



Versa**Bank**

ANNUAL INFORMATION FORM
For the year ended October 31, 2016

JANUARY 23, 2017

VERSABANK ANNUAL INFORMATION FORM

<u>Table of Contents</u>	<u>Page</u>
CORPORATE STRUCTURE	4
Incorporation	
Inter-corporate Relationships	
GENERAL DEVELOPMENT OF THE BUSINESS.....	4
Three Year History	
DESCRIPTION OF THE BUSINESS.....	5
Specialized Skills and Knowledge/Competitive Conditions	
Supervision and Regulation	
Employees and Principal Properties	
Risk Factors	
DIVIDENDS AND DISTRIBUTIONS	8
Common Shares	
Preferred Shares	
DESCRIPTION OF CAPITAL STRUCTURE	9
Common Shares	
Preferred Shares	
Series 1 Preferred Shares	
Series 2 Preferred Shares	
Series 3 Preferred Shares	
Series 4 Preferred Shares	
Constraints	
MARKET FOR SECURITIES	15
DIRECTORS	16
EXECUTIVE OFFICERS	17
PROMOTERS.....	18
INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS.....	19
TRANSFER AGENT.....	19
MATERIAL CONTRACTS	20
INTERESTS OF EXPERTS	20
AUDIT COMMITTEE INFORMATION	20
Audit Fees	
Audit-Related Fees	
Tax Fees	
ADDITIONAL INFORMATION.....	22
EXHIBIT A –Mandate of the Audit Committee.....	23

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: the proposed Amalgamation of VersaBank and PWC Capital Inc. (“PWC”); the timing for the implementation of the Amalgamation; the likelihood of the Amalgamation being completed; receipt of regulatory approvals required to complete the Amalgamation; 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; 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; the impact of changes in laws and regulations; and the satisfaction of the terms, covenants and conditions of the Pre-Amalgamation Agreement and the Amalgamation Agreement, including the approval of the Amalgamation by the Minister of Finance (Canada).

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: the Pre-Amalgamation Agreement and the Amalgamation Agreement may be terminated in certain circumstances; the certainty that all conditions precedent to the Pre-Amalgamation Agreement and the Amalgamation Agreement will be satisfied, or, if not satisfied, waived (or not waived) by either VersaBank or PWC; general business, economic, competitive, political, regulatory and social uncertainties; risks related to factors beyond the control of VersaBank; risks that VersaBank may not realize the benefits currently anticipated by the Amalgamation and other related transactions; risks related to the business of VersaBank; risks related to political developments and policy shifts; risks related to amendments to laws; risks related to the market value of VersaBank securities; or delays in obtaining the regulatory approvals required to complete the Amalgamation. 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, 2016 (the “2016 MD&A”) and in the Management Information Circular dated November 22, 2016, which are available on SEDAR at 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 2016 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, 2016. Financial information is based on the audited consolidated financial statements of VersaBank for the year ended October 31, 2016, 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. At the time of the acquisition PWC owned all of the shares of VersaBank; as such, the syndicate acquired VersaBank when it acquired PWC.

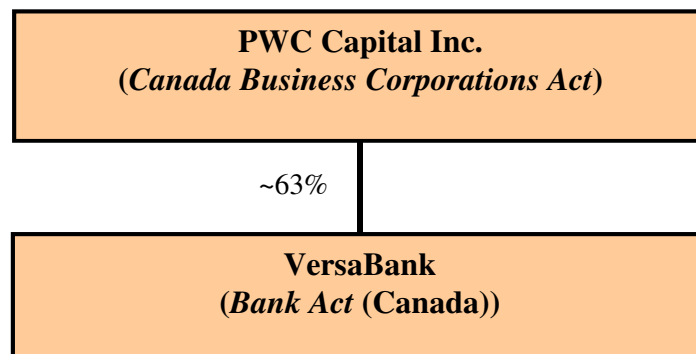
On August 1, 2002, VersaBank was granted a Schedule I Bank license and continued under the *Bank Act* (Canada) (the “Bank Act”) as Pacific & Western Bank of Canada. The Bank Act is the charter of VersaBank and governs its operations. Effective May 13, 2016, VersaBank changed its name from Pacific & Western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

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.

