



Versa**Bank**

**ANNUAL INFORMATION FORM**  
**For the year ended October 31, 2017**

**JANUARY 23, 2018**

**VERSABANK ANNUAL INFORMATION FORM**

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**Caution Regarding Forward-Looking Statements**

This Annual Information Form, and the documents incorporated by reference in this Annual Information Form, contain forward-looking information within the meaning of the applicable securities legislation that are based on expectations, estimates and projections as at the date of this Annual Information Form or the dates of the documents incorporated by reference in this Annual Information Form, as applicable. This forward-looking information includes but is not limited to statements and information concerning: future growth and potential achievement of VersaBank; statements relating to the business, future activities of, and developments related to VersaBank after the date of this Annual Information Form; the payment of dividends on common shares and preferred shares; and other events or conditions that may occur in the future.

Any statements that involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often but not always are accompanied by phrases such as “expects”, “is expected”, “anticipates”, “plans”, “budget”, “scheduled”, “forecasts”, “estimates”, “believes”, “aims”, “endeavours”, “projects”, “continue”, “predicts”, “potential”, “intends”, or the negative of these terms or variations of such words and phrases or stating that certain actions, events or results “may”, “could”, “would”, “might”, “will”, “should”, be taken to occur or be achieved) are not

statements of historical fact and may be forward-looking information and are intended to identify forward-looking information.

This forward-looking information is based on the beliefs of VersaBank's management, as well as on assumptions, which such management believes to be reasonable based on information currently available at the time such statements were made. However, there can be no assurance that the forward-looking information will prove to be accurate. Such assumptions and factors include, among other things, the strength of the Canadian economy in general and the strength of local economies within Canada in which we conduct operations, the effects of changes in interest rates; the effects of competition in the markets in which we operate; capital market fluctuations; and the impact of changes in laws and regulations.

By its nature, forward-looking information is based on assumptions and involves known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of VersaBank to be materially different from any future results, performance or achievements expressed or implied by the forward-looking information. Forward-looking information is subject to a variety of risks, uncertainties and other factors which could cause actual events or results to differ from those expressed or implied by forward-looking information, including, without limitation: general business, economic, competitive, political, regulatory and social uncertainties; risks related to factors beyond the control of VersaBank; risks related to the business of VersaBank; risks related to political developments and policy shifts; risks related to amendments to laws; or risks related to the market value of VersaBank securities. Additional risks and uncertainties regarding VersaBank are described in its management's discussion and analysis of operations and financial condition for the year ended October 31, 2017 (the "2017 MD&A"), which is available on SEDAR at [www.sedar.com](http://www.sedar.com) under VersaBank's profile.

Some of the important risks and uncertainties that could affect forward-looking information are described further in this Annual Information Form, the 2017 MD&A, and in other documents incorporated by reference in this Annual Information Form. Although VersaBank has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking information, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. Accordingly, readers should not place undue reliance on forward-looking information. This forward-looking information is made as of the date of this Annual Information Form, and other than as required by applicable securities laws, VersaBank assumes no obligation to update or revise them to reflect new events or circumstances.

## **Information**

Unless otherwise noted, all information is given as at October 31, 2017. Financial information is based on the audited consolidated financial statements of VersaBank for the year ended October 31, 2017, and all monetary amounts are expressed in Canadian Dollars.

## **CORPORATE STRUCTURE**

### **Incorporation**

VersaBank was originally incorporated in June 1979 under *The Business Corporations Act* (Saskatchewan) and operated as a provincially licensed trust company. In January 1993, a syndicate of investors, including the current President & CEO of VersaBank, acquired PWC Capital Inc. ("PWC"), a holding corporation. At the time of the acquisition PWC owned all of the shares of VersaBank; as such, the syndicate acquired VersaBank when it acquired PWC.

On August 1, 2002, VersaBank was granted a Schedule I Bank license and continued under the *Bank Act* (Canada) (the "Bank Act") as Pacific & Western Bank of Canada. The Bank Act is the charter of VersaBank and governs its operations. Effective May 13, 2016, VersaBank changed its name from Pacific & Western

Bank of Canada to “VersaBank” pursuant to supplementary letters patent issued by the Office of the Superintendent of Financial Institutions.

PWC was the sole shareholder of VersaBank until the initial public offering (“IPO”) of VersaBank’s common shares (the “VersaBank Common Shares”), which began trading on the Toronto Stock Exchange (the “TSX”) on August 27, 2013.

On January 31, 2017 PWC and VersaBank merged pursuant to letters patent of amalgamation under the Bank Act (the “Amalgamation”).

The head and registered office of VersaBank is Suite 2002–140 Fullarton Street, London, Ontario, N6A 5P2. The fiscal year end of VersaBank is October 31.

## **GENERAL DEVELOPMENT OF THE BUSINESS**

### **Three Year History**

VersaBank, a technologically proficient Schedule I chartered bank, operates under the Bank Act and is a member institution of the Canada Deposit Insurance Corporation (the “CDIC”).

During 2015, VersaBank completed an offering of its non-cumulative 6-year rate reset preferred shares, series 3 (Non-Viability Contingent Capital (NVCC)) (the “Series 3 Preferred Shares”), which qualify as Tier 1 capital of VersaBank. VersaBank’s Series 3 Preferred Shares began trading on the TSX on February 19, 2015.

On March 7, 2016, VersaBank completed a private placement with 340268 Ontario Limited pursuant to which 340268 Ontario Limited subscribed for \$5 million of VersaBank Common Shares at a price of \$7.60 per share.

The Amalgamation closed on January 31, 2017, with the approval of the Minister of Finance (Canada).

VersaBank plans to increase profitability over the course of 2018 primarily through the growth of its lending programs, specifically its receivable purchase program, and by continuing to expand its diversification of lower cost funding sources.

## **DESCRIPTION OF THE BUSINESS**

VersaBank is a technologically proficient Canadian Schedule I chartered bank that operates using an electronic branchless model. The Bank sources its funding through a well-established and widely diversified nationwide network of deposit brokers as well as from insolvency industry professionals via a customized banking software solution, and from holdbacks retained through its receivable purchase program. The Bank purchases loan and lease receivables from non-bank financial services companies and also originates and services real estate development and commercial loans that are sourced through direct contact with its clients as well as through mortgage brokers and syndication partners.

VersaBank is a highly focused, digital commercial bank that concentrates on niche markets and has two primary business activities: the acquisition of deposits and the granting or acquisition of loans.

VersaBank’s branchless model and innovative in-house developed software enable it to efficiently process deposit transactions without a substantial investment in fixed assets or employees. VersaBank is a member of Canada Deposit Insurance Corporation (CDIC) and accordingly its deposits are eligible for CDIC insurance.

VersaBank has established three key funding channels. The first channel was pioneered by VersaBank in the early 1990’s and involves gathering term and demand deposits, without the need for branches, from a

well-established and widely diversified nationwide network of brokers. The second channel is derived from the holdback balances retained from VersaBank's vendor partners and the third channel involves funds received from insolvency industry professionals (the "Trustee Integrated Banking Program").

The Trustee Integrated Banking Program resulted from VersaBank's software and deposits teams developing a custom banking solution for the Canadian insolvency industry that seamlessly integrates with the insolvency industry's most popular administrative software and enables VersaBank to provide custom web based current accounts to licenced insolvency trustees. Insolvency professionals now have access to a highly efficient, economical and ideally suited banking service. The Trustee Integrated Banking Program has been adopted by all of Canada's national consumer insolvency firms and by many regional firms. In fiscal 2018, VersaBank plans to continue to grow this stable, low cost source of funds, while leveraging the infrastructure and experience it gained during the program's development in order to access new niche low cost deposit markets.

VersaBank's lending portfolio is administered by two business units, namely commercial banking and eCommerce. VersaBank's commercial banking business unit specializes in originating loans through direct contact with the Bank's clients and through a well-established network of mortgage brokers and syndication partners. This business unit is staffed by commercial lending specialists with many years of experience and loans are conservatively secured by real estate primarily in Ontario and occasionally other areas of Canada. For the year ended October 31, 2017, gross revenue from this business unit was 52% of total gross revenue (for the year ended October 31, 2016, gross revenue from the business unit was 54% of total gross revenue).

