MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS AND FINANCIAL CONDITION

This management's discussion and analysis ("MD&A") of operations and financial condition for the second quarter of Fiscal 2018, dated May 28, 2018, should be read in conjunction with the unaudited interim consolidated financial statements for the period ended April 30, 2018, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). This MD&A should also be read in conjunction with Versabank's (the "Bank") MD&A and Audited Consolidated Financial Statements for the year ended October 31, 2017, which are available on the Bank's website at www.versabank.com and SEDAR at www.sedar.com. Except as discussed below, all other factors discussed and referred to in the MD&A for the year ended October 31, 2017 remain substantially unchanged.

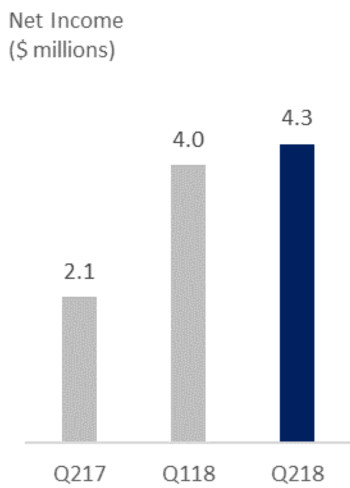
HIGHLIGHTS

(unaudited)	for the three months ended		for the six months ended	
($CDN thousands except per share amounts)	April 30 2018	April 30 2017	April 30 2018	April 30 2017
Results of operations				
Net interest income	$ 12,432	$ 10,579	$ 24,827	$ 21,724
Non-interest income (loss)	37	(453)	49	(166)
Total revenue	12,469	10,126	24,876	21,558
Provision (recovery) for credit losses	(50)	(582)	15	(279)
Non-interest expenses	6,617	6,220	13,507	12,678
Restructuring charges	-	1,575	-	2,045
Core cash earnings*	5,902	4,488	11,807	9,159
Core cash earnings per common share*	$ 0.28	$ 0.21	$ 0.56	$ 0.44
Net income	**4,256**	**2,104**	**8,232**	**13,968**
Income per common share:				
Basic	$ 0.18	$ 0.07	$ 0.34	$ 0.62
Diluted	$ 0.18	$ 0.07	$ 0.34	$ 0.62
Yield*	4.59%	4.14%	4.46%	4.28%
Cost of funds*	1.64%	1.63%	1.58%	1.70%
Net interest margin*	2.95%	2.51%	2.88%	2.58%
Return on average common equity*	8.25%	3.66%	7.88%	15.66%
Core cash return on average common equity*	11.93%	9.28%	11.83%	9.81%
Book value per common share*	$ 8.80	$ 8.28	$ 8.80	$ 8.28
Efficiency ratio*	53.07%	61.43%	54.30%	58.81%
Return on average total assets*	0.88%	0.37%	0.83%	1.53%
Gross impaired loans to total loans*	0.04%	0.00%	0.04%	0.00%
Provision (recovery) for credit losses as a % of average loans*	0.00%	-0.15%	0.00%	-0.04%
		as at		
Balance Sheet Summary				
Cash and securities	$ 144,220	$ 100,252	$ 144,220	$ 100,252
Loans, net of allowance for credit losses	1,564,424	1,543,266	1,564,424	1,543,266
Average loans*	1,571,050	1,566,868	1,553,439	1,484,970
Total assets	1,750,697	1,688,852	1,750,697	1,688,852
Average assets*	1,728,656	1,730,928	1,696,626	1,662,056
Deposits	1,393,916	1,348,323	1,393,916	1,348,323
Subordinated notes payable	9,814	14,124	9,814	14,124
Shareholders' equity	215,247	204,139	215,247	204,139
Capital ratios*				
Risk-weighted assets	$ 1,465,303	$ 1,373,051	$ 1,465,303	$ 1,373,051
Total capital	195,610	182,818	195,610	182,818
Common Equity Tier 1 (CET1) ratio	11.07%	10.68%	11.07%	10.68%
Tier 1 capital ratio	13.08%	12.81%	13.08%	12.81%
Total capital ratio	13.35%	13.31%	13.35%	13.31%
Leverage ratio	10.41%	10.07%	10.41%	10.07%