Inter-corporate Relationships

The following chart summarizes the primary corporate structure of VersaBank, the jurisdiction of incorporation of each corporate entity and percentage of votes attached to all securities beneficially owned or over which control is exercised by VersaBank.



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”).

VersaBank was a wholly-owned subsidiary of PWC until August 27, 2013. During 2013, VersaBank completed the IPO of VersaBank Common Shares, and on August 27, 2013 the VersaBank Common Shares began trading on the TSX. Following VersaBank’s IPO, PWC’s ownership of VersaBank was reduced and it is currently approximately 63%. Throughout the calendar year 2013 VersaBank repaid \$37

million of its subordinated debt. On March 7, 2013 VersaBank repaid \$30 million of subordinated notes that VersaBank owed to PWC. PWC, in turn, used the proceeds to subscribe for additional VersaBank Common Shares. In December, 2013, using proceeds from the IPO, VersaBank repaid \$7.0 million of an aggregate \$21.5 million of remaining subordinated notes that VersaBank issued to a third party in 2009 and 2011.

During 2014, VersaBank completed an offering of its non-cumulative 5-year rate reset preferred shares, series 1 (the “Series 1 Preferred Shares”), which qualify as Tier 1 capital of VersaBank. VersaBank’s Series 1 Preferred Shares began trading on the TSX on October 30, 2014.

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.

On September 12, 2016, PWC and VersaBank entered into a definitive agreement (the “Pre-Amalgamation Agreement”) to merge by means of an amalgamation (the “Amalgamation”) under the Bank Act, which Pre-Amalgamation Agreement was subsequently amended and restated on November 15, 2016. Pursuant to the Amalgamation, all of the common shares of PWC (the “PWC Common Shares”) and all of the VersaBank Common Shares outstanding immediately prior to the Amalgamation will be converted into common shares (“Bank Common Shares”) of the amalgamated entity, “VersaBank” (following the Amalgamation, the “Bank”). In addition, the Series 1 Preferred Shares and Series 3 Preferred Shares of VersaBank will become series 1 preferred shares and series 3 preferred shares of the Bank, respectively. The Amalgamation will be completed pursuant to the amalgamation agreement dated September 12, 2016 between PWC and VersaBank, as amended and restated on November 15, 2016 (the “Amalgamation Agreement”).

On December 30, 2016, the shareholders of VersaBank and the holders of PWC Common Shares, non-voting, non-participating Class “B” Preferred Shares of PWC (the “PWC Class B Preferred Shares”) and 9% Series C Notes of PWC maturing October 16, 2018 (the “PWC Series C Notes”) voted in favour of the Amalgamation and the related transactions at their respective special meetings of securityholders. The Amalgamation and related transactions were also approved by a majority of holders of PWC Common Shares, other than those required to be excluded in determining such approval pursuant to *Multilateral Instrument 61-101 – Protection of Minority Security Holders in Special Transactions* and the rules and policies of the TSX. The closing of the Amalgamation and related transactions remains subject to certain regulatory approvals in Canada, including approval by the Minister of Finance (Canada), as well as other closing conditions, including satisfaction of the customary conditions of the TSX. Assuming receipt of such approvals and satisfaction of such closing conditions, the Amalgamation and related transactions are expected to close in the first quarter of calendar year 2017.

VersaBank plans to increase profitability over the course of 2017 primarily through the growth of its lending programs, specifically its bulk receivable purchase program, and by continuing to expand its diversification of lower cost funding sources.

DESCRIPTION OF THE BUSINESS

VersaBank operates using an “electronic branchless model” and sources deposits, consumer loans, commercial loans and leases electronically. VersaBank also provides commercial loans and mortgages it obtains through a well-established network of brokers and direct contact with clients via its commercial lending staff.

