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

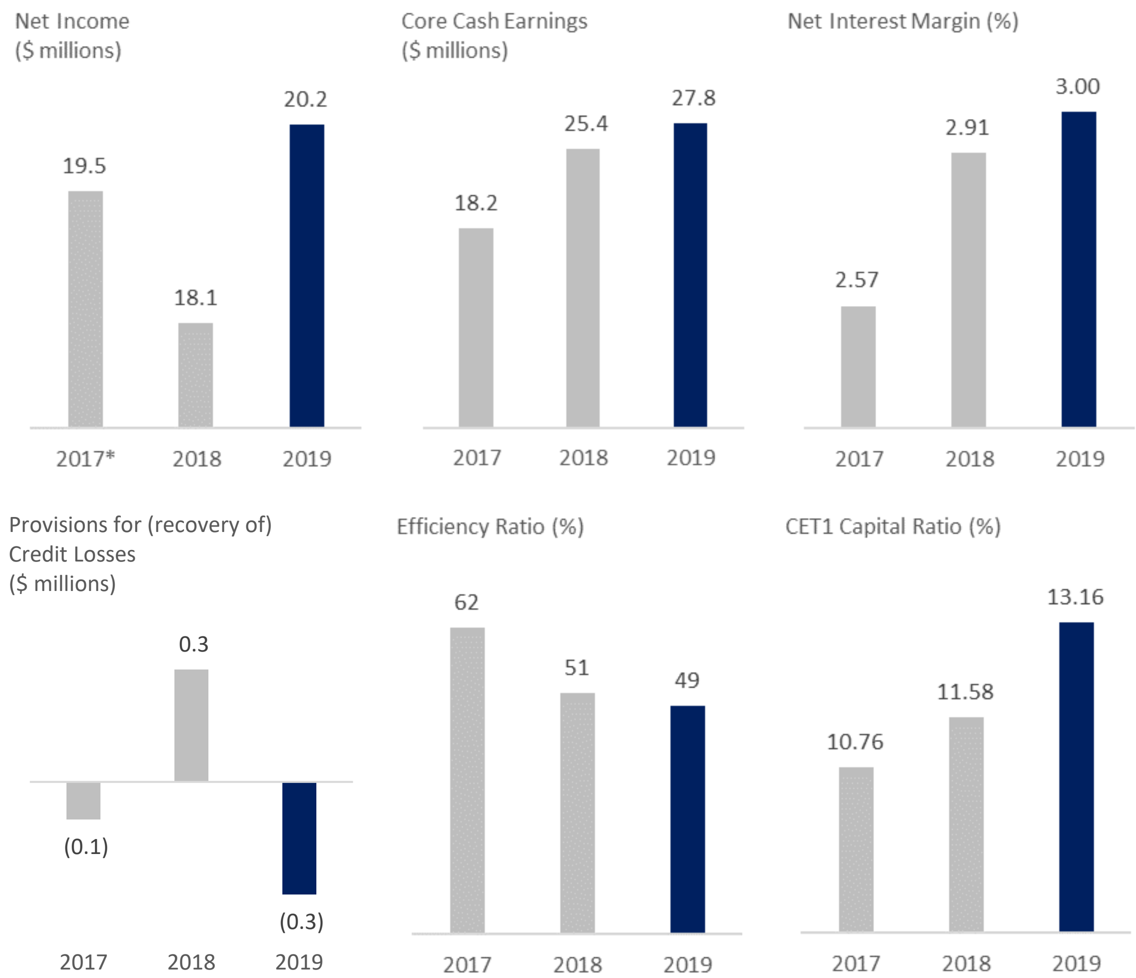
(thousands of Canadian dollars except per share amounts)	October 31 2019	October 31 2018	October 31 2017
Interest income	$ 88,305	$ 80,914	$ 71,765
Net interest income	53,897	51,499	43,983
Non-interest income (loss)	22	186	(141)
Total revenue	53,919	51,685	43,842
Provision for (recovery of) credit losses	(298)	334	(125)
Non-interest expenses	26,396	26,338	27,190
Restructuring charges	-	-	2,045
Core cash earnings*	27,821	25,361	18,168
Core cash earnings per common share*	1.32	1.19	0.87
Net income**	$ 20,196	$ 18,074	$ 19,472
Income per common share:			
Basic	$ 0.85	$ 0.75	$ 0.83
Diluted	$ 0.85	$ 0.75	$ 0.83
Dividends paid on preferred shares	$ 2,201	$ 2,201	$ 2,201
Dividends paid on common shares	$ 1,477	$ 843	$ -
Yield*	4.91%	4.58%	4.19%
Cost of funds*	1.91%	1.66%	1.62%
Net interest margin*	3.00%	2.91%	2.57%
Provision for (recovery of) credit losses as a % of average total loans*	(0.02%)	0.02%	(0.01%)
Gross impaired loans as a % of total loans*	0.39%	0.04%	0.04%
Return on average common equity*	8.89%	8.50%	10.29%
Core cash return on average common equity*	12.65%	12.40%	9.51%
Return on average total assets*	1.00%	0.90%	1.01%
Book value per common share*	$ 9.98	$ 9.19	$ 8.48
Efficiency ratio***	48.95%	50.96%	62.02%
Full time employees	92	86	80
Financial Condition:			
Cash and securities	$ 149,206	$ 139,798	$ 160,171
Loans, net of allowance for credit losses	1,594,288	1,631,026	1,520,857
Average loans*	1,612,657	1,575,942	1,542,235
Total assets	1,785,381	1,809,130	1,725,049
Average assets*	1,797,256	1,767,089	1,714,725
Deposits	1,399,889	1,437,431	1,376,006
Subordinated notes payable	4,881	9,844	9,786
Shareholders' equity	240,163	223,567	208,541
Capital Position and Ratios:			
Risk-weighted assets	$ 1,501,435	$ 1,502,549	$ 1,420,276
Common Equity Tier 1 capital	197,545	174,055	152,789
Total regulatory capital	231,882	207,392	188,126
Common Equity Tier 1 capital ratio	13.16%	11.58%	10.76%
Tier 1 capital ratio	15.11%	13.54%	12.82%
Total capital ratio	15.44%	13.80%	13.25%
Leverage ratio	11.99%	10.84%	10.06%

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

** 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.

***Efficiency ratio is adjusted for restructuring charges.

OVERVIEW OF PERFORMANCE



* 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.

