MANAGEMENT'S DISCUSSION AND ANALYSIS

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 pertaining to 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") adopted an electronic branchless model in 1993, becoming the world's first branchless financial institution. It holds a Canadian Schedule I chartered bank license and obtains its deposits, and the majority of its loans and leases, electronically. VersaBank's Common Shares trade on the Toronto Stock Exchange under the symbol VB and its Series 1 Preferred Shares and Series 3 Preferred Shares trade under the symbols VB.PR.A and VB.PR.B, respectively.

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 select clients operating in niche markets across Canada.

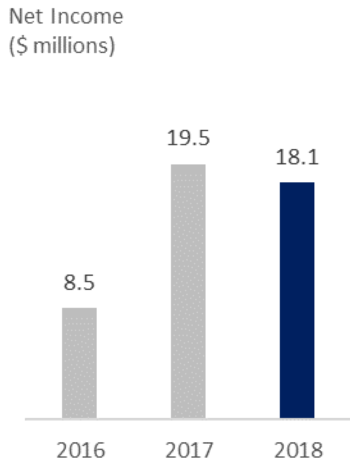
SELECTED FINANCIAL AND OTHER HIGHLIGHTS

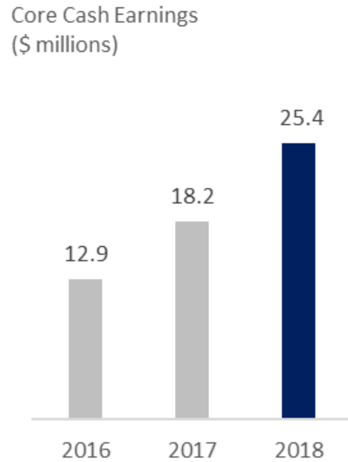
(thousands of Canadian dollars except per share amounts)	October 31 2018	October 31 2017	October 31 2016
Interest income	$ 80,914	$ 71,765	$ 69,662
Net interest income	51,499	43,983	38,404
Total revenue	51,685	43,842	39,677
Provision for (recovery of) credit losses	334	(125)	871
Non-interest expenses	26,338	27,190	25,956
Restructuring charges	-	2,045	1,092
Core cash earnings*	25,361	18,168	12,850
Core cash earnings per common share*	1.19	0.87	0.65
Net income	$ 18,074	$ 19,472	$ 8,470
Income per common share:			
Basic	$ 0.75	$ 0.83	$ 0.32
Diluted	$ 0.75	$ 0.83	$ 0.32
Dividends paid on preferred shares	$ 2,201	$ 2,201	$ 2,201
Yield*	4.58%	4.19%	4.18%
Cost of funds*	1.66%	1.62%	1.87%
Net interest margin*	2.91%	2.57%	2.31%
Return on average common equity*	8.50%	10.29%	4.15%
Core cash return on average common equity*	12.40%	9.51%	7.06%
Provision for (recovery of) credit losses as a % of average total loans*	0.02%	(0.01%)	0.06%
Gross impaired loans to total loans*	0.04%	0.04%	0.00%
Full time employees	86	80	80
Efficiency ratio**	50.96%	62.02%	65.42%
Book value per common share*	$ 9.19	$ 8.48	$ 7.79
Financial Condition:			
Cash and securities	$ 139,798	$ 160,171	$ 103,922
Loans, net of allowance for credit losses	1,631,026	1,520,857	1,563,612
Average loans*	1,575,942	1,542,235	1,505,636
Total assets	1,809,130	1,725,049	1,704,400
Average assets*	1,767,089	1,714,725	1,665,103
Deposits	1,437,431	1,376,006	1,369,647
Subordinated notes payable	9,844	9,786	14,067
Shareholders' equity	223,567	208,541	185,884
Capital Position and Ratios:			
Common Equity Tier 1 capital	$ 174,055	$ 152,789	$ 149,985
Total regulatory capital	207,392	188,126	189,122
Risk-weighted assets	1,502,549	1,420,276	1,425,171
Common Equity Tier 1 ratio	11.58%	10.76%	10.52%
Tier 1 capital ratio	13.54%	12.82%	12.58%
Total capital ratio	13.80%	13.25%	13.27%
Leverage ratio	10.84%	10.06%	9.82%

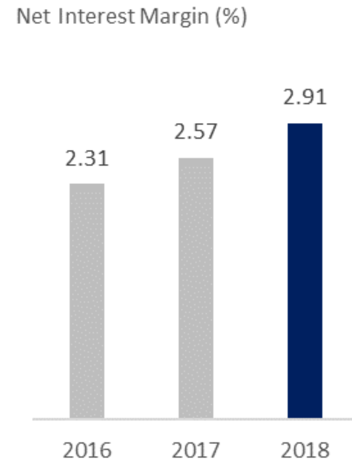
* This is a non-GAAP measure. For definition see in the Basis of Presentation Non-GAAP and Additional GAAP Measures section below.

