

Basel Pillar III

Compensation Disclosure 2018-2019



Basel Pillar III - Compensation Disclosure

The Laurentian Bank Financial Group (the “Group”) has prepared this publication in accordance with Basel II Pillar 3 disclosure requirements. Additional information is available in the Group’s Management Proxy Circular. The following information concerns the members of the Group’s Executive Committee, as well as Designated Team Members (team members likely to significantly influence the Group’s position with respect to risk). The “Designated Team Members” were determined in collaboration with the Risk Management sector and include:

- Senior Vice-Presidents of the Group and above; and
- Certain specialists with Laurentian Bank Securities Inc. (LBS), the Group’s Capital Markets sector and Internal Audit

Compensation Governance

The Board is responsible for overseeing the Group’s compensation principles, policies, programs and decisions. The HRCG Committee, which is comprised of independent directors, supports the Board in this work with the advice of external independent compensation advisors, as needed. Among other things, the HRCG Committee:

- Reviews and recommends for Board approval, an Executive Compensation Policy (the “**Compensation Policy**”) which establishes a framework for the Group’s compensation practices;
- Approves all elements related to compensation, including individual and financial objective setting, incentive programs design, long-term incentive grants and pension & benefits programs;
- Discusses the performance evaluations of those who report directly to the Group’s President and CEO and makes recommendations to the Board regarding the performance evaluation of the President and CEO; and
- Approves the disclosure of executive compensation.

Please refer to Part F - *Corporate Governance* of the Proxy for a description of the HRCG Committee mandate.

Management supports the HRCG Committee in its oversight of executive compensation by developing compensation policies, practices and programs to support the Group’s needs and regulatory requirements. The Senior Vice President, Human Resources, advises the CEO and the HRCG Committee on compensation recommendations for executives. In addition, the CEO and the Senior Vice President, Human Resources attend meetings of the HRCG Committee but do not have the right to vote on any matter. Other senior officers may also attend for parts of a meeting for presentation purposes. No executive officer, including the CEO, is present when decisions regarding compensation are made.

Human Resources and Corporate Governance Committee

The Board recognizes the importance of appointing individuals to the HRCG Committee who have the necessary background and the competencies to fulfill the committee’s obligations to the Board and shareholders with respect to executive compensation, and risk management. Accordingly, members of the HRCG Committee have been selected to ensure the committee has the knowledge, skills, and experience required to make informed inquiries and decisions on the suitability of the Group’s compensation policies and practices. All members of the HRCG Committee have significant expertise in executive compensation

and human resources gained as senior leaders and directors of other organizations. This experience includes the following:

Specific Experience	Number of HRCG Committee Members
Human Resources Experience with compensation, pension and benefits programs (in particular executive compensation)	4 of 4
Risk Management Knowledge and experience with internal risk controls, risks assessments and reporting	4 of 4
Executive Leadership Experience as a senior executive/officer of a public company or a major organization	4 of 4

During fiscal 2019, the HRCG Committee was comprised of Michelle R. Savoy (Chair), Sonia Baxendale, A. Michel Lavigne and Susan Wolburgh Jenah. Isabelle Courville and Michel Labonté ceased to be directors on April 9, 2019. All members are independent within the meaning of National Instrument 58-101 - *Disclosure of Corporate Governance Practices*.

The HRCG Committee adheres to various governance best practices to ensure the effective oversight of the Group's compensation framework, including holding in camera sessions in the absence of Management during each committee meeting.

