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FORWARD-LOOKING STATEMENTS

The statements in this Management's Discussion and Analysis that relate to the future are forward-looking statements. By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that predictions, forecasts, projections and other forward-looking statements will not be achieved. Readers are cautioned not to place undue reliance on these forward-looking statements as a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include, but are not limited to, the strength of the Canadian economy in general and the strength of the 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; inflation; capital market fluctuations; the timely development and introduction of new products in receptive markets; the impact of changes in the laws and regulations regulating financial services; changes in tax laws; technological changes; unexpected judicial or regulatory proceedings; unexpected changes in consumer spending and savings 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. Except as required by securities law, we do not undertake to update any forward-looking statement that is contained in this Management's Discussion and Analysis or made from time to time by VersaBank.

OVERVIEW

VersaBank (the "Bank") is a technologically proficient Canadian Schedule I chartered bank that operates using an electronic branchless model. The Bank sources its funding through a well-established and widely diversified nationwide network of deposit brokers as well as from insolvency industry professionals via a customized banking software solution, and from cash holdbacks retained through its receivable purchase program. The Bank purchases loan and lease receivables from non-bank financial services companies and also originates and services real estate development and commercial loans that are sourced through direct contact with its clients as well as through mortgage brokers and syndication partners. The Bank's Common Shares, Series 1 Preferred Shares, and Series 3 Preferred Shares trade on the Toronto Stock Exchange.

Significant events

On September 12, 2016 and November 15, 2016, PWC Capital Inc. ("PWC") and VersaBank jointly announced that they had entered into an agreement to merge by amalgamation under the *Bank Act* (*Canada*) (the "Amalgamation"). This transaction was completed on January 31, 2017, pursuant to section 228 of the *Bank Act* (*Canada*), with the amalgamated entity continuing under the name VersaBank. Pursuant to the Amalgamation: (i) each issued and outstanding common share of PWC (other than PWC common shares with respect to which dissent rights were exercised) was converted into common shares of the Bank on the basis of 54.508758 PWC common shares for 1 Bank common share, resulting in a total of 13,643,713 Bank common shares being issued, (ii) 12,615,219 outstanding common shares of VersaBank held by PWC prior to the Amalgamation were cancelled, and (iii) each issued and outstanding security of VersaBank held prior to the Amalgamation continued on under the same arrangement subsequent to the Amalgamation. As a result of the above, at January 31, 2017 the issued and outstanding common shares of the Bank increased by 1,028,494 shares to 21,123,559 common shares.

In addition, each outstanding option to acquire PWC Common Shares was converted into an option to purchase Bank common shares resulting in 7,059 additional options being issued (as at October 31, 2017, 6,617 of the 7,059 additional options remain outstanding).

Strategy

VersaBank's strategy is to utilize established, non-branch financial product distribution channels to deliver innovative commercial and consumer lending and deposit products to customers in niche markets that are not well served by the larger Canadian financial institutions.

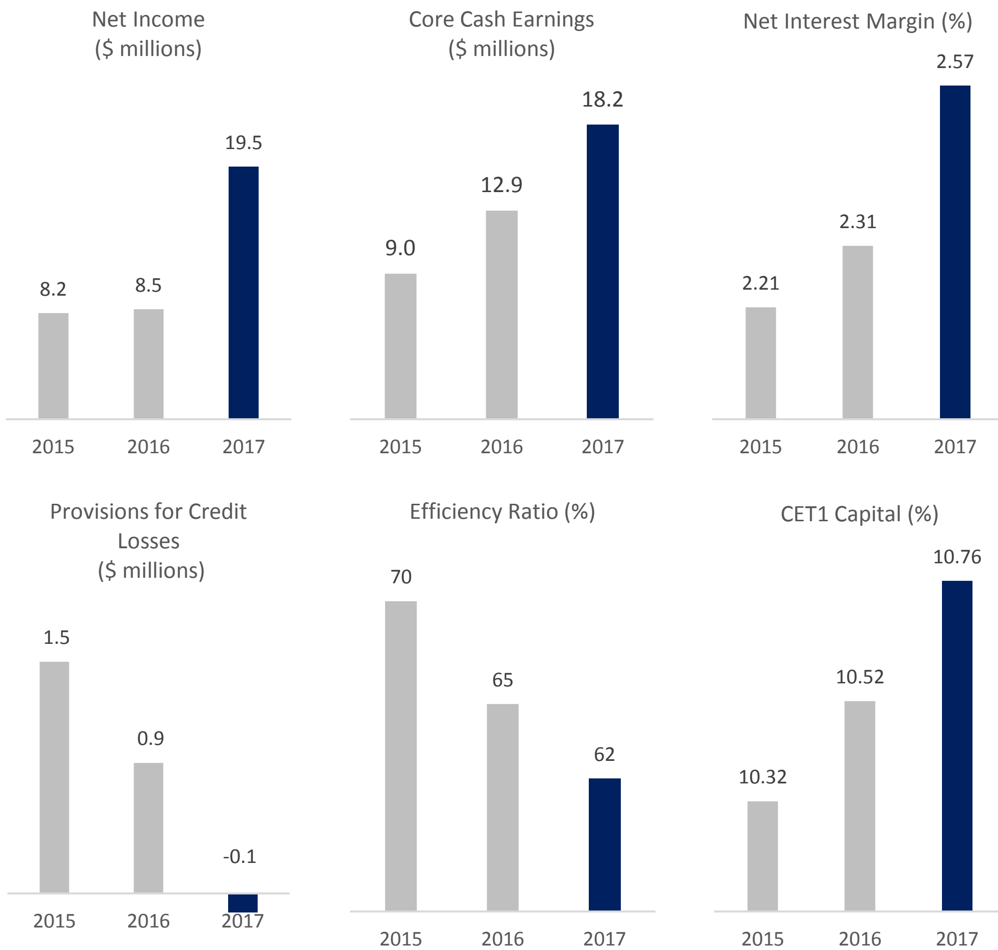
SELECTED FINANCIAL AND OTHER HIGHLIGHTS

(thousands of Canadian dollars except per share amounts)	October 31 2017	October 31 2016	October 31 2015
Interest income	$ 71,765	$ 69,662	$ 64,457
Net interest income	43,983	38,404	33,974
Non-interest income (loss)	(141)	1,273	1,394
Total revenue	43,842	39,677	35,368
Provision for (recovery of) credit losses	(125)	871	1,545
Non-interest expenses	27,190	25,956	24,784
Restructuring charges	2,045	1,092	-
Core cash earnings*	18,168	12,850	9,039
Net income	$ 19,472	$ 8,470	$ 8,218
Income per common share:			
Basic	$ 0.83	$ 0.32	$ 0.33
Diluted	$ 0.83	$ 0.32	$ 0.33
Dividends paid on preferred shares	$ 2,201	$ 2,201	$ 1,822
Yield*	4.19%	4.18%	4.19%
Cost of funds*	1.62%	1.87%	1.98%
Net interest margin*	2.57%	2.31%	2.21%
Return on average common equity*	10.29%	4.15%	4.50%
Provision for (recovery of) credit losses as a % of average total loans*	(0.01%)	0.06%	0.12%
Gross impaired loans to total loans*	0.04%	0.00%	0.00%
Full time employees	80	80	79
Efficiency ratio**	62.02%	65.42%	70.07%
Book value per common share*	$ 8.48	$ 7.79	$ 7.47
Financial Condition:			
Cash and securities	$ 160,171	$ 103,922	$ 149,511
Loans, net of allowance for credit losses	1,520,857	1,563,612	1,447,660
Total assets	1,725,049	1,704,400	1,625,806
Deposits	1,376,006	1,369,647	1,325,828
Subordinated notes payable	9,786	14,067	13,959
Capital Position and Ratios:			
Common Equity Tier 1 capital	$ 152,789	$ 149,985	$ 136,254
Total regulatory capital	188,126	189,122	178,291
Risk-weighted assets	1,420,276	1,425,171	1,320,158
Common Equity Tier 1 ratio	10.76%	10.52%	10.32%
Tier 1 capital ratio	12.82%	12.58%	12.54%
Total capital ratio	13.25%	13.27%	13.51%
Leverage ratio	10.06%	9.82%	9.53%

* This is a non-GAAP measure. See definition in 'Non-GAAP and Additional GAAP Measures' in the Basis of Presentation section below.

**Efficiency ratio is adjusted for restructuring charges.

OVERVIEW OF PERFORMANCE



Net income for the year was up 130% to $19.5 million or $0.83 per common share (basic and diluted) from $8.5 million or $0.32 per common share (basic and diluted) in 2016. Net income for the year includes the recognition of $8.8 million in deferred income tax assets derived from the tax loss carry-forwards recognized subsequent to the Amalgamation in January, 2017 and restructuring charges of $2.0 million associated with the Amalgamation and the Bank's corporate reorganization.

Core cash earnings for the year was up 41% to $18.2 million or $0.87 per common share (basic and diluted) from $12.9 million or $0.65 per common share (basic and diluted) in 2016 primarily due to increased net interest income and reduced provisions for credit losses. In light of the Amalgamation, the corporate reorganization, and the Bank's efforts to optimize its balance sheet mix and focus its product offerings over the course of the year, core cash earnings has emerged as a more meaningful indicator of the Bank's operational performance. Core cash earnings is indicative of the Bank's earnings capacity and is defined as Income before taxes adjusted for non-core operational income and expenses (see reconciliation of core cash earnings to net income below).

Net interest margin or spread for the year was up 26 bps to 2.57% from 2.31% in 2016 primarily due to a reduction in the Bank's cost of funds, augmented by increased yields on lending assets.

The Bank recorded a net recovery of credit losses in the amount of $125,000 for the year, compared to a provision for credit losses in the amount of $871,000 in 2016, primarily due to the sale of the Bank's credit card portfolio in the second quarter.

The Bank's efficiency ratio, adjusted for restructuring charges, was down 5% to 62% from 65% in 2016 primarily due to increased net interest income.

At October 31, 2017 the Bank's CET1 capital ratio was up 24 bps to 10.76% from 10.52% in 2016.

2017 FINANCIAL RESULTS

TOTAL REVENUE

Total revenue consists of net interest income and non-interest income. Non-interest income consists primarily of fees from credit card operations. For the year ended October 31, 2017, total revenue was up 10% to $43.8 million from $39.7 million in 2016 due to increased net interest income.