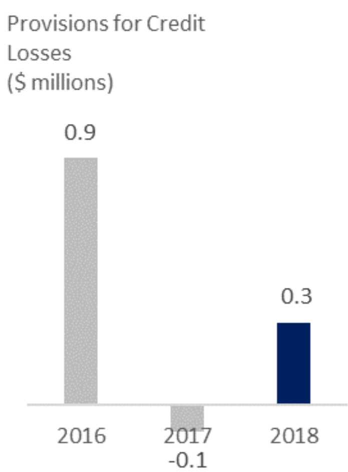
**Efficiency ratio is adjusted for restructuring charges.

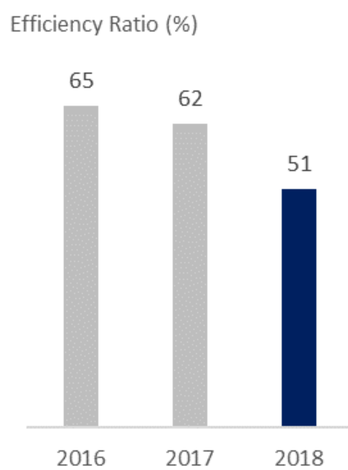
OVERVIEW OF PERFORMANCE

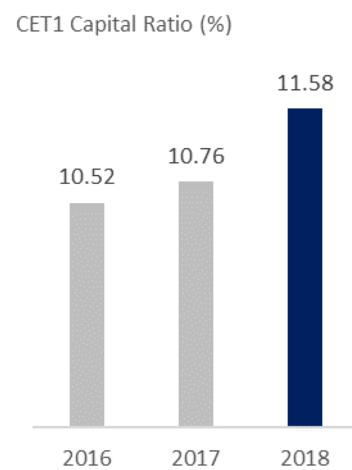












Net income for the year was down 7% to $18.1 million or $0.75 per common share (basic and diluted) from $19.5 million or $0.83 per common share (basic and diluted) in 2017. 2017's results included an $8.8 million one-time, non-cash gain on the recognition of a deferred income tax asset subsequent to the amalgamation of the Bank with PWC Capital Inc.

Core cash earnings for the year was up 40% to $25.4 million or $1.19 per common share (basic and diluted) from $18.2 million or $0.87 per common share (basic and diluted) in 2017 as a function, primarily of higher net interest income and lower non-interest expenses. 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 Comprehensive Income) adjusted for income taxes, restructuring charges, corporate projects and other non-core operational expenses. 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 (see reconciliation of core cash earnings to net income below).

Net interest margin or spread for the year was up 34 bps to 2.91% from 2.57% in 2017 as a function, primarily of yield expansion realized over the course of the year.

The Bank recorded a provision for credit losses in the amount of $334,000 for the year, compared to a net recovery of credit losses in the amount of $125,000 in 2017. The current year provision was a function of lending asset growth, whereas the prior year recovery reflected the impact of the sale of the Bank's credit card portfolio in the second quarter of 2017.

The Bank's efficiency ratio, adjusted for restructuring charges improved to 51% from 62% in 2017 primarily due to higher net interest income and lower non-interest expenses.

At October 31, 2018 the Bank's CET1 capital ratio was up 82 bps to 11.58% from 10.76% in 2017.

2018 FINANCIAL RESULTS

TOTAL REVENUE

Total revenue, which consists of net interest income and non-interest income was up 18% to $51.7 million from $43.8 million in 2017 as a function primarily of higher net interest income.

Net Interest Income and Margin

(thousands of Canadian dollars)	2018	2017
Interest income	$ 80,914	$ 71,765
Interest expense	29,415	27,782
Net interest income	51,499	43,983
Average assets	$1,767,089	$1,714,725
Net interest margin	2.91%	2.57%

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 for the year was up 17% to $51.5 million from $44.0 million in 2017 due, primarily to increased income earned on lending assets.

Net interest margin or spread for the year was up 34 bps to 2.91% from 2.57% in 2017 as a function of higher yields earned on lending assets.

PROVISIONS FOR (RECOVERY OF) CREDIT LOSSES

During the year the Bank recorded a provision for credit losses in the amount of $334,000 compared to a net recovery of credit losses in the amount of $125,000 in 2017. The current year provision was a function primarily of lending asset growth whereas the prior year recovery reflected the impact of the sale of the Bank's credit card portfolio in the second quarter of 2017.

NON-INTEREST EXPENSES

(thousands of Canadian dollars)	2018	2017	Change from 2017	
			$	%
Salaries and employee benefits	14,337	13,656	681	5
General and administrative	9,697	11,399	(1,702)	(15)
Premises and equipment	2,304	2,135	169	8
	$ 26,338	$ 27,190	$ (852)	(3)
Restructuring charges	-	2,045	(2,045)	(100)
Total non-interest expenses	$ 26,338	$ 29,235	$ (2,897)	(10)

Non-interest expenses for the year, excluding restructuring charges were down 3% to $26.3 million from $27.2 million in 2017 due to lower administrative expenses related to consulting fees, and the Bank's general corporate functions, partially offset by higher salary and benefits expenses resulting from an increase in staff to support operations growth.