Net income for the year was up 12% to $20.2 million or $0.85 per common share (basic and diluted) from $18.1 million or $0.75 per common share (basic and diluted) in 2018 as a function primarily of higher net interest income, attributable principally to generally higher yields earned on lending assets as well as the recovery of credit losses realized over the course of the year.

Core cash earnings for the year was up 10% to $27.8 million or $1.32 per common share (basic and diluted) from $25.4 million or $1.19 per common share (basic and diluted) in 2018 as a function primarily of the factors set out above.

Net interest margin or spread for the year was up 9 bps to 3.00% from 2.91% in 2018 as a function primarily of generally higher yields earned on lending assets, partially offset by higher cost of funds.

The Bank recorded a recovery of credit losses in the amount of $298,000 for the year compared to a provision for credit losses in the amount of $334,000 in 2018. The year over year trend was a function primarily of a recovery of credit losses on a legacy real estate loan and the impact of remeasurements of expected credit loss amounts using the expected credit loss methodology under IFRS 9 (see

“Provisions for (recovery of) credit losses” below), partially offset by changes in the Bank’s real estate lending asset mix.

The Bank’s efficiency ratio for the year improved to 49% from 51% in 2018 due primarily to the Bank earning higher net interest income over the course of the current year while holding non-interest expenses generally flat over the same period.

At October 31, 2019 the Bank’s CET1 capital ratio was up 158 bps to 13.16% from 11.58% in 2018.

2019 FINANCIAL RESULTS

TOTAL REVENUE

Total revenue, which consists of net interest income and non-interest income was up 4% to $53.9 million from $51.7 million in 2018 as a function primarily of higher net interest income attributable principally to higher yields earned on lending assets, partially offset by higher cost of funds.

Net Interest Income and Margin

(thousands of Canadian dollars)	2019	2018
Interest income	$ 88,305	$ 80,914
Interest expense	34,408	29,415
Net interest income	53,897	51,499
Average assets	$ 1,797,256	$ 1,767,089
Net interest margin	3.00%	2.91%

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 5% to $53.9 million from $51.5 million in 2018 as a function primarily of higher income earned on lending assets attributable to yield expansion and higher average earning assets, partially offset by higher cost of funds.

Net interest margin or spread for the year was up 9 bps to 3.00% from 2.91% in 2018 as a function of generally higher yields earned on lending assets, partially offset by higher cost of funds.

PROVISIONS FOR (RECOVERY OF) CREDIT LOSSES

Effective November 1, 2018, the Bank adopted IFRS 9 – *Financial Instruments* (“IFRS 9”). IFRS 9 required the implementation of a new expected credit loss (“ECL”) methodology and associated impairment model that results in the Bank recording an allowance for credit losses on financial instruments even if no actual loss event has occurred. Further, as part of the adoption of IFRS 9 the Bank recognizes a provision for credit losses on both performing loans, designated as stage 1 or stage 2 loans, and non-performing, or impaired loans, designated as stage 3 loans. The provision for credit losses recognized on non-performing or impaired loans is consistent with the specific provision under IAS 39, while the provision for credit losses recognized on performing loans supersedes the collective provision under IAS 39. Refer to Notes 3, 7 and 25 of the Bank's October 31, 2019 annual audited consolidated financial statements for additional information on the Bank's adoption of IFRS 9 and on the prescribed ECL methodology.

During the year the Bank recorded a recovery of credit losses in the amount of $298,000 compared to a provision for credit losses in the amount of $334,000 in 2018. The year over year trend was a function primarily of a recovery of credit losses on a legacy real estate loan and the impact of remeasurements of expected credit loss amounts using the expected credit loss methodology under IFRS 9, partially offset by changes in the Bank's real estate lending asset mix.

NON-INTEREST EXPENSES

(thousands of Canadian dollars)	2019	2018	Change from 2018	
			$	%
Salaries and employee benefits	15,174	14,337	837	6
General and administrative	8,792	9,697	(905)	(9)
Premises and equipment	2,430	2,304	126	5
Total non-interest expenses	$ 26,396	$ 26,338	$ 58	0

Non-interest expenses for the year were up marginally to $26.4 million from $26.3 million in 2018 as a function primarily of higher salary and benefits expenses attributable to normal course increases in staffing levels, partially offset by lower administrative expenses related to consulting fees and the Bank's general corporate functions.

CORE CASH EARNINGS

Core cash earnings for the year were up 10% to $27.8 million from $25.4 million in 2018 as a function primarily of higher net interest income, attributable principally to generally higher yields earned on lending assets and the recovery of credit losses realized over the course of the year. 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)	2019	2018
Net income	$ 20,196	$ 18,074
Adjusted for:		
Income taxes	7,625	6,939
Non-core general and administrative expense items	-	348
Core cash earnings	$ 27,821	$ 25,361

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 $7.6 million for the year compared to an income tax provision of $6.9 million in 2018.

At October 31, 2019, the Bank's deferred income tax asset reduced to $11.6 million from $18.4 million in 2018 due primarily to the utilization of income tax loss carry forwards attributable to taxable income generated by the Bank over the period. At October 31, 2019 the Bank's income tax loss carry-forwards totalled approximately $38.6 million (2018 – $63.5 million), which, if unutilized are not scheduled to begin to expire until 2031.

COMPREHENSIVE INCOME

Comprehensive income is comprised of net income for the period and other comprehensive income which consists of unrealized gains and losses on fair value through other comprehensive income securities (2018 - available-for-sale securities). Comprehensive income for the year was $20.2 million compared to $18.1 million in 2018.

