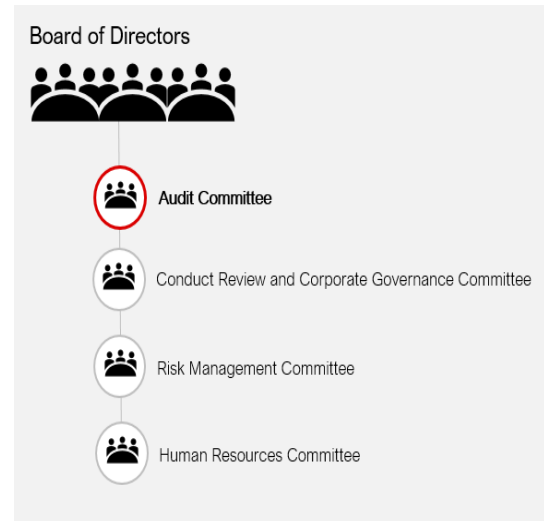


Audit Committee

The Bank's Board of Directors delegates certain powers to the Audit Committee, which has the mandate to oversee the Bank's financial soundness. Among the activities it performs as part of its mandate, the Committee:

- **Obtains reports** on the Bank's management and financial position, the effectiveness and efficiency of the main governance processes and systems, the management of risks and internal controls and the financial risks it faces.
- **Reviews the recommendations** for addressing such risks and follows up on the recommendations implemented.
- **Ensures** that Management has implemented the appropriate internal controls.
- **Recommends to the Board the independent auditor candidate** who will be proposed to shareholders.



The Committee entrusts certain responsibilities to Bank resources or independent third parties, such as to the Finance and Internal Audit oversight functions and to the independent auditor:

- **The Finance oversight function:** Reporting to the Chief Financial Officer and Executive Vice-President, Finance, the Finance oversight function oversees the management of financial resources and the governance of financial information. It helps the Bank sectors manage their financial performance, ensures compliance with regulatory requirements and is responsible for presenting the Bank's information to shareholders.
- **The Internal Audit oversight function:** The Senior Vice-President, Internal Audit is responsible for objectively providing independent assurance and advice to the Committee, the Board and Bank Management on the efficiency of the main governance processes and systems and on the management of risks and internal controls, as well as offering recommendations and advice for promoting the Bank's long-term strength.
- **The independent auditor:** The independent auditor expresses an opinion on the consolidated financial statements and provides reports. It makes recommendations for improving the Bank's internal controls.

Moreover, the Committee:

- **Oversees** their performance and independence.
- **Ensures** that Management has implemented the measures and procedures to provide quality financial information.
- **Obtains information** about any situation that could jeopardize the Bank's financial soundness.
- **Examines** any document under its responsibility by law, regulation or submitted by any regulatory authority.

1 Role and responsibilities

1.1 Appointment and Mandate of Oversight Functions and the Independent Auditor

Independent auditor

Appointment

- The Committee evaluates the independent auditor candidates. It periodically considers whether it is appropriate to launch a call for tenders in order to select a candidate firm to act as independent auditor.
- It proposes the appointment of the independent auditor. It recommends the appointment to the Board, which submits it to a shareholder vote.
- The Committee also makes recommendations concerning the independent auditor's compensation.
- The Committee can recommend the removal of the independent auditor.

Mandate and annual plan

- The Committee approves the annual plan and the engagement letter which sets out the conditions and scope of services provided by the independent auditor.
- It ensures that the scope of the plan is appropriate, namely that it is based on financial and other material risks.
- In the event of any substantial change to the annual plan, the Committee assesses, with the support of the independent auditor, whether the change could adversely affect the quality of the audit engagement.
- The Committee must preapprove the audit and any other mandates of the independent auditor and put in place clear procedures and conditions for assigning those and any other mandates:
 - Guideline: Each year, the Committee recommends to the Board of Directors that it approve the guidelines concerning the management of the services provided by the independent auditor.
 - Delegation: The Committee delegates to its Chairman the power to approve these mandates.

Oversight function heads

Appointment of the Chief Financial Officer and Executive Vice-President, Finance and of the Senior Vice-President, Internal Audit

- The Committee reads over the recommendations of the President and Chief Executive Officer of the Bank concerning the appointment or replacement of the Senior Vice-President, Internal Audit and the Chief Financial Officer and Executive Vice-President, Finance. The Committee then makes its recommendations to the Board.
- Once a year, the Committee reads over the succession plans for the Senior Vice-President, Internal Audit and the Chief Financial Officer and Executive Vice-President, Finance. The Committee then makes its recommendations to the Board.