Restructuring Charges

There were no restructuring charges for the year ended October 31, 2018. Restructuring charges in the prior year related primarily to termination benefits for employees and key management personnel incurred as a function of the sale of the credit card portfolio and the Bank's corporate reorganization.

CORE CASH EARNINGS

Core cash earnings for the year were up 40% to $25.4 million from $18.2 million in 2017 as a function, primarily of higher net interest income and lower non-interest expenses. Core cash earnings is calculated as net income (as presented in the Consolidated Statements of Comprehensive Income) adjusted for income taxes, restructuring charges, corporate projects and other non-core operational expenses. 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 Canadian dollars)	2018	2017
Net income	$ 18,074	$ 19,472
Adjusted for:		
Income taxes	6,939	(4,740)
Restructuring charges	-	2,045
Other non-core general and administrative expense items	348	1,391
Core cash earnings	$ 25,361	$ 18,168

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 affected 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 outlined below.

The Bank recognized an income tax provision of $6.9 million for the year compared to an income tax recovery of $4.7 million in 2017. The recovery in the prior 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, 2018, the Bank's deferred income tax asset reduced to $18.4 million from $24.5 million in 2017 due primarily to the utilization of income tax loss carry forwards due to taxable income generated by the Bank over the period. At October 31, 2018 the Bank's income tax loss carry-forwards totalled approximately $63.5 million (2017 – $84.2 million), which, if unutilized are not scheduled to begin to expire until 2030.

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 $18.1 million compared to $19.5 million in 2017.

FINANCIAL CONDITION

Consolidated Balance Sheet

(thousands of Canadian dollars)	2018	Mix	2017	Mix
Assets				
Cash and securities	$ 139,798	7.73 %	$ 160,171	9.29 %
Loans, net of allowance for credit losses	1,631,026	90.16	1,520,857	88.16
Other assets	38,306	2.12	44,021	2.55
Total assets	$1,809,130	100.00 %	$1,725,049	100.00 %
Liabilities				
Deposits	$1,437,431	79.45 %	$1,376,006	79.77 %
Subordinated notes payable	9,844	0.54	9,786	0.57
Securitization liabilities	33,310	1.84	33,256	1.93
Other liabilities	104,978	5.80	97,460	5.65
Total liabilities	$1,585,563	87.64 %	$1,516,508	87.91 %
Shareholders' equity				
Share capital	$ 182,094	10.07 %	$ 182,094	10.56 %
Retained earnings	41,473	2.29	26,443	1.53
Accumulated other comprehensive income	-	-	4	0.00
Total shareholders' equity	$ 223,567	12.36 %	$ 208,541	12.09 %
Total liabilities and shareholders' equity	$1,809,130	100.00 %	$1,725,049	100.00 %

Total Assets

Total assets for the year were up 5% to $1.81 billion from $1.73 billion in 2017, as a function, primarily of net lending asset growth, partially offset by lower cash balances.

Cash and Securities

(thousands of Canadian dollars)	2018	2017
Cash and cash equivalents	$ 129,781	$ 159,909
Securities	10,017	262
Total cash and securities	$ 139,798	$ 160,171
Total assets	$ 1,809,130	$1,725,049
Cash and securities as a percentage of total assets	7.73%	9.29%
Total deposits	$ 1,437,431	$1,376,006
Cash and securities as a percentage of total deposits	9.73%	11.64%

Cash and securities for the current year consisted primarily of deposits with Canadian financial institutions and federal and provincial government bonds. Amounts held in cash and securities are determined based on liquidity needs, investment yield and capital management considerations. Cash and securities at October 31, 2018, which are held primarily for liquidity purposes, were down 13% to $140 million from $160 million in 2017. The year over year trend was a function primarily of the timing of scheduled loan fundings and repayments and the Bank's efforts to remain aligned with the liquidity levels set out in its liquidity policies.

Loans

Net loans at October 31, 2018 were up 7% to $1.63 billion from $1.52 billion in 2017 as a function of lending asset growth in both the real estate loan and purchased receivables portfolios.

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, 2018 decreased to $231,000 from $1.7 million in 2017. The Bank did not have any HELOCs outstanding at October 31, 2018, or in 2017.

Credit Quality

Gross impaired loans at October 31, 2018, were $627,000 unchanged from 2017. The Bank's allowance for credit losses at October 31, 2018 was up 14% to $2.8 million from $2.4 million in 2017 due to growth in real estate loans over the course of the year and an increase in individual allowances.

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 identified individually at this time, are adequately provided for.