FINANCIAL CONDITION

Consolidated Balance Sheet

(thousands of Canadian dollars)	2019	Mix		2018	Mix	
Assets						
Cash and securities	$ 149,206	8.36	%	$ 139,798	7.73	%
Loans, net of allowance for credit losses	1,594,288	89.30		1,631,026	90.16	
Other assets	41,887	2.34		38,306	2.11	
Total assets	$ 1,785,381	100.00	%	$ 1,809,130	100.00	%
Liabilities						
Deposits	$ 1,399,889	78.41	%	$ 1,437,431	79.45	%
Subordinated notes payable	4,881	0.27		9,844	0.54	
Securitization liabilities	33,366	1.87		33,310	1.84	
Other liabilities	107,082	6.00		104,978	5.81	
Total liabilities	$ 1,545,218	86.55	%	$ 1,585,563	87.64	%
Shareholders' equity						
Share capital	$ 182,094	10.20	%	$ 182,094	10.07	%
Retained earnings	58,069	3.25		41,473	2.29	
Accumulated other comprehensive income	-	-		-	-	
Total shareholders' equity	$ 240,163	13.45	%	$ 223,567	12.36	%
Total liabilities and shareholders' equity	$ 1,785,381	100.00	%	$ 1,809,130	100.00	%

Total Assets

Total assets for the year were $1.79 billion, down from $1.81 billion in 2018, as a function primarily of lower real estate loan balances, partially offset by growth in the purchased receivable portfolio and moderately higher liquidity.

Cash and Securities

(thousands of Canadian dollars)	2019	2018
Cash and cash equivalents	$ 139,145	$ 129,781
Securities	10,061	10,017
Total cash and securities	$ 149,206	$ 139,798
Total assets	$ 1,785,381	$ 1,809,130
Cash and securities as a percentage of total assets	8.36%	7.73%
Total deposits	$ 1,399,889	$ 1,437,431
Cash and securities as a percentage of total deposits	10.66%	9.73%

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 requirements, investment yield and capital management considerations. Cash and securities at October 31, 2019, which are held primarily for liquidity purposes, were $149 million, up from $140 million in 2018. The year over year trend was a function primarily of the timing of large loan repayments and new fundings combined with the Bank generally managing its cash and securities position to align as closely as practical with its policy targets and thresholds.

Loans

Net loans at October 31, 2019 were $1.59 billion, down from $1.63 billion in 2018 as a function primarily of lower real estate loan balances, partially offset by growth in the purchased receivable portfolio.

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, 2019 was $305,000, up from $231,000 in 2018. The Bank did not have any HELOCs outstanding at October 31, 2019, or in 2018.

Credit Quality

Gross impaired loans at October 31, 2019 were $6.3 million, up from $627,000 in 2018. The current year's balance is comprised of a single loan for which the value of the underlying security exceeds the Bank's total transaction exposure; including principal balance, accrued interest and anticipated disposition expenses.

The Bank's allowance for credit losses at October 31, 2019 was $2.1 million, down from $2.8 million in 2018 as a function primarily of the write-off of a corporate loan that was fully provided for, and the impact of remeasurements of expected credit loss amounts using the expected credit loss methodology under IFRS 9, partially offset by changes in the Bank's real estate lending asset mix.

Based on the results of 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 at October 31, 2019			
(thousands of Canadian dollars)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Commercial real estate	$ 448,322	$ 54,989	$ 6,253	**$ 509,564**
ECL allowance	1,557	209	-	**1,766**
EL %	0.35%	0.38%	-%	**0.35%**
Non-commercial real estate	$ 44,608	$ -	$ -	**$ 44,608**
ECL allowance	86	-	-	**86**
EL %	0.19%	-%	-%	**0.19%**
Corporate and public sector	$ 40,670	$ -	$ -	**$ 40,670**
ECL allowance	38	-	-	**38**
EL %	0.09%	-%	-%	**0.09%**
Structured finance	$ 991,735	$ 3,092	$ 15	**$ 994,842**
ECL allowance	229	-	-	**229**
EL %	0.02%	-%	-%	**0.02%**
Loans	$ 1,525,335	$ 58,081	$ 6,268	**$ 1,589,684**
Total ECL allowance	1,910	209	-	**2,119**
Total EL %	0.13%	0.36%	-%	**0.13%**

The table below presents the components of the Bank's allowance for credit losses for 2018:

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

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, 2019 were $41.9 million, up from $38.3 million in 2018 as a function primarily of an increase in funds held for securitization liabilities attributable to repayments in the Bank's securitized mortgage portfolio, partially offset by draw downs on the deferred income tax asset derived from taxable income generated by the Bank over the current 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, 2019 as well as for 2018:

(thousands of Canadian dollars)	2019	Mix	2018	Mix
Commercial deposits	$ 439,455	31.39 %	$ 395,994	27.55
Personal deposits	960,434	68.61	1,041,437	72.45
	$ 1,399,889	100.00 %	$ 1,437,431	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, 2019 were $439.5 million, up from $396.0 million in 2018 due to organic growth from existing Trustee clients as well as 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, 2019 as well as for 2018:

	2019				
(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	$ 429,455	$ -	$ 10,000	$ -	$ 439,455
Personal deposits	150,160	288,422	195,284	313,307	947,173
	$ 579,615	$ 288,422	$ 205,284	$ 313,307	$ 1,386,628

	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

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, 2019 were $107.1 million, up from $105.0 million in 2018 due primarily to higher cash holdbacks. Cash holdbacks at October 31, 2019 were $97.0 million, up from $96.1 million in 2018 due primarily to growth in the Bank's purchased receivable portfolio.

Securitization Liabilities

Securitization liabilities include amounts payable to counterparties for cash received upon initiation of securitization transactions, accrued interest on amounts payable to counterparties, and the unamortized balance of deferred costs and discounts that arose upon initiation of the securitization transactions. The amounts payable to counterparties bear interest at rates ranging from 3.55% - 3.95% and mature in 2020. Securitized insured mortgages and other assets with a carrying value of $33.1 million, unchanged from 2018, are pledged as collateral for these liabilities.

