



Versa**Bank**

**ANNUAL INFORMATION FORM**

For the year ended October 31, 2019

**JANUARY 20, 2020**



## ANNUAL INFORMATION FORM

All information is as of October 31, 2019, and all dollar amounts are expressed in Canadian dollars, unless otherwise stated.

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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 achievements 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”, or “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 monetary and fiscal policy, including changes in interest rate policies of the Bank of Canada; changing global commodity prices; the effects of competition in the markets in which we operate; capital market fluctuations; the timely development and introduction of new products in receptive markets; the impact of changes in laws and regulations pertaining to financial services; changes in tax laws; technological changes; unexpected judicial or regulatory proceedings; unexpected change in consumer spending and saving habits; and our anticipation of and success in managing the risks resulting from the foregoing. The foregoing list of important factors is not exhaustive. When relying on forward-looking statements to make decisions, investors and others should carefully consider the foregoing factors and other uncertainties and potential events.

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 for the year ended October 31, 2019 (the “2019 MD&A”), which is available on SEDAR at [www.sedar.com](http://www.sedar.com).

Some of the important risks and uncertainties that could affect forward-looking information are described further in this Annual Information Form, the 2019 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 such forward-looking information to reflect new events or circumstances.

## CORPORATE STRUCTURE

### INCORPORATION

VersaBank (or the “Bank”) is a Schedule I bank governed by the *Bank Act* (Canada) (the “*Bank Act*”). VersaBank was originally incorporated as a trust company, Pacific Western Trust Corporation (“PW Trust”), under *The Business Corporations Act* (Saskatchewan) in 1979. In 2002, PW Trust was granted a Schedule I bank licence and continued under the *Bank Act* as Pacific & Western Bank of Canada (“PW Bank”). PW Bank completed an initial public offering in 2013 and changed its name to “VersaBank” in 2016. With the approval of the Minister of Finance (Canada) (the “Minister”), VersaBank merged with its parent holding company, PWC Capital Inc., pursuant to letters patent of amalgamation under the *Bank Act* in 2017 (the “Amalgamation”).

VersaBank’s head and registered office is Suite 2002–140 Fullarton Street, London, Ontario, N6A 5P2.

## GENERAL DEVELOPMENT OF THE BUSINESS

### THREE YEAR HISTORY

In 2017, VersaBank generated annual interest income of \$71.8 million with a net interest margin (“NIM”) of 2.57%. Net income was \$19.5 million, which included an \$8.8 million one-time gain on the recognition of a deferred tax asset subsequent to the Amalgamation. Following the year end, VersaBank declared its first quarterly common share dividend at \$0.01 per share.

In 2018, VersaBank generated annual interest income of \$80.9 million with a NIM of 2.91%. Net income was \$18.1 million, and normalizing for the \$8.8 million gain captured in 2017, income before income taxes increased 70% over the prior year. VersaBank increased profitability, primarily, through the growth of its automated receivable purchase program (“ARPP”) and by continuing to expand its lower cost funding sources. Following the year end, VersaBank increased its quarterly common share dividend to \$0.015 per share.

In 2019, VersaBank generated annual interest income of \$88.3 million with a NIM of 3.00%. This resulted in VersaBank generating record net income of \$20.2 million. During the year, VersaBank declared an increase to its quarterly common share dividend to \$0.02 per share and, following the year end, declared another quarterly dividend increase to \$0.025 per share.

In 2020, VersaBank anticipates that its ARPP will continue to expand, its Commercial lending program will remain at about its present size and other innovative electronic lending programs and deposit programs will be launched.

## DESCRIPTION OF THE BUSINESS

### GENERAL SUMMARY

VersaBank adopted an electronic branchless model in 1993, becoming the world’s first branchless digital financial institution. VersaBank holds a Canadian Schedule I chartered bank license and obtains its deposits, and most of its loans and leases, electronically.