VersaBank is a highly focused, digital commercial bank that concentrates on niche markets. However, like most banks, VersaBank 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. Deposits are acquired through a diversified network of financial advisors and deposit brokers located throughout Canada.

VersaBank also raises deposits through its Trustee Integrated Banking Program. VersaBank designed and built a custom online commercial banking platform that seamlessly integrates with the insolvency industry's most popular administrative software. Insolvency professionals now have access to a highly efficient, economical and ideally suited banking service. In fiscal 2017, VersaBank plans to continue to grow this low cost deposit program, 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 Trustee Integrated Banking Program has now been adopted by all of Canada's national consumer insolvency firms and by many regional firms.

VersaBank's lending portfolio is administered by two divisions, namely commercial banking and structured finance. VersaBank's commercial banking division specializes in making commercial loans and mortgages primarily in Ontario and occasionally in other attractive markets throughout Canada. This division is staffed by commercial lending specialists with many years of experience. Commercial loan and mortgage opportunities are obtained through a well-established network of brokers and through direct contact with this division's lending officers. As at October 31, 2016, gross revenue from this division was 54% of total gross revenue (at October 31, 2015, gross revenue from the division was 60% of total gross revenue).

VersaBank's structured finance division operates its Bulk Purchase Program. This program involves purchasing loan and lease receivables from an increasing number of 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 by substantial cash deposits made by the vendors of the loan and lease receivables to offset potential credit losses. 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. As at October 31, 2016, results from this division represented 38% of total gross revenue (at October 31, 2015, results from this division represented 30% of total gross revenue).

VersaBank's 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 is winding down the portfolio. As at October 31, 2016, results from this division represented 6% of total gross revenue (at October 31, 2015, results from this division represented 8% of total gross revenue). However, overheads in this division were high, with the result that the impact on net earnings was minimal.

VersaBank anticipates that its lending businesses will grow in fiscal 2017 primarily by making increasing numbers of commercial loans and mortgages and by purchasing increasing numbers of loan and lease receivables through its Bulk Purchase Program. 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. As at October 31, 2016, results from Treasury represented 2% of total gross revenue (at October 31, 2015, 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 niche markets that have unique challenges 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 the 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 is closely aligned with the needs of its customers and lending division and consistently provides digital solutions in response to those requirements and 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, 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, 2016, VersaBank had 83 full time employees operating out of leased offices located in London, Ontario; Waterloo, Ontario; and, Saskatoon, Saskatchewan. 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, 2016, which are incorporated herein by reference. Additional risks are described under the heading "*Risk Factors*" in VersaBank's Management Information Circular dated November 22, 2016, which are incorporated herein by reference. Both documents are available on SEDAR at www.sedar.com under VersaBank's profile.

DIVIDENDS AND DISTRIBUTIONS

Common Shares

In the past three years, VersaBank has not declared nor paid any dividends on the VersaBank Common Shares and does not currently have a policy with respect to payment of dividends. For the immediate future, VersaBank does not envision declaring or paying any dividends on the VersaBank Common Shares.

Preferred Shares

Holders of Series 1 Preferred Shares of VersaBank are entitled to receive, as and when declared by the Board of Directors (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 20,095,065 VersaBank Common Shares outstanding at October 31, 2016.

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, 2016.

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 of Directors, 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, 2016.

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, 2016.

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, 2016.

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.

Holder 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.

Holder 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. No person, other than PWC, has a significant interest in any class of shares of VersaBank.