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

Overview

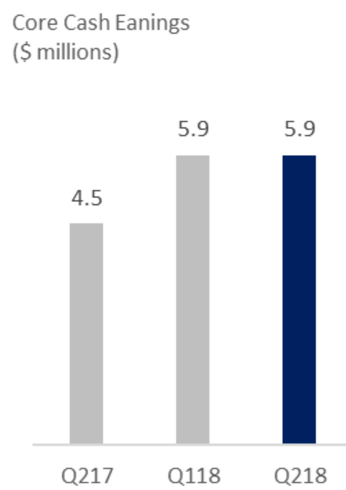
VersaBank (the "Bank") is a technology based, digital Canadian Schedule I chartered bank. It operates using an "electronic branchless model" and sources its funding, along with consumer and commercial loan and lease receivables, electronically. VersaBank also makes residential development and commercial mortgages it obtains through a well-established network of brokers and through direct contact with its lending staff. The Bank's Common Shares, Series 1 Preferred Shares, and Series 3 Preferred Shares trade on the Toronto Stock Exchange.



Net income for the quarter was $4.3 million or $0.18 per common share (basic and diluted), compared to $4.0 million or $0.16 per common share (basic and diluted) last quarter and $2.1 million or $0.07 per common share (basic and diluted) for the same period a year ago. The quarter over quarter trend was primarily a function of improved yields and higher interest income earned on lending assets as well as lower non-interest expenses and lower restructuring charges (Q218 – $nil, Q217 - $1.6 million) partially offset by lower fees and higher cost of funds. The year over year trend was a function of higher interest income earned on lending assets and lower restructuring charges partially offset by higher non-interest expenses.

Net income for the six months ended April 30, 2018 was $8.2 million or $0.34 per common share (basic and diluted) compared to $14.0 million or $0.62 per common share (basic and diluted) for the same period a year ago. The year over year trend was a function primarily of the Bank recognizing $8.8 million in deferred income tax assets in January 2017 partially offset by lower restructuring charges as well as higher interest income earned on lending assets and lower cost of funds over the course of the six months ended April 30, 2018.

Core cash earnings for the quarter were $5.9 million compared to $5.9 million last quarter and $4.5 million for the same period a year ago.



The quarter over quarter trend was a function primarily of improved yields and higher interest income earned on lending assets partially offset by lower fees. The year over year trend was a function primarily of higher interest income earned on lending assets partially offset by higher non-interest expenses.

Core cash earnings for the six months ended April 30, 2018 were $11.8 million compared to $9.2 million a year ago. The year over year trend was a function primarily of higher interest income earned on lending assets and lower cost of funds partially offset by higher non interest expenses.

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

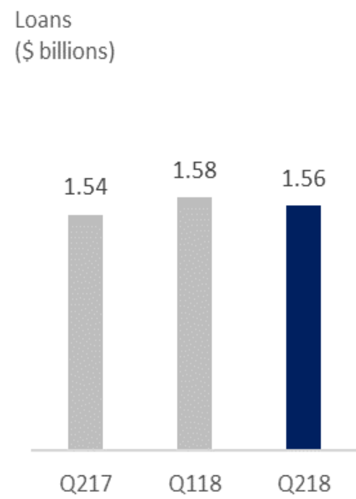
(thousands of Canadian dollars)

	for the three months April 30 2018	for the three months April 30 2017
Net income	$ 4,256	$ 2,104
Adjusted for:		
Income taxes	1,646	809
Restructuring charges	-	1,575
Other non-core general and administrative expense items	-	-
	1,646	2,384
Core cash earnings	$ 5,902	$ 4,488

(thousands of Canadian dollars)

	for the six months ended April 30 2018	for the six months ended April 30 2017
Net income	$ 8,232	$ 13,968
Adjusted for:		
Income taxes (recovery)	3,122	(6,854)
Restructuring charges	-	2,045
Other non-core general and administrative expense items	453	-
	3,575	(4,809)
Core cash earnings	$ 11,807	$ 9,159

Total assets at April 30, 2018 were $1.75 billion compared to $1.71 billion last quarter and $1.69 billion a year ago. The quarter over quarter trend was due primarily to an increase in the Bank's liquidity position as a result of the timing of the repayment of a series of large real estate loans during the current period. The year over year trend was a function of net lending asset growth as well as an increase in the Bank's liquidity position due to the timing of loan repayments.



Loans at April 30, 2018 were $1.56 billion compared to $1.58 billion last quarter and $1.54 billion a year ago. The quarter over quarter trend was a function primarily of real estate loan repayments offset by modest growth in the purchased receivables portfolio. The year over year trend was a result of growth in both real estate loans and the purchased receivables portfolio.