During fiscal 2019, the HRCG Committee met 7 times, as compared to 7 times in fiscal 2018. The global annual compensation paid was as follows:

Members	2019	2018
Michelle R. Savoy Member from April 2018 to present, Chair from April 2019 to present	\$137,845	\$120,603
A. Michel Lavigne Member from April 2016 present, Chair from March 2017 to April 2019	\$128,730	\$136,678
Susan Wolburgh Jenah Member from April 2019	\$123,254	\$113,349
Sonia Baxendale Member from October 2019	\$134,449	\$111,500

Summary of Compensation Policies and Practices

The Group's executive compensation program is designed to compensate team members on the basis of corporate and individual performance, with a focus on sustainable growth and the creation of long-term shareholder value. As further discussed below, the components of the compensation program form a comprehensive strategy for achieving the following objectives:

1. To attract and retain qualified management;
2. To compensate executives at a level competitive with the Group's peers;
3. To motivate performance by linking compensation to the achievement of business objectives, financial performance and individual performance;
4. To link the interests of the NEOs with those of shareholders; and
5. To mitigate risk.

Following approval of the compensation framework by shareholders at the last annual meeting, the Group implemented the changes to executive compensation design in 2019. These changes simplify the Group's compensation program and link compensation more closely to the achievement of financial objectives. In

addition to the focus on performance-based incentives, the HRCG Committee in conjunction with the Risk Management Committee of the Board, considers the risks associated with the Group's compensation policies, programs and practices in the course of reviewing and recommending to the Board the compensation of the NEOs. The Group's compensation approach incorporates features designed to mitigate risk without diminishing the incentive nature of compensation and encourages and rewards prudent business judgment and appropriate risk taking over the long term. As further described below, examples of such risk mitigation strategies include deferred vesting of a portion of the short-term incentives, the use of long-term incentives which vest only upon the achievement of performance-based and time-based criteria, executive share ownership and hold guidelines and anti-hedging and Clawback policies, all of which ensure alignment with shareholder interests over the long term.

Independent Advice

External advisors are retained regularly to provide an external perspective relating to compensation plan best practices, design and governance and to analyze and compare the target compensation of the Group's executives against an appropriately constituted reference group. Since 2017, the HRCG Committee has retained Hexarem, which has extensive executive compensation expertise, to provide independent advice with respect to our compensation practices.

The HRCG Committee's role is to review the results of the market study prepared by external advisors, receive and evaluate the President and Chief Executive Officer recommendations and submit its recommendations to the Board for approval of the target compensation of NEOs. The HRCG Committee was satisfied with the 2019 target NEO compensation analysis prepared by Hexarem using the 2019 peer group. Benchmarking results were received, evaluated and used to make compensation recommendations that the Board approved.

Annual Reviews

Compensation policies are approved, reviewed annually and modified as needed by the HRCG Committee.

Balance Between Variable and Fixed Compensation

The proportion between fixed and variable compensation varies with the hierarchical level, with higher levels having a higher proportion of variable compensation, and the global performance factor of each Executive and aims to align the Executives' interests with those of the shareholders.

The HRCG Committee's intention is to maintain the right balance and consistency between the expected return, prudent risk management and compensation being offered.

Risk Analysis

In adopting compensation practices and setting executive compensation, the HRCG Committee, with the help of the Risk Management Committee, considers the implications of the risks associated with the Group's compensation policies and practices. The mandates of the HRCG Committee and of the Risk Management Committee enable them to undertake an analysis of risks associated with the various compensation programs. An analysis grid, in line with the principle of the Financial Stability Board was developed to assess the risk associated with each of the Group's compensation programs. The grid covers five categories of criteria - conception of the program, process for determining results, approval of results, risk-taking and synchronization of STI awards and losses.

Since 2010, the HRCG Committee and the Risk Management Committee have conducted an annual examination of the risk analysis of the compensation programs prepared by the Executive Vice-President, Chief Risk Officer and Corporate Affairs based on the analysis grid. The last such analysis was conducted

in December 2019. As a result of this assessment, the HRCGC deemed the level of risk associated with the various compensation programs to be satisfactory.

The following elements help reduce risks related to compensation:

- Short-term incentive compensation is capped at 225 % of target;
- PSUs are based on the Group's financial performance that span a three-year period and are capped at 150% of the grant without a floor or a minimum guaranteed level of vesting;
- Mandatory deferral of short-term incentive compensation;
- Minimum share ownership guidelines;
- Clawback policy; and
- Hedging is prohibited.