## Commercial Banking

Commercial loans are originated through a well-established network of mortgage brokers and syndication partners and through direct contact with VersaBank's clients. These loans are well-secured by real estate primarily located in Ontario. VersaBank is continuing to approach this business with caution and is letting the non-core portion of this portfolio run-off. Loans, at October 31, 2019, were \$595 million.

## eCommerce

Small loan and lease receivables are electronically purchased from VersaBank's network of origination partners who make point of sale loans and leases in various markets throughout Canada. This business continues to present strong potential for growth and enhanced profitability. Accordingly, VersaBank continues to allocate considerable resources to the development of innovative enhancements to maintain VersaBank's competitive advantage and increase the rate of growth of this portfolio. Lending assets at October 31, 2019, were \$995 million.

## Funding

VersaBank has established three core funding channels: personal deposits, commercial deposits, and holdbacks retained from VersaBank's ARPP origination partners that are classified as other liabilities. Personal deposits, consisting principally of guaranteed investment certificates, are sourced primarily through a well-established and well-diversified deposit broker network that we continue to grow and expand across Canada. Commercial deposits are sourced primarily through specialized chequing accounts made available to insolvency professionals. VersaBank has developed state-of-the-art customized banking software that is used by insolvency professionals. VersaBank's custom banking software integrates banking services with the market-leading software platforms used primarily in the administration of consumer bankruptcy and proposal restructuring proceedings. These low-cost diversified deposit channels provide VersaBank with a significant cost of funds advantage.

## Capital

As at October 31, 2019, VersaBank's common equity tier 1 ratio was 13.16%, up 158 bps from a year ago. VersaBank, like most small banks, uses the Standardized Approach to calculate its risk-weighted assets. VersaBank focuses on commercial and consumer loans with lower than average risk (as demonstrated by its long history of low provision for credit losses). VersaBank believes that the Standardized Approach does not accurately reflect the intrinsic risk in its lending portfolio and, consequently, VersaBank's leverage ratio is one of the most conservative in the industry, being more than twice the average leverage ratio of the major Canadian banks, which use the Advanced Internal Ratings Based Approach to calculate their risk-weighted assets. VersaBank plans to use its surplus regulatory capital to grow in lower risk-weighted asset categories.

## Credit Quality

VersaBank's business strategy involves taking lower credit risk but achieving higher NIM by providing superior service in niche markets that are not well-served by the larger financial institutions. VersaBank consistently leads the lending industry with very low credit losses.

## **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 banking businesses, VersaBank is highly specialized and has a relatively limited but focused product offering. Further, the Bank believes that its products are ideally suited to the niche markets that it has chosen to operate in and, accordingly, its products are in high demand.

VersaBank competes with a variety of Canadian financial institutions, both large and small, in the various lending markets in which it participates. However, VersaBank differentiates itself and reduces the prospect of direct competition with the major Canadian banks by focusing on lending in niche markets that 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 innovative financing solutions via a digital platform with the capability to quickly and efficiently respond to changes in the marketplace. VersaBank also has in place a well-developed credit adjudication function that has resulted in it consistently achieving industry leading credit performance.

## **NEW SERVICES**

VersaVault Inc.

Incorporated in 2018, VersaVault Inc. ("VV") was formed to develop and provide cybersecurity services to commercial entities. VV has entered into an exclusive license agreement with Chairmans Financial B.V. ("Chairmans"), a company registered in the Netherlands operating in the financial services space. The agreement permits Chairmans to use the VersaVault name and brand, and to offer global clients secure storage of digital assets, encryption, authentication and related services.

DRT Cyber Inc.

During 2019, DRT Cyber Inc., ("DRTC") was formed with the objective of building on the technology framework established by VV with a focus on developing a full suite of innovative cybersecurity solutions for the broader digital world. Moreover, DRTC's mission is to identify and address cybersecurity challenges experienced by government and corporate entities. DRTC is a subsidiary of the Bank. VV is, now, a subsidiary of DRTC.

