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 2017, dated May 29, 2017, should be read in conjunction with the unaudited interim consolidated financial statements for the period ended April 30, 2017, included herein and 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 the audited consolidated financial statements for the year ended October 31, 2016, 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, 2016, remain substantially unchanged.

HIGHLIGHTS

(unaudited)	for the three months ended		for the six months ended	
	April 30	April 30	April 30	April 30
($CDN thousands except per share amounts)	2017	2016	2017	2016
Results of operations				
Net interest income	$ 10,579	$ 9,360	$ 21,724	$ 18,502
Non-interest income (loss)	(453)	285	(166)	610
Total revenue	10,126	9,645	21,558	19,112
Provision (recovery) for credit losses	(582)	213	(279)	425
Non-interest expenses	6,220	6,472	12,678	12,523
Income before restructuring charges and income taxes*	4,488	2,960	9,159	6,164
Restructuring charges	1,575	445	2,045	445
Net income	**2,104**	**1,807**	**13,968**	**4,118**
Income per common share:				
Basic	$ 0.07	$ 0.06	$ 0.62	$ 0.15
Diluted	$ 0.07	$ 0.06	$ 0.62	$ 0.15
Yield*	4.14%	4.14%	4.28%	4.17%
Cost of funds*	1.63%	1.91%	1.70%	1.94%
Net interest margin*	2.51%	2.23%	2.58%	2.23%
Return on average common equity*	3.66%	3.40%	15.66%	4.05%
Book value per common share*	$ 8.28	$ 7.63	$ 8.28	$ 7.63
Gross impaired loans to total loans	0.0%	0.0%	0.0%	0.0%
Provision (recovery) for credit losses as a % of average loans	(0.15%)	0.06%	(0.04%)	0.06%
	as at			
Balance Sheet Summary				
Cash and securities	$ 100,252	$ 141,534	$ 100,252	$ 141,534
Total loans	1,543,266	1,522,280	1,543,266	1,522,280
Average loans*	1,566,868	1,512,085	1,553,439	1,484,970
Total assets	1,688,852	1,698,305	1,688,852	1,698,305
Average assets*	1,730,928	1,700,160	1,696,626	1,662,056
Deposits	1,348,323	1,378,023	1,348,323	1,378,023
Subordinated notes payable	14,124	14,011	14,124	14,011
Shareholders' equity	204,139	182,633	204,139	182,633
Capital ratios*				
Risk-weighted assets	$ 1,373,051	$ 1,373,594	$ 1,373,051	$ 1,373,594
Total capital	182,818	184,591	182,818	184,591
Common Equity Tier 1 (CET1) ratio	10.68%	10.59%	10.68%	10.59%
Tier 1 capital ratio	12.81%	12.73%	12.81%	12.73%
Total capital ratio	13.31%	13.44%	13.31%	13.44%
Leverage ratio	10.07%	9.68%	10.07%	9.68%

* This is a non-GAAP measure. See definition under 'Basis of Presentation'.

Overview

VersaBank is a technologically proficient Canadian Schedule I chartered bank which operates using an electronic branchless model. The Bank sources its deposits through a well-established and widely diversified nationwide network of deposit brokers, vendor partners, and from insolvency industry professionals through a customized banking software solution. The Bank purchases loan and lease receivables from non-bank financial companies and also originates and services residential development and commercial loans that are sourced through direct contact with its clients as well as through mortgage brokers and syndication partners. The Bank's Common Shares, Series 1 Preferred Shares, and Series 3 Preferred Shares trade on the Toronto Stock Exchange.