Net Interest Income and Margin

(thousands of Canadian dollars)	2017	2016
Total income	$ 71,765	$ 69,662
Interest expense	27,782	31,258
Net interest income	43,983	38,404
Average assets	$ 1,714,725	$ 1,665,103
Net interest margin	2.57%	2.31%

Net interest income is the difference between interest earned on assets and interest expense on deposits and other liabilities, including subordinated notes payable. Net interest margin or spread is net interest income as a percentage of average total assets (see Non-GAAP and Additional GAAP Measures). Net interest income was up 14.5% to $44.0 million from $38.4 million in 2016 due to a reduction in the Bank's cost of funds and increased income earned on lending assets.

Net interest margin or spread for the year was up 26 bps to 2.57% from 2.31% in 2016 primarily due to cost of funds decreasing 25 bps to 1.62% from 1.87%.

Non-Interest Income (loss)

(thousands of Canadian dollars)	2017	2016
Credit card non-interest revenue (loss)	$ (214)	$ 1,234
Other income	73	39
	$ (141)	$ 1,273

Non-interest income (loss) includes total revenues and or expenses not included in the determination of net interest income. Non-interest income for the year was a loss of $141,000 compared to non-interest income of $1.3 million in 2016. The loss for the year is primarily due to expenses incurred by the Bank related to the sale of the credit card portfolio in the second quarter.

PROVISIONS FOR (RECOVERY OF) CREDIT LOSSES

During the year the Bank recorded a net recovery of credit losses in the amount of $125,000 compared to a net provision for credit losses in the amount of $871,000 in 2016. The recovery of credit losses recorded this year was primarily due to a decrease in the Bank's collective allowance that resulted from the sale of the Bank's credit card portfolio in the second quarter.

NON-INTEREST EXPENSES

(thousands of Canadian dollars)	2017	2016	Change from 2016	
			$	%
Salaries and employee benefits	13,656	14,090	(434)	(3)
Premises and equipment	2,135	2,385	(250)	(10)
General and administrative	11,399	9,481	1,918	20
	$ 27,190	$ 25,956	$ 1,234	5
Restructuring charges	2,045	1,092	953	87
Total non-interest expenses	$ 29,235	$ 27,048	$ 2,187	8

Non-interest expenses, excluding restructuring charges for the year were up 5% to $27.2 million from $26.0 million in 2016 due to increased general and administrative expenses, partially offset by reduced salaries and employee benefits. The increase in general and administrative expenses was due to consulting fees related to a study conducted by the Bank to assess the feasibility of converting to the Advanced Internal Rating Based ("AIRB") approach to risk capitalization and credit loss modeling as well as costs associated with the preparation of a public offering of preferred shares that totaled $945,000 and $447,000 respectively. Due to market conditions, the preliminary prospectus associated with the public offering was withdrawn.

Restructuring Charges

Restructuring charges for the year totaled $2.0 million and were related to termination benefits incurred as a function of the sale of the credit card portfolio and the Bank's corporate reorganization, as well as costs related to the Amalgamation. Restructuring charges in 2016 totaled $1.1 million and were related to costs associated with the review of strategic alternatives commenced by the Bank during the year.

CORE CASH EARNINGS

Core cash earnings for the year were up 41% to $18.2 million from $12.9 million in 2016 primarily due to increased net interest income and reduced provisions for credit losses. 2017 has been transformative for the Bank with the completion of the Amalgamation as well as the Bank's efforts to optimize its balance sheet mix and focus its product offerings. These accomplishments introduced measurable volatility to the Bank's income statement resulting in core cash earnings emerging as a more meaningful indicator of the Bank's operational performance over the course of the year. Core cash earnings is indicative of the Bank's earnings capacity and is defined as net income adjusted for income taxes and non-core operational income and expenses, including restructuring charges. The Bank did not pay cash taxes on its earnings in the current and comparative periods due to the utilization of available tax loss carryforwards.

The table below presents a reconciliation of core cash earnings to net income:

(thousands of Candian dollars)	2017	2016
Net income	$ 19,472	$ 8,470
Adjusted for:		
Income taxes	(4,740)	3,288
Restructuring charges	2,045	1,092
Other non-core general and administrative expense items	1,391	-
Core cash earnings	$ 18,168	$ 12,850

CORPORATE INCOME TAXES

The Bank's statutory federal and provincial income tax rate is approximately 27%, similar to that of previous years. The effective rate is impacted by certain items not being taxable or deductible for income tax purposes as well as an adjustment to the deferred income tax asset relating to the recognition of previously unrecognized tax loss carry forwards discussed below.

The Bank recognized an income tax recovery of $4.7 million for the year compared to an income tax provision of $3.3 million in 2016. The recovery for the year reflects the impact of the Bank recognizing $8.8 million in previously unrecognized deferred income tax assets subsequent to the Amalgamation.

At October 31, 2017, the Bank's deferred income tax asset increased to $24.5 million from $6.4 million in 2016 primarily as a function of the tax loss carry-forwards recognized pursuant to the Amalgamation. The Bank's income tax loss carry-forwards totalled approximately $84.2 million at year end, which, if unutilized are not scheduled to begin to expire until 2028.

COMPREHENSIVE INCOME

Comprehensive income is comprised of net income for the period and other comprehensive income which consists of unrealized gains and losses on available-for-sale securities. Comprehensive income for the year was $19.5 million compared to $8.5 million in 2016.

The table below presents the breakdown of comprehensive income:

(thousands of Canadian dollars)	2017	2016	Change from 2016
Net income	$ 19,472	$ 8,470	$ 11,002
Other comprehensive income (loss), net of tax			
Net unrealized losses on assets held as available-for-sale [(1)]	(2)	(7)	5
	(2)	(7)	5
Comprehensive income	$ 19,470	$ 8,463	$ 11,007

(1) Net of income tax benefit of $1 (2016 – $3).

ACCUMULATED OTHER COMPREHENSIVE INCOME

Accumulated other comprehensive income is a separate component of shareholders' equity and was $4,000 at October 31, 2017 compared to $6,000 in 2016. Accumulated other comprehensive income consists of net unrealized gains on securities held and classified as available-for-sale.

FINANCIAL CONDITION

Consolidated Balance Sheet

(thousands of Canadian dollars)	2017	Mix		2016	Mix	
Assets						
Cash and securities	$ 160,171	9.29	%	$ 103,922	6.10	%
Loans, net of allowance for credit losses	1,520,857	88.16		1,563,612	91.74	
Other assets	44,021	2.55		36,866	2.16	
Total assets	$1,725,049	100.00	%	$1,704,400	100.00	%
Liabilities						
Deposits	$1,376,006	79.77	%	$1,369,647	80.36	%
Subordinated notes payable	9,786	0.57		14,067	0.83	
Securitization liabilities	33,256	1.93		43,585	2.56	
Other liabilities	97,460	5.65		91,217	5.35	
Total liabilities	$1,516,508	87.91	%	$1,518,516	89.09	%
Shareholders' equity						
Share capital	$ 182,094	10.56	%	$ 176,706	10.37	%
Retained earnings	26,443	1.53		9,172	0.54	
Accumulated other comprehensive income	4	0.00		6	0.00	
Total shareholders' equity	$ 208,541	12.09	%	$ 185,884	10.91	%
Total liabilities and shareholders' equity	$1,725,049	100.00	%	$1,704,400	100.00	%

Total Assets

Total assets for the year were up 1% to $1.73 billion from $1.70 billion in 2016 as reduced loan balances were offset by an increase in the Bank's liquidity position. The reduction in loans was primarily a result of the Bank's efforts to optimize its balance sheet over the course of the year through the sale of assets that were not generating returns commensurate with the Bank's current internal targets.

Cash and Securities

Cash and securities for the year consisted primarily of deposits with Canadian financial institutions and government treasury bills with less than ninety days to maturity from the date of acquisition. Amounts held in cash and securities are determined based on liquidity needs, investment yield and capital management considerations. Cash and securities at October 31, 2017, which are held primarily for liquidity purposes, were up 54% to $160 million from $104 million in 2016 primarily due to the timing of a large volume of loan repayments that occurred late in the year.

Loans

Net loans at October 31, 2017 were down 3% to $1.52 billion from $1.56 billion in 2016 primarily due to the sale of a large portfolio of low margin purchased receivables in the second quarter; the termination of the Bank's credit card program in the first quarter and subsequent sale of the card receivables portfolio in the second quarter; and an unusually large volume of loan repayments late in the fourth quarter.

Residential Mortgages and Exposure

In accordance with the Office of the Superintendent of Financial Institutions ("OSFI") *Guideline B-20 – Residential Mortgage Underwriting Practices and Procedures*, additional information is provided regarding the Bank's residential mortgage exposure. For the purposes of the Guideline, a residential mortgage is defined as a loan to an individual that is secured by residential property (one to four unit dwellings) and includes home equity lines of credit (HELOCs). This differs from the classification of residential mortgages used by the Bank that also includes multi-family mortgages.

Under OSFI's definition, the Bank's exposure to residential mortgages at October 31, 2017 increased to $1.7 million from $637,000 in 2016. The Bank did not have any HELOCs outstanding at October 31, 2017, or in 2016.

Credit Quality

Gross impaired loans at October 31, 2017, were $627,000 compared to $nil in 2016. The Bank's allowance for credit losses at October 31, 2017 decreased 20% to $2.4 million from $3.0 million in 2016 primarily due to the sale of the credit card portfolio in the second quarter, partially offset by an increase due to growth in real estate loans during the year. In 2016 the credit card portfolio accounted for approximately $1.1 million of the Bank's allowance for credit losses.

Based on results from ongoing, multi-scenario stress testing, combined with the secured nature of a large portion of its existing loan portfolio, the Bank is of the view that any credit losses that exist, but cannot be individually identified at this time, are adequately provided for. The Bank's exposure to loan losses in Western Canada and to the oil and gas industry remains limited. Further, the Bank is not concentrated in either the Toronto or Western Canada housing markets.

