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 first quarter of Fiscal 2020, dated February 24, 2020, should be read in conjunction with the unaudited interim consolidated financial statements for the period ended January 31, 2020, 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, 2019, 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, 2019, remain substantially unchanged.

HIGHLIGHTS

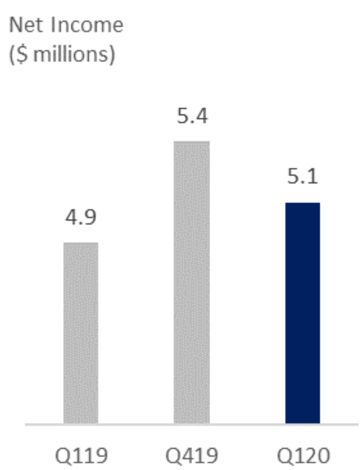
(unaudited)	for the three months ended		
($CDN thousands except per share amounts)	January 31 2020	October 31 2019	January 31 2019
Results of operations			
Interest income	$ 22,166	$ 22,263	$ 21,959
Net interest income	13,557	13,655	13,440
Non-interest income (loss)	25	(20)	19
Total revenue	13,582	13,635	13,459
Provision (recovery) for credit losses	(208)	21	(289)
Non-interest expenses	6,705	6,171	6,954
Core cash earnings*	7,085	7,443	6,794
Core cash earnings per common share*	$ 0.34	$ 0.36	$ 0.32
Net income	**5,141**	**5,405**	**4,932**
Income per common share:			
Basic	$ 0.22	$ 0.23	$ 0.21
Diluted	$ 0.22	$ 0.23	$ 0.21
Dividends paid on preferred shares	$ 542	$ 550	$ 550
Dividends paid on common shares	$ 528	$ 422	$ 317
Yield*	4.84%	4.96%	4.90%
Cost of funds*	1.88%	1.92%	1.90%
Net interest margin*	2.96%	3.04%	3.00%
Return on average common equity*	8.60%	9.23%	8.86%
Core cash return on average common equity*	12.23%	13.11%	12.62%
Book value per common share*	$ 10.17	$ 9.98	$ 9.39
Efficiency ratio*	49%	45%	52%
Return on average total assets*	1.01%	1.08%	0.98%
Gross impaired loans to total loans*	0.38%	0.39%	1.22%
Provision (recovery) for credit losses as a % of average loans*	(0.01%)	0.00%	(0.02%)
		as at	
Balance Sheet Summary			
Cash and securities	$ 134,253	$ 149,206	$ 105,193
Loans, net of allowance for credit losses	1,668,720	1,594,288	1,603,185
Average loans*	1,631,504	1,604,050	1,617,106
Total assets	1,854,765	1,785,381	1,746,278
Average assets*	1,820,073	1,781,020	1,777,704
Deposits	1,454,979	1,399,889	1,371,123
Subordinated notes payable	4,883	4,881	9,859
Shareholders' equity	244,234	240,163	227,710
Capital ratios*			
Risk-weighted assets	$ 1,558,070	$ 1,501,435	$ 1,466,154
Common Equity Tier 1 capital	203,399	197,545	179,811
Total regulatory capital	237,736	231,882	213,148
Common Equity Tier 1 (CET1) ratio	13.05%	13.16%	12.26%
Tier 1 capital ratio	14.94%	15.11%	14.27%
Total capital ratio	15.26%	15.44%	14.54%
Leverage ratio	11.86%	11.99%	11.56%

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

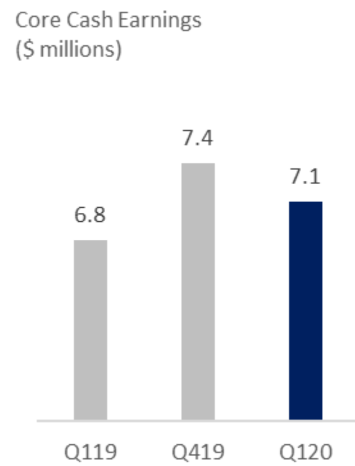
Overview

VersaBank (the "Bank") adopted an electronic branchless model in 1993, becoming the world's first branchless financial institution. It holds a Canadian Schedule I chartered bank licence and obtains its deposits, and the majority of its loans and leases, electronically. VersaBank's Common Shares trade on the Toronto Stock Exchange under the symbol VB and its Series 1 Preferred Shares and Series 3 Preferred Shares trade under the symbols VB.PR.A and VB.PR.B, respectively.