Credit quality remains strong with gross impaired loans at April 30, 2018 totaling $627,000 ($627,000 at October 31, 2017 and $nil a year ago), which represents approximately 0.04% of total loans.

Total Revenue

Total revenue consists of net interest income and non-interest income. Non-interest income consisted primarily of income derived from credit card operations.

Total revenue for the quarter was $12.5 million compared to $12.4 million last quarter and $10.1 million for the same period a year ago. The quarter over quarter trend was a function primarily of improved yields and higher interest income earned on lending assets partially offset by lower fees and higher cost of funds. The year over year trend was a function primarily of higher interest income earned on lending assets.

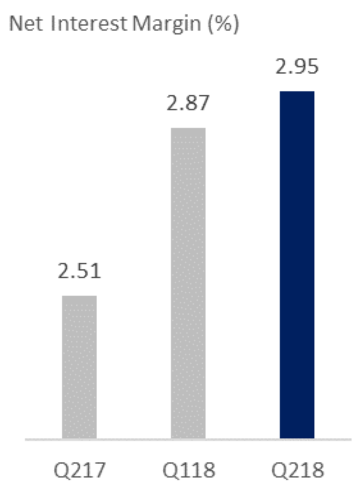
Total revenue for the six months ended April 30, 2018 was $24.9 million compared to $21.6 million a year ago. The year over year trend was a function primarily of higher interest income earned on lending assets and lower cost of funds.

Net Interest Income

Net interest income for the quarter was $12.4 million compared to $12.4 million last quarter and $10.6 million for the same period a year ago. The quarter over quarter trend was a function of improved yields and higher interest income earned on lending assets partially offset by lower fees and higher cost of funds. The year over year trend was primarily a function of higher interest income earned on lending assets.

Net interest income for the six months ended April 30, 2018 was $24.8 million compared to $21.7 million a year ago. The year over year trend was a function of higher interest income earned on lending assets and lower cost of funds.

Net Interest Margin



Net interest margin or spread for the quarter was 2.95% compared to 2.87% last quarter and 2.51% a year ago. The quarter over quarter trend was a function of higher yields earned on lending assets partially offset by higher cost of funds. The year over year trend was primarily a function of higher yields earned on lending assets.

Net interest margin or spread for the six months ended April 30, 2018 was 2.88% compared to 2.58% for the same period a year ago. The year over year trend was primarily a function of higher yields earned on lending assets and lower cost of funds.

Provision for Credit Losses

During the quarter the Bank recorded a recovery in the amount of $50,000 compared to a provision of $65,000 last quarter and recovery of $582,000 a year ago. The recovery from a year ago was due to the reduction in the Bank's collective allowance that resulted from the sale of the Bank's credit card portfolio in April 2017.

Non-Interest Expenses

Non-interest expenses of the Bank, excluding restructuring charges for the quarter were $6.6 million compared to $6.9 million last quarter and $6.2 million for the same period a year ago. The quarter over quarter trend was a function primarily of expenses related to a series of projects and general corporate matters recognized by the Bank in the previous quarter. The year over year trend was a function primarily of increased administrative expenses related to general corporate matters and project consulting fees incurred in the current quarter.

Non-interest expenses for the six months ended April 30, 2018 was $13.5 million compared to $12.7 million a year ago. The year over year trend was a function of the factors outlined above.

Restructuring Charges

Restructuring charges for the quarter were $nil compared to $nil last quarter and $1.6 million for the same period a year ago. Restructuring charges incurred in the prior year relate primarily to termination benefits for employees and key management personnel incurred as a function of the sale of the credit card portfolio and the Bank's corporate reorganization.

Restructuring charges for the six months ended April 30, 2018 was $nil compared to $2.0 million a year ago. Restructuring charges incurred over the same period a year ago relate to termination benefits incurred as a function of the sale of the credit card portfolio, costs associated with the Bank's corporate reorganization as well as costs associated with the Bank's corporate rebranding and strategic review that resulted in the amalgamation of the Bank and PWC Capital Inc.

Income Taxes

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

Provision for income taxes for the quarter was $1.6 million compared to $1.5 million for the previous quarter and $809,000 for the same period a year ago.

Provision for income taxes for the six months ended April 30, 2018 was $3.1 million compared to an income tax recovery of $6.9 million a year ago. The recovery from a year ago reflects the recognition of $8.8 million in deferred income tax assets in January 2017.