On September 12, 2016 and November 15, 2016, PWC Capital Inc. ("PWC") and VersaBank jointly announced that they had entered into an agreement to merge by amalgamation under the Bank Act (Canada) (the "Amalgamation"). This transaction was completed on January 31, 2017, pursuant to section 228 of the Bank Act (Canada), with the amalgamated entity continuing under the name VersaBank. Pursuant to the Amalgamation: (i) each issued and outstanding common share of PWC (other than PWC common shares with respect to which dissent rights were exercised) was converted into common shares of the Bank on the basis of 54.508758 PWC common shares for 1 Bank common share, resulting in a total of 13,643,713 Bank common shares being issued, (ii) 12,615,219 outstanding common shares of VersaBank held by PWC prior to the Amalgamation were cancelled, and (iii) each issued and outstanding security of VersaBank held prior to the Amalgamation continued on under the same arrangement subsequent to the Amalgamation. As a result of the above, at January 31, 2017 the issued and outstanding common shares of the Bank increased by 1,028,494 shares to 21,123,559 common shares.

In addition, each outstanding option to acquire PWC Common Shares was converted into an option to purchase Bank common shares resulting in 7,059 additional options being issued.

Net income for the quarter was $2.1 million or $0.07 per common share (basic and diluted), compared to $11.9 million or $0.56 per common share (basic and diluted) last quarter and $1.8 million or $0.06 per common share (basic and diluted) for the same period a year ago The quarter over quarter decline was primarily due to the impact of the Bank recognizing $8.8 million in deferred income tax assets in the previous quarter derived from the income tax loss carry-forwards assumed from PWC pursuant to the Amalgamation. The year over year improvement was primarily due to a reduction in the Bank's cost of funds combined with the recovery of credit losses related to the sale of the Bank's credit card portfolio, offset by an increase in restructuring charges over the same period.

Net income for the current quarter includes restructuring charges of $1.6 million compared to $470,000 last quarter and $445,000 for the same period a year ago. Income before restructuring charges and income taxes for the quarter was $4.5 million compared to $4.7 million last quarter and $3.0 million for the same period a year ago. The modest quarter over quarter decline was due to lower interest income and normalized fees earned on real estate assets offset by a further reduction in the Bank's cost of funds and the recovery of credit losses related to the sale of the Bank's credit card portfolio over the same period. The year over year improvement was due primarily to the reduction in the Bank's cost of funds over the same period combined with the recovery of credit losses related to the sale of the Bank's credit card portfolio.

Net income for the six months ended April 30, 2017 was $14.0 million or $0.62 per common share (basic and diluted) compared to $4.10 million or $0.15 per common share (basic and diluted) for the same period a year ago. The year over year improvement was primarily a function of the Bank recognizing $8.8 million in deferred income tax assets derived from the tax loss carry-forwards assumed pursuant to the Amalgamation as well as the reduction in the Bank's cost of funds over the same period.

Total assets at April 30, 2017 were $1.69 billion compared to $1.77 billion last quarter and $1.70 billion a year ago. Lending assets totalled $1.54 billion compared to $1.59 billion last quarter and $1.52 billion a year ago. The quarter over quarter decline in lending assets was due to repayments in the real estate portfolio and the sale of a portfolio of low spread receivables.

Credit quality remains strong with no gross impaired loans at April 30, 2017, unchanged from January 31, 2017 and a year ago.

Total Revenue

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

Total revenue for the quarter was $10.1 million compared to $11.4 million last quarter and $9.6 million for the same period a year ago. The quarter over quarter decline was due to lower interest income and normalized fees earned on real estate assets combined with a reduction in credit card income resulting from the sale of the credit card portfolio offset by a reduction in the Bank's cost of funds over the same period. The year over year improvement was due to net interest income growth driven by increased income earned on lending assets combined with a reduction in the Bank's cost of funds offset by a reduction in credit card income as a result of the sale of the Bank's credit card portfolio.

Total revenue for the six months ended April 30, 2017 was $21.6 million compared to $19.1 million a year ago. The year over year improvement was due to net interest income growth driven by increased income earned on lending assets combined with a reduction in the Bank's cost of funds over the same period offset by a reduction in credit card income resulting from the sale of the Bank's credit card portfolio.

