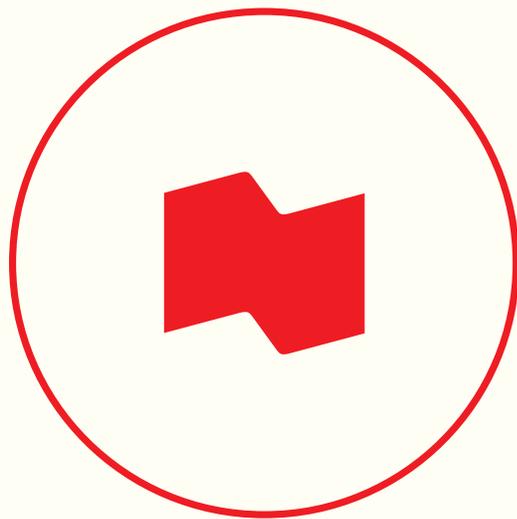


# ANNUAL MEETING OF SHAREHOLDERS

**April 21, 2017**



Notice of Annual Meeting of the Holders  
of Common Shares of National Bank of Canada  
Management Proxy Circular

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

**2016 Annual Information Form:** The Bank's Annual Information Form dated December 1, 2016, and posted December 2, 2016, on the websites [nbc.ca](http://nbc.ca) and [sedar.com](http://sedar.com)

**2016 Annual Report:** The Bank's Annual Report filed on December 2, 2016 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, 2016, as well as Management's Discussion and Analysis and the independent auditor's report thereon

**AC:** The 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, 2016):**

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, and Co-President and Co-Chief Executive Officer of 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;
- the Executive Vice-President – Information Technology;
- the Chief Transformation Officer and Executive Vice-President – Strategic Initiatives Office.

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

**FSB:** Financial Stability Board

**Hay Group:** Korn Ferry Hay Group Ltd

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

**ICP:** Annual Incentive Compensation Program

**Meeting:** Annual Meeting of the Holders of Common Shares of National Bank of Canada to be held on Friday, April 21, 2017 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;

**Denis Girouard** – Executive Vice-President – Financial Markets;

**Ricardo Pascoe** – Chief Transformation Officer and Executive Vice-President – Strategic Initiatives Office; 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 staff in roles reporting directly to Executive Officers who are employees of the Bank's subsidiaries, as well as any Bank employee considered by the Bank's Human Resources Committee to occupy a similar role.

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

**PRAP:** Post-Retirement Allowance Program

**PSU:** Performance share unit

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

**Regulation 54-101:** *Regulation 54-101 respecting Communication with Beneficial Owners of Securities of a Reporting Issuer*, R.R.Q., c. V-1.1, r. 29

**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 24, 2017

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 21, 2017, 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 [2016 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 on the [“Investor Relations”](#) page 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 THE NATIONAL BANK OF CANADA

Date: **April 21, 2017**  
Time: **10:00 a.m. (EDT)**  
Address: **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, 2016 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;
5. To review and approve by resolution the amendment to By-Law I – General By-Law of the Bank to increase the quorum for all shareholders' meetings;
6. To review and approve by resolution the replenishment of the share reserve for the Bank's Stock Option Plan; and
7. 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 24, 2017

---

### NOTICE-AND-ACCESS PROCEDURE

This year, in compliance with securities regulations and with the authorization of the Office of the Superintendent of Financial Institutions of Canada, the Bank has decided to use notice-and-access procedures for the delivery of the Circular issued by the Bank's Management in connection with the solicitation of proxies (the "Circular"), for the purposes indicated in the Notice of Meeting, for use at the Annual Meeting of the Holders of Common Shares of the Bank (the "Meeting"), and, if adjourned, at any reconvening thereof. The notice-and-access procedures allow for faster access to the Circular, contribute to the protection of the environment by reducing tree, water and energy consumption, and help reduce high printing and postage costs.

**Therefore, instead of receiving the Circular by mail, you can view it electronically by visiting [nbc.ca](http://nbc.ca) or [sedar.com](http://sedar.com).**

Registered holders and beneficial owners will still receive by post, along with the Notice of Meeting, a form of proxy or voting instruction form that permits them to exercise the voting rights attached to your Common Shares of the Bank. For further information about the voting procedure, see the "[How can I exercise my voting rights?](#)" section of this notice.

*It is very important that you read the Circular carefully before exercising the voting rights attached to your Common Shares of the Bank.*

## How do I obtain a printed copy of the Circular?

Registered holders and beneficial owners can also ask to receive, free of charge, a printed copy of the Circular before the Meeting, and in the year after the date the Circular was filed, by following the procedure below:

REGISTERED HOLDER		BENEFICIAL OWNER
Procedure	Before the Meeting, call:	After the Meeting, call:
	1-866-962-0498 (toll-free in Canada and the United States) or 1-514-982-8716 (other countries)	1-866-964-0492 (toll-free in Canada and the United States) or 1-514-982-8714 (other countries)
	Call 1-877-907-7643 (toll-free in Canada and the United States) or go to <a href="http://proxyvote.com">proxyvote.com</a> and enter the control number shown on your voting instruction form.	
	And enter the control number indicated on your form of proxy when required.	
If you request it before the date of the Meeting, the Circular will be sent to you within three business days after receiving your request. To receive the Circular before the voting deadline and the date of the Meeting, we estimate that your request must be received no later than <b>5:00 p.m. (EDT) on Thursday, April 6, 2017</b> . Please note that you will not receive another form of proxy or voting instruction form, so in order to exercise your voting rights please keep the one you received with this notice.		
If you request it on the date of the Meeting or in the year following the filing of the Circular, it will be sent to you within ten calendar days after receiving your request.		

## 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 24, 2017 at 5:00 p.m. (EST), are entitled to receive notice of 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 24, 2017, 340,798,838 Common Shares of the Bank were outstanding and eligible to be voted at the Meeting, subject to the restrictions set out in the Act.

## How can I exercise my voting rights?

Registered holders of Common Shares may exercise their voting rights by attending the Meeting or by completing a form of proxy. If you foresee being unable to attend the Meeting, you can vote by going to the website [investorvote.com](http://investorvote.com) or by filling out, dating and signing the attached 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 19, 2017.

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 Circular and the instructions received from your broker.

## Shareholder Questions and Assistance with Voting

If you have any questions regarding this notice, the notice-and-access procedures or the Meeting, or require assistance with voting, you may contact Laurel Hill Advisory Group, a proxy solicitation firm, mandated by the Bank, at 1-877-452-7184 (toll-free in Canada and the United States) or 1-416-304-0211 (other countries), or by email at [assistance@laurelhill.com](mailto:assistance@laurelhill.com).

## 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 [2016 Annual Report](#), in other filings with Canadian securities regulators, and in other communications, for the purpose of describing the economic environment in which the Bank will operate during fiscal 2017 and the objectives it 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 2017 and how that will affect the Bank’s business are among the main factors considered in setting the Bank’s strategic priorities and objectives and in determining its financial targets, including provisions for credit losses. In determining its expectations for economic growth, both broadly and in the financial services sector in particular, the Bank primarily considers historical economic data provided by the Canadian and U.S. governments and their agencies.

There is a strong possibility that express or implied projections contained in these forward-looking statements will not materialize or will not be accurate. The Bank recommends that readers not place undue reliance on these statements, as a number of factors, many of which are beyond the Bank’s control, could cause actual future results, conditions, actions or events to differ significantly from the targets, expectations, estimates or intentions expressed in 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 48 of the [2016 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 [2016 Annual Report](#). Investors and others who rely on the Bank’s forward-looking statements should carefully consider the above factors as well as the uncertainties they represent and the risk they entail. Except as required by law, the Bank does not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time, by it or on its behalf.

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

	<b>SUMMARY</b>	<b>P.1</b>
<b>1</b>	<b>VOTING INFORMATION</b>	<b>P.6</b>
<b>2</b>	<b>BUSINESS OF THE MEETING</b>	<b>P.12</b>
	Receipt of the consolidated financial statements and the independent auditor's report	P.12
	Election of directors	P.12
	Advisory vote on the Board's approach to executive compensation	P.13
	Appointment of the independent auditor	P.14
	Increase the quorum for all shareholders' meetings	P.15
	Replenishment of the share reserve for the Stock Option Plan	P.16
	Shareholder proposals	P.21
<b>3</b>	<b>DIRECTOR NOMINEES</b>	<b>P.22</b>
<b>4</b>	<b>GOVERNANCE PRACTICES</b>	<b>P.32</b>
<b>5</b>	<b>DIRECTOR COMPENSATION</b>	<b>P.50</b>
<b>6</b>	<b>COMMITTEES OF THE BOARD</b>	<b>P.56</b>
	Audit Committee	P.57
	Risk Management Committee	P.59
	Conduct Review and Corporate Governance Committee	P.61
	Human Resources Committee	P.63
<b>7</b>	<b>EXECUTIVE OFFICER COMPENSATION</b>	<b>P.66</b>
	Letter to shareholders	P.66
	Compensation policies and practices	P.70
	Compensation governance	P.73
	Approval and management process for compensation policies and programs	P.80
	Compensation of Named Executive Officers	P.89
<b>8</b>	<b>OTHER INFORMATION</b>	<b>P.121</b>

## SUMMARY

Items submitted to shareholder vote	Recommendation of the Board and of management	Page
Election of directors	▶ For each nominee	12
Board's approach to executive compensation	▶ For	13
Appointment of the independent auditor	▶ For	14
Increase the quorum for all shareholders' meetings	▶ For	15
Replenishment of the share reserve for the Stock Option Plan	▶ For	16

### Director nominees at a glance

You are invited to elect the 14 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 Nominees	Age	Director since	Occupation	Independent	Committee	Board and committee attendance in 2016	Other directorships in public corporations
Raymond Bachand	69	October 2014	Strategic Advisor, Norton Rose Fulbright Canada LLP	✓		97.3%	• Transat A.T. Inc.
Maryse Bertrand	58	April 2012	Corporate Director	✓		100%	• Metro Inc.
Pierre Blouin	58	September 2016	Corporate Director	✓		100%	• Fortis Inc.
Pierre Boivin	63	April 2013	President and Chief Executive Officer, Claridge Inc.	✓		96.8%	• Canadian Tire Corporation, Ltd.
André Caillé	73	October 2005	Corporate Director	✓		100%	• Junex Inc.
Gillian H. Denham	56	October 2010	Corporate Director	✓		100%	• Canadian Pacific Railway Limited • Kinaxis Inc. • Morneau Shepell Inc.
Richard Fortin	68	August 2013	Corporate Director	✓		100%	• Alimentation Couche-Tard Inc. • Transcontinental Inc.
Jean Houde	71	March 2011	Chairman of the Board	✓		100%	–
Karen Kinsley	60	December 2014	Corporate Director	✓		100%	• Saputo Inc.
Julie Payette	53	April 2014	Engineer, Scientific Broadcaster and Corporate Director	✓		100%	–
Lino A. Saputo, Jr. <sup>(1)</sup>	50	April 2012	Chief Executive Officer and Vice-Chairman of the Board of Directors, Saputo Inc.	✓		96.9%	• Saputo Inc. <sup>(2)</sup>
Andrée Savoie	45	April 2015	President, Acadian Properties Ltd.	✓		100%	–
Pierre Thabet	59	March 2011	President, Boa-Franc Inc.	✓		100%	• Canam Group Inc.
Louis Vachon	54	August 2006	President and Chief Executive Officer of the Bank		–	100%	• Molson Coors Brewing Company

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

- (1) On January 26, 2017, Transcontinental Inc. announced that Lino A. Saputo, Jr. would not seek to renew his mandate as a director of Transcontinental Inc.'s Annual Shareholders' Meeting on March 3, 2017.
- (2) Lino A. Saputo, Jr is also a director of Warrnambool Cheese and Butter Factory Company Holdings Limited ("Warrnambool"), a company controlled by Saputo Inc. through its subsidiary Saputo Dairy Australia Pty Ltd ("Saputo Australia"). On February 23, 2017, Saputo Australia announced that it would be taking steps to acquire all remaining shares in Warrnambool. This follows a takeover bid announced on January 31, 2017, pursuant to which Saputo Australia increased its interest in Warrnambool to over 90%.

## In the past five years, the Board:

### renewed itself and increased effectiveness

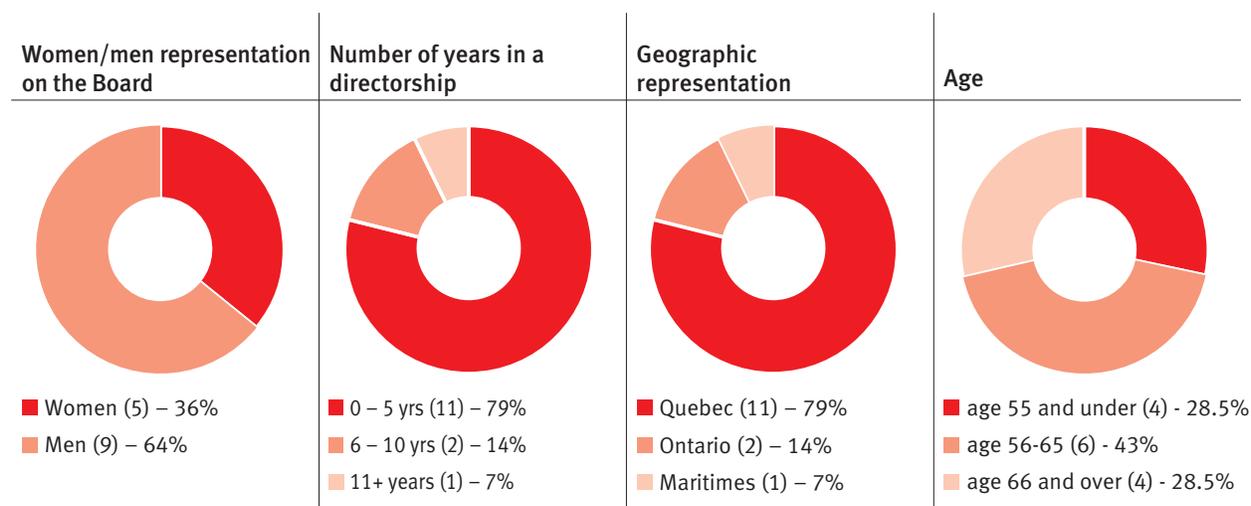
- Nine new directors joined the Board.
- The total number of years that a director can remain in office was reduced to 12 years.
- The Board adopted a stance on diversity that requires at least one-third of Board members to be women, a target that has been reached and exceeded since 2014.
- The composition of Board committees was reviewed and the Chair of each committee was renewed.
- A new Board Chairman was appointed.
- The Board reviewed its operational approach to improve its effectiveness, particularly by allowing members to devote further time to the study of the strategic and complex topics.
- The Board assessment process was revisited to include reviews by peers and by the members of the Office of the President.

### accomplished the following key tasks

- The annual Incentive Compensation Program (ICP) was revised to include a new performance metric that takes into account improvements in the Bank's efficiency ratio related to transformation efforts.
- The pool of expertise was strengthened at the Office of the President.
- The proportion of Officers' compensation that is deferred was adjusted to reduce recourse to stock option grants.
- The share ownership requirements were increased for Directors, Executive Officers and for material risk takers.
- The variable compensation clawback policy was updated for material risk takers.
- The Compensation Risk Oversight Working Group was set up to assist the Human Resources Committee.
- Benefits and pension plans were harmonized for all employees of the Bank.

## Data points on the director nominees

	Raymond Bachand	Maryse Bertrand	Pierre Blouin	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
Competencies and expertise														
Audit / Finance	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Entrepreneurship	✓						✓				✓	✓	✓	
Financial Markets and Services		✓				✓	✓	✓	✓					✓
Governance	✓	✓	✓		✓	✓		✓	✓	✓		✓		
Human Resources / Compensation		✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓
Information Technology and Telecommunications		✓	✓	✓						✓	✓			
International Markets				✓	✓	✓	✓	✓	✓	✓	✓			✓
Legal and Regulatory Affairs	✓	✓						✓						
Marketing	✓	✓	✓	✓	✓	✓	✓	✓			✓	✓	✓	✓
Public Policy	✓				✓			✓	✓					
Risk Management	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓
Social Responsibility		✓		✓	✓				✓	✓	✓	✓	✓	✓



Key governance practices		Pages
Size of the Board (number of directors)	✓	36
Average age of directors	✓	2
Diversity Statement adopted by the Board	✓	44
Representation of women on the Board (36%) and in management (38%)	✓	44 to 47
Independent directors	✓	36
All committee members are independent	✓	34, 36, 56
Limited number of years as director	✓	41
All directors are financially literate	✓	35
Number of Board meetings in fiscal 2016	✓	22 to 29
Number of Board committee meetings in fiscal 2016	✓	22 to 29
Meeting attendance requirements are met	✓	22 to 29
Chairman and President and Chief Executive Officer roles are separate	✓	36
Directors are elected annually and individually	✓	12, 41
A majority voting policy for the election of directors	✓	12
The Code of Conduct and Ethics is signed and upheld by directors	✓	37, 43, 44
Annual advisory vote on executive compensation	✓	13, 14
A formal Board assessment process has been established	✓	40
A guidance program for new directors has been implemented	✓	42
A continuing education program for directors has been implemented	✓	42, 43
Dialogue with shareholders	✓	49

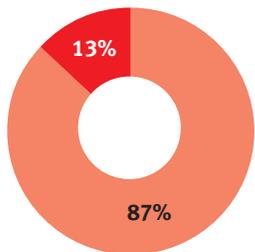
## 2016 COMPENSATION HIGHLIGHTS

- In 2016, the Bank made considerable efforts to ensure that its compensation programs would fully support its organizational transformation. With this in mind, the Bank has decided to introduce, starting in 2017, the following measures:
  - Include in the annual Incentive Compensation Program (ICP) a new performance metric that takes into account improvements of the bank's efficiency ratio.
  - Adjust the variable compensation programs of its main business lines to support the transformation.
  - Raise the proportion of variable compensation that must be deferred for the majority of material risk takers.
- The role of Chief Transformation Officer was created to support the acceleration of the transformation, as presented in the *Letter to Shareholders*:
  - Ricardo Pascoe has taken on the role of Chief Transformation Officer and Executive Vice-President – Strategic Initiatives Office, while Denis Girouard succeeded him as the Executive Vice-President – Financial Markets.
  - This year Denis Girouard became a Named Executive Officer.

## KEY PRINCIPLES OF THE COMPENSATION POLICY FOR EXECUTIVE OFFICERS

### 1. Pay for performance

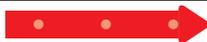
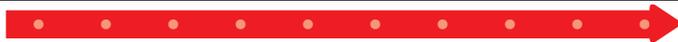
- ✓ A significant portion of variable compensation is conditional on performance
- ✓ Compensation consists mainly of variable compensation tied to the Bank's financial and stock market performance

Average Breakdown of Total Direct Compensation of Named Executive Officers	Components of variable compensation		Performance metrics
 <p>13% 87%</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		2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Short-term	Annual bonus	 Payable after one year										
Mid-term	Restricted Share Units (RSUs)	 Vest over a three-year period										
	Performance Share Units (PSUs)	 Vest after three years depending on relative TSR and adjustment range capped at 125% of the target										
Long-term	Stock options	 Vest over a four-year period at a rate of 25% per year and stock options expiring after ten years										
	Deferred Share Units (DSUs)	 Vest over a four-year period at a rate of 25% per year and redeemable only at retirement of upon termination of employment										

- ✓ The Compensation Risk Oversight Working Group supports 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. 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 \$194 on December 31, 2016. 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 \$216. For more information, see [page 97](#) of the Circular.

Value of \$100 granted annually in the form of direct compensation to Louis Vachon between 2007 and 2016	Value of \$100 invested in the Bank's Common Shares at the beginning of each fiscal year between 2007 and 2016
Average value of \$194 (on December 31, 2016)	Average value of \$216 (on December 31, 2016)

- ✓ 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		53.0 times
Named Executive Officers	4 times	
Ghislain Parent		10.9 times
Denis Girouard		16.0 times
Ricardo Pascoe		46.1 times
Diane Giard		12.9 times

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

# 1. VOTING INFORMATION

## How to obtain the Circular

This year, in accordance with securities regulations, and with the authorization of the OSFI, the Bank has decided to use the notice-and-access procedures for the delivery of the Circular issued by the Bank's Management in connection with the solicitation of proxies, for the purposes indicated in the Notice of Meeting, for use at the Meeting to be held at 10:00 a.m. (EDT) on Friday, April 21, 2017, at **600 De La Gauchetière Street West, 4<sup>th</sup> Floor, Montreal, Quebec, Canada**, and, if adjourned, at any reconvening thereof.

Therefore, instead of receiving the Circular by post, registered holders and beneficial owners who hold Common Shares of the Bank at 5:00 p.m. (EST) on February 24, 2017, the record date for the Meeting, have access to it online, as provided for in Regulation 51-102 and Regulation 54-101.

Registered holders and beneficial owners will still receive by post, along with the Notice of Meeting to the Annual Meeting of Holders of Common Shares of the Bank, a proxy form or voting instruction form permitting them to exercise the voting rights attached to their Common Shares. This Notice of Meeting will explain to registered holders and to beneficial owners how to view this Circular online and how to obtain a printed copy.

AM I A REGISTERED HOLDER?	AM I A BENEFICIAL OWNER?
You are a registered holder 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.

## NOTICE-AND-ACCESS PROCEDURE



**FASTER**



**GREENER**



**MORE  
ECONOMICAL**

Registered holders and beneficial owners can consult the Circular electronically by going to [nbc.ca](http://nbc.ca) or [sedar.com](http://sedar.com).

**You may also ask to receive, free of charge, a printed copy of the Circular before the Meeting, and in the year after the date the Circular was filed by following the procedure below:**

	REGISTERED HOLDER		BENEFICIAL OWNER
<b>Procedure</b>	Before the Meeting, call:	After the Meeting, call:	Call 1-877-907-7643 (toll-free in Canada and the United States) or go to <a href="http://proxyvote.com">proxyvote.com</a> and enter the control number shown on your voting instruction form.
	1-866-962-0498 (toll-free in Canada and the United States) or 1-514-982-8716 (other countries)	1-866-964-0492 (toll-free in Canada and the United States) or 1-514-982-8714 (other countries)	
	And enter the control number indicated on your form of proxy when required.		

If you have any questions regarding the notice-and-access procedures or the Meeting, you may contact the representatives of Laurel Hill Advisory Group ("Laurel Hill"), a proxy solicitation firm, mandated by the Bank, at 1-877-452-7184 (toll free in Canada and the United States) or 1-416-304-0211 (other countries).

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. The Bank expects to pay Laurel Hill fees totalling approximately \$25,000 for such services.

Certain beneficial owners may be contacted by Laurel Hill to assist in conveniently exercising their voting rights directly by telephone via Broadridge Investor Communications Corporation's QuickVote™ service.

ELECTRONIC COPIES OF OTHER CONTINUOUS DISCLOSURE DOCUMENTS	
You are also encouraged to use electronic delivery (e-delivery) to receive the other continuous disclosure documents of the Bank, including annual and interim reports. You will be notified via email when a new document is made available, at which time it can be consulted or downloaded through <a href="http://nbc.ca">nbc.ca</a> .	
HOW TO SIGN UP FOR E-DELIVERY	
REGISTERED HOLDER	BENEFICIAL OWNER
Registered holders may sign up for e-delivery at <a href="http://computershare.com/ca-en">computershare.com/ca-en</a> by following the instructions provided.	Beneficial owners in Canada and the United States 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 24, 2017.**

## How can I attend the Meeting?

You can present yourself in person at 10:00 a.m. (EDT) on April 21, 2017, 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 on the "[Investor Relations](#)" page on the Bank's website at: [nbc.ca/investorrelations](http://nbc.ca/investorrelations). The record 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 24, 2017, 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 24, 2017, 340,798,838 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 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 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
	<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 give your instructions as follows:</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 give your instructions as follows:</p>
Before the Meeting	 <p>Go to the following <b>website</b>: <a href="http://investorvote.com">investorvote.com</a></p>	 <p>Go to the following <b>website</b>: <a href="http://proxyvote.com">proxyvote.com</a></p>
	 <p>Send the duly completed, signed and dated (on the back) form of proxy by <b>fax</b> to 1-866-249-7775 (toll-free in Canada and the United States) or to 1-416-263-9524 (other countries).</p>	 <p><b>Phone</b> 1-800-474-7493 (for service in English) or 1-800-474-7501 (for service in French).</p>
	 <p>Using the provided envelope, send the duly completed, signed and dated (on the back) form of proxy by <b>mail</b> to 100 University Avenue, 8<sup>th</sup> Floor, Toronto, Ontario, Canada M5J 2Y1.</p>	 <p>Send the duly completed, signed and dated voting instruction form by <b>fax</b> to 1-905-507-7793 or 514-281-8911.</p>
	 <p>Send the duly completed, signed and dated (on the back) voting instruction form by <b>mail</b> using the provided envelope.</p>	

	REGISTERED HOLDER	BENEFICIAL OWNER
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 <a href="#">600 De La Gauchetière Street West, Montreal, Quebec, Canada</a>.</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 instructions indicated therein.</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, National Bank of Canada, <a href="#">600 De La Gauchetière Street West, 4<sup>th</sup> floor, Montreal, Quebec, Canada H3B 4L2</a>, no later than 5:00 p.m. (EDT) on the last business day preceding the date of the Meeting, namely, Thursday, April 20, 2017, 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 on your behalf 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 style="text-align: center;"><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 19, 2017.</b></p>	<p style="text-align: center;"><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 instructions indicated on it.</p> <p><b>Your voting instruction form must be received before the deadline and in accordance with the instructions 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>
Increase the quorum for all shareholders' meetings	<b>FOR</b>
Replenishment of the share reserve for the Stock Option Plan	<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, they 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 duly 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 results on [nbc.ca](http://nbc.ca) and [sedar.com](http://sedar.com) websites.

