MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS AND FINANCIAL CONDITION

This management's discussion and analysis ("MD&A") of operations and financial condition for the third quarter of Fiscal 2019, dated August 26, 2019, should be read in conjunction with the unaudited interim consolidated financial statements for the period ended July 31, 2019, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). This MD&A should also be read in conjunction with VersaBank's (the "Bank") MD&A and Audited Consolidated Financial Statements for the year ended October 31, 2018, which are available on the Bank's website at www.versabank.com and SEDAR at www.sedar.com. Except as discussed below, all other factors discussed and referred to in the MD&A for the year ended October 31, 2018, remain substantially unchanged.

HIGHLIGHTS

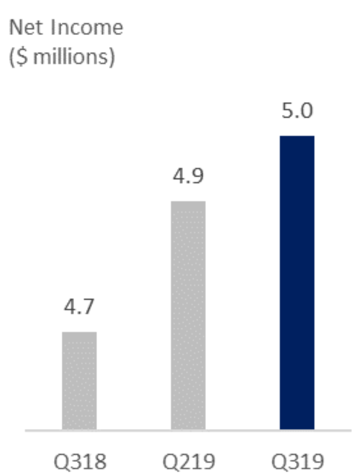
(unaudited)	for the three months ended		for the nine months ended	
($CDN thousands except per share amounts)	July 31 2019	July 31 2018	July 31 2019	July 31 2018
Results of operations				
Interest income	$ 22,958	$ 20,446	$ 66,042	$ 58,878
Net interest income	14,059	12,965	40,242	37,792
Non-interest income	19	17	42	66
Total revenue	14,078	12,982	40,284	37,858
Provision (recovery) for credit losses	381	128	(319)	143
Non-interest expenses	6,860	6,408	20,225	19,915
Core cash earnings*	6,837	6,446	20,378	18,253
Core cash earnings per common share*	$ 0.32	$ 0.31	$ 0.96	$ 0.86
Net income	**4,963**	**4,678**	**14,791**	**12,910**
Income per common share:				
Basic	$ 0.21	$ 0.20	$ 0.62	$ 0.53
Diluted	$ 0.21	$ 0.20	$ 0.62	$ 0.53
Yield*	5.10%	4.55%	4.92%	4.45%
Cost of funds*	1.98%	1.67%	1.92%	1.60%
Net interest margin*	3.12%	2.88%	3.00%	2.85%
Return on average common equity*	8.56%	8.72%	8.77%	8.16%
Core cash return on average common equity*	12.20%	12.45%	12.50%	12.03%
Book value per common share*	$ 9.77	$ 8.99	$ 9.77	$ 8.99
Efficiency ratio*	48.74%	49.36%	50.21%	52.60%
Return on average total assets*	0.98%	0.92%	0.98%	0.85%
Gross impaired loans to total loans*	1.58%	0.04%	1.58%	0.04%
Provision (recovery) for credit losses as a % of average loans*	0.02%	0.01%	(0.02%)	0.01%
		as at		
Balance Sheet Summary				
Cash and securities	$ 118,310	$ 125,231	$ 118,310	$ 125,231
Loans, net of allowance for credit losses	1,613,811	1,649,326	1,613,811	1,649,326
Average loans*	1,620,964	1,606,875	1,622,419	1,585,092
Total assets	1,776,659	1,815,234	1,776,659	1,815,234
Average assets*	1,786,426	1,782,966	1,792,894	1,770,142
Deposits	1,398,286	1,450,615	1,398,286	1,450,615
Subordinated notes payable	4,879	9,829	4,879	9,829
Shareholders' equity	235,730	219,164	235,730	219,164
Capital ratios*				
Risk-weighted assets	$ 1,504,445	$ 1,532,135	$ 1,504,445	$ 1,532,135
Total regulatory capital	225,572	201,112	225,572	201,112
Common Equity Tier 1 (CET1) ratio	12.71%	10.95%	12.71%	10.95%
Tier 1 capital ratio	14.66%	12.87%	14.66%	12.87%
Total capital ratio	14.99%	13.13%	14.99%	13.13%
Leverage ratio	11.90%	10.38%	11.90%	10.38%

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

Overview

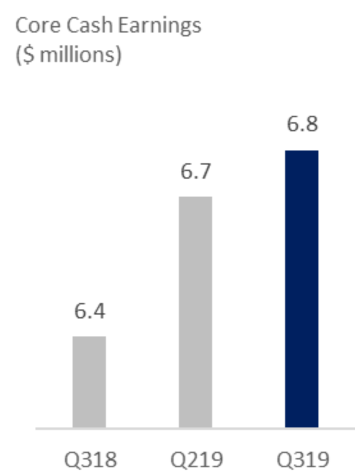
VersaBank (the "Bank") adopted an electronic branchless model in 1993, becoming the world's first branchless financial institution. It holds a Canadian Schedule I chartered bank licence and obtains its deposits, and the majority of its loans and leases, electronically. VersaBank's Common Shares trade 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.