Results for the quarter ended January 31, 2020 reflect a strong start to the Bank's fiscal 2020 year with year over year performance trends continuing to improve across the majority of the Bank's key financial metrics. The Bank continues to focus on enhancing Core Cash Earnings performance by concentrating on niche markets that support modestly better pricing for its products and by leveraging its diverse deposit gathering network in order to maintain a lower cost of funds. The underlying drivers of the Bank's performance trends for the current and comparative periods are set out in the following sections of this MD&A.



Net income for the quarter was $5.1 million or $0.22 per common share (basic and diluted), compared to $5.4 million or $0.23 per common share (basic and diluted) last quarter and $4.9 million or $0.21 per common share (basic and diluted) for the same period a year ago. The quarter over quarter trend was a function primarily of higher non-interest expenses partially offset by higher recovery of credit losses while the year over year trend was a function primarily of higher net interest income and lower non-interest expenses, partially offset by lower recovery of credit losses.

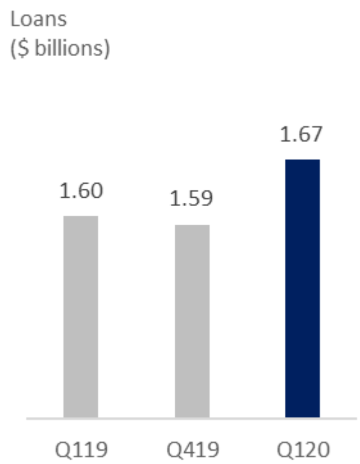


Core cash earnings for the quarter were $7.1 million compared to $7.4 million last quarter and $6.8 million for the same period a year ago. The quarter over quarter and year over year trends were a function of the same combination of financial variable trends underlying the net income performance trends set out above.

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

(thousands of Canadian dollars)	for the three months ended	
	January 31 2020	January 31 2019
Net income	$ 5,141	$ 4,932
Adjusted for:		
Income taxes	1,944	1,862
Core cash earnings	$ 7,085	$ 6,794

Total assets at January 31, 2020 were $1.85 billion compared to $1.79 billion last quarter and $1.75 billion a year ago. The quarter over quarter trend was a function primarily of growth in lending asset balances offset partially by lower cash and securities balances. The year over year trend was a function primarily of growth in lending asset balances and higher cash and securities balances.



Loans at January 31, 2020 were $1.67 billion compared to $1.59 billion last quarter and $1.60 billion a year ago. The quarter over quarter and year over year trends were a function primarily of growth in loan and lease receivable balances.

Gross impaired loans at January 31, 2020 totalled $6.4 million ($6.3 million at October 31, 2019 and $19.6 million a year ago), which represents approximately 0.38% of total loans. The year over year trend was a function primarily of the repayment of a large restructured real estate loan.

Total Revenue

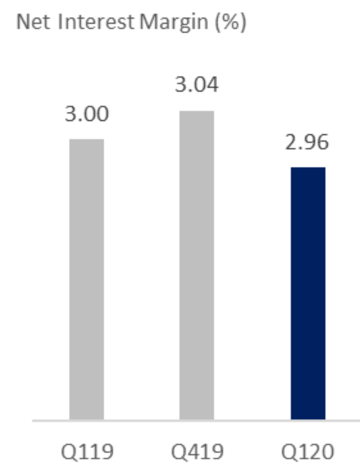
Total revenue consists of net interest income and non-interest income. Non-interest income for the current quarter consisted primarily of income derived from miscellaneous transaction fees not directly attributable to lending assets. Non-interest income is not currently a significant source of revenue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

Total revenue for the quarter was $13.6 million compared to $13.6 million last quarter and $13.5 million for the same period a year ago.

Net Interest Income

Net interest income for the quarter was $13.6 million compared to $13.7 million last quarter and $13.4 million for the same period a year ago. The quarter over quarter trend was a function primarily of the Bank recognizing additional interest income retrospectively on a large restructured real estate loan in the previous quarter. The year over year trend was a function primarily of higher interest income earned on lending assets in the current quarter, offset partially by higher interest expense.