Subordinated Notes Payable

The Bank has the following subordinated notes payable outstanding:

(thousands of Canadian dollars)	2019	2018
Ten year term, unsecured, non-viability contingent capital compliant, subordinated notes payable, principal amount of $5.0 million, effective interest rate of 10.41%, maturing 2029.	$ 4,881	$ -
Ten year term, unsecured, callable, subordinated notes payable, principal amount of $10.0 million, effective interest rate of 8.77%, maturing 2021.	$ -	$ 9,844
	$ 4,881	$ 9,844

In March 2019, the Bank redeemed the $10.0 million subordinate note payable. In the same month the Bank completed a private placement of non-viability contingent capital ("NVCC") compliant subordinated note payable in the principal amount of $5.0 million. Issue costs associated with the private placement were $125,000.

Shareholders' Equity

Shareholders' equity at October 31, 2019 was $240.2 million, up from $223.6 million in 2018 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, 2019 totalled 21,123,559, unchanged from 2018.

The Bank's book value per common share at October 31, 2019 was up 9% to $9.98 from $9.19 in 2018 due to retained earnings growth over the period.

At October 31, 2019, the Bank had 1,461,460 Series 1 Preferred Shares and 1,681,320 Series 3 Preferred Shares outstanding, unchanged from 2018.

In accordance with the Short Form Prospectus (the "Prospectus"), dated October 22, 2014 holders of the Series 1 Preferred Shares had the right, at their option, to convert any or all of their Series 1 Preferred Shares into an equal number of non-cumulative floating rate Series 2 Preferred Shares of the Bank, subject to certain conditions on October 31, 2019. Based on the number of Series 1 Preferred Shares tendered for conversion into Series 2 Preferred Shares by October 16, 2019, holders of Series 1 Preferred Shares retained their shares and no Series 2 Preferred Shares were issued on the Series 1 conversion date.

Further, in accordance with the Prospectus for the 5-year period commencing on November 1, 2019 the holders of the Series 1 Preferred Shares will be entitled to receive fixed non-cumulative preferential cash dividends, as and when declared by the board of directors of the Bank payable quarterly on the last day of January, April, July, and October in each year, in the amount per Series 1 Preferred Share per annum determined by multiplying the annual fixed dividend rate for the 5-year period commencing on November 1, 2019 by $10.00. The annual fixed dividend rate applicable to the 5-year period commencing on November 1, 2019 was determined by the Bank to be 6.772%, which is equal to the five year Government of Canada Bond Yield quoted on October 2, 2019, plus 543 bps.

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, 2019, the Bank recognized $nil (2018 - $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 related to stock options.

Updated Share Information

As at November 26, 2019, there were no changes in the number of outstanding common shares, Series 1 and Series 3 Preferred Shares since October 31, 2019. As at November 27, 2019, there were 42,934 common share options outstanding, unchanged since October 31, 2019.

LIQUIDITY

The Consolidated Statement of Cash Flows for the year ended October 31, 2019 shows cash provided by operations of $19.8 million compared to cash used in operations of $14.9 million in 2018. Cash provided by operations in the current period was derived primarily from annual earnings. 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, 2019, the Bank did not have any significant off-balance sheet arrangements other than undrawn loan commitments, and letters of credit resulting from normal course business activities. See Note 23 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)	2019	2018
Loan commitments	$ 261,366	$ 167,624
Letters of credit	48,074	42,530
	$ 309,440	$ 210,154

Contractual Obligations

At October 31, 2019 the Bank had the following scheduled principal repayments of financial liabilities and off- balance sheet obligations:

	2019				
(thousands of Canadian dollars)	Total	Less than 1 Year	1-2 Years	2-5 Years	Over 5 Years
Deposits	$ 1,386,628	$ 868,037	$ 205,284	$ 313,307	$ -
Holdbacks	97,001	97,001	-	-	-
Subordinated notes payable	4,881	-	-	-	4,881
Securitization liabilities	33,366	-	24,634	8,732	-
Accounts payable	10,081	10,081	-	-	-
Operating leases	6,808	898	1,647	1,628	2,635
	$ 1,538,765	$ 976,017	$ 231,565	$ 323,667	$ 7,516

RELATED PARTY TRANSACTIONS

The Bank's Board of Directors and Senior Executive Officers represent key management personnel. See Note 22 to the Consolidated Financial Statements for more information on transactions with personnel and compensation of key management.

CAPITAL MANAGEMENT AND CAPITAL RESOURCES

Capital Management

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence as well as to support future development of the business. The impact of the level of capital on shareholders' return is an important consideration and the Bank recognizes the need to maintain a balance between the higher returns that may be possible with greater leverage and the advantages and security afforded by a more robust 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 adequate regulatory capital for the Bank to be considered well capitalized, protect consumer deposits and provide capacity to support organic growth as well as to capitalize on strategic opportunities that do not otherwise require accessing the public capital markets, all the while providing a satisfactory return to 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 fair value through other comprehensive income securities (2018 - available-for-sale securities) 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 further, 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 tables below present the Bank's risk-weighted assets as at October 31, 2019 as well as for 2018:

As at October 31, 2019	Notional/drawn amount					
(thousands of Canadian dollars)	Cash/ Securities	Loans	Other	Off -balance sheet items	Total	Risk Weighted Balance
Corporate	$ -	$ 624,593	$ -	$ -	$ 624,593	$ 622,420
Sovereign	10,061	13,795	-	-	23,856	2,650
Bank	139,145	17,673	-	-	156,818	31,364
Retail residential mortgages	-	19,245	-	-	19,245	107
Other retail	-	918,982	-	-	918,982	621,380
Other items	-	-	41,887	48,074	89,961	35,367
Undrawn commitments	-	-	-	261,366	261,366	90,762
Operational risk [1]	-	-	-	-	-	97,385
Total	$ 149,206	$ 1,594,288	$ 41,887	$ 309,440	$ 2,094,821	$ 1,501,435

