

**There's more
than one way
to be a bank.**

Contents

| | |
|------------|--|
| 2 | 2014 Performance |
| 4 | The Fundamentals of our Identity |
| 5 | Message from the President and Chief Executive Officer |
| 8 | Message from the Chair of the Board |
| 9 | Board of Directors |
| 10 | Our Management Committee |
| 12 | Our Strategy is Pan-Canadian |
| 13 | And our Growth is Diversified |
| 14 | Performing Business Segments to Achieve our Objectives |
| 16 | Managing Responsibly |
| 17 | MANAGEMENT'S DISCUSSION AND ANALYSIS |
| 61 | CONSOLIDATED FINANCIAL STATEMENTS |
| 123 | Statistical Review |
| 125 | Quarterly Highlights |
| 126 | Corporate Governance |
| 128 | Branches |
| 129 | Offices and Subsidiaries |
| 130 | Glossary of Financial terms |
| 132 | Shareholder Information |

We have chosen to be unique

- To make choices others don't
- To specialize in niche markets
- To have an impact through our ability to make quick decisions
- To be present where others aren't
- To leverage our size as a key asset

Our results continue to prove us right



- Our adjusted net income has improved by 45% over the past five years
- Our commercial loans and BA's have increased by 15% since last year and by more than 75% over the past five years
- B2B Bank's recent acquisitions and organic growth have enabled it to increase its loans by more than 90% and its deposits by more than 30% over the last five years, as well as now posting assets under management of \$31.7 billion
- We are well diversified with approximately 50% of our profitability generated outside Québec
- The credit quality of our portfolios stands apart among the other large Canadian banks

OUR 2014 PERFORMANCE

As at or for the years ended October 31
(in thousands of Canadian dollars, except per share and percentage amounts)

| | 2014 | 2013 | 2012 ⁽¹⁾ |
|---|---------------|---------------|---------------------|
| ADJUSTED FINANCIAL MEASURES⁽²⁾ | | | |
| Adjusted net income | \$ 163,582 | \$ 155,436 | \$ 140,660 |
| Adjusted diluted earnings per share | \$ 5.31 | \$ 5.07 | \$ 4.98 |
| Adjusted return on common shareholders' equity | 11.9 % | 12.1 % | 12.0 % |
| Adjusted efficiency ratio | 71.0 % | 72.8 % | 73.1 % |
| Adjusted operating leverage ⁽³⁾ | 2.4 % | n.m. | [3.9] % |
| Adjusted dividend payout ratio | 38.7 % | 39.0 % | 36.9 % |
| FINANCIAL MEASURES | | | |
| Total revenue | \$ 874,065 | \$ 865,337 | \$ 796,643 |
| Net income | \$ 140,365 | \$ 119,477 | \$ 140,508 |
| Diluted earnings per share | \$ 4.50 | \$ 3.80 | \$ 4.98 |
| Return on common shareholders' equity ⁽²⁾ | 10.1 % | 9.1 % | 12.1 % |
| Efficiency ratio ⁽²⁾ | 73.4 % | 77.9 % | 75.9 % |
| Operating leverage ⁽²⁾⁽³⁾ | 5.9 % | n.m. | [6.1] % |
| Dividend payout ratio | 45.7 % | 52.0 % | 37.0 % |
| PER COMMON SHARE | | | |
| Share price - Close | \$ 49.58 | \$ 46.55 | \$ 44.45 |
| Book value | \$ 45.89 | \$ 43.19 | \$ 42.81 |
| Dividends declared | \$ 2.06 | \$ 1.98 | \$ 1.84 |
| Dividend yield | 4.2 % | 4.3 % | 4.1 % |
| FINANCIAL POSITION | | | |
| Balance sheet assets | \$ 34,848,681 | \$ 33,911,026 | \$ 34,936,826 |
| Loans and acceptances | \$ 27,429,579 | \$ 27,228,697 | \$ 26,780,879 |
| Deposits | \$ 24,523,026 | \$ 23,927,350 | \$ 24,041,443 |
| Common shareholders' equity | \$ 1,328,187 | \$ 1,232,379 | \$ 1,203,652 |
| QUALITY OF ASSETS | | | |
| Net impaired loans as a % of loans and acceptances | 0.23 % | 0.19 % | 0.25 % |
| Provision for loan losses as a % of average loans and acceptances | 0.15 % | 0.13 % | 0.14 % |
| Basel III regulatory capital ratio - All-in basis | | | |
| Common Equity Tier 1 (under the standardized approach) | 7.9 % | 7.6 % | n.a. |

(1) Comparative figures for 2012 were not restated to reflect the adoption of amendments to IAS 19, *Employee Benefits*.

(2) Refer to the non-GAAP financial measures section.

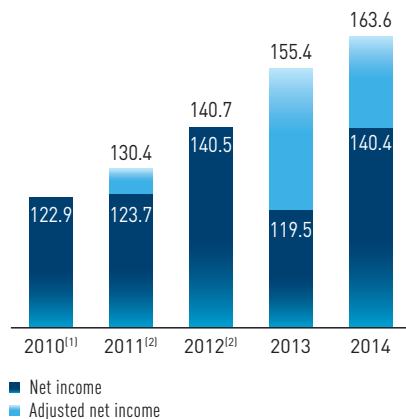
(3) Operating leverage for 2013 is not meaningful as 2012 results were not restated to reflect the adoption of amendments to IAS 19, *Employee Benefits*.

2014 FINANCIAL OBJECTIVES AND RESULTS

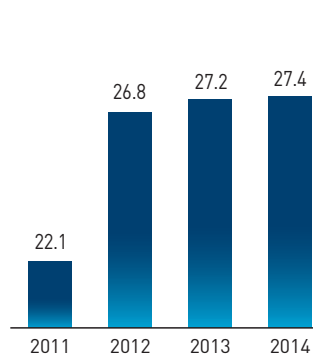
| INDICATORS | OBJECTIVES | RESULTS | |
|---|------------------------|-----------|---|
| Adjusted return on common shareholders' equity | 10.5% to 12.5% | 11.9% | ✓ |
| Adjusted net income | \$145.0 M to \$165.0 M | \$163.6 M | ✓ |
| Adjusted efficiency ratio | 72.5% to 69.5% | 71.0% | ✓ |
| Adjusted operating leverage | Positive | 2.4% | ✓ |
| Common Equity Tier 1 capital ratio - All-in basis | > 7.0% | 7.9% | ✓ |

A STRONG MOMENTUM

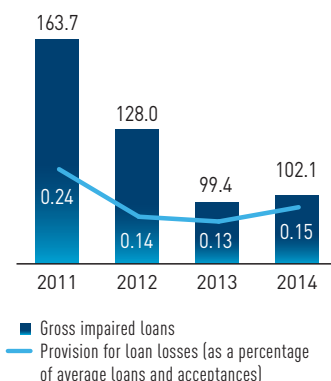
NET INCOME
(in millions of dollars)



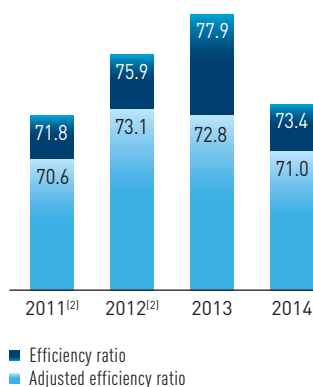
LOANS AND ACCEPTANCES
(in billions of dollars)



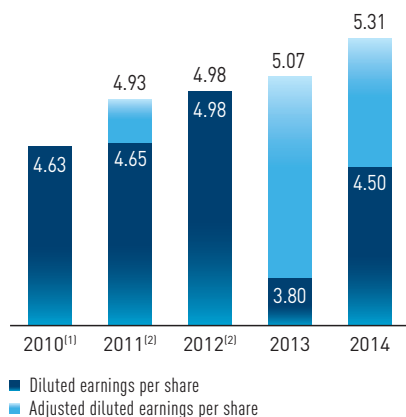
CREDIT QUALITY
(in millions of dollars or as a percentage)



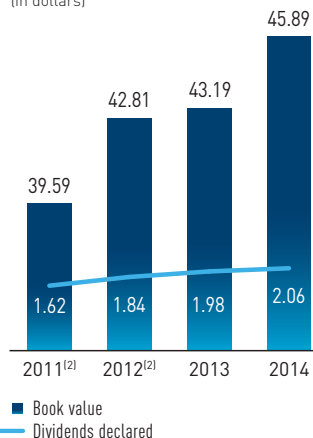
EFFICIENCY RATIO
(as a percentage)



DILUTED EARNINGS PER SHARE
(in dollars)



BOOK VALUE PER COMMON SHARE AND DIVIDENDS DECLARED
(in dollars)



[1] In accordance with previous CGAAP.

[2] Comparative figures for 2011 and 2012 were not restated to reflect the adoption of amendments to IAS 19, *Employee Benefits*.

THE FUNDAMENTALS OF OUR IDENTITY

- We have chosen to be a **different bank**, working in **specific sectors across Canada** in which we stand apart and **perform**.

PERSONAL AND COMMERCIAL

BUSINESS SERVICES

Thanks to the unparalleled expertise of our specialists within the market niches we operate in, we are recognized for our fast turnaround time and our flexible and innovative approach designed to meet the specific needs of Canadian small and medium-sized enterprises and real estate developers.

RETAIL SERVICES

Since our earliest beginnings, we have had an intimate knowledge of Québec consumers and, together since 1846, have built relations founded on trust, authenticity, simplicity and accessibility — which constitutes our fundamental strengths.

B2B BANK

As a leader dedicated exclusively to meeting the needs of Canadian financial advisors and brokers, we offer a range of products designed specifically to enable them to build their clients' wealth.

LAURENTIAN BANK SECURITIES AND CAPITAL MARKETS

Recognized in the field of institutional brokerage in Canada, we are specialized in serving small cap companies and in the fixed income sector; our extensive network of investment advisors ensure the efficient distribution of these products.

THE THREE PILLARS OF OUR STRATEGY

FOCUS

Be active within market niches in which we hold competitive advantages positioning us among the best.

AGILE GROWTH

Standing apart through our ability to continuously grow by quickly seizing upon market opportunities.

EXECUTION

Continuously improving our operational excellence, while assuring proactive risk management.

BANKING OUR WAY

There's more than one way to be a bank. The way we have chosen for our clients, partners and shareholders is to remain true to our values and to what we are. Our way of banking is to put our strengths to full use and to concentrate on our competitive advantages as powerful drivers of our development.

Historically, we have always been a specialized bank. From an institution serving the Island of Montréal in accordance with our constitutive charter, we progressively expanded our spheres of activity, while adopting a well-thought-out approach, proceeding step-by-step, and taking full advantage of business opportunities as they presented themselves throughout the course of our long history.

We have certainly not followed the traditional model of Canadian banks. Instead of striving to be everything to everyone, we prefer to develop and occupy specific niches in which we excel and create the greatest value for our clients and business partners. That is what sets us apart, and most importantly, it is our very *raison d'être*.

Each and every day, we aim to differentiate ourselves in the market segments we have chosen to be in, which include:

- small and medium-sized enterprises and real estate developers across Canada;
- financial advisors and brokers throughout Canada;
- middle-class consumers in Québec;
- small cap companies and bond issuers across Canada.

Ultimately, we want to serve as a valuable partner of these clients, to take the time to develop the most effective and tailor-made solutions together, and to fully support them in their projects.

SOLID RESULTS AND PAN-CANADIAN GROWTH

In light of our 2014 results, and of their progression over the past years, we are very proud of our growth and diversification. In the last five years, the Bank has:

- increased its adjusted net income by 45%;
- expand its balance sheet assets by more than 55%;
- increased the volume of its loan portfolios in Ontario and Western Canada by over 80%;
- raised its dividend by close to 50%.

In fiscal 2014, we not only posted solid results, but we also achieved a number of major milestones in our development. Our adjusted net income has significantly improved, as well as our efficiency ratio.

We launched two new, highly promising product lines — equipment financing products intended for small and medium-sized enterprises, and alternative mortgage solutions offered to mortgage brokers by B2B Bank.

We completed the integration of the MRS Companies and AGF Trust, thus doubling the size of B2B Bank and reinforcing its leadership position in the market.

As for our activities outside Québec, they now account for approximately 50% of our profitability.

Choosing to be a different bank is part of our everyday work. Each day, we exert concerted effort to make Laurentian Bank an increasingly high-performing organization, and we fully intend to continue along those lines. That goes for the market niches we occupy, the products we continue to add to our offerings and the ways in which we serve our clients.



"Instead of striving to be everything to everyone, we prefer to develop and occupy specific niches in which we excel and create the greatest value for our clients and business partners. That is what sets us apart, and most importantly, it is our very *raison d'être*."

B2B BANK: A ONE OF A KIND MODEL IN CANADA

The Bank's differentiation strategy has proven to be very beneficial for the organization and its shareholders. The success of our B2B Bank subsidiary is undeniably a perfect example of this. Some 10 years ago, we embarked on an initiative to implement a unique business model focused on financial advisors and brokers across Canada. In fact, we are the only bank in Canada to have developed a one-stop-shop approach to serving this clientele.

This strategy has certainly paid off. In the past 10 years, B2B Bank has posted an annual growth of:

- 19% of its deposits
- 14% of its loans

Because of the size of its activities, B2B Bank is uncontestedly a leader today within its market in Canada, managing a portfolio of more than 900,000 individual accounts and serving over 27,000 financial advisors.

Manifestly, the acquisition of the MRS Companies and AGF Trust contributed significantly to our growth. This success story testifies to our excellence of execution within a segment in which we have generated added value for our clients.

Looking ahead, we strongly believe there is still room for growth for B2B Bank. Thanks, in particular, to one of the most comprehensive mortgage lines on the market today, we have established an objective of doubling the size of our mortgage loan portfolio over the next five years.

A UNIQUE WAY OF SERVING OUR BUSINESS CLIENTELE

Our track record in the area of business services has been equally one of a kind. More specifically, we have developed specialization among small and medium-sized enterprises operating in the energy and infrastructures sector, in equipment financing, agriculture, as well as among health professionals.

We have deliberately made the choice not to be everything to everyone, but rather, to select segments that are lesser served by the market and to provide our expertise and added value to those clients. Thanks to this unique approach, we have significantly increased our business loan portfolios in five years, having reached the \$5 billion mark.

Building on this approach, we launched a leasing product in 2014 specifically designed to meet the equipment financing needs and increased productivity objectives

of small and medium-sized enterprises. One short year after this product launch, we are very satisfied with our clients' reception, and we are convinced that this segment will contribute significantly to the advancement of our Business Services sector.

In light of our track record and of the potential our market segments hold, we are aiming to double our business loan portfolio to \$10 billion in 2018, of which \$1 billion is expected to be generated by our equipment financing solutions.

BECOMING THE REFERENCE IN THE SMALL CAP COMPANY MARKET

This specialization and market niche strategy is also echoed within our Laurentian Bank Securities (LBS) subsidiary, whose primary sphere of expertise is in the area of institutional brokerage. Fixed Income security transactions, for which LBS is particularly known, remain at the heart of its activities, while its Institutional Equity division is increasingly making its mark within the small cap company segment. In fact, we are the only banking brokerage house to specialize in this sector, which holds highly promising growth opportunities.

In addition to these specializations, LBS's Institutional Services division offers medium-sized brokerage firms a complete range of operation services. Drawing on their extensive institutional expertise, our network of investment advisors can provide clients with a range of high-performance products.



"We are aiming to double our business loan portfolio to \$10 billion in 2018"

BOLSTERING OUR AGILITY THROUGH PARTNERSHIP

Another aspect that sets us apart is that we have grown to recognize that we cannot do everything ourselves or pretend to excel in all areas. In fact, we believe that offering our clients the best products does not necessarily mean we must create all these internally. As such, we have chosen not to be a mutual fund "manufacturer", but rather, to rely on our partner, Mackenzie Financial, to offer these products. With mutual fund revenue growth of 30% in 2014, it would appear that we have chosen

a winning formula that enables us to take maximum advantage of our solid sales force, while assuring the satisfaction of our clients.

We have also decided not to develop all of our software and systems on our own, but to do so in partnership with technology providers. This applies to our credit cards, our Web transactional platform, and our leasing transaction system. As a result, we obtain more efficient tools at lower cost, for the ultimate benefit of our clients.

WHERE WE ARE HEADING

Our distinctiveness within the Canadian banking sector has definitely worked to our advantage. Our size constitutes a strength. Thanks to our agility in acting on the needs of our clients, we are recognized for our rapid response time, particularly in the area of business loans. Moreover, we are committed to remaining a very well capitalized institution, which ranks among the 40 most prominent banks in North America.

How far can this distinctiveness and these competitive advantages take us? As evidenced by our strategic priorities, we certainly intend to continue to position ourselves as a solid and specialized bank in Canada with outstanding execution capabilities. We are also dedicated to remaining a client-focused institution that respects all of its stakeholders.

The expansion of our pan-Canadian presence will, more than ever, be at the heart of our business plan, particularly for our Business Services sector, which can continue to make gains and increase our market share within certain well-targeted market segments. For its part, B2B Bank will also keep fuelling our development from coast to coast. Now that the integration of our acquisitions has been completed, we can focus our efforts on business development and growth.

Our total assets have increased by more than 55% over the past five years, and we expect to maintain this momentum

within our high-growth-potential market segments. By relying on our assets and marshalling our strengths within areas in which we excel, we are confident that we will continue to grow at a rapid pace in the years to come.

A DIFFERENT BANK BUILT ON SOLID FOUNDATIONS

Of course, we could not be a different bank, a specialized bank, a bank that is one of a kind in Canada, without being able to count on employees who are dedicated to excellence and who spare no effort to satisfy the needs of all the clients the Bank has the privilege to serve. I would also like to thank our more than 1.5 million clients, who entrust their banking affairs to us. I also express my gratitude to the members of our Board of Directors, whose support of the Bank's growth and development strategies is invaluable.

Finally, I thank all our shareholders for the confidence they have in us. Thanks to them, we are able to continue to grow in a fashion that is unique and distinctive among Canadian financial institutions and to demonstrate, day after day, that there's more than one way to be a bank... for the benefit of all.



Réjean Robitaille, FCPA, FCA
President and Chief Executive Officer

OUR STRATEGIC PRIORITIES

1. INCREASE OUR PROFITABILITY BY CONCENTRATING ON HIGH-POTENTIAL GROWTH SECTORS

- Double business loan portfolio to reach the \$10 billion mark in 2018
- Double B2B Bank's mortgage loan portfolio to reach the \$8 billion mark over the next five years
- Increase the geographical diversification of loans and profitability

2. IMPROVE OUR EFFICIENCY BY CONCENTRATING ON OPERATIONAL EXCELLENCE

- Move our efficiency ratio below 68% mid-term
- Take full advantage of Business Services' and B2B Bank's business models
- Take a proactive approach to outsourcing and partnerships so as to maximize our flexibility

3. FOCUS ON OUR HUMAN CAPITAL AS THE DRIVER OF OUR GROWTH

- Affirm our difference through our relational approach of proximity to assure the loyalty of our clientele

BUILDING AN EVEN MORE SOLID BANK



“Laurentian Bank has a unique business plan that creates long-term value for our shareholders.”

It is with great pleasure that I am conveying my second message as Chair of Laurentian Bank’s Board of Directors, providing a brief overview of the organization’s most significant accomplishments in 2014. Over the past five years, the Bank’s profitability has improved by close to 45% on an adjusted basis. This performance is particularly noteworthy in view of the prevailing uncertain economic context and regulatory environment. These excellent results have enabled us to increase the dividend to shareholders in a constant and sustained fashion. In fact, the dividend has grown close to 50% since 2009.

MAJOR STRATEGIC ACHIEVEMENTS

Laurentian Bank has a unique business plan that creates long-term value for our shareholders. This was certainly the case again in 2014, during which we finalized the integration of the MRS Companies and AGF Trust. Highly strategic and significant, these acquisitions have enabled B2B Bank to firmly position itself as the leader within the Canadian financial advisor and broker market. With respect to our Business Services sector, the Bank is also on an excellent trajectory, as evidenced by its loan portfolio growth of more than 10% this past year. These two sectors constitute fundamental pillars of the organization’s strategy and serve as the key drivers that are allowing the Bank to expand its presence nationwide.

PRIORITY AND PROMISING FILES

In addition to supporting senior management in the realization of the Bank’s business plan, the Board focused its attention on a number of important files in 2014, such as the compensation programs for Senior Management, pension plan management, capital allocation among sectors, and on finding the proper balance between risk taking and growth. We are fortunate to be able to count on the expertise of our Board members in order to manage all of these files. Their wealth of experience serves as a tremendous asset that enables us to make the most informed decisions possible in the best interests of all the Bank’s stakeholders.

ACKNOWLEDGEMENTS

I would like to take this opportunity to welcome Susan Wolburgh Jenah, who joined our Board recently. Serving as President and Chief Executive Office of the Investment Industry Regulatory Organization of Canada (IIROC) until recently, Susan brings extensive expertise in the financial field to her new role as Board member. I would also like to thank Marie-France Poulin, who has left our Board after five years of loyal service, for her contribution to the Board. With the appointment of Ms. Wolburgh Jenah, the Bank maintains its leadership position among Canadian banking institutions with respect to female representation on its Board. Thirty-eight percent of our Directors are women.

“The wealth of experience possessed by our Board members serves as a tremendous asset that enables us to make the most informed decisions possible in the best interests of all the Bank’s stakeholders.”

In conclusion, I would like to extend my sincere gratitude to our shareholders and clients for their trust, as well as to our management and employees. I can assure you that we will continue our rigorous efforts to fulfill the strategic role that you have entrusted us with.

A handwritten signature in black ink, appearing to read 'Isabelle Courville'.

Isabelle Courville

Chair of the Board

Has served on the Board of Directors since March 2007.

BOARD OF DIRECTORS



Lise Bastarache

Economist and Corporate Director
Has served on the Board of Directors since March 2006. Member of the Risk Management Committee.



Jean Bazin, C.R.

Counsel at Dentons Canada LLP
Has served on the Board of Directors since September 2002. Chair of the Human Resources and Corporate Governance Committee.



Richard Bélanger, FCPA, FCA

President of Toryvel Group Inc.
Has served on the Board of Directors since March 2003. Chair of the Audit Committee. Member of the Risk Management Committee.



Michael T. Boychuk, FCPA, FCA

President and Chief Executive Officer of Bimcor inc.
Has served on the Board of Directors since August 2013. Member of the Audit Committee.



Pierre Genest, FCIA, FSA

Chairman of the Board of SSQ, Life Insurance Company Inc.
Has served on the Board of Directors since March 2006. Member of the Human Resources and Corporate Governance Committee.



Michel Labonté

Corporate Director
Has served on the Board of Directors since March 2009. Chair of the Risk Management Committee.



A. Michel Lavigne, FCPA, FCA

Corporate Director
Has served on the Board of Directors since March 2013. Member of the Audit Committee.



Jacqueline C. Orange

Corporate Director
Has served on the Board of Directors since March 2008. Member of the Audit Committee.



Réjean Robitaille, FCPA, FCA

President and Chief Executive Officer of the Bank
Has served on the Board of Directors since December 2006. Mr. Robitaille does not sit on any of the Board's committees.



Michelle R. Savoy

Corporate Director
Has served on the Board of Directors since March 2012. Member of the Human Resources and Corporate Governance Committee.



Jonathan I. Wener, C.M.

Chairman of the Board and Chief Executive Officer, Canderel Holdings Inc.
Has served on the Board of Directors since January 1998. Member of the Risk Management Committee.



Susan Wolburgh Jenah

Corporate Director
Has served on the Board of Directors since December 2014. Member of the Risk Management Committee.

OUR MANAGEMENT COMMITTEE



Réjean Robitaille, FCPA, FCA
President and
Chief Executive Officer

Réjean Robitaille began his career at Laurentian Bank in 1988. He progressively made his way through the ranks, occupying numerous positions of responsibility prior to assuming the role of President of the organization in 2006. Under his direction, the Bank has posted solid growth, most notably with the development of Business Services and the substantial expansion of activities outside Québec, which now account for some 50% of the organization's overall profitability. He has also contributed to making B2B Bank a pan-Canadian leader in the provision of services to financial advisors and brokers. Since taking the Bank's helm, it has registered record results on an adjusted basis over the past eight years.

Member of the Management Committee since 2003

François Desjardins
Executive Vice President,
Laurentian Bank and President and
Chief Executive Officer of B2B Bank

François Desjardins began his career at the Bank in 1991. He led the Telebanking Centre prior to assuming the Presidency of B2B Trust in 2004. He played a key role among those who spearheaded the transition of B2B Trust to B2B Bank in 2012, the major acquisitions made by this subsidiary in recent years, and the remarkable growth that B2B has experienced over the years. Since 2014, he has been entrusted with responsibility for Retail Services. In June 2010, François Desjardins was prestigiously ranked among *Canada's Top 40 Under 40™*.

Member of the Management Committee since 2005

Pierre Minville, CFA
Executive Vice President and
Chief Risk Officer

Pierre Minville joined Laurentian Bank in 2000 after having pursued a career in the field of corporate finance, business financing and mergers and acquisitions. Over the course of his 15 years at the Bank, he has been responsible for finance, administration and regulated products with both Retail Services and Business Services, and has piloted several acquisition projects. His vast experience has enabled him to assume responsibility for the complex area of integrated risk management, as well as to play a key role in assuring the success of the Bank's major acquisitions and partnerships over the past years.

Member of the Management Committee since 2011

Michel C. Lauzon
Executive Vice President and
Chief Financial Officer

Between 1988 and 1998, Michel C. Lauzon occupied a number of different senior management positions at Laurentian Bank, before leaving to join TAL Global Asset Management Inc., where he served successively as Chief Financial Officer and as President and Chief Operating Officer. Since his return to the Bank in 2009 as Chief Financial Officer, Michel Lauzon has contributed his extensive knowledge of financial products and markets and, thus, has played a key role in the organization's growth and development.

Member of the Management Committee since 2009



Stéphane Therrien
Executive Vice President,
Business Services

Stéphane Therrien joined the Bank in January 2012, after pursuing a career in the banking and commercial financing field mainly at GE Capital. Since assuming his functions at the Bank, the Business Services sector has grown significantly, which is attributable in large part to a strategy focused on the development of specializations, business excellence and geographic diversification. Stéphane Therrien is recognized for his extensive experience in business financing throughout Canada.

Member of the Management Committee since 2012



Lorraine Pilon
Executive Vice President,
Corporate Affairs,
Human Resources and Secretary

An attorney by training, Lorraine Pilon joined the Bank's Legal Affairs sector in 1990. Since 2003, she has held the position of Executive Vice President of Corporate Affairs and Secretary, and in 2011, she was entrusted with the additional responsibility of leading Human Resources. Lorraine Pilon brings to the Bank her vast expertise of the financial sector activities, coupled with an in-depth knowledge of all requirements in the regulatory environment.

Member of the Management Committee since 2003



Gilles Godbout
Executive Vice President,
Retail Services and Chief
Information Officer

Gilles Godbout worked at the Bank from 1987 to 1999, before leaving to occupy a number of different positions at Hydro-Québec and at CGI Group. He rejoined the ranks of Laurentian Bank in 2012 to optimize and modernize Information Technology practices and systems. His extensive IT knowledge and his broad management expertise makes him a prime resource in the quest for operational efficiency at all levels.

Member of the Management Committee since 2012

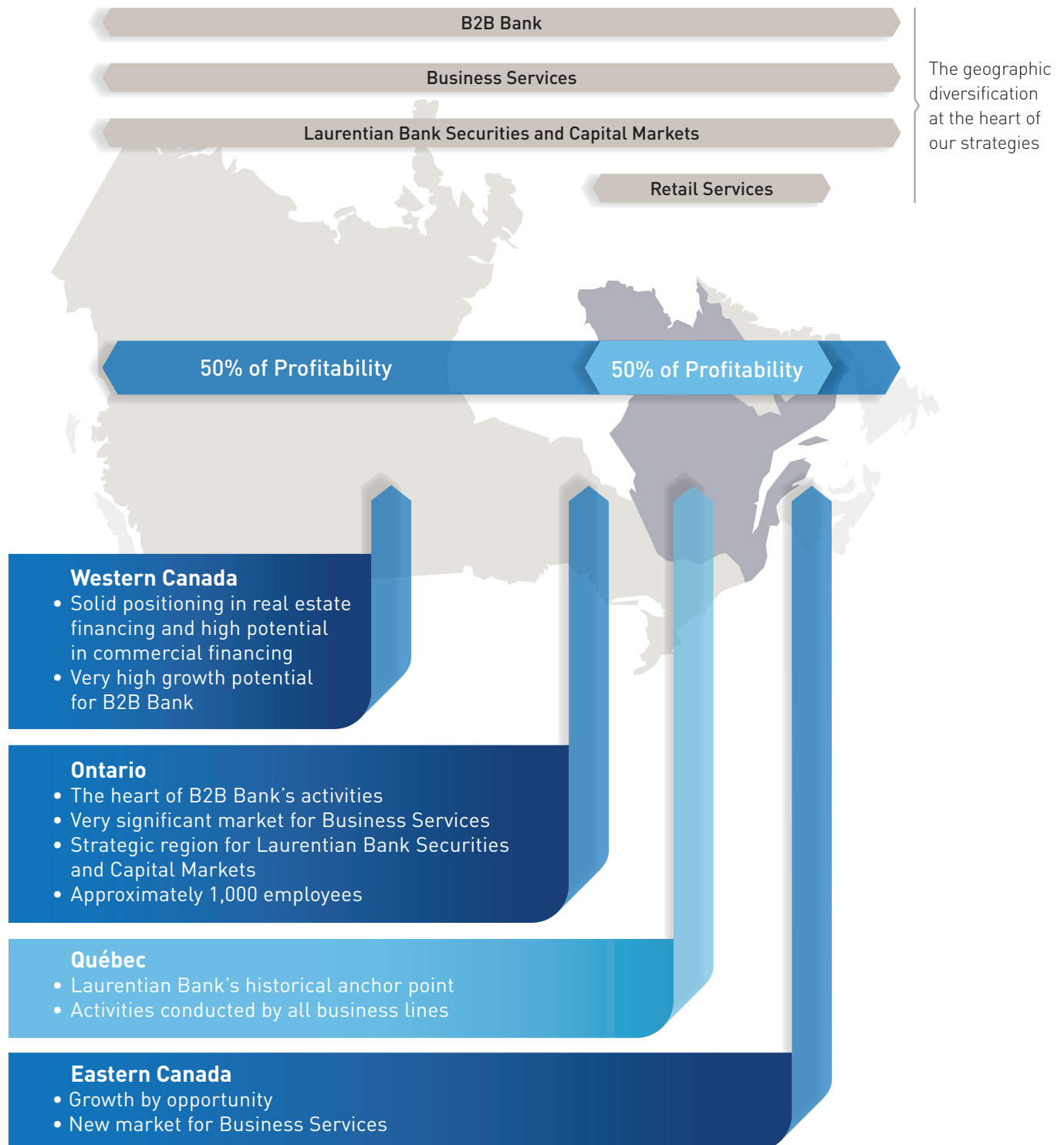


Michel C. Trudeau
Executive Vice President,
Capital Markets, and President and
CEO of Laurentian Bank
Securities Inc.

Michel C. Trudeau began his career at the Bank in 1999, after having worked for some 15 years in the brokerage sector including 10 years at Merrill Lynch Canada. He occupied numerous positions of responsibility at Laurentian Bank Securities Inc. (LBS), before assuming the position of President of the subsidiary in 2003. Since November 2009, he has also been responsible for activities related to capital markets.

Member of the Management Committee since 2011

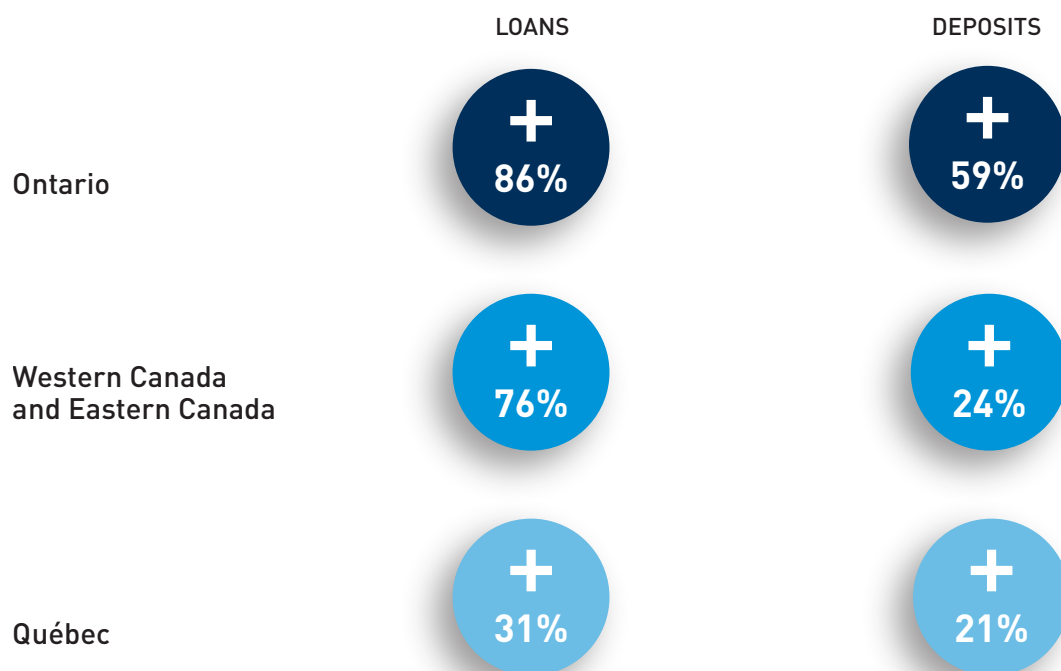
OUR STRATEGY IS PAN-CANADIAN



AND OUR GROWTH IS DIVERSIFIED

Sources of growth over the past five years

GROWTH BY GEOGRAPHY

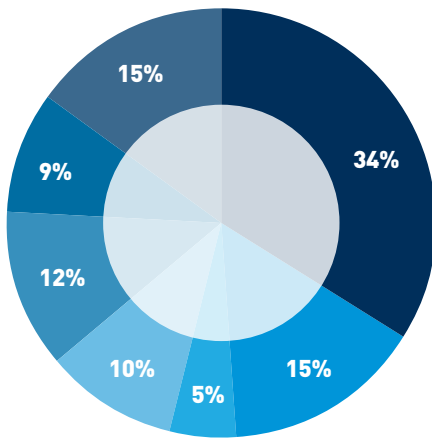


LOAN GROWTH BY SECTOR



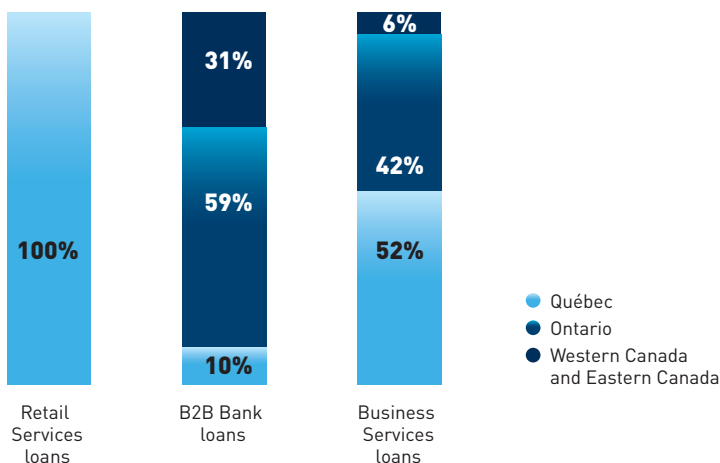
PERFORMING BUSINESS SEGMENTS TO ACHIEVE OUR OBJECTIVES

DIVERSIFICATION BY LOAN CATEGORIES
(as a percentage)



- Retail Services residential mortgage loans (34%)
- B2B Bank residential mortgage loans (15%)
- Business Services residential mortgage loans (5%)
- Commercial mortgage loans (10%)
- Commercial and other loans (12%)
- Retail Services personal loans (9%)
- B2B Bank investment loans (15%)

GEOGRAPHIC DIVERSIFICATION BY BUSINESS SEGMENTS



STRATEGIC CONTRIBUTION TO THE BANK

| Business Segment | Strategic Contribution | |
|--|--|---|
| PERSONAL AND COMMERCIAL | BUSINESS SERVICES | <ul style="list-style-type: none"> • Very important driver of growth • Strong profitability thanks to high-margin products • Good geographic diversification • Low cost structure resulting in high efficiency |
| | RETAIL SERVICES | <ul style="list-style-type: none"> • Principal contributor to the stable and affordable deposit base • Sustained and stable profitability • Significant generator of other revenues • Principal driver in the area of wealth management |
| B2B BANK | <ul style="list-style-type: none"> • Very important growth driver thanks to the financial advisors and brokers network • Specialized products generating higher margins • Good geographic diversification • Flexible source of deposits • Low cost structure resulting in high efficiency | |
| LAURENTIAN BANK SECURITIES AND CAPITAL MARKETS | <ul style="list-style-type: none"> • Important generator of other revenues • Important driver in the area of wealth management • Provider of services complementary to Personal and Commercial sector activities • Contributor to the Bank's institutional funding | |

Table continues on page 15.

| | TARGET CLIENTELE | SPECIALIZATIONS | MID-TERM ORIENTATIONS | TARGETS | |
|--|--|---|---|---|--|
| | Small and medium-sized enterprises and real estate developers in Canada | <ul style="list-style-type: none"> Real estate financing Equipment financing, including leasing Energy and infrastructures Health professionals Manufacturing Agriculture | <ul style="list-style-type: none"> Generate strong loan portfolio growth in targeted market segments through the unparalleled quality of the expertise offered Become a major player in the fields of equipment financing and leasing Improve operational excellence with respect to processes, systems and execution | Double total portfolio to reach the \$10 billion mark in 2018; the growth will be pan-Canadian | BUSINESS SERVICES |
| | Middle-class Québec consumers | <ul style="list-style-type: none"> Traditional banking offerings (loans, deposits, investment products, transactional, virtual and mobile services) | <ul style="list-style-type: none"> Increase cross-sales, particularly in the areas of mutual funds, credit cards and credit insurance Reinforce the unique character of our offerings by taking full advantage of our distinctive relational approach | Reinforce service offerings and expertise so as to progressively enhance the Bank's positioning among Québec consumers | RETAIL SERVICES |
| | Canadian financial advisors and brokers | <ul style="list-style-type: none"> Mortgage loans, including alternative products Deposits Investment and RRSP loans Investment accounts High-yield accounts | <ul style="list-style-type: none"> Substantially increase B2B Bank's market share within the mortgage loan segment, primarily with respect to alternative products Extend distribution network penetration such that more products are distributed by a greater number of advisors and brokers Pursue the improvement of the advisor and broker experience through the operational excellence of our easy-to-use and error-free services Maintain our leadership position in the investment loan market by concentrating on execution and long-term relations with advisors and brokers | Double mortgage loan portfolio to reach the \$8 billion mark over the next 5 years; the growth will be pan-Canadian | B2B BANK |
| | Canadian small cap companies, municipalities and bond issuers nationwide | <ul style="list-style-type: none"> Institutional brokerage (fixed income; research, negotiation and investment banker for small cap companies; institutional services) Retail brokerage | <ul style="list-style-type: none"> Reinforce its leadership position in the area of provincial bond underwriting and assure strategic growth within the corporate bond market Continue to enhance its recognition within the small cap business market by expanding its research and investment banking services to cover more than 150 companies Increase its assets under management in the areas of institutional and retail brokerage | Accelerate the growth of assets under management so as to reach the \$4 billion mark over the next 5 years | LAURENTIAN BANK SECURITIES AND CAPITAL MARKETS |

MANAGING RESPONSIBLY

Laurentian Bank has always been true to its *raison d'être*, which is to help its individual, business and institutional clients to effectively manage their banking and financial affairs with integrity and simplicity.