Net Interest Margin



Net interest margin or spread for the quarter was 2.96% compared to 3.04% last quarter and 3.00% for the same period a year ago. The quarter over quarter trend was a function primarily of the Bank recognizing additional interest income retrospectively on a large restructured real estate loan in the previous quarter and the impact of lending asset growth in the current quarter occurring in the latter half of the period. The year over year trend was a function primarily of the impact of lending asset growth in the current quarter occurring in the latter half of the period.

Provision for Credit Losses

During the quarter the Bank recorded a recovery of credit losses in the amount of $208,000 compared to a provision for credit losses in the amount of $21,000 last quarter and a recovery of credit losses in the amount of $289,000 a year ago. The quarter over quarter trend was a function primarily of the impact of net remeasurements of expected credit losses on real estate loans attributable to changes in real estate asset mix, borrower improved financial performance and more favourable forecast real estate market and asset variable trends in specific geographic regions included in the Bank's applied forward looking information data set, offset partially by growth in loan and lease receivable balances this quarter. The year over year trend was a function primarily of lending asset growth, changes in lending asset mix this quarter and the impact of net remeasurements of expected credit loss amounts last year as a result of the conversion to the expected credit loss methodology under IFRS 9.

Non-Interest Expenses

Non-interest expenses of the Bank were $6.7 million compared to $6.2 million last quarter and $7.0 million for the same period a year ago. The quarter over quarter trend was a function primarily of higher salary and benefits expense attributable to higher staffing levels and investment in the Bank's corporate development initiatives. The year over year trend was a function primarily of lower general corporate expenses.

Tax Provision

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

Provision for income taxes for the quarter was $1.9 million compared to $2.0 million for the previous quarter and $1.9 million for the same period a year ago.

Comprehensive Income

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

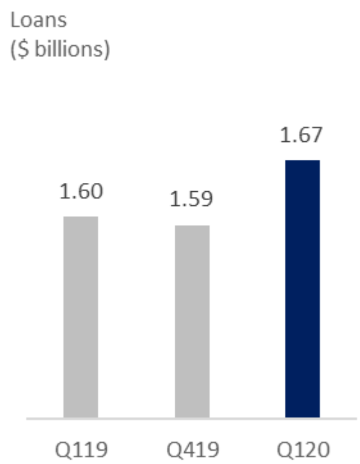
Consolidated Balance Sheet

Total assets at January 31, 2020 were $1.85 billion compared to $1.79 billion last quarter and $1.75 billion a year ago. The quarter over quarter trend was a function of growth in lending asset balances offset partially by lower cash and securities balances. The year over year trend was a function primarily of growth in lending asset balances and higher cash and security balances.

Cash and Securities

Cash and securities, which are held primarily for liquidity purposes, were $134.3 million or 7.2% of total assets at January 31, 2020 compared to $149.2 million or 8.4% of total assets last quarter and $105.2 million or 6.0% of total assets a year ago. The quarter over quarter trend was a function primarily of the timing of loan repayments and new fundings combined with the Bank managing its liquidity position to align as closely as possible with its liquidity targets and thresholds. The year over year trend was a function of the Bank managing deposit intake volumes a year ago in order to benefit from downward trending term deposit rates, combined with the timing of loan repayments and new fundings during the same period.

Loans



Loans at January 31, 2020 were $1.67 billion compared to $1.59 billion last quarter and $1.60 billion a year ago. The quarter over quarter trend was a function primarily of growth in both loan and lease receivable balances and real estate loan balances. The year over year trend was a function primarily of growth in loan and lease receivable balances offset partially by lower real estate loan balances.

Residential mortgage exposures

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

Under OSFI's definition, the Bank's exposure to residential mortgages at January 31, 2020 was $1.7 million compared to $305,000 last quarter and $230,000 a year ago. The Bank did not have any HELOC's outstanding at January 31, 2020, last quarter or a year ago.

Credit Quality

Gross impaired loans at January 31, 2020, were $6.4 million, compared to $6.3 million last quarter and $19.6 million a year ago. The year over year trend was a function primarily of the repayment of a large restructured real estate loan.