Net Interest Income

Net interest income for the quarter was $10.6 million compared to $11.1 million last quarter and $9.4 million a year ago. The quarter over quarter decline was primarily due to lower interest income and normalized fees earned on real estate assets offset by a reduction in the Bank's cost of funds over the same period. The year over year improvement was a function of increased interest income earned as a result of lending asset growth combined with a reduction in the Bank's cost of funds over the same period.

Net interest income for the six months ended April 30, 2017 was $21.7 million compared to $18.5 million a year ago. The improvement was a function of the factors outlined above.

Net Interest Margin

Net interest margin or spread for the quarter was 2.51% compared to 2.54% last quarter and 2.23% a year ago. The modest quarter over quarter decline was primarily due to the normalization of fees earned on real estate assets offset by a decrease in the Bank's cost of funds and an improvement in net interest margin on the purchased receivable portfolio as a result of the sale of a portfolio of low spread receivables.

Net interest margin or spread for the six months ended April 30, 2017 was 2.58% compared to 2.23% for the same period a year ago. The improvement was a function of the factors outlined above.

Provision for Credit Losses

The Bank maintains strong underwriting standards and high credit quality and as a result typically requires lower provisions for credit losses. As at April 30, 2017 the Bank recorded a recovery in the amount of $582,000 compared to a provision for credit losses in the amounts of $303,000 last quarter and $213,000 a year ago. The recovery was due to the reduction in the Bank's collective allowance that resulted from the sale of the Bank's credit card portfolio over the course of the quarter.

Non-Interest Expenses

Non-interest expenses of the Bank, excluding restructuring costs, totalled $6.2 million for the quarter compared to $6.5 million last quarter and $6.5 million a year ago. The improvement over the comparative periods was due to a reduction in direct operating expenses as a result of the sale of the Bank's credit card portfolio as well as lower salary and benefits costs due to reductions in staffing levels.

Restructuring Charges

Restructuring charges for the quarter totaled $1.6 million compared to $470,000 last quarter and $445,000 a year ago. These restructuring charges 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.

Income Taxes

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

For the three months ended April 30, 2017, the provision (recovery) for income taxes was $809,000 compared to ($7.7 million) for the previous quarter and $708,000 for the same period a year ago. As noted in the "Overview" section above, the previous quarter reflects the impact of the Bank recognizing $8.8 million in deferred income tax assets derived from the aggregate tax loss carry-forwards of PWC assumed by the Bank pursuant to the Amalgamation. See Note 11 to the unaudited interim consolidated financial statements for additional information on the Amalgamation.

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. Comprehensive income of the Bank for the quarter was $2.1 million compared to $11.9 million last quarter and $1.8 million for the same period a year ago. In the last quarter the Bank recognized $8.8 million in deferred income tax assets derived from the aggregate tax loss carry-forwards pursuant to the Amalgamation. Notwithstanding the above, 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 typically differ significantly from net income.

Comprehensive income for the six months ended April 30, 2017 was $14.0 million compared to $4.1 million for the same period a year ago. The increase is a function of the factors outlined above.

Consolidated Balance Sheet

Total assets at April 30, 2017 were $1.69 billion compared to $1.77 billion at the end of the last quarter and $1.70 billion a year ago. The quarter over quarter decline was due to repayments in the real estate portfolio and the sale of a portfolio of low spread receivables combined with the Bank normalizing its liquidity position over the same period.

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 bonds, Canadian provincial bonds, municipal bonds, and debt of other financial institutions. Amounts invested in each of these securities are determined based on the Bank's liquidity requirements, the risk profile and return on the investment, and capital management considerations. Cash and securities, which are held primarily for liquidity purposes totalled $100 million at April 30, 2017 or 5.9% of total assets compared to $136 million or 7.7% of total assets last quarter and $142 million or 8.3% of total assets a year ago. The decline in cash and securities from the comparative periods was a result of the Bank normalizing its liquidity levels to more closely align with policy.

