MANAGEMENT’S DISCUSSION AND ANALYSIS

BUSINESS PROFILE
Overview

Pacific & Western Bank of Canada (the “Bank”), provides commercial lending services to selected niche markets and raises its deposits primarily through a diversified deposit broker network across Canada. The Bank has operated as a Schedule I bank under the *Bank Act* (Canada) since August 1, 2002. Prior to that, the Bank operated as a provincially licensed trust company since 1979. On August 27, 2013, the Bank commenced trading on the Toronto Stock Exchange (TSX). The Bank is the principal subsidiary of PWC Capital Inc. (the “Corporation”) whose securities are also listed and trade on the TSX.

Strategy and Strengths

The Bank’s vision is to be the preferred provider of financial solutions to its clients and its mission is to deliver a competitive and sustainable rate of return to shareholders by delivering ideally suited financial products, services and solutions to its clients in selected niche markets across Canada. As a result of the Bank’s disciplined underwriting approach, it has been able to grow its loan portfolio over the years with minimal loan losses. Operating as a branchless financial institution, the Bank emphasizes the use of technology and based on its ratio of total assets to full time employees is one of the most efficient financial institutions in Canada.

Goals and Objectives

The Bank's goal is to provide financial solutions to its clients and deliver a competitive and sustainable rate of return to its shareholders. The Bank's objectives in 2014 included the following:

- Increase profitability by increasing net interest income and spread through loan growth in its established markets and expansion of commercial and consumer loans and leases sourced through its bulk purchase program.
- Maintain high credit quality by continuing its disciplined approach to financing and management of its lending portfolios.
- Increase its regulatory capital through earnings and new capital sources to allow it to pursue its growth strategy.
- Expand the use of its banking software for trustees in the bankruptcy industry, reducing its cost of funds and bringing diversity to its deposit gathering network.
- Control growth of non-interest expenses.

Forward-looking statements

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

The foregoing list of important factors is not exhaustive. When relying on forward-looking statements to make decisions, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. Except as required by securities law, there is no undertaking 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.

Non-GAAP and Additional GAAP Measures

Net Interest Income and Net Interest Margin or Spread

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

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.

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

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

Basel II Tier 1 and Total Capital Adequacy Ratios

Basel II common equity Tier 1 and total capital adequacy ratios are determined in accordance with guidelines issued by OSFI.

Total Assets to Full Time Employee Ratio

The ratio of total assets to full time employees is determined by dividing total assets of the Bank by the number of full time employees.

2014 FINANCIAL SUMMARY

(compared to 2013)

- Net income of the Bank for the year ended October 31, 2014, increased to $5.7 million from $1.8 million last year.
- Net interest margin or spread for the year ended October 31, 2014, increased by 12% to 1.96%, from 1.75% last year.
- Total revenue for the year increased to $30.5 million from $28.0 million a year ago.
- Credit quality remained strong with no gross impaired loans at October 31, 2014 compared to $7,000 a year ago.
- At October 31, 2014, the Bank's Common Equity Tier 1 (CET1) ratio compared favourably to the industry with a ratio of 11.25% compared to 11.29% a year ago. In addition, the Bank's total capital ratio increased to 13.69% at October 31, 2014 from 12.99% last year.
- On October 30, 2014, the Bank completed an offering of 1,461,460 non-cumulative 5 year rate reset Series 1 Preferred Shares for net proceeds of $13.6 million. These preferred shares qualify as Additional Tier 1 capital and will fund continued growth for the Bank.

Actual 2014 Performance Compared to Objectives

2014 Objectives	2014 Results
Improve profitability by increasing net interest income and spread through loan growth in its established markets and expansion of commercial and consumer loans and leases sourced through the Bank's bulk purchase program.	Net income of the Bank improved from a year ago primarily as a result of an increase in net interest income and spread through a decrease in the cost of funds relating to deposits and from growth in commercial and consumer loans and leases sourced through the bulk purchase program.
Maintain high credit quality by continuing its strict disciplined approach to financing and management of its lending portfolios.	Credit quality remained strong in the year with no impaired loans at the end of year and a decrease from the previous year.
Expansion of new banking product to trustees in the bankruptcy industry, reducing its cost of funds and bringing diversity to its deposit gathering network.	Deposits from trustees in the bankruptcy industry increased to $84 million at the end of the year from $35 million a year ago and continue to grow and expand across Canada.
Increase regulatory capital in the Bank to allow the Bank to carry out its growth strategy.	Common equity Tier 1 capital of the Bank at the end of the year increased to $130 million from $124 million a year ago and Tier 1 capital increased to $144 million from $124 million last year. In October 2014, the Bank completed an offering of 5 year rate reset preferred shares for net proceeds of $13.6 million which qualify as Additional Tier 1 capital.
Control growth of non-interest expenses	Non-interest expenses of the Bank for the year ended October 31, 2014 totalled $22.9 million, similar to last year's figure of $22.9 million.

KEY PERFORMANCE INDICATORS AND SELECTED ANNUAL FINANCIAL INFORMATION

(thousands of Canadian dollars except per share amounts)	October 31 2014	October 31 2013	October 31 2012
Net interest income	$ 27,874	$ 25,655	$ 19,608
Net interest margin (%)*	1.96%	1.75%	1.30%
Other income	2,633	2,320	13,287
Total revenue	30,507	27,975	32,895
Provision for credit losses	919	524	461
Non-interest expenses	22,947	22,882	24,343
Restructuring charges	434	2,064	-
Net income	$ 5,676	$ 1,764	$ 3,824
Net income available to:			
Preferred shareholders	-	-	-
Common shareholders	5,676	1,764	3,824
Earnings per common share:**			
Basic	$ 0.29	$ 0.11	$ 0.27
Diluted	$ 0.29	$ 0.11	$ 0.27
Return on average total assets	0.40%	0.12%	0.25%
Provision for credit losses as a % of average total loans	0.08%	0.04%	0.04%
Gross impaired loans to total loans	0.00%	0.00%	0.13%
Assets to full time employees*	$ 18,537	$ 18,482	$ 18,484
Book value per common share*	$ 7.14	$ 6.85	$ 6.62
Financial Position:			
Cash and securities	193,940	216,214	296,693
Total loans	1,224,247	1,158,933	1,210,311
Total assets	1,445,860	1,404,608	1,534,168
Subordinated notes payable	13,863	20,332	49,815
Capital Ratios:* **			
Assets-to-capital ratio	9.00	9.33	10.86
Common Equity Tier 1 capital	130,179	124,278	n/a
Risk-weighted assets	1,156,832	1,101,190	1,121,815
Common Equity Tier 1 ratio	11.25%	11.29%	n/a
Tier 1 capital ratio	12.43%	11.29%	8.54%
Total capital ratio	13.69%	12.99%	12.81%

* This is a non-GAAP measure. See definition in 'Non-GAAP and Additional GAAP Measures'.
** EPS and Book value per common share for Fiscal 2012 have been adjusted to reflect the 8:1 share consolidation which took place on December 31, 2012.
*** Capital Ratios for Fiscal 2012 have been calculated based on the Basel II Framework.

OVERVIEW OF 2014 PERFORMANCE

Net income of the Bank for the year ended October 31, 2014, was $5.7 million compared to $1.8 million a year ago. Net income for the current year increased from last year due primarily to an increase in net interest income in the current period, a positive adjustment relating to the recognition of previously unrecognized deferred income tax asset of the Bank and restructuring charges totalling

$2.1 million last year compared to $434,000 this year. Restructuring charges in the current year relate to the repayment in December 2013 of subordinated debt of the Bank and in the previous year to the repayment of subordinated debt and costs relating to the Bank's Initial Public Offering ("IPO").

Net interest income and net interest margin for the year ended October 31, 2014 were $27.9 million and 1.96% respectively compared to $25.7 million and 1.75% a year ago. The increases in net interest income and net interest margin were due to a more optimal asset mix and lower interest expense as a result of the repayment of subordinated notes over the past year and a lower cost of deposits.

At October 31, 2014, total assets of the Bank were $1.45 billion compared to $1.40 billion a year ago. Total loans at the end of the year increased to $1.22 billion from $1.16 billion a year ago with the increase due primarily to growth in commercial and consumer loan and lease receivables sourced through the bulk purchase program. Cash and securities, which are held primarily for liquidity purposes, totalled $194 million at October 31, 2014, compared to $216 million a year ago. Cash and securities decreased from a year ago primarily due to lower funding requirements for deposits maturing in the coming months compared to last year.

The Bank maintained its high credit quality and strong underwriting standards with no gross impaired loans at the end of the year compared to $7,000 a year ago.

