



APRIL 15, 2016

## Annual Meeting of Shareholders

---

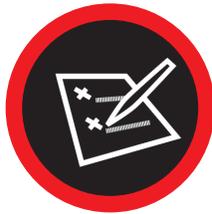
Notice of Annual Meeting of  
the Holders of Common Shares  
of National Bank of Canada

Management Proxy Circular



Powering your ideas

Terms and abbreviations used→  
Use the table overleaf to facilitate reading.



**Remember to vote.**  
**Your vote is important.**

Welcome to National Bank of Canada's Management Proxy Circular. The online pdf version of the Circular has been enhanced with navigation and task buttons to help you navigate through the document and find the information you want more quickly. The table of contents, highlighted page references and URLs link to pages and sections within the document as well as to outside websites. The task buttons provide quick access to search, print, save to disk and view options, but may not work on all browsers or tablets.

#### **Navigation and Task buttons**

-  Close Document
-  Search
-  Print
-  Save to Disk
-  Two Page View
-  Single Page View
-  Table of Contents
-  Next Page
-  Previous Page
-  Last Page Visited

**2015 Annual Information Form:** The Bank's Annual Information Form dated December 1, 2015 and posted December 2, 2015 on the websites [nbc.ca](http://nbc.ca) and [sedar.com](http://sedar.com)

**2015 Annual Report:** The Bank's Annual Report filed on December 2, 2015 and posted on the websites [nbc.ca](http://nbc.ca) and [sedar.com](http://sedar.com), including the consolidated financial statements for the fiscal year ended October 31, 2015 as well as Management's Discussion and Analysis and the independent auditor's report thereon

**AC:** Audit Committee of the Board

**Act:** *Bank Act*, S.C. 1991, c. 46

**Bank:** National Bank of Canada

**Board:** Board of Directors of the Bank

**Circular:** Management Proxy Circular for the Meeting

**Computershare:** Computershare Trust Company of Canada

**CRCGC:** Conduct Review and Corporate Governance Committee of the Board

**CSA:** Canadian Securities Administrators

**Deloitte:** Deloitte LLP

**DSU:** Deferred share unit

**EDT:** Eastern Daylight Time

**EST:** Eastern Standard Time

**Executive Officers (as at October 31, 2015):**

The "Executive Officers" are:

- the President and Chief Executive Officer;
- the Chief Financial Officer and Executive Vice-President – Finance and Treasury;
- the Chief Marketing Officer and Executive Vice-President – Corporate Development;
- the Executive Vice-President – Wealth Management, Chairman of the board, President and Chief Executive Officer, NBF Ltd. and Co-Chairman of the board, Co-President and Co-Chief Executive Officer, NBF Inc.;
- the Executive Vice-President – Risk Management;
- the Executive Vice-President – Financial Markets;
- the Executive Vice-President – Operations;
- the Executive Vice-President – Personal and Commercial Banking;
- the Executive Vice-President – Human Resources and Corporate Affairs; and
- the Executive Vice-President – Information Technology and Strategic Initiatives Office.

"Other Executive Officers" includes all Executive Officers, except for the President and Chief Executive Officer.

**FSB:** Financial Stability Board

**HRC:** Human Resources Committee of the Board

**ICP:** Annual Incentive Compensation program of the Bank

**Meeting:** Annual Meeting of the Holders of Common Shares of National Bank of Canada to be held on Friday, April 15, 2016 at 10:00 a.m. (EDT) and any reconvening thereof in case of an adjournment

**Named Executive Officers:**

The term "Named Executive Officers" means the President and Chief Executive Officer, the Chief Financial Officer and the three most highly compensated Executive Officers of the Bank as defined in Regulation 51-102, namely:

**Louis Vachon**, President and Chief Executive Officer;

**Ghislain Parent**, Chief Financial Officer and Executive Vice-President – Finance and Treasury;

**Ricardo Pascoe**, Executive Vice-President – Financial Markets;

**Luc Paiement**, Executive Vice-President – Wealth Management, Chairman of the board, President and Chief Executive Officer, NBF Ltd. and Co-Chairman of the board, Co-President and Co-Chief Executive Officer, NBF Inc.; and

**Diane Giard**, Executive Vice-President – Personal and Commercial Banking.

**NBF:** National Bank Financial

**NCIB:** Normal course issuer bid of the Bank

**Officers:** The term "Officers" includes the Senior Vice-Presidents and the Vice-Presidents of the Bank, all direct reports of the Executive Officers who are employees of Bank subsidiaries, as well as any employee of the Bank whom the Human Resources Committee considers to hold an equivalent function

**OSFI:** Office of the Superintendent of Financial Institutions (Canada)

**PRAP:** Post-Retirement Allowance Program

**PSU:** Performance share unit of the Bank

**Regulation 51-102:** *Regulation 51-102 Respecting Continuous Disclosure Obligations*, R.R.Q., c. V 1.1, r. 24

**RMC:** Risk Management Committee of the Board

**RSU:** Restricted share unit

**SEDAR:** System for Electronic Document Analysis and Retrieval

**Stock Option Plan:** Stock Option Plan of the Bank

**TSR:** Total shareholder return

Moreover, in addition to the terms and abbreviations described above, the terms "officer" and "management" and the expressions "executive," "executive officer" and "senior management" refer to the definitions of "officer" and "executive officer" contained in the *Securities Act*, R.S.Q., c. V-1.1 and Regulation 51-102, respectively.



Montreal, February 19, 2016

Dear Shareholder,

We cordially invite you to join the members of the Board of Directors and management for the Annual Meeting of the Holders of Common Shares of National Bank of Canada, to be held at 10:00 a.m. (EDT) on Friday, April 15, 2016 on the 4<sup>th</sup> Floor of 600 De La Gauchetière Street West, in Montreal, Quebec, Canada.

The Annual Meeting is an opportunity for us to present our achievements and current projects, and for you to voice your opinion on the matters put to a vote and to ask questions.

The matters to be voted on at the Annual Meeting are set out in this Circular. Please take the time to review the information provided concerning these matters.

The Bank's Circular and [2015 Annual Report](#) are available on the website [nbc.ca](#).

Your participation is important to us. If you cannot attend in person, you can nonetheless express your opinion on the matters put to a vote by using the enclosed form of proxy or voting instruction form.

A live webcast of the Annual Meeting will be available at [nbc.ca/investorrelations](#). The recording of the Annual Meeting will be available for viewing on the Bank's website until the next Annual Meeting.

Sincerely,

**NATIONAL BANK OF CANADA**

*(s) Jean Houde*  
Chairman of the Board of Directors

*(s) Louis Vachon*  
President and Chief Executive Officer



## NOTICE OF ANNUAL MEETING OF THE HOLDERS OF COMMON SHARES OF NATIONAL BANK OF CANADA

Date: **Friday, April 15, 2016**  
Time: **10:00 a.m. (EDT)**  
Place: **600 De La Gauchetière Street West**  
**4<sup>th</sup> Floor**  
**Montreal, Quebec, Canada**

### Business of the meeting:

1. To receive the consolidated financial statements for the fiscal year ended October 31, 2015 and the independent auditor's report thereon;
2. To elect the directors;
3. To consider an advisory resolution to accept the approach taken by the Board of Directors of National Bank of Canada (the "Bank") with respect to executive compensation;
4. To appoint Deloitte LLP as independent auditor; and
5. To transact any other business which may properly come before the meeting.

By order of the Board of Directors,

### NATIONAL BANK OF CANADA

*(s) Dominic Paradis*  
Vice-President, Legal Affairs and Corporate Secretary

Montreal, February 19, 2016

---

### Who can vote

Holders of Common Shares of the Bank whose shares are listed in the Bank's register in their name, the name of a broker or other intermediary, or the name of a duly authorized agent, on February 19, 2016 at 5:00 p.m. (EST), are entitled to receive notice of the Annual Meeting of the Holders of Common Shares of the Bank (the "Meeting") and to cast one vote per Common Share held, subject to the restrictions set out in the *Bank Act* (Canada) (the "Act").

### Common Shares outstanding on the record date

On the record date for the Meeting, namely, February 19, 2016, 337,251,783 Common Shares of the Bank were outstanding and eligible to be voted at the Meeting, subject to the restrictions set out in the Act.

### Exercising voting rights

**Registered holders of Common Shares may exercise their voting rights by attending the Meeting or by completing a form of proxy. Registered holders of Common Shares who are unable to attend the Meeting are asked to complete, date and sign the enclosed form of proxy. Proxies can be returned by mail (i) using the pre-addressed, postage-paid envelope provided or (ii) to Computershare Trust Company of Canada at 100 University Avenue, 8<sup>th</sup> Floor, Toronto, Ontario, Canada M5J 2Y1, or by fax to 1-866-249-7775. To be valid, the form of proxy must be received by Computershare Trust Company of Canada no later than 5:00 p.m. (EDT) on Wednesday, April 13, 2016.**

For more information on the procedure to be followed by holders of Common Shares who received a voting instruction form, please refer to **Section 1** of the Management Proxy Circular and the instructions received from your broker.

## Caution regarding forward-looking statements

From time to time, the Bank makes written and oral forward-looking statements, such as those contained in the “[Outlook for National Bank](#)” and “[Major Economic Trends](#)” sections of the [2015 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 2016 and the objectives it has set for itself 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, the Bank’s 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 2016 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 these forward-looking statements. These factors include credit risk, market risk, liquidity and funding risk, operational risk, risk of regulatory non-compliance, reputational risk, strategic risk and environmental risk, which are described in more detail in the “[Risk Management](#)” section beginning on page 55 of the [2015 Annual Report](#), and in particular, the 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 risks.

The foregoing list of risk factors is not exhaustive. Additional information about these factors can be found in the “[Risk Management](#)” section of the [2015 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.

## MANAGEMENT PROXY CIRCULAR

---

	SUMMARY	P. 1
1	VOTING INFORMATION	P. 6
2	BUSINESS OF THE MEETING	P. 12
3	DIRECTOR NOMINEES	P. 15
4	GOVERNANCE PRACTICES	P. 24
5	DIRECTOR COMPENSATION	P. 44
6	COMMITTEES OF THE BOARD	P. 50
7	EXECUTIVE OFFICER COMPENSATION	P. 60
8	OTHER INFORMATION	P. 114
A	SCHEDULE – SHAREHOLDER PROPOSALS	P. 118

## SUMMARY

Items submitted to shareholder vote	Recommendation of the Board and of management	Pages
Election of directors	▶ For each nominee	12
Board's approach to executive compensation	▶ For	12
Appointment of the independent auditor	▶ For	13

### Director nominees at a glance

You are invited to elect the 13 directors making up the Board. These nominees shall be elected individually by a majority each year. For a detailed biography of each nominee and for further information on the following charts, please refer to Sections 3 and 4 of the Circular.

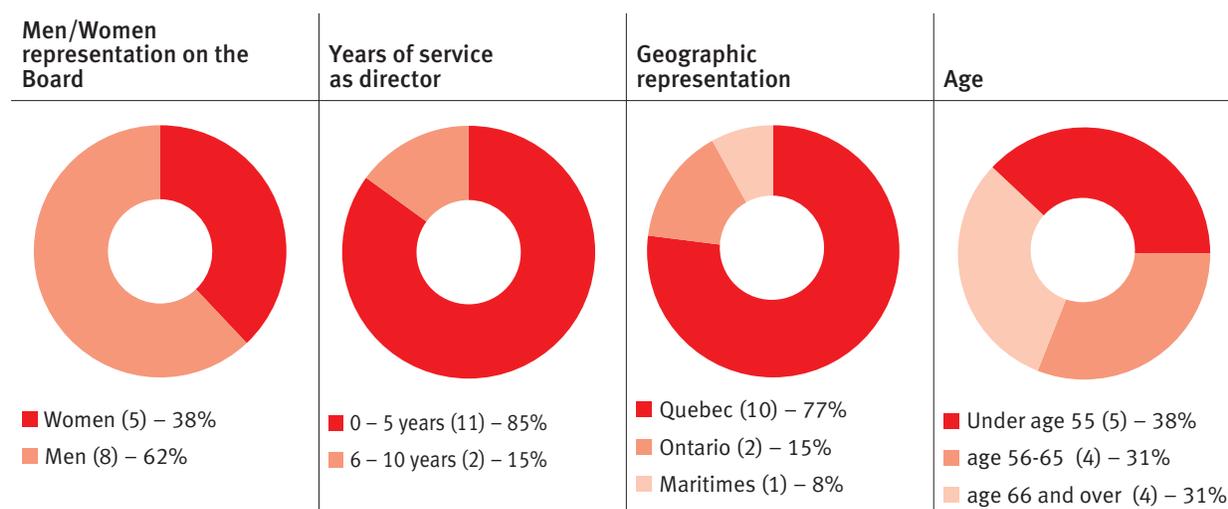
Director nominee	Age	Director since	Occupation	Independent	Committee	Board and committee attendance in 2015	Other directorships in reporting issuers and public corporations
Raymond Bachand	68	October 2014	Strategic Advisor, Norton Rose Fulbright Canada LLP	✓	 	91.9%	• Transat A.T. Inc.
Maryse Bertrand	56	April 2012	Corporate director	✓	  	97.4%	• Metro Inc.
Pierre Boivin	62	April 2013	President and Chief Executive Officer, Claridge Inc.	✓	  	90.3%	• Canadian Tire Corporation, Limited
André Caillé	72	October 2005	Corporate director	✓	   	100%	• Junex Inc.
Gillian H. Denham	55	October 2010	Corporate director	✓		100%	• Markit Ltd. • Morneau Shepell Inc. • Penn West Petroleum Ltd.
Richard Fortin	67	August 2013	Corporate director	✓	  	94.6%	• Alimentation Couche-Tard inc. • Transcontinental Inc.
Jean Houde	70	March 2011	Chairman of the Board	✓		100%	• Gaz Métro inc.
Karen Kinsley	59	December 2014	Corporate director	✓	 	100%	• Saputo Inc.
Julie Payette	52	April 2014	Director, Montréal Science Centre	✓		100%	–
Lino A. Saputo, Jr.	49	April 2012	Chief Executive Officer and Vice-Chairman of the board of Directors, Saputo Inc.	✓		100%	• Saputo Inc. • Transcontinental Inc. • Warrnambool Cheese and Butter Factory Company Holdings Limited <sup>(1)</sup>
Andrée Savoie	44	April 2015	Managing Director, Acadian Properties Ltd.	✓		100%	–
Pierre Thabet	58	March 2011	President, Boa-Franc inc.	✓		97.1%	• Canam Group Inc.
Louis Vachon	53	August 2006	President and Chief Executive Officer of the Bank		–	100%	• Fiera Capital Corporation <sup>(2)</sup> • Molson Coors Brewing Company

 Audit Committee	 Committee Chair	 Conduct Review and Corporate Governance Committee	 Human Resources Committee	 Risk Management Committee
---	---	---	---	---

- (1) Warrnambool Cheese and Butter Factory Company Holdings Limited is under Saputo Inc. majority ownership and control.
- (2) On April 2, 2012, the Bank sold the operations of Natcan Investment Management Inc. and acquired an interest in Fiera Capital Corporation. As a result of this transaction and to represent the Bank's interests, two seats on the board of directors of Fiera Capital Corporation have been reserved for representatives of the Bank, one of whom is Louis Vachon.

## Data points on the director nominees

Competencies and expertise	Raymond Bachand	Maryse Bertrand	Pierre Boivin	André Caillé	Gillian H. Denham	Richard Fortin	Jean Houde	Karen Kinsley	Julie Payette	Lino A. Saputo, Jr.	Andrée Savoie	Pierre Thabet	Louis Vachon	Total
Audit / Finance	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	13
Entrepreneurship	✓					✓				✓	✓	✓		5
Financial markets and services		✓			✓	✓	✓	✓					✓	6
Governance	✓	✓		✓	✓		✓	✓	✓		✓			8
Human resources / compensation			✓	✓	✓		✓	✓		✓	✓		✓	8
Information technology and telecommunications		✓	✓						✓	✓				4
International markets			✓	✓	✓	✓	✓	✓	✓	✓			✓	9
Legal and regulatory affairs	✓	✓					✓							3
Marketing	✓	✓	✓	✓	✓	✓	✓			✓	✓	✓	✓	11
Public policy	✓			✓			✓	✓						4
Risk management	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓	12
Social responsibility		✓	✓	✓				✓	✓	✓	✓	✓	✓	9



<b>Key governance practices</b>		<b>Pages</b>
Size of the Board (number of directors)	✓	29
Average age of directors	✓	2
Diversity Statement adopted by the Board	✓	38
Representation of women on the Board (38%) and in management (38%)	✓	38, 39
Independent directors	✓	29
All committee members are independent	✓	27, 50
Limited number of years as director	✓	35
All directors are financially literate	✓	28
Number of Board meetings in fiscal 2015	✓	15 to 21
Number of Board committee meetings in fiscal 2015	✓	15 to 21
Meeting attendance requirements are met	✓	15 to 21
Chairman and President and Chief Executive Officer roles are separate	✓	30
Directors are elected annually and individually	✓	12, 34, 35
A majority voting policy for the election of directors	✓	35
The Code of Conduct and Ethics is signed and upheld by directors	✓	25, 30, 38
Annual advisory vote on executive compensation	✓	12, 13
A formal Board assessment process has been established	✓	32 to 34
A guidance program for new directors has been implemented	✓	36
A continuing education program for directors has been implemented	✓	36, 37

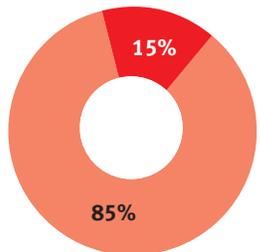
## 2015 COMPENSATION HIGHLIGHTS

- The Bank continued its review of the mix of mid- and long-term compensation. As a result, a portion of the long-term compensation of Bank Officers, namely the portion in stock options, was reduced and replaced by PSUs.
- In 2015, a cap was introduced on the President and Chief Executive Officer's annual pension.
- No changes were made to the target direct compensation of the President and Chief Executive Officer.

## KEY PRINCIPLES OF THE COMPENSATION POLICY FOR EXECUTIVE OFFICERS

### 1. Pay for performance

- ✓ A significant portion of variable compensation is conditional on performance
- ✓ Officer compensation consists mainly of variable compensation tied to the Bank's financial and stock market performance

Weighting of the average target direct compensation of Named Executive Officers	Components of variable compensation		Performance metrics
 <p>15%</p> <p>85%</p> <p>■ Fixed compensation ■ Variable and at-risk compensation</p>	Short-term	Annual bonus	The Bank's financial results and individuals' personal performance
	Mid-term	RSUs	Price of Bank's Common Shares
		PSUs	Share price and Total Shareholder Return relative to other banks
Long-term	Stock options	Price of Bank's Common Shares	
	DSUs	Price of Bank's Common Shares	

- ✓ Annual bonuses are capped under the Incentive Compensation program (ICP)

### 2. Promote sound risk taking

- ✓ Variable compensation aligned with short-, mid- and long-term risk horizons

Components of variable compensation		2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Short-term	Annual Bonus	 Payable after one year										
Mid-term	Restricted Share Units (RSU)	 Three-year vesting period										
	Performance Share Units (PSU)	 Three-year vesting period according to TSR and adjustment range capped at 125% of target										
Long-term	Stock Options	 Four-year vesting period at 25% per year and stock options expire after ten years										
	Deferred Share Units (DSU)	 Four-year vesting period at 25% per year and cashable only at retirement or upon termination of employment										

- ✓ The Compensation Risk Oversight Working Group assists the Board and the Human Resources Committee in their functions relating to human resources and compensation governance. The Risk Management Committee of the Board studies the reports that this working group submits to the Human Resources Committee
- ✓ Policy that permits the cancellation and clawback of previously granted variable compensation

### 3. Reward contribution

- ✓ Compensation established based on level of responsibility, expertise, competence and experience
- ✓ Peer group composed of Canadian financial corporations with profiles comparable to the Bank's
- ✓ Target compensation established by adjusting downward the peer group median to take into account the relative size of the Bank, using the Hay Group's evaluation method

### 4. Align vision with that of shareholders

- ✓ Advisory vote held on the approach to executive compensation ("say on pay")
- ✓ Alignment of the President and Chief Executive Officer's compensation with Total Shareholder Return

The Board is satisfied with the Bank's approach to compensation, which is conducive to long-term value for the shareholders. The actual average value of \$100 granted annually to Louis Vachon as direct compensation since taking up his position as President and Chief Executive Officer in 2007 stood at \$133 on December 31, 2015. By comparison, from a shareholder's point of view, the average value of a \$100 annual investment in Common Shares of the Bank over the same period was \$158.

Value of \$100 granted annually as direct compensation to Louis Vachon between 2007 and 2015	Value of \$100 invested in Common Shares of the Bank at the start of every fiscal year between 2007 and 2015
Average value of \$133 (as at December 31, 2015)	Average value of \$158 (as at December 31, 2015)

- ✓ Anti-hedging policy and minimum share ownership requirements

Share ownership guidelines are designed to align the interests of Executive Officers, Officers and material risk takers with the Bank's long-term performance. The requirement is expressed as a multiple of base salary:

Multiple of previous three years' average base salary	Requirement	Multiple achieved
President and Chief Executive Officer	7 times	
Louis Vachon		43.1 times
Other Executive Officers	4 times	
Ghislain Parent		8.2 times
Ricardo Pascoe		37.1 times
Luc Paiement		18.7 times
Diane Giard		10.4 times

- ✓ Rigorous governance of deferred compensation plans, notably the Stock Option Plan

# 1. VOTING INFORMATION

## Why am I being sent this Circular?

You are receiving this Circular in connection with the solicitation of proxies by management of the Bank, for the purposes set forth in the Notice of Meeting, for use at the Meeting to be held at 10:00 a.m. (EDT) on Friday, April 15, 2016, at 600 De La Gauchetière Street West, 4<sup>th</sup> Floor, Montreal, Quebec, Canada, and, if adjourned, at any reconvening thereof.

The Circular is being sent to all registered holders and beneficial owners who hold Common Shares of the Bank at 5:00 p.m. (EST) on February 19, 2016, the record date for the Meeting.

AM I A REGISTERED HOLDER?	AM I A BENEFICIAL OWNER?
You are a registered owner if the Common Shares that you own are registered in your name in the Bank's register.	You are a beneficial owner if the Common Shares that you own are not registered in your name in the Bank's register, but rather are held in your name by a nominee, such as a securities broker, other intermediary or a duly authorized agent.

The solicitation of proxies will be done by regular or electronic mail, by telephone or in person. Proxies will be solicited by employees, officers or directors of the Bank or representatives of Laurel Hill Advisory Group ("Laurel Hill"), a proxy solicitation firm, mandated by the Bank. The Bank expects to pay Laurel Hill fees totalling approximately \$25,000 for such services.

**ELECTRONIC DELIVERY OF DOCUMENTS**



**FASTER**



**GREENER**



**MORE ECONOMICAL**

You are encouraged to use electronic delivery (e-delivery) to receive the continuous disclosure documents of the Bank, including Annual Meeting of Shareholders materials and annual and interim reports. You will be notified via e-mail when a new document is made available, at which time it can be consulted or downloaded through the website [nbc.ca](http://nbc.ca).

**HOW TO SIGN UP FOR E-DELIVERY**

Registered holder	Beneficial owner
Registered holders may sign up for e-delivery at <a href="http://www.computershare.com/ca-en">www.computershare.com/ca-en</a> by following the instructions provided.	Beneficial owners in Canada and the U.S. may sign up for e-delivery at <a href="http://proxyvote.com">proxyvote.com</a> using the control number appearing on their voting instruction form, or after the Meeting, by obtaining a unique registration number from their intermediary.

By signing up for e-delivery, you will receive your documents faster and help protect the environment by reducing tree, water and energy consumption, and you will contribute to reducing high printing and postage costs.

## What is in the Circular?

The Circular contains information about the matters indicated in the Notice of Meeting, concerning which you will be asked to voice your opinion. This information includes, among other things, details of the director nominees, the Bank's governance practices, the Board's approach to executive compensation, and the shareholder proposals to be voted on by the shareholders.

**Unless otherwise indicated, the information in the Circular is as at February 19, 2016.**

## How do I attend the Meeting?

You can present yourself in person at 10:00 a.m. (EDT) on April 15, 2016, on the 4<sup>th</sup> Floor of 600 De La Gauchetière Street West, Montreal, Quebec, Canada to attend the Meeting.

You can also watch a live webcast of this event at [nbc.ca/investorrelations](http://nbc.ca/investorrelations). The recording of the Meeting will be available for viewing on the Bank's website until the next Annual Meeting.

## Can I vote?

If you are a registered holder or beneficial owner of Common Shares of the Bank on February 19, 2016 at 5:00 p.m. (EST), you are entitled to receive the Notice of Meeting and to vote at it.

Each of your Common Shares entitles you to cast one vote on each topic listed in the Notice of Meeting.

On February 19, 2016, 337,251,783 Common Shares of the Bank were outstanding and eligible to be voted at the Meeting.

However, except for certain exceptions under the Act, it is prohibited to exercise voting rights attached to Common Shares of the Bank beneficially owned by:

- i) the Government of Canada or of a province;
- ii) the government of a foreign country or of any political subdivision of a foreign country;
- iii) an agency of any of these entities;
- iv) a person who has acquired a significant interest in a class of Bank shares (if the aggregate of any shares of that class beneficially owned by the person, and any shares of that class beneficially owned by entities controlled by the person, exceeds 10% of all of the outstanding shares of that class of shares) without the approval of the Minister of Finance (Canada); or
- v) a person who holds a significant interest in a class of shares of another widely held bank or bank holding company with equity of \$12 billion or more.

In addition, no person and no entity controlled by any person may cast votes in respect of any shares beneficially owned by the person or the entity that represent, in the aggregate, more than 20% of the eligible votes.

To the knowledge of the directors and Executive Officers of the Bank, and according to the latest data available, no person beneficially owns, directly or indirectly, or exercises control or direction over more than 10% of the outstanding Common Shares of the Bank.

## How can I exercise my voting rights?

You may exercise your voting rights at whatever time you consider the most appropriate, before the Meeting is held or during the Meeting. Exactly how you exercise your voting rights, however, depends on whether you are a registered holder or a beneficial owner.

	REGISTERED HOLDER	BENEFICIAL OWNER
Before the Meeting	<p><b>To vote via the form of proxy</b></p> <p>You may exercise your voting rights by indicating on the form of proxy how you wish to vote on each particular matter in the Notice of Meeting.</p> <p>If you wish to exercise your voting rights before the Meeting is held, you may complete, sign and return the form of proxy following the procedure indicated on the form.</p>	<p><b>To vote via the voting instruction form</b></p> <p>You may exercise your voting rights by indicating on the voting instruction form how you wish to vote on each particular matter in the Notice of Meeting.</p> <p>If you wish to exercise your voting rights before the Meeting is held, you may complete, sign and return the form of proxy following the procedure indicated on the form.</p>
During the Meeting	<p><b>To vote while attending the Meeting</b></p> <p>If you wish to exercise your voting rights during the Meeting, please register with Computershare when you arrive on the 4<sup>th</sup> Floor of 600 De La Gauchetière Street West, Montreal, Quebec, Canada.</p> <p><b>Proxyholder</b></p> <p>The form of proxy also allows you to appoint a proxyholder to represent you at the Meeting and exercise your voting rights there.</p>	<p><b>To vote while attending the Meeting</b></p> <p>If you wish to exercise your voting rights during the Meeting, please</p> <ul style="list-style-type: none"> <li>- insert your name as proxyholder in the space provided for this purpose on the voting instruction form;</li> <li>- do not otherwise complete the section of the form on voting rights as your vote will be taken at the Meeting; and</li> <li>- return the form following the procedure indicated.</li> </ul> <p><b>Proxyholder</b></p> <p>The voting instruction form also allows you to appoint a proxyholder to represent you at the Meeting and exercise your voting rights there.</p>

## How can I revoke the content of a form that I sent before the Meeting?

If you have sent a form of proxy or a voting instruction form before the Meeting is held and you wish to amend the content, you can do so by following the procedure set out below.

	REGISTERED HOLDER	BENEFICIAL OWNER
Procedure	<p>You may revoke your proxy as follows:</p> <ul style="list-style-type: none"> <li>✓ by delivering a written notice to this effect, signed by you or by your duly authorized agent, to:               <ul style="list-style-type: none"> <li>– the Head Office of the Bank, c/o Corporate Secretary's Office, National Bank of Canada, 600 De La Gauchetière Street West, 4<sup>th</sup> Floor, Montreal, Quebec, Canada H3B 4L2, no later than 5:00 p.m. (EDT) on the last business day preceding the date of the Meeting, namely, Thursday, April 14, 2016, or prior to any reconvening thereof in case of an adjournment; or</li> <li>– the Chairman of the Meeting on the day of the Meeting or, if adjourned, any reconvening thereof; or</li> </ul> </li> <li>✓ by completing, signing and returning to Computershare, in the manner set out on the form, a new form of proxy bearing a later date than the form already returned.</li> </ul>	<p>You can revoke your voting instructions by following the procedure specified by your securities broker.</p>

## How can I appoint a proxyholder to represent me?

You may appoint a proxyholder to represent you at the Meeting and exercise your voting rights there.

Securities brokers, other Canadian intermediaries and their duly authorized agents are prohibited from exercising your voting rights attached to your Common Shares, unless you specifically instruct them to do so.

**The proxyholders already designated in the form of proxy or voting instruction form are directors of the Bank. If you wish to appoint as your proxyholder to represent you at the Meeting a person other than those whose names are printed on the form of proxy or voting instruction form, you may do so by striking out the names appearing thereon and inserting such other person's name in the blank space provided.**

**If the registered holder or beneficial owner is not a natural person, the form of proxy or voting instruction form must be signed by a duly authorized officer or agent of said registered holder or beneficial owner. Your proxyholder need not be a holder of Common Shares of the Bank.**

	REGISTERED HOLDER	BENEFICIAL OWNER
To appoint your proxyholder	<p><b>Via the form of proxy</b></p> <p>For your appointment of proxyholder to be considered valid, please complete the section to that effect on the form of proxy and make sure to return the form as follows:</p> <ul style="list-style-type: none"> <li>✓ by mail (i) using the pre-addressed, postage-paid envelope provided or (ii) to Computershare Trust Company of Canada at 100 University Avenue, 8<sup>th</sup> Floor, Toronto, Ontario, Canada M5J 2Y1, or</li> <li>✓ by fax to 1-866-249-7775.</li> </ul> <p><b>Your form of proxy must be received no later than 5:00 p.m. (EDT) on Wednesday, April 13, 2016.</b></p>	<p><b>Via the voting instruction form</b></p> <p>For your appointment of proxyholder to be considered valid, please complete the section to that effect on the voting instruction form and make sure to return the form in accordance with the procedure indicated on it.</p> <p><b>Your voting instruction form must be received before the deadline and in accordance with the procedure indicated on the form.</b></p>

### How will my proxyholder exercise the voting rights attached to my shares?

The proxyholder whom you will have appointed on the form of proxy or the voting instruction form will exercise the voting rights attached to your Common Shares in accordance with the voting instructions you carefully indicated in either of those forms.

**If no instructions are given, the directors of the Bank designated as proxyholders on the form of proxy or voting instruction form will exercise the voting rights attached to your Common Shares as follows:**

Matters set out in the Notice of Meeting	Vote
Election of each of the director nominees	<b>FOR</b>
Board's approach to executive compensation	<b>FOR</b>
Appointment of Deloitte as independent auditor	<b>FOR</b>

If no instructions are given, any other proxyholder will have discretionary authority when exercising the voting rights attached to your Common Shares concerning these matters.

### What will my proxyholder do in the event that agenda items are amended or added to on the day of the Meeting?

Your proxyholder has discretionary authority with respect to any amendments or variations proposed at the Meeting to the matters set out in the Notice of Meeting, and any other business which may properly come before the Meeting. However, he or she may only vote on the appointment of an independent auditor or the election of a director whose appointment or election is proposed in the form of proxy, the voting instruction form or the Circular.

As at the date of the Circular, management of the Bank is not aware of any amendment or other matter that will be presented at the Meeting.

**How are the votes counted and how is their confidentiality protected?**

To protect the confidential nature of voting, the votes exercised by registered holders are received and compiled for the Meeting by Computershare, the Bank's registrar and transfer agent, while the votes exercised by beneficial owners are compiled and submitted by intermediaries to Computershare. Computershare submits a copy of a form of proxy to the Bank only when a shareholder clearly wishes to express a personal opinion to management, or when necessary to comply with legal requirements.

**How can I find out the results of the voting?**

After the Meeting, the Bank will immediately issue a press release on the voting results. You will be able to see the press release on the websites [nbc.ca](http://nbc.ca) and [sedar.com](http://sedar.com).

## 2. BUSINESS OF THE MEETING

### Receipt of the consolidated financial statements and the independent auditor's report

The consolidated financial statements of the Bank for the fiscal year ended October 31, 2015 and the independent auditor's report thereon are an integral part of the Bank's 2015 Annual Report, which is available on its website [nbc.ca](http://nbc.ca) and on the website [sedar.com](http://sedar.com).

### Election of directors

The number of directors to be elected at the Meeting is 13. Directors are elected individually each year. Lawrence S. Bloomberg, Louise Laflamme and Roseann Runte will not be seeking to renew their mandates as directors. All of this year's director nominees are currently Bank directors.

The Conduct Review and Corporate Governance Committee recommended the director nominees to the Board. Their names and career profiles are presented in [Section 3](#) of the Circular. This section also presents the names of the reporting issuers as well as the public corporations on whose boards the nominees currently serve or have served in the past five years. <sup>(1)</sup>

If no instructions are given, the directors of the Bank designated as proxyholders on the form of proxy or voting instruction form will exercise the voting rights attached to the Common Shares **FOR** the election of each of the director nominees.

Each director elected at the Meeting will hold office until his or her resignation, the election or appointment of his or her replacement, or the close of the next annual meeting of the holders of Common Shares of the Bank.

A majority voting rule is in effect for purposes of electing director nominees. For more information, please refer to [Section 4](#) of the Circular.

**The director nominee election results from the April 15, 2015 Annual Meeting are available and included in the summary of director nominees' individual career profiles in [Section 3](#) of the Circular as well as on the websites [nbc.ca](http://nbc.ca) and [sedar.com](http://sedar.com).**

### Advisory vote on the approach to executive compensation

The Board, assisted by the Human Resources Committee, is responsible for determining the underlying objectives and principles of the Bank's approach to executive compensation. The Board's role is to clearly explain to shareholders all the key components of the executive compensation and how the Board's approach is aligned with the Bank's strategic objectives.

By putting its approach to executive compensation to an advisory vote, the Board shows its commitment to the Bank's shareholders and recognizes its responsibility regarding decisions made concerning executive compensation. Moreover, the Board believes it is essential for the holders of

<sup>(1)</sup> As defined in Canadian securities legislation, a reporting issuer is an issuer that has made a distribution of securities to the public.

Common Shares of the Bank to be well informed and to fully understand the principles on which its compensation-related decisions are based. This advisory vote promotes the ongoing process of dialogue between shareholders and the Board regarding the approach to executive compensation.

Since the “say on pay” vote on executive compensation was implemented in 2010, over 93% of the votes cast by holders of Common Shares of the Bank have been favourable to the Board’s approach to executive compensation.

The resolution to be voted on is as follows:

“It is resolved, on an advisory basis and not to diminish the role and responsibilities of the Board of Directors of National Bank of Canada, that the holders of Common Shares accept the approach to executive compensation described in National Bank of Canada’s Management Proxy Circular delivered in advance of the Annual Meeting of the Holders of Common Shares to be held in 2016.”

The advisory resolution above, on which the holders of Common Shares are asked to vote, is not binding on the Board. However, the Board will consider the results of the vote when reviewing its approach to executive compensation.

The Human Resources Committee and the Board recommend voting **FOR** the advisory resolution on the Board’s approach to executive compensation.

For more information on the Board’s approach to executive compensation, please refer to Section 7 of the Circular.

Shareholders who have concerns or questions regarding the Board’s approach to executive compensation may contact the Board, a Board committee, the Chairman of the Board, a Chair of a Board committee or a director, including an independent director, by e-mail at [boardofdirectors@nbc.ca](mailto:boardofdirectors@nbc.ca) or by mail c/o the Corporate Secretary’s Office, National Bank of Canada, 600 De La Gauchetière Street West, 4<sup>th</sup> Floor, Montreal, Quebec, Canada H3B 4L2.

### Appointment of the independent auditor

During fiscal 2015, the Audit Committee conducted the annual assessment of the quality of the services and the performance of professional accounting firm Deloitte as independent auditor of the Bank. This assessment was based, among other things, on the audit plan tabled, the risk areas identified, the nature of the interventions by Deloitte and the reports presented to the Committee.

Given the satisfactory results of this assessment, the Audit Committee and the Board recommend voting **FOR** the appointment of Deloitte as independent auditor of the Bank for the fiscal year starting November 1, 2015 and ending October 31, 2016.

Deloitte has served as independent auditor of the Bank for the past five fiscal years.

The resolution regarding the appointment of the independent auditor must be adopted by a majority of the votes cast by the holders of Common Shares present or represented by proxy and entitled to vote at the Meeting.

For information on the Guidelines for the Management of Services Provided by the Independent Auditor, please refer to “Information on the Audit Committee” in the 2015 Annual Information Form.

## Fees of the independent auditor

Each year, the Audit Committee recommends to the Board that it approve the fees to be paid to the independent auditor and the envelopes established under the Guidelines for the Management of Services Provided by the Independent Auditor. The following table details the fees billed by Deloitte to the Bank and to its subsidiaries for various services rendered during the past two fiscal years.

	2015 (\$)	2014 (\$)
Audit fees <sup>(1)</sup>	5,100,070	4,930,066
Fees for audit-related services <sup>(2)</sup>	356,409	1,383,218
Fees for taxation services <sup>(3)</sup>	97,538	104,092
Other fees <sup>(4)</sup>	740,041	260,957
<b>Total</b>	<b>6,294,058</b>	<b>6,678,333</b>

- (1) Audit fees include fees for services related to the audit of the consolidated financial statements of the Bank and the financial statements of its subsidiaries or other services normally provided by the independent auditor in connection with statutory or regulatory filings or engagements required by applicable legislation. They also include review of the Bank's condensed interim consolidated financial statements, fees for comfort letters, statutory audits, certification services, consents and assistance with the preparation and review of documents filed with regulators, the interpretation of accounting and financial reporting standards and the translation of reports to shareholders.
- (2) Fees for audit-related services include certification services and related services performed by the Bank's independent auditor. These services also include accounting consultations in connection with acquisitions and divestitures and internal control reviews.
- (3) Fees for taxation services include fees for assistance in tax planning, during restructurings, and when taking a tax position, as well as the preparation and review of income and other tax returns and tax opinions.
- (4) All other fees include fees for consulting services for projects, risk management services and statutory and/or regulatory compliance services.

## Shareholder proposals

The Mouvement d'éducation et de défense des actionnaires (MÉDAC), submitted four proposals to the Bank to be included in the Circular. Following discussions with the Bank, MÉDAC has agreed not to submit any of those four proposals to shareholder vote. The Bank and MÉDAC have also agreed to include those four proposals in the Circular for information purposes only. The Bank has reproduced those four proposals in full including its responses to them in Schedule A of the Circular.

The deadline by which the Bank must receive proposals from its shareholders for presentation at the Annual Meeting of the Holders of Common Shares to be held in 2017 is Monday, November 21, 2016 at 5:00 p.m. (EST).

### 3. DIRECTOR NOMINEES

The following tables present information about each of the proposed nominees for election as directors. This information includes a summary of their career profile, the Board committees of which they are members, their attendance at meetings of the Board and its committees during the past fiscal year, and the names of the reporting issuers and public corporations on whose boards the nominees currently serve or have served in the past five years. This information also includes a description of their Bank shareholdings in accordance with the share ownership requirements for directors.

#### TOTAL SHAREHOLDINGS OF DIRECTOR NOMINEES

	February 19, 2016	February 20, 2015
Common Shares	434,899	493,366
Deferred share units	70,770	97,212
Value (\$)	19,427,803	28,111,513

The total value of Common Shares and deferred share units held by director nominees is calculated by multiplying the number of Common Shares and deferred share units held by each nominee as of February 20, 2015 and February 19, 2016 by the closing price of the Common Shares of the Bank on the Toronto Stock Exchange at the close of business on February 20, 2015 and February 19, 2016, which was \$47.60 and \$38.42, respectively.

#### RAYMOND BACHAND



**Independent**  
68  
Montreal, Quebec, Canada  
Director since October 2014  
Voting results in 2015:  
99.71% FOR

#### CAREER PROFILE

Main areas of expertise:

– Audit / Finance  
– Governance

– Public Policy  
– Risk Management

Since 2014, Raymond Bachand has been Strategic Advisor to law firm Norton Rose Fulbright Canada LLP and President of the Institut du Québec, a joint venture of The Conference Board of Canada and HEC Montréal. He is also Chairman of the board of directors of Tourism Montréal. Raymond Bachand was the Member of the Assemblée nationale du Québec for the Outremont riding from 2005 to 2013. During this period, he held a number of different positions and ran several government departments, including Economic Development, Innovation and Export Trade, Tourism, Finance and Revenue. He was also Minister responsible for the Montreal region and the Official Opposition Critic for finance. Raymond Bachand has held several senior positions in the private sector, including Vice-President, Planning and Development at Metro Richelieu inc., and President and Chief Executive Officer of Fonds de solidarité des travailleurs du Québec (F.T.Q.) and Secor Consulting Inc. He has a Licence of Law from the Université de Montréal, and an MBA and a Doctorate in Administration from the Harvard University Graduate School of Business Administration. Raymond Bachand is also a member of the Quebec Bar.