Loans

At April 30, 2017, loans totalled $1.54 billion compared to $1.59 billion at the end of the last quarter and $1.52 billion a year ago. The modest quarter over quarter decline in loan balances was primarily a function of repayments in the real estate portfolio and the sale of a portfolio of low spread receivables offset by strong new purchased receivable volumes late in the quarter.

Total new lending for the current quarter was $279 million compared to $254 million last quarter and $198 million a year ago. The quarter over quarter increase was a function of an increase in purchased receivable volumes, offset by a modest reduction in real estate loan fundings over the same period. The year over year increase was a function of an increase in both purchased receivable volumes and real estate loan fundings over the same period. Loan repayments for the quarter totalled $337 million compared to $224 million last quarter and $173 million a year ago. The increase from the comparative periods was a function of increased purchased receivable and real estate loan repayment volumes over the same period.

At April 30, 2017, loan commitments representing loans in the Bank's pipeline totalled $185 million compared to $210 million last quarter and $228 million a year ago.

Residential mortgage exposures

In accordance with the Office of the Superintendent of Financial Institutions (OSFI) *Guideline B-20 – Residential Mortgage Underwriting Practices and Procedures*, additional information is provided regarding the Bank's residential mortgage exposure. For the purposes of the Guideline, a residential mortgage is defined as a loan to an individual that is secured by residential property (one to four unit dwellings) and includes home equity lines of credit (HELOC's). This differs from the classification of residential mortgages used by the Bank which also includes multi-family mortgages.

Under OSFI's definition, the Bank's exposure to residential mortgages at April 30, 2017 totalled $617,000 compared to $627,000 at the end of the last quarter and $658,000 a year ago. The Bank did not have any HELOC's outstanding at April 30, 2017, at the end of the previous quarter or a year ago.

Credit Quality

Gross impaired loans at April 30, 2017, were $nil, unchanged from last quarter and a year ago. At April 30, 2017, the Bank's collective allowance totalled $2.3 million compared to $3.0 million last quarter and $3.1 million a year ago. The quarter over quarter decline was primarily due to the reduction in collective allowance that resulted from the sale of the Bank's credit card portfolio over the course of the quarter.

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.

At April 30, 2017 the Bank's lending portfolio remains concentrated in the province of Ontario, unchanged from both the last quarter and the same period a year ago.

Other Assets

Included in other assets are prepaid expenses as well as funds held for securitization liabilities, capital assets, and the Bank's deferred income tax asset. At April 30, 2017 other assets totalled $45.3 million, compared to $46.6 million last quarter and $34.5 million a year ago. The quarter over quarter decrease was primarily due to draw downs on the Bank's deferred income tax asset related to taxable income generated by the Bank over the same period. The year over year increase was a function of the Bank recognizing $8.8 million in deferred income tax assets derived from the aggregate tax loss carry-forwards pursuant to the Amalgamation offset by a decrease in funds held for securitization liabilities and draw downs on the Bank's deferred income tax asset related to taxable income earned by the Bank over the same period.

The deferred income tax asset of the Bank was $26.1 million at April 30, 2017, compared to $26.7 million last quarter and $7.6 million a year ago. The quarter over quarter decrease was due to draw downs on the Bank's deferred income tax asset related to taxable income generated by the Bank over the same period. The year over year increase was a function of the factors outlined above. The Bank's income tax loss carry-forwards are scheduled to begin to expire in 2025 if unutilized.

Deposits and Other Liabilities

Deposits are used as a primary source of financing growth in assets and are raised primarily through a well-established and widely diversified nationwide broker network that the Bank continues to grow and expand across Canada. Deposits at April 30, 2017, totalled $1.35 billion compared to $1.43 billion last quarter and $1.38 billion a year ago, consisting primarily of guaranteed investment certificates. The quarter over quarter decrease in deposits was primarily a function of the Bank normalizing its liquidity levels to more closely align with policy. At April 30, 2017 demand savings accounts totalled $19.3 million or approximately 1.43% of total deposits compared to $18.1 million or 1.27% of total deposits last quarter and $17.9 million or approximately 1.30% of total deposits a year ago.