Mandate and annual plan

- Each year, the Committee reviews and approves the Internal Audit Charter and the mandate of the Finance oversight function.
- Each year, the Committee reviews and approves the Annual Internal Audit Plan and makes recommendations as necessary.
- The Committee ensures that the oversight functions have the necessary and appropriate resources and structure to fulfill their mandate.
- The Committee approves the budgets of the oversight functions annually.

1.2 Performance, Oversight and Independence of the Oversight Functions and the Independent Auditor

Independent auditor

Self-assessment

At least once a year, the independent auditor presents a report outlining:

- Its internal practices concerning the quality control of its services.
- Important matters arising from its most recent quality control and peer reviews or following investigations by professional or government authorities in the previous five years regarding its engagement and the measures taken to settle such matters.
- Its assessment and internal procedures for ensuring its independence.
- Its business relationship with the Bank.

Annual assessment by the Bank

- Before the independent auditor tables its report on the annual consolidated financial statements, the Committee formally assesses the effectiveness of the contribution of the independent auditor, as well as its competencies, resources, independence, support and communication skills.
- The Committee reports to the Board on the effectiveness of the independent auditor.

Periodic assessment by the Bank

- The Committee periodically assesses the overall performance of the independent auditor for all provided services. It is supported by Management and the recommendation of the Bank's Senior Vice-President, Internal Audit.
- At least once every five years, the Committee conducts a full assessment of the independent auditor in accordance with the recommendations of CPA Canada and the Canadian Public Accountability Board.

Rotation of partners responsible for the engagement

- The Committee reviews the competencies, performance and independence of the partner responsible for the audit and the audit team.
- The Committee discusses the appropriate time and procedure for rotating each of its partners.

Chief Financial Officer and Executive Vice-President, Finance and Senior Vice-President, Internal Audit

Assessment of independence

- The Committee ensures the independence and effectiveness of Internal Audit and the Finance oversight functions. To fulfill this role, it ensures that these oversight functions are free of any influence that could adversely affect their ability to carry out their responsibilities objectively. The Committee also ensures that these oversight functions have sufficient stature and authority within the Bank.
- The Chief Financial Officer and Executive Vice-President, Finance reports to the President and Chief Executive Officer of the Bank and has direct access to the Committee Chair.
- To ensure the independence of the Internal Audit oversight function, the Committee ensures:
 - That he reports in an administrative capacity to the President and Chief Executive Officer.
 - That he has direct access to the Committee Chair and the President and Chief Executive Officer of the Bank.
 - That he has access to the required information.
 - That he regularly meets with the Chair of the Committee without Management presence in order to review matters raised concerning relations with the Bank's Management and access to required information.

Performance assessment, compensation and oversight

- The Committee periodically assesses the effectiveness of the Finance and Internal Audit oversight functions, as well as their oversight processes. To fulfill this role, with the assistance of independent external consultants, it benchmarks the Finance and Internal Audit's oversight functions and processes.
- The Committee annually reviews the performance of the Senior Vice-President, Internal Audit and the Chief Executive Officer and Executive Vice-President, Finance, and helps determine their compensation. The Committee then makes its recommendations to the Board.

1.3 Financial Information

Integrity of financial information

- The Committee reviews, together with the independent auditor, the consolidated financial statements, the Annual Report and the Annual Information Form, and ensures that they accurately present the Bank's financial performance and cash flows.
 - *Approval.* It recommends that the Board approve them before they are published, after looking over the independent auditor's conclusions.
- The Committee continuously oversees the independent auditor's work, which may include conclusions regarding the financial statements, reviews, certifications and other services.
- In the event of disagreements between the independent auditor and Management regarding financial information, the Committee may intervene to reach an agreement.

- The Committee, the independent auditor and Management discuss documents related to the integrity of financial information and any other concerns the independent auditor may have.
- The Committee and the independent auditor discuss the quality and acceptability of the accounting principles applied in preparing the consolidated financial statements.
- The Committee reviews the annual management letter from the independent auditor and follows up on the corrective action taken by Management.
- The Committee obtains all important correspondence between the independent auditor and Management regarding audit findings.