Results for the quarter ended July 31, 2019 continued to demonstrate improving year over year trends across the majority of the Bank's key financial performance metrics, further sustaining the Bank's upward trending performance trajectory. The Bank continues to focus on enhancing Core Cash Earnings performance by concentrating on niche markets that support modestly better pricing for its products and by leveraging its diverse deposit gathering network in order to maintain a generally lower cost of funds. The underlying drivers of the Bank's performance trends for the current and comparative periods are set out in the following sections of this MD&A.



Net income for the quarter was $5.0 million or $0.21 per common share (basic and diluted), compared to $4.9 million or $0.21 per common share (basic and diluted) last quarter and $4.7 million or $0.20 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 higher net interest income, partially offset by higher provisions for credit losses and higher non-interest expenses.

Net income for the nine months ended July 31, 2019 was $14.8 million or $0.62 per common share (basic and diluted) compared to $12.9 million or $0.53 per common share (basic and diluted) for the same period a year ago. The year over year trend was a function primarily of higher net interest income and a recovery of credit losses recorded in the current period, partially offset by higher non-interest expenses.



Core cash earnings for the quarter were $6.8 million compared to $6.7 million last quarter and $6.4 million for the same period a year ago. The quarter over quarter and year over year trends were a function of the same combination of financial performance drivers underlying the net income performance trends set out above.

Core cash earnings for the nine months ended July 31, 2019 were $20.4 million compared to $18.3 million for the same period a year ago. The year over year trend was a function primarily of higher net interest income and a recovery of credit losses recorded in the current period, partially offset by higher non-interest expenses.

Core cash earnings, which reflects the Bank's core operational performance and earnings capacity, is calculated as net income (as presented in the Consolidated Statements of Comprehensive Income) adjusted for income taxes, restructuring charges, corporate projects and other non-core operational expenses. The Bank did not pay cash taxes on its earnings in the current and comparative periods due to the utilization of available tax loss carryforwards (see core cash earnings reconciliation below).

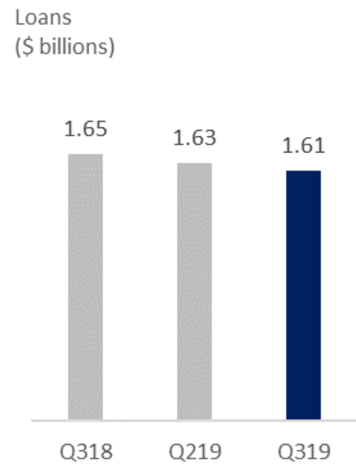
(thousands of Canadian dollars)

	for the three months ended	
	July 31 2019	July 31 2018
Net income	$ 4,963	$ 4,678
Adjusted for:		
Income taxes	1,874	1,768
Core cash earnings	$ 6,837	$ 6,446

(thousands of Canadian dollars)

	for the nine months ended	
	July 31 2019	July 31 2018
Net income	$ 14,791	$ 12,910
Adjusted for:		
Income taxes	5,587	4,890
Other non-core general and administrative expense items	-	453
	5,587	5,343
Core cash earnings	$ 20,378	$ 18,253

Total assets at July 31, 2019 were $1.78 billion compared to $1.80 billion last quarter and $1.82 billion a year ago. The quarter over quarter and year over year trends were a function primarily of an anticipated reduction in real estate loan balances combined with the Bank reducing liquidity levels in the current quarter, partially offset by growth in the purchased receivable portfolio.



Loans at July 31, 2019 were $1.61 billion compared to $1.63 billion last quarter and $1.65 billion a year ago. The quarter over quarter and year over year trends were a function primarily of an anticipated reduction in real estate loan balances, partially offset by growth in the purchased receivable portfolio.

Gross impaired loans at July 31, 2019 totalled $25.5 million ($627,000 at October 31, 2018 and $627,000 a year ago), which represents approximately 1.58% of total loans. Despite the increase in impaired loans, the impact on provision for credit losses was effectively mitigated by the strength of the Bank’s underlying security associated with same.

Total Revenue

Total revenue consists of net interest income and non-interest income. Non-interest income for the current quarter consisted primarily of income derived from miscellaneous transaction fees not directly attributable to lending assets. Non-interest income is not currently a significant source of revenue for the Bank.

Total revenue for the quarter was $14.1 million compared to $12.7 million last quarter and $13.0 million for the same period a year ago. The quarter over quarter and year over year trends were a function of the same combination of financial performance drivers underlying the net income performance trends set out above.