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. As noted above, VersaBank changed its name in May 2016 which resulted in a change in the trading symbols. The trading symbols are as follows:

Subsequent to May 13, 2016

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

VERSABANK COMMON SHARES				SERIES 1 PREFERRED SHARES			SERIES 3 PREFERRED SHARES		
Month	High	Low	Trading Volume	High	Low	Trading Volume	High	Low	Trading Volume
Oct 2016	\$5.31	\$4.74	82,754	\$9.53	\$9.15	3,803	\$10.00	\$9.42	6,031
Sep 2016	\$5.94	\$5.16	117,242	\$9.73	\$9.16	75,952	\$10.18	\$9.57	19,320
Aug 2016	\$5.98	\$5.50	78,162	\$9.74	\$9.15	20,759	\$10.05	\$9.59	15,147
Jul 2016	\$5.96	\$5.49	57,964	\$9.80	\$9.65	6,900	\$10.00	\$9.50	7,310
Jun 2016	\$5.90	\$5.30	109,376	\$9.80	\$9.40	31,350	\$10.15	\$9.51	5,570
May 2016	\$5.57	\$5.32	14,875	\$9.90	\$9.25	5,011	\$9.75	\$9.10	11,450

Prior to May 13, 2016

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

VERSABANK COMMON SHARES			SERIES 1 PREFERRED SHARES			SERIES 3 PREFERRED SHARES			
Month	High	Low	Trading Volume	High	Low	Trading Volume	High	Low	Trading Volume
May 2016	\$5.75	\$5.41	25,257	\$9.65	\$9.15	9,779	\$9.50	\$9.30	7,130
Apr 2016	\$6.14	\$5.29	73,754	\$9.50	\$8.86	12,260	\$9.90	\$9.16	10,686
Mar 2016	\$6.60	\$4.50	208,860	\$10.03	\$8.88	7,300	\$10.00	\$9.04	30,036
Feb 2016	\$4.98	\$4.40	46,328	\$9.79	\$9.13	8,599	\$9.87	\$9.48	7,127
Jan 2016	\$5.72	\$4.27	104,199	\$9.80	\$9.50	6,000	\$10.05	\$9.01	28,375
Dec 2015	\$5.80	\$5.02	258,352	\$10.14	\$9.49	11,169	\$10.30	\$9.70	11,575
Nov 2015	\$5.68	\$5.02	49,774	\$10.01	\$9.90	13,167	\$10.25	\$9.49	15,879

DIRECTORS

The names, municipalities of residence, positions held with VersaBank, and principal occupations of its directors, as of January 23, 2017, are as follows:

Name	Office Held and Time as Director	Principal Occupation
The Honourable Thomas A. Hockin, P.C. Toronto, Ontario	Chairman Director since August 21, 2014	Retired, former Executive Director of the International Monetary Fund
David R. Taylor ⁽⁴⁾ Ilderton, Ontario	President and Chief Executive Officer Director since January 18, 1993	President and Chief Executive Officer of PWC and VersaBank
Robbert-Jan Brabander ⁽²⁾ 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 ⁽³⁾ London, Ontario	Director since September 23, 1993	Retired, President of Bratton Consulting Inc.
Arnold E. Hillier ⁽²⁾⁽³⁾ Saskatoon, Saskatchewan	Director since December 3, 2002	Retired, former Chairman, Chief Executive Officer and Chief Financial Officer, Claude Resources Inc.
Colin E. Litton ⁽¹⁾⁽²⁾ Oakville, Ontario	Director since June 1, 2010	Retired, former senior partner of KPMG LLP
Susan T. McGovern ⁽³⁾ Gormley, Ontario	Director since May 6, 2011	Vice-President, External Relations and Advancement, University of Ontario Institute of Technology
Paul G. Oliver ⁽¹⁾⁽⁴⁾ Markham, Ontario	Director since June 2, 2005	Retired, former senior partner of PricewaterhouseCoopers LLP

R.W. (Dick) Carter ⁽¹⁾ Regina, Saskatchewan	Director since December 1, 2014	Retired, former Chief Executive Officer of the Crown Investments Corporation of Saskatchewan
Avery Pennarum New York, New York	Director since April 27, 2016	Senior Staff Software Engineer, Google Fiber Inc.

- (1) Member of the Audit Committee.
- (2) Member of the Risk Oversight Committee.
- (3) Member of the Conduct Review, Governance & HR Committee.
- (4) This person is also currently a Director of PWC.