Role on the Bank's Board and its committees	Meetings attended (in the past fiscal year)	
Board member	18/19	94.7%
Member of the CRGGC <sup>(1)</sup>	3/3	100%
Member of the RMC	13/15	86.7%
<b>Total</b>	<b>34/37</b>	<b>91.9%</b>

Reporting issuers and public corporations	Roles on boards and committees	
<b>Director</b> (in the past five years)	(as at October 31, 2015)	
Transat A.T. Inc.	2014 to date	–

#### Securities held

Year <sup>(2)</sup>	Total Common Shares <sup>(3)</sup>	Total DSUs <sup>(4)</sup>	Total Common Shares and DSUs	Share price <sup>(5)</sup> (\$)	Total market value of Common Shares and DSUs (\$)	Minimum required		Meets the Bank's share ownership requirements for directors <sup>(6)</sup>
						(\$)	Shares/DSUs	
2015	1,031	2,363	3,394	38.42	130,397	450,000	11,712	28.9% – <sup>(7)</sup>
2014	330	390	720	47.60	34,272	450,000	9,454	7.6% – <sup>(7)</sup>

## MARYSE BERTRAND



**Independent**  
56  
Montreal, Quebec, Canada  
Director since April 2012  
Voting results in 2015:  
99.43% FOR

## CAREER PROFILE

Main areas of expertise:

- **Governance**
- **Information technology and telecommunications**
- **Legal and regulatory affairs**
- **Risk management**

Maryse Bertrand is a corporate director, including for Metro Inc., a food sector company. From 2009 to 2015 she was Vice-President – Real Estate, Legal Services and General Counsel with CBC/Radio Canada. She serves on the board of directors of the Cinemania Film Festival, and on the Human Resources Committee of the board of governors of McGill University. She served on the board of directors of La Senza Corporation for over 10 years, chaired its Corporate Governance Committee and was a member of its Audit Committee, and has chaired the board of directors of ARTV Inc. from 2011 to 2015. She has received many awards and honours, including the title of *Advocatus Emeritus* from the Quebec Bar in 2007, in recognition of her exceptional contribution to the legal profession. She has a law degree from McGill University, where she also studied accounting at the Faculty of Management. She has taken various executive management courses at Harvard Business School. Maryse Bertrand is a member of the Quebec Bar.

Role on the Bank's Board and its committees	Meetings attended (in the past fiscal year)		Reporting issuers and public corporations	Roles on boards and committees
Board member	18/19	94.7%	Director (in the past five years)	(as at October 31, 2015)
Chair and member of the CRCGC <sup>(8)</sup>	5/5	100%	Metro Inc. 2015 to date	– Member of the Corporate Governance and Nominating Committee
Member of the RMC	15/15	100%		
<b>Total</b>	<b>38/39</b>	<b>97.4%</b>		

## Securities held

Year <sup>(2)</sup>	Total Common Shares <sup>(3)</sup>	Total DSUs <sup>(4)</sup>	Total Common Shares and DSUs	Share price <sup>(5)</sup> (\$)	Total market value of Common Shares and DSUs (\$)	Minimum required		Meets the Bank's share ownership requirements for directors <sup>(6)</sup>	
						(\$)	Shares/ DSUs		
2015	4,915	6,958	11,873	38.42	456,161	450,000	11,712	101.3%	Yes
2014	4,033	4,450	8,483	47.60	403,791	450,000	9,454	89.7%	– <sup>(9)</sup>

## PIERRE BOIVIN



**Independent**  
62  
Montreal, Quebec, Canada  
Director since April 2013  
Voting results in 2015: 99.26% FOR

## CAREER PROFILE

Main areas of expertise:

- **Audit / Finance**
- **Human resources / compensation**
- **Information technology and telecommunications**
- **Social responsibility**

Pierre Boivin has been President and Chief Executive Officer of private equity firm Claridge Inc. since 2011. He serves on the board of directors of CH Group Inc., which manages the activities of the Club de hockey Canadien, Bell Centre, evenko and L'Équipe Spectra inc. In 2012 and 2013, he also served on the board of directors of Lumenpulse Inc. He was a member of the board of directors of Qwesterre Energy Corporation from 2008 to 2012, and a member of its Audit Committee in 2011 and 2012. From 1999 to 2011, Pierre Boivin was President and Chief Executive Officer of the Club de hockey Canadien, inc. and L'Aréna des Canadiens inc. During this period, he was also a member of the board of Governors of the National Hockey League. He is Chairman of the board of the Montreal Canadiens Children's Foundation, which he created in 2000. From 2009 to 2012, Pierre Boivin served as Vice-Chairman of the board of directors and member of the Executive Committee of the Québec Oil and Gas Association. He studied commerce at McGill University. He has been awarded an honorary Doctorate by the Université de Montréal, and has been appointed Officer of the Order of Canada.

Role on the Bank's Board and its committees	Meetings attended (in the past fiscal year)		Reporting issuers and public corporations	Roles on boards and committees
Board member	16/19	84.2%	Director (in the past five years)	(as at October 31, 2015)
Chair and member of the AC	5/5	100%	Canadian Tire Corporation, Limited 2013 to date	– Member of the Audit Committee – Member of the Management Resources and Compensation Committee
Member of the HRC	7/7	100%	Sirius XM Canada Holdings Inc. 2005 - 2014	–
<b>Total</b>	<b>28/31</b>	<b>90.3%</b>	Qwesterre Energy Corporation 2008 - 2012	–

## Securities held

Year <sup>(2)</sup>	Total Common Shares <sup>(3)</sup>	Total DSUs <sup>(4)</sup>	Total Common Shares and DSUs	Share price <sup>(5)</sup> (\$)	Total market value of Common Shares and DSUs (\$)	Minimum required		Meets the Bank's share ownership requirements for directors <sup>(6)</sup>	
						(\$)	Shares/ DSUs		
2015	14,464	1,978	16,442	38.42	631,702	450,000	11,712	140.3%	Yes
2014	13,579	–	13,579	47.60	646,360	450,000	9,454	143.6%	Yes

## ANDRÉ CAILLÉ



**Independent**  
72  
Lac-Brome, Quebec, Canada  
Director since October 2005  
Voting results in 2015:  
99.31% FOR

## CAREER PROFILE

Main areas of expertise:

- Audit / Finance
- Human resources / compensation
- Risk Management
- Social responsibility

André Caillé is a corporate director of several corporations, including Junex Inc., an oil and gas exploration corporation, for which he is a Senior Strategic Consultant. From 2009 to 2011, André Caillé served on the board of directors and on the Executive Committee of the Québec Oil and Gas Association, after several years as President & Chief Executive Officer and Chairman of the board of directors of Hydro-Québec. He has a Bachelor's in specialized chemistry as well as a Master's and Doctorate in physical chemistry from the Université de Montréal. He has been the recipient of many prestigious awards, including the Pierre De Celles Award, and was also made a Knight of the Legion of Honor of the French Republic. He is a Member of the Order of Canada and an Officer of the Ordre national du Québec. The Université de Montréal, the Institut national de la recherche scientifique and the Royal Military College of Canada have each awarded him an honorary doctorate.

Role on the Bank's Board and its committees	Meetings attended (in the past fiscal year)	
Board member	19/19	100%
Chair and member of the HRC	7/7	100%
Member of the AC	5/5	100%
Member of the CRCGC	5/5	100%
<b>Total</b>	<b>36/36</b>	<b>100%</b>

Reporting issuers and public corporations	Roles on boards and committees	
Director (in the past five years)	<i>(as at October 31, 2015)</i>	
Junex Inc. 2008 to date	– Chairman of the Compensation Committee	

## Securities held

Year <sup>(2)</sup>	Total Common Shares <sup>(3)</sup>	Total DSUs <sup>(4)</sup>	Total Common Shares and DSUs	Share price <sup>(5)</sup> (\$)	Total market value of Common Shares and DSUs (\$)	Minimum required		Meets the Bank's share ownership requirements for directors <sup>(6)</sup>	
						(\$)	Shares/ DSUs		
2015	13,527	35,032	48,559	38.42	1,865,637	450,000	11,712	414.6%	Yes
2014	12,113	30,937	43,050	47.60	2,049,180	450,000	9,454	455.3%	Yes

## GILLIAN H. DENHAM



**Independent**  
55  
Toronto, Ontario, Canada  
Director since October 2010  
Voting results in 2015:  
99.03% FOR

## CAREER PROFILE

Main areas of expertise:

- Audit / Finance
- Financial markets and services
- Human resources / compensation
- Marketing

Gillian H. Denham is a corporate director. Since October 2015, she has chaired the board of directors of Morneau Shepell Inc., a company that provides human resource consulting and outsourcing services. Prior to becoming Chair, she was a member of the Audit Committee. She has served on the board of directors of Penn West Petroleum Ltd. since 2012 and on its Governance Committee since 2013. She was also a member of the Audit Committee from January 2013 to June 2014, and a member of the Human Resources and Compensation Committee from 2013 to 2015, chairing it from June 2014 to November 2015. From December 2013 to June 2014, she served on the board of directors and the Governance and Human Resources committees of Markit Group Holdings Limited., subsequently Markit Ltd. Since 2012, she has been a member of the board of directors, which she currently chairs, and of the Audit and Review committees and the Investment Committee, which she has chaired since 2013, of Munich Reinsurance Company of Canada and Temple Insurance Company. Gillian H. Denham is a member of the board of Governors and Chair of the Finance & Audit Sub-Committee of Upper Canada College. She holds an Honours Business Administration (HBA) degree from the University of Western Ontario School of Business and an MBA from Harvard Business School.

Role on the Bank's Board and its committees	Meetings attended (in the past fiscal year)	
Board member	19/19	100%
Member of the HRC	7/7	100%
<b>Total</b>	<b>26/26</b>	<b>100%</b>

Reporting issuers and public corporations	Roles on boards and committees	
Director/Trustee (in the past five years)	<i>(as at October 31, 2015)</i>	
Markit Ltd. 2014 to date	– Member of the Governance Committee – Member of the Human Resources and Compensation Committee	
Penn West Petroleum Ltd. 2012 to date	– Chair of the Human Resources and Compensation Committee – Member of the Governance Committee	
Morneau Shepell Inc. 2011 to date	– Chair of the board of directors	
Calloway Real Estate Investment Trust 2011 – 2012	–	
Morneau Sobeco Income Fund 2008 – 2011	–	

## Securities held

Year <sup>(2)</sup>	Total Common Shares <sup>(3)</sup>	Total DSUs <sup>(4)</sup>	Total Common Shares and DSUs	Share price <sup>(5)</sup> (\$)	Total market value of Common Shares and DSUs (\$)	Minimum required		Meets the Bank's share ownership requirements for directors <sup>(6)</sup>	
						(\$)	Shares/ DSUs		
2015	13,337	482	13,819	38.42	530,926	450,000	11,712	117.9%	Yes
2014	12,787	135	12,922	47.60	615,087	450,000	9,454	136.6%	Yes

**RICHARD FORTIN**

**Independent**  
67  
Boucherville, Quebec, Canada  
Director since August 2013  
Voting results in 2015:  
99.54% FOR

**CAREER PROFILE**

Main areas of expertise:

- Audit / Finance
- Entrepreneurship
- Marketing
- Risk management

Richard Fortin is a corporate director. He is a member of the board of directors of Alimentation Couche-Tard inc., a convenience store operator, where he held the positions of Executive Vice-President and Chief Financial Officer until he retired in 2008. He then became Chairman of the board of directors until September 2011. He is also Lead Director of the board of directors of Transcontinental Inc., and has been a member of its Audit Committee since 2004 and committee Chair since 2008. In addition, Richard Fortin has been a member of the board of directors and the Audit Committee of National Bank Life Insurance Company, a Bank subsidiary, since 2005, and has been the Audit Committee Chair since February 2013. He was a director and member of the Audit Committee of Rona Inc. from 2009 to 2013. He holds a Bachelor's in Management with a major in Finance from Université Laval.

Role on the Bank's Board and its committees	Meetings attended (in the past fiscal year)		Reporting issuers and public corporations	Roles on boards and committees
Board member	18/19	94.7%	Director (in the past five years)	(as at October 31, 2015)
Chair and member of the RMC	14/15	93.3%	Alimentation Couche-Tard inc.	1988 to date –
Member of the AC	3/3	100%	Transcontinental Inc.	2004 to date – Lead Director – Chair of the Audit Committee
<b>Total</b>	<b>35/37</b>	<b>94.6%</b>	Rona Inc.	2009 - 2013 –

**Securities held**

Year <sup>(2)</sup>	Total Common Shares <sup>(3)</sup>	Total DSUs <sup>(4)</sup>	Total Common Shares and DSUs	Share price <sup>(5)</sup> (\$)	Total market value of Common Shares and DSUs (\$)	Minimum required		Meets the Bank's share ownership requirements for directors <sup>(6)</sup>	
						(\$)	Shares/ DSUs		
2015	10,399	5,525	15,924	38.42	611,800	450,000	11,712	135.9%	Yes
2014	5,205	2,519	7,724	47.60	367,662	450,000	9,454	81.7%	– <sup>(10)</sup>

**JEAN HOUDE**

**Independent**  
70  
Montreal, Quebec, Canada  
Director since March 2011  
Voting results in 2015:  
98.11% FOR

**CAREER PROFILE**

Main areas of expertise:

- Audit / Finance
- Financial markets and services
- Governance
- Human resources / compensation

Jean Houde has served as Chairman of the Board since April 10, 2014. He is also Chairman of the board of directors of Gaz Métro inc. From 2010 to 2014, he was Chairman of the board of directors of Finance Montréal – La grappe financière du Québec, and from 2012 to 2014, Vice-Chairman of the board of directors of JOA Groupe Holding and a member of the Audit and Human Resources committees. From 2010 to January 2011, he was a business development advisor at accounting firm Samson Bélair/Deloitte & Touche LLP. From 1990 to 2003, he held several positions at the Bank, which he joined as Senior Vice-President – Human Resources; when he left, he was Senior Vice-President – Corporate Affairs. He has a law degree and an MBA from Université Laval. Jean Houde is a member of the Quebec Bar.

Role on the Bank's Board and its committees	Meetings attended (in the past fiscal year)		Reporting issuers and public corporations	Roles on boards and committees
Chairman and member of the Board	19/19	100%	Director (in the past five years)	(as at October 31, 2015)
Member of the CRGCG	5/5	100%	Gaz Métro inc.	2010 to date – Chairman of the board of directors – Chair of the Human Resources and Corporate Governance Committee
<b>Total</b>	<b>24/24</b>	<b>100%</b>		

**Securities held**

Year <sup>(2)</sup>	Total Common Shares <sup>(3)</sup>	Total DSUs <sup>(4)</sup>	Total Common Shares and DSUs	Share price <sup>(5)</sup> (\$)	Total market value of Common Shares and DSUs (\$)	Minimum required		Meets the Bank's share ownership requirements for directors <sup>(6)</sup>	
						(\$)	Shares/ DSUs		
2015	14,397	339	14,736	38.42	566,157	450,000	11,712	125.8%	Yes
2014	13,770	–	13,770	47.60	655,452	450,000	9,454	145.6%	Yes

**KAREN KINSLEY**

**Independent**  
59  
Ottawa, Ontario, Canada  
Director since December 2014  
Voting results in 2015:  
99.71% FOR

**CAREER PROFILE**

Main areas of expertise:

- Audit / Finance
- Governance
- Human resources / compensation
- Risk management

Karen Kinsley is a corporate director. Since November 2015, she has served on the board of directors and on the Audit Committee of Saputo Inc., a dairy processor. Throughout her 25-year career with Canada Mortgage and Housing Corporation (CMHC), Canada's national housing agency, she held positions of growing responsibility, up to President and Chief Executive Officer from 2003 to 2013. Karen Kinsley has a Bachelor of Commerce from the University of Ottawa. She is a Fellow of the Chartered Professional Accountants of Ontario and has received the Certified Director designation (ICD.D) from the Institute of Corporate Directors.

Role on the Bank's Board and its committees	Meetings attended (in the past fiscal year)		Reporting issuers and public corporations	Roles on boards and committees
Board member	19/19	100%	Director (in the past five years)	(as at October 31, 2015)
Member of the HRC <sup>(11)</sup>	3/3	100%	Saputo Inc.	–
Member of the RMC <sup>(11)</sup>	8/8	100%		
<b>Total</b>	<b>30/30</b>	<b>100%</b>		

**Securities held**

Year <sup>(2)</sup>	Total Common Shares <sup>(3)</sup>	Total DSUs <sup>(4)</sup>	Total Common Shares and DSUs	Share price <sup>(5)</sup> (\$)	Total market value of Common Shares and DSUs (\$)	Minimum required		Meets the Bank's share ownership requirements for directors <sup>(6)</sup>	
						(\$)	Shares/ DSUs		
2015	9,078	2,075	11,153	38.42	428,498	450,000	11,712	95.2%	– <sup>(12)</sup>
2014	5,949	157	6,106	47.60	290,646	450,000	9,454	64.5%	– <sup>(12)</sup>

**JULIE PAYETTE**

**Independent**  
52  
Montreal, Quebec, Canada  
Director since April 2014  
Voting results in 2015:  
99.70% FOR

**CAREER PROFILE**

Main areas of expertise:

- Audit / Finance
- Information technology and telecommunications
- Risk management
- Social responsibility

Since 2013, Julie Payette has been director of the Montréal Science Centre, a museum entirely devoted to science and technology. She is also Vice-President CSM of the Canada Lands Company, a federal Crown corporation that optimizes the financial and community value of strategic properties that are no longer required by the Government of Canada. Since 2013, Julie Payette has also served on the board of directors of First Robotics Québec and Partnership for a Drug Free Canada Inc. Since 2010 she has served on the board of directors of Own the Podium. From 2011 to 2014, she served on the board of directors of Université Laval's Collège des administrateurs de sociétés. During her career as an astronaut, Julie Payette was CAPCOM (Capsule Communicator) at NASA's Mission Control Center in Houston, has flown two space shuttle missions, and was Chief Astronaut for the Canadian Space Agency. She was a fellow at the prestigious Woodrow Wilson International Center for Scholars in Washington, D.C. in 2011 and the scientific authority for Quebec in the United States from 2011 to 2013. Julie Payette is a member of the Ordre des ingénieurs du Québec and the International Academy of Astronautics. She has obtained an International Baccalaureate from the United World College of the Atlantic, UK, a Bachelor of Electrical Engineering from McGill University, and a Master of Applied Science from the University of Toronto, and has the ASC certification from the Collège des administrateurs de sociétés. She is an Officer of the Order of Canada and a Knight of the Ordre national du Québec.

Role on the Bank's Board and its committees	Meetings attended (in the past fiscal year)		Reporting issuers and public corporations	Roles on boards and committees
Board member	19/19	100%	Director (in the past five years)	(as at October 31, 2015)
Member of the AC <sup>(13)</sup>	3/3	100%	–	–
<b>Total</b>	<b>22/22</b>	<b>100%</b>		

**Securities held**

Year <sup>(2)</sup>	Total Common Shares <sup>(3)</sup>	Total DSUs <sup>(4)</sup>	Total Common Shares and DSUs	Share price <sup>(5)</sup> (\$)	Total market value of Common Shares and DSUs (\$)	Minimum required		Meets the Bank's share ownership requirements for directors <sup>(6)</sup>	
						(\$)	Shares/ DSUs		
2015	1,470	2,118	3,588	38.42	137,851	450,000	11,712	30.6%	– <sup>(14)</sup>
2014	630	763	1,393	47.60	66,307	450,000	9,454	14.7%	– <sup>(14)</sup>

**LINO A. SAPUTO, JR.**

**Independent**  
49  
Montreal, Quebec, Canada  
Director since April 2012  
Voting results in 2015:  
85.59% FOR

**CAREER PROFILE**

Main areas of expertise:

– International markets  
– Marketing

– Risk management  
– Social responsibility

Lino A. Saputo, Jr. has been Chief Executive Officer since 2004 of Saputo Inc., one of the largest dairy processors in the world with 12,000 employees, as well as Vice-Chairman of the board of directors since 2011. He has also been a member of the board of directors of Transcontinental Inc. since 2008, and of its Human Resources and Compensation Committee since 2011. He was also a member of its Corporate Governance Committee from 2008 to 2011. He is involved with a number of charitable organizations, and in 2011 he co-founded the Amelia & Lino Saputo Jr. Foundation. He holds a Bachelor of Political Science from Concordia University.

Role on the Bank's Board and its committees	Meetings attended (in the past fiscal year)		Reporting issuers and public corporations	Roles on boards and committees
Board member	19/19	100%	Director (in the past five years)	(as at October 31, 2015)
Member of the RMC <sup>(15)</sup>	8/8	100%	Saputo Inc. 2001 to date	– Vice-Chairman of the board of directors
Member of the HRC <sup>(15)</sup>	4/4	100%	Transcontinental Inc. 2008 to date	– Member of the Human Resources and Compensation Committee
<b>Total</b>	<b>31/31</b>	<b>100%</b>	Warrnambool Cheese and Butter Factory Company Holdings Limited <sup>(16)</sup> 2014 to date	– Chairman of the board of directors – Member of the Audit and Risk Committee – Member of the Appointment and Compensation Committee

**Securities held**

Year <sup>(2)</sup>	Total Common Shares <sup>(3)</sup>	Total DSUs <sup>(4)</sup>	Total Common Shares and DSUs	Share price <sup>(5)</sup> (\$)	Total market value of Common Shares and DSUs (\$)	Minimum required		Meets the Bank's share ownership requirements for directors <sup>(6)</sup>	
						(\$)	Shares/DSUs		
2015	15,301	5,797	21,098	38.42	810,585	450,000	11,712	180.1%	Yes
2014	14,534	3,883	18,417	47.60	876,649	450,000	9,454	194.8%	Yes

**ANDRÉE SAVOIE**

**Independent**  
44  
Dieppe, New Brunswick, Canada  
Director since April 2015  
Voting results in 2015:  
99.69% FOR

**CAREER PROFILE**

Main areas of expertise:

– Audit / Finance  
– Entrepreneurship

– Marketing  
– Social responsibility

Andrée Savoie is Managing Director of Acadian Properties Ltd., a commercial real estate developer and property management company in the Atlantic Provinces. From 2007 to 2015, she was President and Managing Director of Acadian Construction (1991) Ltd. Since 2011, she has been a member of the board of directors and the Investment Committee of Assumption Mutual Life Insurance Company, and from 2011 to 2015 of its Audit and Review Committees. She has also been a member of the board of directors of the YMCA of Greater Moncton since 2015. Involved in her community, she is a member of the *One for Youth* Committee of the Bank for Atlantic Canada, and is Co-Founder and Co-President of Crossroads 250, an annual fundraising event for a shelter for women and children who are victims of domestic violence. She has a Bachelor's degree in Chemical Engineering from McGill University and a Master's degree in Applied Sciences from the University of Ottawa.

Role on the Bank's Board and its committees	Meetings attended (in the past fiscal year)		Reporting issuers and public corporations	Roles on boards and committees
Board member <sup>(17)</sup>	11/11	100%	Director (in the past five years)	(as at October 31, 2015)
Member of the AC <sup>(17)</sup>	3/3	100%	–	–
<b>Total</b>	<b>14/14</b>	<b>100%</b>		

**Securities held**

Year <sup>(2)</sup>	Total Common Shares <sup>(3)</sup>	Total DSUs <sup>(4)</sup>	Total Common Shares and DSUs	Share price <sup>(5)</sup> (\$)	Total market value of Common Shares and DSUs (\$)	Minimum required		Meets the Bank's share ownership requirements for directors <sup>(6)</sup>	
						(\$)	Shares/DSUs		
2015	986	747	1,733	38.42	66,582	450,000	11,712	14.7%	– <sup>(18)</sup>
2014	–	–	–	47.60	–	450,000	9,454	–	– <sup>(18)</sup>

## PIERRE THABET



**Independent**  
58  
St-Georges, Quebec, Canada  
Director since March 2011  
Voting results in 2015: 99.75% FOR

## CAREER PROFILE

Main areas of expertise:

- Audit / Finance
- Entrepreneurship
- Marketing
- Risk management

Pierre Thabet has been President of Boa-Franc inc., a Canadian manufacturer of pre-finished hardwood floors, since 1983. He also sits on the board of Canam Group Inc., where he has also served on its Audit Committee since 2011, and on its Human Resources Committee from 2006 to 2010. Pierre Thabet is involved in local economic and social organizations. In 2010, he became an entrepreneur coach at the École d'Entrepreneurship de Beauce, a school dedicated to training entrepreneurs in all industries. He has a Bachelor's in Administration, specializing in Marketing and Accounting, from the Université de Moncton.

Role on the Bank's Board and its committees	Meetings attended (in the past fiscal year)	Reporting issuers and public corporations	Roles on boards and committees
Board member	18/19	94.7%	Director (in the past five years)
Member of the RMC	15/15	100%	(as at October 31, 2015)
<b>Total</b>	<b>33/34</b>	<b>97.1%</b>	Canam Group Inc. 2006 to date – Member of the Audit Committee

## Securities held

Year <sup>(2)</sup>	Total Common Shares <sup>(3)</sup>	Total DSUs <sup>(4)</sup>	Total Common Shares and DSUs	Share price <sup>(5)</sup> (\$)	Total market value of Common Shares and DSUs (\$)	Minimum required		Meets the Bank's share ownership requirements for directors <sup>(6)</sup>	
						(\$)	Shares/DSUs		
2015	183,643	7,356	190,999	38.42	7,338,182	450,000	11,712	1630.7%	Yes
2014	173,770	5,378	179,148	47.60	8,527,445	450,000	9,454	1,894.9%	Yes

## LOUIS VACHON



**Non-independent (officer)**  
53  
Beaconsfield, Quebec, Canada  
Director since August 2006  
Voting results in 2015: 99.40% FOR

## CAREER PROFILE

Main areas of expertise:

- Audit / Finance
- Financial markets and services
- International markets
- Risk management

Louis Vachon has been President and Chief Executive Officer of the Bank since 2007. He was the Bank's Chief Operating Officer in 2006 and 2007. He was Chairman of the board of directors of Natcan Investment Management Inc. from 2004 to 2006. In 2005 and 2006, he has also served as Chairman of the board and President and Chief Executive Officer of NBF. Louis Vachon began his career in 1985 with Citibank Canada and in 1986 joined Lévesque Beaubien Geoffrion inc., now National Bank Financial Inc., where he served as Vice-President until 1990. From 1990 to 1996, he was employed by BT Bank of Canada, the Canadian subsidiary of Bankers Trust, where he served as President and Chief Executive Officer from 1994 to 1996. Louis Vachon returned to the Bank in 1996, first as President and Chief Executive Officer of Innocap Investment Management Inc., and then in 1998 was appointed Senior Vice-President – Treasury and Financial Markets of the Bank. Louis Vachon is a member of the boards of the following Bank subsidiaries: National Bank Group Inc. and National Bank Acquisition Holding Inc. He has a Bachelor's in Economics from Bates College and a Master's in International Finance from The Fletcher School. He is also a CFA charterholder. In 2014, he was named CEO of the Year by *Canadian Business* magazine, and Financial Personality of the Year by the business publication *Finance et Investissement* in 2012 and 2014.

Role on the Bank's Board and its committees	Meetings attended (in the past fiscal year)	Reporting issuers and public corporations	Roles on boards and committees
Board member	19/19	100%	Director (in the past five years)
<b>Total</b>	<b>19/19</b>	<b>100%</b>	(as at October 31, 2015)
		Fiera Capital Corporation <sup>(A)</sup>	2012 to date –
		Molson Coors Brewing Company	2012 to date – Chair of the Finance Committee

Securities held<sup>(19)</sup>

Year <sup>(2)</sup>	Total Common Shares <sup>(3)</sup>	Share price <sup>(5)</sup> (\$)	Total market value of Common Shares (\$)	Meets the Bank's share ownership requirements <sup>(20)</sup>
2015	152,351	38.42	5,853,325	Yes
2014	131,054	47.60	6,238,170	Yes

(A) On April 2, 2012, the Bank sold the operations of Natcan Investment Management Inc. and acquired an interest in Fiera Capital Corporation. As a result of this transaction and to represent the Bank's interests, two seats on the board of directors of Fiera Capital Corporation have been reserved for representatives of the Bank, one of whom is Louis Vachon.

## Notes to the tables of director nominees

- (1) Raymond Bachand was appointed a member of the Conduct Review and Corporate Governance Committee on April 15, 2015.
- (2) This information reflects the situation as at February 19, 2016 for 2015 and as at February 20, 2015 for 2014.
- (3) This number includes Common Shares directly or indirectly beneficially owned or controlled, including Common Shares held by a company controlled by a director, but excluding Common Shares under a director's control for the benefit of a third party.
- (4) For more information on the compensation paid to directors in the form of deferred share units, see Section 5 of the Circular.
- (5) These amounts represent the price of Common Shares of the Bank on the Toronto Stock Exchange, at the close of trading on February 19, 2016 for 2015, and at the close of trading on February 20, 2015 for 2014.
- (6) For more information, see "Share ownership requirements" in Section 5 of the Circular.
- (7) Raymond Bachand has a five-year grace period from the date of his appointment as Bank director on October 29, 2014 to meet the share ownership requirements for directors.
- (8) Maryse Bertrand was appointed Chair of the Conduct Review and Corporate Governance Committee on April 15, 2015.
- (9) Maryse Bertrand has a five-year grace period from the date of her appointment as Bank director on April 4, 2012 to meet the share ownership requirements for directors.
- (10) Richard Fortin has a five-year grace period from the date of his appointment as Bank director on August 27, 2013 to meet the share ownership requirements for directors.
- (11) Karen Kinsley was appointed a member of the Risk Management Committee and Human Resources Committee on April 15, 2015.
- (12) Karen Kinsley has a five-year grace period from the date of her appointment as Bank director on December 3, 2014 to meet share ownership requirements for directors.
- (13) Julie Payette was appointed a member of the Audit Committee on April 15, 2015.
- (14) Julie Payette has a five-year grace period from the date of her appointment as Bank director on April 10, 2014 to meet the share ownership requirements for directors.
- (15) Lino A. Saputo, Jr. ceased to be a member of the Human Resources Committee on April 15, 2015, the date on which he was appointed to the Risk Management Committee.
- (16) Warrnambool Cheese and Butter Factory Company Holdings Limited is under Saputo Inc. majority ownership and control.
- (17) Andrée Savoie was appointed a member of the Board and the Audit Committee on April 15, 2015.
- (18) Andrée Savoie has a five-year grace period from the date of her appointment as Bank director on April 15, 2015 to meet the share ownership requirements for directors.
- (19) As an executive director of the Bank, Louis Vachon does not receive any compensation for participating in the activities of the Board and its committees. For more information about Louis Vachon's compensation, including the values of his PSUs, RSUs and options, see Section 7 of the Circular.
- (20) For more information, see "Share ownership requirements" in Section 7 of the Circular.

## Additional information about the director nominees

To the knowledge of the Bank, no director nominee of the Bank is, at the date of this Circular, or has been, during the 10 years prior to the date of this Circular, a director, chief executive officer or chief financial officer of any company, including the Bank, that while the nominee was acting in such capacity, or after the nominee ceased to act in such capacity, and as a result of an event which occurred while the nominee was performing his or her duties, was the subject of one of the following orders that was in effect for more than 30 consecutive days, namely, any cease trade or similar order or any order that denied it access to any exemption under securities legislation, except for the following individual:

- Gillian H. Denham, who has served since June 2012 on the board of directors of Penn West Petroleum Ltd., which was subject to cease trade orders on its securities subsequent to the announcement in July 2014 of the review of its accounting practices and restatement of its financial statements. Those cease trade orders are no longer in effect as of September 23, 2014.

To the knowledge of the Bank, no director nominee of the Bank is, at the date of this Circular, or has been, during the 10 years prior to the date of this Circular, a director or executive officer of any company, including the Bank, that while the nominee was acting in such capacity or within a year of the nominee ceasing to act in such capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or became subject to, or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold its assets, except for:

- Pierre Boivin, who, until November 26, 2009, was a board member of TopTent Inc., a corporation which filed a commercial proposal with its creditors on April 30, 2010. On August 3, 2010, TopTent Inc. was discharged from the proposal; and
- André Caillé, who, until July 21, 2009, was a board member of Quebecor World Inc., a company placed under the protection of the *Companies' Creditors Arrangements Act* (Canada) and Chapter 11 of Title 11 ("Bankruptcy") of the *United States Code* on January 21, 2008. Quebecor World Inc. was delisted from the New York Stock Exchange on January 22, 2008. Quebecor World Inc. emerged from Canadian and U.S. bankruptcy protection on July 21, 2009. It then became known as World Color Press Inc. until a plan of arrangement was entered into with Quad/Graphics Inc. in July 2010.

In addition, to the knowledge of the Bank, no director nominee of the Bank has, in the 10 years prior to the date of this Circular, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to, or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold his or her assets.

Furthermore, to the knowledge of the Bank, no director nominee has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority, or has entered into a settlement agreement with a securities regulatory authority, or has been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable securityholder in deciding whether to vote for a nominee. Moreover, in the opinion of the Bank, no disclosure concerning a settlement agreement entered into by a director nominee before December 31, 2000 is likely to be considered important to a reasonable securityholder in deciding whether to vote for a nominee.

## 4. GOVERNANCE PRACTICES

### INTRODUCTION

The Board believes that corporate governance is an effective tool which enhances its influence, efficiency and independence, provides a sound basis for the Bank's operations, and benefits its clients, its employees and its shareholders.

The Bank's corporate governance consists of a set of structures, policies and programs that are in compliance with the relevant regulations. The first of these structures is the Board, which is supported by four standing committees: the Audit Committee, the Risk Management Committee, the Conduct Review and Corporate Governance Committee and the Human Resources Committee.

In carrying out its duties, the Board receives recommendations from the Bank's four oversight functions, which are Internal Audit, Risk Management, Compliance and Finance. They assist the Board by verifying the effectiveness of the controls within the operating units, and ensuring that activities, results and risk exposure are reliably reported.

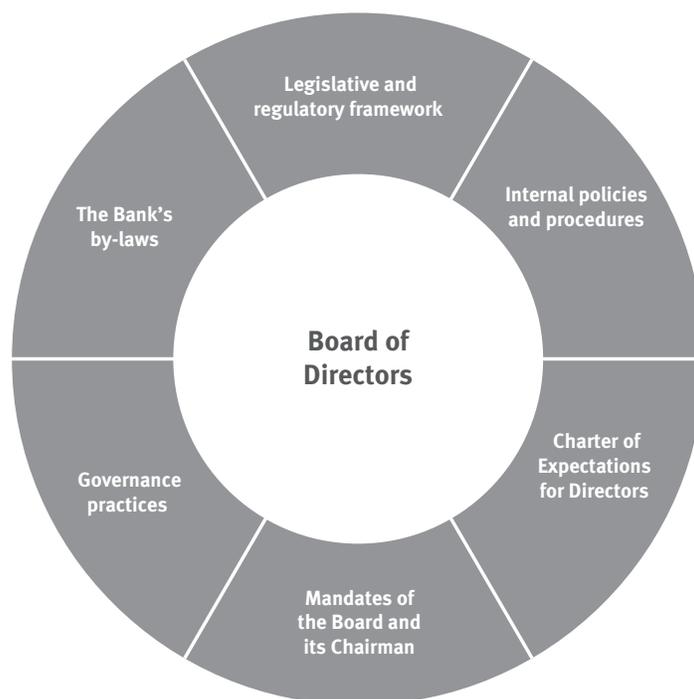
The Board's corporate governance policies and procedures enable it to achieve its objective of sound corporate governance and comply with the requirements of authorities that regulate the Bank, including OSFI, the CSA and the Toronto Stock Exchange.

The Board's corporate governance practices are set out in a document available in the governance subsection under "About Us" on the website [nbc.ca](http://nbc.ca).

### BOARD OF DIRECTORS

#### Framework

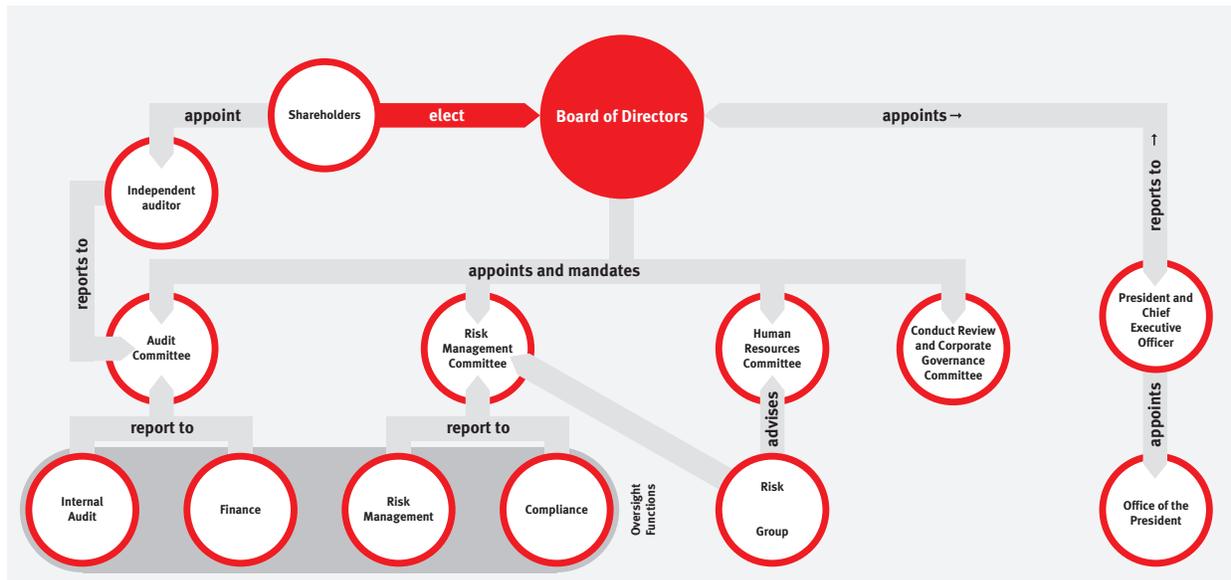
The Board's roles and responsibilities are defined by six factors:



The Board prepares and approves its own mandate as well as its Chairman's, and periodically assesses and reviews them to ensure that they comply with applicable legislation and adequately reflect the

duties and responsibilities of the Board and its Chairman. Changes to these mandates are submitted to the Board for approval, with changes to the mandate of the Chairman of the Board being approved in his or her absence.

The mandates of the Board and its four standing committees are available in the governance subsection under “About Us” on the website [nbc.ca](http://nbc.ca). The mandate of the Board is incorporated by reference into the Circular and is also available on the website [sedar.com](http://sedar.com).



## Roles and responsibilities

The main duty of the Board is to oversee and provide direction for the management and operations of the Bank, safeguard its assets, and ensure its viability, profitability and development. The Board communicates its directions to management through the President and Chief Executive Officer of the Bank, who oversees their implementation. Management is responsible for the day-to-day management of the Bank’s operations pursuant to the powers delegated by the Board and in accordance with applicable legislation and regulations.

## The nine core responsibilities of the Board

### 1. Review and approve objectives, strategy and operating plans

- Periodically review, assess and approve management’s strategic plan.
- Examine and approve the business plans for the Bank’s main operations, and regularly review them to ensure they remain adequate and prudent given, in particular, the Bank’s economic and business environment, its resources and its results.

### 2. Promote integrity and ethical behaviour

- Promote integrity and ethical behaviour.
- Ensure that the rules of conduct and ethics are maintained, and that the Bank has an effective process for guaranteeing compliance with them.

### 3. Ensure compliance with relevant legislation and regulations and strong governance

- Review the processes that ensure the Bank’s operations comply with applicable legislation and regulations.

- With the support of the Risk Management Committee, adopt policies with regard to compliance and regulatory risk and keep apprised of important changes to laws and regulations governing the Bank.
- Require management to put a compliance program in place designed to ensure that the Bank meets its obligations.
- Periodically review and approve the Bank’s governance practices.

#### **4. Ensure risks are effectively managed**

- Review and approve the Bank’s overall risk philosophy and risk appetite.
- Identify and understand the main risks facing the Bank.
- Ensure, with the assistance of the Risk Management Committee, that appropriate systems are in place to identify, control and manage those risks effectively.

#### **5. Oversee management**

- Review the periodic reports prepared by the various business line leaders and periodically meet with the senior management of those sectors.
- Understand the decisions, plans and policies adopted by senior management, including their impact on the Bank, and obtain assurance from management that these comply with the Bank’s risk appetite framework and that the internal controls are robust and are implemented effectively.

#### **6. Plan and develop management succession**

- Approve the appointment of qualified and competent Officers.
- Oversee the succession planning process for management positions, including in particular that of the President and Chief Executive Officer.

#### **7. Ensure transparent and diligent reporting and disclosure of financial information**

- On the recommendation of the Audit Committee, review and approve the Bank’s annual and interim financial statements, related Management’s Discussion and Analysis, audit procedures and management information systems.
- Review and approve the Bank’s Information Disclosure Policy, which provides for the formation of a Disclosure Committee tasked with ensuring that effective procedures and controls are in place and are being followed for the disclosure of financial and other occasional important information.

#### **8. Develop a compensation approach to maximize the Bank’s competitiveness and support achievement of its objectives**

- Through the Human Resources Committee, ensure that the compensation policies and programs in place are conducive to achieving the Bank’s objectives, without jeopardizing its viability, solvency or reputation.

#### **9. Ensure Officers and material risk takers comply with share ownership requirements**

- Through the Human Resources Committee, impose share ownership requirements to ensure that the interests of the Bank’s Officers and material risk takers are closely tied to those of shareholders.

- Regularly monitor that share ownership requirements are being met.

For more information, see “Share ownership requirements” in Section 7 of the Circular.

## External consultants

The Board and each of its committees may engage, when they deem it appropriate, legal counsel or other independent external consultants to assist them in carrying out their duties and responsibilities. They can define their mandate and set their remuneration. The Bank bears the cost of such consultants. Before engaging such consultants, the Board or the committee in question assesses the nature of any mandates to be awarded by the Bank to verify that the consultants’ independence is not impaired. Exceptionally, the Chairman of the Board or the Chair of the committee in question may assess the independence of the consultants, define their mandate and hire them, provided that the Board or committee in question subsequently confirms the assessment of the consultants’ independence made by the Chairman of the Board or the Chair of the committee in question and ratifies their hiring. When the Board or a committee retains the services of consultants for an indefinite period, it is required on an annual basis to approve the list of mandates that the Bank intends to entrust to the consultants to ensure that those mandates do not impair their independence.

## CHAIRMAN OF THE BOARD

The Chairman of the Board is independent as defined by the CSA. He assumes the leadership of the Board with a view to ensuring the interests of the Bank, its shareholders and its clients, and also leads the Board’s activities. He discharges the responsibilities vested in him by applicable legislation. He promotes the highest standards of integrity and ethical conduct within the Board as well as rigorous corporate governance standards, and ensures that the Bank complies with the relevant regulatory requirements.

