

STATEMENT OF CORPORATE GOVERNANCE PRACTICES

1. INTRODUCTION

The Board of Directors (the “**Board**”) of National Bank of Canada (the “**Bank**”) 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 in a rigorous articulation of relevant regulations combined with a set of structures, policies and procedures. 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.

To discharge its responsibilities, the Board receives recommendations issued by the Bank’s four oversight functions, namely, Internal Audit, Risk Management, Corporate Compliance and Finance, which support the Board by ensuring that controls within the operating units are effective and that activities, results and risk exposure are reported in a reliable manner.

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 the Office of the Superintendent of Financial Institutions (Canada), the Canadian Securities Administrators (“**CSA**”) and the Toronto Stock Exchange.

The mandates of the Board and its four standing committees are available in the governance subsection under “About us” on the Bank’s website (nbc.ca). The mandate of the Board is also available on the SEDAR website (sedar.com).

2. BOARD OF DIRECTORS

2.1. Framework

The Board exercises its role and responsibilities in accordance with the applicable legislative and regulatory framework, the Bank’s by-laws, its mandate and the mandate of its Chairman, the Bank’s governance practices, internal policies and procedures, as well as the Charter of Expectations for its directors.

The Board prepares and approves its own mandate as well as its Chairman’s, and periodically assesses and reviews them to ensure compliance with applicable legislation and that they adequately reflect the duties and responsibilities of the Board and its Chairman. Changes to these mandates are submitted to

the Board for approval, with changes to the mandate of the Chairman of the Board being approved in his or her absence.

2.2. 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.

A) Review and approve objectives, strategy and operating plans

The Board periodically reviews, assesses, and approves management’s strategic plan setting out the Bank’s mission, vision, business objectives and strategy, taking into account business opportunities and the main risks to which the Bank is exposed.

The approval process provides for discussions among the Board members as well as with members of the Bank’s management. The Board proposes such amendments to the strategic plan as it deems appropriate before approving it. Management implements the strategy as approved and makes progress reports to the Board.

The Board examines and approves the business plans for the Bank’s main operations and regularly reviews them to ensure they remain adequate and prudent, given in particular the Bank’s economic and business environment, its resources and its results. The Board also attends periodic presentations by those responsible for the various business lines to ensure implementation of the strategic plan across the Bank.

The Board is assisted by the Bank’s President and Chief Executive Officer and the Office of the President.

B) Promote integrity and ethical behaviour

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, in particular by adopting and updating a Code of Conduct and Ethics for directors, officers and employees of the Bank and its subsidiaries (the “**Code of Conduct and Ethics**”). In addition, it confirms that the Bank has an appropriate and effective process

in place to ensure compliance with these rules, in particular through annual commitments signed by the Bank's directors, officers and employees to comply with the Code of Conduct and Ethics. Moreover, the Board ensures that any material breach of the rules of the Code of Conduct and Ethics by a director or executive officer is disclosed in accordance with applicable 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 Bank's website.

C) Ensure compliance with relevant legislation and regulations and strong governance

The Board reviews the processes that ensure the Bank's operations comply with applicable legislation and regulations.

With the support of the Risk Management Committee, the Board adopts policies with regard to compliance and regulatory risk and keeps apprised of important changes to laws and regulations governing the Bank. It requires that management set up a compliance program to ensure that the Bank complies with its obligations.

The Board periodically reviews and approves, with the assistance of the Conduct Review and Corporate Governance Committee, the Bank's corporate governance practices. It keeps apprised of corporate governance trends and best practices, which it reflects in developing, implementing and overseeing the Bank's policies and practices.

D) Ensure risks are effectively managed

The Board is responsible for reviewing and approving the overall risk philosophy and risk appetite of the Bank, recognizing and understanding the major risks to which the Bank is exposed and ensuring that appropriate systems are in place to effectively identify, control and manage those risks. The Board delegates responsibility for executing certain elements of the risk oversight program to the Risk Management Committee.

The Risk Management Committee reviews the capital plan, the risk appetite framework, the main risk management principles and the risk tolerance limits, and recommends their approval by the Board, who ensures their implementation. It ensures that the appropriate resources and processes are in place to properly and effectively manage risk on an ongoing basis. Lastly, it oversees the Bank's risk profile and business-related trends and ensures that they are in line with the Bank's risk appetite. The respective responsibilities of the Board and the Risk Management Committee are clearly set out in their mandates.

To fulfill its obligations, the Risk Management Committee reviews detailed quarterly reports from the Bank's Risk Management sector covering all risks to the Bank, the general allowance for credit risk, impaired loans and loan losses. The Committee also reviews periodic reports on capital management, capital assessment and stress testing.

E) Oversee management

The Board fulfills its duty to oversee the management of the Bank's affairs in particular by reviewing periodic reports submitted by the various business line leaders and through discussions with senior management in those business lines.

