Basel Pillar III

Compensation Disclosure 2017-2018

LAURENTIAN BANK
FINANCIAL GROUP

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 employees (employees likely to significantly influence the Group’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 Group and above
- Certain specialists with Laurentian Bank Securities Inc. (LBS) the Group’s Capital Markets sector and Internal Audit

Compensation Governance

The members of the HRCGC have the knowledge, skills, and experience in executive compensation and human resources matters to make inquiries and decisions on the suitability of the Group’s compensation policies and practices. All members of the Committee have significant experience in these areas as senior leaders and directors of other organizations. This experience includes the following:

Specific Experience	Number of HRCGC 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

Based on the foregoing, the Board of Directors believes that, overall, the members of the HRCGC have the skills and experience that enable them to make informed decisions on the suitability of the Group’s compensation policies and practices.

The HRCGC follows numerous governance best practices, including in camera sessions without Management present during every committee meeting. In fiscal 2018, the HRCGC also held in camera sessions with Hexarem following their appointment as independent executive compensation advisors. The CEO and the Senior Vice-President, Corporate Human Resources attend meetings of the HRCGC 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 officer, including the CEO, is present when decisions regarding his or her compensation are made. The HRCGC also hires external compensation consultants to survey market practices regarding compensation levels and structure.

In addition, the HRCGC receives feedback from shareholders through an annual advisory resolution on the Group’s approach to executive compensation, through emails and by meeting with key stakeholders as per the Committee’s own initiative or upon request.

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

- Approves and reviews the Compensation Policy annually;
- 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.

During fiscal 2018, the members of the HRCGC were A. Michel Lavigne (Chair), Isabelle Courville, Michel Labonté and Michelle R. Savoy. All members are independent within the meaning of Regulation 58-101 Respecting Disclosure of Corporate Governance Practices.

During fiscal 2018, the HR Committee met 7 times, as compared to 6 times in fiscal 2017. The global annual compensation paid was as follows:

	2018	2017
Isabelle Courville Member form March 2008 to present; Chair from March 2009 to March 2013	$231,500	$236,200
Michel Labonté Member from April 2016 to present	$140,849	$131,200
A. Michel Lavigne Member from April 2016 present, Chair from March 2017 to present	$136,678	$124,627
Michelle R. Savoy Member from April 2018 to present, Chair from April 2016 to March 2017	$120,603	$110,273

Executive Compensation Policy

The Group's Executive Compensation Policy addresses the subjects of governance, reference group, external advisors, components of overall executive compensation, balance between variable and fixed compensation, clawback procedures 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 programs;
- Attract and retain competent and motivated executives;
- Foster transparency with respect to executive compensation management;
- Establish competitive compensation linked to the Group's performance; and
- Respect the principles of sound compensation practices in terms of internal and external equity and of prudent risk management.

External Advisors

The Compensation Policy provides that external advisors be mandated to analyze and compare the target total compensation of the Group's executives with the reference group. In their analyses, the external advisors make appropriate adjustments in accordance with their methodology to take the Group's relative size into consideration, as well as differences in responsibility levels among executives of organizations that form the reference group. The last benchmark study was requested from Willis Towers Watson in October 2016.

In November 2017, the Group hired Hexarem to review independently the Group's executive compensation governance practices and, in May 2018, Hexarem was engaged to assist the Group with the complete overhaul of its approach to executive compensation, which came into full force as of November 1, 2018.

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.

Risk Analysis

In adopting compensation practices and setting executive compensation, the HRCGC, 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 HRCGC 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 HRCGC 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 2018. 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 262.5% 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;
- 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 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. Half of the short-term incentive payments are deferred and further aligned with shareholder interest using restricted share units (RSUs).

Effective November 1, 2018, the new long-term incentive compensation program aligns pay with shareholder interest over 10 years. The new performance share units (PSUs), which represent 70% of the long-term incentive value, are now 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, 2018 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 2018, 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 175%		Between 0% and 262.5%

In 2018, the President and Chief Executive Officer of LBS participated in a different plan. His short-term incentive program was linked to LBS’ net income.