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, 2017, are as follows:

Name	Office Held	Principal Occupation
The Honourable Thomas A. Hockin, P.C. Toronto, Ontario	Chairman	Retired, former Executive Director of the International Monetary Fund
David R. Taylor Ilderton, Ontario	President and Chief Executive Officer	President and Chief Executive Officer of VersaBank and PWC
Barry D. Walter Saskatoon, Saskatchewan	Senior Vice-President and Chief Financial Officer	Senior Vice-President and Chief Financial Officer of VersaBank
R. Shawn Clarke Ilderton, Ontario	Senior Vice-President and Chief Operating Officer	Chief Operating Officer of VersaBank
Ross P. Duggan London, Ontario	Senior Vice-President, Lending	Senior Vice-President of VersaBank
Nick Kristo London, Ontario	Senior Vice-President, Credit and Chief Risk Officer	Chief Risk Officer of VersaBank
Jonathan F.P. Taylor Saskatoon, Saskatchewan	Senior Vice-President, Deposit Services & Human Resources	Senior Vice-President of VersaBank
Joanne Johnston Saskatoon, Saskatchewan	Chief Internal Auditor	Chief Internal Auditor of VersaBank
Cameron Mitchell ⁽¹⁾ Kitchener, Ontario	Vice-President, General Counsel and Corporate Secretary	Corporate Secretary of VersaBank

- (1) Mr. Mitchell has held senior management positions with other Canadian financial institutions in the past 5 years.

At January 23, 2017, there were 20,095,065 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 471,181 VersaBank Common Shares, representing approximately 2.34% of the total number of VersaBank Common Shares outstanding.

At January 23, 2017, 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 7,950 Series 1 Preferred Shares of VersaBank, representing approximately 0.54% of the total number of Series 1 Preferred Shares outstanding.

At January 23, 2017, 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 4,400 Series 3 Preferred Shares of VersaBank, representing approximately 0.26% of the total number of Series 3 Preferred Shares outstanding.

PROMOTERS

The only person or company that is, or has been within the immediate two preceding years, a promoter of VersaBank or a subsidiary of VersaBank under applicable securities laws is PWC. The number and percentage of each class of voting securities and equity securities of VersaBank or any of its subsidiaries beneficially owned, or controlled or directed, directly or indirectly, by PWC are as follows:

Designation of Class	Type of Ownership	Number of Securities	Percentage of Securities
VersaBank Common Shares	Of record and beneficial	12,615,219	62.8%

During VersaBank's IPO in August, 2013, PWC completed a secondary offering wherein it sold 1,100,000 VersaBank Common Shares. Using the proceeds of the secondary offering, immediately following closing, PWC subscribed for 620,206 VersaBank Common Shares. From time to time, PWC may dispose of portions of its holdings of VersaBank Common Shares.

The cost of adding the secondary offering to VersaBank's initial public offering was not material to the overall expenses of the offering. Accordingly, VersaBank and PWC agreed that VersaBank would pay the total expenses related to the offering.

Prior to March 7, 2013, PWC held \$30.0 million of subordinated notes issued by VersaBank. On March 7, 2013, VersaBank fully repaid the \$30.0 million of subordinated debt of VersaBank owing to PWC. In turn, PWC used the proceeds to subscribe for an additional 4,137,931 VersaBank Common Shares.

PWC and VersaBank entered into a management agreement on November 1, 2003 wherein PWC agreed to act as an interface to the public financing markets for the benefit of VersaBank to allow for additional funds to be raised by PWC, with such proceeds to be invested in VersaBank in the form of equity or subordinated notes. VersaBank agreed to pay PWC an annual management fee based on the actual costs incurred by PWC for acting in this capacity. This management agreement was amended on August 16, 2013 to become the Management Services Agreement. The terms of the Management Services Agreement were substantially similar to the management agreement referenced above, except it also included a provision of management services and other personnel by VersaBank to PWC, as required, and for the payment of a fee by PWC to VersaBank in respect of such services. In fiscal 2013 and fiscal 2014 approximately \$561,000 and \$380,000, respectively, was paid by VersaBank to PWC pursuant to the Management Services Agreement. The Management Services Agreement was terminated effective November 1, 2014.