Comprehensive Income

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

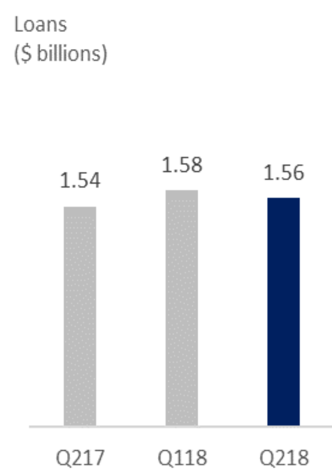
Consolidated Balance Sheet

Total assets at April 30, 2018 were $1.75 billion compared to $1.71 billion last quarter and $1.69 billion a year ago. The quarter over quarter trend was due primarily to an increase in the Bank's liquidity position and as a result of the timing of the repayment of a series of large real estate loans during the current period. The year over year trend was a function of net lending asset growth as well as an increase in the Bank's liquidity position due to the timing of loan repayments.

Cash and Securities

Cash and securities, which are held primarily for liquidity purposes, were $144 million at April 30, 2018 or 8.2% of total assets compared to $85 million or 5.0% of total assets last quarter and $100 million or 6.0% of total assets a year ago. The quarter over quarter and year over year trends are generally a function of the timing of large, scheduled loan repayments combined with the Bank's general efforts to remain aligned with the liquidity levels set out in its liquidity policies.

Loans



Loans at April 30, 2018 were $1.56 billion compared to $1.58 billion last quarter and $1.54 billion a year ago. The quarter over quarter trend was a function primarily of real estate loan repayments offset by modest growth in the purchased receivables portfolio. The year over year trend was a result of growth in both real estate loans and the purchased receivables portfolio.

Residential mortgage exposures

In accordance with the Office of the Superintendent of Financial Institution's (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 April 30, 2018 was $234,000 compared to $236,000 last quarter and $617,000 a year ago. The Bank did not have any HELOC's outstanding at April 30, 2018, at the end of the previous quarter or a year ago.

Credit Quality

Gross impaired loans at April 30, 2018, were $627,000, unchanged from last quarter and $nil a year ago. At April 30, 2018, the Bank's collective allowance totalled $2.2 million compared to $2.3 million last quarter and $2.3 million a year ago. The quarter over quarter trend was due primarily to the net decrease in real estate loans during the current quarter. The year over year trend reflects changes in the Bank's balance sheet mix over the course of the year.

Based on the Bank's review and analysis of its lending and treasury assets, combined with the secured nature of the existing loan portfolio, the Bank is of the view that any credit losses that exist, but cannot be identified specifically at this time, are adequately provided for. Additionally, the Bank's exposure to Western Canada and to the oil and gas industry remains limited and the Bank is not concentrated in the Toronto or Western Canada housing markets.

Other Assets

Other assets include working capital items, funds held for securitization liabilities, capital assets, and the deferred income tax asset. Other assets at April 30, 2018 were $42.1 million, compared to $44.3 million last quarter and $45.3 million a year ago. The quarter over quarter and year over year trends were due primarily to draw downs on the deferred income tax asset derived from taxable income generated by the Bank over the respective periods.

The deferred income tax asset was $21.8 million at April 30, 2018, compared to $23.2 million last quarter and $26.1 million a year ago. The quarter over quarter and year over year trends were due primarily to draw downs on the deferred income tax asset derived from taxable income generated by the Bank over the respective periods.

Deposits and Other Liabilities

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

Personal deposits, consisting principally of guaranteed investment certificates, are sourced primarily through a well-established and well-diversified deposit broker network that the Bank continues to grow and expand across Canada. Personal deposits at April 30, 2018 were $1.0 billion, compared to $1.0 billion last quarter and $1.1 billion a year ago. Commercial deposits are sourced primarily via specialized chequing accounts made available to insolvency professionals ("Trustees") in the Canadian insolvency industry. The Bank developed customized banking software for use by Trustees that integrates banking services with the market-leading software platform used in the administration of consumer bankruptcy and proposal restructuring proceedings. Commercial deposits at April 30, 2018 were $378.2 million compared to $338.7 million last quarter and

$254.3 million a year ago. The quarter over quarter and year over year trends were a result primarily of continued growth in the number of Trustees that have established chequing accounts with the Bank.