## 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, 2016, and the independent auditor's report thereon are an integral part of the Bank's [2016 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 14. Directors are elected individually each year. 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 public corporations on whose boards the nominees currently serve or have served in the past five years.

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.

### Majority voting

The Board has adopted a majority voting policy governing uncontested director elections. Under this policy, a director nominee will be deemed not to have received the support of shareholders, even if he or she is elected, if 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, other than in exceptional circumstances, will submit a recommendation to that effect to the Board. Before making its recommendation, the Committee will weight the Bank's and shareholders' interests and take into account, in particular, the probable causes for withheld votes, 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.

The director nominee election results of the Annual Meeting held April 15, 2016, are available and included in the summary of director nominees' individual career profiles in [Section 3](#) of the Circular as well as on the [nbc.ca](#) and [sedar.com](#) websites.

### Advisory vote on the Board's 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 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. Additionally, the Board considers it crucial for shareholders 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 an ongoing dialogue between shareholders and the Board regarding the approach to executive compensation.

Last year, 91.84% of shareholders voted in favour of our approach to executive compensation. Since the advisory vote on the approach to executive compensation was introduced in 2010, it has received the approval of at least 91% of shareholders.

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 2017."

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 by email at [boardofdirectors@nbc.ca](mailto:boardofdirectors@nbc.ca) or by mail c/o the Corporate Secretary, 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 2016, the Audit Committee conducted the first complete periodic assessment of the quality of the services and the performance of professional accounting firm Deloitte as independent auditor of the Bank. This assessment was conducted in accordance with the recommendations of CPA Canada and the Canadian Public Accountability Board. It 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, 2016, and ending October 31, 2017.

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 [2016 Annual Information Form](#).

## Independent auditor fees

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.

	2016 (\$)	2015 (\$)
Audit fees <sup>(1)</sup>	3,044,308	3,699,875
Fees for audit-related services <sup>(2)</sup>	1,302,457	1,756,604
<b>Sub-total</b>	<b>4,346,765</b>	<b>5,456,479</b>
Fees for taxation services <sup>(3)</sup>	88,550	97,538
Other fees <sup>(4)</sup>	1,264,848	740,041
<b>Total</b>	<b>5,700,163</b>	<b>6,294,058</b>

- (1) The 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 fees for examining the Bank's interim condensed consolidated financial statements.
- (2) The fees for audit-related services include 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 and related services performed by the Bank's independent auditors. They also include fees for accounting consultations in connection with acquisitions and divestitures and internal control reviews.
- (3) Tax fees 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) Other fees include fees for consulting services for projects, risk management services and statutory on regulatory compliance services.

## Increase the quorum for all shareholders' meetings

On December 13, 2016, as part of the continuous review of its governance practices, the Board adopted a resolution amending By-Law I – General By-Law of the Bank increasing the quorum for all meetings of the Bank's shareholders, in accordance with the recommendation of the Conduct Review and Corporate Governance Committee.

Previously, the quorum was reached when 10 holders of voting shares were present or represented by proxy at a meeting. The amendment to the By-Law establishes the quorum requirement to at least two holders of shares carrying at least 25% of the voting rights at a meeting, present or represented by proxy.

To remain in effect, this amendment will have to be ratified by an ordinary resolution of the holders of Common Shares, adopted by a majority of the votes cast in person or by proxy at the Meeting.

The Board recommends that shareholders vote **FOR** of the following ordinary resolution:

“It is resolved that the first paragraph of Section 3.3 of By-Law I – General By-Law of the Bank shall be replaced by the following paragraph:

The quorum for any meeting of shareholders shall be reached when at least two (2) holders of shares carrying at least twenty-five percent (25%) of the voting rights at the meeting are present or represented by proxy.”

## Replenishment of the share reserve for the Stock Option Plan

The Stock Option Plan was created on September 30, 1993 and adopted at the annual meeting of the shareholders of the Bank held in February 1994. Since its introduction, the Stock Option Plan has required that a proportion of the Bank's Common Shares be kept in reserve to cover the stock options granted to participants each year. This reserve must be replenished on a regular basis to ensure that the Bank has a sufficient number of reserved shares to cover the grants of new stock options.

The replenishment recommended for 2017 is less than those approved by the shareholders in the past. There are two main reasons for this:

- The diversification, in recent years, of the Bank's mid- and long-term compensation programs reduces the number of options annually granted to Stock Option Plan participants; and
- The Board believes that a low-level replenishment properly meets the predictable needs of the Bank while limiting the dilutive impact of the Stock Option Plan, thus maximizing shareholder value.

The following table <sup>(1)</sup> summarises this proposal as well as the approved replenishment for 2012.

	Number of outstanding Common Shares of the Bank	Replenishment of reserved shares approved by shareholders		Reserved shares after replenishment		Maximum number of Bank's Common Shares reserved for issuance upon exercise of stock options under the Stock Option Plan	
		Number of shares	% of outstanding shares	Number of shares	% of outstanding shares	Number of shares	% of outstanding shares
2012-01-13	321,930,598	11,462,656	3.56%	32,000,000	9.94%	32,000,000	9.94%
2017-01-12	340,719,292	9,000,000	2.64%	27,191,519	7.98%	32,000,000	9.39%

**Thus, although replenishments in previous years increased the number of reserved Common Shares to approximately 10% of the Bank's outstanding Common Shares, this proposal would increase the number of reserved Common Shares to approximately 8% of outstanding Common Shares.**

(1) Some of the data in this table has been adjusted to take into account the share dividend paid on February 13, 2014 on a basis of one Common Share per outstanding Common Share.

## The Bank has put in place various mechanisms to ensure sound management of the Stock Option Plan

The Bank's Management is mindful of the importance with which the issuance of additional shares is regarded by shareholders. Accordingly, the Bank has put in place various mechanisms to ensure sound management of the Stock Option Plan:

### Best governance practices

#### Rigorous award process

- ✓ The Bank makes only one grant of stock options per fiscal year and on a specific date, regardless of any hire or appointment of Officers during the fiscal year.
- ✓ The bank does not grant stock options at a discount. Their price always corresponds to market price at the time of granting.
- ✓ The exercise price of granted stock options cannot be revised downwards.

#### Eligibility for the Stock Option Plan

- ✓ Since 2015, only Officers and Executive Officers are eligible for the Stock Option Plan.
- ✓ For other levels of senior managers, the stock option grants have been replaced by RSUs grants, primarily to limit their dilutive impact.
- ✓ Over the past few years, a portion of the compensation awarded in the form of stock options was reduced and replaced by PSUs, for all Officers.
- ✓ Directors are not eligible for the Bank's Stock Option Plan.

#### Share ownership and alignment with shareholders' interests

- ✓ The Bank has introduced share ownership requirements in order to align Stock Option Plan participants' interests with that of the shareholders of the Bank.
- ✓ The Bank does not permit Executive Officers to cash 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.

#### Gradual vesting over time

- ✓ Stock options vest over a four-year period and expire after 10 years.
- ✓ The Bank does not offer loans to participants to exercise vested stock options.

For more information about governance practices and provisions regarding the Stock Option Plan, please consult [pages 93 and 94](#) of this Circular. Additional information about the Stock Option Plan can be found on [pages 108 to 109](#).

## Critical component of long-term compensation

The Human Resources Committee regularly reviews the total compensation of Executive Officers and has concluded that the Stock Option Plan is a major motivation and retention factor in total compensation. The Board has concluded that it is a critical component in the compensation of Officers, in light of the following factors:

- The Stock Option Plan supports the Bank's long-term growth strategy.
- The Stock Option Plan is an important element for attracting and retaining talent.
- Historically, Normal Course Issuer Bids by the Bank have countered the dilutive impact resulting from stock option grants.
- The total compensation of Stock Option Plan participants is competitive and is in accordance with the Bank's policies.
- The Stock Option Plan ensures that a significant part of variable compensation is deferred in the long term.

### Moderate dilution

The Stock Option Plan has a negligible dilutive impact compared to current market standards. The 2016 grants represent 0.53% of the Bank's outstanding Common Shares, confirming the downward trend. In fact, since 2012, the Bank has maintained an annual burn rate of less than 1%, which complies with the standards for sound governance advocated by governance organisations and institutional investors.

### Evolution of the annual burn rate of the Bank

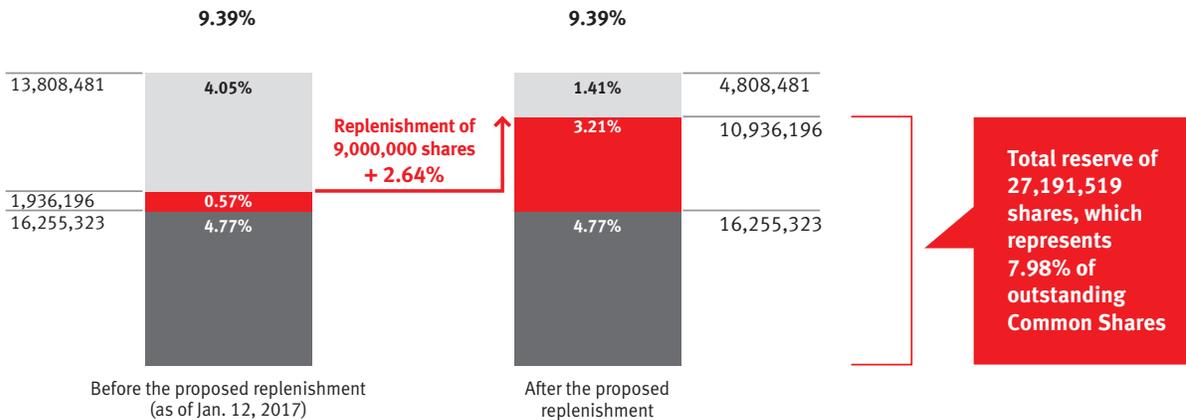


### State of the share reserve

As of January 12, 2017, there were 1,936,196 reserved Common Shares available for issuance upon the exercise of stock options not yet granted under the Stock Option Plan. It is therefore prudent to reserve additional Common Shares.

A request for a replenishment amounting to 9,000,000 additional Common Shares, or 2.64% of outstanding Common Shares, would permit to cover grants for the next few years. This partial request would increase the number of Common Shares reserved for Stock Option Plan purposes to 27,191,519, out of a possible maximum of 32,000,000 Common Shares.

The following chart shows the number of shares reserved for Stock Option Plan purposes before and after the proposed replenishment, relative to the Bank's total outstanding Common Shares.



- Shares excluded from the reserve after their issuance following the exercise of options (before the proposed replenishment)
- Non reserved shares as part of the partial replenishment (after the proposed replenishment)
- Shares reserved for issuance upon the exercise of stock options not yet granted
- Shares reserved for issuance upon the exercise of already granted stock options

## Board decision and resolution of Holders of Common Shares

In light of the foregoing, on December 13, 2016, the Board, on the recommendation of the Human Resources Committee, authorized a replenishment of the number of Common Shares of the Bank reserved for issuance under the Stock Option Plan, such that the number corresponds to 8% of the Bank's outstanding and issued Common Shares at market close on January 12, 2017. Subject to applicable regulatory approvals and ratification by the holders of the Bank's Common Shares, the addition of 9,000,000 Common Shares is necessary to set out the total number of Common Shares of the Bank reserved for issuance upon the exercise of stock options under the Stock Option Plan, to 27,191,519, or 7.98% of the Bank's outstanding and issued Common Shares at market close on January 12, 2017.

The resolutions regarding the establishment of the number of reserved Common Shares must be adopted by a majority of the votes cast by the holders of Common Shares of the Bank present or represented by proxy and entitled to vote at the Meeting. The Board, the Human Resources Committee and the Bank's Management therefore recommend voting **FOR** of this replenishment of the number of the Common Shares of the Bank reserved for issuance upon the exercise of stock options under the Stock Option Plan.

The resolutions are as follows:

"Whereas, on December 13, 2016, the Board of Directors of the National Bank of Canada (the "Bank") adopted a resolution that the number of Common Shares of the Bank reserved for issuance under the Stock Option Plan of the Bank (the "Stock Option Plan") be replenished so that the number corresponds to 8% of the Bank's outstanding and issued Common Shares at market close on January 12, 2017;

Whereas the addition of 9,000,000 Common Shares was necessary so that the number of Common Shares of the Bank reserved for issuance upon the exercise of stock options under the Stock Option Plan is 27,191,519 Common Shares, corresponding to 7.98% of the Bank's outstanding and issued shares;

Whereas the maximum number of Common Shares reserved for issuance under the Stock Option Plan remains at 32,000,000;

Whereas, on January 26, 2017, the Toronto Stock Exchange conditionally approved this replenishment of the reserved Common Shares;

Whereas this replenishment of the number of reserved Common Shares will not take effect until it has been confirmed by a resolution adopted by the majority of the holders of the Common Shares of the Bank;

Therefore on the proposal duly made and supported, it is resolved:

That the number of Common Shares reserved for issuance under the Stock Option Plan be replenished by the addition of 9,000,000 Common Shares so that this number corresponds to 7.98% of the Bank's outstanding and issued Common Shares at market close on January 12, 2017; and

That any Officer or Director of the Bank be authorized to sign all documents and take all necessary or advisable actions to give full effect to the preceding resolutions."

## Shareholder proposals

The Mouvement d'éducation et de défense des actionnaires (MÉDAC) submitted two proposals to the Bank to be included in the Circular.

As part of its shareholder engagement program, the Bank has had an opportunity to discuss with MÉDAC representatives. This discussion covered, in particular, MÉDAC's concerns regarding the result of the vote obtained by Lino A. Saputo, Jr. at the 2016 Annual Meeting. As indicated earlier in the Circular, Mr. Saputo will not seek renewal of his mandate as director of Transcontinental Inc. and will leave his position on March 3, 2017. Consequently, apart from Saputo Inc. and one of its subsidiaries, Lino A. Saputo, Jr is also a director of Warrnambool Cheese and Butter Factory Company Holdings Limited ("Warrnambool"), a company controlled by Saputo Inc. through its subsidiary Saputo Dairy Australia Pty Ltd ("Saputo Australia"). On February 23, 2017, Saputo Australia announced that it would be taking steps to acquire all remaining shares in Warrnambool. This follows a takeover bid announced on January 31, 2017, pursuant to which Saputo Australia increased its interest in Warrnambool to over 90%. Mr. Saputo is now director of only one other public corporation: the National Bank of Canada. In the Bank's opinion, this should meet concerns that may arise regarding the number of boards of directors on which he sits. **Given the explanations provided by the Bank and at its request, MÉDAC has agreed to withdraw the proposal on this subject.**

The discussion also covered MÉDAC's concerns regarding the 91.84% vote obtained by the Bank in 2016 in connection with the advisory vote on its approach to executive compensation and the observed decrease in approval results compared to previous years. In fact, firstly, this result is still very high. Secondly, this reduction is consistent with the trend observed among all Canadian issuers. It also results from the vote of a Bank shareholder who was opposed to certain mid- and long-term compensation programs that were favoured by issuers in the Bank's peer group, as well as the majority of other major Canadian issuers. This European shareholder admitted to voting indiscriminately when it came to Canadian and American issuers of which he held shares. Lastly, in light of the information provided by certain shareholders regarding the advisory vote, nothing suggests that this decrease is linked to the fact that the Hay Group has been advising the Human Resources Committee on executive compensation for more than 10 years. As explained in the Human Resources Committee report included in [Section 6](#) of the Circular and the "[Approval and management process for compensation policies and programs](#)" section in [Section 7](#) of the Circular, the members of the Human Resources Committee reviewed at the beginning of the fiscal year – as they do every year – the performance and independence of the Hay Group. Following this review, it was concluded that it would be appropriate to approve the planned mandates to be awarded by the Bank's management during the fiscal year. The Hay Group is the only Canadian external consultant currently able to provide the Human Resources Committee with comparative data on the Canadian banking sector. **Given the explanations provided by the Bank and at its request, MÉDAC has agreed to withdraw the proposal on this subject.**

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 2018 is Monday, November 27, 2017 at 5:00 PM (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 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 24, 2017	February 19, 2016
Common Shares	490,831	434,899
Deferred share units	108,332	70,770
<b>Value (\$)</b>	<b>34,649,596</b>	<b>19,427,803</b>

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 19, 2016, and February 24, 2017, by the closing price of the Common Shares of the Bank on the Toronto Stock Exchange at the close of markets on February 19, 2016, and February 24, 2017, which was \$38.42 and \$57.83, respectively.

#### RAYMOND BACHAND



**Independent**  
69  
Montreal, Quebec, Canada  
Director since October 2014  
Voting results in 2016:  
99.55% FOR

#### CAREER PROFILE

Main areas of expertise:

- Audit / Finance
- Risk Management
- Governance
- Public Policy

Since 2014, Raymond Bachand has been the Strategic Advisor to law firm Norton Rose Fulbright Canada LLP and President of the Institut du Québec, a research center created by The Conference Board of Canada and HEC Montréal. He is also Chairman of the board of directors of Tourisme 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 a member of the Quebec Bar.

Role on the Bank's Board and its committees	Committee meetings attended (in the past fiscal year)	
Member of the Board	15/16	93.8%
Member of the CRCGC	5/5	100%
Member of the RMC	16/16	100%
<b>Total</b>	<b>36/37</b>	<b>97.3%</b>

Public corporations (in the past five years)	Role on boards and committees (as at October 31, 2016)
Transat A.T. Inc. 2014 to date	– Member of the Audit Committee

#### Securities held

Year <sup>(1)</sup>	Total Common Shares <sup>(2)</sup>	Total DSUs <sup>(3)</sup>	Total Common Shares and DSUs	Share price <sup>(4)</sup> (\$)	Total market value of Common Shares and DSUs (\$)	Minimum required		Meets the Bank's share ownership requirements for directors <sup>(5)</sup>	
						(\$)	Shares/DSUs		
2016	1,080	5,366	6,446	57.83	372,772	500,000	8,646	74.5%	– <sup>(6)</sup>
2015	1,031	2,363	3,394	38.42	130,397	450,000	11,712	28.9%	– <sup>(6)</sup>

## MARYSE BERTRAND



**Independent**  
58  
Montreal, Quebec, Canada  
Director since April 2012  
Voting results in 2016:  
99.65% FOR

## CAREER PROFILE

Main areas of expertise:  
– Legal and Regulatory Affairs  
– Risk Management

– Governance  
– Information Technology  
and Telecommunications

Maryse Bertrand is a corporate director, including for the Caisse de dépôt et placement du Québec, the second-largest pension fund in Canada, since December 2016. She also sits on the board of directors of Métro Inc. and is a member of the Human Resources Committee and Social Responsibility Advisory Committee of the board of governors of McGill University. Additionally, she has been a member of the Board of Directors of National Bank Trust Inc., a Bank subsidiary, since 2016. From 2016 to January 2017, she was a strategic advisor and legal counsellor for Borden Ladner Gervais LLP, a law firm. Additionally, she was Vice-President – Real Estate, Legal Services and General Counsel with CBC/Radio Canada from 2009 to 2015. She also 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 also has a Master's of Risk management from the Stern School of Business at New York University. 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	Committees meetings attended (in the past fiscal year)	
Member of the Board	16/16	100%
Chair and member of the CRGGC	5/5	100%
Member of the RMC	16/16	100%
<b>Total</b>	<b>37/37</b>	<b>100%</b>

Public corporations	Roles on boards and committees	
Director (in the past five years)	(as at October 31, 2016)	
Metro Inc.	2015 to date	– Member of the Corporate Governance and Nominating Committee

## Securities held

Year <sup>(1)</sup>	Total Common		Total Common Shares and DSUs	Share price <sup>(4)</sup> (\$)	Total market value of Common Shares and DSUs (\$)	Minimum required		Meets the Bank's share ownership requirements for directors <sup>(5)</sup>	
	Shares <sup>(2)</sup>	Total DSUs <sup>(3)</sup>				(\$)	Shares/DSUs		
2016	5,080	10,599	15,679	57.83	906,716	500,000	8,646	181.3%	Yes
2015	4,915	6,958	11,873	38.42	456,161	450,000	11,712	101.3%	Yes

## PIERRE BLOUIN



**Independent**  
58  
L'Île-Bizard, Quebec, Canada  
Director since September 2016  
Voting results in 2016: –

## CAREER PROFILE

Main areas of expertise:  
– Audit / Finance  
– Marketing

– Human Resources / Compensation  
– Information Technology and Telecommunications

Pierre Blouin is a corporate director, including at Fortis Inc., a North American company operating in the electricity and gas sector. He was Chief Executive Officer of Manitoba Telecom Services Inc. from 2005 to 2014. Prior to that, he worked for more than 20 years at BCE Group where he held positions of increasing responsibility, including that of President and Chief Executive Officer of Bell Mobility Inc. from 2000 to 2002, Chief Executive Officer of BCE Emergis Inc. from 2002 to 2003, and Group President, Consumer Markets, Bell Canada from 2003 to 2005. He also sits on the board of directors of the Montreal Heart Institute Foundation since 2015. Mr. Blouin holds a B.A. in Business Administration with a specialization in finance and marketing from HEC Montréal and is a Fellow of the Purchasing Management Association of Canada.