Furthermore, the Chairman of the Board ensures that the Board effectively and independently performs its duties and responsibilities, and assigns tasks to different Board members as necessary. He also ensures that Board committees discharge the responsibilities vested in them by the Board and report back to the Board with the results of their work.

He further ensures that the Board has the necessary resources and information to fulfill its mandate and responsibilities. He sees to it that the independent directors meet at the end of each Board meeting without the Bank’s management being present, and chairs these proceedings in camera. He assists the Conduct Review and Corporate Governance Committee in overseeing the process of assessing Board, committee and director performance.

The Chairman of the Board does not have a deciding vote in the event of equality of Board member votes.

The mandate of the Chairman of the Board can be found in the governance subsection under “About Us” on the website [nbc.ca](http://nbc.ca).

## COMMITTEES CREATED BY THE BOARD

The Board delegates some of its powers to committees that it creates in accordance with relevant legislative requirements and according to its needs. Committee members and Chairs are appointed from among the directors and must meet the applicable legislative eligibility requirements as well as CSA independence standards. Each year, the Bank discloses the membership of each committee in its annual Management Proxy Circular; this information is also available in the governance subsection under “About Us” on the website [nbc.ca](http://nbc.ca).

Provision is made for committee members to meet without the presence of the Bank's management, which is invited to attend committee meetings from time to time. Committees report regularly to the Board on their activities.

The Chairman of the Board may, as an invited guest, attend the meetings of each committee of which he is not a member.

Based on the recommendations of the Conduct Review and Corporate Governance Committee, the Board develops and approves the mandates of each Board committee as well as those of the committee Chairs. The Board committees regularly review their respective mandate and that of their Chair and recommend them for approval to the Board to ensure that they adequately reflect how they function, as well as their activities and responsibilities, and those of their Chair, while complying with current legislation.

For more information about the Board's standing committees, please refer to [Section 6](#) of the Circular.

## **SELECTION OF DIRECTOR NOMINEES, ELECTION AND OVERSIGHT**

### **Composition of the Board**

#### **Competencies**

The Board is composed of directors who possess extensive complementary knowledge and competencies, as well as expertise to make an active, informed and positive contribution to the management of the Bank, the conduct of its business and the strategic direction of its development.

The Board's expectations with regard to its members, both in terms of their individual experience and their contribution to the Board, are specified in the Charter of Expectations, which is prepared by the Conduct Review and Corporate Governance Committee and approved by the Board. In particular:

- Directors must devote the necessary time and energy to fully assume their responsibilities to the Bank.
- Directors are expected to show leadership and initiative, be proactive, and prepare thoroughly in order to actively participate in deliberations during meetings of the Board and any committees on which they serve.
- Directors must remain abreast of the Bank's operations and business and keep their financial literacy up to date.
- The Board also expects that Directors shall behave with honesty and integrity and, in particular, comply with the Bank's Code of Conduct and Ethics, as well as with all material elements of the directors' and officers' codes of conduct of any corporation of which they are a director or officer.

Selection criteria setting out the abilities sought when nominating a new director for election or when nominating an existing director for re-election, as applicable, are determined by the Conduct Review and Corporate Governance Committee and approved by the Board. The criteria call for a complementary mix of knowledge and expertise for directors as a whole to ensure that the Board can fulfill its role effectively in all areas.

Director nominees must have a range of abilities, including adequate financial literacy given the scope and complexity of the Bank's business, and solid business judgment. Moreover, director nominees must have a proven track record for reactive, objective and informed decision-making, a sense of initiative and independent judgment, and the capacity to assume responsibilities on Board committees.

The Board believes that its director nominee mix provides and maintains the knowledge, competencies, expertise, geographic representation, diversity and number of directors it requires for informed decision-making, appropriate composition of its committees and succession planning.

For more information about the main competencies and expertise of director nominees, see the Summary in the Circular.

### **Size and composition of the Board**

The Board is composed of 12 to 18 directors. The Board, together with the Conduct Review and Corporate Governance Committee, periodically reviews its size and composition to verify its effectiveness, within the limits set out in the relevant legislation and its by-laws.

Directors must meet all the eligibility criteria set out in the Act, any other legislation applicable to the Bank, and any internal rules established by the Board. All the directors are Canadian residents.

For more information about the director nominees, see the Summary as well as Section 3 of the Circular.

### **Independence**

A majority of Board members and all Board committee members are independent, as defined by the CSA. The directors also comply with the *Affiliated Persons (Banks) Regulations* (Canada) pursuant to the Act.

The Board, either directly or through one of its committees, adopts structures and procedures to ensure the Board functions independently of the Bank's management.

For more information about the independence of director nominees, see the Summary as well as Section 3 of the Circular.

During the fiscal year ended October 31, 2015, Louise Laflamme and Roseann Runte acted as independent directors as defined by the CSA. Lawrence S. Bloomberg acted as a non-independent director as he was a consultant paid by a Bank subsidiary. These persons will not seek to renew their mandates and will cease to be members of the Board on April 15, 2016.

The Conduct Review and Corporate Governance Committee regularly assesses the independence of the members of the Board in accordance with CSA criteria using, among other things, information provided semi-annually by directors or otherwise reported to the Conduct Review and Corporate Governance Committee. The Board then reviews the Conduct Review and Corporate Governance Committee's assessment of independence.

**In fiscal 2015, the independent directors met in camera, without any members of the Bank's management or the non-independent directors being present, at each Board and committee meeting as planned in the agenda of each meeting.**

To facilitate candid and open discussion, provision is made for the independent members of the Board and its committees to meet without the Bank's management being present, at each Board meeting.

Lastly, the Board ensures that the roles of Chairman of the Board and President and Chief Executive Officer are separate.

## Integrity

The directors of the Bank act with integrity and exercise independent judgment in performing their duties and fulfilling their responsibilities. Directors are bound by the provisions of the Code of Conduct and Ethics and other rules of conduct and ethics applicable to directors, Officers and employees of the Bank, and annually undertake in writing to comply with the Code of Conduct and Ethics.

Director nominees must have a reputation for acting with integrity and honesty and a track record for fulfilling their fiduciary duty toward the companies they serve or served as directors, and must have complied with all significant elements of the rules of conduct for directors and officers of said companies. The Conduct Review and Corporate Governance Committee conducts a background and reference check on all director nominees, before they are elected and thereafter at least every five years, in accordance with the guidelines issued by OSFI. The directors annually confirm in writing that they do not have a criminal record.

## Conflicts of interest

Directors undertake, in writing, to comply with the Bank's standards with regard to conflicts of interest, and they renew their commitment on an annual basis. They must avoid all real, potential or apparent conflict of interest situations with the Bank. Any director with an interest in a contract or material transaction with the Bank must disclose the nature and scope of his or her interest to the Chairman of the Board or the Chair of the Conduct Review and Corporate Governance Committee as soon as possible, in accordance with applicable legislation. He or she must leave the meeting during the review of the contract or transaction and refrain from voting on the matter, barring exceptions provided for by applicable legislation. Moreover, the Corporate Secretary's Office regularly receives confirmation from the directors as to whether or not any conflicts of interest exist, to ensure full disclosure.

## Availability

The Board expects directors to attend and remain present throughout the meetings to which they are called. However, directors unable to do so are required to inform the Chairman of the Board or Chair of the committee in question as soon as possible, and then to contact him or her to obtain an overview of the meeting. Directors are required to attend at least 75% of all the meetings to which they are called, unless the Conduct Review and Corporate Governance Committee deems that factors beyond their control prevented them from doing so. In such cases the Board may re-evaluate their availability to act effectively as directors of the Bank.

**In fiscal 2015, the attendance rate for director nominees at Board meetings was 97.3% while the average attendance rate for committee meetings was 98.1%, and each director attended at least 84.2% of the meetings to which he or she was called.**

The following table details the attendance of the directors who ceased being members of the Board and its committees during fiscal 2015 or will cease being members of the Board and its committees on April 15, 2016.

Members	Board		AC	CRCGC	HRC	RMC	Total for committees		Combined total	
Lawrence S. Bloomberg <sup>(1)</sup>	19/19	100%							19/19	100%
G�rard Coulombe <sup>(2)</sup>	7/8	87.5%		2/2	4/4		6/6	100%	13/14	92.9%
Louise Laflamme <sup>(1)</sup>	19/19	100%	5/5		3/3 <sup>(3)</sup>	7/7 <sup>(3)</sup>	15/15	100%	34/34	100%
Roseann Runte <sup>(1)</sup>	19/19	100%		5/5			5/5	100%	24/24	100%
<b>Average attendance for all meetings</b>		98.5%	100%	100%	100%	100%		100%		98.9%

- (1) Lawrence S. Bloomberg, Louise Laflamme and Roseann Runte will not seek to renew their mandates as directors.
- (2) Since April 15, 2015, G rard Coulombe is no longer a member of the Board, member and Chair of the Conduct Review and Corporate Governance Committee, or member of the Human Resources Committee.
- (3) On April 15, 2015, Louise Laflamme ceased to be a member of the Risk Management Committee and was appointed to the Human Resources Committee.

For more information about the attendance rate of director nominees at meetings of the Board and its Committees in fiscal 2015, see Section 3 of the Circular.

## Outside directorships

Directors must inform the Chair of the Conduct Review and Corporate Governance Committee or the Chairman of the Board before accepting an invitation to serve on another board. Together with the Chairman of the Board, the Chair of the Conduct Review and Corporate Governance Committee assesses whether the director would be involved in a real, apparent or potential conflict of interest and whether the director's ability to discharge his or her responsibilities as a director of the Bank is affected.

The Board believes that the fact that a director of the Bank serves on the board of directors of another reporting issuer does not necessarily interfere with his or her ability to exercise his or her independent judgment and to act in the best interest of the Bank. The Board does not limit the number of boards on which its directors may serve, but it regularly reviews this information to verify each director's ability to properly fulfill his or her role as director of the Bank.

**None of the director nominees serves on more than four boards of directors of reporting issuers.**

The Bank maintains a list of all the directorships of its directors and director nominees. In its Management Proxy Circular, the Bank discloses the names of the reporting issuers as well as public corporations on whose boards the director nominees currently serve or have served in the past five years.

For more information, see the director nominee career profiles in Section 3 of the Circular.

Reporting issuers with more than one director nominee of the Bank serving as their directors, as well as the committees of said issuers on which the director nominees serve, if any, are disclosed in the following table:

Reporting issuer	Director	Reporting issuer committee(s) of which the director nominee is a member
Saputo Inc.	Karen Kinsley	Member of the Audit Committee
	Lino A. Saputo, Jr.	Vice-Chairman of the board of directors
Transcontinental Inc.	Richard Fortin	Chair of the Audit Committee
	Lino A. Saputo, Jr.	Member of the Human Resources and Compensation Committee

The Board has determined that this relationship does not impair the ability of these directors to exercise independent judgment.

### Change of status

Directors must notify the Chairman of the Board or Chair of the Conduct Review and Corporate Governance Committee as promptly as possible of any change in their professional or personal circumstances that may impact their role as a director, as well as any conflict of interest. The Chairman of the Board or the Chair of the Conduct Review and Corporate Governance Committee then reports to the Board and presents appropriate recommendations.

### Board succession planning

The Board oversees its succession planning process put in place by the Conduct Review and Corporate Governance Committee, which includes the establishment and periodic review of a list of potential director nominees based on predetermined selection criteria.

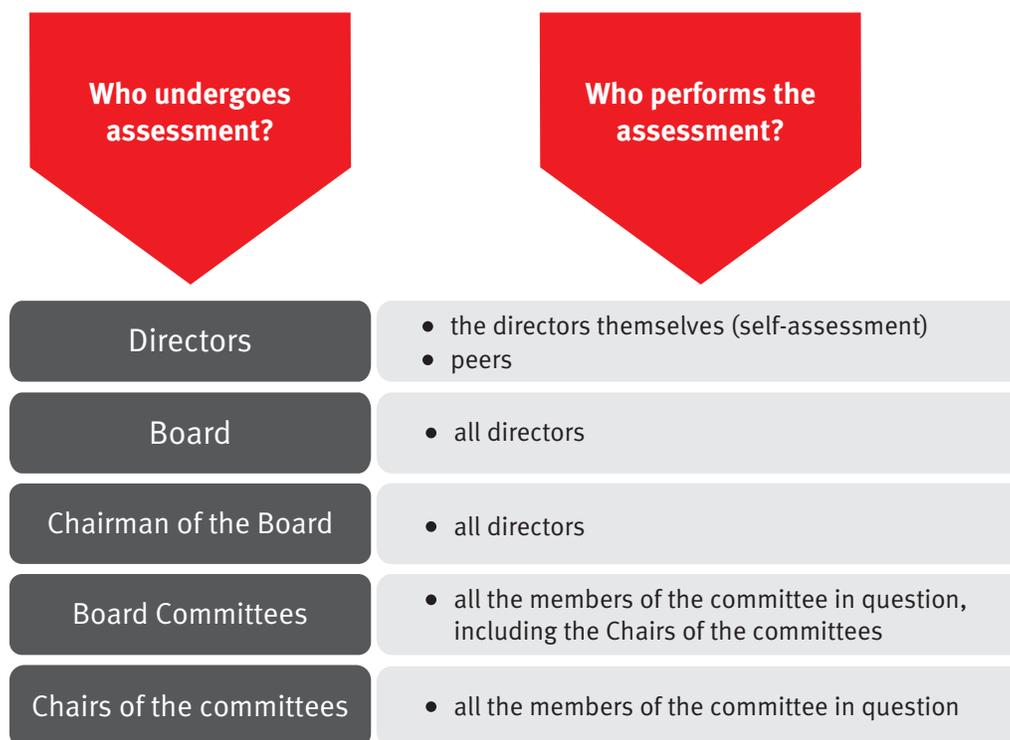
The Board selects nominees with competencies that complement those of existing members.

**In fiscal 2015, the directors had several discussions about Board succession planning and added to the evergreen list of potential nominees compiled by the Conduct Review and Corporate Governance Committee.**

### Performance assessment

The Board regularly assesses its performance and effectiveness as well as that of its committees, the Chairman of the Board, the committee Chairs and the directors in fulfilling their mandates, in keeping with a process implemented by the Conduct Review and Corporate Governance Committee.

The Conduct Review and Corporate Governance Committee is responsible for establishing and overseeing the process whereby each director can assess the effectiveness and contribution of the Board and its Chairman, the Board committees and their respective Chairs, and his or her own contribution as a Board and committee member, and can also provide feedback regarding the contributions of his or her peers.



The assessment process includes the following steps:

### 1. Sending of questionnaires to directors

- ✓ a self-assessment and performance assessment questionnaire for the Board, its committees and the Chair of the Conduct Review and Corporate Governance Committee as well as peer contribution is sent to the directors
- ✓ a questionnaire regarding the performance of the Chairman of the Board and the Chairs of the Committees, excluding the Chair of the Conduct Review and Corporate Governance Committee, is sent to the directors
- ✓ these questionnaires are prepared by the Bank's Corporate Secretary's Office and approved by the Conduct Review and Corporate Governance Committee
- ✓ the questions in the questionnaires cover, in particular, the Board's responsibilities, its relationship with management, its activities and its composition, the structure and activities of the committees, material prepared for Board and committee meetings and the relevance of its distribution to directors, and the performance of the Chairman of the Board and the committee Chairs

**At the end of its annual review of the assessment process, the Conduct Review and Corporate Governance Committee recommended adding a peer assessment of each director. This peer assessment was carried out in 2015.**

### 2. Review of directors' responses

- ✓ the Chairman of the Board reviews the responses to the self-assessments by directors, the assessment of the performance of the Board, its committees and the Chair of the Conduct Review and Corporate Governance Committee, and the assessment of peer contribution

- ✓ the Chair of the Conduct Review and Corporate Governance Committee reviews the responses to the performance assessment of the Chairman of the Board and the Chairs of the committees, with the exception of the Chair of the Conduct Review and Corporate Governance Committee

### 3. One-on-one meetings

- ✓ the Chairman of the Board meets each director one-on-one to discuss their observations
- ✓ the Chair of the Conduct Review and Corporate Governance Committee, if necessary, meets the members of the committees one-on-one (with the exception of the members of the Conduct Review and Corporate Governance Committee)

### 4. Analysis of results

- ✓ the Chairman of the Board and the Chair of the Conduct Review and Corporate Governance Committee meet to review the results, which will be presented to the Conduct Review and Corporate Governance Committee

### 5. Presentation of results and action plan

- ✓ the Conduct Review and Corporate Governance Committee holds a meeting at which the members discuss and review the results of the assessment and assess the appropriateness of making changes or improvements in respect of the performance of the Board, its committees, the Chairman of the Board and the Chairs of the Board committees
- ✓ the Conduct Review and Corporate Governance Committee also assesses the individual performance of each director and determines whether it is appropriate to propose each of them for reappointment at the Bank's next annual shareholders' meeting
- ✓ if appropriate, the Conduct Review and Corporate Governance Committee draws up an action plan after these discussions

### 6. Report to the Board and follow-up

- ✓ the Chairman of the Board and the Chair of the Conduct Review and Corporate Governance Committee submit to the Board the results of the assessment and, if appropriate, present the action plan drawn up by the Conduct Review and Corporate Governance Committee
- ✓ the Board monitors the execution of the action plan

**In 2015, the assessment process was carried out in accordance with the respective mandates of the Board and the Conduct Review and Corporate Governance Committee.**

### Election and re-election

The Board has delegated to the Conduct Review and Corporate Governance Committee the responsibility of selecting director nominees for vacant positions and determining whether it is appropriate to re-elect each existing director.

### Election

The Conduct Review and Corporate Governance Committee:

- manages the process, establishes the criteria used to select directors, and periodically reviews them to ensure that they continue to comply with legislative and regulatory requirements and the Charter of Expectations and that they meet the Board's current and future needs;

- compiles and regularly reviews an evergreen list of potential director nominees who meet the selection criteria identified by the Board. If deemed appropriate, the Committee may also engage an external recruitment consultant;
- considers the aptitudes, knowledge and competencies of the new director nominees before recommending them to the Board, as well as the extent to which their background complements that of the other directors, and assesses the extent to which the candidate meets the Board’s selection criteria and needs, taking into account the Statement regarding the Board’s diversity; organizes one or more meetings with the candidate and certain Board members in order to obtain all the relevant information required; and
- on completion of the process, submits its recommendations to the Board, which approves all new director nominees.

For more information about the geographical representation of the slate of director nominees for election to fill Board vacancies, see the Summary as well as [Section 3](#) of the Circular.

## Re-election

The Conduct Review and Corporate Governance Committee annually assesses the eligibility and availability of directors nominated for re-election. To do so, it considers, in particular, their past performance assessments, their attendance at meetings of the Board and committees on which they serve, their independence, their competence and their length of service on the Board; it submits its recommendations to the Board upon completion of the process.

## Majority voting

The Board has adopted a majority voting policy governing uncontested elections of directors. Under this policy, a director nominee will be deemed not to have received the support of shareholders, even if he or she is elected, where the number of votes withheld exceeds the number of votes cast in favour of his or her election at an annual meeting of the holders of Common Shares.

A director elected under such circumstances must immediately tender his or her resignation to the Conduct Review and Corporate Governance Committee which, barring exceptional circumstances, will submit a recommendation to that effect to the Board. Before making this recommendation, the Committee will weigh the Bank’s and shareholders’ interests and take into account, in particular, the probable causes for voting abstentions, the competencies and characteristics of the director and the collective competencies and characteristics of the Board, as well as the risk that the resignation will result in the Bank’s failure to meet its regulatory obligations. The Board shall issue, within 90 days of receiving the final voting results, a press release announcing the resignation of the director in question or its rationale for not accepting the resignation.

However, majority voting does not apply if the director’s election is contested.

After the Meeting, the Bank will immediately issue a press release announcing the full voting results for the election of directors.

## Director tenure and Board vacancies

A director’s term usually expires at the close of the annual meeting of the holders of Common Shares of the Bank following his or her election. Board vacancies are filled in accordance with applicable legislation.

In February 2016, the Board amended the guideline prohibiting directors from seeking to renew their mandate more than 15 times. Henceforth, therefore, a director may not seek to renew his or her mandate past the 12<sup>th</sup> annual meeting after he or she was first elected. On the recommendation of the Conduct Review and Corporate Governance Committee, however, the Board may decide that, because

of exceptional circumstances, it is in the Bank's interest for a director who has reached this limit to be able to stand for re-election once more, for an additional one-year term, up to three terms.

For more information about the number of years of service of each director nominee, see the Summary as well as Section 3 of the Circular.

## **Guidance and continuing education of directors**

Directors must continuously broaden their knowledge and understanding of the operations and regulatory framework of the Bank. To support them, the Board, acting through the Conduct Review and Corporate Governance Committee, has put in place a guidance and continuing education program that takes into account the knowledge and various needs of new and existing directors.

### **Guidance program**

The guidance program for new directors provides them with an overview of the Bank – its operations, activities and main challenges. More specifically, new directors receive training on the following subjects: the role of the Board and its committees, the role of directors, the Bank's vision, its main sectors of activity, its business challenges, its internal audit and control system, its human resources and its client base. Directors are also given a copy of the Code of Conduct and Ethics, with which they are required to comply.

Recently appointed directors may, on invitation, during an 18-month period, attend a meeting of each of the Board committees of which they are not members to further familiarize themselves with the issues facing the Bank.

Beyond the meetings provided for under the guidance program for new directors, new directors may, following appointment, take part in additional information meetings with the Chairman of the Board, the President and Chief Executive Officer and Executive Officers of the Bank to further familiarize themselves with the issues facing the Board of Directors and the Bank.

### **Directors' Handbook**

A handbook is available for directors, containing a series of reference documents outlining, in particular, their duties and the scope of their responsibilities.

### **Continuing education program**

As part of the meetings of the Board and the committees on which they serve, directors regularly attend presentations and in-depth sessions or "deep dives" offered by Bank representatives or, from time to time, external consultants, in order to enhance their knowledge of areas relating to their duties. During the year, directors attend presentations by the heads of each business line about their strategic issues and business plans. At least 10% of the time designated annually for regular meetings of the Board is devoted to continuing education.

Furthermore, the Bank encourages directors to participate in professional development programs designed to enhance the knowledge they need to carry out their duties. The Corporate Secretary's Office provides directors with updated schedules of training activities provided by various organizations. Board members are free to participate in the activities of their choice.

The Chairman of the Board or the Chair of the Conduct Review and Corporate Governance Committee may authorize the reimbursement of expenses incurred in connection with such programs.

**All directors are members of the Institute of Corporate Directors.**

The following table lists the training sessions provided by the Bank, the directors they were intended for and the dates on which they were given.

Training provided by the Bank	Date	Participants
Investor Relations	December 2014	Board
Cyber risk	February and August 2015	RMC
Reputational risk	May 2015	Board
Regulatory risk	May 2015	Board
Credit card	August 2015	Board
Liquidity risk	August 2015	Board
Anti-Money Laundering and Anti-Terrorist Financing	October 2015	RMC
Market risk	October 2015	Board
Perceptions of Africa	October 2015	Board
Technological risk	Quarterly	RMC

In addition to the above-listed training provided by the Bank, several directors received individual training from recognized organizations – for example, as part of any continuing education programs offered by their professional association – related to their functions as directors in the following areas:

- Best practices of the Board
- Current issues in governance
- Main economic trends
- Cyber security
- Mergers and acquisitions
- Expectations of institutional investors
- Social responsibility
- Conflicts of interest
- Strategic planning and risk management
- The role of the Human Resources Committee
- Financial information update

So that directors can stay current with recent developments in audit, risk management, human resources and governance, the Corporate Secretary's Office from time to time provides them with various articles and publications relevant to the performance of their responsibilities.

## INTEGRITY AND ETHICAL BEHAVIOUR WITHIN THE BANK

The Board promotes integrity and ethical behaviour within the Bank, specifically with regard to the duty to act with honesty and integrity, abide by the law, treat others with respect, keep information in the strictest confidence, avoid conflicts of interest and respect the Bank.

It ensures that the rules of conduct and ethics are maintained, for example, by adopting and updating the Code of Conduct and Ethics. In addition, it ensures that the Bank has an appropriate and effective process permanently in place to ensure compliance with these rules, in particular through the annual commitment signed by the Bank's directors, Officers and employees to comply with the Code of Conduct and Ethics. The Board ensures that any material breach of the rules of the Code of Conduct and Ethics by a Director or Executive Officer is disclosed in accordance with the continuous disclosure obligations in effect. Acting through the Conduct Review and Corporate Governance Committee, the Board also reviews the findings of the annual report on the application of the Code of Conduct and Ethics.

Lastly, the Board ensures that the Code of Conduct and Ethics is filed with the CSA and available on the website [nbc.ca](http://nbc.ca).

## DIVERSITY AND REPRESENTATION OF WOMEN ON THE BOARD AND IN MANAGEMENT

### Board

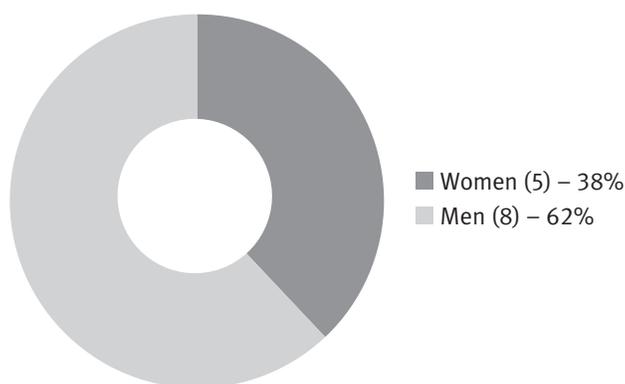
The Board considers that diversity among its members enriches discussion and acknowledges the importance of diverse representation among its directors reflecting the diversity of the Bank's clients, employees and shareholders, particularly regarding representation of women on the Board. The diversity statement adopted by the Board provides that the Conduct Review and Corporate Governance Committee recommends nominees who, in addition to meeting the criteria determined by the Board and presented in this Circular, reflect the gender, age, cultural and geographical mix, and other characteristics of the communities in which the Bank operates and does business.

This statement indicates that the Bank has undertaken to strive toward gender parity in its directors and to have women account for at least one third of Board directors by requiring that, in future, they make up half the nominees for director positions that become vacant.

In 2015, 44% of the Board members were women, thus significantly exceeding the target set by the Conduct Review and Corporate Governance Committee to have women account for at least one third of Board directors. Due to the decision of three directors – two of them women – not to stand for re-election, and the Board's wish to decrease the number of directors, women's representation among director nominees will be 38%, which is still higher than the stated target.

To reach these goals, the Board relies upon the tools and processes implemented by its Conduct Review and Corporate Governance Committee in connection with the Board succession planning process. As described above, the Board maintains a list of potential director nominees who meet the selection criteria identified by the Board and the principles described in the diversity statement, including the Board's representation of women target. It may also engage external recruitment consultants to help find candidates who will contribute to achieving the diversity targets set by the Board. It draws from this list of potential nominees when a director position becomes vacant.

The following chart shows the women/men representation ratio on the slate of director nominees for election to fill the Bank's director positions.



This outcome is the result of the Board's ongoing commitment and the strategies it has deployed over the years.

With this in view, the Bank has joined forces with several large organizations and signed the Catalyst Accord with the objective of increasing the number of women on boards of directors in Canada.

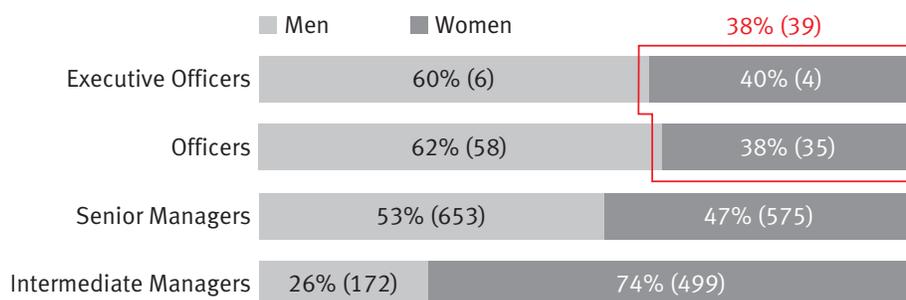
**Catalyst recognized the exemplary character of the Bank's practices and highlighted the contribution of the Chairman of the Board, Jean Houde, to the professional advancement of women at the "Célébrons le leadership inclusif" event held in Montreal in 2015.**

The Board diversity statement can be found in the governance subsection under "About Us" on the website [nbc.ca](http://nbc.ca).

### Senior management and management <sup>(1)</sup>

Women represent 38% of Executive Officers and Officers of the Bank. The increase in the representation of women of more than 28% over 10 years is the result of the ongoing commitment by the Office of the President in this regard, in addition to various initiatives and efforts over the years.

The following chart illustrates the representation of women and men as Executive Officers, Officers and managers at the Bank:



<sup>(1)</sup> As at January 31, 2016

The Bank has established a three-year diversity plan for attaining the objectives it has set for representation of women within the institution, and regularly monitors the evolution of the number of women in senior management and management positions. It also works to identify, evaluate and analyze any potential gaps and representation goals for each business sector, and to deploy targeted strategies to maintain fair representation of women throughout the organization at all times.

**The global target for representation of women among the Bank's Executive Officers and Officers is currently 40%. The Bank is focusing its efforts to ensure this target is achieved and maintained, as part of its 2016 three-year diversity plan. The Bank has not established any targets for Executive Officers, since they are too few for a target to be realistically set. However, the Bank oversees the succession group to ensure that fair representation of women is maintained in that group.**

Further, to ensure that all these strategies produce the desired results, the Bank has also adopted integrated monitoring indicator dashboards that capture a biannual snapshot of the situation at the Bank and in each business sector. In this respect, Executive Officers participate in the completion of diversity plans within their respective sectors. Every year, a diversity status report is provided to them, as well as to the Human Resources Committee, illustrating the change in representation of women at the Bank and in all its business sectors.

In addition, a working group on diversity, consisting of Officers from all sectors of the Bank and chaired by an Executive Officer, has been established to foster engagement in diversity challenges for each sector and to help maintain an organizational culture where diversity is a daily reality for all.

While the Bank does not favour imposing quotas as part of its approach on equal representation of women, it ensures at all times that its human resources practices take into consideration the diversity of the population and of its employees, and takes care to maintain a respectful work environment that is open to differences. The Bank's initiatives in this respect are varied. Here are some examples:

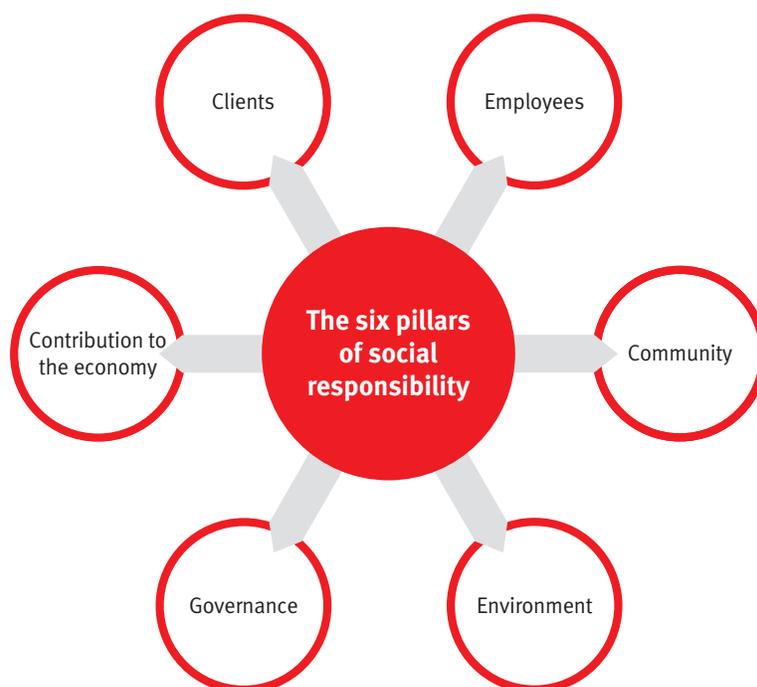
- The Bank partners with external recruitment firms to ensure that it has pools of candidates who are competent and sufficiently diverse for the Officer positions to be staffed.
- The Bank, including all of its business sectors, oversees the representation of women within the pool of “high potential” employees likely to hold management or officer positions. This annual exercise provides a current snapshot of the future leaders of the Bank.
- At the Bank, there are a number of employee affinity groups which come together to network and share experiences from inspiring leaders. The Women's Leadership Network, supporting women of the Bank and its subsidiaries, has local chapters in many Canadian cities.

- Formal mentorship and coaching programs are offered to senior managers and Officers at the Bank. Particular focus is on valuing different leadership types but also on women’s participation in these programs.
- The Quality of Life in the Workplace program helps employees who would benefit from special workplace arrangements, within certain parameters.
- Specifically in the Financial Markets sector, two programs have been implemented to increase the number of women working in the sector:
  - A bursary program for women, established in 2012; and
  - A rotational program allowing nominees to discover, over one year, all types of Financial Markets desks and to establish the best alignment between an employee’s talent and the organization’s needs. Particular attention is paid to women’s participation in the program.

Finally, for many years the Bank has supported bodies that raise awareness among organizations regarding the reality and the promotion of women at all organizational levels, including the Association of Québec Women in Finance (AFFQ), the Women’s Executive Network (WXN) and Women in Capital Markets (WCM).

## SOCIAL RESPONSIBILITY

The Bank is committed to effectively meeting the expectations of its stakeholders and building long-term relationships with them based on trust. Its corporate social responsibility strategy rests on six fundamental pillars: its clients, its employees, the community, the environment, governance and its contribution to the economy.



The Bank is committed to promoting the well-being of the communities it serves through a well-defined donations and sponsorships program, successful fundraising efforts, and teams of current and retired employee volunteers who are determined to make a difference. The Bank is attentive to employees’ needs and seeks to provide them with a stimulating environment with a view to building a stable, dedicated and talented team.

The Bank is actively involved in implementing various initiatives to reduce its environmental footprint, including its energy efficiency program, a process for screening its suppliers' practices in order to ensure a more sustainable and responsible approach to its sourcing policy, and managing environmental risks when granting loans to its clients. The Bank has also been carbon-neutral since 2011.

The Social Responsibility Report published annually by the Bank more thoroughly describes all of the projects carried out in this area.

The Bank's Social Responsibility Report can also be found in the social responsibility subsection under "About Us" on the website [nbc.ca](http://nbc.ca). The various initiatives the Bank endorses are also presented on a dedicated page on its website ([www.commitment.nationalbank.ca](http://www.commitment.nationalbank.ca)). The Board reviews and analyzes the Social Responsibility Report prior to its publication.

The Board counts among its members many persons with expertise related to one or another of these pillars and, more specifically, to social and environmental responsibility.

For example:

- For many years, Louis Vachon has been personally involved with a multitude of charitable organizations, using his expertise and network for the good of the community. Firmly committed to promoting entrepreneurial revival, he helps to showcase the essential contribution local companies are making to the Quebec and Canadian economies by giving talks on entrepreneurship and by mobilizing various stakeholders in the field.
- In February 2015, Maryse Bertrand and her husband, William Brock, founded the Maryse and William Brock Chair in Applied Stem-Cell Transparent Research for the treatment of blood cancers. The main object of this research chair at the Université de Montréal's faculty of medicine and its affiliated centre, the Maisonneuve-Rosemont Hospital, is to facilitate the transfer of laboratory research to patient treatment and to develop new treatments.
- Journal *Les Affaires* has named Pierre Boivin the most socially engaged senior executive in 2015, citing his commitment to the Sainte-Justine Hospital Foundation and the Montreal Canadiens Children's Foundation.
- Also worthy of mention is André Caillé's environmental expertise gained as Deputy Minister of the Environment of Quebec, then as President and Chief Executive Officer of Hydro-Québec, a supplier of clean and renewable energy, with energy saving and sustainable development at the core of its mission.
- The social and community engagement demonstrated by Lino A. Saputo, Jr. is also noteworthy, through his involvement in the fundraising campaigns of the Greater Montreal United Way and the Palliative Care Unit at Marie-Clarac Hospital, and through the Amelia and Lino Saputo Jr. Foundation, which he created in 2011.
- Andrée Savoie is also highly involved in her community, both through community organizations such as the YMCA of Greater Moncton and Crossroads 250, an annual event of which she is Co-Founder and Co-President and whose mission is to raise funds for a shelter for women and children victims of domestic violence, and through the Wallace McCain Institute of Entrepreneurship at the University of New Brunswick.

For more information, please refer to "Director Nominees" in Section 3 of this Circular.

Finally, wishing to provide an example at the highest level of the institution, the Board, through the Human Resources Committee, ensures that objectives that encourage the Bank's active participation with community associations and causes and promote an ecologically responsible brand image are included in the annual performance assessment of the President and Chief Executive Officer.

## MEASURES FOR COLLECTING FEEDBACK AND COMMUNICATION

The Board ensures that measures are in place to collect feedback. The Bank responds to questions from shareholders, investors, financial analysts and the media through its Investor Relations Department, Public Affairs Department, Corporate Secretary's Office and Computershare, its registrar and transfer agent. The Bank responds to clients with concerns or special needs through its branch or telephone banking representatives. If a complaint cannot be resolved through regular administrative channels, these clients may contact the Bank's ombudsman. The Bank is also very active on social media platforms such as Facebook, Twitter, LinkedIn, Instagram and YouTube, through which it can be contacted.

**During fiscal 2015, at the Board's request, Bank management met with representatives of institutional investors, shareholder groups, proxy voting consultants and corporate governance advocacy groups to discuss with them various matters of interest, including the Board's approach to compensation of the Bank's Executive Officers.**

In its Management Proxy Circular, the Bank provides an e-mail and a postal address that people can use to contact the Bank's Board, a Board committee, the Chairman of the Board or a director, including an independent director. The Corporate Secretary is responsible for ensuring effective communication between the Board, the Bank's management and shareholders.

For more information, see "Contacting the Board" in Section 8 of this Circular.

## PROCEDURE FOR REPORTING IRREGULARITIES

The Audit Committee has adopted a policy for reporting irregularities relating to accounting, internal accounting controls and auditing at the Bank, and oversees its implementation. This policy sets out the process for the receipt, retention and handling of complaints and concerns, as well as anonymous and confidential means for any person or Bank employee to report their accounting or auditing concerns.

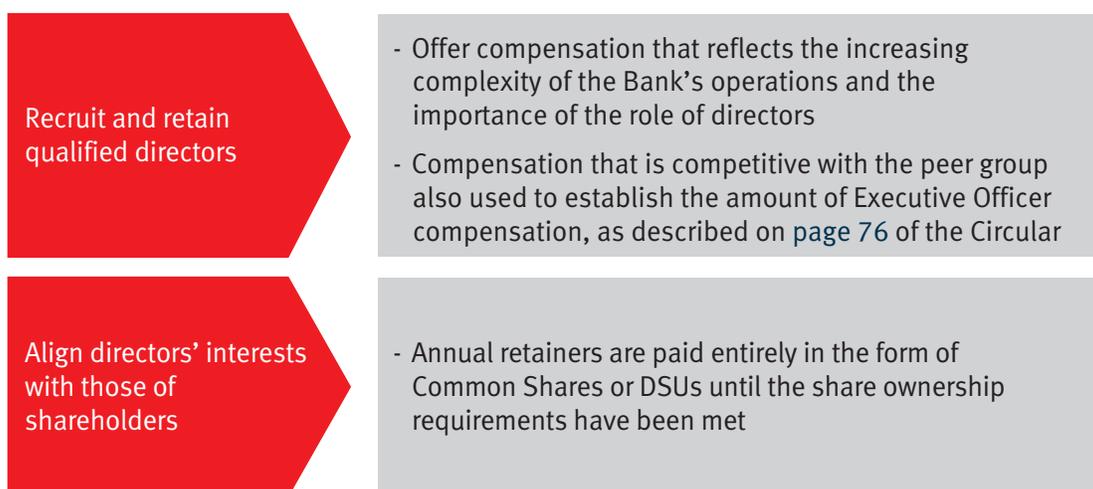
This policy can be found in the governance subsection under "About Us" on the website [nbc.ca](http://nbc.ca).

## 5. DIRECTOR COMPENSATION

### Compensation program

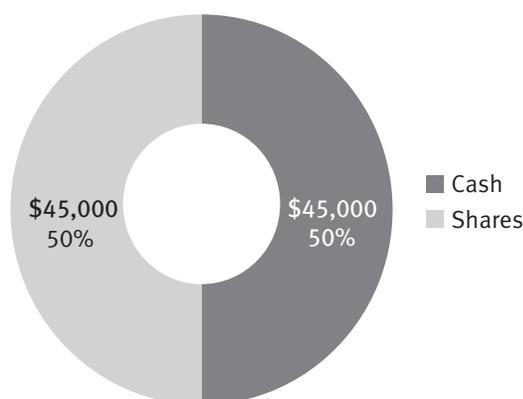
The Board aims to offer directors adequate compensation that reflects the increasing complexity of the Bank's operations, and which enables the Bank to both recruit and retain qualified individuals to serve on the Board and align their interests with those of the Bank's shareholders.

The Bank's compensation program for its directors is structured to achieve the following two objectives:



The graph and tables below show the breakdown of directors' compensation for the fiscal year ended October 31, 2015.

Breakdown of annual retainer



Annual compensation of the directors of the Bank and its subsidiaries for the fiscal year ended October 31, 2015

	Board		AC and RMC		CRCGC and HRC	
	Cash <sup>(1)</sup> (\$)	Common Shares (\$)	Cash <sup>(1)</sup> (\$)	Common Shares (\$)	Cash <sup>(1)</sup> (\$)	Common Shares (\$)
Member	45,000	45,000	12,500	7,500	10,000	5,000
Chair or Chairman <sup>(2)</sup>	225,000		15,000	10,000	12,500	7,500

Bank subsidiaries				
	National Bank Life Insurance Company (\$) <sup>(3)</sup>	National Bank Trust Inc. (\$) <sup>(3)</sup>	FMI Acquisition Inc. (\$) <sup>(3)</sup>	
Director	17,000	12,000	500	
Committee member	3,000	2,000	–	
Committee Chair <sup>(2)</sup>	1,500	1,000	–	

- (1) Excluding the part of director compensation that must be paid in the form of Common Shares for their role on the Board and its committees, directors may elect to receive the portion of their compensation considered payable in cash in the form of cash, Common Shares, deferred share units or a combination of all three, provided the share ownership requirements have been met.
- (2) The Chairman of the Board and the committee chairs receive compensation both as Board members and as Chairman and Chair, respectively.
- (3) Directors may elect to receive the portion of their compensation considered payable in cash in the form of cash, Common Shares, DSUs or a combination of all three.