The table below presents the components of the Bank's allowance for credit losses for the year as well as for 2016:

(thousands of Canadian dollars)	Collective	Individual	2017 Total Allowance	2016 Total Allowance
Balance, beginning of year	$ 3,031	$ -	$ 3,031	$ 3,212
Provision for (recovery of) credit losses	(325)	200	(125)	871
Write-offs	(481)	-	(481)	(1,052)
Balance, end of year	$ 2,225	$ 200	$ 2,425	$ 3,031

Other Assets

Other assets include prepaid expenses, funds held for securitization liabilities, capital assets and the Bank's deferred income tax asset. Other assets at October 31, 2017 were up 19% to $44.0 million from $36.9 million in 2016 primarily due to an increase in the Bank's deferred income tax asset.

Deposits and Other Liabilities

The Bank has established three core funding channels, those being personal deposits, commercial deposits, and cash holdbacks retained from the Bank's receivable purchase program originator 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 the Bank continues to grow and expand across Canada. Personal deposits at October 31, 2017 were stable at $1.1 billion compared to $1.2 billion in 2016.

Commercial deposits are sourced primarily via specialized chequing accounts made available to insolvency professionals ("Trustees") in the Canadian insolvency industry. The Bank developed customized banking software for use by Trustees that integrates banking services with the market-leading software platform used in the administration of consumer bankruptcy and proposal restructuring proceedings. Trustee chequing balances at October 31, 2017 were up 46% to $275.2 million from $189.1 million in 2016 due to the acquisition of new trustee clients during the year. Commercial deposits also include guaranteed investment certificates issued to Trustees and other commercial entities.

The table below presents the Bank's deposit portfolio balances and mix at October 31, 2017 as well as for 2016:

(thousands of Canadian dollars)	2017	Mix	2016	Mix
Commercial deposits	$ 323,997	23.55 %	$ 220,098	16.07 %
Personal deposits	1,052,009	76.45	1,149,549	83.93
	$ 1,376,006	100.00 %	$ 1,369,647	100.00 %

The Bank strives to diversify its deposit gathering activities both geographically and among deposit brokers and has established internal policies to monitor deposit broker concentrations. These internal policies include targets related to the volume of new deposits sourced from a single deposit broker in a rolling 12 month period and for the amount of new deposits sourced from its three largest deposit brokers in a rolling 12 month period. The table below presents a summary of the Bank's deposit portfolio by maturity, excluding accrued interest at October 31, 2017 as well as for 2016:

	2017				
(thousands of Canadian dollars)	Within 3 months	3 months to 1 year	1 year to 2 years	2 years to 5 years	Total
Commercial deposits	$ 313,882	$ -	$ -	$ 10,000	$ 323,882
Personal deposits	185,229	280,086	246,752	329,000	1,041,067
	$ 499,111	$ 280,086	$ 246,752	$ 339,000	$ 1,364,949

	2016				
(thousands of Canadian dollars)	Within 3 months	3 months to 1 year	1 year to 2 years	2 years to 5 years	Total
Commercial deposits	$ 209,983	$ -	$ -	$ 10,000	$ 219,983
Personal deposits	205,214	424,532	209,290	298,005	1,137,041
	$ 415,197	$ 424,532	$ 209,290	$ 308,005	$ 1,357,024

Other liabilities consist primarily of cash holdbacks, retained from the Bank's receivable purchase program originator partners, accounts payable, and accruals. Other liabilities at October 31, 2017 were up 7% to $97.5 million from $91.2 million in 2016 primarily due to an increase in cash holdbacks. Cash holdbacks at October 31, 2017 were up 8% to $88.8 million from $82.6 million in 2016 primarily due to growth in the Bank's purchased receivable portfolio.

Securitization Liabilities

Securitization liabilities relate to amounts payable to counterparties for cash received upon initiation of securitization transactions. The amounts payable to counterparties bear interest at rates ranging from 3.55% - 3.95% and mature in 2020. Residential mortgages and other assets are pledged as collateral for securitized liabilities. There have been no securitization transactions in the past several years. Securitizations at October 31, 2017 decreased 24% to $33.3 million from $43.6 million in 2016 due to a Canada Mortgage Bond that matured in the first quarter.

Subordinated Notes Payable

The Bank has the following subordinated notes payable outstanding:

(thousands of Canadian dollars)	2017	2016
Ten year term, unsecured, callable subordinate note payable to an unrelated party. Principal amount of $4.5 million, interest rate of 11%, maturing 2019.	$ -	$ 4,335
Ten year term, unsecured, callable subordinate note payable to an unrelated party. Principal amount of $10 million, interest rate of 8%, maturing 2021.	$ 9,786	$ 9,732
	$ 9,786	$ 14,067

In May 2017 the Bank redeemed the 11% subordinated note for $4.5 million. The remaining subordinated note payable has an effective interest rate of 8.77%.

Shareholders' Equity

Shareholders' equity at October 31, 2017 was up 12% to $208.5 million from $185.9 million in 2016. The increase was due to retained earnings growth during the year, the recognition of net assets in the amount of $6.7 million pursuant to the Amalgamation, and the recognition of deferred tax assets in the amount of $8.8 million subsequent to the Amalgamation, partially offset by $1.4 million in transaction costs related to the Amalgamation.

Common shares outstanding at October 31, 2017 totalled 21,123,559 compared to 20,095,065 in 2016 with the increase due to the issue of 13,643,713 common shares, offset by the cancellation of 12,615,219 common shares, both pursuant to the Amalgamation.

The Bank's book value per common share at October 31, 2017 was up 9% to $8.48 from $7.79 in 2016.

At October 31, 2017, the Bank had 1,461,460 Series 1 Preferred Shares and 1,681,320 Series 3 Preferred Shares outstanding, unchanged from 2016.

See Note 14 to the Consolidated Financial Statements for additional information relating to share capital.

Stock-Based Compensation

Stock options are accounted for using the fair value method which recognizes the fair value of the stock option over the applicable vesting period as an increase in salaries and benefits expense with the same amount being recorded in share capital. During the year ended October 31, 2017, the Bank recognized $nil (2016 - $nil) of compensation expense relating to the estimated fair value of stock options granted in previous years. There were no stock options granted in the current year. See Note 15 to the Consolidated Financial Statements for more information with respect to stock options.

Updated Share Information

As at December 15, 2017, there were no changes since October 31, 2017 in the number of outstanding common shares, Series 1 and Series 3 Preferred Shares. As at December 15, 2017, there were 43,851 common share options outstanding reflecting expiration of 2,766 common share options since October 31, 2017.

LIQUIDITY

The Consolidated Statement of Cash Flows for the year ended October 31, 2017 shows cash provided by (used in) operations of $77.9 million compared to ($46.5 million) in 2016. The increase in cash from operations reflect a combination of higher loan repayments as well as increase in year over year deposit and cash holdback balances. In 2016, the net use in cash for operations reflect the impact of increased loan growth. Based on factors such as liquidity requirements and opportunities for investment in loans and securities, the Bank may manage the amount of deposits it receives and lend its funds in ways that result in the balances of these items giving rise to either negative or positive cash flow from operations. The Bank will continue to fund its operations and meet contractual obligations as they become due from cash on hand and from managing the amount of deposits it receives compared to the amount of loans that it funds.

OFF-BALANCE SHEET ARRANGEMENTS

As at October 31, 2017, the Bank does not have any significant off-balance sheet arrangements other than undrawn loan commitments, and letters of credit resulting from normal business activities. See Note 25 to the Consolidated Financial Statements for more information.

Commitments and Contingencies

The amount of credit related commitments represents the maximum amount of additional credit that the Bank could be obliged to extend. Under certain circumstances, the Bank may cancel loan commitments at its option. The amount with respect to the letters of credit are not necessarily indicative of credit risk as many of these arrangements are contracted for a limited period of time, usually less than one year and will expire or terminate without being drawn upon.

(thousands of Canadian dollars)	2017	2016
Loan commitments	$ 249,682	$ 265,631
Undrawn credit card lines	-	127,116
Letters of credit	45,442	42,809
	$ 295,124	$ 435,556

Contractual Obligations

At October 31, 2017 the Bank had the following scheduled repayments of financial liabilities and off-balance sheet obligations:

	2017				
(thousands of Canadian dollars)	Total	Less than 1 Year	1-2 Years	2-5 Years	Over 5 Years
Deposits	$1,364,949	$ 779,197	$ 246,752	$ 339,000	$ -
Subordinated notes payable	9,786	-	-	9,786	-
Securitization liabilities	33,256	-	-	33,256	-
Accounts payable	8,682	8,682	-	-	-
Operating leases	1,363	560	371	93	339
	$1,418,036	$ 788,439	$ 247,123	$ 382,135	$ 339

RELATED PARTY TRANSACTIONS

During the year and prior to the Amalgamation, the Bank paid management and other fees totalling $675,000 (2016 - $751,000) to PWC and a subsidiary of PWC.

The Bank's Board of Directors and Senior Executive Officers represent key management personnel. See Note 24 to the Consolidated Financial Statements for more information.

CAPITAL MANAGEMENT AND CAPITAL RESOURCES

Capital Management

The Bank's policy is to maintain a strong capital base in order to uphold investor, creditor and market confidence and to support future development of the business. The impact of the level of capital on shareholders' return is also important and the Bank recognizes the need to maintain a balance between higher returns that may be possible with greater leverage and the advantages and security afforded by a sound capital position.

The Bank operates as a Schedule 1 bank under the *Bank Act (Canada)* and is regulated by the Office of the Superintendent of Financial Institutions Canada (OSFI). Capital is managed in accordance with policies and plans that are regularly reviewed and approved by the Bank's Board of Directors. The Bank's objective, in this context, is to maintain appropriate regulatory capital to be considered well capitalized, protect consumer deposits and provide capacity for internally generated growth and strategic opportunities that do not otherwise require accessing the public capital markets, all the while providing a satisfactory return for shareholders. Regulatory capital is comprised of the qualifying amount of subordinated notes, share capital, retained earnings and net after-tax unrealized gains and losses on available-for-sale securities. Consistent with capital adequacy guidelines issued by OSFI, the Bank has implemented an internal capital adequacy assessment process (ICAAP) with the objective of ensuring that capital levels remain adequate in relation to current and future risks.

