

Information Concerning 2016 and 2017 Compensation in Accordance with Basel II Pillar 3 Requirements

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

- Senior Vice-Presidents of the Bank and its subsidiaries
- certain specialists with Laurentian Bank Securities Inc. (LBS) and the Bank's Capital Markets sector

Compensation Governance

Responsibility

The HR Committee plays a key role in establishing and implementing the terms of this Compensation Policy. Among other things, it:

- Approves and reviews the Compensation Policy annually;
- Approves all elements related to compensation, including individuals and financial objective setting, incentive plan design, long-term incentive grants and pension & benefits programs;
- Discusses the performance evaluations of those who report directly to the Bank's President and Chief Executive Officer and make recommendations to the Board regarding the performance evaluation of the President and Chief Executive Officer; and
- Approves the disclosure of executive compensation

The members of the HR Committee are A. Michel Lavigne (Chair), Richard Bélanger, Isabelle Courville and Michel Labonté. All members are independent within the meaning of Regulation 58-101 *Respecting Disclosure of Corporate Governance Practices*.

Each HR Committee member has direct experience that is relevant to his/her responsibilities in executive compensation, as described below.

During fiscal 2017, the HR Committee met 6 times, as compared to 9 times in fiscal 2016. The global annual compensation paid was as follows:

| | 2017 | 2016 |
|--|-----------|-----------|
| Isabelle Courville <i>(Member from March 2008 to present; Chair from March 2009 to March 2013)</i> | \$236,200 | \$229,900 |
| Michelle R. Savoy <i>(Is no longer a Member, Chair from April 2016 to March 2017)</i> | \$110,273 | \$110,150 |
| Michel Labonté <i>(Member from April 2016 to present)</i> | \$131,200 | \$122,400 |
| A. Michel Lavigne <i>(Member from April 2016 to present, Chair from March 2017 to present)</i> | \$124,627 | \$104,900 |
| Richard Bélanger <i>(Member from August 2016 to present)</i> | \$103,700 | \$120,525 |

External Advisors

The Compensation Policy provides that external advisors be mandated to analyze and compare the target total compensation of the Bank's Executives with the reference group. In its analysis, the external advisors make appropriate adjustments in accordance with their methodology to take the Bank's relative size into consideration, as well as differences in responsibility levels among Executives of companies and organizations that form part of the reference group.

In accordance with the Bank's practice of assessing the positioning of its executive compensation every two years, a benchmark study was requested from Willis Towers Watson in October 2016. No significant changes to compensation were recommended following completion of the exercise.

Executive Compensation Policy

The Bank adopted an executive compensation policy (the "Compensation Policy") in 2009. The Compensation Policy addresses the subjects of governance, reference group, external advisors, components of overall executive compensation, balance between variable and fixed compensation, clawback procedure and minimum share ownership requirements. These elements are further discussed in the following sections.

The Compensation Policy's objectives are to:

- Continuously promote the alignment of the Executives' interests with those of shareholders through compensation plans;
- Attract and retain competent and motivated Executives;
- Foster transparency with respect to Executive compensation management;
- Establish competitive compensation linked to the Bank's performance; and
- Respect the principles of sound compensation practices in terms of internal and external equity and of prudent risk management.

Annual Reviews

Compensation policies are approved, reviewed annually and modified as needed by the HR 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 HR Committee's intention is to maintain the right balance and consistency between the expected return, prudent risk management and compensation being offered. The "Performance and Total Compensation of Named Executive Officers" section indicates the proportion of fixed and variable compensation of each Named Executive Officer for fiscal year 2017.

Risk Analysis

In adopting compensation practices and setting executive compensation, the HR Committee, with the help of the Risk Management Committee, considers the implications of the risks associated with the Bank's compensation policies and practices. The mandates of the HR 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 Bank'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 bonuses and losses.

Since 2010, the HR 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 2017. As a result of this assessment, the HR Committee 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;
- RPSUs are based on the Bank's financial performance that span a three-year period and are capped at 125% of the grant;
- Mandatory deferral of short-term incentive compensation;
- Minimum share ownership guidelines;
- Clawback policy; and
- Hedging is prohibited.

Employees Responsible for Monitoring Functions

The compensation of employees 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 Bank's overall performance and not to the specific sectors they monitor.

Link between Compensation and Performance

Short-Term Incentive Compensation

The main purpose of the Short-Term Incentive Compensation Program is to recognize the attainment of the individual performance objectives as well as the Bank's financial objectives that occurred during the past year.

The payout under the program is calculated as follows:

$$\text{Bonus Target} \times \frac{\text{Individual Performance}}{\text{Factor}} \times \frac{\text{Financial Performance}}{\text{Factor}} = \text{Short-Term Incentive Compensation Payout}$$

Both performance factors (individual and financial) can vary from 0% to 150% of the target. Since the factors are multiplicative, the short-term incentive compensation can vary from 0% to 225% of the target.

As part of the Special Transformation incentive, the individual factor can be increased to a maximum of 175%. For more details, refer to the Transformation Incentive Compensation section below.