The table below presents the components of the Bank's allowance for credit losses for the year as well as for 2017:

(thousands of Canadian dollars)	Collective	Individual	2018 Total Allowance	2017 Total Allowance
Balance, beginning of year	$ 2,225	$ 200	$ 2,425	$ 3,031
Provision for (recovery of) credit losses	134	200	334	(125)
Write-offs	-	-	-	(481)
Balance, end of year	$ 2,359	$ 400	$ 2,759	$ 2,425

Other Assets

Other assets include working capital items, funds held for securitization liabilities, capital assets, and the deferred income tax asset. Other assets at October 31, 2018 were down 13% to $38.3 million from $44.0 million in 2017 as a function primarily of draw downs on the deferred income tax asset derived from taxable income generated by the Bank over the period.

Deposits and Other Liabilities

The Bank has established three core funding channels, those being personal deposits, commercial deposits, and holdbacks retained from the Bank's receivable purchase program originator partners that are classified as other liabilities.

The table below presents the Bank's deposit portfolio balances and mix at October 31, 2018 as well as for 2017:

(thousands of Canadian dollars)	2018	Mix	2017	Mix
Commercial deposits	$ 395,994	27.55 %	$ 323,997	23.55 %
Personal deposits	1,041,437	72.45	1,052,009	76.45
	$ 1,437,431	100.00 %	$ 1,376,006	100.00 %

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.

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. Commercial deposits at October 31, 2018 were up 22% from prior year due primarily to the acquisition of new trustee clients over the course of the year. Commercial deposits also include guaranteed investment certificates issued to Trustees and other commercial entities.

The Bank strives to diversify its deposit gathering activities both geographically and across 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 targets 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, 2018 as well as for 2017:

	2018				
(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	$ 384,994	$ -	$ -	$ 10,000	$ 394,994
Personal deposits	171,251	285,513	296,939	276,057	1,029,760
	$ 556,245	$ 285,513	$ 296,939	$ 286,057	$1,424,754

	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

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, 2018 were up 8% to $105.0 million from $97.5 million in 2017 due primarily to higher cash holdbacks. Cash holdbacks at October 31, 2018 were up 8% to $96.1 million from $88.8 million in 2017 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. Securitizations at October 31, 2018 were $33.3 million, unchanged from 2017.

Subordinated Notes Payable

The Bank has the following subordinated notes payable outstanding:

(thousands of Canadian dollars)	2018	2017
Ten year term, unsecured, callable subordinate note payable to an unrelated party. Principal amount of $10 million, effective interest rate of 8.77%, maturing 2021.	$ 9,844	$ 9,786
	$ 9,844	$ 9,786

Shareholders' Equity

Shareholders' equity at October 31, 2018 was up 7% to $223.6 million from $208.5 million in 2017 as a function of retained earnings growth over the course of the year partially offset by the payment of dividends.

Common shares outstanding at October 31, 2018 totalled 21,123,559, unchanged from 2017. Pursuant to the January 2017 amalgamation of the Bank and its parent company, PWC Capital Inc. the Bank's common shares outstanding increased by 1,028,494 common shares in 2017. See Note 26 to the Consolidated Financial Statements for more information.

The Bank's book value per common share at October 31, 2018 was up 8% to $9.19 from $8.48 in 2017.

At October 31, 2018, the Bank had 1,461,460 Series 1 Preferred Shares and 1,681,320 Series 3 Preferred Shares outstanding, unchanged from 2017.

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, 2018, the Bank recognized

$nil (2017 - $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 November 27, 2018, there were no changes in the number of outstanding common shares, Series 1 and Series 3 Preferred Shares since October 31, 2018. As at November 27, 2018, there were 43,851 common share options outstanding, unchanged since October 31, 2018.

LIQUIDITY

The Consolidated Statement of Cash Flows for the year ended October 31, 2018 shows cash used in operations of $14.9 million compared to net cash provided from operations of $77.9 million in 2017. The net use of cash was a function primarily of lending asset growth exceeding the volume of new deposits raised over the course of the year. 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 using cash on hand and by managing its flow of deposits.

OFF-BALANCE SHEET ARRANGEMENTS

As at October 31, 2018, the Bank did not have any significant off-balance sheet arrangements other than undrawn loan commitments, and letters of credit resulting from normal business activities. See Note 24 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 secured arrangements are contracted for a limited period of time and will expire or terminate without being drawn upon.