Team Members Responsible for Monitoring Functions

The compensation of team members responsible for monitoring functions (Internal Audit, Integrated Risk Management, and Regulatory Risk Management) is established independently of the performance of the sectors they monitor so as to limit incentives to the taking of excessive risks. The financial measures used in the short-term incentive compensation program are related to the Group's overall performance and not to the specific sectors they monitor.

Link between Compensation and Performance

Short- and Long-Term Goals Aligned with Shareholders' Interest

Short-term incentives link annual pay to a Financial Performance Factor based on adjusted net income and an Individual Performance Factor. For the Senior Vice-Presidents of the Group and above, half of the short-term incentive payments are deferred (vesting at the date of the award and payable at a rate of one third per year) to promote share ownership and a better alignment with the interests of the shareholders

Effective November 1, 2018, the long-term incentive compensation program aligns pay with shareholder interest over 10 years. The performance share units (PSUs), which represent 70% of the long-term incentive value, are fully at risk over three years with no guaranteed minimum vesting. Half of PSU vesting is based on relative TSR against the XFN - S&P/TSX Capped Financials Index Fund, as per our historical practice. The other half of PSU vesting is based on adjusted ROE relative to our budget, a metric consistent with our strategic objectives. Stock options represent 30% of the long-term incentive value. The options granted in December 2019 will vest 50% after three years and 50% after four years and have a total term of 10 years.

Short-Term Incentive Compensation

The main purpose of the short-term incentive plan is to recognize the attainment of the individual performance objectives as well as the Group's financial objectives that occurred during the past year. In Fiscal 2019, The historical transformation-related special 25% increment to the NEOs' Individual Performance Factor (IPF) was abolished permanently and this change was applied immediately to the 2019 short-term incentive payouts.

In fiscal 2019, the payout under the program was calculated as follows:

Bonus Target	X	Financial Performance Factor	X	Individual Performance Factor	=	Short-Term Incentive Compensation Payout
		Between 0% and 150%		Between 0% and 150%		Between 0% and 225%

With respect to LBS and Capital Markets Designated Team Members, short-term incentive compensation is based on the annual bonus envelope applicable to each sector established and determined according to their financial results. It is aimed at remunerating collective and individual contribution to the sector's financial results. Bonus envelopes and individual premiums granted take into account the risks taken during the year.

Short-Term Incentive Target

The short-term incentive targets are based on market practices and hierarchical level, expressed as a percentage of base salary.

Financial Performance Factor

The Financial Performance Factor is based on the financial target established by the Board of Directors at the beginning of the fiscal year and is aimed to encourage team members to take all the Group's operations into account. The Financial Performance Factor is based on the Group's adjusted net income (adjusted net income after taxes and before dividends).

An overarching hurdle of adjusted net income must be reached to trigger the payment of an annual STI award. No STI awards are paid if the threshold is not reached.

Individual Performance Factor (IPF)

The Group sees performance management as a crucial exercise and a key factor in the execution of the Group's strategic plan. The HRCG Committee pays attention to this matter and ensures its application is rigorous.

The President and Chief Executive Officer proceeds annually with the annual performance evaluation of all Senior Vice-Presidents and Executive Vice-Presidents and the results are submitted to the HRCG Committee for approval. As for the President and Chief Executive Officer, the objectives and performance assessment are determined by the Board of Directors, upon the HRCG Committee's recommendation.

Individual performance assessment is based on the performance indicators outlined below. The HRCG Committee reserves the right to take into consideration other elements when assessing an executive's performance.