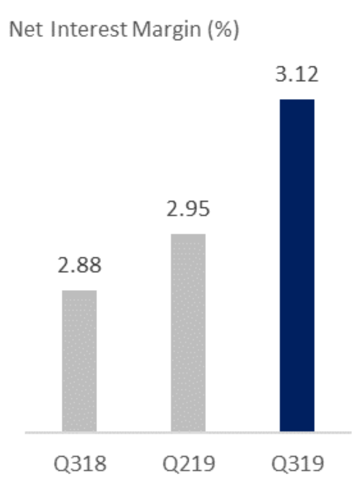
Total revenue for the nine months ended July 31, 2019 was $40.3 million compared to $37.9 million for the same period a year ago. The year over year trend was a function primarily of higher net interest income and a recovery of credit losses recorded in the current period.

Net Interest Income

Net interest income for the quarter was $14.1 million compared to $12.7 million last quarter and $13.0 million for the same period a year ago. The quarter over quarter and year over year trends were a function primarily of higher interest income realized as a result of higher average earning assets and interest income on impaired assets, partially offset by higher cost of funds.

Net interest income for the nine months ended July 31, 2019 was $40.2 million compared to $37.8 million for the same period a year ago. The year over trend was a function primarily of higher interest income realized as a result of higher average earning assets and interest income on impaired assets, partially offset by higher cost of funds.

Net Interest Margin



Net interest margin or spread for the quarter was 3.12% compared to 2.95% last quarter and 2.88% for the same period a year ago. The quarter over quarter and year over year trends were a function primarily of higher average yields earned on lending and treasury assets, partially offset by higher cost of funds.

Net interest margin or spread for the nine months ended July 31, 2019 was 3.00% compared to 2.85% for the same period a year ago. The year over year trend was a function primarily of higher average yields earned on lending and treasury assets, partially offset by higher cost of funds.

Provision for Credit Losses

Effective November 1, 2018, the Bank adopted IFRS 9 – *Financial Instruments* (“IFRS 9”). IFRS 9 requires 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 and 4 of the Bank’s July 31, 2019 unaudited interim consolidated financial statements for additional information on the Bank’s adoption of IFRS 9 and on the prescribed ECL methodology.

During the quarter the Bank recorded a provision for credit losses in the amount of $381,000 compared to a recovery of credit losses in the amount of $411,000 last quarter and a provision for credit losses in the amount of $128,000 a year ago. The quarter over quarter trend was a function primarily of higher expected credit losses estimated on a stage 3 facility as a result of a re-examination of the Bank’s underlying security associated with same, changes in the composition of the Bank’s real estate lending portfolio, asset growth in the receivable purchase portfolio, and the impact of net remeasurements of expected credit loss amounts using the expected credit loss methodology under IFRS 9. The year over year trend was a function primarily of higher expected credit losses estimated on a stage 3 facility, asset growth in the receivable purchase portfolio, and the impact of remeasurements of expected credit loss amounts using the expected credit loss methodology under IFRS 9, partially offset by lower real estate lending assets.

For the nine months ended July 31, 2019, the Bank recognized a $319,000 recovery of credit losses compared to $143,000 provision for credit losses for the same period a year ago. The year over year trend was a function primarily of higher expected credit losses estimated on a stage 3 facility, changes in the composition of the Bank's real estate lending portfolio, asset growth in the receivable purchase portfolio, and the impact of remeasurements of expected credit loss amounts using the expected credit loss methodology under IFRS 9.

Non-Interest Expenses

Non-interest expenses of the Bank were $6.9 million compared to $6.4 million last quarter and $6.4 million for the same period a year ago. The quarter over quarter trend was a function primarily of higher professional fees associated largely with business development activities. The year over year trend was a function primarily of an increase in general corporate expenses and higher salary and benefits expenses.

Non-interest expenses for the nine months ended July 31, 2019 were $20.2 million compared to $19.9 million a year ago. The year over year trend was a function primarily of the factors set out above.

Income Taxes

The statutory federal and provincial income tax rate of the Bank is approximately 27%, similar to that of previous periods. The statutory rate is impacted by certain items not being taxable or deductible for income tax purposes.

Provision for income taxes for the quarter was $1.9 million compared to $1.9 million for the previous quarter and $1.8 million for the same period a year ago.

Provision for income taxes for the nine months ended July 31, 2019 was $5.6 million compared to $4.9 million for the same period a year ago.

Comprehensive Income

Comprehensive income is comprised of net income for the period and other comprehensive income that consists of unrealized gains and losses on available-for-sale securities. Due to the current composition of the Bank's treasury portfolio, which consists primarily of cash and high quality liquid securities, unrealized gains or losses in the portfolio are not significant and as a result comprehensive income does not typically differ significantly from net income.