(thousands of Canadian dollars)	2018	2017
Loan commitments	$ 167,624	$ 249,682
Letters of credit	42,530	45,442
	$ 210,154	$ 295,124

Contractual Obligations

At October 31, 2018 the Bank had the following scheduled principal repayments of financial liabilities and off- balance sheet obligations:

	2018				
(thousands of Canadian dollars)	Total	Less than 1 Year	1-2 Years	2-5 Years	Over 5 Years
Deposits	$1,424,754	$ 841,758	$ 296,939	$ 286,057	$ -
Holdbacks	96,161	96,161	-	-	-
Subordinated notes payable	9,844	-	-	9,844	-
Securitization liabilities	33,310	-	24,591	8,719	-
Accounts payable	8,817	8,817	-	-	-
Operating leases	3,307	741	802	747	1,017
	$1,576,193	$ 947,477	$ 322,332	$ 305,367	$ 1,017

RELATED PARTY TRANSACTIONS

The Bank's Board of Directors and Senior Executive Officers represent key management personnel. See Note 23 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 business development. The impact of the level of capital on shareholders' return is also of upmost importance 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 levels in order to be considered well capitalized, protect consumer deposits and to 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 its 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 weight 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 Advanced Internal Ratings-Based ("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 utilize the AIRB methodology.

The table below presents the Bank's risk-weighted assets as at October 31, 2018 as well as for 2017:

	Notional/drawn amount					
(thousands of Canadian dollars)	Cash/ Securities	Loans	Other	Off -balance sheet items	Total	Risk Weighted Balance
Corporate	$ -	$ 731,769	$ -	$ -	$ 731,769	$ 724,752
Sovereign	10,017	17,512	-	-	27,529	3,289
Bank	129,781	17,673	-	-	147,454	29,491
Retail residential mortgages	-	26,121	-	-	26,121	81
Other retail	-	837,951	-	-	837,951	562,753
Other items	-	-	38,306	42,530	80,836	34,062
Undrawn commitments	-	-	-	167,624	167,624	63,896
Operational risk [1]	-	-	-	-	-	84,225
As at October 31, 2018	$139,798	$1,631,026	$38,306	$ 210,154	$2,019,284	$1,502,549

	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

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

	Notional/drawn amount							Risk Weighted
(thousands of Canadian dollars)	0%	20%	35%	75%	100%	150%	Total	Balance
Corporate	$ 7,231	$ -	$ -	$ -	$ 724,111	$ 427	$ 731,769	$ 724,752
Sovereign	11,086	16,443	-	-	-	-	27,529	3,289
Bank	-	147,454	-	-	-	-	147,454	29,491
Retail residential mortgages	25,889	-	232	-	-	-	26,121	81
Other retail	87,475	4,000	-	738,092	8,384	-	837,951	562,753
Other items	26,465	716	-	-	53,655	-	80,836	34,062
Undrawn commitments	-	-	-	755	166,869	-	167,624	63,896
Operational risk [1]	-	-	-	-	-	-	-	84,225
As at October 31, 2018	$158,146	$168,613	$ 232	$738,847	$ 953,019	$ 427	$2,019,284	$1,502,549

	Notional/drawn amount							Risk Weighted
(thousands of Canadian dollars)	0%	20%	35%	75%	100%	150%	Total	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

[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, 2018 the Bank exceeded all of 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, 2018 as well as for 2017:

(thousands of Canadian dollars, except capital ratios)	2018		2017	
	"All-in"	"Transitional"	"All-in"	"Transitional"
Common Equity Tier 1 (CET1) capital				
Directly issued qualifying common share capital	$ 152,757	$ 152,757	$ 152,757	$ 152,757
Retained earnings	41,473	41,473	26,443	26,443
Accumulated other comprehensive income	-	-	4	4
CET1 before regulatory adjustments	194,230	194,230	179,204	179,204
Regulatory adjustments applied to CET1	(20,175)	(16,140)	(26,415)	(21,132)
Total Common Equity Tier 1 capital	$ 174,055	$ 178,090	$ 152,789	$ 158,072
Additional Tier 1 capital				
Directly issued qualifying Additional Tier 1 instruments	$ 29,337	$ 29,337	$ 29,337	$ 29,337
Total Tier 1 capital	$ 203,392	$ 207,427	$ 182,126	$ 187,409
Tier 2 capital				
Directly issued capital instruments subject to phase out from Tier 2	$ 10,000	$ 10,000	$ 10,000	$ 10,000
Tier 2 capital before regulatory adjustments	10,000	10,000	10,000	10,000
Regulatory adjustments applied to Tier 2	(6,000)	(6,000)	(4,000)	(4,000)
Total Tier 2 capital	$ 4,000	$ 4,000	$ 6,000	$ 6,000
Total capital	$ 207,392	$ 211,427	$ 188,126	$ 193,409
Total risk-weighted assets	$ 1,502,549	$ 1,506,584	$ 1,420,276	$ 1,425,559
Capital ratios				
CET1 Ratio	11.58%	11.82%	10.76%	11.09%
Tier 1 Capital Ratio	13.54%	13.77%	12.82%	13.15%
Total Capital Ratio	13.80%	14.03%	13.25%	13.57%

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, 2018 as well as for 2017:

	2018	2017
On-balance sheet assets	$1,809,130	$1,725,049
Asset amounts deducted in determining Basel III "all in" Tier 1 Capital	(20,175)	(26,415)
Total on-balance sheet exposures	$1,788,955	$1,698,634
Off-balance sheet exposure at gross notional amount	$ 210,154	$ 295,124
Adjustments for conversion to credit equivalent amount	(123,345)	(182,977)
Off-balance sheet items	$ 86,809	$ 112,147
Tier 1 Capital	$ 203,392	$ 182,126
Total Exposures	$1,875,764	$1,810,781
Basel III Leverage Ratio	10.84%	10.06%

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)	2018				2017			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Results of operations:								
Interest income	$ 22,036	$ 20,446	$ 19,363	$ 19,069	$ 18,132	$ 17,584	$ 17,463	$ 18,586
Yield on assets (%)	4.82%	4.55%	4.59%	4.41%	4.22%	4.14%	4.14%	4.24%
Interest expense	8,329	7,481	6,931	6,674	6,624	6,833	6,884	7,441
Cost of funds (%)	1.82%	1.67%	1.64%	1.54%	1.54%	1.61%	1.63%	1.70%
Net interest income	13,707	12,965	12,432	12,395	11,508	10,751	10,579	11,145
Net interest margin (%)	3.00%	2.88%	2.95%	2.87%	2.68%	2.53%	2.51%	2.54%
Total revenue	13,827	12,982	12,469	12,407	11,521	10,763	10,126	11,432
Provision for (recovery of) credit losses	191	128	(50)	65	116	38	(582)	303
Non-interest expenses	6,423	6,408	6,617	6,890	7,500	7,012	6,220	6,458
Efficiency ratio*	46%	49%	53%	56%	65%	65%	61%	56%
Restructuring charges	-	-	-	-	-	-	1,575	470
Core cash earnings	7,108	6,446	5,902	5,905	4,650	4,359	4,488	4,671
Core cash earnings per common share	$ 0.33	$ 0.30	$ 0.28	$ 0.28	$ 0.22	$ 0.21	$ 0.21	$ 0.23
Income before income taxes	7,213	6,446	5,902	5,452	3,905	3,713	2,913	4,201
Income tax provision (recovery)	2,049	1,768	1,646	1,476	1,083	1,031	809	(7,663)
Net income	$ 5,164	$ 4,678	$ 4,256	$ 3,976	$ 2,822	$ 2,682	$ 2,104	$ 11,864
Income per share								
Basic	$ 0.21	$ 0.20	$ 0.18	$ 0.16	$ 0.11	$ 0.10	$ 0.07	$ 0.56
Diluted	$ 0.21	$ 0.20	$ 0.18	$ 0.16	$ 0.11	$ 0.10	$ 0.07	$ 0.56
Return on average common equity	9.53%	8.72%	8.25%	7.50%	5.06%	4.81%	3.66%	27.22%
Core cash return on average common equity	13.55%	12.45%	11.93%	11.75%	9.13%	8.59%	9.28%	9.92%
Return on average total assets	1.01%	0.92%	0.88%	0.81%	0.53%	0.50%	3.39%	2.58%
Gross impaired loans to total loans	0.04%	0.04%	0.04%	0.04%	0.04%	0.04%	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.

Interest income for the year was up 13% to $80.9 million from $71.8 million in 2017 while net interest income for the year was up 17% to $51.5 million from $44.0 million in 2017, both as a function, primarily of yield expansion realized on lending assets over the course of the year.

The recovery for credit losses recorded in the second quarter of 2017 was a function of a 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.

The provision for income taxes in each of the quarters reflects the effective statutory income tax rate of 27% applied to earnings of 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 $5.2 million or $0.21 per common share (basic and diluted), compared to $4.7 million or $0.20 per common share (basic and diluted) last quarter and $2.8 million or $0.11 per common share (basic and diluted) for the same period a year ago. The quarter over quarter trend was a function primarily of higher income earned on lending assets. The year over year trend was a function, primarily of higher income earned on lending assets and lower non-interest expenses. Non-interest expenses in the prior year included consulting fees related to credit loss modeling and fees associated with the preparation of a public offering of preferred shares, for which, due to market conditions, the preliminary prospectus associated with same was withdrawn.

Core cash earnings for the quarter were $7.1 million or $0.33 per common share (basic and diluted), compared to $6.4 million or $0.30 per common share (basic and diluted) last quarter and $4.7 million or $0.22 per common share (basic and diluted) for the same period a year ago. Core cash earnings in the current quarter adjusts for income taxes and the sale of a decommissioned information technology related asset. Core cash earnings for the same period a year ago 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 $13.8 million compared to $13.0 million last quarter and $11.5 million for the same period a year ago. The quarter over quarter and year over year trends were a function primarily of higher interest income earned on lending assets over the respective periods.

Net Interest Income

Net interest income for the quarter was $13.7 million compared to $13.0 million last quarter and $11.5 million for the same period a year ago. The quarter over quarter and year over year trends were a function primarily of higher interest income earned on lending assets over the respective periods.