Other liabilities at April 30, 2018 were $98.4 million compared to $98.5 million last quarter and $89.0 million a year ago. The year over year trend was due primarily to an increase in holdbacks payable balances over the same period. Holdbacks payable at April 30, 2018 were $92.2 million compared to $90.7 million last quarter and $81.1 million a year ago. The quarter over quarter and year over year trends were a function primarily of the growth of the Bank's purchased receivable portfolio over the respective periods.

Securitization Liabilities

Securitization liabilities relate to amounts payable to counterparties for cash received upon the initiation of securitization transactions. Securitization liabilities at April 30, 2018 were $33.3 million compared to $33.4 million at the end of last quarter and $33.2 million a year ago. The amounts payable to counterparties bear interest at rates ranging from 3.55% - 3.95% and mature in 2020. Residential mortgages and other assets are pledged as collateral for securitized liabilities.

Subordinated Notes Payable

Subordinated notes payable, net of issue costs, were $9.8 million at April 30, 2018 compared to $9.8 million last quarter and $14.1 million a year ago. The decrease from a year ago is a result of the Bank redeeming an 11%, ten-year, unsecured, callable subordinated note in the principal amount of $4.5 million on May 31, 2017. The Bank has one remaining subordinated note outstanding in the principal amount of $10 million bearing interest at 8% per annum and maturing in 2021. The note is unsecured, callable and is payable to an unrelated party.

Shareholders' Equity

Shareholders' equity was $215.2 million at April 30, 2018 compared to $211.8 million last quarter and $204.1 million a year ago. The quarter over quarter and year over year trends were a function primarily of retained earnings growth over the respective periods.

Common shares outstanding at April 30, 2018 were 21,123,559, unchanged compared to last quarter and a year ago.

The Bank's book value per common share at April 30, 2018 was $8.80 compared to $8.64 last quarter and $8.28 a year ago with the increase being a function primarily of retained earnings growth over the respective periods.

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

Updated Share Information

As at May 28, 2018, there were no changes since April 30, 2018 in the number of common shares, Series 1 and Series 3 preferred shares, and common share options outstanding.

Off-Balance Sheet Arrangements

As at April 30, 2018, the Bank did not have any significant off-balance sheet arrangements other than loan commitments and letters of credit resulting from normal course business activities. See Note 12 to the unaudited interim consolidated financial statements for more information.

Related Party Transactions

The Bank's Board of Directors and senior executive officers represent key management personnel. See Note 14 to the unaudited interim consolidated financial statements for additional information on related party transactions and balances.

Risk Management

The risk management policies and procedures of the Bank are set out in its annual MD&A for the year ended October 31, 2017.

Capital Management and Capital Resources

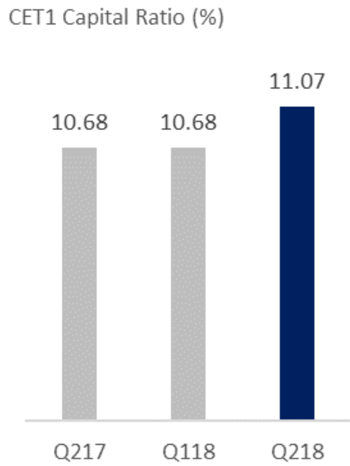
The Basel Committee on Banking Supervision has rules supporting stringent global standards in capital adequacy and liquidity (Basel III). Significant rules under Basel III that are most relevant to the Bank include:

- 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 planning to inject a "bail out" payment;
- Changes in the risk-weighting of certain assets;
- Additional capital buffers;
- Requirements for levels of liquidity and new liquidity measurements.

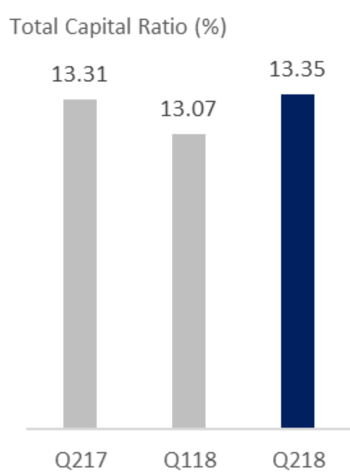
The Bank reports its regulatory capital ratios using the Standardized Approach for calculating risk-weighted assets, as defined under Basel III, which may require the Bank to carry more capital for certain credit exposures compared to requirements under the Advanced Internal Ratings Based (AIRB) methodology.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