Performance Indicators	Description
Financial Aspects (15%)	
Group	Laurentian Bank Financial Group After Tax Contribution Act diligently to achieve the Group's profit contribution target, which is a shared objective and to which everyone contributes.
Core Accountabilities (20% to 35%)	
Sector Management/ Growth Targets	Sectoral Budget Leaders are responsible for the allocation of resources and expenditures and must: <ul style="list-style-type: none"> • design and execute operations, activities and initiatives with the objective to meet or exceed budgetary expectations; • exercise excellent judgment in the allocation of resources; • monitor individual and the team budgets and expenses on a regular basis; and • enforce proper budgetary controls.
Risk Management & Compliance	Foster a culture of compliance and exercise sound risk management in the fulfillment of regulatory obligations and best practices.
Initiatives (40% to 55%)	
Strategy Management	Ensure championship and communication of corporate strategy and its initiatives: <ul style="list-style-type: none"> • provide leadership of strategic plan on an internal and external basis; and • anticipate and analyze risks surrounding the Plan Develop and oversee sector growth strategy Develop and oversee an annual strategic plan and present it for review and prioritization
Initiative Sponsor	Demonstrate effective management of initiatives and stakeholder engagement.
Initiative Participation	Properly staff, execute and be responsible for sector deliverables pertaining to initiatives championed by other sectors As a member of the Group's executive team, participate in initiatives that are sponsored by other sectors and/or colleagues.
Leadership Skills (20%)	
Professional Behavior	Foster collaborative and effective working relationships between team members and with Board of Directors.
People Management Competency	Practice daily the following commitments to human resources: <ul style="list-style-type: none"> • vision & strategy, leadership, planning & organization, communication & meetings, interpersonal relations, assistance, motivation, knowledge, training & coaching and evaluation & objectivity

Performance Rating	Superior	Exceed expectations	Meet expectations	Near expectations	Below expectations
Individual Performance Factor	150%	120%	100%	50% to 80%	-%

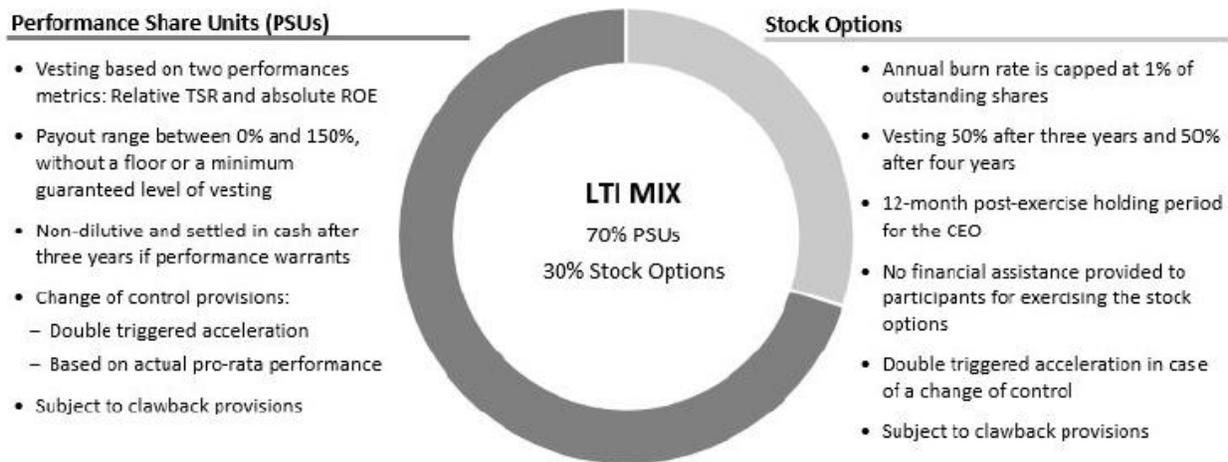
Adjustments in the Event of Declining Performance Indicators

The HRCG Committee and Board of Directors have the authority to amend the Group's compensation programs at any time if justified by specific circumstances.