Role on the Bank's Board and its committees	Committees meetings attended (in the past fiscal year)	
Board member <sup>(7)</sup>	3/3	100%
Member of the HRC <sup>(7)</sup>	2/2	100%
<b>Total</b>	<b>5/5</b>	<b>100%</b>

Public corporations	Roles on boards and committees	
Director (in the past five years)	(as at October 31, 2016)	
Fortis Inc.	2015 to date	– Member of the Governance and Nomination Committee – Member of the Human Resources Committee
Manitoba Telecom Services Inc.	2006 - 2014	–

## Securities held

Year <sup>(1)</sup>	Total Common		Total Common Shares and DSUs	Share price <sup>(4)</sup> (\$)	Total market value of Common Shares and DSUs (\$)	Minimum required		Meets the Bank's share ownership requirements for directors <sup>(5)</sup>	
	Shares <sup>(2)</sup>	Total DSUs <sup>(3)</sup>				(\$)	Shares/DSUs		
2016	0	970	970	57.83	56,095	500,000	8,646	11.2%	– <sup>(8)</sup>

## PIERRE BOIVIN



**Independent**  
63  
Montreal, Quebec, Canada  
Director since April 2013  
Voting results in 2016:  
99.30% FOR

## CAREER PROFILE

Main areas of expertise:

- Audit / Finance
- Social Responsibility

- Human Resources / Compensation
- Information Technology and Telecommunications

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 Questerre 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 Quebec 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	Committee meetings attended (in the past fiscal year)	
Member of the Board	15/16	93.8%
Chair and member of the AC	5/5	100%
Member of the HRC	10/10	100%
<b>Total</b>	<b>30/31</b>	<b>96.8%</b>

Public corporations (in the past five years)	Roles on boards and committees (as at October 31, 2016)
Canadian Tire Corporation, Ltd.	2013 to date – Member of the Audit Committee – Member of the Management Resources and Compensation Committee
Sirius XM Canada Holdings Inc.	2005 - 2014 –
Questerre Energy Corporation	2008 - 2012 –

## Securities held

Year <sup>(1)</sup>	Total Common		Total Common Shares and DSUs	Share price <sup>(4)</sup> (\$)	Total market value of Common Shares and DSUs (\$)	Minimum required		Meets the Bank's share ownership requirements for directors <sup>(5)</sup>
	Shares <sup>(2)</sup>	Total DSUs <sup>(3)</sup>				(\$)	Shares/DSUs	
2016	14,581	5,493	20,074	57.83	1,160,879	500,000	8,646	232.1% Yes
2015	14,464	1,978	16,442	38.42	631,702	450,000	11,712	140.3% Yes

## ANDRÉ CAILLÉ



**Independent**  
73  
Lac-Brome, Quebec, Canada  
Director since October 2005  
Voting results in 2016:  
99.33% FOR

## CAREER PROFILE

Main areas of expertise:

- Audit / Finance
- Risk Management

- Social Responsibility
- Human Resources / Compensation

André Caillé is a corporate director, 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 Quebec 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 degree in specialized chemistry as well as a Master's degree 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 Honour 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	Committee meetings attended (in the past fiscal year)	
Member of the Board	16/16	100%
Member of the AC	5/5	100%
Member of the CRGGC	5/5	100%
Chair and member of the HRC	10/10	100%
<b>Total</b>	<b>36/36</b>	<b>100%</b>

Public corporations (in the past five years)	Roles on boards and committees (as at October 31, 2016)
Junex Inc.	2008 to date – Chairman of the Compensation Committee

## Securities held

Year <sup>(1)</sup>	Total Common		Total Common Shares and DSUs	Share price <sup>(4)</sup> (\$)	Total market value of Common Shares and DSUs (\$)	Minimum required		Meets the Bank's share ownership requirements for directors <sup>(5)</sup>
	Shares <sup>(2)</sup>	Total DSUs <sup>(3)</sup>				(\$)	Shares/DSUs	
2016	14,171	40,302	54,473	57.83	3,150,173	500,000	8,646	630.0% Yes
2015	13,527	35,032	48,559	38.42	1,865,637	450,000	11,712	414.6% Yes

**GILLIAN H. DENHAM**

**Independent**  
56  
Toronto, Ontario, Canada  
Director since October 2010  
Voting results in 2016:  
99.39% FOR

**CAREER PROFILE**

Main areas of expertise:

– Audit / Finance  
– Marketing

– Financial Markets and Services  
– Human Resources / Compensation

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 resources consulting and outsourcing services. Prior to becoming Chair, she was a member of the Audit Committee, starting in 2008. Since August 2016 she also serves on the board of directors of Kinaxis Inc. and its Nominating and Governance Committee and Audit Committee. Since September 2016 she also serves on the board of directors and the Audit Committee and Finance Committee of Canadian Pacific Railway Limited. 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. She served on the board of directors of Penn West Petroleum Ltd. from 2012 to June 2016. During that time, she sat on the Governance Committee, the Audit Committee and the Human Resources and Compensation Committee, chairing the latter from 2014 to 2015. From 2013 to July 2014, she served on the board of directors and the Governance and Human Resources and Compensation committees of Markit Ltd. 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	Committee meetings attended (in the past fiscal year)	
Member of the Board	16/16	100%
Member of the HRC	10/10	100%
<b>Total</b>	<b>26/26</b>	<b>100%</b>

Public corporations		Roles on boards and committees
Director/Trustee (in the past five years)		(as at October 31, 2016)
Canadian Pacific Railway Limited	2016 to date	– Member of the Audit Committee – Member of the Finance Committee
Kinaxis Inc.	2016 to date	– Member of the Audit Committee – Member of the Nominating and Governance Committee
Morneau Shepell Inc.	2011 to date	– Chair of the Board of Directors
Markit Ltd.	2013 - 2016	–
Penn West Petroleum Ltd.	2012 - 2016	–
Calloway Real Estate Investment Trust	2011 - 2012	–

**Securities held**

Year <sup>(1)</sup>	Total Common Shares <sup>(2)</sup>	Total DSUs <sup>(3)</sup>	Total Common Shares and DSUs	Share price <sup>(4)</sup> (\$)	Total market value of Common Shares and DSUs (\$)	Minimum required		Meets the Bank's share ownership requirements for directors <sup>(5)</sup>	
						(\$)	Shares/DSUs		
2016	13,337	1,766	15,103	57.83	873,406	500,000	8,646	174.6%	Yes
2015	13,337	482	13,819	38.42	530,926	450,000	11,712	117.9%	Yes

**RICHARD FORTIN**

**Independent**  
68  
Boucherville, Quebec, Canada  
Director since August 2013  
Voting results in 2016:  
99.64% FOR

**CAREER PROFILE**

Main areas of expertise:

– Audit / Finance  
– Marketing

– Entrepreneurship  
– 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 2011. Since 2009 he has been the Lead Director of Transcontinental Inc., and has been a member of its board of directors and 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 Licence in Administration (option Finance), from Université Laval.

Role on the Bank's Board and its committees	Committee meetings attended (in the past fiscal year)	
Member of the Board	16/16	100%
Member of the AC	5/5	100%
Chair and member of the RMC	16/16	100%
<b>Total</b>	<b>37/37</b>	<b>100%</b>

Public corporations		Roles on boards and committees
Director (in the past five years)		(as at October 31, 2016)
Alimentation Couche-Tard Inc.	1988 to date	–
Transcontinental Inc.	2004 to date	– Lead Director – Chair of the Audit Committee
Rona Inc.	2009 - 2013	–

**Securities held**

Year <sup>(1)</sup>	Total Common Shares <sup>(2)</sup>	Total DSUs <sup>(3)</sup>	Total Common Shares and DSUs	Share price <sup>(4)</sup> (\$)	Total market value of Common Shares and DSUs (\$)	Minimum required		Meets the Bank's share ownership requirements for directors <sup>(5)</sup>	
						(\$)	Shares/DSUs		
2016	61,399	9,687	71,086	57.83	4,110,903	500,000	8,646	822.1%	Yes
2015	10,399	5,525	15,924	38.42	611,800	450,000	11,712	135.9%	Yes

## JEAN HOUDE



**Independent**  
71  
Montreal, Quebec, Canada  
Director since March 2011  
Voting results in 2016:  
99.48% FOR

## CAREER PROFILE

Main areas of expertise:

- Audit / Finance
- Governance
- Financial Markets and Services
- 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 2005 to 2009, he was the Deputy Minister of Finances of Quebec. Before that, he was the Chairman of the board of directors and CEO of Investissement Québec. 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	Committee meetings attended (in the past fiscal year)	
Chairman and member of the Board	16/16	100%
Member of the CRCGC	5/5	100%
<b>Total</b>	<b>21/21</b>	<b>100%</b>

Public corporations (in the past five years)	Roles on boards and committees (as at October 31, 2016)
Director	–

## Securities held

Year <sup>(1)</sup>	Total Common Shares <sup>(2)</sup>	Total DSUs <sup>(3)</sup>	Total Common Shares and DSUs	Share price <sup>(4)</sup> (\$)	Total market value of Common Shares and DSUs (\$)	Minimum required		Meets the Bank's share ownership requirements for directors <sup>(5)</sup>	
						(\$)	Shares/ DSUs		
2016	14,578	2,049	16,627	57.83	961,539	500,000	8,646	192.3%	Yes
2015	14,397	339	14,736	38.42	566,157	450,000	11,712	125.8%	Yes

## KAREN KINSLEY



**Independent**  
60  
Toronto, Ontario, Canada  
Director since December 2014  
Voting results in 2016:  
99.59% FOR

## CAREER PROFILE

Main areas of expertise:

- Audit / Finance
- Risk Management
- Governance
- Human Resources / Compensation

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 housing authority she held positions of growing responsibility, up to President and Chief Executive Officer from 2003 to 2013. Karen Kinsley has a Bachelor's degree in 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	Committee meetings attended (in the past fiscal year)	
Member of the Board	16/16	100%
Member of the AC <sup>(9)</sup>	3/3	100%
Member of the HRC	10/10	100%
Member of the RMC	16/16	100%
<b>Total</b>	<b>45/45</b>	<b>100%</b>

Public corporations	Roles on boards and committees (as of October 31, 2016)	
Director (in the past five years)	–	
Saputo Inc.	2015 to date	– Member of the Audit Committee

## Securities held

Year <sup>(1)</sup>	Total Common Shares <sup>(2)</sup>	Total DSUs <sup>(3)</sup>	Total Common Shares and DSUs	Share price <sup>(4)</sup> (\$)	Total market value of Common Shares and DSUs (\$)	Minimum required		Meets the Bank's share ownership requirements for directors <sup>(5)</sup>	
						(\$)	Shares/ DSUs		
2016	9,078	5,306	14,384	57.83	831,826	500,000	8,646	166.3%	Yes
2015	9,078	2,075	11,153	38.42	428,498	450,000	11,712	95.2%	– <sup>(10)</sup>

**JULIE PAYETTE**

**Independent**  
53  
Montreal, Quebec, Canada  
Director since April 2014  
Voting results in 2016:  
99.57% FOR

**CAREER PROFILE**

Main areas of expertise:

- Audit / Finance
- Risk Management

- Social Responsibility
- Information Technology and Telecommunications

Julie Payette is an engineer, scientific broadcaster and corporate director. From 1992 to 2013, Julie Payette worked as an astronaut and flew two missions in space. She also served many years as CAPCOM (Capsule Communicator) at NASA's Mission Control Center in Houston and was Chief Astronaut for the Canadian Space Agency. Since then, she has been very active in the development of public policies and promotion of science and technology. From 2011 to 2016, she held various positions, including scholar at the Woodrow Wilson International Center for Scholars in Washington DC, scientific authority for Quebec in the United States, and director of the Montreal Science Center. She currently serves on the advisory group for Quebec's Research and Innovation Strategy and produces scientific outreach short programs on French CBC. She is also a member of the Canadian Olympic Committee and the Faculty of Engineering Advisory Board (FAB) of McGill University and serves on the board of Robotique First Quebec, Drug Free Kids Canada and "Own The Podium", a granting organization that determines investment strategies for high performance sport in Canada. 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 in Computer Engineering from the University of Toronto. She has a commercial pilot license and has the certification of administrateur de société certifié (ASC). Julie Payette has received many distinctions and 27 honorary doctorates. She is a Knight of the Ordre national du Québec and an Officer of the Order of Canada.

**Role on the Bank's Board and its committees**

	Committee meetings attended (in the past fiscal year)	
Member of the Board	16/16	100%
Member of the AC	5/5	100%
<b>Total</b>	<b>21/21</b>	<b>100%</b>

**Public corporations**

Director  
(in the past five years)

–

**Roles on boards and committees**

(as of October 31, 2016)

–

**Securities held**

Year <sup>(1)</sup>	Total Common Shares <sup>(2)</sup>	Total DSUs <sup>(3)</sup>	Total Common Shares and DSUs	Share price <sup>(4)</sup> (\$)	Total market value of Common Shares and DSUs (\$)	Minimum required		Meets the Bank's share ownership requirements for directors <sup>(5)</sup>
						(\$)	Shares/ DSUs	
2016	1,664	4,523	6,187	57.83	357,794	500,000	8,646	71.5% – <sup>(11)</sup>
2015	1,470	2,118	3,588	38.42	137,851	450,000	11,712	30.6% – <sup>(11)</sup>

**LINO A. SAPUTO, JR.**

**Independent**  
50  
Montreal, Quebec, Canada  
Director since April 2012  
Voting results in 2016:  
77.57% FOR

**CAREER PROFILE**

Main areas of expertise:

- Marketing
- Risk Management

- International Markets
- 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 12,500 employees, as well as Vice-Chairman of the board of directors since 2011. He was a member of the board of directors of Transcontinental Inc. from 2008 to March 2017, and of its Human Resources and Compensation Committee from 2011 to March 2017<sup>(1,2)</sup>. He was also a member of its Corporate Governance Committee from 2008 to March 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's degree in Political Science from Concordia University.

**Role on the Bank's Board and its committees**

	Committee meetings attended (in the past fiscal year)	
Member of the Board	15/16	93.8%
Member of the RMC	16/16	100%
<b>Total</b>	<b>31/32</b>	<b>96.9%</b>

**Public corporations**

Director  
(in the past five years)

Saputo Inc. <sup>(1,3)</sup> 2001 to date

Transcontinental Inc. <sup>(1,2)</sup> 2008 – 2017

**Roles on boards and committees**

(as at October 31, 2016)

– Vice-Chairman of the board of directors

– Member of the Human Resources and Compensation Committee

**Securities held**

Year <sup>(1)</sup>	Total Common Shares <sup>(2)</sup>	Total DSUs <sup>(3)</sup>	Total Common Shares and DSUs	Share price <sup>(4)</sup> (\$)	Total market value of Common Shares and DSUs (\$)	Minimum required		Meets the Bank's share ownership requirements for directors <sup>(5)</sup>
						(\$)	Shares/ DSUs	
2016	15,409	8,642	24,051	57.83	1,390,869	500,000	8,646	278.1% Yes
2015	15,301	5,797	21,098	38.42	810,585	450,000	11,712	180.1% Yes

## ANDRÉE SAVOIE



**Independent**  
45  
Dieppe, New Brunswick, Canada  
Director since April 2015  
Voting results in 2016:  
99.58% FOR

## CAREER PROFILE

Main areas of expertise:

- Audit / Finance
- Marketing
- Entrepreneurship
- Social Responsibility

Andrée Savoie has been President and member of the board of directors of Acadian Properties Ltd., a commercial real estate developer and property management company in the Maritimes, since June 2016, and for which she was previously the Managing Director. 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. She has also been a member of its Human Resources Committee since February 2016, and from 2011 to 2015 she served on its Audit and Review Committees. Since 2015, she has sat on the board of directors of the Greater Moncton YMCA Foundation Inc. She is highly involved in her community and is a member of the [One for Youth Committee](#) of the Bank for Atlantic Canada, as well as Co-Founder and 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. She has received the Certified Director designation (ICD.D) from the Institute of Corporate Directors.

Role on the Bank's Board and its committees	Committee meetings attended (in the past fiscal year)		Public corporations	Roles on boards and committees
Member of the Board	16/16	100%	Director (in the past five years)	(as at October 31, 2016)
Member of the AC	5/5	100%	-	-
<b>Total</b>	<b>21/21</b>	<b>100%</b>		

## Securities held

Year <sup>(1)</sup>	Total Common Shares <sup>(2)</sup>	Total DSUs <sup>(3)</sup>	Total Common Shares and DSUs	Share price <sup>(4)</sup> (\$)	Total market value of Common Shares and DSUs (\$)	Minimum required		Meets the Bank's share ownership requirements for directors <sup>(5)</sup>	
						(\$)	Shares/ DSUs		
2016	2,533	3,356	5,889	57.83	340,560	500,000	8,646	68.1%	– <sup>(14)</sup>
2015	986	747	1,733	38.42	66,582	450,000	11,712	14.7%	– <sup>(14)</sup>

## PIERRE THABET



**Independent**  
59  
St-Georges, Quebec, Canada  
Director since March 2011  
Voting results in 2016:  
99.65% FOR

## CAREER PROFILE

Main areas of expertise:

- Audit / Finance
- Marketing
- Entrepreneurship
- Risk Management

Pierre Thabet has been President of Boa-Franc Inc., a Canadian manufacturer of pre-finished hardwood floors, since 1983. He has also been the President of Prolam LP, a manufacturer of trailer floors, since 1997. He is a Family Wealth Manager who invests in various sectors of the economy. Since 2006, he has sat on the board of directors 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 various social and economic organizations in his area. 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 Accounting, from the Université de Moncton.

Role on the Bank's Board and its committees	Committee meetings attended (in the past fiscal year)		Public corporations	Roles on boards and committees
Member of the Board	16/16	100%	Director (in the past five years)	(as of October 31, 2016)
Member of the RMC	16/16	100%	Canam Group Inc. 2006 to date	– Member of the Audit Committee
<b>Total</b>	<b>32/32</b>	<b>100%</b>		

## Securities held

Year <sup>(1)</sup>	Total Common Shares <sup>(2)</sup>	Total DSUs <sup>(3)</sup>	Total Common Shares and DSUs	Share price <sup>(4)</sup> (\$)	Total market value of Common Shares and DSUs (\$)	Minimum required		Meets the Bank's share ownership requirements for directors <sup>(5)</sup>	
						(\$)	Shares/ DSUs		
2016	183,835	10,273	194,108	57.83	11,225,265	500,000	8,646	2,245.0%	Yes
2015	183,643	7,356	190,999	38.42	7,338,182	450,000	11,712	1,630.7%	Yes

## LOUIS VACHON

**Non-independent (officer)**

54

Beaconsfield, Quebec, Canada

Director since August 2006

Voting results in 2016:

98.56% FOR

## CAREER PROFILE

Main areas of expertise:

– Audit / Finance  
– Risk Management

– Financial Markets and Services  
– International Markets

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 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 Board of Directors of Bank subsidiaries: National Bank Group Inc. and National Bank of Canada Acquisition Holding Inc. He has also been a member of the board of directors of CH Group Inc. since 2016. He has a Bachelor's degree in Economics from Bates College and a Master's degree in International Finance from the Fletcher School. He is also a CFA. He was awarded an honorary doctorate by the University of Ottawa and by Bishop's University. 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. He received the Global Citizens Award from the United Nations Association in Canada, and is a Member of the Order of Canada.

Role on the Bank's Board and its committees	Committee meetings attended (in the past fiscal year)		Public corporations	Roles on boards and committees
Member of the Board	16/16	100%	<i>Director (in the past five years)</i>	<i>(as of October 31, 2016)</i>
<b>Total</b>	<b>16/16</b>	<b>100%</b>	Molson Coors Brewing Company	– Chair of the Finance Committee
			Fiera Capital Corporation	–

Securities held <sup>(1,3)</sup>

Year <sup>(1)</sup>	Total Common Shares <sup>(2)</sup>	Share price <sup>(4)</sup> (\$)	Total market value of Common Shares and DSUs (\$)	Meets the Bank's share ownership requirements <sup>(16)</sup>
2016	154,086	57.83	8,910,793	Yes
2015	152,351	38.42	5,853,325	Yes

## Notes on the tables of director nominees

- (1) This information reflects the situation as at February 24, 2017, for 2016 and as at February 19, 2016, for 2015.
- (2) 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.
- (3) For more information on the compensation paid to directors in the form of deferred share units, see [Section 5](#) of the Circular.
- (4) These amounts represent the price of Common Shares of the Bank on the Toronto Stock Exchange, at the close of trading on February 24, 2017, for 2016, and at the close of trading on February 19, 2016, for 2015.
- (5) For more information, see "[Share ownership requirements](#)" in [Section 5](#) of the Circular.
- (6) Raymond Bachand has a five-year grace period from the date of his appointment as a Bank Director on October 29, 2014, to meet the share ownership requirements for directors.
- (7) Pierre Blouin was appointed a member of the Board and of the Human Resources Committee on September 1, 2016.
- (8) Pierre Blouin has a five-year grace period from the date of his appointment as a Bank Director on September 1, 2016, to meet the share ownership requirements for directors.
- (9) Karen Kinsley was appointed a member of the Audit Committee on April 15, 2016.
- (10) Karen Kinsley has a five-year grace period from the date of her appointment as a Bank Director on December 3, 2014, to meet share ownership requirements for directors.
- (11) Julie Payette has a five-year grace period from the date of her appointment as a Bank Director on April 10, 2014, to meet the share ownership requirements for directors.
- (12) On January 26, 2017, Transcontinental Inc. announced that Lino A. Saputo, Jr. would not seek to renew his mandate as a director at Transcontinental Inc.'s Annual Shareholders' meeting to be held on March 3, 2017.
- (13) Lino A. Saputo, Jr is also a director of Warrnambool Cheese and Butter Factory Company Holdings Limited ("Warrnambool"), a company controlled by Saputo Inc. through its subsidiary Saputo Dairy Australia Pty Ltd ("Saputo Australia"). On February 23, 2017, Saputo Australia announced that it would be taking steps to acquire all remaining shares in Warrnambool. This follows a takeover bid announced on January 31, 2017, pursuant to which Saputo Australia increased its interest in Warrnambool to over 90%.
- (14) Andrée Savoie has a five-year grace period from the date of her appointment as a Bank Director on April 15, 2015, to meet the share ownership requirements for directors.
- (15) 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.
- (16) 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 order which 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 from June 13, 2012, to June 23, 2016, was a member of the board of directors of Penn West Petroleum Ltd., a company that 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;
- 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 under the corporate name World Color Press Inc. until a plan of arrangement was entered into with Quad/Graphics Inc. in July 2010; and
- Richard Fortin, who, until August 6, 2015, was a board member of Les Jardins Val-Mont Inc., a corporation which filed a proposal with its creditors on July 8, 2016. On September 8, 2016, the court approved the proposal.

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.

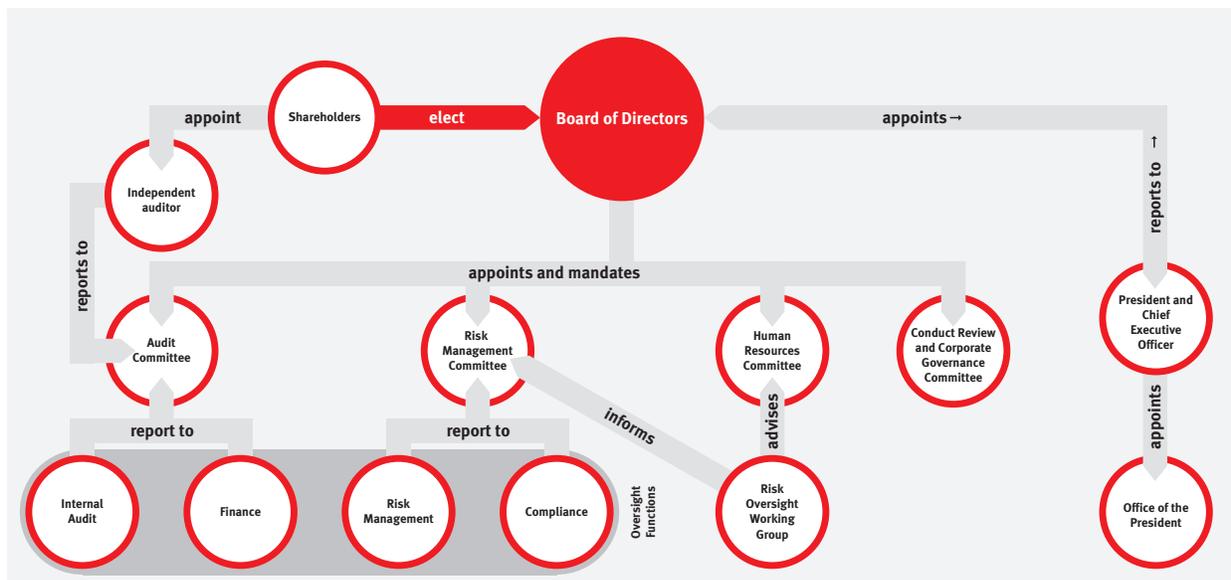
## 4. GOVERNANCE PRACTICES

### 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: 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.

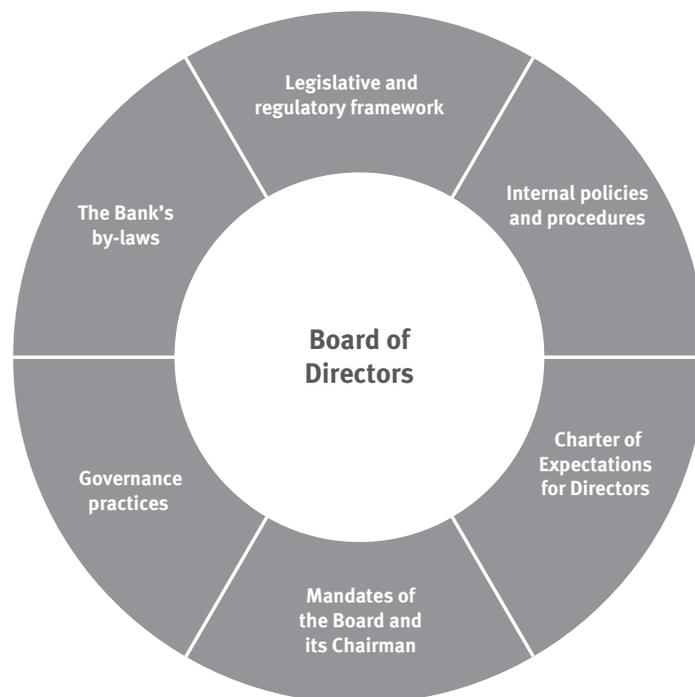
The Board's corporate governance practices are set out in a document available in the Governance subsection under "About Us" on the [nbc.ca](http://nbc.ca) website.

