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BUSINESS PROFILE
Overview

VersaBank (formerly Pacific & Western Bank of Canada), a technologically proficient Canadian Schedule I chartered bank, operates using an “electronic branchless model”. VersaBank (the “Bank”) sources deposits, commercial and consumer loan and lease receivables electronically. The Bank also makes residential and commercial mortgages and loans sourced through direct contact with its lending staff and well-established brokers. The Bank’s shares trade on the Toronto Stock Exchange and the Bank is the principal subsidiary of PWC Capital Inc. (the “Corporation” or “PWC”) whose securities are also listed and trade on the Toronto Stock Exchange. On May 13, 2016, the Bank changed its name from Pacific & Western Bank of Canada to VersaBank.

Strategy and Strengths

The Bank’s vision is to be the preferred provider of financial solutions to its clients and its mission is to deliver a competitive and sustainable rate of return to shareholders by delivering ideally suited financial products, services and solutions to its clients in selected niche markets across Canada. As a result of the Bank’s disciplined underwriting approach, it has been able to grow its loan portfolio over the years with minimal loan losses.

Goals and Objectives

The Bank's goal is to provide financial solutions to its clients and deliver a competitive and sustainable rate of return to its shareholders. The Bank's objectives in 2016 included the following:

- Increase profitability by increasing net interest income and spread through loan growth in its established markets and expansion of commercial and consumer loans and lease receivables sourced through its bulk purchase program.

- Maintain high credit quality by continuing its disciplined approach to financing and management of its lending portfolios.

- Increase its regulatory capital through earnings and new capital sources to allow it to pursue its growth strategy.

- Expansion of new banking product to trustees in the bankruptcy industry, reducing its cost of funds and bringing diversity to its deposit gathering network.

- Control growth of non-interest expenses.

Forward-looking statements

The statements in this Management's Discussion and Analysis which relate to the future are forward-looking statements. By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that predictions, forecasts, projections and other forward-looking statements will not be achieved. Readers are cautioned not to place undue reliance on these forward-looking statements as a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include, but are not limited to, the strength of the Canadian economy in general and the strength of the local economies within Canada in which we conduct operations; the effects of changes in monetary and fiscal policy, including changes in interest rate policies of the Bank of Canada; changing global commodity prices; the effects of competition in the markets in which we operate; inflation; capital market fluctuations; the timely development and introduction of new products in receptive markets; the impact of changes in the laws and regulations regulating financial services; changes in tax laws; technological changes; unexpected judicial or regulatory proceedings; unexpected changes in consumer spending and savings habits; and our anticipation of and success in managing the risks resulting from the foregoing.

The foregoing list of important factors is not exhaustive. When relying on forward-looking statements to make decisions, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. Except as required by securities law, we do not undertake to update any forward-looking statement that is contained in this Management's Discussion and Analysis or made from time to time by the Bank.

Basis of Presentation

Non-GAAP and Additional GAAP Measures

Yield

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

Cost of funds

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

Net Interest Income and Net Interest Margin or Spread

Most banks analyze profitability by net interest income (as presented in the Consolidated Statements of Income) and 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.

Income before restructuring charges and income taxes

Income before restructuring charges and income taxes is equal to total revenue less the provision for credit losses and non-interest expenses before restructuring charges revenue, as presented in the Consolidated Statements of Income.

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 the Office of the Superintendent of Financial Institutions Canada (OSFI).

Return on Average Common Equity

Return on average common equity for the Bank is defined as annualized net income of the Bank less amounts relating to preferred share dividends, divided by average common shareholders' equity which is average shareholders' equity less amounts relating to preferred shares recorded in equity.

Non-Interest Expenses to Total Assets Ratio

The ratio of non-interest expenses to total assets is determined by dividing non-interest expenses of the Bank by total average assets.

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.

2016 FINANCIAL SUMMARY

(compared to 2015)

- Income of the Bank before restructuring charges and income taxes for the year ended October 31, 2016 was $12.9 million compared to $9.0 million for the same period a year ago.
- Net income for the year was $8.5 million or $0.32 per common share (basic and diluted), compared to $8.2 million or $0.33 per common share (basic and diluted) for the same period a year ago. Net income for the current year includes restructuring charges of $1.1 million compared to $nil for the same period a year ago. Net income for the same period a year ago included an income tax recovery of $1.7 million related to previously unrecognized deferred income tax assets
- Net interest margin (NIM) or spread increased to 2.31% from 2.21% for the same period a year ago.
- Credit quality remains exceptional with no gross impaired loans at October 31, 2016 or a year ago.

Actual 2016 Performance Compared to Objectives

2016 Objectives	2016 Results
Increase profitability by increasing net interest income and spread through loan growth in its established markets and expansion of commercial and consumer loans and lease receivables sourced through the Bank's bulk purchase program.	Net income of the Bank improved from a year ago primarily as a result of an increase in net interest income and spread through a decrease in the cost of funds relating to deposits and from growth in commercial and consumer loans and lease receivables sourced through the bulk purchase program.
Maintain high credit quality by continuing its strict disciplined approach to financing and management of its lending portfolios.	Credit quality remained strong in the year with no impaired loans at the end of year and the provision for credit losses as a percentage of average loans less than the target for the year.
Expansion of new banking product to trustees in the bankruptcy industry, reducing its cost of funds and bringing diversity to its deposit gathering network.	Deposits from trustees in the bankruptcy industry increased to $189 million at the end of the year from $111 million a year ago with continued growth and expansion of the product across Canada.
Increase regulatory capital through earnings and new capital to allow the Bank to carry out its growth strategy.	Common equity Tier 1 capital of the Bank at the end of the year increased to $150 million from $136 million a year ago and Tier 1 capital increased to $179 million from $166 million last year. In March 2016, the Bank completed a private placement of common shares for proceeds of $5 million.
Control growth of non-interest expenses	Non-interest expenses of the Bank divided by average total assets for the year ended October 31, 2016 decreased to 1.56% from 1.61% for the prior year.

KEY PERFORMANCE INDICATORS AND SELECTED ANNUAL FINANCIAL INFORMATION

(thousands of Canadian dollars except per share amounts)	October 31 2016	October 31 2015	October 31 2014
Net interest income	$ 38,404	$ 33,974	$ 27,874
Non-interest income	1,273	1,394	2,633
Total revenue	39,677	35,368	30,507
Provision for credit losses	871	1,545	919
Non-interest expenses	25,956	24,784	22,947
Income before restructuring charges and income taxes*	12,850	9,039	6,641
Restructuring charges	1,092	-	434
Net income	$ 8,470	$ 8,218	$ 5,676
Income per common share:			
Basic	$ 0.32	$ 0.33	$ 0.29
Diluted	$ 0.32	$ 0.33	$ 0.29
Yield*	4.18%	4.19%	4.09%
Cost of funds*	1.87%	1.98%	2.13%
Net interest margin*	2.31%	2.21%	1.96%
Return on average common equity*	4.15%	4.50%	4.17%
Provision for credit losses as a % of average total loans	0.06%	0.12%	0.08%
Gross impaired loans to total loans	0.00%	0.00%	0.00%
Assets to full time employees*	$ 21,385	$ 20,502	$ 18,537
Book value per common share*	$ 7.79	$ 7.47	$ 7.14
Financial Position:			
Cash and securities	103,922	149,511	193,940
Total loans	1,563,612	1,447,660	1,224,247
Total assets	1,704,400	1,625,806	1,445,860
Subordinated notes payable	14,067	13,959	13,863
Capital Ratios:			
Common Equity Tier 1 capital	149,985	136,254	130,179
Total regulatory capital	189,122	178,291	158,326
Risk-weighted assets	1,425,171	1,320,158	1,156,832
Common Equity Tier 1 ratio	10.52%	10.32%	11.25%
Tier 1 capital ratio	12.58%	12.54%	12.43%
Total capital ratio	13.27%	13.51%	13.69%

* This is a non-GAAP measure. See definition in 'Non-GAAP and Additional GAAP Measures'.

OVERVIEW OF 2016 PERFORMANCE

Net income of the Bank for the year ended October 31, 2016 was $8.5 million or $0.32 per common share (basic and diluted), compared to $8.2 million or $0.33 per common share (basic and diluted) for the same period a year ago. Net income for the current year includes restructuring charges of $1.1 million and also reflects growth in net interest income. Income before restructuring charges and income taxes for the year was $12.9 million compared to $9.0 million for the same period a year ago. Net income for the same period a year ago included an income tax recovery of $1.7 million related to previously unrecognized deferred income tax assets.

Total assets of the Bank at October 31, 2016 were $1.70 billion compared to $1.63 billion a year ago. Lending assets totaled $1.56 billion compared to $1.45 billion a year ago. Credit quality remains strong with no gross impaired loans at October 31, 2016, or a year ago.

At October 31, 2016, the Bank exceeded the current minimum Basel III regulatory capital requirements referred to above with a CET1 ratio of 10.52% compared to 10.32% a year ago. At October 31, 2016, the Bank's Tier 1 capital ratio was 12.58% compared to 12.54% a year ago. In addition, the Bank's total capital ratio was 13.27% at October 31, 2016, compared to 13.51% a year ago. At October 31, 2016, the Bank's leverage ratio was 9.82% compared to 9.53% a year ago.