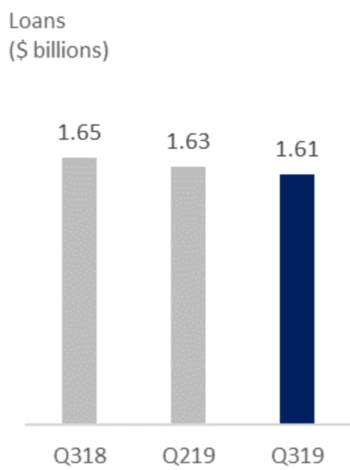
Consolidated Balance Sheet

Total assets at July 31, 2019 were $1.78 billion compared to $1.80 billion last quarter and $1.82 billion a year ago. The quarter over quarter and year over year trends were a function primarily of an anticipated reduction in real estate loan balances, combined with the Bank reducing liquidity levels in the current quarter, partially offset by growth in the purchased receivable portfolio.

Cash and Securities

Cash and securities, which are held primarily for liquidity purposes, were $118.3 million or 6.7% of total assets at July 31, 2019 compared to $132.1 million or 7.4% of total assets last quarter and $125.2 million or 6.9% of total assets a year ago. The quarter over quarter and year over year trends were 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 while concurrently maintaining adequate liquidity to support operations.

Loans



Loans at July 31, 2019 were $1.61 billion compared to $1.63 billion last quarter and $1.65 billion a year ago. The quarter over quarter and year over year trends were a function primarily of an anticipated reduction in real estate loan balances, partially offset by growth in the purchased receivable portfolio.

Residential mortgage exposures

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 (HELOC's). This differs from the classification of residential mortgages used by the Bank which also includes multi-family residential mortgages.

Under OSFI's definition, the Bank's exposure to residential mortgages at July 31, 2019 was $307,000 compared to $228,000 last quarter and $233,000 a year ago. The Bank did not have any HELOC's outstanding at July 31, 2019, last quarter or a year ago.

Credit Quality

Gross impaired loans at July 31, 2019, were $25.5 million, compared to $25.5 million last quarter and $627,000 a year ago. The year over year trend was attributable to the Bank commencing the recovery process on two well-secured real estate loans.

At July 31, 2019, the Bank's allowance for expected credit losses was $2.3 million compared to $2.0 million last quarter and $2.6 million a year ago. The quarter over quarter trend was a function primarily of higher expected credit losses estimated on a stage 3 facility as a result of a re-examination of the Bank's underlying security associated with same, changes in the composition of the Bank's real estate lending portfolio, asset growth in the receivable purchase portfolio, and the impact of net remeasurements of expected credit loss amounts using the expected credit loss methodology under IFRS 9. The year over year trend was a function primarily of higher expected credit losses estimated on a stage 3 facility, asset growth in the receivable purchase portfolio, and the impact of remeasurements of expected credit loss amounts using the expected credit loss methodology under IFRS 9, partially offset by lower real estate lending assets

Based on the Bank's review and analysis of its lending and treasury assets, combined with the secured nature of the existing loan portfolio, the Bank is of the view that the allowance for expected credit losses is adequate.

Other Assets

Other assets include working capital items, funds held for securitization liabilities, capital assets, and the deferred income tax asset. Other assets at July 31, 2019 were $44.5 million, compared to $35.9 million last quarter and $40.7 million a year ago. The quarter over quarter and year over year trends were a function primarily of an increase in funds held for securitization liabilities due 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 respective periods.

The deferred income tax asset was $13.4 million at July 31, 2019, compared to $15.1 million last quarter and $20.2 million a year ago. The quarter over quarter and year over year trends were a function primarily of draw downs on the deferred income tax asset related to taxable income generated by the Bank over the respective periods.

Deposits and Other Liabilities

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

Personal deposits, consisting principally of guaranteed investment certificates, are sourced primarily through a well-established and well-diversified deposit broker network that the Bank continues to grow and expand across Canada. Personal deposits at July 31, 2019 were $976.6 million compared to $1.0 billion last quarter and $1.1 billion a year ago. The quarter over quarter and year over year trends were a function primarily of reduced funding requirements in response to lower net lending asset balances over the course of the current period.

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 July 31, 2019 were $421.7 million compared to $404.6 million last quarter and $381.6 million a year ago. The quarter over quarter and year over year trends were a function of continued growth in the number of Trustees that have established chequing accounts with the Bank over the course of the respective periods.

Other liabilities at July 31, 2019 were $104.2 million compared to $101.2 million last quarter and $102.2 million a year ago. The quarter over quarter and year over year trends were a function primarily of higher holdbacks payable balances, an increase in accounts payable and cash collateral amounts held in escrow over the respective periods. Holdbacks payable at July 31, 2019 were $94.5 million compared to $92.6 million last quarter and $94.2 million a year ago. The quarter over quarter and year over year trends were a function primarily of growth in the Bank's purchased receivable portfolio over the respective periods.