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.

Short-Term Incentive Target

The short-term incentive targets are based on market practices and hierarchical level.

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 employees 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

The Group sees performance management as a crucial exercise and a key factor in the execution of the Group's Strategic Plan. The HRCGC pays particular 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 HRCGC for approval. As for the President and Chief Executive Officer, the objectives and performance assessment are determined by the Board of Directors, upon the HRCGC's recommendation.

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

Performance Indicators	Description
Financial Aspects (20%)	
Group	**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.
Core Accountabilities (15% to 30%)	
Sector Management/ Growth Targets	***Sectoral Budget*** Leaders are responsible for the allocation of resources and expenditures and must: • 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.
Risk Management & Compliance	Compliance and risk management are measured by compliance with regulatory obligations.
Initiatives (30% à 45%)	
Strategy Management	**Business Plan Communication and Risk Assessment** Ensure championship and communication of corporate strategy and its initiatives: • Provide leadership of transformation plan on an internal and external basis • Anticipate and analyze risks surrounding the transformation plan. **Develop Sector Growth Strategy** Develop an annual strategic plan and present it for review and prioritization
Strategy Sponsor	Proper management of initiatives and buy-in from key stakeholders.
Initiative Participation	Properly staff, execute and be responsible for sector deliverables pertaining to projects championed by other sectors. As a member of the Executive Office team, it is expected to participate in projects that are sponsored by other sectors and/or colleagues.
Soft Skills (20%)	
Professional Behavior	Ensure collaboration and development of a team spirit and ensure trust and a good working relationship with the Board of Directors.
People Management Competency	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

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 HR 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 will start fiscal 2019 with a new and much simpler long-term incentive ("LTI") program aligned with:

- Canadian banking sector practices;
- Governance standards; and
- A 50th percentile compensation framework

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

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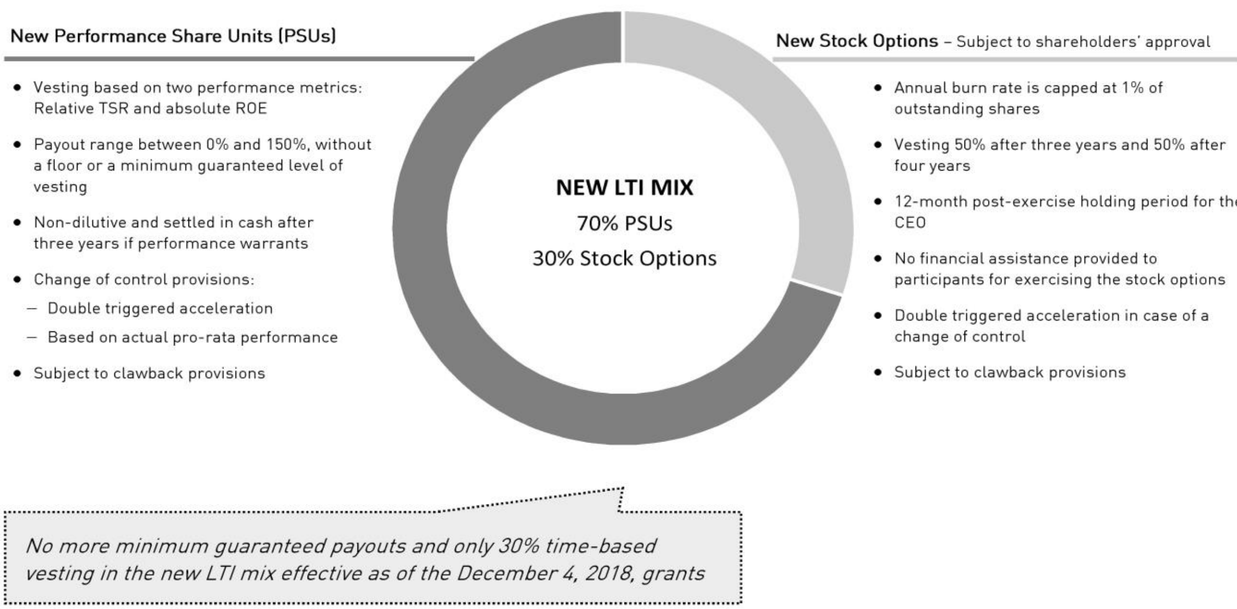