VersaBank and AMSDMS Software Inc. ("AMSDMS"), a wholly-owned subsidiary of PWC, are parties to a Software License Agreement, pursuant to which VersaBank has been granted a non-exclusive, worldwide, perpetual, fully paid-up, royalty-free, and irrevocable license in respect of asset and deposit management software used by VersaBank. PWC acquired this software from VersaBank on April 30, 2008, which at that time had a book value of \$1.2 million, as a result of a dividend in kind of the software from VersaBank to PWC. PWC subsequently assigned this software to AMSDMS. The predecessor

agreement to the Software License Agreement, pursuant to which VersaBank paid to AMSDMS a monthly software licensing fee of \$50,000, was scheduled to expire on August 1, 2013. Prior to the expiry of the predecessor agreement, VersaBank and AMSDMS entered into the Software License Agreement wherein VersaBank acquired a perpetual term license upon pre-payment of a one-time licensing fee of \$3 million. The one-time license fee of \$3 million was paid by VersaBank on May 31, 2013.

At a meeting of noteholders of PWC Series C Notes held on March 7, 2013, PWC obtained approval to modify the PWC Series C Note indenture. The modifications give PWC the option, provided that, as at June 30, 2014, VersaBank had completed its IPO and the VersaBank Common Shares were listed on the TSX, to satisfy all future interest obligations of its issued and outstanding PWC Series C Notes either in cash or in-kind in the form of a transfer of VersaBank Common Shares held by PWC. The number of VersaBank Common Shares to be transferred to satisfy any in-kind payments on the PWC Series C Notes is based on a five day volume weighted average trading price of the VersaBank Common Shares on the TSX as of the payment date. Additionally, the PWC Series C Note indenture was modified to make, at the option of the holder, the PWC Series C Notes convertible into VersaBank Common Shares held by PWC. The conversion price is fixed at the greater of \$10.00 per common share or the IPO price of the VersaBank Common Shares until October 16, 2016, and thereafter at the greater of \$12.00 per common share or the IPO price of the VersaBank Common Shares until maturity of the PWC Series C Notes on October 16, 2018.

In accordance with these modifications to the PWC Series C Note indenture, PWC elected to make the interest payments on its PWC Series C Notes on June 30, 2014, December 31, 2014, June 30, 2015, and on December 31, 2015 by way of a transfer of VersaBank Common Shares held by PWC. These interest payments resulted in a transfer of the following amounts of VersaBank Common Shares held by PWC to holders of PWC Series C Notes:

June 30, 2014	458,000
December 31, 2014	471,266
June 30, 2015	509,579
December 31, 2015	493,725

On June 30, 2014 and on September 4, 2014, PWC transferred a total of 51,222 VersaBank Common Shares held by PWC to settle amounts owing to former directors resulting from deferred share units of PWC held by those directors. On June 1, 2015 PWC transferred 2,740,000 VersaBank Common Shares held by PWC pursuant to redemption of PWC Class B Preferred Shares. In addition, on May 11, 2015 and February 29, 2016, PWC transferred a total of 373,200 VersaBank Common Shares held by PWC to repay notes payable totaling \$2,670,000 and to pay PWC's President & CEO's salary.

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, 2016.

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 outlines 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. Under the Pre-Amalgamation Agreement, both PWC and VersaBank remain able to respond, in accordance with their respective fiduciary duties, to unsolicited Acquisition Proposals (as such term is defined in the Pre-Amalgamation Agreement) that constitute or could reasonably be expected to constitute or lead to a Superior Proposal (as such term is defined in the Pre-Amalgamation Agreement). In addition, the Pre-Amalgamation Agreement contains customary representations and warranties made by VersaBank and PWC to each other, which are reciprocal, and relate to organization and qualification, corporate power and authority, required approvals, non-contravention, litigation, capitalization, public disclosure, financial statements and undisclosed liabilities. The Pre-Amalgamation Agreement may be terminated, in certain circumstances, prior to it becoming effective.