OSFI requires banks to measure capital adequacy in accordance with guidelines for determining risk-adjusted capital and risk-weighted assets including off-balance sheet credit instruments. The Bank currently uses the Standardized Approach to calculate risk-weighted assets for both credit and operational risk. Under the Standardized Approach for credit risk, each asset type is assigned a risk weighting ranging between 0% and 150% to determine the risk-weighted equivalent, or risk-weighted asset amounts for use in calculating the Bank's risk-based capital ratios. Off-balance sheet assets, such as undrawn credit commitments, are included in the calculation of risk-weighted assets and both the credit risk equivalent and the risk-weighted calculations are prescribed by OSFI. The Standardized Approach, as defined by Basel III, may require the Bank to carry more capital for certain credit exposures compared to requirements under the AIRB methodology. As a result, regulatory capital ratios of banks that utilize the Standardized Approach may not be directly comparable with the large Canadian banks that use the AIRB methodology.

The table below presents the Bank's risk-weighted assets as at October 31, 2017 as well as for 2016:

	Notional/drawn amount					
(thousands of Canadian dollars)	Cash/ Securities	Loans	Other	Off -balance sheet items	Total	Risk Weighted Balance
Corporate	$ -	$ 665,384	$ -	$ -	$ 665,384	$ 659,556
Sovereign	262	27,636	-	-	27,898	4,161
Bank	159,909	12,768	-	-	172,677	34,535
Retail residential mortgages	-	28,695	-	-	28,695	603
Other retail	-	786,374	-	-	786,374	528,456
Other items	-	-	44,021	45,442	89,463	34,486
Undrawn commitments	-	-	-	249,682	249,682	84,802
Operational risk [1]	-	-	-	-	-	73,677
As at October 31, 2017	$160,171	$1,520,857	$44,021	$ 295,124	$2,020,173	$1,420,276

	Notional/drawn amount					
(thousands of Canadian dollars)	Cash/ Securities	Loans	Other	Off -balance sheet items	Total	Risk Weighted Balance
Corporate	$ -	$ 818,837	$ -	$ -	$ 818,837	$ 781,929
Sovereign	9,958	55,329	-	-	65,287	9,865
Bank	93,964	18,056	-	-	112,020	22,404
Retail residential mortgages	-	45,363	-	-	45,363	350
Other retail	-	626,027	-	-	626,027	420,007
Other items	-	-	36,866	42,808	79,674	36,470
Undrawn commitments	-	-	-	392,747	392,747	88,949
Operational risk [1]	-	-	-	-	-	65,197
As at October 31, 2016	$103,922	$1,563,612	$36,866	$ 435,555	$2,139,955	$1,425,171

[1] The charge for operational risk is determined using the Basic Indicator Approach as prescribed by OSFI.

	Notional/drawn amount							
(thousands of Canadian dollars)	0%	20%	35%	75%	100%	150%	Total	Risk Weighted Balance
Corporate	$ 6,042	$ -	$ -	$ -	$ 658,915	$ 427	$ 665,384	$ 659,556
Sovereign	7,094	20,804	-	-	-	-	27,898	4,161
Bank	-	172,677	-	-	-	-	172,677	34,535
Retail residential mortgages	26,971	-	1,724	-	-	-	28,695	603
Other retail	82,632	3,757	-	689,123	10,862	-	786,374	528,456
Other items	31,858	716	-	-	56,889	-	89,463	34,486
Undrawn commitments	-	-	-	3,583	246,099	-	249,682	84,802
Operational risk [1]	-	-	-	-	-	-	-	73,677
As at October 31, 2017	$154,597	$197,954	$1,724	$692,706	$ 972,765	$ 427	$2,020,173	$1,420,276

	Notional/drawn amount							
(thousands of Canadian dollars)	0%	20%	35%	75%	100%	150%	Total	Risk Weighted Balance
Corporate	$ 19,126	$ 22,228	$ -	$ -	$ 777,483	$ -	$ 818,837	$ 781,929
Sovereign	15,963	49,324	-	-	-	-	65,287	9,865
Bank	-	112,020	-	-	-	-	112,020	22,404
Retail residential mortgages	44,363	-	1,000	-	-	-	45,363	350
Other retail	62,183	4,170	-	562,004	(2,330)	-	626,027	420,007
Other items	21,515	713	-	-	57,446	-	79,674	36,470
Undrawn commitments	-	-	-	127,116	265,631	-	392,747	88,949
Operational risk [1]	-	-	-	-	-	-	-	65,197
As at October 31, 2016	$163,150	$188,455	$1,000	$689,120	$1,098,230	$ -	$2,139,955	$1,425,171

[1] The charge for operational risk is determined using the Basic Indicator Approach as prescribed by OSFI.

Further, OSFI requires that all Canadian banks must comply with the Basel III standards on an "all-in" basis for purposes of determining their risk-based capital ratios. Required minimum regulatory capital ratios are a 7.0% Common Equity Tier 1 ("CET1") capital ratio, an 8.5% Tier 1 capital ratio and a 10.5% total capital ratio, all of which include a 2.5% capital conservation buffer. The Basel III rules provide for "transitional" adjustments whereby certain aspects of the new rules will be phased in between 2013 and 2019. The only available transition allowed by OSFI for capital ratios is related to the 10 year phase out of non-qualifying capital instruments. At October 31, 2017 the Bank exceeded the minimum Basel III regulatory capital requirements set out above.

The table below presents the calculation of the Bank's regulatory capital and risk-based capital ratios as at October 31, 2017 as well as for 2016:

(thousands of Canadian dollars, except capital ratios)	2017		2016	
	"All-in"	"Transitional"	"All-in"	"Transitional"
Common Equity Tier 1 (CET1) capital				
Directly issued qualifying common share capital	$ 152,757	$ 152,757	$ 147,369	$ 147,369
Retained earnings (deficit)	26,443	26,443	9,172	9,172
Accumulated other comprehensive income	4	4	6	6
CET1 before regulatory adjustments	179,204	179,204	156,547	156,547
Regulatory adjustments applied to CET1	(26,415)	(21,132)	(6,562)	(3,937)
Total Common Equity Tier 1 capital	$ 152,789	$ 158,072	$ 149,985	$ 152,610
Additional Tier 1 capital				
Directly issued qualifying Additional Tier 1 instruments	$ 29,337	$ 29,337	$ 29,337	$ 29,337
Total Tier 1 capital	$ 182,126	$ 187,409	$ 179,322	$ 181,947
Tier 2 capital				
Directly issued capital instruments subject to phase out from Tier 2	$ 10,000	$ 10,000	$ 14,500	$ 14,500
Tier 2 capital before regulatory adjustments	10,000	10,000	14,500	14,500
Regulatory adjustments applied to Tier 2	(4,000)	(4,000)	(4,700)	(4,700)
Total Tier 2 capital	$ 6,000	$ 6,000	$ 9,800	$ 9,800
Total capital	$ 188,126	$ 193,409	$ 189,122	$ 191,747
Total risk-weighted assets	$ 1,420,276	$ 1,425,559	$ 1,425,171	$ 1,427,796
Capital ratios				
CET1 Ratio	10.76%	11.09%	10.52%	10.69%
Tier 1 Capital Ratio	12.82%	13.15%	12.58%	12.74%
Total Capital Ratio	13.25%	13.57%	13.27%	13.43%

Leverage Ratio

The leverage ratio is a supplementary measure that is prescribed under the Basel III Accord and is defined as the ratio of Tier 1 capital to total exposures. OSFI requires all financial institutions to maintain a leverage ratio of 3% or greater at all times. The Bank was in compliance with the leverage ratio prescribed by OSFI throughout the periods presented. The table below presents the Bank's leverage ratio calculation at October 31, 2017 as well as for 2016:

	2017	2016
On-balance sheet assets	$1,725,049	$1,704,400
Asset amounts deducted in determining Basel III "all in" Tier 1 Capital	(26,415)	(6,562)
Total on-balance sheet exposures	$1,698,634	$1,697,838
Off-balance sheet exposure at gross notional amount	$ 295,124	$ 435,556
Adjustments for conversion to credit equivalent amount	(182,977)	(306,877)
Off-balance sheet items	$ 112,147	$ 128,679
Tier 1 Capital	$ 182,126	$ 179,322
Total Exposures	$1,810,781	$1,826,517
Basel III Leverage Ratio	10.06%	9.82%

Capital Resources

The operations of the Bank are not dependent upon significant amounts of capital assets to generate revenue. Currently, the Bank does not have any commitments for capital expenditures or for significant additions to its level of capital assets.

SUMMARY OF QUARTERLY RESULTS AND FOURTH QUARTER REVIEW
Quarterly Financial Highlights

(thousands of Canadian dollars except per share amounts)	2017				2016			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Results of operations:								
Total interest income	$ 18,132	$ 17,584	$ 17,463	$ 18,586	$ 17,462	$ 17,628	$ 17,346	$ 17,226
Yield on assets (%)	4.22%	4.14%	4.14%	4.24%	4.09%	4.13%	4.14%	4.11%
Interest expense	6,624	6,833	6,884	7,441	7,396	7,792	7,986	8,084
Cost of funds (%)	1.54%	1.61%	1.63%	1.70%	1.73%	1.82%	1.91%	1.93%
Net interest income	11,508	10,751	10,579	11,145	10,066	9,836	9,360	9,142
Net interest margin (%)	2.68%	2.53%	2.51%	2.54%	2.36%	2.31%	2.23%	2.18%
Non-interest income	13	12	(453)	287	320	343	285	325
Total revenue	11,521	10,763	10,126	11,432	10,386	10,179	9,645	9,467
Provision for credit losses	116	38	(582)	303	422	24	213	212
Non-interest expenses	7,500	7,012	6,220	6,458	6,779	6,654	6,472	6,051
Efficiency ratio*	65%	65%	61%	56%	65%	65%	67%	64%
Restructuring charges	-	-	1,575	470	549	98	445	-
Core cash earnings	4,650	4,359	4,488	4,671	3,185	3,501	2,960	3,204
Income before income taxes	3,905	3,713	2,913	4,201	2,636	3,403	2,515	3,204
Income tax provision (recovery)	1,083	1,031	809	(7,663)	740	947	708	893
Net income	$ 2,822	$ 2,682	$ 2,104	$ 11,864	$ 1,896	$ 2,456	$ 1,807	$ 2,311
Income per share								
Basic	$ 0.11	$ 0.10	$ 0.07	$ 0.56	$ 0.07	$ 0.09	$ 0.06	$ 0.09
Diluted	$ 0.11	$ 0.10	$ 0.07	$ 0.56	$ 0.07	$ 0.09	$ 0.06	$ 0.09
Return on average common equity	5.06%	4.81%	3.66%	27.22%	3.43%	4.90%	3.40%	4.79%
Return on average total assets	0.53%	0.50%	3.39%	2.58%	0.32%	0.45%	0.30%	0.42%
Gross impaired loans to total loans	0.04%	0.04%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

*Efficiency ratio is adjusted for restructuring charges.