ETHICAL AND RIGOROUS PRACTICES

It is of the utmost importance for Laurentian Bank to assure its profitable development while respecting the principles of transparency, integrity and ethical behaviour. The priority assigned to good governance by the Bank has enabled our institution to successfully evolve and prosper over the years. Consequently, the organization makes sure that decisions are made in the best interests of all the Bank's stakeholders.

The Bank also pursued its efforts in 2014 to assure its attentiveness to its clients and to adapt to their needs, expectations and demands.

COMMUNITY SUPPORT AND VOLUNTEER INVOLVEMENT

The Bank also takes very much to heart supporting the communities in which it operates. In fact, we lend our support to numerous community organizations each year, and our employees and officers are actively involved in a host of worthy causes.



OUR HUMAN CAPITAL: AN ESSENTIAL VALUE

The development of our human capital is at the very heart of our priorities. As such, we devote a great deal of effort to continuously improving the employee experience through a variety of different programs aimed at offering a stimulating and engaging working environment, as well as via transparent and equitable human resources practices.



These positive practices were recognized in 2014 by Toronto publishing house MediaCorp Canada, which ranked our institution among the top 25 employers in Montréal offering an enviable working environment.

A RESPECTFUL ENVIRONMENTAL MANAGEMENT APPROACH

Laurentian Bank focuses particular attention on its surroundings. As such, the Bank undertakes a variety of initiatives each year to minimize the impact of its activities on the environment.

In addition, the Bank supports projects that have a positive environmental impact. For example, the Business Services sector has developed a specialization in the financing of renewable energy projects. This sector also finances the construction of residential buildings and office towers that respect LEED (Leadership in Energy and Environment Design) norms.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED OCTOBER 31, 2014

This Management's Discussion and Analysis (MD&A) is a narrative explanation, through the eyes of management, of Laurentian Bank of Canada's financial condition as at October 31, 2014 and how it performed during the year then ended. This MD&A, dated December 10, 2014, should be read in conjunction with the Audited Annual Consolidated Financial Statements for the year ended October 31, 2014 prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board and set out in the *CPA Canada Handbook*.

Additional information about the Laurentian Bank of Canada (the Bank), including the Annual Information Form for the year ended October 31, 2014, is available on the Bank's website at www.laurentianbank.ca and on SEDAR at www.sedar.com.

Basis of presentation

The information for the years ended October 31, 2014 and 2013 is presented on the same basis as in the audited annual consolidated financial statements prepared in accordance with IFRS. All amounts are denominated in Canadian dollars.

Effective November 1, 2013, the Bank adopted the amendments to the employee benefits standard under IFRS, which required restatement of the Bank's 2013 comparative information and financial measures. The information for the years ended October 31, 2012 and 2011 has been prepared in accordance with IFRS but has not been restated to reflect the adoption of amendments to IAS 19, *Employee Benefits*. The information related to prior periods is presented using previous Canadian generally accepted accounting principles (CGAAP). Certain comparative figures have been reclassified to conform to the current year presentation.

TABLE OF CONTENTS

| | | | |
|--|----|--|----|
| Summary of Financial Results | 18 | Off-Balance Sheet Arrangements | 37 |
| 2014 Financial Performance | 19 | Capital Management..... | 38 |
| Non-GAAP Financial Measures..... | 20 | Risk Appetite and Risk Management Framework..... | 42 |
| Outlook and Objectives for 2015..... | 21 | Disclosure Controls and Procedures | |
| Analysis of Consolidated Results | 23 | and internal controls over financial reporting | 57 |
| Analysis of Quarterly Results | 29 | Critical Accounting Policies and Estimates..... | 58 |
| Business Segments..... | 31 | Future Changes to Accounting Policies..... | 60 |
| Analysis of Financial Condition | 35 | | |

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

In this document and in other documents filed with Canadian regulatory authorities or in other communications, Laurentian Bank of Canada may from time to time make written or oral forward-looking statements within the meaning of applicable securities legislation. Forward-looking statements include, but are not limited to, statements regarding the Bank's business plan and financial objectives. The forward-looking statements contained in this document are used to assist the Bank's security holders and financial analysts in obtaining a better understanding of the Bank's financial position and the results of operations as at and for the periods ended on the dates presented and may not be appropriate for other purposes. Forward-looking statements typically use the conditional, as well as words such as prospects, believe, estimate, forecast, project, expect, anticipate, plan, may, should, could and would, or the negative of these terms, variations thereof or similar terminology.

By their very nature, forward-looking statements are based on assumptions and involve inherent risks and uncertainties, both general and specific in nature. It is therefore possible that the forecasts, projections and other forward-looking statements will not be achieved or will prove to be inaccurate. Although the Bank believes that the expectations reflected in these forward-looking

statements are reasonable, it can give no assurance that these expectations will prove to have been correct.

The Bank cautions readers against placing undue reliance on forward-looking statements when making decisions, as the actual results could differ considerably from the opinions, plans, objectives, expectations, forecasts, estimates and intentions expressed in such forward-looking statements due to various material factors. Among other things, these factors include: changes in capital market conditions, changes in government monetary, fiscal and economic policies, changes in interest rates, inflation levels and general economic conditions, legislative and regulatory developments, changes in competition, modifications to credit ratings, scarcity of human resources and developments in the technological environment. The Bank further cautions that the foregoing list of factors is not exhaustive. For more information on the risks, uncertainties and assumptions that would cause the Bank's actual results to differ from current expectations, please also refer to the "Risk Appetite and Risk Management Framework" section and other public filings available at www.sedar.com.

The Bank does not undertake to update any forward-looking statements, whether oral or written, made by itself or on its behalf, except to the extent required by securities regulations.

SUMMARY OF FINANCIAL RESULTS

HIGHLIGHTS OF 2014

- Record adjusted net income
- Positive adjusted operating leverage of 2.4% year-over-year
- Excellent credit quality as evidenced by loan losses of \$42.0 million or 0.15% of average loans
- Solid growth in the commercial loan portfolio including BAs, up 15% year-over-year
- Successful completion of integration of acquired companies with expense synergies realized

TABLE 1

HIGHLIGHTS OF 2014

For the year ended October 31, 2014 (in millions of Canadian dollars, except percentage amounts)

| | | 2014 | VARIANCE 2014 / 2013 |
|------------------------------------|----|-------|-------------------------|
| Net income | \$ | 140.4 | 17 % |
| Adjusted net income ⁽¹⁾ | \$ | 163.6 | 5 % |

(1) Certain analyses presented throughout this document are based on the Bank's core activities and therefore exclude items related to business combinations and restructuring charges designated as adjusting items. Refer to the non-GAAP financial measures section for further details.

OVERVIEW OF FISCAL 2014

For the year ended October 31, 2014, adjusted net income totalled \$163.6 million or \$5.31 diluted per share, up 5%, compared with \$155.4 million or \$5.07 diluted per share in 2013. Adjusted return on common shareholders' equity was 11.9% for the year ended October 31, 2014, compared with 12.1% for the same period in 2013. On a reported basis, net income was \$140.4 million or \$4.50 diluted per share for the year ended October 31, 2014, compared with \$119.5 million or \$3.80 diluted per share for the same period in 2013. Return on common shareholders' equity was 10.1% for the year ended October 31, 2014, compared with 9.1% for the same period in 2013. Reported results for 2014 and 2013 included items related to business combinations and restructuring charges, as detailed below.

In fiscal 2014, the Bank delivered solid earnings growth and maintained its targeted efforts to improve efficiency and maximize operating leverage. The Bank continued to focus on further developing its higher-margin commercial activities and increasing its pan-Canadian footprint to foster profitable revenue growth in an environment of slowing consumer loan demand and compressed margins. The growth in business activities, as well as rigorous control over expenses and the sustained credit quality of the loan portfolio also contributed to the strong financial

performance. With regard to the MRS Companies and AGF Trust, the Bank successfully completed the integration of the businesses and delivered cost synergies within its B2B Bank business segment to achieve greater operational efficiency.

In the fourth quarter of 2014, the Bank restructured certain retail and corporate activities to realign strategic priorities, to reduce costs in a sustainable manner and to achieve greater operational efficiency. Consequently, severance charges and impairment charges related to IT projects were recorded in non-interest expenses. Refer to the Non-GAAP financial measures section for further details.

The Bank maintained a solid financial position in 2014, as evidenced by strong capital ratios under the standardized approach and the recent upgrade of the Bank's credit rating by DBRS Limited (DBRS). With sound liquidity and capital management, the Bank remains well positioned to invest in its strategic initiatives and to further contribute to its evolving client financial needs.

TABLE 2

CONSOLIDATED RESULTS

For the years ended October 31 (in thousands of Canadian dollars, except per share and percentage amounts)

| | 2014 | 2013 | 2012 ⁽¹⁾ | VARIANCE 2014 / 2013 |
|---|------------|------------|---------------------|-------------------------|
| Net interest income | \$ 560,980 | \$ 568,760 | \$ 531,028 | (1)% |
| Other income | 313,085 | 296,577 | 265,615 | 6 |
| Total revenue | 874,065 | 865,337 | 796,643 | 1 |
| Gain on acquisition, amortization of net premium on purchased financial instruments and revaluation of contingent consideration | 9,653 | 4,426 | (23,795) | 118 |
| Provision for loan losses | 42,000 | 36,000 | 33,000 | 17 |
| Non-interest expenses | 641,309 | 674,079 | 604,463 | (5) |
| Income before income taxes | 181,103 | 150,832 | 182,975 | 20 |
| Income taxes | 40,738 | 31,355 | 42,467 | 30 |
| Net income | 140,365 | 119,477 | 140,508 | 17 |
| Preferred share dividends, including applicable taxes | 10,985 | 11,749 | 12,768 | (7) |
| Net income available to common shareholders | \$ 129,380 | \$ 107,728 | \$ 127,740 | 20% |
| Average number of common shares outstanding (in thousands) | | | | |
| Basic | 28,724 | 28,329 | 25,634 | |
| Diluted | 28,732 | 28,338 | 25,652 | |
| Earnings per share | | | | |
| Basic | \$ 4.50 | \$ 3.80 | \$ 4.98 | 18% |
| Diluted | \$ 4.50 | \$ 3.80 | \$ 4.98 | 18% |
| Return on common shareholders' equity ⁽²⁾ | 10.1% | 9.1% | 12.1% | |
| Efficiency ratio ⁽²⁾ | 73.4% | 77.9% | 75.9% | |
| Operating leverage ^{(2) (3)} | 5.9% | n. m. | {6.1}% | |
| Adjusted financial measures | | | | |
| Adjusted net income ⁽²⁾ | \$ 163,582 | \$ 155,436 | \$ 140,660 | 5% |
| Adjusted diluted earnings per share ⁽²⁾ | \$ 5.31 | \$ 5.07 | \$ 4.98 | 5% |
| Adjusted return on common shareholders' equity ⁽²⁾ | 11.9% | 12.1% | 12.0% | |
| Adjusted efficiency ratio ⁽²⁾ | 71.0% | 72.8% | 73.1% | |
| Adjusted operating leverage ^{(2) (3)} | 2.4% | n. m. | {3.9}% | |

(1) Comparative figures for 2012 were not restated to reflect the adoption of amendments to IAS 19, *Employee Benefits*.

(2) Refer to the non-GAAP financial measures section.

(3) Operating leverage for 2013 is not meaningful as 2012 results were not restated to reflect the adoption of amendments to IAS 19, *Employee Benefits*.**2014 FINANCIAL PERFORMANCE**

The following table presents management's financial objectives and the Bank's performance for 2014. The Bank met its objectives for the year 2014 and delivered record adjusted net income. In a slow revenue growth environment, disciplined management of expenses, strong credit quality, strategies to increase other

income and good organic growth in the higher-margin commercial businesses were the key drivers of the Bank's good financial performance during the year and attainment of its profitability, efficiency and capital objectives.

TABLE 3

2014 PERFORMANCE INDICATORS ⁽¹⁾

| | 2014 OBJECTIVES | 2014 RESULTS |
|---|--------------------|--------------|
| Adjusted return on common shareholders' equity | 10.5% to 12.5% | 11.9% |
| Adjusted net income (in millions of dollars) | \$145.0 to \$165.0 | \$163.6 |
| Adjusted efficiency ratio | 72.5% to 69.5% | 71.0% |
| Adjusted operating leverage | Positive | 2.4% |
| Common Equity Tier I capital ratio — All-in basis | > 7.0% | 7.9% |

(1) Refer to the non-GAAP financial measures section.

NON-GAAP FINANCIAL MEASURES

The Bank uses both GAAP and certain non-GAAP measures to assess performance. Non-GAAP measures do not have any standardized meaning prescribed by GAAP and are unlikely to be comparable to any similar measures presented by other companies. These non-GAAP financial measures are considered useful to investors and analysts in obtaining a better understanding of the Bank's financial results and analyzing its growth and profit potential more effectively. The Bank's non-GAAP financial measures are defined as follows:

Adjusted financial measures

Certain analyses presented throughout this document are based on the Bank's core activities and therefore exclude the effect of certain amounts designated as adjusting items, as detailed below. The Bank presents adjusted results to facilitate understanding of its underlying business performance and related trends.

Adjusting items

Adjusting items are related to business combinations as well as to restructuring plans. Items related to business combinations relate to gains and expenses that arose as a result of acquisitions. The gain on acquisition and ensuing amortization of net premium on purchased financial instruments are considered adjusting items since they represent, according to management, significant non-cash and non-recurring adjustments. The revaluation of the contingent consideration and costs related to business combinations (T&I Costs) have been designated as adjusting items due to the significance of the amounts and their non-recurrence. Items related to business combinations are included in the B2B Bank business segment's reported results.

Restructuring charges result from a realignment of strategic priorities and are comprised of severance charges and impairment charges related to IT projects. These charges have been designated as adjusting items due to their nature and the significance of the amounts. Restructuring charges are included in the Personal & Commercial business segment and Other sector's reported results.

TABLE 4

IMPACT OF ADJUSTING ITEMS

For the quarters and years ended October 31

(in thousands of Canadian dollars, except per share amounts)

| | FOR THE QUARTERS ENDED OCTOBER 31 | | | FOR THE YEARS ENDED OCTOBER 31 | | |
|---|-----------------------------------|-----------|------------|--------------------------------|---------------------|--|
| | 2014 | 2013 | 2014 | 2013 | 2012 ⁽¹⁾ | |
| Impact on net income | | | | | | |
| Reported net income | \$ 33,754 | \$ 25,866 | \$ 140,365 | \$ 119,477 | \$ 140,508 | |
| Adjusting items | | | | | | |
| Items related to business combinations, net of income taxes | | | | | | |
| Gain on acquisition, amortization of net premium on purchased financial instruments and revaluation of contingent consideration | | | | | | |
| Amortization of net premium on purchased financial instruments | 1,108 | 744 | 4,079 | 3,264 | 400 | |
| Revaluation of contingent consideration | — | — | 4,100 | — | — | |
| Gain on acquisition | — | — | — | — | (16,382) | |
| Costs related to business combinations (T&I Costs) | | | | | | |
| AGF Trust transaction and integration related costs | 2,138 | 5,281 | 8,973 | 16,433 | 2,198 | |
| MRS Companies integration related costs | — | 2,028 | 474 | 11,655 | 13,936 | |
| | 3,246 | 8,053 | 17,626 | 31,352 | 152 | |
| Restructuring charges, net of income taxes | | | | | | |
| Severance charges ⁽²⁾ | 4,429 | 4,607 | 4,429 | 4,607 | — | |
| Impairment charges related to IT projects ⁽³⁾ | 1,162 | — | 1,162 | — | — | |
| | 5,591 | 4,607 | 5,591 | 4,607 | — | |
| | 8,837 | 12,660 | 23,217 | 35,959 | 152 | |
| Adjusted net income | \$ 42,591 | \$ 38,526 | \$ 163,582 | \$ 155,436 | \$ 140,660 | |
| Impact on diluted earnings per share | | | | | | |
| Reported diluted earnings per share | \$ 1.09 | \$ 0.82 | \$ 4.50 | \$ 3.80 | \$ 4.98 | |
| Adjusting items | | | | | | |
| Items related to business combinations | 0.12 | 0.28 | 0.62 | 1.11 | — | |
| Restructuring charges | 0.19 | 0.16 | 0.19 | 0.16 | — | |
| | 0.31 | 0.44 | 0.81 | 1.27 | — | |
| Adjusted diluted earnings per share ⁽⁴⁾ | \$ 1.39 | \$ 1.26 | \$ 5.31 | \$ 5.07 | \$ 4.98 | |

(1) Comparative figures for 2012 were not restated to reflect the adoption of amendments to IAS 19, *Employee Benefits*.

(2) Severance charges are included in the line item Salaries and benefits in the consolidated statement of income.

(3) Impairment charges related to IT projects are included in the line item Premises and technology in the consolidated statement of income.

(4) The impact of adjusting items on a per share basis does not add due to rounding for the quarter ended October 31, 2014.

Common shareholders' equity

Effective November 1, 2013, the Bank modified its definition of common shareholders' equity, as detailed below. All financial measures for the quarters and for the year ended in 2013 have been amended accordingly. Comparative figures prior to 2013 were not restated.

The Bank's common shareholders' equity is defined as the sum of the value of common shares, retained earnings and accumulated

other comprehensive income, excluding cash flow hedge reserves. This definition is now better aligned with regulatory requirements.

Return on common shareholders' equity

Return on common shareholders' equity is a profitability measure calculated as the net income available to common shareholders as a percentage of average common shareholders' equity.

TABLE 5

RETURN ON COMMON SHAREHOLDERS' EQUITY

For the years ended October 31 (in thousands of Canadian dollars, except percentage amounts)

| | 2014 | 2013 | 2012 ⁽¹⁾ |
|--|--------------|--------------|---------------------|
| Reported net income available to common shareholders | \$ 129,380 | \$ 107,728 | \$ 127,740 |
| Adjusting items | 23,217 | 35,959 | 152 |
| Adjusted net income available to common shareholders | \$ 152,597 | \$ 143,687 | \$ 127,892 |
| Average common shareholders' equity | \$ 1,280,595 | \$ 1,186,977 | \$ 1,069,619 |
| Return on common shareholders' equity | 10.1 % | 9.1 % | 12.1 % |
| Adjusted return on common shareholders' equity | 11.9 % | 12.1 % | 12.0 % |

(1) Comparative figures for 2012 were not restated to reflect the adoption of amendments to IAS 19, *Employee Benefits*.

Book value per common share

The Bank's book value per common share is defined as common shareholders' equity divided by the number of common shares outstanding at the end of the period.

Net interest margin

Net interest margin is the ratio of net interest income to total average assets, expressed as a percentage or basis points.

Efficiency ratio and operating leverage

The Bank uses the efficiency ratio as a measure of its productivity and cost control. This ratio is defined as non-interest expenses as a percentage of total revenue. The Bank also uses operating

leverage as a measure of efficiency. Operating leverage is the difference between total revenue and non-interest expenses growth rates.

Dividend payout ratio

The dividend payout ratio is defined as dividends declared on common shares as a percentage of net income available to common shareholders.

Dividend yield

The dividend yield is defined as dividends declared per common share divided by the closing common share price.

OUTLOOK AND OBJECTIVES FOR 2015

ECONOMIC OUTLOOK

Recent declines in oil prices are expected to support global growth in 2015, although at unequal speeds. Notably in the United States, the moderate pace of economic growth remains intact. In Canada, the depreciation of the Canadian dollar, lower energy costs and robust US demand are expected to improve the outlook in Québec and Ontario and to narrow the discrepancy in economic performance between Western Canada and the rest of the country. Accordingly, the Canadian unemployment rate has resumed its downward path in the fall of this year, with the Québec unemployment rate remaining well-anchored in 2014. With exports and unemployment improving, business investment is also expected to firm up in light of healthy corporate balance sheets

and a gradually brighter global outlook. Altogether, the Canadian economy is expected to grow at a pace of approximately 2.5% in 2015.

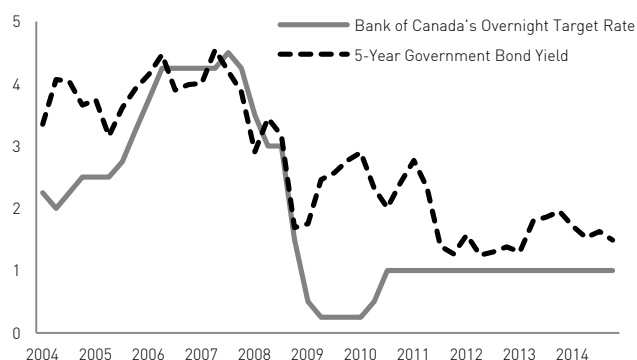
Although the economic performance is expected to be slower than in past expansionary cycles, it nevertheless is still pointing to an economic expansion. This may lead the Bank of Canada to increase modestly its overnight rate target before the end of 2015, only if the current downside risks to inflation dissipate. However, inflationary pressures remain muted due to the excess slack in the economy and modest wage growth. In the United States, continuously improving labour market conditions and stable inflation support modest increases in the policy rate in the second half of 2015.

As interest rates are expected to remain at historically low levels throughout a good portion of 2015, all signs point to a soft landing for the Canadian housing sector with still increasing strength from East to West. The vulnerability of the Canadian household sector remains a concern. However, the primary risk to the Canadian housing market is not from loose underwriting standards. Rather, the risk is largely tied to macroeconomic factors related to the level of interest rates and unemployment.

Notwithstanding the expected moderate economic growth in 2015, the Bank's targeted approach to grow in higher-yielding niche markets, renewed efforts on business development as it completed integration activities in 2014, and its strong capital position should contribute to growth into 2015 and beyond.

INTEREST RATES IN CANADA

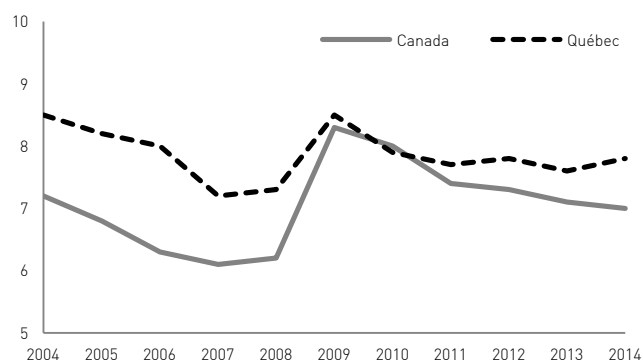
(quarterly data, end of period, in percentage)



Source: Bank of Canada

UNEMPLOYMENT RATES

(annual data, in percentage)



Source: Statistics Canada

HOW THE BANK WILL MEASURE ITS PERFORMANCE IN 2015

The following table presents the Bank's objectives for 2015.

TABLE 6

2015 FINANCIAL OBJECTIVES ⁽¹⁾

| | 2014 RESULTS | 2015 OBJECTIVES ⁽²⁾ |
|---|--------------|--------------------------------|
| Adjusted diluted earnings per share | \$5.31 | 5% to 8% growth |
| Adjusted efficiency ratio | 71.0% | < 71.0% |
| Adjusted operational leverage | 2.4% | Positive |
| Adjusted return on common shareholders' equity | 11.9% | ≥ 12.0% |
| Common Equity Tier I capital ratio — All-in basis | 7.9% | > 7.0% |

(1) Refer to the Non-GAAP financial measures section.

(2) These objectives for 2015 should be read concurrently with the following paragraphs on key assumptions.

Over the recent years, the Bank has continuously improved its profitability and significantly diversified its operations. Management remains committed to delivering profitable growth and taking full advantage of the current market opportunities.

Management is confident that the Bank is well positioned to further improve its performance in 2015. Strategies to foster growth in higher-margin products, mainly through its commercial

activities, as well as its new lease financing and Alt-A offerings, should further improve the loan portfolio mix, including its geographical diversification, and enable the Bank to maintain its momentum. In addition, the Bank will continue to exhibit expense discipline and focus on materializing revenue opportunities to further improve its efficiency. Furthermore, management expects that the loan portfolio credit quality will continue to compare advantageously versus the industry.

Key assumptions supporting the Bank's objectives

The following assumptions are the most significant items considered in setting the Bank's strategic priorities and financial objectives. The Bank's objectives do not constitute guidance and are based on certain key planning assumptions. Other factors such as those detailed in the Caution Regarding Forward-Looking Statements section at the beginning of the Management's Discussion and Analysis and in the Risk Appetite and Risk Management Framework section could also cause future results to differ materially from these objectives.

Considering the economic environment described above, management believes the following factors will underlie its financial outlook for 2015:

- Strong organic growth to continue in the higher-margin commercial businesses and alternative mortgages in B2B Bank
- Some attrition in the investment loan portfolio, as investors continue to deleverage
- Stable margins from the 2014 level, with some modest seasonal fluctuations
- Strategies to grow and diversify other income to be maintained
- Loan loss provisions to remain at low levels
- Expenses to be tightly controlled

Medium term outlook

In the medium term, the Bank is expecting that, even with this challenging rate environment, the pressure on the Bank's net interest margin should diminish and eventually reverse as the Bank continues to shift focus on higher-yielding loans.

Furthermore, the Bank's medium term strategic vision is to:

- Grow B2B Bank to solidify its leadership position to Canada's financial advisor community
- Increase its footprint in business banking with targeted offerings such as lease financing and other banking solutions to niche segments
- Maintain its retail banking footprint in Québec at current levels
- Advance the Bank's pan-Canadian presence
- Once revised regulation is finalized, move from the standardized capital adequacy approach to the internal ratings-based approach under Basel II

These strategic objectives translate into the following medium term financial objectives:

- Grow net income per share by 5% to 10% annually
- Move the efficiency ratio below 68%
- Generate positive operating leverage
- Maintain strong capital ratios that exceed regulatory requirements

ANALYSIS OF CONSOLIDATED RESULTS

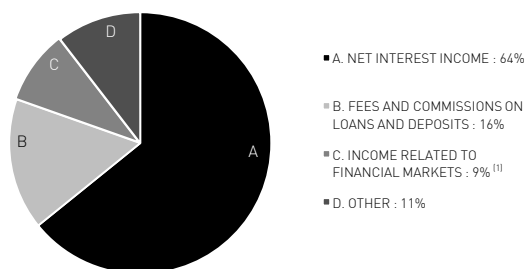
Net income improved to \$140.4 million or \$4.50 diluted per share for the year ended October 31, 2014, compared with \$119.5 million or \$3.80 diluted per share for the year ended October 31, 2013. Adjusted net income was \$163.6 million for the year ended October 31, 2014, up 5% compared with \$155.4 million in 2013, while adjusted diluted earnings per share was \$5.31, compared with \$5.07 diluted per share in 2013.

TOTAL REVENUE

Total revenue increased by \$8.7 million to \$874.1 million for the year ended October 31, 2014, compared with \$865.3 million a year ago. The year-over-year growth in other income more than offset a modest decline in net interest margin, as detailed below.

TOTAL REVENUE MIX

For the year ended October 31, 2014 (as a percentage)



(1) Including income from brokerage operations and income from treasury and financial market operations.

NET INTEREST INCOME

Net interest income decreased by \$7.8 million to \$561.0 million for the year ended October 31, 2014, from \$568.8 million in 2013. The decrease was mainly due to the expected margin compression, the reduced level of high-margin investment loans and lower prepayment penalties on residential mortgage loans, which were partly offset by a better loan portfolio mix. As further detailed in Table 7, margins decreased by 1 basis point to 1.65% for the year ended October 31, 2014 when compared with the year ended October 31, 2013, essentially for the same reasons. Table 8 provides a summary of net interest income changes.

The Bank uses derivatives to manage the interest rate risk associated with some of its loan and deposit portfolios. Depending on interest rate fluctuations and on the portfolio mix in terms of maturity and product types, actual return on portfolios can vary substantially. The Bank uses models to quantify the potential impact of various rate scenarios on future revenues and equity, as explained in the Asset and Liability Management Activities section on page 50 of this MD&A.

TABLE 7

CHANGES IN NET INTEREST INCOME

For the years ended October 31 (in thousands of Canadian dollars, except percentage amounts)

| | 2014 | | | | 2013 | | | |
|--|---------------------|----------------|--------------|--------------|---------------------|----------------|--------------|--------------|
| | AVERAGE VOLUME IN % | AVERAGE VOLUME | INTEREST | AVERAGE RATE | AVERAGE VOLUME IN % | AVERAGE VOLUME | INTEREST | AVERAGE RATE |
| Assets | | | | | | | | |
| Cash resources and securities | 14.2% | \$ 4,814,880 | \$ 41,504 | 0.86% | 16.6% | \$ 5,679,874 | \$ 59,532 | 1.05% |
| Securities purchased under reverse repurchase agreements | 3.5 | 1,198,711 | 12,598 | 1.05 | 2.1 | 732,547 | 7,393 | 1.01 |
| Loans | | | | | | | | |
| Personal | 20.5 | 6,988,094 | 332,862 | 4.76 | 22.0 | 7,511,222 | 357,691 | 4.76 |
| Residential mortgage | 43.2 | 14,697,978 | 491,933 | 3.35 | 42.4 | 14,510,649 | 511,426 | 3.52 |
| Commercial mortgage | 7.4 | 2,514,397 | 114,640 | 4.56 | 7.1 | 2,414,700 | 112,969 | 4.68 |
| Commercial and other | 8.5 | 2,899,516 | 110,408 | 3.81 | 7.2 | 2,477,812 | 96,800 | 3.91 |
| Derivatives | — | — | 41,276 | — | — | — | 44,338 | — |
| Other assets | 2.7 | 909,689 | — | — | 2.6 | 871,873 | — | — |
| | 100.0% | \$ 34,023,265 | \$ 1,145,221 | 3.37% | 100.0% | \$ 34,198,677 | \$ 1,190,149 | 3.48% |
| Liabilities and shareholders' equity | | | | | | | | |
| Demand and notice deposits | | \$ 8,158,528 | \$ 73,857 | 0.91% | | \$ 8,068,313 | \$ 71,491 | 0.89% |
| Term deposits | | 16,053,412 | 375,244 | 2.34 | | 15,924,290 | 392,112 | 2.46 |
| Obligations related to securities sold short or under repurchase | | 2,045,338 | 800 | 0.04 | | 2,121,260 | 1,261 | 0.06 |
| Acceptances | | 330,265 | — | — | | 256,687 | — | — |
| Other liabilities | | 633,916 | — | — | | 612,514 | — | — |
| Debt related to securitization activities | | 4,862,280 | 118,269 | 2.43 | | 5,269,932 | 140,453 | 2.67 |
| Subordinated debt | | 446,410 | 16,071 | 3.60 | | 444,409 | 16,072 | 3.62 |
| Shareholders' equity | | 1,493,116 | — | — | | 1,501,272 | — | — |
| | | \$ 34,023,265 | \$ 584,241 | 1.72% | | \$ 34,198,677 | \$ 621,389 | 1.82% |
| Net interest income | | | \$ 560,980 | 1.65% | | | \$ 568,760 | 1.66% |

TABLE 8

ANALYSIS OF CHANGE IN NET INTEREST INCOME

For the years ended October 31 (in thousands of Canadian dollars)

| | 2014 / 2013 | | | 2013 / 2012 | | |
|---------------------|--------------------------------------|--------------|-------------|--------------------------------------|--------------|------------|
| | Increase (decrease) due to change in | | | Increase (decrease) due to change in | | |
| | AVERAGE VOLUME | AVERAGE RATE | NET CHANGE | AVERAGE VOLUME | AVERAGE RATE | NET CHANGE |
| Assets | \$ 970 | \$ (46,590) | \$ (45,620) | \$ 45,935 | \$ (6,363) | \$ 39,572 |
| Liabilities | 8,042 | 29,798 | 37,840 | 19,803 | (21,643) | (1,840) |
| Net interest income | \$ 9,012 | \$ (16,792) | \$ (7,780) | \$ 65,738 | \$ (28,006) | \$ 37,732 |

OTHER INCOME

Other income was \$313.1 million for the year ended October 31, 2014, compared with \$296.6 million for the same period in 2013, a 6% year-over-year increase.

Fees and commissions on loans and deposits increased by 6% to \$141.8 million for fiscal 2014 from 133.8 million in 2013, mainly driven by higher lending fees due to increased underwriting activity and loan prepayment penalties in the commercial portfolio. Card service revenues also contributed to the increase as a result of higher transactional volume and fees in 2014, offset by lower deposit service charges as clients optimized their use of the Bank's offering.

Income from brokerage operations increased by 5% to \$63.6 million for fiscal 2014 compared with \$60.6 million in 2013, as the Bank's brokerage subsidiary capitalized on growth in underwriting activities in the small-cap equity market.

Income from investment accounts decreased to \$31.7 million for fiscal 2014, compared with \$32.7 million earned in 2013, mainly as B2B Bank Dealer services collected lower trading fees and service charges.

Income from sales of mutual funds improved by 30% to \$29.2 million in fiscal 2014 compared with \$22.5 million in 2013. During the year, the Bank continued to distribute a preferred series of LBC-Mackenzie mutual funds in its Québec branch network which

contributed to solid mutual fund sales and also benefitted from improved equity markets to generate significant growth in assets under administration.

Income from treasury and financial market operations decreased to \$16.1 million for fiscal 2014 from \$17.9 million in 2013. This decrease mainly resulted from lower foreign exchange revenues and income from other treasury activities, partly offset by higher realized net gains on securities compared with 2013. Additional information related to the Bank's securities portfolio is presented in Note 5 to the annual consolidated financial statements.

Insurance revenues are mainly generated by insurance programs related to loans disbursed by the Bank and related premiums are presented net of claims. These revenues increased by 14% to \$19.2 million for fiscal 2014 from \$16.9 million in 2013, mainly due to a lower level of claims and higher premiums from the residential mortgage loan and credit card portfolios. Additional information on the Bank's insurance revenues is presented in Note 28 to the annual consolidated financial statements.

TABLE 9

OTHER INCOME

For the years ended October 31 (in thousands of Canadian dollars, except percentage amounts)

| | 2014 | 2013 | 2012 | VARIANCE 2014 / 2013 |
|--|----------------|----------------|----------------|-------------------------|
| Fees and commissions on loans and deposits | | | | |
| Deposit service charges | \$ 62,665 | \$ 63,195 | \$ 57,226 | (1)% |
| Lending fees | 49,682 | 42,774 | 37,788 | 16 |
| Card service revenues | 29,502 | 27,822 | 24,939 | 6 |
| | 141,849 | 133,791 | 119,953 | 6 |
| Income from brokerage operations | 63,640 | 60,607 | 54,806 | 5 |
| Income from investment accounts | 31,658 | 32,694 | 29,079 | (3) |
| Income from sales of mutual funds | 29,228 | 22,501 | 18,026 | 30 |
| Insurance income, net | 19,246 | 16,881 | 15,529 | 14 |
| Income from treasury and financial market operations | 16,138 | 17,877 | 17,531 | (10) |
| Other | 11,326 | 12,226 | 10,691 | (7) |
| | 171,236 | 162,786 | 145,662 | 5 |
| Other income | \$ 313,085 | \$ 296,577 | \$ 265,615 | 6% |

AMORTIZATION OF NET PREMIUM ON PURCHASED FINANCIAL INSTRUMENTS AND REVALUATION OF CONTINGENT CONSIDERATION

For the year ended October 31, 2014, the line item "Amortization of net premium on purchased financial instruments and revaluation of contingent consideration" amounted to \$9.7 million, compared with \$4.4 million for the year ended October 31, 2013. The higher charge in 2014 essentially results from a \$4.1 million non tax-deductible charge to settle the contingent consideration related to the AGF Trust acquisition. The amortization of net premium on purchased financial instruments amounted to \$5.6 million for the year ended October 31, 2014, compared with \$4.4 million for the year ended October 31, 2013. Refer to Note 30 to the audited annual consolidated financial statements.