## BOARD OF DIRECTORS

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



#### The following are the main responsibilities of the Board:

Review and approve objectives, strategy and operating plans	Promote integrity and ethical behaviour	Ensure compliance with relevant legislation and regulations and strong governance
Ensure risks are effectively managed	Oversee management	Plan and develop management succession
Ensure transparent and diligent reporting and disclosure of financial information	Develop a compensation approach to maximize the Bank's competitiveness and support achievement of its objectives	Ensure Officers and material risk takers comply with share ownership requirements

The Board's responsibilities are described more fully in its mandate. The mandates of the Board and its four standing committees are available in the Governance subsection under "About Us" on the [nbc.ca](http://nbc.ca) website. The mandate of the Board is incorporated by reference into the Circular and is also available on [sedar.com](http://sedar.com).

The Board develops and approves its own mandate and that of its Chairman. It assesses and reviews them periodically to ensure they remain compliant 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. Changes made to the mandate of the Board's Chairman are approved in his absence.

## 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 leads its 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.

Additionally, he 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.

Lastly, 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 [nbc.ca](http://nbc.ca) website.

## 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 [nbc.ca](http://nbc.ca) website.

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 the Board committees 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; and
- 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](#) section of 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 [Section 3](#) and the [Summary](#) of the Circular.

## Independence

Other than the President and Chief Executive Officer of the Bank, all Board members are independent as defined by the CSA. All Board committee members are also independent. 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 [Section 3](#) and the [Summary](#) of the Circular.

Until their departure from the Board on April 15, 2016, 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.

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.

**During fiscal 2016, the independent directors met in camera, without the Bank's management and non-independent directors being present, at each meeting of the Board or of one of its committees' meeting, as stated 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 for 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 their 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. They 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 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 them 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 ability to act effectively as directors of the Bank.

**In fiscal 2016, the average attendance rate of nominee directors at Board meetings was 98.6% while the average attendance rate at Committee meetings was 100%, and every nominee director attended at least 93.8% of the meetings to which they were called.**

The following table details the attendance of the directors who ceased being members of the Board and its committees during fiscal 2016.

Members	Board		AC	CRCGC	HRC	RMC	Total for committees		Combined total	
Lawrence S. Bloomberg <sup>(1)</sup>	7/7	100%							7/7	100%
Louise Laflamme <sup>(2)</sup>	6/7	85.7%	2/2		6/6		8/8	100%	14/15	93.3%
Roseann Runte <sup>(3)</sup>	7/7	100%		5/5			5/5	100%	12/12	100%
Average attendance rate at all meetings		95.2%	100%	100%	100%			100%		97.1%

- (1) As of April 15, 2016, Lawrence S. Bloomberg is no longer a member of the Board.
- (2) As of April 15, 2016, Louise Laflamme is no longer a member of the Board, the Audit Committee or the Human Resources Committee.
- (3) As of April 15, 2016, Roseann Runte is no longer a member of the Board or the Conduct Review and Corporate Governance Committee.

For more information about the attendance rate of director nominees at meetings of the Board and its Committees in fiscal 2016, 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 than the Board of the Bank. 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 their 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 public corporation does not necessarily interfere with their ability to exercise their 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 their role as director of the Bank.

**None of the nominee directors sit on more than four boards of directors of public corporations in addition to the Bank's.**

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 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.

The public corporation with more than one director nominee of the Bank serving as its directors, as well as the committee of said public corporation on which one of the director nominees serves, if any, is disclosed in the following table:

Public corporation	Director	Public corporation 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

Richard Fortin and Lino A. Saputo, Jr. are both members of the board of directors of Transcontinental Inc. However, on January 26, 2017, Transcontinental Inc. announced that Lino A. Saputo, Jr. would not seek to renew his mandate as a director at Transcontinental Inc.'s Annual Shareholders' meeting to be held March 3, 2017.

The Board has determined that these relationships do 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 2016, the directors participated in many discussions regarding the Board's succession planning and expanded the ongoing list of potential nominee directors prepared by the Conduct Review and Corporate Governance Committee. The Chair of the Committee had discussions and meetings with several potential nominees.**

## 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 their own contribution as a Board and committee member, and can also provide feedback regarding the contributions of their peers. The process is as follows:

### Questionnaire

A self-assessment and performance assessment questionnaire for the Board, its committees and the Chairman of the Board and the Chairs of the committees as well as peer contribution is sent to the directors.

Once the questionnaires are completed, the Chair of the Conduct Review and Corporate Governance Committee receives the results of the performance assessments of the Chairman of the Board and of the Chairs of the committees, except for the assessment that relates to her. The Chairman of the Board receives all other results.

### Meetings

The Chairman of the Board meets each director one-on-one to discuss his observations.

When meeting with the Chairman of the Board, the Chairman and Chief Executive Officer shares with him the comments of the members of the Office of the President regarding the Board's performance.

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).

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

### Action plan and report to the Board

The Conduct Review and Corporate Governance Committee holds a meeting during which members discuss and review the results of the assessment. It then assesses the appropriateness of making changes or improvements to 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 for them to stand for re-election 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.

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 also monitors the execution of the action plan, if applicable.

In fiscal 2016, the Bank's assessment questionnaire was reviewed by an independent external consultant.

Following the performance assessment carried out in 2016, it was concluded that the Board and its committees operate effectively, and that their members, the Chairman of the Board and the Chairs of the committees have the necessary knowledge and understanding and devote the required time to accomplish their tasks. The assessment process was carried out in accordance with the respective mandates of the Board and the Conduct Review and Corporate Governance Committee.

Furthermore, following its annual review of the assessment process, the Conduct Review and Corporate Governance Committee recommended to the Board that an assessment of the Board's performance by the members of the Office of the President be added. This assessment was carried out in 2016.

## 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 the standing 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 [Section 3](#) and the [Summary](#) 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.

### 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 their election. Board vacancies are filled in accordance with applicable legislation.

A director may not seek to renew their mandate past the 12th annual meeting after they were first elected. On the recommendation of the Conduct Review and Corporate Governance Committee, however, the Board may decide that, due to 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. In accordance with the Act, the President and Chief Executive Officer of the Bank is required to sit on the Board as long as he holds the position.

For more information about the number of years of service of each director nominee, see [Section 3](#) and the [Summary](#) 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 Chair of the Conduct Review and Corporate Governance Committee, 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 occasionally 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. Directors visit branches, business centres or operations centres. They are also given the opportunity to periodically sit in on meetings of each committee of which they are not members.

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 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 held.

Training provided by the Bank	Date:	Participants
Technological risk and cyber risk	Quarterly	RMC
Oil and natural gas sector	Quarterly	RMC
Investor Relations	December 2015	Board
Banking markets	February 2016	Board
Operations sector	February 2016	Board
Pension plans	June 2016	Board
Financial technology ( <i>Fintech</i> )	August 2016	Board
Governance of subsidiaries	August 2016	RMC
TMX Group	October 2016	Board
Trends in executive compensation	October 2016	HRC

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
- Climate change, environment and governance
- Strategic planning and risk management
- The role of the Human Resources Committee
- The blockchain revolution
- Topical issues for the Audit Committee
- Women in leadership
- Governance of innovation
- Economic update and global economic projections

In order to keep directors up-to-date on developments in auditing, risk management, human resources and governance, the Corporate Secretary occasionally 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, the Board 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. It 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 [nbc.ca](http://nbc.ca) website.

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

### **Board**

The Board believes that diversity among its members enriches discussion, and acknowledges the importance of representation among its directors that reflects 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 must recommend nominees to the Board who, in addition to meeting the criteria determined by the Board and presented in this Circular, reflect the gender, age, cultural, geographical and other characteristics of the communities in which the Bank operates and does business.

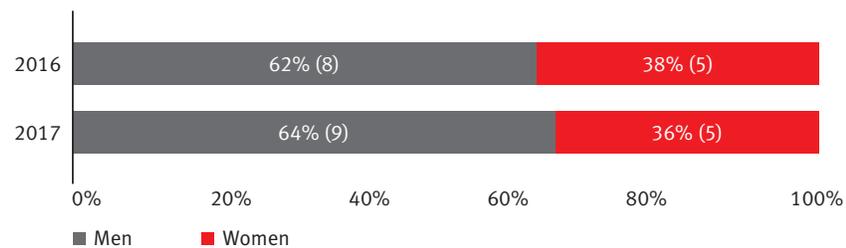
This statement indicates that the Bank has undertaken to strive toward gender parity in its directors and to have women account for at least one third of Board directors by requiring that, in future, they make up half the nominees for director positions that become vacant.

This is the backdrop to the Bank's decision to sign on to the agreement instituted by Catalyst which brings together many large companies with the aim of increasing the number of women directors on boards in Canada.

In 2016, 36% 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.

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 target for representation of women. 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 evolution of 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.

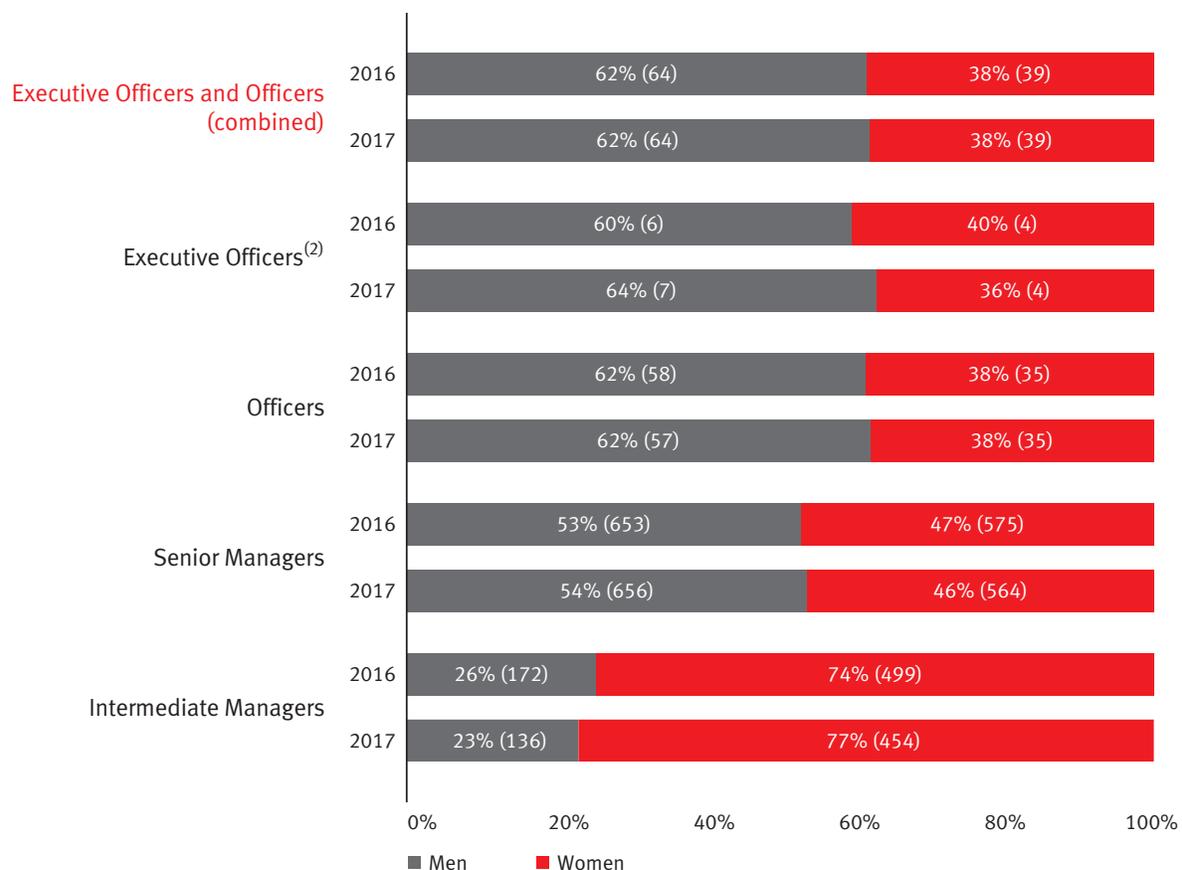


The Board diversity statement can be found in the Governance subsection under “About Us” on the [nbc.ca](http://nbc.ca) website.

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

Women represent 38% of Executive Officers and Officers of the Bank. This increase in the representation of women of more than 30% 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:



(1) As at January 31, 2017.

(2) As part of its transformation plan, the Bank announced that the Corporate Marketing and Development teams would be reassigned to other areas of the Bank effective February 13, 2017. As a result, the position of Chief Marketing Officer and Executive Vice-President – Corporate Development, formerly occupied by Karen Leggett, has been abolished, and she is no longer a member of the Office of the President. Therefore, as of this date, the Bank's senior management team has three women out of a total of 10 members (30%).

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 overall target for representation of women among the Executive Officers and Officers of the Bank is 40%. The Bank focuses its efforts to achieve and maintain this target as part of the 2016 three-year diversity plan. The Bank has not established a target for senior management, as there are too few Executive Officers for a realistic target to be set. However, the succession plan is being monitored to ensure the fair representation of women among this group. The 2017–2019 three-year diversity plan is expected to be adopted in fiscal 2017.**

Furthermore, 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 always ensures 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:

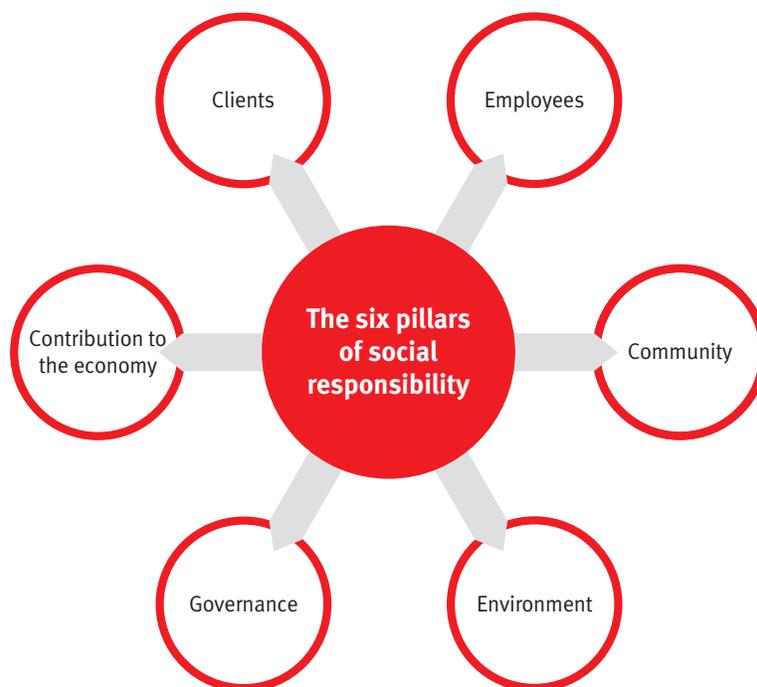
- The Bank partners with external recruitment firms to ensure that it has pools of candidates that are competent and diverse enough for the Officer positions to be staffed;
- The Bank, including all of its business sectors, oversees the representation of women within the pool of “high potential” employees 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. In April 2016, the network received an award from the Association of Quebec Women in Finance (AFFQ) for best initiative for promoting women;

- 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;
- More precisely, 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. The participation of women in this program merits particular attention.

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 Quebec 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 work 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 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 [nbc.ca](http://nbc.ca) website. 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 Conduct Review and Corporate Governance Committee reviews and approves 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:

- In 2016, Louis Vachon received the Global Citizens Award from the United Nations Association in Canada. 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 Transplantation 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;
- In 2015, the *Les Affaires* newspaper named Pierre Boivin as the most socially engaged senior executive, 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 remarkable, 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; and
- Andrée Savoie is highly involved in her community through community organizations such as Crossroads 250, an annual event which she co-founded and presided in 2016 and whose mission is to raise funds for a shelter for women and children who are victims of domestic violence. She also served as Co-President of the fundraising campaign for Crossroads for Women of Moncton since 2016 and is involved in 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.

## SHAREHOLDER ENGAGEMENT

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 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.

**As part of the Bank's efforts to promote dialogue with its shareholders, the Chairman of the Board met with institutional investors during fiscal 2016 to discuss various matters of mutual interest, specifically the Board's approach to Executive Officer compensation, Board governance practices, Board succession planning and Board oversight of strategy and risk management. Members of the Bank's management, at the Board's request, also met with representatives of institutional investors, shareholder groups, proxy voting consultants and corporate governance advocacy groups.**

In its Management Proxy Circular, the Bank provides an e-mail and a mailing 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 of Directors](#)" in [Section 8](#) of this Circular.

## PROCEDURE FOR REPORTING IRREGULARITIES

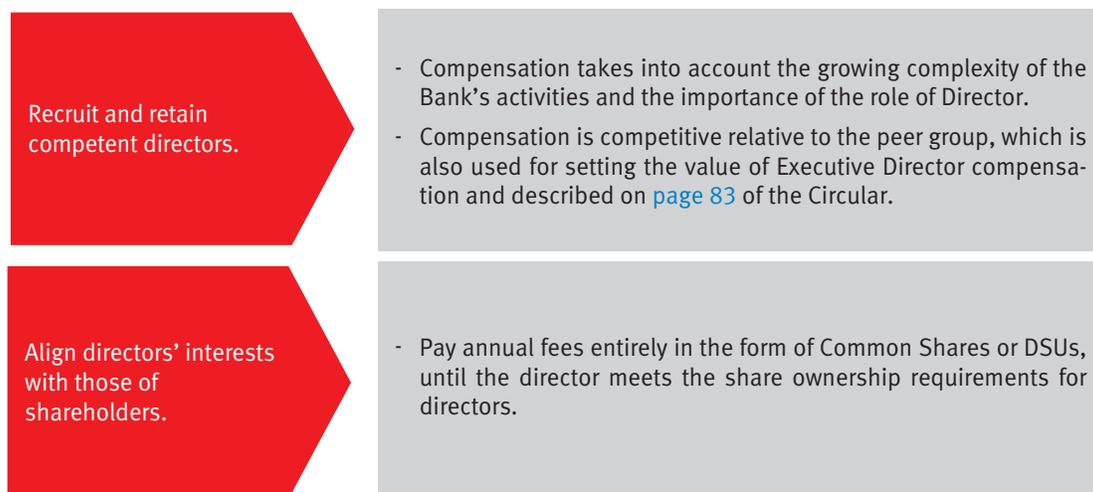
The Audit Committee has adopted a policy for reporting irregularities relating to accounting, internal accounting controls and auditing at the Bank, and oversees its implementation. This policy sets out the process for the receipt, retention and handling of complaints and concerns, as well as anonymous 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 [nbc.ca](#) website.

## 5. DIRECTOR COMPENSATION

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 BANK'S COMPENSATION PROGRAM

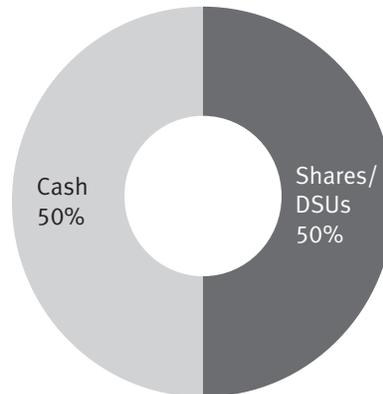
#### Existing compensation program

In October 2015, on the recommendation of the Conduct Review and Corporate Governance Committee, the Board approved certain changes to the compensation program for the Bank's directors. The following chart shows the components of the compensation paid to directors since April 15, 2016.

Total Compensation				
Base salary			Additional compensation	
	Cash (\$) <sup>(1)</sup>	Shares or DSUs (\$)		Cash, shares or DSUs (choice of) (\$) <sup>(2)</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>(3)(4)</sup>	225,000
			Chair of a Board committee <sup>(3)</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 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 all three, provided the share ownership requirements have been met.
- (3) The Chairman of the Board and the committee chairs receive compensation both as Board and committee members and as Chairman and Chair, respectively.
- (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.

The following chart shows the breakdown of directors' compensation for the fiscal year 2016.



### Compensation program in previous years

From November 1, 2015 to April 14, 2016, the Bank's directors received the following compensation:

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

### COMPENSATION PROGRAM FOR SUBSIDIARIES

From November 1, 2015 to October 31, 2016, Bank directors sitting on the Board of Directors of a Bank subsidiary received the following compensation:

Bank subsidiaries		
	National Bank Life Insurance Company (\$) <sup>(3)</sup>	National Bank Trust Inc. (\$) <sup>(3)</sup>
	Director	17,000
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 or DSUs 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, DSUs 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 and committee 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.

## DISCLOSURES REGARDING THE BANK AND ITS SUBSIDIARIES

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 their 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.

### 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 deferred share units may only be cashed when the director leaves all the positions they 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 their duties.

Compensation paid to the directors for the fiscal year ended October 31, 2016 <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>(5)</sup>	Other compensation (\$) <sup>(5)</sup>	Total compensation (\$) <sup>(5)</sup>	Breakdown of compensation payable in cash for activities of the Board and its committees <sup>(5)</sup>
	As a Board member <sup>(4)</sup>		As a Board member <sup>(4)</sup>		As a committee member <sup>(6)</sup>					
	Cash	Cash	Common Shares	DSUs	Common Shares	DSUs				
Raymond Bachand 				108,836		24,138	132,974		132,974	100% in DSUs
Maryse Bertrand 				108,836		44,115 <sup>(7)</sup>	152,951	2,097 <sup>(8)</sup>	155,048	100% in DSUs
Lawrence S. Bloomberg <sup>(10)</sup>	20,599		20,599				41,198	1,120,440 <sup>(9)</sup>	1,161,638	100% in cash
Pierre Blouin <sup>(11)</sup> 				20,720			20,720		20,720	100% in DSUs
Pierre Boivin 				108,836		49,109 <sup>(7)</sup>	157,945		157,945	100% in DSUs
André Caillé 				108,836		59,098 <sup>(7)</sup>	167,934		167,934	100% in DSUs
Gillian H. Denham 	54,418	4,578	54,418			2,288	115,702		115,702	100% in cash
Richard Fortin 				108,836		51,398 <sup>(7)</sup>	160,234	21,500 <sup>(12)</sup>	181,734	100% in DSUs
Jean Houde Chairman of the Board 	265,661 <sup>(13)</sup>	4,578	67,918			2,289	340,446		340,446	100% in cash <sup>(14)</sup>
Karen Kinsley <sup>(15)</sup> 				108,836		32,254	141,090		141,090	100% in DSUs
Louise Laflamme <sup>(16)</sup> 	20,599	10,300	20,599			5,722	57,220		57,220	100% in cash
Julie Payette 			23,168	85,668	3,433	5,722	117,991		117,991	100% in DSUs
Roseann Runte <sup>(17)</sup> 			41,199		6,866		48,065		48,065	100% in shares
Lino A. Saputo, Jr. 				108,836		9,155	117,991		117,991	100% in DSUs
Andrée Savoie 				108,836		9,155	117,991		117,991	100% in DSUs
Pierre Thabet 				108,836		9,155	117,991		117,991	100% in DSUs
Louis Vachon <sup>(18)</sup>	-		-	-			-		-	-
<b>Total</b>							<b>2,008,443</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, the term "fees" includes 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 and for chairing a Board committee or the Board and attendance fees.
- (3) For the purposes of this table, the term "share-based awards" includes the portion of director compensation paid in Common Shares or 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 \$36.6127 on February 12, 2016, \$42.3518 on May 13, 2016, \$45.7894 on August 15, 2016 and \$47.9399 on November 15, 2016. 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 \$36.7900 on February 12, 2016, \$42.0300 on May 13, 2016, \$45.9400 on August 15, 2016 and \$48.3300 on November 15, 2016.
- (4) For the year ended October 31, 2016, the annual retainer paid for service on the Board of Directors totalled \$90,000 from November 1, 2015 to April 14, 2016, of which \$45,000 was paid in the form of Common Shares or deferred share units and \$45,000, at the director's choice, in the form of cash, Common Shares, deferred share units or a combination of all three. The annual retainer paid for service on the Board of Directors totalled \$125,000 from April 15, 2016 to October 31, 2016, of which \$62,500 was paid in the form of Common Shares or deferred share units and \$62,500, at the director's choice, in the form of cash, Common Shares, deferred share units or a combination of all three. Director compensation for the fiscal year ended October 31, 2016 was therefore prorated.
- (5) Excluding the part of director compensation that must be paid in the form of Common Shares or deferred share units 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, 2016 of compensation payable in cash for activities of the Board and its committees.
- (6) The annual retainer paid to Board committee members was changed on April 15, 2016. Director compensation for the fiscal year ended October 31, 2016 was therefore prorated. For further information, see "[The Bank's Compensation Program](#)" in this section of the circular.
- (7) Includes a retainer as Committee Chair.
- (8) Maryse Bertrand received \$2,097 in cash as a member of the Board of Directors of National Bank Trust Inc.
- (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 base salary, commissions, a business development allowance and reimbursement of various administrative fees incurred in carrying out his duties. For the fiscal year ended October 31, 2016, Lawrence S. Bloomberg received a total of \$1,120,440.
- (10) Lawrence S. Bloomberg ceased to be a member of the Board on April 15, 2016. His compensation was therefore prorated.
- (11) Pierre Blouin was appointed a member of the Board and of the Human Resources Committee on September 1, 2016. His compensation was therefore prorated.
- (12) Richard Fortin received \$17,000 in the form of deferred share units for serving on the Board of Directors of National Bank Life Insurance Company, \$3,000 in the form of deferred share units for serving on the Audit Committee and \$1,500 in the form of deferred share units for serving as Chair of the Audit Committee of this subsidiary of the Bank.
- (13) Includes a retainer as Chairman of the Board.
- (14) Jean Houde elected to receive, in cash, the portion of his compensation payable in cash for his activities of the Board and its committees, while meeting his obligation as Chairman of the Board to receive 25% of his total compensation in the form of, at his discretion, Common Shares or deferred share units.
- (15) Karen Kinsley was appointed a member of the Audit Committee on August 15, 2016. As a result, her compensation was prorated.
- (16) Louise Laflamme ceased to be a member of the Board and of the Audit Committee and the Human Resources Committee on April 15, 2016. As a result, her compensation was prorated.
- (17) Roseann Runte ceased to be a member of the Board and of the Conduct Review and Corporate Governance Committee on April 15, 2016. As a result, her compensation was prorated.
- (18) 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 eight times the base compensation payable to each Board member in the form of Common Shares or deferred share units. 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. These share ownership requirements have been adjusted to reflect changes to the directors' compensation program and have been in effect since April 15, 2016.