Financial results for the Bank for each of the last eight quarters are summarized in the table above.

Total interest income for the year was up 3% to $71.8 million from $69.7 million in 2016 due to generally increasing yields on lending assets.

Net Interest income for the year was up 14% to $44.0 million from $38.4 million in 2016 due to a reduction in the Bank's cost of funds and generally increasing yields on lending assets.

The reduction in non-interest income for the year, most notably in the second quarter, reflects the impact of the sale of the credit card portfolio.

The recovery for credit losses recorded in the second quarter of 2017 was due to the reduction in the Bank's collective allowance that resulted from the sale of the Bank's credit card portfolio in the same quarter.

During the first and second quarters of 2017, the Bank incurred restructuring charges totaling $470,000 and $1.6 million related to costs associated with the Amalgamation and termination benefits incurred as a function of the sale of the credit card portfolio and the Bank's corporate reorganization respectively. Restructuring charges in 2016 relate to rebranding of the Bank and costs associated with the review of strategic alternatives commenced by the Bank and PWC in the second quarter.

The provision for income taxes in each of the quarters reflects the effective statutory income tax rate of 27% applied to earnings in the Bank. The recovery of income taxes in the first quarter of 2017 includes positive income tax adjustments relating to a change in the estimate of previously unrecognized deferred income tax assets of the Bank.

FOURTH QUARTER REVIEW

Net income for the quarter was $2.8 million or $0.11 per common share (basic and diluted), compared to $2.7 million or $0.10 per common share (basic and diluted) last quarter and $1.9 million or $0.07 per common share (basic and diluted) a year ago. The quarter over quarter improvement was primarily due to a reduction in the Bank's cost of funds and increased income earned on lending assets, partially offset by increased non-interest expenses. The increase in non-interest expenses was primarily due to consulting fees incurred in the period related to credit loss modeling and the Bank expensing $447,000 associated with the preparation of a public offering of preferred shares. Due to market conditions, the preliminary prospectus associated with the public offering was withdrawn. The year over year improvement was primarily due to a reduction in the Bank's cost of funds partially offset by an increase in non-interest expenses.

Core cash earnings for the quarter was $4.7 million or $0.22 per common share (basic and diluted), compared to $4.4 million or $0.21 per common share (basic and diluted) last quarter and $3.2 million or $0.16 per common share (basic and diluted) a year ago. Core cash earnings adjusts for income taxes, restructuring charges, non-interest expenses related to consulting fees associated with a feasibility study on the AIRB approach to risk capitalization and credit loss modeling as well as the cost associated with the preparation of a public offering of preferred shares as noted above.

Total Revenue

Total revenue for the quarter was $11.5 million compared to $10.8 million last quarter and $10.4 million a year ago. The quarter over quarter improvement was due to a reduction in the Bank's cost of funds and increased income earned on lending assets. The year over year improvement was due a reduction in the Bank's cost of funds and increased income earned on lending assets, partially offset by a reduction in credit card income as a result of the sale of the Bank's credit card portfolio in the second quarter of 2017.

Net Interest Income

Net interest income for the quarter was $11.5 million compared to $10.8 million last quarter and $10.1 million a year ago. The quarter over quarter and year over year improvement was primarily due to a reduction in the Bank's cost of funds and increased income earned on lending assets over the same periods.

Net Interest Margin

Net interest margin or spread for the quarter was 2.68% compared to 2.53% last quarter and 2.36% a year ago. The quarter over quarter and year over year improvement was primarily due to a reduction in the Bank's cost of funds and generally increased yields on lending assets over the same periods.

Provision for Credit Losses

During the quarter provision for credit losses were $116,000 compared to $38,000 last quarter and $422,000 a year ago. The reduction in provisions for credit losses from a year ago was primarily due to the sale of the Bank's credit card portfolio in the second quarter.

Non-Interest Expenses

Non-interest expenses of the Bank, excluding restructuring charges, totalled $7.5 million for the quarter compared to $7.0 million last quarter and $6.8 million a year ago. The quarter over quarter increase was primarily due to the Bank recognizing expenses associated with the preparation of a public offering of preferred shares. The year over year increase was primarily due to consulting fees associated with a feasibility study on the AIRB approach to risk capitalization and credit loss modeling as well as expenses associated with the preparation of a public offering of preferred shares. Due to market conditions, the preliminary prospectus associated with the public offering was withdrawn.

Income Taxes

For the three months ended October 31, 2017, the provision for income taxes was $1.1 million compared to $1.0 million for the previous quarter and $740,000 for the same period a year ago.

OUTLOOK FOR 2018

Real GDP is anticipated to grow approximately 3% in 2017 before moderating to approximately 2% in 2018 with consumption expected to continue to be the primary driver of growth, albeit at a tempered rate as the influence of recently introduced changes to Canadian mortgage underwriting policy and increased interest rates weigh on the housing market. Business investment and exports are also expected to make net positive contributions to growth in 2018, with business investment anticipated to continue to increase as a function of generally improved economic performance across most Canadian regions and business sectors. Notwithstanding the uncertainty associated with various trade agreements, most notably NAFTA, non-commodity exports are expected to remain firm, while growth in the export of services, including transportation and travel services are anticipated to remain strong in 2018.

Increased interest rates are not expected to have a measurable impact on demand for the Bank's lending products but may result in modest spread compression on new lending transactions. Expected growth in the export of transport and transportation services is anticipated to increase demand for the Bank's receivable purchase product as a number of the Bank's commercial originator partners are active in providing financing to the transportation industry segment. Further, the projected growth in consumption is anticipated to stimulate additional, incremental demand for the receivable purchase product, more specifically through the Bank's originator partners that are focused on the consumer lending space.

Increased interest rates will increase the cost of servicing existing debt, which may have the effect of increasing bankruptcy proceedings in the Canadian market and in turn drive additional demand for the Bank's commercial deposit products that are currently made available to insolvency professionals. Increases in personal deposit rates are expected to lag increases in Government of Canada bond yields driven by tightening monetary policy, however; the Bank's expansive, diverse term deposit broker network is expected to mitigate the impact of increased term deposit rates on the Bank's aggregate interest expense.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Significant accounting policies are detailed in Note 3 of the Bank's 2017 Audited Consolidated Financial Statements. There has been no change in accounting policies nor any significant new policies adopted during the current period.

In preparing the consolidated financial statements, management has exercised judgment and developed estimates in applying accounting policies and generating reported amounts of assets and liabilities at the date of the financial statements and income and expenses during the reporting periods. Areas where significant judgment was applied were in the assessments of impairment of financial instruments. Estimates were developed in the calculation of the allowance for credit losses and the measurement of deferred income taxes.

It is reasonably possible, on the basis of existing knowledge, that actual results may vary from that expected in the generation of these estimates. This could result in material adjustments to the carrying amounts of assets and/or liabilities affected in the future.

Estimates and their underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are applied prospectively once they are recognized.

The policies discussed below are considered particularly significant as they require management to make estimates or judgements, some of which may relate to matters that are inherently uncertain.

Financial Instruments

All financial assets are classified as one of the following: held-to-maturity, loans and receivables, or available-for-sale. All financial liabilities are classified as other liabilities. Financial assets held-to-maturity, loans and receivables and financial liabilities are measured at amortized cost based on the effective interest method. Available-for-sale instruments are measured at fair value with gains and losses, net of tax, recognized in other comprehensive income.

Loans

Loans are initially measured at fair value plus incremental direct transaction costs. Loans are subsequently measured at amortized cost, net of allowance for credit losses, using the effective interest method. On a monthly basis, the Bank assesses whether or not there is any objective evidence to suggest that the carrying value of the loans may be impaired. Impairment assessments are facilitated through the identification of loss events and assessments of their impact on the estimated future cash flows of the loans.

A loan is classified as impaired when, in management's opinion, there has been deterioration in credit quality to the extent that there is no longer reasonable assurance as to the timely collection of the full amount of principal and interest. Loans, except credit card receivables, where interest or principal is contractually past due 90 days are automatically recognized as impaired, unless management determines that the loan is fully secured, in the process of collection and the collection efforts are reasonably expected to result in either repayment of the loan or restoring it to current status. All loans, except credit card receivables, are classified as impaired when interest or principal is past due 180 days, except for loans guaranteed or insured by the Canadian government, provinces, territories, or a Canadian government agency, which are classified as impaired when interest or principal is contractually 365 days in arrears. Credit card receivables are written off when payments are 180 days past due, or upon receipt of a bankruptcy notification.

As loans are classified as loans and receivables and measured at amortized cost, an impairment loss is measured as the difference between the carrying amount and the present value of future cash flows discounted using the effective interest rate computed at initial recognition, if future cash flows can be reasonably estimated. When the amounts and timing of cash flows cannot be reasonably estimated, the carrying amount of the loan is reduced to its estimated net realizable value based on either:

(i) the fair value of any security underlying the loan, net of expected costs of realization, or,

(ii) observable market prices for the loan.

Impairment losses are recognized in income. If, in a subsequent period, the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was first recognized, then a recovery of a portion or all of the previously recognized impairment loss is adjusted through income or loss to reflect the net recoverable amount of the impaired loan.

Real estate held for resale is recorded at the lower of cost and fair value, less costs to sell.

Allowance for Credit Losses

An allowance for credit losses is maintained which, in management's opinion, is adequate to absorb all credit related losses in its loan portfolio. The allowance for credit losses consists of both individual and collective allowances and is reviewed on a monthly basis. The allowance is included in loans on the Consolidated Balance Sheets.

Evidence of impairment of loans is assessed at both an individual asset and collective level. All individually significant loans are assessed for impairment first. All individually significant loans found not to be specifically impaired and all loans which are not individually significant are then collectively assessed for impairment.

The collective allowance is determined by separating loans into categories that are considered to have common risk elements and reviewing factors such as current portfolio credit quality trends, exposure at default, probability of default and loss given default rates and business and economic conditions. The collective allowance may also be adjusted by management using its judgment taking into account other observable and unobservable factors.