The President and Chief Executive Officer of LBS participates in a different plan. His short-term incentive program represents a percentage of income before taxes of LBS and of the Bank's Capital Markets sector.

With respect to LBS and Capital Markets designated employees, 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.

Individual Performance Factor

Individual performance assessment is based on the level of achievement of objectives established according to the performance indicators outlined below:

| Performance Indicators | Description |
|---|--|
| Financial Aspects (20%) | |
| Group | <p>Laurentian Bank After Tax Contribution Act diligently to achieve the Group's profit contribution target, which is a shared objective and to which everyone contributes. Targets can be changed or adjusted exceptionally for limited reasons such as economic crisis, M&A activities, funding requirements, write-offs or transfer pricing anomalies. Measured as the after-tax profit contribution as found in the financial statements.</p> |
| Core Accountabilities (15% to 30%) | |
| Sector Management/ Growth Targets | <p>Sectoral Budget Leaders are responsible for the allocation of resources and expenditures and must:</p> <ul style="list-style-type: none"> - Plan operations, activities and projects with the objective to meet or beat expected budgets; - Use the best judgement in the choice of expenses incurred, maximizing benefits; - Monitor personal and the team's budget and expenses on a regular basis; - Enforce proper budgetary controls. <p>Measured by the sector actuals versus budgets as published. Initial objective, in-year changes and evaluations will be managed and provided by Finance, if required.</p> <p>Core accountabilities are specific for each Executive, based on their role and responsibilities. They may be measured by considering factors such as quality, efficiency, cost management, growth and key performance indicators appropriate to each sector.</p> <p>Loan and deposit or assets and liabilities growth, as per yearly budget.</p> |
| Risk Management & Compliance | Compliance and risk management are measured by compliance with regulatory obligations. |
| Initiatives (30% à 45%) | |
| Strategy Management | <p>Business Plan Communication and Risk Assessment Ensure championship and communication of corporate strategy and its initiatives:</p> <ul style="list-style-type: none"> - Provide leadership of transformation plan on an internal and external basis - Anticipate and analyze risks surrounding the transformation plan. <p>Develop Sector Growth Strategy Develop an annual strategic plan and present it for review and prioritization into the Transformation Plan.</p> |
| Strategy Sponsor | Based on the progress of the strategic plan and deliverables under the Executive's responsibility. |
| Initiative Participation | <p>General Project Participation Properly staff, execute and be responsible for sector deliverables pertaining to projects championed by other sectors. Managers are responsible for their own and their team's participation. As a member of the Executive Office team, it is expected to participate in projects that are sponsored by other sectors and/or colleagues.</p> |
| Soft Skills (20%) | |
| Professional Behavior | <p>Professional Behavior Immediate Supervisor Objectives Specifically, ensure collaboration and development of a team spirit and ensure trust and a good working relationship with the Board of Directors.</p> |

| | |
|------------------------------|--|
| People Management Competency | People Management Competencies Practice, on a daily basis the following People Management commitments: Vision & Strategy, Leadership, Planning & Organization, Communication & Meetings, Interpersonal Relations, Assistance, Motivation, Knowledge, Training & Coaching and Evaluation & Objectivity |
|------------------------------|--|

Although the individual assessment determines performance level, the HR Committee reserves the right to take into consideration other elements when assessing an Executive's performance.

Financial Performance Factor

The financial factor is based on the target established by the Board of Directors at the beginning of the year and is aimed to encourage Executives to take all the Bank's operations into account. The financial factor is based on the Bank's adjusted net income (net income after taxes and before dividends) and applies to all Executives.

A minimum target of adjusted net income must be reached in order to trigger the payment of an annual bonus. No bonuses are paid if the threshold is not reached.

Transformation Incentive Compensation

The Bank has embarked on a strategic transformation plan aimed at improving the ROE to a level that is comparable to the average of the banking industry. In that context, the Bank introduced a special incentive program for its Executives that is linked to the successful execution of the transformation plan. The objectives of the special incentive program are as follows:

- Provide the Executives with a direct incentive to promote the successful execution of the transformation plan;
- Promote retention of the Executives team during the period of transformation; and
- Provide Executives with an opportunity to participate in the growth in shareholders' economic value which is directly generated by the successful execution of the transformation plan.

The special incentive program is in addition to the current incentive programs. The value of the special incentive program, if payable, when added to the value of the current compensation package, brings the value of the total compensation package between the market median and the 75th percentile of the market.

This plan is to be reviewed and approved by the HR Committee on a yearly basis.

For the Executives who are significantly involved in the execution and delivery of the strategic plan, the individual performance factor of the short-term incentive program may be increased by a factor of 0.25. The maximum individual performance factor will therefore be 175% (up from 150%). This adjustment will also promote an increase in ownership of Bank's shares by Executives given that a minimum of 50% of the bonus, and the 30% employer match, must be settled in RSUs.