Through its receivable purchase program, VersaBank's eCommerce business unit purchases small loan and lease receivables electronically from the Bank's vendor partners who originate point of sale loans and leases in various markets throughout Canada. An increasing number of vendor partners are non-bank and fintech financiers who operate throughout Canada in a variety of industries. Many of these financiers take advantage of new technologies to reach their customers. VersaBank facilitates this type of financing and indirectly provides much needed financing for small businesses and greater choice for consumers across Canada. VersaBank has developed state of the art, high capacity systems that allow it to process large numbers of small ticket loan and lease receivables. Credit risk is reduced to acceptable levels through the retention of holdbacks from the Bank's vendor partners at the time of purchase. VersaBank is at the leading edge of this new method of financing and this business is now a major portion of the Bank's total assets and revenue stream. For the year ended October 31, 2017, results from this business unit represented 43% of total gross revenue (for the year ended October 31, 2016, results from this business unit represented 38% of total gross revenue).

VersaBank's former consumer finance business was represented by a private-label credit card called the Home Credit Card, through which it offered financing exclusively to customers of Home Hardware Stores Ltd. ("Home Hardware"). The agreement between VersaBank and Home Hardware expired on December 31, 2016 and VersaBank sold the outstanding credit card receivables portfolio in April 2017. For the year ended October 31, 2017, results from this business unit represented 3% of total gross revenue (for the year ended October 31, 2016, results from this business unit represented 6% of total gross revenue).

VersaBank anticipates that its lending businesses will grow in fiscal 2018 through the continued development of its receivable purchase program and its commercial banking business. VersaBank continues to review and assess opportunities that may complement and fit its unique model.

For liquidity requirements VersaBank invests in cash, government securities, term deposits and debt of other financial institutions. For the year ended October 31, 2017, results from Treasury represented 2% of total gross revenue (for the year ended October 31, 2016, results from Treasury represented 2% of total gross revenue).

### **Specialized Skills and Knowledge / Competitive Conditions**

The Canadian financial services industry is highly developed and competitive. While many of Canada's financial institutions carry on full service businesses, VersaBank is highly specialized and has a relatively narrow product line. However, it believes that its products are ideally suited to the niche markets it has chosen to operate in and accordingly they are in high demand.

VersaBank acquires deposits electronically, without branches and it reinvests an increasing majority of these funds in loan and lease receivables it also acquires electronically. VersaBank faces competition in attracting deposits from virtually all other large and small Canadian institutions that raise deposits. However, VersaBank has, over the decades, established strong long term relationships with its national network of deposit brokers and its in-house developed custom software enables it to gather deposits without the need for branches. It now has a substantial network of over 100 deposit gathering partners that includes many of the larger banks' brokerage firms. This channel provides a steady, reliable stream of low cost deposits. In addition to this well-established channel, VersaBank opened up a new channel for acquiring deposits that involved developing a custom banking solution for insolvency industry professionals, a niche market that had a unique challenge in dealing with the generic services provided by traditional banks. This new channel for deposit gathering is not only diversifying VersaBank's deposit base, but is also serving to significantly lower its cost of funds. As a result, VersaBank is in a strong competitive position being able to handle a large volume of deposits with a significantly lower number of employees and overhead compared to its competitors.

VersaBank also competes with a variety of Canadian financial institutions, both large and small, in lending markets. However, VersaBank differentiates itself and reduces the prospect of direct competition by focusing on lending to niche markets for which VersaBank's custom and in-house designed software provides a significant advantage in speed of delivery, versatility and efficiency. VersaBank's highly skilled team of software experts and lending professionals consistently provide digital solutions in response to changes in the marketplace. VersaBank also has a well-developed credit adjudication function that has consistently delivered industry leading low credit loss figures.

Another advantage that VersaBank has over its competitors is that it does not have a significant investment in fixed assets. By acquiring deposits and the majority of its loans through its networks across Canada, VersaBank does not need physical branches. However, for those circumstances where VersaBank's customers do need a physical location to conduct business with it, for selected services VersaBank maintains access to an expansive, Canada-wide branch network of a large Canadian bank. This provides VersaBank's customers a convenient way of physically conducting business with it when required.

### **Supervision and Regulation**

VersaBank's activities are governed by the Bank Act. In accordance with the Bank Act, banks may engage in and carry on the business of banking and such business generally as pertains to the business of banking. The Ministry of Finance or the Superintendent of Financial Institutions (Canada) (the "Superintendent") is responsible to the Minister of Finance (Canada) for the administration of the Bank Act. The Superintendent provides guidelines regarding disclosure of a bank's financial information and is also required to make an annual examination of each bank to ensure compliance with the Bank Act and to monitor each bank's financial condition and intervene, when necessary, when a bank fails.

Banks have broad powers to invest in the securities of other corporations and entities, but the Bank Act imposes limits upon substantial investments. Under the Bank Act, generally a bank has a substantial investment in a body corporate when (i) the voting shares beneficially owned by the bank and by entities controlled by the bank exceed 10% of the outstanding voting shares of the body corporate or (ii) the total of the shares of the body corporate that are beneficially owned by the bank and entities controlled by the bank represent more than 25% of the total shareholders' equity of the body corporate. A Canadian chartered bank is permitted to have a substantial investment in entities whose activities are consistent with those of certain prescribed permitted substantial investments. In general, a bank will be permitted to invest in an

entity that carries on any financial service activity whether that entity is regulated or not. Further, a bank may invest in entities that carry on commercial activities that are related to the promotion, sale, delivery or distribution of a financial product or service, or that relate to certain information services. A bank may also invest in entities that invest in real property, act as mutual funds or mutual fund distributors or that service financial institutions, and a bank may have downstream holding companies to hold these investments. In certain cases, the approval of the Superintendent is required prior to making the investment and/or the bank is required to control the entity. Banks may, by way of temporary investment, acquire control of, or acquire or increase a substantial investment in, an entity for a two year period. This time period may be extended upon application to the Superintendent. Other than for authorized types of insurance, chartered banks may offer insurance products only through their subsidiaries and not through their branch systems. Banks are prohibited from engaging in automobile leasing.

### **Employees and Principal Properties**

At October 31, 2017, VersaBank had 80 full time employees operating out of leased offices located in London, Ontario and Saskatoon, Saskatchewan. Additionally, in 2017 VersaBank opened the “VersaBank Innovation Centre of Excellence”. This state of the art facility is located on the London (Ontario) International Airport grounds and houses VersaBank’s Information Technology and eCommerce business units.

Since VersaBank does not carry on a retail operation, all of these locations are offices for executives and administrative staff working for all segments of VersaBank’s business.

### **Risk Factors**

The risks faced by VersaBank are described under the headings “*Enterprise Risk Management*” and “*Factors that May Affect Future Results*” in VersaBank’s Management’s Discussion and Analysis for the year ended October 31, 2017, which are incorporated herein by reference. Additional risks are described under the heading “*Risk Factors*” in VersaBank’s Management Information Circular dated March 2, 2017, which are incorporated herein by reference. Both documents are available on SEDAR at [www.sedar.com](http://www.sedar.com) under VersaBank’s profile.

## **DIVIDENDS AND DISTRIBUTIONS**

### **Common Shares**

VersaBank’s Board of Directors (the “Board”) declared the initial quarterly cash dividend on the VersaBank Common Shares at its November 28, 2017 meeting. In the previous three years, VersaBank neither declared nor paid any dividends on the VersaBank Common Shares.

Holders of VersaBank Common Shares are entitled to receive, as and when declared by the Board, dividends. The VersaBank Common Share dividend declared on November 28, 2017 of \$0.01 per share is payable as of January 31, 2018 to shareholders of record at the close of business on January 5, 2018. VersaBank expects to continue paying quarterly cash dividends at a rate of \$0.01 per share on the last day of January, April, July and October in each year, however the declaration of a dividend, and the amount thereof, is at the discretion of the Board. Although it is management’s intention that dividends be paid on common shares, holders of VersaBank Common Shares should not assume that dividends will be paid in the future.