PROVISION FOR LOAN LOSSES

The provision for loan losses increased by \$6.0 million to \$42.0 million for the year ended October 31, 2014 from \$36.0 million for the year ended October 31, 2013. While still low, this reflects a partial return to more normalized overall loan losses on commercial loans and mortgages from the very low 2013 levels.

Loan losses on personal loans decreased by \$6.6 million, essentially due to lower losses from the reduced exposure in the investment and point-of-sale financing loan portfolios. Loan losses on residential mortgage loans decreased by \$3.4 million year-over-year, as loan losses in 2013 were impacted by higher provisions on medium-sized residential real estate properties and projects. For the year ended October 31, 2014, loan losses on commercial mortgages and commercial loans totalled \$11.6 million compared with a negative amount of \$4.4 million in 2013, which had benefitted from relatively high favourable settlements and improvements.

The year-over-year increase in loan losses mainly reflects growth in the underlying portfolios, as the overall level of losses, expressed as a percentage of average loans, remained at a very low 15 basis points.

The following table details the provision for loan losses from 2012 to 2014. The Risk Appetite and Risk Management Framework section in this MD&A provides further discussion with regard to the Bank's portfolios' overall credit condition.

TABLE 10

PROVISION FOR LOAN LOSSES

For the years ended October 31 (in thousands of Canadian dollars, except percentage amounts)

| | 2014 | 2013 | 2012 |
|--|-----------|-----------|-----------|
| Personal loans | \$ 25,062 | \$ 31,668 | \$ 25,328 |
| Residential mortgage loans | 5,330 | 8,713 | 3,454 |
| Commercial mortgage loans | 4,407 | (3,640) | 1,527 |
| Commercial and other loans (including acceptances) | 7,201 | (741) | 2,691 |
| Provision for loan losses | \$ 42,000 | \$ 36,000 | \$ 33,000 |
| As a % of average loans and acceptances | 0.15% | 0.13% | 0.14% |

NON-INTEREST EXPENSES

Non-interest expenses decreased by \$32.8 million to \$641.3 million for the year ended October 31, 2014, compared with \$674.1 million for the year ended October 31, 2013. This mainly reflects \$25.4 million lower integration costs related to business combinations and a 1% decrease in the Bank's adjusted non-interest expenses through tight cost control and process reviews.

Salaries and employee benefits decreased by \$18.1 million or 5% to \$340.4 million for the year ended October 31, 2014, compared with the year ended October 31, 2013. This was mainly due to lower headcount from acquisition synergies realized over the last twelve months and from the optimization of certain retail and corporate activities in the fourth quarter of 2013, partly offset by regular salary increases. Lower pension costs and expenses related to group insurance programs also contributed to the decrease year-over-year, partly offset by higher performance-based compensation. Salaries and employee benefits for the year ended October 31, 2014 included severance charges of \$6.1 million compared with a similar charge of \$6.3 million in 2013 as part of restructuring initiatives.

Premises and technology costs increased by \$15.4 million to \$186.7 million for the year ended October 31, 2014. The increase mostly stems from higher technology costs related to ongoing business growth and enhanced on-line services. Higher amortization expenses related to completed regulatory IT projects, as well as costs related to new premises also contributed to the increase. Furthermore, premises and technology costs for 2014 included impairment charges related to IT projects of \$1.6 million as part of restructuring initiatives.

Other non-interest expenses decreased by \$4.7 million or 4% to \$101.4 million for the year ended October 31, 2014, from \$106.1 million for the year ended October 31, 2013. As the bulk of cost synergies related to acquisitions have materialized, the Bank continued to exercise disciplined control over discretionary expenses.

Costs related to business combinations (T&I Costs) for the year ended October 31, 2014 totalled \$12.9 million compared with \$38.2 million a year ago. T&I costs mainly related to IT systems conversion costs, salaries, professional fees, employee relocation costs and other expenses mostly for the integration of the AGF Trust operations. Integration of the AGF Trust operations and related costs were finalized in the fourth quarter of 2014.

Table 11 illustrates the changes in non-interest expenses from 2012 to 2014.

Efficiency ratio

The adjusted efficiency ratio was 71.0% for the year ended October 31, 2014, compared with 72.8% for the year ended October 31, 2013. On this same basis, the Bank generated positive operating leverage of 2.4% year-over-year, mainly due to cost synergies related to acquisitions, continued rigorous cost control and efforts to improve its operations, as well as higher other income.

TABLE 11

NON-INTEREST EXPENSES

For the years ended October 31 (in thousands of Canadian dollars, except percentage amounts)

| | 2014 | 2013 | 2012 ⁽¹⁾ | VARIANCE 2014 / 2013 |
|--|----------------|----------------|---------------------|-------------------------|
| Salaries and employee benefits | | | | |
| Salaries ⁽²⁾ | \$ 218,166 | \$ 233,574 | \$ 214,154 | |
| Employee benefits | 71,335 | 75,009 | 64,033 | |
| Performance-based compensation | 50,893 | 49,909 | 42,416 | |
| | 340,394 | 358,492 | 320,603 | (5)% |
| Premises and technology | | | | |
| Equipment and computer services | 69,825 | 63,288 | 58,319 | |
| Depreciation ⁽³⁾ | 55,300 | 49,309 | 43,433 | |
| Rent and property taxes | 53,455 | 51,191 | 44,324 | |
| Maintenance and repairs | 6,124 | 6,036 | 5,037 | |
| Public utilities | 1,591 | 1,552 | 1,485 | |
| Other | 376 | (101) | 321 | |
| | 186,671 | 171,275 | 152,919 | 9% |
| Other | | | | |
| Fees and commissions | 24,143 | 24,434 | 25,813 | |
| Advertising and business development | 22,477 | 22,484 | 23,087 | |
| Communications and travelling expenses | 22,329 | 22,767 | 20,834 | |
| Taxes and insurance | 16,529 | 17,433 | 21,293 | |
| Stationery and publications | 7,095 | 7,456 | 6,232 | |
| Recruitment and training | 1,917 | 2,324 | 3,108 | |
| Other | 6,893 | 9,170 | 8,577 | |
| | 101,383 | 106,068 | 108,944 | (4)% |
| Costs related to business combinations and other ⁽⁴⁾ | 12,861 | 38,244 | 21,997 | (66)% |
| Non-interest expenses | \$ 641,309 | \$ 674,079 | \$ 604,463 | (5)% |
| As a % of total revenue (efficiency ratio) ⁽⁵⁾ | 73.4% | 77.9% | 75.9% | |
| Adjusted non-interest expenses ⁽⁵⁾ | \$ 620,807 | \$ 629,539 | \$ 582,466 | (1)% |
| As a % of total revenue (adjusted efficiency ratio) ⁽⁵⁾ | 71.0% | 72.8% | 73.1% | |

(1) Comparative figures for 2012 were not restated to reflect the adoption of amendments to IAS 19, *Employee Benefits*.

(2) Salaries for 2014 included severance charges of \$6.1 million as part of restructuring initiatives (\$6.3 million for 2013 and nil for 2012).

(3) Depreciation for 2014 included impairment charges of \$1.6 million related to IT projects as part of restructuring initiatives (nil for 2013 and 2012).

(4) Costs related to the integration of the MRS Companies and AGF Trust (T&I Costs).

(5) Refer to the non-GAAP financial measures section.

INCOME TAXES

For fiscal 2014, income tax expense totalled \$40.7 million and the effective income tax rate was 22.5%, compared with \$31.4 million and 20.8%, respectively, for fiscal 2013. Note 19 to the annual consolidated financial statements provides further information on income tax expense. As detailed in the table below, the increase in

the effective tax rate compared to a year-ago mainly resulted from the relatively higher level of domestic taxable income and a \$4.1 million non tax-deductible charge as a result of the final settlement of the contingent consideration related to the AGF Trust acquisition.

TABLE 12

RECONCILIATION OF THE INCOME TAX EXPENSE TO THE DOLLAR AMOUNT OF INCOME TAX USING THE STATUTORY RATE

For the years ended October 31 (in thousands of Canadian dollars, except percentage amounts)

| | 2014 | | 2013 | |
|--|-----------|-------|-----------|-------|
| Income taxes at statutory rates | \$ 48,476 | 26.8% | \$ 40,340 | 26.7% |
| Change resulting from: | | | | |
| Income related to foreign insurance operations | (5,612) | (3.1) | (4,823) | (3.2) |
| Dividends and tax-exempt gains | (4,354) | (2.4) | (4,147) | (2.7) |
| Non tax-deductible contingent consideration charge | 1,088 | 0.6 | — | — |
| Other | 1,140 | 0.6 | (15) | — |
| Income taxes, as reported in the consolidated statement of income and effective tax rate | \$ 40,738 | 22.5% | \$ 31,355 | 20.8% |

TRANSACTIONS WITH RELATED PARTIES

The Bank provides loans to related parties, which consist of key management personnel and their close family members, as well as their related companies. Key management personnel consist of members of the Management Committee or the Board of Directors. As at October 31, 2014, these loans totalled \$24.6 million. Loans to directors are granted under market conditions for similar risks and are initially measured at fair value. Loans to officers consist mostly of term residential mortgage loans below posted rates, as well as personal loans and personal lines of credit at market rates less a discount based on the type and amount of the loan. Loans to related entities of key management personnel are granted under terms similar to those offered to arm's length parties. The interest earned on these loans is recorded under interest income in the consolidated statement of income.

In the normal course of business, the Bank also provides usual banking services to key management personnel, including bank accounts (deposits) under terms similar to those offered to arm's length parties. As at October 31, 2014, these deposits totalled \$5.0 million. The Bank also offers employees a discount on annual credit card fees. In addition, for the year ended October 31, 2014, the Bank paid a rental expense of \$2.1 million to a related party. See Note 22 to the annual consolidated financial statements for additional information on related party transactions.

OVERVIEW OF FISCAL 2013

For the year ended October 31, 2013, the Bank reported adjusted net income of \$155.4 million or \$5.07 diluted per share compared with adjusted net income of \$140.7 million or \$4.98 diluted per share in 2012. Results in 2013 included the impact of a \$7.1 million charge (\$5.2 million after income taxes), or \$0.18 diluted per share, resulting from the adoption of the amended version of the IFRS accounting standard on employee benefits while 2012 results were not restated. Adjusted return on common shareholders' equity was 12.1% for the year ended October 31, 2013, compared with 12.0% in 2012.

When including adjusting items, on a reported basis, net income was \$119.5 million or \$3.80 diluted per share for the year ended October 31, 2013, compared with \$140.5 million or \$4.98 diluted per share in 2012. Return on common shareholders' equity was 9.1% for the year ended October 31, 2013, compared with 12.1% in 2012.

In fiscal 2013, the Bank delivered solid earnings and leveraged its acquisitions, expanding the Bank's geographic reach and client base in an environment of slowing consumer loan demand and compressed margins. During the year, strong revenue growth stemming from the AGF Trust acquisition and from strategies to grow and diversify other income compensated for lower margins. The continued excellent credit quality of the loan portfolio and the prolonged favourable credit conditions in Canada also contributed to these results. The Bank also delivered a significant portion of the expected synergies from the integration of the MRS Companies and remained focused on materializing the full potential from the AGF Trust business transaction, with several major milestones of that integration achieved in 2013.

ANALYSIS OF QUARTERLY RESULTS

ANALYSIS OF RESULTS FOR THE FOURTH QUARTER OF 2014

Net income was \$33.8 million or \$1.09 diluted per share for the fourth quarter of 2014, compared with \$25.9 million or \$0.82 diluted per share for the fourth quarter of 2013. Adjusted net income was \$42.6 million for the fourth quarter ended October 31, 2014, up from \$38.5 million for the same quarter of 2013, while adjusted diluted earnings per share were \$1.39, compared with \$1.26 diluted per share in 2013. Net income for the fourth quarter of 2014 was adversely impacted by restructuring charges for the optimization of certain retail and corporate activities as detailed in the Non-GAAP Financial Measures section on page 20.

TOTAL REVENUE

Total revenue increased by \$5.9 million or 3% to \$221.4 million for the fourth quarter of 2014, compared with \$215.5 million for the fourth quarter of 2013, as growth in other income was partly offset by lower net interest income year-over-year.

Net interest income decreased by \$1.3 million or 1% to \$140.1 million for the fourth quarter of 2014, from \$141.4 million for the fourth quarter of 2013, mainly due to the expected decrease in the personal loan portfolios. Overall, margins decreased to 1.61% for the fourth quarter of 2014 from 1.66% for the fourth quarter of 2013, mainly as a result of a higher level of liquidity resulting from the Bank's raising of favourably-priced institutional deposits ahead of expected loan growth.

Other income increased by \$7.2 million or 10% and amounted to \$81.3 million for the fourth quarter of 2014, compared with \$74.1 million for the fourth quarter of 2013. Higher income from treasury and financial market operations mainly due to higher realized net gains on securities, as well as continued solid mutual fund commissions and lending fees contributed to the year-over-year increase. These results were partly offset by lower income from investment accounts compared with the fourth quarter of 2013.

AMORTIZATION OF NET PREMIUM ON PURCHASED FINANCIAL INSTRUMENTS AND REVALUATION OF CONTINGENT CONSIDERATION

For the fourth quarter of 2014, the amortization of net premium on purchased financial instruments amounted to \$1.5 million, compared with \$1.0 million for the fourth quarter of 2013. Refer to Note 30 to the audited annual consolidated financial statements.

PROVISION FOR LOAN LOSSES

The provision for loan losses increased by \$0.5 million to \$10.5 million for the fourth quarter of 2014 from \$10.0 million for the fourth quarter of 2013. Loan losses remained at a low level reflecting the overall underlying quality of the loan portfolios and the continued favourable credit environment. Loan losses on personal loans decreased by \$2.4 million compared with the fourth quarter of 2013, mainly reflecting lower provisions in the investment and point-of-sale financing loan portfolios compared to last year because of reduced exposure. Loan losses on residential mortgage loans were up \$0.4 million from the fourth quarter of

2013. Loan losses on commercial mortgages and commercial loans cumulatively amounted to \$0.7 million for the fourth quarter of 2014, a year-over-year increase of \$2.5 million compared with a net recovery amount of \$1.8 million in the fourth quarter of 2013. The year-over-year increase in loan losses mainly results from growth in the underlying portfolios, as well as higher favourable settlements and improvements in the fourth quarter of 2013 compared with the fourth quarter of 2014.

NON-INTEREST EXPENSES

Non-interest expenses decreased by \$6.4 million to \$166.3 million for the fourth quarter of 2014, compared with \$172.7 million for the fourth quarter of 2013. This mostly reflects \$7.0 million lower integration costs related to business combinations as integration work at B2B Bank was completed in the fourth quarter of 2014. The Bank's adjusted non-interest expenses were essentially unchanged as tight cost control, acquisition synergies and process reviews compensated for higher charges incurred in the fourth quarter of 2014 for certain restructuring charges, as detailed above.

Salaries and employee benefits decreased by \$3.4 million or 4% to \$87.5 million for the fourth quarter of 2014, compared with the fourth quarter of 2013, mainly due to lower headcount from acquisition synergies realized over the last twelve months and from the optimization of certain retail and corporate activities in the fourth quarter of 2013. Salaries for the fourth quarter of 2014 included \$6.1 million of severance charges related to restructuring initiatives, compared with a similar earlier \$6.3 million charge in the fourth quarter of 2013. Regular salary increases, higher pension costs and higher performance-based compensation accruals partly offset the decrease year-over-year.

Premises and technology costs increased by \$4.3 million to \$49.6 million compared with the fourth quarter of 2013. The increase mostly stems from impairment charges related to IT projects of \$1.6 million as part of restructuring initiatives, as detailed above, as well as from ongoing business growth and enhanced on-line services.

Other non-interest expenses were relatively unchanged at \$26.3 million for the fourth quarter of 2014, compared with the fourth quarter of 2013, reflecting continued stringent cost control.

Costs related to business combinations (T&I Costs) for the fourth quarter of 2014 totalled \$2.9 million compared with \$10.0 million a year ago. During the fourth quarter of 2014, T&I Costs mainly related to employee relocation and completion of integration activities.

Efficiency ratio

The adjusted efficiency ratio was 70.3% for the fourth quarter of 2014, compared with 72.6% for the fourth quarter of 2013, as integration synergies and efforts to improve operating costs are bearing fruit.

INCOME TAXES

For the quarter ended October 31, 2014, the income tax expense was \$9.4 million and the effective tax rate was 21.7%. The lower tax rate, compared to the statutory rate, mainly resulted from the favourable effect of holding investments in Canadian securities that generate non-taxable dividend income and the lower taxation level on revenues from foreign insurance operations.

For the quarter ended October 31, 2013, the income tax expense was \$6.0 million and the effective tax rate was 18.8%. Year-over-year, the higher effective tax rate for the quarter ended October 31, 2014 resulted from the relatively higher level of domestic taxable income.

ANALYSIS OF THE EVOLUTION OF THE QUARTERLY RESULTS

The Bank's intermediation business provides a relatively steady source of income, stemming from large volumes of loans, deposits and investment accounts not likely to experience significant fluctuations in the short term. However, treasury operations and certain activities related to financial markets, such as trading activities, may result in significant volatility. In addition, variations in market interest rates or equity markets as well as in credit conditions can influence the Bank's results. Furthermore, other transactions such as business acquisitions, specific events or regulatory developments may significantly impact revenues and expenses. Given that the second quarter usually consists of only 89 days, compared with 92 days for the other quarters, overall profitability is generally lower for that quarter, mainly as net interest income is impacted. The following table summarizes quarterly results for fiscal 2014 and 2013.

TABLE 13

QUARTERLY RESULTS

For the quarters ended (in thousands of Canadian dollars, except per share and percentage amounts)

| | 2014 | | | | 2013 | | | |
|--|------------|------------|------------|------------|------------|------------|------------|------------|
| | Oct. 31 | July 31 | April 30 | Jan. 31 | Oct. 31 | July 31 | April 30 | Jan. 31 |
| Net interest income | \$ 140,149 | \$ 141,249 | \$ 138,726 | \$ 140,856 | \$ 141,437 | \$ 144,549 | \$ 140,430 | \$ 142,344 |
| Other income | 81,272 | 78,396 | 78,164 | 75,253 | 74,094 | 76,493 | 74,420 | 71,570 |
| Total revenue | 221,421 | 219,645 | 216,890 | 216,109 | 215,531 | 221,042 | 214,850 | 213,914 |
| Amortization of net premium on purchased financial instruments and revaluation of contingent consideration | 1,508 | 1,511 | 5,498 | 1,136 | 1,006 | 1,140 | 1,224 | 1,056 |
| Provision for loan losses | 10,500 | 10,500 | 10,500 | 10,500 | 10,000 | 9,000 | 9,000 | 8,000 |
| Non-interest expenses | 163,388 | 154,409 | 155,467 | 155,184 | 162,700 | 162,105 | 155,494 | 155,536 |
| Costs related to business combinations ⁽¹⁾ | 2,911 | 1,564 | 4,437 | 3,949 | 9,951 | 14,600 | 6,136 | 7,557 |
| Income before income taxes | 43,114 | 51,661 | 40,988 | 45,340 | 31,874 | 34,197 | 42,996 | 41,765 |
| Income taxes | 9,360 | 11,564 | 9,999 | 9,815 | 6,008 | 7,213 | 9,157 | 8,977 |
| Net income | \$ 33,754 | \$ 40,097 | \$ 30,989 | \$ 35,525 | \$ 25,866 | \$ 26,984 | \$ 33,839 | \$ 32,788 |
| Earnings per share | | | | | | | | |
| Basic | \$ 1.09 | \$ 1.27 | \$ 0.99 | \$ 1.16 | \$ 0.82 | \$ 0.86 | \$ 1.05 | \$ 1.07 |
| Diluted | \$ 1.09 | \$ 1.27 | \$ 0.99 | \$ 1.16 | \$ 0.82 | \$ 0.86 | \$ 1.05 | \$ 1.07 |
| Net interest margin ⁽²⁾ | 1.61% | 1.65% | 1.68% | 1.66% | 1.66% | 1.68% | 1.68% | 1.63% |
| Return on common shareholders' equity ⁽²⁾ | 9.5% | 11.2% | 9.2% | 10.5% | 7.6% | 8.1% | 10.4% | 10.3% |
| Segment net income (loss) | | | | | | | | |
| Personal & Commercial | \$ 28,599 | \$ 29,953 | \$ 30,282 | \$ 28,278 | \$ 24,409 | \$ 26,138 | \$ 24,834 | \$ 26,536 |
| B2B Bank | 8,456 | 13,035 | 5,082 | 13,433 | 4,409 | 5,233 | 9,090 | 9,191 |
| Laurentian Bank Securities & Capital Markets | 2,424 | 3,037 | 2,584 | 2,252 | 2,909 | 2,287 | 2,975 | 2,681 |
| Other | (5,725) | (5,928) | (6,959) | (8,438) | (5,861) | (6,674) | (3,060) | (5,620) |
| Net income | \$ 33,754 | \$ 40,097 | \$ 30,989 | \$ 35,525 | \$ 25,866 | \$ 26,984 | \$ 33,839 | \$ 32,788 |
| Adjusted financial measures | | | | | | | | |
| Adjusted net income ⁽²⁾ | \$ 42,591 | \$ 42,355 | \$ 39,375 | \$ 39,261 | \$ 38,526 | \$ 38,547 | \$ 39,247 | \$ 39,116 |
| Adjusted diluted earnings per share ⁽²⁾ | \$ 1.39 | \$ 1.35 | \$ 1.29 | \$ 1.29 | \$ 1.26 | \$ 1.27 | \$ 1.24 | \$ 1.30 |
| Adjusted return on common shareholders' equity ⁽²⁾ | 12.2% | 11.9% | 11.9% | 11.7% | 11.7% | 12.0% | 12.2% | 12.5% |

(1) Integration costs related to the acquisition of the MRS Companies and AGF Trust.

(2) Refer to the non-GAAP financial measures section.

Over the past eight quarters, adjusted net income has generally trended upward, driven mainly by sustained growth in other income and in the higher-margin commercial businesses, combined with overall improvements in credit quality while net income was less stable due to the impact of the Bank's acquisitions. Furthermore, certain specific factors, as detailed below, have affected results during fiscal 2014 and 2013.

2014

- Net interest income slightly decreased in 2014, as the expected margin compression and lower prepayment penalties on residential mortgage loans were partly offset by a better loan mix.
- Other income increased throughout 2014 as most revenue streams improved mainly due to increased business activity.
- The line item Amortization of net premium on purchased financial instruments and revaluation of contingent consideration for the second quarter of 2014 included a \$4.1 million non-tax-deductible charge to settle the contingent consideration related to the AGF Trust acquisition.
- The provision for loan losses increased in 2014, reflecting a partial return to more normalized overall loan losses from the very low 2013 levels.
- Non-interest expenses trended lower in 2014, mainly as a result of tight cost control, acquisition synergies and process reviews. Expenses in the fourth quarter also included restructuring charges of \$7.6 million for the optimization of certain retail and corporate activities.
- Costs related to business combinations decreased throughout 2014, as the integration work in the B2B Bank business

segment wound down and was completed in the fourth quarter of 2014. These costs mainly related to IT systems conversion, salaries, professional fees, employee relocation and other expenses mostly for the integration of the AGF Trust operations.

2013

- Net interest income remained relatively unchanged in 2013, reflecting slower loan growth and stabilizing interest margins.
- Other income increased throughout 2013 as all revenue streams improved mainly due to increased business activity.
- The provision for loan losses gradually increased in 2013, albeit remaining at a very low level, as additional collective provisions mainly due to purchased loans were partly offset by favourable settlements on commercial exposures.
- Non-interest expenses trended higher in 2013, mainly as a result of higher expenses from acquired operations, as well as higher IT costs related to ongoing business growth, sales tax and pension costs, partly offset by realized synergies from the integration of the MRS Companies. Expenses in the fourth quarter also included restructuring charges of \$6.3 million for the optimization of certain retail and corporate activities.
- Costs related to business combinations were incurred in 2013 as the B2B Bank business segment nearly completed the integration of the MRS Companies and gradually turned to the execution of its integration plans for AGF Trust. These costs mainly related to IT conversion, employee relocation, salaries, professional fees and other expenses.

BUSINESS SEGMENTS

This section outlines the Bank's operations according to its organizational structure. Services to individuals, businesses, financial intermediaries and institutional clients are offered through the three following business segments: Personal & Commercial, B2B Bank, and Laurentian Bank Securities & Capital Markets. The Bank's other activities are grouped into the Other sector.

Realignment of reportable segments

Commencing November 1, 2013, the Bank reports its retail and commercial activities, which were previously reported in the Retail & SME-Québec and Real Estate & Commercial business segments, in the newly formed Personal & Commercial segment. The new business segment better reflects the interdependencies associated with these activities. In addition, the new segments more closely align the Bank's reporting to the industry practice. The B2B Bank and Laurentian Bank Securities & Capital Markets segments are not affected by this realignment. Furthermore, certain restructurings implemented in the fourth quarter of 2013 resulted in small adjustments to segment allocations. Comparative figures were reclassified to conform to the current presentation.

PERSONAL & COMMERCIAL

The Personal & Commercial segment caters to the financial needs of business clients across Canada and retail clients in Québec. The Bank serves retail clients through a network of branches, ATM and virtual offerings, providing a full range of savings, investment and financing products. Electronic and mobile services, as well as transactional, card and insurance products complete the offering. Small businesses and larger companies, along with real estate developers are provided with a suite of financing options, including leasing solutions. Services such as deposits, cash management and foreign exchange complete the offering.

For the year ended October 31, 2014, the Personal & Commercial business segment's contribution to adjusted net income was \$121.9 million, a 15% increase compared with \$105.8 million for the year ended October 31, 2013. Reported net income was \$117.1 million for the year ended October 31, 2014 compared with \$101.9 million for the year ended October 31, 2013.

TABLE 14

SEGMENT CONTRIBUTION

For the years ended October 31 (in thousands of Canadian dollars, except percentage amounts)

| | 2014 | 2013 | 2012 ⁽¹⁾ |
|--|---------------|---------------|---------------------|
| Net interest income | \$ 394,961 | \$ 386,848 | \$ 398,601 |
| Other income | 202,677 | 191,261 | 169,551 |
| Total revenue | 597,638 | 578,109 | 568,152 |
| Provision for loan losses | 33,235 | 21,438 | 26,980 |
| Non-interest expenses | 411,040 | 424,412 | 398,576 |
| Income before income taxes | 153,363 | 132,259 | 142,596 |
| Income taxes | 36,251 | 30,342 | 34,734 |
| Net income | \$ 117,112 | \$ 101,917 | \$ 107,862 |
| Efficiency ratio ⁽²⁾ | 68.8% | 73.4% | 70.2% |
| Adjusted net income ⁽²⁾ | \$ 121,872 | \$ 105,793 | \$ 107,862 |
| Adjusted efficiency ratio ⁽²⁾ | 67.7% | 72.5% | 70.2% |
| Average loans and acceptances | \$ 17,923,035 | \$ 17,341,392 | \$ 16,716,422 |
| Average deposits | \$ 10,122,211 | \$ 10,014,583 | \$ 10,100,607 |

(1) Comparative figures for 2012 reflect the realignment of reportable segments but were not restated to reflect the adoption of amendments to IAS 19, *Employee Benefits*.

(2) Refer to the non-GAAP financial measures section. Adjusted financial measures exclude restructuring charges designated as adjusting items.

Total revenue increased by \$19.5 million from \$578.1 million for the year ended October 31, 2013 to \$597.6 million for the year ended October 31, 2014, mainly driven by organic growth in the commercial loan portfolio and solid increases in other income categories. Net interest income increased by \$8.1 million to \$395.0 million, reflecting a better loan portfolio mix, partly offset by expected remaining margin compression and lower prepayment penalties on residential mortgages. Other income increased by 6% or \$11.4 million to \$202.7 million for the year ended October 31, 2014, mainly due to higher mutual fund commissions and insurance income, as well as higher lending fees stemming from increased underwriting activity and loan prepayment penalties in the commercial portfolio.

Loan losses increased by \$11.8 million from \$21.4 million for the year ended October 31, 2013 to \$33.2 million for the year ended October 31, 2014. In 2013, loan losses on commercial mortgages and commercial loans had benefitted from relatively high favourable settlements and improvements. The year-over-year increase in loan losses mainly reflects growth in the underlying portfolios. Albeit, the overall level of loan losses remained at a very low level.

Non-interest expenses decreased by \$13.4 million or 3%, from \$424.4 million for the year ended October 31, 2013 to \$411.0 million for the year ended October 31, 2014, mainly due to lower salaries and other expenses from the optimization of certain retail activities in the fourth quarter of 2013 and disciplined control over discretionary expenses. The adjusted efficiency ratio was 67.7% for the year ended October 31, 2014, compared with 72.5% for the year ended October 31, 2013. The segment generated positive adjusted operating leverage of 6.9% year-over-year, reflecting the Bank's focus on rigorous cost control and growth in other income and commercial businesses.

Management remains committed to ensuring sustained earnings growth and achieving greater operational efficiency. As such, in October 2014 the Bank initiated further restructuring initiatives for certain retail activities to realign strategic priorities and to reduce costs in a sustainable manner, which led to charges of \$6.5 million (\$4.8 million after income taxes). The optimization of certain retail activities in the fourth quarter of 2013 led to charges of \$5.3 million (\$3.9 million after income taxes) in 2013.

B2B BANK

The B2B Bank segment supplies banking and financial products to independent financial advisors and non-bank financial institutions across Canada.

For the year ended October 31, 2014, B2B Bank business segment's contribution to adjusted net income was \$57.6 million, down \$1.6 million or 3% compared with the same period in 2013. Reported net income for the year ended October 31, 2014 increased by \$12.1 million to \$40.0 million compared with \$27.9 million in 2013.

TABLE 15

SEGMENT CONTRIBUTION

For the years ended October 31 (in thousands of Canadian dollars, except percentage amounts)

| | 2014 | 2013 | 2012 ⁽¹⁾ |
|---|---------------|---------------|---------------------|
| Net interest income | \$ 177,567 | \$ 190,928 | \$ 143,593 |
| Other income | 35,361 | 36,705 | 34,590 |
| Total revenue | 212,928 | 227,633 | 178,183 |
| Gain on acquisition, amortization of net premium on purchased financial instruments and revaluation of contingent consideration | 9,653 | 4,426 | (23,795) |
| Provision for loan losses | 8,765 | 14,562 | 6,020 |
| Non-interest expenses ⁽²⁾ | 125,330 | 132,188 | 106,077 |
| Costs related to business combinations ⁽³⁾ | 12,861 | 38,244 | 21,997 |
| Income before taxes | 56,319 | 38,213 | 67,884 |
| Income taxes | 16,313 | 10,290 | 18,436 |
| Net income | \$ 40,006 | \$ 27,923 | \$ 49,448 |
| Efficiency ratio ⁽⁴⁾ | 64.9 % | 74.9 % | 71.9 % |
| Adjusted net income ⁽⁴⁾ | \$ 57,632 | \$ 59,275 | \$ 49,600 |
| Adjusted efficiency ratio ⁽⁴⁾ | 58.9 % | 58.1 % | 59.5 % |
| Average loans and acceptances | \$ 8,748,134 | \$ 9,218,339 | \$ 6,747,686 |
| Average deposits | \$ 12,553,141 | \$ 12,973,188 | \$ 10,863,952 |

(1) Comparative figures for 2012 were not restated to reflect the adoption of amendments to IAS 19, *Employee Benefits*.

(2) In 2014, the Bank retroactively adjusted its corporate expenses allocation methodology. As a result, non-interest expenses amounting to \$4.0 million [\$2.8 million net of income taxes] in 2013, which were previously reported in the Other sector, were reclassified to the B2B Bank business segment.

(3) Costs related to the acquisition of the MRS Companies and AGF Trust (T&I Costs).

(4) Refer to the non-GAAP financial measures section. Adjusted financial measures exclude items related to business combinations designated as adjusting items.

Total revenue decreased to \$212.9 million for the year ended October 31, 2014 from \$227.6 million for the same period in 2013. Net interest income decreased by \$13.4 million to \$177.6 million, mainly explained by reduced level of high-margin investment loans as investors continue to deleverage, as well as margin compression on mortgage loan portfolios. Other income amounted to \$35.4 million for the year ended October 31, 2014, down \$1.3 million compared with \$36.7 million for the same period in 2013, mainly explained by lower income from self-directed accounts and related services charges.

As shown above, the line item "Amortization of net premium on purchased financial instruments and revaluation of contingent consideration" increased by \$5.2 million and amounted to \$9.7 million for the year ended October 31, 2014. This increase is largely attributable to the additional \$4.1 million non tax-deductible charge to settle the contingent consideration related to the AGF Trust acquisition. For additional information, refer to Note 30 to the audited annual consolidated financial statements.

Loan losses decreased by \$5.8 million compared with the year ended October 31, 2013 and amounted to \$8.8 million for the year ended October 31, 2014. This decrease is explained by lower provisions in the investment loan portfolios due to the reduced exposure compared to last year, which were partly offset by higher provisions on other personal loans.

Excluding costs related to business combinations (T&I Costs), non-interest expenses decreased by \$6.9 million or 5% to \$125.3 million for the year ended October 31, 2014 compared with \$132.2 million in 2013. This reduction is essentially due to the realization of expected acquisition synergies. With the finalization of integration activities in the fourth quarter of 2014, T&I Costs for the year ended October 31, 2014 decreased by \$25.4 million to \$12.9 million and mainly related to completing processes, relocating employees and harmonizing products.

LAURENTIAN BANK SECURITIES & CAPITAL MARKETS

Laurentian Bank Securities & Capital Markets segment consists of the Laurentian Bank Securities Inc. subsidiary, a full-service broker, and the Bank's capital market activities.

Laurentian Bank Securities & Capital Markets business segment's contribution to net income decreased slightly to \$10.3 million for the year ended October 31, 2014, compared with \$10.9 million for the year ended October 31, 2013.

TABLE 16

SEGMENT CONTRIBUTION

For the years ended October 31 (in thousands of Canadian dollars, except percentage amounts)

| | 2014 | 2013 | 2012 ⁽¹⁾ |
|---------------------------------|--------------|--------------|---------------------|
| Total revenue | \$ 68,406 | \$ 67,831 | \$ 59,902 |
| Non-interest expenses | 54,332 | 53,407 | 48,439 |
| Income before taxes | 14,074 | 14,424 | 11,463 |
| Income taxes | 3,777 | 3,572 | 2,941 |
| Net income | \$ 10,297 | \$ 10,852 | \$ 8,522 |
| Efficiency ratio ⁽²⁾ | 79.4% | 78.7% | 80.9% |
| Clients' brokerage assets | \$ 2,848,440 | \$ 2,465,747 | \$ 2,253,599 |

(1) Comparative figures for 2012 were not restated to reflect the adoption of amendments to IAS 19, *Employee Benefits*.

(2) Refer to the non-GAAP financial measures section.

Total revenue increased by \$0.6 million to \$68.4 million for the year ended October 31, 2014, as higher revenues from growth in underwriting activities in the small-cap equity market were partly offset by lower underwriting fees in the fixed income market.

Non-interest expenses increased by \$0.9 million to \$54.3 million for the year ended October 31, 2014, mainly due to higher performance-based compensation, commissions and transaction fees, in-line with higher market-driven income.

OTHER

The Other segment encompasses the Bank's corporate functions, including Corporate Treasury.

For the year ended October 31, 2014, the Other sector's contribution to adjusted net income was a negative \$26.2 million,

compared with a negative \$20.5 million for the year ended October 31, 2013. Reported net income for the year ended October 31, 2014 was negative \$27.1 million, compared with negative \$21.2 million for the year ended October 31, 2013.

TABLE 17

SEGMENT CONTRIBUTION

For the years ended October 31 (in thousands of Canadian dollars)

| | 2014 | 2013 | 2012 ⁽¹⁾ |
|--------------------------------------|-------------|-------------|---------------------|
| Net interest income | \$ (14,872) | \$ (13,139) | \$ (14,376) |
| Other income | 9,965 | 4,903 | 4,782 |
| Total revenue | (4,907) | (8,236) | (9,594) |
| Non-interest expenses ⁽²⁾ | 37,746 | 25,828 | 29,374 |
| Loss before income taxes | (42,653) | (34,064) | (38,968) |
| Income taxes recovery | (15,603) | (12,849) | (13,644) |
| Net loss | \$ (27,050) | \$ (21,215) | \$ (25,324) |
| Adjusted net loss ⁽³⁾ | \$ (26,219) | \$ (20,484) | \$ (25,324) |

(1) Comparative figures for 2012 reflect the realignment of reportable segments but were not restated to reflect the adoption of amendments to IAS 19, *Employee Benefits*.

(2) In 2014, the Bank retroactively adjusted its corporate expenses allocation methodology. As a result, non-interest expenses amounting to \$4.0 million (\$2.8 million net of income taxes) in 2013, which were previously reported in the Other sector, were reclassified to the B2B Bank business segment.

(3) Refer to the non-GAAP financial measures section. Adjusted financial measures exclude restructuring charges designated as adjusting items.

Net interest income decreased to negative \$14.9 million for the year ended October 31, 2014 compared with negative \$13.1 million for the year ended October 31, 2013, mainly as a result of less favourable market conditions compared to a year ago impacting balance sheet management. Other income increased by \$5.1 million and amounted to \$10.0 million for the year ended October 31, 2014, mainly explained by higher net security gains compared to last year and by a \$2.5 million portion of a gain related to the sale of commercial mortgage loans attributed to Corporate Treasury presented in this sector.