The Bank and its subsidiaries reimburse directors for the expenses incurred to attend meetings, including transportation and accommodation expenses. The Bank reimburses the Chairman of the Board for these expenses, in addition to disbursements and accommodation expenses incurred for his business promotion activities on behalf of the Bank.

Directors of the Bank who are also officers of the Bank do not receive any compensation in their capacity as directors of the Bank or any of its subsidiaries.

Directors of the Bank (with the exception of the President and Chief Executive Officer) do not receive stock options and do not participate in any other share-based compensation mechanism or pension plan. Moreover, they do not benefit from any life insurance paid for by the Bank nor do they benefit from banking products or services at preferred rates or reduced fees due solely to their status as directors.

## Compensation program review

The Conduct Review and Corporate Governance Committee annually reviews the Bank's compensation program for directors. In October 2015, the Board approved, on the recommendation of the Conduct Review and Corporate Governance Committee, certain changes to the compensation program for directors to ensure that the compensation paid reflects the increasing complexity of the Bank's operations and the importance of the role of directors, and is competitive compared with the peer group. The Bank sets the target director compensation at the median level of its peer group. Efforts were also made this year to simplify the compensation structure.

### Main changes:

- ✓ annual base salary set at \$125,000
- ✓ annual base salary now also covers participation in a committee
- ✓ directors can now elect to receive in the form of deferred share units half of their annual retainer which previously had to be paid in Common Shares (effective November 1, 2015)
- ✓ 25% of the total compensation for the Chairman of the Board will now be paid in the form of Common Shares or deferred share units, ten percent more than under the previous structure

These changes will take effect after the Meeting, with the exception of the option that directors have had since November 1, 2015 to receive half of their base salary in the form of Common Shares or deferred share units.

The following table shows the composition of the new structure.

### Total compensation

Base salary			Additional compensation		
	Cash (\$) <sup>(1)</sup>	Shares or DSUs (\$)	Cash, shares or DSUs (choice of) (\$) <sup>(3)</sup>		
Board member, including participation in a committee	62,500	62,500	Member of a 2 <sup>nd</sup> and each additional committee	15,000 (per committee)	
			Chairman of the Board <sup>(2) (4)</sup>	225,000	
			Chair of a Board committee <sup>(2)</sup>	25,000 (AC and RMC)	20,000 (CRCGC and HRC)

- (1) With the exception of the portion of their base salary that must be paid in the form of Common Shares or deferred share units, directors may elect to receive the portion of their compensation considered payable in cash in the form of cash, Common Shares, deferred share units or a combination of all three, provided the share ownership requirements have been met.
- (2) The Chairman of the Board and the committee chairs receive compensation both as Board members and as Chairman and Chair, respectively.
- (3) The compensation considered payable to committee chairs and members may, at each person's choice, be paid in cash, Common Shares, deferred share units or a combination of the three, provided the share ownership requirements have been met.
- (4) 25% of the total compensation paid to the Chairman of the Board must be in the form of Common Shares or deferred share units, whichever he prefers.

#### What is a deferred share unit?

A deferred share unit (or DSU) is a right whose value corresponds to the market value of a Common Share of the Bank as at the date the units are credited, every quarter, to an account in the director's name. Additional units are credited to the director's account in an amount equal to the dividends paid on the Common Shares. The units may only be cashed when the director leaves all the positions he or she held as a director of the Bank or any of its subsidiaries. The units must be cashed no later than the end of the calendar year following that in which the director leaves his or her duties.

Compensation paid to the directors for the fiscal year ended October 31, 2015 <sup>(1)</sup>

Name	Fees earned (\$) <sup>(2)</sup>		Share-based awards (\$) <sup>(3)</sup>				Total compensation for activities of the Board and its committees (\$) <sup>(4)</sup>	Other compensation (\$) <sup>(5)</sup>	Total compensation (\$) <sup>(6)</sup>	Breakdown of compensation payable in cash for activities of the Board and its committees <sup>(6)</sup>
	As a Board member <sup>(4)</sup>	As a committee member	As a Board member <sup>(4)</sup>		As a committee member					
	Cash	Cash	Common Shares	DSUs	Common Shares	DSUs				
Raymond Bachand <sup>(6)</sup> 			45,000	45,000	10,417	18,333	118,750		118,750	100% in DSUs
Maryse Bertrand <sup>(7)</sup> 			45,000	45,000	16,875 <sup>(8)</sup>	29,792 <sup>(8)</sup>	136,667		136,667	100% in DSUs
Lawrence S. Bloomberg	45,000		45,000				90,000	250,411 <sup>(9)</sup>	340,411	100% in cash
Pierre Boivin 	22,500	18,750 <sup>(8)</sup>	45,000	22,500	22,500 <sup>(8)</sup>	18,750 <sup>(8)</sup>	150,000		150,000	100% in DSUs <sup>(10)</sup>
André Caillé 			45,000	45,000	25,000 <sup>(8)</sup>	45,000 <sup>(8)</sup>	160,000		160,000	100% in DSUs
Gérard Coulombe <sup>(11)</sup> 	22,500	16,250 <sup>(8)</sup>	22,500		8,750 <sup>(8)</sup>		70,000	17,282 <sup>(12)</sup>	87,282	100% in cash
Gillian H. Denham 	45,000	10,000	45,000		5,000		105,000		105,000	100% in cash
Richard Fortin 			45,000	45,000	25,000 <sup>(8)</sup>	40,000 <sup>(8)</sup>	155,000	21,500 <sup>(13)</sup>	176,500	100% in DSUs
Jean Houde (Chairman of the Board, 	270,000 <sup>(14)</sup>	10,000	45,000		5,000		330,000		330,000	100% in cash
Karen Kinsley <sup>(15)</sup> 			41,250	41,250	7,292	13,125	102,917		102,917	100% in DSUs
Louise Laflamme <sup>(16)</sup> 	45,000	24,583	45,000		14,167		128,750		128,750	100% in cash
Julie Payette <sup>(17)</sup> 			45,000	45,000	4,375	7,292	101,667		101,667	100% in DSUs
Roseann Runte 			45,000	45,000	5,000	10,000	105,000		105,000	100% in DSUs
Lino A. Saputo, Jr. <sup>(18)</sup> 			45,000	45,000	6,875	12,292	109,167		109,167	100% in DSUs
Andrée Savoie <sup>(19)</sup> 			52,500		11,667		64,167		64,167	100% in Common Shares
Pierre Thabet 			45,000	45,000	7,500	12,500	110,000		110,000	100% in DSUs
Louis Vachon <sup>(20)</sup>	-		-	-			-		-	-
<b>Total</b>							<b>2,037,085</b>			

 Audit Committee Committee Chair Conduct Review and Corporate Governance Committee Human Resources Committee Risk Management Committee

- (1) The following table presents the compensation paid to the Bank's directors for serving on the Board of Directors and Board committees of the Bank and its subsidiaries.
- (2) For the purposes of this table, fees include all fees awarded, earned, paid, or payable in cash for services as a director, including annual retainers, fees for attending meetings of a Board committee or for chairing a Board committee or the Board, and meeting fees.
- (3) For the purposes of this table, share-based awards include the portion of director compensation paid in Common Shares and deferred share units, as the case may be. The number of shares granted is determined by dividing the amount paid by the Bank's Common Share price at the time of each quarterly grant, which was \$47.9473 on February 13, 2015, \$49.0811 on May 15, 2015, \$45.0313 on August 14, 2015 and \$42.5511 on November 13, 2015. The number of deferred share units granted is determined by dividing the amount paid by the Bank's Common Share price at the time of each quarterly grant, which was \$47.7100 on February 13, 2015, \$49.1400 on May 15, 2015, \$45.3400 on August 14, 2015 and \$42.4700 on November 13, 2015.
- (4) For the year ended October 31, 2015, the annual retainer paid for service on the Board of Directors totalled \$90,000, of which \$45,000 was paid in the form of Common Shares and \$45,000 in the form of cash, Common Shares, deferred share units or a combination of all three, as elected by the director.
- (5) Excluding the part of director compensation that must be paid in the form of Common Shares for directors' activities on the Board and its committees, directors may elect to receive the portion of their compensation considered payable in cash in the form of cash, Common Shares, deferred share units or a combination of all three. This column presents the election made by each director where they received payment during the fiscal year ended October 31, 2015 of compensation payable in cash for activities of the Board and its committees.
- (6) Raymond Bachand was appointed a member of the Conduct Review and Corporate Governance Committee on April 15, 2015. As a result, his compensation was prorated.
- (7) Maryse Bertrand was appointed Chair of the Conduct Review and Corporate Governance Committee on April 15, 2015. As a result, her compensation was prorated.
- (8) Includes a retainer as Committee Chair.
- (9) Under a service contract entered into in November 2004 with National Bank Financial Inc., Lawrence S. Bloomberg acts as an advisor to National Bank Financial Inc. and National Bank Financial Ltd. As such, he receives an annual retainer, commissions, a business development allowance and reimbursement of various administrative fees incurred in carrying out his duties. For the fiscal year ended October 31, 2015, Lawrence S. Bloomberg received a total of \$250,411.
- (10) Pierre Boivin elected to receive his compensation, for the first and second quarter of the fiscal year, in cash and, for the following quarters, in the form of deferred share units.
- (11) Gérard Coulombe ceased to be a member of the Board, a member and Chair of the Conduct Review and Corporate Governance Committee and a member of the Human Resources Committee on April 15, 2015. As a result, his compensation was prorated.
- (12) Gérard Coulombe received \$14,690 in deferred share units for serving on the Board of Directors of National Bank Life Insurance Company, \$2,592 in deferred share units as a member of the Ethics Committee of this Bank subsidiary, \$12,000 in deferred share units as a member of the Board of Directors of National Bank Trust Inc. and \$500 in cash as a member of the Board of Directors of FMI Acquisition Inc.
- (13) Richard Fortin received \$7,083 in cash and \$9,917 in the form of deferred share units for serving on the Board of Directors of National Bank Life Insurance Company, \$1,250 in cash and \$1,750 in the form of deferred share units for serving on the Audit Committee and \$625 in cash and \$875 in the form of deferred share units for serving as Chair of the Audit Committee of this subsidiary of the Bank.
- (14) Includes a retainer as Chairman of the Board.
- (15) Karen Kinsley was appointed a member of the Board on December 3, 2014 and a member of the Risk Management Committee and Human Resources Committee on April 15, 2015. As a result, her compensation was prorated.
- (16) Louise Laflamme ceased to be a member of the Risk Management Committee and was appointed a member of the Human Resources Committee on April 15, 2015. As a result, her compensation was prorated.
- (17) Julie Payette was appointed a member of the Audit Committee on April 15, 2015. As a result, her compensation was prorated.
- (18) Lino A. Saputo, Jr. ceased to be a member of the Human Resources Committee and was appointed a member of the Risk Management Committee on April 15, 2015.
- (19) Andrée Savoie was appointed a member of the Board and the Audit Committee on April 15, 2015. As a result, her compensation was prorated.
- (20) As a Bank officer, Louis Vachon receives no compensation as a director of the Bank or any of its subsidiaries. For more information about Louis Vachon's compensation, including the values of his performance share units, restricted share units and options, see Section 7 of the Circular.

## Share ownership requirements

Certain share ownership requirements have been implemented in order to maintain the trust of shareholders and ensure that directors' interests are aligned with those of shareholders.

Consequently, all directors are required to hold Common Shares of the Bank or deferred share units with a total value equal to or greater than five times the annual retainer payable to Board members. Directors have five years from the date they take office to meet these requirements. Furthermore, directors may only cash their deferred share units after leaving all the positions they held as a director of the Bank or any of its subsidiaries.

Once they have met the minimum requirements, directors may elect to receive their retainer in the form of cash, Common Shares or deferred share units, subject to the portion that must be paid in the form of Common Shares of the Bank or in deferred share units. A portion of the directors' retainer, as well as a portion of the retainer paid to committee members and committee chairs, must be paid in the form of Common Shares of the Bank or deferred share units, even when directors have met the minimum requirements.

Requirements	Minimum required
Five times the annual retainer payable to Board members	5 X \$90,000 = \$450,000
Minimum share ownership requirement based on the closing price of the Common Shares of the Bank on the Toronto Stock Exchange on February 19, 2016	\$450,000 / \$38.42 = 11,712 Common Shares

## Review of share ownership requirements

To reflect the changes in the compensation program for directors, the share ownership requirements will now be adjusted to be eight times the portion of base salary payable to each Board member that must be paid in the form of Common Shares or deferred share units, i.e. \$500,000. This change will come into effect after the Meeting.

## Restrictions on trading and hedging of Bank securities

Under a policy adopted by the Board, no director, officer or employee of the Bank and its subsidiaries may knowingly sell, directly or indirectly, a security of the Bank or of any of the Bank's affiliates if the vendor does not own or has not fully paid for the security to be sold (short sale) or, directly or indirectly, buy or sell a call or put on a security of the Bank or of any of the Bank's affiliates.

Furthermore, no director, officer or employee is permitted to purchase financial instruments, particularly prepaid variable forward contracts, equity swaps, collars or units of exchange-traded funds that are designed to hedge or offset a decrease in market value of equity securities granted as compensation or held directly or indirectly by the director, officer or employee.

## 6. COMMITTEES OF THE BOARD

In performing its duties, the Board is assisted by four standing committees: the Audit Committee, the Risk Management Committee, the Conduct Review and Corporate Governance Committee and the Human Resources Committee. The Board may also create *ad hoc* committees to address specific purposes, whenever the situation so requires.

Together with the Conduct Review and Corporate Governance Committee, the Board develops and approves the mandates describing the role and responsibilities of each of the committees. Each committee also periodically reviews its own mandate and approves its schedule of activities. Section 4 of the Circular presents additional information on the Board's committees, including their power to retain legal counsel or other independent consultants.

Each Board committee is composed exclusively of independent directors, as defined by the CSA. Each committee has put procedures in place to ensure its independence from the Bank's management and to have access to relevant information to carry out its mandate. As per the mandate for each committee, its members have met in camera, without the Bank's management being present, at each of their meetings. A committee may also inquire about any matter it deems relevant and, to that end, has full access to the Bank's books, records, facilities, premises, members of management and employees.

Although the Chairman of the Board, though not a member, is able to attend all committee meetings as a guest, he is not entitled to vote on any item. However, if quorum is not attained at a meeting of the Committee, the Chairman of the Board may, at the request of the Chair of the Committee, serve as a member of the Committee for that meeting and have the right to vote. The Committee may also invite other individuals to attend, without the right to vote, all or part of its meetings. For more information on the concepts of independent directors and conflicts of interest, please refer to Section 4 of the Circular.

Each committee member has the required competencies and experience to contribute effectively to the performance of the mandate of the committee(s) to which he or she serves or is able to acquire the necessary knowledge and expertise within a reasonable length of time following his or her appointment. All committee members have acquired the necessary experience and knowledge to adequately fulfill their duties as committee members from the positions they occupy or have occupied, including from having served as chief executive officers or senior officers of other major corporations or as members of boards of directors, or through their background. All the members of the Committee are "financially literate" as required by the *Regulation 52-110 respecting Audit Committees* (R.R.Q., c. V-1.1 r. 28). For more information on the expertise and experience of each member, please refer to the "Information on the Audit Committee" section of the 2015 Annual Information Form. For more information on the education and experience of the members of the Human Resources Committee, please refer to Section 7 of the Circular.

To promote an overall understanding of committee mandates and the challenges faced in the different business lines of the Bank, certain directors serve on more than one committee. For more information regarding members of the standing committees of the Board in the fiscal year ended October 31, 2015, see Section 3 of the Circular.

Each committee has included below a report setting out its composition, responsibilities and main activities carried out during fiscal 2015. All four committees believe that they fulfilled their responsibilities to the best of their members' abilities during fiscal 2015, and in accordance with their mandates.

## AUDIT COMMITTEE

### Members <sup>(1)</sup>



Pierre Boivin,  
Chair



André Caillé



Richard Fortin



Louise Laflamme



Julie Payette



Andrée Savoie

This Committee assists the Board in exercising its duties relating to audit, namely

- (i) reviewing the financial statements and Management's Discussion and Analysis and overseeing their integrity;
- (ii) monitoring the work of the independent auditor and assessing its performance;
- (iii) assessing the performance of the Internal Audit oversight function;
- (iv) assessing the performance of the Finance oversight function; and
- (v) reviewing the effectiveness of internal control policies and procedures.

The duties and responsibilities of the Committee are described more fully in its mandate, which is periodically reviewed by the Board.

The mandates of the Committee and its Chair can be found in the governance subsection under "About Us" on the website [nbc.ca](http://nbc.ca).

### Frequency of meetings and achievements

The members of the Audit Committee met five times during the past fiscal year to fulfill their mandate, dealing mainly with the following issues:

### Financial disclosure

We:

- ✓ Reviewed and approved the mandate, nature and scope of the Finance oversight function;
- ✓ Confirmed the independence and effectiveness of the Finance oversight function, ensured that sufficient resources were available for the Finance oversight function to fulfill its mandate and responsibilities, and approved its budget;
- ✓ Regularly met with the Chief Financial Officer and Executive Vice-President – Finance and Treasury, without the presence of management;
- ✓ Assessed the performance of the Chief Financial Officer and Executive Vice-President – Finance and Treasury and sent our recommendations to the Human Resources Committee and the Board regarding his compensation;
- ✓ Reviewed and recommended that the Board approve the interim condensed consolidated financial statements, the audited annual consolidated financial statements, the Annual Report, the Annual Information Form, the press releases for the declaration of dividends and complementary financial information;
- ✓ Reviewed the reports on compliance with regulatory capital ratios;
- ✓ Reviewed the conclusions of the independent auditor concerning the annual consolidated financial statements and discussed with the independent auditor the annual and interim condensed consolidated financial statements;
- ✓ Reviewed the proposals to increase dividends and made recommendations to the Board accordingly; and
- ✓ Reviewed and updated financial information policies, as applicable.

## Internal Audit and independent auditor

We:

- ✓ Reviewed and approved the mandate, nature and scope of the Internal Audit oversight function and annual audit plan;
- ✓ Confirmed the independence and effectiveness of the Internal Audit oversight function, ensured that sufficient resources were available for the Internal Audit oversight function to fulfill its mandate and responsibilities, and approved its annual budget;
- ✓ Regularly met with the Senior Vice-President – Internal Audit, without the presence of management;
- ✓ Assessed the performance of the Senior Vice-President – Internal Audit, and sent our recommendations to the Human Resources Committee and the Board regarding his compensation;
- ✓ Reviewed the reports of the Senior Vice-President – Internal Audit and satisfied ourselves that the necessary measures have been taken to follow up on the main recommendations contained in these reports;
- ✓ Reviewed the report on internal control over financial reporting;
- ✓ Recommended the appointment and compensation of the independent auditor;
- ✓ Reviewed and approved the independent audit plan for the fiscal year ending October 31, 2015;
- ✓ Assessed the effectiveness and the contribution of Deloitte, of its competencies, resources and autonomy, verified its independence, and recommended to the Board that Deloitte be reappointed as independent auditor for the fiscal year ending October 31, 2015; and in early fiscal 2016, we planned the first full periodic assessment, which will be conducted in accordance with the recommendations of CPA Canada and the Canadian Public Accountability Board;
- ✓ Monitored the application of the guidelines for managing the services provided by the independent auditor and approved the granting of certain pre-authorized mandates; and
- ✓ Reviewed and updated audit policies, as applicable.

## Other matters

We:

- ✓ Reviewed the Chief Compliance Officer's annual report; and
- ✓ Reviewed the Chief Anti-Money Laundering Officer's annual report.

(1) Julie Payette was appointed a member of the Audit Committee on April 15, 2015.  
Andrée Savoie was appointed a member of the Audit Committee on April 15, 2015.

## RISK MANAGEMENT COMMITTEE

### Members <sup>(1)</sup>



Raymond  
Bachand

Maryse  
Bertrand

Richard  
Fortin,  
Chair



Karen  
Kinsley

Lino A.  
Saputo, Jr.

Pierre  
Thabet

The Committee assists the Board in exercising its duties relating to risk management, namely

- (i) overseeing the management of the main risks to which the Bank is exposed, including credit risk, market risk, liquidity and funding risk, operational risk, risk of regulatory non-compliance, reputational risk, strategic risk and environmental risk;
- (ii) reviewing and approving the Bank's risk appetite framework;
- (iii) overseeing capital, liquidity and funding management;
- (iv) assessing the performance of the Risk Management oversight function; and
- (v) assessing the performance of the Compliance oversight function.

The duties and responsibilities of the Committee are described more fully in its mandate, which is periodically reviewed by the Board.

The mandates of the Committee and its Chair can be found in the governance subsection under “About Us” on the website [nbc.ca](http://nbc.ca).

### Frequency of meetings and achievements

The members of the Risk Management Committee met 15 times during the past fiscal year to fulfill their mandate, dealing mainly with the following issues:

### Risk Management

We:

- ✓ Reviewed and approved the mandate, nature and scope of the Risk Management oversight function;
- ✓ Confirmed the independence and effectiveness of the Risk Management oversight function, ensured that sufficient resources were available for the Risk Management oversight function to fulfill its mandate and responsibilities, and approved its annual budget;
- ✓ Regularly met with the Executive Vice-President – Risk Management, without the presence of management;
- ✓ Assessed the performance of the Executive Vice-President – Risk Management, and sent our recommendations to the Human Resources Committee and the Board regarding his compensation;
- ✓ Reviewed and approved the Bank's risk appetite framework and required the Bank's management to implement appropriate processes to effectively manage risks;
- ✓ Reviewed the integrated risk management report each quarter;
- ✓ Reviewed technological risk each quarter, including cyber risks and cyber crime;
- ✓ Reviewed the various sensitivity analyses related to credit risk, including those relating to the oil and gas industry;
- ✓ Reviewed the methodology for determining the collective allowance for credit risk;
- ✓ Reviewed and approved the mandate of the Global Risk Committee;
- ✓ Reviewed the annual report on litigation against the Bank and its subsidiaries that could constitute a material risk;

- ✓ Reviewed, updated and approved, as applicable, risk management policies, including risk appetite statements, measures and targets;
- ✓ Approved the review of the Bank's corporate insurance management strategy;
- ✓ Assessed the governance of the Bank's subsidiaries;
- ✓ Followed up on OSFI recommendations regarding the Operational and Reputational Risk sector;
- ✓ Reviewed and approved the contingency and business recovery plan; and
- ✓ Reviewed various client credit files in accordance with the Board's policies for approving credit.

### **Capital, liquidity and funding management**

We:

- ✓ Reviewed and approved the assumptions retained for the capital stress-testing scenarios;
- ✓ Reviewed the implementation of requirements set out in the Basel Accords;
- ✓ Reviewed and recommended that the Board approve the capital plan;
- ✓ Reviewed the liquidity management report; and
- ✓ Reviewed and updated, as applicable, and recommended to the Board policies concerning capital, liquidity and funding management.

### **Compliance**

We:

- ✓ Reviewed and approved the mandate, nature and scope of the Compliance oversight function;
- ✓ Confirmed the independence and effectiveness of the Compliance oversight function, ensured that sufficient resources were available for the Compliance oversight function to fulfill its mandate and responsibilities, and approved its annual budget;
- ✓ Regularly met with the Chief Compliance Officer, without the presence of management;
- ✓ Assessed the performance of the Chief Compliance Officer, and sent our recommendations to the Human Resources Committee and the Board regarding her compensation;
- ✓ Reviewed the interim and annual reports by the Bank's Chief Compliance Officer regarding the compliance status of the Bank and its subsidiaries, submitted a compliance report to the Board and recommended that it approve the regulatory compliance management policy and program;
- ✓ Received information on key changes made to laws, regulations and other rules as well as on material regulatory compliance risks;
- ✓ Approved the mandate of the Regulatory Oversight Committee of the Bank's New York branch; and
- ✓ Reviewed the interim and annual reports and annual self-assessment of the Chief Anti-Money Laundering Officer and approved the policy on that subject, as well as the anti-corruption policy.

(1) Karen Kinsley was appointed a member of the Risk Management Committee on April 15, 2015.  
 Louise Laflamme ceased to be a member of the Risk Management Committee on April 15, 2015.  
 Lino A. Saputo, Jr. was appointed a member of the Risk Management Committee on April 15, 2015.

## CONDUCT REVIEW AND CORPORATE GOVERNANCE COMMITTEE

### Members <sup>(1)</sup>



Raymond  
Bachand



Maryse  
Bertrand,  
Chair



André  
Caillé



Jean Houde



Roseann  
Runte

This Committee assists the Board with its conduct review and corporate governance duties, including

- (i) the composition and operation of the Board and its committees;
- (ii) the oversight of governance matters;
- (iii) the assessment of the Board, its committees and directors; and
- (iv) the succession planning for the directors and Chairman of the Board.

The Committee also ensures that management implements mechanisms to ensure compliance with the provisions of the Act regarding related party transactions.

The duties and responsibilities of the Committee are described more fully in its mandate, which is periodically reviewed by the Board.

The mandates of the Committee and its Chair can be found in the governance subsection under “About Us” on the website [nbc.ca](http://nbc.ca).

### Frequency of meetings and achievements

The members of the Conduct Review and Corporate Governance Committee met five times during the past fiscal year to fulfill their mandate, dealing mainly with the following issues:

### Composition and operation of the Board and its committees

We:

- ✓ Verified the independence, eligibility, availability and financial competencies of the Board members;
- ✓ Reviewed and recommended to the Board the appointment of the Chairman of the Board and his compensation, the composition of the Board committees and the appointment of committee members;
- ✓ Reviewed Board succession matters;
- ✓ Recommended the appointment of Andrée Savoie as director and member of the Audit Committee;
- ✓ Reviewed, approved and recommended to the Board that it approve the review of Board members’ compensation to ensure it is competitive and adequately reflects directors’ roles and responsibilities;
- ✓ Confirmed that each director complies with the Code of Conduct and Ethics, understands the Bank’s conflict of interest standards and is not in a conflict of interest situation;
- ✓ Reviewed and recommended that the Board approve the Management Proxy Circular (including replies to the shareholder proposals received and the form of proxy) for the Annual Meeting of the Holders of Common Shares of the Bank held in 2015; and
- ✓ Reviewed the director selection criteria.

## Oversight of governance matters

We:

- ✓ Reviewed the annual report on complaints from clients of the Bank and its subsidiaries prepared by the Bank's Office of the Ombudsman;
- ✓ Reviewed and recommended to the Board that it approve the review of the Board's Diversity Statement reflecting the Bank's commitment to strive for gender balance among its directors and for women to represent at least one third of the Board;
- ✓ Reviewed the report on the application of the Code of Conduct and Ethics;
- ✓ Reviewed the key issues addressed by the Social Responsibility Report;
- ✓ Reviewed the reports and policies on the monitoring of related party transactions of the Bank;
- ✓ Revised the guidance program for new directors and the continuing education program for directors;
- ✓ Reviewed the updates on recent regulatory and governance developments and recommended to the Board changes to the Bank's governance practices and the mandates of the Board and its committees; and
- ✓ Reviewed and approved various proposals regarding the functioning of the Board and its committees with a view to improving their effectiveness.

## Assessment of the Board, its committees and directors

We:

- ✓ Reviewed the methodology for assessing the overall performance and effectiveness of the Board, its four committees, the Chairman of the Board, the committee Chairs and the directors, recommended that the Board include in it an assessment of the directors by their peers, and oversaw the assessment process.

(1) Raymond Bachand was appointed a member of the Conduct Review and Corporate Governance Committee on April 15, 2015. Maryse Bertrand was appointed Chair of the Conduct Review and Corporate Governance Committee on April 15, 2015. Gérard Coulombe ceased to be a member and Chair of the Conduct Review and Corporate Governance Committee on April 15, 2015.

## HUMAN RESOURCES COMMITTEE

### Members <sup>(1)</sup>



Pierre  
Boivin



André  
Caillé,  
Chair



Gillian  
H. Denham



Karen  
Kinsley



Louise  
Laflamme

This Committee assists the Board in exercising its duties relating to human resources and compensation governance. With the support of the Compensation Risk Oversight Working Group, the Committee ensures in particular that the compensation policies and programs implemented are conducive to achieving the Bank's strategic and financial objectives, without compromising its viability, solvency or reputation.

The Committee's mandate covers six core areas

- (i) compensation policies, programs and practices;
- (ii) performance and compensation of the President and Chief Executive Officer;
- (iii) performance and compensation management of the Other Executive Officers and individuals in charge of oversight functions;
- (iv) succession planning;
- (v) oversight of the pension plans and Pool Fund; and
- (vi) communications with shareholders and compliance with compensation governance standards.

The duties and responsibilities of the Committee are described more fully in its mandate, which is periodically reviewed by the Board.

The mandates of the Committee and its Chair can be found in the governance subsection under "About Us" on the website [nbc.ca](http://nbc.ca).

### Frequency of meetings and achievements

The members of the Committee met seven times during the past fiscal year to fulfill their mandate, dealing mainly with the following issues:

### Compensation policies, programs and practices

We:

- ✓ Revised the mix of mid- and long-term variable compensation for Officers and senior managers to reduce the proportion of stock options;
- ✓ Reviewed the internal report on compliance with share ownership guidelines;
- ✓ Approved the short-, mid- and long-term variable compensation envelopes for all employees;
- ✓ Approved the variable compensation program performance targets for the President and Chief Executive Officer, Other Executive Officers, Officers and most employees;
- ✓ Approved the salary policy for the Bank and its subsidiaries;
- ✓ Approved the compensation of Executive Officers;
- ✓ Approved the compensation-related mandates (particularly benchmarking) assigned to independent external consultants;
- ✓ Reviewed a summary of the results of the Bank's *Taking a Look at Our Organization* survey on employee engagement; and
- ✓ Were notified of the amendments made to the credit policy for all employees, including Officers.

## Performance and compensation of the President and Chief Executive Officer

We:

- ✓ Reviewed and recommended that the Board approve the annual targets and key performance indicators for the President and Chief Executive Officer's compensation;
- ✓ Assessed the President and Chief Executive Officer's performance based on financial results, annual objectives and key performance indicators, as well as the prudence with which he has managed the Bank's operations and the risks to which the Bank is exposed, and reported this to the Board;
- ✓ Reviewed the analysis of the competitiveness of his target total direct compensation;
- ✓ Recommended that the Board approve his short-, mid- and long-term variable compensation;
- ✓ Amended the terms of his pension plan, including the introduction of a cap of \$1.5 million on his annual pension; and
- ✓ Reviewed and approved the description of his duties and responsibilities.

## Performance and compensation management of the other Executive Officers and individuals in charge of oversight functions

We:

- ✓ Received the President and Chief Executive Officer's report on their performance, the prudence with which they have managed the Bank's operations and the risks to which the Bank is exposed;
- ✓ Reviewed and approved the compensation of an Executive Officer appointed in fiscal 2015;
- ✓ Reviewed the competitiveness of the target total direct compensation for Executive Officers and subsequently recommended to the Board that it approve adjustments to the mix of mid- and long-term compensation for certain Executive Officers in order to reduce the proportion of stock options;
- ✓ In collaboration with the Audit and Risk Management committees, reviewed the competitiveness of the target total direct compensation of individuals in charge of oversight functions and subsequently recommended that the Board approve its adjustment for certain individuals; and
- ✓ Recommended to the Board that it approve their short-, mid- and long-term variable compensation.

## Succession planning

We:

- ✓ Updated the succession plan of the President and Chief Executive Officer of the Bank in the event of an emergency; and
- ✓ Reviewed the succession plan for Executive Officers and Officers of the Bank and its subsidiaries in light of their competency profiles.

## Oversight of the pension plans and Pool Fund

We:

- ✓ Approved the appointment of a new member of the Retirement Committee;
- ✓ Approved the appointment of members of the Pensions Committee;
- ✓ Periodically reviewed the Retirement Committee's activities;
- ✓ Reviewed and approved the findings of the actuarial valuations of the different pension plans;

- ✓ Reviewed the capitalization policy of the Bank's pension plans and post-retirement allowance program to ensure their consistency with the amendments to the plans approved in 2014;
- ✓ Approved the termination of the defined benefit pension plan for employees located in the United States;
- ✓ Reviewed a report on performance and risk taking by the Pool Fund and on the application of the investment policy for the Bank's pension plans; and
- ✓ Reviewed the performance of the Pool Fund of the Bank's pension plans.

### **Communications with shareholders and compliance with compensation governance standards**

We:

- ✓ Reviewed and approved the Report of the Human Resources Committee and the sections relating to the compensation of Officers included in the Management Proxy Circular for the Annual Meeting of Shareholders held on April 15, 2015;
- ✓ Reviewed and approved the disclosure of aggregate quantitative information on compensation in accordance with the Basel II Pillar 3 compensation disclosure requirements;
- ✓ Supervised and reviewed the work done by the Compensation Risk Oversight Working Group to ensure our policies and programs align with best practices and the guidelines issued by the regulators;
- ✓ Received a report on the three-year plan relating to employment diversity;
- ✓ Directed certain Executive Officers and Officers to meet with representatives of institutional investors, shareholder groups, proxy voting consultants and corporate governance advocacy groups to discuss various matters of interest with them, including the Board's approach to Executive Officers' compensation;
- ✓ Reviewed the report of the Bank's Internal Audit Oversight Function on total compensation policies, programs and practices;
- ✓ Confirmed that all Executive Officers and individuals in charge of oversight functions comply with the Bank's Code of Conduct and Ethics and standards regarding conflict of interest; and
- ✓ Approved the mandate of the Compensation Risk Oversight Working Group.

(1) Gérard Coulombe ceased to be a member of the Human Resources Committee on April 15, 2015.  
 Karen Kinsley was appointed a member of the Human Resources Committee on April 15, 2015.  
 Louise Laflamme was appointed a member of the Human Resources Committee on April 15, 2015.  
 Lino A. Saputo, Jr. ceased to be a member of the Human Resources Committee on April 15, 2015.

## 7. EXECUTIVE OFFICER COMPENSATION

### LETTER TO SHAREHOLDERS

We believe it is important to give shareholders of the Bank all the necessary information to fully understand the Bank's Executive Officer compensation approach and to appreciate our compensation-related decisions and the rationale behind them. For over five years, shareholders have expressed their support for our approach through the advisory vote on executive compensation ("say on pay").

Our Executive Officer compensation approach, detailed in the pages that follow, is first aimed at creating value for our shareholders. We would like to share some highlights of the past fiscal year to help you appreciate our fiscal 2015 financial results and understand the total compensation of Executive Officers and the rationale for our compensation-related decisions in fiscal year 2015.

**Compensating absolute and relative performance: One of the principles of our compensation policy for Executive Officers consists of aligning variable compensation to the Bank's financial and stock market performance, considering different performance periods, while promoting sound risk taking.**

### Cope with change while maintaining sound financial results for fiscal 2015

Despite another year of weak economic growth in Canada and Quebec, the Bank maintained strong financial results mainly due to the soundness of its super-regional model and its ability to seize business opportunities while effectively managing risk. Supported by rising revenues and results of 5% or more in each of our business lines, and driven by growth in Financial Markets, the Bank achieved a net income of \$1,682 million (excluding specified items) and earnings per share of \$4.70. Additionally, a further increase in dividend was announced on December 2, 2015, now representing \$0.54 per share per quarter.

The following table shows the progress in the Bank's financial and stock market performance over the past fiscal year.

Results		
	2015	2014
Total revenues <sup>(1)</sup>	\$5,982 M	\$5,638 M
Net income <sup>(1)</sup>	\$1,682 M	\$1,593 M
Return on common shareholders' equity <sup>(1)</sup>	17.6%	18.5%
Diluted earnings per Common Share <sup>(1)</sup>	\$4.70	\$4.48
Capital ratios under Basel III – Common Equity Tier 1 (CET1)	9.9%	9.2%
Dividends declared	\$2.04	\$1.88

(1) Excluding specified items, as described on page 15 of the 2015 Annual Report.

To ensure the Bank's long-term profitability and future growth, we are acting proactively to transform it, so that our actions can enable the Bank to tackle the major challenges affecting the financial sector, in particular the technological revolution, demographic and climate changes. Over the course of fiscal 2015, the Bank began a process of restructuring to improve its efficiency and its processes, achieve recurring savings, and invest in technological change.

## Four priorities to stimulate growth

The Bank is confident of its ability to adapt to fast-changing external conditions by relying on its super-regional model to stimulate growth, based on four key priorities:

- ✓ To deliver on our Client Value Proposition: by making accessibility, proactivity and simplicity central to our client relationships. We are pursuing our *One client, one bank* approach by investing in technology and employee training, and by streamlining our processes with the ultimate goal of always enhancing client experience.
- ✓ To grow in Quebec and nationwide: we are offering National Bank Private Wealth 1859 services in Western Canada, and additional branches will open in Calgary and Vancouver in 2016. In Quebec, our growth is the product of better execution resulting from restructuring and of stronger commitment to our customers.
- ✓ To grow internationally: we continue to reproduce the super-regional model in certain carefully selected international locations in under-banked emerging markets such as Cambodia, Mauritius and French-speaking West Africa.
- ✓ To grow with our partners and allies: we aim to rally our partners and allies to invest in new projects and expand our distribution channels. We want to build more partnerships with investment advisors and different portfolio managers in Canada. We are also exploring partnership possibilities with various national retailers outside Quebec.

## Reduction of stock options in favour of performance share units

As we announced last year, we have now revised the mix of mid- and long-term compensation for Officers and Executive Officers. In order to implement mid-term compensation (subject to performance) for all Officers, a portion of their long-term compensation, consisting of stock options, was reduced and replaced with performance share units as of the annual grants of December 2015. Thus, the compensation paid to every Officer is now partly dependent on the performance of the Bank's Total Shareholder Return (TSR) relative to other Canadian banks, which is consistent with the Bank's growth objective.

The allocation of incentive compensation to other levels of senior managers was also reviewed, and it was decided to replace the granting of stock options with the granting of restricted share units for these employees.

The combined effect of these two changes will considerably reduce the dilutive impact of the stock option program on the number of Common Shares reserved for the exercise of options.

## Compensation of the President and Chief Executive Officer

After review, the Board and the Human Resources Committee made no changes to the target direct compensation of the President and Chief Executive Officer for fiscal 2015. The President and Chief Executive Officer was granted direct compensation slightly below the target for fiscal 2015, which is consistent with the result of the annual incentive compensation program (ICP) which was established at 97% of the target. Altogether, the total compensation to the five Named Executive Officers fell by nearly 15% compared to the previous year.

As a significant portion of the President and Chief Executive Officer's direct compensation is conditional on the Bank's financial and stock market performance, we note a close correlation between his compensation and total shareholder return, as shown on [page 90](#) of the Circular. In fact, the average actual value of \$100 granted annually to Louis Vachon as direct compensation since taking on his position as President and Chief Executive Officer in 2007 stood at \$133 on December 31, 2015. By comparison, from a shareholder's point of view, the average value of a \$100 annual investment in Common Shares of the Bank over the same period was \$158.

In the event of share price variation, the direct compensation granted to Louis Vachon would remain closely tied to total shareholder return. In fact, a 10% rise in share price would increase Louis Vachon's direct compensation to \$152 and shareholder's to \$174, whereas a 10% decline in share price would reduce them to \$115 and \$143, respectively.

Therefore, we are satisfied that the Bank's compensation policy is conducive to long-term value creation for shareholders.

Lastly, in consideration of global compensation, the Human Resources Committee also approved the introduction of a cap on the President and Chief Executive Officer's annual pension income. This cap was set at \$1.5 million per year.

## Risk management: the centrepiece of our business model and compensation approach

The Human Resources Committee and the Compensation Risk Oversight Working Group continued to exercise their role of overseeing the balance between compensation and risk taking among Officers, Executive Officers and other material risk takers, thus ensuring that the Bank aligns with best practices and the guidelines issued by regulators.

The Bank discloses changes in its practices to regulatory authorities as required and in accordance with the principles and standards of the Financial Stability Board.

## Conclusion

The Bank appreciates receiving feedback from shareholders and regularly liaises with its investors, shareholder associations and regulatory authorities about its approach, strategy and governance with regard to Executive Officer compensation.

We believe that our compensation approach on which you are invited to vote and our compensation-related decisions allow us to achieve the right balance between earning the loyalty of talented and qualified Officers, a compensation plan closely tied to performance, and sound risk taking. We are very grateful for your support at the last annual meeting of shareholders, where 93.7% of shareholders voted in favour of our approach with respect to executive compensation.

We refer you to the following pages of the Circular for more information on the Bank, particularly with respect to Executive Officer compensation.

We wish to thank you for your continuing trust, at a time when the Bank must take major steps to prepare itself to face the many changes under way in our market. We believe that the Bank's future is in good hands and that our Executive Officers, Officers and all our employees have the best interests of its clients and shareholders at heart.

*(s) Jean Houde*  
Chairman of the Board of Directors

*(s) André Caillé*  
Chair of the Human Resources Committee

## COMPENSATION POLICIES AND PRACTICES

### Four priorities to stimulate growth

While the Bank has revamped its organizational structure to better respond to fast-changing external conditions, it continues to focus on its growth as a super-regional bank. Despite heavily competitive markets, the Bank identifies further opportunities for growth in Quebec and across Canada, as well as internationally through carefully selected activities. The Bank's growth will be guided by four key priorities:

1. To deliver on its client value proposition;
2. To grow in Quebec and nationwide;
3. To grow internationally; and
4. To grow with our partners and allies.

The Bank believes that the orderly and rigorous deployment of its strategic priorities has every chance of creating long-term value for shareholders. The Bank

seeks to develop a compensation policy for Executive Officers that supports such deployment by an appropriate balance between fixed and variable short-, mid- and long-term compensation.