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

Under the Basel III standards, total regulatory capital of the Bank was $195.6 million at April 30, 2018 compared to $192.6 million last quarter and $182.8 million a year ago. The quarter over quarter trend was a function primarily of retained earnings growth and tax provision recoveries related to the Bank's deferred tax asset partially offset by the impact of the reduction in the amount of the Bank's subordinate debt that is eligible for inclusion in the Bank's Tier II regulatory capital calculation due to the regulatory requirement to amortize such capital instruments on a straight line basis over the last five years of the instrument's term. The year over year trend was a function primarily of retained earnings growth and tax provision recoveries related to the Bank's deferred tax asset partially offset by the redemption of a $4.5 million subordinated note in May 2017 and the impact of the reduction in the amount of the Bank's subordinate debt that is eligible for inclusion in the Bank's Tier II regulatory capital calculation.



The Bank's CET1 capital ratio was 11.07% at April 30, 2018 compared to 10.68% last quarter and 10.68% a year ago. The quarter over quarter trend was a function of retained earnings growth, tax provision recoveries related to the Bank's deferred tax asset and lower risk weighted assets. The year over year trend was a function of retained earnings growth and tax provision recoveries related to the Bank's deferred tax asset partially offset by higher risk-weighted assets.



The Bank's total capital ratio at April 30, 2018 was 13.35% compared to 13.07% last quarter and 13.31% a year ago. The quarter over quarter trend was a function of retained earnings growth, tax provision recoveries related to the Bank's deferred tax asset and lower risk weighted assets partially offset by the reduction in the amount of the Bank's subordinate debt that is eligible for inclusion in the Bank's Tier II regulatory capital calculation. The year over year trend was a function of retained earnings growth and tax provision recoveries related to the Bank's deferred tax asset partially offset by higher risk-weighted assets, the redemption of a $4.5 million subordinated note in May 2017, and the reduction in the amount of the Bank's subordinate debt that is eligible for inclusion in the Bank's Tier II regulatory capital calculation.

The Bank's leverage ratio at April 30, 2018 was 10.41% compared to 10.34% last quarter and 10.07% a year ago. The quarter over quarter and year over year trends were a function of the factors outlined above.

See Note 15 to the interim consolidated financial statements for more information regarding capital management.

Liquidity

The unaudited Consolidated Statement of Cash Flows for the six months ended April 30, 2018 shows cash used by operations of $13.4 million compared to cash provided by operations of $10.0 million for the same period last year. The net use of cash for the six months ended April 30, 2018 was a function primarily of lending asset growth exceeding the volume of new deposits raised over the course of the same period. The net increase in cash in the comparative period was a function of new deposit volumes exceeding loan fundings. 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 its flow of deposits.

Interest Rate Risk Management

The Bank is subject to interest rate risk which is the risk that a movement in interest rates could negatively impact net interest margin, net interest income and the economic value of assets, liabilities and shareholders' equity. The table below presents the duration difference between the Bank's assets and liabilities and the potential after-tax impact of a 100 basis point shift in interest rates on the Bank's earnings during a 12 month period and the potential after-tax impact of a 100 basis point shift in interest rates on the Bank's shareholders' equity over a 60 month period if no remedial actions are taken. The Bank's sensitivity to changes in interest rates and its duration difference between assets and liabilities at April 30, 2018, has not changed significantly compared to the previous quarter.

As presented in the following table, at April 30, 2018, the impact on net interest income during a 12 month period of a 100 basis point increase would be approximately $3.3 million and the impact on net interest income of a 100 basis point decrease would be approximately ($3.3 million). Further, at April 30, 2018, the impact on equity during a 60 month period of a 100 basis point increase would be approximately ($1.1 million) and the impact on equity of a 100 basis point decrease would be approximately $1.2 million. At April 30, 2018, the duration difference between assets and liabilities was 0.5 months compared to 0.1 months at October 31, 2017.

	April 30, 2018	
	Increase 100 bps	Decrease 100 bps
Impact on projected net interest income during a 12 month period	$ 3,270	$ (3,272)
Impact on reported equity during a 60 month period	$ (1,133)	$ 1,249
Duration difference between assets and liabilities (months)	0.5	

	October 31, 2017	
	Increase 100 bps	Decrease 100 bps
Impact on projected net interest income during a 12 month period	$ 3,043	$ (3,060)
Impact on reported equity during a 60 month period	$ (1,445)	$ 1,572
Duration difference between assets and liabilities (months)	0.1	

Capital Assets

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

Contractual Obligations

Contractual obligations, as disclosed in the Bank's MD&A and Audited Consolidated Financial Statements for the year ended October 31, 2017, have not changed significantly as at April 30, 2018.