During the year ended October 31, 2016, the Bank issued 657,894 common shares through a private placement for proceeds of $5 million. During the previous year, the Bank issued 1,681,320 Non-Cumulative 6-Year Rate Reset Series 3 Non-Viability Contingent Capital (NVCC) Preferred Shares for net proceeds of $15.7 million. These NVCC Preferred Shares qualify as Tier 1 capital for the Bank.

Outlook

The outlook for the Bank in 2017 is strong as the Bank expects to build on its operating results of 2016 which included increased earnings, net interest income and net interest margin. The Bank's growth in lending assets in 2016, primarily commercial and consumer loans and leases, is expected to see continued growth in 2017. Financial performance is expected to benefit from increased geographic diversity and increased loan diversification through the Bank's bulk purchase program and by leveraging current and future investment in technology.

Overall credit quality is expected to continue to reflect the Bank's lending strategy, strong underwriting practices and proactive loan management. Based on results from ongoing stress testing of the loan portfolio under various scenarios and the secured nature of the existing loan portfolio, the Bank is of the view that any credit losses which exist but cannot be specifically identified at this time are adequately provided for. The Bank's exposure to loan losses in Western Canada and to the oil and gas industry is not significant. As well, the Bank is not concentrated in the housing markets in Toronto and Western Canada.

On March 7, 2016, PWC and the Bank announced they were undertaking a review of their strategic alternatives. Subsequently, on September 12, 2016 and November 15, 2016, PWC and the Bank jointly announced that they entered into an agreement to merge by amalgamation under the *Bank Act* (Canada). After the amalgamation, which is subject to regulatory and other approvals, including approvals by the various security holders of both entities, the combined entity will continue to be named VersaBank. It is anticipated that this proposed amalgamation will not result in any significant change in the ongoing operations of the Bank. At this time, there can be no assurance that the amalgamation will take place or its nature, terms or timing. See Note 26 to the Consolidated Financial Statements.

TOTAL REVENUE

Total revenue of the Bank consists of net interest income and non-interest income. Non-interest income consists primarily of fees from credit card operations. For the year ended October 31, 2016, total revenue increased by 12% to $39.7 million from $35.4 million a year ago with the increase due to growth in net interest income.

Net Interest Income and Net Interest Margin

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) and is presented in the tables below.

	2016			
(thousands of Canadian dollars)	Average Balance	Mix	Interest	Interest Rate
Assets				
Cash and securities	$ 126,717	7.61 %	$ 1,166	0.92 %
Loans and leases	1,505,636	90.42	68,496	4.55
Total interest earning assets	1,632,353	98.03	69,662	4.27
Other assets	32,752	1.97	-	-
Total assets	$ 1,665,104	100.00 %	$ 69,662	4.18 %
Liabilities and shareholders' equity				
Deposits and financings	$ 1,347,738	80.93 %	$ 28,316	2.10 %
Subordinated notes payable	14,013	0.84	1,403	10.01
Securitization liabilities	43,555	2.62	1,539	3.53
Total interest bearing liabilities	1,405,306	84.40	31,258	2.22
Other liabilities	79,546	4.78	-	-
Shareholders' equity	180,253	10.83	-	-
Total liabilities and shareholders' equity	$ 1,665,104	100.00 %	$ 31,258	1.87 %
Net interest income and net interest margin			$ 38,404	2.31 %

	2015			
(thousands of Canadian dollars)	Average Balance	Mix	Interest	Interest Rate
Assets				
Cash and securities	$ 171,726	11.18 %	$ 1,484	0.86 %
Loans and leases	1,335,954	86.99	62,973	4.71
Total interest earning assets	1,507,679	98.17	64,457	4.28
Other assets	28,154	1.83	-	-
Total assets	$ 1,535,833	100.00 %	$ 64,457	4.19 %
Liabilities and shareholders' equity				
Deposits and financings	$ 1,259,813	82.03 %	$ 27,554	2.19 %
Subordinated notes payable	13,911	0.91	1,392	10.01
Securitization liabilities	43,496	2.83	1,537	3.53
Total interest bearing liabilities	1,317,219	85.78	30,483	2.31
Other liabilities	55,044	3.58	-	-
Shareholders' equity	163,571	10.65	-	-
Total liabilities and shareholders' equity	$ 1,535,833	100.00 %	$ 30,483	1.98 %
Net interest income and net interest margin			$ 33,974	2.21 %

Net interest income for the year ended October 31, 2016 increased to $38.4 million from $34.0 million for the same period year ago, an increase of 13%, due primarily to growth in lending assets and a decrease in the Bank’s cost of funds which decreased to 1.87% for the year from 1.98% a year ago.

Net interest margin or spread for the year ended October 31, 2016 increased to 2.31% from 2.21% for the same period a year ago with the increase due to a decrease in the Bank’s cost of deposits as noted above. Net interest margin of the Bank has not been impacted significantly by reductions in the interest rate by the Bank of Canada over the past several years.

Outlook

In 2017, the Bank expects that net interest income and net interest margin will continue to increase as a result of continued decreases in the Bank’s cost of funds and anticipated growth in lending assets, particularly commercial and consumer loans and leases sourced through the bulk purchase program. Changes in balances of cash and securities can also have an impact on net interest margin with lower balances generally enhancing net interest margin and higher balances reducing net interest margin. The Bank expects to maintain balances of cash and securities as a percentage of total assets consistent with that at the end of 2016.

Non-Interest Income

(thousands of Canadian dollars)	2016	2015
Credit card non-interest revenue	$ 1,234	$ 1,308
Other income	39	86
	$ 1,273	$ 1,394

Non-interest income includes revenues not included in the determination of net interest income. Non-interest income for the year was $1.3 million compared to $1.4 million for the same period a year ago. Non-interest income in the current and year consists primarily of fees from credit cards.

Outlook

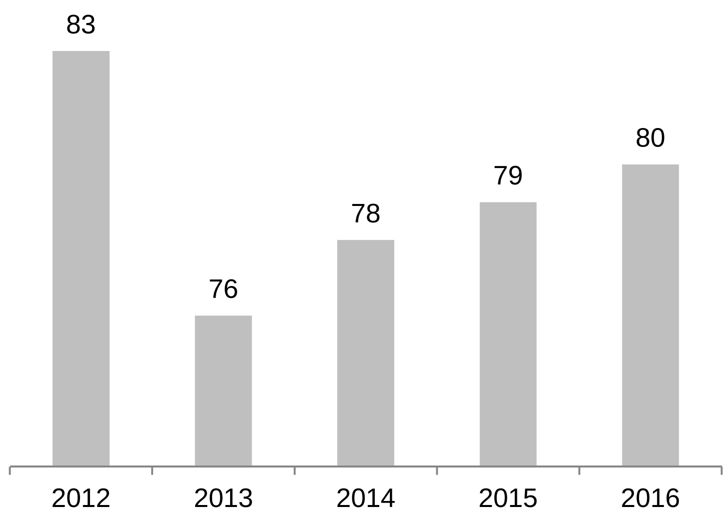
In 2017, the Bank expects that the amount of non-interest income will decrease from 2016 as it has decided to exit the credit card program at December 31, 2016.

NON-INTEREST EXPENSES

(thousands of Canadian dollars)	2016	2015	Change from 2015 $	%
Salaries and employee benefits				
Salaries and benefits	$ 14,090	$ 13,041	$ 1,049	8 %
	14,090	13,041	1,049	8
Premises and equipment				
Rent-premises	713	673	40	6
Depreciation	776	393	383	97
Other	896	1,029	(133)	(13)
	2,385	2,095	290	14
General and administrative				
Capital taxes and other assessments	3,186	3,641	(455)	(12)
Insurance	415	394	21	5
Listing, sustaining and annual meeting fees	284	310	(26)	(8)
Marketing and business development	373	298	75	25
Professional fees and services	950	754	196	26
Credit card administration	1,316	1,394	(78)	(6)
Director remuneration	621	770	(149)	(19)
Other administrative costs	2,336	2,087	249	12
	9,481	9,648	(167)	(2)
	$ 25,956	$ 24,784	$ 1,172	5 %
Restructuring charges	1,092	-	1,092	-
Total non-interest expenses	$ 27,048	$ 24,784	$ 2,264	9 %

Non-interest expenses, excluding restructuring costs, for the year ended October 31, 2016 totalled $26.0 million compared to $24.8 million for the prior year with the increase due to higher salaries and benefits as a result of an increase in employee compensation and an increase in premises costs. The Bank continues to see economies of scale as non-interest expenses as a percentage of average assets for the current year decreased to 1.56% from 1.61% for the same period a year ago.

Number of Full-Time Equivalent Staff



The number of full-time equivalent staff has remained relatively constant over the past several years.

Outlook

In 2017 the Bank anticipates that non-interest expenses will increase slightly, primarily as a result of anticipated increases in volume related expenses and salaries, particularly those related to the Bank's lending activities where we anticipate increases in staff complement. As well, compliance with an increasing level of regulatory rules and oversight for all Canadian banks will require additional investment of both time and resources.

Restructuring Charges

During the year ended October 31, 2016, the Bank incurred restructuring charges totalling $1.1 million relating to costs associated with the review of strategic alternatives commenced by the Bank earlier in the year as noted above.

CORPORATE INCOME TAXES

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

For the year ended October 31, 2016, the provision for income taxes was $3.3 million compared to $821,000 for the same period a year ago with the change due to a higher level of earnings, even after restructuring charges, and an income tax recovery of $1.7 million recorded last year on account of previously unrecognized deferred income tax assets.