The main purpose of fixed compensation is to ensure sufficiently competitive stable revenue to attract and retain a committed, experienced and skilled management team, which is necessary for the Bank's strategic success in a fiercely competitive market.

The purpose of variable compensation is to closely tie Executive Officer compensation to the Bank's promise to shareholders. The variable compensation programs in place target complementary financial objectives over various performance periods, within well-established risk tolerance limits.

The compensation policy developed by the Bank and its Human Resources Committee is based on the four guiding principles described below.

<b>1. Offer compensation based on the Bank's financial and stock market performance, considering different performance periods</b>	<b>2. Promote sound risk taking</b>	<b>3. Reward the contributions of Executive Officers and Officers</b>	<b>4. Align the vision of Executive Officers, Officers and material risk takers with that of shareholders</b>
<ul style="list-style-type: none"> <li>• Reward Executive Officers and Officers for their particular contribution to annual results and motivate them to maintain their performance over time and grow long-term shareholder value.</li> <li>• Offer short-, mid- and long-term variable compensation programs, based on various complementary financial metrics.</li> </ul>	<ul style="list-style-type: none"> <li>• Offer Executive Officers, Officers and material risk takers variable compensation programs that reward their contribution to generating revenue within the Bank's risk tolerance limits.</li> <li>• Include specific measures to balance risk and return in order to meet regulatory and prescriptive requirements as well as ensure the Bank's sustainability.</li> </ul>	<ul style="list-style-type: none"> <li>• Ensure competitive total compensation relative to those comprised in the Bank's peer group.</li> <li>• Ensure that total compensation reflects the level of responsibility, expertise, competence and experience.</li> </ul>	<ul style="list-style-type: none"> <li>• Ensure that a significant portion of the variable compensation of Executive Officers, Officers and material risk takers is share-based.</li> <li>• Ensure that Executive Officers, Officers and material risk takers meet the Bank's minimum share ownership requirements.</li> </ul>

These four principles enable the Bank to achieve an appropriate and consistent balance between expected performance, prudent risk management and the compensation offered.

## SUMMARY OF KEY COMPENSATION POLICIES AND PRACTICES IN EFFECT AT THE BANK

The Bank's goal is to ensure its leadership position through its Executive Officer compensation programs and sound compensation governance practices. Below is an overview of the compensation practices that the Bank has or has not adopted.

### 1. Pay for performance

#### What we do



- ✓ We offer Executive Officers compensation based on the Bank's financial and stock market performance
- ✓ We assess the performance of Executive Officers taking into account financial results, the demonstration of prudent risk management, growth in client loyalty and the level of employee engagement
- ✓ We make sure that a significant proportion of compensation is conditional on performance
- ✓ We offer short-, mid- and long-term variable compensation programs, based on complementary financial metrics
- ✓ We cap annual bonuses at 200% of the target
- ✓ We set performance criteria to be consistent with the strategic plan approved by the Board

#### What we do not do



- ✗ We do not grant Executive Officers total target direct compensation with a significant fixed component (no Executive Officer has a fixed component exceeding 25%)
- ✗ We do not offer variable compensation that is not proportional to the performance achieved
- ✗ We do not set up compensation programs without having run simulations that take into account various scenarios of the Bank's performance

### 2. Promote sound risk taking

#### What we do



- ✓ We ensure that the Bank maintains an appropriate and coherent balance between expected performance, prudent risk management and compensation awarded
- ✓ We put in place compensation policies and practices aligned with the Principles and Standards for Sound Compensation Practices published by the Financial Stability Board (FSB)
- ✓ We make sure that a significant portion of Executive Officers' variable compensation is deferred to make them accountable for decisions that may entail greater long-term risk
- ✓ We have put in place a policy that entitles the Bank, in specific circumstances, to cancel and claw back previously awarded variable compensation
- ✓ We reduce or cancel payments to material risk takers if they fail to consider the Bank's risk tolerance limits
- ✓ We maintain a capital management policy which namely provides for a reduction of the size of the annual bonus envelopes if the minimum level of the Bank's regulatory capital required by the regulatory authorities is not achieved
- ✓ We make sure that compensation paid to individuals in charge of oversight functions does not depend on the performance of the business lines they supervise

#### What we do not do



- ✗ We do not offer compensation programs that unduly induce material risk takers to take risks that would exceed the risk tolerance limits defined by the Bank
- ✗ We do not implement compensation programs concerning material risk takers without having those programs first examined and approved by the Compensation Risk Oversight Working Group, which is supervised by the Human Resources Committee

### 3. Reward contribution

#### What we do



- ✓ We use a peer group consisting of Canadian financial institutions in establishing the value of the target total direct compensation of Executive Officers
- ✓ We determine the value of the total target direct compensation by adjusting downward the peer group's median to take into account the relative size of the Bank
- ✓ We make sure that the Human Resources Committee may retain independent external consultants to provide it with the necessary information on trends and best practices regarding compensation policies and programs
- ✓ Our benchmarking approach corresponds to best practices in accordance with the recommendations presented in the report<sup>(1)</sup> from Meridian Compensation Partners

#### What we do not do



- ✗ We do not operate a policy for Executive Officers that aims to position their target total compensation above the peer group median
- ✗ We do not identify a peer group that represents an ideal or has a profile different from that of the Bank

### 4. Align vision with that of shareholders

#### What we do



- ✓ We have in place share ownership guidelines designed to align the interests of Executive Officers, Officers and material risk takers with the Bank's long-term performance
- ✓ We permit Executive Officers to elect to receive up to 30% of their long-term variable compensation in the form of DSUs, redeemable only on retirement or termination of employment, thus allowing them to strengthen the alignment between individual and shareholder interests
- ✓ Since 2010, we have invited shareholders to participate in an advisory vote on the Board's approach to executive compensation ("say on pay")
- ✓ We have put in place a process for collecting and handling questions, comments and suggestions from shareholders or shareholder associations
- ✓ We communicate regularly with institutional investors, proxy voting consultants and corporate governance advocacy groups on issues raised by them

#### What we do not do



- ✗ We do not permit Executive Officers to take gains from exercised stock options without keeping Common Shares of the Bank of a value equal to such gains, until the applicable share ownership requirements have been met
- ✗ We do not allow employees to hedge their equity-based compensation
- ✗ We do not grant stock options at a price below the price of the Bank's Common Shares on the Toronto Stock Exchange, and do not permit the price of existing stock options to be reduced

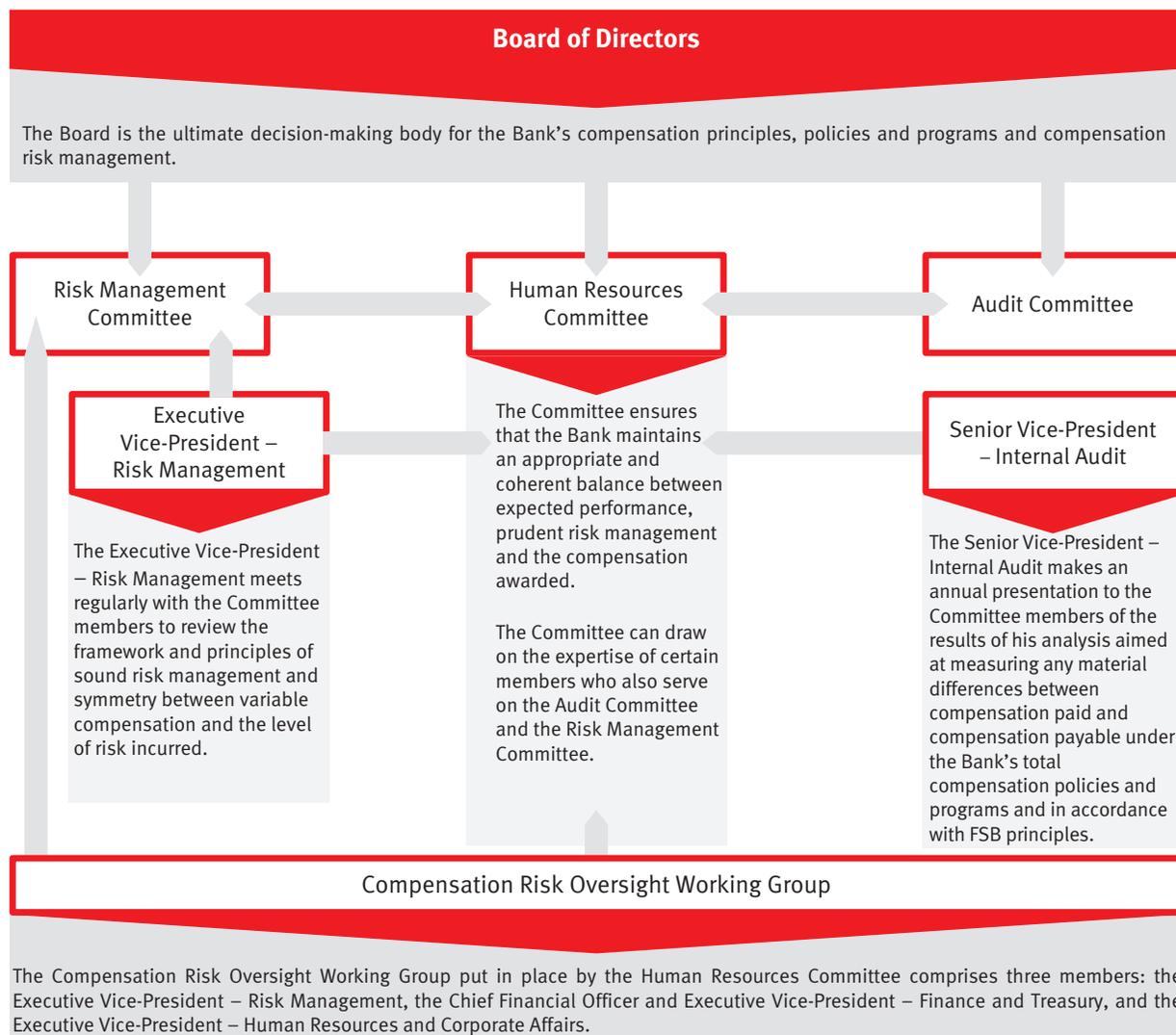
(1) *Review of Horizontal Benchmarking and Its Impact on CEO Compensation and Pay Disparity*, 2013

## COMPENSATION GOVERNANCE

The Bank views risk governance as an integral part of its development and operational diversification and favours a risk management approach consistent with its business expansion strategy. The purpose of the risk appetite framework is to provide reasonable assurance that incurred risks do not exceed acceptable thresholds and contribute to the creation of shareholder value. This means striking a healthy balance between risk and return.

In the normal course of business, the Bank is primarily exposed to credit, market, liquidity, financing, operational, regulatory non-compliance, reputational, strategic and environmental risks. These and other risks may result in losses that could adversely affect expected earnings.

As part of its compensation risk oversight role, the Human Resources Committee must ensure that compensation policies and programs do not unduly induce Executive Officers, Officers, material risk takers and employees in general to take risks that exceed the Bank's risk tolerance limits. The Human Resources Committee is supported by various stakeholders in fulfilling this significant role, including the Compensation Risk Oversight Working Group. The Committee also ensures that the Bank effectively complies with the principles of the Financial Stability Board. The figure below depicts the compensation risk management framework:



## Human Resources Committee

The Committee's role is to review the various components of total compensation by developing or applying policies and programs, while ensuring compliance with compensation governance principles. It also recommends that the Board approve new compensation programs or any material changes to existing programs. The Committee is assisted in this process by Executive Officers and independent external consultants, as needed. The Committee has the authority to recommend that the Board approve the various components of compensation.

The Committee ensures that the Bank's compensation policies and programs comply with regulations and standards in effect. Accordingly, the Committee verifies that the Bank complies with the Guideline on Corporate Governance released by OSFI and the Principles and Standards for Sound Compensation Practices issued by the FSB, the implementation of which is monitored by OSFI in Canada. The Committee also considers expectations of other corporate governance advocacy organizations.

In addition, the Committee ensures that the Bank's compensation policies and programs promote sound risk management and that compensation paid is closely tied to the Bank's financial performance and total shareholder return. As a result, it is important for the Committee to be aware of the risks that could adversely affect the Bank's performance.

The Committee exercises its discretion, as it deems necessary, to adjust the annual variable compensation envelopes.

Committee members benefit from continuing education programs designed to meet their needs regarding prudent risk management. The Committee can also draw on the expertise of certain members who also serve on the Audit Committee and the Risk Management Committee. At its discretion, the Committee may also call on the expertise of various groups at the Bank, such as Total Compensation, Finance, Internal Audit and Risk Management, which take part in the compensation program design and review process. The Committee receives an annual letter signed by three Officers serving in functions accountable for the oversight of the variable compensation programs deployment and of the financial results used to calculate the bonus envelopes for Executive Officers, Officers, Financial Markets specialists and other employees of the Bank.

## Competencies of Committee members

All Committee members have human resources, compensation and risk management competencies. These competencies were acquired through their professional experience, from the positions they occupy or have occupied, particularly as chief executive officers or senior officers of major corporations, as members of boards of directors, or through their academic background. This expertise includes:

- Human resources and compensation: knowledge and experience of compensation programs, pension plans and employee benefit programs, and understanding of principles and practices relating to human resources.
- Leadership: experience in a senior position in a major company or institution.
- Risk management: knowledge and experience of risk management, assessment and communication.

In addition, André Caillé, Pierre Boivin, Karen Kinsley and Louise Laflamme serve on various other Board committees of the Bank, and this allows the Committee to make more informed decisions on the consistency of compensation policies and practices within the Bank. The Bank also benefits from the experience of André Caillé, Pierre Boivin and Gillian H. Denham as members or chairs of human resources committees in other businesses and institutions.

Furthermore, the Committee has built a self-assessment mechanism into the skills improvement process for members to assess their expertise and experience. As part of the continuing education program for directors, Committee members attend, among others, presentations on risk management, and use the knowledge they acquire in assessing compensation.

See also [Section 3](#) of the Circular, which presents the biographies of the directors who are members of the Committee, and the “[Human Resources Committee](#)” section in [Section 6](#) of the Circular for further information about the Committee and its activities during the past fiscal year.

The following table shows the experience and competencies of each member of the Committee:

	Pierre Boivin	André Caillé (Chair)	Gillian H. Denham	Karen Kinsley	Louise Laflamme
<b>Competencies and experience</b>					
Human resources / Compensation	✓	✓	✓	✓	✓
Leadership	✓	✓	✓	✓	✓
Risk Management	✓	✓	✓	✓	✓

### Compensation Risk Oversight Working Group

The Compensation Risk Oversight Working Group put in place by the Human Resources Committee has three members, namely the Executive Vice-President – Risk Management, the Chief Financial Officer and Executive Vice-President – Finance and Treasury, and the Executive Vice-President – Human Resources and Corporate Affairs. As part of its mandate, this Working Group:

- reviews the Bank’s policies and key programs on variable compensation, at the design, review and implementation stages, to ensure that they are consistent with the Bank’s risk management framework;
- ensures that the Bank’s compensation policies, programs and practices are conducive to its business objectives without compromising its viability, solvency or reputation;
- verifies that the Bank’s compensation policies, programs and practices comply with applicable standards and regulations;
- reviews the annual objectives and performance targets for the main variable compensation programs to ensure that they are consistent with the Bank’s risk management framework;
- assesses the various risks incurred during the year by the Bank’s material risk takers and makes any recommendations to the Human Resources Committee when the annual bonus envelopes need to be adjusted downward;
- assesses the various risks incurred during the performance periods governing deferred variable compensation and makes recommendations to the Human Resources Committee when payments need to be adjusted downward;
- assesses whether circumstances warrant the clawing back of variable compensation; and
- annually reviews the criteria used to define material risk takers.

## Alignment of the Bank's compensation policies and practices with the principles and standards of the Financial Stability Board (FSB)

In 2009, the FSB published Principles and Standards for Sound Compensation Practices that were intended to protect against excessive risk taking and enhance the stability and soundness of the international financial system. These principles have been endorsed by many regulators and governments around the world, including Canada.

Over the past few years, the Bank has ensured the evolution of its compensation policies and practices to reflect the FSB's Principles for Sound Compensation Practices. The following table discusses how the Bank's compensation policies and programs are aligned with said principles.

FSB principles	Compensation policies and practices in effect at the Bank
1. The Firm's board of directors must actively oversee the compensation system's design and operation	<ul style="list-style-type: none"> <li>✓ The Human Resources Committee is composed of independent directors and assists the Board in carrying out its oversight role by approving the design and application of compensation policies and programs for Executive Officers, Officers and material risk takers, including cash compensation, equity compensation, pensions and share ownership requirements.</li> <li>✓ Reporting to the Human Resources Committee, the Compensation Risk Oversight Working Group ensures that the application of compensation programs for material risk takers complies with the sound governance principles issued by the Board.</li> </ul>
2. The Firm's board of directors must monitor and review the compensation system to ensure the system operates as intended	<ul style="list-style-type: none"> <li>✓ At the beginning of the year, the Board approves the financial objectives and compares them with results at year-end. It approves the resulting bonus envelopes each year.</li> <li>✓ The Board exercises its discretion, as it deems necessary, to make downward adjustments to variable compensation envelopes.</li> <li>✓ The Board also has the discretion to make upward adjustments to annual bonuses under the ICP, by up to 15% of the value of the target bonuses, without however exceeding the maximum set at 200% of target bonuses, in order to take specific situations into account.</li> <li>✓ The compensation of Executive Officers, Officers, individuals in charge of oversight functions and Financial Markets specialists is approved each year by the Human Resources Committee.</li> <li>✓ The Human Resources Committee reviews the significant compensation programs in the normal course of updates made to them, ensures that they remain appropriate and competitive, and ensures that they promote compliance with the Bank's risk tolerance limits.</li> </ul>
3. Staff engaged in financial and risk control must be independent, have appropriate authority, and be compensated in a manner that is independent of the business they oversee and commensurate with their key role in the firm	<ul style="list-style-type: none"> <li>✓ Staff engaged in the four oversight roles at the Bank, namely, Internal Audit, Risk Management, Compliance and Finance, receive compensation determined according to the peer group median (the 50<sup>th</sup> percentile). Their compensation programs are structured to ensure their independence in carrying out their duties, and the value of their variable compensation is linked to the Bank's results, not the results of the business lines for which services are performed. This variable compensation represents only a portion of their total compensation, in accordance with the Bank's compensation policy.</li> </ul>
4. Compensation must be adjusted for all types of risk	<ul style="list-style-type: none"> <li>✓ All major annual bonus programs have a discretionary element to take risk into account when determining the size of annual bonus envelopes or individual bonuses.</li> <li>✓ At fiscal year-end, the Executive Vice-President – Risk Management presents the recommendations of the Compensation Risk Oversight Working Group to the Human Resources Committee. These recommendations regarding material risk takers are based on joint assessments by the Risk Management, Compliance and Internal Audit sectors, which flag key potential sources of significant risk, both internal (related to decision making) and external (related to business conditions). The assessment takes into account credit, market, liquidity, financing, operational, regulatory non-compliance, reputational, strategic and environmental risks.</li> <li>✓ The final decisions regarding any required adjustments to the annual bonus envelopes of Executive Officers and material risk takers are submitted to the Human Resources Committee.</li> </ul>

<p>5. Compensation outcomes must be symmetric with risk outcomes</p>	<ul style="list-style-type: none"> <li>✓ A significant portion of total direct compensation for Executive Officers is variable and dependent on the Bank's financial and stock market performance, individual performance, and risks taken relative to the Bank's risk appetite framework.</li> <li>✓ Different mechanisms have been put in place to ensure that compensation outcomes are symmetric with risk outcomes, in particular: <ul style="list-style-type: none"> <li>– the funds earmarked for performance-based bonuses are mainly determined based on net income. A minimum net income threshold must be met to create annual bonus envelopes under the ICP;</li> <li>– one mechanism refers to Basel III Accord guidelines that call for reducing the size of annual bonus envelopes if the Bank's minimum regulatory capital required by regulatory authorities is not met. The guidelines dictate the elements to be reduced (share redemptions, dividends and annual bonuses) and the weight of their reductions;</li> <li>– a significant portion of variable compensation of material risk takers is deferred over a period of at least three years;</li> <li>– a policy entitles the Bank to cancel and claw back variable compensation previously awarded to Executive Officers, Officers and Financial Markets specialists in specific circumstances; and</li> <li>– the Human Resources Committee has the discretionary power to recommend to the Board, as it deems necessary, adjustments to annual bonus envelopes, particularly following recommendations of the Compensation Risk Oversight Working Group.</li> </ul> </li> </ul>
<p>6. Compensation payout schedule must be sensitive to time horizon of risks</p>	<ul style="list-style-type: none"> <li>✓ A significant portion of Executive Officers' compensation is deferred. PSUs vest after three years. Stock options vest over four years at a rate of 25% per year and expire after 10 years.</li> <li>✓ A significant portion of annual bonuses for Officers and Financial Markets specialists is in the form of deferred RSUs, which vest over a three-year period, in three equal annual portions, and expire at the end of this period.</li> <li>✓ Deferred compensation payments may be adjusted downward in certain exceptional circumstances, particularly in the case of significant non-compliance with risk tolerance limits during the performance period.</li> <li>✓ Executive Officers, Officers and material risk takers in the Financial Markets sector are subject to share ownership requirements to ensure their long-term interests are tied to those of shareholders and to discourage them from taking excessive risks. The President and Chief Executive Officer must also maintain the share ownership requirements for a period of one year following his retirement.</li> </ul>
<p>7. The mix of cash, equity and other forms of compensation must be consistent with risk alignment</p>	<ul style="list-style-type: none"> <li>✓ The cash/equity mix of compensation varies based on the position or the ability to impact the risk of the Bank. The percentage of equity-based compensation increases with the function level and impact on risk: <ul style="list-style-type: none"> <li>– the target deferred compensation of the President and Chief Executive Officer represents 75% of his variable compensation;</li> <li>– at least 50% of the total direct compensation of the Executive Vice-President – Financial Markets must be deferred;</li> <li>– financial Markets Officers eligible for the annual Officers bonus program receive a minimum of 40% of variable compensation in the form of RSUs; and</li> <li>– the portion of annual bonuses for Financial Markets specialists awarded in RSUs is based on the amount of the bonus awarded.</li> </ul> </li> </ul>

## Equitable compensation and other socially responsible practices

It is critical for the Board and its Human Resources Committee that Officer compensation be granted in a fair and equitable spirit. With that goal in mind, it is extremely important that all levels of compensation be appropriate when Officers are compared among themselves, but the same must also be true of the other Bank employees. Several mechanisms are also in place to ensure that Officers receive compensation that appropriately reflects their performance. Lastly, the Bank strives to continue its operations and to grow in a responsible and ethical manner. The following section provides an overview of the practices and processes in place to ensure those objectives are met.

### Practices ensuring equitable compensation

- Well-identified salary scales taking into account the importance of each function, the level of the position, the knowledge and competencies required, the number of direct reports and the potential impact on the Bank's business.
- Compensation best practices in accordance with the recommendations of the Meridian Compensation Partners report <sup>(1)</sup> (horizontal benchmarking, governance, peer group, etc.). Furthermore, vertical pay ratios are also submitted to the Human Resources Committee for information purposes.
- Adjustment of market data used for benchmarking purposes to take into account the Bank's relative size as compared to its peer group.
- Similar performance metrics for Officers and employees in connection with the incentive compensation plan, thereby ensuring relatively proportionate payments.
- Benefit and pension plans offered to all permanent employees of the Bank.
- Employee Share Ownership plan, to which the Bank contributes on a consistent basis for all function levels offered to all employees in Canada.
- Certain banking benefits offered to employees of the Bank.
- Alignment of the Bank's compensation policies and practices with the standards of the Financial Stability Board (FSB).
- Employee engagement used to measure the performance of Officers.
- Policy entitling the Bank to cancel and claw back variable compensation previously awarded to Executive Officers, Officers and Financial Markets specialists in specific circumstances.

(1) *Review of Horizontal Benchmarking and Its Impact on CEO Compensation and Pay Disparity*, 2013

### Other socially responsible practices

- Carbon-neutral footprint since 2011; the Bank was also ranked among the Top 20 greenest banks in the world for the third consecutive year by Bloomberg.
- Creation of the internal Women's Leadership Network to support women seeking advancement in the organization as managers. With currently 38% of management positions held by women, the Bank is an industry leader.
- Creation of the internal IDEO network in support of the lesbian, gay, bisexual and transgender community.
- The *One for Youth* donations and sponsorships program which supports young people at all stages of their development, notably through the Breakfast Club of Canada, the *Fondation Tel-jeunes* and the National Bank One for Youth Bicycle Tour.
- Support for local Quebec entrepreneurship through programs such as Junior Achievement and the *Fondation de l'entrepreneurship*.
- 21<sup>st</sup> anniversary of the SME Awards program of the Bank which celebrates excellence among Quebec businesses.
- Leader in the fight against money laundering and terrorist financing activities.

### Successful practices

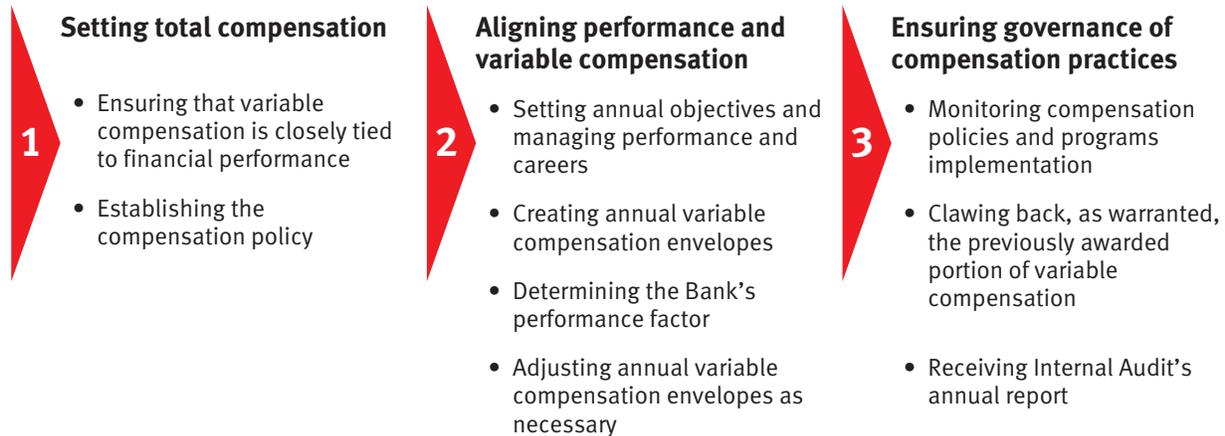
- The Bank was nominated one of the Best Employers in Canada for the 11<sup>th</sup> year in AON Hewitt's annual ranking.
- The Bank was ranked among the 2015 Best 50 Corporate Citizens in Canada in the 14<sup>th</sup> edition of rankings published by Corporate Knights. This prestigious award looks at social and environmental performance as well as the quality of the company's management practices.
- For the fifth time, the Bank was named among best employers for diversity in Canada, as compiled by Mediacorp Canada. This distinction rewards Canadian companies that stand out for their ability to create an inclusive and diversified working environment.
- In the past few years, several institutional investors, proxy voting consultants and corporate governance advocacy groups, such as Institutional Shareholder Services Inc. (ISS), Glass Lewis & Co., Ontario Teachers' Pension Plan and Global Governance Advisors, have issued favourable opinions following their analysis of the tie-in between compensation and the Bank's performance.
- Louis Vachon was recognized as a *Grand Philanthrope* by the Portage Foundation.

### Communication with shareholders

The Bank has implemented a process for collecting and handling questions, comments and suggestions from shareholders or shareholder associations, in order to give them the opportunity to make their concerns known or better understand the Board's approach to executive compensation. Details on how to communicate with the Board are on [page 117](#) of the Circular. The Human Resources Committee and Management also communicate with institutional investors, proxy voting consultants and corporate governance advocacy groups on issues raised by them.

Finally, the annual advisory vote allows shareholders to express their position on the approach to executive compensation presented in the Circular.

## APPROVAL AND MANAGEMENT PROCESS FOR COMPENSATION POLICIES AND PROGRAMS



### 1. Setting total compensation

The Bank's compensation offering includes direct compensation components, such as base salary and variable compensation programs, as well as indirect compensation components such as employee benefits for supporting employee well-being and providing security for employees and their families in their personal and family lives.

The components of the total compensation programs and their respective features, risk/financial performance relationships and time horizons are shown in the following table. A summary of the variable compensation programs is provided under "Compensation of Named Executive Officers" in this section of the Circular.

	Components (time horizon)	What are the key features?	Why do we offer this component?	How do we determine the value of this component?	What is the risk/ financial performance relationship?
Fixed compensation	Base salary (ongoing)	Fixed compensation component, payable in cash. Revised annually and adjusted, as necessary	Rewards level of responsibility, expertise, competence and experience	Based on extent of responsibilities, peer group's practices, experience and individual performance	–
Variable compensation (at-risk)	Annual (1 year)	Variable compensation component, payable in cash (portion can be paid in RSUs), based on the level of achievement of the Bank's annual financial targets and individual performance	Rewards achievement of key annual financial and non-financial objectives	Based on the level of achievement of financial results and individual performance	Amount granted is not guaranteed and varies annually based on financial results obtained relative to the Bank's financial objectives set at the start of the fiscal year
	Mid-term (3 years)	Variable compensation component granted in PSUs or RSUs	Rewards creation of sustainable shareholder value	Based on extent of responsibilities, peer group's practices and individual performance. Expressed as a % of base salary	Value at maturity is at-risk as it depends on Common Share price and, for the Officers, relative total shareholder return
	Long-term (10 years)	Variable compensation component awarded in the form of stock options with a four-year vesting period, at 25% a year, and expiring after 10 years	Rewards sustained long-term growth in Common Share price	Based on extent of responsibilities, peer group's practices and individual performance. Expressed as a % of base salary	Value at maturity is at-risk as it depends on the increase in Common Share price over a maximum 10-year period
Indirect compensation	Employee benefits and perquisites (ongoing)	Group insurance program (health and dental care, life insurance, salary insurance, etc.)	Provides employees and their families with assistance and security	Based on peer group's practices and the Bank's employer/employee cost allocation policy	–
		Vehicle, parking and financial or fiscal services	Offers Executive Officers and Officers a limited number of benefits to complement their total compensation	Based on peer group's practices	–
	Pension plan (long-term)	Defined Benefit Pension Plan and Post-Retirement Allowance Program	Encourages long-term retention of employees by rewarding their continued service and contributing to their retirement income	Based on peer group's practices and the Bank's employer/employee cost allocation policy	–

## Ensuring that variable compensation is closely tied to financial performance

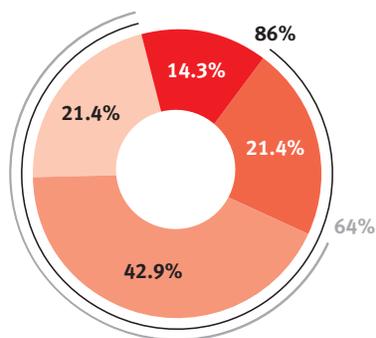
The short-, mid- and long-term variable compensation programs are based on various predetermined financial indicators that promote consistency over time between the vision, business strategies and decisions of Executive Officers. In addition, these indicators help ensure that risks are spread over a broader time horizon.

When programs are developed, the Human Resources Committee ensures that they comply with the Principles and Standards for Sound Compensation Practices issued by the Financial Stability Board. The Committee reviews the results of stress tests comprising various application scenarios for the program in development. The Human Resources Committee considers the impact of these scenarios on the Bank's performance over different performance periods.

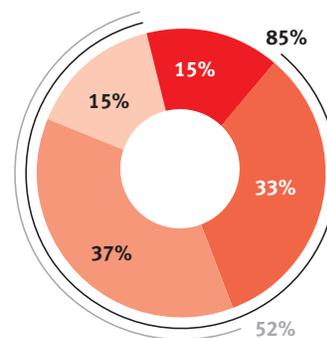
Variable compensation represents a significant portion of Executive Officers' compensation. It includes the annual bonus, the value of which ranges from 0% to 200% of the target bonus, and it is directly linked to achievement of the Bank's financial objectives. It also includes deferred compensation, for which the value of the final payment is contingent on the future value or future appreciation of the Bank's Common Share. All of this variable compensation is considered at-risk and represents a significant portion of target direct compensation: 86% for the President and Chief Executive Officer and an average of 85% for the other Named Executive Officers.

The following graphs show the breakdown, as a percentage, of the target total direct compensation of the President and Chief Executive Officer and the other Named Executive Officers, notably the mid- and long-term components.

Breakdown of the target direct compensation of the President and Chief Executive Officer



Average breakdown of the target direct compensation of the other Named Executive Officers



■ Base salary      ■ Mid-term variable compensation      — Total variable compensation (at-risk)  
 ■ Short-term variable compensation      ■ Long-term variable compensation      — Total deferred compensation

**In recent years, a portion of the long-term compensation, namely the portion in stock options, of the President and Chief Executive Officer and of certain Executive Officers has been reduced and replaced with performance share units. Furthermore, since the annual awards of December 2015, all Bank Officers receive PSUs to replace part of the value of the compensation they had been awarded in the form of stock options.**

**The variable compensation programs are designed to reward Executive Officers and Officers for their particular contribution to the annual results and to motivate them to maintain their performance over time and so grow shareholder value in the long term.**

## Establishing the compensation policy

The compensation policy for Executive Officers aims to position their target total compensation at the peer group median (the 50<sup>th</sup> percentile) when results meet expectations. Moreover, the target total compensation of the peer group continues to be adjusted downward to take into account the Bank's specific characteristics, notably its relative size. The peer group used to establish the value of compensation varies according to the Bank's business lines. For Executive Officers, the peer group for 2015 is unchanged from 2014 and consists of the following companies:

Selection criteria		Peer group
Location of head office	– Canada	<ul style="list-style-type: none"> <li>– Bank of Montreal</li> <li>– Canadian Imperial Bank of Commerce</li> <li>– Great-West Lifeco Inc.</li> <li>– Industrial Alliance Insurance and Financial Services Inc.</li> <li>– Manulife Financial Corporation</li> <li>– Power Financial Corporation</li> <li>– Royal Bank of Canada</li> <li>– Sun Life Financial Inc.</li> <li>– The Bank of Nova Scotia</li> <li>– The Toronto-Dominion Bank</li> </ul>
Industry	– Banks with diversified operations and other financial institutions	
Characteristics	<ul style="list-style-type: none"> <li>– Serve a comparable client group</li> <li>– Attract a similar profile of employees</li> <li>– Have a large number of shareholders</li> </ul>	

The following table shows how the Bank ranks in relation to the Canadian banks and other financial institutions in its peer group.

Members of the peer group	Revenues (\$M)	Net income attributable to holders of Common Shares (\$M)	Net income / Revenue Ratio	Market capitalization (\$M)	Number of employees (thousands)
Bank of Montreal <sup>(1)</sup>	18,135	4,253	23%	48,862	46.4
Canadian Imperial Bank of Commerce <sup>(1)</sup>	13,856	3,531	25%	39,840	44.2
Great-West Lifeco Inc. <sup>(2)</sup>	10,021	2,546	25%	33,479	21.0
Industrial Alliance Insurance and Financial Services Inc. <sup>(2)</sup>	2,587	400	15%	4,477	5.0
Manulife Financial Corporation <sup>(2)</sup>	16,023	3,375	21%	41,344	28.0
Power Financial Corporation <sup>(2)</sup>	12,615	2,136	17%	25,749	24.1
Royal Bank of Canada <sup>(1)</sup>	32,358	9,734	30%	107,925	72.8
Sun Life Financial Inc. <sup>(2)</sup>	9,356	1,762	19%	25,701	27.8
The Bank of Nova Scotia <sup>(1)</sup>	24,049	6,897	29%	73,969	89.2
The Toronto-Dominion Bank <sup>(1)</sup>	28,926	7,813	27%	99,600	80.6
<b>National Bank of Canada <sup>(1)</sup></b>	<b>5,746</b>	<b>1,504</b>	<b>26%</b>	<b>14,606</b>	<b>19.8</b>

(1) The information is as at October 31, 2015.

(2) The information is as at December 31, 2014.

Each year, the Human Resources Committee reviews the competitiveness of Executive Officers' target total direct compensation. This compensation includes base salary, target annual bonus and mid-term and long-term variable compensation. The Human Resources Committee examines the results of the compensation studies conducted by the independent external consultant it mandated. It receives the

recommendations of the President and Chief Executive Officer, the Audit Committee and the Risk Management Committee for the compensation of other Executive Officers and individuals in charge of oversight functions, and then conducts its own review in order to make its recommendations to the Board.

The Bank's compensation policy, which covers most of the other functions, also aims to position the target total direct compensation of employees at the peer group median (the 50<sup>th</sup> percentile) when results meet expectations. The Bank's compensation policy also applies to its Canadian and foreign subsidiaries. However, it is aligned with market practices by offering compensation components that may vary from one business line to another, and takes into account significant pay disparities that may exist among the large regions or countries where the Bank provides its services.

At the start of each year, the Human Resources Committee reviews and approves the mandates to be assigned to independent external consultants for obtaining market studies on total compensation, which enable the committee to maintain the competitiveness of the compensation policy applicable to the other functions of all Bank employees. During the year, the results of these market studies are first reviewed by management and, if applicable, recommendations are submitted to the Human Resources Committee for discussion and approval.

### **Independent external consultants**

The Human Resources Committee has the power to retain, when it deems appropriate, the services of independent external consultants to assist the Committee in performing its duties and provide it with necessary information on trends and best practices in its peer group regarding compensation policies and programs as well as on the competitiveness of Executive Officer compensation.

In keeping with good governance practices, the Human Resources Committee sets guidelines for awarding mandates to external consultants, which include in particular a criterion concerning external consultants' independence from Executive Officers. They also enable the Human Resources Committee to choose the external consultant deemed most qualified to carry out each mandate awarded by the Committee.

All contracts awarded for work in respect of Executive Officer compensation must be approved in writing by the Chair of the Human Resources Committee. Moreover, only work that does not compromise the independence of the external consultant is approved by the Chair of the Human Resources Committee and its members.

At the start of the fiscal year, the Human Resources Committee members also review the performance and independence of the external consultants and approve the planned mandates to be awarded by the Bank's management during the fiscal year. When they are engaged, external consultants are apprised of these guidelines and must undertake to follow them.

### **Hay Group:**

- Has been advising the Human Resources Committee regarding Executive Officer compensation matters since the early 2000s;
- Confirmed, over the past fiscal year, the competitiveness of the target total direct compensation (base salary and variable compensation) of positions held by Executive Officers and individuals in charge of oversight function with that paid by companies in the Bank's peer group;
- Adjusted downward the peer group data to take into account the Bank's relative size and differences in the level of responsibility associated with the Bank's positions compared to peer group positions;

- Presented to the Human Resources Committee the market positioning of Executive Officer compensation as well as market trends and developments in executive compensation, governance and regulation;
- Helped the Human Resources Committee review the mix of mid- and long-term compensation plans by providing market data and reviewing management proposals;
- Helped the Human Resources Committee introduce a cap on the annual pension income for the President and Chief Executive Officer by providing market data and reviewing management proposals;
- Helped the Human Resources Committee review the composition of the peer group that remains appropriate; and
- Conducted the compensation surveys, in which the Bank participates each year, on market practices and compensation levels for management and non-management positions.

The following table presents the fees paid to Hay Group in the past two fiscal years.

Independent external consultants <sup>(1)</sup>	For fiscal year 2015			For fiscal year 2014		
	Executive compensation – Related fees	Other fees	Total	Executive compensation – Related fees	Other fees	Total
Hay Group	\$122,094 72%	\$46,421 <sup>(2)</sup> 28%	\$168,515 100%	\$105,145 72%	\$40,902 <sup>(2)</sup> 28%	\$146,047 100%

(1) The Bank no longer discloses the fees paid to Morneau Shepell, since this company was not retained by the Board or the Human Resources Committee to help determine the compensation of directors or Officers. Morneau Shepell rather acts more as a provider of actuarial and pension plan administration services for the Bank.

(2) Total costs related to the Bank's participation in compensation surveys for employees who are not Officers.

## 2. Aligning performance and variable compensation

### Setting annual objectives and managing performance and careers

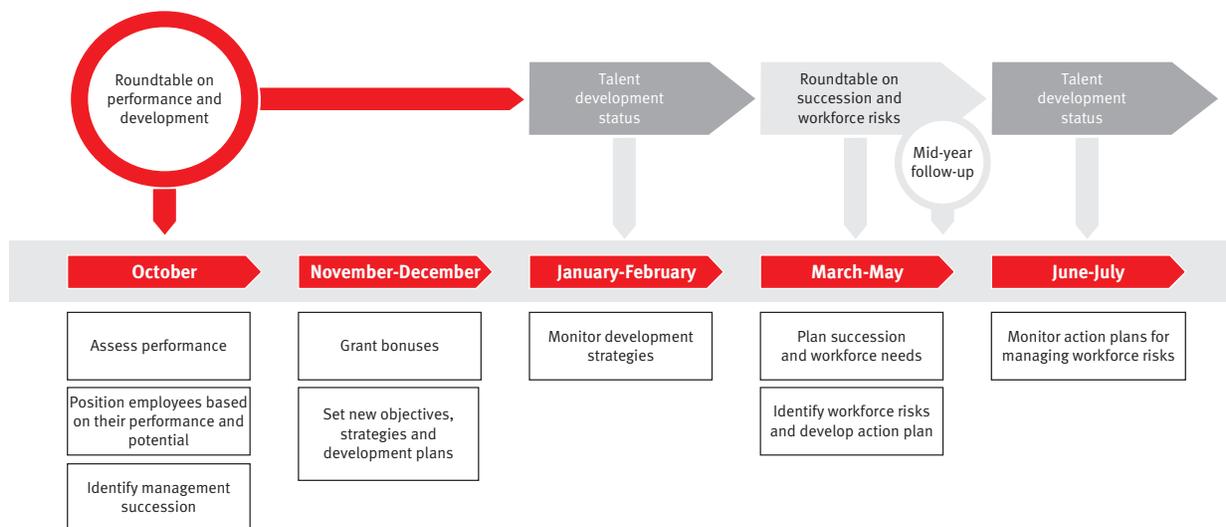
At the beginning of each fiscal year, the Human Resources Committee approves the performance objectives of the President and Chief Executive Officer and recommends that the Board approve the financial objectives of the variable compensation program provided to the President and Chief Executive Officer as well as the other Executive Officers.