Once they have met the minimum requirements, directors may elect to receive their retainer in the form of cash, Common Shares or DSUs, 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
Eight times the base compensation payable to Board members	8 X \$62,500 = \$500,000
Minimum share ownership requirement based on the closing price of the Common Shares of the Bank on the Toronto Stock Exchange on February 24, 2017	\$500,000 / \$57.83 = 8,646 Common Shares or DSUs

For more information, please refer to [Section 3](#) of the Circular, which includes a description of directors' share ownership in accordance with share ownership requirements.

## 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.

While the Chairman of the Board is not a member, he 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 all or part of its meetings. These individuals do not have the right to vote. 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 they serve or is able to acquire the necessary knowledge and expertise within a reasonable length of time following their 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 members of the Audit Committee are "financially literate" as required by *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 of the Audit Committee, please refer to the "[Information on the Audit Committee](#)" section of the [2016 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, 2016, 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 2016. All four committees believe that they fulfilled their responsibilities to the best of their members' abilities during fiscal 2016, and in accordance with their mandates.

## AUDIT COMMITTEE

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



Pierre Boivin,  
Chair



André Caillé



Richard Fortin



Karen Kinsley



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 [nbc.ca](#) website.

### 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 have:

- ✓ 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 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 have:

- ✓ 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 to fulfill its mandate and responsibilities, and approved its annual budget;
- ✓ Approved and recommended to the Board the appointment of a Senior Vice-President – Internal Audit, and his compensation;
- ✓ 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 ensured that the necessary measures had been taken to follow up on the main recommendations contained in these reports;
- ✓ Reviewed the report on internal controls 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, 2016;
- ✓ Carried out the annual assessment of the effectiveness and contribution of Deloitte, its skills, resources and degree of independence, verified its independence and recommended to the Board that its services as independent auditor be proposed again for the fiscal year ending October 31, 2016;
- ✓ Carried out the first comprehensive periodic assessment 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 have:

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

(1) Karen Kinsley was appointed a member of the Audit Committee on April 15, 2016.  
Louise Laflamme ceased to be a member of the Audit Committee on April 15, 2016.

## RISK MANAGEMENT COMMITTEE

### Members



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 [nbc.ca](http://nbc.ca) website.

### Frequency of meetings and achievements

The members of the Risk Management Committee met 16 times during the past fiscal year to fulfill their mandate, dealing mainly with the following issues:

#### Risk Management

We have:

- ✓ 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 various credit risk sensitivity analyses, including those relating to the oil and gas sector, and approved the sectoral provision for credit losses to production and service companies in the oil and gas sector;
- ✓ 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;
- ✓ Monitored developments in Germany pertaining to Maple Bank GmbH;
- ✓ Reviewed, updated as necessary, and approved risk management policies, including risk appetite statements, measurements and targets;
- ✓ Approved the review of the Bank's corporate insurance management strategy;
- ✓ Assessed the governance of the Bank's subsidiaries;
- ✓ Reviewed and approved the contingency and business recovery plan;
- ✓ Reviewed various client credit files in accordance with the Board's policies for approving credit; and
- ✓ Reviewed and approved the investment and consolidation plan (including the risk management framework) allowing the Bank to acquire a majority interest in Advanced Bank of Asia Limited.

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

We have:

- ✓ 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 have:

- ✓ 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 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 non-compliance risks; 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.

## CONDUCT REVIEW AND CORPORATE GOVERNANCE COMMITTEE

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



Raymond  
Bachand



Maryse  
Bertrand,  
Chair



André  
Caillé



Jean Houde

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 [nbc.ca](#) website.

### 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 have:

- ✓ 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 the composition of the Board, its diversity, the term of office of a directorship, the skills and experience of the Board, and assessed potential nominee directors;
- ✓ Recommended the appointment of Pierre Blouin as Director;
- ✓ Reviewed, approved and recommended to the Board that it approve the revised guidelines regarding the number of years an individual can serve as a Board member;
- ✓ 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 2016;
- ✓ Reviewed the director selection criteria; and
- ✓ Approved the review of the Bank’s corporate insurance management strategy covering the Bank’s directors and officers.

## Oversight of governance matters

We have:

- ✓ Reviewed the annual report on complaints from clients of the Bank and its subsidiaries prepared by the Bank's Office of the Ombudsman;
- ✓ 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;
- ✓ 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;
- ✓ Ensured the guidance and continuing education programs and suggested training sessions;
- ✓ Supervised the communication program with the Bank's shareholders; 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 have:

- ✓ 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, taking into account recommendations from an independent external consultant, and recommended that the Board include an evaluation of the Board's performance by the members of the Office of the President as part of the process.

(1) Roseann Runte ceased to be a member of the Conduct Review and Corporate Governance Committee on April 15, 2016.

## HUMAN RESOURCES COMMITTEE

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



Pierre  
Blouin



Pierre  
Boivin



André  
Caillé,  
Chair



Gillian H.  
Denham



Karen  
Kinsley

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 [nbc.ca](http://nbc.ca) website.

### Frequency of meetings and achievements

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

### Compensation policies, programs and practices

We have:

- ✓ Reviewed and recommended that the Board approve changes that will be made to the annual Incentive Compensation Program (ICP) for fiscal year 2017;
- ✓ Reviewed and approved the changes that will apply in 2017 to the variable compensation programs of the Bank's various business sectors, including some associated with the Personal and Commercial Banking sector, NBF investment advisors, Financial Markets specialists and Officers, and Corporate Treasury;
- ✓ 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 the majority of 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 the background check policy for Board members and certain Officers of the Bank;
- ✓ Reviewed a summary of the results of the Bank's *Taking a Look at Our Organization* survey on Bank employee engagement; and
- ✓ Reviewed the partial replenishment of the share reserve for issuance under the Stock Option Plan.

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

We have:

- ✓ 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; 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 have:

- ✓ 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 Executive Officers appointed in fiscal 2016;
- ✓ Reviewed the competitiveness of the target total direct compensation of Executive Officers and subsequently recommended that the Board approve an adjustment for certain Executive Officers;
- ✓ 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 the adjustment for certain individuals; and
- ✓ Recommended to the Board that it approve their short-, mid- and long-term variable compensation.

### **Succession planning**

We have:

- ✓ 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 (including the succession plan of individuals in charge of oversight functions).

## Oversight of the pension plans and Pool Fund

We have:

- ✓ 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 mandate of the employer's representatives on the NFB Retirement Committee;
- ✓ Reviewed and approved changes to the wording of the NFB employee pension plan in light of recent amendments to the *Supplemental Pension Plans Act* (Québec);
- ✓ 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 have:

- ✓ 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 Holders of Common Shares held on April 15, 2016;
- ✓ 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 the compensation policies and programs align with best practices and the guidelines issued by the regulators;
- ✓ Reviewed the progression of the action plan following OSFI's audit of the Bank's compensation practices;
- ✓ Reviewed the Bank's workforce diversity assessment;
- ✓ Directed the Chairman of the Board or 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) Louise Laflamme ceased to be a member of the Human Resources Committee on April 15, 2016. Pierre Blouin was appointed a member of the Human Resources Committee on September 1, 2016.

## 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. Thus, in 2009, we were the first bank to announce a vote on the compensation of Officers at our annual meeting and, since then, our 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 financial results for fiscal 2016 and understand the total compensation of Executive Officers and the rationale for our compensation-related decisions during the past fiscal year.

**Compensation of absolute and relative performance:**  
One of the principles of our Executive Officer compensation policy focuses on aligning variable compensation with the Bank's financial and stock market performance by considering different performance periods, while promoting sound risk taking.

### Solid organization in a context of transformation

With close to \$6 billion in revenues, \$232 billion total assets and a CET1 capital ratio of 10.1%, the Bank is among the soundest banking institutions in the world. During the year, the organization was proactive and recorded a \$250 million provision to address the credit uncertainties in its oil and gas loan portfolio. We also recorded a charge relating to certain restructuring initiatives and intangible asset write-offs. This decision comes as part of our efforts to capitalize on the shift towards the digital economy, which is providing tangible growth opportunities for the Bank, but requires us to be even more agile and efficient.

To ensure sound, sustained growth, the Bank has had to adjust to a constantly changing business environment. As such, fiscal 2016 has proven to be a year of repositioning. In a context characterized by a low level of activity across the country, the Bank's 2016 financial results met all of the medium-term objectives, except for its diluted earnings per share growth target. Specifically, excluding specified items, adjusted diluted earnings per share decreased 7% year over year. Essentially, this target was not met given the sectoral provision for credit losses recorded for oil and gas producers and service companies in 2016.

#### 2016 Medium-term objectives and results

	Medium-term Objectives	2016 Results
Growth in diluted earnings per share <sup>(1)</sup>	5 – 10%	(7)%
Return on common shareholders' equity <sup>(1)</sup>	15 – 20%	15.5%
Dividend payout ratio <sup>(1)</sup>	40 – 50%	50%
CET1 capital ratio	> 9.5%	10.1%
Leverage ratio	> 3.5%	3.7%

(1) Excluding specified items, as described on page 10 of the [2016 Annual Report](#).

Furthermore, the Bank was able to distribute \$736 million in dividends to holders of Common Shares, representing 66% of the net income attributable to holders of Common Shares, versus 45% the previous year. Moreover, an additional 2% increase in the quarterly dividend was announced on December 1, 2016, raising it to \$0.56 per share. The following chart shows the favourable change in the annual dividend <sup>(1)</sup> paid to holders of Common Shares in the past five years.



(1) The data for 2014, 2013 and 2012 have been adjusted to take into account the share-based dividend paid in 2014.

### Acceleration of the transformation

In 2016, we embarked on a new stage of our *One client, one bank* approach, the vision that has guided the entire organization's efforts since 2008. We updated our strategic priorities to be able to tackle with even greater agility the challenges of today's environment. A strategic review involving all decision-makers in the organization has allowed us to specify the business priorities that will require sustained attention going forward.

Essentially, in addition to focusing on the areas that have built the Bank's reputation since its founding, the Board approved certain restructuring initiatives to accelerate its transformation plan, satisfy the evolving needs of its clients and enhance operational efficiency. This transformation will allow the Bank to maintain the pace of its client-centric shift, pursue the transition to digital banking, maintain a compelling workplace and focus on operational excellence.

To support these initiatives, we created the position of Chief Transformation Officer. In so doing, we hope to better orchestrate deployments and accelerate the delivery of benefits across the organization.

### Evolution of variable compensation programs

Always with the goal of ensuring stronger alignment of the Bank's performance with all groups of employees who are subject to variable compensation programs, we ensure that the parameters of our programs are constantly evolving to include measures that are adapted to our evolving business strategy. In 2016, considerable efforts were deployed in all the Bank's business sectors to ensure that the programs in place maximize the direct connection between organizational transformation and the variable compensation awarded. One of the tangible examples relates to the annual Incentive Compensation Program (ICP) which covers the majority of employees. Starting in 2017, this program will include a new metric that will take into account the improvement in the Bank's efficiency ratio.

## Compensation of the President and Chief Executive Officer

After review, the Board and the Human Resources Committee made no changes to the target total direct compensation of the President and Chief Executive Officer for fiscal 2016. The President and Chief Executive Officer was granted direct compensation slightly below the target for fiscal 2016, which reflects the result of 82% of target for the annual corporate Incentive Compensation Program (ICP). Although below expectations, the ICP result is consistent with this transition 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 are maintaining a close correlation between his compensation and total shareholder return, as shown on [page 97](#) of the Circular. 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 \$194 as of December 31, 2016. 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 \$216.

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 \$223 and total shareholder return to \$237 whereas a 10% decline in share price would reduce them to \$169 and \$196, respectively. Therefore, we are satisfied that the Bank's compensation policy is conducive to long-term value creation for shareholders.

The other Named Executive Officers also receive variable compensation that takes into account the result of 82% of target for the ICP. However, the composition of this group was modified following the acceleration of the Bank's transformation in 2016. Thus, Ricardo Pascoe now serves as Chief Transformation Officer and Executive Vice-President — Strategic Initiatives Office. Through his many years of experience at the Bank, Ricardo Pascoe conducted an in-depth review of the Financial Markets sector's methods in order to meet clients' needs in a more integrated manner. Additionally, the sector's activity profile grew considerably, turning it into a Canadian leader in various areas of expertise.

Following Ricardo Pascoe's nomination, Denis Girouard was appointed Executive Vice President — Financial Markets and became a Named Executive Officer for this Circular. These changes explain the growth in total compensation relative to that of the five Named Executive Officers presented in last year's Circular. Furthermore, we have also named Martin Gagnon head of the Wealth Management sector in replacement of Luc Paiement, who now acts as an Executive Advisor.

## 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.

As part of the optimization of variable compensation programs undertaken in 2016, it was decided to raise the proportion of variable compensation that must be deferred for the majority of material risk takers, as of 2017. This adjustment will make it possible for the Bank to continue to meet the more-stringent requirements for sound governance practices and will accentuate the importance of sustained results over time, which are long-term value creators for shareholders.

## 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 you voted in favour of our approach with respect to executive compensation.

Also, a proposal for the partial replenishment of the Common Shares of the Bank reserved for the Stock Option Plan is submitted for your approval. The recommended replenishment is less than those approved by shareholders in the past. This is due to the diversification in recent years of the Bank's mid- and long-term compensation program which considerably reduces the number of stock options granted annually. In addition, the Board favours a more modest replenishment in light of the prudent management of the Stock Option Plan and the interests of the shareholders. For more information, please refer to "[Replenishment of the share reserve for the Stock Option Plan](#)" in [Section 2](#) of this Circular.

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 underway in our market. We believe that the Bank's future is in good hands and that our Executive Officers, Officers and all of our employees are committed to align the interests of its clients and those of shareholders.

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

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

## COMPENSATION POLICIES AND PRACTICES

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 the 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 within a payment range of 0%–200% of the target
- ✓ We set performance criteria to be consistent with the strategic plan approved by the Board
- ✓ We make sure that the variable compensation programs maximize the benefits of the organizational transformation

#### What we do not do



- ✗ We do not grant Executive Officers target total direct compensation with a significant fixed component (fixed compensation represents less than 25% of total direct compensation)
- ✗ 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
- ✓ Starting in 2017, we will raise the proportion of variable compensation that must be deferred for material risk takers

#### 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 target total direct compensation by adjusting the peer group's median downward 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 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 offer Executive Officers the possibility to receive up to 30% of their long-term variable compensation in the form of DSUs, redeemable only upon retirement or termination of employment, thus strengthening the alignment between their individual interests 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
- ✓ We have put in place several measures that ensure sound management of the Stock Option Plan

#### 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

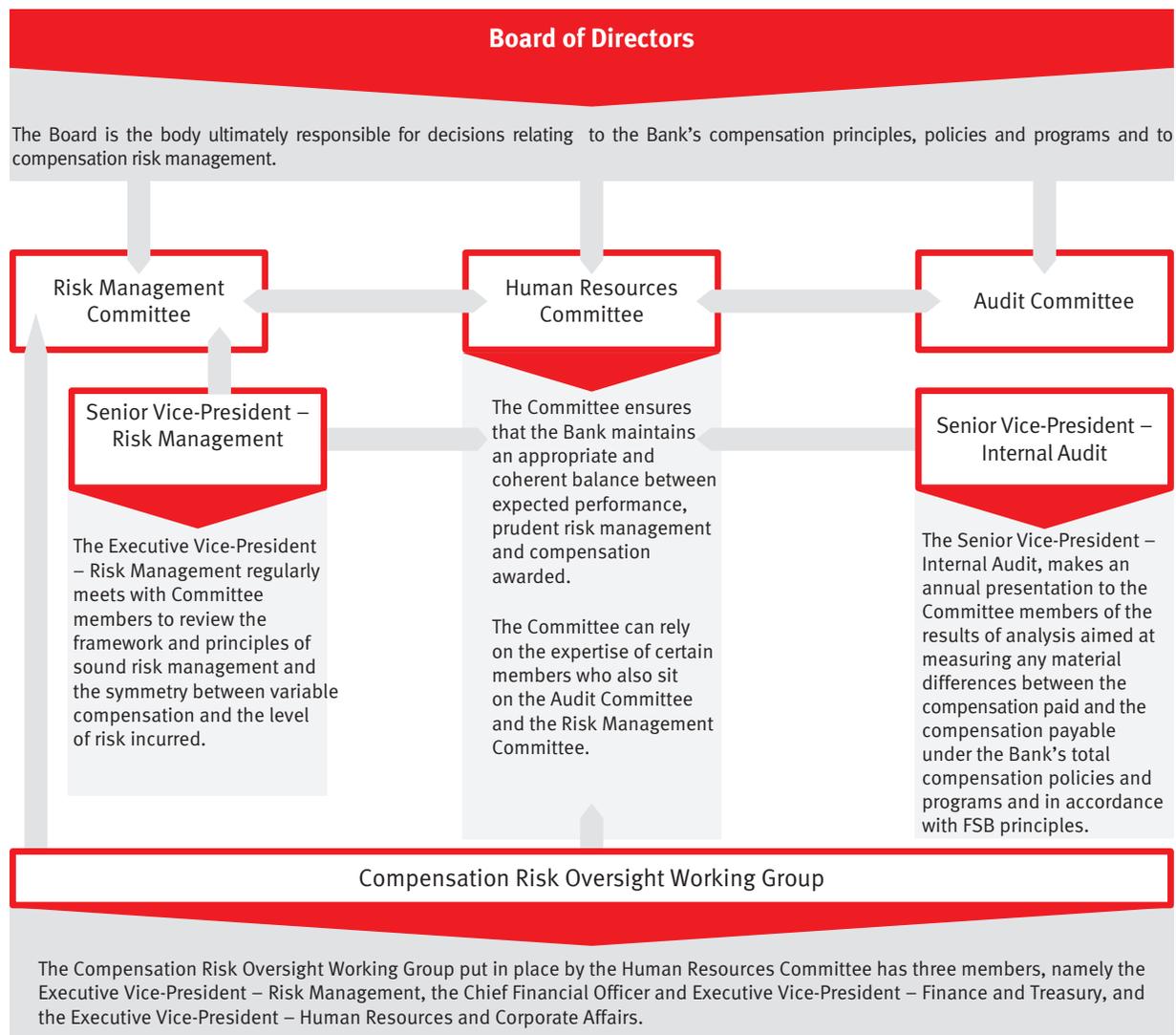
(1) *Review of Horizontal Benchmarking and Its Impact on CEO Compensation and Pay Disparity, 2013* .

## 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 an appropriate 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 sectors at the Bank, such as Total Compensation, Finance, Internal Audit and Risk Management. These sectors work together on designing and reviewing compensation policies. 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 all 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 and Karen Kinsley 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 Blouin, 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](#)” passage 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 Blouin	Pierre Boivin	André Cailé (chair)	Gillian H. Denham	Karen Kinsley
<b>Competencies and experience</b>					
Human Resources/Compensation	✓	✓	✓	✓	✓
Risk Management	✓	✓	✓	✓	✓
Leadership	✓	✓	✓	✓	✓

### 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 these 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 50th 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 the annual bonuses of Officers and specialists in the Financial Markets sector is deferred in the form of RSUs. They 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>

**Starting in 2017, the Bank will raise the proportion of variable compensation that must be deferred for the majority of material risk takers**

## 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 while fostering community development. 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

- The Bank participates annually in fundraising activities, raising millions of dollars for the community. Emergency funds are also raised to support people hit by catastrophes such as Hurricane Matthew and the Fort McMurray fires.
- The Bank contributes to the preservation of the environment through numerous LEED™ certifications and its multi-award winning energy efficiency program.
- The internal Women's Leadership Network supports women employees of the Bank seeking advancement in the organization as managers. Women currently occupy 38% of management positions at the Bank, one of the largest percentages in the industry. Additionally, the Women's Leadership Network was awarded the 2016 *Prix Initiative pour l'avancement des femmes en finance* by the Association of Québec Women in Finance.
- The Bank partners with various events and organizations supporting the lesbian, gay, bisexual and transgender (LGBT) community and promotes diversity through the internal IDEO network, among others.
- Supports entrepreneurship through various partnerships, such as Junior Achievement Québec, Junior Achievement Canada and the *Fondation de l'entrepreneurship*.
- Implementation of the Diversity Ambassadors Program to help recruit employees from diverse cultures and offer support and financial services to newcomers through the HelloCanada assistance service.
- Leader in the fight against money laundering and terrorist financing activities.

## Successful practices

- The Bank was named one of the Best Employers in Canada for the 12th year in AON Hewitt's annual ranking.
- For the sixth time, the Bank was named one of Canada's Best Diversity Employers by Mediacorp Canada.
- In recent years, Louis Vachon has received a number of distinctions recognizing his commitment to the community. Most notably, he was named Grand Philantrope (Portage – 2014), received the Global Citizen Award (from the United Nations Association in Canada – 2016) and was named a Member of the Order of Canada (Governor General of Canada – 2016)

## 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 123](#) 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. Over 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., the Ontario Teachers' Pension Plan and Global Governance Advisors, made positive statements about the link between compensation and the Bank's performance as part of their analysis.