Securitization Liabilities

Securitization liabilities relate to amounts payable to counterparties for cash received upon the initiation of securitization transactions. Securitization liabilities at July 31, 2019 were $33.5 million compared to $33.3 million at the end of last quarter and $33.5 million a year ago. The amounts payable to counterparties bear interest at rates ranging from 3.55% - 3.95% and mature in 2020. Residential mortgages and other assets are pledged as collateral for securitized liabilities.

Subordinated Notes Payable

Subordinated notes payable, net of issue costs, were $4.9 million at July 31, 2019 compared to $4.9 million last quarter and $9.8 million a year ago. During the second quarter of the current year the Bank redeemed a subordinated note in the principal amount of $10.0 million with a maturity date of March 2021. During the same period the Bank completed a private placement of 10%, non-viability contingent capital ("NVCC") compliant subordinated notes in the principal amount of $5.0 million, maturing in March 2029, that is included in the Bank's Tier II regulatory capital. The effective interest rate on the subordinated notes is 10.41%.

Shareholders' Equity

Shareholders' equity was $235.7 million at July 31, 2019 compared to $231.7 million last quarter and $219.2 million a year ago. The quarter over quarter trend was a function primarily of retained earnings growth, partially offset by the Bank increasing it's quarterly dividend by 0.5 cents to 2.0 cents per common share in the current quarter. The year over year trend was a function primarily of retained earnings growth and the impact of remeasurements of expected credit loss amounts using the expected credit loss methodology under IFRS 9, partially offset by the Bank increasing its quarterly dividend by a total of 1.0 cents per common share over the course of the current fiscal period.

Common shares outstanding at July 31, 2019 totalled 21,123,559, unchanged compared to last quarter and a year ago.

The Bank's book value per common share at July 31, 2019 was $9.77 compared to $9.58 last quarter and $8.99 a year ago with the increase being a function primarily of retained earnings growth, partially offset by the payment of dividends over the respective periods.

See Note 9 to the unaudited interim consolidated financial statements for additional information relating to share capital.

Updated Share Information

As at August 26, 2019, there were no changes since July 31, 2019 in the number of common shares, Series 1 and Series 3 preferred shares, and common share options outstanding.

Off-Balance Sheet Arrangements

As at July 31, 2019, the Bank did not have any significant off-balance sheet arrangements other than loan commitments and letters of credit resulting from normal course business activities. See Note 12 to the unaudited interim consolidated financial statements for more information.

Related Party Transactions

The Bank's Board of Directors and senior executive officers represent key management personnel. See Note 13 to the unaudited interim consolidated financial statements for additional information on related party transactions and balances.

Risk Management

The risk management policies and procedures of the Bank are set out in its annual MD&A for the year ended October 31, 2018.

Capital Management and Capital Resources

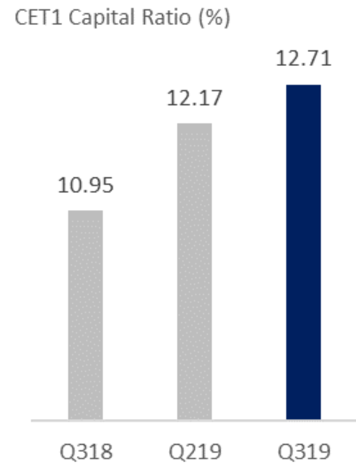
The Basel Committee on Banking Supervision has rules supporting stringent global standards on capital adequacy and liquidity (Basel III). Significant rules under Basel III that are most relevant to the Bank include:

- Increased focus on tangible common equity;
- All forms of non-common equity and debt must be NVCC compliant. NVCC compliant means the instrument must include a clause that would require conversion to common equity in the event that OSFI deems the institution to be insolvent or a government is planning to inject a "bail out" payment;
- Changes in the risk-weighting of certain assets;
- Additional capital buffers;
- Requirements for levels of liquidity and new liquidity measurements.

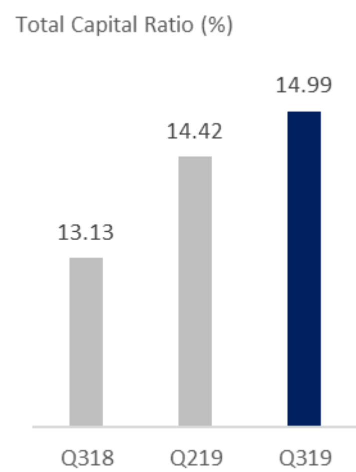
The Bank reports its regulatory capital ratios using the Standardized approach for calculating risk-weighted assets, as defined under Basel III, which may require the Bank to carry more capital for certain credit exposures compared to requirements under the Advanced Internal Ratings Based ("AIRB") methodology. As a result, regulatory capital ratios of banks that utilize the Standardized approach are not directly comparable with the large Canadian banks that employ the AIRB methodology.