As at October 31, 2018	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
Total	$ 139,798	$ 1,631,026	$ 38,306	$ 210,154	$ 2,019,284	$ 1,502,549

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

As at October 31, 2019	Notional/drawn amount							
(thousands of Canadian dollars)	0%	20%	35%	75%	100%	150%	Total	Risk Weighted Balance
Corporate	$ 5,315	$ -	$ -	$ -	$ 612,994	$ 6,284	$ 624,593	$ 622,420
Sovereign	10,607	13,249	-	-	-	-	23,856	2,650
Bank	-	156,818	-	-	-	-	156,818	31,364
Retail residential mortgages	18,939	-	306	-	-	-	19,245	107
Other retail	88,702	3,700	-	823,758	2,822	-	918,982	621,380
Other items	-	713	-	-	89,248	-	89,961	35,367
Undrawn commitments	-	-	-	25	261,341	-	261,366	90,762
Operational risk [1]	-	-	-	-	-	-	-	97,385
Total	$123,563	$174,480	$ 306	$823,783	$ 966,405	$ 6,284	$2,094,821	$1,501,435

As at October 31, 2018	Notional/drawn amount							
(thousands of Canadian dollars)	0%	20%	35%	75%	100%	150%	Total	Risk Weighted 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
Total	$158,146	$168,613	$ 232	$738,847	$ 953,019	$ 427	$2,019,284	$1,502,549

[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 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, 2019 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, 2019 as well as for 2018:

(thousands of Canadian dollars, except capital ratios)	2019	2018
Common Equity Tier 1 (CET1) capital		
Directly issued qualifying common share capital	$ 152,757	$ 152,757
Retained earnings	58,069	41,473
Accumulated other comprehensive income	-	-
CET1 before regulatory adjustments	210,826	194,230
Regulatory adjustments applied to CET1	(13,281)	(20,175)
Total Common Equity Tier 1 capital	$ 197,545	$ 174,055
Additional Tier 1 capital		
Directly issued qualifying Additional Tier 1 instruments	$ 29,337	$ 29,337
Total Tier 1 capital	$ 226,882	$ 203,392
Tier 2 capital		
Directly issued capital instruments	$ 5,000	$ 10,000
Tier 2 capital before regulatory adjustments	5,000	10,000
Regulatory adjustments applied to Tier 2	-	(6,000)
Total Tier 2 capital	$ 5,000	$ 4,000
Total regulatory capital	$ 231,882	$ 207,392
Total risk-weighted assets	$ 1,501,435	$ 1,502,549
Capital ratios		
CET1 capital ratio	13.16%	11.58%
Tier 1 capital ratio	15.11%	13.54%
Total capital ratio	15.44%	13.80%

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 OSFI's leverage ratio expectations for the periods reported. The table below presents the Bank's leverage ratio calculation at October 31, 2019 as well as for 2018:

(thousands of Canadian dollars, except leverage ratio)	2019	2018
On-balance sheet assets	$ 1,785,381	$ 1,809,130
Asset amounts deducted in determining Basel III Tier 1 Capital	(13,281)	(20,175)
Total on-balance sheet exposures	$ 1,772,100	$ 1,788,955
Off-balance sheet exposure at gross notional amount	$ 309,440	$ 210,154
Adjustments for conversion to credit equivalent amount	(190,023)	(123,345)
Off-balance sheet items	$ 119,417	$ 86,809
Tier 1 capital	$ 226,882	$ 203,392
Total exposures	$ 1,891,517	$ 1,875,764
Basel III leverage ratio	11.99%	10.84%

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)	2019				2018			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Results of operations:								
Interest income	$ 22,263	$ 22,958	$ 21,125	$ 21,959	$ 22,036	$ 20,446	$ 19,363	$ 19,069
Yield on assets (%)	4.96%	5.10%	4.89%	4.90%	4.82%	4.55%	4.59%	4.41%
Interest expense	8,608	8,899	8,382	8,519	8,329	7,481	6,931	6,674
Cost of funds (%)	1.92%	1.98%	1.94%	1.90%	1.82%	1.67%	1.64%	1.54%
Net interest income	13,655	14,059	12,743	13,440	13,707	12,965	12,432	12,395
Net interest margin (%)	3.04%	3.12%	2.95%	3.00%	3.00%	2.88%	2.95%	2.87%
Total revenue	13,635	14,078	12,747	13,459	13,827	12,982	12,469	12,407
Provision for (recovery of) credit losses	21	381	(411)	(289)	191	128	(50)	65
Non-interest expenses	6,171	6,860	6,411	6,954	6,423	6,408	6,617	6,890
Efficiency ratio	45%	49%	50%	52%	46%	49%	53%	56%
Core cash earnings	7,443	6,837	6,747	6,794	7,108	6,446	5,902	5,905
Core cash earnings per common share	$ 0.36	$ 0.32	$ 0.32	$ 0.32	$ 0.33	$ 0.30	$ 0.28	$ 0.28
Income before income taxes	7,443	6,837	6,747	6,794	7,213	6,446	5,902	5,452
Income tax provision (recovery)	2,038	1,874	1,851	1,862	2,049	1,768	1,646	1,476
Net income	$ 5,405	$ 4,963	$ 4,896	$ 4,932	$ 5,164	$ 4,678	$ 4,256	$ 3,976
Income per share								
Basic	$ 0.23	$ 0.21	$ 0.21	$ 0.21	$ 0.21	$ 0.20	$ 0.18	$ 0.16
Diluted	$ 0.23	$ 0.21	$ 0.21	$ 0.21	$ 0.21	$ 0.20	$ 0.18	$ 0.16
Return on average common equity	9.23%	8.56%	8.89%	8.86%	9.53%	8.72%	8.25%	7.50%
Core cash return on average common equity	13.11%	12.20%	12.68%	12.62%	13.55%	12.45%	11.93%	11.75%
Return on average total assets	1.08%	0.98%	1.01%	0.98%	1.01%	0.92%	0.88%	0.81%
Gross impaired loans to total loans	0.39%	1.58%	1.57%	1.22%	0.04%	0.04%	0.04%	0.04%

*Efficiency ratio is adjusted for restructuring charges.