At January 31, 2020, the Bank's allowance for expected credit losses was $1.9 million compared to $2.1 million last quarter and $2.4 million a year ago. The quarter over quarter trend was a function primarily of the impact of net remeasurements of expected credit losses on real estate loans attributable to changes in real estate asset mix, borrower improved financial performance and more favourable forecast real estate market and asset variable trends in specific geographic regions included in the Bank's applied forward looking information data set, offset partially by growth in loan and lease receivable balances this quarter. The year over year trend was a function primarily of lending asset growth, changes in lending asset mix this quarter and the impact of net remeasurements of expected credit loss amounts last year as a result of the conversion to the expected credit loss methodology under IFRS 9.

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

Other Assets

Other assets include working capital items, funds held for securitization liabilities, capital assets, right-of-use assets, and the deferred income tax asset. Other assets at January 31, 2020 were $51.8 million, compared to $41.9 million last quarter and $37.9 million a year ago. The quarter over quarter and year over year trends were a function primarily of higher funds held for securitization liabilities attributable to repayments in the Bank's securitized mortgage portfolio, as well as higher prepaids, accounts receivable and inclusion of right-of-use assets on adoption of

IFRS 16 – *Leases* in the current year, offset partially by draw downs on the deferred income tax asset derived from taxable income generated by the Bank over the respective periods.

The deferred income tax asset was $9.9 million at January 31, 2020, compared to $11.6 million last quarter and $16.7 million a year ago. The quarter over quarter and year over year trends were a function primarily of draw downs on the deferred income tax asset related to taxable income generated by the Bank over the respective periods.

Deposits and Other Liabilities

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

Personal deposits, consisting principally of guaranteed investment certificates, are sourced primarily through a well-established and well-diversified deposit broker network that the Bank continues to grow and expand across Canada. Personal deposits at January 31, 2020 were $1.0 billion compared to $960.4 million last quarter and $975.9 million a year ago. The quarter over quarter and year over year trends were a function primarily of higher net lending asset balances in the current period.

Commercial deposits are sourced primarily via specialized chequing accounts made available to insolvency professionals ("Trustees") in the Canadian insolvency industry. The Bank developed customized banking software for use by Trustees that integrates banking services with the market-leading software platform used in the administration of consumer bankruptcy and proposal restructuring proceedings. Commercial deposits at January 31, 2020 were $440.9 million compared to $439.5 million last quarter and $395.2 million a year ago. The quarter over quarter and year over year trends were a function of continued growth in the number of Trustees that have established chequing accounts with the Bank over the course of the respective periods.

Other liabilities at January 31, 2020 were $117.3 million compared to $107.1 million last quarter and $104.1 million a year ago. The quarter over quarter and year over year trends were a function primarily of higher holdbacks payable balances, higher cash collateral amounts held in escrow and the recognition of lease obligations in the amount of $3.3 million as a result of the Bank's adoption of IFRS 16 – *Leases* (see Change in Accounting Policies) over the respective periods. Holdbacks payable at January 31, 2020 were $105.3 million compared to $97.0 million last quarter and $96.7 million a year ago. The quarter over quarter and year over year trends were a function primarily of growth in loan and lease receivable balances 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 January 31, 2020 were $33.4 million compared to $33.4 million at the end of last quarter and $33.5 million a year ago. The amounts payable to counterparties bear interest at rates ranging from 3.55% - 3.95% and mature in 2020. Residential mortgages and other assets are pledged as collateral for securitized liabilities.

Subordinated Notes Payable

Subordinated notes payable, net of issue costs, were $4.9 million at January 31, 2020 compared to $4.9 million last quarter and $9.9 million a year ago. In March 2019 the Bank redeemed a subordinated note in the principal amount of $10.0 million with a maturity date of March 2021. During the same period the Bank completed a private placement of 10%, non-viability contingent capital ("NVCC") compliant subordinated notes in the principal amount of $5.0 million, maturing in March 2029, that is included in the Bank's Tier II regulatory capital. The effective interest rate on the subordinated notes is 10.41%.

Shareholders' Equity

Shareholders' equity was $244.2 million at January 31, 2020 compared to $240.2 million last quarter and $227.7 million a year ago. The quarter over quarter and year over year trends were a function primarily of retained earnings growth, offset partially by the payment of dividends.

Common shares outstanding at January 31, 2020 totalled 21,123,559, unchanged compared to last quarter and a year ago.