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

Under the Basel III standards, total regulatory capital of the Bank was $225.6 million at July 31, 2019 compared to $219.9 million last quarter and $201.1 million a year ago. The quarter over quarter trend was a function primarily of retained earnings growth and tax provision recoveries related to the Bank's deferred tax asset. The year over year trend was a function primarily of retained earnings growth, tax provision recoveries related to the Bank's deferred tax asset, and the net impact of the redemption of a subordinated note in the principal amount of $10.0 million in the second quarter of this year, of which $4.0 million was eligible for inclusion in the Bank's Tier II regulatory capital, and the completion of a private placement of 10%, NVCC compliant subordinated notes in the principal amount of $5.0 million, which also occurred in the second quarter of this year.



The Bank's CET1 capital ratio was 12.71% at July 31, 2019 compared to 12.17% last quarter and 10.95% a year ago. The quarter over quarter and year over year trends were a function of lower risk-weighted assets, retained earnings growth, and tax provision recoveries related to the Bank's deferred tax asset.



The Bank's total capital ratio at July 31, 2019 was 14.99% compared to 14.42% last quarter and 13.13% a year ago.

The quarter over quarter trend was a function of lower risk-weighted assets, retained earnings growth and tax provision recoveries related to the Bank's deferred tax asset.

The year over year trend was a function of lower risk-weighted assets, retained earnings growth, tax provision recoveries related to the Bank's deferred tax asset, and the net impact of the redemption of a subordinated note in the principal amount of $10.0 million in the second quarter of this year, of which $4.0 million was eligible for inclusion in the Bank's Tier II regulatory capital, and the completion of a private placement of 10%, NVCC compliant subordinated notes in the principal amount of $5.0 million, which also occurred in the second quarter of this year.

The Bank's leverage ratio at July 31, 2019 was 11.90% compared to 11.43% last quarter and 10.38% a year ago.

See Note 14 to the interim consolidated financial statements for more information regarding capital management.

Liquidity

The unaudited Consolidated Statement of Cash Flows for the nine months ended July 31, 2019 shows cash used by operations of $12.4 million compared to cash used by operations of $31.2 million for the same period last year. The net use of cash by operations for the current period was a function primarily of cash outflows to fund deposit maturities exceeding cash inflows from loan repayments. The net use of cash by operations in the comparative period was a function primarily of cash outflows to fund loans exceeding cash inflows from deposits raised. Based on factors such as liquidity requirements and opportunities for investment in loans and securities, the Bank may manage the amount of deposits it raises and loans it 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 closely managing its flow of deposits.

Interest Rate Risk Management

The Bank is subject to interest rate risk which is the risk that a movement in interest rates could negatively impact net interest margin, net interest income and the economic value of assets, liabilities and shareholders' equity. The table below presents the duration difference between the Bank's assets and liabilities and the potential after-tax impact of a 100 basis point shift in interest rates on the Bank's earnings during a 12 month period and the potential after-tax impact of a 100 basis point shift in interest rates on the Bank's shareholders' equity over a 60 month period if no remedial actions are taken. The Bank's sensitivity to changes in interest rates and the difference in duration between assets and liabilities at July 31, 2019, has not changed significantly compared to the previous quarter. As presented in the table below, at July 31, 2019, the impact on net interest income during a 12 month period of a 100 basis point increase in rates would be approximately $2.1 million and the impact on net interest income of a 100 basis point decrease in rates would be approximately ($2.1 million). Further, at July 31, 2019, the impact on equity during a 60 month period of a 100 basis point increase in rates would be approximately ($3.6 million) and the impact on equity of a 100 basis point decrease in rates would be approximately $3.8 million. At July 31, 2019, the duration difference between assets and liabilities was 1.3 months compared to 0.5 months at October 31, 2018, which indicates that the Bank's assets and liabilities would reprice at approximately the same time in the event of a future change in interest rates.

(thousands of Canadian dollars)	July 31, 2019	
	Increase 100 bps	Decrease 100 bps
Impact on projected net interest income during a 12 month period	$ 2,078	$ (2,063)
Impact on reported equity during a 60 month period	$ (3,609)	$ 3,752
Duration difference between assets and liabilities (months)	1.3	

(thousands of Canadian dollars)	October 31, 2018	
	Increase 100 bps	Decrease 100 bps
Impact on projected net interest income during a 12 month period	$ 2,829	$ (2,802)
Impact on reported equity during a 60 month period	$ (2,707)	$ 2,857
Duration difference between assets and liabilities (months)	0.5	

Capital Assets

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

Contractual Obligations

Contractual obligations as disclosed in the Bank's MD&A and Audited Consolidated Financial Statements for the year ended October 31, 2018, have not changed significantly as at July 31, 2019.