Corporate Income Taxes

Current income taxes are calculated based on taxable income at the reporting period end. Taxable income differs from accounting income because of differences in the inclusion and deductibility of certain components of income which are established by Canadian taxation authorities. Current income taxes are measured at the amount expected to be recovered or paid using statutory tax rates at the reporting period end.

The Bank follows the asset and liability method of accounting for deferred income taxes. Deferred income tax assets and liabilities arise from temporary differences between financial statement carrying values and the respective tax base of those assets and liabilities. Deferred income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years when temporary differences are expected to be recovered or settled.

Deferred income tax assets are recognized in the Bank's consolidated financial statements to the extent that it is probable that the Bank will have sufficient taxable income to enable the benefit of the deferred income tax asset to be realized. Unrecognized deferred income tax assets are reassessed for recoverability at each reporting period end.

Future accounting standard changes

Financial instruments (IFRS 9)

In July, 2014, the IASB issued the final revised IFRS 9 standard which addresses classification, measurement and impairment of financial instruments and hedge accounting. IFRS 9 specifies that financial assets be classified into one of three categories: financial assets measured at amortized cost, financial assets measured at fair value through profit or loss or financial assets measured at fair value through other comprehensive income. The standard also includes an expected credit loss model and a general hedging model.

The Bank has assembled a multi-disciplinary implementation team comprised of key management personnel across a range of the Bank's operational areas and has retained the services of external consultants with expertise in IFRS 9. Having established a time and implementation framework, the Bank's implementation team has commenced assessing the expected impact of IFRS 9 on the Bank's operations, including, but not limited to the Bank's accounting policies and procedures, credit and impairment risk models as well as on the Bank's business and information technology systems, processes and procedures. While the Bank has performed preliminary evaluations of the impact of IFRS 9, the impact on the Bank's consolidated financial statements cannot be quantified at this time given the Bank continues to assess key variables such as credit quality of financial instruments held by the Bank when IFRS 9 becomes effective. The Bank plans to adopt IFRS 9 on November 1, 2018.

Leases (IFRS 16)

In January, 2016, the IASB issued IFRS 16, requiring most leases to be recorded on the balance sheet. For lessees, most operating leases other than short-term or low-value leases will be capitalized, and will result in a balance sheet increase in lease assets and lease liabilities, and a decrease in operating lease expenses and increase in financing costs and amortization expense on the income statement. The new standard will not impact lessor accounting beyond additional disclosures. The new standard is effective for the Bank's fiscal year beginning November 1, 2019 with early adoption permitted if IFRS 15 *Revenue from Contracts with Customers* is also applied. The Bank is currently reviewing IFRS 16 to determine the impact of adoption on its consolidated financial statements.

ENTERPRISE RISK MANAGEMENT

The Bank recognizes that risk is present in all business activities and that the successful management of risk is a key factor in the sustained success of the Bank. As such, the Bank has developed and continues to enhance an Enterprise Risk Management ("ERM") Program to identify, evaluate, treat, report and monitor on risks that impact the Bank.

The Bank will maintain a robust ERM program to ensure:

- Significant current and emerging risks are identified, understood and managed appropriately;
- Support of the Board's corporate governance needs; and
- Strong Bank management practices in a manner demonstrable to external stakeholders.

The goal of risk management is not to eliminate risks but to identify and control risks within the context of the Bank's Risk Appetite Statement. The ERM program enhances the effectiveness, efficiency and understanding of risk and risk management at an individual and enterprise level.

The Bank's ERM program is based upon guidance provided by the International Organization for Standardization (CAN/CSA-ISO31000-10 – January 2010); Risk Management – Principles and Guidelines.

GUIDING PRINCIPLES OF THE BANK'S ENTERPRISE RISK MANAGEMENT PROGRAM

- Risk management is everyone's responsibility, from the Board of Directors to individual employees. Everyone is expected to understand the risks that fall within their areas of responsibility and to manage these risks within approved risk tolerances.
- Risk management is a comprehensive, structured and continuous process in which risks are identified, evaluated and consciously accepted or mitigated within approved risk tolerances.
- Risk management is based on open communication of the best available information, both quantitative and qualitative, from a range of sources, including historical data, experience, stakeholder feedback, observation, forecasts and expert judgment.
- Enterprise Risk Management is integrated with Bank processes such as strategic planning, business planning, operational management, and investment decisions to ensure consistent consideration of risks in all decision-making.
- Risk owners will be identified through the risk management process and will be responsible to address and implement risk mitigation/avoidance/transfer strategies to minimize the risk impact to the Bank.

RISK APPETITE STATEMENT

Risk appetite is the measurement of capital, liquidity, earnings and operational variability that the Bank is prepared to put at risk while in pursuit of the Bank's strategic objectives. Risk appetite provides for a common understanding of the boundaries of acceptable and unacceptable risks established with management and approved by the Board, as the Bank works toward achieving its' strategic objectives. The risk appetite statement includes a set of risk tolerances to communicate specific capacities for risk within each significant risk category.

Consideration will be given to all risks, however, the Bank has identified the following seven significant risk categories from which it will measure and establish tolerances in the pursuit of Bank strategic objectives:

- Liquidity Risk
- Operational Risk
- Market Risk
- Credit Risk
- Regulatory Risk
- Strategic Risk
- Reputational Risk

Liquidity Risk

Liquidity risk is the risk that the Bank is unable to meet the demand for cash or is unable to fund obligations as they come due.

Liquidity risk is managed primarily by the Treasurer, SVP, Deposit Services, and the Chief Financial Officer. Treasury policies, primarily the liquidity management policy and securities portfolio management policy articulate the management of liquidity risk and document the associated risk limits.

Treasury policies are developed and controlled by the Treasury Department as a function of the Bank's business objectives, liquidity risk appetite, and regulatory requirements as determined by senior and executive management, and the Board of Directors.

Deposit raising activities are overseen by the Senior Vice President, Deposit Services. Operations of the Deposit raising services are governed by the DMS Procedure Manual and Deposits policies.

LIQUDITY RISK AND THE RISK APPETITE STATEMENT

The Bank's risk appetite statement defines liquidity risk tolerances that the Bank will adhere to in the execution of its business objectives. Liquidity risk tolerances are administered as follows:

1. Liquidity

   Through Bank policy, the risk appetite statement mirrors Bank comfort with the level of liquidity that is to be maintained in order to ensure that all funding obligations are met.

2. Deposit Sources

   The monitoring of deposit sources establishes Bank comfort with the origination and concentration of deposit inflows such that the Bank can monitor trends in improvements in diversifying the deposit sources.

The Bank has established policies to ensure that its cash outflows and inflows are closely matched and that its sources of deposits are diversified between funding sources and over a wide geographic area. The Bank maintains a conservative investment profile by ensuring:

- all Bank investments are high quality and include government debt securities, bankers acceptances and Canadian bank debt;

- specific investment criteria and procedures are in place to manage the Bank's securities portfolio;

- regular review, monitoring and approval of the Bank's investment policies by the Risk Oversight Committee of the Board of Directors; and

- quarterly reporting to the Risk Oversight Committee on the composition of the Bank's securities portfolio.

Liquidity management is further supported by processes, which include but are not limited to:

- monitoring of liquidity levels;

- monitoring of liquidity trends and key risk indicators;

- scenario stress testing;

- monitoring the credit profile of the liquidity portfolio; and

- monitoring deposit concentration.

In order to manage its liquidity needs, the Bank has a liquidity risk management program that is comprised specifically of the following policies and procedures:

- Holding sufficient liquid assets which, based on certain stress assumptions, results in positive cumulative cash flow for a period of 61 to 90 days.

- Holding high quality liquid securities at levels that represent no less than 5% of total assets. High quality liquid securities include: Canadian federal, provincial and municipal debt; debt of federally regulated Canadian financial institutions; widely distributed debt instruments, all of which are to be rated investment grade; cash on deposit; and banker’s acceptances.

- Maintaining liquid assets at no less than 50% of obligations payable within 60 days.

- On a weekly basis, monitoring its cash flow requirements using a liquidity forecasting template under a stressed scenario.

- On a monthly basis, testing liquidity using three specific disruption scenarios; specifically, industry specific disruption scenario, company specific liquidity disruption scenario and a systematic disruption scenario.

- Managing liquidity in accordance with guidelines specified by OSFI.

Cash and Securities

(thousands of Canadian dollars)	2017	2016
Cash and cash equivalents	$ 159,909	$ 93,964
Securities	262	9,958
Total cash and securities	$ 160,171	$ 103,922
Total assets	$ 1,725,049	$ 1,704,400
Cash and securities as a percentage of total assets	9.29%	6.10%
Total deposits	$ 1,376,006	$ 1,369,647
Cash and securities as a percentage of total deposits	11.64%	7.59%

Cash and securities totalled $160.2 million at October 31, 2017 compared to $103.9 million a year ago and as a percentage of total assets, cash and securities were 9.29% at October 31, 2017 compared to 6.10% last year. As a percentage of total deposits, cash and securities increased to 11.64% at October 31, 2017 from 7.59% last year. Cash and securities increased from a year ago primarily due to the timing of a large volume of loan repayments that occurred late in the year.

See Note 22 to the Consolidated Financial Statements for information relating to liquidity risk associated with the gaps in the Bank's asset and liability maturity or reset dates.

Operational Risk

Operational risk is the risk of loss resulting from people, inadequate or failed internal processes and systems, or from external events. Operational risk includes legal risk but excludes strategic and reputational risk.

Operational risk differs from other banking risks in that, typically, it is not directly accepted in return for an expected reward, but exists in the natural course of corporate activity.

The Bank recognizes that operational risk is present in all business activities and that the successful management of operational risk is a key factor in the sustained success of the Bank. Sound operational risk management is a reflection of the effectiveness of the Board and senior management in administering its portfolio of products, activities, processes and systems. As such, the Bank has developed and will continuously enhance an Operational Risk Management ("ORM") Program to identify, evaluate, treat, report and monitor operational risks to which the Bank is exposed.

OPERATIONAL RISK AND THE RISK APPETITE STATEMENT

The Bank has segmented operational risk into five operational risk pillars:

1. Employment Practices and Workplace Safety

   The risk resulting from the inappropriate hiring of employees, unjust compensation, or mistreatment of employees, producing consequences such as litigation or resignation. Moreover, it includes risk stemming from the enforcement of safety regulations and the inability to control the environment in working conditions, causing detrimental effects on employees' health such as illness or accidents while working.