The Bank's book value per common share at January 31, 2020 was $10.17 compared to $9.98 last quarter and $9.39 a year ago with the increase being a function primarily of retained earnings growth, offset partially by the payment of dividends over the respective periods.

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

Updated Share Information

As at February 24, 2020, there were no changes since January 31, 2020 in the number of common shares, Series 1 and Series 3 preferred shares, and common share options outstanding.

Off-Balance Sheet Arrangements

As at January 31, 2020, the Bank did not have any significant off-balance sheet arrangements other than loan commitments and letters of credit resulting from normal course business activities. See Note 12 to the unaudited interim consolidated financial statements for more information.

Related Party Transactions

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

Risk Management

The risk management policies and procedures of the Bank are set out in its annual MD&A for the year ended October 31, 2019.

Capital Management and Capital Resources

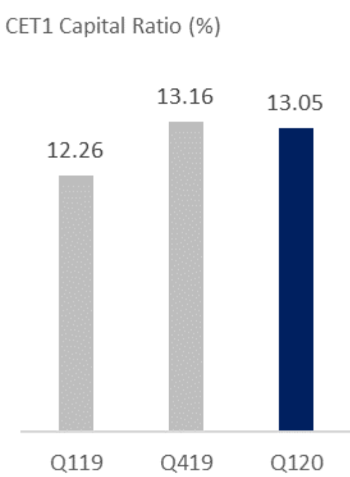
The Basel Committee on Banking Supervision has rules on capital adequacy and liquidity (Basel III). Significant rules under Basel III that are most relevant to the Bank include:

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

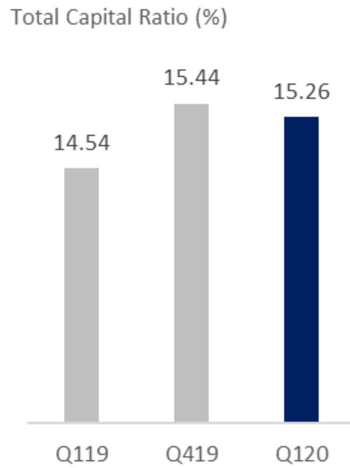
The Bank reports its regulatory capital ratios using the Standardized approach for calculating risk-weighted assets, as defined under Basel III, which may require the Bank to carry more capital for certain credit exposures compared to requirements under the Advanced Internal Ratings Based ("AIRB") methodology.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

OSFI requires that all Canadian banks must comply with the Basel III standards on an "all-in" basis for purposes of determining its risk-based capital ratios. Required minimum regulatory capital ratios are a 7.0% Common Equity Tier 1 ("CET1") capital ratio, an 8.5% Tier 1 capital ratio and a 10.5% total capital ratio, all of which include a 2.5% capital conservation buffer.

Under the Basel III standards, total regulatory capital of the Bank was $237.7 million at January 31, 2020 compared to $231.9 million last quarter and $213.1 million a year ago. The quarter over quarter trend was a function primarily of retained earnings growth and tax provision recoveries related to the Bank's deferred tax asset. The year over year trend was a function primarily of retained earnings growth, tax provision recoveries related to the Bank's deferred tax asset, and the net impact of the redemption of a subordinated note in the principal amount of $10.0 million, of which $4.0 million was eligible for inclusion in the Bank's Tier II regulatory capital, and the completion of a private placement of 10%, NVCC compliant subordinated notes in the principal amount of $5.0 million in March 2019.



The Bank's CET1 capital ratio was 13.05% at January 31, 2020 compared to 13.16% last quarter and 12.26% a year ago. The quarter over quarter trend was a function of higher risk weighted assets offset partially by retained earnings growth and tax provision recoveries related to the Bank's deferred tax asset. The year over year trend was a function of retained earnings growth, and tax provision recoveries related to the Bank's deferred tax asset, offset partially by higher risk-weighted assets.



The Bank's total capital ratio at January 31, 2020 was 15.26% compared to 15.44% last quarter and 14.54% a year ago.

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

The year over year trend was a function of retained earnings growth, tax provision recoveries related to the Bank's deferred tax asset, and the net impact of the redemption of a subordinated note in the principal amount of $10.0 million, of which $4.0 million was eligible for inclusion in the Bank's Tier II regulatory capital, and the completion of a private placement of 10%, NVCC compliant subordinated notes in the principal amount of $5.0 million in March 2019, offset partially by higher risk-weighted assets.