At October 31, 2016, the Bank has a deferred income tax asset of $6.4 million compared to $8.8 million a year ago. The change from a year ago was primarily a result of the utilization of loss carry-forwards due to taxable income earned by the Bank. The deferred income tax asset is a result of income tax losses of the Bank totalling approximately $17.6 million incurred in previous years. These income tax loss carry-forwards are not scheduled to begin expiring until 2027 if unutilized.

Outlook

The Bank does not expect its combined federal and provincial statutory tax rate to change materially in 2017 from 2016.

COMPREHENSIVE INCOME

Comprehensive income is comprised of net income for the period and other comprehensive income which consists of unrealized gains and losses on available-for-sale securities. Comprehensive income for the year ended October 31, 2016 was $8.5 million compared to $8.2 million a year ago. Due to the current composition of the Bank's treasury portfolio which consists primarily of liquid securities, unrealized gains or losses in the portfolio are not significant and as a result, comprehensive income does not materially differ from net income.

Details of comprehensive income are as follows:

(thousands of Canadian dollars)	2016	2015	Change from 2015
Net income	$ 8,470	$ 8,218	$ 252
Other comprehensive income (loss), net of tax			
Net unrealized losses on assets held as available-for-sale [1]	(7)	(6)	(1)
	(7)	(6)	(1)
Comprehensive income	$ 8,463	$ 8,212	$ 251

[1] Net of income tax benefit of $3 (2015 – $2)

ACCUMULATED OTHER COMPREHENSIVE INCOME

Accumulated other comprehensive income is a separate component of shareholders' equity and was $6,000 at October 31, 2016 compared to $13,000 a year ago. Accumulated other comprehensive income consists of net unrealized gains on securities held and classified as available-for-sale.

BALANCE SHEET REVIEW
Balance Sheet Assets

(thousands of Canadian dollars)	2016	Mix		2015	Mix	
Cash and cash equivalents	$ 93,964	5.51	%	$ 127,078	7.82	%
Securities:						
Issued by Canadian federal government, provinces or municipalities	9,958	0.59		9,886	0.61	
Debt of other financial institutions	-	-		12,547	0.77	
Total cash and securities	103,922	6.10		149,511	9.20	
Loans:						
Government loans	66,016	3.87		72,181	4.44	
Loans & lease receivables	783,669	45.98		618,432	38.03	
Residential mortgages	95,624	5.61		112,759	6.94	
Commercial mortgages	227,816	13.37		269,193	16.56	
Construction mortgages	256,429	15.05		237,100	14.58	
Commercial loans	102,265	6.00		104,996	6.46	
Credit card receivables and other loans	29,373	1.72		31,168	1.92	
Collective allowance	(3,031)	(0.18)		(3,212)	(0.20)	
Accrued interest	5,451	0.32		5,043	0.31	
Total loans	1,563,612	91.74		1,447,660	89.04	
Other assets	36,866	2.16		28,635	1.76	
Total assets	$ 1,704,400	100.00	%	$ 1,625,806	100.00	%

Total assets at October 31, 2016 increased to $1.70 billion from $1.63 billion a year ago. This increase was due to growth in lending assets which grew to $1.56 billion from $1.45 billion a year ago. Growth in lending assets was primarily a result of an increase in commercial and consumer loan and lease receivables sourced through the Bank’s bulk purchase program as discussed below.

Outlook

In 2017, the Bank is expecting to see growth in total assets of approximately 9% with the growth being primarily in loans, particularly commercial and consumer loans and lease receivables sourced through its bulk purchase program.

Cash and Securities

Cash and cash equivalents consist of deposits with Canadian financial institutions and government treasury bills with less than ninety days to maturity from the date of acquisition. Securities in the treasury portfolio typically consist of Government of Canada, Canadian provincial and municipal bonds and debt of other financial institutions. Amounts invested in each of these securities are determined based on liquidity needs, investment yield and capital management considerations. Cash and securities, which are held primarily for liquidity purposes, totalled $104 million or 6.10% of total assets compared to $150 million or 9.20% of total assets a year ago. The level of cash and securities as a percentage of total assets decreased over the past year as a result of a decrease in deposits maturing in the upcoming months which allows the Bank to hold lower levels of liquidity.

The Basel III Committee on Banking Supervision (the Basel Committee) has issued a framework outlining new liquidity standards. The framework includes a new standard being the Net Stable Funding Ratio (NSFR) as a minimum regulatory standard beginning in 2018. The NSFR describes a common measure of liquidity establishing a minimum acceptable amount of stable funding based on the liquidity characteristics of an institution's assets and activities over a one year time horizon. The Bank is still in the process of examining the implications of the new NSFR standard but expects it will be well positioned to comply with the new requirements.

Outlook

In 2017, the Bank expects the amount of cash and securities as a percentage of total assets to approximate 6% of total assets, similar to that at the end of 2016 and the composition of treasury assets is expected to remain similar to that at the end of the current year.

Loans

The Bank places an emphasis on lending in niche markets that have lower than average administrative requirements. This includes providing financing in the form of commercial and consumer loans and lease receivables sourced primarily through the Bank's bulk purchase program. In addition, the Bank finances a select number of real estate developers, primarily in Southwestern Ontario and provides consumer lending through a private label credit card program. The Bank's loan portfolio is categorized into government financings, consumer and commercial loans and leases, residential mortgages, commercial and construction mortgages and credit card receivables and other loans.

At October 31, 2016, loans totalled $1.56 billion compared to $1.45 billion a year ago. The increase in loans from a year ago was due primarily to growth in loan and lease receivables purchased through the Bank's bulk purchase program, partially offset by repayments in the commercial mortgage portfolio.

For the year ended October 31, 2016, new lending totalled $924 million compared to $1.1 billion for the same period a year ago and loan repayments totalled $808 million compared to $859 million last year. At October 31, 2016, loan commitments representing loans in the Bank's pipeline totalled $266 million compared to $243 million a year ago.

Government Loans

Government loans consist of loans and leases to federal, provincial, territorial and municipal governments. At October 31, 2016, government loans totalled $66.0 million compared to $72.2 million a year ago with the decrease a result of a reduced focus on government financing due to market conditions. It is not expected that this portfolio will see any growth in the coming year due to the emphasis on commercial and consumer lending opportunities, particularly those commercial and consumer loans and lease receivables sourced through the bulk purchase program.

Commercial and Consumer Loans and Leases

Commercial and consumer loans and leases consist primarily of commercial and consumer loans and lease receivables sourced through the bulk purchase program. As noted above, loan and lease receivables purchased through the bulk purchase program continued to show strong growth during the year and increased to $784 million at October 31, 2016 from $618 million last year, a net increase of $166 million or 27%. The bulk purchase program, which consists of the purchase of individual loan and lease receivables, continues to be a key initiative and the primary driver for growth of the lending portfolio. The credit quality of these loan and lease receivables is strong and normally attracts a lower collective allowance due to the level of cash holdbacks that are retained.

Residential Mortgages

The Bank has insured and uninsured residential mortgages outstanding which are comprised primarily of multi-family residential units. Total residential mortgages were $95.6 million at the end of 2016 compared to $112.8 million at the end of 2015. The decrease in the amount of residential multi-family mortgages outstanding from last year was primarily a result of the timing of loan transactions.

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

Under OSFI's definition, the Bank's exposure to residential mortgages at October 31, 2016 totalled $637,000 compared to $761,000 a year ago. The Bank did not have any HELOC's outstanding at October 31, 2016, or a year ago.

Commercial and Construction Mortgages

Commercial and construction mortgages consist primarily of residential construction and commercial and construction mortgages primarily in southwestern Ontario. At October 31, 2016, these mortgages totalled $586.5 million compared to $506.3 million a year ago with the decrease due to timing of loan transactions, primarily loan repayments the Bank experienced over the last several quarters.