At October 31, 2014, the Bank continued to exceed the Common Equity Tier 1 (CET1) capital requirement of 7.0% with a ratio of 11.25% compared to 11.29% a year ago. At October 31, 2014, the Bank's Tier 1 capital ratio was 12.43% compared to 11.29% a year ago and its total capital ratio was 13.69% compared to 12.99% a year ago. Required minimum regulatory capital ratios are a CET1 capital ratio of 7.00%, a Tier 1 capital ratio of 8.50% and a total capital ratio of 10.50%, all of which include a 2.50% capital conservation buffer.

On October 30, 2014, the Bank completed an offering of 1,461,460 non-cumulative 5 year rate reset Series 1 Preferred Shares for net proceeds of $13.6 million. These preferred shares qualify as Additional Tier 1 capital and will fund continued growth for the Bank.

TOTAL REVENUE

Total revenue consists of net interest income and other income. For the year ended October 31, 2014, total revenue of the Bank was $30.5 million compared to $28.0 million last year. Total revenue for the current year increased due to an increase in net interest income. Total revenue for the current year also includes gains of $1.2 million from the sale of loans compared to $1.0 million last year.

NET INTEREST INCOME AND NET INTEREST MARGIN

Net interest income is the difference between interest earned on assets and interest expense on deposits and other liabilities, including subordinated notes payable. Net interest margin or spread is net interest income as a percentage of average total assets (See Non-GAAP and Additional GAAP measures) and is presented in the tables below.

(thousands of Canadian dollars)	2014 Average Balance	Mix		Interest	Interest Rate	
Assets						
Cash and securities	$ 205,077	14.39	%	$ 2,883	1.41	%
Loans and leases	1,191,590	83.61		55,278	4.64	
Total interest earning assets	1,396,667	98.00		58,161	4.16	
Other assets	28,567	2.00		-	-	
Total assets	$ 1,425,234	100.00	%	$ 58,161	4.08	%
Liabilities and shareholders' equity						
Deposits and financings	$ 1,190,601	83.54	%	$ 27,232	2.29	%
Subordinated notes payable	17,098	1.20		1,520	8.89	
Securitization liabilities	43,438	3.05		1,535	3.53	
Total interest bearing liabilities	1,251,136	87.79		30,287	2.42	
Other liabilities	31,272	2.19		-	-	
Shareholders' equity	142,826	10.02		-	-	
Total liabilities and shareholders' equity	$ 1,425,234	100.00	%	$ 30,287	2.13	%
Net interest income and net interest margin				$ 27,874	1.96	%

(thousands of Canadian dollars)	2013 Average Balance	Mix		Interest	Interest Rate	
Assets						
Cash and securities	$ 256,454	17.45	%	$ 2,709	1.06	%
Loans and leases	1,184,622	80.62		58,214	4.91	
Total interest earning assets	1,441,076	98.07		60,923	4.23	
Other assets	28,312	1.93		-	-	
Total assets	$ 1,469,388	100.00	%	$ 60,923	4.15	%
Liabilities and shareholders' equity						
Deposits and financings	$ 1,252,351	85.23	%	$ 30,391	2.43	%
Subordinated notes payable	35,074	2.39		3,344	9.53	
Securitization liabilities	43,382	2.95		1,533	3.53	
Total interest bearing liabilities	1,330,807	90.57		35,268	2.65	
Other liabilities	25,462	1.73		-	-	
Shareholders' equity	113,119	7.70		-	-	
Total liabilities and shareholders' equity	$ 1,469,388	100.00	%	$ 35,268	2.40	%
Net interest income and net interest margin				$ 25,655	1.75	%

Net interest income of the Bank for the year ended October 31, 2014, increased to $27.9 million from $25.7 million for the same period a year ago. These increases were due to a more optimal asset mix as well as a lower interest expense as a result of the repayment of subordinated notes over the past year and a lower cost of deposits. Net interest margin for the year ended October 31, 2014 increased to 1.96% from 1.75% for the same period last year with the increase due to the factors noted above.

The Bank's cost of deposits which are used to finance growth in lending assets averaged 2.29% in 2014, less than that of a year ago where the cost of deposits was 2.43%. This decrease was due primarily to deposits being raised during the current year at lower rates than those of the deposits maturing in the current year.

Outlook

In 2015, the Bank expects that net interest income and net interest margin will continue to increase as a result of anticipated growth in lending assets, particularly commercial and consumer loans and leases sourced through the bulk purchase program, through leveraging of new capital issued by the Bank in 2014.

OTHER INCOME

(thousands of Canadian dollars)	2014	2013	Change from 2013	
			$	%
Gain on sale of lending assets	$ 1,207	$ 1,009	$ 198	20 %
Credit card non-interest revenue	1,369	1,136	233	21
Other income	57	175	(118)	(67)
	$ 2,633	$ 2,320	$ 313	13 %

Other income includes revenues not included in the determination of net interest income. Other income for the year was $2.6 million compared to $2.3 million for the same period a year ago. Other income in the current and previous year consists primarily of fees from credit cards and gains from the sale of loans as noted above.

Outlook

In 2015, the Bank expects that the amount of total other income will remain at the same level as that in the current year.

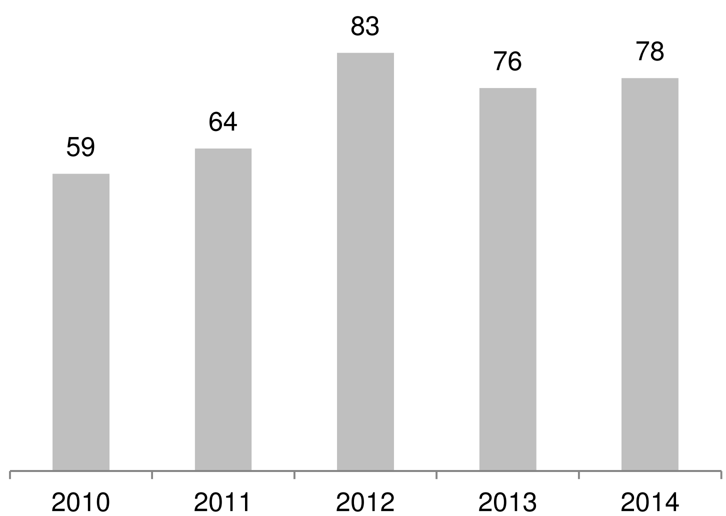
NON-INTEREST EXPENSES

(thousands of Canadian dollars)	2014	2013	Change from 2013	
			$	%
Salaries and employee benefits				
Salaries and benefits	$ 11,273	$ 11,238	$ 35	0 %
	11,273	11,238	35	0
Premises and equipment				
Rent-premises	610	630	(20)	(3)
Depreciation	395	496	(101)	(20)
Other	1,080	1,078	2	0
	2,085	2,204	(119)	(5)
General and administrative				
Capital taxes and other assessments	3,313	3,528	(215)	(6)
Insurance	385	363	22	6
Listing, sustaining and annual meeting fees	227	34	193	568
Marketing and business development	482	447	35	8
Professional fees and services	626	450	176	39
Credit card administration	1,476	2,028	(552)	(27)
Other	3,080	2,590	490	19
	9,589	9,440	149	2
	$ 22,947	$ 22,882	$ 65	0 %
Restructuring charges	434	2,064	(1,630)	(79)
Total non-interest expenses	$ 23,381	$ 24,946	$ (1,565)	(6) %

Non-interest expenses of the Bank, excluding restructuring charges, totalled $22.9 million compared to $22.9 million for the same period a year ago and reflect initiatives taken to control overhead costs. Individual categories are comparable to last year with the exception of listing fees which increased as a result of the issue of 5 year rate reset preferred shares and expenses relating to credit card operations which decreased as a result of changes to elements of the private label credit card program.

During the year ending October 31, 2014, the Bank incurred restructuring charges totalling $434,000 compared to $2.1 million last year. Restructuring charges in the current year relate to the repayment in December 2013 of subordinated debt of the Bank and in the previous year to the costs relating to the Bank's IPO and repayment of subordinated debt.

Number of Full-Time Equivalent Staff



The number of full-time equivalent staff increased slightly over the past year as a result of an increase in lending activities.

Outlook

In 2015 the Bank anticipates that non-interest expenses will increase slightly, primarily as a result of anticipated increases in volume related expenses and salaries, particularly those related to lending activities where we anticipate increases in staff complement.

CORPORATE INCOME TAXES

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

For the year ended October 31, 2014, the provision for income taxes was $531,000 compared to $741,000 for the same period a year ago with the current year's income tax provision impacted by the adjustment referred to above.

At October 31, 2014, the Bank has a deferred income tax asset of $8.5 million compared to $8.7 million a year ago with the net decrease a result of the drawdown of loss carryforwards due to the positive operating results over the past year, offset by the adjustment discussed above. The deferred income tax asset is primarily a result of income tax losses totalling approximately $36.0 million from previous periods. The income tax loss carry-forwards in the Bank are not scheduled to begin expiring until 2027 if unutilized.

Outlook

In 2015 the Bank does not expect its combined federal and provincial statutory tax rate to change from 2014 and expects to continue utilizing the available income tax loss-carryforwards.