The Bank has subdivided Employment Practices and Workplace Safety into three segments:

I. Caliber of People

- The level of motivation and empowerment that Bank staff has in performing their functions.

II. Conduct of People

- The type of conduct and level of integrity exhibited by Bank staff when representing the Bank.

III. Workplace Safety

- The Bank workplace environment is free of physical and psychological harm.

2. Information Technology ("IT") and Cybersecurity

As the Bank's operations are largely based on data and information processing, much emphasis is placed on information technology security to ensure an uninterrupted, secure and undisturbed use of information and communication systems. Business disruption may occur if risks such as system anomalies, or system failures in various other respects, such as inconsistency, defects in the computer system or network system, or the usage of outdated or substandard technological tools are realized.

The Bank has subdivided Information Technology and Cybersecurity into four segments:

I. Technology Service Availability

- Availability of key operating systems to perform critical business functions of the Bank.

II. Security – Cyberattack

- Threats to Bank assets from internal or external malicious attacks.

III. Infrastructure

- Investment in IT infrastructure to promote sustainable growth, efficiency and to minimize operational and regulatory failures.

IV. Ongoing Development

- IT system related incidents that are precipitated by poor change management practices.

3. Fraud and Errors

   This operational risk pillar includes three sub-groups:

   I. Internal Fraud

      - Employee, by themselves or in collusion with others, intentionally violating internal policy, or laws and directly benefiting from the action to the detriment of the business and/or the client.

   II. External Fraud

      - Acts undertaken by external parties intended to defraud or misappropriate financial, information or physical assets or create financial loss for the company.

   III. Errors

      - Risk resulting from errors in the operational process or methodology, lack of a procedure or policy documentation, and control failures.

4. Outsourcing and Business Continuity

   This operational risk pillar includes two sub-groups:

   I. Outsourcing

      - Outsourcing arrangements require careful management if they are to yield benefits, and where they are not managed adequately, the Bank's operational risk exposure may increase. The risk increases when there is a failure of the availability of the people or public/third-party infrastructure that the Bank depends on.

   II. Business Continuity

      - The risk of damage to physical assets and/or disruptive events from various accidents such as fire, natural disaster, riots, terrorism, etc. The Bank will assess the potential risk for such events to occur, design and put in place a recovery plan to ensure continuity of activity.

5. Client, Product and Business Practices

The risk resulting from business practices, the introduction of a product, and the accessing of a customer's information that is inappropriate or noncompliant with regulations or rules, such as unauthorized transactions, unapproved dealings, money laundering activities or the misuse of confidential customer information.

Operational risk impacts can be financial loss, loss of competitive position or reputational. The Bank employs the following strategies in its efforts to monitor and manage operational risk to acceptable levels:

- Comprehensive operational policies which provide clear direction to all areas of its business and employees and establish accountability and responsibilities to identify, assess, appropriately mitigate and control operational risk.

- Hiring of banking professionals with many years of related experience.
- Use of technology through automated systems with built in controls.
- Maintenance of a compliance monitoring program.
- Continual review and upgrade of systems and procedures.

Market Risk

Market risk is the risk of a negative impact on the balance sheet and/or income statement resulting from changes or volatility in market factors such as interest rates or market prices.

Market risk is managed primarily by the Treasurer and the Chief Financial Officer. Treasury policies, set out the management of market risk and document the risk limits, more specifically the Bank's interest rate risk management policy and securities portfolio management policy.

Treasury policies are developed, maintained, and administered by the Treasury Department as a function of the Bank's business objectives, market risk appetite, and regulatory requirements as determined by senior and executive management, and the Board of Directors.

MARKET RISK AND THE RISK APPETITE STATEMENT

The Bank's risk appetite statement defines market risk tolerances that the Bank will adhere to in the execution of its business objectives. Market risk tolerances are administered as follows:

1. Interest Rate Volatility

   Interest rate risk is the risk of a negative impact on the balance sheet or income statement resulting from the change in the interest rates or interest rate volatility. Tolerances are defined and used to assist in measuring the Bank's ability and effort to manage changes to the Bank's capital position with an increase/decrease in both short-term and long-term interest rates.

2. Equity Risk

   Equity risk is the risk of loss resulting from the changes in equity or financial instrument prices and the volatility of their prices. Tolerances are defined and used to assist in measuring the Bank's ability and effort to manage changes to the Bank's capital position with changes in value of the treasury portfolio investments.

   The Bank's principal market risk arises from interest rate risk as the Bank does not undertake foreign exchange or trading activities. In addition, the Bank is subject to market price volatility with respect to available-for-sale securities due to the resulting impact on regulatory capital.

   The Risk Oversight Committee of the Bank is charged with recommending policies that govern market risk to its Board of Directors for approval and with reviewing the policies on an ongoing basis.

   The Bank manages interest rate risk by employing a number of methods including income simulation analysis and interest rate sensitivity gap and duration analysis. Management prepares regular reports to the Board to allow for ongoing monitoring of the Bank's interest rate risk position.

The Bank's Asset Liability Committee reviews the results of these analyses on a monthly basis and monitors compliance with limits set by corporate policy. The Bank's policies include the matching of its cash inflows and outflows so that (i) in any 12 month period, a 100 basis point change in rates across the entire yield curve would not result in a decline greater than 4% of regulatory capital on the Bank's earnings and (ii) in any 60 month period, a 100 basis point change in rates across the entire yield curve would not result in a decline greater than 6% of regulatory capital on the Bank's equity. As well, the policy indicates that at no time shall the duration difference between the Bank's assets and liabilities exceed four months. The interest rate risk position and results of the Bank's duration analysis are presented in the table below.

Interest Rate Position

	2017		2016	
(thousands of Canadian dollars)	Increase 100 bps	Decrease 100 bps	Increase 100 bps	Decrease 100 bps
Sensitivity of projected net interest income during a 12 month period	$ 3,043	$ (3,060)	$ 2,387	$ (2,243)
Sensitivity of reported equity during a 60 month period	(1,445)	1,572	(1,631)	1,667
Duration difference between assets and liabilities (months)	0.1		0.6	

The Bank's sensitivity to changes in interest rates and its duration difference between assets and liabilities at October 31, 2017 has changed slightly since October 31, 2016. As presented above, the impact on net interest income during a 12 month period of a 100 basis point increase would be approximately $3.0 million and the impact on net interest income of a 100 basis point decrease would be approximately ($3.0 million). Similarly at October 31, 2017, the impact on equity during a 60 month period of a 100 basis point increase would be approximately ($1.4 million) and the impact on equity of a 100 basis point decrease would be approximately $1.6 million. At October 31, 2017 the duration difference between assets and liabilities is less than 0.1 month compared to approximately 1 month at October 31, 2016 and shows that the Bank's assets and liabilities would reprice at approximately the same time in the event of a change in interest rates.

As at October 31, 2017, the Bank did not have any outstanding contracts to hedge fair value exposure attributed to interest rate risk. The Bank uses on-balance sheet strategies to manage its interest rate risk.

Credit Risk

Credit risk is the risk of loss associated with a borrower, guarantor or counterparty's inability or unwillingness to fulfill its contractual obligations.

The Bank accepts certain risks in order to generate revenue. In managing these risks, the Bank has developed an enterprise-wide risk management framework designed to achieve an appropriate balance between credit risk and reward in order to maximize shareholder return.

The Bank has established credit policies that set out the roles of the credit department and lending business units related to risk management and further establishes risk tolerances for same. Credit policies exist for the credit department and for each lending business unit.

The credit policies of the Bank are:

1. Credit and Portfolio Management Policies
2. Corporate and Public Sector Finance Policies
3. Commercial Lending Policies
4. Structured Finance Policies
5. Treasury Credit Policies

Credit policies are developed, maintained, and administered by the Credit Department as a function of the Bank's business objectives, credit risk appetite, and regulatory requirements as determined by senior and executive management, and the Board of Directors.

To supplement the credit policies, the individual lending business units have developed and compiled comprehensive procedures that describe the processes, systems and methods employed in the operation of their businesses while operating within the credit framework set out by the credit policies.

CREDIT RISK AND THE RISK APPETITE STATEMENT

The Bank's risk appetite statement defines credit risk tolerances that the Bank will adhere to in the execution of its business objectives. The risk appetite statement, defines the credit risk tolerances for the entire Bank as well as for each of the following business units that accept credit risk:

1. Commercial Lending
2. eCommerce
3. Treasury

The Bank manages its credit risk using policies that have been recommended by management to its Risk Oversight Committee, which then recommends the policies to the Board of Directors of the Bank for approval. These policies consist of approval procedures and limits on loan amounts, portfolio concentration, geographic concentration, industry concentration, asset category, loans to any one entity and associated groups, a risk rating policy that provides for risk rating each asset in its total asset portfolio, and early recognition of problem accounts (watch list accounts) with action plans for each account. The Risk Oversight Committee of the Bank reviews these policies on an ongoing basis.

The Risk Oversight Committee of the Bank is comprised entirely of independent directors and performs the following functions related to credit risk:

- Recommends policies governing management of credit risk to the Bank's Board of Directors for approval and reviews credit risk policies on an ongoing basis to ensure they are prudent and appropriate given possible changes in market conditions and corporate strategy.

- Ensures that procedures and controls for managing credit risk are in place.

- Reviews and concurs with credits exceeding the levels delegated to management, prior to commitment.

- Reviews, on a regular basis, watch list accounts, impaired loans and accounts that have gone into arrears.

Regulatory Risk

Regulatory risk is the risk that a regulatory agency will make changes in the current rules (or will impose new rules) that will increase the costs of operating the Bank, reduce the attractiveness of the Bank as an investment, result in financial loss, and/or change the competitive landscape. Regulatory risk also includes the risk of adverse outcomes due to non-compliance to rules, regulations, standards or other legal requirements.

The Bank has a Regulatory Compliance Management Program that includes a three lines of defence model and essentially establishes the controls and processes through which the Bank manages regulatory compliance risk. The Chief Compliance Officer is responsible for regulatory compliance oversight

REGULATORY RISK AND THE RISK APPETITE STATEMENT

The Bank's risk appetite statement defines regulatory risk tolerances that the Bank will adhere to in the execution of its business objectives. Regulatory risk tolerances are administered as follows:

1. Regulatory Compliance

   Bank's conformance with laws, rules, and regulations and prescribed practices in all jurisdictions in which it operates.