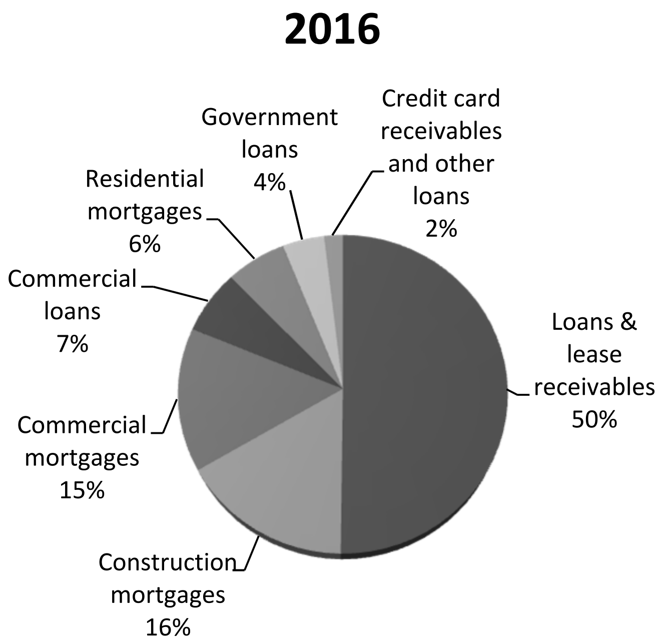
Commercial Loans

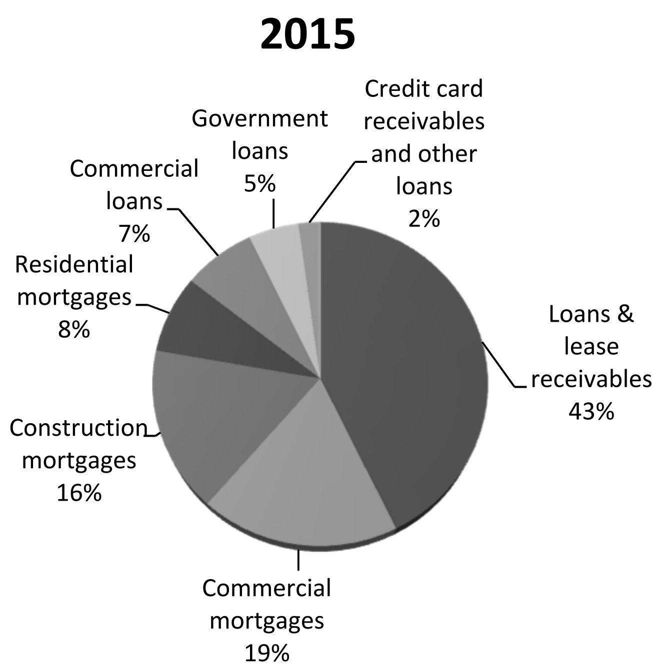
Commercial loans consist primarily of loans made to investment grade corporations and at October 31, 2016 totalled $102.3 million compared to $105.0 million a year ago. This lending niche is no longer a focus of the Bank's lending activities and is currently winding down through scheduled repayments.

Credit Card Receivables and Other

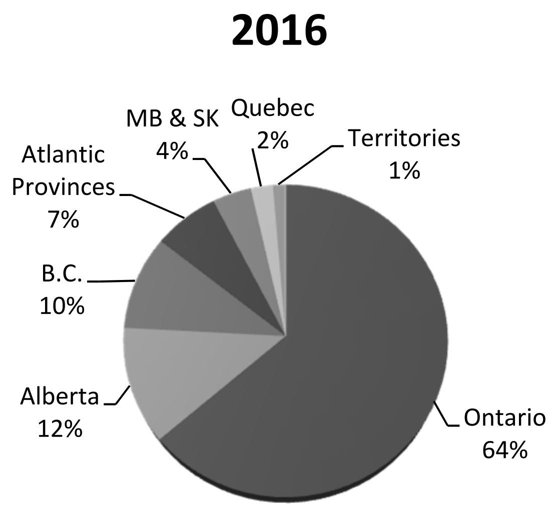
Included in credit card receivables and other loans at October 31, 2016 are credit card receivables which totalled $26.0 million compared to $27.4 million a year ago. The balance of credit card receivables is expected to be repaid over the next year as the Bank has decided to exit the credit card program at December 31, 2016.

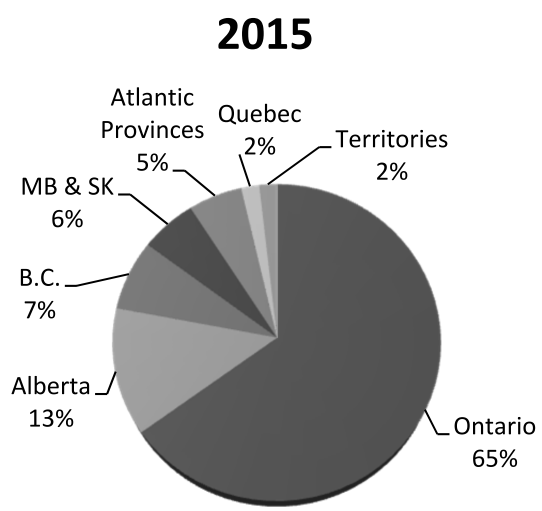
Diversification of Loan Portfolio
Outstanding Loans by Portfolio





Geographic Breakdown





Note - The above tables do not include an allocation of the allowance for credit losses and accrued interest.

There was no significant change in the geographic distribution of the Bank's loans in 2016 from the previous year. A large majority of the Bank's loans continues to be in the province of Ontario, particularly southwestern Ontario where the Bank has well-established long-term relationships. The Bank is further diversifying the geographic distribution of its loans through the increased emphasis on commercial and consumer loans and lease receivables sourced through its bulk purchase program.

*Total Loans and Leases Based on Industry Sector by Value**

	2016	2015
Consumer	35	25
Real estate, rental and leasing	27	26
Construction	8	9
Transportation and warehousing	6	6
Health care and social assistance	5	10
Accommodation and food services	3	2
Finance and insurance	2	4
Educational services	2	3
Arts, entertainment and recreation	2	2
Credit card receivables	2	2
Public administration	1	2
Mining	1	2
Manufacturing	1	2
Professional, scientific and technical services	1	1
Other	4	4
Total %	100	100

* Table is based on North American Industry Classification System (NAICS) codes.

Loans and leases based on industry sector at October 31, 2016 are comparable to the previous year with the only significant change being in consumer loans which increased to 35% from 25% last year. This increase was due to the growth in loans and lease receivables sourced through the bulk purchase program during the current year.

Outlook

In 2017, the Bank expects that lending assets will increase by approximately 9% with the primary area of growth expected to come from commercial mortgages and commercial and consumer loans and leases. Loan growth is expected to benefit from increased geographic diversity and increased loan diversification through the bulk purchase program and by leveraging current and future investment in technology.

Credit Quality

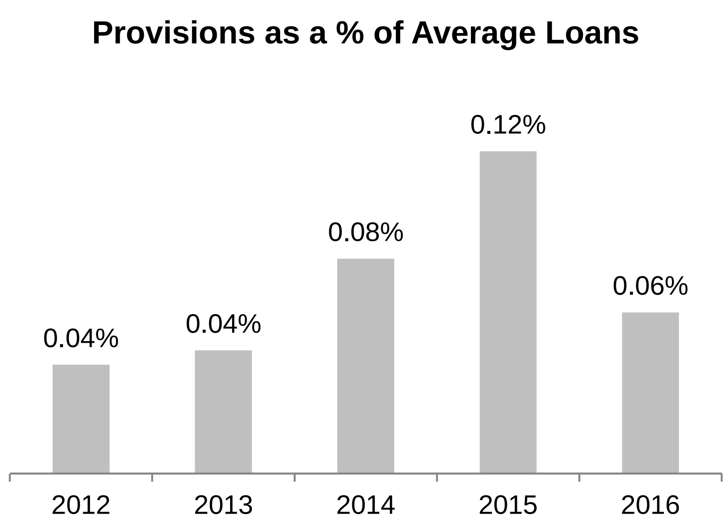
Gross impaired loans at October 31, 2016, were $nil, unchanged from a year ago. At October 31, 2016, the collective allowance totalled $3.0 million compared to $3.2 million a year ago. The collective allowance decreased from a year ago as a result of changes in the mix of the loan portfolio, particularly growth in loan and lease receivables sourced through the bulk finance program which require a lower collective allowance due to the cash holdbacks that are retained. Included in the collective allowance at October 31, 2016 was $1.1 million relating to credit card receivables which is similar to a year ago.

Based on results from ongoing stress testing of the loan portfolio under various scenarios and the secured nature of the existing loan portfolio, the Bank is of the view that any credit losses which exist but cannot be specifically identified at this time are adequately provided for. The Bank’s exposure to loan losses in Western Canada and to the oil and gas industry is not significant. As well, the Bank is not concentrated in the housing markets in Toronto and Western Canada.

The following table summarizes the allowances and provision for credit losses for the year:

(thousands of Canadian dollars)	Collective	Individual	2016 Total Allowance	2015 Total Allowance
Balance, beginning of year	$ 3,212	$ -	$ 3,212	$ 2,905
Provision for credit losses	871	-	871	1,545
Write-offs	(1,052)	-	(1,052)	(1,238)
Balance, end of year	$ 3,031	$ -	$ 3,031	$ 3,212

The following graph shows the provisions as a percentage of average loans over the past 5 years.



The Bank experienced increased provisions until 2016 primarily as a result of write-offs in its credit card portfolio.

Outlook

Overall credit quality is expected to continue to reflect the Bank's secured lending model, strong underwriting practices and proactive loan management. Specific allowances will continue to be determined on an account-by-account basis and reviewed on a monthly basis. The collective allowance is expected to fluctuate as a result of portfolio growth and as the portfolio progresses through the credit cycle. The provision for credit losses in 2017 is expected to remain at similar levels as those in the current year.

Other Assets

Included in other assets are prepaid expenses, funds held for securitization liabilities, capital assets and the deferred income tax asset of the Bank as discussed previously. Other assets of the Bank totalled $36.9 million at October 31, 2016, compared to $28.6 million a year ago with the change due primarily to an increase in funds held for securitization liabilities.

Deposits

(thousands of Canadian dollars)	2016	Mix	2015	Mix
Demand deposits	$ 17,458	1.27 %	$ 17,048	1.29 %
Trustee chequing accounts	189,074	13.81	110,575	8.34
Term deposits				
Non retirement savings products	1,146,501	83.71	1,178,930	88.92
Retirement savings products	16,614	1.21	19,275	1.45
	$ 1,369,647	100.00 %	$ 1,325,828	100.00 %

Deposits are used as a primary source of financing growth in assets and are raised primarily through a well-established and well-diversified deposit broker network which the Bank continues to grow and expand across Canada. Deposits at October 31, 2016, totalled $1.37 billion compared to $1.33 billion a year ago and consist primarily of guaranteed investment certificates. The increase in deposits from a year ago was due to the raising of new deposits to fund the growth in lending assets.