## **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 it pertains to the business of banking. The Superintendent of Financial Institutions (Canada) (the "Superintendent") is responsible for the administration of the *Bank Act*. The Superintendent issues guidelines regarding disclosure of a bank's financial information. The Superintendent is required to make an annual examination of each bank and to monitor each bank's financial condition.

The Bank is also subject to regulation under the *Financial Consumer Agency of Canada Act* (the "*FCAC Act*"). The Financial Consumer Agency of Canada (the "Agency"), among other things, enforces consumer-related provisions of the federal statutes which govern financial institutions. The Commissioner of the Agency must report to the Minister on all matters connected with the administration of the *FCAC Act* and

consumer provisions of other federal statutes. The Bank is also subject to provincial and territorial laws of general application.

The Bank is a member institution of the Canada Deposit Insurance Corporation (“CDIC”). CDIC insures certain deposits held at its member institutions.

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*, 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 carry voting rights in excess of 10% of all of the voting rights in 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 acquire and hold a substantial investment in an entity that carries on a financial service activity which the bank could have carried on itself, 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. 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, banks may offer insurance products only through duly authorized subsidiaries and not through their branch systems. Banks are prohibited from engaging in direct automobile leasing.

The *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* (the “Act”) is applicable to the Bank’s business in Canada. The Act implements specific measures designed to detect and deter money laundering and the financing of terrorist activities. Further, the Act sets out obligations related to deterring and detecting money laundering and terrorist financing from a global perspective, in order to minimize the possibility that the Bank could become a party to these activities. The Bank has enterprise-wide anti-money laundering policies and procedures which assist in reducing the risk of facilitating money laundering and terrorist financing activities.

## **EMPLOYEES AND PRINCIPAL PROPERTIES**

At October 31, 2019, VersaBank had 92 full-time employees operating out of three facilities: two located in London, Ontario, and one located in Saskatoon, Saskatchewan. VersaBank opened its second facility in London in 2017, 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. In 2018, VersaBank moved its Saskatoon Office to Innovation Place, a technology park adjacent to the University of Saskatchewan.

Since VersaBank does not carry on a retail operation, all of these locations are offices for 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 2019 MD&A, which is incorporated herein by reference. Additional risks are described under the heading “*Risk Factors*” in VersaBank’s Management Information Circular dated April 24, 2019, which is incorporated herein by reference. Both documents are available on SEDAR at [www.sedar.com](http://www.sedar.com).

## DIVIDENDS

### COMMON SHARES

Holders of Common Shares of VersaBank (“Common Shares”) are entitled to receive, as and when declared by the Board, dividends. VersaBank’s Board of Directors (the “Board”) declared the initial quarterly cash dividend on Common Shares at its meeting on November 28, 2017. Prior to that date, VersaBank neither declared nor paid any dividends on Common Shares.

VersaBank has increased the quarterly dividend, paid on Common Shares, three times in the last two years. Most recently, on November 1, 2019, a Common Share dividend was declared in the amount of \$0.025 per share, payable as of January 31, 2020, to shareholders of record at the close of business on January 3, 2020. VersaBank expects to continue paying quarterly cash dividends at a rate of \$0.025 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 Common Shares should not assume that dividends will be paid in the future.

### PREFERRED SHARES

For the five-year period commencing on November 1, 2019, holders of Series 1 Preferred Shares of VersaBank (“Series 1 Preferred Shares”) are entitled to receive, as and when declared by the Board, fixed non-cumulative preferential cash dividends at the rate of \$0.6772 per share per annum, or \$0.1693 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 Toronto Stock Exchange (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, until the five-year rate reset on October 31, 2019, VersaBank has paid quarterly cash dividends to holders of Series 1 Preferred Shares at a rate of \$0.175 per share.

Additional information regarding the Series 1 Preferred Shares is described within the Short Form Prospectus dated October 22, 2014 (the “Series 1 Prospectus”), which is incorporated herein by reference. The Series 1 Prospectus is available on SEDAR at [www.sedar.com](http://www.sedar.com).

Holders of Series 3 Preferred Shares of VersaBank (“Series 3 Preferred Shares”) 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.