Financial reporting

- The Committee reviews the press releases concerning financial information, audit processes and management information systems. It ensures their integrity, the effectiveness of processes, and compliance with applicable accounting standards.
- It reviews the process where the President and Chief Executive Officer and the Chief Financial Officer certify the integrity of the financial statements.
- The Committee ensures that adequate procedures are in place for publicly disclosing information derived from the financial statements.

1.4 Review of the Bank's Financial Soundness

Annual budget and financial plan

- The Committee reviews and recommends to the Board the Bank's operating budget, which contains information on economic outlooks, consolidated and sectorial financial objectives, operating expenses and the capital budget.

Investments and transactions

- The Committee is made aware of any investment or transaction having a material effect on the Bank's financial position brought to its attention by Internal Audit, the independent auditor or a member of Management.

Disputes and claims

- The Committee looks over all reports from Management regarding any dispute, notice of assessment or claim that could adversely affect the Bank's financial position.
- It ensures that material claims are properly disclosed in the financial statements.

Taxation

- The Committee reads over any reports relating to tax planning and risks.

Dividends

- The Committee reviews the declaration of dividends and makes recommendations to the Board.

Environmental, social and governance responsibility (ESG)

- The Committee performs its activities in accordance with the Bank's ESG practices and strategies.
- It monitors trends relating to control mechanisms and the integration of ESG criteria in financial reporting.

1.5 Control Mechanisms and Reporting

Internal Audit reports

- Reviews the report of the Senior Vice-President, Internal Audit, discusses the main audit reports, and ensures that the necessary steps are taken to follow up on important report recommendations.

Reporting of irregularities related to accounting, auditing or internal controls

- The Committee reviews and reports to the Board any accounting or financial irregularities reported anonymously by employees or directors.
- It ensures that the policy on reporting irregularities and adequate procedures are implemented for the receipt, retention and handling of irregularities reported and the confidential submission of concerns relating to accounting or auditing matters. This policy is reviewed periodically.
- It reviews the Corporate Compliance report on matters reported to the Ombudsman as well as investigation results.

1.6 Continued Education

- The Committee is informed of changes to accounting standards that could have an impact on the Bank or its consolidated financial statement's disclosure.
- The Committee also stays informed of legislative, auditing and financial reporting changes.
- It informs the Board of such changes or new developments.
- To stay informed on matters relating to its mandate, the Committee attends information sessions on matters that fall under its expertise.

1.7 Banks' subsidiaries

- The Committee acts as an Audit Committee for Natcan Trust Company in accordance with the *Trust and Loan Companies Act* (Canada), notably for the approval of the consolidated financial statements and the appointment of the independent auditor.
- The Committee may also act as Audit Committee for any other subsidiary of the Bank where permitted under its incorporating act. As such, it fulfills all the duties falling upon such committee, in accordance with legislation.

2 Powers

2.1 Hiring Independent External Consultants

- The Committee may hire legal advisors or other independent external consultants to assist it in fulfilling its responsibilities.
- The Committee sets and pays the its consultants compensation. The Bank provides the funds necessary to pay for the services provided by these consultants.

2.2 Investigating and having access to the books, registries, premises, officers and employees

- The Committee may investigate any issue it deems relevant. To conduct its investigation, it may have full access to the Bank's books, registries, premises, officers and employees.

2.3 Delegating powers to a sub-committee

- The Committee may, at its discretion, designate a sub-committee to review any issue raised by the current mandate.

2.4 Contacting officers and employees directly

- The Committee may contact the Vice-President – Legal Affairs and Corporate Secretary and any other Bank officer or employee directly.

2.5 Performing any duties assigned to it or stipulated by law

- The Committee performs any duty required by the legislation in effect or any duty assigned to it by the Board from time to time.
- The Committee submits to the Board all recommendations it deems appropriate with respect to matters that fall within its purview.

3 Composition

3.1 Composition of the Committee

- Appointed by the Board and composed of Board directors
- Minimum of three members
- A majority of the members consists of directors who are not affiliated with the Bank; no employee or officer of the Bank or one of its subsidiaries may therefore be part of it.
- Members appointed by the Board upon recommendation from the Committee
- One Chair, appointed by the Board from among the Committee members
- One secretary, who is the secretary of the Bank, an assistant secretary or any other person designated by the secretary of the Bank
- The composition of the Committee is review each year

Overboarding

- Members of the Committee will not serve on more than three public corporation audit committees, including the Bank's, without the approval of the Board.

3.2 Chair of the Committee

- The duties of the Committee Chair are set out in the mandate of the Chairs. The Committee Chair may ask the Chair of the Board to have certain matters for which the Committee is responsible submitted to the Board.