The Bank's leverage ratio at January 31, 2020 was 11.86% compared to 11.99% last quarter and 11.56% a year ago.

See Note 14 to the Bank's January 31, 2020 interim Consolidated Financial Statements for more information regarding capital management.

Liquidity

The unaudited Consolidated Statement of Cash Flows for the three months ended January 31, 2020 shows cash used by operations of $13.1

million compared to cash used by operations of $33.3 million for the same period last year. The net use of cash by operations for the current period was a function primarily of cash outflows to fund loans exceeding cash inflows from deposits raised. The net use of cash by operations in the comparative period was a function primarily of cash outflows to fund deposit maturities exceeding cash inflows from loan repayments. Based on factors such as liquidity requirements and opportunities for investment in loans and securities, the Bank may manage the amount of deposits it raises and loans it funds in ways that result in the balances of these items giving rise to either negative or positive cash flow from operations. The Bank will continue to fund its operations and meet contractual obligations as they become due using cash on hand and by closely managing its flow of deposits.

Interest Rate Risk Management

The Bank is subject to interest rate risk which is the risk that a movement in interest rates could negatively impact net interest margin, net interest income and the economic value of assets, liabilities and shareholders' equity. The table below presents the duration difference between the Bank's assets and liabilities and the potential after-tax impact of a 100 basis point shift in interest rates on the Bank's earnings during a 12 month period and the potential after-tax impact of a 100 basis point shift in interest rates on the Bank's shareholders' equity over a 60 month period if no remedial actions are taken. The Bank's sensitivity to changes in interest rates and the difference in duration between assets and liabilities at January 31, 2020, has not changed significantly compared to the previous quarter. As presented in the table below, at January 31, 2020, the impact on net interest income during a 12 month period of a 100 basis point increase in rates would be approximately $1.9 million, while the impact on net interest income of a 100 basis point decrease in rates would be approximately ($1.9 million). Further, at January 31, 2020, the impact on equity during a 60 month period of a 100 basis point increase in rates would be approximately ($3.9 million), while the impact on equity of a 100 basis point decrease in rates would be approximately $4.0 million. At January 31, 2020, the duration difference between assets and liabilities was 1.2 months compared to 1.3 months at October 31, 2019, which indicates that the Bank's assets and liabilities would reprice at approximately the same time in the event of a future change in interest rates.

(thousands of Canadian dollars)	January 31, 2020	
	Increase 100 bps	Decrease 100 bps
Increase (decrease):		
Impact on projected net interest income during a 12 month period	$ 1,869	$ (1,857)
Impact on reported equity during a 60 month period	$ (3,863)	$ 3,993
Duration difference between assets and liabilities (months)	1.2	

(thousands of Canadian dollars)	October 31, 2019	
	Increase 100 bps	Decrease 100 bps
Increase (decrease):		
Impact on projected net interest income during a 12 month period	$ 1,621	$ (1,613)
Impact on reported equity during a 60 month period	$ (3,669)	$ 3,780
Duration difference between assets and liabilities (months)	1.3	

Capital Assets

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

As a result of the adoption of IFRS 16 – Leases, the Bank has recognized leases that were previously classified as operating leases and not reflected on the Bank's balance sheet. As at November 1, 2019 the Bank recognized right-of-use capital assets of $3.3 million related to leases associated with the Bank's operating facilities. See Changes in Accounting Policies below.

Contractual Obligations

Contractual obligations as disclosed in the Bank's MD&A and Audited Consolidated Financial Statements for the year ended October 31, 2019, have not changed significantly as at January 31, 2020.

