Notes of all designations and series issued in the same calendar year will have the same maturity date, which is expected to be December 31 on the tenth year following the year of issue of the Notes.

8. Holders of Notes will have no interest in the assets comprising the relevant Basket, but an entitlement under the Notes, enforceable against the Issuer, the value of which will be determined by the performance of the relevant Basket.

9. NBF intends to enter into an agency agreement (the “Agency Agreement”) under which NBF would act as the Issuer's exclusive agent in respect of the sale of Notes by the Issuer, up to an aggregate principal amount of $500,000,000, under a Prospectus Supplement for each particular Offering.

10. The Notes issued at the initial closing date under the first Prospectus Supplement will constitute the first series of Notes and will be issued at an initial price per Note of $100 (U.S.$100 in respect of the NBF U.S. Basket Linked Notes and the NBF Asset Allocation Linked Notes). Thereafter, Notes will be sold at a price per Note equal to the Basket Value of the relevant Basket at that date. The “Basket Value” of a Basket will be calculated by reference to the return of the net asset value of the relevant Basket under a pre-determined formula (the “Formula”).

11. The Issuer will retain an independent calculation agent to calculate the net asset value of the Baskets.

12. A management fee will be deducted from the assets comprising the Baskets and will include (i) a management fee payable to the Issuer and (ii) a management fee payable to NBF as manager of the Baskets. A structuring and sale fee will be paid by the Issuer to NBF as agent under the Offerings out of the management fee payable to the Issuer.

13. The Issuer and NBF will enter into a management agreement under which NBF will be responsible for the management of the Baskets.

14. Since NBF is a wholly-owned subsidiary of the Issuer, the Issuer is a related issuer to NBF under the definition of “related issuer” under the Legislation.

15. Under National Instrument No. 33-105 (“NI 33-105”), subject to certain exceptions, a registrant may not act as an underwriter or agent in a distribution of securities of a related issuer unless, among other things, an independent underwriter receives a certain portion of the total agents’ fees.

16. Because of the nature of the Notes, NBF will have no input in the pricing of the Notes. As indicated above, the Notes will be initially priced at $100 (US$100 in respect of the NBF U.S. Basket Linked Notes and the NBF Asset Allocation Linked Notes). Thereafter, the price of issue of the Notes will be equal to the Basket Value which will be calculated under the Formulae and which will ultimately be determined by the market.

17. NBF as agent will not receive any benefit in connection with the Offerings other than the fee payable by the Issuer to NBF as agent.

18. The Prospectus will contain the information specified in Appendix "C" of NI 33-105 on the basis that the Issuer is a "related issuer" of NBF, including disclosure concerning the nature of the relationship with the Issuer (the "Disclosure Requirements").

19. The Issuer is not and it is not expected that the Issuer could be in financial difficulty.

AND WHEREAS under the System, this MRRS Decision Document evidences the decision of each Decision Maker (collectively, the "Decision");

AND WHEREAS each of the Decision Makers is satisfied that the test contained in the Legislation that provides the Decision Maker with the jurisdiction to make the Decision has been met;

THE DECISION of the Decision Makers under the Legislation is that the Issuer and NBF are exempt from the Independent Underwriter Requirements in connection with the Offerings, subject to compliance with the Disclosure Requirements.

August 27, 2002.

VIATEUR GAGNON MICHELINE BROCHU