Summary of Quarterly Results

(thousands of Canadian dollars except per share amounts)	2018		2017				2016	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Results of operations:								
Total interest income	$ 19,363	$ 19,069	$ 18,132	$ 17,584	$ 17,463	$ 18,586	$ 17,462	$ 17,628
Yield on assets (%)	4.59%	4.41%	4.22%	4.14%	4.14%	4.24%	4.09%	4.13%
Interest expense	6,931	6,674	6,624	6,833	6,884	7,441	7,396	7,792
Cost of funds (%)	1.64%	1.54%	1.54%	1.61%	1.63%	1.70%	1.73%	1.82%
Net interest income	12,432	12,395	11,508	10,751	10,579	11,145	10,066	9,836
Net interest margin (%)	2.95%	2.87%	2.68%	2.53%	2.51%	2.54%	2.36%	2.31%
Non-interest income (loss)	37	12	13	12	(453)	287	320	343
Total revenue	12,469	12,407	11,521	10,763	10,126	11,432	10,386	10,179
Provision (recovery) for credit losses	(50)	65	116	38	(582)	303	422	24
Non-interest expenses	6,617	6,890	7,500	7,012	6,220	6,458	6,779	6,654
Efficiency ratio	53%	56%	65%	65%	61%	56%	65%	65%
Restructuring charges*	-	-	-	-	1,575	470	549	98
Core cash earnings	5,902	5,905	4,650	4,359	4,488	4,671	3,185	3,501
Core cash earnings per common share	0.28	0.28	0.22	0.21	0.21	0.23	0.16	0.17
Income before income taxes	5,902	5,452	3,905	3,713	2,913	4,201	2,636	3,403
Income tax provision (recovery)	1,646	1,476	1,083	1,031	809	(7,663)	740	947
Net income	$ 4,256	$ 3,976	$ 2,822	$ 2,682	$ 2,104	$ 11,864	$ 1,896	$ 2,456
Income per share								
Basic	$ 0.18	$ 0.16	$ 0.11	$ 0.10	$ 0.07	$ 0.56	$ 0.07	$ 0.09
Diluted	$ 0.18	$ 0.16	$ 0.11	$ 0.10	$ 0.07	$ 0.56	$ 0.07	$ 0.09
Return on average common equity	8.25%	7.50%	5.06%	4.81%	3.66%	27.22%	3.43%	4.90%
Core cash return on average common equity	11.93%	11.75%	9.13%	8.59%	9.28%	9.92%	6.71%	7.59%
Return on average total assets	0.88%	0.81%	0.53%	0.50%	3.39%	2.58%	0.32%	0.45%
Gross impaired loans to total loans	0.04%	0.04%	0.04%	0.04%	0.00%	0.00%	0.00%	0.00%

* Efficiency ratio is adjusted for restructuring charges.

The financial results for each of the last eight quarters are summarized in the table above.

Quarterly interest income continues to trend positively as a function of consistently higher yields earned on lending assets.

Quarterly net interest income continues to trend positively, but moderated slightly over the current quarter as cost of funds increased modestly over the same period.

Core cash earnings remained consistent with the previous quarter as a function primarily of increased yields and interest income earned on lending assets partially offset by lower fees over the same period.

Restructuring charges for the quarter totaled $nil compared to $nil last quarter and $1.6 million for the same period a year ago.

Restructuring charges incurred in the prior year relate to termination benefits incurred as a function of the sale of the credit card portfolio, costs associated with the Bank’s corporate reorganization as well as costs associated with the Bank’s corporate rebranding and strategic review that resulted in the amalgamation of the Bank and PWC Capital Inc.

Net Income continues to trend positively as a function primarily of increasing net interest income trends, and generally moderating non-interest expense trends.

The provision for income taxes in each of the quarters reflects the statutory income tax rate of approximately 27% applied to earnings in the Bank. The recovery of income taxes in the first quarter of 2017 reflects the recognition of $8.8 million in deferred income tax assets.

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 total assets. Yield does not have a standardized meaning prescribed by IFRS and, therefore, may not be comparable to similar measures presented by other financial institutions.