Non-interest expenses increased by \$11.9 million to \$37.7 million for the year ended October 31, 2014 compared with \$25.8 million for the year ended October 31, 2013. Higher unallocated technology expenses related to new initiatives aimed at improving IT infrastructure and on-line services mainly contributed to the overall increase in non-interest expenses. Non-interest expenses for the year ended October 31, 2014 also included restructuring charges totalling \$1.1 million for the further optimization of certain corporate activities compared with a similar charge of \$1.0 million in 2013.

ANALYSIS OF FINANCIAL CONDITION

Over the past three years, the Bank's sustained expansion, enhanced by acquisitions in 2012, improved its profitability and reinforced its capital. This added flexibility should allow the Bank to pursue its growth initiatives and to meet regulatory capital and leverage requirements.

As at October 31, 2014, the Bank reported total assets of \$34.8 billion, compared with \$33.9 billion as at October 31, 2013, as shown in Table 18. These changes are explained in the following sections of the MD&A.

TABLE 18

BALANCE SHEET ASSETS

As at October 31 (in thousands of Canadian dollars, except percentage amounts)

| | 2014 | 2013 | 2012 ⁽¹⁾ | VARIANCE 2014 / 2013 |
|--|---------------|---------------|---------------------|-------------------------|
| Cash, deposits with other banks and securities | \$ 5,129,315 | \$ 4,689,363 | \$ 6,714,004 | 9% |
| Securities purchased under reverse repurchase agreements | 1,562,677 | 1,218,255 | 631,202 | 28 |
| Loans | | | | |
| Personal | 6,793,078 | 7,245,474 | 7,806,067 | (6) |
| Residential mortgage | 14,825,541 | 14,735,211 | 14,169,095 | 1 |
| Commercial mortgage | 2,651,271 | 2,488,826 | 2,443,634 | 7 |
| Commercial and other | 2,794,232 | 2,488,137 | 2,150,953 | 12 |
| Customers' liabilities under acceptances | 365,457 | 271,049 | 211,130 | 35 |
| | 27,429,579 | 27,228,697 | 26,780,879 | 1 |
| Allowances for loan losses | (119,371) | (115,590) | (117,542) | 3 |
| | 27,310,208 | 27,113,107 | 26,663,337 | 1 |
| Other assets | 846,481 | 890,301 | 928,283 | (5) |
| Balance sheet assets | \$ 34,848,681 | \$ 33,911,026 | \$ 34,936,826 | 3% |
| Cash, deposits with other banks, securities and securities purchased under reverse repurchase as a % of balance sheet assets | 19.2% | 17.4% | 21.0% | |
| Total net loans and acceptances as a % of balance sheet assets | 78.4% | 80.0% | 76.3% | |

(1) Comparative figures for 2012 were not restated to reflect the adoption of amendments to IAS 19, *Employee Benefits*.

LIQUID ASSETS

Liquid assets consist of cash, deposits with other banks, securities and securities purchased under reverse repurchase agreements. As at October 31, 2014, these assets totalled \$6.7 billion, an increase of \$0.8 billion compared with \$5.9 billion as at October 31, 2013. The higher level of liquidity reflects the increase in institutional deposits toward the end of the year as the Bank maintained diversified funding sources to support expected loan growth. Overall, the Bank continues to prudently manage the level of liquid assets and to hold sufficient cash resources from various sources in order to meet its current and future financial obligations, under both normal and stressed conditions. Liquid assets represented 19% of total assets as at October 31, 2014 and 17% as at October 31, 2013.

As at October 31, 2014, securities amounted to \$4.9 billion, including a portfolio of available-for-sale securities totalling \$2.6 billion. Net unrealized gains in this portfolio, included in accumulated other comprehensive income, amounted to \$13.3 million after income taxes as at October 31, 2014.

Additional information on liquidity and funding risk management is included on page 51 of the MD&A.

LOAN PORTFOLIO

Loans and bankers' acceptances, net of allowances, stood at \$27.3 billion as at October 31, 2014, up marginally from October 31, 2013. The increase in the Bank's loan portfolios mainly

reflects the strong organic growth in the higher-margin business portfolios, including commercial loans, acceptances and mortgages, up 11% year-over-year, which was partly muted by a decrease in personal loans. In 2014, in an environment of slowing consumer loan demand, the Bank focused its efforts on growth opportunities in niche markets and on the deployment of new product offerings such as lease financing and alternative mortgages. Executing on its niche strategy, the Bank maintained overall growth in total loans and bankers' acceptances year-over-year.

Residential mortgage loans stood at \$14.8 billion as at October 31, 2014 and increased slightly by \$0.1 billion in 2014, mainly reflecting growth in mortgage loans at B2B Bank, helped by its expanded and alternative mortgage solutions.

Personal loans amounted to \$6.8 billion and decreased by \$0.5 billion since October 31, 2013, mainly reflecting attrition in the investment loan portfolio as investors reduced leverage and, to a lesser extent, the continued run-offs in point-of-sale financing.

Commercial loans, including bankers' acceptances, increased by \$400.5 million or 15% since October 31, 2013, as the Bank accelerated the development of its commercial activities and began to reap results from the launch of its new lease financing offer. Since October 31, 2013, commercial mortgage loans increased by \$264.8 million or 11% when excluding the loan sale of \$102.4 million in the second quarter of 2014, as the Bank also maintained its efforts to develop this higher-margin portfolio.

Impaired loans

Gross impaired loans amounted to \$102.1 million in 2014, a slight increase of \$2.7 million or 3% from \$99.4 million in 2013, as continued improvements in credit quality during the year, notably in the commercial loan portfolio, was more than offset by increases in impaired loans in the personal loan portfolio. Despite the overall increase, gross impaired loans remain at a historically low level and borrowers continue to benefit from the favourable low interest rate environment, as well as the prevailing economic conditions in Canada. See Note 6 to the annual consolidated financial statements for additional information.

TABLE 19

BALANCE SHEET LIABILITIES

As at October 31 (in thousands of Canadian dollars, except percentage amounts)

| | 2014 | 2013 | 2012 ⁽¹⁾ | VARIANCE 2014 / 2013 |
|--|---------------|---------------|---------------------|-------------------------|
| Deposits | | | | |
| Personal | \$ 18,741,981 | \$ 19,282,042 | \$ 19,369,310 | (3)% |
| Business, banks and other | 5,781,045 | 4,645,308 | 4,672,133 | 24 |
| | 24,523,026 | 23,927,350 | 24,041,443 | 2 |
| Other liabilities | 3,469,674 | 3,129,918 | 2,873,563 | 11 |
| Debt related to securitization activities | 4,863,848 | 4,974,714 | 6,037,097 | (2) |
| Subordinated debt | 447,523 | 445,473 | 443,594 | — |
| Balance sheet liabilities | \$ 33,304,071 | \$ 32,477,455 | \$ 33,395,697 | 3% |
| Personal deposits as a % of total deposits | 76.4% | 80.6% | 80.6% | |
| Total deposits as a % of balance sheet liabilities | 73.6% | 73.7% | 72.0% | |

(1) Comparative figures for 2012 were not restated to reflect the adoption of amendments to IAS 19, *Employee Benefits*.

DEPOSITS

The deposit portfolio increased by \$0.6 billion or 2% to \$24.5 billion as at October 31, 2014 from \$23.9 billion as at October 31, 2013. Personal deposits stood at \$18.7 billion as at October 31, 2014, decreasing by \$0.5 billion or 3% from \$19.3 billion as at October 31, 2013, as the Bank optimized its current funding strategy by focusing on direct client deposits, increasing its access to institutional funding sources, and reducing the overall contribution of broker-sourced funding at B2B Bank. As a result, personal deposits as a percentage of total deposits amounted to 76% as at October 31, 2014 compared with 81% as at October 31, 2013. This ratio remains nonetheless well above the Canadian average and will help to meet upcoming Basel III liquidity requirements, as the Bank continues to focus its efforts on retail deposit gathering and maintaining its solid retail funding base. Business and other deposits, which include institutional deposits, increased by \$1.1 billion or 24% since October 31, 2013 to \$5.8 billion as at October 31, 2014, mainly explained by new deposits raised during the second half of 2014.

Additional information on deposits and other funding sources is included in the Liquidity and Funding Risk Management subsection of the Risk Appetite and Risk Management Framework section on page 42 of this MD&A.

OTHER LIABILITIES

Other liabilities were up marginally to \$3.5 billion as at October 31, 2014 from \$3.1 billion as at October 31, 2013. The year-over-year increase resulted mainly from higher obligations related to securities sold under repurchase agreements.

Additional information on the Bank's risk management practices and detailed disclosure on loan portfolios are provided in the Risk Appetite and Risk Management Framework section.

OTHER ASSETS

Other assets decreased by 5% to \$846.5 million as at October 31, 2014 from \$890.3 million as at October 31, 2013, mainly resulting from decreases in prepaid expenses.

Debt related to securitization activities remained relatively unchanged compared with October 31, 2013 and stood at \$4.9 billion as at October 31, 2014 as new issuances offset maturing debt. Since the beginning of the year, the Bank also funded itself through the securitization of \$1.4 billion of new residential mortgage loans. The Bank sold \$1.0 billion as part of new Canada Mortgage Bond issuances and \$0.4 billion as replacement assets in existing securitization structures. For additional information on the Bank's debt related to securitization activities, please refer to Notes 7 and 14 to the annual consolidated financial statements.

As at October 31, 2014, subordinated debt stood at \$447.5 million, relatively unchanged from October 31, 2013. The subordinated debt is an integral part of the Bank's regulatory capital and affords its depositors additional protection.

SHAREHOLDERS' EQUITY

Shareholders' equity stood at \$1,544.6 million as at October 31, 2014, compared with \$1,433.6 million as at October 31, 2013. This increase resulted mainly from the net income contribution for the year, net of declared dividends and the net effect of preferred share transactions detailed below. In addition, the issuance of 410,587 new common shares under the Shareholder Dividend Reinvestment (DRIP) and Share Purchase Plan further contributed to the increase in shareholders' equity. Accumulated other comprehensive income (AOCI) increased by \$4.6 million compared to a year-ago, essentially as a result of higher unrealized net gains on available-for-sale securities.

The Bank's book value per common share appreciated to \$45.89 as at October 31, 2014 from \$43.19 as at October 31, 2013. The table below provides the details of the share capital.

Repurchase and issuance of preferred shares

On June 15, 2014, the Bank repurchased 4,400,000 Non-Cumulative Class A Preferred Shares, Series 10 (the "Preferred Shares Series 10"), which yielded 5.3% annually, at a price of \$25 per share, for an aggregate amount of \$110.0 million.

On April 3, 2014, the Bank issued 5,000,000 Basel III-compliant Non-Cumulative Class A Preferred Shares, Series 13 (the "Preferred Shares Series 13"), at a price of \$25 per share for gross proceeds of \$125.0 million, \$120.9 million net of issuance costs of \$4.1 million (\$2.9 million after income taxes), and yielding 4.3% annually.

The Capital Management section provides additional information on capital-related matters.

TABLE 20

SHARES ISSUED AND OUTSTANDING

As at December 3, 2014 (in number of shares/options)

| | |
|------------------------|------------|
| Preferred shares | |
| Series 11 | 4,000,000 |
| Series 13 | 5,000,000 |
| Common shares | 28,943,601 |
| Share purchase options | 20,000 |

OFF-BALANCE SHEET ARRANGEMENTS

In the normal course of its operations, the Bank makes ample use of off-balance sheet arrangements. In particular, the Bank manages or administers clients' assets that are not reported on the balance sheet. Moreover, off-balance sheet items include derivatives, special purpose entities set up for financing purposes, as well as credit commitments and guarantees.

various administrative services, as well as commercial mortgage loans managed for third parties. Through its subsidiary Laurentian Bank Securities, the Bank also manages retail and institutional investment portfolios. Table 21 below summarizes assets under administration and assets under management. As at October 31, 2014, these items totalled \$41.7 billion, up \$3.9 billion or 10% compared with October 31, 2013. Fees, commissions and other income related to these assets contribute significantly to the Bank's profitability.

ASSETS UNDER ADMINISTRATION AND ASSETS UNDER MANAGEMENT

Assets under administration and assets under management mainly include assets of clients to whom the Bank provides

TABLE 21

ASSETS UNDER ADMINISTRATION AND ASSETS UNDER MANAGEMENT

As at October 31 (in thousands of Canadian dollars)

| | 2014 | 2013 | 2012 |
|---|---------------|---------------|---------------|
| Registered and non-registered investment accounts | \$ 35,484,148 | \$ 32,222,052 | \$ 28,206,015 |
| Mutual funds | 3,009,944 | 2,568,101 | 2,110,528 |
| Clients' brokerage assets | 2,848,440 | 2,465,747 | 2,253,599 |
| Mortgage loans under management | 224,102 | 397,864 | 346,436 |
| Institutional assets | 77,095 | 72,475 | 76,912 |
| Other | 12,224 | 13,142 | 14,277 |
| Assets under administration and assets under management | \$ 41,655,953 | \$ 37,739,381 | \$ 33,007,767 |

Assets related to registered and non-registered investment accounts increased by \$3.3 billion compared with last year, mainly as a result of increases in B2B Bank Dealer Services' underlying assets values. The B2B Bank Dealer Services, comprised of three mutual fund and investment dealers, is providing account administration, clearing and settlement, and reporting services to more than 300,000 investors, through its association with independent dealers and advisors across Canada.

Mutual fund assets under administration increased by \$441.8 million or 17% during fiscal 2014. The exclusive offering of a preferred series of LBC-Mackenzie mutual funds, combined with the Bank's efficient distribution network and good market conditions in 2014, resulted in strong volume growth over the last twelve months.

Clients' brokerage assets increased by \$382.7 million or 16%, essentially as a result of increased activity and strong equity markets in 2014.

Mortgage loans under management decreased by \$173.8 million, as certain servicing agreements of commercial mortgage loans matured during the year.

DERIVATIVES

In the normal course of its operations, the Bank enters into various contracts and commitments to protect itself against the risk of fluctuations in interest rates, foreign exchange rates, stock prices and indices on which returns of index-linked deposits are based, as well as to meet clients' requirements and generate revenues from trading activities. These contracts and

commitments constitute derivatives. The Bank does not enter into any credit default swaps.

All derivatives are recorded on the balance sheet at fair value. Derivative values are calculated using notional amounts. However, these amounts are not recorded on the balance sheet, as they do not represent the actual amounts exchanged. Likewise, notional amounts do not reflect the credit risk related to derivatives, although they serve as a reference for determining the amount of cash flows to be exchanged. The notional amounts of the Bank's derivatives totalled \$15.9 billion as at October 31, 2014 with a net positive fair value of \$42.0 million.

Notes 23 to 26 to the annual consolidated financial statements provide further information on the various types of derivative products and their recognition in the consolidated financial statements.

SECURITIZATION ACTIVITIES

The Bank uses special purpose entities to securitize mortgage loans in order to obtain funding and, to some extent, to reduce credit risk.

As part of a securitization transaction, an entity transfers assets to a special purpose entity, which generally consists of a Canadian trust, in exchange for cash. The special purpose entity finances these purchases through the issuance of term bonds or commercial paper. Sales of receivables are sometimes accompanied by credit enhancement features to improve the bonds' or commercial paper's credit ratings. Credit enhancements mainly take the form of cash reserve accounts, over-collateralization in the form of excess assets, and liquidity guarantees. Securitization programs generally include seller swap contracts to protect the special purpose entities against certain interest rate and prepayment risks.

The Bank securitizes residential mortgage loans primarily by participating in the Canada Mortgage Bonds Program (CMB Program) developed by the Canada Mortgage and Housing Corporation (CMHC) and through a multi-seller conduit set up by a large Canadian bank. As the Bank ultimately retains certain

prepayment risk, interest rate risk and credit risk (for loans sold to multi-seller conduits only) related to the transferred mortgage loans, these are not derecognized and the securitization proceeds are recorded as securitization liabilities. In effect, the securitization activities carried by the Bank, although using special purpose entities which are not as such consolidated, are nonetheless reflected on the balance sheet.

As at October 31, 2014 the carrying amount of residential mortgage loans securitized and legally sold as part of the CMB Program amounted to \$3.8 billion (\$3.5 billion as at October 31, 2013) and the carrying amount of Replacement Assets amounted to \$0.4 billion (\$0.7 billion as at October 31, 2013). As at October 31, 2014, the carrying amount of securitized residential mortgage loans legally sold to multi-seller conduits amounted to \$0.5 billion (\$0.7 billion as at October 31, 2013). The securitization liability related to these transactions amounted to \$4.9 billion as at October 31, 2014 (\$5.0 billion as at October 31, 2013).

The Bank does not act as an agent for clients engaged in this type of activity and has no other significant involvement, such as liquidity and credit enhancement facilities, with any securitization conduit.

Notes 7 and 14 to the annual consolidated financial statements provide additional information on these transactions.

CREDIT COMMITMENTS AND GUARANTEES

In the normal course of its operations, the Bank uses various off-balance sheet credit instruments. The credit instruments used as a means of meeting client financial needs represent the maximum amount of additional credit that the Bank may be required to extend if the commitments are fully used.

In the normal course of its operations, the Bank also enters into guarantee agreements that satisfy the definition of guarantees. The principal types of guarantees are standby letters of credit and performance guarantees.

See Note 29 to the annual consolidated financial statements for further information.

TABLE 22

CREDIT COMMITMENTS AND GUARANTEES

As at October 31 (in thousands of Canadian dollars)

| | 2014 | 2013 | 2012 |
|---|--------------|--------------|--------------|
| Undrawn amounts under approved credit facilities ⁽¹⁾ | \$ 3,550,861 | \$ 3,247,808 | \$ 3,158,271 |
| Standby letters of credit and performance guarantees | \$ 125,337 | \$ 133,463 | \$ 149,254 |
| Documentary letters of credit | \$ 2,331 | \$ 4,482 | \$ 2,384 |

(1) Excluding personal credit facilities totalling \$1.9 billion (\$1.9 billion as at October 31, 2013 and October 31, 2012) and credit card lines amounting to \$1.0 billion (\$0.9 billion as at October 31, 2013 and \$0.8 billion as at October 31, 2012) since they are revocable at the Bank's option.

CAPITAL MANAGEMENT

CAPITAL ADEQUACY OVERSIGHT

Management's objective is to maintain an adequate level of capital, in line with the Bank's risk appetite, to support the Bank's activities while producing an acceptable return for shareholders. In order to achieve this objective, the Bank has a capital management framework that includes a Capital Management and

Adequacy Policy, a Capital Plan and an Internal Capital Adequacy Assessment Process (ICAAP).

The ICAAP is an integrated process that evaluates capital adequacy relative to the Bank's risk profile and helps set the appropriate capital level for the Bank. Capital adequacy depends on various internal and external factors. The Bank's capital level

underscores its solvency and capacity to fully cover risks related to its operations while providing depositors and creditors with the safeguards they seek. Moreover, required capital is aligned with the Bank's Strategic Plan, industry capitalization levels, regulatory requirements and stakeholders' expectations. While rating agencies do not assign credit ratings based solely on capital levels, the Bank's capital must be consistent with the credit rating sought. As a result, the Bank's capital adequacy targets vary over time in line with these factors.

Parallel to the ICAAP, the Bank is also relying on an integrated stress testing program to evaluate the impact of various economic scenarios on its profitability and capital levels. This program, which involves experts from various departments including Economics, Finance, Treasury and Risk Management, provides inputs to the ICAAP and further contributes to determine the appropriate level of capital.

Various bodies within the organization are involved in optimizing the Bank's capital.

- The **Risk Management Committee of the Board of Directors** reviews and approves, annually, capital-related documents, including the ICAAP and the integrated stress testing program. It also reviews the overall capital adequacy of the Bank on a quarterly basis.
- The **Board of Directors** approves the Capital Management and Adequacy Policy, the Capital Plan, as well as the Business Plan and Financial Three-Year Plan annually.
- **Senior management** monitors regulatory capital ratios on a monthly basis through the Asset, Liability and Capital Management Committee.
- The **Risk Management Department** oversees the Bank's capital management framework on an ongoing basis. This oversight includes monitoring capital limits and adequacy, as well as developing and implementing the Capital Management and Adequacy Policy, the ICAAP and the integrated stress testing program.
- The **Treasury Department** develops the Capital Plan and manages capital on an ongoing basis.
- The **Finance Department** develops the Business Plan and Financial Three-Year Plan annually. It is also responsible for the implementation of the process to measure regulatory capital ratios and their monthly determination.

REGULATORY CAPITAL

The regulatory capital calculation is determined based on the guidelines issued by OSFI originating from the Basel Committee on Banking Supervision (BCBS) regulatory risk based capital framework. As of January 2013, the Bank adopted OSFI's capital adequacy requirements drawn on the BCBS capital guidelines initially issued in December 2010, and commonly referred to as Basel III. Under this framework, Tier 1 capital, the most permanent and subordinated forms of capital, must be more predominantly composed of common equity. Tier 1 capital therefore consists of two components: Common equity Tier 1 (CET1) and Additional Tier 1, to ensure that risk exposures are backed by a high quality capital base and to provide transparency. Tier 2 capital consists of supplementary capital instruments and further contributes to the overall strength of a financial institution as a going concern. In April 2014, OSFI issued a revised Capital

Adequacy Requirements Guideline (the CAR Guideline), which incorporated minor changes and clarifications to the framework.

Institutions are expected to meet minimum risk-based capital requirements for exposure to credit risk, operational risk and, where they have significant trading activity, market risk. Under the CAR Guideline, minimum Common Equity Tier 1, Tier 1 and Total capital ratios were set at 4.0%, 5.5% and 8.0% respectively for 2014. These ratios include phase-in of certain regulatory adjustments between 2013 and 2019 and, as detailed below, phase-out of non-qualifying capital instruments between 2013 and 2022 (the "transitional" basis). Considering all annual increases in minimum capital ratio requirements provided by the CAR Guideline, these ratios will reach 7.0%, 8.5% and 10.5% by 2019, including the effect of capital conservation buffers.

In its CAR Guideline, OSFI also indicated that it expects deposit-taking institutions to attain target capital ratios without transition arrangements equal to or greater than the 2019 minimum capital ratios plus capital conservation buffer levels (the "all-in" basis), including a minimum 7.0% Common Equity Tier 1 ratio target. Furthermore, certain banks in Canada have been designated by OSFI as Domestic Systemically Important Banks (or D-SIBs). Under this designation, these banks will be asked to hold a further 1% of Tier 1 Common Equity by January 1, 2016. Laurentian Bank, however, has not been so designated. The "all-in" basis includes all of the regulatory adjustments that will be required by 2019 but retains the phase-out rules for non-qualifying capital instruments.

The CAR Guideline provides additional guidance regarding the treatment of non-qualifying capital instruments and specifies that certain capital instruments no longer qualify fully as regulatory capital as of January 1, 2013. The Bank's non-common capital instruments are considered non-qualifying capital instruments under Basel III and are therefore subject to a 10% phase-out per year beginning in 2013. These non-common capital instruments include Series 11 preferred shares, as well as Series 2010-1 and 2012-1 subordinated Medium Term Notes. The Bank redeemed on June 15, 2014 the Preferred Shares Series 10 which were also non-qualifying instruments under Basel III.

Effective January 1, 2014 the Bank is accounting for a credit valuation adjustments (CVA) capital charge. To ensure an implementation similar to that in other countries, the CVA capital charge has been phased-in over a five-year period beginning in 2014 and ending on December 31, 2018. As the Bank's derivative book remains relatively small, this has not nor is it expected to have a significant impact on its regulatory capital ratios.

Leverage ratio requirement

The Basel III capital reforms introduced a non-risk based leverage ratio requirement to act as a supplementary measure to the risk-based capital requirements. The leverage ratio is currently defined as the Tier 1 capital divided by unweighted on-balance sheet assets and off-balance sheet commitments, derivatives and securities financing transactions, as defined within the requirements. It differs from OSFI's current Asset to Capital Multiple (ACM) requirement in that it includes more off-balance-sheet exposures and a narrower definition of capital (Tier 1 Capital instead of Total Capital).

In its Leverage Requirements Guideline issued in October 2014, OSFI indicated that it will replace the ACM with the new Basel III leverage ratio as of January 1, 2015. Federally regulated deposit-

taking institutions will be expected to maintain a Basel III leverage ratio that meets or exceeds 3% at all times.

Bail-in Regime in Canada

On August 1, 2014, the Department of Finance Canada issued for comment the Taxpayer Protection and Bank Recapitalization Regime: Consultation Paper. The Consultation Paper outlines the proposed bail-in regime applicable to Canada's D-SIBs, which would aim to limit taxpayer exposure in the event of the failure of systemically important banks. The proposed Canadian bail-in regime provides that tradable senior unsecured debt could be converted into common equity if certain non-viability conditions were met. As the Bank has not been designated as a D-SIB, the proposed regime should not have any effect on the Bank's capital.

Credit and operational risk

The Bank uses the Standardized Approach in determining credit risk capital and to account for operational risk. In 2012, the Bank initiated the process to adopt the advanced internal ratings-based (AIRB) approach to determine credit risk capital. Currently, the

Bank's capital requirements for credit risk under the Standardized Approach are not calculated on the same basis as its industry peers, as larger Canadian financial institutions predominantly use the more favourable AIRB approach. The Bank's adoption of the AIRB approach should strengthen its credit risk management, optimize regulatory capital and provide a level-playing field for credit underwriting activities. Implementation is scheduled for the end of 2018. In November 2014, the BCBS issued a report entitled *Reducing excessive variability in banks' regulatory capital ratios*. This report states that the BCBS will provide new prudential proposals to improve the Standardized Approach for calculating regulatory capital by the end of 2015. The report also suggests that new requirements will be introduced to the AIRB approach, notably with regard to the capital floor and other risk modeling practices. Management is closely monitoring these developments.

Tables 23 and 24 outline the regulatory capital and risk-weighted assets (RWA) used to calculate regulatory capital ratios. The Bank was in compliance with OSFI's capital requirements throughout the year.

TABLE 23

REGULATORY CAPITAL ⁽¹⁾

As at October 31 (in thousands of Canadian dollars, except percentage amounts)

| | 2014 | 2013 |
|--|---------------|---------------|
| Regulatory capital | | |
| Common Equity Tier 1 capital (A) | \$ 1,087,224 | \$ 1,017,659 |
| Tier 1 capital (B) | \$ 1,306,857 | \$ 1,222,863 |
| Total capital (C) | \$ 1,747,526 | \$ 1,694,167 |
| Total risk-weighted assets (D) ⁽²⁾ | | |
| | \$ 13,844,014 | \$ 13,379,834 |
| Regulatory capital ratios | | |
| Common Equity Tier 1 capital ratio (A/D) | 7.9 % | 7.6 % |
| Tier 1 capital ratio (B/D) | 9.4 % | 9.1 % |
| Total capital ratio (C/D) | 12.6 % | 12.7 % |

(1) The amounts are presented on an "all-in" basis. Regulatory capital for 2013 is presented as filed with OSFI and has not been adjusted to include the impact of the adoption of amendments to IAS 19, *Employee Benefits*.

(2) Using the Standardized Approach in determining credit risk and operational risk.

As shown in the graph on the right, the increase in the Common Equity Tier 1 capital ratio in 2014 was particularly due to the internal capital generation, while risk-weighted assets only slightly increased. In addition, as mentioned previously, effective November 1, 2013, the Bank adopted an amended version of IAS 19, *Employee Benefits*, which reduced shareholders' equity by approximately \$53.4 million as at November 1, 2013 and the Common Equity Tier 1 ratio by approximately 0.2%.

The Tier 1 capital ratio was, for its part, further impacted by the redemption of the Preferred Shares Series 10 for an amount of \$110.0 million in June 2014 and the issuance in April 2014 of the Preferred Shares Series 13, for a gross amount of \$125.0 million.

CHANGE IN COMMON EQUITY TIER 1 CAPITAL RATIO

For the year ended October 31, 2014 (in percentage)

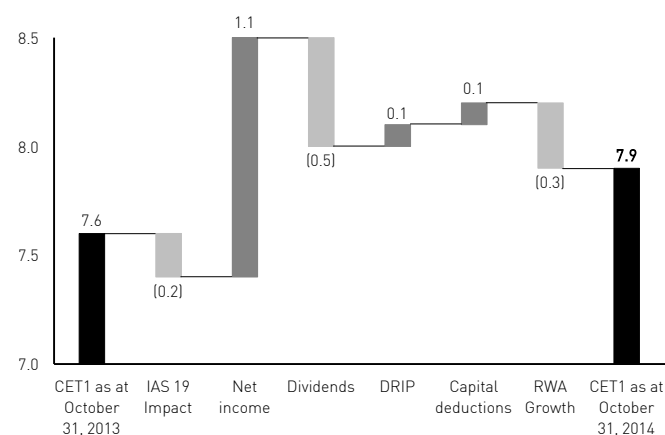


TABLE 24

RISK-WEIGHTED ASSETS

As at October 31 (in thousands of Canadian dollars)

| | 2014 | | 2013 ⁽¹⁾ | |
|---|----------------------|-------------------------------------|----------------------|-------------------------------------|
| | TOTAL | RISK-WEIGHTED ASSETS ⁽²⁾ | TOTAL | RISK-WEIGHTED ASSETS ⁽²⁾ |
| Exposure Class (after risk mitigation) | | | | |
| Corporate | \$ 5,622,244 | \$ 5,581,683 | \$ 5,080,098 | \$ 5,019,998 |
| Sovereign | 4,129,832 | 20,909 | 3,771,179 | 26,059 |
| Bank | 326,016 | 72,025 | 403,475 | 87,346 |
| Retail residential mortgage loans | 14,891,735 | 2,290,905 | 14,735,773 | 2,251,422 |
| Other retail | 2,918,712 | 1,777,302 | 3,381,816 | 2,090,482 |
| Small business entities treated as other retail | 1,434,894 | 1,003,429 | 1,352,177 | 942,617 |
| Equity | 270,227 | 270,227 | 313,149 | 313,149 |
| Securitization | 54,697 | 123,558 | 39,355 | 27,820 |
| Other assets | 1,025,724 | 505,936 | 1,088,667 | 565,677 |
| | 30,674,081 | 11,645,974 | 30,165,689 | 11,324,570 |
| Derivatives ⁽³⁾ | 124,519 | 57,258 | 118,805 | 45,097 |
| Credit-related commitments | 815,180 | 764,082 | 666,765 | 623,454 |
| Operational risk | | 1,376,700 | | 1,386,713 |
| | \$ 31,613,780 | \$ 13,844,014 | \$ 30,951,259 | \$ 13,379,834 |
| Balance sheet items | | | | |
| Cash, deposits with other banks, securities and securities financing transactions | | \$ 802,525 | | \$ 707,435 |
| Personal loans | | 2,191,425 | | 2,497,457 |
| Residential mortgage loans | | 2,783,479 | | 2,753,384 |
| Commercial mortgage loans, commercial loans and acceptances | | 5,524,436 | | 4,968,253 |
| Other assets | | 344,109 | | 398,041 |
| | | \$ 11,645,974 | | \$ 11,324,570 |

(1) Risk-weighted assets as at October 31, 2013 are presented as filed with OSFI and have not been adjusted to include the impact of the adoption of amendments to IAS 19, *Employee Benefits*.

(2) To determine the appropriate risk weight, credit assessments by OSFI-recognized external credit rating agencies of Standard & Poor's, Moody's and DBRS are used. Under the Standardized Approach, the Bank assigns the risk weight corresponding to OSFI's standard mapping. For most of the Bank's exposures to sovereign and bank counterparties, which are predominantly domiciled in Canada, these risk weights are based on Canada's AAA rating. In addition, the Bank relies on external ratings for certain rated exposures, essentially in the corporate class. For unrated exposures, mainly in the retail and corporate classes, the Bank generally applies prescribed risk weights taking into consideration certain exposure specific factors including counterparty type, exposure type and credit risk mitigation techniques employed.

(3) In 2014, a new CVA capital charge has been applied to derivatives. OSFI also introduced a new three tier capital approach with different scalars for each tier. The CVA capital charge after phase-in adjustments as at October 31, 2014 was \$20.0 million for CET1 capital risk-weighted assets, \$22.8 million for Tier 1 capital risk-weighted assets and \$27.0 million for Total capital risk-weighted assets. Risk-weighted assets above are presented based on the CET1 capital approach.

DIVIDENDS

The Board of Directors must approve dividend payments on preferred and common shares on a quarterly basis. The declaration and payment of dividends are subject to certain legal restrictions, as explained in Note 16 to the annual consolidated financial statements. The level of dividends declared on common

shares reflects management and Board views of the Bank's financial outlook and takes into consideration market and regulatory expectations, as well as the Bank's growth objectives in its Strategic Plan. The following table summarizes dividends declared for the last three years.

TABLE 25

SHARE DIVIDENDS AND PAYOUT RATIO

For the years ended October 31 (in thousands of Canadian dollars, except per share amounts and payout ratios)

| | 2014 | 2013 | 2012 ⁽¹⁾ |
|---|-----------|-----------|---------------------|
| Dividends declared on preferred shares | \$ 10,750 | \$ 12,411 | \$ 11,775 |
| Dividends declared per common share | \$ 2.06 | \$ 1.98 | \$ 1.84 |
| Dividends declared on common shares | \$ 59,105 | \$ 56,037 | \$ 47,212 |
| Dividend payout ratio ⁽²⁾ | 45.7% | 52.0% | 37.0% |
| Adjusted dividend payout ratio ⁽²⁾ | 38.7% | 39.0% | 36.9% |

(1) Comparative figures for 2012 were not restated to reflect the adoption of amendments to IAS 19, *Employee Benefits*.

(2) Refer to the non-GAAP financial measures section.

RISK APPETITE AND RISK MANAGEMENT FRAMEWORK

The shaded areas in the following sections of this MD&A represent a discussion on risk management policies and procedures relating to credit, market, and liquidity and funding risks as required under IFRS 7, *Financial Instruments - Disclosures*, which permits these specific disclosures to be included in the MD&A. Therefore, these shaded areas form an integral part of the annual consolidated financial statements for the years ended October 31, 2014 and 2013.

RISK MANAGEMENT FRAMEWORK

Risk management is essential for the Bank to achieve its financial objectives while keeping the Bank's risk profile within its stated risk appetite. In this context, and to enable senior management to assure the existence of sound practices favourable to efficient and prudent management of its operations and major risks, the Bank has developed a Risk Appetite and Risk Management Framework (the "Framework").

The Framework defines the risk governance structure, risk management processes and major risks the Bank may encounter. The internal control structure and corporate governance that promotes sound integrated risk management is also presented in the Framework. It contains mechanisms that enable the Bank to identify risks it faces, develop and apply adequate and efficient internal controls to ensure sound and prudent risk management and implement reliable and complete systems to monitor the effectiveness of these controls.

The main objective of the Framework is to develop and maintain a risk management culture in all of the Bank's business units and subsidiaries. Other objectives of the Framework include:

- Define the Bank's risk appetite and tolerance;
- Establish processes to continuously identify, understand and assess major risks;
- Align the Bank's strategy and objectives with its risk tolerance;
- Adopt sound and prudent risk limits and risk management policies;
- Establish and apply effective internal controls;
- Define the committees' roles and responsibilities regarding risk management.

RISK APPETITE

Risk taking is a necessary part of the Bank's business. As such, its business strategies incorporate decisions regarding the risk/reward trade-offs the Bank is willing to make and the means with which it will manage and mitigate those risks. The Bank has determined a risk appetite, which is defined in the Framework, and continuously attempts to maintain a balance between its risk tolerance and risk capacity. The Board of Directors is responsible for the annual review and approval of the Bank's risk appetite.

Risk appetite is defined as the level of risk the organization is willing to accept to achieve its objectives, particularly when there is a benefit associated:

- It is a broad concept which guides the types of activities and risks the Bank is willing to develop.
- This risk appetite is defined notably by performance targets, credit ratings and capital ratios.

Risk tolerance corresponds to implicit and acceptable variations relative to the Bank's risk appetite targets but can also reflect the level of risk when there is no direct benefit associated or when the risk is not aligned with benefits.

Risk capacity is determined by the availability of resources to assess and mitigate the risks as well as absorbing significant losses.

The Bank's risk appetite statement can be summarized as a combination of:

- Strategic objectives: financial objectives, target capital ratios, growth target, business types; and
- A set of internal limits that define the Bank's risk tolerance (including regulatory constraints).

INTEGRATED STRESS TESTING PROGRAM

Stress testing is a risk management technique used to evaluate the potential effects on an institution of specific scenarios, corresponding to exceptional but plausible events. This tool is used by senior management in making strategic decision, managing risk, evaluating capital adequacy and contingency planning. Stress testing includes scenario and sensitivity analyses.

The Bank's integrated stress testing program evaluates a range of scenarios of different severities resulting from deteriorating economic conditions that could adversely impact its strategic plan. The impact on liquidity, market and credit risks is determined and aggregated to give a view of such scenarios on the Bank's profitability and capital position.

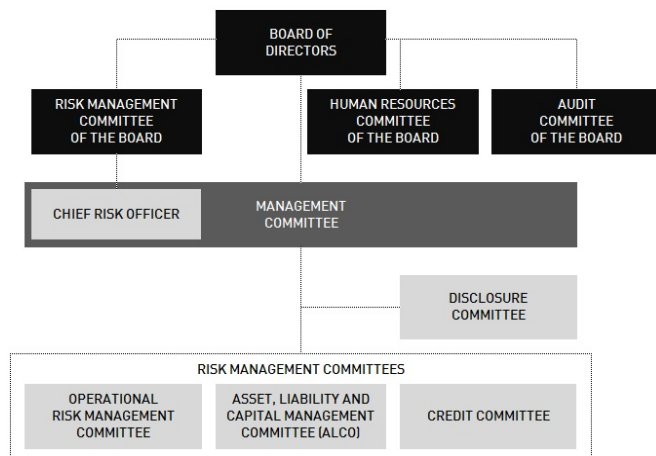
This exercise involves experts from various departments including Economics, Finance, Treasury and Risk Management. Members of senior management are involved in the design of scenarios, while the Risk Management Committee of the Board provides oversight. The results are presented to senior management, as well as to the Risk Management Committee of the Board, and are integrated in the capital adequacy process.