All costs and expenses incurred in connection with the Pre-Amalgamation Agreement are to be paid by the party incurring the cost or expense, whether or not the Amalgamation is consummated. In addition, no termination fee will be payable by VersaBank or PWC on the termination of the Pre-Amalgamation Agreement.

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 outlines the conditions and obligations of VersaBank and PWC in relation to the Amalgamation. It provides that the name of the corporation resulting from the Amalgamation, its head office, its powers, fiscal year end, auditors, authorized share capital and related share provisions, its transfer agents for its issued and outstanding shares, its directors, and its by-laws shall all be the same as those of VersaBank prior to the Amalgamation. The Amalgamation Agreement also contains indemnification and insurance clauses relating to each person who is now, or has been at any time prior to the date of the Amalgamation, an officer or director of either VersaBank or PWC and their respective heirs, executors, administrators and other legal representatives.

The Amalgamation Agreement shall automatically terminate on: (i) the date and time that the Pre-Amalgamation Agreement is terminated in accordance with its terms, or (ii) the date on which the Superintendent provides notice in writing, such notice being final and non-appealable, that the approval required by Section 225 of the Bank Act will not be granted.

The Pre-Amalgamation Agreement and the Amalgamation Agreement can be found on SEDAR at 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 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.

VersaBank's Board of Directors 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, 2016 for VersaBank were \$390,000 and during the year ended October 31, 2015 were \$370,000. 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, 2016 for VersaBank were \$228,200 and during the year ended October 31, 2015 were \$250,500. 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, 2016 for VersaBank were \$68,800 and during the year ended October 31, 2015 were \$25,000. 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, 2016 or October 31, 2015.

ADDITIONAL INFORMATION

Additional information regarding VersaBank may be found on SEDAR at www.sedar.com under VersaBank's profile or at 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 26, 2017. Additional financial information is provided in VersaBank's consolidated financial statements and MD&A for the year ended October 31, 2016.

EXHIBIT A

MANDATE OF THE AUDIT COMMITTEE

1. The Audit Committee shall consist of not less than three directors, each of whom must be independent.^{1 3}
2. Each member of the Audit Committee must be financially literate.^{2 3}
3. The Audit Committee shall meet at least once a quarter, and otherwise as required, and, at the next following meeting of the Board of Directors, provide the Board with a summary of the matters discussed.
4. The members of the Audit Committee are charged with the following duties:

General Duties

- a) review such documents as needed to comply with regulatory requirements, and report to the Board of Directors where approval of the documents by the Board is required;
- b) require management to implement and maintain appropriate internal control procedures;
- c) review new accounting policies and amendments to existing accounting policies before recommending them to the Board of Directors for approval;

¹ Independence means having no direct or indirect material relationship with the Bank. A material relationship means a relationship which could, in the view of the Board of Directors, be reasonably expected to interfere with the exercise of the member's independent judgment. Notwithstanding the above, an individual is considered to have a material relationship with the Bank in a number of situations enumerated in N1 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 a part-time Chair or Vice-Chair of the Board or any Committee.

² 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.

³ If the death, disability or resignation of a member has resulted in a vacancy on 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.

- d) review, evaluate and approve the internal control procedures;
- e) approve the interim quarterly financial statements and MD&A;
- f) concur with the annual financial statements and the annual MD&A before recommending them to the Board of Directors for approval;
- g) review the interim and annual earnings press releases before public disclosure;
- h) review the Annual Information Form before recommending it to the Board of Directors for approval;
- i) review the Monthly Reporting Package for the most recent quarter for which interim quarterly financial statements for the Bank are being issued;
- j) 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;
- k) on an annual basis review the policies and procedures relating to matters falling under the Mandate of the Audit Committee and report to the Board of Directors;
- l) review and recommend to the Board for approval the annual ICAAP document of the Bank;