COMPREHENSIVE INCOME

Comprehensive income is comprised of net income for the period and other comprehensive income (loss) which consists of unrealized gains and losses on available-for-sale securities. Comprehensive income for the year ended October 31, 2014 was $5.7 million compared to $1.7 million a year ago. Due to the current composition of the Bank's treasury portfolio which consists primarily of liquid securities, unrealized gains or losses in the portfolio are not significant and as a result, comprehensive income does not materially differ from net income.

Details of comprehensive income (loss) are as follows:

(thousands of Canadian dollars)	2014	2013	Change from 2013
Net income	$ 5,676	$ 1,764	$ 3,912
Other comprehensive income (loss), net of tax			
Net unrealized losses on assets held as available-for-sale [(1)]	(5)	(22)	17
Amount transferred to net income or loss on disposal of available-for-sale assets [(2)]	-	(26)	26
	(5)	(48)	43
Comprehensive income	$ 5,671	$ 1,716	$ 3,955

(1) Net of income tax benefit of $2 (2013 – $8)
(2) Net of income tax benefit of $nil (2013 – $10)

ACCUMULATED OTHER COMPREHENSIVE INCOME

Accumulated other comprehensive income is a separate component of shareholders' equity and was $19,000 at October 31, 2014 compared to $24,000 a year ago. Accumulated other comprehensive income consists of net unrealized gains on securities held and classified as available-for-sale.

BALANCE SHEET REVIEW
Balance Sheet Assets

(thousands of Canadian dollars)	2014	Mix	2013	Mix
Cash and cash equivalents	$ 145,140	10.05 %	$ 176,323	12.56 %
Securities:				
Issued by Canadian federal government, provinces or municipalities	10,135	0.70	24,641	1.75
Term deposits	26,055	1.80	50	0.00
Debt of other financial institutions	12,610	0.87	15,200	1.08
Total cash and securities	193,940	13.42	216,214	15.39
Loans:				
Government financing	87,332	6.04	129,782	9.24
Residential multi-family mortgages	122,686	8.49	133,580	9.51
Commercial and consumer loans and leases	548,240	37.92	346,540	24.67
Commercial mortgages	432,567	29.92	515,054	36.67
Credit card receivables	27,972	1.93	28,934	2.06
Other loans	3,967	0.27	3,948	0.28
Collective allowance	(2,905)	(0.20)	(3,275)	(0.23)
Accrued interest	4,388	0.30	4,370	0.31
Total loans	1,224,247	84.67	1,158,933	82.51
Other assets	27,673	1.91	29,461	2.10
Total assets	$ 1,445,860	100.00 %	$ 1,404,608	100.00 %

Total assets of the Bank at October 31, 2014, were $1.45 billion compared to $1.40 billion a year ago with the change from the previous year due primarily to an increase in total loans and a decrease in cash and securities. Loans increased during the period to $1.22 billion from $1.16 billion a year ago.

Outlook

In 2015, the Bank is expecting to see growth in total assets of approximately 20% with the growth being in loans, particularly commercial mortgages and commercial and consumer loans and leases sourced through the bulk purchase program which is diversified and well secured by holdbacks.

Cash and Securities

The Bank holds treasury assets primarily for liquidity management purposes. Cash and cash equivalents consist of deposits with Canadian financial institutions, government treasury bills and bankers acceptances with less than ninety days to maturity from the date of acquisition. Securities in the Bank's treasury portfolio typically consist of Government of Canada and Canadian provincial and municipal bonds, bankers' acceptances, term deposits and debt of other financial institutions.

Cash and securities totalled $194 million or 13% of total assets compared to $216 million or 15% of total assets a year ago. Cash and securities decreased from a year ago primarily as a result of lower funding requirements for deposits maturing in the coming months compared to the end of the previous year.

At October 31, 2014, unrealized gains in the Bank's available-for-sale securities portfolio were $26,000 compared to unrealized gains of $33,000 a year ago. In addition, there was an unrealized loss of $129,000 at October 31, 2014 relating to a security the Bank classifies as held-to-maturity, compared to an unrealized loss of $435,000 a year ago. This unrealized loss is due to factors other than changes in credit risk and management is of the opinion that no impairment charge is required.

The Basel III Committee on Banking Supervision (the Basel Committee) has issued a framework outlining new liquidity standards. The framework prescribes two new standards being the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) as minimum regulatory standards beginning in 2015 and 2018 respectively. The LCR establishes a common measure of liquidity risk and requires financial institutions to maintain sufficient liquid assets to cover a minimum of 30 days of cash flow in a stressed scenario. The NSFR describes a second common measure of liquidity establishing a minimum acceptable amount of stable funding based on the liquidity characteristics of an institution's assets and activities over a one year time horizon. Although the Basel Committee has introduced a phase-in period for compliance with the LCR guidelines, banks in Canada will be required to fully comply with the LCR in January 2015 with no phase-in. Based on its review of these new liquidity standards, the Bank is of the view that it is well positioned to comply with the new requirements.

Outlook

In 2015, the Bank expects the amount of cash and securities as a percentage of total assets to approximate 14% of total assets and the composition of treasury assets is expected to remain similar to that at the end of 2014.

Loans

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

At October 31, 2014, loans increased to $1.22 billion from $1.16 billion a year ago. The increase from the previous year was due primarily to an increase in commercial and consumer loan and lease receivables sourced through the bulk purchase program. New lending for the current year totalled $707 million and loan repayments, including loan sales, totalled $637 million. At October 31, 2014, loan commitments, excluding those related to credit cards, totalled $195 million compared to $141 million a year ago.

At October 31, 2014, the balances of individual loans compared to a year ago reflected a change in lending strategy where the Bank has reduced its focus on government financings due to market conditions, and emphasized commercial and consumer lending opportunities, particularly those commercial loans and leases sourced through its bulk purchase program. At October 31, 2014, the Bank also experienced a decrease in commercial mortgages from a year ago which was due primarily to several large repayments and a loan sale in the fourth quarter, and a slower than normal construction season caused by delays in funding new construction loans due to a longer than normal winter season.

Government Financings

Government financings consist of loans and leases to federal, provincial, territorial and municipal governments. At October 31, 2014, government financing totalled $87.3 million compared to $129.8 million a year ago with the decrease a result of a reduced focus on government financing due to market conditions. It is not expected that this portfolio will see any growth in the coming year due to the emphasis on commercial and consumer lending opportunities, particularly those commercial loans and leases sourced through the bulk purchase program.

Residential Multi-family Mortgages

The Bank has insured and uninsured residential mortgages outstanding which are comprised primarily of multi-family residential units. Total residential mortgages were $122.7 million at the end of 2014 compared to $133.6 million at the end of 2013. The decrease in the amount of residential multi-family mortgages outstanding from last year was primarily a result of the timing of loan fundings.

Residential mortgage exposure

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

Under OSFI's definition, the Bank's exposure to residential mortgages is not significant and at October 31, 2014 totalled $1.1 million compared to $1.2 million a year ago. The Bank did not have any HELOC's outstanding at October 31, 2014 or a year ago.

Commercial and Consumer Loans and Leases

Commercial and consumer loans and leases consist primarily of commercial loans to investment grade corporations and commercial and consumer loans and lease receivables sourced through the bulk purchase program. At October 31, 2014, commercial and consumer loans and leases totalled $548.2 million compared to $346.5 million a year ago with the increase being due to increased fundings and an increase in the number of vendors from whom loans and lease receivables are sourced. As noted above, this is expected to be the most significant area of growth in the coming year.

Commercial Mortgages

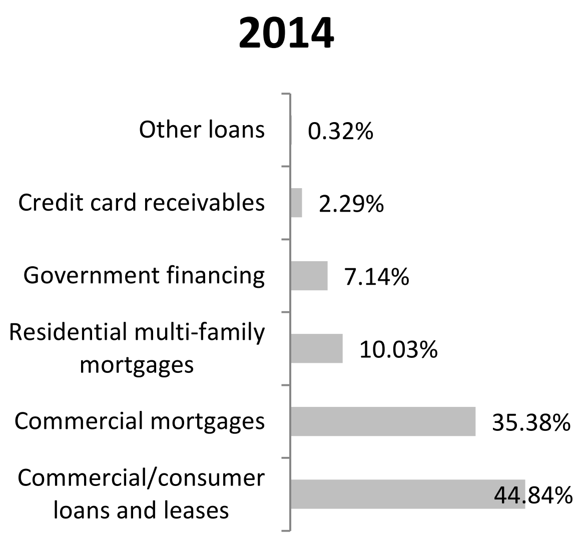
Commercial mortgages consist primarily of residential and commercial construction mortgages primarily in Southwestern Ontario. At October 31, 2014, commercial mortgages totalled $432.6 million compared to $515.1 million a year ago with the decrease due to several large repayments and a loan sale in the fourth quarter, and a slower than normal construction season caused by delays in funding new construction loans due to a longer than normal winter season.