## APPROVAL AND MANAGEMENT PROCESS FOR COMPENSATION POLICIES AND PROGRAMS

The approval and management process for the Bank's compensation policies and programs is made up of three steps:

### 1. SETTING TOTAL COMPENSATION

- Ensuring that variable compensation is closely tied to financial performance
- Establishing the compensation policy

### 2. ALIGNING PERFORMANCE AND VARIABLE COMPENSATION

- Setting annual objectives and managing performance and careers
- Creating annual variable compensation envelopes
- Determining the Bank's performance factor
- Adjusting annual variable compensation envelopes as necessary

### 3. ENSURING GOVERNANCE OF COMPENSATION PRACTICES

- Monitoring compensation policies and programs implementation
- Clawing back, as warranted, the previously awarded variable compensation
- Receiving Internal Audit's annual report

## 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 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 main 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	–
	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
Variable compensation (at-risk)	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 Retirement (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

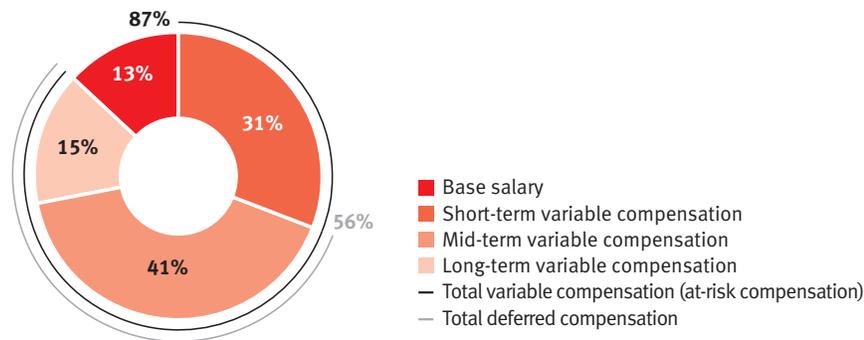
The short-, mid- and long-term variable compensation programs are based on various predetermined financial indicators that promote consistency over time between the vision, business strategies and decisions of Executive Officers. In addition, these indicators help ensure that risks are spread over a 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. This variable compensation is considered at-risk and represents a significant portion of target total direct compensation: an average of 87% for Named Executive Officers.

The following graph shows the average breakdown, as a percentage, of the target total direct compensation of the Named Executive Officers, notably the mid- and long-term components.

**Average breakdown of target total direct compensation of Named Executive Officers**



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

## Establishing the compensation policy

The compensation policy for Executive Officers aims to position their target total compensation at the peer group median (the 50th 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 2016 is unchanged from 2015 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>	19,544	4,472	23%	55,122	45.2
Canadian Imperial Bank of Commerce <sup>(1)</sup>	15,035	4,237	28%	39,906	43.2
Great-West Lifeco Inc. <sup>(2)</sup>	10,978	2,762	25%	34,300	22.5
Industrial Alliance Insurance and Financial Services Inc. <sup>(2)</sup>	2,759	364	13%	4,520	5.1
Manulife Financial Corporation <sup>(2)</sup>	17,089	2,075	12%	40,899	34.0
Power Financial Corporation <sup>(2)</sup>	13,670	2,319	17%	22,687	25.7
Royal Bank of Canada <sup>(1)</sup>	34,981	10,111	29%	124,476	75.5
Sun Life Financial Inc <sup>(2)</sup>	10,607	2,185	21%	26,421	30.0
The Bank of Nova Scotia <sup>(1)</sup>	26,350	6,987	27%	87,065	88.9
The Toronto-Dominion Bank <sup>(1)</sup>	31,853	8,680	27%	113,000	81.5
<b>National Bank of Canada <sup>(1)</sup></b>	<b>5,840</b>	<b>1,120</b>	<b>19%</b>	<b>16,186</b>	<b>21.8</b>

(1) The information is as at October 31, 2016.

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

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- 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 at positioning the target total direct compensation of employees at the peer group median (the 50th 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 select the external consultant it considers the most qualified to carry out the mandates.

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 their services are retained, external consultants are informed of these guidelines and must undertake to follow them.

### **Hay Group:**

- Has been advising the Human Resources Committee regarding Executive Officer compensation matters for many years;
- 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 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 Officers and management positions.

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

Independent external consultants	For fiscal 2016			For fiscal 2015		
	Executive compensation – Related fees	Other fees	Total	Executive compensation – Related fees	Other fees	Total
Hay Group	\$114,809 61%	\$74,738 <sup>(1)</sup> 39%	\$189,547 100%	\$122,094 72%	\$46,421 <sup>(1)</sup> 28%	\$168,515 100%

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

## 2. Aligning performance and variable compensation

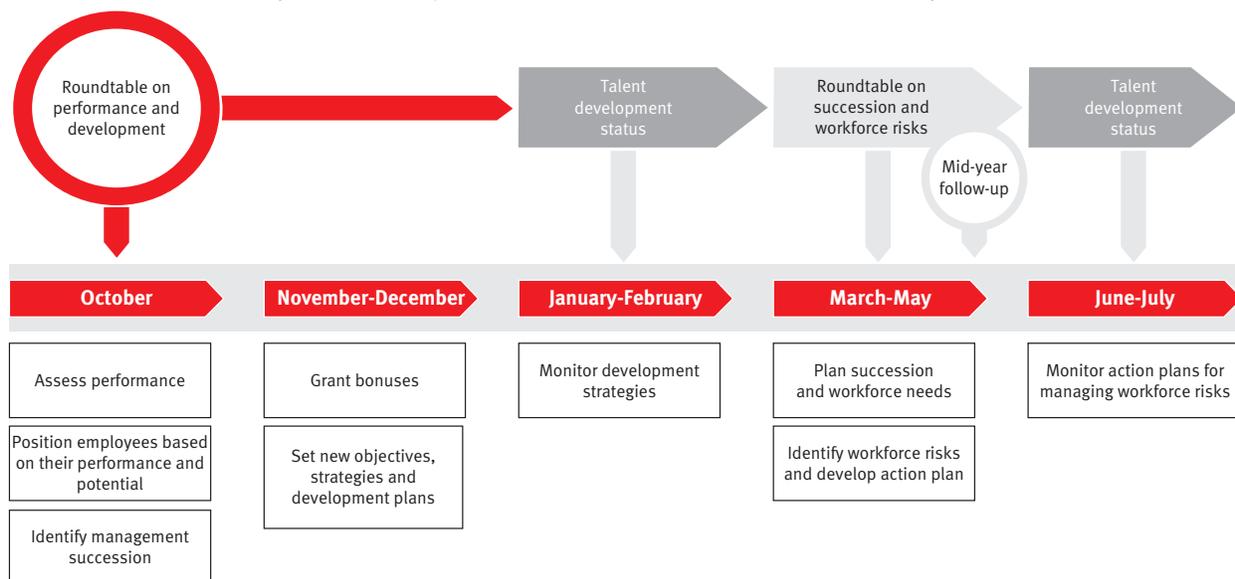
### Setting annual objectives and managing performance and careers

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 their role and mandate; and
- annual objectives related to their 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

For fiscal 2016, a single financial indicator was 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 the Bank's Common Shares is a comprehensive financial indicator that captures the Bank's overall performance during a fiscal year and provides a basis for assessing growth from year to year.

**During the course of the fiscal year, the Human Resources Committee approved the addition of a new metric to the existing determination formula: the efficiency ratio. This new metric, which will take effect in fiscal 2017, will be combined with the net income attributable to holders of Common Shares, as both these metrics are closely tied to the Bank's performance. In a context of transformation, the goal is to rally all employees toward the same objectives.**

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.

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, 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 their 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.

**In fiscal 2016, no portion of variable compensation granted in previous years 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, 2016.

### Named Executive Officers

**Louis Vachon**

President and Chief Executive Officer

**Ghislain Parent**

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

**Denis Girouard**

Executive Vice-President – Financial Markets

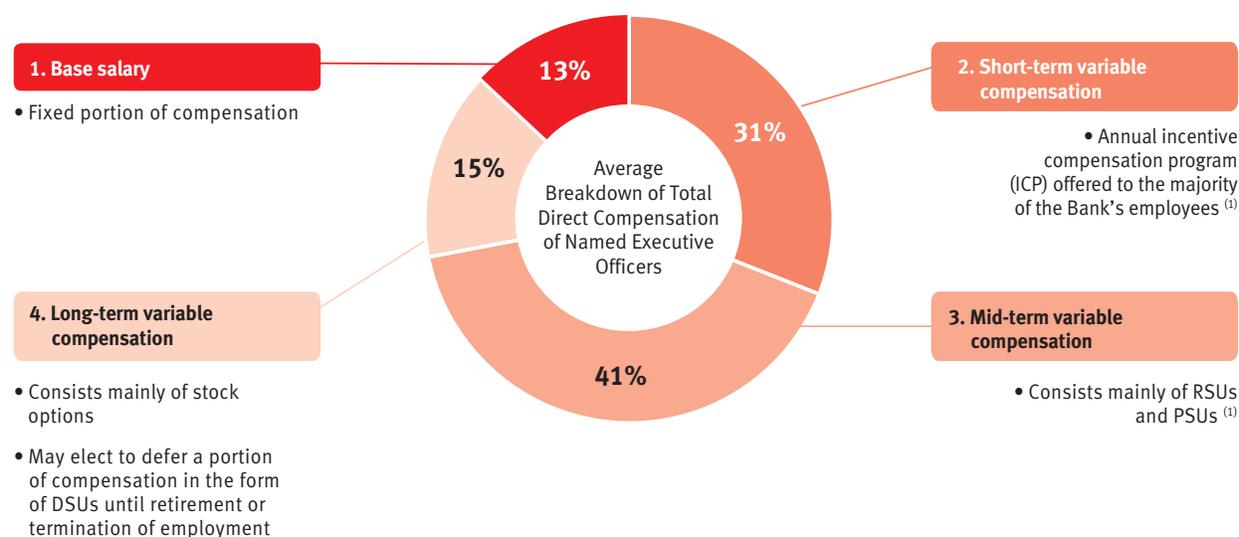
**Ricardo Pascoe**

Chief Transformation Officer and Executive Vice-President – Strategic Initiatives Office

**Diane Giard**

Executive Vice-President – Personal and Commercial Banking.

### Components of target total direct compensation



	Target total direct compensation 2016				Compensation granted 2016	Compensation granted 2015	
Louis Vachon	14.3%	21.4%	42.9%	21.4%	\$7,875,000	\$7,571,294	\$7,824,392
Ghislain Parent	22.2%	22.2%	33.4%	22.2%	\$1,800,000	\$1,728,027	\$1,788,013
Denis Girouard	7.2%	37.1%	48.5%	7.2%	\$6,250,000 <sup>(2)</sup>	\$7,376,693	– <sup>(3)</sup>
Ricardo Pascoe	7.2%			7.2%	\$6,255,000	\$6,264,727	\$6,723,573
Diane Giard	15.7%	33.1%	35.5%	15.7%	\$3,016,250	\$2,836,720	\$2,986,342

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

- (1) A portion of the annual bonus offered to Denis Girouard and Ricardo Pascoe is based on the results in their business sector. However, a major portion of their annual bonus is deferred over a three-year period in the form of RSUs and PSUs.
- (2) Actual compensation as of June 1, 2016, the date that Denis Girouard was appointed Executive Vice-President – Financial Markets.
- (3) The Bank does not disclose any historical data for Denis Girouard because he was not an Executive Officer of the Bank in 2015. In fact, before his appointment, Denis Girouard held the position of Executive Vice-President, Managing Director, Co-Head of Fixed Income and Deputy Head of Financial Markets at NBF.



## 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
- It 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 employment 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.

**Starting in 2017, a new performance metric will recognize the improvement in the Bank's efficiency ratio and will be combined with the net income attributable to holders of Common Shares, as both these metrics are closely tied to the Bank's performance.**

**APPLICATION OF THE ANNUAL BONUS PROGRAM FOR FISCAL YEAR 2016**

At the beginning of the fiscal year, the Board approved the financial objectives for fiscal year 2016, in accordance with the Human Resources Committee's recommendations. The objective for the net income attributable to holders of Common Shares was set at \$1,661 million, up 6.0% from \$1,567 million, excluding specified items, in fiscal 2015.

In fiscal year 2016, the Bank reported available net income attributable to holders of Common Shares of \$1,120 million. However, for the purposes of the annual bonuses, the Board approved the recommendation of the Human Resources Committee to exclude from the ICP calculation the unused portion of the \$149 million after deducting tax and the sectoral provision for credit losses in the oil and gas loan portfolio. It also recommended excluding specified items totalling \$333 million after deducting taxes, which result mainly from the write-off of the interest in Maple Financial Group Inc., the restructuring charge and acquisition-related items. In total, the exclusion of the unused portion of the sectoral provision and the specified items has a positive impact on the published net income attributable to holders of Common Shares, bringing the final result to \$1,602 million, corresponding to a performance factor of 82%.

Financial objectives (in millions of dollars)	2015	2016			
	Result	Threshold	Adjusted result	Target	Maximum
Available net income attributable to holders of Common Shares	\$1,567	\$1,329	\$1,602	\$1,661	\$1,993
Performance factor		0%	82%	100%	200%

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

**Creation of short-term variable compensation envelopes**

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

**Annual Bonus Attribution Process for Named Executive Officers**

Following the creation of these envelopes, the final step in the attribution process for the Named Executive Officers involves an individual and sectoral performance evaluation based on the objectives set out at the beginning of the fiscal year. After taking into consideration the Human Resources Committee's and the President and Chief Executive Officer's recommendations for the other Named Executive Officers, the Board grants the final annual bonus. The annual bonuses approved for fiscal 2016 are presented on [pages 95 to 101](#) of the Circular for each Named Executive Officer.



### 3. MID-TERM VARIABLE COMPENSATION

In accordance with the objectives of the Bank's 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 the Bank's 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 6<sup>th</sup> business day in December, 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 6<sup>th</sup> business day in December, 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 index 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>Result Relative TSR</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 2013 and vested in 2016 by Executive Officers showed a relative TSR below that of the S&amp;P/TSX Banks sub-index. Consequently, a payment of 90.6% was awarded to PSUs plan participants</li> </ul>	Result Relative TSR	Adjustment range of payable value	≥ 1.25	125% (maximum)	=1.00	100% (target)	≤ 0.75	75% (minimum)	<ul style="list-style-type: none"> <li>At vesting, the cash payment is equal to the number of RSUs vested, multiplied by the average closing price of the Bank's shares on the Toronto Stock Exchange for the 10 days preceding the 6<sup>th</sup> business day in December</li> </ul>
Result Relative TSR	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.



## 4. LONG-TERM VARIABLE COMPENSATION

In accordance with the objectives of the Bank's compensation policy, the purpose of the long-term variable compensation is to align the vision and expectations with respect to Executive Officers and Officers with those of shareholders on a long-term horizon, of either 10 years for stock options and up to 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 stock 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 stock 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 stock options, the Human Resources Committee takes into account the number and term of previously granted stock options</li> <li>– The number of stock options granted is based on: <ul style="list-style-type: none"> <li>• the dollar value of the grant, divided by</li> <li>• the value determined based on the Black-Scholes model</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 stock options may be exercised in the first year after the grant date
- Vested stock options may be exercised:
  - only during quarterly transaction periods, as established by the Bank’s Legal Affairs department, following the release of the financial statements
  - only by a participant or their estate (stock 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 stock options are granted; however, where the expiration date falls within or immediately after a black-out period, the expiration date of the stock 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 stock options, Common Shares of the Bank with a value equal to the gain resulting from the exercise of vested stock options, until the share ownership requirements applicable to that individual have been met
- For information on the treatment of stock 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



President and Chief Executive Officer

## CAREER PROFILE

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 is a member of the board of directors of Molson Coors Brewing Company and of CH Group Inc. He is also involved in a large number of social and cultural organizations.

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<sup>TM</sup>® 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<sup>TM</sup>. 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. He has also been awarded honorary doctorates by the University of Ottawa and by Bishop's University. He received the Global Citizen Award from the United Nations Association in Canada, and is a Member of the Order of Canada.

## 2016 Performance indicators and results

The Human Resources Committee assessed Louis Vachon's performance for 2016 taking into account results associated with the Bank's short-, medium- 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 3.6%	(7)%	To ensure sustained growth, the Bank successfully adjusted to a constantly changing business environment. Fiscal 2016 has proven to be a year of repositioning. In a context characterized by a low level of activity across the country, the Bank's 2016 results were consistent with all its medium-term objectives, with the exception of its growth target for diluted earnings per share.
– Excluding specified items		
Deliver return on equity of over 15%	15.5%	In fact, adjusted diluted earnings per share decreased 7% year over year, taking specified items into account. Essentially, this target was not met given the sectoral provision for credit losses recorded for oil and gas producers and service companies in 2016.
– Excluding specified items		The targets for return on equity and income growth were reached, at 15.5% and 5%, respectively, excluding specified items.
Revenue growth of at least 5%	5%	With close to \$6 billion in revenues, \$232 billion total assets and CET1 capital ratio of 10.1%, the Bank is among the soundest banking institutions in the world.
– Excluding specified items		For fiscal 2016, revenue growth excluding specified items of 5% was higher than expense growth excluding specified items of 4%.
Keep revenue growth above or in line with expense growth	✓	For fiscal 2016, the Bank declared \$736 million in dividends to holders of Common Shares, which represents 66% of the net income attributable to holders of Common Shares (2015: 45%). The Bank also increased its dividend on two occasions during the fiscal year, taking it to \$2.18 (2015: \$2.04) and delivered a solid return to shareholders.
<b>Employee-related</b>		
Ability to engage and mobilize employees in the transformation to a <i>One client, one bank</i> approach	✓	In 2016, the Bank continued to progress in its cultural evolution. As demonstrated in the recent organizational survey, adherence to the <i>One client, one bank</i> approach has clearly spread throughout the entire organization. The engagement index remains high, as does the commitment to the transformation.  In 2016, the Bank was named one of the Best Employers in Canada for the 12th year in AON Hewitt's annual ranking. This year's survey revealed that employees emphasized management's leadership and inspiring vision as among the Bank's key engagement levers.  The 360-degree assessment of leadership development, carried out every two years, found that our key indicators are rising and even exceeding the set objectives. This shows that managers play a crucial role in sharing our vision, and in rallying employees towards the achievement of our strategic priorities.  With 38% of its management positions held by women, the Bank is a leader amongst major Canadian banks in that respect.

## 2016 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>In 2016, we embarked on a new stage of our <i>One client, one bank</i> approach, the vision that has guided the entire organization's efforts since 2008. We updated our strategic priorities to be able to tackle with even greater agility the challenges of today's environment.</p> <p>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>- gradual transition from our various websites to responsive and user-friendly versions that can be viewed on any type of screen, including smartphones;</li> <li>- continuing improvement in mobile solutions and the launch of remote cheque deposit functionality and biometric identification, among other initiatives. The number of users increased by 23% over the course of last year;</li> <li>- preparation for the complete replacement of the Bank's automated banking machine network across Canada, to offer a new user interface and add electronic bill payment and cheque imaging features; and</li> <li>- launch of the MasterPass service, a fast and convenient payment solution that simplifies online purchasing for National Bank MasterCard holders.</li> </ul> <p>On the whole, the profound changes that we have made to distribution models and to business priorities will allow us to take advantage of the economy's digital transformation, which presents tangible growth opportunities for the Bank.</p>
<b>Community-related</b>		
Active participation in community associations and causes	✓	<p>In 2016, the Bank was very active in philanthropic initiatives. Louis Vachon presided and co-presided over a number of campaigns and events, collecting millions of dollars for a range of organizations and causes. For his contribution to the financial sector and for his community involvement and philanthropy, he was named a Member of the Order of Canada. Similarly, his achievements led him to receive the Global Citizen Award from the United Nations Association in Canada, and honorary doctorates from the University of Ottawa and Bishop's University.</p> <p>We continued to stand out within the business community through sustained promotion of entrepreneurship. The Bank also actively supports women's causes, cultural communities, the LGBT community, and people with disabilities.</p>
Promote an environmentally responsible brand image	✓	The Bank actively contributes to the protection of the planet through numerous LEED™ certifications and its multi-award winning energy efficiency program.

## Decisions on the target total compensation and compensation awarded in 2016

No adjustments were made to the total direct target compensation for Louis Vachon in fiscal 2016. In determining Louis Vachon's variable compensation for fiscal 2016, the Human Resources Committee considered the Bank's financial and operational performance in light of the rapidly changing business environment, 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:

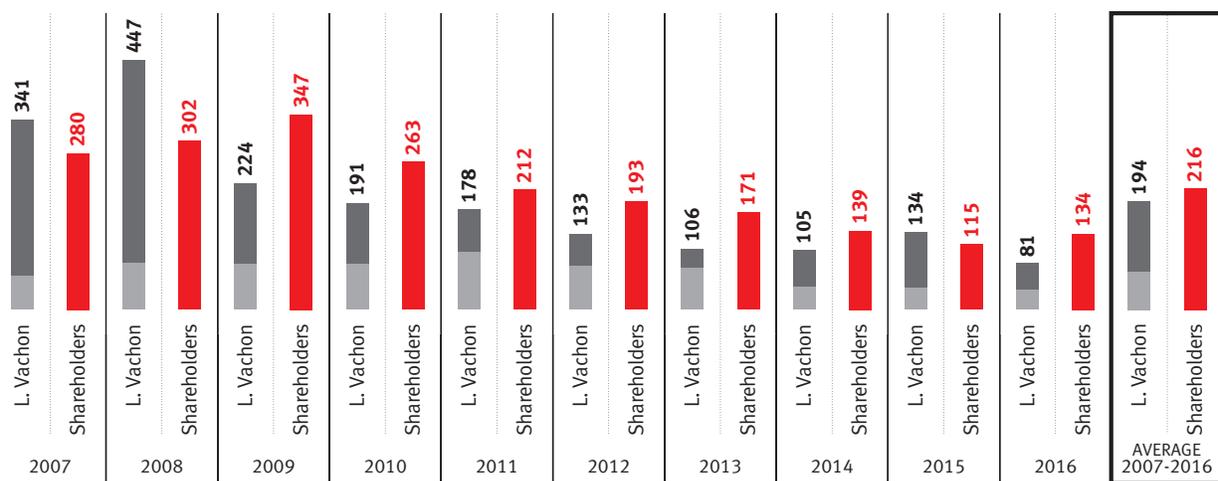
	Form	Target variable compensation	Target total direct compensation	Total direct compensation awarded		2016 awarded compensation mix
		% of salary	(\$)	(\$)	(%)	
Base salary	Cash	n/a	1,125,000	1,125,015	15	<p>85% 15% 18% 22%</p> <ul style="list-style-type: none"> <li>■ Base Salary</li> <li>■ Annual Bonus</li> <li>■ Mid-term compensation</li> <li>■ Long-term compensation</li> <li>— At-risk compensation</li> </ul>
Annual bonus	Cash	150	1,687,500	1,383,750	18	
Mid-term compensation	PSUs	300	3,375,000	3,375,000	45	
Long-term compensation	Options	150	1,687,500	1,687,529	22	
<b>Total</b>			<b>7,875,000</b>	<b>7,571,294</b>	<b>100</b>	

## 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 \$194 as of December 31, 2016. 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 \$216. The Board is therefore satisfied that the Bank's compensation policy is conducive to long-term value creation for shareholders.

The following chart shows the history of the link between direct compensation granted to the President and Chief Executive Officer since his appointment in 2007 and total return to the Bank's shareholders. For each fiscal year, we present:

- Value on December 31, 2016 of \$100 paid as direct compensation to Louis Vachon for each fiscal year
- Realized compensation<sup>(1)</sup>
- Realizable compensation (at-risk)<sup>(2)</sup>
- Value on December 31, 2016 of \$100 invested in Common Shares of the Bank at the start of every fiscal year



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.

The table below illustrates more precisely the direct compensation awarded to Louis Vachon for each fiscal year and the actual value of the direct compensation as at December 31, 2016:

Year	Value of direct compensation at time of award (\$M)	Value of actual direct compensation <sup>(3)</sup> as at December 31, 2016 (\$M)	Period	Value of \$100	
				L. Vachon	Bank shareholders
2007	3.88	13.23	Oct. 31, 2006 - Dec. 31, 2016	341	280
2008	4.74	21.21	Oct. 31, 2007 - Dec. 31, 2016	447	302
2009	5.61	12.57	Oct. 31, 2008 - Dec. 31, 2016	224	347
2010	5.21	9.94	Oct. 31, 2009 - Dec. 31, 2016	191	263
2011	7.25	12.89	Oct. 31, 2010 - Dec. 31, 2016	178	212
2012	7.15	9.54	Oct. 31, 2011 - Dec. 31, 2016	133	193
2013	7.14	7.56	Oct. 31, 2012 - Dec. 31, 2016	106	171
2014	8.24	8.62	Oct. 31, 2013 - Dec. 31, 2016	105	139
2015	7.82	10.51	Oct. 31, 2014 - Dec. 31, 2016	134	115
2016	7.57	6.10	Oct. 31, 2015 - Dec. 31, 2016	81	134
<b>Average 2007 - 2016</b>				<b>194</b>	<b>216</b>

- (1) Realized compensation: salary, annual bonus, paid RSUs and PSUs and exercised value of stock options
- (2) Realizable compensation: actual value of non-vested PSUs and unexercised stock options
- (3) Represents the total of realized and realizable compensation

## 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, mergers and acquisitions, strategic planning, capital management, taxation, investor relations, financial governance and internal audit operations. Since February 2017, he is also responsible for the Bank's portfolio of investments in emerging countries. 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. In addition to his business activities, he is involved in a number of organizations.