To do so, it must understand the decisions, plans and policies being undertaken by senior management and their impact on the Bank and obtain assurances from senior management that the decisions, plans and policies are consistent with the Board approved risk appetite framework of the Bank, and that the corresponding internal controls are sound and implemented in an effective manner.

F) Plan and develop management succession

The Board approves the appointment of qualified and competent officers. It oversees the succession planning process for management positions, including, in particular, that of the President and Chief Executive Officer.

In addition, with the assistance of the Conduct Review and Corporate Governance Committee and the Human Resources Committee, the Board ensures that the President and Chief Executive Officer and other executive officers respect and foster a culture of ethical behaviour and integrity throughout the Bank.

G) Ensure transparent and diligent reporting and disclosure of financial information

Information must be reported to the Bank's shareholders, investors and clients and to the general public in a transparent and diligent manner. On the recommendation of the Audit Committee, the Board reviews and approves the annual and interim financial statements of the Bank, related Management's Discussion and Analysis, audit procedures and management information systems. The Audit Committee receives reports from and has regular discussions in private with the internal auditor and the independent auditor of the Bank. The Committee reviews and approves the processes for financial reporting and disclosure and it verifies that reporting to shareholders is reliable, and timely and non-selective. It approves and regularly reviews the Bank's Information Disclosure Policy, which describes, in particular, the type of information to be disclosed, whether financial or non-financial, and when and how such information may be disclosed. This policy provides for the creation of a Disclosure Committee

tasked with overseeing the implementation and effectiveness of financial and timely material information reporting disclosure controls and procedures.

H) Develop a compensation approach to maximize Bank competitiveness and support achievement of its objectives

The Human Resources Committee assists the Board in the exercise of its duties relating to human resources. The Human Resources Committee ensures that the compensation policies and programs in place are conducive to achieving the Bank's objectives, without jeopardizing its viability, solvency or reputation.

The Bank's total compensation policies and programs are based on the following principles:

- Offer compensation based on the Bank's financial and stock market performance, considering different performance periods;
- Promote sound risk-taking;
- Recognize the contributions of the executive officers and officers; and
- Align the vision of executive officers, officers and material risk takers with those of shareholders.

I) Ensure officers and material risk takers comply with share ownership requirements

The Human Resources Committee has imposed share ownership requirements to ensure that the interests of the Bank's officers and material risk takers are closely tied to those of shareholders.

Under these rules, officers of the Bank and its designated subsidiaries as well as material risk takers are required to maintain minimum holdings of Common Shares of the Bank, including vested (but unexpired) and non-vested Performance Share Units ("PSUs"), vested (but unexpired) and non-vested Restricted Stock Units ("RSUs"), vested and non-vested Deferred Stock Units ("DSUs"), vested (but unexercised) Stock Appreciation Rights of the Bank ("SARs") and vested (but unexercised) options. The value of the minimum holdings of Common Shares, varying according to each officer's compensation and position equals the average base salary for the previous three years received multiplied by a factor established under the requirements.

The Bank's officers and material risk takers have five years from the date they take up their duties or the date of their promotion to meet these requirements. Moreover, they must ensure that they meet the share ownership requirements. If, for any reason, a shortfall should occur, the officer or material risk taker would then have to abstain from selling his or her Bank shares and from exercising his or her vested options (unless the shares are

kept) until such time as the minimum requirements are once again met.

The Human Resources Committee regularly monitors share ownership to ensure that these requirements are met.

2.3. 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 also determine their mandate and set their remuneration. The Bank provides the necessary funds to cover the costs related to these consultants. Before engaging such consultants, the Board or the committee in question assesses the nature of the 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 the mandates do not impair their independence.

3. CHAIRMAN OF THE BOARD OF DIRECTORS

The Chairman of the Board is independent as defined by the CSA.

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

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

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

overseeing the process of assessing Board, committee and director performance.

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

4. 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 Bank’s website (nbc.ca).

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

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

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

5. SELECTION OF DIRECTOR NOMINEES, ELECTION, AND OVERSIGHT

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

5.1. 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 *Bank Act* (Canada) (the “**Act**”), any other legislation applicable to the Bank, and any internal rules established by the Board. A majority of the directors must be Canadian residents.

A) 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.

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, their sense of initiative and independent judgment, as well as for assuming responsibilities on Board committees.

B) Independence

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

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

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.

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.

C) Integrity of directors

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

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

D) Conflicts of interest

Directors undertake, in writing, to comply with the Bank's standards with regard to conflicts of interest and renew their commitment on an annual basis. They must avoid all real, potential or apparent conflict of interest situations with the Bank. Any director with an interest in a contract or material transaction with the Bank must disclose the nature and scope of his or her interest as soon as possible to the Chairman of the Board or the chair of the Conduct Review and Corporate Governance Committee, in accordance with applicable legislation. He or she must leave the meeting during the review of the contract or transaction and refrain from voting on the matter, barring exceptions provided for by applicable legislation. Moreover, the Corporate Secretary's Office regularly

receives from the directors confirmation as to whether or not any conflicts of interest exist to ensure full disclosure.