Of the total amount of deposits outstanding, $17.5 million or approximately 1.27% of total deposits at the end of the current quarter were in the form of demand savings accounts compared to $17.0 million or approximately 1.29% of total deposits a year ago. In addition, the Bank has chequing accounts related to trustees in the Canadian bankruptcy industry as discussed below.

In order to further diversify its sources of deposits and reduce its cost of new deposits, the Bank has another source of funds, that being a specialized chequing facility platform for trustees in the Canadian bankruptcy industry. The Bank has developed banking software to enable this market to efficiently administer its chequing accounts with these services provided to trustees across Canada. At October 31, 2016, balances for these low cost chequing accounts totalled $189.1 million compared to $110.6 million a year ago.

The Bank strives to diversify its deposit gathering activities both geographically and among deposit brokers and has internal policies to monitor deposit broker concentrations. These internal policies include targets for the amount of new deposits from a single deposit agent in a rolling 12 month period and for the amount of new deposits from its three largest deposit brokers in a rolling 12 month period.

The following is a summary of deposits by maturity, excluding accrued interest:

	2015				
(thousands of Canadian dollars)	Within 3 months	3 months to 1 year	1 year to 2 years	2 years to 5 years	Total
Demand deposits	$ 17,458	$ -	$ -	$ -	$ 17,458
Trustee chequing accounts	189,074	-	-	-	189,074
Term deposits	208,665	424,532	209,290	308,005	1,150,492
	$ 415,197	$ 424,532	$ 209,290	$ 308,005	$ 1,357,024

	2015				
(thousands of Canadian dollars)	Within 3 months	3 months to 1 year	1 year to 2 years	2 years to 5 years	Total
Demand deposits	$ 17,048	$ -	$ -	$ -	$ 17,048
Trustee chequing accounts	110,575	-	-	-	110,575
Term deposits	159,891	413,310	393,073	218,981	1,185,255
	$ 287,514	$ 413,310	$ 393,073	$ 218,981	$ 1,312,878

Outlook

The Bank expects the level of deposits to increase in 2017 at the same rate as the increase in total assets. As well, the Bank will continue to expand deposits sourced through trustees in the bankruptcy industry in 2017 and will maintain its strategy of using its deposit broker network across Canada to raise the majority of its deposits.

Other Financings

Another source of financing growth in assets, and a source of liquidity is the use of margin lines and securities sold under repurchase agreements. At October 31, 2016, the Bank did not have any amounts outstanding relating to margin lines or securities sold under repurchase agreements nor were any amounts from these sources outstanding a year ago.

Securitization Liabilities

Securitization liabilities relate to amounts payable to counterparties for cash received upon initiation of securitization transactions. At October 31, 2016, securitization liabilities totalled $43.6 million compared to $43.5 million a year ago. The amounts payable to counterparties bear interest at rates ranging from 1.97% - 3.95% and mature between December 2016 and 2020. Residential mortgages and other assets are pledged as collateral for securitized liabilities. There have been no securitization transactions in the past several years.

Other Liabilities

Other liabilities typically consist of accounts payable and accruals and holdbacks payable related to the bulk purchase program. At October 31, 2016, other liabilities totalled $91.2 million compared to $67.9 million a year ago with the increase due primarily to holdbacks associated with loan and lease receivables purchased through the bulk purchase program which have shown significant growth over the past year. These holdbacks payable totalled $82.6 million at October 31, 2016 compared to $61.0 million a year ago.

Subordinated Notes Payable

The Bank has the following subordinated notes payable outstanding:

(thousands of Canadian dollars)	2016	2015
Ten year term, unsecured, callable, subordinated notes payable to an unrelated party, maturing between 2019 and 2021, net of note issue costs of $433 (2015 - $541), effective interest of 10.06% (2015 - 10.06%)	$ 14,067	$ 13,959
	$ 14,067	$ 13,959

Shareholders' Equity

At October 31, 2016, shareholders' equity was $185.9 million compared to $174.6 million a year ago. The increase from a year ago was due to earnings and proceeds received from the issue of 657,894 common shares for cash proceeds of $5.0 million on March 9, 2016.

Common shares outstanding at October 31, 2016 totalled 20,095,065 compared to 19,437,171 a year ago with the increase due to the issue of 657,894 common shares on a private placement basis as noted above. Common share options totalled 40,000 at October 31, 2016, unchanged from a year ago.

At October 31, 2016, the Bank had 1,461,461 Series 1 Preferrred Shares and 1,681,320 Series 3 Preferred Shares outstanding, unchanged from a year ago.In the previous year the Bank issued 1,681,320 Non-Cumulative 6-Year Rate Reset Series 3 Non-Viability Contingent Capital (NVCC) Preferred Shares for net proceeds of $15.7 million. These preferred shares qualify as Additional Tier 1 Capital. Issue costs of $1,538,000, net of income taxes of $415,000, were allocated directly to share capital.

The Bank's book value per common share at October 31, 2016 was $7.79 compared to $7.47 a year ago.

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, 2016, the Bank recognized $nil (2015 - $23,000) of compensation expense relating to the estimated fair value of stock options granted in previous years. There were no stock options granted in the current year. See Note 15 to the Consolidated Financial Statements for more information with respect to stock options.

Updated Share Information

As at December 15, 2016, there were no changes since October 31, 2016 in the number of outstanding common shares, Series 1 and Series 3 Preferred Shares and common share options.

LIQUIDITY

The Consolidated Statement of Cash Flows for the year ended October 31, 2016 shows cash provided by (used in) operations of ($46.7 million) compared to ($57.4 million) for the same period last year. The operating cash flow is primarily affected by the change in the balance of its deposits (a positive change in deposits has a positive impact on cash flow and a negative change in deposits has a negative impact on cash flow) as compared to the change in the balance of its loans (a positive change in loans has a negative impact on cash flow and a negative change in loans has a positive impact on cash flow). 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 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 from cash on hand and from managing the amount of deposits it receives as compared to the amount of loans it funds.

OFF-BALANCE SHEET ARRANGEMENTS

As at October 31, 2016, the Bank does not have any significant off-balance sheet arrangements other than loan commitments, undrawn credit card lines and letters of credit resulting from normal business activities. See Note 24 to the Consolidated Financial Statements for more information.

Commitments and Contingencies

At October 31, 2016, the Bank had loan commitments totalling $265.6 million compared to $243.3 million at the end of 2015 and undrawn credit card lines of $127.1 million compared to $140.1 million a year ago. Letters of credit at the end of 2016 totalled $42.8 million compared to $39.0 million at the end of the previous year. Loan commitments, undrawn credit card lines and letters of credit were entered into during the normal course of business. Under certain circumstances the Bank may cancel loan commitments and undrawn credit card lines at its option.

Contractual Obligations

At October 31, 2016 the Bank had the following scheduled repayments of financial liabilities and off-balance sheet obligations:

	2016				
(thousands of Canadian dollars)	Total	Less than 1 Year	1-2 Years	2-5 Years	Over 5 Years
Deposits	$ 1,357,024	$ 839,729	$ 209,290	$ 308,005	$ -
Subordinated notes payable	14,067	-	-	14,067	-
Securitization liabilities	43,585	10,381	-	33,204	
Accounts payable	8,653	8,653	-	-	-
Operating leases	2,595	888	1,707	-	-
	$ 1,425,924	$ 859,651	$ 210,997	$ 355,276	$ -

RELATED PARTY TRANSACTIONS

During the year ended October 31, 2016, the Bank paid management and other fees totalling $751,000 (2015 - $600,000) to the Corporation and a subsidiary of the Corporation.

The Bank's and the Corporation's Board of Directors and Senior Executive Officers represent key management personnel. See Note 23 to the Consolidated Financial Statements for more information.

CAPITAL MANAGEMENT AND CAPITAL RESOURCES

Capital Management

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

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

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 such as the Bank's conventional subordinated notes must be non-viability contingent capital (NVCC) compliant. NVCC compliant means the subordinated notes 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 ready 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.

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 and an 8.5% Tier 1 capital ratio and 10.5% total capital ratio, all of which include a 2.5% capital conservation buffer. The Basel III rules provide for "transitional" adjustments whereby certain aspects of the new rules will be phased in between 2013 and 2019. The only available transition allowed by OSFI for capital ratios is related to the 10 year phase out of non-qualifying capital instruments. At October 31, 2016 the Bank exceeded the minimum Basel III capital requirements described above.

Under the Basel III standards, total regulatory capital of the Bank was $189.1 million at October 31, 2016 compared to $178.3 million a year ago. The increase in total regulatory capital from a year ago was due primarily to earnings in the Bank during the period and a private placement of common shares totalling $5.0 million by the Bank in March 2016.

At October 31, 2016, the Bank exceeded the current minimum Basel III regulatory capital requirements referred to above with a CET1 ratio of 10.52% compared to 10.32% a year ago. At October 31, 2016, the Bank's Tier 1 capital ratio was 12.58% compared to 12.54% a year ago. In addition, the Bank's total capital ratio was 13.27% at October 31, 2016, compared to 13.51% a year ago. At October 31, 2016, the Bank's leverage ratio was 9.82% compared to 9.53% a year ago.