Long-Term Incentives

The Group started fiscal 2019 with a new and much simpler long-term incentive program comprised of Performance Share Units and Stock Options. It is aligned with Canadian banking sector practices and sound governance standards.

In the work leading to the approval of the new LTI mix, the HRCG Committee and the Board reviewed pay-performance projections and sensitivity analyses and were satisfied that the LTI mix ties executives pay to shareholder return closely and appropriately over the long term.



Performance Share Units (PSU)

Up to 2019, PSUs were approved annually and granted at the discretion of the HRCG Committee.

PSUs vest on the third anniversary of the grant. Upon vesting, the number of PSUs is adjusted based on the Group's performance. The payout varies between 0% and 150% of the number of units granted. The performance measures are:

- Three-year Total Shareholders Return (TSR) average compared with the Group's performance comparator group. The performance comparator group is defined as the XFN - S&P/TSX Capped Financials Index Fund, which is comprised of Canadian financial sector issuers listed on the Toronto Stock Exchange; and
- Three-year Return on Equity (ROE) average compared with the target set as part of the strategic plan.

Each of the performance measures are equally weighted. There are both worth 50% of the PSUs performance vesting calculation.

Annually the board establishes the PSU performances metrics design and targets. Currently, the design metrics targets and calculations are:

Metric	Weight	Calculation	Minimum	Target	Maximum
Relative TSR	50%	(3-yr avg LBC TSR minus 3-yr avg XFN Financial TSR) x 3 + 100%	3-yr avg is 33% below index	3-yr avg is equal to index	3-yr avg is 17% above index
Adjusted ROE	50%	3-yr avg Adjusted ROE	3-yr avg adjusted ROE equal 60% of the target	3-yr avg adjusted ROE	3-yr avg adjusted ROE equal 120% of the target
<p>TSR = Total Shareholder Return Annual TSR is calculated as follows:</p> $\frac{\text{Share price at the end of the performance period} - \text{Share price at the beginning of the performance period} + \text{Dividends paid}}{\text{Share price at the beginning of the performance period}}$ <p>XFN Financial = XFN Financial Index ROE = Return on Equity Adjusted ROE: as published in the Group's Annual Report</p>					

Executives meeting the share ownership guidelines must choose to either participate in the PSU or the Deferred PSU (DPSU) version of the program. Executives not meeting the share ownership guidelines receive Deferred PSUs.

- Under the PSU program, the payout is made on the vesting date, which is three years after the grant
- Under the Deferred PSU program, and provided the three-year vesting period is completed, the payout is subject to the performance factor and made at the time the executive leaves the Group

Minimum Share Ownership Level Requirements

To foster long-term engagement of executives, the HRCG Committee adopted minimum share ownership level requirements. These requirements are currently as follows:

- President and CEO: 6 x base salary
- Executive Vice-President: 2 x base salary
- Senior Vice-President 2: 1 x base salary
- Senior Vice President 1: 0.75 x base salary

Since 2017, the President and CEO must also maintain the minimum share ownership level requirement for at least one year after termination or retirement from the Group. Furthermore, after the exercise of stock options, the President and Chief Executive Officer of the Group must retain a number of underlying common shares of the Group with a value that is at least equal to the net after-tax gain resulting from the exercise of said stock options, for a period of at least 12 months or, if longer, until the share ownership requirements applicable to the President and Chief Executive Officer have been met.

The HRCG Committee believes this modification has improved the Group's alignment with the long-term shareholder interests and the market's best practices. The share ownership level attained by each executive is evaluated annually based on the higher of the closing price of the Group's common shares on October 31 or on the award date.

The following shares and share units are included in the share ownership calculation:

- Group's common shares held;
- RSUs, vested and non-vested, including the award relating to the fiscal year just ended; and
- PSUs vested, as well as non-vested PSUs, calculated based on the minimal payment provided by the program.

Although there is no time limit for reaching the minimum share ownership requirements, executives must participate in the deferred version of the PSU program until the requirements are met. Simulations carried out by the Group show that, by using the deferred version of such program, the minimum share ownership requirements can be met within three years.