Cost of Funds

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

Core Cash Earnings

Core cash earnings, which reflects the Bank's core operational performance and earnings capacity, is calculated as net income (as presented in the Consolidated Statements of Income) adjusted for income taxes, restructuring charges, corporate projects and other non-core operational expenses.

Core cash earnings does not have a standardized meaning prescribed by IFRS and, therefore, may not be comparable to similar measures presented by other financial institutions.

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

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

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

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.

Return on Average Common Equity

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

Significant Accounting Policies and Use of Estimates and Judgments

Significant accounting policies are detailed in Note 3 of the Bank's 2017 Audited Consolidated Financial Statements. There have been no material changes in accounting policies since October 31, 2017.

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

Estimates were developed in the calculation of the allowance for credit losses and the measurement of deferred income taxes.

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

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

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

Loans

Loans are 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 rate 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.

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 or loss. 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

The Bank maintains an allowance for credit losses 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 quarterly basis. The allowance for credit losses is included in loans on the Consolidated Balance Sheets.

The Bank considers evidence of impairment for loans 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 consolidated financial statements to the extent that it is probable that the Bank will have sufficient taxable income to enable the benefit of the deferred income tax asset to be realized. Unrecognized deferred income tax assets are reassessed for recoverability at each reporting period end.

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

Future Change in Accounting Policies

Financial instruments (IFRS 9)

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

IFRS 9 will be mandatorily effective for the Bank's fiscal year beginning on November 1, 2018. The Bank has assembled a multi-disciplinary implementation team, ("the IFRS 9 Team") comprised of key management personnel across a range of the Bank's operational areas, including Finance, Risk and Information Technology ("IT") and has retained the services of external consultants with expertise in IFRS 9. The Bank is in the process of finalizing its expected credit loss modeling framework as well as enhancing its data management strategy and processes to support the calculation and recognition of expected credit losses under IFRS 9. Further, the Bank will utilize credit risk modeling systems and economic forecast data developed by an established, expert third party for the purpose of computing forward-looking risk parameters under multiple economic scenarios that consider both market-wide and idiosyncratic factors and influences. Given that the Bank has experienced very limited historical losses and therefore does not have available statistically significant loss data inventory for use in developing forward looking expected credit loss trends, the development of sophisticated, forward-looking risk parameter modeling systems and capabilities is particularly important for the Bank in the context of the computation of expected credit losses under IFRS 9.

While the Bank continues to make progress on its IFRS 9 implementation initiative, the impact of IFRS 9 on the Bank's consolidated financial statements cannot be quantified at this time.

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 an increase in lease assets and lease liabilities on the balance sheet accompanied by a decrease in operating lease expenses and an increase in financing costs and amortization expense on the income statement. The new standard will not impact lessor accounting beyond additional disclosures. The new standard is effective for the Bank's fiscal year beginning November 1, 2019 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.

Controls and Procedures

During the quarter ended April 30, 2018, there were no changes in the Bank's internal controls over financial reporting, that have materially affected, or are reasonably likely to materially affect, the Bank's internal controls over financial reporting.

Forward-Looking Statements

The statements in this management's discussion and analysis that relate to the future are forward-looking statements. By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, many of which are out of the Bank's control. Risks exist that predictions, forecasts, projections and other forward-looking statements will not be achieved. Readers are cautioned not to place undue reliance on these forward-looking statements as a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include, but are not limited to, the strength of the Canadian economy in general and the strength of the local economies within Canada in which the Bank conducts operations; the effects of changes in monetary and fiscal policy, including changes in interest rate policies of the Bank of Canada; global commodity prices; the effects of competition in the markets in which the Bank operates; inflation; capital market fluctuations; the timely development and introduction of new products in receptive markets; the impact of changes in the laws and regulations regulating financial services; changes in tax laws; technological changes; unexpected judicial or regulatory proceedings; unexpected changes in consumer spending and savings habits; and the Bank's anticipation of and success in managing the risks implicated by the foregoing. For a detailed discussion of certain key factors that may affect our future results, please see our annual MD&A for the year ended October 31, 2017.

The foregoing list of important factors is not exhaustive. When relying on forward-looking statements to make decisions, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. The forward-looking information contained in the management's discussion and analysis is presented to assist our shareholders in understanding our financial position and may not be appropriate for any other purposes. Except as required by securities law, we do not undertake to update any forward-looking statement that is contained in this management's discussion and analysis or made from time to time by the Bank or on its behalf.

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