In addition to the integrated stress testing program, the Bank conducts risk specific scenario and sensitivity analyses to assess the risk level of different activities. These results are monitored through risk management policies.

GOVERNANCE STRUCTURE

The Board of Directors has ultimate responsibility for risk management. Each year, the Risk Management Committee of the Board reviews the risk appetite and approves the risk management policies. It thereafter delegates to senior management the responsibility for defining their parameters and communicating and implementing them accordingly. Senior management plays an active role in identifying, assessing and managing risk. Business unit managers are responsible for applying the policies and, in collaboration with the Risk

Management Department, keeping senior management informed about any changes in risk profile.



Roles and responsibilities of the Board of Directors' committees

The **Board of Directors** ensures that the Bank maintains an appropriate strategic management process that takes risk into consideration. Moreover, based on the certifications and consolidated reports prepared by senior management, the Board of Directors assesses annually whether the Bank's operations are carried out in an environment favourable to internal control.

The **Risk Management Committee of the Board** assures whether the Framework has been properly implemented and periodically reviews its effectiveness. The Committee must also ensure that the Framework provides an appropriate risk management process for identifying, measuring, quantifying and managing risks, as well as implementing appropriate risk management policies.

The **Audit Committee of the Board** ensures that the Bank has a control environment that promotes adequate management of its activities and major risks.

Roles and responsibilities of other risk management committees of the Bank

The **Management Committee**, chaired by the President and Chief Executive Officer, is the Bank's primary risk management committee. It ensures that the Framework is properly implemented. Senior management plays an active role in identifying, assessing and managing risk and is responsible for implementing the necessary framework for regulatory, strategic, reputational and insurance risk management. Furthermore, the Risk Management Committee of the Board, assisted by the Management Committee, assesses and reviews the risk management policies on market, liquidity and funding, structural interest rate risk, credit, reputational and operational risk. The Management Committee is also responsible for developing and implementing the Capital Management and Adequacy Policy, the Code of Conduct and the Compliance Policy.

The **Operational Risk Management Committee** reviews the operational risk management policies, recommends their approval to the Management Committee and reviews the reports on operational losses incurred. Furthermore, it reviews and approves tools for identifying and assessing the frequency and the impact of operational risks, reviews reports to the Management Committee on business units' action plans for mitigating and improving management of operational risk, and reviews the operational risk

indicators. Finally, the Operational Risk Management Committee is responsible for monitoring business continuity plans and fraud prevention.

The **Credit Committee** is primarily responsible for ensuring that adequate credit policies and procedures are in place and that information systems related to managing the Bank's current and potential credit risks have been implemented, and for approving loans within set limits. It also reviews delinquency on all types of loans, authorizes loan losses within set limits and ensures the adequacy of the provisions for loan losses.

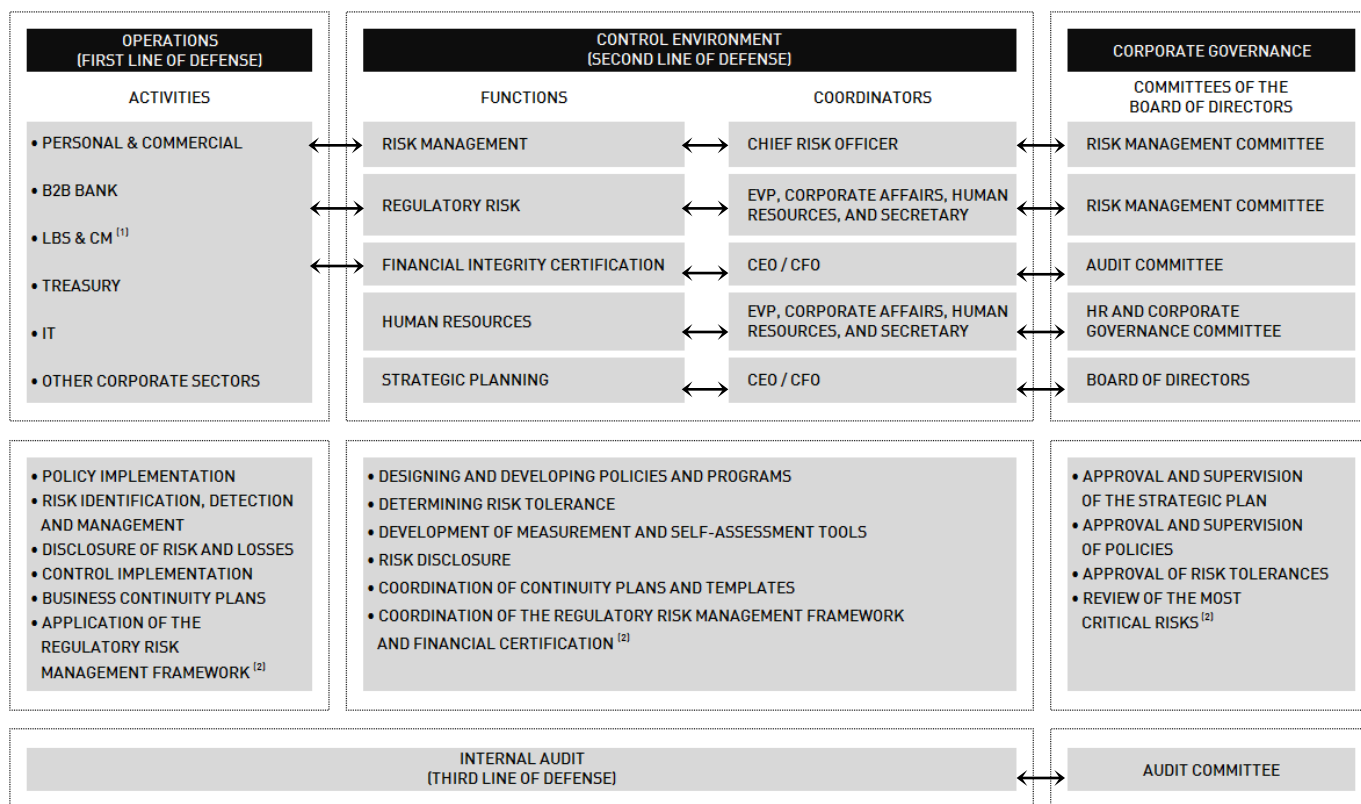
The **Asset, Liability and Capital Management Committee (ALCO)** is responsible for assuring compliance with the interest rate structural risk management limits. It recommends hedging strategies to maintain the risk level within the approved limits. It also supervises liquidity management at the subsidiary and Bank level, and is responsible for managing the Bank's financing needs and reviewing the liquidity contingency plan. The committee is also responsible for supervising the Bank's capital position and structure.

The **Disclosure Committee** is responsible for reviewing and approving the Bank's financial information subject to public or regulatory disclosure. The Disclosure Committee also elaborates the related communication strategies.

GOVERNANCE FUNCTIONS SUPPORTING RISK MANAGEMENT

The following table presents the Bank's corporate control and risk governance structure (the "Structure"), which includes several governance functions designed to enhance risk management. The Structure is divided into three distinct areas: operations, control environment and corporate governance. Operations are key to risk management as business unit managers take risks and are accountable for their ongoing management. They are on the front lines to identify and actively manage risks by applying the risk policies and implementing controls and risk mitigation measures. They are the first line of defense. The control environment hinges on five functions: risk management, regulatory risk management, financial integrity, human resources and strategic planning. The risk management function complements the business unit's risk activities through its monitoring and reporting responsibilities. It is responsible for overseeing the Bank's risk-activities and assessing risks independently. The regulatory risk function routinely monitors compliance with laws, corporate governance rules, regulations, codes and policies to which the Bank is subject. Responsibility for each function is delegated to members of senior management. The risk management and regulatory risk functions of the control environment constitute the second line of defense of the Bank. The Board of Directors' committees oversee the control environment. From a governance perspective, the Board of Directors is responsible for ensuring, to the extent possible, that the Bank's strategies and objectives are consistent with its global risk tolerance.

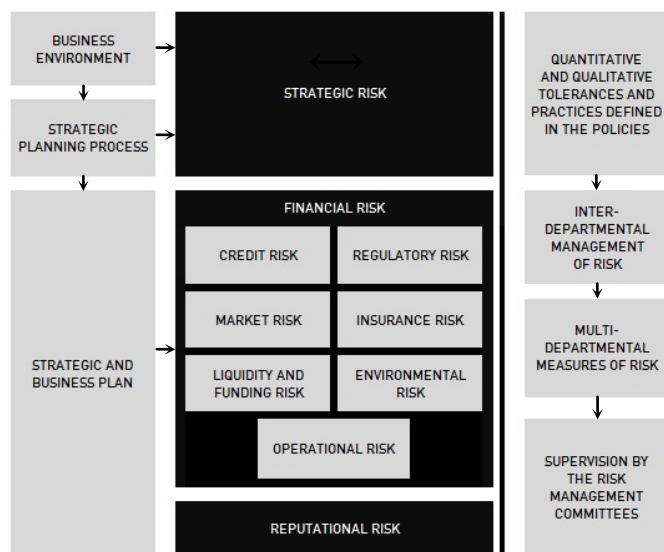
The Internal Audit function also plays a key role as a third line of defense. It is responsible for implementing and maintaining a reliable and comprehensive system to adequately monitor the effectiveness of controls exercised within the different Framework functions. In addition, regulatory and statutory requirements are an integral part of the Bank's Framework.



(1) Laurentian Bank Securities and Capital Markets
 (2) This list of functions is not exhaustive.

RISK MANAGEMENT PROCESS

The Bank's risk management process, as illustrated below, is closely tied to the strategic planning process from which the Bank's strategic and business plan is derived. Policies approved by the Board describe tolerances, measures and responsibilities for each significant risk. These policies are implemented by the business units and their application monitored by the appropriate risk management committees.



Risk management is carried out across departments by business units managers who actively manage the risks related to their activities, as well as by risk management and internal control professionals.

STRATEGIC RISK MANAGEMENT

Strategic risk results from inadequate business plans, strategies, decision-making processes, allocation and use of the Bank's resources. It also results from the potential adverse effect of changes in the economic, competitive, regulatory, tax or accounting environment on the Bank's results.

Senior management is responsible for managing the Bank's strategic risks. Each year, a strategic planning process is carried out to analyze strengths, weaknesses, threats and opportunities in order to determine the profitability and risk profiles of the Bank's different business segments. The Bank's overall strategy is established by senior management and submitted to the Board of Directors for approval.

CREDIT RISK MANAGEMENT

Credit risk is the risk of a financial loss occurring if a counterparty (including a debtor, an issuer or a guarantor) does not fully honour its contractual or financial obligations towards the Bank with regard to a balance sheet or an off-balance sheet financial instrument.

Credit risk management is independent of operations, thus protecting the independence and integrity of risk assessment. The Credit Committee is responsible for operational oversight of overall credit risk management. The integrated risk management

report, presented quarterly to the Management Committee and to the Risk Management Committee of the Board, provides a summary of key information on credit risks. The credit risk management policies adopted by the Bank provide for appropriate risk assessments. These policies cover approval of credit applications by authority level, assignment of risk ratings, management of impaired loans, establishment of individual and collective allowances, and risk-based pricing. The policies are periodically reviewed and approved by the Risk Management Committee of the Board.

Through its Credit Risk Management Department, the Bank monitors its credit portfolios on a qualitative and quantitative basis through: [i] mechanisms and policies governing the review of the various types of files; [ii] risk rating systems, and [iii] pricing analysis.

Loan-related credit risk

The Bank uses expert systems to support the decision-making process for most underwriting of consumer credit, residential mortgage loans and credit cards, as well as small commercial loans. With regard to commercial loans, applications are also analyzed on a case-by-case basis by specialized teams. Each month, the Bank's Credit Committee reviews impaired loans and performs high-level analyses on loans where payment is past due by 90 days or more. Collection processes are centralized and are based on specialized expertise.

The Bank has various risk management tools at its disposal. These include a 19-level risk rating system used to evaluate all types of commercial credit. Above a specific rating, files are considered to be under credit watch and are managed according to specific procedures. With regard to portfolio quality, a loan is generally considered impaired when interest payments are past due by three months or more, or if management considers that there is reasonable doubt that all principal will be repaid at maturity.

Individual allowances for losses are established to adjust the carrying amount of material impaired loans to the present value of estimated expected future cash flows. Allowances for impaired business loans are revised on an individual basis, as part of a continuous process.

In addition to individual allowances, the Bank maintains collective allowances to cover impairment for all individually insignificant loans as well as loans that have been assessed for impairment individually and found not to be impaired. The collective allowances cover impairment due to incurred but not identified loss events. To establish collective allowances, the Bank uses models based on the internal risk rating of credit facilities and on

the related probability of default factors, as well as the loss given default associated with each type of facility.

Additional information on impaired loans and allowances is provided in Tables 27 and 28.

Diversification is one of the fundamental principles of risk management. To this effect, the Credit Policy establishes guidelines to limit concentration of credit by counterparty and sector of activity, and identifies sectors considered too risky and thus to be avoided. Concentration of credit risk may exist where a number of counterparties engaged in similar activities are located in the same geographic area or have comparable economic characteristics. Their ability to meet contractual obligations could be compromised by changing economic, political or other conditions.

The loan portfolio mix is detailed in the following pages.

Derivative-related credit risk

The majority of the Bank's credit concentration in derivatives lies with financial institutions, primarily Canadian banks. Credit risk in derivative transactions arises from a potential counterparty default on contractual obligations when one or more transactions have a positive replacement cost for the Bank. Replacement cost represents what it would cost to replace transactions at prevailing market conditions in the event of a default. The credit equivalent amount arising from a derivative transaction is defined as the sum of the replacement cost plus an estimated amount reflecting the potential change in market value of the transaction through to maturity.

Derivative-related credit risk is generally managed using the same credit approval, limit and monitoring standards as those used for managing other credit transactions. Moreover, the Bank negotiates derivative master netting agreements with all significant counterparties with which it contracts. These agreements reduce credit risk exposure in the event of a default by providing for the simultaneous netting of all transactions with a given counterparty. These contracts also allow the Bank to require the counterparty to pay or guarantee the current market value of its positions when the value exceeds a given threshold.

Exposure to credit risk

The amount that best represents the Bank's maximum exposure to credit risk as at October 31, 2014 and 2013 without factoring in any collateral held or other credit enhancements, represents the sum of financial assets in the Bank's consolidated balance sheet, plus credit-related commitments as set out below.

TABLE 26

MAXIMUM EXPOSURE TO CREDIT RISK

As at October 31 (in millions of Canadian dollars)

| | 2014 | 2013 |
|--|-----------|-----------|
| Financial assets, as stated in the consolidated balance sheet ⁽¹⁾ | \$ 34,220 | \$ 33,108 |
| Credit-related commitments | | |
| Personal credit facilities | 1,945 | 1,908 |
| Credit card lines | 958 | 906 |
| Undrawn amounts under approved credit facilities | 3,551 | 3,248 |
| | \$ 40,674 | \$ 39,170 |

(1) Excluding equity securities.

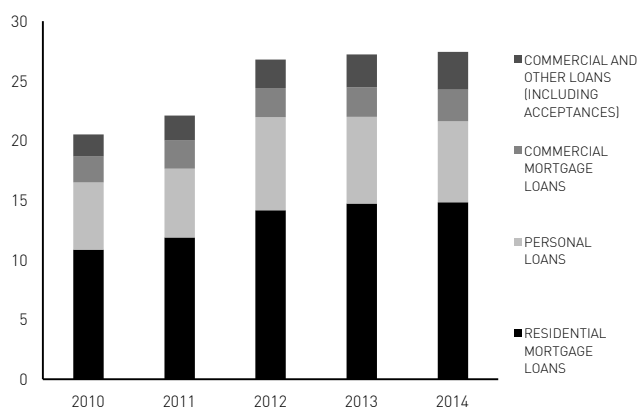
Loan portfolio mix

The Bank's loan portfolio consists of personal loans, residential mortgage loans, commercial mortgage loans and commercial loans, including bankers' acceptances. The loan portfolio mix as at October 31, 2014, although relatively unchanged compared with a year ago, still reflects a slight increase in business loans, in line with the Bank's strategy to grow higher margin portfolios.

Reflecting the Bank's strong presence with personal clients through its retail operations and B2B Bank, exposures related to personal loans and residential mortgages represent 79% of the Bank's total loan portfolio, compared to 81% a year ago. Commercial loans and mortgages, including bankers' acceptances, now account for 21% of total loans.

LOAN PORTFOLIO MIX

As at October 31 (in billions of Canadian dollars)



Personal loans

As at October 31, 2014, the personal loan portfolio totalled \$6.8 billion, a decrease of \$0.5 billion compared with October 31, 2013. This decrease mainly reflects the attrition in the investment loan portfolio, constrained household credit growth due to higher consumer financial leverage and, to a lesser extent, the ongoing run-off of the point-of-sale financing portfolio.

Residential mortgage loans

As shown in Table 27 on page 47, the residential mortgage loan portfolio increased by \$0.1 billion or 1% during fiscal 2014. This slower growth rate is due in part to the relative stability in the housing market observed during the year, mainly in Eastern Canada. Noteworthy, B2B Bank is now fully benefitting from its expanded alternative mortgage solution and has significantly increased its disbursements in the later part of 2014, as it was able to benefit from the better market conditions elsewhere in Canada. Residential mortgage loans mainly include retail mortgage loans secured by one- to four-unit dwellings, as well as a \$1.1 billion portfolio of smaller retail multi-units dwellings.

Commercial mortgage loans

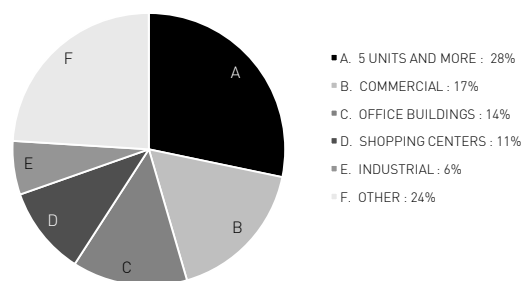
Commercial mortgage loans increased by \$162.4 million or 7% from fiscal 2013, totalling \$2.7 billion as at October 31, 2014, despite a loan sale of \$102.4 million in 2014.

Over the recent years, the Bank has greatly benefitted from its presence in the real estate market. Again in 2014, the Bank furthered its development by capitalizing on opportunities in the resilient Canadian real estate mid-market. Going forward, the Bank expects to continue to leverage its solid client base and focus on serving its long-established clientele and, when appropriate, to respond to the increase in the size of real estate development projects.

The commercial mortgage loan portfolio also contributes to improve geographic diversification across Canada and therefore enhances, in this regard, the overall profile of the Bank. As at October 31, 2014, the proportion of the portfolio granted in Ontario and Western Canada represented 72% of the total commercial mortgage loan portfolio and 28% in Québec (71% in Ontario and Western Canada and 29% in Québec as at October 31, 2013). The average loan carrying value was \$1.8 million as at October 31, 2014, unchanged from October 31, 2013.

COMMERCIAL MORTGAGE LOANS BY PROPERTY TYPE

As at October 31, 2014 (as a percentage)



Commercial loans

As at October 31, 2014, the portfolio of commercial loans, including bankers' acceptances, amounted to \$3.2 billion, up \$0.4 billion or 15% from \$2.8 billion as at October 31, 2013. This growth mainly stems from the significant increase in the mid-market lending across Canada and, to a lesser extent, from the financing of small- and medium-sized enterprises in Québec. Recent initiatives targeted towards these markets, such as the new leasing offering and the hiring of additional account managers, are gradually improving the Bank's overall market presence. Furthermore, the Bank's focus on developing higher-margin commercial activities has contributed to improve profitability year-over-year.

The portfolio covers a wide range of industries, with no specific industry accounting for more than 3% (unchanged from 2013) of total loans and acceptances, demonstrating sound risk management of this portfolio.

See Table 27 for additional information.

TABLE 27

DISTRIBUTION OF LOANS BY CREDIT PORTFOLIO AND INDUSTRY

As at or for the years ended October 31 (in thousands of Canadian dollars, except percentage amounts)

2014

| | GROSS AMOUNT OF LOANS | GROSS AMOUNT OF IMPAIRED LOANS | INDIVIDUAL ALLOWANCES | COLLECTIVE ALLOWANCES AGAINST IMPAIRED LOANS | NET IMPAIRED LOANS ⁽¹⁾ | COLLECTIVE ALLOWANCES AGAINST OTHER LOANS | PROVISION FOR LOAN LOSSES ⁽²⁾ |
|---|-----------------------------|---|--------------------------|--|---|--|--|
| Personal | \$ 6,793,078 | \$ 22,359 | \$ — | \$ 9,425 | \$ 12,934 | \$ 28,986 | \$ 25,062 |
| Residential mortgage | 14,825,541 | 32,843 | — | 3,964 | 28,879 | 7,612 | 5,330 |
| Commercial mortgage | 2,651,271 | 16,633 | 3,917 | 1,884 | 10,832 | 20,736 | 4,407 |
| | 24,269,890 | 71,835 | 3,917 | 15,273 | 52,645 | 57,334 | 34,799 |
| Commercial and other (including acceptances) | | | | | | | |
| Real estate, renting and lease | 759,202 | 2,999 | — | 259 | 2,740 | 3,820 | 156 |
| Wholesale and retail | 509,568 | 2,394 | 1,448 | 46 | 900 | 3,779 | 136 |
| Manufacturing | 340,292 | 16,874 | 14,549 | 60 | 2,265 | 3,456 | 1,095 |
| Agriculture | 256,750 | 884 | 103 | 18 | 763 | 912 | 598 |
| Public utilities | 243,926 | 24 | 24 | — | — | 1,817 | 248 |
| Construction | 226,255 | 2,462 | 851 | 93 | 1,518 | 2,456 | 4,728 |
| Transportation and communication | 124,340 | 130 | 61 | 3 | 66 | 1,813 | — |
| Financial services | 114,271 | 1,196 | 324 | 323 | 549 | 656 | 59 |
| Other services and government | 28,417 | — | — | — | — | 6 | 27 |
| Transformation and natural resources | 707 | — | — | — | — | 8 | 65 |
| Other | 555,961 | 3,282 | 674 | 1,163 | 1,445 | 4,125 | 89 |
| | 3,159,689 | 30,245 | 18,034 | 1,965 | 10,246 | 22,848 | 7,201 |
| Total | \$ 27,429,579 | \$ 102,080 | \$ 21,951 | \$ 17,238 | \$ 62,891 | \$ 80,182 | \$ 42,000 |
| As a % of loans and acceptances | | 0.37 % | | | 0.23 % | | |

2013

| | GROSS AMOUNT OF LOANS | GROSS AMOUNT OF IMPAIRED LOANS | INDIVIDUAL ALLOWANCES | COLLECTIVE ALLOWANCES AGAINST IMPAIRED LOANS | NET IMPAIRED LOANS ⁽¹⁾ | COLLECTIVE ALLOWANCES AGAINST OTHER LOANS | PROVISION FOR LOAN LOSSES ⁽²⁾ |
|---|-----------------------------|---|--------------------------|--|---|--|--|
| Personal | \$ 7,245,474 | \$ 13,971 | \$ — | \$ 7,008 | \$ 6,963 | \$ 32,953 | \$ 31,668 |
| Residential mortgage | 14,735,211 | 32,651 | — | 3,122 | 29,529 | 5,884 | 8,713 |
| Commercial mortgage | 2,488,826 | 14,082 | 9,731 | 254 | 4,097 | 15,764 | (3,640) |
| | 24,469,511 | 60,704 | 9,731 | 10,384 | 40,589 | 54,601 | 36,741 |
| Commercial and other (including acceptances) | | | | | | | |
| Real estate, renting and lease | 668,859 | 428 | — | 195 | 233 | 1,715 | 234 |
| Wholesale and retail | 485,881 | 1,381 | 1,127 | 265 | (11) | 2,340 | 487 |
| Manufacturing | 189,572 | 11,371 | 10,514 | 183 | 674 | 1,617 | (2,007) |
| Agriculture | 279,476 | 5,588 | 494 | 343 | 4,751 | 3,026 | 19 |
| Public utilities | 134,731 | — | — | 8 | (8) | 67 | 2 |
| Construction | 195,911 | 1,925 | 140 | 207 | 1,578 | 1,828 | 536 |
| Transportation and communication | 107,327 | 401 | 269 | 63 | 69 | 556 | (181) |
| Financial services | 176,695 | 991 | 215 | 173 | 603 | 1,525 | 52 |
| Other services and government | 364,984 | 1,161 | 490 | 2 | 669 | 21 | 301 |
| Transformation and natural resources | 109,570 | 13,791 | 10,608 | 37 | 3,146 | 324 | (290) |
| Other | 46,180 | 1,650 | 678 | 189 | 783 | 1,655 | 106 |
| | 2,759,186 | 38,687 | 24,535 | 1,665 | 12,487 | 14,674 | (741) |
| Total | \$ 27,228,697 | \$ 99,391 | \$ 34,266 | \$ 12,049 | \$ 53,076 | \$ 69,275 | \$ 36,000 |
| As a % of loans and acceptances | | 0.37 % | | | 0.19 % | | |

(1) Net impaired loans are calculated as gross impaired loans less individual allowances and collective allowances against impaired loans.

(2) Recorded in the consolidated statement of income.

Impaired loans

Gross impaired loans increased by \$2.7 million since the beginning of the year to \$102.1 million as at October 31, 2014, mainly reflecting increases in the acquired personal loan portfolios and, slightly higher impaired commercial mortgages. Other portfolios have performed relatively well during the year, as borrowers continued to benefit from favourable credit conditions, as well as the prevailing economic conditions in Canada.

Individual allowances decreased by \$12.3 million since October 31, 2013 to \$22.0 million as at October 31, 2014, resulting from the favourable settlements on a limited number of impaired commercial loans. Over the same period, collective allowances against impaired loans increased by \$5.2 million to \$17.2 million as at October 31, 2014, in-line with the higher level of personal and commercial mortgage impaired loans. Other collective allowances increased by \$10.9 million, reflecting growth in the business portfolios. Collective allowances reflect management's estimate of losses incurred due to the deterioration in credit quality in loans which are not individually significant and for loans that have been assessed for impairment individually and found not to be impaired.

See Note 6 to the annual consolidated financial statements for additional information.

Geographic distribution of loans

The Bank operates across Canada. In Québec, it offers most of its lending products mainly through its retail branch network and commercial banking centers. Throughout Canada, the Bank extends its real estate and commercial operations through other commercial banking centers in Ontario, Alberta, British Columbia and Nova Scotia. The Bank also offers its products to a wide network of financial advisors and brokers across Canada through B2B Bank. As at October 31, 2014, the proportion of loans granted to borrowers in Québec represented 61% of total loans, while loans granted to borrowers in the rest of Canada stood at 39% (61% and 39% respectively as at October 31, 2013).

GEOGRAPHIC DISTRIBUTION OF LOANS

As at October 31 (in billions of Canadian dollars)

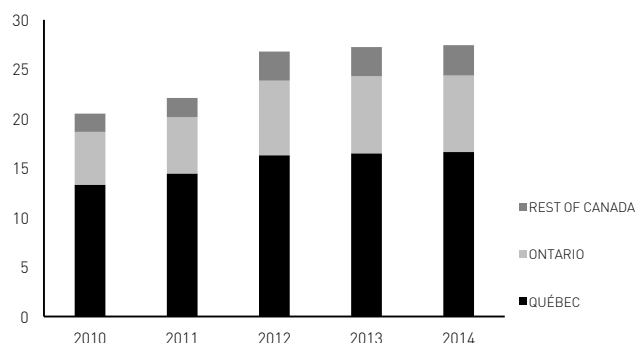


TABLE 28

GEOGRAPHIC DISTRIBUTION OF LOANS BY CREDIT PORTFOLIO

As at October 31 (in thousands of Canadian dollars, except percentage amounts)

| | GROSS AMOUNT OF LOANS (IN %) | GROSS AMOUNT OF LOANS | 2014 | | 2013 | |
|--|------------------------------|-----------------------|--------------------------------|------------------------------|-----------------------|--------------------------------|
| | | | GROSS AMOUNT OF IMPAIRED LOANS | GROSS AMOUNT OF LOANS (IN %) | GROSS AMOUNT OF LOANS | GROSS AMOUNT OF IMPAIRED LOANS |
| Québec | | | | | | |
| Personal | 10.4 % | \$ 2,861,858 | \$ 3,308 | 10.0 % | \$ 2,728,801 | \$ 3,982 |
| Residential mortgage | 39.1 | 10,733,329 | 17,859 | 39.5 | 10,754,460 | 22,414 |
| Commercial mortgage | 2.7 | 730,314 | 8,684 | 2.7 | 722,090 | 1,630 |
| Commercial and other (including acceptances) | 8.4 | 2,302,155 | 25,429 | 8.4 | 2,296,708 | 29,272 |
| | 60.6 | 16,627,656 | 55,280 | 60.6 | 16,502,059 | 57,298 |
| Rest of Canada | | | | | | |
| Personal | 14.4 | 3,931,220 | 19,051 | 16.6 | 4,516,673 | 9,989 |
| Residential mortgage | 14.9 | 4,092,212 | 14,984 | 14.6 | 3,980,751 | 10,237 |
| Commercial mortgage | 7.0 | 1,920,957 | 7,949 | 6.5 | 1,766,736 | 12,452 |
| Commercial and other (including acceptances) | 3.1 | 857,534 | 4,816 | 1.7 | 462,478 | 9,415 |
| | 39.4 | 10,801,923 | 46,800 | 39.4 | 10,726,638 | 42,093 |
| Total | 100.0 % | \$ 27,429,579 | \$ 102,080 | 100.0 % | \$ 27,228,697 | \$ 99,391 |

Insurance and guarantees held in respect of loan portfolios

A significant proportion of the Bank's loan portfolio is insured by Canada Mortgage and Housing Corporation (CMHC), or secured by assets pledged as collateral by borrowers.

CMHC offers a mortgage loan insurance program that ultimately aims to improve access to affordable mortgage loan financing for Canadians. As an approved lender under the program, the Bank benefits from insurance coverage, thereby reducing its overall credit risk. The Bank also insures pools of mortgage loans

through a specific CMHC insurance program. Moreover, by maintaining insured residential mortgage loans, the Bank retains its capacity to engage in securitization operations to finance its activities at optimal cost and manage its cash resources. By the end of fiscal 2014, nearly 57% of residential mortgage loans secured by one- to four-unit dwellings were insured, essentially by CMHC, a level relatively unchanged compared to 2013. The Bank also holds guarantees in respect of the real estate property for the

other conventional mortgage loans, including HELOCs. In accordance with legal requirements, the non-amortizing HELOC component of a residential mortgage is limited to a maximum authorized loan-to-value ratio of 65%. Additional mortgage credit (beyond the loan-to-value ratio limit of 65% for HELOCs) can be extended to a borrower. However, the loan portion over the 65% loan-to-value ratio threshold must be amortizing. The total loan value of the Bank's conventional mortgage loans never exceeds 80% of the initially estimated value of the property, in accordance with legal requirements.

As at October 31, 2014, the estimated average loan-to-value ratio was 65% and 48% for insured and uninsured residential mortgage loans respectively.

In accordance with the Bank's credit risk management policies, the residential mortgage & HELOC portfolios are regularly reviewed to ensure that the level of risk associated with these portfolios remains in line with the Bank's risk appetite and its strategic objectives. As part of this oversight, the portfolios are stressed to reflect the effects of a potential economic downturn creating a decline in property values. Due to the large portion of insured loans and the relatively low loan-to-value ratio of uninsured mortgage loans, reflecting the excellent quality of the guarantees, the Bank expects that loan losses under such a scenario would remain largely manageable.

Commercial mortgage loans are secured by specific assets, including construction projects, commercial properties, shopping centers, office buildings, plants, warehouses and industrial condominiums. In general, the value of these loans does not exceed 60% to 75% of the initially estimated value of the property, depending on the nature of the loan.

Other commercial loans are generally secured by a wide range of assets such as real estate, equipment, receivables and inventories, as well as, in certain cases, additional liens on real estate and other fixed assets.

The Bank's investment loan portfolio consists mainly of mutual fund loans. Loan underwriting is subject to a rigorous process that allows for the efficient assessment of client credit risk. Authorizations are heavily based on clients' loan servicing ability and overall financial strength, mainly based on credit scoring. In addition, loans are collateralized by a comprehensive list of eligible mutual and segregated funds. Stricter credit criteria must be met as loan-to-value ratios increase. For loans where disbursements are significant, additional personal income and net worth information are usually required. With regards to the investment loan portfolio acquired in 2012, loan underwriting relied more heavily on the available collateral.

Loan underwriting for HELOCs allows for the assessment of client credit risk. In addition, real estate assets and other assets collateralize these loans. Finally, 8% of the Bank's personal loan portfolio consists of student loans and loans granted under the Immigrant Investor Program, which are guaranteed by the federal or provincial government.

Other guarantees held

When entering into trading activities such as reverse repurchase agreements and derivative transactions, the Bank requires counterparties to pledge collateral that will protect the Bank from losses in the event of the counterparty's default. Collateral transactions are conducted under terms that are usual and

customary in standard trading activities. The following are examples of general terms and conditions on collateral assets that the Bank may sell, pledge or repledge.

- The risks and rewards of the pledged assets reside with the pledger;
- The pledged asset is returned to the pledger when the necessary conditions have been satisfied;
- The right of the pledgee to sell or repledge the asset is dependent on the specific agreement under which the collateral is pledged; and
- If there is no default, the pledgee must return the comparable asset to the pledger upon satisfaction of the obligation.

As at October 31, 2014, the approximate market value of collateral pledged to the Bank in connection with assets purchased under reverse repurchase agreements was \$3.2 billion (\$2.2 billion as at October 31, 2013).

MARKET RISK MANAGEMENT

Market risk represents the financial losses that the Bank could incur following unfavourable fluctuations in the value of financial instruments subsequent to changes in the underlying factors used to measure them, such as interest rates, exchange rates or equity prices. This risk is inherent to the Bank's financing, investment, trading and asset and liability management (ALM) activities.

Interest rate risk is created by the potential adverse impact of interest rate movements. The section covering ALM activities describes the global management of interest rate risk. Structural market risk arises mainly from the differences in maturity dates or re-pricing dates of balance sheet and off-balance sheet items, as well as from the options embedded in certain banking products, such as loan repayment and deposit redemption clauses.

Foreign exchange risk is the losses that the Bank may incur subsequent to adverse fluctuations in exchange rates. It originates mainly from foreign exchange positions held by the Bank to support the supply of products and services in currencies other than the Canadian dollar, trading operations and, to a lesser extent, mismatches in currencies of balance sheet and off-balance sheet assets and liabilities, as well as mismatches in receipts and payments of funds in foreign currencies.

Equity risk represents financial losses that the Bank may incur subsequent to adverse fluctuations in equity prices or stock market instability in general.

Policies and standards

The primary objective of effective market risk management is to adequately measure significant market risks and ensure that these risks stay within the Bank's risk tolerance level. The Bank has thus adopted policies and limits to oversee exposure to market risks arising from its trading, investment and ALM activities and related management practices. The policies and limits establish the Bank's management practices pertaining to various risks associated with its treasury activities. These policies and limits are approved by the Management Committee and the Risk Management Committee of the Board at least annually, to ensure their alignment to principles, objectives and management strategies.

Detailed risk level and limit monitoring reports are produced daily and are presented as follows:

- Daily, to risk and portfolio managers; and
- Quarterly, to the Management Committee and to the Risk Management Committee of the Board.

Market risk assessment and management

Market risk assessment is based on the key risk drivers in the business and can include, according to the complexity and nature of its activities:

- Limits on notional amount;
- Value at Risk (VaR); and
- Stress testing and other sensitivity measures.

Limits on notional amount

The Bank sets limits that are consistent with its business plan and its risk appetite for market risk. In setting limits, the Bank takes into account market volatility, market liquidity, organizational experience and business strategies. Limits are set at the portfolio level, the business segment level, the risk factor level, as well as at the aggregate Bank level, and are monitored on a daily basis.

Value at Risk

VaR corresponds to the potential loss the Bank may incur over a one-day period, with a confidence level of 99%. Consequently, chances that real losses incurred on any given day exceed the VaR are theoretically 1%. To calculate the VaR, historical simulations that implicitly take into account correlations between various risk factors are performed. The VaR is based on 300 days of historical data. VaRs are calculated daily for all financial market activities. The Bank uses backtesting processes to compare theoretical profits and losses to the results of the VaR for trading activities. This allows validation of the VaR model's statistical hypotheses. These tests are conducted for each specific business unit and each risk factor, as well as for the entire trading portfolio. The theoretical change in profits and losses is generated using the daily price movements, and on the assumption that there is no change in the composition of the trading portfolio.

Stress testing and other sensitivity measures

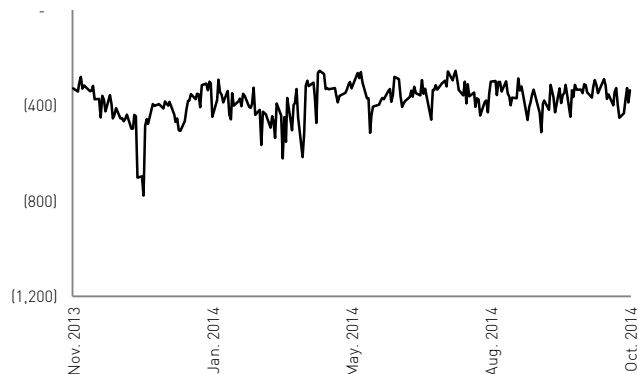
Parallel to VaR calculations, the impact of stress tests on profits and losses is assessed for the trading and investment portfolios and the ensuing results are used to assess the impact of exceptional but plausible market situations. Stress tests constitute a complementary risk measure to VaR and strive to provide an estimate of the worst losses the Bank could incur under multiple scenarios. The Bank's integrated stress testing program combines historical, theoretical and statistical scenarios to simulate the impact of significant changes in risk factors on the portfolios' market value. The Bank also produces daily sensitivity measures, including measures of volatility and parallel yield curve shifts on specific business units and the capital markets group.