The Bank's financial results for each of the last eight quarters are summarized above. Results for the quarter ended October 31, 2019 continue to demonstrate improving quarter over quarter and year over year trends across the majority of the Bank's key financial performance metrics.

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.

FOURTH QUARTER REVIEW

Net income for the quarter was $5.4 million or $0.23 per common share (basic and diluted), compared to $5.0 million or $0.21 per common share (basic and diluted) last quarter and $5.2 million or $0.21 per common share (basic and diluted) for the same period a year ago. The quarter over quarter trend was a function primarily of lower non-interest expenses and lower provisions, partially offset by lower net interest income attributable to lower yields earned on lending assets and lower average earning assets. The year over year trend was a function primarily of lower non-interest expenses and lower provisions.

Core cash earnings for the quarter were $7.4 million or $0.36 per common share (basic and diluted), compared to $6.8 million or $0.32 per common share (basic and diluted) last quarter and $7.1 million or $0.33 per common share (basic and diluted) for the same period a year ago. The quarter over quarter and year over year trends were a function primarily of the factors set out above.

Total Revenue

Total revenue for the quarter was $13.6 million compared to $14.1 million last quarter and $13.8 million for the same period a year ago. The quarter over quarter trend was a function primarily of lower net interest income attributable to lower yields earned on lending assets and lower average earning assets, partially offset by lower cost of funds. The year over year trend was a function primarily of lower net interest income and lower non-interest revenue earned in the current quarter. Non-interest revenue reported for the comparative quarter includes the proceeds of the sale of a decommissioned information technology related asset.

Net Interest Income

Net interest income for the quarter was $13.7 million compared to $14.1 million last quarter and $13.7 million for the same period a year ago. The quarter over quarter trend was a function of lower yields earned on lending assets and lower average earning assets, partially offset by lower cost of funds.

Net Interest Margin

Net interest margin or spread for the quarter was 3.04% compared to 3.12% last quarter and 3.00% for the same period a year ago. The quarter over quarter trend was a function of lower yields earned on lending assets, partially offset by lower cost of funds. The year over year trend was a function of higher yields earned on lending assets, partially offset by higher cost of funds.

Provision for Credit Losses

Provisions for the quarter were $21,000 compared to $381,000 last quarter and $191,000 for the same period a year ago. The quarter over quarter trend was a function primarily of a recovery of credit losses on a legacy real estate loan, partially offset by changes in the Bank’s real estate lending asset mix. The year over year trend was a function primarily of a recovery of credit losses on a legacy real estate loan and the impact of remeasurements of expected credit loss amounts using the expected credit loss methodology under IFRS 9, partially offset by changes in the Bank’s real estate lending asset mix.

Non-Interest Expenses

Non-interest expenses of the Bank for the quarter were $6.2 million compared to $6.9 million last quarter and $6.4 million for the same period a year ago. The quarter over quarter trend was a function primarily of lower professional fees, facility costs and compensation expenses. The year over year trend was a function primarily of higher operating costs associated with the relocation of the Saskatoon office, and higher compensation expense incurred in the comparative period.

Income Taxes

For the three months ended October 31, 2019, the provision for income taxes was $2.0 million compared to $1.9 million for the previous quarter and $2.0 million for the same period a year ago.

OUTLOOK FOR 2020

The Canadian economy is expected to expand moderately in 2019 with GDP growth anticipated at 1.5% and then modestly improving to 1.7% in 2020, supported by increased consumer spending as well as modest business investment and export growth. Moderate consumer spending growth is expected to be a function of a sustained, low unemployment rate, wage expansion, and lower mortgage rates combining with the government’s proposed shared equity mortgage program to support increased housing activity. However, regional variances in household spending will prevail, particularly in Alberta where the unemployment rate continues to be elevated as job growth in the province remains slower relative to the majority of the rest of the country.

Although exports are anticipated to grow over the course of 2020, growth is expected to be tempered by continued global trade policy uncertainty. Non-energy exports are anticipated to expand moderately as a function of robust growth in exports of services and consumer goods, and to some extent the removal of US tariffs on Canadian steel and aluminum. Further, energy exports are expected to grow modestly in 2020 as mandated curtailments phase out and rail shipping capacity expands.

Business investment in 2020 is anticipated to be moderate supported primarily by firms outside of the core oil & gas sector and tempered by current global trade policy uncertainty. Potential key drivers of 2020 business investment growth in Canada are large construction projects including the LNG terminal in BC and potentially the Trans Mountain Pipeline expansion. Although expectations remain modest, oil & gas investment is expected to stabilize through 2020 as production constraints relax and transportation capacity improves.

The Canadian interest rate environment is expected to remain reasonably stable, with rates trending generally flat or potentially, moderately downward over the course of 2020 and, as a result, is not anticipated to have a material impact on demand for the Bank’s financing products. Anticipated consumption growth, although moderate should present an upside for the Bank’s Receivable Purchase product that may be partially offset by increased competition from other financial institutions, life insurance companies, and Government entities operating in the space. Further, the federal government’s changes to mortgage qualification criteria has slowed demand for housing, particularly in the single-family space and most notably in the GTA and GVA. Notwithstanding, these policy changes have yet to measurably influence the Bank’s niche commercial banking markets, in which the Bank will continue to exercise caution in its underwriting activities.

While the competitive dynamics of the broker/dealer term deposit market has the potential to stimulate rate volatility, broadly, term deposit rates are expected to remain reasonably stable, with the potential to trend modestly downward over the course of 2020. The Bank will continue to leverage its expansive, diverse term deposit broker network to mitigate the impact of any forward rate volatility, as well as continue to build out its commercial deposit base as it endeavors to maintain its low cost of funds.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Significant accounting policies are detailed in Note 3 of the Bank's 2019 Audited Consolidated Financial Statements. There has been no change in accounting policies nor any significant new policies adopted during the current period, except for changes to the accounting for financial instruments resulting from the adoption of IFRS 9 – Financial instruments, noted below.