Over the course of the quarter ended April 30, 2017 the Bank was able to raise new, as well as renew existing term deposits at rates which were consistent with historical trends and in amounts adequate to fund its lending obligations and maintain liquidity levels which were comfortably within the Bank's liquidity policy thresholds.

Further, over the course of the quarter ended April 30, 2017 the Bank did not receive any requests for early redemption of its term deposits that were outside of the normal course of business nor did the Bank experience any measureable withdrawals from its demand savings accounts.

An additional source of funds for the Bank, which not only contributes to diversifying the Bank's funding mix, but also to reducing its cost of new deposits, is a specialized chequing account for trustees in the Canadian insolvency industry. The Bank has developed banking software to enable this market to efficiently administer its chequing accounts and has provided specialized software to trustees operating across Canada. At April 30, 2017 trustee chequing account balances totalled $213.4 million compared to $197.2 million last quarter and $141.4 million a year ago. The increase in trustee deposit balances from the comparative periods is the result of continued growth in the number of trustees that have established chequing accounts with the Bank.

Other liabilities typically consist of accounts payable and accruals and holdbacks payable related to the receivable purchase program. Other liabilities at April 30, 2017 totalled $89.0 million compared to $92.6 million at the end of the last quarter and $80.1 million a year ago. The year over year increase was primarily due to the increase in holdbacks payable balances over the same period. Holdbacks payable totalled $81.1 million at April 30, 2017 compared to $81.4 million at the end of the last quarter and $74.0 million a year ago. The year over year increase was a function of the growth of the Bank's purchased receivable portfolio over the same period.

Securitization Liabilities

Securitization liabilities relate to amounts payable to counterparties for cash received upon the initiation of securitization transactions. Securitization liabilities at April 30, 2017 totalled $33.2 million compared to $33.4 million at the end of last quarter and $43.6 million a year ago. The year over year reduction in securitization liabilities was due to the maturity of $10.3 million in Canada Mortgage Bonds in December 2016. 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, totalled $14.1 million at April 30, 2017 compared to $14.1 million at the end of the last quarter and $14.0 million a year ago. The face value of the outstanding subordinated notes totalled $14.5 million. These subordinated notes were issued by the Bank to an unrelated party, are currently callable, bear interest at rates ranging from 8.00% to 11.00% and mature between 2019 and 2021.

Shareholders' Equity

At April 30, 2017, shareholders' equity was $204.1 million compared to $202.6 million at the end of the last quarter and $182.6 million a year ago. The quarter over quarter increase was primarily due to retained earnings growth over the same period. The year over year increase in shareholders' equity was a function of the recognition of net assets in the amount of $6.7 million and retained earnings growth driven by the recognition of an additional $8.8 million in deferred income tax assets pursuant to the Amalgamation, offset by $1.4 million in transaction costs associated with the Amalgamation.

Common shares outstanding at April 30, 2017 totalled 21,123,559 compared to 21,123,559 last quarter and 20,095,065 a year ago. The increase was due to the issue of 13,643,713 common shares, offset by the cancellation of 12,615,219 common shares both pursuant to the Amalgamation.

The Bank's book value per common share (non-GAAP measure) at April 30, 2017 was $8.28 compared to $8.20 last quarter and $7.63 a year ago with the increase from the comparative periods primarily a function of the factors outlined in the above.

See Note 10 and Note 19 to the unaudited interim consolidated financial statements for additional information relating to share capital.

Updated Share Information

As at May 31, 2017, there were no changes since April 30, 2017 in the number of outstanding common shares, Series 1 and Series 3 preferred shares and common share options.