Summary of Quarterly Results

(thousands of Canadian dollars except per share amounts)	2020	2019				2018		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Results of operations:								
Interest income	$ 22,166	$ 22,263	$ 22,958	$ 21,125	$ 21,959	$ 22,036	$ 20,446	$ 19,363
Yield on assets (%)	4.84%	4.96%	5.10%	4.89%	4.90%	4.82%	4.55%	4.59%
Interest expense	8,609	8,608	8,899	8,382	8,519	8,329	7,481	6,931
Cost of funds (%)	1.88%	1.92%	1.98%	1.94%	1.90%	1.82%	1.67%	1.64%
Net interest income	13,557	13,655	14,059	12,743	13,440	13,707	12,965	12,432
Net interest margin (%)	2.96%	3.04%	3.12%	2.95%	3.00%	3.00%	2.88%	2.95%
Total revenue	13,582	13,635	14,078	12,747	13,459	13,827	12,982	12,469
Provision for (recovery of) credit losses	(208)	21	381	(411)	(289)	191	128	(50)
Non-interest expenses	6,705	6,171	6,860	6,411	6,954	6,423	6,408	6,617
Efficiency ratio	49%	45%	49%	50%	52%	46%	49%	53%
Core cash earnings	7,085	7,443	6,837	6,747	6,794	7,108	6,446	5,902
Core cash earnings per common share	$ 0.34	$ 0.36	$ 0.32	$ 0.32	$ 0.32	$ 0.33	$ 0.30	$ 0.28
Income before income taxes	7,085	7,443	6,837	6,747	6,794	7,213	6,446	5,902
Tax provision	1,944	2,038	1,874	1,851	1,862	2,049	1,768	1,646
Net income	$ 5,141	$ 5,405	$ 4,963	$ 4,896	$ 4,932	$ 5,164	$ 4,678	$ 4,256
Income per share								
Basic	$ 0.22	$ 0.23	$ 0.21	$ 0.21	$ 0.21	$ 0.21	$ 0.20	$ 0.18
Diluted	$ 0.22	$ 0.23	$ 0.21	$ 0.21	$ 0.21	$ 0.21	$ 0.20	$ 0.18
Return on average common equity	8.60%	9.23%	8.56%	8.89%	8.86%	9.53%	8.72%	8.25%
Core cash return on average common equity	12.23%	13.11%	12.20%	12.68%	12.62%	13.55%	12.45%	11.93%
Return on average total assets	1.01%	1.08%	0.98%	1.01%	0.98%	1.01%	0.92%	0.88%
Gross impaired loans to total loans	0.38%	0.39%	1.58%	1.57%	1.22%	0.04%	0.04%	0.04%

*Efficiency ratio is adjusted for restructuring charges.

The financial results for each of the last eight quarters are summarized above. Key drivers of the quarter over quarter performance trends for the current reporting period were: growth in lending assets, higher recovery of credit losses, and higher non-interest expenses, combined with the impact of the recognition of additional interest income retrospectively on a large restructured real estate loan in the previous quarter.

Basis of Presentation

Non-GAAP and Additional GAAP Measures

Core Cash Earnings

Core cash earnings, which reflects the Bank's core operational performance and earnings capacity, is calculated as net income (as presented in the Consolidated Statements of Comprehensive Income) adjusted for income taxes, restructuring charges, corporate projects and other non-core operational expenses. Core cash earnings does not have a standardized meaning prescribed by IFRS and, therefore, may not be comparable to similar measures presented by other financial institutions.

Core Cash Earnings per Common Share

Core cash earnings per common share is defined as core cash earnings divided by the number of common shares outstanding.

Yield

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

Cost of Funds

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

Net Interest Income and Net Interest Margin or Spread

Most banks analyze profitability by net interest income (as presented in the Consolidated Statements of Comprehensive Income) and net interest margin or spread. Net interest margin or spread is calculated as net interest income divided by average total assets. Net interest margin or spread does not have a standardized meaning prescribed by IFRS and, therefore, may not be comparable to similar measures presented by other financial institutions.

Return on Average Common Equity

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

Core Cash Return on Average Common Equity

Core cash return on average common equity is defined as annualized core cash earnings less amounts relating to preferred share dividends, divided by average common shareholders' equity which is average shareholders' equity less amounts relating to preferred shares recorded in equity.

Book Value per Common Share

Book value per common share is defined as Shareholders' Equity less amounts relating to preferred shares recorded in equity, divided by the number of common shares outstanding.

Efficiency Ratio

The efficiency ratio is calculated as non-interest expenses as a percentage of total revenue (as presented in the interim Consolidated Statements of Comprehensive Income). This ratio does not have a standardized meaning prescribed by IFRS and, therefore, may not be comparable to similar measures presented by other financial institutions.