E) Availability

The Board expects directors to attend and remain 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 contact him or her to obtain an overview of the meeting. Directors are required to attend at least 75% of all the meetings to which they are called, unless the Conduct Review and Corporate Governance Committee deems that factors beyond their control prevented them from doing so, in which event the Board may re-evaluate their availability to act effectively as directors of the Bank.

F) Outside directorships

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

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

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

G) Change in status

Directors must inform the Chairman of the Board or the chair of the Conduct Review and Corporate Governance Committee as soon as possible of any change in their professional or personal status that could have an impact on their role as directors, as well as any conflict of interest. The Chairman of the Board or the chair of the Conduct Review and Corporate Governance Committee then submits a report to the Board, and presents the appropriate recommendations.

H) Board succession planning

The Board oversees its succession planning process implemented by the Conduct Review and Corporate Governance Committee, which includes establishing and regularly reviewing a list of potential director nominees, taking into account predetermined criteria.

The Board selects candidates with expertise that complements that of current members.

5.2. 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, of the Board committees and their respective chairs, as well as assess his or her own contribution as a Board and committee member.

The assessment process begins with an assessment questionnaire and a self-assessment questionnaire prepared by the Bank's Corporate Secretary's Office and approved by the Conduct Review and Corporate Governance Committee. The questions in the assessment questionnaire cover, in particular, the Board's responsibilities, its relationship with management, its activities and its composition, the structure and activities of the committees, the material prepared for Board and committee meetings and the timeliness of their distribution to directors. The Corporate Secretary's Office submits to the Chairman of the Board a summary of all the responses received, except for those pertaining to the performance assessment of the Chairman of the Board, which are sent to the chair of the Conduct Review and Corporate Governance Committee. The self-assessment questionnaires submitted by the directors are remitted directly to the Chairman of the Board.

Each director then meets individually with the Chairman of the Board to discuss his or her assessment of the performance of the Board, each Board committee of which he or she is a member and the committee chair, if applicable, and his or her own performance as a Board and Board committee member, as applicable. The chair of the Conduct Review and Corporate Governance Committee meets with the Chairman of the Board to discuss the comments received on his performance. Following these one-on-one meetings, the Conduct Review and Corporate Governance Committee holds a meeting where members discuss and review the comments collected from the questionnaires and during one-on-one meetings, and assess whether any changes or improvements are required with regard

to the performance and effectiveness of the Board, the Board committees, the Chairman of the Board, the committee chairs and individual directors. A report is then presented to the Board.

5.3. 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.

A) Election

The Conduct Review and Corporate Governance Committee:

- Manages the process, establishes the criteria used to select directors and periodically reviews them to ensure they continue to comply with legislative and regulatory requirements and the Charter of Expectations and meet the Board's current and future needs;
- Compiles and regularly reviews an evergreen list of potential director nominees who meet the selection criteria identified by the Board. If deemed appropriate, the Committee may also engage an external recruitment consultant;
- Considers the aptitudes, knowledge and expertise 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; it organizes one or more meetings with the candidate and certain Board members in order to obtain all the relevant information required; and
- Submits its recommendations on completion of the process to the Board, which approves all new director nominees.

B) 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, and submits its recommendations to the Board on completion of the process.

C) Majority voting

The Board has adopted a majority voting policy governing uncontested elections of directors. Under this policy, a director nominee will be deemed not to have received the support of shareholders, even if he or she is elected, where the number of votes withheld exceeds the number of votes cast in favour of his or her election at an annual meeting of the holders of Common Shares. A director elected under such circumstances must immediately tender his or her resignation to the Conduct Review and Corporate Governance Committee, which, barring exceptional circumstances, will submit a recommendation to that effect to the Board. Before making this recommendation, the Committee will weigh the Bank's and shareholders' interests and take into account, in particular, the probable causes for voting abstentions, the expertise and characteristics of the director and the collective expertise 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. Furthermore, after the Meeting, the Bank will immediately issue a press release announcing the full voting results for the election of directors.

D) Term of a director and Board vacancies

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

In addition, a director may not seek to renew his or her mandate more than 15 times unless the Board, on the recommendation of the Conduct Review and Corporate Governance Committee, decides that, because of exceptional circumstances, it is advisable for said director to stand for re-election once more.

5.4. 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 the new and existing directors.

A) Guidance program

The guidance program for new directors provides them with an overview of the Bank, including 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 lines of business, 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 can, 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 can, following appointment, take part in additional information meetings with the Chairman of the Board, the President and Chief Executive Officer and executive officers of the Bank to further familiarize themselves with the issues facing the Board and the Bank.