3.3 Selection Criteria for Committee members

Have the required skills and knowledge

- Each of the Committee members is "financially literate" within the meaning of *Regulation 52-110 respecting Audit Committees* or is able to become financially literate within a reasonable period of time following his appointment.

Be independent

- Every member must be independent as defined by the Canadian Securities Administrators.

3.4 Term of Mandate for Committee Members

Duration

All members carry out their duties until a successor is appointed, or until they:

- resign
- are relieved of their duties
- no longer sit as Board directors

Replacing a member after their departure during the year (vacancy)

- A vacancy on the Committee is filled by the Board as it deems appropriate.
- If it does not appoint a new member and the Committee has the required minimum number of members, the Committee's decisions will be valid.

4 Meetings

4.1 Dates of meetings

Regular meetings scheduled in advance

- At least one meeting per quarter
- Dates, times, goals and locations of meetings are set in advance by the Board for the entire year. This information is sent to members at the beginning of the year. No other notice is sent.

Unscheduled meetings called during the year (as needed)

Who may call them?

- Unscheduled meetings may be called by:
 - ✓ The Chair of the Committee
 - ✓ Any other Committee member
 - ✓ The Chair of the Board
 - ✓ The President and Chief Executive Officer
 - ✓ The Chief Financial Officer and Executive Vice-President, Finance
 - ✓ The Senior Vice-President, Internal Audit

Date, time and location of such a meeting

- The date, time, goal and location of the meeting are sent by any means of communication, without any required additional notice. The notice also states the purpose of the meeting.

Notice of meeting required unless exception:

- *24-hour notice:* Members must be advised about an unscheduled meeting no less than 24 hours before the time and date set for the meeting.
- *Waiver of notice:* The presence of a member at a meeting constitutes a waiver of this notice of meeting, except if this member is present to specifically oppose the review of any issue, claiming that the meeting was not called in due form.
- *Exception No. 1 – Two-hour notice:* The notice may be sent two hours in advance if there is an emergency called by the Chair of the Board, the Chair of the Committee or the President and Chief Executive Officer.
- *Exception No. 2 – Without notice:* An unscheduled Committee meeting may be held without notice when all Committee members are present or when the absent members provide a written waiver of notice of the meeting.

Exceptional meetings of the Board to review matters of interest to the Committee

- The Committee Chair may call a meeting of the Board to discuss matters of interest to the Committee.

4.2 Attendance: in person or remotely

- Meetings may be held by telephone or via any other means that enable all members to communicate with each other adequately and simultaneously. The person participating remotely is presumed to be in attendance.

4.3 Individuals who may be Invited to Meetings

President and Chief Executive Officer

- He or she may attend every meeting of the Committee.

Independent Auditor

- He or she is entitled to receive the notices for Committee meetings, attend discussions involving related parties and express their opinion.

Any other person invited by the Committee

- They can attend part of or the entire meeting, based on what has been agreed with the Committee.

In camera meeting

- Part of the meeting must always take place in the absence of the President and Chief Executive Officer or any other Bank officer.

4.4 Minimum Number of Members to hold a Meeting of the Committee (quorum)

- A majority of the Committee members must be present: If a member is temporarily absent from a meeting because the topic discussed puts them in a conflict of interest, they will be considered to be present for the meeting (subsection 182(3) of the Bank Act).
- Not enough members present for quorum? The Committee Chair can ask the Chair of the Board to act as a member of the Committee for this meeting and give them voting rights, unless the Chair of the Board is already a member of the Committee.
- Is the Chair unavailable to attend? The Committee selects a Chair from members present at the meeting or asks the Chair of the Board to chair the meeting.

4.5 Vote

- All decisions to be made by the Committee must be voted on.
- Majority vote: The decisions voted on by the Committee must be approved by a majority vote of the members present.
- Unanimous vote if the meeting only includes two members: If the Committee is composed of three members and only two members attend a meeting, the decisions to be voted on must be passed unanimously.

4.6 Minutes of the Meeting

- Minutes: The secretary is responsible for drafting the minutes after each Committee meeting. These must be approved by Committee members before being filed with the records of minutes. These minutes are provided to all directors at the next Board meeting for information purposes.
- Oral report of the Chair to the Board: The Committee Chair must present an oral report on the deliberations and recommendations of the Committee at the next Board meeting.

Approved on May 30, 2019