Net Interest Margin

Net interest margin or spread for the quarter was 3.00% compared to 2.88% last quarter and 2.68% a year ago. The quarter over quarter and year over year trends were a function of yield expansion realized on lending assets over the respective periods.

Provision for Credit Losses

Provisions for the quarter were $191,000 compared to $128,000 last quarter and $116,000 a year ago. The quarter over quarter trend was a function of a $200,000 individual allowance recognized in the current quarter related to the Bank's only impaired asset, partially offset by a reduction in lending assets that attract a higher collective allowance over the same period. The year over year trend was a function primarily of lending asset growth.

Non-Interest Expenses

Non-interest expenses of the Bank, excluding restructuring charges for the quarter were $6.4 million compared to $6.4 million last quarter and $7.5 million for the same period a year ago. The year over year trend was a function primarily of the Bank recognizing consulting fees a year ago related to 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, for which, due to market conditions, the preliminary prospectus associated with same was withdrawn.

Income Taxes

For the three months ended October 31, 2018, the provision for income taxes was $2.0 million compared to $1.8 million for the previous quarter and $1.1 million for the same period a year ago.

OUTLOOK FOR 2019

The Canadian economy has solid momentum, driven by strong foreign and domestic demand, continued favourable financial conditions, and business investment focused on enhancing productivity, with the latter being potentially further stimulated by the federal government's recent introduction of accelerated investment incentives. Real GDP is anticipated to expand approximately 2.1% in both 2018 and 2019, with inflation expected to settle back to approximately 2% early in 2019 as the impact of short-term influences, such as gasoline prices and minimum wage increases that drove recent inflation spikes, dissipate. Although higher interest rates and the federal government's tightening of mortgage qualification criteria is expected to continue to have a somewhat moderating influence on consumer spending, consumption is expected to grow at a reasonable pace for the remainder of 2018 and 2019 driven by income growth as well as the impact of increasing population levels. Additionally, exports are expected to contribute favourably to the Canadian economy over the course of 2019, partially under the assumption that a series of recently negotiated trade agreements, such as USMCA, come to fruition, offset somewhat by limited energy export transportation capacity, (pipelines, etc.) and global trade policy uncertainty, most notably US steel and aluminum tariffs, as well as potentially softer commodity prices driven by US, Chinese trade disputes. Finally, business investment in Canada is expected to increase in 2019 as companies across nearly all sectors, with the exception of oil & gas, respond to capacity pressure derived from increased demand and, further, attempt to enhance productivity in order to mitigate the impact of increased domestic and cross-border competition.

The continued, rising interest rate environment is not generally expected to have a material impact on demand for the Bank's receivable purchase program or real estate financing products over the course of 2019. Additionally, anticipated growth in consumer spending and the expected growth in the Canadian transportation services sector should impact the Bank's receivable purchase program favourably, offset somewhat by increased competition within the space from other existing and new financial institutions and life insurance companies.

Term deposit rates over the course of the year are expected to increase as a function of anticipated, continued monetary policy tightening; however, the Bank's expansive, diverse term deposit broker network is expected to mitigate the impact of this trend on the Bank's aggregate interest expense. Additionally, rising interest rates will increase the cost of servicing existing consumer debt, which may result in an increase in bankruptcy proceedings across Canada and potentially stimulate additional demand for the Bank's commercial chequing product that is currently made available to Canadian insolvency professionals.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Significant accounting policies are detailed in Note 3 of the Bank's 2018 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 measurement 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 its 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 each loan.

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 in restoring it to current status. All loans, except credit card receivables, are classified as impaired when interest or principal is 180 days past due, 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 loan impairment 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 that are not individually significant are assessed collectively 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, as well as business and economic conditions. The collective allowance may be adjusted by management based on management's 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 became effective for the Bank's fiscal year beginning on November 1, 2018.

IFRS 9 is required to be applied on a retrospective basis, with certain exceptions. As permitted, the Bank will not restate its prior period comparative consolidated financial statements upon adoption of the requirements of the new standard. Differences in the carrying amounts of financial instruments resulting from the adoption of IFRS 9 will be recognized in our opening November 1, 2018 retained earnings and accumulated other comprehensive income as if the Bank had always followed the new requirements. Based on October 31, 2018 data and current implementation status, the Bank estimates that the adoption of IFRS 9 will not have a material impact on shareholders' equity or regulatory capital. The Bank continues to refine and monitor certain aspects of the impairment process, which may change the actual impact on adoption.

Impairment

IFRS 9 introduces a new expected credit loss ("ECL") impairment model for all financial assets and certain off-balance sheet loan commitments and guarantees. The ECL model will result in an allowance for credit losses being recorded on financial assets regardless of whether or not there has been an actual loss event. This differs from the current approach under IAS 39 where the allowance recorded on performing loans is designed to capture only losses that have been incurred whether or not they have been specifically identified. The ECL model requires the recognition of credit losses based on 12 months of expected losses for performing loans and the recognition of lifetime expected losses on loans that have experienced a significant increase in credit risk since origination. The determination of a significant increase in credit risk is a function primarily of loan product type and the associated risk profile of same. The principal factors considered in making this determination include relative changes in the Bank's internal risk rating assignment, the loan's watchlist status, and the loan's delinquency status. Notwithstanding the above, the assessment of a significant increase in credit risk will require experienced credit judgement.