B) 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.

C) Continuing education program

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

Furthermore, the Bank encourages directors to participate in professional development programs designed to enhance the knowledge they need to carry out their duties. The Corporate Secretary's Office provides directors with updated schedules of training activities provided by various organizations. Board members are free to participate in the activities of their choice. The Chairman of the Board or the chair of the Conduct Review and Corporate Governance Committee may authorize the reimbursement of expenses incurred in connection with such programs.

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

5.5. 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. Every year, the Board reviews and approves the compensation, form of compensation and allowances to directors to ensure that they reflect the importance of the function and that the incentive compensation measures do not impair the director's ability to fulfill his or her role and responsibilities.

The Board has adopted, on the recommendation of the Conduct Review and Corporate Governance Committee, a compensation program that is reviewed periodically to ensure that compensation is adequate, particularly compared with the compensation awarded to the chairman of the board and committee chairs and directors of each of the companies that make up the peer group as identified by the Bank's Human Resources Committee, in establishing executive officer compensation. The aggregate compensation that may be paid to directors for serving on the Board and its committees during a fiscal year may not exceed the aggregate amount specified in the By-Law approved by the Bank's shareholders.

Directors receive a retainer for serving on the Board. In addition to the retainer, the Chairman of the Board, committee chairs and committee members receive additional compensation related to these positions. To align the interests of the members of the Board with those of shareholders, director compensation includes a portion that must be paid in Common Shares of the Bank, with the remaining portion paid in cash, Common Shares, deferred stock units or a combination of all three, at the director's option.

A deferred stock unit is a right whose value corresponds to the market value of a Common Share of the Bank as at the date the units are credited, every quarter, to an account in the director's name. Additional units are credited to the director's account in an amount equal to the dividends paid on the Common Shares. The units may only be cashed when the director leaves all the positions he or she held as a director of the Bank or any of its subsidiaries. The units must be cashed not later than the end of the calendar year following that in which the director leaves his or her duties.

The directors of the Bank (except for the President and Chief Executive Officer) do not receive stock options of the Bank for their duties. They do not participate in any other compensation mechanism that offers Bank securities or in a 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.

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.

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

5.6. 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 stock units with a total value equal to or greater than five times the annual retainer payable to them. Directors have five years from the date they take office to meet these requirements. Once they have met the minimum requirements, directors may elect to receive their retainer in the form of cash, Common Shares or deferred stock units, subject to the portion that must be paid in the form of Common Shares of the Bank. 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 even when directors have met the minimum requirements.

5.7. Restrictions on trading and hedging of Bank securities

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 knowingly, 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. *DIVERSITY AND REPRESENTATION OF WOMEN ON THE BOARD AND IN MANAGEMENT*

The Board considers that diversity among its members enriches discussion and acknowledges the importance of diverse representation among its directors reflecting the diversity of the Bank's clients, employees and shareholders, particularly regarding representation of women on the Board. The Conduct Review and Corporate Governance Committee recommends to

the Board director nominees who, in addition to meeting the criteria determined by the Board, reflect the gender, age, cultural and geographic representation and other characteristics of the communities in which the Bank operates and does business.

The Board aims to strive toward achieving gender parity between directors and that at least one-third of the Board directors be women by requiring that, in future, women make up half the nominees for director positions that become vacant.

To reach this goal, the Board relies upon the tools and processes implemented by the Conduct Review and Corporate Governance Committee in connection with the Board succession planning. The Board may also engage external recruitment consultants to assist it in finding nominees who will contribute to meet the Bank's diversity objective.

7. SOCIAL RESPONSIBILITY

The Board wishes the Bank to meet the expectations of its stakeholders and building with them long-term relationships 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 Board ensure to have many members with experience directly related to one or another of these pillars.

Moreover, wishing to provide an example at the highest level of the organization, 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.

Each year, the Bank publishes a *Social Responsibility Report* to discuss in greater detail all of the projects carried out in this area. The Board reviews and studies the document prior to its publication.

8. MEASURES FOR COLLECTING FEEDBACK AND COMMUNICATION

The Board ensures that measures are in place to collect feedback. The Bank responds to questions from shareholders, investors, financial analysts and the media through its Investor Relations Department, Public Affairs Department, Corporate Secretary's Office or 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 and YouTube through which it can be contacted.

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

9. PROCEDURE FOR REPORTING IRREGULARITIES

The Audit Committee has adopted a policy for reporting irregularities relating to accounting, and internal controls related to accounting 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 an 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 Bank's website (nbc.ca).

APPROVED BY THE CONDUCT REVIEW AND CORPORATE GOVERNANCE COMMITTEE ON FEBRUARY 25, 2015.

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