Trading activities

Trading activities are aligned with the needs of the Bank and its customers. The market risk associated with trading activities ensues from activities for which the Bank acts as the principal or agent for its customers. These activities are primarily carried out by the Laurentian Bank Securities and Capital Markets segment and, to a lesser extent, by the Bank's Corporate Treasury. The graph below presents the daily total VaR of the trading portfolio for the 2014 fiscal year.

DAILY TRADING VaR

For the year ended October 31, 2014 (in thousands of Canadian dollars)



Asset and liability management activities

The purpose of ALM activities is to control structural interest rate risk, which corresponds to the potential negative impact of interest rate movements on the Bank's revenues and economic value of its capital. This risk is mainly attributable to differences in maturity dates or re-pricing dates of balance sheet and off-balance sheet items along with the options embedded in certain banking products, notably clauses on prepayment, deposit redemption and mortgage loan commitments.

Structural risk management requires rigorous monitoring of four distinct portfolio groups:

- Banking activities of the Bank's clientele, which are affected by customer choices, product availability and term-dependent pricing strategies;
- Investment activities, comprising marketable securities and institutional funding;
- Securities trading activities, which are marked-to-market on a daily basis in line with rate movements; and
- A hedging portfolio that helps the Bank control overall interest rate risk within strict internal limits.

Dynamic management of structural risk is intended to maximize the Bank's profitability while preserving the economic value of common shareholders' equity. To attain this objective, various treasury and derivative instruments, mainly interest rate swaps, are used to modify the interest rate characteristics of the instruments underlying the Bank's balance sheet and to cover the risk inherent in options embedded in loan and deposit products.

Structural risk is globally managed by the Bank's Corporate Treasury and monitored by the ALCO and Management Committee in accordance with the Structural Risk Management Policy, which is approved by the Risk Management Committee of the Board. This policy defines limits relative to the measurement of the economic value of shareholders' equity and net interest income risks. Risk limits are based on measures calculated by simulating the impact of immediate and sustained parallel movements of 100 basis points in rates for all maturities. Net interest income risk measures the negative impact on net interest income from interest rate movements over the next 12 months. Economic value of shareholders' equity risk measures the net negative impact on the present value of balance sheet and off-balance sheet assets and liabilities.

Portfolio positions are reviewed periodically by the ALCO, which is responsible for monitoring the Bank's positioning with regard to anticipated interest rate movements and recommending hedging of all undesirable interest rate risk. In addition, risk monitoring reports are presented periodically to the Management Committee and the Risk Management Committee of the Board.

To ensure sound management of structural risk, a repricing gap report is produced weekly. This report is then used as the basis for the simulation analysis of the impact of interest rate variation on net interest income and economic value of common shareholders' equity. One of the simulation exercises consists of subjecting the Bank's balance sheet to sudden parallel and sustained 1% and 2% increases and decreases in interest rates. For example, as at October 31, 2014, for all portfolios, a 1% increase in interest rate would have triggered an increase of approximately \$10.3 million in net interest income before taxes over the next 12 months and a \$22.0 million negative impact on the economic value of common shareholders' equity. As shown in Table 29, sensitivity to changes in interest rates remained low as at October 31, 2014.

Management continues to expect that long term rates will remain within a narrow range for now. These results reflect senior management's efforts to take advantage of anticipated short-term and long-term interest rate movements, while maintaining the sensitivity to these fluctuations well within approved limits. The Bank's interest rate gap position as at October 31, 2014 is presented in Note 25 to the annual consolidated financial statements.

The estimates are based on a number of assumptions and factors, consistent with the guidelines approved by the Management Committee, which include:

- Floor levels for deposit liabilities;
- For net interest income simulations, the renewal of matured loans and deposits at current market terms;
- On- and off-balance sheet assets and liabilities are generally considered to mature on the earlier of their contractual repricing or maturity date.

TABLE 29

SENSITIVITY ANALYSIS OF THE STRUCTURAL INTEREST RATE RISK

As at October 31 (in thousands of Canadian dollars)

| | 2014 | | 2013 | |
|---------------------------------|--|--|--|--|
| | EFFECT ON NET INTEREST INCOME ⁽¹⁾ | EFFECT ON THE ECONOMIC VALUE OF COMMON SHAREHOLDERS' EQUITY ⁽²⁾ | EFFECT ON NET INTEREST INCOME ⁽¹⁾ | EFFECT ON THE ECONOMIC VALUE OF COMMON SHAREHOLDERS' EQUITY ⁽²⁾ |
| Change in interest rates | | | | |
| Increase of 100 basis points | \$ 10,297 | \$ (21,990) | \$ 9,984 | \$ (22,746) |
| Decrease of 100 basis points | (15,793) | 22,168 | (15,768) | 23,302 |
| Change in interest rates | | | | |
| Increase of 200 basis points | 20,662 | (43,509) | 20,044 | (44,426) |
| Decrease of 200 basis points | \$ (76,952) | \$ 24,446 | \$ (66,592) | \$ 35,920 |

[1] Over the next 12 months.

[2] Net of income taxes.

Foreign exchange risk

Foreign exchange risk is monitored using notional limits and other sensitivity analysis for trading operations. As at October 31, 2014, assets and liabilities denominated in U.S. dollars amounted to \$287.4 million (\$219.3 million as at October 31, 2013) and \$292.4 million (\$223.1 million as at October 31, 2013) respectively. In addition, U.S. dollar exposure related to derivatives is limited as these contracts are bought and sold mainly to meet specific customer needs. As at October 31, 2014, the effect of a sudden 5% change in foreign exchange rates would have no significant impact on net income and shareholders' equity.

Assets and deposit liabilities denominated in other foreign currencies, primarily in British pounds and euros, amounted to \$21.4 million (\$13.8 million as at October 31, 2013) and \$16.2 million (\$10.4 million as at October 31, 2013) respectively. Currencies other than U.S. dollars are generally bought and sold solely to meet specific customer needs. As a result, the Bank has very limited exposure to these currencies.

Equity risk

The Bank's equity positions consist primarily of Canadian publicly traded securities and, as a result, portfolio sensitivity generally correlates to Canadian stock market performance. A portion of the Bank's equity positions is used to hedge index-linked deposits. In addition, the Bank has an equity exposure through its pension plans. As at October 31, 2014, the overall risk remained relatively small; a fluctuation in the Canadian stock market of 10% triggering a potential \$20.5 million impact on the Bank's shareholders' equity (\$16.0 million as at October 31, 2013).

LIQUIDITY AND FUNDING RISK MANAGEMENT

Liquidity and funding risk represents the possibility that the Bank may not be able to gather sufficient cash resources when required and on reasonable conditions, to meet its financial obligations. Financial obligations include obligations to depositors and suppliers, as well as lending commitments, investments and posting collateral.

The Bank's overall liquidity risk is managed by Corporate Treasury with oversight by the Asset and Liability Management Committee and, ultimately, by the Management Committee, in accordance with the policies governing funding and liquidity and collateral

management. The main purpose of these policies is to ensure that the Bank has sufficient cash resources to meet its current and future financial obligations, under both normal and stressed conditions.

Liquidity stress testing is performed on a regular basis and allows the Bank to define its liquidity and funding risk tolerance with regard to the minimum required liquidity level that would assure the Bank's survival for a minimum of 90 days in the event of a liquidity crisis.

The Bank monitors cash resources daily and ensures that liquidity indicators are within established limits. Liquidity risk management pays particular attention to deposit and loan maturities, as well as to funding availability and demand when planning financing. The Bank maintains a reserve of unencumbered liquid assets that are readily available to face contingencies and which constitutes its liquidity buffer. It defines its cash requirements based on scenarios evaluating required liquid assets necessary to cover pre-determined rates of withdrawal of wholesale financing and retail deposits over specified periods. The Bank strives to maintain a stable volume of base deposits originating from its retail, commercial and broker clientele, as well as well-diversified wholesale financing sources. The Bank monitors limits on funding sources at the senior management and the Board of Directors levels. Funding strategies also include loan securitization and the issuance of equity or debt instruments through capital markets. A liquidity contingency plan is prepared and reviewed on a regular basis. It provides a detailed action plan that would enable the Bank to fulfill its obligations in the event of an internal or external liquidity crisis.

Regulatory developments concerning liquidity

In December 2010, the BCBS issued the *Basel III: International framework for liquidity risk measurement, standards and monitoring* (the Basel III liquidity framework), which outlines two new liquidity requirements in addition to other supplemental reporting metrics. This document prescribes the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) as minimum regulatory standards effective January 2015 and January 2018, respectively. Further updates regarding the LCR and liquidity risk monitoring tools were published subsequently in 2013 and 2014. In April 2013, the BCBS issued a new guideline regarding intraday liquidity management. On October 31, 2014, the BCBS issued the *Basel III: the net stable funding ratio* (NSFR) document, which updated the Basel III NSFR and confirms the effective date of January 2018.

In May 2014, OSFI issued a comprehensive domestic Liquidity Adequacy Requirements (LAR) Guideline that reflects the aforementioned BCBS liquidity standards and monitoring tools and formalized the use of the Net Cumulative Cash Flow (NCCF) supervisory tool. The LAR Guideline was subsequently updated in November 2014 to clarify interpretation and applicability of certain guidance. The implementation date of the LCR standard, one of the measure introduced by the LAR Guideline, is January 1, 2015. The Bank is currently finalizing its development of reporting systems regarding these new requirements and, although it is too early to determine their definitive impact on liquidity levels, management expects that the Bank will meet the upcoming standards.

In January 2014, the BCBS issued its final paper on "*Liquidity coverage ratio disclosure standards*". Banks are expected to comply with the BCBS LCR disclosure standard beginning in the first full fiscal quarter of calendar 2015 (expected to be the second quarter of 2015 for Canadian banks). On July 16, 2014, OSFI issued its Guideline D-11 – *Public Disclosure Requirements for Domestic Systemically Important Banks on Liquidity Coverage Ratio*. This guideline sets out the public disclosure requirements regarding the LCR for D-SIBs and is aligned with the BCBS paper.

Detailed information on liquid assets

The Bank's liquid assets consist of cash and non-interest bearing deposits with other banks, interest-bearing deposits with other banks, securities, as well as securities purchased under reverse repurchase agreements. As at October 31, 2014, these assets totalled \$6.7 billion, an increase of \$0.8 billion compared to the level held on October 31, 2013. The higher level of liquidity reflects the recent increase in institutional deposits as the Bank maintained diversified funding sources to support expected loan growth. This was partly offset by a reduction in replacement assets that were used to reimburse matured debt related to securitization activities during the year, as well as by lower trading securities. Overall, the Bank continues to prudently manage the level of liquid assets and to hold sufficient cash resources from various sources in order to meet its current and future financial obligations, under both normal and stressed conditions.

The Bank's liquid assets are mainly composed of direct investments in or transactions secured by marketable securities issued or guaranteed by the Canadian government, provinces or municipal corporations. These liquid assets provide the Bank with flexibility to manage its loan and deposit portfolio maturities and commitments, and meet other current operating needs. Management of the liquid assets, both in terms of optimizing levels and mix, contributes significantly to the Bank's results. In addition, held-for-trading portfolios offer fixed-income and equity trading opportunities.

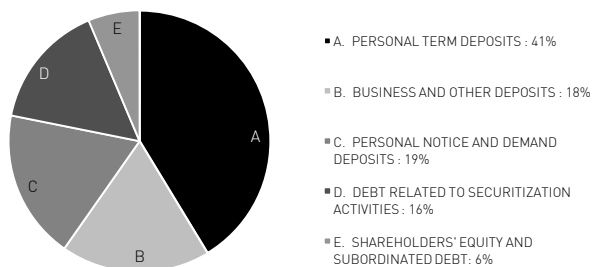
Funding

The Bank relies mainly on retail deposits to fund its operations. Retail deposits continue to be a particularly stable source of funding for the Bank. This funding strategy is also well aligned with upcoming regulatory requirements, which recognize these deposits as the most stable funding source, as discussed in the Liquidity and Funding Risk Management section above. The Bank can rely on both, a well established branch network in Québec, and a very efficient network of independent advisors managed by B2B Bank. As at October 31, 2014, personal deposits represented 76% of the Bank's total deposit portfolio.

The Bank can also easily access the institutional deposit market as an alternative source of funding in order to optimize the overall funding sources. Furthermore, the Bank uses securitization of residential mortgage loans through the Canada Mortgage Bonds (CMB) Program and, to a lesser extent, multi-seller conduits. This liquidity source provides added flexibility to meet specific increases in funding needs.

FUNDING SOURCES

As at October 31, 2014 (as a percentage)



Personal deposits

Total personal deposits decreased slightly to \$18.7 billion as at October 31, 2014, compared with \$19.3 billion as at

TABLE 30

DEPOSITS

As at October 31 (in thousands of Canadian dollars, except percentage amounts)

| | 2014 | | 2013 | |
|---------------------------|---------------|--------|---------------|--------|
| Personal | | | | |
| Notice and demand | | | | |
| Branch network | \$ 2,626,825 | 10.7% | \$ 2,414,724 | 10.1% |
| Financial intermediaries | 3,150,892 | 12.8 | 3,289,443 | 13.7 |
| | 5,777,717 | 23.5 | 5,704,167 | 23.8 |
| Term | | | | |
| Branch network | 5,565,729 | 22.7 | 5,549,530 | 23.2 |
| Financial intermediaries | 7,398,535 | 30.2 | 8,028,345 | 33.6 |
| | 12,964,264 | 52.9 | 13,577,875 | 56.8 |
| | 18,741,981 | 76.4 | 19,282,042 | 80.6 |
| Business, banks and other | | | | |
| Notice and demand | 2,451,698 | 10.0 | 2,477,804 | 10.3 |
| Term | 3,329,347 | 13.6 | 2,167,504 | 9.1 |
| | 5,781,045 | 23.6 | 4,645,308 | 19.4 |
| Deposits | \$ 24,523,026 | 100.0% | \$ 23,927,350 | 100.0% |

Credit ratings

Personal deposits, collected through the branch network and financial intermediaries, constitute the most important source of financing for the Bank. In certain circumstances, however, particularly during periods of strong growth, the Bank must turn to the wholesale markets to obtain financing through securitization and unsecured financing. The Bank's capacity to obtain such financing, as well as the related conditions, are tied to the credit ratings set by rating agencies such as DBRS and Standard & Poor's Rating Services (S&P). Revisions of the Bank's credit ratings may therefore have an effect on the financing of operations as well as on requirements with regard to guarantees.

The Bank monitors weekly the impact of a hypothetical downgrade of its credit rating on the collateral requirements. As at October 31, 2014, additional collateral that would be required in the event of a one to three notch rating downgrade is not significant.

On September 29, 2014, S&P lowered the Bank's Tier 1 Preferred Shares Series 11 credit rating to BB from BB+ and non-viable contingent capital (NVCC) Preferred Shares Series 13 to BB- from BB. The downgrades affected all major Canadian banks and

October 31, 2013, in line with slower loan growth. Nonetheless, the ratio of personal deposits to total deposits remains well above the Canadian average and the Bank continues to focus on maintaining its privileged position in the retail market and independent advisor-sourced deposit market through its retail branch operations and B2B Bank. A significant proportion of these deposits are insured by the Canada Deposit Insurance Corporation, up to \$100,000 per client, per regulated deposit-taking financial institution.

Business, banks and other deposits

Deposits from businesses, banks and other increased by \$1.1 billion since October 31, 2013 to \$5.8 billion as at October 31, 2014, mainly explained by new deposits raised during the second half of 2014. These deposits contribute to the diversification of the Bank's funding sources and to the active management of its liquidity levels.

reflected S&P's view that regulators in Canada and elsewhere were adopting a tougher "bail-in" stance (where investors share in the cost of a government's rescue of a failing bank) toward hybrid capital instruments. S&P confirmed all other ratings of the Bank.

On October 20, 2014, DBRS upgraded the Bank's long-term ratings, including its Issuer Rating and Deposits & Senior Debt ratings, to A (low) from BBB (high). Corresponding ratings for the Bank's subordinated debt, NVCC preferred shares and other preferred shares were similarly upgraded. This ratings upgrade resolves the positive trend which DBRS had held for the last two years. Accordingly, all trends have been returned to Stable, reflecting DBRS' expectation that the Bank will provide stable earnings in the future. The Bank's Short-Term Instrument rating was also confirmed and remained unchanged. The Bank's upgrade, one of the few to any Canadian banks since 2008, is of particular interest as it improves access to the institutional investors market.

The following table presents the Bank's credit ratings as established by the rating agencies.

TABLE 31

CREDIT RATINGS ⁽¹⁾

As at December 3, 2014

| | DBRS | STANDARD & POOR'S |
|--------------------------|--------------|-------------------|
| Deposits and senior debt | A (low) | BBB |
| Short-term instruments | R-1 (low) | A-2 |
| Subordinated debt | BBB (high) | BBB- |
| Preferred shares | Pfd-3 (high) | BB |
| NVCC Preferred shares | Pfd-3 | BB- |

(1) A S&P rating outlook assesses the potential direction of a long-term credit rating over the intermediate term (typically six months to two years). In determining a rating outlook, consideration is given to any changes in the economic and/or fundamental business conditions. An outlook is not necessarily a precursor of a rating change or future action.

The S&P rating outlooks have the following meanings:

- "Positive" means that a rating may be raised
- "Negative" means that a rating may be lowered
- "Stable" means that a rating is not likely to change
- "Developing" means a rating may be raised or lowered

Each DBRS rating category is appended with one of three rating trends — "Positive," "Stable," "Negative" — in addition to "Under Review." The rating trend helps to give the investor an understanding of DBRS's opinion regarding the outlook for the rating in question. However, the investor must not assume that a positive or negative trend necessarily indicates that a rating change is imminent.

Contractual obligations

In the normal course of its activities, the Bank enters into various types of contractual agreements. Its main obligations result from the issuance of debt instruments, including deposits written with individuals, businesses and other institutions. This financing, combined with the issuance of capital, is used primarily to finance loan and investment operations.

In addition, the Bank must also ensure that cash resources are available to meet the requirements related to ongoing operating expenses. Furthermore, significant investments are required annually for infrastructure investments, notably the maintenance of its branch network, the maintenance of its information technology platforms, as well as to projects related to new products and services, sales and management tools, or to stay in compliance with regulatory requirements.

Table 32 on page 55 summarizes the remaining contractual maturity for the Bank's significant financial liabilities and other contractual obligations as at October 31, 2014 and 2013. Note 29 to the annual consolidated financial statements provides further information on this subject.

The Bank is also exposed to liquidity risk when it contracts credit commitments. As at October 31, 2014, these commitments amounted to approximately \$3.6 billion [\$3.2 billion as at October 31, 2013], excluding personal credit facilities and credit card lines which are unconditionally revocable at the Bank's option.

OPERATIONAL RISK MANAGEMENT

Operational risk is inherent to the activities of financial institutions. It results from inadequacy or failure attributable to processes, people, systems or external events.

The Operational Risk Management Policy, reviewed annually by the Risk Management Committee of the Board, describes the Operational Risk Management Framework and defines the roles

and responsibilities of various stakeholders. It is the responsibility of the managers of business units and subsidiaries to proactively manage the operational risk inherent to their daily activities. The Operational Risk Management Department oversees the operational risk management process. The Bank's Internal Audit Department contributes to this process by transmitting the conclusions of its auditing mandates to the Operational Risk Management Department as well as to the Board's Risk Management and Audit Committees.

The Bank's operational risk management process includes the following steps:

Adoption of policies by the Board of Directors

The Operational Risk Management Framework includes the following policies: operational risk management; outsourcing risk management; business continuity management; information security risk management; personal information protection and reputational risk management.

Collection of operational loss data

Data on operational losses are centralized within the Operational Risk Management Department.

Identification of operational risk

Managers must identify the risks arising from their activities, including risks related to new products, new activities and new processes according to the methodology developed by the Operational Risk Management Department. Operational Risk Management Department will assist the business units and will review the risk analysis.

Evaluation of operational risk

The Bank's activities are divided into operational risk processes which must be evaluated by the business units, with the help of the Operational Risk Management Department, as per the Operational Risk Self-Assessment Plan. Operational risk assessments must also be performed following any significant change to these processes or the implementation of a new process. Operational risk assessments include the evaluation of the impact and likelihood of the inherent risk as well as the effectiveness of a risk control. When necessary, action plans are designed by the business units in order to mitigate any material unwanted risks detected and progress is monitored by the Operational Risk Management Department.

Management of operational risk

Operational risk management involves, among other things, deciding to accept, mitigate, avoid or transfer certain risks and put in place appropriate procedures and control measures. The Bank uses several means to minimize or transfer its risks, including participation in a corporate insurance program and development of a global and integrated plan for business continuity.

Production of operational risk reports

The Operational Risk Management Department produces reports that are sent to managers, senior management and the Risk Management Committee of the Board. These reports include information on operational losses by risk categories and major business segments.

Corporate insurance

In order to mitigate certain operational risk, the Bank also relies on a comprehensive corporate insurance program.

TABLE 32

CONTRACTUAL OBLIGATIONS

As at October 31 (in thousands of Canadian dollars)

| | 2014 | | | | | |
|---|-------------------|---------------|--------------|--------------|--------------|---------------|
| | DEMAND AND NOTICE | TERM | | | | TOTAL |
| | | UNDER 1 YEAR | 1 TO 3 YEARS | 3 TO 5 YEARS | OVER 5 YEARS | |
| Financial liabilities | | | | | | |
| Deposits | \$ 8,229,415 | \$ 8,198,250 | \$ 5,417,632 | \$ 2,544,416 | \$ 133,313 | \$ 24,523,026 |
| Obligations related to securities sold short | — | 1,562,477 | — | — | — | 1,562,477 |
| Obligations related to securities sold under repurchase agreements | — | 581,861 | — | — | — | 581,861 |
| Debt related to securitization activities | — | 776,776 | 2,326,453 | 1,507,142 | 253,477 | 4,863,848 |
| Subordinated debt | — | — | 450,000 | — | — | 450,000 |
| Derivatives ⁽¹⁾ | — | 5,347 | 4,846 | 485 | (199) | 10,479 |
| | 8,229,415 | 11,124,711 | 8,198,931 | 4,052,043 | 386,591 | 31,991,691 |
| Other contractual obligations | | | | | | |
| Commitments under leases, technology services and other contracts | — | 124,052 | 199,143 | 98,305 | 78,334 | 499,834 |
| Total | \$ 8,229,415 | \$ 11,248,763 | \$ 8,398,074 | \$ 4,150,348 | \$ 464,925 | \$ 32,491,525 |
| | 2013 | | | | | |
| | DEMAND AND NOTICE | TERM | | | | TOTAL |
| | | UNDER 1 YEAR | 1 TO 3 YEARS | 3 TO 5 YEARS | OVER 5 YEARS | |
| Financial liabilities | | | | | | |
| Deposits | \$ 8,181,971 | \$ 6,602,041 | \$ 7,289,729 | \$ 1,787,386 | \$ 66,223 | \$ 23,927,350 |
| Obligations related to securities sold short | — | 1,464,269 | — | — | — | 1,464,269 |
| Obligations related to securities sold under repurchase agreements | — | 339,602 | — | — | — | 339,602 |
| Debt related to securitization activities | — | 1,174,985 | 1,954,444 | 1,607,181 | 238,104 | 4,974,714 |
| Subordinated debt | — | — | 250,000 | 200,000 | — | 450,000 |
| Derivatives ⁽¹⁾ | — | 6,294 | 8,785 | 2,673 | (240) | 17,512 |
| | 8,181,971 | 9,587,191 | 9,502,958 | 3,597,240 | 304,087 | 31,173,447 |
| Other contractual obligations | | | | | | |
| Commitments under leases, technology services and other contracts | — | 89,486 | 213,852 | 141,721 | 104,029 | 549,088 |
| Total | \$ 8,181,971 | \$ 9,676,677 | \$ 9,716,810 | \$ 3,738,961 | \$ 408,116 | \$ 31,722,535 |
| (1) The obligations related to derivatives represent solely the theoretical payments related to derivatives designated as cash flow hedges and used for interest rate risk management whose net fair values were negative as at October 31. The notional amounts associated with the derivatives are summarized by maturity in Note 26 to the annual consolidated financial statements. | | | | | | |

Outsourcing management

The Bank relies on various strategies to maintain a competitive cost structure and economically efficient product diversification. Outsourcing constitutes one of these important strategies. It facilitates access to state-of-the-art technologies, fosters economies of scale and allows for improvements to process efficiency. An outsourcing agreement will be deemed acceptable if it provides short- and long-term advantages to the Bank and involves an acceptable level of risk. The Bank has implemented an Outsourcing Risk Management Policy covering all of the Bank's businesses. It is designed to oversee outsourcing activities and ensure that the major agreements are managed in a prudent manner and that their monitoring and supervision are adequate based on their importance.

REGULATORY RISK MANAGEMENT

Regulatory risk refers to the risk of non-compliance by the Bank with applicable laws, regulations, regulatory authority guidelines and voluntary codes. The Regulatory Risk Management Policy implements the Bank's Regulatory Risk Management Framework, which comprises the following elements:

- Identification of the regulatory requirements applicable to the Bank and assessment of the risk attributable to each regulatory requirement;
- Development, documentation, implementation and assessment of effectiveness of controls to ensure compliance with regulatory requirements;
- Independent assessment of the effectiveness of controls;
- Identification and reporting of situations of non-compliance;
- Reinforcement of controls and correction of situations of non-compliance.

Regulatory risk management is also governed by the Policy Concerning Money Laundering and Terrorist Financing (MLTF) and the Personal Information Protection Policy.

The Regulatory Risk Management Committee is established to exchange information and best practices; it also oversees the identification of requirements applicable to the Bank and monitors any non-compliance issue. In addition, it provides regulatory risk management reports to the Management Committee and the Risk Management Committee of the Board.

An Anti-Money Laundering and Terrorist Financing Program Coordination Committee was also established to specifically oversee the compliance with the Anti-Money Laundering and Terrorist Financing (AML) regulation.

Regulatory risk management reports are submitted at least every semester to the Management Committee and the Risk Management Committee of the Board. The effectiveness of the Regulatory Risk Management Framework and the MLTF program is formally assessed annually.

INSURANCE RISK MANAGEMENT

Insurance risk is the risk of loss that may occur when assumptions related to insurance risks assumed by the Bank, particularly as regards to formulating assumptions used to set premiums or for the valuation of reserves, differ from actual insurance results. The Bank assumes certain insurance risks, mainly with regards to creditor insurance products. Insurance risk is managed within an independently managed program overseen by insurance experts and by Bank representatives. Reinsurance coverage is underwritten to reduce the Bank's exposure arising from significant claims and catastrophes, including terrorist events. In addition, the design and pricing of insurance products distributed by the Bank are reviewed by actuarial consultants, based on best practices.

ENVIRONMENTAL RISK MANAGEMENT

Environmental risk is the risk of financial loss when restoring the assets of the Bank or those seized from clients to a sound environmental state. Environmental risk related to financing activities is managed within the loan approval process, while risks related to the Bank's assets, although limited, are mainly managed by the Real Estate department.

REPUTATIONAL RISK MANAGEMENT

Reputational risk is the risk that a decision, an event or a series of events may affect, either directly or indirectly the Bank's image with shareholders, clients, employees, the general public or any other stakeholders, and negatively impact the Bank's revenues, operations and, ultimately, its value.

Reputational risk most often results from the inadequate management of other risks and may affect almost every activity of a financial institution, even when operations are, from a technical point of view, in compliance with legal, accounting and regulatory requirements. Reputation is a critical asset that favours company growth as well as continued trust from clients and the general public, and optimizes the company value for shareholders. Reputation is therefore a strategic asset.

To protect the Bank from any impairment to its reputation and considering the importance of this risk, the Management Committee controls and supervises reputation risk management through the application of a Reputational Risk Policy. This policy is an integral part of the Risk Appetite and Management Framework. Throughout the execution of the Bank's strategies, officers, administrators, managers and every employee are responsible for ensuring the Bank's reputation remains adequate. The Code of Conduct and other policies also enable the adequate management of potential threats that could have a direct or indirect impact on the Bank's reputation.

OTHER RISKS THAT MAY AFFECT FUTURE RESULTS

In addition to the major business risks described above, there are other risks and uncertainties that could have a significant impact on the Bank's results and cause these results to differ materially from the Bank's forward-looking statements as described at the beginning of this document. Although comprehensive controls and processes are maintained in order to mitigate these risks, by their very nature, they may significantly impact the Bank's performance.

Economic climate in Canada

The Bank's operations are mainly carried in Québec and Ontario but also, to a lesser extent, in the rest of Canada. Consequently, its earnings are particularly sensitive to the economic and commercial climate in Canada. Major factors to monitor include interest rates, inflation, capital market fluctuations, the strength of the economy and the Bank's volume of business in certain key regions. Loan losses are at very low levels reflecting a strong credit environment in Canada. Nevertheless, a downturn in the economy could lead to a rapid increase in loan losses from those levels. A prolonged deterioration in the Canadian economic climate could therefore adversely affect the Bank's activities. Household debt has increased steadily since 2009. Consequently, a material increase in interest and unemployment rates can have a negative impact on personal disposable income and debt serviceability. As a result, the Bank could be impacted by a higher probability of default in some loan portfolios. Also, the Bank presents a certain concentration of loans secured by real estate (for example, residential lending, secured lines of credit, real estate lending and certain parts of the commercial loan portfolios). A possible correction in the Canadian real estate market could unfavourably affect these loan portfolios.

Furthermore, unexpected changes in consumer spending and saving habits may directly affect the economic climate. Business relationships with clients could therefore evolve adversely and a swift development of new products and services would be required.

Legal and regulatory developments

Legislative and regulatory developments could affect the Bank by impacting its product and service offering and modifying the financial industry's competitiveness. Some major national and international regulatory changes that were recently introduced to strengthen the capital and liquidity requirements may affect the Bank's activities. New regulations applicable to financial institutions have increased significantly and are evolving at a rapid pace. Current regulations that are already in place are also impacted and are subject to sudden changes to which the Bank has to comply. This requires considerable mobilization of technical, human and financial resources in a very short span of

time. Consequently, the Bank can be burdened with their rapid implementation and the costs that are involved.

Competition

There is a high degree of competition in the financial services marketplace. The Bank's performance is affected by the level of competition in its different market segments. Intense competition in the financial services industry could interfere with the Bank's capacity to reach its objectives. Several factors, including the price of products and services, their quality and variety, and also the actions taken by its competitors, could negatively impact the Bank's positioning.

Cybersecurity

Processes are in place to protect the Bank's network and operations from cyber incidents and emerging cyber threats.

Business continuity

Unexpected external events such as natural catastrophes are factors that can have an impact on the Bank. Resources, processes and results of the Bank could be affected by the ability to activate a business continuity plan in a timely manner. Contingency planning for such events has been taken into account in the Bank's risk management framework and is managed through the Business Continuity Management Policy.

Technological development

The capacity of the Bank to manage risks associated to rapid technological development and innovation can also affect prospective results.

Ability to attract and retain key employees

The Bank's future performance is largely dependent on its ability to attract and retain key employees. Within the financial industry, competition for employees and executives is very intense, and there can be no assurance that the Bank will be able to attract and retain these individuals, which could significantly impact its operations and competitiveness.

Business infrastructure

The Bank deals with third parties to secure the components essential to its business infrastructure, such as Internet connections and various communication and database services. Disruption of such services could adversely affect the Bank's capacity to provide its products and services to its various clients, and ensure the continuity of its ongoing operations.

Model risk

The Bank uses different models in the ongoing management of its risk that can lead to model risk. Model risk is the potential loss due to the risk of a model not performing or capturing risk as expected. It also arises from the inappropriate use of a model. The Bank has an independent model validation process to challenge the development, implementation and application of the Bank's major models related to the advanced approaches to credit risk.

Other factors

Other factors, which are not under the Bank's control, could affect results, as discussed in the Caution Regarding Forward-Looking Statements at the beginning of the MD&A. It should be noted that the foregoing list of factors is not exhaustive.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Bank's disclosure controls and procedures (DC&P) are designed to provide reasonable assurance that all relevant information has been collected and submitted to the Bank's senior management which ensures adequate disclosure of such information. Internal control over financial reporting (ICFR) is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with GAAP.

The President and Chief Executive Officer, and the Executive Vice-President and Chief Financial Officer are responsible for the implementation and maintenance of DC&P and ICFR, as set out in *Multilateral Instrument 52-109 regarding the Certification of Disclosure in Issuers' Annual and Interim Filings*. They are assisted in this task by the Disclosure Committee, which is comprised of members of the Bank's senior management.

As at October 31, 2014, the President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer caused to be evaluated under their supervision the effectiveness of DC&P, in accordance with regulation MI 52-109, and based on that evaluation, concluded that they were effective and adequately designed at that date.

Also as at October 31, 2014, the President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer caused to be evaluated under their supervision the design and effectiveness of ICFR, in accordance with regulation MI 52-109, and based on that evaluation, concluded that it was effective at that date and adequately designed.

The DC&P evaluation was performed using the control framework established in 1992 by the COmmittee of Sponsoring Organizations of the Treadway Commission (COSO). The evaluation of the design and effectiveness of ICFR was performed in accordance with the COSO control framework for entity level and financial controls, and Control OBjectives for Information and related Technologies (COBIT) for general IT controls.

Given the inherent limitations of any control systems, management's evaluation of controls can only provide reasonable, not absolute assurance that all control issues that may result in material misstatement, if any, have been detected.

Changes to Internal Control over Financial Reporting

During the year ended October 31, 2014, there have been no changes to internal control over financial reporting that affected materially, or are reasonably likely to materially affect, internal control over financial reporting.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The significant accounting policies followed by the Bank are outlined in Notes 2 and 3 to the annual consolidated financial statements. Some of these accounting policies are deemed critical as they require management to apply judgement in order to make particularly significant estimates that, by their very nature, involve uncertainties. Changes in these estimates could materially affect the Bank's consolidated financial statements. These critical accounting policies are described below.

IMPAIRMENT OF FINANCIAL ASSETS

Allowances for loan losses

The allowances for loan losses adjust the value of loans to reflect management's estimate of losses incurred in the loan portfolios. Management regularly reviews the portfolios' credit quality to ensure the adequacy of the allowances for loan losses. These allowances are dependent upon the evaluation of the amounts and dates of future cash flows, the fair value of guarantees and realization costs, and the interpretation of the impact of market and economic conditions. Assessing the amounts and the dates of future cash flows requires significant management judgment regarding key assumptions, including economic and business conditions, the Bank's historical experience, probability of default, loss given default and exposure at default and where applicable, the realizable value of any guarantee or collateral. Considering the materiality of the amounts and their inherent uncertainty, changes in current estimates and assumptions used in determining the allowances for loan losses could produce significantly different levels of allowances.

Changes in circumstances may cause future assessments of credit risk to be materially different from current assessments and may consequently entail a significant increase or a decrease in the allowances for loan losses in the consolidated statement of income for a given fiscal year. A detailed description of the methods used to determine the provisions for loan losses can be found in Note 3 to the annual consolidated financial statements, and in the Credit Risk Management section on page 44 of this MD&A.

This critical accounting estimate affects all business segments.

Other financial assets

Financial assets classified in the available-for-sale and held-to-maturity categories are monitored on a quarterly basis to determine whether there is any objective evidence that they are impaired. In evaluating the decline in value, management exercises judgment and takes into account many facts specific to each investment and all the factors that could indicate that there is objective evidence of impairment. Assessing whether there is an objective evidence of impairment requires significant management judgment regarding various factors, which include a significant financial difficulty of the issuer or counterparty, default or delinquency in interest or principal payments, probability that the borrower will enter bankruptcy or financial re-organization, a significant or prolonged decline in fair value below its cost and a loss event. Management must also assert its intent and ability to hold the securities until recovery.

Management also uses judgment to determine when to recognize an impairment loss. The decision to record an impairment loss, its amounts and the period in which it is accounted could change if management's assessment of these factors were different. Refer to Note 3 to the annual consolidated financial statements for further detail on the accounting of available-for-sale and held-to-maturity financial assets.

This critical accounting estimate essentially affects treasury operations presented in the Other sector.

MEASURING THE FAIR VALUE OF FINANCIAL INSTRUMENTS

The Bank reports a significant portion of its financial instruments, including derivatives, at fair value. The fair value of financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under then current market conditions. Changes in the fair value of the Bank's held-for-trading securities and obligations related to assets sold short, as well as derivatives not designated in hedge relationships, are generally recognized under other income.

The fair value of a financial instrument on initial recognition is normally the transaction price, that is, the fair value of the consideration given or received. In certain circumstances, the initial fair value may be based on other observable market transactions for the same instrument or on a valuation technique.

Subsequent to initial recognition, the fair value of financial instruments is best evidenced by quoted prices in active markets when available. This fair value is based on the quoted price within the bid-offer prices that is most representative of fair value in the circumstances. Otherwise, fair value is measured using valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. Determining which valuation technique and inputs to apply requires judgment. Valuation techniques include cash flow discounting, comparison with current market prices for financial instruments with similar characteristics and risk profiles and option pricing models. The inputs, among other things, include contractual prices of the underlying instruments, yield curves and volatility factors. The valuations may also be adjusted to reflect the uncertainty in these parameters. In particular, valuation adjustments may be made with respect to the liquidity or counterparty credit risk of financial instruments that have no available quoted prices in active markets. Fair value reflects market conditions on a given date and for this reason cannot be representative of future fair values.