2. Regulatory Capital

   Capital is a key regulatory requirement. The quality of capital and the leverage of the Bank's capital is a key indicator of health by regulators.

Strategic Risk

Strategic risk is defined as the losses or forgone revenues resulting from improper or ineffective business strategies, resource allocation and/or decision-making or from an inability to adapt to changes in the business environment.

STRATEGIC RISK AND THE RISK APPETITE STATEMENT

The Bank's risk appetite statement defines the strategic risk tolerances that the Bank and each business unit will adhere to in the execution of their respective business objectives. Strategic risk tolerances are established as a function of the Bank's financial performance.

Financial metric tolerances are defined for the Bank and its lending business units.

The Bank manages strategic risk through a Board approved, robust, annual business planning process which includes the development of a comprehensive business plan, operating budget, and capital plan that exhibit planning horizons ranging from twelve to sixty months. The Bank augments its annual enterprise business planning process with the development of rigorous economic forecasts, risk and operational impact assessments related to any new business initiatives being contemplated as well as through the performance of an annual internal capital adequacy assessment process ("ICAAP") for the Bank. The ICAAP is employed to determine if the Bank's budgeted capital amounts provide adequate capital buffers against the occurrence of its identified business objective risks under both expected and stressed operating conditions.

Reputational Risk

Reputational risk is the risk that an activity undertaken by the Bank or its representatives will impair its image in the community or lower public confidence in it, resulting in the loss of business, legal action or increased regulatory oversight.

Reputational risk is the outcome of a risk occurrence; it is not a risk event in and of itself. To manage against reputational risk, the Enterprise Risk Management program focuses on the risks of the Bank through the other six pillars of risk:

1. Liquidity Risk
2. Operational Risk
3. Market Risk
4. Credit Risk
5. Regulatory Risk
6. Strategic Risk

The management of the risks identified in these six pillars of risk and the measurement of the Bank in achieving its objectives and remaining within the bounds of the Bank's risk appetite statement assist the Bank in managing reputational risk.

REPUTATIONAL RISK AND THE RISK APPETITE STATEMENT

The Bank's risk appetite statement defines the reputational risk tolerances that the Bank will adhere to in the execution of its business objectives.

An institution's reputation is a valuable business asset in its own right, essential to optimizing shareholder value, and as such is constantly at risk. Reputation risk cannot be managed in isolation from other forms of risk since all risks can have an impact on reputation, which in turn can impact the Bank's brand, earnings and capital. Credit, market, operational, strategic and liquidity risks must all be managed effectively in order to safeguard the Bank's reputation.

Ultimate responsibility for the Bank's reputation lies with senior and executive management, and the Board of Directors and related committees which examine reputation risk as part of their ongoing duties. In addition, every employee and representative of the Bank has a responsibility to contribute in a positive way to the Bank's reputation by ensuring that ethical practices are followed at all times.

FACTORS THAT MAY AFFECT FUTURE RESULTS

As noted in the section "Forward-looking Statements", the Bank is subject to inherent risks and uncertainties which may cause its actual results to differ materially from its expectations. Some of these risks are discussed below.

Execution of Strategic Plans

The Bank's financial performance is influenced by its ability to execute strategic plans developed by management. If these strategic plans do not meet with success or there is a change in strategic plans, the Bank's earnings could grow at a slower pace or decline.

Changes in Laws and Regulations

Laws and regulations are in place to protect clients, investors and the public. Changes in laws and regulations, including how they are interpreted and enforced, could adversely affect the Bank's earnings by allowing more competition in the marketplace and by increasing the costs of compliance. In addition, any failure to comply with laws and regulations could adversely affect the Bank's reputation and earnings.

Changes in Accounting Standards and Accounting Policies and Estimates

The International Accounting Standards Board continues to change the financial accounting and reporting standards that govern the preparation of the Bank's financial statements. These changes can be significant and may materially impact how the Bank records its financial position and its results of operations. Where the Bank is required to retroactively apply a new or revised standard, it may be required to restate prior period financial statements.

Level of Competition

The level of competition among financial institutions is high and non-financial companies are increasingly offering services provided by banks. This could have an effect on the pricing of the Bank's deposits and its lending products and together with loss of market share, could adversely affect the Bank's earnings.

General Economic Conditions

The Bank conducts its business in various regions within Canada. Factors such as financial market stability, interest rates, foreign exchange rates, changing global commodity prices, business investment, government spending and stimulation initiatives, consumer spending, and the rate of inflation can affect the business and economic environments in each geographic region in which the Bank operates. Therefore, the amount of business the Bank conducts in a specific geographic region may have an effect on the Bank's overall revenues and earnings.

Monetary Policy

Financial markets' expectations about inflation and central bank monetary policy have an impact on the level of interest rates. Fluctuations in interest rates that result from these changes could have an impact on the regions in which the Bank operates and on its earnings.

Reliance on Deposit Brokers

The Bank raises its deposits primarily through a network of independent deposit brokers across Canada. The failure by the Bank to secure sufficient deposits from its broker network could negatively affect its financial condition and operating results. The Bank mitigates this risk by establishing and maintaining good working and mutually beneficial relationships with a diverse group of deposit brokers so as not to become overly reliant on any single deposit broker.

Technology Risk

Technology risk is related to the operational performance, confidentiality, integrity and availability of information systems and infrastructure. The Bank is highly dependent upon information technology and supporting infrastructure such as data and network access. Disruptions in information technology and infrastructure, whether attributed to internal or external factors, and including potential disruptions in services provided by various third parties, could adversely affect the ability of the Bank to conduct regular business and or deliver products and services to clients.

SUBSEQUENT EVENTS

On November 28, 2017, the Board of Directors declared quarterly cash dividends on the Bank's common shares and 7.0% Series 1 and Series 3 preferred shares. The common share dividend of $0.01 per share and the Series 1 preferred share and Series 3 preferred share dividends of $0.175 per share are payable, subject to the approval of the Toronto Stock Exchange ("TSX"), as of January 31, 2018 to shareholders of record at the close of business on January 5, 2018.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all material information is gathered and reported to senior management, including the Chief Executive Officer and the Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure.

As at October 31, 2017, an evaluation was carried out by management of the effectiveness of the Bank's disclosure controls and procedures. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer will file a certificate that the design and operating effectiveness of those disclosure controls and procedures were effective.

Internal Control over Financial Reporting

Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with International Financial Reporting Standards. Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Bank.

At October 31, 2017, an evaluation was carried out by management of the effectiveness of internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and financial statement compliance with International Financial Reporting Standards. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer will file a certificate that the design and operating effectiveness of internal control over financial reporting were effective. These evaluations were conducted in accordance with the standards of the 2013 Internal Control - Integrated Framework of the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and the requirements of National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings* of the Canadian Securities Administrators.

A Disclosure Committee, consisting of members of senior management, assists the Chief Executive Officer and the Chief Financial Officer in their responsibilities. Management's evaluation of controls can only provide reasonable, not absolute, assurance that all internal control issues that may result in material misstatement, if any, have been detected.
There were no changes in the Bank's internal controls over financial reporting that occurred during the year ended October 31, 2017 that have materially affected, or are reasonably likely to materially affect, internal controls over financial reporting.

BASIS OF PRESENTATION

Non-GAAP and Additional GAAP Measures

Yield

Yield is calculated as interest income (as presented in the Consolidated Statements of Income) divided by average assets. Yield does not have a standardized meaning prescribed by IFRS and, therefore, may not be comparable to similar measures presented by other financial institutions.

Cost of Funds

Cost of funds is calculated as interest expense (as presented in the Consolidated Statements of Income) divided by average assets. Cost of funds does not have a standardized meaning prescribed by IFRS and, therefore, may not be comparable to similar measures presented by other financial institutions.

Net Interest Margin or Spread

Net interest margin or spread is defined as net interest income as a percentage of average total assets. Net interest margin or spread does not have a standardized meaning prescribed by IFRS and, therefore, may not be comparable to similar measures presented by other financial institutions.

Core Cash Earnings

Core cash earnings, which reflects the Bank's core operational performance and earnings capacity, is calculated as net income (as presented in the Consolidated Statements of Income) adjusted for income taxes, restructuring charges and other non-core operational expenses. Core cash earnings does not have a standardized meaning prescribed by IFRS and, therefore, may not be comparable to similar measures presented by other financial institutions.

Basel III Common Equity Tier 1, Tier 1 and Total Capital Adequacy Ratios and Leverage Ratio

Basel III Common Equity Tier 1, Tier 1 and Total Capital adequacy ratios and the Leverage ratio are determined in accordance with guidelines issued by OSFI.

Return on Average Common Equity

Return on average common equity for the Bank is defined as annualized net income of the Bank less amounts relating to preferred share dividends, divided by average common shareholders' equity which is average shareholders' equity less amounts relating to preferred shares recorded in equity. Return on average common equity does not have a standardized meaning prescribed by IFRS and, therefore, may not be comparable to similar measures presented by other financial institutions.

Provision for (Recovery of) Credit Losses as a Percentage of Average Total Loans

This measure captures the provision for (recovery of) credit losses (as presented in the Consolidated Statements of Income) as a percentage of the Bank's average loans, net of allowance for credit losses. This percentage does not have a standardized meaning prescribed by IFRS and, therefore, may not be comparable to similar measures presented by other financial institutions.

Gross Impaired Loans to Total Loans

The measure captures gross impaired loan balances as a percentage of the Bank's loans, net of allowance for credit losses. This percentage does not have a standardized meaning prescribed by IFRS and, therefore, may not be comparable to similar measures presented by other financial institutions.

Efficiency Ratio

The efficiency ratio is calculated as non-interest expenses, excluding restructuring charges, as a percentage of total revenue (as presented in the Consolidated Statements of Income). This ratio does not have a standardized meaning prescribed by IFRS and, therefore, may not be comparable to similar measures presented by other financial institutions.

Book Value per Common Share

Book value per common share is defined as Shareholders' Equity less amounts relating to preferred shares recorded in equity, divided by the number of common shares outstanding. Book value per common share does not have a standardized meaning prescribed by IFRS and, therefore, may not be comparable to similar measures presented by other financial institutions.

Additional information relating to the Bank, including the Bank's Annual Information Form, can be found on SEDAR at www.sedar.com.

Dated: December 15, 2017