Impaired loans require recognition of lifetime losses and are expected to be similar to the individual allowance on impaired assets under IAS 39. IFRS 9 requires consideration of past events, current market conditions and reasonable and supportable information about future economic conditions, in determining whether or not there has been a significant increase in credit risk, and in estimating expected losses.

Classification and Measurement

IFRS 9 requires lending assets to be classified based on the Bank's business model for managing the asset and the contractual cash flow characteristics associated with same. The business model test determines the classification based on the business purpose for holding the asset while the characterization of a debt instrument's cashflows is determined through a solely payment of principal and interest, ("SPPI") test. The SPPI test is conducted to identify whether or not the contractual cash flows of a debt financial instrument are consistent with a basic lending arrangement. Debt financial instruments that meet the SPPI test and are managed on a "hold to collect" basis will be classified as, and measured at amortized cost. Debt financial instruments that meet the SPPI test and are managed on a "hold to collect and for sale" basis will be classified as and measured at fair value through other comprehensive income ("FVOCI"). Debt financial instruments that are managed on a "held for trading" or "fair value" basis will be classified as and measured at fair value through profit or loss ("FVTPL"). Gains and losses recorded in other comprehensive income for debt instruments will be recognized in profit or loss on disposal.

Equity financial instruments will be measured at FVTPL unless an irrevocable designation is made to measure them at FVOCI. Gains or losses from changes in the fair value of equity instruments designated at FVOCI, including any related foreign exchange gains or losses, will be recognized in other comprehensive income.

The Bank has assessed its financial assets and determined that they meet the SPPI arrangement and will be classified as and measured at amortized cost with the exception of Securities, which will be measured at FVOCI.

Hedge Accounting

IFRS 9 introduces a new hedge accounting model that expands the scope of hedged items and risks eligible for hedge accounting and aligns hedge accounting more closely with risk management. The new model no longer specifies quantitative measures for effectiveness testing and does not permit hedge de-designation. IFRS 9 includes a policy choice that allows the Bank to continue to apply the existing hedge accounting rules. The Bank will not adopt the hedge accounting provisions of IFRS 9; however, as required by the standard, it will adopt the new hedge accounting disclosures as applicable.

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 a 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. 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, the SVP, Deposit Services, and the Chief Financial Officer.

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.

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.

- 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.

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 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 which set out the management of market risk and document the risk limits, include the Bank's interest rate risk management policies and securities portfolio management policies.

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 a change in the interest rates. 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

	2018		2017	
(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	$ 2,829	$ (2,802)	$ 3,043	$ (3,060)
Sensitivity of reported equity during a 60 month period	(2,707)	2,857	(1,445)	1,572
Duration difference between assets and liabilities (months)	0.5		0.1	

The Bank's sensitivity to changes in interest rates and its duration difference between assets and liabilities at October 31, 2018 has changed modestly since October 31, 2017. As presented above, the impact on net interest income during a 12 month period of a 100 basis point increase would be approximately $2.8 million and the impact on net interest income of a 100 basis point decrease would be approximately ($2.8 million). Similarly, at October 31, 2018, the impact on equity during a 60 month period of a 100 basis point increase would be approximately ($2.7 million) and the impact on equity of a 100 basis point decrease would be approximately $2.9 million. At October 31, 2018 the duration difference between assets and liabilities is 0.5 month compared to 0.1 month at October 31, 2017 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, 2018, 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.

Credit risk is managed by the SVP – Credit, who manages the Bank's 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.

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 (watchlist 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, watchlist 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.

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, 2018, 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, 2018, 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, 2018 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

Management assesses performance on a GAAP basis and on an adjusted basis and considers both sets of measures to be useful in assessing the Bank's underlying ongoing business performance. Presenting results on a GAAP basis and on an adjusted basis provides readers with a better understanding of how management assesses the Bank's results. This approach also allows readers to assess the impact of certain specified items on results for the periods presented and to allow readers to better assess results by excluding those items that may not be reflective of ongoing results.

Yield

Yield is calculated as interest income (as presented in the Consolidated Statements of Comprehensive 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 Comprehensive 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.

Core Cash Earnings per Common Share

Core cash earnings per common share is defined as core cash earnings divided by the number of common shares outstanding.

Core Cash Return on Average Common Equity

Core cash return on average common equity is defined as annualized core cash earnings less amounts relating to preferred share dividends, divided by the weighted average common shareholders' equity which is average shareholders' equity less amounts relating to preferred shares recorded in equity.

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 Comprehensive 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 Comprehensive 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: November 27, 2018