The use of other alternative assumptions could translate into significantly different income recognition.

These critical accounting estimates mainly affect the Laurentian Bank Securities & Capital Markets business segment and the Other sector. Additional information on the calculation of fair value is provided in Notes 3 and 23 to the annual consolidated financial statements.

PENSION PLANS AND OTHER EMPLOYEE BENEFITS

Valuation of employee benefits for defined benefit pension plans and other post-employment benefits are calculated by the Bank's independent actuaries based on a number of assumptions determined by management such as discount rates, future salary levels, retirement age, mortality rate and health-care cost escalation. The discount rate is determined using a high-quality corporate bond yield curve, whose construction requires significant judgement. Other key assumptions also require significant management judgment. Considering the importance of defined benefit obligations and due to the long-term nature of these plans, changes in assumptions could have a significant impact on the defined benefit plan assets (liabilities), as well as on pension plan and other post-employment benefit expenses. Discount rates stood at 4.25% as at October 31, 2014 and 4.55% as at October 31, 2013. Other key assumptions and related sensitivity analysis as well as further information on the Bank's pension plans and other post-employment benefits are presented in Note 18 to the annual consolidated financial statements.

This critical accounting estimate affects all business segments.

BUSINESS COMBINATIONS

On the date of acquisition, the acquiree's assets and liabilities have been included in the consolidated balance sheet at fair value. Valuation of the identifiable assets and liabilities of the acquiree and contingent consideration upon initial recognition was based on a number of assumptions determined by management such as estimates of future cash flows and discount rates as well as contractual provisions. Assessing the discount rate requires significant management judgment regarding key assumptions, including the cost to raise funds in the market, the risk premium associated with the loans and the cost to service the portfolios. Changes in assumptions could have had a significant impact on the amount of goodwill, contingent consideration or gain arising on acquisition recognized.

This critical accounting estimate mainly affects the B2B Bank business segment. Refer to Note 30 to the annual consolidated financial statements for additional information on business combinations.

PROVISIONS AND CONTINGENT LIABILITIES

Management exercises judgment in determining whether a past event or transaction may result in the recognition of a provision or the disclosure of a contingent liability, for instance in the case of legal actions or restructuring plans. Provisions are established when management determines that it becomes probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated, considering all relevant risks and uncertainties. When deemed necessary, internal and external experts are involved in assessing the probability and in estimating the obligation.

Contingent liabilities arise when it is not possible either to determine whether an obligation, as a result of a past event or transaction, is probable or to reliably estimate the amount of loss, in which case, no provision can be accrued. In the ordinary course of its business, the Bank and its subsidiaries are also involved in various legal actions and claims, including some with regulatory bodies. Many of these disputes are related to loans granted by the Bank and are in reaction to steps taken by the Bank to collect

delinquent loans and realize the underlying collateral. Certain claims have also been brought against the Bank, particularly with respect to trustee operations related to portfolio administration and the charging of certain bank fees. These actions may have a material adverse effect on the financial condition of the Bank even though no provisions may have been accrued. In addition, the Bank must continuously assess its fiscal obligations in various jurisdictions which, considering evolving interpretations, may lead to different income tax consequences.

Changes in these assessments may lead to adjustments to recognized provisions. Furthermore, the actual costs of resolving these claims, individually or in aggregate, may be substantially higher or lower than the amounts accrued for these claims for a particular reporting period.

Refer to Note 29 to the annual consolidated financial statements for additional information.

GOODWILL, OTHER INTANGIBLE ASSETS AND OTHER ASSETS

Goodwill

As at October 31, 2014, the balance of goodwill stood at \$64.1 million, unchanged compared with October 31, 2013. Goodwill is subject to an impairment test annually as described in Note 3 to the annual consolidated financial statements.

For the purpose of impairment testing, goodwill is allocated to the Bank's cash generating units (CGUs), which represent the lowest level within the Bank at which goodwill is monitored for internal management purposes. As at October 31, 2014, \$34.9 million was allocated to the B2B Bank business segment, and \$29.2 million was allocated to a part of the Personal & Commercial business segment referred to as the Retail unit, which encompasses all branch activities and other retail banking activities in Québec. The test compares the recoverable amount of the CGU to the carrying amount of its net assets. If the recoverable amount is less than carrying value, an impairment loss is charged to income.

Management uses a number of significant estimates, including projected net income growth rates, future cash flows, the number of years used in the cash flow model and the discount rate of future cash flows to determine the recoverable amount of the CGU. Management considers these estimates are reasonable and consistent with the Bank's financial objectives. They reflect management's best estimates but include inherent uncertainties that are not under its control.

Changes made to one or any of these estimates may significantly impact the calculation of the recoverable amount and the resulting impairment charge. Consequently, management cannot reasonably quantify the effect of the use of different assumptions on the Bank's overall financial performance. Moreover, it is impossible to predict whether an event that triggers an impairment will occur, nor when it will occur or how this will affect the asset values reported by the Bank.

No impairment charge was reported in fiscal 2014 or in fiscal 2013. If need be, the amount of the losses in value would be recorded as a non-interest expense in the Personal & Commercial or B2B Bank business segment, under other expenses.

Refer to Note 9 to the annual consolidated financial statements for additional information.

Other intangible assets and other assets

Other intangible assets with finite lives are also tested for impairment whenever circumstances indicate that the carrying value may not be fully recoverable. As it conducts this test, management evaluates the future cash flows it expects to realize from these assets. When the net carrying amount exceeds the estimated discounted future net cash flows, intangible assets with finite lives are considered impaired and are written down to their recoverable amount. Similar tests are performed at least annually for IT projects and other programs under development. Impairment charges related to IT projects of \$3.4 million were recorded in fiscal 2014, including \$1.6 million as part of restructuring initiatives, while charges of \$1.1 million were recorded in fiscal 2013.

Management also periodically reviews the value of the Bank's other assets, such as fixed assets and other deferred charges, in order to identify potential losses in value and to validate the related amortization periods. Impairment charges of \$0.4 million essentially related to IT infrastructure were recorded in fiscal 2014, while a \$1.7 million charge was reported in fiscal 2013. Last year, as a result of the decision to relocate B2B Bank employees,

amortization periods for certain leasehold improvements, equipment and furniture were reduced in accordance with their new estimated useful life. This led to a \$3.3 million additional depreciation charge in 2013.

Changes in estimates and assumptions could significantly impact results.

INCOME TAXES

The Bank uses the liability method of tax allocation and accounts for the deferred income tax assets and liabilities related to loss carry forwards and other temporary differences between the carrying amounts and the tax bases of assets and liabilities, in accordance with tax laws and rates enacted or substantively enacted on the date the differences are expected to reverse. A valuation allowance is established, as needed, to reduce the deferred income tax asset to the amount that is more likely than not to be realized. All amounts resulting from changes in tax rates are recorded in net income, except to the extent that it relates to items previously recognized in equity, in which case they are recorded in equity.

FUTURE CHANGES TO ACCOUNTING POLICIES

The International Accounting Standards Board (IASB) has issued new standards and amendments to existing standards on financial instruments, offsetting, levies and revenue from contracts with customers, which were not yet effective for the year ended October 31, 2014. Management is also monitoring the proposed changes to the lease accounting standard which should be finalized in 2015. Additional information on the new standards and amendments to existing standards can be found in Note 4 to the annual consolidated financial statements.

Management is completing its assessment of the impact of the adoption, as of November 1, 2014, of the amendments to the existing standard on offsetting and the new standard on levies on its consolidated financial statements.

Management is assessing the impact of the adoption of IFRS 9, *Financial Instruments*, on its financial statements, which is effective for annual periods beginning on or after January 1, 2018. Based on preliminary assessments, the adoption of IFRS 9 could have a significant impact on the Bank's information systems, processes and financial position as it provides new requirements for how an entity should classify and measure financial instruments, including impairment, and for hedge relationships. Management is also assessing the potential impact of the adoption of IFRS 15, *Revenue from Contracts with Customers*, on the amount and timing of the Bank's revenue recognition and on its financial statements, which is effective for annual periods beginning on or after January 1, 2017.

LAURENTIAN BANK OF CANADA

CONSOLIDATED FINANCIAL STATEMENTS

AS AT OCTOBER 31, 2014 AND 2013

TABLE OF CONTENTS

| | |
|---|----|
| MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING | 62 |
| INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF LAURENTIAN BANK OF CANADA | 63 |
| CONSOLIDATED BALANCE SHEET | 64 |
| CONSOLIDATED STATEMENT OF INCOME | 65 |
| CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME | 66 |
| CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY | 67 |
| CONSOLIDATED STATEMENT OF CASH FLOWS | 68 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

| | | | |
|---|----|--|-----|
| 1. General Information | 69 | 17. Share-Based Payments..... | 98 |
| 2. Basis of Presentation..... | 69 | 18. Post-Employment Benefits | 101 |
| 3. Summary of Significant Accounting Policies | 71 | 19. Income taxes..... | 105 |
| 4. Current and Future Accounting Changes..... | 81 | 20. Earnings per Share..... | 107 |
| 5. Securities..... | 84 | 21. Segmented Information..... | 108 |
| 6. Loans..... | 85 | 22. Related Party Transactions..... | 109 |
| 7. Loan Securitization | 87 | 23. Financial Instruments – Fair Value..... | 110 |
| 8. Premises and Equipment..... | 90 | 24. Financial Instruments – Offsetting..... | 114 |
| 9. Goodwill..... | 90 | 25. Financial Instruments – Risk Management..... | 114 |
| 10. Software and Other Intangible Assets | 91 | 26. Derivatives and Hedges | 116 |
| 11. Other Assets..... | 91 | 27. Income Related to Financial Instruments | |
| 12. Deposits..... | 92 | Held-For-Trading..... | 120 |
| 13. Other Liabilities | 92 | 28. Insurance Income..... | 120 |
| 14. Debt Related to Securitization Activities..... | 93 | 29. Commitments, Guarantees and Contingent Liabilities | 120 |
| 15. Subordinated Debt | 94 | 30. Business Combinations..... | 122 |
| 16. Share Capital..... | 94 | | |

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements of Laurentian Bank of Canada and the other financial information contained in the Annual Report have been prepared by management, which is responsible for the integrity and fairness of the financial information presented. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) pursuant to the requirements of the Bank Act and reflect amounts that must, of necessity, be based on the best estimates and judgment of management. The financial information presented in the Annual Report is consistent with that in the consolidated financial statements.

Management is responsible for the implementation of the financial information accounting systems, which support, among others, the preparation of the consolidated financial statements in accordance with IFRS. In discharging its responsibilities, management maintains the necessary internal control systems designed to provide assurance that transactions are properly authorized, assets are safeguarded and proper accounting records are held. The controls include, among other things, quality standards in hiring and training of employees, written policies, compliance with authorized limits for managers, procedure manuals, a corporate code of conduct, budgetary controls and appropriate management information systems.

The internal control systems are further supported by a regulatory compliance function, which ensures that the Bank and its employees comply with all regulatory requirements, as well as by a function of risk management and an operating risk management function that ensures proper risk control, related documentation and the measurement of the financial impact of risks. In addition, the internal auditors periodically assess various aspects of the Bank's operations and make recommendations to management for improvements to the internal control systems.

Every year, the Office of the Superintendent of Financial Institutions Canada makes such examinations and inquiries as deemed necessary to satisfy itself that the Bank is in a sound financial position and that it complies with the provisions of the *Bank Act*, particularly those regarding the safety of the depositors and shareholders of the Bank.

Ernst & Young LLP, independent auditors appointed by the shareholders, audit the Bank's consolidated financial statements and their report follows.

The internal auditors and the independent auditors meet periodically with the Audit Committee, in the presence or absence of management, to discuss all aspects of their duties and matters arising therefrom. In addition, the Superintendent of Financial Institutions Canada meets with the Board of Directors annually to present its comments on the Bank's operations.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements and management's discussion and analysis of results of operations and financial condition appearing in the Annual Report. It oversees the manner in which management discharges its responsibilities for the preparation and presentation of the consolidated financial statements, the maintenance of appropriate internal controls and risk management, as well as the assessment of significant transactions through its Audit Committee and its Risk Management Committee. Both Board committees are composed solely of directors who are not officers or employees of the Bank.

Réjean Robitaille, FCPA, FCA
President and
Chief Executive Officer

Michel C. Lauzon
Executive Vice-President and
Chief Financial Officer

Montréal, Canada
December 10, 2014

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF LAURENTIAN BANK OF CANADA

We have audited the accompanying consolidated financial statements of Laurentian Bank of Canada ("the Bank") which comprise the consolidated balance sheet as at October 31, 2014 and 2013, and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years ended October 31, 2014 and 2013, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines are necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at October 31, 2014 and 2013, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP¹

Montréal, Canada
December 10, 2014

¹ CPA auditor, CA public accountancy permit no. A109499

CONSOLIDATED BALANCE SHEET ^[1]

| As at October 31 (in thousands of Canadian dollars) | Notes | 2014 | 2013 |
|--|-------------|---------------|---------------|
| ASSETS | | | |
| Cash and non-interest bearing deposits with other banks | | \$ 126,247 | \$ 82,836 |
| Interest-bearing deposits with other banks | | 122,608 | 126,002 |
| Securities | 5 and 29 | | |
| Available-for-sale | | 2,577,017 | 1,679,067 |
| Held-to-maturity | | 323,007 | 648,874 |
| Held-for-trading | | 1,980,436 | 2,152,584 |
| | | 4,880,460 | 4,480,525 |
| Securities purchased under reverse repurchase agreements | 29 | 1,562,677 | 1,218,255 |
| Loans | 6, 7 and 29 | | |
| Personal | | 6,793,078 | 7,245,474 |
| Residential mortgage | | 14,825,541 | 14,735,211 |
| Commercial mortgage | | 2,651,271 | 2,488,826 |
| Commercial and other | | 2,794,232 | 2,488,137 |
| Customers' liabilities under acceptances | | 365,457 | 271,049 |
| | | 27,429,579 | 27,228,697 |
| Allowances for loan losses | | (119,371) | (115,590) |
| | | 27,310,208 | 27,113,107 |
| Other | | | |
| Premises and equipment | 8 | 68,750 | 73,261 |
| Derivatives | 26 | 132,809 | 126,617 |
| Goodwill | 9 | 64,077 | 64,077 |
| Software and other intangible assets | 10 | 207,188 | 197,594 |
| Deferred tax assets | 19 | 7,936 | 21,588 |
| Other assets | 11 | 365,721 | 407,164 |
| | | 846,481 | 890,301 |
| | | \$ 34,848,681 | \$ 33,911,026 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Deposits | 12 | | |
| Personal | | \$ 18,741,981 | \$ 19,282,042 |
| Business, banks and other | | 5,781,045 | 4,645,308 |
| | | 24,523,026 | 23,927,350 |
| Other | | | |
| Obligations related to securities sold short | | 1,562,477 | 1,464,269 |
| Obligations related to securities sold under repurchase agreements | | 581,861 | 339,602 |
| Acceptances | | 365,457 | 271,049 |
| Derivatives | 26 | 90,840 | 102,041 |
| Deferred tax liabilities | 19 | 10 | 9,845 |
| Other liabilities | 13 | 869,029 | 943,112 |
| | | 3,469,674 | 3,129,918 |
| Debt related to securitization activities | 7 and 14 | 4,863,848 | 4,974,714 |
| Subordinated debt | 15 | 447,523 | 445,473 |
| Shareholders' equity | | | |
| Preferred shares | 16 | 219,633 | 205,204 |
| Common shares | 16 | 465,854 | 446,496 |
| Retained earnings | | 848,905 | 776,256 |
| Accumulated other comprehensive income | | 10,127 | 5,524 |
| Share-based payment reserve | 17 | 91 | 91 |
| | | 1,544,610 | 1,433,571 |
| | | \$ 34,848,681 | \$ 33,911,026 |

[1] Comparative figures reflect the adoption of the amendments to IAS 19, *Employee Benefits*. Refer to Note 4 for further information.

The accompanying notes are an integral part of the consolidated financial statements.

Isabelle Courville
Chair of the Board

Réjean Robitaille, FCPA, FCA
President and Chief Executive Officer

CONSOLIDATED STATEMENT OF INCOME ^[1]

| For the years ended October 31 (in thousands of Canadian dollars, except per share amounts) | Notes | 2014 | 2013 |
|---|-------|--------------|--------------|
| Interest income | | | |
| Loans | | \$ 1,062,441 | \$ 1,086,279 |
| Securities | | 40,753 | 57,204 |
| Deposits with other banks | | 751 | 2,328 |
| Other, including derivatives | | 41,276 | 44,338 |
| | | 1,145,221 | 1,190,149 |
| Interest expense | | | |
| Deposits | | 449,101 | 463,603 |
| Debt related to securitization activities | | 118,269 | 140,453 |
| Subordinated debt | | 16,071 | 16,072 |
| Other | | 800 | 1,261 |
| | | 584,241 | 621,389 |
| Net interest income | | 560,980 | 568,760 |
| Other income | | | |
| Fees and commissions on loans and deposits | | 141,849 | 133,791 |
| Income from brokerage operations | | 63,640 | 60,607 |
| Income from investment accounts | | 31,658 | 32,694 |
| Income from sales of mutual funds | | 29,228 | 22,501 |
| Insurance income, net | 28 | 19,246 | 16,881 |
| Income from treasury and financial market operations | | 16,138 | 17,877 |
| Other | | 11,326 | 12,226 |
| | | 313,085 | 296,577 |
| Total revenue | | 874,065 | 865,337 |
| Amortization of net premium on purchased financial instruments and revaluation of contingent consideration | 30 | 9,653 | 4,426 |
| Provision for loan losses | 6 | 42,000 | 36,000 |
| Non-interest expenses | | | |
| Salaries and employee benefits | | 340,394 | 358,492 |
| Premises and technology | | 186,671 | 171,275 |
| Other | | 101,383 | 106,068 |
| Costs related to business combinations | 30 | 12,861 | 38,244 |
| | | 641,309 | 674,079 |
| Income before income taxes | | 181,103 | 150,832 |
| Income taxes | 19 | 40,738 | 31,355 |
| Net income | | \$ 140,365 | \$ 119,477 |
| Preferred share dividends, including applicable taxes | | 10,985 | 11,749 |
| Net income available to common shareholders | | \$ 129,380 | \$ 107,728 |
| Average number of common shares outstanding (in thousands) | | | |
| Basic | | 28,724 | 28,329 |
| Diluted | | 28,732 | 28,338 |
| Earnings per share | 20 | | |
| Basic | | \$ 4.50 | \$ 3.80 |
| Diluted | | \$ 4.50 | \$ 3.80 |
| Dividends declared per share | | | |
| Common share | | \$ 2.06 | \$ 1.98 |
| Preferred share - Series 9 | | n.a. | \$ 0.75 |
| Preferred share - Series 10 | | \$ 0.98 | \$ 1.31 |
| Preferred share - Series 11 | | \$ 1.00 | \$ 0.91 |
| Preferred share - Series 13 | | \$ 0.48 | n.a. |

[1] Comparative figures reflect the adoption of the amendments to IAS 19, *Employee Benefits*. Refer to Note 4 for further information.

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME ^[1]

| For the years ended October 31 (in thousands of Canadian dollars) | 2014 | 2013 |
|---|------------|------------|
| Net income | \$ 140,365 | \$ 119,477 |
| Other comprehensive income, net of income taxes | | |
| Items that may subsequently be reclassified to the statement of income | | |
| Unrealized net gains on available-for-sale securities, net of tax of \$3,151 (\$30 in 2013) | 9,078 | 87 |
| Reclassification of net gains on available-for-sale securities to net income, net of tax of \$2,646 (\$1,020 in 2013) | (5,277) | (2,752) |
| Net change in value of derivatives designated as cash flow hedges, net of tax of \$304 (\$9,468 recovery in 2013) | 802 | (26,039) |
| | 4,603 | (28,704) |
| Items that may not subsequently be reclassified to the statement of income | | |
| Actuarial gains on employee benefit plans, net of tax of \$1,633 (\$7,571 in 2013) | 4,732 | 20,645 |
| Comprehensive income | \$ 149,700 | \$ 111,418 |

[1] Comparative figures reflect the adoption of the amendments to IAS 19, *Employee Benefits*. Refer to Note 4 for further information.

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY ^[1]

| (in thousands of Canadian dollars) | For the year ended October 31, 2014 | | | | | | | |
|--|-------------------------------------|----------------------------|-------------------|--|-------------------|------------------|--|----------------------------|
| | Preferred shares (Note 16) | Common shares (Note 16) | Retained Earnings | Accumulated Other Comprehensive Income | | | Share-based payment reserve (Note 17) | Total shareholders' equity |
| | | | | Available-for-sale securities | Cash flow hedges | Total | | |
| Balance as at October 31, 2013 | \$ 205,204 | \$ 446,496 | \$ 776,256 | \$ 9,536 | \$ (4,012) | \$ 5,524 | \$ 91 | \$ 1,433,571 |
| Net income | | | 140,365 | | | | | 140,365 |
| Other comprehensive income (net of income taxes) | | | | | | | | |
| Unrealized net gains on available-for-sale securities | | | | 9,078 | | 9,078 | | 9,078 |
| Reclassification of net gains on available-for-sale securities to net income | | | | (5,277) | | (5,277) | | (5,277) |
| Net change in value of derivatives designated as cash flow hedges | | | | | 802 | 802 | | 802 |
| Actuarial gains on employee benefit plans | | | 4,732 | | | | | 4,732 |
| Comprehensive income | | | 145,097 | 3,801 | 802 | 4,603 | | 149,700 |
| Issuance of share capital | 122,071 | 19,358 | | | | | | 141,429 |
| Repurchase of share capital | (107,642) | | (2,358) | | | | | (110,000) |
| Dividends | | | | | | | | |
| Preferred shares, including applicable taxes | | | (10,985) | | | | | (10,985) |
| Common shares | | | (59,105) | | | | | (59,105) |
| Balance as at October 31, 2014 | \$ 219,633 | \$ 465,854 | \$ 848,905 | \$ 13,337 | \$ (3,210) | \$ 10,127 | \$ 91 | \$ 1,544,610 |

| (in thousands of Canadian dollars) | For the year ended October 31, 2013 | | | | | | | |
|--|-------------------------------------|----------------------------|-------------------|--|-------------------|-----------------|--|----------------------------|
| | Preferred shares (Note 16) | Common shares (Note 16) | Retained Earnings | Accumulated Other Comprehensive Income | | | Share-based payment reserve (Note 17) | Total shareholders' equity |
| | | | | Available-for-sale securities | Cash flow hedges | Total | | |
| Balance as at November 1, 2012 | \$ 303,249 | \$ 428,526 | \$ 706,035 | \$ 12,201 | \$ 22,027 | \$ 34,228 | \$ 227 | \$ 1,472,265 |
| Net income | | | 119,477 | | | | | 119,477 |
| Other comprehensive income (net of income taxes) | | | | | | | | |
| Unrealized net gains on available-for-sale securities | | | | 87 | | 87 | | 87 |
| Reclassification of net gains on available-for-sale securities to net income | | | | (2,752) | | (2,752) | | (2,752) |
| Net change in value of derivatives designated as cash flow hedges | | | | | (26,039) | (26,039) | | (26,039) |
| Actuarial gains on employee benefit plans | | | 20,645 | | | | | 20,645 |
| Comprehensive income | | | 140,122 | (2,665) | (26,039) | (28,704) | | 111,418 |
| Issuance of share capital | (160) | 17,970 | | | | | (136) | 17,674 |
| Repurchase of share capital | (97,885) | | (2,115) | | | | | (100,000) |
| Dividends | | | | | | | | |
| Preferred shares, including applicable taxes | | | (11,749) | | | | | (11,749) |
| Common shares | | | (56,037) | | | | | (56,037) |
| Balance as at October 31, 2013 | \$ 205,204 | \$ 446,496 | \$ 776,256 | \$ 9,536 | \$ (4,012) | \$ 5,524 | \$ 91 | \$ 1,433,571 |

[1] Comparative figures reflect the adoption of the amendments to IAS 19, *Employee Benefits*. Refer to Note 4 for further information.

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS ^[1]

| For the years ended October 31 (in thousands of Canadian dollars) | Notes | 2014 | 2013 |
|---|-------|-------------------|--------------------|
| Cash flows relating to operating activities | | | |
| Net income | | \$ 140,365 | \$ 119,477 |
| Adjustments to determine net cash flows relating to operating activities: | | | |
| Provision for loan losses | | 42,000 | 36,000 |
| Net gain on disposal of available-for-sale securities | | (8,290) | (4,290) |
| Gain on sale of commercial mortgage loans | 7 | (3,686) | (3,685) |
| Deferred income taxes | | 2,681 | 3,823 |
| Depreciation of premises and equipment | | 16,107 | 17,884 |
| Amortization of software and other intangible assets | | 39,509 | 37,055 |
| Revaluation of contingent consideration | | 4,100 | — |
| Change in operating assets and liabilities : | | | |
| Loans | | (340,032) | (578,511) |
| Securities at fair value through profit and loss | | 172,148 | (278,962) |
| Securities purchased under reverse repurchase agreements | | (344,422) | (587,053) |
| Accrued interest receivable | | (3,740) | 24,303 |
| Derivative assets | | (6,192) | 41,026 |
| Deposits | | 595,676 | (114,093) |
| Obligations related to securities sold short | | 98,208 | 114,337 |
| Obligations related to securities sold under repurchase agreements | | 242,259 | 95,563 |
| Accrued interest payable | | (13,424) | (99,982) |
| Derivative liabilities | | (11,201) | 1,174 |
| Other, net | | 802 | 29,806 |
| | | 622,868 | (1,146,128) |
| Cash flows relating to financing activities | | | |
| Change in acceptances | | 94,408 | 59,919 |
| Change in debt related to securitization activities | | (110,866) | (1,062,383) |
| Net proceeds from issuance of preferred shares | 16 | 122,071 | — |
| Repurchase of preferred shares | 16 | (110,000) | (100,000) |
| Net proceeds from issuance of common shares | 16 | 72 | 1,056 |
| Dividends, including applicable income taxes | | (60,803) | (54,514) |
| | | (65,118) | (1,155,922) |
| Cash flows relating to investing activities | | | |
| Change in available-for-sale securities | | | |
| Acquisitions | | (3,339,421) | (2,118,976) |
| Proceeds on sale and at maturity | | 2,454,227 | 3,259,237 |
| Change in held-to-maturity securities | | | |
| Acquisitions | | (336,335) | (421,598) |
| Proceeds at maturity | | 662,202 | 1,219,475 |
| Proceeds on sale of commercial mortgage loans | 7 | 106,084 | 98,407 |
| Additions to premises and equipment and software | | (64,490) | (96,700) |
| Change in interest-bearing deposits with other banks | | 3,394 | 354,181 |
| | | (514,339) | 2,294,026 |
| Net change in cash and non-interest-bearing deposits with other banks | | 43,411 | (8,024) |
| Cash and non-interest-bearing deposits with other banks at beginning of year | | 82,836 | 90,860 |
| Cash and non-interest-bearing deposits with other banks at end of year | | \$ 126,247 | \$ 82,836 |
| Supplemental disclosure about cash flows relating to operating activities: | | | |
| Interest paid during the year | | \$ 603,473 | \$ 720,108 |
| Interest received during the year | | \$ 1,129,180 | \$ 1,211,346 |
| Dividends received during the year | | \$ 8,985 | \$ 7,334 |
| Income taxes paid during the year | | \$ 19,884 | \$ 35,371 |

[1] Comparative figures reflect the adoption of the amendments to IAS 19, *Employee Benefits*. Refer to Note 4 for further information.

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at October 31, 2014 and 2013

[All tabular amounts are in thousands of Canadian dollars, unless otherwise indicated]

1. GENERAL INFORMATION

Laurentian Bank of Canada and its subsidiaries (the Bank) provide banking services to individuals and small and medium-sized enterprises, as well as to independent advisors across Canada, and operate as a full-service brokerage firm. The Bank is the ultimate parent of the group. The Bank is a chartered bank under Schedule 1 of the Bank Act (Canada) and has its head office in Montréal, Canada. The Bank's common shares (stock symbol: LB) are listed on the Toronto Stock Exchange.

The consolidated financial statements for the year ended October 31, 2014 were approved for issuance by the Board of Directors on December 10, 2014.

2. BASIS OF PRESENTATION

These consolidated financial statements have been prepared in accordance with the Bank Act, which states that, except as otherwise specified by the Office of the Superintendent of Financial Institutions Canada (OSFI), financial statements are to be prepared in accordance with International Financial Reporting Standards (IFRS). These consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board (IASB).

These consolidated financial statements have been prepared under the historical cost convention, except for available-for-sale financial assets, financial assets and financial liabilities classified at fair value through profit or loss and all derivatives, which have been measured at fair value. Certain financial assets and liabilities may also reflect the effect of hedge accounting adjustments as detailed below.

The Bank presents its consolidated balance sheet broadly in order of liquidity and each balance sheet item includes both current and non-current balances, as applicable.

Certain comparative figures have been reclassified to conform to current year presentation.

2.1 BASIS OF CONSOLIDATION

These consolidated financial statements include the assets, liabilities and operating results of the Bank and all of its subsidiaries after elimination of intercompany balances and transactions. The financial statements of the Bank's subsidiaries are prepared for the same reporting period as the Bank, using consistent accounting policies.

The Bank controls an entity when it has the power to direct the activities of the entity which have the most significant impact on the entity's risks and/or returns; is exposed to significant risks and/or returns arising from the entity; and is able to use its power to affect the risks and/or returns to which it is exposed.

The principal subsidiaries of the Bank are listed in the table below. All the foregoing subsidiaries are incorporated or continued in Canada under the provisions of a federal act, except V.R. Holding Insurance Company Ltd, which is incorporated under the provisions of an act of Barbados.

| | |
|--|--|
| B2B Bank ⁽¹⁾ | LBC Trust |
| B2B Bank Financial Services Inc. | Laurentian Bank Securities Inc. |
| B2B Bank Securities Services Inc. | LBC Financial Services Inc. |
| B2B Bank Intermediary Services Inc. | LBC Investment Management Inc. |
| B2B Trustco | V.R. Holding Insurance Company Ltd |
| Laurentian Trust of Canada Inc. | Laurentian Bank Insurance Inc. |

(1) AGF Trust Company merged with B2B Bank as of September 1, 2013.

The Bank also consolidates structured entities when applicable consolidation criteria are met. As the Bank meets consolidation criteria it consolidates Venture Reinsurance Ltd, an entity incorporated under the provisions of an act of Barbados, which is partially owned by V.R. Holding Insurance Company Ltd.

2. BASIS OF PRESENTATION [CONT'D]

2.2 USE OF ESTIMATES AND JUDGMENT

The preparation of these consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the carrying amounts of assets and liabilities on the balance sheet date, income and other related disclosures. The most significant areas for which management has made estimates are the impairment of assets, the fair value of financial instruments, post-employment benefits, fair value of assets acquired and liabilities assumed as a result of business combinations, income taxes, as well as provisions and contingent liabilities. Management has implemented and maintains controls and procedures to ensure these estimates are well controlled, reviewed and consistently applied over time. Management believes that the estimates of the value of the Bank's assets and liabilities are appropriate.

Note 3 details the judgment used in measuring the fair value of financial instruments. Other significant areas that require management's judgment and estimates are described below.

Impairment of assets

Allowances for loan losses

The allowances for loan losses adjust the value of loans to reflect management's estimate of losses incurred in the loan portfolios. These allowances are dependent upon management's estimates of the amounts and dates of future cash flows, the fair value of guarantees and realization costs, and the interpretation of the impact of market and economic conditions. Assessing the amounts and the dates of future cash flows requires significant management judgment regarding key assumptions, including economic and business conditions, the Bank's historical experience, probability of default, loss given default and exposure at default and where applicable, the realizable value of any guarantee or collateral. Considering the materiality of the amounts and their inherent uncertainty, changes in current estimates and assumptions used in determining the allowances for loan losses could produce significantly different levels of allowances.

Refer to Note 3 for a description of the methods used to determine the allowances for loan losses.

Other financial assets

Financial assets classified in the available-for-sale and held-to-maturity categories are monitored on a quarterly basis to determine whether there is any objective evidence that they are impaired. In evaluating the decline in value, management exercises judgment and takes into account many facts specific to each investment and all the factors that could indicate that there is objective evidence of impairment. Assessing whether there is objective evidence of impairment requires significant management judgment regarding various factors, which include a significant financial difficulty of the issuer or counterparty, default or delinquency in interest or principal payments, probability that the borrower will enter bankruptcy or financial re-organization, a significant or prolonged decline in fair value below its cost and a loss event. Management also uses judgment to determine when to recognize an impairment loss. The decision to record an impairment loss, its amounts and the period in which it is accounted for could change if management's assessment of these factors were different.

Refer to Note 3 for further detail on the accounting of available-for-sale and held-to-maturity financial assets.

Goodwill and other intangible assets

For the purpose of impairment testing, goodwill is allocated to the Bank's cash generating units (CGUs) which represent the lowest level within the Bank at which goodwill is monitored for internal management purposes. An impairment test is performed annually and whenever there is an indication that the CGU may be impaired, unless certain specific criteria are met. The test compares the recoverable amount of the CGU to the carrying amount of its net assets. If the recoverable amount is less than carrying value, an impairment loss is charged to income.

For intangible assets with finite lives, an impairment test is performed whenever there is an indication that the asset may be impaired. The test compares the recoverable amount of the intangible asset to its carrying amount. If the recoverable amount is less than carrying value, an impairment loss is charged to income. Similar tests are performed at least annually for IT projects and other programs under development.

2. BASIS OF PRESENTATION [CONT'D]

Management uses a number of significant estimates, including projected net income growth rates, future cash flows, the number of years used in the cash flow model and the discount rate of future cash flows to determine the recoverable amount of the CGU or intangible asset. Management considers these estimates are reasonable and consistent with the Bank's financial objectives. They reflect management's best estimates but include inherent uncertainties that are not under its control. Changes made to one or any of these estimates may significantly impact the calculation of the recoverable amount and the resulting impairment charge.

Post-employment benefits

Valuation of employee benefits for defined benefit pension plans and other post-employment benefits are calculated by the Bank's independent actuaries based on a number of assumptions determined by management such as discount rates, future salary levels, retirement age, mortality rates and health-care cost escalation. The discount rate is determined using a high-quality corporate bond yield curve, whose construction requires significant judgment. Other key assumptions also require significant management judgment. Considering the importance of defined benefit obligations and due to the long term nature of these plans, changes in assumptions could have a significant impact on the defined benefit plan assets (liabilities), as well as on pension plan and other post-employment benefit expenses.

Business combinations

On the date of the acquisition, the acquiree's assets and liabilities have been included in the consolidated balance sheet at fair value. Valuation of the identifiable assets and liabilities of the acquiree upon initial recognition was based on a number of assumptions determined by management such as estimates of future cash flows and discount rates as well as contractual provisions. Assessing the discount rate requires significant management judgment regarding key assumptions, including the cost to raise funds in the current market, the risk premium associated with the loans and the cost to service the portfolios. Changes in assumptions could have had a significant impact on the amount of goodwill, contingent consideration or gain arising on acquisition recognized.

Income taxes

Deferred income tax assets and liabilities reflect management's estimate of temporary differences. Asset values are determined using assumptions regarding the results of operations of future fiscal years, timing of reversal of temporary differences and tax rates on the date of reversals, which may well change depending on governments' fiscal policies. Management must also assess whether it is more likely than not that deferred income tax assets will be realized and determine whether a valuation allowance is required on all or a portion of deferred income tax assets. In addition, to determine the provision for income taxes recorded in the consolidated statement of income, management interprets tax legislation in various jurisdictions. The use of different assumptions or interpretations could translate into significantly different income tax expenses.

Provisions and contingent liabilities

Management exercises judgment in determining whether a past event or transaction may result in the recognition of a provision or the disclosure of a contingent liability, for instance in the case of legal actions or restructuring plans. Provisions are established when management determines that it becomes probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated, considering all relevant risks and uncertainties. Management and internal and external experts are involved in assessing the probability and in estimating any amounts involved. Furthermore, the actual costs of resolving these obligations may be substantially higher or lower than the amounts accrued.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 FINANCIAL INSTRUMENTS

The classification of financial instruments at initial recognition depends on the purpose and the Bank's intention for which the financial instruments were acquired and their characteristics.

Financial instruments at fair value through profit or loss

Financial instruments at fair value through profit or loss are comprised of financial instruments classified as held-for-trading and financial instruments designated by the Bank as at fair value through profit or loss upon initial recognition.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

Financial instruments at fair value through profit or loss are initially recorded at fair value on the settlement date in the consolidated balance sheet. Subsequently, these financial instruments are remeasured at fair value and the realized and unrealized gains and losses are immediately recognized in the consolidated statement of income under income from treasury and financial market operations or income from brokerage operations. Interest income earned, amortization of premiums and discounts as well as dividends received are included in interest income using the accrual basis of accounting. Transaction costs and other fees associated with financial instruments at fair value through profit or loss are expensed as incurred.

Held-for-trading financial instruments

Financial instruments purchased for resale over a short period of time, obligations related to securities sold short, and derivatives not designated in hedge relationships are classified as held-for-trading.

Financial instruments designated as at fair value through profit or loss

Financial instruments, other than those held for trading, may be designated on a voluntary and irrevocable basis as at fair value through profit or loss provided that such designation:

- Eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the related gains and losses on different bases; or
- Pertains to an asset or liability that is managed and whose performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about such items is provided internally on that basis to the Bank's key management personnel; or
- Pertains to a contract containing one or more embedded derivatives that significantly modify the cash flows that otherwise would be required by the contract; and
- Allows for reliable measurement of the fair value of the financial instruments designated at fair value through profit or loss.