Off-Balance Sheet Arrangements

As at April 30, 2017, the Bank does not have any significant off-balance sheet arrangements other than loan commitments and letters of credit resulting from normal course business activities. See Note 13 to the unaudited interim consolidated financial statements for more information.

Related Party Transactions

During the three months and six months ended April 30, 2017, the Bank incurred management and other fees totalling $nil (April 30, 2016 - $150,000) and $225,000 (April 30, 2016 - $300,000) to PWC and a subsidiary of PWC.

The Bank's Board of Directors and senior executive officers represent key management personnel. See Note 15 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 provided in its annual MD&A for the year ended October 31, 2016.

Capital Management and Capital Resources

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

- Increased focus on tangible common equity.
- All forms of non-common equity 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.

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 which use the AIRB methodology.

OSFI requires that all Canadian banks must comply with the Basel III standards on an "all-in" basis for purposes of determining its risk-based capital ratios. Required minimum regulatory capital ratios are a 7.0% Common Equity Tier 1 (CET1) capital ratio, an 8.5% Tier 1 capital ratio and a 10.5% total capital ratio, all of which include a 2.5% capital conservation buffer. The Basel III rules provide for "transitional" adjustments whereby certain aspects of the new rules are to be phased in between 2013 and 2019. The only available transition allowed by OSFI for capital ratios 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 $182.8 million at April 30, 2017 compared to $183.5 million last quarter and $184.6 million a year ago. The quarter over quarter reduction in total regulatory capital reflects 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 reduction in total regulatory capital is a function of the reduction in eligible Tier II capital outlined above as well as the impact of the transactions costs and adjustments to certain assets acquired pursuant to the Amalgamation. Given the impact that the regulatory amortization function described above has on the Bank's Tier II regulatory capital calculation, the Bank may contemplate future capital financings in order to replace the current and future reductions in regulatory capital capacity.

At April 30, 2017 the Bank exceeded the current minimum Basel III regulatory capital requirements referred to above with a CET1 ratio of 10.68% compared to 10.28% last quarter and 10.59% a year ago. At April 30, 2017, the Bank's Tier 1 capital ratio was 12.81% compared to 12.37% last quarter and 12.73% a year ago. In addition, the Bank's total capital ratio was 13.31% at April 30, 2017, compared to 13.07% last quarter and 13.44% a year ago. The trends from the comparative periods exhibited by the Bank's CET1 and Tier 1 capital ratios are primarily a function of retained earnings growth over the same period. The quarter over quarter increase in the Bank's total capital ratio was primarily a function of retained earnings growth over the same period. The year over year decline in the Bank's total capital ratio was a function of the factors outlined above related to the reduction in total regulatory capital over the same period.

At April 30, 2017, the Bank's leverage ratio was 10.07% compared to 9.45% at the end of the last quarter and 9.68% a year ago.

See Note 16 to the interim consolidated financial statements for more information regarding capital management.

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 following table provides 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.

	April 30, 2017		October 31, 2016	
	Increase 100 bps	Decrease 100 bps	Increase 100 bps	Decrease 100 bps
Impact on projected net interest income during a 12 month period	$ 2,548	$ (2,446)	$ 2,387	$ (2,243)
Impact on reported equity during a 60 month period	$ (1,269)	$ 1,405	$ (1,631)	$ 1,667
Duration difference between assets and liabilities (months)	0.1		0.6	

The Bank's sensitivity to changes in interest rates and its duration difference between assets and liabilities at April 30, 2017 has not changed significantly since the end of the previous quarter. 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 $2.5 million and the impact on net interest income of a 100 basis point decrease would be approximately ($2.4 million). Conversely at April 30, 2017, the impact on equity during a 60 month period of a 100 basis point increase would be approximately ($1.3 million) and the impact on equity of a 100 basis point decrease would be approximately $1.4 million. At April 30, 2017 the duration difference between assets and liabilities is negligible compared to approximately 1 month at October 31, 2016 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.