### **Preferred Shares**

Holders of Series 1 Preferred Shares of VersaBank are entitled to receive, as and when declared by the Board, fixed non-cumulative preferential cash dividends at the rate of \$0.70 per share per annum, or \$0.175 per share per quarter. Such dividends are paid quarterly on the last day of January, April, July and October in each year.

The Series 1 Preferred Shares were listed and posted for trading on the TSX on October 30, 2014. The initial dividend payment on the Series 1 Preferred Shares was made by VersaBank on January 31, 2015 in the amount of \$0.176 per share. Thereafter, VersaBank has paid quarterly cash dividends to holders of Series 1 Preferred Shares at a rate of \$0.175 per share and expects to continue paying them.

Holders of Series 3 Preferred Shares of VersaBank are entitled to receive, as and when declared by the Board, fixed non-cumulative preferential cash dividends at the rate of \$0.70 per share per annum, or \$0.175 per share per quarter. Such dividends are paid quarterly on the last day of January, April, July and October in each year.

The Series 3 Preferred Shares were listed and posted for trading on the TSX on February 19, 2015. The initial dividend payment on the Series 3 Preferred Shares was made by VersaBank on July 31, 2015 in the amount of \$0.2992 per Series 3 Preferred Share. Thereafter, VersaBank has paid quarterly cash dividends to holders of Series 3 Preferred Shares at a rate of \$0.175 per share and expects to continue paying them.

## **DESCRIPTION OF CAPITAL STRUCTURE**

VersaBank is authorized to issue an unlimited number of VersaBank Common Shares and an unlimited number of non-voting preferred shares of VersaBank, issuable in series ("Preferred Shares"). Below is a summary of VersaBank's share capital. This summary is qualified in its entirety by VersaBank's by-laws and the actual terms and conditions of such shares.

### **Common Shares**

There were 21,123,559 VersaBank Common Shares outstanding at October 31, 2017.

Holders of VersaBank Common Shares are entitled to vote at all meetings of shareholders, except for meetings at which only holders of another specified class or series of shares of VersaBank are entitled to vote separately as a class or series.

Holders of VersaBank Common Shares are entitled to receive dividends as and when declared by the Board, subject to the preference of the Preferred Shares.

In the event of the dissolution, liquidation or winding-up of VersaBank, subject to the prior rights of the holders of Preferred Shares, and after payment of all outstanding debts, the holders of VersaBank Common Shares will be entitled to receive the remaining property and assets of VersaBank.

### **Preferred Shares**

Preferred Shares may be issued, at any time or from time to time, in one or more series with such rights, privileges, restrictions and conditions as the Board may determine, subject to the Bank Act, VersaBank's by-laws and any required regulatory approval.

Except with respect to amendments to the rights, privileges, restrictions or conditions of the Preferred Shares, as required by law or as specified in the rights, privileges, restrictions and conditions attached from time to time to any series of Preferred Shares, the holders of the Preferred Shares as a class shall not be entitled as such to receive notice of, to attend or to vote at any meeting of the shareholders of VersaBank.

Each series of Preferred Shares ranks on a parity with every other series of Preferred Shares with respect to dividends and return of capital. The Preferred Shares are entitled to a preference over the VersaBank Common Shares, and any other shares ranking junior to the Preferred Shares, with respect to priority in payment of dividends and in the distribution of assets in the event of the liquidation, dissolution or winding-up of VersaBank.

The Preferred Shares of any series may also be given such other preferences not inconsistent with the rights, privileges, restrictions and conditions attached to the Preferred Shares as a class over the VersaBank Common Shares and any other shares ranking junior to the Preferred Shares as may be determined by the Board in the case of such series of Preferred Shares.

VersaBank's Board has authorized the issuance of an unlimited number of Series 1 Preferred Shares, an unlimited number of non-cumulative floating rate preferred shares, series 2 of VersaBank (the "Series 2 Preferred Shares"), an unlimited number of Series 3 Preferred Shares, and unlimited number of non-cumulative floating rate preferred shares, series 4 of VersaBank (the "Series 4 Preferred Shares").

The following is a summary of the rights, privileges, restrictions and conditions of or attaching to the Series 1 Preferred Shares, the Series 2 Preferred Shares, the Series 3 Preferred Shares, and the Series 4 Preferred Shares, each as a series, and are in addition to those rights, privileges, restrictions and conditions attaching to the Preferred Shares as a class.

### ***Series 1 Preferred Shares***

There were 1,461,460 Series 1 Preferred Shares outstanding on October 31, 2017.

During the initial five-year period ending October 31, 2019, holders of Series 1 Preferred Shares are entitled to receive preferential, non-cumulative, cash dividends, as and when declared by the Board, payable quarterly on the last day of January, April, July and October in each year, at 7.0% per annum. Thereafter, the dividend rate will reset every five years at a level of 543 basis points over the then 5-year Government of Canada bond yield.

The Series 1 Preferred Shares are not redeemable prior to October 31, 2019. VersaBank may, at its option, redeem for cash all or any part of the then outstanding Series 1 Preferred Shares, on October 31, 2019 and on October 31 every five years thereafter, at a price equal to \$10.00 per share together with all declared and unpaid dividends to the date fixed for redemption. All such redemptions are subject to the provisions of applicable securities law, the rules of the TSX and the Bank Act, and to the prior consent of the Superintendent.

Holders of Series 1 Preferred Shares will have the right to elect to convert, subject to certain conditions, any or all of their Series 1 Preferred Shares into an equal number of Series 2 Preferred Shares, on October 31, 2019 and on October 31 every five years thereafter (each such date being a "Series 1 Conversion Date"). Holders of Series 1 Preferred Shares will not be entitled to convert their shares into Series 2 Preferred Shares if VersaBank determines that there would remain outstanding on a Series 1 Conversion Date less than 200,000 Series 2 Preferred Shares. In addition, if VersaBank determines that there would remain outstanding on a Series 1 Conversion Date less than 200,000 Series 1 Preferred Shares, then all, but not part, of the remaining outstanding Series 1 Preferred Shares will automatically be converted into an equal number of Series 2 Preferred Shares on the applicable Series 1 Conversion Date.

Upon the occurrence of a Trigger Event, as set out in the Office of the Superintendent of Financial Institutions Canada ("OSFI") Guideline for Capital Adequacy Requirements (CAR), Chapter 2 – Definition of Capital, effective January 2013, as such term may be amended or superseded by OSFI from time to time, each Series 1 Preferred Share will be automatically converted, without the consent of the holders, into newly issued, fully-paid VersaBank Common Shares, the number of which is determined by the conversion formula outlined in the Series 1 Preferred Shares terms and conditions (a "Series 1 Contingent Conversion").

Subject to the provisions of applicable securities law, the rules of the TSX and the Bank Act, as applicable, and to the prior consent of the Superintendent, VersaBank may purchase for cancellation at any time all, or from time to time any part, of the Series 1 Preferred Shares then outstanding by private contract or in the open market or by tender at the lowest price or prices at which in the opinion of the Board such shares are obtainable.

In the event of the liquidation, dissolution or winding-up of VersaBank, provided that a Series 1 Contingent Conversion has not occurred, the holders of the Series 1 Preferred Shares will be entitled to receive \$10.00 per Series 1 Preferred Share held by them, plus any dividends declared and unpaid to the date of distribution, before any amounts are paid or assets are distributed to holders of VersaBank Common Shares, or any other shares ranking junior to the Series 1 Preferred Shares. After payment of those amounts, the holders of Series 1 Preferred Shares will not be entitled to share in any further distribution of the property or assets of VersaBank. If a Series 1 Contingent Conversion has occurred, all Series 1 Preferred Shares will have been converted into Common Shares which will rank on parity with all other Common Shares.