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 to be particularly significant as they require management to make estimates or judgements, some of which may relate to matters that are inherently uncertain.

Financial Instruments

The Bank adopted IFRS 9 – *Financial instruments* ("IFRS 9") in the current year replacing IAS 39 – *Financial instruments – Recognition and Measurement.* This has resulted in changes in accounting policies related to the classification and measurement and impairment of financial assets, which includes the introduction of an expected credit loss ("ECL") impairment methodology and associated model for all financial assets and certain off-balance sheet loan commitments and guarantees. There are no significant changes in accounting policies for financial liabilities, derivative instruments and derecognition of financial assets and liabilities. This change in accounting policy was adopted retrospectively, with no restatement of comparatives. Refer to Note 25 – Transition to IFRS 9 of the Bank's Consolidated Financial Statements for the impact to the opening balance sheet as at November 1, 2018.

Classification and Measurement

Under IFRS 9, all financial assets must be classified at initial recognition as a function of the financial asset's contractual cash flow characteristics and the business model under which the financial asset is managed. All financial assets are required to be measured at fair value with the exception of financial assets measured at amortized cost. Financial assets are required to be reclassified when the business model under which they are managed has changed. Any reclassifications are applied prospectively from the reclassification date. All financial liabilities are measured at amortized cost unless elected otherwise.

Debt instruments

Financial assets that are debt instruments are categorized into one of the following measurement categories:

- amortized cost;
- fair value through other comprehensive income ("FVOCI");
- fair value through profit and loss ("FVTPL").

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 the contractual cash flows of a debt instrument are in fact solely payments of principal and interest and are consistent with a basic lending arrangement. In the context of the SPPI test, "Principal" is defined as the fair value of the debt instrument at origination or initial recognition, which may change over the life of the instrument as a function of a number of variables including principal repayments, prepayments, or amortization of a premium/discount. In the context of the SPPI test "Interest" is defined as the consideration for the time value of money and credit risk. The rationale for the SPPI test is to ensure that debt instruments that include structural features that are incongruent with a basic lending arrangement, such as conversion options, are classified as, and measured at FVTPL.

The key business activities or attributes that are considered by the Bank in the definition of the business model for the purpose of classifying financial instruments are as follows:

- the business purpose of the portfolio;
- the level of typical sales activity in the portfolio; and,
- the nature of the risks that are being managed in the administration of the portfolio.

Debt instruments measured at amortized cost

Debt instruments with contractual cash flows that meet the SPPI test and are managed on a hold to collect basis are measured at amortized cost. These financial instruments are recognized initially at fair value plus direct and incremental transaction costs, and are subsequently measured at amortized cost, using the effective interest rate method, net of an allowance for credit losses. The effective interest rate is the rate that discounts estimated future cashflows through the expected life of the instrument to the gross carrying amount of the instrument. Amortized cost is calculated as a function of the effective interest rate, taking into account any discount or premium on acquisition, transaction costs and fees. Amortization of these costs is included in interest income in the consolidated statement of income.

Debt instruments measured at FVOCI

Debt instruments measured at FVOCI have contractual cash flows that meet the SPPI test and are managed on a hold to collect and for sale basis. FVOCI debt instruments are measured initially at fair value, plus direct and incremental transaction costs. Subsequent to initial recognition, unrealized gains and losses on debt instruments measured at FVOCI are recorded in other comprehensive income ("OCI"). Premiums, discounts and related transaction costs are amortized over the expected life of the instrument to interest income in the consolidated statement of income using the effective interest rate method.

Impairment of debt instruments measured at FVOCI is calculated using the expected credit loss approach. The allowance does not reduce the carrying amount of the asset in the consolidated balance sheet, which remains at its fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortized cost is recognized in OCI with a corresponding charge to net provision for credit losses in the consolidated statement of income.

Cumulative gains and losses previously recognized in OCI, including accumulated allowances, are transferred from AOCI to the consolidated statement of income when the debt instrument is sold.

Debt instruments measured at FVTPL

Trading financial instruments are mandatorily measured at FVTPL as they are held for trading purposes or are part of a managed portfolio with a pattern of short-term profit taking. Non-trading financial instruments are also mandatorily measured at fair value if their contractual cash flow characteristics do not meet the SPPI test or if they are managed together with other financial instruments on a fair value basis. Trading and non-trading financial instruments mandatorily measured at FVTPL are re-measured at fair value as at the consolidated balance sheet date. Gains and losses realized on disposition and unrealized gains and losses from changes in fair value are included in non-interest income as gains (losses) from financial instruments measured/designated at FVTPL. Interest income and dividends earned on trading and non-trading financial instruments are included in interest income.

Equity instruments

Equity instruments are measured at FVTPL unless an irrevocable designation is made, at initial recognition to measure them at FVOCI. Gains or losses from changes in the fair value of equity financial instruments designated at FVOCI, including any related foreign exchange gains or losses, are recognized in OCI. In contrast to asset-for-sale equity securities under IAS 39, amounts recognized in OCI will not be subsequently recycled to profit or loss, with the exception of dividends. Dividends received are recorded in interest income in the consolidated statement of income. Cumulative gains or losses upon derecognition of the equity instrument will be transferred within equity from AOCI to retained earnings.

Financial assets and liabilities designated at FVTPL

Financial assets and financial liabilities classified in this category are those that have been designated at FVTPL by the Bank on initial recognition.

Financial assets are designated at FVTPL if doing so eliminates or significantly reduces an accounting mismatch which would otherwise arise.

Financial liabilities are designated at FVTPL when one of the following criteria is met:

- The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- The financial liability contains one or more embedded derivatives which significantly modifies the cash flows otherwise required.