Since implementing its *One client, one bank* approach, the Bank has put in place a rigorous performance and career management process in order to closely tie variable compensation to performance. One of the priorities of this process is to promote a culture of cooperation, accountability and performance at all levels of the institution on a daily basis. The approach strives to foster performance and professional development, provide for succession planning and manage workforce risks. Thus, each Officer prepares an annual plan, consisting of three categories of objectives:

- annual objectives tied to financial targets, growing client loyalty, and engaging and retaining employees;
- annual objectives attached to his or her role and mandate; and
- annual objectives related to his or her leadership development and commitment to the values and behaviours sought by the Bank.

To ensure fairness, rigour and regular follow-ups, each management level, including Executive Officers, holds two roundtable meetings every year: the first to assess individual performance and the second to

plan succession and workforce needs. This process, depicted below, has also been implemented in business lines where specialists may assume risks that can have a material impact on the Bank.



The Human Resources Committee assesses the performance of the President and Chief Executive Officer by comparing results against the objectives set at the start of the fiscal year.

For the other Executive Officers, the Human Resources Committee receives the assessment report of the President and Chief Executive Officer and approves the recommendations regarding variable compensation stemming from program application.

### Creating annual variable compensation envelopes

The short-term variable compensation envelopes for Executive Officers are based on the following parameters:



### Determining the Bank's performance factor

A single financial indicator is used to determine the annual bonus envelopes: net income attributable to holders of the Bank's Common Shares as reported in the Bank's Financial Statements, i.e. net income less dividends on preferred shares and the non-controlling interest amount.

**Net income attributable to holders of Common Shares is a comprehensive financial indicator that captures the Bank's overall performance during a given fiscal year and provides a basis for assessing growth from year to year. It focuses all employees on meeting the same sustained growth objective.**

For the short-term variable compensation program, a growth target for net income attributable to holders of Common Shares is set at the beginning of each fiscal year, with a threshold (80% of the target) to be achieved in order to generate the creation of an envelope, and a maximum (120% of the target) at which the envelope is capped.

Each year, the Human Resources Committee receives a letter signed by three Officers serving in functions accountable for the oversight of the variable compensation programs deployment and the financial results used to calculate the bonus envelopes for Executive Officers, Officers and Financial Markets specialists, and other employees of the Bank.

The Board may exercise its discretion, on the recommendation of the Human Resources Committee, to increase annual bonuses by up to 15% of the value of the target bonuses, without however exceeding the maximum set at 200% of target bonuses, in order to take specific situations into account.

### **Adjusting annual variable compensation envelopes as necessary**

The Bank is always striving to further align the potential impact of all types of risks with the compensation of Executive Officers, Officers, Financial Markets specialists and other material risk takers from all other sectors of the Bank, as required by the FSB and OSFI. Like other major Canadian banks, the Bank provides the Human Resources Committee with discretionary power to make downward adjustments, as it sees fit, to the annual variable compensation envelopes. In order to better support primarily judgment-based decisions, the Compensation Risk Oversight Working Group uses a scoring grid, jointly developed by the Internal Audit, Risk Management and Compliance sectors, that flags the main potential sources of significant risk, both internal (related to decision making) and external (related to business conditions). The assessment takes into account credit, market, liquidity, financing, operational, regulatory non-compliance, reputational, strategic and environmental risks. Subsequent to this assessment, Working Group members recommend to the Executive Vice-President of the sector concerned, the President and Chief Executive Officer and the Human Resources Committee, if need be, that the appropriate adjustments be made to the annual variable compensation envelopes.

One mechanism refers to the Basel III Accord guidelines that call for reducing the size of annual bonus envelopes if the Bank's minimum regulatory capital required by regulatory authorities is not met. The guidelines dictate the elements to be reduced (share redemptions, dividends and annual bonuses) and the weight of their reduction. The mechanism applies to all short-term variable compensation programs including those offered to Executive Officers, Officers and Financial Markets specialists and all other employees of the Bank and its subsidiaries.

## **3. Ensuring governance of compensation practices**

### **Monitoring compensation policies and programs implementation**

In exercising its duties, the Human Resources sector of the Bank oversees the implementation of policies and all variable compensation programs of the Bank and its subsidiaries.

### **Clawing back, as warranted, the previously awarded variable compensation**

Additional measures are taken to balance risks and return to adequately meet regulatory and prescriptive requirements and ensure the Bank's sustainability.

More specifically, the various programs for Officers and Financial Markets specialists provide for the following controls:

- a policy prohibiting Officers and employees from purchasing financial instruments, particularly prepaid variable forward agreements, equity swaps, collars or units of exchange-traded funds that are designed to hedge or offset a decrease in market value of equity securities granted as compensation or held directly or indirectly by the Officer or employee;
- a portion of the annual bonuses of Officers and Financial Markets specialists who may have a considerable impact on the Bank's risk profile is deferred over three years; and
- a policy entitling the Bank to cancel and claw back not only the deferred portion but also all of the variable compensation awarded to Officers and Financial Markets specialists in specific circumstances, i.e. when one of the following scenarios arises:
  - an employee has engaged in dishonest actions or unethical behaviour in the course of his or her employment;
  - an employee has failed to comply with policies, rules or procedures during the fiscal year or thereafter (for up to three years); or
  - a unit's financial results must be materially restated and reissued and employee compensation is based on those results.

**During fiscal 2015, no portion of previously awarded variable compensation was clawed back by the Bank.**

### **Receiving Internal Audit's annual report**

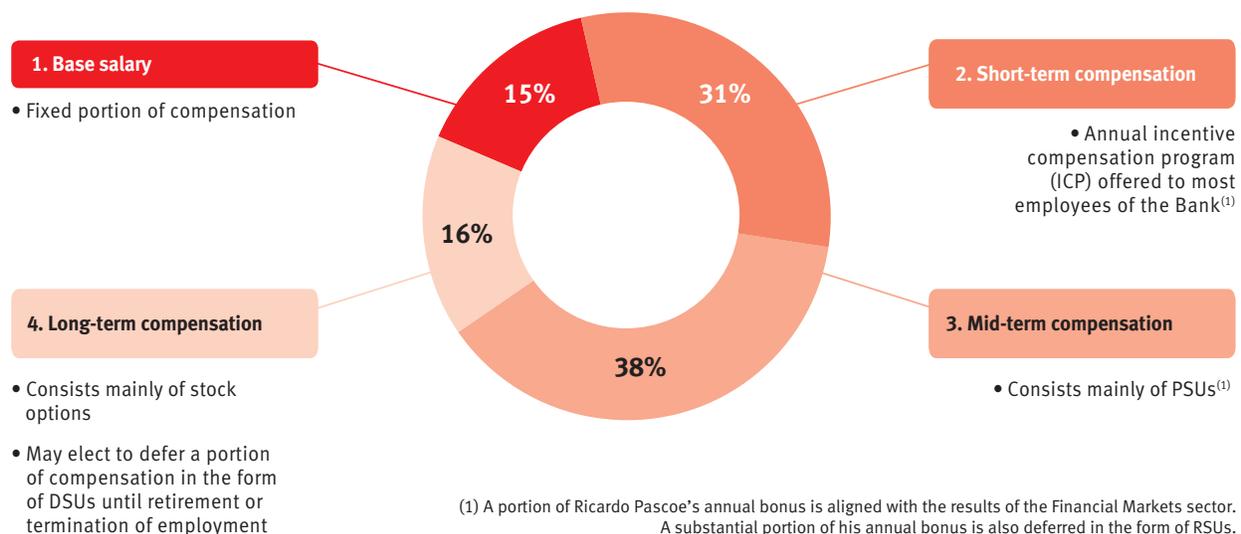
Each year, the Senior Vice-President – Internal Audit submits to the Human Resources Committee the results of his independent analysis designed to detect any material differences between the Bank's compensation policies, programs and practices and the principles and standards issued by the FSB. Internal Audit's oversight function analysis further aims to detect any material differences between the compensation paid and the compensation payable under the Bank's total compensation policies and programs.

## COMPENSATION OF NAMED EXECUTIVE OFFICERS

This section presents information regarding the compensation offered to Named Executive Officers for the fiscal year ended October 31, 2015.

Named Executive Officers	
<b>Louis Vachon</b>	President and Chief Executive Officer
<b>Ghislain Parent</b>	Chief Financial Officer and Executive Vice-President – Finance and Treasury
<b>Ricardo Pascoe</b>	Executive Vice-President – Financial Markets
<b>Luc Paiement</b>	Executive Vice-President – Wealth Management, Chairman of the board, President and Chief Executive Officer, NBF Ltd. and Co-Chairman of the board, Co-President and Co-Chief Executive Officer, NBF Inc.
<b>Diane Giard</b>	Executive Vice-President – Personal and Commercial Banking

### Components of total direct compensation



### Target total direct compensation and total direct compensation granted

	Target compensation in 2015				Target compensation in 2015	Compensation granted in 2015	Compensation granted in 2014
	14.3%	21.4%	42.9%	21.4%			
Louis Vachon	14.3%	21.4%	42.9%	21.4%	\$7,875,000	\$7,824,392	\$8,239,140
Ghislain Parent	22.2%	22.2%	33.4%	22.2%	\$1,800,000	\$1,788,013	\$1,904,010
Ricardo Pascoe	7.2%	42.8%	42.8%	7.2%	\$6,250,000	\$6,723,573	\$6,495,799
Luc Paiement	15.7%	33.1%	35.5%	15.7%	\$3,016,250	\$2,986,342	\$3,275,630
Diane Giard	15.7%	33.1%	35.5%	15.7%	\$3,016,250	\$2,986,342	\$3,275,639

- Base salary
- Short-term compensation
- Mid-term compensation
- Long-term compensation



## 1. BASE SALARY

In accordance with the objectives of the compensation policy, the purpose of base salary is to reward contribution. It allows the Bank to ensure that the compensation is competitive in relation to that offered by the Bank's peer group. It also recognizes the level of responsibility, expertise, competence and experience.

### Features/reasons for payment

- Constitutes the fixed portion of total compensation
- Is established by taking into account the responsibility level of the position and the total compensation value to ensure an appropriate balance between fixed and variable compensation
- It is compared annually to the median salary of the Bank's peer group taking into account the relative size of the Bank and the differences between the responsibilities associated with the Bank's positions and those of comparable peer group positions



## 2. SHORT-TERM VARIABLE COMPENSATION

In accordance with the Bank's compensation policies, short-term variable compensation aims to recognize annual financial performance. The individual annual bonus granted takes into account the prudence demonstrated in risk management. A portion of this bonus may be deferred to reflect the risk horizons involved.

### ANNUAL INCENTIVE COMPENSATION PROGRAM (ICP)

### Features/ reasons for payment

- Designed to tie the annual compensation of Executive Officers, the majority of Officers and employees to the Bank's financial objectives and to promote their buy-in to the *One client, one bank* approach based on the following guiding principles:
  - promote cooperation among the various business lines
  - improve the Bank's financial performance in absolute terms
  - provide an incentive to exceed the Bank's financial objectives
  - generate a minimum level of net income attributable to holders of Common Shares to justify the payment of bonuses

### Financial indicator

- Growth in net income attributable to holders of Common Shares

### Grant

- Individual bonuses are granted in relation to:
  - the extent to which the Bank's financial objectives are met
  - the function level
  - individual results attained
  - the assessment of leadership behaviours and adherence to the Bank's values
  - compliance with the Bank's risk appetite in achieving results

**Payment**

- Bonuses are paid annually in cash and may range between 0% and 200% of the target bonus, depending on financial results and grant criteria
- The Board may exercise its discretion, on the Human Resources Committee's recommendation, to increase annual bonuses by up to 15 % of the value of the target bonuses, without however exceeding the maximum set at 200% of target bonuses, in order to take specific situations into account
- The Compensation Risk Oversight Working Group reviews the levels of the various risks incurred during the year and makes recommendations to the Human Resources Committee when the annual bonus envelopes need to be adjusted downward

**Clawback of variable compensation**

- In accordance with the variable compensation clawback policy, payments made to staff subject to the policy may be clawed back in specific circumstances

**APPLICATION OF THE ANNUAL BONUS PROGRAM FOR FISCAL YEAR 2015**

At the beginning of the fiscal year, the Board approved the financial objectives for fiscal year 2015, in accordance with the Human Resources Committee's recommendations. Net income attributable to holders of Common Shares stood at \$1,576 million, up 6.2 % from \$1,484 million in restated net income for fiscal 2014 excluding specified items.

In fiscal year 2015, the Bank reported available net income attributable to holders of Common Shares of \$1,504 million. However, for the purposes of the annual bonus program, the Board approved the Human Resources Committee's recommendation to adjust that net income amount by \$63 million to exclude all specified items, including the favourable reversal related to restructured notes held. In that regard, since 2007, the amount of net income attributable to holders of Common Shares used for the annual bonus program of Named Executive Officers is calculated excluding losses or gains related to holding commercial paper as well as other elements such as restructuring or acquisition charges and fiscal provisions.

Available net income arising from exclusion of specified items amounted to \$1,567 million, which represents a performance factor of 97%.

Financial objectives (in millions of dollars)	2014	2015			
	Restated result	Threshold	Adjusted result	Target	Maximum
Available net income attributable to holders of Common Shares	\$1,484	\$1,261	\$1,567	\$1,576	\$1,891
Performance factor		0%	97%	100%	200%

No further adjustments were made resulting from the Board's discretion.

The short-term variable compensation envelopes of the Named Executive Officers are established based on the following parameters:



Ricardo Pascoe also participates in the annual bonus program for the Financial Markets sector, which includes the following:

- An annual bonus set at 0.40% of income before taxes generated by the Financial Markets sector, a portion of which is deferred in the form of RSUs. The target bonus was adjusted to take into account changes in the previous results related to this component.
- A portion of Ricardo Pascoe's annual bonus is deferred in the form of RSUs. Its value is calculated by considering the value of his compensation granted in the form of PSUs and stock options since at least 50% of Ricardo Pascoe's total direct compensation must be deferred (RSUs, PSUs and options).

The achievements and decisions on the 2015 target total direct compensation and compensation paid to Ricardo Pascoe are presented on page 92 of the Circular.



### 3. MID-TERM VARIABLE COMPENSATION

In accordance with the objectives of the compensation policy, the purpose of mid-term variable compensation is to align the vision and expectations with respect to Executive Officers and Officers with those of shareholders on a three-year horizon.

	Performance Share Units (PSUs)	Restricted Share Units (RSUs)								
<b>Features/reasons for payment</b>	<ul style="list-style-type: none"> <li>Designed to tie a portion of the value of compensation to the future value of the Bank's Common Shares and to performance relative to its peers</li> </ul>	<ul style="list-style-type: none"> <li>Designed to tie a portion of the value of certain Officers' compensation to the future value of the Bank's Common Shares</li> </ul>								
<b>Financial indicator</b>	<ul style="list-style-type: none"> <li>Growth in the price of the Bank's Common Shares</li> <li>Growth in the Bank's TSR compared to growth in the S&amp;P/TSX Banks adjusted sub-index <sup>(1)</sup> (the "Relative TSR")</li> </ul>	<ul style="list-style-type: none"> <li>Growth in the price of the Bank's Common Shares</li> </ul>								
<b>Grant</b>	<ul style="list-style-type: none"> <li>The value granted to each Executive Officer is generally based on a pre-set target compensation level. However, the Bank also takes into account the Officer's consistent contribution over time, leadership potential, and individual performance at time of award. Ultimately, the Human Resources Committee also has discretionary power over the value of annual awards.</li> <li>The number of PSUs and RSUs granted is based on the average closing price of the Bank's shares over the 10 days preceding the sixth business day in December,<sup>(2)</sup> as published by the Toronto Stock Exchange.</li> <li>Additional PSUs and RSUs are credited to the participant's account in an amount proportional to the dividends paid on the Bank's Common Shares</li> </ul>									
<b>Vesting</b>	<ul style="list-style-type: none"> <li>After three years</li> </ul>	<ul style="list-style-type: none"> <li>There are two possible types of vesting for RSUs               <ul style="list-style-type: none"> <li>Full vesting after three years</li> <li>Vesting in equal portions spread over three years</li> </ul> </li> </ul>								
<b>Payment</b>	<ul style="list-style-type: none"> <li>At vesting, the cash payment is equal to the number of PSUs vested, multiplied by the average closing price of the Bank's shares on the Toronto Stock Exchange for the 10 days preceding the sixth business day in December,<sup>(2)</sup> and then adjusted upward or downward depending on relative TSR</li> </ul> <div style="border: 1px solid black; padding: 5px; margin: 10px 0;"> <math display="block">\frac{\text{Bank's TSR growth over 3 years}}{\text{S\&amp;P/TSX Bank's adjusted TSR over 3 years}}</math> </div> <ul style="list-style-type: none"> <li>The adjustment to the payable value, based on the relative TSR, is established in a linear manner within the following limits:           <table border="1" style="margin: 10px 0;"> <thead> <tr> <th>Relative TSR result</th> <th>Adjustment range of payable value</th> </tr> </thead> <tbody> <tr> <td>≥ 1.25</td> <td>125% (maximum)</td> </tr> <tr> <td>= 1.00</td> <td>100% (target)</td> </tr> <tr> <td>≤ 0.75</td> <td>75% (minimum)</td> </tr> </tbody> </table> </li> <li>The PSUs granted in 2012 and vested in 2015 by Executive Officers showed a relative TSR below that of the S&amp;P/TSX banks sub-index. Consequently, a PSU payment of 89.7% was awarded to plan participants.</li> </ul>		Relative TSR result	Adjustment range of payable value	≥ 1.25	125% (maximum)	= 1.00	100% (target)	≤ 0.75	75% (minimum)
Relative TSR result	Adjustment range of payable value									
≥ 1.25	125% (maximum)									
= 1.00	100% (target)									
≤ 0.75	75% (minimum)									
<b>Clawback of variable compensation</b>	<ul style="list-style-type: none"> <li>In accordance with the variable compensation clawback policy, payments made to staff subject to the policy may be clawed back in specific circumstances.</li> </ul>									

(1) Adjusted to exclude Genworth MI Canada, Home Capital Group and the Bank.

(2) The method used to determine the average closing prices of shares was modified in 2015 following the harmonization of administrative processes.



## 4. LONG-TERM VARIABLE COMPENSATION

In accordance with the objectives of the compensation policy, the purpose of the long-term variable compensation is to align the vision and expectations of the Executive Officers and Officers, with that of shareholders, and this, on a 10-year horizon for the stock-options, and up to the retirement or departure, for the DSUs.

	Stock options	Deferred Share Units (DSUs)
<b>Features/reasons for payment</b>	<ul style="list-style-type: none"> <li>– Designed to retain and encourage the Executive Officers and eligible Officers to contribute to the Bank's success, and to foster growth in the value of the investment of holders of Common Shares</li> <li>– Each option entitles the participant to purchase one Common Share at a price equal to the closing price of the Bank's Common Shares on the Toronto Stock Exchange on the day preceding the grant</li> <li>– The price of options already granted cannot be lowered, under any circumstances, to reflect changes in the price of the Bank's Common Shares, so that Executive Officers and Officers can only benefit from the options granted to them provided the Bank's Common Share price increases steadily over the long term</li> </ul>	<ul style="list-style-type: none"> <li>– Designed to tie a portion of the value of the compensation of Executive Officers and eligible Officers to the future value of the Bank's Common Shares</li> <li>– DSUs cannot be cashed as long as the participant is employed by the Bank</li> </ul>
<b>Financial indicator</b>	<ul style="list-style-type: none"> <li>– Growth in the price of the Bank's Common Shares</li> </ul>	
<b>Grant</b>	<ul style="list-style-type: none"> <li>– Each year, when granting options, the Human Resources Committee takes into account the number and term of previously granted options</li> <li>– The number of options granted is based on: <ul style="list-style-type: none"> <li>• the dollar value of the grant, divided by</li> <li>• the Black-Scholes value</li> </ul> </li> <li>– Since the Stock Option Plan was adopted, the Bank has made only one grant per fiscal year, on a specific date (in December), regardless of any hire or appointment of Executive Officers and Officers during the fiscal year. This annual grant date has never been amended retroactively</li> </ul>	<ul style="list-style-type: none"> <li>– Executive Officers and Officers may elect to receive up to 30% of their long-term compensation in the form of DSUs</li> <li>– The number of DSUs granted is based on: <ul style="list-style-type: none"> <li>• the dollar value of the grant, divided by</li> <li>• the closing price of the Bank's Common Shares on the Toronto Stock Exchange on the day preceding the grant</li> </ul> </li> <li>– Additional DSUs are credited to the account of the Executive Officer and the Officer in an amount proportional to the dividends paid on the Common Shares</li> </ul>
<b>Vesting</b>	<ul style="list-style-type: none"> <li>– 25% per year, over a four-year period</li> </ul>	

**Payment**

- No options may be exercised in the first year after the grant date
- Vested options may be exercised:
  - only during quarterly transaction periods, as established by the Corporate Secretary’s Office of the Bank, following the release of the financial statements
  - only by a participant or his or her estate (options may not be sold to a third party but ownership may be transferred to a beneficiary or to a legal representative in the event of the participant’s death)
  - in whole or in part before the expiration date set by the Human Resources Committee at the time the options are granted; however, where the expiration date falls within or immediately after a black-out period, the expiration date of the options is deferred, as applicable, (i) by 10 business days if the expiration date falls during the black-out period or (ii) by a number of business days equal to 10 business days less the number of business days elapsed between the end of the black-out period and the expiration date if such date falls no later than 10 business days after the end of the black-out period
- Each Executive Officer must keep at all times, after the exercise of options, Common Shares of the Bank with a value equal to the gain resulting from the exercise of vested options, until the share ownership requirements applicable to that individual have been met
- For information on the treatment of options according to the reason for departure, please refer to the table “Conditions applicable in the event of termination of employment” in the Circular
- DSUs may be redeemed only upon termination of employment or retirement of the Executive Officer or Officer
- A participant may redeem vested DSUs by filing redemption notices during a fixed period after termination of employment

**Clawback of variable compensation**

- In accordance with the variable compensation clawback policy, payments made to staff subject to the policy may be clawed back in specific circumstances.

## LOUIS VACHON

## CAREER PROFILE



President and Chief Executive Officer

Louis Vachon has been President and Chief Executive Officer of the Bank since June 2007. In this capacity, he is responsible for the direction, strategies and development of the Bank and its subsidiaries. He is supported by the other Executive Officers who, with him, make up the Office of the President. At the time of his appointment, he was Chief Operating Officer of the Bank, a position he had held since August 2006.

Louis Vachon was Chairman of the board of directors of Natcan Investment Management Inc. from November 2004 to September 2006. He was also Chairman of the board and President and Chief Executive Officer of NBF from September 2005 to September 2006.

Louis Vachon has a Bachelor's in Economics from Bates College and a Master's in International Finance from The Fletcher School, a Tufts and Harvard University cooperative graduate program. He has been a CFA charterholder since 1990. In 2014, he was named Canada's CEO of the Year by *Canadian Business* magazine. He was also named 2014 and 2012 Financial Personality of the Year by the business publication *Finance et Investissement* and in 2001 was named one of Canada's Top 40 Under 40™. Louis Vachon has also received many awards highlighting his economic and social involvement, including the University of Ottawa's Distinguished Canadian Leadership Award in 2011.

## 2015 Performance indicators and results

The Human Resources Committee assessed Louis Vachon's performance for 2015 taking into account results associated with the Bank's short-, mid- and long-term objectives, risk management and the strategic, organizational and operational priorities conducive to creating sustainable value for shareholders. The following table shows all the results taken into account in his assessment.

Performance indicators	Result obtained	
<b>Shareholder-related</b>		
Increase net earnings per share by at least 5% – Excluding specified items	5%	In 2015 the Bank yet again obtained sound financial results despite another year of weak economic growth in Quebec and Canada. This performance was mainly due to the soundness of its super-regional model and its ability to seize business opportunities while effectively managing risk.
Deliver return on equity of over 15% – Excluding specified items	17.6%	Net income excluding specified items amounted to \$1,682 million, up 6% from 2014. Diluted earnings per share rose by 5% to \$4.70. Total revenues excluding specified items grew 6% to \$5,982 million. Fiscal 2015 is the 13 <sup>th</sup> consecutive year of growth for these three financial performance metrics.
Revenue growth of at least 5% – Excluding specified items	6%	Over the course of fiscal 2015, the Bank increased its dividend on two occasions, taking it to \$2.04 and delivering a solid return to shareholders.
Keep revenue growth above or in line with expense growth	✓	In 2015 the Bank continued to grow and maintained good financial results in its three business lines while consolidating its competitive position and deploying initiatives aimed at ensuring its long-term success.
<b>Employees-related</b>		
Ability to engage and mobilize employees in the transformation to a <i>One client, one bank</i> approach	✓	The 2015 edition of the <i>Taking a Look at Our Organization</i> survey once again confirmed the high degree of employee engagement, confidence and commitment in the Bank's transformation.  In 2015 the Bank was named one of the 50 Best Employers in Canada for the 11 <sup>th</sup> year in AON Hewitt's annual ranking. In Quebec, the Bank has made it into the Top 50 more often than any another company since the awards were set up.  In 2015, the Red Carpet training program was deployed for all Bank employees in all its business lines. This program aims to enhance our employees' ability to deliver the simplicity, proactivity and accessibility central to our Client Value Proposition.  With 38% of its management positions held by women, the Bank leads the other major Canadian banks in that respect.
Voluntary external turnover rate of employees at or below the target.	✓	Through continuing education, coaching and effective leadership, the Bank strives to create a stimulating working environment where employees can develop and achieve their full potential. In response to these efforts, the voluntary external turnover rate among employees was 16% lower than the target set at the start of the year.

## 2015 Performance indicators and results (cont.)

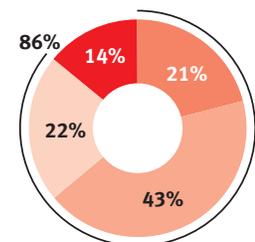
Performance indicators	Result obtained	
<b>Client-related</b>		
Continuous deployment of strategy rooted in the <i>One client, one bank</i> approach	✓	<p>During fiscal 2015, several initiatives were deployed to ensure the Bank increasingly lives up to its promise to be “the Bank that truly takes care of its clients”:</p> <ul style="list-style-type: none"> <li>- further enhancements to our mobile solutions with 27% growth in the number of users;</li> <li>- the launch of two innovative technological tools: My Business Model to help SMEs analyze their strategic thinking, and the My Idea savings calculator;</li> <li>- the new branch layout concept focused on consulting services and technology, paired with more proactive and streamlined care as soon as clients step into the branch; and</li> <li>- clear improvement in the quantity and quality of marketing campaigns often targeted on high potential groups. The many campaigns conducted in 2015 have led to major business benefits and activity within our channels, including a significant increase in web traffic.</li> </ul> <p>This is reflected by our client retention statistics, for both personal and commercial clients, exceeding the targets set at the start of the fiscal year.</p>
<b>Community-related</b>		
Active participation in community associations and causes	✓	<p>In fiscal 2015, the Bank’s employees and retirees contributed over 100,000 volunteer hours to <i>One for Youth</i> initiatives, and the Bank itself donated more than \$25 million to various community associations and causes.</p> <p>The Bank also actively supports women’s causes, cultural communities, the LGBT community, and people with disabilities.</p>
Promote an environmentally responsible brand image	✓	<p>Carbon-neutral since 2011, the Bank has contributed actively to protecting the planet, incorporating environmentally friendly design practices into its branch renovation projects and assessing its suppliers through a sharper lens to promote more sustainable business practices.</p> <p>The Bank also holds multiple LEED certifications for its existing buildings and appears in various rankings issued by Bloomberg that list investors actively working in the clean energy field.</p>

## Decisions on the 2015 target total compensation and compensation paid

No adjustments were made to total direct compensation for Louis Vachon in fiscal 2015. In determining Louis Vachon’s variable compensation for fiscal 2015, the Human Resources Committee considered the Bank’s solid financial and operational performance, his leadership in the continuing deployment of the *One client, one bank* approach, the client satisfaction levels, and his ability to engage Executive Officers, Officers and employees. Therefore, the Board approved the following compensation, in accordance with the Human Resources Committee’s recommendation:

		Target variable compensation	Target total direct compensation	Total direct compensation granted	
	Form	% of salary	(\$)	(\$)	(%)
Base salary	Cash	n/a	1,125,000	1,125,015	14
Annual bonus	Cash	150	1,687,500	1,636,875	21
Mid-term compensation	PSUs	300	3,375,000	3,375,000	43
Long-term compensation	Options	150	1,687,500	1,687,502	22
<b>Total</b>			<b>7,875,000</b>	<b>7,824,392</b>	<b>100</b>

2015 granted compensation mix



■ Base salary  
■ Annual bonus  
■ Mid-term compensation  
■ Long-term compensation  
— Compensation at-risk

### The link between performance and compensation for the President and CEO during his mandate

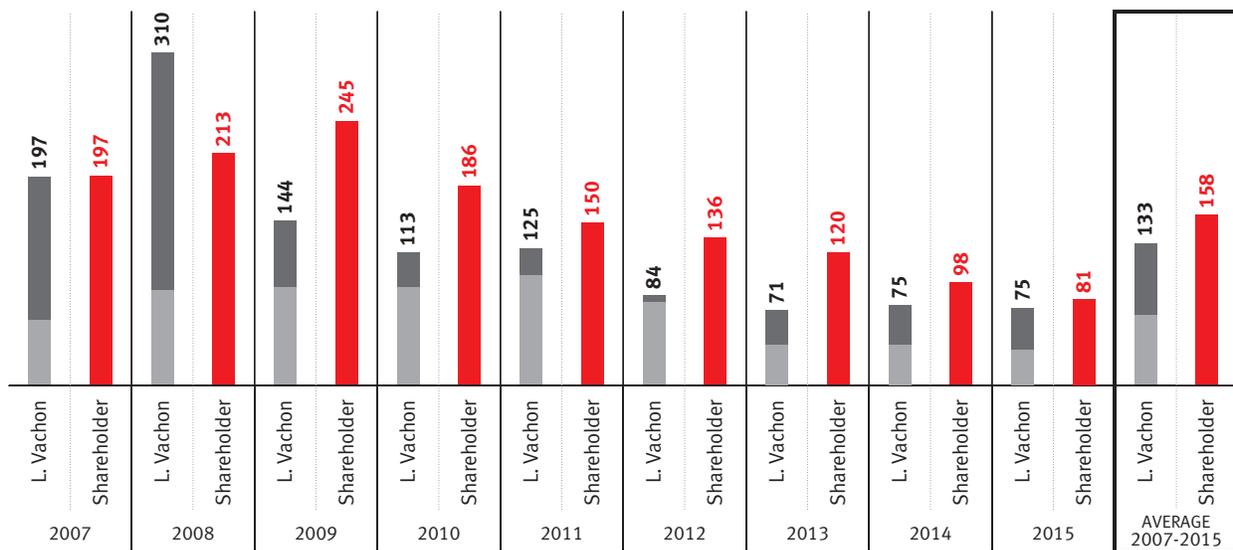
As a significant portion of the President and Chief Executive Officer’s direct compensation is conditional on the Bank’s financial and stock market performance, the Board notes a close correlation between this performance and total shareholder return. In fact, the average actual value of every \$100 granted annually to Louis Vachon in the form of direct compensation since taking on his position as President and Chief Executive Officer in 2007 stood at \$133 as of December 31, 2015. By comparison, from a shareholder’s point of view, the average value of every \$100 invested on the first day of each fiscal year in the Bank’s Common Shares over the same period amounted to \$158. The Board is therefore satisfied that the Bank’s compensation policy is conducive to long-term value creation for shareholders.

Actual compensation is the total direct realized and realizable compensation, in accordance with the following definitions:

- Realized compensation: the value of the salary, of annual bonus, of RSUs and PSUs actually paid and of exercised stock options
- Realizable compensation: the value of non-vested PSUs and of non-exercised stock options

In the event of share price variation, the direct compensation granted to Louis Vachon would remain closely tied to total shareholder return. In fact, a 10% rise in share price would increase Louis Vachon’s direct compensation to \$152 and total shareholder return to \$174 whereas a 10% decline in share price would reduce them to \$115 and \$143, respectively.

The following chart and table show the history of the link between performance and direct compensation granted to the President and Chief Executive Officer and total return to the Bank’s shareholders.



A significant portion of the compensation granted in 2007 and 2008 has not yet been realized and is still conditional on the Bank's stock market performance, as Louis Vachon has not exercised the stock options granted to him during these two years.

- Value of \$100 paid or granted annually as direct compensation to Louis Vachon between 2007 and 2015
- Realized Compensation
- Realizable Compensation (at-risk)
- Value of \$100 invested in Common Shares of the Bank at the start of every fiscal year between 2007 and 2015

Year	Value of direct compensation at time of award (\$M)	Value of actual direct compensation as at December 31, 2015 (\$M)	Period	Value of \$100	
				L. Vachon	Bank shareholders
2007	3.88	7.64	Oct. 31, 2006 - Dec. 31, 2015	197	197
2008	4.74	14.69	Oct. 31, 2007 - Dec. 31, 2015	310	213
2009	5.61	8.06	Oct. 31, 2008 - Dec. 31, 2015	144	245
2010	5.21	5.91	Oct. 31, 2009 - Dec. 31, 2015	113	186
2011	7.25	9.10	Oct. 31, 2010 - Dec. 31, 2015	125	150
2012	7.15	6.01	Oct. 31, 2011 - Dec. 31, 2015	84	136
2013	7.14	5.07	Oct. 31, 2012 - Dec. 31, 2015	71	120
2014	8.24	6.14	Oct. 31, 2013 - Dec. 31, 2015	75	98
2015	7.82	5.89	Oct. 31, 2014 - Dec. 31, 2015	75	81
<b>Average 2007-2015</b>				<b>133</b>	<b>158</b>

## GHISLAIN PARENT



Chief Financial Officer and Executive Vice-President – Finance and Treasury

## CAREER PROFILE

Ghislain Parent is Chief Financial Officer and Executive Vice-President – Finance and Treasury. In this capacity, he is responsible for all accounting, finance, corporate treasury, sourcing, strategic planning, capital management, taxation, investor relations and financial governance operations. Ghislain Parent is a member of the Office of the President.

Until August 28, 2011, Ghislain Parent served as Senior Vice-President – Internal Audit, a position he had held since July 2010. Before joining the Bank, he was Senior Vice-President and Chief Financial Officer of the Caisse de dépôt et placement du Québec and President of CDP Financial Inc. During his career, Ghislain Parent was both Vice-President – Internal Audit and Security and Vice-President – Chief Accountant for Laurentian Bank of Canada. He also served as Senior Advisor – Banking Supervision and Restructuring, Africa, for the International Monetary Fund.

Ghislain Parent has a Bachelor's in Business Administration and Accounting Sciences from Université du Québec en Abitibi-Témiscamingue. He is also a Fellow of the Ordre des comptables professionnels agréés du Québec.

## Achievements and decisions on the 2015 target total compensation and compensation paid

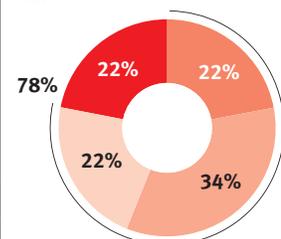
The Human Resources Committee has taken into account the following achievements to set Ghislain Parent's compensation for fiscal 2015.

- The Bank's financial performance. The Bank is targeting 5% to 10% annual growth in earnings per share in the medium term. In 2015, this indicator grew by 5%, excluding specified items, while the compound annual growth rate was 7.9% for the period 2013 to 2015.
- Solid capital ratios. In 2015, the Bank maintained its prudent capital management approach to manage its inherent business risks effectively, support its operating sectors, and protect its clients and investors. As at October 31, 2015, the Bank's CET1, Tier 1 and total capital ratios were, respectively, 9.9%, 12.5% and 14.0%, above regulatory requirements, compared to ratios of, respectively, 9.2%, 12.3% and 15.1% as at October 31, 2014.
- A prudent liquidity level. The Bank manages its liquidity level prudently and complies with Basel III Accord requirements. At the start of fiscal 2015, the Bank published for the first time ever its short-term liquidity ratio, which was 131% as of October 31, 2015, far exceeding the regulatory minimum requirement of 100%.
- Increased productivity. The Bank's focus on continuous productivity improvements is one of its financial performance drivers. The Bank reviews how work is executed in key areas of its activities, seeking to limit cost increases. Initiatives were launched in 2015 to contain the growing cost of support services. The Bank's productivity ratio (total cost as percentage of total revenue excluding specified items) was 58.6% in 2015 and in 2014, an improvement of 160 basis points versus fiscal 2013.
- The design and operation of internal controls governing financial information as well as procedures for its disclosure were reviewed for compliance with securities regulations and were considered satisfactory.
- Lastly, the Human Resources Committee has taken into account the significant growth in skills development and career progression activities, as reflected both in the great appreciation of the strategic contribution of the sector's employees that was expressed by internal partners and in increased employee satisfaction as expressed in opinion polls.

Therefore, the Board approved the following compensation, in accordance with the Human Resources Committee's recommendation:

	Form	Target variable compensation	Target total direct compensation		Total direct compensation granted	
		% of salary	(\$)	(\$)	(\$)	(%)
Base salary	Cash	n/a	400,000	400,008	400,008	22
Annual bonus	Cash	100	400,000	388,000	388,000	22
Mid-term compensation	PSUs	150	600,000	600,000	600,000	34
Long-term compensation	Options	100	400,000	400,005	400,005	22
<b>Total</b>			<b>1,800,000</b>	<b>1,788,013</b>	<b>1,788,013</b>	<b>100</b>

## 2015 granted compensation mix



- Base salary
- Annual bonus
- Mid-term compensation
- Long-term compensation
- Compensation at-risk

## RICARDO PASCOE

## CAREER PROFILE



Executive Vice-President –  
Financial Markets

Ricardo Pascoe has been Executive Vice-President – Financial Markets since September 2008. In this capacity, he is responsible for activities related to institutional equities and fixed-income securities, derivatives, corporate finance, U.S. operations and proprietary trading. He is also Chairman of the board of directors of Innocap Investment Management Inc. He joined the Bank in 2003 as Senior Vice-President – Treasury and Financial Markets. Ricardo Pascoe is a member of the Office of the President. He also held the positions of Co-President and Co-Chief Executive Officer of NBF from September 2006 until April 2014.

Ricardo Pascoe previously held various strategic executive positions in London and New York at financial institutions specializing in capital markets, derivatives and portfolio management.

He is recognized by the international markets as a derivatives expert.

Ricardo Pascoe has a Master's in Economics from Columbia University and an MBA from the University of Western Ontario.

### Achievements and decisions on the 2015 target total compensation and compensation paid

The Human Resources Committee has taken into account the following achievements to set Ricardo Pascoe's compensation for fiscal 2015.

- The net income of Financial Markets rose to \$697 million in 2015, up \$95 million or 16% on the previous year. Excluding specified items, net income of Financial Markets rose \$107 million or 18% to \$718 million in 2015, compared with \$611 million in 2014. This growth comes mainly from increase in revenues from trading activities.
- On a taxable equivalent basis, total revenues from the sector amounted to \$1,720 million, up \$193 million from 2014. This increase is mainly due to revenues from trading activities. These revenues increased by \$200 million or 32% versus the previous year, mainly due to activities relating to equity securities and commodities and currency contracts, which increased by 35% and 77% respectively. In addition, revenues from banking services increased by 14% mainly due to increased volume of credit activities.
- The Financial Markets sector was once again the industry leader in the issuance of government bonds and in infrastructure financing in Canada. The sector was also the lead organizer for the three largest public-private partnership projects in Canada, currently under way in Regina, Toronto and Montreal.
- As market leader in Quebec, the Financial Markets sector continued to extend its presence in the province. It participated in the granting of 66 syndicated loans to issuers in Quebec, and was leader or joint leader in 49 of those transactions, representing a 34% market share. The sector ranked first among the participants in public offerings in Quebec, having led nine offerings with a total value of \$2.3 billion in fiscal 2015, representing a 34% market share. During the fiscal year, the sector participated in 15 offerings, which is more than all the other counterparties.
- The Financial Markets sector's fixed income group retained its status as top-tier counterparty for the financing of public administration, Bloomberg ranking it first overall for the subscription and placement of Canadian government debt securities, with a 23% market share to date in fiscal 2015.
- The *One client, one bank* approach has remained central to the Financial Markets sector's drive to deliver the Bank's full capabilities to all its clients. It achieves this by employing a collaborative, partnership approach among its business lines, the Bank's Wealth Management and Personal and Commercial Banking sectors, and corporate functions. Throughout fiscal year 2015, the sector successfully leveraged its strengths to build and grow its leadership position in its targeted segments.

Therefore, the Board approved the following compensation, in accordance with the Human Resources Committee's recommendation:

	Form	Target variable compensation	Target total direct compensation	Total direct compensation granted		2015 granted compensation mix
		% of salary	(\$)	(\$)	(%)	
Base salary	Cash	n/a	450,000	450,006	7	<p>93%</p> <ul style="list-style-type: none"> <li>Base salary</li> <li>Annual bonus</li> <li>Mid-term compensation</li> <li>Long-term compensation</li> <li>Compensation at-risk</li> </ul>
Annual bonus <sup>(1)</sup>	Cash	–	2,675,000	2,911,777	43	
	RSUs	–	1,707,500 <sup>(2)</sup>	1,944,278	29	
Mid-term compensation	PSUs	215	967,500	967,500	14	
Long-term compensation	Options	100	450,000	450,012	7	
<b>Total</b>			<b>6,250,000</b>	<b>6,723,573</b>	<b>100</b>	

- (1) Ricardo Pascoe's total annual bonus is composed of two elements:
  - a target annual bonus set at 210% of base salary. The bonus paid may range from 0% to 420% of base salary depending on the results of the Bank's annual bonus program; and
  - an annual bonus set at 0.40% of income before taxes generated by the Financial Markets sector, a portion of which is deferred in the form of RSUs. The target bonus was adjusted to take into account changes in the previous results related to this component.
- (2) A portion of Ricardo Pascoe's annual bonus is deferred in the form of RSUs. Its value is calculated by considering the value of his compensation granted in the form of PSUs and options since it is a requirement that at least 50% of Ricardo Pascoe's total compensation be deferred (RSUs, PSUs and options).