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 its total exposures. The Bank is in compliance with its leverage ratio that is calculated as follows:

	2016	2015
On-balance sheet assets	$ 1,704,400	$ 1,625,806
Asset amounts deducted in determining Basel III "all in" Tier 1 Capital	(6,562)	(9,031)
Total on-balance sheet exposures	1,697,838	1,616,775
Off-balance sheet exposure at gross notional amount	$ 435,556	$ 422,339
Adjustments for conversion to credit equivalent amount	(306,877)	(301,674)
Off-balance sheet items	128,679	120,665
Tier 1 Capital	179,322	165,591
Total Exposures	1,826,517	1,737,440
Basel III Leverage Ratio	9.82%	9.53%

Risk-Based Capital Ratio

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

The Bank's risk-based capital ratios are calculated as follows:

(thousands of Canadian dollars, except capital ratios)	2016 "All-in"	2016 "Transitional"	2015 "All-in"	2015 "Transitional"
Common Equity Tier 1 (CET1) capital				
Directly issued qualifying common share capital	$ 147,369	$ 147,369	$ 142,369	$ 142,369
Retained earnings (deficit)	9,172	9,172	2,903	2,903
Accumulated other comprehensive income	6	6	13	13
CET1 before regulatory adjustments	156,547	156,547	145,285	145,285
Regulatory adjustments applied to CET1	(6,562)	(3,937)	(9,031)	(3,612)
Total Common Equity Tier 1 capital	$ 149,985	$ 152,610	$ 136,254	$ 141,673
Additional Tier 1 capital				
Directly issued qualifying Additional Tier 1 instruments	$ 29,337	$ 29,337	$ 29,337	$ 29,337
Total Tier 1 capital	$ 179,322	$ 181,947	$ 165,591	$ 171,010
Tier 2 capital				
Directly issued capital instruments subject to phase out from Tier 2	$ 9,800	$ 9,800	$ 12,700	$ 12,700
Tier 2 capital before regulatory adjustments	9,800	9,800	12,700	12,700
Regulatory adjustments applied to Tier 2	-	-	-	-
Total Tier 2 capital	$ 9,800	$ 9,800	$ 12,700	$ 12,700
Total capital	$ 189,122	$ 191,747	$ 178,291	$ 183,710
Total risk-weighted assets	$ 1,425,171	$ 1,427,796	$ 1,320,158	$ 1,325,576
Capital ratios				
CET1 Ratio	10.52%	10.69%	10.32%	10.69%
Tier 1 Capital Ratio	12.58%	12.74%	12.54%	12.90%
Total Capital Ratio	13.27%	13.43%	13.51%	13.86%

The Bank's risk-weighted assets consist of the following:

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

(thousands of Canadian dollars)	Notional/drawn amount: Cash/ Securities	Loans	Other	Off -balance sheet items	Total	Risk Weighted Balance
Corporate	$ -	$ 849,705	$ -	$ -	$ 849,705	$ 813,853
Sovereign	97,849	70,233	-	-	168,082	12,352
Bank	51,662	22,106	-	-	73,768	14,754
Retail residential mortgages	-	58,596	-	-	58,596	393
Other retail	-	447,020	-	-	447,020	300,298
Other items	-	-	28,635	39,015	67,650	38,829
Undrawn commitments	-	-	-	383,324	383,324	83,071
Operational risk ¹	-	-	-	-	-	56,608
As at October 31, 2015	$ 149,511	$ 1,447,660	$ 28,635	$ 422,339	$ 2,048,145	$ 1,320,158

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

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

(thousands of Canadian dollars)	Notional/drawn amount: 0%	20%	35%	75%	100%	150%	Total	Risk Weighted Balance
Corporate	$ 20,032	$ 19,774	$ -	$ -	$ 809,899	$ -	$ 849,705	$ 813,853
Sovereign	106,400	61,662	-	-	20	-	168,082	12,352
Bank	-	73,768	-	-	-	-	73,768	14,754
Retail residential mortgages	57,472	-	1,124	-	-	-	58,596	393
Other retail	40,135	6,689	-	404,944	(4,748)	-	447,020	300,298
Other items	9,029	713	-	-	57,908	-	67,650	38,829
Undrawn commitments	-	-	-	140,072	243,252	-	383,324	83,071
Operational risk ¹	-	-	-	-	-	-	-	56,608
As at October 31, 2015	$ 233,068	$ 162,606	$ 1,124	$ 545,016	$ 1,106,331	$ -	$ 2,048,145	$ 1,320,158

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

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)	2016				2015			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Results of operations:								
Total interest income	$ 17,462	$ 17,628	$ 17,346	$ 17,226	$ 16,685	$ 16,513	$ 15,630	$ 15,629
Yield on assets (%)	4.09%	4.13%	4.14%	4.11%	4.15%	4.24%	4.21%	4.18%
Interest expense	7,396	7,792	7,986	8,084	7,724	7,786	7,375	7,598
Cost of funds (%)	1.73%	1.82%	1.91%	1.93%	1.92%	2.00%	1.99%	2.03%
Net interest income	10,066	9,836	9,360	9,142	8,961	8,727	8,255	8,031
Net interest margin (%)	2.36%	2.31%	2.23%	2.18%	2.23%	2.24%	2.22%	2.15%
Non-interest income	320	343	285	325	384	368	304	338
Total revenue	10,386	10,179	9,645	9,467	9,345	9,095	8,559	8,369
Provision for credit losses	422	24	213	212	319	297	427	502
Non-interest expenses	6,779	6,654	6,472	6,051	6,562	6,421	6,264	5,537
Restructuring charges	549	98	445	-	-	-	-	-
Income before income taxes	2,636	3,403	2,515	3,204	2,464	2,377	1,868	2,330
Income tax provision (recovery)	740	947	708	893	(306)	670	(194)	651
Net income	$ 1,896	$ 2,456	$ 1,807	$ 2,311	$ 2,770	$ 1,707	$ 2,062	$ 1,679
Income per share*								
Basic	$ 0.07	$ 0.09	$ 0.06	$ 0.09	$ 0.11	$ 0.05	$ 0.09	$ 0.07
Diluted	$ 0.07	$ 0.09	$ 0.06	$ 0.09	$ 0.11	$ 0.05	$ 0.09	$ 0.07
Return on average shareholders' equity	3.43%	4.90%	3.40%	4.79%	6.11%	2.64%	5.24%	4.04%
Return on average total assets	0.32%	0.45%	0.30%	0.42%	0.55%	0.24%	0.49%	0.45%
Gross impaired loans to total loans	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Financial position:								
Cash and securities	$ 103,922	$ 152,028	$ 141,534	$ 170,422	$ 149,511	$ 157,357	$ 151,821	$ 183,689
Mortgages and loans	1,563,612	1,499,006	1,522,280	1,501,889	1,447,660	1,376,237	1,344,181	1,305,142
Other assets	36,866	34,260	34,491	29,704	28,635	29,508	29,617	29,964
Total	$1,704,400	$1,685,294	$1,698,305	$1,702,015	$1,625,806	$1,563,102	$1,525,619	$1,518,795
Deposits	$1,369,647	$1,357,963	$1,378,023	$1,396,502	$1,325,828	$1,275,523	$1,245,271	$1,246,943
Other liabilities	91,217	85,070	80,083	71,500	67,872	57,610	51,480	60,397
Subordinated notes payable	14,067	14,039	14,011	13,984	13,959	13,934	13,910	13,885
Securitization liabilities	43,585	43,685	43,555	43,655	43,525	43,625	43,495	43,596
Shareholders' equity	185,884	184,537	182,633	176,374	174,622	172,410	171,463	153,974
Total	$1,704,400	$1,685,294	$1,698,305	$1,702,015	$1,625,806	$1,563,102	$1,525,619	$1,518,795

The financial results for each of the last eight quarters are summarized above. Total interest income and net interest income continued to increase through 2015 and 2016 as a result of growth in lending assets, specifically loan and lease receivables purchased through the Bank's bulk purchase program and from a decrease in the Bank's cost of funds.

Non-interest income has been comparable over the quarters and consists primarily of fees from credit card operations.

Restructuring charges in 2016 relate to rebranding of the Bank and costs associated with the review of strategic alternatives commenced by the Bank and the Corporation in the second quarter as discussed previously.

The provision for income taxes in each of the quarters reflects the effective statutory income tax rate of 27% applied to earnings in the Bank. The provision for income taxes in the second and fourth quarters of 2015 includes positive income tax adjustments relating to a change in the estimate of previously unrecognized deferred income tax assets of the Bank.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Significant accounting policies are detailed in Note 3 of the Bank's 2016 Audited Consolidated Financial Statements. There has been no change in accounting policies nor any significant new policies adopted during the current period.

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

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

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

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

Financial Instruments

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

Loans

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

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

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

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

(ii) observable market prices for the loan.

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

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

Allowance for Credit Losses

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

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

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

Corporate Income Taxes

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

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

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

Future accounting standard changes

Financial instruments (IFRS 9)

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

IFRS 9 will be mandatorily effective for the Bank's fiscal year beginning on November 1, 2018, although early adoption is permitted. In January 2015, OSFI determined that Domestic Systematically Important Banks (D-SIBs) should adopt IFRS 9 for their annual periods beginning November 1, 2017, while early adoption is permitted but not required for other federally regulated Canadian banks with October year ends such as the Bank.