Summary of Quarterly Results

(thousands of Canadian dollars except per share amounts)	2019			2018				2017
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Results of operations:								
Interest income	$ 22,958	$ 21,125	$ 21,959	$ 22,036	$ 20,446	$ 19,363	$ 19,069	$ 18,132
Yield on assets (%)	5.10%	4.89%	4.90%	4.82%	4.55%	4.59%	4.41%	4.22%
Interest expense	8,899	8,382	8,519	8,329	7,481	6,931	6,674	6,624
Cost of funds (%)	1.98%	1.94%	1.90%	1.82%	1.67%	1.64%	1.54%	1.54%
Net interest income	14,059	12,743	13,440	13,707	12,965	12,432	12,395	11,508
Net interest margin (%)	3.12%	2.95%	3.00%	3.00%	2.88%	2.95%	2.87%	2.68%
Total revenue	14,078	12,747	13,459	13,827	12,982	12,469	12,407	11,521
Provision for (recovery of) credit losses	381	(411)	(289)	191	128	(50)	65	116
Non-interest expenses	6,860	6,411	6,954	6,423	6,408	6,617	6,890	7,500
Efficiency ratio*	49%	50%	52%	46%	49%	53%	56%	65%
Core cash earnings	6,837	6,747	6,794	7,108	6,446	5,902	5,905	4,650
Core cash earnings per common share	$ 0.32	$ 0.32	$ 0.32	$ 0.33	$ 0.31	$ 0.28	$ 0.28	$ 0.22
Income before income taxes	6,837	6,747	6,794	7,213	6,446	5,902	5,452	3,905
Income tax provision (recovery)	1,874	1,851	1,862	2,049	1,768	1,646	1,476	1,083
Net income	$ 4,963	$ 4,896	$ 4,932	$ 5,164	$ 4,678	$ 4,256	$ 3,976	$ 2,822
Income per share								
Basic	$ 0.21	$ 0.21	$ 0.21	$ 0.21	$ 0.20	$ 0.18	$ 0.16	$ 0.11
Diluted	$ 0.21	$ 0.21	$ 0.21	$ 0.21	$ 0.20	$ 0.18	$ 0.16	$ 0.11
Return on average common equity	8.56%	8.89%	8.86%	9.53%	8.72%	8.25%	7.50%	5.06%
Core cash return on average common equity	12.20%	12.68%	12.62%	13.55%	12.45%	11.93%	11.75%	9.13%
Return on average total assets	0.98%	1.01%	0.98%	1.01%	0.92%	0.88%	0.81%	0.53%
Gross impaired loans to total loans	1.58%	1.57%	1.22%	0.04%	0.04%	0.04%	0.04%	0.04%

*Efficiency ratio is adjusted for restructuring charges.

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

Basis of Presentation

Non-GAAP and Additional GAAP Measures

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, corporate projects 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 total 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 Comprehensive Income) divided by average total 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 Income and Net Interest Margin or Spread

Most banks analyze profitability by net interest income (as presented in the Consolidated Statements of Comprehensive Income) and net interest margin or spread. Net interest margin or spread is calculated as net interest income divided by 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.

Return on Average Common Equity

Return on average common equity is defined as annualized net income 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.

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 average common shareholders' equity which is average shareholders' equity less amounts relating to preferred shares recorded in equity.

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.

Efficiency Ratio

The efficiency ratio is calculated as non-interest expenses as a percentage of total revenue (as presented in the interim 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.

Return on Average Total Assets

Return on average total assets is defined as annualized net income less amounts relating to preferred share dividends, divided by average total assets.

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.

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 interim 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.

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

Basel III Common Equity Tier 1, Tier 1, total capital adequacy and leverage ratios are determined in accordance with guidelines issued by the Office of the Superintendent of Financial Institutions (*Canada*) (OSFI).

Significant Accounting Policies and Use of Estimates and Judgments

Significant accounting policies are detailed in Note 3 of the Bank's 2018 Audited Consolidated Financial Statements. There have been no material changes in accounting policies since October 31, 2018, except for changes to accounting policies resulting from the adoption of IFRS 9 (*Financial Instruments*) noted in Changes in Accounting Policies 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 and recognition of deferred income tax assets.

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 development of these estimates. This could result in material adjustments to the carrying amounts of assets and/or liabilities affected in the future.

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

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

Loans

Loans are classified at initial recognition based on the contractual cash flow characteristics and the business model under which the loan is managed. Loans are classified and measured as amortized cost, fair value through other comprehensive income or fair value through profit and loss.

