SETTLEMENT AGREEMENT

AUTORITÉ DES MARCHÉS FINANCIERS, having a place of business at 800, Square Victoria, 22nd floor, Montréal, Québec, H4Z 1G3

and

NATIONAL BANK FINANCIAL INC., having a place of business at 1155, Metcalfe, 4th floor, Montreal, Québec, H3B 4S9

Acknowledgement

1. The facts and admission herein are agreed to for the sole purpose of this Settlement Agreement. They are without prejudice to the Parties in any other proceedings of any kind. Except as may be provided below, no other person or agency may raise or rely upon, or be bound by, the terms of this Settlement Agreement.

Overview

2. The primary components of the mission of the Autorité des marchés financiers ("AMF") are to promote efficiency in the securities market, define a framework for the activities of securities market professionals and take any steps under the Securities Act, R.S.Q., ch. V-1.1 ("Act") for these purposes.

3. National Bank Financial Inc. ("NBF") is a registrant pursuant to the Act, and conducting business across Canada, with its head office in Montréal, Québec.

4. On August 13, 2007, the Canadian non-bank sponsored asset-backed commercial paper ("Third Party ABCP") market became illiquid, leaving Canadian investors holding investments that they could neither sell nor redeem.

5. NBF played an important role in the operation of the Canadian Third Party ABCP market.

6. In May 2008, AMF initiated an investigation into the conduct of NBF relating to the sale, distribution and other activities of Third Party ABCP.

Asset-Backed Commercial Paper

7. The Canadian ABCP market included two categories: bank-sponsored and non-bank-sponsored (or Third Party) ABCP. Both categories share many common features.

8. ABCP is a short-term debt instrument with typical maturities of 30 to 180 days. ABCP is backed by a pool of underlying assets and offers a yield slightly better than the yield offered on short-term government debt.

9. ABCP is issued by a special purpose vehicle (also referred to as a conduit). In Canada, the conduits are trusts established by sponsors. Sponsors generally select underlying assets, administer the assets and arrange for the sale of the ABCP notes.

10. As the underlying assets held by conduits were long-term and the ABCP notes were short-term, there was a timing mismatch between the cash flowing from the assets and the cash needed to repay maturing ABCP. For many years, conduits met their maturity obligations by selling newly issued ABCP, the proceeds of which were used to pay maturing ABCP. The liquidity of ABCP was an important characteristic for investors along with credit ratings and yields.

11. To safeguard against difficulty meeting maturity obligations, conduits entered into agreements with liquidity providers which provided credit lines under certain conditions. In general, there were two types of liquidity facilities: (1) general market disruption ("GMD") and (2) global-style. GMD liquidity was also called "Canadian-style" since it was only available in the Canadian ABCP market. Unlike global-style liquidity facilities, Canadian-style liquidity facilities required specified "general market disruption" events and a credit rating affirmation before liquidity was provided.

12. Liquidity agreements were subject to confidentiality provisions. Many details of the pre-conditions required for liquidity support, including the definition of a "general market disruption event", were not known to the public, investors or to the distributors of ABCP who were not also liquidity providers. Conduits generally disclosed the existence of their liquidity arrangements and disclosed that there were pre-conditions to draws.

13. The sponsors provided limited information regarding the underlying pool of assets in conduits issuing ABCP. Sponsors typically provided an information memorandum describing the basic elements of ABCP. In most cases, the general asset classes were the only information publicly disclosed; there was no disclosure of the specific assets held in the conduits or the terms of the liquidity agreements supporting the ABCP

14. As a result of a change to applicable securities laws in September 2005, ABCP distributed in Canada was prospectus exempt under the short-term debt exemption in section 2.35 of National Instrument 45-106 – *Prospectus and Registration Exemptions,* which provided an exemption for commercial paper with an approved credit rating from an approved credit rating organization, thus allowing for the distribution of ABCP to any purchaser without any disclosure obligations. The conduits issuing the ABCP were not reporting issuers under applicable securities laws.

15. In connection with sales of ABCP, the primary information disclosed to, and requested by, prospective investors was the term, the yield and credit rating of ABCP.