In addition, the selected Executives re eligible to receive special grant of Performance Share Units (PSUs).

These special PSUs vest on the third anniversary of the grant and are subject to the Bank's performance. This performance is based on the adjusted Return On Equity ("ROE") compared with the six major Canadian banks, an objective of the transformation plan.

Executives will only receive a payment in respect of their special PSUs if at least one of the following performance targets are attained at the end of fiscal 2020:

- Adjusted ROE of the Bank: no worse than 300 basis points below the average ROE of the six major Canadian banks for fiscal 2020 (relative performance); or
- Adjusted ROE of the Bank of 14% or better for fiscal 2020 (absolute performance).

There is no partial vesting or any type of guaranteed payment below these targets.

Determination of Individual Compensation Amounts

The Executive Officers' compensation takes into account the following criteria:

- Market compensation for a similar position;
- Performance and individual contribution;
- Bank results and performance;
- Responsibility level; and
- Demonstrated skills and experience.

The compensation awarded to members of the Management Committee and designated Bank employees, along with the value of compensation awarded in shares and share-related instruments (deferred), were established as follows during the past two years:

| <i>In \$ million (CAD)</i> | Executive Committee | | Designated Employees | |
|--|---------------------|-------|----------------------|-------|
| | 2017 | 2016 | 2017 | 2016 |
| Number of employees | 6 | 6 | 24 | 25 |
| Fixed compensation | | | | |
| In cash (non-deferred) | \$2.2 | \$2.1 | \$4.5 | \$4.5 |
| Variable compensation | | | | |
| In cash (non-deferred) | \$1.6 | \$1.5 | \$2.4 | \$2.8 |
| In shares and stock-related instruments (deferred) | \$6.0 | \$4.6 | \$3.9 | \$3.4 |

Other awards

| <i>In number</i> | Executive Committee | | Designated Employees | |
|---------------------|---------------------|------|----------------------|------|
| | 2017 | 2016 | 2017 | 2016 |
| Number of employees | 6 | 6 | 24 | 25 |
| Sign on awards | 0 | 0 | 0 | 0 |
| Guaranteed awards | 0 | 0 | 0 | 0 |
| Severances | 0 | 0 | 2 | 0 |

Note: Amounts related to signing bonuses, guaranteed awards or severances are communicated confidentially to OSFI, given the limited number of officers and designated employees to which these awards apply.

Adjustments in the Event of Declining Performance Indicators

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

Long-Term and Deferred Compensation

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

Executive officers must also defer 50% of their annual bonus by converting it into restricted share units whose vesting is three years, or up to cessation of employment for the deferred component. The Bank contributes an additional amount equal to 60% of the converted annual bonus, which is also converted into restricted share units. 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.

For their part, designated employees of LBS and the Bank's Capital Markets sector are obligated to defer part of their annual bonus in order to ensure that the profits generated by these key employees materialize over the medium-term and are aligned with the interests of shareholders. Thus, the apportionment program calls for all employees 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 1/3 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

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

| <i>In \$ million (CAD)</i> | Executive Committee | | Designated Employees | |
|---|---------------------|---------------|----------------------|--------------|
| | 2017 | 2016 | 2017 | 2016 |
| Number of employees | 6 | 6 | 24 | 25 |
| Existing shares and stock-related instruments | | | | |
| Vested | \$13.5 | \$5.9 | \$7.4 | \$1.7 |
| Non-vested | \$9.1 | \$6.3 | \$4.7 | \$3.7 |
| Total Existing | \$22.6 | \$12.2 | \$12.1 | \$5.5 |
| Payments during the year | \$1.3 | \$1.3 | \$1.5 | \$0.9 |

The total existing deferred compensation is subject to implicit adjustments (share price variation, adjustment in accordance with the Bank'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).

Long-Term Alignment with the Shareholder

Minimum Shareholding Requirements

In order to foster long-term engagement of Executives, the HR Committee adopted minimum share ownership level requirements. These requirements are currently as follows:

- President and CEO: 5 x base salary
- Executive Vice-President: 3 x base salary
- Senior Vice-President: 2 x base salary
- Vice-President: 1 x base salary

The President and Chief Executive Officer must maintain the minimum share ownership level requirement for at least one year after termination or retirement from the Bank. The HR Committee believes this will improve the 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 Bank's common shares on October 31 or on the purchase or award date. The following shares and share units are included in the share ownership calculation:

- Bank's common shares held;
- RSUs, vested and non-vested, including the award relating to the fiscal year just ended;
- RPSUs vested, as well as non-vested RPSUs, calculated on the basis of the minimal payment provided by the plan; and
- Vested Special Transformation PSUs.

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

Clawback Procedure

The clawback policy provides that if the Bank's financial statements for a previous year were to be restated due to fraud or a serious irregularity, the HR Committee could decide to clawback previous annual bonuses and share units awarded based on financial performance in accordance with the restated financial results.

There was no clawback of compensation or implicit or explicit adjustments to compensation approved by the HR Committee during the 2017 and 2016 fiscal years.