Holders of Series 1 Preferred Shares will not be entitled to receive notice of or to attend or to vote at any meeting of shareholders of VersaBank unless and until the first time at which the Board has not declared the dividend in full on the Series 1 Preferred Shares in any quarter. In that event, the holders of the Series 1 Preferred Shares will be entitled to receive notice of and to attend only a meeting of shareholders at which directors are to be elected and will have one vote for each Series 1 Preferred Share held. Such voting rights will cease on payment in full by VersaBank of the first dividend on the Series 1 Preferred Shares to which the holders are entitled subsequent to the time the voting rights first arose until such time as VersaBank may again fail to declare the dividend in full on the Series 1 Preferred Shares in any quarter, in which event the voting rights will become effective again and so on from time to time. In connection with any action taken by VersaBank which requires the approval of the holders of Series 1 Preferred Shares voting as a series or as part of the class, each such share will entitle the holder thereof to one vote.

### ***Series 2 Preferred Shares***

The Series 2 Preferred Shares are part of VersaBank's authorized share capital, but no shares in this series have been issued as at October 31, 2017.

Holders of Series 2 Preferred Shares will be entitled to receive quarterly floating dividends, as and when declared by the Board, equal to the 90-day Government of Canada Treasury Bill rate plus 543 basis points.

The Series 2 Preferred Shares will not be redeemable prior to October 31, 2019. VersaBank may, at its option, redeem for cash all or any part of the then outstanding Series 2 Preferred Shares on October 31, 2019 or any other date after October 31, 2019, other than an Excluded Redemption Date, at a price equal to \$10.20 per share together with all declared and unpaid dividends to the date fixed for redemption. On October 31, 2024 and on October 31 every five years thereafter (each such date being an "Excluded Redemption Date"), VersaBank may, at its option, redeem for cash all or any part of the then outstanding Series 2 Preferred Shares at a price equal to \$10.00 per share together with all declared and unpaid dividends to the date fixed for redemption. All such redemptions are subject to the provisions of applicable securities law, the rules of the TSX and the Bank Act, and to the prior consent of the Superintendent.

Holders of Series 2 Preferred Shares will have the right to elect to convert, subject to certain conditions, any or all of their Series 2 Preferred Shares into an equal number of Series 1 Preferred Shares, on October 31, 2024 and on October 31 every five years thereafter (each such date being a "Series 2 Conversion Date"). Holders of Series 2 Preferred Shares will not be entitled to convert their shares into Series 1 Preferred Shares if VersaBank determines that there would remain outstanding on a Series 2 Conversion Date less than 200,000 Series 1 Preferred Shares. In addition, if VersaBank determines that there would remain outstanding on a Series 2 Conversion Date less than 200,000 Series 2 Preferred Shares, then all, but not part, of the remaining outstanding Series 2 Preferred Shares will automatically be converted into an equal number of Series 1 Preferred Shares on the applicable Series 2 Conversion Date.

Upon the occurrence of a Trigger Event, as set out in the OSFI Guideline for Capital Adequacy Requirements (CAR), Chapter 2 – Definition of Capital, effective January 2013, as such term may be amended or superseded by OSFI from time to time, each Series 2 Preferred Share will be automatically converted, without the consent of the holders, into newly issued, fully-paid VersaBank Common Shares, the number of which is determined by the conversion formula outlined in the Series 2 Preferred Shares terms and conditions (a "Series 2 Contingent Conversion").

Subject to the provisions of applicable securities law, the rules of the TSX and the Bank Act, as applicable, and to the prior consent of the Superintendent, VersaBank may purchase for cancellation at any time all, or from time to time any part, of the Series 2 Preferred Shares then outstanding by private contract or in the open market or by tender at the lowest price or prices at which in the opinion of the Board such shares are obtainable.

In the event of the liquidation, dissolution or winding-up of VersaBank, provided that a Series 2 Contingent Conversion has not occurred, the holders of the Series 2 Preferred Shares will be entitled to receive \$10.00 per Series 2 Preferred Share held by them, plus any dividends declared and unpaid to the date of distribution, before any amounts are paid or assets are distributed to holders of VersaBank Common Shares, or any other shares ranking junior to the Series 2 Shares. After payment of those amounts, the holders of Series 2 Preferred Shares will not be entitled to share in any further distribution of the property or assets of VersaBank. If a Series 2 Contingent Conversion has occurred, all Series 2 Preferred Shares will have been converted into VersaBank Common Shares which will rank on parity with all other VersaBank Common Shares.

Holders of Series 2 Preferred Shares will not be entitled to receive notice of or to attend or to vote at any meeting of shareholders of VersaBank unless and until the first time at which the Board has not declared the dividend in full on the Series 2 Preferred Shares in any quarter. In that event, the holders of the Series 2 Preferred Shares will be entitled to receive notice of and to attend only a meeting of shareholders at which directors are to be elected and will have one vote for each Series 2 Preferred Share held. Such voting rights will cease on payment in full by VersaBank of the first dividend on the Series 2 Preferred Shares to which the holders are entitled subsequent to the time the voting rights first arose until such time as VersaBank may again fail to declare the dividend in full on the Series 2 Preferred Shares in any quarter, in which event the voting rights will become effective again and so on from time to time. In connection with any action taken by VersaBank which requires the approval of the holders of Series 2 Preferred Shares voting as a series or as part of the class, each such share will entitle the holder thereof to one vote.

### ***Series 3 Preferred Shares***

There were 1,681,320 Series 3 Preferred Shares outstanding on October 31, 2017.

During the initial six-year period ending April 30, 2021, holders of Series 3 Preferred Shares are entitled to receive preferential, non-cumulative, cash dividends, as and when declared by the Board, payable quarterly on the last day of January, April, July and October in each year, at 7.0% per annum. Thereafter, the dividend rate will reset every five years at a level of 569 basis points over the then 5-year Government of Canada bond yield.

The Series 3 Preferred Shares are not redeemable prior to April 30, 2021. VersaBank may, at its option, redeem for cash all or any part of the then outstanding Series 3 Preferred Shares, on April 30, 2021 and on April 30 every five years thereafter, at a price equal to \$10.00 per share together with all declared and unpaid dividends to the date fixed for redemption. All such redemptions are subject to the provisions of applicable securities law, the rules of the TSX and the Bank Act, and to the prior consent of the Superintendent.

Holders of Series 3 Preferred Shares will have the right to elect to convert, subject to certain conditions, any or all of their Series 3 Preferred Shares into an equal number of Series 4 Preferred Shares, on April 30, 2021 and on April 30 every five years thereafter (each such date being a "Series 3 Conversion Date"). Holders of Series 3 Preferred Shares will not be entitled to convert their shares into Series 4 Preferred Shares if VersaBank determines that there would remain outstanding on a Series 3 Conversion Date less than 200,000 Series 4 Preferred Shares. In addition, if VersaBank determines that there would remain outstanding on a Series 3 Conversion Date less than 200,000 Series 3 Preferred Shares, then all, but not part, of the remaining outstanding Series 3 Preferred Shares will automatically be converted into an equal number of Series 4 Preferred Shares on the applicable Series 3 Conversion Date.

Upon the occurrence of a Trigger Event, as set out in the OSFI Guideline for Capital Adequacy Requirements (CAR), Chapter 2 – Definition of Capital, effective January 2013, as such term may be amended or superseded by OSFI from time to time, each Series 3 Preferred Share will be automatically converted, without the consent of the holders, into newly issued, fully-paid VersaBank Common Shares, the number of which is determined by the conversion formula outlined in the Series 3 Preferred Shares terms and conditions (a “Series 3 Contingent Conversion”).

Subject to the provisions of applicable securities law, the rules of the TSX and the Bank Act, as applicable, and to the prior consent of the Superintendent, VersaBank may purchase for cancellation at any time all, or from time to time any part, of the Series 3 Preferred Shares then outstanding by private contract or in the open market or by tender at the lowest price or prices at which in the opinion of the Board such shares are obtainable.