16. ABCP, and other short term money market instruments, trade in a dealer market, also known as an over-the-counter ("OTC") market. Unlike an auction market or exchange, the OTC market did not have a centralized quotation system and/or a centralized repository containing disclosure information that investors could access independently.

17. DBRS Limited ("DBRS"), an approved credit rating organization, was the sole credit rating organization which rated Third Party ABCP in Canada. To this end, DBRS had access to any information it needed to establish a rating for Third Party ABCP, including the details of the structure, the underlying assets and the liquidity agreements.

18. On January 19, 2007, DBRS announced changes to its rating methodology for certain new transactions entered into by ABCP issuers. The DBRS press release set out specific new rating criteria, including a requirement for global-style liquidity, to be applied prospectively in the marketplace.

Third Party ABCP

19. ABCP has been in the Canadian marketplace for decades, and non-bank sponsors entered the marketplace in approximately 1998.

20. Historically, the assets underlying ABCP consisted of traditional assets such as consumer loans, credit card receivables and residential mortgages. Non-traditional complex synthetic assets, such as collateralized debt obligations, came into these structures over time, starting in around 2003. By 2007, the majority of the assets underlying Third Party ABCP consisted of these non-traditional assets.

21. Third Party ABCP was typically issued by a series of notes, the most common being Series "A" Notes and Series "E" Notes. The "A" Notes were supported by the Canadian-style liquidity facilities. "E" Notes were not, but could be extended up to 364 days after the original maturity date if certain conditions were met, including that market conditions did not allow for "E" Notes to be sold at a specified spread.

Coventree Inc.

22. At all material times, Coventree Inc. ("Coventree") was the largest sponsor of Third Party ABCP in Canada. Coventree also issued Third Party ABCP through one of its subsidiaries, Nereus Financial Inc. ("Nereus").

23. At all material times, Coventree and Nereus (hereinafter collectively referred to as the "Coventree Group") sponsored the following Third Party ABCP conduits:

    Coventree:
    Apollo Trust
    Aurora Trust
    Comet Trust
    Gemini Trust
    Planet Trust
    Rocket Trust
    Slate Trust
    Venus Trust

    Nereus:
    Structured Investment Trust III
    Structured Asset Trust

24. All Coventree Group conduits but one received an R1-(high) rating (the highest credit rating available, equivalent to a "AAA" for long term debt) by DBRS, as did other Canadian ThirdParty ABCP. This rating remained in place at all material times up to and even after August 13, 2007. Coventree Group ABCP was rated by DBRS above the minimum "approved credit rating" required by NI45-106 at all material times.

The Distribution of Third Party ABCP

25. In general, Third Party ABCP was distributed to investors through a dealer syndicate group (the "dealer syndicate"). Typically, one member of the dealer syndicate would be appointed as lead dealer. Some of the lead dealer's daily duties included the allocation of ABCP notes to dealer syndicate members and setting the yield in consultation with the conduit sponsor.

26. The dealer syndicate members maintained trading lines, up to a credit limit, for Third Party ABCP. Dealer syndicate members would typically purchase Third Party ABCP that was not sold at the end of a trading day. These positions were intended to be held in the dealer's inventory on a short-term basis, typically overnight, until the notes could be sold to investors. Further, dealer syndicate members could decide to purchase Third Party ABCP from clients in the secondary market. While the dealer syndicate was under no obligation to purchase any Third Party ABCP, they could do so to provide a secondary market, maintain liquidity in the market and/or as a service to their clients. Dealer syndicate members also had

the option to turn back ABCP to the sponsor if they were unable to sell their daily allocation, but this was not their ordinary practice.

The Market Freeze

27. On August 13, 2007, a number of Third Party ABCP conduits distributed in Canada, including the Coventree Group conduits, were unable to sell new ABCP to fund the repayment of maturing ABCP. Many of the conduits' liquidity providers did not agree that the conditions for liquidity funding had occurred and refused to provide liquidity to the affected conduits.

28. As of August 13, 2007, the Third Party ABCP market totalled approximately $35 billion, with Coventree Group conduits representing approximately 46% of the value of the Third Party ABCP market.