Financial assets and financial liabilities designated at FVTPL are recorded in the consolidated balance sheet at fair value. For assets designated at FVTPL, changes in fair value are recognized as other income in the consolidated statement of income. For liabilities designated at fair value through profit or loss, all changes in fair value are recognized as other income in the consolidated statement of income, except for changes in fair value arising from changes in the Bank’s own credit risk which are recognized in OCI. Amounts recognized in OCI are not subsequently reclassified to the consolidated statement of income upon derecognition of the liabilities.

Allowance for Credit Losses

The Bank must maintain an allowance for credit losses that is adequate, in management's opinion, to absorb all credit related losses in the Bank's lending and treasury portfolios. The Bank's allowance for credit losses is estimated using the expected credit loss ("ECL") methodology and is comprised of expected credit losses recognized on all financial assets that are debt instruments, classified either as amortized cost or as FVOCI, and on all loan commitments and financial guarantees that are not measured at FVTPL.

Expected credit losses represent unbiased and probability-weighted estimates that are modeled as a function of a range of possible outcomes as well as the time value of money, and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions, or more specifically forward-looking information.

The Bank's ECL or impairment model estimate 12 months of expected credit losses, ("TMECL") for performing loans that have not experienced a significant increase in credit risk, ("SICR") since initial recognition. Additionally, the ECL impairment model estimates lifetime expected credit losses, ("LTECL") on performing loans that have experienced a SICR since initial recognition. Further, individual allowances are estimated for loans that are determined to be credit impaired. Under the ECL methodology, loans or other financial instruments that have not experienced a SICR since initial recognition are designated as stage 1, while loans or financial instruments that have experienced a SICR since initial recognition are designated as stage 2, and loans or financial instruments that are determined to be credit impaired are designated as stage 3.

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

Leases (IFRS 16)

In January 2016, the IASB issued IFRS 16, requiring most leases to be recorded on the balance sheet. For lessees, most operating leases other than short-term or low value leases will be capitalized, and will result in a balance sheet increase in lease assets and lease liabilities, a decrease in operating lease expenses, and an 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 however, an initial review suggests that the adoption of IFRS 16 would not likely have a material impact.

ENTERPRISE RISK MANAGEMENT

The Bank recognizes that risk is present in all business activities and that the successful management of risk is a critical factor in maximizing shareholder value. As such, the Bank has developed and continues to enhance an Enterprise Risk Management ("ERM") Program to identify, evaluate, treat, report on, and monitor the 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 the Board's corporate governance needs; and,
- Strengthen the Bank's risk 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.

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 the Bank's 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 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 its 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.

2. Information Technology ("IT") and Cybersecurity

   As the Bank's operations are largely dependent 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 are realized such as system failures or anomalies, defects in the Bank's computer systems or network infrastructure, or the employment of outdated or substandard technology tools.

3. Fraud and Errors

   This operational risk pillar includes three sub-groups:

   I. Internal Fraud:

      Employees, 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, and maintain 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 non-compliant with regulations or rules, such as unauthorized transactions, unapproved dealings, money laundering activities or the misuse of confidential customer information.

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

- Comprehensive operational policies which provide clear direction to all areas of its business and employees and establish accountability and responsibilities to identify, assess, appropriately mitigate and control operational risk;
- Hiring of banking professionals with many years of related experience;
- Use of technology through automated systems with built in controls;
- Maintenance of a compliance monitoring program;
- Continual review and upgrade of systems and procedures.

Market Risk

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

Market risk is managed primarily by the Treasurer and the Chief Financial Officer. Treasury policies, 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 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 as a result of an increase/decrease in both short-term and long-term interest rates.

2. Equity Risk:

Equity risk is the risk of loss resulting from changes or volatility in equity or financial instrument 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 as a result of changes in the value of the Bank's treasury portfolio investments.

The Bank's principal market risk arises from interest rate risk as the Bank does not undertake any material 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 the Board of Directors for approval and with reviewing the policies on an ongoing basis. Additionally, 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. Further, 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 at October 31, 2019 as well as for 2018 are presented in the table below.

Interest Rate Position

	2019		2018	
(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	$ 1,621	$ (1,613)	$ 2,829	$ (2,802)
Sensitivity of reported equity during a 60 month period	(3,669)	3,780	(2,707)	2,857
Duration difference between assets and liabilities (months)	1.3		0.5	

The Bank's sensitivity to changes in interest rates and its duration difference between assets and liabilities at October 31, 2019 has changed modestly since October 31, 2018. As presented in the table above, the impact on net interest income during a 12 month period of a 100 basis point increase would be approximately $1.6 million, while the impact on net interest income of a 100 basis point decrease would be approximately ($1.6 million). Similarly, at October 31, 2019, the impact on equity during a 60 month period of a 100 basis point increase would be approximately ($3.7 million) while the impact on equity of a 100 basis point decrease would be approximately $3.8 million. At October 31, 2019 the duration difference between assets and liabilities was 1.3 months compared to 0.5 months at October 31, 2018, indicating 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, 2019, the Bank did not have any outstanding contracts to hedge fair value exposure attributable 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 Chief Credit Officer who administers the Bank's established credit policies that set out the roles of the credit department and the 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 management, and the Board of Directors.

To supplement the Bank's 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 lines that accept credit risk:

1. Real estate;
2. Structured finance;
3. Treasury.

The Bank manages its credit risk using policies that have been recommended by management to the 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 categories, 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 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;

- 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 the Bank's 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 results.

Level of Competition

The level of competition among financial institutions is high and non-financial companies and government entities are increasingly offering services typically 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 that 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 further, could have an impact on the Bank's 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 impact 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 to deliver products and services to its 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, 2019, 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, 2019, an evaluation was carried out by management related to 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 is 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 related to evaluating the effectiveness of the Bank's internal control systems and processes. 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, 2019 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.

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.

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.

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.

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.

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.

Return on Average Total Assets

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 total assets. Return on average total asset 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.

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.

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.

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

Dated: November 26, 2019