In the event of the liquidation, dissolution or winding-up of VersaBank, provided that a Series 3 Contingent Conversion has not occurred, the holders of the Series 3 Preferred Shares will be entitled to receive \$10.00 per Series 3 Preferred Share held by them, plus any dividends declared and unpaid to the date of distribution, before any amounts are paid or assets are distributed to holders of VersaBank Common Shares, or any other shares ranking junior to the Series 3 Shares. After payment of those amounts, the holders of Series 3 Preferred Shares will not be entitled to share in any further distribution of the property or assets of VersaBank. If a Series 3 Contingent Conversion has occurred, all Series 3 Preferred Shares will have been converted into VersaBank Common Shares which will rank on parity with all other VersaBank Common Shares.

Holders of Series 3 Preferred Shares will not be entitled to receive notice of or to attend or to vote at any meeting of shareholders of VersaBank unless and until the first time at which the Board has not declared the dividend in full on the Series 3 Preferred Shares in any quarter. In that event, the holders of the Series 3 Preferred Shares will be entitled to receive notice of and to attend only a meeting of shareholders at which directors are to be elected and will have one vote for each Series 3 Preferred Share held. Such voting rights will cease on payment in full by VersaBank of the first dividend on the Series 3 Preferred Shares to which the holders are entitled subsequent to the time the voting rights first arose until such time as VersaBank may again fail to declare the dividend in full on the Series 3 Preferred Shares in any quarter, in which event the voting rights will become effective again and so on from time to time. In connection with any action taken by VersaBank which requires the approval of the holders of Series 3 Preferred Shares voting as a series or as part of the class, each such share will entitle the holder thereof to one vote.

#### ***Series 4 Preferred Shares***

The Series 4 Preferred Shares are part of VersaBank’s authorized share capital, but no shares in this series have been issued as at October 31, 2017.

Holders of Series 4 Preferred Shares will be entitled to receive quarterly floating dividends, as and when declared by the Board, equal to the 90-day Government of Canada Treasury Bill rate plus 569 basis points.

The Series 4 Preferred Shares will not be redeemable prior to April 30, 2021. VersaBank may, at its option, redeem for cash all or any part of the then outstanding Series 4 Preferred Shares on April 30, 2021 or any other date after April 30, 2021, other than a Series 4 Excluded Redemption Date, at a price equal to \$10.20 per share together with all declared and unpaid dividends to the date fixed for redemption. On April 30, 2026 and on April 30 every five years thereafter (each such date being an “Series 4 Excluded Redemption Date”), VersaBank may, at its option, redeem for cash all or any part of the then outstanding Series 4 Preferred Shares at a price equal to \$10.00 per share together with all declared and unpaid dividends to the date fixed for redemption. All such redemptions are subject to the provisions of applicable securities law, the rules of the TSX and the Bank Act, and to the prior consent of the Superintendent.

Holders of Series 4 Preferred Shares will have the right to elect to convert, subject to certain conditions, any or all of their Series 4 Preferred Shares into an equal number of Series 3 Preferred Shares, on April 30,

2026 and on April 30 every five years thereafter (each such date being a “Series 4 Conversion Date”). Holders of Series 4 Preferred Shares will not be entitled to convert their shares into Series 3 Preferred Shares if VersaBank determines that there would remain outstanding on a series 4 Conversion Date less than 200,000 Series 3 Preferred Shares. In addition, if VersaBank determines that there would remain outstanding on a Series 4 Conversion Date less than 200,000 Series 4 Preferred Shares, then all, but not part, of the remaining outstanding Series 4 Preferred Shares will automatically be converted into an equal number of Series 3 Preferred Shares on the applicable Series 4 Conversion Date.

Upon the occurrence of a Trigger Event, as set out in the OSFI Guideline for Capital Adequacy Requirements (CAR), Chapter 2 – Definition of Capital, effective January 2013, as such term may be amended or superseded by OSFI from time to time, each Series 4 Preferred Share will be automatically converted, without the consent of the holders, into newly issued, fully-paid VersaBank Common Shares, the number of which is determined by the conversion formula outlined in the Series 4 Preferred Shares terms and conditions (a “Series 4 Contingent Conversion”).

Subject to the provisions of applicable securities law, the rules of the TSX and the Bank Act, as applicable, and to the prior consent of the Superintendent, VersaBank may purchase for cancellation at any time all, or from time to time any part, of the Series 4 Preferred Shares then outstanding by private contract or in the open market or by tender at the lowest price or prices at which in the opinion of the Board such shares are obtainable.

In the event of the liquidation, dissolution or winding-up of VersaBank, provided that a Series 4 Contingent Conversion has not occurred, the holders of the Series 4 Preferred Shares will be entitled to receive \$10.00 per Series 4 Preferred Share held by them, plus any dividends declared and unpaid to the date of distribution, before any amounts are paid or assets are distributed to holders of VersaBank Common Shares, or any other shares ranking junior to the Series 4 Shares. After payment of those amounts, the holders of Series 4 Preferred Shares will not be entitled to share in any further distribution of the property or assets of VersaBank. If a Series 4 Contingent Conversion has occurred, all Series 4 Preferred Shares will have been converted into VersaBank Common Shares which will rank on parity with all other VersaBank Common Shares.

Holders of Series 4 Preferred Shares will not be entitled to receive notice of or to attend or to vote at any meeting of shareholders of VersaBank unless and until the first time at which the Board has not declared the dividend in full on the Series 4 Preferred Shares in any quarter. In that event, the holders of the Series 4 Preferred Shares will be entitled to receive notice of and to attend only a meeting of shareholders at which directors are to be elected and will have one vote for each Series 4 Preferred Share held. Such voting rights will cease on payment in full by VersaBank of the first dividend on the Series 4 Preferred Shares to which the holders are entitled subsequent to the time the voting rights first arose until such time as VersaBank may again fail to declare the dividend in full on the Series 4 Preferred Shares in any quarter, in which event the voting rights will become effective again and so on from time to time. In connection with any action taken by VersaBank which requires the approval of the holders of Series 4 Preferred Shares voting as a series or as part of the class, each such share will entitle the holder thereof to one vote.

### **Constraints**

The Bank Act contains restrictions on the issue, transfer, acquisition and beneficial ownership of all shares of a chartered bank. For example, if a bank has equity of \$12 billion or more, no person shall be a major shareholder of the bank, which includes a shareholder which owns, directly or indirectly, more than 20% of its outstanding voting shares of any class or more than 30% of its outstanding non-voting shares of any class. VersaBank does not meet this equity threshold and thus this restriction does not currently apply to VersaBank.

Further, no person shall have a significant interest in any class of shares of a bank unless the person first receives the approval of the Minister of Finance (Canada). Ownership, directly or indirectly, of more than 10% of any class of shares of a bank constitutes a significant interest. As of October 31, 2017, 340268

Ontario Limited owned approximately 31.6% of the Common Shares of the Bank. Approval from the Minister of Finance (Canada) for 340268 Ontario Limited to have a significant interest in the common shares of VersaBank was obtained in conjunction with the closing of the Amalgamation.

VersaBank will monitor the above constraints on shareholdings through various means including completion of Declaration of Ownership Forms for shareholder certificate transfer requests. If any person contravenes the above constraints on shareholdings, neither such person, nor any entity controlled by the particular person, may exercise any voting rights until the shares to which the constraint relates are disposed of. Additionally, the terms and conditions of the Series 1 Preferred Shares, the Series 2 Preferred Shares, the Series 3 Preferred Shares, and the Series 4 Preferred Shares include specific mechanics by which VersaBank is permitted to facilitate a sale of shares on behalf of such persons that are prohibited from taking delivery of shares issued upon a conversion.

The Bank Act prohibits the registration of a transfer or issue of any shares of VersaBank to, and the exercise, in person or by proxy, of any voting rights attached to any share of VersaBank that is beneficially owned by, Her Majesty in right of Canada or of a province or any agent or agency of Her Majesty in either of those rights, or to the government of a foreign country or any political subdivision, agent or agency of any of them.