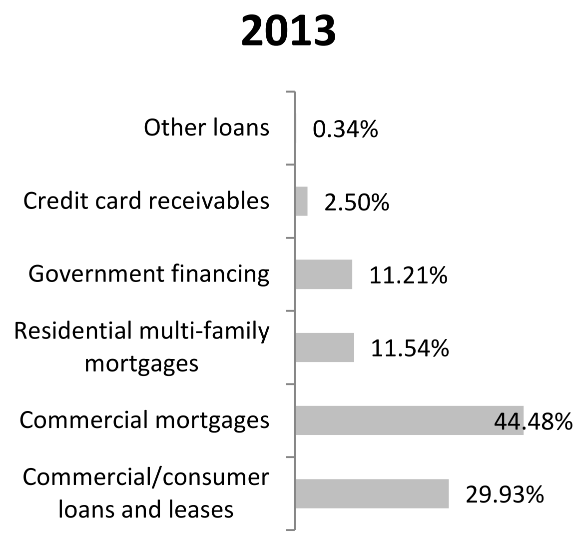
Credit Card Receivables

At October 31, 2014, the Bank had outstanding credit card receivables of $28.0 million compared to $28.9 million a year ago with the decrease due to timing of repayments. The Bank does not anticipate that the balances of credit card receivables will increase substantially in the coming year.

Diversification of Loan Portfolio

Outstanding Loans by Portfolio





Geographic Breakdown

	2014							
(thousands of Canadian dollars)	ON	NWT, NU & YT	AB	PQ	BC	Atlantic	MB & SK	Total
Government financing	$ 51,570	$ 9,808	$ 3,351	$ -	$ 17,991	$ 4,396	$ 216	$ 87,332
Residential multi-family mortgages	76,561	1,724	15,055	1,748	-	5,400	22,198	122,686
Commercial and consumer loans and leases	327,667	2,652	90,915	8,261	59,334	37,447	21,964	548,240
Commercial mortgages	388,845	17,690	17,837	-	-	5,774	2,421	432,567
Credit card receivables	8,840	146	1,153	5,769	1,463	8,166	2,435	27,972
Other loans	3,519	-	345	-	-	-	103	3,967
	$ 857,002	$ 32,020	$ 128,656	$ 15,778	$ 78,788	$ 61,183	$ 49,337	$ 1,222,764
	70%	3%	11%	1%	6%	5%	5%	100%

	2013							
(thousands of Canadian dollars)	ON	NWT, NU & YT	AB	PQ	BC	Atlantic	MB & SK	Total
Government financing	$ 85,925	$ 13,136	$ 6,909	$ -	$ 13,023	$ 10,290	$ 499	$ 129,782
Residential multi-family mortgages	80,210	12,634	12,802	-	-	5,400	22,534	133,580
Commercial and consumer loans and leases	224,363	2,235	37,247	26,588	33,137	14,389	8,581	346,540
Commercial mortgages	415,402	11,930	52,439	24,092	-	8,487	2,704	515,054
Credit card receivables	9,134	139	1,230	6,039	1,419	8,376	2,597	28,934
Other loans	3,480	-	365	-	-	-	103	3,948
	$ 818,514	$ 40,074	$ 110,992	$ 56,719	$ 47,579	$ 46,942	$ 37,018	$ 1,157,838
	71%	3%	10%	5%	4%	4%	3%	100%

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

There was no significant change in 2014 from the previous year in the geographic distribution of the Bank's loans. A large majority of the Bank's loans continues to be in the province of Ontario, particularly Southwestern Ontario where the Bank has well-established long-term relationships.

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

	2014	2013
Real estate, rental and leasing	30	35
Retail trade	17	9
Health care and social assistance	12	17
Construction	11	12
Transportation and warehousing	5	2
Arts, entertainment and recreation	3	5
Educational services	3	3
Finance and insurance	3	3
Public administration	2	3
Manufacturing	2	2
Credit card receivables	2	2
Accommodation and food services	2	1
Mining	2	-
Professional, scientific and technical services	1	1
Other	5	5
Total %	100	100

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

Loans and leases based on industry sector at October 31, 2014 are comparable to the previous year with the only significant change being in retail trade loans which increased to 17% from 9% last year. This increase was due to the increase in loans and lease receivables sourced through the bulk purchase program during the current year.

Outlook

In 2015, the Bank expects that lending assets will increase by approximately 20% with the primary area of growth expected to come from commercial mortgages and commercial and consumer loans and leases sourced through the bulk purchase program.

Credit Quality

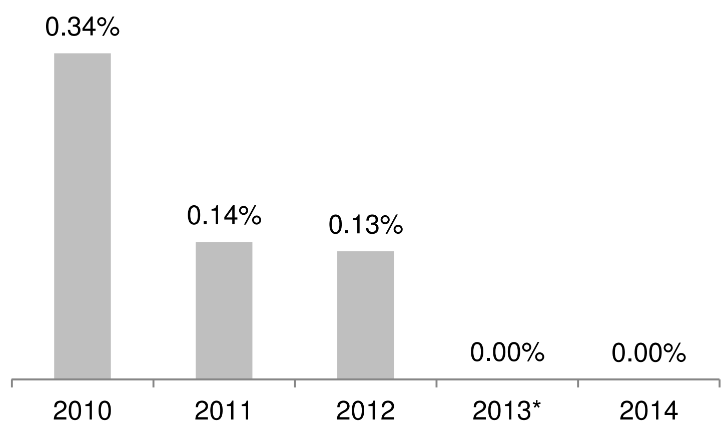
The Bank has maintained its high credit quality and strong underwriting standards and traditionally requires minimal provisions for credit losses. Gross impaired loans at October 31, 2014, were $nil compared to $7,000 a year ago. For the year ended October 31, 2014, the provision for credit losses totalled $919,000 compared to $524,000 last year. The provision for credit losses increased from previous years due to a higher level of write-offs relating to the credit card program as that portfolio matures.

At October 31, 2014, the Bank's collective allowance totalled $2.9 million compared to $3.3 million a year ago with the decrease due primarily to commercial and consumer loan and lease receivables sourced through the bulk purchase program becoming a larger percentage of lending assets. These loan and lease receivables normally attract a lower collective allowance due to the higher quality of the receivables comprising the portfolio and the level of cash holdbacks that the Bank retains related to the portfolio. Included in the Bank's collective allowance at October 31, 2014 was $962,000 relating to credit card receivables, compared to $809,000 a year ago with the increase due to the maturation of credit card balances.

Based on results from ongoing stress testing of the loan portfolio under various scenarios and the secured nature of the existing loan portfolio, the Bank is of the view that any credit losses which exist but cannot be specifically identified at this time are adequately provided for.

The ratio of gross impaired loans to total loans over the past 5 years is portrayed in the chart below:

Gross Impaired Loans to Total Loans

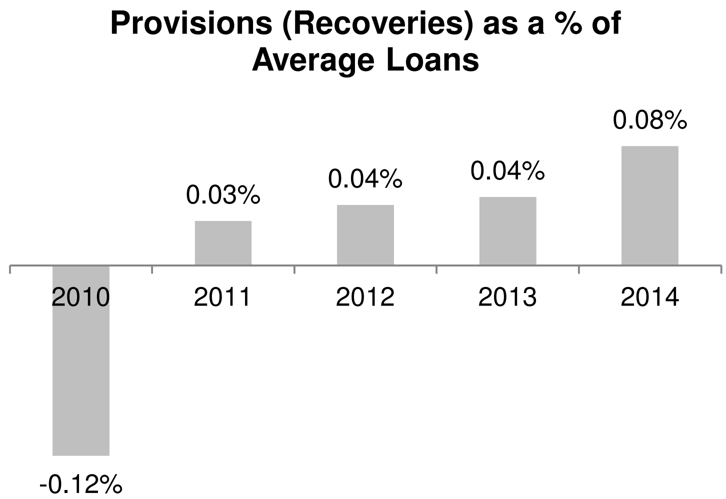


* Gross impaired loans for 2013 were negligible.

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

(thousands of Canadian dollars)	Collective	Individual	2014 Total Allowance	2013 Total Allowance
Balance, beginning of year	$ 3,275	$ -	$ 3,275	$ 4,862
Provision for credit losses	919	-	919	524
Write-offs	(1,289)	-	(1,289)	(2,111)
Balance, end of year	$ 2,905	$ -	$ 2,905	$ 3,275

The following graph shows the provisions (recoveries) as a percent of average loans over the past 5 years.



Other Assets

Other assets totalled $27.7 million at October 31, 2014 compared to $29.5 million a year ago. Included in other assets is the deferred income tax asset of $8.5 million compared to $8.7 million last year and capital assets and prepaid expenses of $14.1 million at October 31, 2014 compared to $16.7 million a year ago.