Disclosure

- m) concur with the Mandate of the Disclosure Committee before recommending it to the Board of Directors for approval;
- n) review the Corporate Disclosure Policy and all amendments thereto before recommending it to the Board of Directors for approval;
- o) review the Disclosure Controls and Procedures;

Technology and Contingency Arrangements

- p) review annually the Information Technology Executive Summary and receive regular updates on the status of IT projects;
- q) review annually the Bank's disaster/contingency plans;

Complaints and Confidential Reporting

- r) establish procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls, or auditing matters;
- s) establish procedures for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters;

Anti-Money Laundering and Anti-Terrorist Financing

- t) review the Bank's anti-money laundering and anti-terrorist financing ("AML/ATF") policy, and all changes to the policy, and recommend same to the Board of Directors for approval;
- u) receive information from the Bank's Chief Anti-money Laundering Officer ("CAMLO") on the inherent money laundering ("ML") and terrorist-financing ("TF") risks associated with the Bank's activities;
- v) receive information from the CAMLO on self-assessments of the ML and TF risk controls implemented by the Bank;
- w) receive an annual report from the CAMLO on compliance with the Bank's AML/ATF policy;
- x) receive reports from the CAMLO as to transactions reported to FINTRAC or submitted to any law enforcement agency;
- y) receive information from the CAMLO on significant changes to AML/ATF legislative requirements;
- z) receive results of the Internal Auditor's independent effectiveness testing of the Bank's AML/ATF program at least once every two years;
- aa) report to the Board of Directors on information and reports received from the CAMLO and the Internal Auditor;
- bb) review, at least annually, the Bank's policies and procedures with respect to capital management, anti-money laundering and internal control, and receive management reports regarding adherence to same;

Internal Audit

- cc) review and concur in the appointment, replacement or dismissal of the Internal Auditor;

- dd) concur with the Mandate of the Internal Audit Function before recommending it to the Board of Directors for approval;
- ee) annually approve a comprehensive risk-based audit plan as submitted by the Internal Auditor;
- ff) ensure there are no unjustified restrictions or limitations on the Internal Audit function;
- gg) review all internal audit reports as submitted by the Internal Auditor;
- hh) receive updates from the Internal Auditor on the status of management's implementation of the recommendations within the internal audit reports;
- ii) meet with the Internal Auditor and with management to discuss the effectiveness of the internal control procedures established;
- jj) meet with the Internal Auditor in camera at the conclusion of each regularly scheduled meeting of the Committee;

External Audit

- kk) 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;
- ll) meet with the external auditor to review the Audit Planning Memorandum and annually approve the Audit Planning Memorandum;
- mm) concur with the compensation of the external auditor before recommending it to the Board of Directors for approval;
- nn) pre-approve services and expenditures to the external auditor, in accordance with the Audit Services Policy;
- oo) 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;
- pp) meet with the external auditor or auditors to discuss the annual financial statements and the returns and transactions referred to in this Mandate;
- qq) annually review all amounts paid to the external auditor and other accounting firms in the previous year;

- rr) identify, evaluate by performing annual assessments and periodic comprehensive assessments and, where appropriate, recommend to the shareholder(s), replacement of the external auditor;
- ss) annually report to the Board on the effectiveness of the external auditor;
- tt) 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;
- uu) 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;
- vv) meet with the external auditor in camera at the conclusion of each regularly scheduled meeting of the Committee;

Other Duties

- ww) institute and oversee special investigations, as needed;
- xx) perform other activities related to the Mandate as requested by the Board of Directors; and
- yy) confirm annually that all responsibilities outlined in the Mandate have been carried out.

5. The Audit Committee has the authority to:

- a) communicate directly with the internal and external auditors;
- b) engage independent counsel and other advisors as determined necessary;
- c) set and pay the compensation for any advisors employed by the Audit Committee, provided such compensation does not exceed \$10,000 in any fiscal year. Should the compensation of outside counsel or other advisor exceed \$10,000 in any fiscal year, the prior approval of the full Board of Directors will be required; and
- d) call a meeting of the Board of Directors to consider any matter that is of concern to the Committee.