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 target total compensation and compensation awarded in 2016

The Human Resources Committee has taken into account the overall performance and the following achievements to set Ghislain Parent's variable compensation for fiscal 2016.

- To ensure sustained growth, the Bank is successfully adjusting to a constantly changing business environment. In a context characterized by a low level of activity across the country, the Bank's 2016 results were consistent with all its medium-term objectives, with the exception of its growth target for diluted earnings per share which was not achieved essentially given the sectoral provision for credit losses recorded for oil and gas producers and service companies.
- Fiscal 2016 was a year of repositioning for the Bank. The development of long-term growth activities was accompanied by economic and operational challenges that we swiftly overcame to ensure continued healthy growth. Through these actions, the organization is rapidly changing, and the Bank continues to make adequate progress with regard to its financial strength.
- In 2016, the Bank continued to pursue 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, 2016, the Bank's CET1, Tier 1 and total capital ratios were, respectively, 10.1%, 13.5% and 15.3%, above regulatory requirements, compared to ratios of, respectively, 9.9%, 12.5% and 14.0% in the previous fiscal year.
- In 2016, the Bank also continued its prudent liquidity management in accordance with Basel III Accord requirements. The short-term liquidity ratio was 134% in 2016, compared to 131% in 2015, which is well above the regulatory minimum of 100%.
- The Bank's efficiency ratio (total cost as percentage of total revenue excluding specified items) was 58.2% in 2016, compared to 58.6% in 2015. This is clear evidence of continuous improvement in efficiency, which is one of the levers of financial performance.
- For fiscal 2016, revenue growth excluding specified items of 5% was higher than expense growth excluding specified items of 4%, generating positive operational leverage.
- A large-scale project was deployed to permit the Bank to handle the new accounting standard *IFRS 9 – Financial instruments* which, notably, substantially changes the accounting of credit losses. This new accounting standard will come into effect on November 1, 2017 and the preparation process is on schedule and budget.
- 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 awarded		2016 awarded compensation mix
		% of salary	(\$)	(\$)	(%)	
Base salary	Cash	n/a	400,000	400,008	23	<p>77% 23% 19% 23% 35%</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>— At-risk compensation</li> </ul>
Annual bonus	Cash	100	400,000	328,000	19	
Mid-term compensation	PSUs	150	600,000	600,000	35	
Long-term compensation	Options	100	400,000	280,019	16	
	DSUs	—	—	120,000 <sup>(1)</sup>	7	
<b>Total</b>			<b>1,800,000</b>	<b>1,728,027</b>	<b>100</b>	

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

## DENIS GIROUARD



Denis Girouard  
Executive Vice-President –  
Financial Markets

## CAREER PROFILE

Denis Girouard was appointed Executive Vice-President – Financial Markets, on June 1, 2016. As such, he is responsible of wholesale banking services, in particular Investment Banking, Corporate Banking, Equity, Fixed Income, Derivatives and Proprietary Trading. At the time of his appointment, he held the position of Executive Vice-President, Managing Director, Co-Head of Fixed Income and Deputy Head of Financial Markets at NBF. He has in-depth knowledge of the Financial Markets sector and its activities. Under his stewardship, the Bank has notably positioned itself as a leader in government financing in Canada. Denis Girouard also enjoys recognition from public policy-makers who seek his views on financial market developments. Since he joined the Bank in 1990, he has held various strategic executive positions. Denis Girouard is a member of the Office of the President.

Denis Girouard is involved in the business community as a director. He is currently a member of the board of directors of CanDeal.

Denis holds a Bachelor's Degree in Finance from HEC Montréal. He is a chartered financial analyst, CFA™®.

## Achievements and decisions on the target total compensation and compensation awarded in 2016

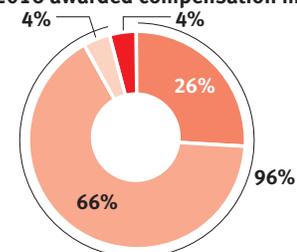
Denis Girouard held the position of Executive Vice-President, Managing Director, Co-Head of Fixed-Income and Deputy Head of Financial Markets at NBF in the first seven months of fiscal 2016, before being appointed Head of Financial Markets on June 1, 2016. The Human Resources Committee has taken into account Denis Girouard's overall performance and following achievements to set his variable compensation.

- Denis Girouard made an excellent contribution with sustained performance in the two positions he held in fiscal 2016. He quickly took charge of his new role to ensure a smooth transition and maintain a high level of performance in the business sector that was under the responsibility of Ricardo Pascoe until the end of May 2016.
- The net income of Financial Markets totaled \$575 million in fiscal 2016, down \$123 million from 2015. Excluding the write-off of equity interests in Maple Financial Group Inc. and the 2015 specified item of \$16 million after tax, which represented the percentage reduction in value of an affiliate's tax receivables, the sector's adjusted net income for the full year was \$720 million, up 1% from fiscal 2015.
- The Financial Markets sector led or co-led significant major debt and equity financings in multiple industry sectors. Many major transactions were completed last year. The Bank was ranked first in Canada for debt underwriting, excluding self-funded deals, in the first nine months of 2016. The Bank raised a total of \$16.5 billion during this period, thus leading the market in all debt raised.
- The sector continued to rely on its expertise in structuring and trading derivatives to attract a larger client base. Its innovative risk management solutions, which allow its clients to manage their risk in every asset class, have gained ground and cover 38% more clients than five years ago, most of them using more than one risk management product.
- The Financial Markets sector has taken advantage of market conditions as well as external restructuring to strengthen its research team, particularly in the technology, industrial products and energy sectors.
- The Bank expanded its market presence despite market volatility and decreased liquidity, and was ranked third in all debt domestic bond trading for the first half of 2016.

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

	Form	Target variable compensation	Target total direct compensation <sup>(1)</sup>	Total direct compensation awarded <sup>(2)</sup>	
		% of salary	(\$)	(\$)	(%)
Base salary	Cash	n/a	450,000	333,691	4
Annual bonus	Cash	–	2,320,000	1,885,687 <sup>(3)</sup>	26
	RSUs <sup>(4)</sup>	–	2,062,500	4,450,000	60
Mid-term compensation	PSUs	215	967,500	446,875	6
Long-term compensation	Options	100	450,000	260,440	4
<b>Total</b>			<b>6,250,000</b>	<b>7,376,693</b>	<b>100</b>

2016 awarded compensation mix



- (1) In effect on June 1, 2016, the date that Denis Girouard was appointed Executive Vice-President – Financial Markets.
- (2) Denis Girouard's salary was increased from \$250,000 to \$450,000 on June 1, 2016 following his appointment. The total compensation granted in 2016 is primarily based on his role as Executive Vice-President, Managing Director, Co-Head of Fixed Income and Deputy Head of Financial Markets at NBF.
- (3) His annual bonus was set taking into consideration his contribution in each of the two positions he held in fiscal 2016. The annual bonus applicable to the position of Executive Vice-President – Financial Markets, includes a portion which reflects the outcome of the Bank's annual bonus program and a portion linked to the results of the Financial Markets sector.
- (4) A portion of Denis Girouard's annual bonus is deferred in the form of RSUs. Its value was set by taking into account his mid- and long-term compensation granted, as at least 60% of variable compensation must be deferred. For 2016, Denis Girouard elected to receive a higher portion of his annual bonus (73%) in the form of RSUs.

## RICARDO PASCOE



Chief Transformation Officer and Executive Vice-President – Strategic Initiatives Office

## CAREER PROFILE

Ricardo Pascoe was appointed Chief Transformation Officer and Executive Vice-President – Strategic Initiatives Office, in June 2016. As such, he is responsible for ensuring the effective and agile integration of large-scale projects that support the Bank's evolution. He also oversees the activities of Credigy and Innocap. He is also Chairman of the Board of Directors of Innocap Investment Management Inc. At the time of his appointment, Ricardo Pascoe had been Executive Vice-President – Financial Markets since September 2008. As such, he helped grow the sector's footprint and performance. 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.

Ricardo Pascoe appeared in the 2015 edition of the awards for the Ten Most Influential Hispanic Canadians, which recognized the exceptional contribution of the members of the Hispanic community throughout Canada.

He holds a Bachelor's Degree in Economics from Queen's University, a Master's in Economics from Columbia University in New York, and an MBA from the University of Western Ontario.

## Achievements and decisions on the target total compensation and compensation awarded in 2016

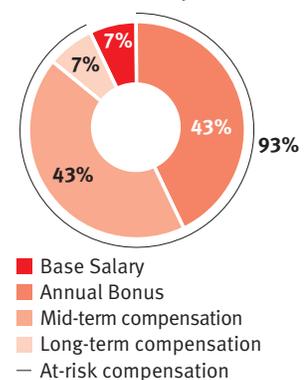
Ricardo Pascoe held the position of Executive Vice-President – Financial Markets, for the first seven months of 2016 before being appointed Chief Transformation Officer and Executive Vice-President – Strategic Initiatives Office, on June 1, 2016. This appointment is based on many years of experience at the Bank and significant growth in the Financial Markets sector, making it the leading Canadian institution in various fields of expertise. The Human Resources Committee has taken into account Ricardo Pascoe's overall performance and following achievements to set his variable compensation for the two positions held in fiscal 2016.

- To improve the orchestration of deployments and accelerate the delivery of benefits across the organization, Ricardo Pascoe set up the Transformation Office in 2016. Among other accomplishments, his new team allowed the Bank to ensure an even more effective project integration at a time of accelerating change in our industry and those of our clients.
- In the space of just a few months, the first phase for improving and streamlining large-scale project management was rolled out successfully. Along with these strategic efforts, the Bank continued to roll out client initiatives at a fast pace.
- The net income of Financial Markets totaled \$575 million in 2016, down \$123 million from 2015. Excluding the write-off of equity interests in Maple Financial Group Inc. and the 2015 specified item amounting to \$16 million after tax, which represented the percentage reduction in value of an affiliate's tax receivables, the sector's adjusted net income for the full year was \$720 million, up 1% from fiscal 2015.
- Credigy Ltd., which operates exclusively outside Canada, achieved strong results while continuing to increase the proportion of performing consumer debt in its book of assets. At the end of 2016, performing portfolios represented 93% of assets.
- The Financial Markets sector led or co-led significant major debt and equity financings in multiple industry sectors. Many major transactions were completed last year. The Bank was ranked first in Canada for debt underwriting, excluding self-funded deals, in the first nine months of 2016. The Bank raised a total of \$16.5 billion during this period, thus leading the market in all debt raised.
- The sector has continued to rely on its expertise in structuring and trading derivatives to attract a larger number of clients. Its innovative risk management solutions, which allow its clients to manage their risk in every asset class, have gained ground and cover 38% more clients than five years ago, most of them using more than one risk management product.
- The Financial Markets sector has taken advantage of market conditions as well as external restructuring to strengthen its research team, particularly in the technology, industrial products and energy sectors.
- The Bank has expanded its market presence despite the volatility and reduced liquidity, and was ranked third for domestic bond trading in the first half of 2016.

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

	Form	Target variable compensation	Target total direct compensation <sup>(1)</sup>		Total direct compensation awarded	
			% of salary	(\$)	(\$)	(%)
Base salary	Cash	n/a	450,000	450,006	7	
Annual bonus <sup>(2)</sup>	Cash	–	2,677,500	2,682,355	43	
	RSUs/PSUs <sup>(3)</sup>	–	1,710,000	1,714,856	27	
Mid-term compensation	PSUs	215	967,500	967,500	16	
Long-term compensation	Options	100	450,000	450,010	7	
<b>Total</b>			<b>6,255,000</b>	<b>6,264,727</b>	<b>100</b>	

## 2016 awarded compensation mix



- (1) In effect on June 1, 2016, the date that Ricardo Pascoe was appointed Chief Transformation Officer and Executive Vice-President – Strategic Initiatives Office.
- (2) His annual bonus was set taking into consideration his contribution in each of the two positions he held in fiscal 2016. The applicable annual bonus includes a portion that reflects the outcome of the Bank's annual bonus program and a portion linked to the results of the Financial Markets sector for the first seven months as well as the results of the Transformation Office for the last five months of the year.
- (3) A portion of Ricardo Pascoe's annual bonus is deferred in the form of RSUs for the portion linked to the results of the Financial Markets Sector and in the form of PSUs for the portion linked to the results of the Transformation Office. The deferred values are set by taking into consideration the value of his mid- and long-term compensation granted, as at least 50% of his total compensation must be deferred. Starting in fiscal 2017, the proportion of compensation paid in the form of units will be reviewed to ensure that 60% of variable compensation is deferred.

## 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. Since February 2017, she is also responsible for the development and management of banking products, portfolio pricing and risk modeling, marketing strategies, and the development of the digital ecosystem. She is a member of the Office of the President.

Diane Giard joined the Bank in 2011 as Executive Vice-President – Marketing and was notably responsible for implementing the Bank's Client Promise – a key element of the *One client, one bank* transformation. She has over 30 years' experience in the banking industry. The various mandates that she has carried out have allowed her to acquire in-depth knowledge of client segments nationwide.

Diane Giard currently sits on the boards of directors of Fondation Virage, GoodnessTV and C Series Aircraft Managing GP Inc., which oversees the activities of the C Series Aircraft Limited Partnership.

Diane Giard has a Bachelor's degree in Economics from the Université de Montréal and an MBA from the 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. She has also been ranked seven times among the Top 25 of Québec's financial industry.

## Achievements and decisions on the target total compensation and compensation awarded in 2016

The Human Resources Committee has taken into account Diane Giard's overall performance and the following achievements to set her variable compensation for fiscal 2016.

- Despite slow economic growth, the Personal and Commercial Banking sector continues to record stable growth in revenues and results.
- The sector's total revenues were up \$74 million, or 3%, mainly from growth in net interest income, which rose \$94 million, as non-interest income decreased by \$20 million. The higher net interest income was driven mainly by growth in personal and commercial loan and deposit volumes.
- Net income in the Personal and Commercial Banking sector totalled \$574 million in 2016, down 19% from \$711 million in 2015. This change is due primarily to the sectoral provision for non-impaired loans for the loan portfolio for production and service companies in the oil and gas sector, amounting to \$250 million (\$183 million after tax) recorded in the second quarter of 2016. Excluding the restructuring charge, the sector reported adjusted net income of \$757 million, up 6% from the previous year.
- Revenue from Personal Banking amounted to \$1,840 million, up 3% on the \$1,788 million in 2015. This increase comes mainly from the 5% growth in loan volumes (mainly mortgage loans and outstanding credit card balances) and the 6% growth in deposit volumes, partly restrained by a reduction in net interest margins.
- In 2016, Commercial Banking revenues grew by 2% to \$1,061 million, versus \$1,039 million in 2015. The net interest income increase was driven mainly by growth in loan and deposit volumes, of 5% and 11%, respectively, partly restrained by the decrease of margins
- Digital service enhancement continued in Personal and Commercial Banking and the branch network continued to give way to modern layouts suited to the new transactional reality. The sector has continued developing and has focused its efforts on promising strategic initiatives: the launch of the HelloCanada service which offers assistance to participants in the Newcomers Program, the opening of five new branches featuring designs and layouts that enhance the customer experience, deployment of a new customer relationship management platform, updating of transactional systems, installation of remote cheque deposit services, biometric identification for iPhone users, National Bank MasterPass digital wallet service, as well as the automation and simplification of mortgage renewals.

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 awarded		2016 awarded compensation mix
		% of salary	(\$)	(\$)	(%)	
Base salary	Cash	n/a	475,000	475,015	17	<p>■ Base Salary ■ Annual Bonus ■ Mid-term compensation ■ Long-term compensation — At-risk compensation</p>
Annual bonus	Cash	210	997,500	817,950	29	
Mid-term compensation	PSUs	225	1,068,750	1,068,750	37	
Long-term compensation	Options	100	475,000	332,505	12	
	DSUs	–	–	142,500 <sup>(1)</sup>	5	
<b>Total</b>			<b>3,016,250</b>	<b>2,836,720</b>	<b>100</b>	

(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 awarded 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. No historical data has been included for Denis Girouard, as he was not an Executive Officer of the Bank before his appointment as Executive Vice-President – Financial Markets, in 2016.

Name and principal position	Year	Salary (\$)	Share-based awards (\$) <sup>(1) (2) (3) (4)</sup>	Option-based awards (\$) <sup>(1) (5)</sup>	Non-equity incentive plan compensation		Pension value (\$) <sup>(7)</sup>	All other compensation (\$) <sup>(8)</sup>	Total compensation (\$)
					Annual incentive plans (\$) <sup>(6)</sup>	Long-term incentive plans (\$) <sup>(6)</sup>			
<b>Louis Vachon</b> President and Chief Executive Officer	2016	1,125,015	3,375,000	1,687,529	1,383,750	–	539,000	4,889	8,115,183
	2015	1,125,015	3,375,000	1,687,502	1,636,875	–	(1,273,000)	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
<b>Ghislain Parent</b> Chief Financial Officer and Executive Vice-President – Finance and Treasury	2016	400,008	720,000	280,019	328,000	–	97,000	1,059	1,826,086
	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
<b>Denis Girouard</b> Executive Vice-President – Financial Markets	2016	333,691	4,896,875	260,440	1,885,687	–	82,000	1,140	7,459,833
<b>Ricardo Pascoe</b> Chief Transformation Officer and Executive Vice-President – Strategic Initiatives Office	2016	450,006	2,682,356	450,010	2,682,355	–	92,000	4,236	6,360,963
	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
<b>Diane Giard</b> Executive Vice-President – Personal and Commercial Banking	2016	475,015	1,211,250	332,505	817,950	–	150,000	4,244	2,990,964
	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

Louis Vachon's annual pension was capped at \$1,500,000. This cap was introduced during fiscal 2015 and reduced Louis Vachon's pension plan value. This non-recurring adjustment largely explains the variation in his total compensation between 2014, 2015 and 2016. For clarification the following table illustrates the total direct compensation granted to Louis Vachon over the past three fiscal years (excluding the value of the pension plan and other compensation):

Name and principal position	Total direct compensation awarded		
	2016	2015	2014
<b>Louis Vachon</b> President and Chief Executive Officer	\$7,571,294	\$7,824,392	\$8,239,140

- (1) The share-based and options-based awards listed in the summary compensation table represent the most recently approved awards.

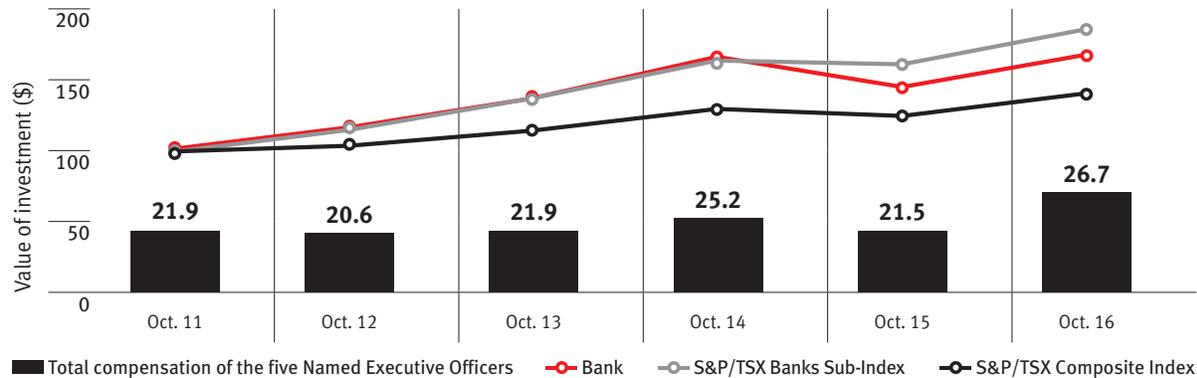
- (2) The Named Executive Officers are eligible for mid-term share-based variable compensation. This compensation is paid in the form of PSUs. The value of each PSU was determined based on an award price corresponding to the average stock market price for the 10 trading days preceding the sixth business day of December (December 8, 2016), namely \$51.21. The fair value of the award is equal to the fair book value, amortized over a three-year period on a declining basis. PSUs awarded in December 2016 totalled 65,905 for Louis Vachon, 11,716 for Ghislain Parent, 8,726 for Denis Girouard, 32,287 for Ricardo Pascoe and 20,870 for Diane Giard.
- (3) Ghislain Parent and Diane Giard elected to receive a portion, i.e. 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 \$54.69 as at December 12, 2016. The fair value of the award is equal to the fair book value, amortized over a four-year period on a declining basis. DSUs awarded in December 2016 totalled 2,194 for Ghislain Parent and 2,606 for Diane Giard
- (4) A portion of Denis Girouard's and Ricardo Pascoe's annual bonus was awarded in the form of RSUs to comply with the deferred compensation requirement. The value of each RSU was determined based on an award price corresponding to the average stock market price for the 10 trading days preceding the sixth business day of December (December 8, 2016), namely \$51.21. The fair value of the award is equal to the fair book value, amortized over a three-year period on a declining basis. RSUs awarded in December 2016 totalled 86,897 for Denis Girouard and 20,092 for Ricardo Pascoe.
- (5) The Named Executive Officers are eligible for long-term variable compensation in the form of stock options. In 2016, the value of the stock options awarded was estimated at 14% 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 2014 to 2016 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 reflects the exercise history of participants and the rate of cancellation due to departure. As a result, the carrying amount of an option awarded in December 2016 was determined at 9.96% of the share price (\$54.69), which is \$2.21 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) 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.

## 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, 2011, 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.



From 2011 to 2016, total compensation of Named Executive Officers rose by approximately 4.1% annually compared to annual growth of approximately 10.9% in total shareholder return.

Furthermore, since the end of Fiscal 2016, the total cumulative return of the Bank grew by 19% by the end of the first quarter while the return of the S&P/TSX Banks Sub-Index rose by 12% during the same period.

### Total cumulative return on an investment of \$100

	oct. 2011	oct. 2012	oct. 2013	oct. 2014	oct. 2015	oct. 2016
Bank	\$100.00	\$113.05	\$138.41	\$167.83	\$144.16	\$167.52
S&P/TSX Banks Sub-Index	\$100.00	\$112.36	\$139.70	\$164.89	\$159.37	\$185.96
S&P/TSX Composite Index	\$100.00	\$104.47	\$115.96	\$130.54	\$124.51	\$140.34

The preceding performance graph shows that the Bank's share generated a 168% total cumulative return between 2011 and 2016. Despite a lower return in 2015, the total return on the Bank's shares is only slightly lower than the S&P/TSX Banks Sub-Index (\$186), and is higher than the S&P/TSX Composite Index (\$140).

### Total compensation awarded to the Named Executive Officers

	Oct. 2011	Oct. 2012	Oct. 2013	Oct. 2014	Oct. 2015	Oct. 2016
Total compensation of the five Named Executive Officers (\$M)	21.9	20.6	21.9	25.2	21.5	26.7

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

In 2016, the position of Chief Transformation Officer was created in order to support the Bank's transformation efforts. Ricardo Pascoe is now the Chief Transformation Officer and Executive Vice President – Strategic Initiatives Office. Following his nomination, Denis Girouard was named Executive Vice President – Financial Markets, replacing Ricardo Pascoe and becoming a Named Executive Officer for the purpose of this Circular.

These changes explain the growth in total compensation relative to that for the five Officers named in last year's Circular. Additionally, the cap on Louis Vachon's pension benefits had a reducing and non-recurring impact on the value of his pension plan in 2015.