29. On August 16, 2007, a consortium representing banks, asset providers and major ABCP holders, agreed to take steps to re-establish normal operations in the ABCP market. This agreement was known as the Montreal Proposal.

30. A Pan-Canadian Investors Committee, including investors who were signatories to the Montreal Proposal plus other significant holders, was established to oversee the orderly restructuring of Third Party ABCP. It put forward the Plan of Compromise and Arrangement ("the Plan"), which was implemented on January 21, 2009.

31. Pursuant to the Plan, holders of the eligible Third Party ABCP had their short-term notes exchanged for longer term notes to match more closely the maturity dates of the underlying assets. These new notes were issued by Master Asset Vehicles (MAVs). It is not currently possible to determine if any or all of the notes of the MAVs will mature at par value.

NBF's Participation in Selling Third Party ABCP

32. NBF started participating in the Third Party ABCP market in around 2000.

33. NBF did not conduct new product review with respect to Third Party ABCP, nor on-going monitoring of changes to those products. NBF did not provide formal training to its sales representatives concerning the Third Party ABCP product.

34. At the time the market froze on August 13, 2007, NBF was participating in this market in the following capacities:

    a. as a full service brokerage firm and market intermediary, dealing in most of the Third Party ABCP conduits available in the market;

    b. as lead dealer of dealer syndicates for a number of Third Party ABCP conduits;

c. as financial services agent for three conduits, namely Ironstone, MMAI and Silverstone.

35. NBF was selling Third Party ABCP to both institutional and retail investors, although the vast majority of the paper was sold to institutional investors.

Emerging Issues

(a) US Subprime Exposure

36. During the period from March to June, 2007, increasing defaults in US subprime mortgages started to place strains on credit markets in the United States.

37. Prior to July 24, 2007, NBF obtained subprime information about Third Party ABCP on the following occasions:

   a. dealers, including NBF, and some institutional investors attended a presentation organized by Coventree in late April 2007. At that presentation, Coventree disclosed that the overall US subprime exposure in its conduits was 7.4 percent.

   b. on July 11, 2007, NBF received an email from Coventree with a preliminary summary of the U.S. subprime exposure in each of its conduits, as of June 29, 2007.

38. On July 24th, 2007, Coventree sent an email ("July 24th email") to all of Coventree's syndicate members, including NBF, setting out information regarding U.S. subprime exposure in Coventree conduits as of June 28, 2007, along with certain details on:

   a. low loss levels;

   b. credit support levels, insurance and over-collateralization;

   c. that subprime deal vintages were focused in pre-2006 vintages; and

   d. that all assets were performing as expected and remained rated at AAA level.

39. The July 24th email listed the US subprime exposure in each of the conduits as follows:

Conduits	**Series A**	**Series E**	**Total ABCP**
Aurora Trust	0%	8%	3%
Comet Trust	0%	42%	16%
Planet Trust	26%	3%	17%

Slate Trust	0%	16%	13%
Apollo Trust Gemini Trust Rocket Trust Venus Trust	0%	0%	0%
SAT	0%	0%	0%
SIT III	1%	0%	1%
TOTAL	**3%**	**6%**	**5%**

40. Coventree did not put any limitations on disclosure of the information contained in the July 24th email.

41. The information communicated in the July 24th email was not verifiable through publicly available sources. NBF, however, took steps to try to understand the information and its context, including seeking and obtaining confirmation from DBRS that their ratings were maintained. Based upon information available to NBF no credit issue was identified relating to Third Party ABCP.

42. NBF disclosed the information contained in the July 24th email to a small number of institutional clients. It did not generally disclose the information to its Coventree-sponsored ABCP investor clients.

(b) Liquidity Issues

43. Beginning in late July 2007, NBF became aware of certain factors that indicated liquidity issues affecting the Third Party ABCP market :

    a. on July 30, 2007, as was evident to all market participants, spreads began to widen on Third Party ABCP and continued to widen until August 13, 2007;

    b. some clients were reducing their exposure to Third Party ABCP by declining to roll Third Party ABCP;

    c. for certain conduits in which NBF was the lead dealer, a few dealers returned to NBF some Third Party ABCP which they could not place.