Additional information regarding the Series 3 Preferred Shares is described within the Short Form Prospectus dated February 19, 2015 (the "Series 3 Prospectus"), which is incorporated herein by reference. The Series 3 Prospectus is available on SEDAR at [www.sedar.com](http://www.sedar.com).

## DIVIDEND SUMMARY

The following dividends were declared for each of the three most recently completed financial years:<sup>1</sup>

Share Class	F2019	F2018	F2017
Common Shares	\$1,478,649	\$844,942	Nil
Series 1 Preferred Shares	\$1,023,022	\$1,023,022	\$1,023,022
Series 3 Preferred Shares	\$1,176,924	\$1,176,924	\$1,176,924

## CAPITAL STRUCTURE

VersaBank is authorized to issue an unlimited number of 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 Common Shares outstanding as at October 31, 2019.

Holders of 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 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 Common Shares will be entitled to receive the remaining property and assets of VersaBank.

<sup>1</sup> Amounts rounded to nearest dollar.

## **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 basis 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 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 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 Series 2 Preferred Shares ("Series 2 Preferred Shares"), an unlimited number of Series 3 Preferred Shares, and an unlimited number of non-cumulative floating rate Series 4 Preferred Shares ("Series 4 Preferred Shares").

The following is a summary of the rights, privileges, restrictions and conditions of, or attaching to, each of the four series of Preferred Shares.

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

There were 1,461,460 Series 1 Preferred Shares outstanding as at October 31, 2019.

During the initial five-year period ending October 31, 2019, holders of Series 1 Preferred Shares were 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 7.00% per annum. Thereafter, the dividend rate resets every five years at a level of 543 basis points over the then 5-year Government of Canada bond yield. On November 1, 2019, in accordance with the Series 1 Prospectus, the dividend rate reset to 6.772% per annum.

The Series 1 Preferred Shares were not redeemable prior to October 31, 2019. On October 31, 2019, VersaBank did not, in accordance with its option, redeem any of the outstanding Series 1 Preferred Shares for cash. VersaBank may, at its option, redeem for cash all, or any part, of the then outstanding Series 1 Preferred Shares on October 31 every five years after October 31, 2019, 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/had 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 are not 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. As of October 31, 2019, none of the Series 1 Preferred Shares had been converted to Series 2 Preferred Shares.

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 (the "CAR Guideline"), effective November 1, 2018, 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 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 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, 2019. If issued, 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. Additional information regarding the Series 2 Preferred Shares, including voting rights, provisions for exchange, conversion, exercise, redemption and retraction, dividend rights, and rights upon dissolution or winding-up is described within the Series 1 Prospectus.

### **Series 3 Preferred Shares**

There were 1,681,320 Series 3 Preferred Shares outstanding as at October 31, 2019.

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 7.00% 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 CAR Guideline, 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 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 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 Common Shares which will rank on parity with all other 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, 2019. If issued, 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. Additional information regarding the Series 4 Preferred Shares, including voting rights, provisions for exchange, conversion, exercise, redemption and retraction, dividend rights, and rights upon dissolution or winding-up is described within the Series 3 Prospectus.

#### **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. Ownership, directly or indirectly, of more than 10% of any class of shares of a bank constitutes a significant interest. As of October 31, 2019, 340268 Ontario Limited owned approximately 34.66% of the Common Shares of the Bank. Approval from the Minister 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 monitors 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:

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

The following chart provides a summary of trading on the TSX:

Month	COMMON SHARES			SERIES 1 PREFERRED SHARES			SERIES 3 PREFERRED SHARES		
	High	Low	Trading Volume	High	Low	Trading Volume	High	Low	Trading Volume
Oct 2019	\$7.07	\$6.50	142,410	\$10.45	\$9.95	27,860	\$10.39	\$10.00	14,166
Sep 2019	\$7.05	\$6.51	226,189	\$10.05	\$9.97	17,590	\$10.08	\$10.00	14,000
Aug 2019	\$7.10	\$6.67	180,687	\$10.20	\$9.96	37,786	\$10.09	\$10.00	25,585
Jul 2019	\$7.35	\$7.01	111,847	\$10.15	\$10.00	16,162	\$10.65	\$10.05	10,740
Jun 2019	\$7.26	\$6.82	331,678	\$10.29	\$10.00	34,712	\$10.30	\$10.10	9,650
May 2019	\$7.54	\$7.13	228,438	\$10.10	\$10.05	7,700	\$10.80	\$10.16	15,373
Apr 2019	\$7.65	\$7.30	133,402	\$10.44	\$9.99	19,210	\$10.57	\$10.10	10,651
Mar 2019	\$7.70	\$7.20	251,174	\$10.50	\$9.95	12,933	\$10.35	\$10.05	6,050
Feb 2019	\$7.87	\$7.19	315,062	\$10.15	\$10.00	164,150	\$10.35	\$10.00	7,790
Jan 2019	\$7.56	\$7.03	343,187	\$10.51	\$10.00	3,001	\$10.25	\$10.11	6,425
Dec 2018	\$7.70	\$6.91	215,935	\$10.10	\$10.00	14,725	\$10.40	\$9.95	14,243
Nov 2018	\$7.90	\$7.02	334,164	\$10.73	\$10.00	17,988	\$10.60	\$10.15	9,040

The following chart provides a summary of total trading volume on stock exchanges and trading platforms, including trading volume on the TSX:

TOTAL TRADING VOLUME			
Month	Common Shares	Series 1 Preferred Shares	Series 3 Preferred Shares
Oct 2019	185,606	39,131	19,474
Sep 2019	284,140	23,905	19,685
Aug 2019	239,593	45,817	26,870
Jul 2019	140,667	22,246	19,792
Jun 2019	429,068	38,259	24,135
May 2019	401,632	8,841	25,181
Apr 2019	199,112	20,106	16,330
Mar 2019	352,008	17,033	8,216
Feb 2019	388,806	167,916	13,310
Jan 2019	427,206	4,148	11,728
Dec 2018	326,476	20,025	15,893
Nov 2018	438,635	21,488	11,769

## DIRECTORS AND OFFICERS

### DIRECTORS

The names, municipalities of residence, positions held with VersaBank, and principal occupations of its directors, as of January 20, 2020, are as follows:

Name	Office Held and Time as Director	Principal Occupation
The Honourable Thomas A. Hockin, P.C. Rancho Mirage, California, USA	Chairman Director since August 21, 2014	Retired, former Executive Director of the International Monetary Fund
David R. Taylor Ilderton, Ontario	President and Chief Executive Officer Director since January 18, 1993	President and Chief Executive Officer of VersaBank
Gabrielle Bochyneck <sup>(3)</sup> Toronto, Ontario	Director since April 24, 2019	Principal, Human Resources & Labour Relations, The Osborne Group
Robbert-Jan Brabander <sup>(2)(4)</sup> 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> London, Ontario	Director since September 23, 1993	Retired, former President of Bratton Consulting Inc.



Name	Office Held and Time as Director	Principal Occupation
R.W. (Dick) Carter <sup>(1)</sup> Regina, Saskatchewan	Director since December 1, 2014	Retired, former Chief Executive Officer of the Crown Investments Corporation of Saskatchewan
Colin E. Litton <sup>(1)(2)</sup> Oakville, Ontario	Director since June 1, 2010	Retired, former senior partner of KPMG LLP
Susan T. McGovern <sup>(3) (4)</sup> Gormley, Ontario	Director since May 6, 2011	Vice President, External Relations and Advancement, Ontario Tech University
Paul G. Oliver <sup>(1)(2)</sup> Markham, Ontario	Director since June 2, 2005	Retired, former senior partner of PricewaterhouseCoopers LLP
Avery Pennarun <sup>(4)</sup> Montreal, Quebec	Director since April 27, 2016	Co-founder & CEO, Tailscale 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 20, 2020, are as follows:

Name	Office Held	Principal Occupation
David R. Taylor Ilderton, Ontario	President and Chief Executive Officer	President and Chief Executive Officer of VersaBank
R. Shawn Clarke Ilderton, Ontario	Chief Financial Officer & Corporate Secretary	Chief Financial Officer of VersaBank
Michael R. Dixon London, Ontario	SVP, eCommerce	SVP, eCommerce of VersaBank
Ross P. Duggan London, Ontario	SVP, Commercial Lending	SVP, Commercial Lending of VersaBank
Nick Kristo London, Ontario	Chief Credit Officer	Chief Credit Officer of VersaBank
Aly Lalani London, Ontario	Chief Risk Officer and Treasurer	Chief Risk Officer and Treasurer of VersaBank
Jonathan F.P. Taylor Saskatoon, Saskatchewan	SVP, Deposits & Chief HR Officer	SVP, Deposits & Chief HR Officer of VersaBank

At January 20, 2020, there were 21,123,559 issued and outstanding Common Shares. The directors and executive officers of VersaBank as a group beneficially own, directly or indirectly, or have control or direction over 1,276,383 Common Shares, representing approximately 6.04% of the total number of Common Shares outstanding.

At January 20, 2020, 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 8,535 Series 1 Preferred Shares of VersaBank, representing approximately 0.58% of the total number of Series 1 Preferred Shares outstanding.

At January 20, 2020, 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 3,300 Series 3 Preferred Shares of VersaBank, representing approximately 0.20% 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 (“2016 MD&A”), 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, 2019. The 2016 MD&A is available on SEDAR at [www.sedar.com](http://www.sedar.com).

## TRANSFER AGENT AND REGISTRAR

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

## EXPERTS

KPMG LLP, Chartered Professional Accountants, 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 Ontario.

## AUDIT COMMITTEE

### AUDIT COMMITTEE MANDATE

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

### COMPOSITION OF THE AUDIT COMMITTEE

The members of the Audit Committee are:

- (1) R.W. (Dick) Carter (Chair)
- (2) Colin E. Litton
- (3) Paul G. Oliver

Each member of the Audit Committee is both independent and financially literate, as such terms are defined in Canadian securities legislation.

### **RELEVANT EDUCATION AND EXPERIENCE**

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 partner of KPMG LLP and has over 30 years of 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.

### **PRE-APPROVAL POLICIES AND PROCEDURES**

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.

### **AUDITOR FEES**

#### Audit Fees

Audit fees paid to KPMG LLP during the year ended October 31, 2019, for VersaBank were \$432,000 and during the year ended October 31, 2018, were \$429,000. 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, 2019, for VersaBank were \$104,500 and during the year ended October 31, 2018, were \$78,800. Audit-related fees were for assurance and services reasonably related to the performance of the audit of the consolidated financial statements.

#### Tax Fees

Fees paid to KPMG LLP for tax related services during the year ended October 31, 2019, for VersaBank were \$45,475 and during the year ended October 31, 2018, were \$38,000. Tax fees were for tax compliance, tax advice and tax-planning professional services.

#### All Other Fees

No other fees were paid to KPMG LLP during the years ended October 31, 2019, or October 31, 2018.

### ADDITIONAL INFORMATION

Additional information regarding VersaBank may be found on SEDAR at [www.sedar.com](http://www.sedar.com) 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 Meeting of Shareholders being held on or about April 22, 2020. Additional financial information is provided in VersaBank's consolidated financial statements and MD&A for the year ended October 31, 2019.

## APPENDIX A: AUDIT COMMITTEE MANDATE

### **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 quarterly, management's assessment of the appropriateness of the expected credit loss allowance.
- i) 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 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 Internal Audit Function 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 Chief 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 Chief 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.
- o) Meet with the CAMLO in-camera at least bi-annually.

## **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 meets the independence criteria as set out in the Bank's Director Independence Policy, including the subsection entitled "Additional Considerations for Audit Committee Members".

<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.