Liquidity

The unaudited Consolidated Statement of Cash Flows for the six months ended April 30, 2017 shows cash provided by operations of $10.0 million compared to a use of cash for operations of $10.6 million for the same period last year. The operating cash flow is primarily affected by the change in the balance of its deposits (an increase in deposits has a positive impact on cash flow and a decrease in deposits has a negative impact on cash flow) as compared to the change in the balance of its loans (an increase in loans has a negative impact on cash flow and a decrease 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.

Contractual Obligations

Contractual obligations as disclosed in the Bank's MD&A and audited consolidated financial statements for the year ended October 31, 2016, have not changed significantly as at April 30, 2017.

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.

Summary of Quarterly Results

($CDN thousands except per share amounts)	2017		2016				2015	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Results of operations:								
Total interest income	$ 17,463	$ 18,586	$ 17,462	$ 17,628	$ 17,346	$ 17,226	$ 16,685	$ 16,513
Yield on assets (%)	4.14%	4.24%	4.09%	4.13%	4.14%	4.11%	4.15%	4.24%
Interest expense	6,884	7,441	7,396	7,792	7,986	8,084	7,724	7,786
Cost of funds (%)	1.63%	1.70%	1.73%	1.82%	1.91%	1.93%	1.92%	2.00%
Net interest income	10,579	11,145	10,066	9,836	9,360	9,142	8,961	8,727
Net interest margin (%)	2.51%	2.54%	2.36%	2.31%	2.23%	2.18%	2.23%	2.24%
Non-interest income	(453)	287	320	343	285	325	384	368
Total revenue	10,126	11,432	10,386	10,179	9,645	9,467	9,345	9,095
Provision (recovery) for credit losses	(582)	303	422	24	213	212	319	297
Non-interest expenses	6,220	6,458	6,779	6,654	6,472	6,051	6,562	6,421
Income before restructuring charges and income taxes	4,488	4,671	3,185	3,501	2,960	3,204	2,464	2,377
Restructuring charges	1,575	470	549	98	445	-	-	-
Income before income taxes	2,913	4,201	2,636	3,403	2,515	3,204	2,464	2,377
Income tax provision (recovery)	809	(7,663)	740	947	708	893	(306)	670
Net income	$ 2,104	$ 11,864	$ 1,896	$ 2,456	$ 1,807	$ 2,311	$ 2,770	$ 1,707
Income per common share								
Basic	$ 0.07	$ 0.56	$ 0.07	$ 0.09	$ 0.06	$ 0.09	$ 0.11	$ 0.05
Diluted	$ 0.07	$ 0.56	$ 0.07	$ 0.09	$ 0.06	$ 0.09	$ 0.11	$ 0.05

The financial results for each of the last eight quarters are summarized above. Total interest income and net interest income declined over the current quarter primarily due to lower interest income and normalized fees earned on real estate assets over the same period. Non-interest income, which consists primarily of income from the Bank's credit card operations declined over the current quarter as a result of the sale of the Bank's credit card portfolio over the course of the quarter.

Restructuring charges for the quarter totaled $1.6 million compared to $470,000 last quarter and $445,000 for the same period a year ago. These restructuring charges relate to termination benefits incurred as a function of the sale of the credit card portfolio and the Bank's corporate reorganization as well as costs associated with the Bank's corporate rebranding and strategic review that resulted in the Amalgamation.

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 provision for income taxes in the first quarter of 2017, as well as 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.

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.

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 less non-interest expenses, as presented in the Consolidated Statements of Income.

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 2016 Audited Consolidated Financial Statements. There have been no material changes in accounting policies since October 31, 2016.

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 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.

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.

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 monthly basis. The allowance 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 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. The Bank plans to adopt IFRS 9 on November 1, 2018.

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.

Controls and Procedures

During the quarter ended April 30, 2017, 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 our 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 we conduct 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 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 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, 2016.

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.