

DIRECTOR INDEPENDENCE POLICY

Introduction

A majority of the members of the Board of Directors (the “**Board**”) of the National Bank of Canada (the “**Bank**”), the Chair of the Board and all members of the Board’s committees are independent, as defined by the Canadian Securities Administrators (the “**CSA**”).

The Conduct Review and Corporate Governance Committee (the “**CRCGC**”) regularly assesses the independence of the members of the Board in accordance with CSA criteria using, among other things, the information provided semi-annually by the members of the Board or otherwise reported to the CRCGC. The Board then reviews the CRCGC’s assessment of independence as part of its approval of all nominees for election as director of the Bank.

The Bank discloses the conclusions of the independence assessment of each nominee for election to the Board in the Management Proxy Circular.

1. Independence -definition

A person is independent if he or she has no direct or indirect material relationship with the Bank. A material relationship is a relationship which could, in the view of the Board, be reasonably expected to interfere with the exercise of a member’s independent judgement.

For the purposes hereof, the word “Bank” means the Bank and its subsidiaries.

2. Relationships deemed to affect independence

The following individuals are considered to have a material relationship with the Bank:

a) an individual who is, or has been within the last three years, an employee or executive officer of the Bank or whose immediate family member is, or has been within the last three years, an executive officer of the Bank;

b) an individual who is a partner or an employee of the Bank’s internal or external auditor or who was within the last three years a partner or employee of that firm and personally worked on the Bank’s audit within that time;

c) an individual whose spouse, minor child or stepchild, or child or stepchild who shares a home with the individual, is a partner or employee (who participates in its audit, assurance or tax compliance, but not tax planning) of the Bank’s internal or external auditor or was within the last three years a partner or

employee of that firm and personally worked on the Bank’s audit within that time;

d) an individual who, or whose immediate family member, is or has been within the last three years an executive officer of an entity if any of the Bank’s current executive officers serves or served at that time on the entity’s compensation committee;

e) an individual who received, or whose immediate family member who is employed as an executive officer of the Bank received, more than \$75,000 in direct compensation from the Bank during any 12 month period within the last three years¹.

3. Relationships not deemed to affect independence

Despite section 2, an individual will not be considered to have a material relationship with the Bank solely because:

a) the individual or his or her immediate family member has previously acted as an interim chief executive officer of the Bank or acts, or has previously acted, as a chair or vice-chair of the Board or any Board committee of the Bank on a part-time basis;

b) the individual or a member of an affiliated entity or an immediate family member maintains a bank account, a brokerage account or some other type of account at the Bank or obtains investment, insurance or other products from the Bank, at conditions that are not more advantageous than the conditions offered to other clients of the Bank who have a similar client profile and are not members of the Board;

c) the individual or a member of an affiliated entity or an immediate family member owns shares in the Bank, directly or indirectly, that do not constitute a significant interest or a substantial investment in the meaning given by the *Bank Act* (Canada).

However, in all cases the Board may decide, despite the circumstances and at its discretion, that an individual is not independent.

¹ “Direct compensation” does not include:

a) remuneration for acting as a member of the Board or any Board committee;

b) the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with the Bank if the compensation is not contingent in any way on continued service.

4. Additional Considerations for Members of the Audit and Risk Management Committee

All members of the Audit and Risk Management Committee must meet the above-mentioned independence criterions.

In addition, a director:

- a) who accepts, directly or indirectly², any consulting, advisory or other compensatory fee from the issuer or any subsidiary entity of the issuer, other than as remuneration for acting in his or her capacity as a member of the Board or any Board committee, or as a part-time chair or vice-chair of the Board or any Board committee; or
- b) is an affiliated entity of the issuer or any of its subsidiary entities,

is considered not to be independent for the purpose of acting as a member of the Audit and Risk Management Committee.

5. Definitions

“**Executive officer**” of an entity means an individual who is:

- (a) a chair of the entity;
- (b) a vice-chair of the entity;
- (c) the president of the entity;
- (d) a vice-president of the entity in charge of a principal business unit, division or function including sales, finance or production;
- (e) an officer of the entity or any of its subsidiary entities who performs a policy-making function in respect of the entity; or
- (f) an individual who performs a policy-making function in respect of the entity.

“**Immediate family member**” means an individual’s spouse, parent, child, sibling, mother or father-in-law, son or daughter-in-law, brother or sister-in-law, and anyone (other than an

² “Indirect acceptance of fees” means the indirect acceptance by an individual of any consulting, advisory or other compensatory fee and includes acceptance of a fee by:

- a) an individual’s spouse, minor child or stepchild, or a child or stepchild who shares the individual’s home;
- b) an entity in which the individual is a partner, member, an officer such as a managing director occupying a comparable position or executive officer, or occupies a similar position (except limited partners, non-managing members and those occupying similar positions who, in each case, have no active role in providing services to the entity) and which provides accounting, legal, investment banking or financial advisory services to the Bank.

“Compensatory fees” do not include the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with the Bank if the compensation is not contingent in any way on continued service.

employee of either the individual or the individual’s immediate family) who shares the individual’s home;

“**Partner**” means an individual who belongs to a partnership but does not include, for the purposes of clauses (2)(b) and (c), a fixed income partner whose interest in the firm that is the internal or external auditor is limited to the receipt of fixed amounts of compensation (including deferred compensation) for prior service with that firm if the compensation is not contingent in any way on continued service.

“**Affiliated entity**”: a person is considered to be an affiliated entity of another person if:

- a) one of them controls or is controlled by the other or if both persons are controlled by the same person;
- b) the person is an individual who is:
 - i) both a director and an employee of an affiliated entity; or
 - ii) an executive officer, general partner or managing member of an affiliated entity.

“**Control**” means the direct or indirect power to direct or cause the direction of the management and policies of a person or company, whether through ownership of voting securities or otherwise. However, an individual is not considered to control an entity if the individual:

- a) owns, directly or indirectly, ten per cent or less of any class of voting securities; and
- b) is not an executive officer of the entity.

APPROVED BY THE CONDUCT REVIEW AND CORPORATE GOVERNANCE COMMITTEE ON DIRECTORS ON FEBRUARY 28, 2018

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