Leases (IFRS 16)

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

ENTERPRISE RISK MANAGEMENT

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

The Bank's ERM program has been designed to ensure:

- Significant current and emerging risks are identified and understood;
- It supports the Board's corporate governance needs; and
- It strengthens the Bank's management practices in a manner visible 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 ERM Program

- Responsibility for risk management belongs to everyone in the Bank, from the Board of Directors to individual employees. They are 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 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 the Bank's processes including strategic planning, business planning, operational management, and investment decisions to ensure consistent consideration of risks in all decision-making.
- Risk owners are identified through the risk management process and are responsible to address and implement risk mitigation strategies to minimize the risk impact to the Bank.

Enterprise Risk Management Framework

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

Enterprise Risk Management Governance Structure

Effective risk management begins with the Bank Board of Directors setting the mandate that risk management is an expectation and integral part of the Banks' business. The Board approved Enterprise Risk Management Policy establishes this mandate and assigns responsibilities to the Board, Risk Oversight Committee, President and Chief Executive Officer, Chief Risk Officer, Chief Compliance Officer, Senior Management, Internal Audit and all employees.

The Risk Appetite Statement also reinforces the commitment to risk management and sets the risk tolerances to the Banks' seven significant risk categories and aligns these seven risk categories with the objectives and strategies of the Bank.

The Board maintains an oversight function, ensuring that the Risk Appetite remains suitable and reflective of Bank values and shareholder expectations. The Board must remain proactive in monitoring the Enterprise Risk Management Framework development. The Board should question both the development and implementation of a Risk Appetite and require any changes to ensure that Risk Appetite remains within Risk Tolerance levels. Risk Appetite will change over time and the Board must ensure that they are consistent with providing a 'tone from the top', communicating their view of the Banks' Risk Appetite.

The Risk Oversight Committee provides regular Board level oversight of the Bank's Enterprise Risk Management design and approves the Enterprise Risk Management program on at least an annual basis. The Risk Oversight Committee ensures management has an appropriate Risk Management Process to identify and manage significant risk on an enterprise-wide basis. Risk Oversight provides direction on the evolution of Risk Management Processes and identifies priority areas of focus for risk assessment and mitigation planning. The Risk Oversight Committee reports on significant risks to the Board, and regularly reviews and provide recommendations for changes to the Risk Appetite statement and Risk Tolerance levels for approval to the Board.

The President and CEO has ultimate accountability for managing the Bank's risks. This is managed through the Chief Risk Officer who meets regularly with Senior Management to identify and assess risks and evaluate any significant or emerging risks requiring Senior Management and Board attention. In addition, the President and CEO leads the setting of Bank strategic objectives and inspires and foster cultural change in support of Enterprise Risk Management as a value and best practice for the Bank.

The Chief Risk Officer has specific accountability for ensuring that Enterprise Risk Management processes are established, properly documented and maintained by the Bank. The Chief Risk Officer provides support to the President and Chief Executive Officer and the Senior Management team within the Bank. The support includes development of Risk Management Policies, Frameworks and Processes, introducing and promoting new techniques, maintaining a registry of key business risk and facilitating risk assessments across the Bank. The Chief Risk Officer regularly presents a report to the Risk Oversight Committee, summarizing developments in the risk environment, performance trends in key portfolios and Bank compliance with the Risk Appetite statement.

The Chief Compliance Officer is independent from operational management with responsibility for compliance oversight and is responsible for assessing the adequacy of, adherence to and effectiveness of the Bank's day-to-day controls. The Chief Compliance Officer reports to the Board that Regulatory Compliance Management controls are sufficiently robust to achieve compliance with the applicable regulatory requirements enterprise-wide.

Senior Management of the Bank are responsible for managing risks related to their business unit objectives and ensuring operating policies and procedures are developed and maintained to manage risk within the Bank's Risk Appetite. Senior Management must understand the nature and magnitude of risks within their area of responsibility and identify emerging factors and changes in the business environment which could impact risks and risk management. Senior Management integrates the Risk Management Process in business unit strategy and utilizes the Risk Management Process to assist in the identification of emerging factors and changes in the business environment which could impact risks and risk management. Senior Management either becomes or designates an individual within their business unit to be a Risk Champion. Risk Champions are accountable for the treatment of the risks which have been assigned to them as part of the Risk Management Process and the Senior Manager is responsible for providing regular updates on risk management action plans that have been designated to them or their Risk Champion. Senior Management assists the Chief Risk Officer in promoting risk management and Enterprise Risk Management competence.

Internal Audit's primary function provides independent assurance to Senior Management and the Board regarding the effectiveness of risk management, control and compliance oversight.

All Bank employees must be aware of and apply the guidance of the Risk Appetite Statement, practice risk smart behavior and understand the risks they can and cannot accept. All Bank employees must understand the risks that fall within their areas of responsibility, report to Senior Management on the identification of new or emerging risks, and manage known risks within approved Risk Tolerances.

Risk Appetite Statement

The Bank has developed a comprehensive Risk Appetite Statement that measures and establishes risk tolerances in the pursuit of the Bank's strategic objectives.

The Risk Appetite Statement represents the amount of risk the Bank is willing to pursue, retain or take to achieve its strategic objectives whereas risk tolerances represent the Banks' maximum risk bearing capacity before financial or capital distress may occur. Risk tolerance measures are contained within this Risk Appetite Statement and Board policies.

The Risk Appetite Statement and risk tolerances are measured against the following seven pillars of risks:

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

The Bank believes these seven pillars of risk are a reflection of risks that face any financial institution and represent threats to the successful achievement of Bank strategic objectives.

Liquidity Risk

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

Liquidity Risk is managed primarily by the Treasurer and Chief Financial Officer. Treasury Policies, primarily the Liquidity Management Policy and Securities Portfolio Management Policy articulate the management of liquidity risk and documents the risk limits.

The Treasury policies are developed and controlled by the Credit Department as a function of the Bank's business objectives, Liquidity Risk Appetite, and regulatory requirements as determined by senior and executive management, and the Board of Directors.

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

The Bank's Risk Appetite Statement defines the tolerance of liquidity risk that the Bank is willing to take in order to achieve its objectives. The tolerance of liquidity risk is defined into two broad objectives:

1. Liquidity

Through Bank policy, the Risk Appetite Statement mirrors the Board's comfort with the level of liquidity that is to be maintained by the Bank in order to ensure that all demands for cash to fund obligations are met.

2. Deposit Sources

Through the Deposit Sources objective, the Bank acknowledges regulator concern with deposits primarily being raised through the GIC broker channel. The monitoring of deposit sources establishes Board comfort with the concentration of the GIC broker channel and can monitor trends in improvements in diversifying the deposit sources.

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

- all Bank investments are high quality and include government debt securities, bankers acceptances and Canadian bank debt;
- specific investment criteria and procedures are in place to manage the Bank's securities portfolio;
- regular review, monitoring and approval of the Bank's investment policies by the Risk Oversight Committee of the Board of Directors; and
- quarterly reporting to the Risk Oversight Committee on the composition of the Bank's securities portfolio.

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

- monitoring of liquidity levels;
- monitoring of liquidity trends and key risk indicators;
- scenario stress testing;
- monitoring the credit profile of the liquidity portfolio; and
- monitoring deposit concentration.

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

- Holding sufficient liquid assets which, based on certain stress assumptions, results in positive cumulative cash flow for a period of 61 to 90 days.
- Holding of high quality liquid securities at levels that represent no less than 5% of total assets. High quality liquid securities include Canadian federal, provincial and municipal debt, debt of federally regulated Canadian financial institutions, widely distributed debt instruments, all of which are to be rated investment grade, cash on deposit and banker's acceptances.
- Maintaining liquid assets at no less than 50% of obligations payable within 60 days.
- On a weekly basis, monitoring its cash flow requirements using a liquidity forecasting template under a stressed scenario.
- On a monthly basis, testing liquidity using three specific disruption scenarios; specifically, industry specific disruption scenario, company specific liquidity disruption scenario and a systematic disruption scenario.
- Managing liquidity in accordance with guidelines specified by OSFI.

Cash and Securities

(thousands of Canadian dollars)	2016	2015
Cash and cash equivalents	$ 93,964	$ 127,078
Securities	9,958	22,433
Total cash and securities	$ 103,922	$ 149,511
Total assets	$ 1,704,400	$ 1,625,806
Cash and securities as a percentage of total assets	6.10%	9.20%
Total deposits	$ 1,369,647	$ 1,325,828
Cash and securities as a percentage of total deposits	7.59%	11.28%

Cash and securities totalled $103.9 million at October 31, 2016 compared to $149.5 million a year ago and as a percentage of total assets, cash and securities were 6.10% at October 31, 2016 compared to 9.20% last year. As a percentage of total deposits, cash and securities reduced to 7.59% at October 31, 2016 from 11.28% last year. As discussed previously, cash and securities decreased from a year ago primarily as a result of lower funding requirements for deposits maturing in the coming months compared to the end of the previous year.

See Note 21 to the Consolidated Financial Statements for information relating to liquidity risk associated with the gaps in the Bank's asset and liability maturity or reset dates.