## Share ownership requirements

Share ownership guidelines aim 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>	<ul style="list-style-type: none"> <li>Executive Officers, Officers and certain specialists in the Financial Markets sector</li> </ul>												
<b>Features</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 non-vested RSUs, non-vested PSUs, vested and non-vested DSUs and the increase in value of vested (but unexercised) in-the-money stock options, proportional 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> <li>The minimum holding amount represents a multiple of the previous three years' average base salary</li> </ul>												
<b>Minimum ownership requirements</b>	<table border="1"> <thead> <tr> <th>Position</th> <th>Multiple of previous three years' average base salary</th> </tr> </thead> <tbody> <tr> <td>President and Chief Executive Officer</td> <td>7 times *</td> </tr> <tr> <td>Other Executive Officers</td> <td>4 times</td> </tr> <tr> <td>Officers and certain specialists in the Financial Markets sector</td> <td>2 to 3 times</td> </tr> <tr> <td>Senior Vice-Presidents (or equivalent)</td> <td>2 times</td> </tr> <tr> <td>Vice-Presidents (or equivalent)</td> <td>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 their Common Shares of the Bank and from exercising their vested stock options (unless the Common Shares are kept) until such time as the minimum requirements are once again met</li> </ul>												
<b>Valuation method</b>	<ul style="list-style-type: none"> <li>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</li> </ul>												

As of October 31, 2016, 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 stock options, PSUs, DSUs and RSUs (\$)	Appreciation in value of non-vested stock options (\$)	Total value (\$)	Based on securities held, appreciation in value of vested stock options, PSUs, DSUs and RSUs	Based on the total value (including appreciation in value of non-vested stock options)
<b>Louis Vachon</b>	7 times	59,590,435	2,438,527	62,028,962	53.0	55.1
<b>Ghislain Parent</b>	4 times	4,341,524	489,134	4,830,658	10.9	12.1
<b>Denis Girouard</b>	4 times	7,196,616	192,575	7,389,191	16.0	16.4
<b>Ricardo Pascoe</b>	4 times	20,749,103	612,118	21,361,220	46.1	47.5
<b>Diane Giard</b>	4 times	6,134,204	459,308	6,593,512	12.9	13.9

(1) Values determined on October 31, 2016 based on the closing price of the Bank's Common Shares on the Toronto Stock Exchange, i.e. \$47.88.

## 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, 2016.

Name	Award date	Option-based awards				Share-based awards		
		Number of securities underlying unexercised options (#)	Option exercise price (\$)	Option expiration date	Value of unexercised in-the-money stock 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. 13, 2006	250,800	32.95	Dec. 13, 2016	3,744,444			–
	Dec. 12, 2007	392,928	26.93	Dec. 12, 2017	8,233,806			–
	Dec. 10, 2008	458,720	17.44	Dec. 10, 2018	13,965,730			–
	Dec. 9, 2009	316,928	29.25	Dec. 9, 2019	5,905,953			–
	Dec. 8, 2010	283,840	34.34	Dec. 8, 2020	3,844,613			–
	Dec. 14, 2011	266,672	34.09	Dec. 14, 2021	3,678,740			–
	Dec. 12, 2012	248,296	38.36	Dec. 12, 2022	2,363,778			–
	Dec. 10, 2013	222,472	44.96	Dec. 10, 2023	650,731	63,572	3,043,816	–
	Dec. 10, 2014	185,240	47.93	Dec. 10, 2024	0	77,341	3,703,068	–
	Dec. 9, 2015	266,588	42.17	Dec. 9, 2025	1,522,217	81,626	3,908,268	–
<b>Total</b>		<b>2,892,484</b>			<b>43,910,013</b>	<b>222,539</b>	<b>10,655,152</b>	<b>–</b>
<b>Ghislain Parent</b>	Dec. 8, 2010	15,296	34.34	Dec. 8, 2020	207,184	0	0	315,658
	Dec. 14, 2011	37,336	34.09	Dec. 14, 2021	515,050	0	0	557,790
	Dec. 12, 2012	34,768	38.36	Dec. 12, 2022	330,991	932	44,629	133,888
	Dec. 10, 2013	31,152	44.96	Dec. 10, 2023	91,120	11,697	560,061	73,052
	Dec. 10, 2014	43,908	47.93	Dec. 10, 2024	0	13,749	658,323	0
	Dec. 9, 2015	63,192	42.17	Dec. 9, 2025	360,826	14,511	694,803	0
<b>Total</b>		<b>225,652</b>			<b>1,505,172</b>	<b>40,890</b>	<b>1,957,816</b>	<b>1,080,388</b>
<b>Denis Girouard</b>	Dec. 8, 2010	5,420	34.34	Dec. 8, 2020	73,414			
	Dec. 14, 2011	11,064	34.09	Dec. 14, 2021	152,628			
	Dec. 12, 2012	19,864	38.36	Dec. 12, 2022	189,105			
	Dec. 10, 2013	22,248	44.96	Dec. 10, 2023	65,075	22,377	1,071,423	0
	Dec. 10, 2014	21,956	47.93	Dec. 10, 2024	0	42,776	2,048,117	0
	Dec. 9, 2015	19,748	42.17	Dec. 9, 2025	112,761	76,789	3,676,665	0
<b>Total</b>		<b>100,300</b>			<b>592,984</b>	<b>141,942</b>	<b>6,796,205</b>	<b>0</b>
<b>Ricardo Pascoe</b>	Dec. 13, 2006	60,600	32.95	Dec. 13, 2016	904,758			
	Dec. 12, 2007	85,440	26.93	Dec. 12, 2017	1,790,395			
	Dec. 10, 2008	99,768	17.44	Dec. 10, 2018	3,037,437			
	Dec. 9, 2009	113,864	29.25	Dec. 9, 2019	2,121,856			
	Dec. 8, 2010	100,784	34.34	Dec. 8, 2020	1,365,119			
	Dec. 14, 2011	60,000	34.09	Dec. 14, 2021	827,700			
	Dec. 12, 2012	55,872	38.36	Dec. 12, 2022	531,901			
	Dec. 10, 2013	50,056	44.96	Dec. 10, 2023	146,414	63,267	3,029,216	0
	Dec. 10, 2014	49,400	47.93	Dec. 10, 2024	0	64,115	3,069,847	0
	Dec. 9, 2015	71,092	42.17	Dec. 9, 2025	405,935	70,423	3,371,854	0
	<b>Total</b>		<b>746,876</b>			<b>11,131,515</b>	<b>197,805</b>	<b>9,470,917</b>
<b>Diane Giard</b>	Dec. 14, 2011	40,000	34.09	Dec. 14, 2021	551,800	0	0	610,083
	Dec. 12, 2012	44,232	38.36	Dec. 12, 2022	421,089	923	44,174	132,522
	Dec. 10, 2013	36,992	44.96	Dec. 10, 2023	108,202	28,989	1,387,979	86,749
	Dec. 10, 2014	39,108	47.93	Dec. 10, 2024	0	26,532	1,270,358	32,573
	Dec. 9, 2015	52,528	42.17	Dec. 9, 2025	299,935	29,398	1,407,564	0
<b>Total</b>		<b>212,860</b>			<b>1,381,025</b>	<b>85,841</b>	<b>4,110,074</b>	<b>861,926</b>

- (1) The value of unexercised in-the-money stock 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 31, 2016, which was \$47.88, and the exercise price of the stock options, multiplied by the number of unexercised stock 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 31, 2016, which was \$47.88.

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

The following table shows the value of awards vested or earned during the fiscal year ended October 31, 2016.

Name	Option-based awards – Value vested during the year (\$) <sup>(1)</sup>	Share-based awards – Value vested during the year (\$) <sup>(2)</sup>	Non-equity incentive plan compensation – Value earned during the year (\$) <sup>(3)</sup>
<b>Louis Vachon</b>	1,025,272	3,237,135	1,383,750
<b>Ghislain Parent</b>	143,552	711,426	328,000
<b>Denis Girouard</b>	84,013	2,731,003	1,885,687
<b>Ricardo Pascoe</b>	230,691	2,874,585	2,682,355
<b>Diane Giard</b>	163,834	1,623,003	817,950

- (1) The amount represents the aggregate value that would have been realized had the stock 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 \$44.11, while the exercise price of stock options ranged from \$34.085 to \$47.93.
- (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 stock 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 stock options in order to issue new stock 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 stock 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 stock 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 stock 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, 2016.

## 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 issuable on the exercise of stock 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 stock 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 stock options, warrants or rights (a)	Weighted-average exercise price of outstanding stock options, warrants and rights (b)	Number of securities remaining available for future issuance under equity based compensation plans (excluding the securities reflected in column (a)) (c)
Equity-based compensation plan approved by securityholders	17,302,322	\$38.05	3,701,639

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

	Stock options granted in December <sup>(1)</sup>	Value at grant date (\$) <sup>(2)</sup>	Total value of grant (\$)	Stock options exercised during the fiscal year	Stock options outstanding at fiscal year-end <sup>(3)</sup>	Stock options available for future grants at fiscal year-end <sup>(1)</sup>	Total stock options available and outstanding at fiscal year-end
2016	1,804,016	7.66	13,818,761	1,122,756	17,302,322	3,701,639	21,003,961
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

(1) The number of stock options available for future grants at the end of fiscal 2016 represented 1.10% of the total number of Common Shares outstanding, which was 338,015,191. Of that number, 1,804,016 stock options were granted in December 2016, which represents 0.53% of the total number of Common Shares outstanding at fiscal year-end.

(2) The compensation value of December 2016 awards represented \$7.66 or 14% of the share price as at December 9, 2016, which was \$54.69. This percentage is equal to the average estimated value of results based on the Black-Scholes model from 2014 to 2016.

(3) The number of stock options outstanding at the end of fiscal 2016 represented 5.12% 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 \$18,787 per year
- Upon 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 equivalence 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.

Furthermore, 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 24 of the financial statements for the fiscal year ended October 31, 2016 shows that, from an accounting standpoint, the Bank's pension plans are in a deficit position.

The following table details, for each Named Executive Officer, years of credited service as at October 31, 2016, annual benefits payable, and changes in the accrued benefit obligation between October 31, 2015 and October 31, 2016, including compensatory and non-compensatory changes with respect to their membership in pension plans for fiscal 2016.

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, which could potentially render a comparison less relevant.

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

Name	Years of credited service <sup>(3) (4)</sup>	Annual benefits payable <sup>(6) (7) (8)</sup>		Accrued benefit obligation at start of fiscal year (\$) <sup>(10)</sup>	Compensatory change (\$) <sup>(11)</sup>	Non-compensatory change (\$) <sup>(12)</sup>	Accrued benefit obligation at the end of the fiscal year (\$) <sup>(10)</sup>
		At fiscal year-end (\$) <sup>(9)</sup>	At age 65 (\$) <sup>(9)</sup>				
<b>Louis Vachon</b>	30.0	1,315,000	1,500,000 <sup>(13)</sup>	12,425,000	539,000	2,683,000	15,647,000
<b>Ghislain Parent</b>	8.8	88,000	232,000	833,000	97,000	271,000	1,201,000
<b>Denis Girouard <sup>(5)</sup></b>	3.0	10,000	81,000	60,000	82,000	54,000	196,000
<b>Ricardo Pascoe</b>	14.6	169,000	338,000	2,274,000	92,000	507,000	2,873,000
<b>Diane Giard</b>	7.6	80,000	215,000	894,000	150,000	258,000	1,302,000

- (1) The amounts in the “Salary” column of the “Summary of Compensation of Named Executive Officers” table 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 80% of the annual bonus is used for the other Named Executive Officers (up to 41% of base salary). The annual bonus granted is increasing gradually as of 2014 and in 2017 will reach 100% of the annual bonus paid (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 pensionable earnings are capped at \$1,000,000 for Diane Giard, Ghislain Parent and Ricardo Pascoe, and \$880,000 (rising to \$1,000,000 in 2017) for Denis Girouard.
- (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, and 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, Denis Girouard, Ricardo Pascoe and Diane Giard are calculated according to the PRAP for eligible Executive Officers of the Bank, that is, 1.5 year 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, January 1, 2014 for Ricardo Pascoe, September 26, 2011 for Diane Giard and June 1, 2016 for Denis Girouard.
- (5) Denis Girouard’s membership years prior to June 1, 2016 are attributable to the National Bank Financial Inc. employee pension plan. After this date, membership years are recognized in the National Bank of Canada’s designated employee pension plan.
- (6) The estimated pensions do not take into account the pension generated by additional contributions accumulated by the Named Executive Officer.
- (7) 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.

- (8) The pension includes a revalorization (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. Pension revalorization after the normal retirement age was introduced on January 1, 2014, for all employees. It is calculated on an actuarial equivalence 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.
- (9) 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 (50% at age 62 and 50% at age 63 for the portion related to the Pension Plan for employees of National Bank Financial Inc. and age 60 for the portion related to the Pension Plan for employees of the National Bank of Canada for Denis Girouard, 61 for Louis Vachon, Ricardo Pascoe and Diane Giard, and 62 for Ghislain Parent) proportionately to the number of years of credited service at year-end.
- (10) The accrued benefit obligation represents the present value of the pension benefit for years of credited service up to October 31, 2015 or October 31, 2016. These values were calculated using the same assumptions as those used for the Bank's consolidated financial statements, notably a discount rate of 4.40% as at October 31, 2015 and 3.60% as at October 31, 2016. These values also take into account the 4.75% discount rate for current service as at October 31, 2015. The value of benefits payable related to the Officer's additional contributions is included in the calculation of the accrued benefit obligation.
- (11) 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.
- (12) 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.
- (13) Louis Vachon's pension was capped at \$1,500,000.

## 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 their 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 2016.

## 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 for 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 time frame 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 stock options. At the end of this period, vested but unexercised stock options and non-vested stock 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 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 stock 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</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 stock options during which vesting continues, if applicable. At the end of this period, vested but unexercised stock options and non-vested stock 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 benefits are payable for a period of 24 months until the normal retirement age. It equates to the base salary and the average annual bonus of the last 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
- Non-vested stock options vest immediately. A 12-month period is granted to exercise the stock options. At the end of this period, all unexercised stock 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 stock 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 stock 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

## 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 the 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, 2016. 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	Termination of employment without cause (lay-off) <sup>(2)</sup>	Change of control and termination of employment <sup>(3)</sup>
Louis Vachon	0	–	\$5,848,780
Ghislain Parent	0	–	\$1,685,349
Denis Girouard	0	–	\$9,207,382
Ricardo Pascoe	0	–	\$6,365,123
Diane Giard	0	–	\$3,157,830

- (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 their employment terminated on October 31, 2016 further to dismissal without cause, he or she would have been entitled to accelerated vesting of any share-based compensation (excluding DSUs) already granted in the fiscal years prior to 2016. Based on the Bank's share price on October 31, 2016, the value of such accelerated vesting would have been \$10,655,152 for Louis Vachon, \$1,840,135 for Ghislain Parent, \$8,569,234 for Denis Girouard, \$9,470,917 for Ricardo Pascoe and \$3,711,486 for Diane Giard.
- (3) If a Named Executive Officer had had their employment terminated on October 31, 2016 further to a change of control, he or she would have been entitled to accelerated vesting of any option and share-based compensation already granted in the fiscal years prior to 2016. Based on the Bank's share price on October 31, 2016, the value of such accelerated vesting would have been \$13,093,679 for Louis Vachon, \$2,466,950 for Ghislain Parent, \$8,761,809 for Denis Girouard, \$10,083,034 for Ricardo Pascoe and \$4,569,382 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>	<ul style="list-style-type: none"> <li>– Designed to reward group and individual contributions to the results of the Financial Markets sector</li> </ul>
<b>Financial indicator</b>	<ul style="list-style-type: none"> <li>– Financial Markets sector's income before taxes</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>• the extent to which the Financial Markets sector's annual objectives are met</li> <li>• prudence demonstrated in 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 RSUs at the time of the grant corresponds to 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</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 shares on the Toronto Stock Exchange for the 10 days preceding the sixth business day of December</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>	<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>

## 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="474 699 1390 917"> <thead> <tr> <th>Portion of annual bonus</th> <th>Percentage deferred and awarded 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</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 awarded 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 awarded 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>										

Starting in fiscal 2017, a single envelope of annual bonuses will be put together for all Officers and Financial Market specialists based on the overall financial performance of the sector. This envelope may be adjusted depending on the Bank's overall performance. These modifications will encourage collaboration between teams and will support the Bank's transformation.

Additionally, the level of variable deferred compensation for the Officers and specialists from Financial Markets will be raised. This will allow the Bank to meet increasing requirements for sound governance and emphasize the importance of sustained financial and stock performance over time.

## DISCLOSURE OF AGGREGATE QUANTITATIVE INFORMATION ON COMPENSATION FOR 2016

The Bank considers that it is important to disclose detailed information that permits shareholders to assess its compensation policies and practices. This section of the Circular discloses additional information on material risk-takers, required by the principles and standards for sound compensation practices published by the Financial Stability Board (FSB) and in accordance with the information obligations specified in the third pillar of the Basel Accord on banking supervision.

The criteria for identifying functions regarded as material risk-takers are set by the Human Resources Committee in accordance with the recommendations of the Compensation Risk Oversight Working Group, based on FSB guidelines and on market practices. As a starting point, management has established that all individuals holding positions of Senior Vice-President or higher as well as Officers and certain specialists (primarily Managing Directors) in Financial Markets are regarded as material risk-takers. Additionally, the Human Resources Committee takes into consideration all other individuals who, as part of their normal daily responsibilities, may make decisions that have a marked impact on the Bank's risk exposure.

### Compensation granted in 2016

The following tables summarize the value of the compensation granted to material risk-takers for fiscal years 2015 and 2016. The value of deferred compensation (based on equity securities) is shown in relation to the projected value at time of grant.

Amounts are in millions of dollars.

Compensation granted	2016		2015	
	Named Executive Officers	Covered Employees	Named Executive Officers	Covered Employees
Number of employees	5	161	5	151
Fixed compensation				
– Cash (not deferred)	\$2.8	\$31.6	\$2.9	\$29.9
Variable compensation				
– Cash (not deferred)	\$7.1	\$103.5	\$6.9	\$109.9
– Share-based (deferred)	\$15.9	\$84.1	\$12.5	\$72.0

Deferred compensation	2016		2015	
	Named Executive Officers	Covered Employees	Named Executive Officers	Covered Employees
Outstanding				
– Vested	\$56.3	\$63.2	\$44.9	\$53.7
– Non-vested	\$37.2	\$144.4	\$28.5	\$112.3
Paid in the fiscal year	\$10.9	\$60.9	\$13.9	\$69.6

All outstanding deferred compensation is subject to implicit adjustments (such as changes in share price) and explicit adjustments (such as the clawback of variable compensation). In fiscal 2016, no explicit adjustment of deferred compensation granted in a previous year was made.

### Other compensation

The following table shows the grants in cash and in the form of deferred compensation granted at hiring, including the minimum guaranteed bonuses under the variable compensation program.

Other compensation	2016		2015	
	Named Executive Officers	Covered Employees	Named Executive Officers	Covered Employees
Bonus offered at hiring under the guaranteed bonuses policy				
– Number of employees	–	12	–	9
– Sign-on awards	–	\$5.0	–	\$3.1
– Guaranteed awards	–	\$10.7	–	\$5.8
Severance payments				
– Number of employees	–	7	–	
– Severances	–	\$3.9	–	(Note 1)

(Note 1) To protect employee confidentiality, the Bank submitted data to the OSFI about severances paid to material risk-takers in 2015. This data included the number of material risk-takers who received severance payments as well as payouts.

## 8. OTHER INFORMATION

### Indebtedness of directors, executive officers and employees

#### Aggregate indebtedness

As at January, 27, 2017, 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	16,437,188 \$ <sup>(A)</sup>	–

(A) This amount consists of loans of which 91 % 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 its subsidiary	Largest amount outstanding during fiscal year ended October 31, 2016 (\$)	Outstanding as of January 27, 2017 (\$)	Financially assisted securities purchases during fiscal year ended October 31, 2016	Security for indebtedness	Amount forgiven during fiscal year ended October 31, 2016 (\$)
<b>SECURITIES PURCHASE PROGRAMS</b>						
–	–	–	–	–	–	–
<b>OTHER PROGRAMS</b>						
<b>Dominique Fagnoule</b> Executive Vice-President – Information Technology	Loans granted by the Bank	187,270\$ <sup>(3)</sup>	100,000\$ <sup>(3)</sup>	–	–	–

- (1) 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) 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 0.5%, but not less than the prime rate divided by 2.

## 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 identify them. The policy provides aggregate coverage of up to \$125,000,000, with no deductible.

The annual premium for this insurance is \$546,000. The policy expires on September 1, 2017 and is renewable.

## Share repurchase program

A new Normal Course Issuer Bid began on May 11, 2015 and expired on May 10, 2016. This NCIB allowed 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 corresponded 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 represented an appropriate use of the Bank's surplus funds. The Bank did not repurchase 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, 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 [sedar.com](#), and may also be found on the [nbc.ca](#) website.

## 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 [2016 Annual Report](#).

The Bank will, upon request, promptly provide any shareholder, free of charge, with a copy of the 2016 Annual Report, a copy of the 2016 Annual Information Form together with a copy of any document incorporated therein by reference, a copy of the annual consolidated financial statements for the fiscal year ended October 31, 2016 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, 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](#), and from [sedar.com](#).

In accordance with notice-and-access procedures, any shareholder who wishes to receive, free of charge, a printed copy of the Circular prior to the Meeting and in the year following the date that the Circular was posted, should do as follows:

REGISTERED HOLDER		BENEFICIAL OWNER
Procedure	Before the Meeting, call:	After the Meeting, call:
	1-866-962-0498 (toll-free in Canada and the United States) or 1-514-982-8716 (other countries)	1-866-964-0492 (toll-free in Canada and the United States) or 1-514-982-8714 (other countries)
	And enter the control number indicated on your form of proxy when required.	
		Call 1-877-907-7643 (toll-free in Canada and the United States) or go to <a href="http://proxyvote.com">proxyvote.com</a> and enter the control number shown on your voting instruction form.

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

- 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 [nbc.ca](http://nbc.ca) website.

### 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, 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, *One for Youth*, Powering your ideas, *One client, one bank*, 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 24, 2017

## 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 enquiries 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, National Bank of Canada, 600 De La Gauchetière Street West, 4<sup>th</sup> floor, Montreal, Quebec, Canada H3B 4L2.

## CODE OF PROCEDURE

The Annual Meeting of the Holders of Common Shares of National Bank of Canada (the “Bank”) is an opportunity for us to present the Bank’s results and current projects and to hear the opinions of shareholders on the proposals put to a vote – as indicated in the business of the meeting presented in the Management Proxy Circular – and to answer their questions.

By attending this meeting, each person agrees to follow this code of procedure.

**Registration** – Attendance at the meeting is limited to holders of Common Shares and beneficial owners of Common Shares as of the record date, and their proxyholders (hereinafter, respectively, “shareholders,” “beneficial owners” and “proxyholders”). All participants must confirm their presence and, as required, obtain ballots at the desk of the Bank’s transfer agent, which is located at the entrance of the hall. Invited guests of the Bank may also attend the meeting. They must confirm their presence with one of the Bank’s representatives posted at the entrance of the hall.

**Recording prohibited** – Photography and audio or video recordings of the meeting are prohibited.

**Chairman of the meeting** – The Chairman of the meeting is responsible for ensuring that the meeting is conducted in an orderly manner. He maintains order and exercises all the powers required to that end. The Chairman’s decisions are final and are not subject to appeal. Everyone attending must comply with the Chairman of the meeting’s directives. The Chairman of the meeting may, without limitation, interrupt to cut off any comments or questions that:

- Are not relevant to the Bank’s business;
- Concern an issue before a court;
- Are defamatory;
- Repeat in substance a question or discussion that has already been addressed during the meeting;
- Relate to personal grievances.

**Business of the meeting** – The meeting follows the order set out in the Notice of Meeting that was published and sent to shareholders. Shareholders, beneficial owners and proxyholders who wish to address the meeting are asked to limit their remarks to the subject at hand. Other subjects may be addressed during the question period.

**Eligible voters** – Only registered shareholders and proxyholders may participate in the vote. Beneficial owners may not vote at the meeting, unless they have named themselves as proxyholders.

**Shareholder proposals** – The shareholder who had proposals included in the Management Proxy Circular is welcome to present them personally or through a proxyholder. An additional period of time is allocated to him or her to present his or her arguments, and to present a reply, should he or she wish to reply before the vote is taken.

**Time allocation** – In order for the meeting and the question period to progress in an efficient manner and to ensure that each participant’s rights are respected, each shareholder, beneficial owner or proxyholder may speak for no more than 3 minutes. The Chairman of the meeting has discretion over the amount of time spent on each subject.

**Question period** – The questions from shareholders, beneficial owners and proxyholders may only address Bank-related subjects. Shareholders, beneficial owners or proxyholders who wish to ask a question must identify themselves and confirm their status as a shareholder, beneficial owner or proxyholder before asking their question. Shareholders, beneficial owners and proxyholders may ask a maximum of 3 questions each.

National Bank of Canada is proud to help save the environment by using Ecologo. Printed on Forest Stewardship Council® (FSC®) certified paper.





™ POWERING YOUR IDEAS is a trademark of National Bank of Canada.