## LUC PAIEMENT



Executive Vice-President – Wealth Management, Chairman of the board, President and Chief Executive Officer, NBF Ltd., and Co-Chairman of the board and Co-Chief Executive Officer, NBF Inc.

## CAREER PROFILE

Luc Paiement is Chairman of the Board, President and Chief Executive Officer of NBF Ltd. since April 2014, as well as Co-Chairman of the board, Co-President and Co-Chief Executive Officer of NBF Inc. since September 2006, and Executive Vice-President, Wealth Management, since September 2008. In this capacity, he is responsible for all operations related to wealth management at the Bank and its subsidiaries. He is also Co-Chairman of the Board of NBF Inc., and Chairman of the board of Directors of NBF Ltd. and National Bank Trust Inc. Mr. Paiement is a member of the Office of the President.

During his career at NBF, which has spanned more than 30 years, Luc. Paiement has held various key positions in the personal services, institutional equities and corporate finance sectors.

Luc. Paiement has a Bachelor of Commerce from Concordia University and in 1999 was named one of Canada's Top 40 Under 40™.

## Achievements and decisions on the 2015 target total compensation and compensation paid

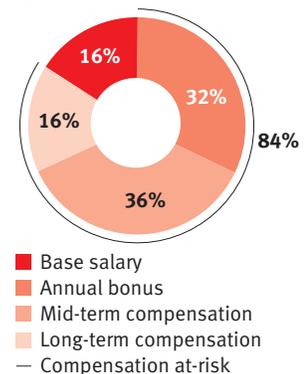
The Human Resources Committee has taken into account the following achievements to set Luc Paiement's compensation for fiscal 2015.

- The Wealth Management sector reported net income of \$326 million for fiscal 2015, compared to \$272 million for 2014, a 20% increase. This growth was driven mainly by the increase in total revenues, attributable to increased revenues from fee-based services reflecting the growth in assets under administration and under management, as well as the \$25 million after-tax capital gain in 2015 from the sale of Fiera Capital Corporation shares. Excluding specified items, the Wealth Management sector reported net income of \$327 million, up \$17 million from the \$310 million reported in 2014, a 5% increase.
- The sector's total revenue, excluding the capital gain in 2015 on the sale of Fiera Capital Corporation shares, was up 5% at \$1,391 million, versus \$1,330 million in 2014. This growth mainly reflects the increased revenues from fee-based services, up 14% from 2014, as well as the growth in net interest income partly attributable to higher volumes and stronger margins in banking activities with wealthy clients.
- Total assets under administration and management amounted to \$358.1 billion, up \$12.8 billion or 4% relative to October 31, 2014, and up 36% since October 31, 2013.
- The efficiency ratio improved to 68.1%, from 68.3% in 2014 and 73.1% in 2013.
- During the year, National Bank Investments Inc. launched a number of innovative new products managed by some of the most prestigious asset managers in the world; these were very well received by the Bank's distribution channels.
- Client migration to NBF Wealth Management's fee-based services continued at a robust pace and the new fee-based services platform (My Wealth) attracted more than \$10 billion in assets in a very short time. Over 55% of NBF Wealth Management assets are now covered by an agreed fee-based pricing structure.
- An impressive project was deployed in 2015 to stimulate growth in the private banking services sector. Much effort was put into conducting feasibility studies, analyzing micromarkets, hiring key staff, defining the features and prices of a new range of products and, lastly, preparing the central corporate infrastructure to take charge of this initiative.

Therefore, the Board approved the following compensation, in accordance with the Human Resources Committee's recommendation:

		Target variable compensation	Target total direct compensation	Total direct compensation granted	
Form	% of salary	(\$)	(\$)	(\$)	(%)
Base salary	Cash	n/a	475,000	475,015	16
Annual bonus	Cash	210	997,500	967,575	32
Mid-term compensation	PSUs	225	1,068,750	1,068,750	36
Long-term compensation	Options	100	475,000	332,502	11
	DSUs	–	–	142,500 <sup>(1)</sup>	5
<b>Total</b>			<b>3,016,250</b>	<b>2,986,342</b>	<b>100</b>

2015 granted compensation mix



(1) Luc Paiement elected to receive 30% of his long-term compensation in the form of DSUs.

## DIANE GIARD



Executive Vice-President –  
Personal and Commercial  
Banking

## CAREER PROFILE

As Executive Vice-President – Personal and Commercial Banking since May 2012, Diane Giard oversees all personal, commercial and international banking operations. She is a member of the Office of the President.

Diane Giard joined the Bank in 2011 as Executive Vice-President – Marketing and was responsible in particular for implementing the Client Value Proposition – a key component in the *One client, one bank* approach. She has more than 30 years' experience in banking, and has acquired deep knowledge of different client segments nationwide through her various roles.

Diane Giard has a Bachelor's in Economics from Université de Montréal and a Master's in Business Administration from Université du Québec à Montréal (UQÀM), and is a Fellow of the Institute of Canadian Bankers.

Diane Giard was awarded the 2007 B'nai Brith Canada Award of Merit and the 2008 Prix Performance by UQÀM's School of Management, in the Manager category. In 2012, she received the Queen Elizabeth II Diamond Jubilee Medal. In 2014 and 2015, she was recognized by the WXN Women's Executive Network as one of Canada's 100 most powerful women.

## Achievements and decisions on the 2015 target total compensation and compensation paid

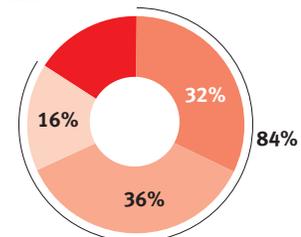
The Human Resources Committee has taken into account the following achievements to set Diane Giard's variable compensation for fiscal 2015.

- Net income in the Personal and Commercial Banking sector amounted to \$690 million in 2015, up 1% from the \$683 million in 2014. Excluding the specified item relating to the restructuring charge, the sector reported net income of \$725 million, up 6% from the previous year. The sector's total revenues increased by \$127 million or 5%, largely from growth in net interest income, which was up \$87 million, with non-interest income growing by \$40 million. The net interest income increase was driven mainly by growth in personal and commercial loan and deposit volumes.
- Personal Banking's revenues grew by 5% to \$1,792 million compared to \$1,708 million in 2014. This increase was driven mainly by the 6% growth in loan volumes, in particular mortgage loans and home equity lines of credit, partly restrained, however, by a reduction in the net interest margin on deposits.
- Commercial Banking revenues grew by 4% to \$1,024 million, versus \$981 million in 2014. The net interest income increase was driven mainly by growth in loan and deposit volumes, of 9% and 7% respectively.
- The Personal and Commercial Banking sector continued to grow in 2015 thanks to the solid groundwork laid since 2008 in the wake of the *One client, one bank* approach. This enables the Bank to stand out for the quality of its client experience, which relies more than ever on value-added personalized care and advice, through multiple distribution channels. To actuate these levers, the sector has focused its efforts on some highly promising strategic initiatives: the introduction of a distinctive business model, the expansion of multichannel service offers, the excellence of its sales and service culture, efficiency and productivity gains, and lastly the consolidation of trusting partnerships with business clients.
- A national certification program aimed at improving employees' competencies and knowledge was deployed in 2015. A skills assessment specific to each employee measures their alignment with specific requirements and recommends development actions leading to certification. Eventually, the 3,500 employees providing advisory services to personal and business clients will obtain this certification and will have to maintain it through continuing education.

Therefore, the Board approved the following compensation, in accordance with the Human Resources Committee's recommendation:

	Form	Target variable compensation	Target total direct compensation	Total direct compensation granted	
		% of salary	(\$)	(\$)	(%)
Base salary	Cash	n/a	475,000	475,015	16
Annual bonus	Cash	210	997,500	967,575	32
Mid-term compensation	PSUs	225	1,068,750	1,068,750	36
Long-term compensation	Options	100	475,000	332,502	11
	DSUs	–	–	142,500 <sup>(1)</sup>	5
<b>Total</b>			<b>3,016,250</b>	<b>2,986,342</b>	<b>100</b>

## 2015 granted compensation mix



- Base salary
- Annual bonus
- Mid-term compensation
- Long-term compensation
- Compensation at-risk

(1) Diane Giard elected to receive 30% of her long-term compensation in the form of DSUs.

## Summary of Compensation of Named Executive Officers

The following table, prepared in accordance with Canadian securities legislation, details the total compensation paid by the Bank and its subsidiaries to each Named Executive Officer during the past three fiscal years. No award, gain or payment was made to associates of a Named Executive Officer.

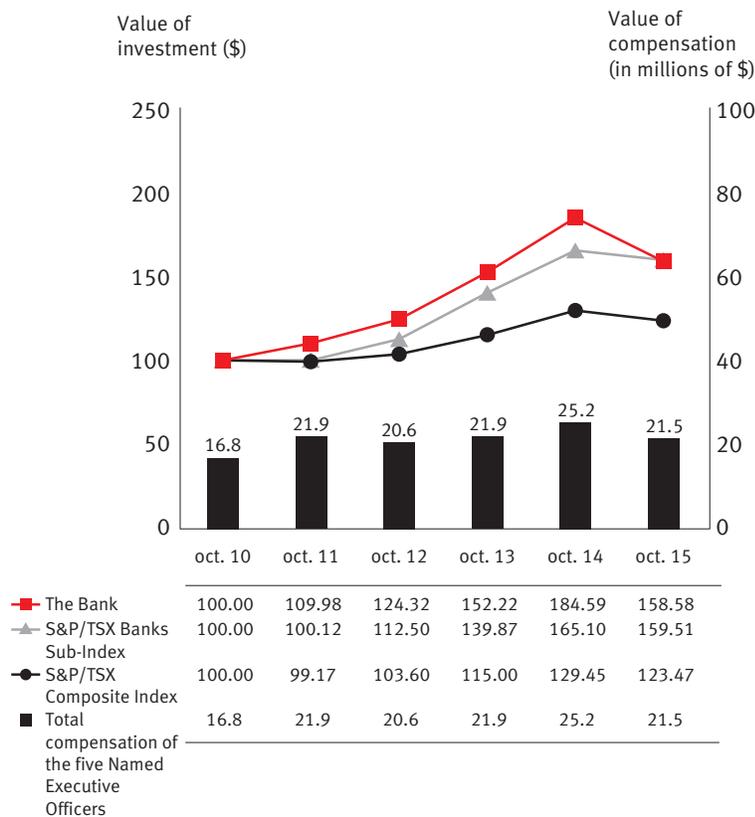
Name and principal position	Year	Salary (\$)	Share-based awards <sup>(1)(2)(3)(4)</sup> (\$)	Option-based awards <sup>(1)(5)</sup> (\$)	Non-equity-based incentive plan compensation		Pension value <sup>(7)</sup> (\$)	All other compensation <sup>(8)(9)</sup> (\$)	Total compensation (\$)
					Annual incentive plans <sup>(6)</sup> (\$)	Long-term incentive plans (\$)			
<b>Louis Vachon</b> President and Chief Executive Officer	2015	1,125,015	3,375,000	1,687,502	1,636,875	—	(1,273,000) <sup>(10)</sup>	3,761	6,555,153
	2014	1,050,354	3,375,000	1,687,536	2,126,250	—	1,517,000	3,339	9,759,479
	2013	1,000,009	2,500,000	2,000,023	1,635,000	—	168,000	3,015	7,306,047
<b>Ghislain Parent</b> Chief Financial Officer and Executive Vice-President – Finance and Treasury	2015	400,008	600,000	400,005	388,000	—	106,000	642	1,894,655
	2014	400,008	600,000	400,002	504,000	—	109,000	612	2,013,622
	2013	400,008	520,000	280,056	436,000	—	81,000	612	1,717,676
<b>Ricardo Pascoe</b> Executive Vice-President – Financial Markets	2015	450,006	2,911,778	450,012	2,911,777	—	101,000	3,455	6,828,028
	2014	450,006	2,797,880	450,034	2,797,879	—	99,000	2,780	6,597,579
	2013	450,006	2,488,010	450,003	2,488,010	—	352,000	2,084	6,230,113
<b>Luc Paiement</b> Executive Vice-President – Wealth Management, Chairman of the board, President and Chief Executive Officer, NBF Ltd. and Co-Chairman of the board, Co-President and Co-Chief Executive Officer, NBF Inc.	2015	475,015	1,211,250	332,502	967,575	—	125,000	2,821	3,114,163
	2014	475,015	1,211,250	332,515	1,256,850	—	124,000	2,579	3,402,209
	2013	475,015	1,211,250	332,558	1,087,275	—	324,000	2,496	3,432,594
<b>Diane Giard</b> Executive Vice-President – Personal and Commercial Banking.	2015	475,015	1,211,250	332,502	967,575	—	161,000	3,055	3,150,397
	2014	475,015	1,187,500	356,274	1,256,850	—	156,000	2,266	3,433,905
	2013	475,015	1,211,250	332,558	1,087,275	—	127,000	2,105	3,235,203

- (1) The share-based and options-based awards listed in the summary compensation table represent the most recently approved awards.
- (2) The Named Executive Officers are eligible for mid-term share-based variable compensation. This compensation is paid in the form of PSUs. The value of each PSU was determined based on an award price corresponding to the average stock market price for the 10 days preceding the sixth business day of December (December 8, 2015), namely \$43.43. The fair value of the award is equal to the accounting fair value, amortized over a three-year period on a declining basis. PSUs awarded in December 2015 totalled 77,711 for Louis Vachon, 13,815 for Ghislain Parent, 22,277 for Ricardo Pascoe, and 24,609 for Luc Paiement and Diane Giard.
- (3) Luc Paiement and Diane Giard elected to receive 30% of their variable long-term compensation in the form of DSUs. The value of each DSU was determined based on the award price, which was \$42.17 as at December 9, 2015. The fair value of the award is equal to the accounting fair value, amortized over a four-year period on a declining basis. DSUs awarded in December 2015 totalled 3,379 for each of Luc Paiement and Diane Giard.
- (4) Ricardo Pascoe received 40% of his annual bonus in the form of RSUs. The value of each RSU was determined based on an award price corresponding to the average stock market price for the 10 days preceding the sixth business day of December (December 8, 2015), namely \$43.43. The fair value of the award is equal to the accounting fair value, amortized over a three-year period on a declining basis. RSUs awarded to Ricardo Pascoe in December 2015 totalled 44,768.

- (5) The Named Executive Officers are eligible for long-term variable compensation in the form of stock options. In 2015, the value of the options was estimated at 15% of the closing price of the Bank's Common Shares on the Toronto Stock Exchange on the day preceding the grant date (representing the average estimated percentages from 2013 to 2015 based on the Black-Scholes model).  
In addition, the assumptions used to determine the award fair value for compensation purposes differ from those used in the notes to the financial statements of the Bank. Under International Financial Reporting Standards, stock options must be treated as an expense in the financial statements. Accordingly, different assumptions are used to determine an appropriate Black-Scholes factor, including in particular, an expected life of the option of seven years (instead of ten years), which reflect the exercise history of participants and the rate of cancellation due to departure. As a result, the carrying amount of an option granted in December 2014 was determined at 8.78% of the share price (\$42.17), which is \$2.63 less per option compared with the value shown in the table.
- (6) The amounts in this column include the annual bonuses earned during each fiscal year ended October 31 and paid in cash.
- (7) Present value of the pension benefit vested during the fiscal year and any compensatory change during the fiscal year based on the assumptions used in the Bank's Annual Report for each of those years. For more information, please refer to the "Defined benefit pension plans" table in this section of the Circular.
- (8) Although no previous years' programs or grants had been modified, the amounts in the "other compensation" column have been restated relative to our previous disclosures. This restatement consisted of eliminating the value of accumulated dividends and credited in the form of additional units. As the value of future dividends is included in the compensation value disclosed when PSUs, DSUs and RSUs are granted, the Bank no longer includes this compensation value a second time during the year in which the dividends are effectively credited, in accordance with the applicable disclosure rules. For information purposes, the dividend equivalents for fiscal years 2015, 2014 and 2013 are as follows: \$412,814, \$388,149 and \$315,471 for Louis Vachon, \$115,901, \$103,919 and \$70,979 for Ghislain Parent, \$370,832, \$353,487 and \$303,648 for Ricardo Pascoe, \$278,319, \$264,921 and \$223,921 for Luc Paiement and \$203,304, \$173,974 and \$106,269 for Diane Giard.
- (9) The amounts represent the value of perquisites on banking products and insurance premiums as well as contributions paid by the Bank into the Employee Share Ownership Plan (ESOP). Named Executive Officers are members of the ESOP on the same terms as other employees where the employer's contribution is equal to 25% of the employee's contribution, to a maximum of \$1,500 per year. The value of other taxable benefits is not shown as they total less than \$50,000 and 10% of each Named Executive Officer's salary.
- (10) Louis Vachon's pension was capped at \$1.5 million. This cap, which was introduced in fiscal 2015, had the effect of reducing pension obligations and largely explains the change attributable to compensatory items.

## Link between the Bank's total shareholder return and Named Executive Officer compensation

The following performance graph shows the cumulative total return on a \$100 investment in Common Shares of the Bank on October 31, 2010, compared with the total cumulative return of the S&P/TSX Banks Sub-index and the S&P/TSX Composite Index for the past five fiscal years, assuming dividends are fully reinvested at the market price on each dividend payment date.



The bar chart shows the total compensation paid to the Named Executive Officers in position at the end of each fiscal year.

The preceding performance graph shows that the Bank generated a 159% total cumulative return on the Bank's shares from 2010 to 2015. Despite a lower return in 2015, the total return on the Bank's shares remains comparable to the S&P/TSX Banks Sub-Index (160%) and higher than the S&P/TSX Composite Index (123%).

From 2010 to 2015, total compensation of Named Executive Officers rose by 5.6% annually compared to annual growth of 9.7% in total shareholder return. In 2011, the 30% increase in compensation is explained by the structural adjustments made during the year to align the total direct compensation of certain Named Executive Officers with the median in the Bank's peer group, adjusted downwards to take into account the relative size of the Bank. In 2012, total compensation declined by nearly 6% despite a strong 13% rise in shareholder return. This drop reflected the reduction in the value of Louis Vachon's pension plan and the appointment of Diane Giard as Executive Vice-President, Personal and Commercial Banking, effective May 14, 2012. In 2013, total shareholder return rose by 22.4%, compared to a slight increase of 6% in the total compensation of Named Executive Officers. The higher total compensation cost was due to the growth in value of Ricardo Pascoe's and Luc Paiement's pension plans compared to 2012, and higher compensation for Diane Giard, who had completed 12 months in her role as Executive Vice-President, Personal and Commercial Banking. In 2014, total shareholder return rose by 21%, with total compensation also advancing, albeit at a slower pace of 15%. The increase in compensation is mainly attributable to results triggering higher annual bonus payments. Lastly, in 2015 Named Executive Officers' total compensation fell by nearly 15% and total shareholder return by 14%. This decreased compensation mainly reflects the creation of an annual bonus envelope smaller than that of the previous year, as well as a \$2.8 million adjustment in the "Pension value" component for the President and Chief Executive Officer.

## Share ownership requirements

Share ownership guidelines are designed to align the interests of Executive Officers, Officers and material risk takers with the Bank's long-term stock market performance.

<b>Positions covered</b>	– Executive Officers, Officers and certain specialists of the Financial Markets sector												
<b>Features / reasons for payment</b>	<ul style="list-style-type: none"> <li>– Designed to tie the long-term interests of Executive Officers, Officers and certain specialists in the Financial Markets sector to those of holders of Common Shares and to discourage these Executive Officers, Officers and specialists from taking undue and excessive risks</li> <li>– Executive Officers, Officers and certain specialists in the Financial Markets sector are required to maintain minimum holdings of Common Shares of the Bank, including vested (but unexpired) and non-vested RSUs, non-vested PSUs, vested and non-vested DSUs and the increase in value of vested (but unexercised) in-the-money options, commensurate with compensation received and the position held</li> <li>– The Human Resources Committee regularly monitors share ownership to ensure that these minimum requirements are met</li> </ul>												
<b>Minimum ownership requirements</b>	<ul style="list-style-type: none"> <li>– The minimum holding amount represents a multiple of the previous three years' average base salary</li> </ul> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">Position</th> <th style="text-align: center;">Multiple of previous three years' average base salary</th> </tr> </thead> <tbody> <tr> <td>President and Chief Executive Officer *</td> <td style="text-align: center;">7 times</td> </tr> <tr> <td>Other Executive Officers</td> <td style="text-align: center;">4 times</td> </tr> <tr> <td>Officers and certain specialists in the Financial Markets sector</td> <td style="text-align: center;">2 to 3 times</td> </tr> <tr> <td>Senior Vice-Presidents (or equivalent)</td> <td style="text-align: center;">2 times</td> </tr> <tr> <td>Vice-Presidents (or equivalent)</td> <td style="text-align: center;">1 time</td> </tr> </tbody> </table> <p>* Moreover, the President and Chief Executive Officer must also maintain the share ownership requirements for a period of one year following his retirement</p>	Position	Multiple of previous three years' average base salary	President and Chief Executive Officer *	7 times	Other Executive Officers	4 times	Officers and certain specialists in the Financial Markets sector	2 to 3 times	Senior Vice-Presidents (or equivalent)	2 times	Vice-Presidents (or equivalent)	1 time
Position	Multiple of previous three years' average base salary												
President and Chief Executive Officer *	7 times												
Other Executive Officers	4 times												
Officers and certain specialists in the Financial Markets sector	2 to 3 times												
Senior Vice-Presidents (or equivalent)	2 times												
Vice-Presidents (or equivalent)	1 time												
<b>Period for meeting the requirements</b>	<ul style="list-style-type: none"> <li>– All individuals have five years from the date of their hiring or promotion to meet these requirements</li> <li>– All individuals must comply at all times with the share ownership requirements. If, for any reason, a shortfall occurs, the individual must refrain from selling his or her Common Shares of the Bank and from exercising his or her vested options (unless the Common Shares are kept) until such time the minimum requirements are once again met</li> </ul>												
<b>Valuation method</b>	– The minimum number of Common Shares that must be held is calculated by dividing the minimum holding amount by the price of the Bank's Common Shares on the Toronto Stock Exchange												

As of October 31, 2015, all of the Named Executive Officers complied with share ownership requirements. The table below shows the shareholdings of the Named Executive Officers on that date.

Name	Requirement	Share ownership <sup>(1)</sup>			Actual multiple	
	Multiple of previous three years' average base salary	Securities held, appreciation in value of vested options, PSUs, DSUs and RSUs (\$)	Appreciation in value of non-vested options (\$)	Total value (\$)	Based on securities held, appreciation in value of vested options, PSUs, DSUs and RSUs	Based on the total value (including appreciation in value of non-vested options)
<b>Louis Vachon</b>	7 times	46,671,987	1,229,545	47,901,532	43.1	44.2
<b>Ghislain Parent</b>	4 times	3,272,072	172,157	3,444,229	8.2	8.6
<b>Ricardo Pascoe</b>	4 times	16,689,170	276,658	16,965,828	37.1	37.7
<b>Luc Paiement</b>	4 times	8,904,002	204,438	9,108,440	18.7	19.2
<b>Diane Giard</b>	4 times	4,954,676	201,724	5,156,400	10.4	10.9

(1) Values determined on October 30, 2015 based on the closing price of the Bank's Common Shares on the Toronto Stock Exchange, i.e. \$43.31.

## Outstanding share-based and option-based awards

The following table summarizes, for each Named Executive Officer, all awards outstanding at the end of the fiscal year ended October 31, 2015.

Name	Grant date	Option-based grants				Share-based grants		
		Number of securities underlying unexercised options (#)	Option exercise price (\$)	Option expiration date	Value of unexercised in-the-money options (\$) <sup>(1)</sup>	Number of non-vested shares or share units (#)	Market or payout value of non-vested share-based awards (\$) <sup>(2)</sup>	Market or payout value of vested share-based awards (unpaid or undistributed) (\$)
<b>Louis Vachon</b>	Dec. 7, 2005	54,800	30.72	Dec. 7, 2015	689,932			—
	Dec. 13, 2006	250,800	32.95	Dec. 13, 2016	2,598,288			—
	Dec. 12, 2007	392,928	26.93	Dec. 12, 2017	6,438,125			—
	Dec. 10, 2008	458,720	17.44	Dec. 10, 2018	11,869,380			—
	Dec. 9, 2009	316,928	29.25	Dec. 9, 2019	4,457,592			—
	Dec. 8, 2010	283,840	34.34	Dec. 8, 2020	2,547,464			—
	Dec. 14, 2011	266,672	34.09	Dec. 14, 2021	2,460,049			—
	Dec. 12, 2012	248,296	38.36	Dec. 12, 2022	1,229,065	73,958	3,203,114	—
	Dec. 10, 2013	222,472	44.96	Dec. 10, 2023	0	60,523	2,621,237	—
	Dec. 10, 2014	185,240	47.93	Dec. 10, 2024	0	73,631	3,188,963	—
<b>Total</b>		<b>2,680,696</b>			<b>32,289,896</b>	<b>208,112</b>	<b>9,013,314</b>	<b>—</b>
<b>Ghislain Parent</b>	Dec. 8, 2010	15,296	34.34	Dec. 8, 2020	137,282			271,835
	Dec. 14, 2011	37,336	34.09	Dec. 14, 2021	344,425	2,773	120,088	360,263
	Dec. 12, 2012	34,768	38.36	Dec. 12, 2022	172,102	13,608	589,365	76,867
	Dec. 10, 2013	31,152	44.96	Dec. 10, 2023	0	11,862	513,762	31,455
	Dec. 10, 2014	43,908	47.93	Dec. 10, 2024	0	13,090	566,927	0
<b>Total</b>		<b>162,460</b>			<b>653,808</b>	<b>41,333</b>	<b>1,790,142</b>	<b>740,419</b>
<b>Ricardo Pascoe</b>	Dec. 7, 2005	26,800	30.72	Dec. 7, 2015	337,412			
	Dec. 13, 2006	60,600	32.95	Dec. 13, 2016	627,816			
	Dec. 12, 2007	85,440	26.93	Dec. 12, 2017	1,399,934			
	Dec. 10, 2008	99,768	17.44	Dec. 10, 2018	2,581,497			
	Dec. 9, 2009	113,864	29.25	Dec. 9, 2019	1,601,497			
	Dec. 8, 2010	100,784	34.34	Dec. 8, 2020	904,536			
	Dec. 14, 2011	60,000	34.09	Dec. 14, 2021	553,500			
	Dec. 12, 2012	55,872	38.36	Dec. 12, 2022	276,566	65,675	2,844,374	0
	Dec. 10, 2013	50,056	44.96	Dec. 10, 2023	0	60,232	2,608,665	0
	Dec. 10, 2014	49,400	47.93	Dec. 10, 2024	0	61,040	2,643,655	0
<b>Total</b>		<b>702,584</b>			<b>8,282,759</b>	<b>186,947</b>	<b>8,096,695</b>	<b>0</b>
<b>Luc Paiement</b>	Dec. 7, 2005	0	30.72	Dec. 7, 2015	0			0
	Dec. 13, 2006	32,400	32.95	Dec. 13, 2016	335,664			252,430
	Dec. 12, 2007	0	26.93	Dec. 12, 2017	0			296,880
	Dec. 10, 2008	0	17.44	Dec. 10, 2018	0			436,594
	Dec. 9, 2009	19,926	29.25	Dec. 9, 2019	280,259			433,175
	Dec. 8, 2010	60,472	34.34	Dec. 8, 2020	542,736			477,440
	Dec. 14, 2011	44,336	34.09	Dec. 12, 2021	409,000	1,235	53,477	160,430
	Dec. 12, 2012	41,288	38.36	Dec. 12, 2022	204,376	33,724	1,460,605	91,274
	Dec. 10, 2013	36,992	44.96	Dec. 10, 2023	0	28,461	1,232,636	37,353
	Dec. 10, 2014	36,500	47.93	Dec. 10, 2024	0	26,425	1,144,484	0
<b>Total</b>		<b>271,914</b>			<b>1,772,035</b>	<b>89,845</b>	<b>3,891,202</b>	<b>2,185,575</b>
<b>Diane Giard</b>	Dec. 14, 2011	40,000	34.09	Dec. 14, 2021	369,000	3,033	131,346	394,038
	Dec. 12, 2012	44,232	38.36	Dec. 12, 2022	218,948	33,374	1,445,413	76,082
	Dec. 10, 2013	36,992	44.96	Dec. 10, 2023	0	28,461	1,232,636	37,353
	Dec. 10, 2014	39,108	47.93	Dec. 10, 2024	0	25,907	1,122,043	0
<b>Total</b>		<b>160,332</b>			<b>587,948</b>	<b>90,774</b>	<b>3,931,439</b>	<b>507,473</b>

- (1) The value of unexercised in-the-money options at fiscal year-end is determined by calculating the difference between the closing price of the Common Shares of the Bank on the Toronto Stock Exchange as at October 30, 2015, which was \$43.31, and the exercise price of the options, multiplied by the number of unexercised options.
- (2) The market or payout value of share-based awards that have not vested is calculated by multiplying the number of share units by the closing price of Common Shares of the Bank on the Toronto Stock Exchange as at October 30, 2015, which was \$43.31.

### Incentive plan awards – Value vested or earned during the year

The following table shows the value vested or earned during the fiscal year ended October 31, 2015

Name	Option-based awards – Value vested during the year (\$) <sup>(1)</sup>	Share-based awards Value vested during the year (\$) <sup>(2)</sup>	Non share-based incentive compensation – Value earned during the year (\$) <sup>(3)</sup>
<b>Louis Vachon</b>	3,768,086	4,335,439	1,636,875
<b>Ghislain Parent</b>	417,679	991,655	388,000
<b>Ricardo Pascoe</b>	1,013,834	3,776,367	2,911,777
<b>Luc Paiement</b>	686,221	2,148,949	967,575
<b>Diane Giard</b>	404,831	961,414	967,575

- (1) The amount represents the aggregate value that would have been realized had the options been exercised on the vesting date, calculated as the difference between the closing price of the Common Shares of the Bank on the Toronto Stock Exchange and the exercise price. On the vesting date, the share price was \$52.32, while the exercise price of options ranged from \$34.085 to \$44.955.
- (2) The amount represents the value of the share units (PSUs, RSUs, and DSUs) on the vesting date, based on the closing price of the Common Shares of the Bank on the Toronto Stock Exchange on the vesting date.
- (3) The amounts in this column include the annual bonuses earned during each fiscal year ended October 31 and paid in cash.

### Additional information regarding the Stock Option Plan

In accordance with the special amendment procedure approved by the holders of Common Shares on March 7, 2007, certain material amendments to the Stock Option Plan require shareholder approval, while certain minor changes can be approved by the Board without having to obtain shareholder approval. Subject to certain conditions, the Board may also amend some features of the options already granted.

- The Board may not make the following amendments to the Stock Option Plan without shareholder approval:
  - an increase in the number of reserved shares
  - any downward revision of the exercise price or purchase price, or any cancellation of options in order to issue new options
  - any extension of the term of an option beyond its initial term
  - an amendment to the class of eligible participants allowing the introduction or reintroduction, at the discretion of the Board, of non-employee directors of the Bank

- an amendment allowing share-based payments granted under the Stock Option Plan to be transferable or assignable other than in connection with an estate settlement following a member's death
- an amendment to the maximum amount issuable to insiders
- Subject to the foregoing, the Board may decide at any time to suspend or terminate the Stock Option Plan in whole or in part or amend it as the Board may deem appropriate without having to obtain shareholder approval
- Subject to other provisions of the Stock Option Plan, the Board shall be required to obtain the consent of the participants in the event that the amendment, suspension or termination of the Stock Option Plan affects the entitlements and responsibilities resulting from an option already granted to such members under the Stock Option Plan
- Without limiting the scope of the foregoing, the Board may amend the Stock Option Plan for one or more of the following purposes, without having to obtain shareholder approval:
  - to amend the eligibility criteria and the limits for participating in the Stock Option Plan
  - to amend the conditions and rules for granting, vesting and exercising options
  - to make additions, amendments or deletions to the Stock Option Plan in order to comply with the legislation governing the Stock Option Plan or with the requirements of a regulatory authority or stock exchange
  - to correct or rectify any ambiguity, incorrect stipulation or omission in the text of the Stock Option Plan
  - to amend the provisions relating to the administration of the Stock Option Plan
  - to amend the reasons for cancelling options
- The Board may also amend features of an option granted to a participant (including the exercise price, the exercise conditions or the expiry date of an option) without having to obtain shareholder approval, provided the following conditions are met:
  - the amendments do not have the effect of reducing the exercise price of an option or extending the expiry date of options already granted
  - the Board had prior authority to grant the amended option
  - the amendment does not materially prejudice the rights of the participants affected by such amendment

The table on the following page is presented pursuant to Canadian securities legislation requirements and shows the status of the Stock Option Plan as at October 31, 2015.

## Information about equity-based compensation plans

- The number of Common Shares reserved for a participant may not exceed 5% of the total number of issued and outstanding Common Shares of the Bank
- The total number of shares that can be issued to insiders (as defined by the CSA), at any time, under all share-based compensation arrangements of the Bank, including shares issued on the exercise of options granted under the Stock Option Plan, cannot exceed 10% of the total number of issued and outstanding Common Shares of the Bank
- The total number of shares issued to insiders, in any one-year period, under all share-based compensation arrangements of the Bank, including shares issued on the exercise of options granted under the Stock Option Plan, cannot exceed 10% of the total number of issued and outstanding Common Shares of the Bank

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants or rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity-based compensation plans (excluding securities reflected in column (a) (c)
Equity-based compensation plan approved by securityholders	16,652,313	\$37.33	5,474,404

The table below presents the total number of options granted in December of each year and exercised options in the past three fiscal years, as well as the reserve position at the end of each fiscal year.

	Options granted in December <sup>(1)</sup>	Value at grant date (\$) <sup>(2)</sup>	Total value of grant (\$)	Options exercised during the fiscal year	Options outstanding at fiscal year-end <sup>(3)</sup>	Options available for future grants at fiscal year-end <sup>(1)</sup>	Total options outstanding and available at fiscal year-end
2015	2,140,420	6.33	13,548,858	1,059,650	16,652,313	5,474,404	22,126,717
2014	3,170,260	9.11	28,881,069	2,944,507	14,676,191	8,510,176	23,186,367
2013	2,863,376	8.99	25,741,750	3,529,528	15,015,756	11,115,118	26,130,874

(1) The number of options available for future grants at the end of fiscal 2015 represented 1.62% of the total number of Common Shares outstanding, which was 336,892,435. Of that number, 2,140,420 options were granted in December 2015, which represents 0.64% of the total number of Common Shares outstanding at fiscal year-end.

(2) The compensation value of December 2015 awards represented \$6.33 or 15% of the share price as at December 8, 2015, which was \$42.17. This percentage is equal to the average estimated value of results based on the Black-Scholes model from 2013 to 2015.

(3) The number of options outstanding at the end of fiscal 2015 represented 4.94% of the total number of Common Shares outstanding at this date.

## Pension plans for Named Executive Officers

All the Named Executive Officers of the Bank participate in the defined benefit pension plan and the Post-Retirement Allowance Program (PRAP). The provisions of these plans are described in the following table:

<b>Plan definition</b>	<ul style="list-style-type: none"> <li>- The defined benefit pension plan is contributory and subject to legislation governing pension plans under federal jurisdiction</li> <li>- The PRAP aims to offset the impact of limits subject to the maximums prescribed under tax legislation with respect to pension benefits provided by a registered pension plan</li> <li>- A pension is payable under the registered pension plans up to the maximum pension prescribed by current legislation, while the PRAP provides for the supplemental pension benefit</li> <li>- The benefits accrued under the defined benefit pension plans and the PRAP form an integral part of the total compensation offered by the Bank</li> <li>- Changes to the pension plans and to the PRAP came into effect January 1, 2014 (see details below)</li> </ul>
<b>Features/reasons for payment</b>	<ul style="list-style-type: none"> <li>- Designed to encourage long-term retention of Executive Officers by rewarding their continued service at the Bank and by contributing to their retirement income</li> </ul>
<b>Normal retirement age</b>	<ul style="list-style-type: none"> <li>- For membership years prior to January 1, 2014: age 60</li> <li>- For membership years starting January 1, 2014: age 65</li> </ul>
<b>Years of credited service</b>	<ul style="list-style-type: none"> <li>- President and Chief Executive Officer:             <ul style="list-style-type: none"> <li>• Recognition of five years of credited service on August 1, 2006 and an accumulated pension credit of 4% of salary per year between August 1, 2006 and July 31, 2010, 2.5% of salary per year between August 1, 2010 and July 31, 2017, 2% of salary per year between August 1, 2017 and July 31, 2022, and in accordance with plans' provisions thereafter</li> <li>• These conditions for crediting years of service were approved by the Board, taking into account all of Louis Vachon's years of service at the Bank and its subsidiaries where no pension plan was offered</li> </ul> </li> <li>- Other Executive Officers:             <ul style="list-style-type: none"> <li>• All other Executive Officers accumulate 1.5 years of credited service per year of membership up to a maximum of five additional years</li> </ul> </li> </ul>
<b>Pension formula</b>	<ul style="list-style-type: none"> <li>- For membership years prior to January 1, 2014:             <ul style="list-style-type: none"> <li>• 2% of average pensionable earnings for each year of credited service. As of age 60, the pension is reduced to take into account benefits payable under the Quebec Pension Plan or Canada Pension Plan</li> </ul> </li> <li>- For membership years starting January 1, 2014:             <ul style="list-style-type: none"> <li>• 1.7 % of the average pensionable earnings for each year of credited service</li> </ul> </li> </ul>
<b>Pensionable earnings</b>	<ul style="list-style-type: none"> <li>- Average pensionable earnings consist of the average earnings for the 60 highest-paid consecutive months. Pensionable earnings include the base salary and the annual bonus, which is subject to limits that vary according to the level of the position</li> <li>- President and Chief Executive Officer             <ul style="list-style-type: none"> <li>• The eligible annual bonus is capped at 150% of base salary</li> </ul> </li> <li>- Other Executive Officers             <ul style="list-style-type: none"> <li>• The proportion of the annual bonus recognized will increase gradually until 2017 to reach 100% of the annual bonus (up to 45% of base salary)</li> <li>• Average annual pensionable earnings are capped at \$1,000,000 for the majority of Executive Officers. With the harmonization of the plans as at January 1, 2014, average annual pensionable earnings for all other Executive Officers will, gradually until 2017, be capped at \$1,000,000</li> </ul> </li> </ul>

**Maximum pension for the President and Chief Executive Officer**

- The maximum annual pension payable is capped at \$1,500,000

**Contributions of Executive Officers**

- 9% of pensionable earnings, up to \$18,339 per year
- At retirement, the accumulated amount exceeding the basic contributions is converted into a supplemental pension, subject to the limits imposed by legislation in force

**Reduction for early retirement applicable to Executive Officers**

- These plans allow for early retirement starting at age 55 <sup>(1)</sup>
- For membership years prior to January 1, 2014:
  - The applicable reduction for a plan member who has been a member of the pension plan for 10 years or more is the lesser of:
    - 4% for each year prior to age 60; or
    - 2% for each point before the sum of the age and years of service reaches 90 points
  - The applicable reduction for a plan member who has been a member of the pension plan for less than 10 years is determined on an actuarial equivalent basis
- For membership years starting January 1, 2014:
  - The applicable reduction is 4% for each year prior to age 65

(1) Early retirement with reduced pension is permitted from age 50 for Executive Officers whose plan participation began prior to January 1, 2014 (reduction by actuarial equivalence between ages 50 and 55).

**Governance practices on pension plan administration**

The Bank's pension plans are subject to the governance of the Human Resources Committee of the Board, which acts as trustee of the pension plans, and are managed in accordance with best market practices. The Human Resources Committee reviews the asset-liability management strategy, reviews the financial statements, approves the actuarial valuations, monitors the capitalization level, approves the investment policy and recommends to the Board for approval any material changes deemed necessary to ensure plan continuity.

In 2001, the Human Resources Committee, on a voluntary and proactive basis, set up a Retirement Committee made up of external members (including two independent members) as well as Officers of the Bank who are experts in finance, treasury, risk management and human resources, and tasked with supporting it in its role as trustee and ensuring optimal asset management and control of inherent risks. The Retirement Committee reports to the Bank's Human Resources Committee. The Retirement Committee members meet at least four times per year and regularly report on their work to the Human Resources Committee.

Further, the Bank periodically communicates with pension plan members, particularly through the Pension Committee which is comprised of Bank and active and retired employees' representatives. At this Annual Meeting, the findings of the actuarial valuations, along with the performance review of the investment fund and its financial statements, are presented, among others.

The Bank fulfills its financial disclosure requirements and is responsible for the integrity of the information provided and for ensuring its compliance with applicable accounting and disclosure standards. The financial statements undergo a rigorous audit by the Bank's independent auditor, appointed by the Human Resources Committee at the beginning of the fiscal year. Note 23 of the financial statements for the fiscal year ended October 31, 2015 shows that, from an accounting standpoint, the Bank's pension plans are in a surplus position.

The following table details, for each Named Executive Officer, years of credited service as at October 31, 2015, annual benefits payable, and changes in the accrued benefit obligation between October 31, 2014 and October 31, 2015, including compensatory and non-compensatory changes with respect to their membership in pension plans for fiscal 2015.

It should be noted that the amounts in the table below are estimates based on assumptions and employment conditions that can vary over time. The method used to calculate these amounts may also differ from that used by another company, potentially rendering comparisons less relevant.