Allowance for Expected Credit Losses

The Bank must maintain an allowance for expected credit losses that is adequate, in management's opinion, to absorb all credit related losses in the Bank's lending and treasury portfolios. Under IFRS 9 the Bank's allowance for expected credit losses is estimated using the ECL methodology and is comprised of expected credit losses recognized on both performing loans, and non-performing, or impaired loans even if no actual loss event has occurred.

For performing loans, the allowance for expected credit losses is an estimate of the expected cash shortfalls discounted at the effective interest rate, where a cash shortfall is the difference between the contractual cash flows that are due to the Bank and the cash flows that the Bank actually expects to receive. The ECL calculation is a function of the credit risk parameters; probability of default ("PD"), exposure at default ("EAD"), and loss given default ("LGD") associated with each loan, sensitized to future market and macroeconomic conditions through the incorporation of forward-looking information derived from multiple economic forecast scenarios, including baseline, upside, and downside scenarios.

Individual allowances are estimated for non-performing loans that are determined to be credit impaired. A loan or financial instrument is classified as credit impaired when the Bank becomes aware that all, or a portion of the contractual cashflows associated with the loan may be in jeopardy and as a result may not be realized by the Bank under the repayment schedule set out in the contractual terms associated with the loan.

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 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.

The realization of the deferred income tax asset is dependent upon the Bank being able to generate taxable income during the carry-forward period sufficient to offset the income tax losses and deductible temporary timing differences. While management is of the opinion that it is probable that the Bank will be able to realize the deferred income tax asset, there is no guarantee the Bank will be able to generate sufficient taxable income during the carry-forward period. The realization of the deferred income tax asset is dependent upon the Bank being able to generate taxable income in future years sufficient to offset the income tax losses.

Changes in Accounting Policies

Financial instruments (IFRS 9)

IFRS 9 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.

Classification and Measurement of Financial Instruments

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.

Impairment – Allowance for Expected Credit Losses

The Bank must maintain an allowance for expected 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 expected credit losses is estimated using the ECL methodology and is comprised of expected credit losses recognized on all financial instruments that are debt instruments, classified either as amortized cost or as fair value through other comprehensive income, and on all loan commitments and financial guarantees that are not measured at fair value through profit and loss.

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 models estimate 12 months of expected credit losses for performing loans or financial instruments that have not experienced a significant increase in credit risk, (“SICR”) since initial recognition. Further, the impairment model estimates lifetime expected credit losses on performing loans that have experienced a SICR since initial recognition. 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.

Expected credit loss model - Estimation of expected credit losses

Expected credit losses are an estimate of a loan’s expected cash shortfalls discounted at the effective interest rate, where a cash shortfall is the difference between the contractual cash flows that are due to the Bank and the cash flows that the Bank actually expects to receive. The ECL calculation is a function of the credit risk parameters: probability of default, loss given default, and exposure at default associated with each loan or financial instrument, sensitized to future market and macroeconomic conditions through the incorporation of forward looking information derived from multiple economic forecast scenarios, including baseline, upside, and downside scenarios

Hedge Accounting

The Bank has elected, as permitted, to continue to apply the hedge accounting requirements of IAS 39. The hedge accounting policy is described in Note 2 of the Bank's 2018 annual consolidated financial statements.

Revenues from contracts with customers (IFRS 15)

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. The new standard is effective for the Bank's fiscal year beginning November 1, 2018. The timing or amount of the Bank's non-interest fee and other income earned is not significant and therefore not materially impacted by the adoption of this standard.

Future Changes in Accounting Policies

The Bank monitors the potential changes proposed by the IASB and assesses the impact that change in accounting standards may have on the Bank's financial reporting and accounting policies. Future accounting policies that may impact the Bank can be found on page 22 of the Bank's 2018 annual MD&A and note 4 of the Bank's 2018 annual consolidated financial statements.

Controls and Procedures

During the quarter ended July 31, 2019, there were no changes in the Bank's internal controls over financial reporting, that have materially affected, or are reasonably likely to materially affect, the Bank's internal controls over financial reporting.

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, many of which are out of the Bank's control. 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 the Bank conducts operations; the effects of changes in monetary and fiscal policy, including changes in interest rate policies of the Bank of Canada; global commodity prices; the effects of competition in the markets in which the Bank operates; inflation; capital market fluctuations; the timely development and introduction of new products in receptive markets; the impact of changes in the laws and regulations regulating financial services; changes in tax laws; technological changes; unexpected judicial or regulatory proceedings; unexpected changes in consumer spending and savings habits; and the Bank's anticipation of and success in managing the risks implicated by the foregoing. For a detailed discussion of certain key factors that may affect our future results, please see our annual MD&A for the year ended October 31, 2018.

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. The forward-looking information contained in the management's discussion and analysis is presented to assist our shareholders in understanding our financial position and may not be appropriate for any other purposes. 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 the Bank or on its behalf.

FOR FURTHER INFORMATION PLEASE CONTACT:

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