Operational Risk

Operational risk is the risk of loss resulting from people, inadequate or failed internal processes and systems or from external events. The tolerance of operational risk is defined into four broad objectives:

1. Human Capital

The Risk Appetite Statement defines tolerances in measuring employee turnover, which typically is an indication of the general health and employment satisfaction of Bank staff.

2. Systems

Measurable tolerances ensure that the Bank's critical systems to take deposits and process loans are unencumbered and free from cybersecurity risks.

3. Processes

Adherence to processes operating within the tolerances of the Bank Appetite is primarily measured on external and internal audit reports on individual business units of the Bank.

4. Third Party Infrastructure

Tolerances have been identified to measure the impact of identified third party relationships and their impact to Bank financial results and reputation in the situation of a third party failure in performing their responsibilities.

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 internal control 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 Chief Financial Officer. Treasury Policies, primarily the Interest Rate Risk Management Policy and Securities Portfolio Management Policy, articulate the management of market risk and document the risk limits.

The Treasury policies are developed and controlled by the Credit 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.

The Bank's Risk Appetite Statement defines the tolerance of market risk that the Bank is willing to take in order to achieve its objectives. The tolerance of market risk is defined into two broad objectives:

1. Interest Rate Volatility

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

2. Equity Risk

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

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

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

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

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

Interest Rate Position

(thousands of Canadian dollars)	2016 Increase 100 bps	2016 Decrease 100 bps	2015 Increase 100 bps	2015 Decrease 100 bps
Sensitivity of projected net interest income during a 12 month period	$ 2,387	$ (2,243)	$ 3,371	$ (3,114)
Sensitivity of reported equity during a 60 month period	(1,631)	1,667	295	(86)
Duration difference between assets and liabilities (months)	0.6		0.8	

The Bank's sensitivity to changes in interest rates and its duration difference between assets and liabilities at October 31, 2016 has changed slightly since October 31, 2015. As indicated by the above, the impact on net interest income during a 12 month period of a 100 basis point increase would be approximately $2.4 million and the impact on net interest income of a 100 basis point decrease would be approximately ($2.2 million). Similarly at October 31, 2016, the impact on equity during a 60 month period of a 100 basis point increase would be approximately ($1.6 million) and the impact on equity of a 100 basis point decrease would be approximately $1.7 million. At October 31, 2016 the duration difference between assets and liabilities is less than 1 month compared to approximately 1 month at October 31, 2015 and shows that the Bank's assets and liabilities would reprice at approximately the same time in the event of a change in interest rates.

As at October 31, 2016, the Bank did not have any outstanding contracts to hedge fair value exposure attributed to interest rate risk. The Bank uses on-balance sheet strategies to manage its interest rate risk.

Credit Risk

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

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

The Bank has credit policies that articulate the credit department and lending business units roles in risk management and establishes risk tolerances. Credit policies exist for the credit department and for each lending business unit. The credit policies of the Bank are:

1. Credit and Portfolio Management Policies
2. Consumer Finance Policies
3. Corporate and Public Sector Finance Policies
4. Real Estate Finance Policies
5. Structured Finance Policies
6. Treasury Policies

The credit policies are developed and controlled by the Credit Department as a function of the Bank's business objectives, Credit Risk Appetite, and regulatory requirements as determined by senior and executive management, and the Board of Directors.

To supplement the credit policies, the individual lending business unit have developed and compiled a comprehensive set of procedures that describe the processes, systems and methods employed to execute the individual lending business units while operating within the credit framework set out by the credit policies.

The Bank's Risk Appetite Statement defines the tolerance of credit risk that the Bank is willing to take in order to achieve its objectives. The Risk Appetite Statement, through the Risk Appetite Scale, defines the tolerance of risk for the entire Bank and each of the following business units that take on credit risk:

1. Real Estate Finance
2. Structured Finance
3. Corporate and Public Finance
4. Consumer Finance
5. Treasury

The credit policies have been developed on the three-lines of defense model. Within this model, the lending business units (the first line) incur and own the risks, while Credit Risk (the second line) provides oversight and objective challenge to the 1st line of defense, as well as independent monitoring and control of risk. Internal Audit (the third line) provides assurance that control objectives are achieved by the first and second lines of defense.

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

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

- Recommends policies governing management of credit risk to the Bank's Board of Directors for approval and reviews credit risk policies on an ongoing basis to ensure they are prudent and appropriate given possible changes in market conditions and corporate strategy
- Ensures that procedures and controls for managing credit risk are in place
- Concurs with credits exceeding the levels delegated to management, prior to commitment

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

Legal and Regulatory Risk

Legal and Regulatory Risk is the risk of non-compliance with the laws, rules, regulations and prescribed practices in all jurisdictions in which the Bank operates.

In November 2014, OSFI published Guideline E-13, Regulatory Compliance Management (RCM). This Guideline requires that the Bank have an RCM Framework that includes a process of identifying and assessing regulatory compliance risks that are inherent in the Bank's activities, and implementing key controls through which such risks are to be managed and mitigated.

The Compliance Officer is responsible for compliance oversight and reports directly to the Board. The on-going enhancements and maintenance of the RCM is controlled by the Compliance Officer and the RCM Framework is presented to the Board at least on an annual basis for their approval.

The RCM Framework has been developed on the three-lines of defense model. Within this model, the operating business units (the first line) incur and own the risks, while the Compliance Officer (the second line) provides oversight and independent challenge to the first line of defense through review, inquiry and discussion. Internal Audit (the third line) verifies independently the effectiveness of the first and second lines of defense.

The Bank's Risk Appetite Statement defines the tolerance of legal and regulatory risk that the Bank is willing to take in order to achieve its objectives. The tolerance of legal and regulatory risk is defined into two broad objectives:

1. Legal and Regulatory Compliance

Tolerance scale established to measure Bank's conformance with law, rules, 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. As a result, the establishment of capital ratios and scale of capital ratios over a 3-year time horizon is included in the Risk Appetite Statement.

The business of the Bank and its subsidiaries is highly regulated through laws and regulations that have been put in place by various federal and provincial governments and regulators. Changes to laws and regulations, including changes in their interpretation or implementation could adversely affect the Bank. The Bank's failure to comply with applicable laws, regulations, or regulatory expectations could result in sanctions, financial penalties and costs associated with litigation that could adversely impact the Bank's earnings as well as damage its reputation.

Legal and Regulatory Risk is the risk of adverse outcomes due to non-compliance to laws, rules, regulations, standards or other legal requirements.

Strategic Risk

Strategic Risk is 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.

The Bank's Risk Appetite Statement defines the tolerance of strategic risk that the Bank is willing to take in order to achieve its objectives. The Risk Appetite Statement, through the Risk Appetite Scale, defines the tolerance of risk that the Bank is willing to take in order to achieve its' strategic objectives for each lending business unit of the Bank and for the Bank in its entirety. The tolerance of strategic risk is defined into two broad objectives:

1. Financial Performance

Financial metric tolerances are defined for the Bank and each of the Bank's four lending business units, Real Estate Finance, Structured Finance, Corporate & Public Finance and Consumer Finance.

2. Strategic Execution

Tolerances are defined and used to assist in measuring the Bank's ability and effort to meet short-term and long-term objectives and whether or not the expectations of Bank stakeholders are being met.

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 and provides 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 itself. To manage against reputational risk, the Enterprise Risk Management program focuses on the risks of the Bank through the six other pillars of risk:

1. Liquidity Risk
2. Operational Risk
3. Market Risk

4. Credit Risk
5. Legal and 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.

The Bank's Risk Appetite Statement defines the tolerance of reputational risk that the Bank is willing to take in order to achieve its 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 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. The Bank also has specific board approved policies in the Bank which consider reputation risk and include the following:

- Anti-money Laundering and Anti-terrorist Financing Policy and Procedures.
- Code of Conduct.
- Computer System Use Policy and Procedures.
- Corporate Disclosure Policy.
- Customer Complaint Policy and Procedures.
- Related Party Transactions Policy and Procedures.
- Workplace Anti-Harassment Policy and Procedures.
- Anonymous Employee Reporting Procedures.

FACTORS THAT MAY AFFECT FUTURE RESULTS

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

Execution of Strategic Plans

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

Changes in Laws and Regulations

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

Changes in Accounting Standards and Accounting Policies and Estimates

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

Level of Competition

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

General Economic Conditions

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

Monetary Policy

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

Reliance on Deposit Brokers

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

Technology Risk

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

CONTROLS AND PROCEDURES

Disclosure controls and procedures

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

As at October 31, 2016, 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, 2016, an evaluation was carried out by management of the effectiveness of internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and financial statement compliance with International Financial Reporting Standards. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer will file a certificate that the design and operating effectiveness of internal control over financial reporting were effective. These evaluations were conducted in accordance with the standards of the 2013 Internal Control - Integrated Framework of the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and the requirements of National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings* of the Canadian Securities Administrators.

A Disclosure Committee, consisting of members of senior management, assists the Chief Executive Officer and the Chief Financial Officer in their responsibilities. Management's evaluation of controls can only provide reasonable, not absolute, assurance that all internal control issues that may result in material misstatement, if any, have been detected.

There were no changes in the Bank's internal controls over financial reporting that occurred during the year ended October 31, 2016 that have materially affected, or are reasonably likely to materially affect, internal controls over financial reporting.

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

Dated: December 15, 2016