### Defined benefit pension plans <sup>(1) (2)</sup>

Name	Years of credited service <sup>(3) (4)</sup>	Annual benefits payable <sup>(5) (6) (7)</sup>		Defined benefit obligation at the start of the fiscal year <sup>(9)</sup>	Compensatory change (\$) <sup>(10)</sup>	Non-compensatory change (\$) <sup>(11)</sup>	Defined benefit obligation at the end of the fiscal year <sup>(9)</sup>
		At fiscal year-end (\$) <sup>(8)</sup>	At age 65 (\$)				
Louis Vachon	28.5	1,172,000	1,500,000 <sup>(12)</sup>	13,240,000	(1,273,000) <sup>(12)</sup>	458,000	12,425,000
Ghislain Parent	7.3	69,000	212,000	675,000	106,000	52,000	833,000
Ricardo Pascoe	13.1	155,000	339,000	2,070,000	101,000	103,000	2,274,000
Luc Paiement	9.7	119,000	292,000	1,556,000	125,000	86,000	1,767,000
Diane Giard	6.1	65,000	209,000	675,000	161,000	58,000	894,000

- (1) The amounts in the “Salary” column of the table “Summary of Compensation of Named Executive Officers” in this Section of the Circular and annual bonuses paid are used to calculate average pensionable earnings. To this end, the eligible bonus is limited to 150% of base salary for Louis Vachon and 65% of the annual bonus is used for the other Named Executive Officers (up to 38% of base salary). The annual bonus granted is increasing gradually as of 2014 and will reach 100% of the annual bonus in 2017 (up to 45% of base salary in 2017). However, average pensionable earnings are subject to the caps set out in Note 2 to this table.
- (2) Average maximum pensionable earnings are capped at \$1,000,000 for Diane Giard and Ghislain Parent and at \$790,000 (increasing gradually to \$1,000,000 in 2017) for Luc Paiement and Ricardo Pascoe.
- (3) Louis Vachon was granted five years of credited service on August 1, 2006, earned a pension credit of 4% of salary for each year between August 1, 2006 and July 31, 2010, is earning a credit of 2.5% of salary for each year between August 1, 2010 and July 31, 2017, will earn a credit of 2% of salary for each year between August 1, 2017 and July 31, 2022, and credits provided for under the Plan thereafter.
- (4) The years of credited service for Ghislain Parent and Diane Giard are calculated according to the PRAP for eligible Executive Officers of the Bank, that is, 1.5 years of credited service per year during the 10 years following the date of designation by the Board. The dates of designation are August 29, 2011 for Ghislain Parent and September 26, 2011 for Diane Giard. Luc Paiement and Ricardo Pascoe are accumulating 1.5 years of credited service over the ten-year period that started on January 1, 2014.
- (5) The estimated pensions do not take into account the pension generated by additional contributions accumulated by the Named Executive Officer.
- (6) The pension is payable for life, but reduced to take into account benefits payable under the Canada or Quebec Pension Plans for the years prior to 2014. Upon the member's death, 60% of the pension is payable to the member's spouse. If there is no spouse, part of the pension is payable to the dependent children.
- (7) The pension includes a revaluation (at neutral cost) between age 60 and 65 for the pension granted for membership years accumulated prior to January 1, 2014 based on accounting assumptions. Revaluation of the pension after the normal retirement age was introduced on January 1, 2014 for all employees and is calculated on an actuarial equivalent basis, which means that the actuarial value of the pension remains unchanged. This provision is necessary so as not to penalize employees who opt to retire after the normal retirement age.

- (8) The year-end pension is equal to the pension payable at the assumed retirement age, i.e. the age used to calculate the value of the obligation at year-end (61 for Louis Vachon, Ricardo Pascoe, Luc Paiement and Diane Giard and 62 for Ghislain Parent) proportionately to the number of years of credited service at year-end.
- (9) The defined benefit obligation represents the present value of the pension benefit for years of credited service up to October 31, 2014 or October 31, 2015. These values were calculated using the same assumptions as those used for the Bank's consolidated financial statements, notably a discount rate of 4.35% as at October 31, 2014 and 4.40% as at October 31, 2015. These values also take into account the 4.60% discount rate for current service as at October 31, 2014. The value of benefits payable related to the Officer's additional contributions is included in the calculation of the accrued benefit obligation.
- (10) The compensatory change includes the annual cost of retirement benefits and the impact of changes in base salary, the increase in maximum pensionable earnings following appointments, plan amendments or grants of years of credited service.
- (11) The non-compensatory change includes the amounts attributable to interest accruing on the obligation at the beginning of the fiscal year, contributions paid by the Named Executive Officer, actuarial gains and losses other than those associated with compensation levels, and changes in actuarial assumptions.
- (12) Louis Vachon's annual pension income was capped at \$1,500,000. This cap, which was introduced in fiscal 2015, had the effect of reducing pension obligations and largely explains the change attributable to compensatory items.

## **Benefits in case of termination of employment or change of control**

### **Termination of employment policy in the event of a change of control**

Under the Bank's Termination of Employment Policy, the President and Chief Executive Officer and other Executive Officers would receive severance in the event their employment were to be terminated by the Bank following a change of control. The compensatory measures are applicable when both of the following events occur:

- a change of control of the Bank, as defined below; and
- a dismissal without cause resulting from a Bank initiative during the two-year period following the change of control, or the resignation of an Executive Officer further to a significant reduction in compensation or responsibilities or a transfer to another organization, against his or her wishes, during the two-year period following the change of control.

This policy is not applicable to cases of voluntary resignation, termination of employment for just cause, demotion or termination of employment based on unsatisfactory performance.

“Change of control” includes any change in ownership of the Bank's shares following the acquisition of shares, a merger or a business combination resulting in an incorporated or unincorporated entity beneficially owning in excess of 50% of the voting shares of the Bank.

Pursuant to this policy, Executive Officers would be entitled to severance equal to their base salary and their average annual bonus for the previous three years (or the target annual bonus for Executive Officers in their respective positions for less than three years) for a period of 24 months, up to the normal retirement age.

No amendments were made to the Termination of Employment Policy in fiscal 2015.

## Conditions applicable in the event of termination of employment

The table below summarizes the conditions applicable to Named Executive Officers in the event of termination due to a voluntary resignation, termination of employment with cause, termination of employment without cause (lay-off), change of control or retirement.

	APPLICABLE CONDITIONS
<b>Voluntary resignation</b>	<ul style="list-style-type: none"> <li>– Base salary and employee benefit programs cease to apply</li> <li>– No annual bonus is paid</li> <li>– PSUs and RSUs are cancelled</li> <li>– The deferred portion of annual bonuses in the Financial Markets sector, paid in RSUs, continues to vest in accordance with the same timeframe had voluntary resignation not occurred, and is payable in cash at the vesting date if the non-compete and non-solicitation conditions have been met</li> <li>– A 30-day period is granted to exercise vested options. At the end of this period, vested but unexercised options and non-vested options are cancelled</li> <li>– Vested DSUs are paid out and non-vested DSUs are cancelled</li> <li>– Pension benefit is paid at its actuarial value or as a deferred benefit</li> </ul>
<b>Termination of employment for just cause</b>	<ul style="list-style-type: none"> <li>– Base salary and employee benefit programs cease to apply</li> <li>– No annual bonus is paid</li> <li>– PSUs and RSUs are cancelled</li> <li>– Vested but not exercised and non-vested options are cancelled</li> <li>– Vested DSUs are paid out and non-vested DSUs are cancelled</li> <li>– Pension benefit is paid at its actuarial value or as a deferred benefit</li> </ul>
<b>Termination of employment without cause (lay-off)</b>	<ul style="list-style-type: none"> <li>– Severance pay on termination is in the form of a lump sum or salary continuance</li> <li>– Non-vested PSUs and RSUs vest immediately and are paid out at the market price corresponding to the average closing price of the Bank's Common Shares on the Toronto Stock Exchange for the 10 days preceding the payment date <sup>(1)</sup></li> <li>– The deferred portion of annual bonuses in the Financial Markets sector, paid in RSUs, continues to vest in accordance with the prescribed time periods had the lay-off not occurred, and is paid out on the vesting date if the non-solicitation conditions have been met</li> <li>– A period is granted to exercise vested options during which vesting continues, if applicable. At the end of this period, vested but non-exercised options and non-vested options are cancelled</li> <li>– A period is granted for vested DSUs to be paid out, during which time DSUs continue to vest, if applicable. At the end of this period, all non-vested DSUs are cancelled</li> <li>– Pension benefit is paid at its actuarial value or as a deferred benefit</li> </ul>

**Change of control  
and termination of  
employment within  
two years**

- Severance is paid for a period of 24 months, up to the normal retirement age, and is equal to the base salary and average annual bonus for the previous three years
- Non-vested PSUs and RSUs vest immediately and are paid out at the market price corresponding to the average closing price of the Bank's Common Shares on the Toronto Stock Exchange for the 10 days preceding the payment date <sup>(1)</sup>
- Non-vested options vest immediately. A 12-month period is granted to exercise the options. At the end of this period, all non-vested options are cancelled
- DSUs vest immediately and a 12-month period is granted to redeem the DSUs
- The period covered by the severance is recognized as eligible service under the pension plan, provided that the termination benefits are paid in instalments

**Retirement**

- Base salary ceases to apply
- Retiree benefits apply (on the same basis as any other Bank employee)
- Annual bonus is prorated to the number of months worked
- PSUs and RSUs continue to vest in accordance with the same timeframe had retirement not been taken, and are paid out when vested if non-compete and non-solicitation conditions have been met
- Non-vested options continue to vest in accordance with the same timeframe had retirement not been taken, and a five-year period is granted to exercise vested options if non-compete and non-solicitation conditions have been met
- DSUs vest immediately and a maximum 23-month period is granted to redeem the DSUs
- Pension benefit is paid monthly

(1) The method used to determine the average closing prices of shares was modified in 2015 following the harmonization of administrative processes.

## Estimated value of conditions applicable in the event of termination of employment

The employment contracts of Named Executive Officers include no individual agreement in the event of termination of employment. The actual amount that a Named Executive Officer might receive in the event of a termination of employment can only be calculated at the time of termination. Several factors could influence the amount of such benefits and the amount actually paid could be higher or lower than those presented below.

The following table indicates the estimated incremental amounts that would have been paid to the Named Executive Officers if their employment had terminated as at October 31, 2015. These amounts do not include the benefits that could be taken into account with respect to Common Law and Civil Law.

Name	Estimated incremental value by type of termination (\$) <sup>(1)</sup>		
	Retirement, voluntary resignation and termination of employment for cause (\$) <sup>(2)</sup>	Termination of employment without cause <sup>(2)</sup> (lay-off)	Change of control and termination of employment <sup>(3)</sup>
Louis Vachon	0	–	5,724,419
Ghislain Parent	0	–	1,720,016
Ricardo Pascoe	0	–	8,912,874
Luc Paiement	0	–	3,244,280
Diane Giard	0	–	2,945,905

- (1) The estimated incremental value refers to the severance benefits that would have been paid. No incremental value from the pension plan would have been payable regardless of the reason for termination.
- (2) If a Named Executive Officer had had his or her employment terminated on October 31, 2015 further to dismissal without cause, he or she would have been entitled to accelerated vesting of any share-based compensation already granted in the fiscal years prior to 2015. For additional information on outstanding share-based awards, see this section of the Circular. Based on the Bank's share price on October 31, 2015, the value of such accelerated vesting would have been \$9,013,314 for Louis Vachon and \$8,096,695 for Ricardo Pascoe. For Ghislain Parent, Luc Paiement and Diane Giard, the value would have been less than that indicated in this section of the Circular, as they elected to receive a portion of their long-term compensation in the form of DSUs instead of options. Accordingly, the adjusted value would have been \$1,498,823 for Ghislain Parent, \$3,499,748 for Luc Paiement and \$3,499,748 for Diane Giard.
- (3) If a Named Executive Officer had had his or her employment terminated on October 31, 2015 further to a change of control, he or she would have been entitled to accelerated vesting of any share-based and option-based compensation already granted in the fiscal years prior to 2015. For additional information on outstanding share-based and option-based awards for fiscal years prior to 2015, see this section of the Circular. Based on the Bank's share price on October 31, 2015, the value of such accelerated vesting would have been \$10,242,859 for Louis Vachon, \$2,702,718 for Ghislain Parent, \$8,373,353 for Ricardo Pascoe, \$6,281,215 for Luc Paiement and \$4,640,635 for Diane Giard.

## ANNUAL BONUSES IN THE FINANCIAL MARKETS SECTOR

### Annual bonus program for Officers of the Financial Markets sector

<b>Features/reasons for payment</b>	– Designed to reward group and individual contributions to the results of the Financial Markets sector
<b>Financial indicator</b>	– Financial Markets sector's income before taxes
<b>Grant</b>	<ul style="list-style-type: none"> <li>– individual bonuses are granted on a discretionary basis based on:             <ul style="list-style-type: none"> <li>• the extent to which the Financial Markets sector's objectives are met</li> <li>• the demonstration of prudent risk management</li> <li>• the assessment of leadership behaviours and adherence to the Bank's values</li> <li>• the extent to which financial, strategic and organizational objectives are met</li> </ul> </li> </ul>
<b>Payment</b>	<ul style="list-style-type: none"> <li>– Bonuses are granted annually as follows:             <ul style="list-style-type: none"> <li>• 60% in cash</li> <li>• 40% in the form of RSUs (deferred payment), in accordance with FSB's governance practices. The value of the RSUs corresponds to the closing price of the Bank's Common Shares on the Toronto Stock Exchange on the day preceding the grant.</li> </ul> </li> <li>– RSUs vest over a three-year period, in three equal annual portions, and expire at the end of this period</li> <li>– Additional RSUs are credited to the Officer's account in an amount proportional to the dividends paid on the Bank's Common Shares</li> <li>– The cash payment is equal to the number of vested RSUs, multiplied by the average closing price of the Bank's Common Shares on the Toronto Stock Exchange for the 10 days preceding the sixth business day in December <sup>(1)</sup></li> <li>– The Compensation Risk Oversight Working Group reviews the levels of the various risks incurred during the year by material risk takers in the Financial Markets sector and makes recommendations to the Human Resources Committee when the annual bonus envelopes need to be adjusted downward</li> </ul>
<b>Clawback of variable compensation</b>	– In accordance with the variable compensation clawback policy, payments made to staff subject to the policy may be clawed back in specific circumstances.

(1) The method used to determine the average closing prices of shares was modified in 2015 following the harmonization of administrative processes.

## Annual bonus program for specialists in the Financial Markets sector

<b>Features/reasons for payment</b>	<ul style="list-style-type: none"> <li>– Designed to reward group and individual contributions to the financial results of the various business units of the Financial Markets sector</li> </ul>										
<b>Financial indicator</b>	<ul style="list-style-type: none"> <li>– Financial results of each business unit of the sector</li> </ul>										
<b>Grant</b>	<ul style="list-style-type: none"> <li>– Individual bonuses are granted on a discretionary basis, based on:             <ul style="list-style-type: none"> <li>• expected behaviours, such as cooperation among business lines</li> <li>• business relationships with clients</li> <li>• respect for ethics and organizational values</li> <li>• prudence demonstrated in risk management</li> <li>• individual contribution to revenue growth, and to the results of the business unit and of the Financial Markets sector as a whole</li> </ul> </li> </ul>										
<b>Payment</b>	<ul style="list-style-type: none"> <li>– Bonuses are paid as follows:             <ul style="list-style-type: none"> <li>• a portion in cash</li> <li>• the other portion is deferred in the form of RSUs, in accordance with FSB governance practices. The deferred portion is established on the basis of the amount of the bonus granted:</li> </ul> <table border="1" data-bbox="477 726 1390 940"> <thead> <tr> <th>Portion of annual bonus</th> <th>Percentage deferred and granted in the form of RSUs</th> </tr> </thead> <tbody> <tr> <td>\$0 – \$100,000</td> <td>0%</td> </tr> <tr> <td>\$100,001 – \$400,000</td> <td>30% of the portion</td> </tr> <tr> <td>\$400,001 – \$1,000,000</td> <td>35% of the portion</td> </tr> <tr> <td>\$1,000,001 and over</td> <td>40% of the portion</td> </tr> </tbody> </table> </li> <li>– RSUs vest over a three-year period, in three equal annual portions, and expire at the end of this period</li> <li>– Additional RSUs are credited to the account of specialists in the Financial Markets sector in an amount proportional to the dividends paid on the Bank's Common Shares</li> <li>– The cash payment is equal to the number of vested RSUs, multiplied by the average closing price of the Bank's shares on the Toronto Stock Exchange for the 10 days preceding the sixth business day of December <sup>(1)</sup></li> <li>– The Compensation Risk Oversight Working Group reviews the levels of the various risks incurred during the year by material risk takers in the Financial Markets sector and makes recommendations to the Human Resources Committee when the annual bonus envelopes need to be adjusted downward</li> </ul>	Portion of annual bonus	Percentage deferred and granted in the form of RSUs	\$0 – \$100,000	0%	\$100,001 – \$400,000	30% of the portion	\$400,001 – \$1,000,000	35% of the portion	\$1,000,001 and over	40% of the portion
Portion of annual bonus	Percentage deferred and granted in the form of RSUs										
\$0 – \$100,000	0%										
\$100,001 – \$400,000	30% of the portion										
\$400,001 – \$1,000,000	35% of the portion										
\$1,000,001 and over	40% of the portion										
<b>Clawback of variable compensation</b>	<ul style="list-style-type: none"> <li>– In accordance with the variable compensation clawback policy, payments made may be clawed back in specific circumstances.</li> </ul>										

(1) The method used to determine the average closing prices of shares was modified in 2015 following the harmonization of administrative processes.

## DISCLOSURE OF AGGREGATE QUANTITATIVE INFORMATION ON COMPENSATION FOR 2015

The Bank publishes the following information in accordance with the requirements of Basel II Pillar 3 and as a complement to the previously disclosed information. The Bank's Circular describes the roles and responsibilities of the Human Resources Committee with regard to compensation policies and programs for all employees, including individuals who can significantly impact the Bank's risk profile.

The Circular explains how the Bank ensures that variable compensation is closely tied to prudent risk management and financial performance. It also describes the approval and management process for the Bank's compensation policies and programs as well as the features of its various programs, including performance criteria, the parameters for establishing the deferred portion of annual bonuses, and the decision-making process for adjusting annual variable compensation envelopes and for the potential clawback of previously awarded variable compensation.

The following tables show the compensation paid to Executive Officers and employees identified as being able to significantly impact the Bank's risk profile beyond its risk tolerance limits. This group is identified using specific criteria jointly with the Risk Management segment, and it includes the Senior Vice-Presidents of the Bank and its subsidiaries as well as Officers and certain specialists in the Financial Markets sector.

Amounts are in millions of dollars.

	2015		2014	
	Executive Officers	Identified Employees	Executive Officers	Identified Employees
<b>Granted compensation</b>				
Number of employees	10	146	10	138
Fixed compensation				
Cash (not deferred)	\$4.8	\$27.9	\$4.7	\$26.7
Variable compensation				
Cash (not deferred)	\$8.7	\$108.1	\$10.4	\$104.3
Share-based (deferred)	\$16.8	\$67.8	\$16.7	\$68.7
<b>Total</b>	<b>\$30.2</b>	<b>\$203.8</b>	<b>\$31.8</b>	<b>\$199.6</b>

	2015		2014	
	Executive Officers	Identified Employees	Executive Officers	Identified Employees
<b>Deferred compensation</b>				
Outstanding				
Vested	\$53.5	\$45.1	\$80.0	\$65.3
Non-vested	\$35.3	\$105.4	\$58.2	\$161.6
Paid in the fiscal year	\$15.2	\$68.3	\$13.7	\$62.8

All outstanding deferred compensation is subject to implicit adjust (such as changes in share price) explicit adjustments (such as the clawback for the reasons explained in the Circular). However, no deferred compensation granted in a previous fiscal year but vested in 2015 has been automatically (implicitly) or deliberately (explicitly) reduced *a posteriori*.

	2015				2014			
	Executive Officers		Identified Employees		Executive Officers		Identified Employees	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
<b>Other compensation*</b>								
Signing bonuses	–	–	6	\$3.1	–	–	8	\$5.0
Guaranteed bonuses	–	–	7	\$5.8	–	–	5	\$5.7

\* Information regarding signing bonuses or guaranteed bonuses concerning a small number of employees (i.e. < 5) is not shown, but it has been confidentially transmitted to OSFI. In addition, all information regarding severance benefits has also been confidentially transmitted to OSFI.

## 8. OTHER INFORMATION

### Indebtedness of directors, executive officers and employees

#### Aggregate indebtedness

As at January 22, 2016, aggregate indebtedness <sup>(1)</sup> outstanding to the Bank or any of its subsidiaries, other than loans repaid in full and routine indebtedness as defined by Canadian securities legislation, of current and former directors, executive officers <sup>(2)</sup> and employees of the Bank and its subsidiaries, stood as follows:

Purpose	To the Bank or its subsidiaries	
	(\$)	To another entity (\$)
Securities purchases	–	–
Other	\$22,392,910 <sup>(A)</sup>	–

(A) This amount consists of loans of which 85% are secured by mortgages.

#### Indebtedness of directors and executive officers under securities purchase and other programs

The following table presents the indebtedness <sup>(1)</sup> of each individual who is or was, during the most recently completed fiscal year, a director or executive officer of the Bank, of each director nominee of the Bank, and of each related person of any such director, executive officer or nominee. These loans exclude loans repaid in full and routine indebtedness.

Name and principal position	Involvement of Bank or subsidiary of the Bank	Largest amount outstanding during fiscal year ended October 31, 2015 (\$)	Outstanding as of January 22, 2016 (\$)	Financially assisted securities purchases during fiscal year ended October 31, 2015	Security for indebtedness	Amount forgiven during fiscal year ended October 31, 2015 (\$)
<b>SECURITIES PURCHASE PROGRAMS</b>						
–	–	–	–	–	–	–
<b>OTHER PROGRAMS</b>						
<b>Stéphane Bilodeau</b> Former Executive Vice-President – Operations and Strategic Initiatives Office <sup>(3)</sup>	Loans granted by the Bank	\$150,185 <sup>(4)</sup> \$1,060,607 <sup>(5)</sup>	\$7,255 <sup>(4)</sup> \$604,785 <sup>(5)</sup>	–	–	–
<b>Dominique Fagnoule</b> Executive Vice-President – Information Technology and Strategic Initiatives Office	Loans granted by the Bank	\$916,578 <sup>(6)</sup>	\$769,421 <sup>(6)</sup>	–	–	–

<b>Diane Giard</b> Executive Vice- President – Personal and Commercial Banking	Loan granted by NBF	\$784,145 <sup>(7)</sup>	\$580,044 <sup>(7)</sup>	–	–	–
<b>Karen Leggett</b> Chief Marketing Officer and Executive Vice- President – Corporate Development	Loans granted by the Bank	\$1,344,043 <sup>(8)</sup>	\$970,048 <sup>(8)</sup>	–	–	–

- (1) In accordance with paragraph 10.1(2) of the Form 51-102F5 of CSA's Regulation 51-102, these loans are granted by the Bank or one of its subsidiaries or by another entity if the indebtedness is the subject of guarantee or letter of credit provided by the Bank or one of its subsidiaries, a support agreement or other similar arrangement or understanding.
- (2) For the purposes of this section, the executive officers are the Chairman of the Board, the President and Chief Executive Officer, the Chief Financial Officer, the Vice-Presidents in charge of a principal business unit, division or function of the Bank, and officers of the Bank or its subsidiaries who perform a policy-making function in respect of the Bank.
- (3) Stéphane Bilodeau ceased to act as executive officer of the Bank on June 12, 2015.
- (4) This amount represents the balance of a personal line of credit granted by the Bank according to the standards applicable to clients, except that the interest rate is the rate given to employees of the Bank, which is the prime rate less 3%, but not less than the prime rate divided by 2.
- (5) This amount represents the balances of loans granted by the Bank secured by a mortgage on the borrower's main residence. The amount consists of a mortgage loan bearing interest at a fixed rate in accordance with the standards applicable to clients, except that the interest rate is reduced by 2% for employees of the Bank, amortized over a 25-year period, and an *All-In-One National Bank* personal line of credit granted in accordance with the standards applicable to clients, except that the interest rate is the rate given to employees of the Bank, which is the prime rate less 2% but not less than the prime rate divided by 2.
- (6) This amount represents the balance of a loan granted by the Bank secured by a mortgage on the borrower's main residence. This amount bears interest at a fixed rate in accordance with the standards applicable to clients, except that the interest rate is reduced by 2% for all employees of the Bank, amortized over a 25-year period.
- (7) This amount represents a margin loan granted by NBF for borrowing against the value of the securities held in the borrower's account. The portfolio securities provide collateral. Such loans are granted in accordance with the standards applicable to clients, including the interest rate which may range between the preferred rate and the preferred rate plus 2.25%, depending on the amount borrowed.
- (8) This amount represents the balances of loans secured by mortgages granted by the Bank. The amount consists of a mortgage loan secured by a mortgage on the borrower's main residence bearing interest at a fixed rate in accordance with the standards applicable to clients, except that the interest rate is reduced by 2% for employees of the Bank, amortized over a 20-year period; and a mortgage loan secured by a mortgage on the borrower's secondary residence bearing interest at a fixed rate in accordance with the standards applicable to clients, amortized over a 20-year period.

### Directors' and officers' liability insurance

The Bank has purchased a liability insurance policy on behalf of the directors and officers of the Bank and its subsidiaries. This policy covers directors and officers under circumstances where the Bank is not able or not permitted to indemnify them. The policy provides aggregate coverage of up to \$115,000,000, with no deductible.

The annual premium for this insurance is \$546,000. The policy expires on September 1, 2016 and is renewable.

## Share repurchase program

A new Normal Course Issuer Bid began on May 11, 2015 and will expire on May 10, 2016. This NCIB allows the Bank to repurchase, during the period mentioned above, on the Toronto Stock Exchange, a maximum of 6,000,000 Common Shares, representing approximately 1.82% of its outstanding Common Shares. The price paid by the Bank for any Common Shares repurchased under this NCIB corresponds to the market price of the Common Shares on the Toronto Stock Exchange on the repurchase date. In the opinion of the Board, the repurchase of Common Shares under this NCIB would represent an appropriate use of the Bank's surplus funds. As of February 19, 2016, the Bank had not repurchased any Common Shares under this NCIB.

Shareholders may obtain, free of charge, a copy of the notice of intent regarding this NCIB, which was approved by the Toronto Stock Exchange, by writing to the Corporate Secretary's Office, National Bank of Canada, 600 De La Gauchetière Street West, 4<sup>th</sup> Floor, Montreal, Quebec, Canada H3B 4L2.

## Minutes

The minutes of the Annual Meeting of the Holders of Common Shares of the Bank are posted on the website [sedar.com](http://sedar.com), and may also be found on the website [nbc.ca](http://nbc.ca).

## Additional information

Financial information about the Bank can be found in the comparative consolidated financial statements and Management's Discussion and Analysis for the most recently completed fiscal year, included in the [2015 Annual Report](#).

The Bank will, upon request, promptly provide any shareholder, free of charge, with a copy of the 2015 Annual Report, a copy of the 2015 Annual Information Form together with a copy of any document incorporated therein by reference, a copy of the consolidated financial statements for the fiscal year ended October 31, 2015 with the accompanying independent auditor's report, a copy of any subsequent quarterly report and a copy of the Management Proxy Circular with respect to its most recent annual meeting of the holders of Common Shares of the Bank involving the election of directors, and all other documents incorporated by reference into the Circular, including the mandate of the Board as well as a copy of the Code of Conduct and Ethics. To obtain copies of these documents, please send your request to the Corporate Secretary's Office, National Bank of Canada, 600 De La Gauchetière Street West, 4<sup>th</sup> Floor, Montreal, Quebec, Canada H3B 4L2.

These documents as well as additional information about the Bank may be obtained from its website [nbc.ca](http://nbc.ca) and from the website [sedar.com](http://sedar.com).

The following information regarding governance can be found in the governance subsection under "About Us" on the website [nbc.ca](http://nbc.ca):

- Mandates of the Board and Board committees
- Mandates of the Chairman of the Board and the committee Chairs
- Director Independence Policy
- The Bank's Statement of Corporate Governance Practices
- The Board Diversity Statement
- Code of Conduct and Ethics

The Bank's most recent Social Responsibility Report can also be found in the social responsibility subsection under "About Us" on the website [nbc.ca](http://nbc.ca).

## Contacting the Board

The Board considers it important to allow Bank shareholders and clients, as well as any other person, to comment on subjects concerning the Bank, particularly the Board's approach to executive compensation. Anyone wishing to contact the Board, a Board committee, the Chairman of the Board, a Chair of a Board committee or a director, including an independent director, may do so by e-mail to: [boardofdirectors@nbc.ca](mailto:boardofdirectors@nbc.ca) or by mail c/o the Corporate Secretary's Office, National Bank of Canada, 600 De La Gauchetière Street West, 4<sup>th</sup> Floor, Montreal, Quebec, Canada H3B 4L2.

## Trademarks

The trademarks used in this Circular include, among others, National Bank of Canada, National Bank, National Bank Financial, National Bank Private Wealth 1859, *One client, one bank*, All-In-One National Bank, *One for Youth* and their respective logos, which are trademarks of the Bank used under licence by the Bank or its subsidiaries. All other trademarks mentioned in this Circular which are not the property of the Bank are owned by their respective holders.

## Approval of the Board

The Board has approved the content of this Circular and its mailing to the holders of Common Shares.

## NATIONAL BANK OF CANADA

(s) *Dominic Paradis*  
Vice-President, Legal Affairs and Corporate Secretary

Montreal, February 19, 2016

## SCHEDULE A – SHAREHOLDER PROPOSALS

The Mouvement d'éducation et de défense des actionnaires (MÉDAC), with its head office located at 82 Sherbrooke Street West, Montreal, Quebec, Canada H2X 1X3, submitted four proposals to the Bank to be included in the Circular.

Following discussions with the Bank, MÉDAC has agreed not to submit any of these four proposals to shareholder vote. The Bank and MÉDAC have also agreed to include these proposals in the Circular for information purposes only. The Bank has reproduced all four proposals and its responses in full below.

### Proposal No. 1 – Not submitted to shareholder vote

#### “Length Of Term Of Office [translation]

**It is proposed that the Board of Directors (“Board”) adopt a policy governing director turnover that sets the maximum length of an independent director’s term at 15 years.**

#### Arguments

At present, two directors have been sitting on the Board of Directors of the National Bank of Canada for 15 years or more. Those directors are Lawrence S. Bloomberg and Roseann Runte.

Last year, the AMF and certain other Canadian regulators asked Canadian companies to consider a faster-paced turnover of their directors so as to make room for new talent, and specifically women. In some countries, such as France, England and Australia, the issue of limiting the term of office has been raised in order to promote director independence. It is, after all, possible that directors no longer have the necessary distance to create added value in the decision-making process after a certain period of time. Routine sets in and it becomes more difficult to see the business outside the usual developmental paradigms. While acknowledging that balance is necessary between experienced directors and new appointees, new blood is essential, especially the contribution of female and younger directors.

A recent study entitled *Zombie Boards: Board Tenure and Firm Performance* suggests that a director’s contribution levels off after 12 years on a board. This diminished contribution over time is said to be particularly evident in decisions on mergers and acquisitions, business strategies, innovation, financial accountability and compensation.

Like all Quebec and Canadian businesses, the National Bank of Canada has to navigate in increasingly complex economic, technological and political contexts. While recognizing that it takes time to learn the function of director, regular turnover of board members is in all firms’ best interests, so as to recruit people who not only contribute new skills, but can view the firm’s challenges with new eyes.

Finally, we recommend that this limitation be expressed in terms of length of term of office rather than age, a practice we regard as discriminatory against seniors.

#### The directors concerned

Lawrence S. Bloomberg  
Roseann Runte

Serving for 17 years (since 1999)  
Serving for 15 years (since 2001)”

## The Bank’s position:

First, it is useful to recall that Roseann Runte and Lawrence Bloomberg will not be seeking re-election as directors at the Meeting. This resolves the issue raised by MÉDAC regarding these two directors.

Furthermore, as indicated on pages 35 and 36 of the Circular, in February 2016, the Board amended the guideline prohibiting directors from seeking to renew their mandate more than 15 times. Henceforth, therefore, a director may not seek to renew his or her mandate past the 12<sup>th</sup> annual meeting after he or she was first elected. On the recommendation of the Conduct Review and Corporate Governance Committee, however, the Board may decide that, because of exceptional circumstances, it is in the Bank’s interest for a director who has reached this limit to be able to stand for re-election once more for an additional one-year term, up to three terms.

**As agreed with MÉDAC, this proposal is not being submitted to shareholder vote.**

## Proposal No. 2 – Not submitted to shareholder vote

### “Simplifying Financial Information [translation]

**It is proposed that the Board of Directors either adopt an action plan or create a committee of small shareholders in order to simplify financial statements and make them more easily accessible.**

### Arguments

MÉDAC has read a vast number of financial statements and annual reports over the past 20 years. During those years, we have noted an information overload, as financial information has become a cumbersome compliance exercise which is of diminishing relevance to shareholders. Basically, annual reports are becoming far too long and are confusing readers more often than informing them.

It is urgent that the Bank reflect on this issue and commit to review, for a given period of time, how its financial information is presented, in order to simplify it and make it more understandable. We offer as an example the **Fiche du MÉDAC**, which presents a firm’s financial and extra-financial performance highlights of an organization’s fiscal year on a single sheet of 8 ½ x 11 paper (double-sided).

These fact sheets would contain information that would enable the less seasoned investor to assess the business’s capacity to generate sustained profits and to assess the level of financial security it can provide, based on its debt ratio, market capitalization, and credit rating with rating agencies. On the extra-financial side, these sheets would provide an overview of improvements made by management to aspects of its corporate governance, including the roles and composition of the board of directors, the compensation of senior executives, the wage gap between personnel and executives, presence of women on the board, and so on.

We are offering to work with your simplification committee, and are taking steps with the regulatory authorities and the Canadian Bankers Association to move this project forward.”

## The Bank’s position:

The Bank is governed by a very strict regulatory framework with respect to disclosure of financial information. In fact, the Act states that financial statements must be prepared in accordance with International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board. Moreover, the Bank has to comply with the continuous disclosure regulations of the Autorité des marchés financiers (Québec), the requirements of the Enhanced Disclosure Task Force established by the Financial Stability Board, the regulatory capital guidelines of the Basel Committee on Banking Supervision, as well as the requirements of other regulatory agencies in the jurisdictions in which the Bank operates.

The Bank’s goal is to comply at all times with applicable laws and regulations. It has put in place processes and teams whose purpose is to facilitate the achievement of this goal. It therefore considers it unnecessary and not useful to adopt such an action plan.

The Board is aware that the amount of information that has to be produced may make financial reporting documents more difficult to read, such as the annual report and the quarterly report to shareholders. Sensitive to this challenge, the Bank has taken certain steps to simplify the financial information, such as the Investor Fact Sheet, that is available on the website [nbc.ca](http://nbc.ca). This Fact Sheet, which has been published for nearly 10 years, is updated on a quarterly basis in an attempt to make financial information readily understandable for shareholders. The [2015 Annual Report](#) also contains an overview of financial results which summarizes key financial information.

**As agreed with MÉDAC, this proposal is not being submitted to shareholder vote.**

## Proposal No. 3 – Not submitted to shareholder vote

### “Customer Service [translation]

**It is proposed that the Board of Directors table a report on the methods it has used over the past year to increase customer satisfaction in the short and medium term.**

### Arguments

According to a report published July 31, 2015 by J.D. Power,<sup>(1)</sup> one of the world’s leading consumer research firms, Canadian banks are seeking short-term profits at the expense of customer satisfaction. Two examples: the significant increase in average wait time in branches, and the hike in incidental fees.

This performance greatly concerns shareholders because it can seriously affect the Bank’s performance over the medium and long term. According to one Accenture study <sup>(2)</sup>, 27% of all Canadian banking customers who might consider changing banks would switch to a digital (or branchless) bank. Another troubling study finding: North American banks’ youngest clients would be open to banking with technology players such as Google, Amazon or Apple. According to one Accenture Canada representative:

“The game is changing for banking services in Canada and the U.S., and tomorrow’s consumer is coming of age with a very different perception of what a bank should be.

<sup>(1)</sup> Survey of 14,000 individual customers of Canadian banks in Canada. <http://affaires.lapresse.ca/economie/services-financiers/201507/31/01-4889437-plus-dinsatisfaction-envers-les-banques-canadiennes.php>

<sup>(2)</sup> <http://www.conseiller.ca/nouvelles/services-bancaires-que-veut-la-generation-y-47955>

These new customer expectations will prove disruptive to banks, if the branchless banks phenomenon gains momentum and if banks do not adapt quickly.”

Therefore, we are making this proposal to learn more about the bank’s strategy regarding these new trends and the steps it intends to take in the short term to better meet its customers’ expectations.”

### **The Bank’s position :**

Customer satisfaction is central to the Bank’s business model. The Board and management consider it essential to meet its customers’ expectations properly and to ensure customer satisfaction. This is an essential component of the Bank’s success and growth.

The Bank continuously measures its customers’ satisfaction, and is constantly looking for opportunities to improve those measurements. It invested millions of dollars in 2015 in surveys to measure customer satisfaction.

In addition, the Bank is continuing its efforts to develop multichannel banking service packages that are simple and accessible in person at a branch, by telephone, and digitally (web, tablet, smartphone). In the past 18 months, the Bank has continued to roll out the most extensive technological upgrade in its history, aimed at providing its customers with electronic tools and its employees with processes and platforms that enable them to offer even better service. Additionally, in 2015, to promote the Bank’s corporate culture, all Officers and employees took a course on the Red Carpet client experience.

The Bank closely monitors the arrival of all new payment solutions, and is constantly watching for opportunities to partner with various players in the Canadian financial services industry in order to tackle this new competition, something the Bank is already doing via the MasterCard PayPass tool, among others.

Lastly, as part of its three-year plan, the Bank intends to roll out platforms to better coordinate and automate campaigns, add more tools to offer every customer a tailored experience, replace all ATMs, provide mobile tools for staff so they can travel to their customer and process transactions on the spot, and convert all of the Bank’s main products and solutions to digital.

**As agreed with MÉDAC, this proposal is not being submitted to shareholder vote.**

### **Proposal No. 4 – Not submitted to shareholder vote**

#### **“Taxes: Everyone Should Pay Their Fair Share [translation]**

**It is proposed that the Bank, like all other Quebec citizens, participate in the effort to optimize Quebec’s public finances.**

#### **Arguments**

In his last economic update, Quebec’s Finance Minister Carlos Leitão announced an increase, applicable December 3, 2014 to March 31, 2017, in the temporary contribution for wages paid by financial institutions. This temporary payroll tax would increase from 2.8% to 4.48%. Following this announcement, it was reported in the media that the Canadian Bankers Association (CBA) <sup>(1)</sup> was busy behind the scenes trying to get the Quebec government to back down.

<sup>(1)</sup> <http://ici.radio-canada.ca/nouvelles/economie/2014/12/16/004-banque-surtaxe-quebec-equilibre-budgetaire-lobbyisme.shtml>

In this sort of situation where everyone has to put their shoulder to the wheel, this reaction by Canadian banks is questionable, especially since, over the last fiscal year, the seven biggest Canadian banks raked in some \$33.4 billion in profits.”

**The Bank’s position:**

The Bank contributes to collective prosperity in many ways. In addition to being one of the largest employers in Quebec and Canada, the Bank is a purchaser of goods and services and a major taxpayer. In fiscal 2015, the Bank paid \$565 million in corporate income tax, capital taxes, fringe benefits, business taxes, property taxes, and taxes on consumption, totalling 25% of its profits before income taxes, levies and other charges paid or payable. The Bank also bears the cost, amounting to millions of dollars annually, of collecting on the government’s behalf taxes and tax expenses from its customers, employees and investors amounting to more than a billion dollars a year.

The Bank is supporting the temporary fiscal measure that the Quebec government is requesting of financial institutions for the period of 2014-2017. Furthermore, the Canadian Bankers Association reports that it has not lobbied the Quebec government to hastily remove the temporary surcharge on financial institutions, but rather to ensure that the surcharge will well and truly end on the date announced by the government.

**As agreed with MÉDAC, this proposal is not being submitted to shareholder vote.**

## **INFORMATION FOR SHAREHOLDERS**

### **Head Office**

National Bank of Canada  
National Bank Tower  
600 De La Gauchetière Street West, 4<sup>th</sup> Floor  
Montreal, Quebec, Canada H3B 4L2  
Telephone: 514-394-5000  
Website: nbc.ca

### **Registrar and Transfer Agent**

For information about stock transfers, address changes, dividends, lost share certificates, tax forms and estate transfers, shareholders are asked to directly contact Computershare, the Bank's registrar and transfer agent, at the address and telephone numbers below.

Computershare Trust Company of Canada  
1500 Robert-Bourassa Boulevard, 7<sup>th</sup> Floor  
Montreal, Quebec, Canada H3A 3S8  
Telephone: 1-888-838-1407  
Fax: 1-888-453-0330  
E-mail: [service@computershare.com](mailto:service@computershare.com)  
Website: [computershare.com](http://computershare.com)

For all correspondence (mailing address):  
Computershare Trust Company of Canada  
100 University Avenue, 8<sup>th</sup> Floor  
Toronto, Ontario, Canada M5J 2Y1

All other inquiries may be addressed to:  
Investor Relations  
National Bank of Canada  
National Bank Tower  
600 De La Gauchetière Street West, 7<sup>th</sup> Floor  
Montreal, Quebec, Canada H3B 4L2  
Telephone: 1-866-517-5455  
Fax: 514-394-6196  
E-mail: [investorrelations@nbc.ca](mailto:investorrelations@nbc.ca)  
Website: [nbc.ca/investorrelations](http://nbc.ca/investorrelations)

### **Contacting the Board of Directors**

Bank shareholders and clients as well as any other person wishing to contact the Board, a Board committee, the Chairman of the Board, a Chair of a Board committee or a director, including an independent director, may do so by e-mail to: [boardofdirectors@nbc.ca](mailto:boardofdirectors@nbc.ca) or by mail c/o the Corporate Secretary's Office, National Bank of Canada, 600 De La Gauchetière Street West, 4<sup>th</sup> Floor, Montreal, Quebec, Canada H3B 4L2.

National Bank of Canada is proud to help save the environment by using Ecologo. Printed on Forest Stewardship Council® (FSC®) certified paper.



# EVERYTHING STARTS WITH AN IDEA

Big or small.

Unexpectedly, it strikes us.

But decidedly, we transform it.

Into a project, a challenge,  
an adventure, a source of pride.

Let's go for it.

Let's make progress.

Innovate.

Implement.

Empower.



Powering your ideas