Deposits

(thousands of Canadian dollars)	2014	Mix		2013	Mix	
Demand deposits	$ 19,311	1.62	%	$ 22,645	1.91	%
Trustee chequing accounts	83,814	7.02		35,351	2.98	
Term deposits						
Non retirement savings products	1,067,654	89.43		1,101,278	92.75	
Retirement savings products	23,018	1.93		28,130	2.37	
	$ 1,193,797	100.00	%	$ 1,187,404	100.00	%

Deposits are used as a primary source of financing growth in assets and are raised primarily through a well established and well diversified deposit broker network across Canada. Deposits at October 31, 2014, totalled $1.19 billion compared to $1.19 billion a year ago, and consist primarily of guaranteed investment certificates. Of the total amount of deposits outstanding, $19.3 million or approximately 1.6% of total deposits at the end of the year were in the form of demand savings accounts compared to $22.6 million or approximately 1.9% of total deposits a year ago. In addition, the Bank has chequing accounts related to trustees in the bankruptcy industry as discussed below.

In order to diversify its sources of deposits and reduce its cost of new deposits, the Bank identified another source, that being chequing accounts of trustees in the Canadian bankruptcy industry. The Bank developed banking software to enable this market to efficiently administer its chequing accounts and launched this product in April 2012. These services are being offered to trustees in the bankruptcy industry across Canada and at October 31, 2014, outstanding balances from this source totalled $83.8 million compared to $35.4 million a year ago.

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

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

	2014				
(thousands of Canadian dollars)	Within 3 months	3 months to 1 year	1 year to 2 years	2 years to 5 years	Total
Demand deposits	$ 19,311	$ -	$ -	$ -	$ 19,311
Trustee chequing accounts	83,814	-	-	-	83,814
Term deposits	143,770	340,854	338,559	254,958	1,078,141
	$ 246,895	$ 340,854	$ 338,559	$ 254,958	$ 1,181,266

	2013				
(thousands of Canadian dollars)	Within 3 months	3 months to 1 year	1 year to 2 years	2 years to 5 years	Total
Demand deposits	$ 22,645	$ -	$ -	$ -	$ 22,645
Trustee chequing accounts	35,351	-	-	-	35,351
Term deposits	137,685	462,513	228,129	287,296	1,115,623
	$ 195,681	$ 462,513	$ 228,129	$ 287,296	$ 1,173,619

Outlook

The Bank expects the level of deposits to increase in 2015 at the same rate as the increase in total assets. As well, the Bank will continue to expand deposits sourced through trustees in the bankruptcy industry in 2015 and will maintain its strategy of using its deposit broker network across Canada to raise the majority of its deposits.

Other Financings

A second source of financing growth in assets, and a source of liquidity, is the use of margin lines and securities sold under repurchase agreements. From time to time, the Bank uses these sources of short term financing when the cost of borrowing is less than the interest rates that would have to be paid on new deposits. At October 31, 2014, the Bank did not have any amounts outstanding relating to margin lines or securities sold under repurchase agreements nor were any amounts from these sources outstanding a year ago.

Securitization Liabilities

The Bank has securitization liabilities outstanding which relate to amounts payable to counterparties for cash received upon initiation of securitization transactions. At October 31, 2014, securitization liabilities totalled $43.5 million compared to $43.4 million a year ago. The Bank has not entered into any securitization transactions in the past year. The amounts payable to counterparties bear interest at rates ranging from 1.97% - 3.95% and mature between 2016 and 2020. Securitized insured mortgages with a carrying value of $40.0 million and restricted cash totalling $3.4 million are pledged as collateral for these liabilities.

Other Liabilities

Other liabilities consist of accounts payable, accruals and holdbacks payable on the bulk purchase program. At October 31, 2014, other liabilities totalled $42.2 million compared to $20.3 million a year ago with the increase from last year due to larger holdbacks associated with the loan and lease receivables sourced through the bulk purchase program which have shown significant growth over the past year.

Subordinated Notes Payable

The Bank has the following subordinated notes payable outstanding:

(thousands of Canadian dollars)	2014	2013
Ten year term, unsecured, callable, subordinated notes payable by the Bank to an unrelated third party, maturing between 2019 and 2021, net of issue costs of $637 (2013 - $1,168), effective interest of 10.06%	$ 13,863	$ 20,332
	$ 13,863	$ 20,332

During the year ended October 31, 2014, the Bank repaid $7,000,000 (2013 - $30,000,000) in notes payable that had a carrying value of $6,566,000 (2013 - $29,617,000). The difference of $434,000 (2013 - $383,000) relating to unamortized note issue costs was included in restructuring charges in the Consolidated Statements of Income.

Shareholders’ Equity

At October 31, 2014, shareholders’ equity was $152.5 million compared to $133.1 million a year ago. The increase from a year ago was due to earnings over the period and proceeds received from the issue of Series 1 Preferred Shares as discussed below.

Common shares outstanding at October 31, 2014 totalled 19,437,171, unchanged from a year ago. Common share options totalled 40,000 at October 31, 2014, also unchanged from a year ago.

On October 30, 2014, the Bank completed an offering of 1,461,460 non-cumulative 5 year rate reset Series 1 Preferred Shares for net proceeds of $13.6 million. For the initial period ending October 31, 2019, these Preferred Shares yield 7% annually, payable quarterly as and when declared by the Board of Directors of the Bank. These preferred shares qualify as Additional Tier 1 capital and will fund continued growth for the Bank. See Note 14 to the audited consolidated financial statements for additional information.

The Bank's book value per common share at October 31, 2014 was $7.14 compared to $6.85 a year ago.

Stock-Based Compensation

Stock options are accounted for using the fair value method which recognizes the fair value of the stock option over the applicable vesting period as an increase in salaries and benefits expense with the same amount being recorded in share capital. During the year ended October 31, 2014, the Bank recognized $68,000 (2013 - $54,000) of compensation expense relating to the estimated fair value of stock options granted in previous years. There were no stock options granted in the current year. See Note 15 to the Consolidated Financial Statements for more information with respect to stock options.

Updated Share Information

As at January 14, 2015, there were 19,437,171 common shares and 1,461,460 Series 1 preferred shares outstanding, unchanged from October 31, 2014. In addition, there were 40,000 options outstanding, also unchanged from October 31, 2014.

LIQUIDITY

The Consolidated Statement of Cash Flows for the Bank for the year ended October 31, 2014 shows cash used in operations in excess of cash provided by operations of $29.0 million compared to cash used in operations of $88.5 million last year. The Bank`s 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.

OFF-BALANCE SHEET ARRANGEMENTS

As at October 31, 2014, the Bank does not have any significant off-balance sheet arrangements other than loan commitments, undrawn credit card lines and letters of credit resulting from normal business activities. See Note 24 to the Consolidated Financial Statements for more information.

Commitments and Contingencies

At October 31, 2014, the Bank had loan commitments totalling $195.1 million compared to $141.3 million at the end of 2013 and undrawn credit card lines of $159.3 million compared to $148.0 million a year ago. Letters of credit at the end of 2014 totalled $43.9 million compared to $38.6 million at the end of the previous year. Loan commitments, undrawn credit card lines and letters of credit were entered into during the normal course of business. Under certain circumstances the Bank may cancel loan commitments and undrawn credit card lines at its option.

Contractual Obligations

A summary of the Bank's contractual obligations is as follows:

	2014				
(thousands of Canadian dollars)	Total	Less than 1 Year	1-2 Years	2-5 Years	Over 5 Years
Deposits	$ 1,181,266	$ 587,749	$ 338,559	$ 254,958	$ -
Subordinated notes payable	13,863	-	-	4,226	9,637
Securitization liabilities	43,466			10,361	33,105
Operating leases	3,637	892	850	1,895	-
	$ 1,242,232	$ 588,641	$ 339,409	$ 271,440	$ 42,742

RELATED PARTY TRANSACTIONS

During the year ended October 31, 2014, the Bank incurred management and other fees totalling $980,000 (October 31, 2013 - $1,161,000) respectively to the Corporation and a subsidiary of the Corporation.

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

CAPITAL MANAGEMENT AND CAPITAL RESOURCES

Capital Management

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

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

The Basel Committee on Banking Supervision has published the Basel III rules supporting more stringent global standards on capital adequacy and liquidity (Basel III). Significant changes 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.
- New requirements for levels of liquidity and new liquidity measurements.

OSFI requires that all Canadian banks must comply with the Basel III standards on an "all-in" basis for purposes of determining its risk-based capital ratios. Required minimum regulatory capital ratios are a 7.0% Common Equity Tier 1 (CET1) capital ratio and effective January 1, 2014, an 8.5% Tier 1 capital ratio and 10.5% total capital ratio, all of which include a 2.5% capital conservation buffer. The Basel III rules provide for "transitional" adjustments whereby certain aspects of the new rules will be phased in between 2013 and 2019. The only available transition allowed by OSFI for capital ratios is related to the 10 year phase out of non-qualifying capital instruments. However, OSFI has allowed Canadian banks to calculate their asset-to-capital multiple on a transitional basis between 2013 and 2019.