For their part, Designated Team Members of LBS and the Group's Capital Markets sector are obligated to defer part of their annual bonus in order to ensure that the profits generated by these key team members materialize over the medium-term and are aligned with the interests of shareholders. Thus, the apportionment program calls for all team members receiving an annual bonus of more than \$75,000 to have a percentage of the amount exceeding \$75,000 be staggered over three years at the rate of one third of the amount per year, as indicated below:

- Less than \$75,000: no staggering
- \$75,000 - \$500,000: 30% of the amount exceeding \$75,000 converted into restricted share units
- Over \$500,000: 40% of the amount exceeding \$500,000 converted into restricted share units

Clawback Procedure

The Clawback policy provides that if the Group's financial statements for a previous year were to be restated due to fraud or a serious irregularity, the HRCG Committee could decide to Clawback previous annual STI awards and share units awarded based on financial performance in accordance with the restated financial results. The stock option plan also includes a Clawback disposition.

There was no Clawback of compensation or implicit or explicit adjustments to compensation approved by the HRCG Committee during the 2019 and 2018 fiscal years.

Compensation tables for Designated Team Members

The following table summarizes the total value of compensation awarded to members of the Executive Committee and Designated Team Members in respect of 2018 and 2019. The value of equity compensation (share units and stock options) awarded is reported based on the expected value of the award on the date of grant.

<i>In \$ million (CAD)</i>	Executive Committee		Designated Team Members	
	2019	2018	2019	2018
Number of team members ⁽¹⁾ (#)	7	7	30	27
Fixed compensation				
Cash ⁽²⁾ (non-deferred)	\$2.8	\$2.8	\$6.0	\$5.2
Variable compensation				
Cash (non-deferred)	\$0.7	\$1.0	\$1.8	\$3.2
Share-based and Option-based (deferred)	\$5.4	\$4.4	\$4.4	\$4.4

(1) Including team members who have left the Group during the year.

(2) Refers to the annual salary as at October 31 or annual salary as at termination date for terminated team members.

Other compensation awards

<i>In number (#)</i>	Executive Committee		Designated Team Members	
	2019	2018	2019	2018
Number of team members	7	7	30	27
Other awards				
Sign on awards	0	1	2	2
Guaranteed awards	0	0	1	0
Severances	0	0	0	0

Note: Amounts related to signing bonuses, guaranteed awards or severances are communicated confidentially to OSFI, given the limited number Designated Team Members to which these awards apply.

Long-Term and Deferred Compensation

The compensation of executive includes medium/long-term incentive programs whose gains depend in part, for the share units' programs, on the Group's stock performance over a period of three years, or until cessation of employment for the component based on deferred share units.

Senior Vice-Presidents and above must defer 50% of their annual bonus by converting it into restricted share units (RSUs) vesting at the date of the award and payable at a rate of one third per year, or upon termination of employment. These measures are aimed at ensuring that a significant portion of their annual compensation is deferred in time and aligned with the total return to shareholders.

The total existing deferred compensation to Executive Committee and Designated Team Members was as follows at the end of the last two years:

<i>In \$ million (CAD)</i>	Executive Committee		Designated Team Members	
	2019	2018	2019	2018
Number of team members	7	7	30	27
Existing shares and stock-related instruments				
Vested	\$15.1	\$12.3	\$6.2	\$6.4
Non-vested	\$8.5	\$9.1	\$4.6	\$5.5
Total Existing	\$23.6	\$21.4	\$10.8	\$11.9
Payments during the year	\$0.9	\$0.2	\$1.1	\$0.7

The total existing deferred compensation is subject to implicit adjustments (share price variation, adjustment in accordance with the Group's performance for performance share units) and explicit adjustments (right of Clawback for the reasons outlined in the Protection and Clawback Mechanisms section that follows).