2018 Equity Incentive Awards - A Transition Year

In fiscal 2018, the HRCGC has discontinued the use of special transformation PSUs which provided a potential for a market 75th percentile pay at target, even if the new long-term incentive plan only came fully into effect in fiscal 2019.

Although the special transformation PSUs, based on relative ROE, were discontinued, the Group considered ROE a relevant metric to align executive compensation with Shareholders' interest. Therefore, the Group updated its PSUs program, from a single metric to a double metric program to include adjusted ROE. The Group opted for an absolute adjusted ROE metric to ensure the alignment of compensation goal setting with the strategic plan.

Retention and Performance Share Units (RPSU)

Up to 2018, RPSUs were approved annually and granted at the discretion of the HRCGC.

RPSUs vest on the third anniversary of the grant. Upon vesting, the number of RPSUs is adjusted based on the Group's performance. The payout varies between 75% and 125% of the number of units granted. The performance measure is the three-year Total Shareholders Return (TSR) average compared with the Group's performance comparator group. The 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.

The RPSU performance factor was calculated based on the following formula:
(Bank 3-year average TSR –XFN Financial 3-year average TSR) x 3 + 100%

Executives meeting the share ownership guidelines must choose to either participate in the RPSU or the Deferred RPSU (DRPSU) version of the program. Executives not meeting the share ownership guidelines receive Deferred RPSUs.

- Under the RPSU program, the payout is made on the vesting date, which is three years after the grant
- Under the Deferred RPSU 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

No further RPSU grants will be made under the new approach to compensation.

Minimum Share Ownership Level Requirements

To foster long-term engagement of executives, the HRCGC adopted minimum share ownership level requirements. In fiscal 2018, the HRCGC has increased the President and CEO ownership guidelines from five to six times base salary. These requirements are currently as follows:

- President and CEO: 6 x base salary
- Executive Vice-President: 3 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 Bank 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 HRCGC 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 Bank’s common shares on October 31 or on the 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; 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 Employees 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 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

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 HRCGC 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 HRCGC during the 2018 and 2017 fiscal years.

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;
- Group results and performance;
- Responsibility level; and
- Demonstrated skills and experience.

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

In $ million (CAD)	Executive Committee		Designated Employees	
	2018	2017	2018	2017
Number of employees	7	6	27	24
Fixed compensation				
In cash (non-deferred)	$2.8	$2.2	$5.2	$4.5
Variable compensation				
In cash (non-deferred)	$1.0	$1.6	$3.2	$2.4
In shares and stock-related instruments (deferred)	$4.4	$6.0	$4.4	$3.9

Other awards

In number	Executive Committee		Designated Employees	
	2018	2017	2018	2017
Number of employees	7	6	27	24
Sign on awards	1	0	2	0
Guaranteed awards	0	0	0	0
Severances	0	0	0	2

Note: Amounts related to signing bonuses, guaranteed awards or severances are communicated confidentially to OSFI, given the limited number Designated Employees 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 Bank's stock performance over a period of three years, or until cessation of employment for the component based on deferred share units.

Executives must defer 50% of their annual bonus by converting it into restricted share units vesting over three years, or up to cessation 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 Employees was as follows at the end of the last two years:

In $ million (CAD)	Executive Committee		Designated Employees	
	2018	2017	2018	2017
Number of employees	7	6	27	24
Existing shares and stock-related instruments				
Vested	12.3	13.5	6.4	7.4
Non-vested	9.1	9.1	5.5	4.7
Total Existing	**21.4**	**22.6**	**11.9**	**12.1**
Payments during the year	0.2	1.3	0.7	1.5

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).