Under the Basel III standards, total capital of the Bank was $158.3 million at October 31, 2014 compared to $143.0 million a year ago with the increase due primarily to earnings in the Bank during the year, the issue of Series 1 Preferred Shares during the current year and changes in amounts of prescribed regulatory adjustments. At October 31, 2014, the Bank exceeded the current regulatory capital requirements with a CET1 ratio of 11.25% compared to 11.29% a year ago. In addition, the Bank's Tier 1 capital ratio was 12.43% at October 31, 2014 compared to 11.29% a year ago and its total capital ratio was 13.69% at October 31, 2014, compared to 12.99% a year ago, exceeding the capital requirements that became effective January 1, 2014. The Bank's assets-to-capital multiple at October 31, 2014 was 9.00 compared to 9.33 a year ago.

Effective January 1, 2015 the Assets–to-Capital multiple will be replaced by a Leverage Ratio that is prescribed under the Basel III Accord. Based on preliminary estimates, the Bank has determined that it will meet the requirements of the new Leverage Ratio.

During the year ended October 31, 2014, the Bank was in compliance with all internal and external capital requirements.

Assets-to-Capital Multiple

The Bank's growth in total assets is limited by its permitted assets-to-capital multiple which is prescribed by OSFI and is defined as the multiple of the total of on and off-balance sheet assets of the Bank to its regulatory capital. The Bank's assets-to-capital multiple is determined as follows:

	2014	2013
Total assets (on and off-balance sheet)	$ 1,488,047	$ 1,443,173
Transitional capital	$ 165,280	$ 154,633
Assets-to-capital multiple	9.00	9.33

Risk-Based Capital Ratio

OSFI requires banks to measure capital adequacy in accordance with guidelines for determining risk-adjusted capital and risk-weighted assets including off-balance sheet credit instruments. The Bank currently uses the Standardized Approach to calculate risk-weighted assets for both credit and operational risk. Under the Standardized Approach for credit risk, for each type of asset, a weighting of 0% to 150% is assigned to determine the risk-based capital ratio. Off-balance sheet assets, such as credit commitments, are included in the calculation of risk-weighted assets and both the credit risk equivalent and the risk weighted calculations are prescribed by OSFI.

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

(thousands of Canadian dollars, except capital ratios)	2014		2013	
	"All-in"	"Transitional"	"All-in"	"Transitional"
Common Equity Tier 1 (CET1) capital				
Directly issued qualifying common share capital	$ 142,346	$ 142,346	$ 142,278	$ 142,278
Retained earnings (deficit)	(3,493)	(3,493)	(9,169)	(9,169)
Accumulated other comprehensive income	19	19	24	24
CET1 before regulatory adjustments	138,872	138,872	133,133	133,133
Regulatory adjustments applied to CET1	(8,693)	(1,739)	(8,855)	-
Total Common Equity Tier 1 capital	$ 130,179	$ 137,133	$ 124,278	$ 133,133
Additional Tier 1 capital				
Directly issued qualifying Additional Tier 1 instruments	$ 13,647	$ 13,647	$ -	$ -
Total Tier 1 capital	$ 143,826	$ 150,780	$ 124,278	$ 133,133
Tier 2 capital				
Directly issued capital instruments subject to phase out from Tier 2	$ 14,500	$ 14,500	$ 21,500	$ 21,500
Tier 2 capital before regulatory adjustments	14,500	14,500	21,500	21,500
Regulatory adjustments applied to Tier 2	-	-	(2,749)	-
Total Tier 2 capital	$ 14,500	$ 14,500	$ 18,751	$ 21,500
Total capital	$ 158,326	$ 165,280	$ 143,029	$ 154,633
Total risk-weighted assets	$ 1,156,832	$ 1,163,786	$ 1,101,190	$ 1,112,794
Capital ratios				
CET1 Ratio	11.25%	11.78%	11.29%	11.96%
Tier 1 Capital Ratio	12.43%	12.96%	11.29%	11.96%
Total Capital Ratio	13.69%	14.20%	12.99%	13.90%

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

(thousands of Canadian dollars)	Notional/drawn amount Cash/ Securities	Loans	Other	Off -balance sheet items	Total	Risk Weighted Balance
Corporate	$ -	$ 793,549	$ -	$ -	$ 793,549	$ 763,664
Sovereign	102,627	67,726	-	-	170,353	12,472
Bank	91,313	25,187	-	-	116,500	23,300
Retail residential mortgages	-	62,264	-	-	62,264	1,250
Other retail	-	275,521	-	-	275,521	188,086
Other items	-	-	27,673	43,926	71,599	40,661
Undrawn commitments	-	-	-	354,454	354,454	78,200
Operational risk [1]	-	-	-	-	-	49,199
As at October 31, 2014	$ 193,940	$ 1,224,247	$ 27,673	$ 398,380	$ 1,844,240	$ 1,156,832

(thousands of Canadian dollars)	Notional/drawn amount Cash/ Securities	Loans	Other	Off -balance sheet items	Total	Risk Weighted Balance
Corporate	$ -	$ 811,616	$ -	$ -	$ 811,616	$ 760,783
Sovereign	24,575	99,428	-	-	124,003	19,262
Bank	191,639	14,914	-	-	206,553	41,310
Retail residential mortgages	-	71,573	-	-	71,573	7,717
Other retail	-	158,233	-	-	158,233	121,630
Equity	-	-	-	-	-	-
Other items	-	3,169	29,461	38,565	71,195	40,035
Undrawn commitments	-	-	-	289,241	289,241	69,235
Operational risk [1]	-	-	-	-	-	41,218
As at October 31, 2013	$ 216,214	$ 1,158,933	$ 29,461	$ 327,806	$ 1,732,414	$ 1,101,190

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

(thousands of Canadian dollars)	Notional/drawn amount 0%	20%	35%	75%	100%	150%	Total	Risk Weighted Balance
Corporate	$ 13,895	$ 19,988	$ -	$ -	$ 759,666	$ -	$ 793,549	$ 763,664
Sovereign	108,198	62,105	-	-	50	-	170,353	12,472
Bank	-	116,500	-	-	-	-	116,500	23,300
Retail residential mortgages	59,929	-	1,669	-	666	-	62,264	1,250
Other retail	24,965	1,779	-	244,184	4,593	-	275,521	188,086
Other items	8,692	716	-	-	62,181	10	71,599	40,661
Undrawn commitments	-	390	-	159,306	194,758	-	354,454	78,200
Operational risk [1]	-	-	-	-	-	-	-	49,199
As at October 31, 2014	$ 215,679	$ 201,478	$ 1,669	$ 403,490	$ 1,021,914	$ 10	$ 1,844,240	$ 1,156,832

(thousands of Canadian dollars)	Notional/drawn amount 0%	20%	35%	75%	100%	150%	Total	Risk Weighted Balance
Corporate	$ 13,888	$ 46,181	$ -	$ -	$ 751,547	$ -	$ 811,616	$ 760,783
Sovereign	30,294	93,059	-	-	650	-	124,003	19,262
Bank	-	206,553	-	-	-	-	206,553	41,310
Retail residential mortgages	62,668	-	1,827	-	7,078	-	71,573	7,717
Other retail	-	-	-	146,426	11,800	7	158,233	121,630
Other items	11,604	713	-	-	58,835	43	71,195	40,035
Undrawn commitments	-	-	-	147,990	141,251	-	289,241	69,235
Operational risk [1]	-	-	-	-	-	-	-	41,218
As at October 31, 2013	$118,454	$346,506	$1,827	$294,416	$ 971,161	$ 50	$1,732,414	$1,101,190

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

Capital Resources

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

SUMMARY OF QUARTERLY RESULTS AND FOURTH QUARTER REVIEW
Quarterly Financial Highlights