Return on Average Total Assets

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

Gross Impaired Loans to Total Loans

The measure captures gross impaired loan balances as a percentage of the Bank's loans, net of allowance for credit losses. This percentage does not have a standardized meaning prescribed by IFRS and, therefore, may not be comparable to similar measures presented by other financial institutions.

Provision for (Recovery of) Credit Losses as a Percentage of Average Total Loans

This measure captures the provision for (recovery of) credit losses (as presented in the interim Consolidated Statements of Comprehensive Income) as a percentage of the Bank's average loans, net of allowance for credit losses. This percentage does not have a standardized meaning prescribed by IFRS and, therefore, may not be comparable to similar measures presented by other financial institutions.

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

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

Significant Accounting Policies and Use of Estimates and Judgments

Significant accounting policies are detailed in Note 3 of the Bank's 2019 Audited Consolidated Financial Statements. There have been no material changes in accounting policies since October 31, 2019, except for changes to accounting policies resulting from the adoption of IFRS 16 – *Leases* noted in Changes in Accounting Policies below.

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

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

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

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

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

Loans

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

Allowance for Expected Credit Losses

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

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

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

Corporate Income Taxes

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

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

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

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

Changes in Accounting Policies

Leases (IFRS 16)

Effective November 1, 2019, the Bank adopted IFRS 16, which sets out prescribed methodology related to the recognition, measurement, presentation and disclosure of operational leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all major leases. IFRS 16 supersedes previous accounting standards for leases, including IAS 17, Leases and IFRIC 4 – Determining whether an arrangement contains a lease. As a result of adopting IFRS 16, the Bank recognized an increase to both assets and liabilities on the Consolidated Balance Sheet, as well as a decrease in rent expense, with a corresponding increase in amortization expense (due to depreciation of the right-of-use assets) and an increase in finance costs (due to accretion of the lease obligations).

The Bank’s accounting policy under IFRS 16 is set out below.

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease arrangement based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Bank recognizes a right-of-use asset and a lease obligation at the lease commencement date. The right-of-use asset is initially measured based on the initial amount of the lease obligation adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset and/or the site on which it is located, less any lease incentives received.

The assets are depreciated to the earlier of the end of useful life of the right-of-use asset or the lease term using the straight-line method as this methodology most closely reflects the expected pattern of consumption of the associated future economic benefits.

The lease term includes periods covered by an option to extend if there is reasonable certainty that the Bank will exercise that option. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease obligation.

The lease obligation is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the incremental borrowing rate that is a function of the asset type or class and the credit quality of the borrower. Generally, the Bank will use its incremental borrowing rate as the discount rate. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease obligation.

The lease obligation is measured at amortized cost using the effective interest rate method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, or if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease obligation is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or the remeasured amount is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Impact of adoption of IFRS 16

Effective November 1, 2019, the Bank adopted IFRS 16 using the modified retrospective approach and accordingly the information presented for Fiscal 2019 has not been restated. It remains as previously reported under IAS 17 and related interpretations.

Prior to the adoption of IFRS 16 the Bank's total minimum operating lease commitments as at October 31, 2019 were $6.8 million. On initial application, the Bank has elected to record right-of-use assets based on the corresponding lease obligation. Right-of-use assets and lease obligations of $3.3 million were recorded as of November 1, 2019, with no net impact on retained earnings. When measuring its lease liabilities, the Bank discounted its lease payments at its incremental borrowing rate, applicable to the asset class(es) at November 1, 2019. The weighted-average rate applied is 4.4%.

The Bank elected to apply the practical expedient to account for leases for which the lease term ends within 12 months of the date of initial application as short-term leases.

Additional information on the Bank's adoption of IFRS 16 is reflected in note 3 of the Bank's January 31, 2020 interim Consolidated Financial Statements.

Future Changes in Accounting Policies

The Bank monitors the potential changes proposed by the IASB and assesses the impact that change in accounting standards may have on the Bank's financial reporting and accounting policies. Future accounting policies that may impact the Bank can be found on page 21 of the Bank's 2019 annual MD&A and note 4 of the Bank's 2019 annual consolidated financial statements.

Controls and Procedures

During the quarter ended January 31, 2020, 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, 2019.

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

FOR FURTHER INFORMATION PLEASE CONTACT:

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