NBF'S RESPONSE TO EMERGING ISSUES

44. NBF did not inform its compliance department of the emerging issues in the Third Party ABCP market prior to August 10, 2007. As a result, there was a delay in engaging appropriate processes for assessing the impact of emerging issues in the Third Party ABCP market.

45. Notwithstanding the emerging issues in the Third Party ABCP market, between July 25 and August 13, 2007, NBF continued its trading practices in the Third Party ABCP Market. More specifically, during this period, NBF sold $1,245 million to clients who may not have been aware of those issues, $103 million of which came from NBF's inventory.

46. Prior to July 2007, NBF's own inventory fluctuated with the demand for Third Party ABCP between $400 million and $90 million.

The Respondent's Admission

47. Between July 25 and August 13, 2007, NBF failed to act with all the care that may be expected of a knowledgeable professional acting in the same circumstances as prescribed by section 160.1 of the *Securities Act*, R.S.Q., ch. V-1.1, by failing to adequately respond to emerging issues in the Third Party ABCP market, particularly the July 24th email, insofar as it continued to participate, as a seller and a buyer, in Third Party ABCP without engaging compliance and other appropriate processes for the assessment of such emerging issues.

NBF's Mitigating Factors

48. NBF participated in the Montreal Proposal, an agreement amongst market participants to protect investor value in the Third Party ABCP market and which was an essential first step in the restructuring process headed by the Crawford Committee and approved before the courts. National Bank Financial Group also contributed approximately $900 million in liquidity lines to help make the Plan financially viable.

49. On August 20, 2007, within days of the Third Party ABCP market becoming illiquid, NBF and its parent company, National Bank of Canada, announced measures to relieve clients from ABCP uncertainties and such measures included the voluntary repurchase of Third Party ABCP from retail customers and certain money market mutual funds holding Third Party ABCP for an aggregate purchase price of approximately $2.1 billion - the full face value of the Third Party ABCP.

50. Following the implementation of the Plan, National Bank Financial Group has extended credit lines to corporate and commercial clients holding Third Party ABCP, with aggregate credit lines totalling approximately $800 million.

TERMS OF SETTLEMENT

51. Based on these facts and admissions, NBF agrees to the following terms of settlement :

52. NBF will pay an amount of $75,000,000:

a. An administrative penalty of $74,000,000 to be paid as follow:

   i. $70,000,000 to be paid to the AMF upon signing of this Settlement agreement;

   ii. $4,000,000 will be spent by National Bank Financial Group over a two year period in sponsoring a financial literacy program for retail investors, and National Bank Financial Group will provide the AMF evidence of these expenditures. Moreover, NBF will provide details of the program to the AMF for prior approval; and

b. Investigation costs of $1,000,000 to be paid to the AMF upon signing of this Settlement Agreement.

53. NBF agrees to undertake a compliance review by an outside consultant, as detailed in Schedule A.

54. The acceptance by NBF of this Settlement Agreement will constitute a full and final settlement of all matters relating to the participation in the Third Party ABCP market by NBF, its parent company National Bank of Canada, their respective subsidiaries and any of their current or former directors, officers and employees and will conclude the AMF's investigations relating to these matters and no further actions or proceedings will be taken by the AMF in connection therewith.

55. NBF acknowledges that a failure to comply with any of the terms of this Settlement Agreement may constitute an offence under section 195 of the Securities Act, R.S.Q., ch. V-1.1.

56. This Settlement Agreement is concluded in the public interest.

57. This Settlement Agreement may be signed in one or more counterparts which together shall constitute a binding agreement.

58. A facsimile copy of any signature shall be effective as an original signature.

Montreal, December 21th, 2009

AUTORITÉ DES MARCHÉS FINANCIERS

Par : Jean St-Gelais

Nom : JEAN ST-GELAIS

Titre : PRESIDENT AND CHIEF EXECUTIVE OFFICER

Montreal, December 15th, 2009

NATIONAL BANK FINANCIAL INC.

Par : F. Lavallée

Nom : François Lavallée

Titre : Premier vice-président – Affaires juridiques