(thousands of Canadian dollars except per share amounts)	2014 Q4	2014 Q3	2014 Q2	2014 Q1	2013 Q4	2013 Q3	2013 Q2	2013 Q1
Results of operations:								
Total interest income	$ 15,078	$ 14,156	$ 13,978	$ 14,949	$ 15,210	$ 15,242	$ 14,776	$ 15,695
Interest expense	7,469	7,469	7,335	8,014	8,314	8,509	8,679	9,766
Net interest income	7,609	6,687	6,643	6,935	6,896	6,733	6,097	5,929
Net interest margin (%)	2.16%	1.94%	1.93%	1.95%	1.95%	1.91%	1.77%	1.59%
Other income	791	619	886	337	325	315	400	1,280
Total revenue	8,400	7,306	7,529	7,272	7,221	7,048	6,497	7,209
Provision for credit losses	400	303	267	(51)	125	154	266	(21)
Non-interest expenses	6,243	5,588	5,582	5,534	6,060	5,381	5,761	5,680
Restructuring charges	-	-	-	434	1,275	287	502	-
Income (loss) before income taxes	1,757	1,415	1,680	1,355	(239)	1,226	(32)	1,550
Income tax provision (recovery)	(719)	398	472	380	(49)	348	7	435
Net income (loss)	$ 2,476	$ 1,017	$ 1,208	$ 975	$ (190)	$ 878	$ (39)	$ 1,115
Net income (loss) available to:								
Preferred shareholders	-	-	-	-	-	-	-	-
Common shareholders	2,476	1,017	1,208	975	(190)	878	(39)	1,115
Earnings (loss) per share*								
Basic	$ 0.13	$ 0.05	$ 0.06	$ 0.05	$ (0.01)	$ 0.05	$ 0.00	$ 0.08
Diluted	$ 0.13	$ 0.05	$ 0.06	$ 0.05	$ (0.01)	$ 0.05	$ 0.00	$ 0.08
Return on average shareholders' equity	7.14%	2.97%	3.68%	2.89%	-0.58%	2.80%	-0.15%	4.72%
Return on average total assets	0.70%	0.29%	0.35%	0.27%	-0.05%	0.25%	-0.01%	0.30%
Gross impaired loans to total loans	0.00%	0.00%	0.00%	0.00%	0.00%	0.15%	0.14%	0.14%
Financial position:								
Cash and securities	$ 193,940	$ 145,659	$ 250,364	$ 271,713	$ 216,214	$ 182,849	$ 167,153	$ 231,809
Mortgages and loans	1,224,247	1,181,379	1,107,349	1,136,132	1,158,933	1,193,561	1,195,325	1,173,287
Other assets	27,673	28,049	28,325	29,443	29,461	30,932	27,537	28,489
Total	$1,445,860	$1,355,087	$1,386,038	$1,437,288	$1,404,608	$1,407,342	$1,390,015	$1,433,585
Deposits	$1,193,797	$1,124,602	$1,164,735	$1,221,247	$1,187,404	$1,201,593	$1,189,000	$1,233,453
Other liabilities	42,215	36,696	28,646	24,537	20,329	16,927	13,231	12,558
Subordinated notes payable	13,863	13,840	13,818	13,796	20,332	20,297	20,263	49,856
Securitization liabilities	43,466	43,567	43,438	43,539	43,410	43,511	43,383	43,484
Shareholders' equity	152,519	136,382	135,401	134,169	133,133	125,014	124,138	94,234
Total	$1,445,860	$1,355,087	$1,386,038	$1,437,288	$1,404,608	$1,407,342	$1,390,015	$1,433,585

The financial results of the Bank for each of the last eight quarters are summarized above. The Bank's results, particularly total interest income and net interest income, are comparable between quarters and over the past eight quarters reflect seasonality occurring primarily in residential construction lending. Total interest income and yield decreased slightly in 2014 due primarily to a decrease in commercial mortgages as a result of several large loan repayments and loan sales that took place during the periods. An additional factor was a slower than normal construction season in 2014 caused by delays in funding new construction loans due to a longer than normal winter season.

Interest expense decreased in the 2014 as a result of a lower cost of deposits and the repayment of $7.0 million in subordinated notes in the first quarter and decreased over the past year as a result of the repayment of $30.0 million in subordinated notes in March, 2013.

Other income during the quarters shows variability due to the level of gains realized on the sale of loans. The other component of other income consists primarily of credit card fees which have been comparable over the quarters.

Non-interest expenses reflect a strategy to control overhead expenses, primarily with respect to the credit card program and the timing of expenses. Restructuring charges in the first quarter of 2014 resulted from the write-off of unamortized issue costs related to the repayment of subordinated notes and in the fourth quarter of 2013, relate to expenses incurred from the IPO.

The provision for income taxes in each of the quarters reflects the effective statutory income tax rate applied to earnings (losses). The provision for income taxes in the fourth quarter of 2014 includes a positive income tax adjustment of $1.2 million relating to a change in the estimate of previously recognized deferred income tax assets.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Significant accounting policies are detailed in Note 3 of the Bank's 2014 Audited Consolidated Financial Statements. There has been no change in accounting policies nor any significant new policies adopted during the current period.

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

Securities

The Bank holds securities primarily for liquidity purposes with the intention of holding the securities to maturity or until market conditions render alternative investments more attractive. Settlement date accounting is used for all securities transactions.

At the end of each reporting period, the Bank assesses whether or not there is any objective evidence to suggest that a security may be impaired. Objective evidence of impairment results from one or more events that occur after the initial recognition of the security which has an impact that can be reliably estimated on the estimated future cash flows of the security such as financial difficulty of the issuer. An impairment loss is recognized for an equity instrument if the decline in fair value is significant or prolonged; as such circumstances provide objective evidence of impairment.

Impairment losses on a held-to-maturity security are recognized in income and loss in the period they are identified. When there is objective evidence of impairment of an available-for-sale security, the cumulative loss that has been recorded in accumulated other comprehensive income is reclassified to income or loss. For available-for-sale debt securities, 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 the previously recognized impairment loss is adjusted through income or loss to reflect the net recoverable amount of the impaired security. No adjustments of impairment losses are recognized for available-for-sale equity securities.

Loans

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

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

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

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

(ii) observable market prices for the loan.

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

Future accounting standard changes

IFRS 9: Financial instruments (IFRS 9)

In July 2014, the IASB issued the final revised IFRS 9 standard which addresses classification, measurement and impairment of financial instruments and hedge accounting. IFRS 9 will be effective for the Bank's fiscal year beginning on November 1, 2018, although early adoption is permitted. 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. The Bank has performed preliminary evaluations of the impact of IFRS 9, however the impact on the Bank's consolidated financial statements cannot be quantified at this time as it is dependent upon the nature of financial instruments held by the Bank when IFRS 9 becomes effective.

ENTERPRISE RISK MANAGEMENT

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

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

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

The goal of risk management is not to eliminate risks but to control risks within the context of the Bank's Risk Appetite Statement. The ERM program enhances the effectiveness, efficiency and understanding of risk and risk management at an individual and enterprise level.

The ERM program improves the Bank's ability to identify risks and increases the likelihood of the Bank achieving its objectives, provides a regular, up to date view of risks confronting the Bank, and results in the Bank utilizing capital and human and other resources more efficiently.

Guiding Principles of the Bank's ERM Program

- Responsibility for risk management belongs to everyone in the Bank, from the Board of Directors to individual employees. They are expected to understand the risks that fall within their areas of responsibility and to manage these risks within approved risk tolerances.
- Risk management is a comprehensive, structured and continuous process in which risks are identified, evaluated and accepted or mitigated within approved risk tolerances.
- Risk management is based on open communication of the best available information, both quantitative and qualitative, from a range of sources, including historical data, experience, stakeholder feedback, observation, forecasts and expert judgment.
- Enterprise risk management is integrated with the Bank's processes including strategic planning, business planning, operational management, and investment decisions to ensure consistent consideration of risks in all decision-making.

- Risk owners are identified through the risk management process and are responsible to address and implement risk mitigation strategies to minimize the risk impact to the Bank.
- The Bank undertakes risk assessments on no less than an annual basis.

Enterprise Risk Management Framework

The Bank's ERM program and risk management process is primarily based upon guidance provided by the International Organization for Standardization (CAN/CSA-ISO31000-10 – January 2010); Risk Management – Principles and Guidelines. Some influences of The Committee of Sponsoring Organizations (COSO) for the Treadway Commission ERM Framework have also been adapted; however, ISO31000-10 was primarily used as it provides better guidance and implementation of the ERM process.

Enterprise Risk Management Governance Structure

Roles and responsibilities are clearly communicated through Board policy and job descriptions. A Chief Risk Officer has been appointed who provides training to all levels of employees within the Bank to reinforce the culture of risk management.

The Board of Directors maintains an oversight function, ensuring that the Risk Appetite remains suitable and reflective of the Bank's values and shareholder expectations. The Board is proactive in monitoring the risk management process to ensure that management is working within its stated risk appetite. The Board challenges the development of a Risk Appetite Statement and requires any changes to ensure that it remains within risk tolerance levels. The Risk Appetite Statement may change over time and the Board ensures that they consistently provide a 'tone from the top' and communicate their views of the Bank's risk appetite.

The Bank's Risk Oversight Committee provides regular Board oversight and approves the ERM program on at least an annual basis. The Risk Oversight Committee ensures management has an appropriate risk management process to identify and manage significant risk on an enterprise wide basis. The Risk Oversight Committee provides direction on the evolution of risk management processes and identifies priority areas of focus for risk assessment and mitigation planning. The Risk Oversight Committee reports on significant risks to the Board, and regularly reviews and provides recommendations to changes to the Risk Appetite Statement and risk tolerance levels for approval to the Board.