Under the Bank Act, VersaBank is prohibited from redeeming or purchasing any of its shares or its subordinated debt, unless the consent of the Superintendent has been obtained. In addition, the Bank Act prohibits VersaBank from purchasing or redeeming any shares or paying any dividends if there are reasonable grounds for believing that VersaBank is, or the payment would cause VersaBank to be, in contravention of the Bank Act requirement to maintain, in relation to VersaBank's operations, adequate capital and appropriate forms of liquidity and to comply with any regulations or directions of the Superintendent in relation thereto.

## MARKET FOR SECURITIES

### Trading Price and Volume

VersaBank's securities are listed and posted for trading on the TSX. The trading symbols are as follows:

|                           |   |         |
|---------------------------|---|---------|
| VersaBank Common Shares   | - | VB      |
| Series 1 Preferred Shares | - | VB.PR.A |
| Series 3 Preferred Shares | - | VB.PR.B |

| COMMON SHARES |        |        |                | SERIES 1 PREFERRED SHARES |        |                | SERIES 3 PREFERRED SHARES |         |                |
|---------------|--------|--------|----------------|---------------------------|--------|----------------|---------------------------|---------|----------------|
| Month         | High   | Low    | Trading Volume | High                      | Low    | Trading Volume | High                      | Low     | Trading Volume |
| Oct 2017      | \$6.05 | \$5.65 | 248,536        | \$10.11                   | \$9.60 | 91,226         | \$10.65                   | \$10.00 | 18,070         |
| Sep 2017      | \$6.19 | \$4.74 | 620,092        | \$10.40                   | \$9.92 | 41,920         | \$10.48                   | \$10.00 | 6,544          |
| Aug 2017      | \$4.75 | \$4.45 | 278,129        | \$10.00                   | \$9.60 | 28,901         | \$10.06                   | \$9.76  | 8,285          |
| Jul 2017      | \$4.88 | \$4.46 | 189,065        | \$9.80                    | \$9.57 | 14,775         | \$10.30                   | \$9.80  | 15,811         |
| Jun 2017      | \$4.80 | \$4.27 | 333,930        | \$9.84                    | \$9.60 | 14,665         | \$10.34                   | \$9.70  | 14,185         |
| May 2017      | \$4.80 | \$4.34 | 378,343        | \$10.00                   | \$9.64 | 25,760         | \$10.01                   | \$9.75  | 9,129          |
| Apr 2017      | \$4.90 | \$4.60 | 357,854        | \$10.12                   | \$9.60 | 22,500         | \$10.15                   | \$9.88  | 17,980         |
| Mar 2017      | \$5.00 | \$4.70 | 282,290        | \$9.86                    | \$9.62 | 32,885         | \$10.27                   | \$9.70  | 17,175         |
| Feb 2017      | \$5.79 | \$4.75 | 449,115        | \$9.82                    | \$9.45 | 48,308         | \$10.11                   | \$9.95  | 5,850          |
| Jan 2017      | \$5.12 | \$4.60 | 140,179        | \$9.50                    | \$9.21 | 24,445         | \$10.19                   | \$6.60  | 10,949         |
| Dec 2016      | \$5.15 | \$4.81 | 79,278         | \$9.53                    | \$9.24 | 30,256         | \$9.84                    | \$9.60  | 7,319          |
| Nov 2016      | \$5.16 | \$4.80 | 154,428        | \$9.50                    | \$9.05 | 19,551         | \$10.00                   | \$9.45  | 21,408         |

## DIRECTORS

The names, municipalities of residence, positions held with VersaBank, and principal occupations of its directors, as of January 23, 2018, are as follows:

| Name   | Office Held and Time as Director   | Principal Occupation  |
|--|--|---|
| The Honourable Thomas A. Hockin, P.C.<br>Palm Springs, California, USA | Chairman<br><br>Director since August 21, 2014                               | Retired, former Executive Director of the International Monetary Fund   |
| The Honourable Maurizio Bevilacqua<br>Vaughan, Ontario                 | Vice Chairman<br><br>Director since April 26, 2017                           | Mayor of the City of Vaughan, Ontario   |
| David R. Taylor<br>Ilderton, Ontario                                   | President and Chief Executive Officer<br><br>Director since January 18, 1993 | President and Chief Executive Officer of VersaBank  |
| Robbert-Jan Brabander <sup>(2)(4)</sup><br>Richmond Hill, Ontario      | Director since November 4, 2009  | Managing Director of Bells & Whistles Communications, Inc. and former Chief Financial Officer & Treasurer of General Motors of Canada Limited |
| David A. Bratton <sup>(3)</sup><br>London, Ontario                     | Director since September 23, 1993  | Retired, former President of Bratton Consulting Inc.  |
| Arnold E. Hillier <sup>(2)(3)</sup><br>Crossmount, Saskatchewan        | Director since December 3, 2002  | Retired, former Chairman, Chief Executive Officer and Chief Financial Officer, Claude Resources Inc.  |
| Colin E. Litton <sup>(1)(2)</sup><br>Oakville, Ontario                 | Director since June 1, 2010  | Retired, former senior partner of KPMG LLP  |
| Susan T. McGovern <sup>(3)</sup><br>Gormley, Ontario                   | Director since May 6, 2011   | Vice-President, External Relations and Advancement, University of Ontario Institute of Technology   |
| Paul G. Oliver <sup>(1)(4)</sup><br>Markham, Ontario                   | Director since June 2, 2005  | Retired, former senior partner of PricewaterhouseCoopers LLP  |
| R.W. (Dick) Carter <sup>(1)</sup><br>Regina, Saskatchewan              | Director since December 1, 2014  | Retired, former Chief Executive Officer of the Crown Investments Corporation of Saskatchewan  |
| Avery Pennarun <sup>(4)</sup><br>New York, New York, USA               | Director since April 27, 2016  | Senior Staff Software Engineer, Google, Inc.  |

(1) Member of the Audit Committee.

(2) Member of the Risk Oversight Committee.

(3) Member of the Conduct Review, Governance & HR Committee.

(4) Member of the Innovation and Technology Committee.

Directors are elected annually and hold office until the next annual meeting of shareholders.

## EXECUTIVE OFFICERS

The names, municipalities of residence, positions held with VersaBank, and principal occupations of its executive officers, as of January 23, 2018, are as follows:

| Name   | Office Held   | Principal Occupation  |
|--|---|---|
| The Honourable Thomas A. Hockin, P.C.<br>Palm Springs, California, USA | Chairman  | Retired, former Executive Director of the International Monetary Fund |
| David R. Taylor<br>Ilderton, Ontario                                   | President and Chief Executive Officer                   | President and Chief Executive Officer of VersaBank                    |
| R. Shawn Clarke<br>Ilderton, Ontario                                   | Chief Financial Officer                                 | Chief Financial Officer of VersaBank                                  |
| Ross P. Duggan<br>London, Ontario                                      | Executive Head & SVP, Commercial Lending                | Executive Head Commercial Lending & SVP of VersaBank                  |
| Nick Kristo<br>London, Ontario   | Chief Risk Officer & SVP, Credit                        | Chief Risk Officer & Senior Vice President, Credit of VersaBank       |
| Jonathan F.P. Taylor<br>Saskatoon, Saskatchewan                        | Executive Head & SVP, Deposit Services & HR             | Executive Head Deposit Services & HR & SVP of VersaBank               |
| Michael R. Dixon<br>London, Ontario                                    | Executive Head & SVP, eCommerce                         | Executive Head eCommerce & SVP of VersaBank                           |
| Joanne M. Johnston<br>Saskatoon, Saskatchewan                          | Chief Internal Auditor                                  | Chief Internal Auditor of VersaBank                                   |
| Cameron G. Mitchell<br>Kitchener, Ontario                              | Vice-President, General Counsel and Corporate Secretary | Vice-President, General Counsel and Corporate Secretary of VersaBank  |

At January 23, 2018, there were 21,123,559 issued and outstanding VersaBank Common Shares. The directors and executive officers of VersaBank as a group beneficially own, directly or indirectly, or have control or direction over 924,584 VersaBank Common Shares, representing approximately 4.38% of the total number of VersaBank Common Shares outstanding.

At January 23, 2018, there were 1,461,460 issued and outstanding Series 1 Preferred Shares of VersaBank. The directors and executive officers of VersaBank as a group beneficially own, directly or indirectly, or have control or direction over 11,435 Series 1 Preferred Shares of VersaBank, representing approximately 0.78% of the total number of Series 1 Preferred Shares outstanding.

At January 23, 2018, there were 1,681,320 issued and outstanding Series 3 Preferred Shares of VersaBank. The directors and executive officers of VersaBank as a group beneficially own, directly or indirectly, or have control or direction over 9,200 Series 3 Preferred Shares of VersaBank, representing approximately 0.55% of the total number of Series 3 Preferred Shares outstanding.

## **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

To the knowledge of VersaBank, other than as set out in the section entitled “*Particulars of the Amalgamation – Interests of Certain Persons in the Amalgamation*” in VersaBank’s Management Information Circular dated November 22, 2016, which is incorporated herein by reference, there are no material interests, direct or indirect, of any director or executive officer of VersaBank, any shareholder that beneficially owns, or controls or directs (directly or indirectly), more than 10% of any class or series of VersaBank’s outstanding voting securities, or any associate or affiliate of any of the foregoing persons, in any transaction within the last three financial years ended October 31, 2017.

## **TRANSFER AGENT**

VersaBank’s registrar and transfer agent is Computershare Investor Services Inc., 100 University Avenue, Toronto, Ontario M5J 2Y1.

## **MATERIAL CONTRACTS**

VersaBank and PWC entered into a Pre-Amalgamation Agreement on September 12, 2016, which was amended and restated on November 15, 2016. The Pre-Amalgamation Agreement outlined the conditions and obligations of VersaBank and PWC to effect the Amalgamation and related transactions substantially concurrently with each other, including obtaining the required securityholder and shareholder approvals as well as regulatory approvals for the Amalgamation and related transactions. VersaBank and PWC also entered into an Amalgamation Agreement on September 12, 2016, which was amended and restated on November 15, 2016. The Amalgamation Agreement outlined the conditions and obligations of VersaBank and PWC in relation to the Amalgamation. The Pre-Amalgamation Agreement and the Amalgamation Agreement can be found on SEDAR at [www.sedar.com](http://www.sedar.com) under VersaBank’s profile.

## **INTERESTS OF EXPERTS**

KPMG LLP, Chartered Professional Accountants, Saskatoon, Saskatchewan are the auditors of VersaBank and are independent of VersaBank within the meaning of the Rules of Professional Conduct of the Institute of Chartered Professional Accountants of Saskatchewan.

## **AUDIT COMMITTEE INFORMATION**

The Mandate of the Audit Committee of VersaBank is attached to this Annual Information Form as Exhibit A.

The members of the Audit Committee are: R.W. (Dick) Carter (Chair), Colin E. Litton and Paul G. Oliver. Each member of the Audit Committee is both independent and financially literate, as such terms are defined in Canadian securities legislation.

Prior to his retirement, Mr. Carter was the Chief Executive Officer of Crown Investments Corporation of Saskatchewan, a holding company for the province’s commercial Crown Corporations, and held another senior position in the Saskatchewan government. Mr. Carter is also a retired former partner of KPMG LLP and has over 30 years audit experience, including experience in the financial services industry. Mr. Carter earned a Bachelor of Commerce degree from the University of Saskatchewan in 1971, graduated from the Queens University Executive Program in 1996, and graduated as a Chartered Director (C.Dir.) from McMaster University and the Conference Board of Canada in 2013. In addition, Mr. Carter became a Fellow of the Institute of Chartered Accountants of Saskatchewan in 1998 and is a Member of the Institutes of Chartered Accountants of Saskatchewan and Alberta.

Mr. Litton is a retired senior partner of KPMG LLP where he was the National Director of the Banking and Finance practice. His career with KPMG LLP since qualifying in the United Kingdom has included service in South Africa, Australia and Canada where his primary responsibility was the provision of audit and

advisory services to clients in the banking and financial services industry. He is a Fellow of the Institute of Chartered Accountants of Ontario and a Certified Director of the Institute of Corporate Directors.

Mr. Oliver is a retired senior partner of PricewaterhouseCoopers LLP in the Financial Services Industry Practice. His practice focused on assurance, financial reporting and business advisory services, covering a broad range of organizations, with a focus in the regulated financial services industry. Mr. Oliver was admitted to the Institute of Chartered Accountants in England and Wales in 1968. He became a Fellow of the Institute of Chartered Accountants of Ontario in 2003, after having been admitted to membership in 1971. Mr. Oliver is also a Certified Director of the Institute of Corporate Directors.

The Board has approved an Audit Services Policy which provides that the Audit Committee shall pre-approve non-audit services and audit and non-audit related fees to be provided by the external auditor on a case-by-case basis.

### **Audit Fees**

Audit fees paid to KPMG LLP during the year ended October 31, 2017 for VersaBank were \$438,000 and during the year ended October 31, 2016 were \$390,000. Audit fees were for professional services rendered by KPMG LLP for the audit of VersaBank's annual financial statements and services provided in connection with statutory and regulatory filings or engagements.

### **Audit-Related Fees**

Audit-related fees paid to KPMG LLP during the year ended October 31, 2017 for VersaBank were \$239,000 and during the year ended October 31, 2016 were \$228,200. Audit-related fees were for assurance and related services reasonably related to the performance of the audit of the consolidated financial statements and transaction-related services relating to the Amalgamation and are not reported under "Audit Fees" above.

### **Tax Fees**

Fees paid to KPMG LLP for tax related services during the year ended October 31, 2017 for VersaBank were \$53,000 and during the year ended October 31, 2016 were \$68,800. Tax fees were for tax compliance, tax advice and tax-planning professional services.

No other fees were paid to KPMG LLP during the years ended October 31, 2017 or October 31, 2016.

## **ADDITIONAL INFORMATION**

Additional information regarding VersaBank may be found on SEDAR at [www.sedar.com](http://www.sedar.com) under VersaBank's profile or at [www.versabank.com](http://www.versabank.com).

Information, including directors' and officers' remuneration and indebtedness, principal holders of VersaBank's securities, and securities authorized for issuance under equity compensation plans will be contained in the Management Proxy Circular for the Annual and Special Meeting of Shareholders being held on or about April 25, 2018. Additional financial information is provided in VersaBank's consolidated financial statements and MD&A for the year ended October 31, 2017.

## **EXHIBIT A**

### **MANDATE OF THE AUDIT COMMITTEE**

#### **Purpose**

The Audit Committee is responsible for assisting the Bank's Board of Directors (the "Board") in its oversight of (i) the integrity of the Bank's financial statements, public documents and other financial filings; (ii) the qualifications, performance and independence of the external auditors; (iii) the performance of the Bank's Chief Financial Officer and internal audit function; and (iv) internal controls that are appropriately designed and operate effectively.

#### **Organization of the Audit Committee**

The Audit Committee shall be comprised of not less than three directors, one of whom shall serve as the Chair of the Committee. Each member of the Audit Committee must be independent, financially literate and unaffiliated directors<sup>i ii iii</sup>.

#### **Meetings of the Audit Committee**

In order for the Committee to transact business, a majority of the members of the Committee must be present. The Committee shall meet at least once each quarter and shall schedule a sufficient number of meetings (whether in person or by teleconference) to carry out its mandate.

There shall be an in camera session at each quarterly Committee meeting with only independent directors present.

Committee members are expected to devote the appropriate amount of time necessary to review meeting materials such that they are able to engage in informed discussion and make informed decisions.

#### **Reporting to the Board**

The Committee shall present a verbal summary report of matters discussed at each of its meetings at the next following meeting of the Board of Directors with respect to its activities with such recommendations as are deemed desirable in the circumstances. In addition, the Committee may call a meeting of the Board of Directors to consider any matter that is of concern to the Committee.

#### **Resources and Authority**

The Audit Committee has the authority to engage and compensate any outside advisor that is determined to be necessary to permit them to carry out these duties, provided such compensation does not exceed \$10,000 in any fiscal year. Should the compensation of an outside advisor exceed \$10,000 in any fiscal year the prior approval of the Board will be required.