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

The Chief Risk Officer has specific accountability for ensuring that Enterprise Risk Management processes are established, properly documented and maintained by the Bank. The Chief Risk Officer provides support to the President and CEO and Senior Management within the Bank. This support includes development of risk management policies, frameworks and processes, introducing and promoting new techniques, maintaining a registry of key business risks and facilitating risk assessments across the Bank. The Chief Risk Officer regularly presents a report to the Risk

Oversight Committee summarizing developments in the risk environment, performance trends in key portfolios and the Bank's compliance with the Risk Appetite Statement.

Senior Management of the Bank is responsible for managing risks related to their business unit objectives and ensures operating policies and procedures are developed and maintained to manage risk within the Bank's risk appetite framework. Senior Management must understand the nature and magnitude of risks within their area of responsibility and identify emerging factors and changes in the business environment which could impact risks and risk management. Senior Management integrates the risk management process in business unit strategy and utilizes the risk management process to assist in the identification of emerging factors and changes in the business environment which could impact risks and risk management. Senior Management also assists the Chief Risk Officer in promoting risk management and Enterprise Risk Management competence.

Internal Audit's primary function is to examine, evaluate, report and recommend improvements to the adequacy and effectiveness of risk controls and report on the performance of the Enterprise Risk Management Framework.

Risk Appetite Statement

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

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

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

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

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

Liquidity Risk

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

The Bank has established policies to ensure that its cash outflows and inflows are closely matched and that its sources of deposits are diversified between funding sources and over a wide geographic area. The Risk Oversight Committee of the Bank recommends policies governing management of liquidity risk to the Board for approval and reviews liquidity policies on an ongoing basis. It receives and reviews quarterly securities portfolio reports and liquidity risk reports from management relating to its liquidity position. Additionally, an Asset Liability Committee of the Bank consisting of members of senior management monitors liquidity risk, reviews compliance with policies and discusses strategies in this area.

Cash and Securities

(thousands of Canadian dollars)	2014	2013
Cash and cash equivalents	$ 145,140	$ 176,323
Securities	48,800	39,891
Total cash and securities	$ 193,940	$ 216,214
Total assets	$ 1,445,860	$ 1,404,608
Cash and securities as a percentage of total assets	13.41%	15.39%
Total deposits	$ 1,193,797	$ 1,187,404
Cash and securities as a percentage of total deposits	16.25%	18.21%

Cash and securities totalled $193.9 million at October 31, 2014 compared to $216.2 million a year ago and as a percentage of total assets, cash and securities were 13.41% at October 31, 2014 compared to 15.39% last year. As a percentage of total deposits, cash and securities reduced to 16.25% at October 31, 2014 from 18.21% last year. As discussed previously, cash and securities decreased from a year ago primarily as a result of lower funding requirements for deposits maturing in the coming months compared to the end of the previous year.

See Note 21 to the audited consolidated financial statements for information relating to liquidity risk associated with the gaps in the Bank's asset and liability maturity or reset dates.

Operational Risk

Operational Risk is the risk of loss resulting from inadequate or failed processes, technology, people, systems or external events.

Its impact can be financial loss, loss of competitive position or regulatory penalties. The Bank employs the following strategies in its efforts to monitor and manage operational risk to acceptable levels:

- Comprehensive internal control policies which provide clear direction to all areas of its business and employees and establish accountability and responsibilities to identify, assess, appropriately mitigate and control operational risk.

- Hiring of banking professionals with many years of related experience.
- Use of technology through automated systems with built in controls.
- Maintenance of a compliance monitoring program.
- Continual review and upgrade of systems and procedures.

Market Risk

Market Risk is the risk of a negative impact on the balance sheet and/or income statement resulting from changes or volatility in market factors such as interest rates or market prices.

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

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

Interest rate risk is the risk that a movement in interest rates could negatively impact spread, net interest income and the economic value of assets, liabilities and shareholders' equity. The Bank manages interest rate risk by employing a number of methods including income simulation analysis and interest rate sensitivity gap and duration analysis. Management prepares regular reports to the Board to allow for ongoing monitoring of the Bank's interest rate risk position.

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

Interest Rate Position

	2014		2013	
(thousands of Canadian dollars)	Increase 100 bps	Decrease 100 bps	Increase 100 bps	Decrease 100 bps
Sensitivity of projected net interest income during a 12 month period	$ 3,543	$ (3,493)	$ 4,414	$ (4,368)
Sensitivity of reported equity during a 60 month period	(319)	484	1,156	(984)
Duration difference between assets and liabilities (months)	0.2		1.3	

The change in exposure to a 100 basis point shift in interest rates in a 60 month period and the change in the duration difference between assets and liabilities from a year ago was due primarily to the decrease in cash and securities and lending assets as well as the change in the mix of lending assets, all of which resulted in a decrease in the duration of assets at the end of the current year. The duration of liabilities has remained relatively the same since last year.

As at October 31, 2014, the Bank did not have any outstanding contracts to hedge fair value exposure attributed to interest rate risk. The Bank made the decision to use on-balance sheet strategies to manage its interest rate risk and unwound all of its interest rate swap contracts used for hedging purposes during the year ended October 31, 2013.

Credit Risk

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

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

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

- Recommends policies governing management of credit risk to the Bank's Board of Directors for approval and reviews credit risk policies on an ongoing basis to ensure they are prudent and appropriate given possible changes in market conditions and corporate strategy
- Ensures that procedures and controls for managing credit risk are in place
- Concurs with credits exceeding the levels delegated to management, prior to commitment
- Reviews, on a regular basis, watch list accounts, impaired loans and accounts that have gone into arrears.

Legal and Regulatory Risk

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

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

Strategic Risk

Strategic Risk is losses or forgone revenues resulting from improper or ineffective business strategies, resource allocation and/or decision-making or from an inability to adapt to changes in the business environment.

The Bank manages strategic risk through a board approved, robust, annual business planning process which includes the development of a comprehensive business plan, operating budget, and capital plan that exhibit planning horizons ranging from twelve to sixty months. The Bank augments its annual enterprise business planning process with the development of rigorous economic forecasts, risk and operational impact assessments related to any new business initiatives being contemplated as well as through the performance of an annual internal capital adequacy assessment process (ICAAP) for the Bank. The ICAAP is employed to determine if the Bank's budgeted capital amounts will provide adequate capital buffers against the occurrence of its identified business objective risks under both expected and stressed operating conditions.

Reputational Risk

Reputational Risk is the risk that an activity undertaken by the Bank or its representatives will impair its image in the community or lower public confidence in it, resulting in the loss of business, legal action or increased regulatory oversight.

An institution's reputation is a valuable business asset in its own right, essential to optimizing shareholder value, and as such is constantly at risk. Reputation risk cannot be managed in isolation from other forms of risk since all risks can have an impact on reputation, which in turn can impact the Bank's brand, earnings and capital. Credit, market, operational, strategic and liquidity risks must all be managed effectively in order to safeguard the Bank's reputation.

Ultimate responsibility for the Bank's reputation lies with Senior Management and the Board of Directors and related committees which examine reputation risk as part of their ongoing duties. In addition, every employee and representative of the Bank has a responsibility to contribute in a positive way to the Bank's reputation by ensuring that ethical practices are followed at all times. The Bank also has specific board approved policies which consider reputation risk and include the following:

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

FACTORS THAT MAY AFFECT FUTURE RESULTS

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

Execution of Strategic Plans

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

Changes in Laws and Regulations

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

Level of Competition

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

General Economic Conditions

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

Monetary Policy

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

Reliance on Deposit Brokers

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

Technology Risk

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

CONTROLS AND PROCEDURES
Disclosure controls and procedures

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

As at October 31, 2014, an evaluation was carried out by management of the effectiveness of the Bank's disclosure controls and procedures. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer will file a certificate that the design and operating effectiveness of those disclosure controls and procedures were effective.

Internal control over financial reporting

Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with International Financial Reporting Standards. Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Bank.

At October 31, 2014, an evaluation was carried out by management of the effectiveness of internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and financial statement compliance with International Financial Reporting Standards. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer will file a certificate that the design and operating effectiveness of internal control over financial reporting were effective.

These evaluations were conducted in accordance with the standards of the 1992 Framework of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) for Smaller Public Companies, a recognized control model, and the requirements of National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings* of the Canadian Securities Administrators. A Disclosure Committee, consisting of members of senior management, assists the Chief Executive Officer and the Chief Financial Officer in their responsibilities. Management's evaluation of controls can only provide reasonable, not absolute, assurance that all internal control issues that may result in material misstatement, if any, have been detected.

There were no changes in the Bank's internal controls over financial reporting that occurred during the year ended October 31, 2014 that have materially affected, or are reasonably likely to materially affect, internal controls over financial reporting.

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

Dated: January 14, 2015