## **Duties and Responsibilities of the Audit Committee**

The members of the Audit Committee are charged with the following duties:

### **1. Financial Statements, Public Documents & Other Financial Filings**

- a) Review such documents as needed to comply with regulatory requirements relevant to the Audit Committee, and report to the Board of Directors where approval of the documents by the Board is required.
- b) Review new accounting policies and amendments to existing accounting policies before recommending them to the Board of Directors for approval.
- c) Approve the interim quarterly financial statements and MD&A.
- d) Concur with the annual financial statements and the annual MD&A before recommending them to the Board of Directors for approval.
- e) Review the interim and annual earnings press releases before public disclosure.
- f) Review the Annual Information Form before recommending it to the Board of Directors for approval.
- g) Review the Monthly Reporting Package for the most recent quarter for which interim quarterly financial statements for the Bank are being issued.
- h) Review such investments and transactions that could adversely affect the well-being of the Bank as the auditor or auditors or any officer may bring to the attention of the Committee.

### **2. Disclosure**

- a) Concur with the Mandate of the Disclosure Committee before recommending it to the Board of Directors for approval.
- b) Review and approve the Corporate Disclosure Policy and all amendments thereto before recommending it to the Board of Directors for approval.
- c) Review the Disclosure Controls and Procedures.

### **3. Internal Audit**

- a) Review and concur in the appointment, replacement or dismissal of the Chief Internal Auditor.

- b) Concur with the Mandate of the Chief Internal Audit Function before recommending it to the Board of Directors for approval.
- c) Annually approve a comprehensive risk-based audit plan as submitted by the Chief Internal Auditor.
- d) Ensure there are no unjustified restrictions or limitations on the Internal Audit function.
- e) Review all internal audit reports as submitted by the Chief Internal Auditor.
- f) Receive updates from the Chief Internal Auditor on the status of management's implementation of the recommendations within the internal audit reports.
- g) Meet with the Chief Internal Auditor and with management to discuss the effectiveness of the internal control procedures established.
- h) Annually, review the mandate of the Chief Internal Auditor and evaluate the effectiveness of the Chief Internal Auditor and contribute to his or her Annual Performance Appraisal.
- i) Meet with the Chief Internal Auditor in camera at the conclusion of each regularly scheduled meeting of the Committee.

#### **4. External Audit**

- a) Concur with the external auditors to be nominated for the purpose of preparing or issuing an audit report or performing other audit, review or attest services before recommending them to the Board of Directors.
- b) Meet with the external auditor to review the Audit Planning Memorandum and annually approve the Audit Planning Memorandum.
- c) Concur with the compensation of the external auditor before recommending it to the Board of Directors for approval.
- d) Pre-approve services and expenditures to the external auditor, in accordance with the Audit Services Policy.
- e) Oversee the work of the external auditor engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services, including the resolution of disagreements between management and the external auditor regarding financial reporting.

- f) Meet with the external auditor or auditors to discuss the annual financial statements and the returns and transactions referred to in this Mandate.
- g) Annually review all amounts paid to the external auditor and other accounting firms in the previous year.
- h) Identify, evaluate by performing annual assessments and periodic comprehensive assessments and, where appropriate, recommend to the shareholder(s), replacement of the external auditor.
- i) Annually report to the Board on the effectiveness of the external auditor.
- j) Concur with hiring policies regarding partners, employees and former partners and employees of the present and former external auditor before recommending them to the Board of Directors for approval.
- k) Concur with the hiring of a partner, employee or former partner or employee of the present or former external auditor before recommending it to the Board of Directors for approval.
- l) Meet with the external auditor in camera at the conclusion of each regularly scheduled meeting of the Committee.

## **5. Capital Management**

- a) Review, at least annually, the Bank's policies and procedures with respect to capital management and receive management reports regarding adherence to same.
- b) Review and recommend to the Board for approval the annual ICAAP document of the Bank.
- c) Annually, prepare and submit to the Board of Directors an Annual Report which includes a statement from the Chief Internal Auditor that the Capital Management policy is being complied with.

## **6. Complaints and Confidential Reporting**

- a) Establish procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls, or auditing matters.
- b) Establish procedures for the confidential, anonymous submission by employees of concerns regarding questionable accounting or audit matters.

## **7. Anti-Money Laundering and Anti-Terrorist Financing**

- a) Oversee the Bank's Anti-Money Laundering and Anti-Terrorist Financing ("AML/ATF") program and monitors its effectiveness on a regular basis.
- b) Be satisfied that the Chief Anti-Money Laundering Officer ("CAMLO") has the necessary resources to carry out CAMLO responsibilities.
- c) Review and recommend to the Board for approval, the Bank's AML/ATF Policy, and all changes to the Policy.
- d) At least annually, conduct a review of the AML/ATF Policy and associated procedures.
- e) Receive information from the Bank's CAMLO on the inherent money laundering ("ML") and terrorist-financing ("TF") risks associated with the Bank's activities.
- f) Receive information from the CAMLO on self-assessments of the ML and TF risk controls implemented by the Bank.
- g) Receive a report from the CAMLO at least annually on ML/TF risks Bank-wide.
- h) Receive an annual report from the CAMLO on compliance with the Bank's AML/ATF policy.
- i) Receive reports from the CAMLO as to transactions reported to FINTRAC or submitted to any law enforcement agency.
- j) Receive information from the CAMLO on significant changes to AML/ATF legislative requirements.
- k) The Committee shall have unfettered access to the CAMLO.
- l) Receive results of the Internal Auditor's independent effectiveness testing of the Bank's AML/ATF program at least once every two years.
- m) Report to the Board of Directors on information and reports received from the CAMLO and the Internal Auditor.
- n) Annually, review the mandate of the CAMLO and evaluate the effectiveness of the CAMLO and contribute to his or her Annual Performance Appraisal.

## **8. Internal Controls**

- a) Require management to implement and maintain appropriate internal control procedures.

- b) Review, evaluate and approve the internal control policies and procedures at least annually, and receive management reports regarding adherence to same to ensure internal controls are appropriately designed and operate effectively.

## **9. Other Duties**

- a) Annually, evaluate the effectiveness of the Chief Financial Officer and contribute to his or her Annual Performance Appraisal.
- b) Regarding matters falling under the Mandate of the Audit Committee, be aware of increased reputational risk to the Bank which can potentially impact the Bank's image in the community or lower public confidence in it, resulting in the loss of business, legal action or increased regulatory oversight.
- c) Review regulatory reviews regarding matters falling under the Mandate of the Audit Committee and the status of management's responses to any noted issues.
- d) On an annual basis review the policies relating to matters falling under the Mandate of the Audit Committee and report to the Board of Directors.
- e) Institute and oversee special investigations as needed.
- f) Perform other activities related to the Mandate as requested by the Board of Directors.
- g) Confirm annually to the Board of Directors that all responsibilities outlined in the Mandate have been carried out.

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<sup>i</sup> A director is independent if he or she has no direct or indirect material relationship with the Bank. A material relationship is a relationship which could, in the view of the Board of Directors, be reasonably expected to interfere with the exercise of a member's independent judgement. Notwithstanding the above, an individual is considered to have a material relationship with the Bank in the situations enumerated in section 1.4 of NI 52-110, including if the individual accepts directly or indirectly any consulting, advisory or other compensatory fee from the Bank or any subsidiary entity of the Bank other than as remuneration for acting in his or her capacity as a member of the Board or any Committee or as part-time Chair or Vice-Chair of the Board or any Committee.

<sup>ii</sup> Financially literate means the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of accounting issues that can reasonably be expected to be raised by the financial statements.

<sup>iii</sup> If the death, disability or resignation of a member has resulted in a vacancy of the Committee that the Board is required to fill, a Committee member appointed to fill such vacancy is exempt from the requirement for a period ending on the later of the next annual meeting and the date that is six months from the day the vacancy was created, so long as the Board has determined that a reliance on this exemption will not materially adversely affect the ability of the Committee to act independently and to satisfy its other requirements.