As at October 31, 2014 and 2013, the Bank had not designated any financial instrument as at fair value through profit or loss.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale, or that are not classified as loans and receivables, held-to-maturity, held-for-trading or designated as at fair value through profit or loss. Available-for-sale financial assets are acquired for an indefinite period and may be sold to meet liquidity requirements or in response to changes in interest rates, exchange rates or equity prices.

Available-for-sale financial assets are initially recorded at fair value on the settlement date including direct and incremental transaction costs and are subsequently remeasured at fair value in the consolidated balance sheet. Equity instruments that do not have a quoted market price in an active market and for which a reliable valuation cannot be obtained are recorded at cost. Unrealized gains and losses are recognized, net of applicable income taxes, in equity in an available-for-sale reserve included in the accumulated other comprehensive income until the financial assets are either sold or become impaired. On disposal of an available-for-sale financial asset, the accumulated unrealized gain or loss included in the available-for-sale reserve is transferred to the consolidated statement of income for the period and reported under income from treasury and financial market operations.

Interest income is recognized on available-for-sale debt securities using the effective interest rate, calculated over the asset's expected life. Premiums and/or discounts arising on the purchase of debt securities are included in the calculation of their effective interest rates. Dividends are recognized in interest income on the ex-dividend date.

Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity, other than loans and receivables, which the Bank has the clear intention and ability to hold to maturity. These financial assets, including direct and incremental transaction costs, are initially recognized at fair value on the settlement date and measured subsequently at amortized cost, using the effective interest method, less any impairment losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

Securities purchased under reverse repurchase agreements and obligations related to securities sold under repurchase agreements

The Bank enters into short-term purchases of securities under agreements to resell (reverse repurchase agreements) as well as short-term sales of securities under agreements to repurchase (repurchase agreements) at predetermined prices and dates. Given the low risk transfer associated with these purchases and sales, these agreements are treated as collateralized lending and borrowing.

Securities purchased under agreements to resell are not recognized as securities on the consolidated balance sheet and the consideration paid, including accrued interest, is recorded in securities purchased under reverse purchase agreements. The difference between the purchase and resale prices is recorded in net interest income and is accrued over the life of the agreement using the effective interest method. These agreements are classified as loans and receivables.

Securities sold under agreements to repurchase at a specified future date are not derecognized from the consolidated balance sheet. The corresponding cash received is recognized in the consolidated balance sheet with a corresponding obligation to return it, including accrued interest as a liability within obligations related to securities sold under repurchase agreements, reflecting the transaction's economic substance as a loan to the Bank. The difference between the sale and repurchase price is treated as interest and recognized over the life of the agreement using the effective interest method. These agreements are classified as financial liabilities at amortized cost.

Securities lending and borrowing

Securities lending and borrowing transactions are usually collateralized by securities or cash. The transfer of the securities to counterparties is only reflected on the consolidated balance sheet if the risks and rewards of ownership are also transferred. Cash advanced or received as collateral is recorded as an asset or liability.

Securities sold short

If securities purchased under agreements to resell are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale within obligations related to securities sold short and measured at fair value with any gains or losses included, depending on the nature of the transaction, in other income under income from treasury and financial market operations or income from brokerage operations. These short sales are classified as held-for-trading liabilities.

Securities borrowed are not recognized on the consolidated balance sheet. However, when they are sold to third parties, the obligation to return the securities is also recorded as a short sale.

Loans

Loans are non-derivative financial assets with fixed or determinable payments and are generally classified as loans and receivables.

Loans quoted in an active market do not meet the necessary conditions to be classified as loans and receivables and would be classified as held-for-trading, available-for-sale or held-to-maturity. Moreover, loans that the Bank would intend to sell immediately or in the near term, as well as loans where the Bank may not recover substantially all of its initial investment other than because of credit deterioration, would be classified as held-for-trading.

Loans are initially recorded at fair value on the settlement date in the consolidated balance sheet. They are subsequently recorded at amortized cost using the effective interest method in the balance sheet, net of allowances for loan losses and any unearned interest. Interest income is recognized using the effective interest method. Commissions and origination fees received in respect of loans are considered to be adjustments to the loan yield and are recorded in interest income over the term of the loans. Loan origination and other fees paid are charged to interest income over the term of the loans. Fees received for loan prepayments are included in interest income for residential mortgage loans and other income for commercial mortgage loans upon prepayment.

Renegotiated loans

Subject to assessment on a case by case basis, the Bank may either restructure a loan or realize the collateral. Restructuring may involve extending the payment arrangements and agreeing to new loan conditions. Once the terms have been renegotiated any impairment is measured using the effective interest rate as calculated before the modification of terms and the loan is no longer considered as past due. The loans continue to be subject to impairment assessment, calculated using the loan's original effective interest rate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

Foreclosed assets

Assets acquired by way of settlement of a loan and held for sale are initially measured at fair value less estimated costs to sell, under other assets. The difference between the carrying amount of the loan prior to foreclosure and the amount at which the foreclosed assets are initially measured is recognized in the provision for loan losses.

Any future change in their fair value, but not in excess of the cumulative losses recognized subsequent to the foreclosure date, is recognized as other income in the consolidated statement of income. The revenues generated by foreclosed assets and operating expenses are included in other income and non-interest expenses. If the assets are to be held and used, they are initially measured at fair value and then accounted for in the same manner as similar assets acquired in the normal course of business.

Derecognition of financial assets

A financial asset is derecognized when the contractual rights to the cash flows from the asset expire or when the contractual rights to the cash flows from the financial asset and substantially all risks and rewards of ownership of the asset are transferred to a third party. When a financial asset is derecognized, a gain or a loss is recognized in the consolidated statement of income for an amount equal to the difference between the carrying amount of the asset and the value of the consideration received.

Securitization

The Bank regularly transfers pools of residential mortgages under securitization programs. As the Bank retains substantially all the risks and rewards related to the loans, these transactions do not result in derecognition of the mortgages from the Bank's consolidated balance sheet. As such, securitized residential mortgages continue to be recognized in the consolidated balance sheet and accounted for as loans. In addition, these transactions result in the recognition of a debt related to securitization activities when cash is received as a result of the securitization transactions. Refer to Note 7 for further detail.

Impairment of financial assets

Impairment of available-for-sale financial assets

Financial assets classified in the available-for-sale category are monitored on a regular basis to determine whether there is any objective evidence that they are impaired. In evaluating the decline in value, the Bank takes into account many facts specific to each investment and all the factors that could indicate that there has been an impairment. The Bank also uses judgment to determine when to recognize an impairment loss.

For available-for-sale debt securities, objective evidence of impairment includes a significant financial difficulty of the issuer or counterparty, default or delinquency in interest or principal payments or probability that the borrower will enter bankruptcy or financial re-organization. The impairment loss represents the cumulative loss measured as the difference between amortized cost and current fair value, less any impairment loss previously recognized. Future interest income is calculated on the reduced carrying amount using the same interest rate as the one used to discount future cash flows in order to measure the impairment loss. A subsequent decline in the fair value of the instrument is also recognized in the statement of income. If the fair value of a debt security increases in a subsequent period, the increase is recognized in the available-for-sale reserve. However, if the increase can be objectively related to an event that occurred after the impairment loss was recognized, the impairment loss is reversed through the consolidated statement of income. An increase in fair value in excess of impairment loss recognized previously in the consolidated statement of income is recognized in the available-for-sale reserve.

For available-for-sale equity securities, a significant or prolonged decline in fair value below its cost is also considered to be objective evidence of impairment. If available-for-sale equity securities are impaired, the cumulative loss, measured as the difference between the acquisition cost (net of any principal repayments and amortization) and the current fair value, less any previous recognized impairment loss, is removed from the available-for-sale reserve and recognized in the consolidated statement of income in income from treasury and financial market operations. Impairment losses on equity securities are not reversed through the consolidated statement of income. Subsequent increases in fair value of the available-for-sale equity securities are recorded in the available-for-sale reserve whereas subsequent decreases in fair value are recognized in the consolidated statement of income.

Impairment of held-to-maturity financial assets

Held-to-maturity financial assets are impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (loss event) and that loss event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

The impairment loss is measured as the difference between the carrying amount of the asset, including accrued interest, and the present value of estimated expected future cash flows discounted at the asset's original effective interest rate.

Impairment of loans

A loan or a group of loans are impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset and that has an impact on the estimated future cash flows of the loan or a group of loans that can be reliably estimated.

At each balance sheet date, the Bank assesses whether objective evidence of impairment exists individually for each significant loan, or collectively for loans that are not individually significant. There is an objective evidence of impairment if, for instance, there is reason to believe that a portion of the principal or interest cannot be collected as a result of significant financial difficulty of the borrower, issuer or counterparty. The Bank takes into consideration interest and prepayment in arrears and type of guarantees to determine evidence of impairment. If the Bank determines that no objective evidence of impairment exists for an individually assessed loan, it includes the loan in a portfolio of loans with similar credit risk characteristics and collectively assesses them for impairment. Loans that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan, including accrued interest, and the present value of estimated expected future cash flows. The carrying amount of the loan is reduced by the use of an allowance account and the amount of the loss is recognized in the consolidated statement of income as a component of the provision for loan losses.

The present value of the estimated future cash flows is discounted at the loan's original effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized loan takes into account the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. Once determined, the present value is accreted over the period from the initial recognition of the provision to the estimated eventual recovery of the loan's future value, resulting in the recording of interest in the statement of income, within interest income. If an impairment is later recovered, the recovery is credited to the provision for loan losses.

Collective allowances

A collective allowance is calculated for all individually insignificant loans for which no individual impairment tests are performed. In addition, a collective allowance is calculated for loans that have been assessed for impairment individually and found not to be impaired. These loans are assessed collectively, in groups of assets with similar risk characteristics, to determine whether a provision should be made due to incurred but not identified loss events.

To establish the collective allowance, the Bank uses a model based on the internal risk rating of credit facilities and on the related probability of default factors, as well as the loss given default associated with each type of facility. The probability of default and loss given default factors reflect the Bank's historical experience. The collective allowance is adjusted to reflect changes in the portfolios and credit policies and is maintained for each pool of loans with shared risk characteristics. This estimate includes consideration of economic and business conditions, management's judgment and modelling risks.

The allowance related to off-balance sheet exposures, such as letters of guarantee and certain undrawn amounts under approved credit facilities, is recognized in other liabilities.

Acceptances and customers' liabilities under acceptances

Acceptances represent an obligation for the Bank with respect to short-term negotiable instruments issued by the Bank's customers to third parties and guaranteed by the Bank. Acceptances are classified as other liabilities. The recourse against the customer in the event that these obligations give rise to a cash outlay is reported as a corresponding asset and classified as loans and receivables. Commissions earned are recorded in other income in the consolidated statement of income.

Derivatives and hedges

Derivatives are primarily used to manage the Bank's exposure to interest rate and currency risks and, occasionally, in trading activities or to serve the needs of customers.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

All derivatives are recognized at fair value in other assets or liabilities, including derivatives embedded in financial instruments or other contracts that are not closely related to the financial instrument or to the host contract. Changes in fair value of derivatives are immediately recognized in other income, except for derivatives designated as cash flow hedges as described below. Interest income and expense related to derivatives is recognized in net interest income in the consolidated statement of income.

Hedge accounting

When using derivatives to manage its own risks, the Bank determines for each derivative whether hedge accounting is appropriate. If deemed appropriate, the Bank formally documents the hedging relationship, detailing among other things the type of hedge (fair value or cash flow hedge), the item being hedged, the risk management objective, the hedging strategy and the method used to measure its effectiveness. Hedge accounting is deemed appropriate where the derivative is highly effective in offsetting changes in the hedged item's fair value attributed to the hedged risk, both at the hedge's inception and on an ongoing basis. Effectiveness is reviewed every month using statistical regression models.

Fair value hedges

Fair value hedge transactions predominantly use interest rate swaps to hedge changes in fair value of assets, liabilities or firm commitments.

For these hedging relationships, the changes in the hedged item's fair value attributable to the hedged risk are recognized in the consolidated statement of income under income from treasury and financial market operations with a corresponding adjustment to the carrying amount of the hedged item in the consolidated balance sheet. Changes in fair value of the hedged item, to the extent that the hedging relationship is effective, are offset by changes in fair value of the hedging derivative. When the hedging relationship ceases to be effective or the hedging instrument is sold or terminated early, hedge accounting is discontinued prospectively. The cumulative adjustment to the carrying amount of the hedged item linked to a hedging relationship that ceases to be effective or for which the hedging derivative is terminated or sold is recognized in net interest income over the remaining life of the hedged item. Hedge accounting is also discontinued on the sale or early termination of the hedged item, whereupon the cumulative adjustment to the hedged item's carrying amount is immediately recognized in other income.

Cash flow hedges

Cash flow hedge transactions predominantly use interest rate swaps and total return swaps to hedge the variability in cash flows related to a variable rate asset or liability.

For these hedging relationships, the changes in fair value related to the effective portion of the hedge are recognized in other comprehensive income. Changes in fair value related to the ineffective portion of the hedge are immediately recognized in the consolidated statement of income. Changes in fair value recognized in other comprehensive income are reclassified in the consolidated statement of income under net interest income in the periods during which the cash flows comprising the hedged item affect income.

When the hedging relationship ceases to be effective or the hedging instrument is sold or terminated early, hedge accounting is discontinued prospectively. Changes in fair value recognized in other comprehensive income in respect of a cash flow hedging relationship that ceases to be effective or for which the hedging instrument is sold or terminated early are reclassified in the consolidated statement of income under net interest income in the periods during which the cash flows comprising the hedged item affect income. Hedge accounting is also discontinued on the sale or early termination of the hedged item, whereupon the changes in fair value recognized in accumulated other comprehensive income are immediately recognized in other income.

Deposits

Deposits are initially measured at fair value net of directly attributable transaction costs incurred. Subsequently, they are measured at amortized cost using the effective interest method and classified as other liabilities. The commissions paid and other fees are added to interest expense over the term of the deposits. Deposits are presented net of unamortized commissions and other fees on the consolidated balance sheet.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

Indexed deposit contracts

Certain deposit obligations, such as equity-linked guaranteed investment certificates where the deposit obligation varies according to the performance of certain stock market indexes, may be subject to a guaranteed minimum redemption amount, such as the obligation to return the investor's initial investment at maturity. These obligations include an embedded derivative instrument that has to be accounted for separately. Accordingly, like all derivatives, it is recorded at fair value and changes in fair value are recognized in the consolidated statement of income under income from treasury and financial market operations. The deposit, excluding the embedded derivative, is recorded at amortized cost using the effective interest method and is presented in the consolidated balance sheet under personal deposits. The embedded derivative is presented in the consolidated balance sheet under derivatives.

Debt related to securitization activities

Debt related to securitization activities is initially measured at fair value net of directly attributable transaction costs incurred. Subsequently, the debt is measured at amortized cost using the effective interest method and is classified as other liabilities. Interest expense is allocated over the expected term of the borrowing by applying the effective interest rate to the carrying amount of the liability.

Subordinated debt

Subordinated debt is initially measured at fair value net of directly attributable transaction costs incurred. Subsequently, the debt is measured at amortized cost using the effective interest method and is classified as other liabilities. Interest expense is allocated over the expected term of the borrowing by applying the effective interest rate to the carrying amount of the liability.

Measuring the fair value of financial instruments

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions.

The fair value of a financial instrument on initial recognition is normally the transaction price, that is, the fair value of the consideration given or received. In certain circumstances, the initial fair value may be based on other observable market transactions for the same instrument or on a valuation technique.

Subsequent to initial recognition, the fair value of financial instruments is best evidenced by quoted prices in active markets when available. This fair value is based on the quoted price within the bid-offer prices that is most representative of fair value in the circumstances. Otherwise, fair value is measured using valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. Determining which valuation technique and inputs to apply requires judgment. Valuation techniques include cash flow discounting, comparison with current market prices for financial instruments with similar characteristics and risk profiles and option pricing models. The inputs, among other things, include contractual prices of the underlying instruments, yield curves and volatility factors. The valuations may also be adjusted to reflect the uncertainty in these parameters. In particular, valuation adjustments may be made with respect to the liquidity or counterparty credit risk of financial instruments that have no available quoted prices in active markets. Fair value reflects market conditions on a given date and for this reason cannot be representative of future fair values.

Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and the net amount is presented in the consolidated balance sheet when the Bank currently has a legally enforceable right to set off the recognized amounts and intends to settle on a net basis or to realize the asset and settle the liability simultaneously. Income and expense are not offset in the consolidated statement of income unless required or permitted by any accounting standard or interpretation.

3.2 BUSINESS COMBINATIONS AND GOODWILL

Business combinations are accounted for using the acquisition method. At the date of acquisition, the purchase price is measured as the aggregate of the fair value of the consideration transferred. Acquisition-related costs are recognized directly in net income, under Costs related to business combinations in the period they are incurred. When the Bank acquires a business, it assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual term, economic circumstances and market conditions at the acquisition date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

At the acquisition date, the identifiable assets acquired and liabilities assumed of the acquiree, as well as any contingent consideration to be assumed by the Bank, are recognized at their estimated fair value. The excess of the purchase price over the fair value of the net identifiable assets acquired is recorded as goodwill in the balance sheet, while any excess of the fair value of the net identifiable assets over the purchase price is recorded in net income as a gain on acquisition on the line item Amortization of net premium on purchased financial instruments and revaluation of contingent consideration. Subsequent changes in the fair value of the contingent consideration are recorded in net income.

The fair value estimate of purchased loans and deposits reflects the interest rate premium or discount resulting from the difference between the contractual rates and prevailing market interest rates for financial instruments with similar terms and conditions, as well as the expected loan losses as of the acquisition date. As a result of recording the loans at fair value, no allowance for loan losses is recorded on the date of acquisition. As well, these loans are not considered impaired as at the date of acquisition. Subsequently, those loans and deposits are recorded at amortized cost using the effective interest method and the related premium or discount amortization is recognized in net income on the line item Amortization of net premium on purchased financial instruments and revaluation of contingent consideration.

Purchased loans are subject to impairment assessment, consistent with the Bank's methodology for collective allowances. Increases in initially estimated incurred loan losses are recorded in the provision for loan losses and increase the allowance for loan losses. Decreases in initially estimated incurred loan losses result in a reduction of the provision for loan losses and reduce any previously recorded allowance for loan losses, until the newly recorded allowance is exhausted. Any additional decrease in estimated incurred loan losses is recorded on the line item Amortization of net premium on purchased financial instruments and revaluation of contingent consideration and increases the carrying amount of the purchased loans.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Bank's cash-generating units (CGUs) or group of CGUs, which are expected to benefit from the synergies of the combination. Each unit to which the goodwill is allocated represents the lowest level within the Bank at which the goodwill is monitored for internal management purposes, and is not larger than an operating segment. The Bank has allocated the goodwill from business combinations to the B2B Bank segment, as well as to a part of the Personal & Commercial business segment referred to as the Retail unit, which encompasses all branch activities and other retail banking activities in Québec.

Goodwill is tested for impairment annually, or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired, by comparing the recoverable amount of the CGU with its carrying value. The recoverable amount of the CGU is based on its value in use, estimated with the discounted cash flow method. Impairment losses on goodwill are charged to income in the period they are incurred and are not reversed.

3.3 PREMISES AND EQUIPMENT

Premises and equipment are recorded at cost including expenditure that is directly attributable to the acquisition of the items, less accumulated depreciation and impairment losses. Additions and subsequent expenditures are capitalised only to the extent that they enhance the future economic benefits expected to be derived from the assets.

Depreciation

Depreciation is calculated using the straight-line method to write down the cost of premises and equipment to their residual values over their estimated useful lives. Land is not depreciated. The estimated useful lives are as follows:

| | Period |
|-------------------------|---|
| Premises | 25-40 years |
| Leasehold improvements | The lesser of term of the lease, plus one initial renewal option, or useful life |
| Equipment and furniture | 2-10 years |
| Computer hardware | 2-10 years |

The residual values underlying the calculation of depreciation of items of property are kept under review to take account of any change in circumstances. Useful lives and method of depreciation are also reviewed regularly, at a minimum at the end of each fiscal year, and adjusted if appropriate. These changes are treated as changes in accounting estimates.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

Impairment

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is considered to be impaired and it is written down to its recoverable amount. Assets are reviewed to determine whether there is any indication of impairment. Assessing whether such indications exist is subject to management's judgment.

3.4 SOFTWARE AND OTHER INTANGIBLE ASSETS

Software and other intangible assets are recorded at cost including expenditure that is directly attributable to the acquisition of the items, less accumulated depreciation and impairment losses. Additions and subsequent expenditures are capitalised only to the extent that they enhance the future economic benefits expected to be derived from the assets.

Software is amortized on a straight line basis over its estimated useful life, which ranges from two to ten years. Amortization of software is recorded in the consolidated statement of income under premises and technology. Other intangible assets with finite lives, mainly consisting of contractual relationships with financial intermediaries, core deposits, as well as certain components of the ongoing program to implement the Basel Internal Ratings Based approach to credit risk currently in use, are amortized on a straight-line basis over their estimated useful life, which ranges from three to fourteen years. Amortization of other intangible assets is included in other non-interest expenses.

Software and intangible assets with finite lives are tested for impairment whenever circumstances indicate that the carrying value may not be fully recoverable and at least annually for project under development. When the net carrying amount exceeds the estimated discounted future net cash flows, the assets with finite lives are considered impaired and are written down to their recoverable amount.

Any impairment arising from a decline in value of intangible assets is charged to income in the period in which the losses are incurred.

3.5 EMPLOYEE BENEFITS

The Bank provides short-term benefits such as salary, health and life insurance, annual leave as well as other incentive plans. The Bank also provides post-employment benefits, including pension plans, as well as, for certain retired employees, health and life insurance.

Short-term benefits

The Bank recognizes an expense when it has used services rendered by employees in exchange for employee benefits.

Post-employment benefits

The Bank has a number of benefit plans, including defined benefit and defined contribution pension plans, as well as other post-employment benefits. Funding is generally provided by both the Bank and the participating employees of the plans.

Defined benefit pension plans

Typically, defined benefit plans provide benefits based on years of service, age, contribution and average earnings. The defined benefit asset or liability, recognized on the consolidated balance sheet, corresponds to the present value of the plan obligation less the fair value of the plan assets at the balance sheet date. The present value of the defined benefit obligation is measured using the estimated future cash outflows discounted at the rate of high-quality corporate bonds with a maturity approximating the terms of the related defined benefit obligations. The cost of providing benefits under the plans is determined for each plan using the projected unit credit actuarial valuation method, which incorporates various parameters such as discount rates, future salary levels, retirement age, mortality rates and the general inflation rate. Pension plan assets are measured at fair value.

Actuarial gains and losses arise from changes in actuarial assumptions used to determine the plan obligation. Actuarial gains and losses are recognized as they occur in items of other comprehensive income that may not be reclassified subsequently to the consolidated statement of income and are immediately transferred to retained earnings.

The value of any pension plan asset is restricted to the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan. Any restriction would be recorded as a valuation allowance.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

Defined benefit costs recognized in the consolidated statement of income under Salaries and employee benefits consist of: [a] current year's service cost, [b] interest expense on the defined benefit obligation, [c] return on plan assets based on the rate used to discount the plan obligation, [d] past service cost and [e] change in the valuation allowance.

Defined contribution pension plans

As part of the pension plans, the Bank also operates defined contribution pension arrangements. The contribution payable to these defined contribution arrangements is in proportion to the services rendered to the Bank by the employees and is recorded as an expense under Salaries and employee benefits. Unpaid contributions are recorded as a liability.

Other post-employment benefits

The Bank offers other post-employment benefits to its employees such as a salary continuance plan during maternity leave and the payment of group insurance plan premiums during a disability period or maternity leave. In addition, certain retired employees have other retirement benefits, including health and life insurance. The costs related to these benefits are recognized during the employees' service life according to accounting policies similar to those applied to defined benefit pension plans.

3.6 PROVISIONS AND CONTINGENT LIABILITIES

Provisions are liabilities of uncertain timing or amount. They are recognized when the Bank has a present legal or constructive obligation as a result of a past event, and it is both probable that an outflow of resources will be required to settle the obligation and the cost can be reliably estimated.

Contingent liabilities are not accrued but disclosed in the consolidated financial statements when the Bank cannot determine whether an obligation is probable or cannot reliably estimate the amount of loss.

The Bank regularly assesses the adequacy of its provisions and makes the necessary adjustments to incorporate new information as they become available.

3.7 INCOME TAXES

The Bank uses the liability method of tax allocation and accounts for the deferred income tax assets and liabilities related to loss carry forwards and other temporary differences between the carrying amounts and the tax bases of assets and liabilities, in accordance with tax laws and rates enacted or substantively enacted on the date the differences are expected to reverse. A valuation allowance is established, as needed, to reduce the deferred income tax asset to the amount that is more likely than not to be realized. All amounts resulting from changes in tax rates are recorded in net income, except to the extent that it relates to items previously recognized in equity, in which case they are recorded in equity.

3.8 EARNINGS PER SHARE

The Bank calculates its basic earnings per share by dividing net income for the period, after deduction of preferred share dividends, including applicable income taxes, as well as premiums on redemption of preferred shares, by the weighted average number of common shares outstanding for the period. Diluted earnings per share are calculated by dividing the basic earnings, adjusted for the effects of potentially dilutive common shares, by the weighted average number of common shares outstanding adjusted for the period, inclusive of the effect of potentially dilutive common shares.

3.9 INSURANCE

The Bank is engaged in credit life and disability insurance activities. Insurance premiums are recognized as revenue, net of reinsurance, over the terms of the underlying policies. Insurance claims and changes in policy holder benefit estimates are recorded as incurred. These activities are presented in other income under insurance income, net.

3.10 SHARE-BASED PAYMENTS

The Bank provides share-based compensation to certain employees and directors.

Compensation expense of share purchase options is accrued based on the best estimate of the number of instruments expected to vest, with revisions made to that estimate if subsequent information indicates that actual forfeitures are likely to differ from initial estimates. Share purchase options are expensed over the applicable vesting period with a corresponding increase in share-based payment reserve in equity. Upon exercise of the instruments, corresponding amounts in the share-based payment reserve are transferred to the common share account within shareholders' equity.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

Stock appreciation rights, restricted share units, performance share units (PSUs) and deferred share units are accounted for as cash-settled share-based payment awards. These rights and units are recognized as a compensation expense over the applicable vesting period with a corresponding liability accrued based on the fair value of the Bank's common shares and, for PSUs, specific performance conditions. The change in the value of rights and units resulting from changes in the fair value of the Bank's common shares or changes in the specific performance conditions and credited dividends is recognized in income during the vesting period, partly offset by the effect of total return swaps used to manage the variability in the value and expenses of the related rights and units.

The Bank's contributions related to the employee share purchase program are recognized as compensation expense.

3.11 ASSETS UNDER ADMINISTRATION AND ASSETS UNDER MANAGEMENT

The Bank administers and manages assets held by customers that are not recognized in the consolidated balance sheet. Revenues derived from the administration and management of these assets are recorded in other income, as services are provided.

3.12 TRANSLATION OF FOREIGN CURRENCIES

The consolidated financial statements are presented in Canadian dollars which is the functional and reporting currency of all the entities of the group. Financial assets and financial liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rates prevailing at the consolidated balance sheet date. Income and expenses are translated at the average monthly exchange rates. Realized or unrealized gains and losses resulting from the translation of foreign currencies are included in other income.

3.13 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash and non-interest-bearing deposits with other banks, and are classified in the loans and receivables category. Cash comprises bank notes and coins.

3.14 LEASES

The Bank entered into lease agreements for its premises and other contracts. These agreements are accounted for as operating leases as they do not transfer substantially all the risks and benefits incidental to ownership of the leased items. Operating lease payments are recognized in other non-interest expenses in the consolidated statement of income on a straight-line basis over the lease term.

3.15 SHARE CAPITAL

Share issue costs

Incremental costs directly attributable to the issue of new shares or options are recorded in equity as a deduction from the proceeds, net of applicable income taxes.

Dividend on common shares

Dividends on common shares are recorded in equity in the period in which they are approved by the Bank's Board of Directors.

4. CURRENT AND FUTURE ACCOUNTING CHANGES

4.1 CURRENT ACCOUNTING CHANGES

IAS 19: *Employee benefits*

Effective November 1, 2013 the Bank adopted an amended version of IAS 19, *Employee Benefits*. The amendments to IAS 19 eliminate the option to defer the recognition of gains and losses resulting from defined benefit plans, known as the "corridor method", which was historically used by the Bank, and requires that remeasurements be presented in shareholders' equity. Accordingly, actuarial gains and losses are now recognized as they occur in items of other comprehensive income that may not be reclassified subsequently to the statement of income. The Bank elected to transfer those amounts within retained earnings.

4. CURRENT AND FUTURE ACCOUNTING CHANGES [CONT'D]

The amendments also require full recognition of past service costs or gains immediately in net income, and recognition of expected return on plan assets in net income to be calculated based on the rate used to discount the defined benefit obligation. The amendments include additional disclosures that explain the characteristics of the entity's defined benefit plans and risks associated with the plans, as well as disclosures that describe how defined benefit plans may affect the amount, timing and uncertainty of future cash flows, and details of any asset-liability match strategies used to manage risks. New disclosures required as a result of the adoption of the amended version of IAS 19 are presented in Note 18. Other comparative information in the accompanying notes has been amended accordingly.

These amendments have been applied retrospectively by the Bank as of November 1, 2012 and the impact on the consolidated statement of income, consolidated statement of comprehensive income and consolidated balance sheet for the comparative 2013 period is shown in the tables below. The adoption of this amended standard had no impact on cash flows. Compared to the earlier version of IAS 19, for the year ended October 31, 2014, the adoption of these amendments increased salaries and employee benefits by approximately \$7.0 million and resulted in the recognition of net actuarial gains in other comprehensive income of \$4.7 million.

Adjustment to the Consolidated Statement of Income for the year ended October 31, 2013

| | 2013 | |
|--|------|---------|
| Increase in salaries and employee benefits | \$ | 7,111 |
| Decrease in income taxes | | (1,908) |
| Decrease in net income | \$ | (5,203) |
| Decrease in basic and diluted earnings per share | \$ | (0.19) |

Adjustment to the Consolidated Statement of Comprehensive Income for the year ended October 31, 2013

| | 2013 | |
|--|------|---------|
| Decrease in net income | \$ | (5,203) |
| Increase in actuarial gains and losses on employee benefit plans (net of income taxes) | | 20,645 |
| Increase in comprehensive income | \$ | 15,442 |

Adjustment to the Consolidated Balance Sheet

| | October 31, 2013 | | November 1, 2012 | |
|--|---------------------|----------|---------------------|----------|
| Decrease in other assets – defined benefit plan assets | \$ | (34,244) | \$ | (21,773) |
| Increase in deferred tax assets | | 19,590 | | 25,252 |
| Increase in other liabilities – defined benefit plan liabilities | | (39,040) | | (72,615) |
| Decrease in other liabilities – other | | 272 | | 272 |
| Net decrease in retained earnings | \$ | (53,422) | \$ | (68,864) |

IFRS 10: Consolidated financial statements, IFRS 11: Joint arrangements and IFRS 12: Disclosure of interests in other entities

Effective November 1, 2013 the Bank adopted IFRS 10, *Consolidated Financial Statements*, IFRS 11, *Joint Arrangements* and IFRS 12, *Disclosure of Interests in Other Entities*.

IFRS 10 replaces the consolidation requirements in SIC-12, *Consolidation – Special Purpose Entities*, and IAS 27, *Consolidated and Separate Financial Statements*, and establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. The standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess.

IFRS 11 supersedes IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly-controlled Entities – Non-monetary Contributions by Venturers*, and provides guidance for the accounting of joint arrangements that focuses on the rights and obligations of the arrangement, rather than its legal form.

4. CURRENT AND FUTURE ACCOUNTING CHANGES [CONT'D]

IFRS 12 provides disclosure requirements about subsidiaries, joint arrangements and associates, as well as structured entities, and replaces existing disclosure requirements.

These standards have been applied retrospectively as of November 1, 2012 and did not have any impact on the Bank's financial position or results.

IFRS 13: *Fair value measurement*

Effective November 1, 2013, the Bank adopted IFRS 13, *Fair Value Measurement*. IFRS 13 establishes a single source of guidance for fair value measurements when fair value is required or permitted by IFRS and provides for enhanced disclosures when fair value is applied. The prospective application of this standard did not have any significant impact on the Bank's financial position or results. New disclosures required as a result of the adoption of IFRS 13 are presented in Note 23.

IFRS 7: *Financial instruments: disclosures*

Effective November 1, 2013, the Bank adopted amendments to IFRS 7, *Financial Instruments: Disclosures*, to include new disclosure requirements that are intended to help users to better assess the effect or potential effect of offsetting arrangements on an entity's financial position. New disclosures required as a result of the adoption of the amendments to IFRS 7 are presented in Note 24.

4.2 FUTURE ACCOUNTING CHANGES

The following section summarizes accounting standards which have been issued but are not yet effective. The Bank is currently assessing the impact of the adoption of these standards on its consolidated financial statements.

IFRS 9: *Financial instruments*

In July 2014, the IASB issued the final version of IFRS 9, *Financial Instruments*, which will be replacing IAS 39 *Financial Instruments: Recognition and Measurement*. This version supersedes all previous versions of IFRS 9 and is effective for annual periods beginning on or after January 1, 2018. IFRS 9 provides requirements for how an entity should classify and measure financial assets and liabilities, as well as a new expected credit loss impairment model. It also introduces certain modifications to the general hedge accounting model.

Classification and Measurement

IFRS 9 requires all financial assets to be classified in three categories (amortized cost, fair value through profit or loss or fair value through other comprehensive income) based on the cash flow characteristics and the business model under which the assets are held.

Financial liabilities will be classified in the same categories as those currently defined in IAS 39. However, measurement of financial liabilities elected to be measured at fair value has been modified: IFRS 9 requires changes in the fair value of an entity's own credit risk to be recognized in other comprehensive income rather than in profit or loss. Early application of this modification, prior to any other changes in the accounting for financial instruments, is permitted by IFRS 9.

Impairment

IFRS 9 introduces a new expected-loss impairment model. Specifically, IFRS 9 requires entities to account for expected credit losses from when financial instruments are first recognized and to recognize full lifetime expected losses when credit deterioration reaches certain thresholds. The new model is accompanied by enhanced disclosure about expected credit losses and credit risk.

Hedge accounting

IFRS 9 introduces certain modifications for hedge accounting that aims to provide a better link between an entity's risk management strategy, the rationale for hedging and the impact of hedging on the financial statements. Accounting for macro hedging has been decoupled from IFRS 9 and may be issued as a separate standard. The current hedge accounting requirements under IAS 39 may continue to be applied until the IASB finalizes its macro hedge accounting project. The IFRS 9 hedge accounting model retains the three types of hedging relationships under IAS 39 (fair value, cash flow and net investment hedges), but includes changes to hedge effectiveness testing. The new standard also requires enhanced disclosure about risk management activities.

4. CURRENT AND FUTURE ACCOUNTING CHANGES [CONT'D]

IAS 32: *Financial instruments: presentation*

In December 2011, the IASB issued amendments to IAS 32, *Financial Instruments: Presentation* to clarify its requirements for offsetting financial instruments. The amendments, which address inconsistencies in current practice when applying the offsetting criteria in IAS 32, are effective for annual periods beginning on or after January 1, 2014, which will be November 1, 2014 for the Bank, and are to be applied retrospectively.

IFRIC 21: *Levies*

In May 2013, the IFRS Interpretations Committee (IFRIC), with the approval of the IASB, issued IFRIC 21, *Levies*. IFRIC 21 provides guidance on when to recognize a liability to pay a levy imposed by government, which is accounted for in accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014, which will be November 1, 2014 for the Bank, and is to be applied retrospectively.

IAS 39: *Financial instruments: recognition and measurement*

In June 2013, the IASB issued amendments to IAS 39, *Financial Instruments: Recognition and Measurement*, which provides relief from discontinuing hedge accounting when novation of a derivative designated as a hedge accounting instrument meets certain criteria. The IAS 39 amendments are effective for annual periods beginning on or after January 1, 2014, which will be November 1, 2014 for the Bank, and are to be applied retrospectively.

IFRS 15: *Revenue from contracts with customers*

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, which establishes a comprehensive framework for the recognition, measurement and disclosure of revenues. IFRS 15 applies to all contracts with customers (except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments) and replaces, amongst others, the previous revenue standard IAS 18, *Revenue* and the related interpretation on revenue recognition IFRIC 13, *Customer Loyalty Programmes*. The new standard also includes requirements for accounting for some costs that are related to a contract with a customer. IFRS 15 is effective for annual periods beginning on or after January 1, 2017, which will be November 1, 2017 for the Bank.

5. SECURITIES

MATURITY SCHEDULE OF SECURITIES

Portfolio of available-for-sale securities

| | | | | | 2014 | 2013 |
|------------------------------------|------------------|-----------------|-----------------|-------------------------|--------------|--------------|
| | Within 1 year | 1 to 5 years | Over 5 years | No specific maturity | Total | Total |
| Securities issued or guaranteed | | | | | | |
| by Canada ⁽¹⁾ | \$ 1,124,569 | \$ 4,759 | \$ — | \$ — | \$ 1,129,328 | \$ 661,420 |
| by provinces | 433,817 | 608,316 | — | — | 1,042,133 | 642,969 |
| Other debt securities | 16,497 | 135,200 | 29,267 | — | 180,964 | 185,940 |
| Asset-backed securities | 6,876 | 28,960 | 3,938 | — | 39,774 | 33,142 |
| Preferred shares | 2,925 | 4,027 | 837 | 92,270 | 100,059 | 82,868 |
| Common shares and other securities | — | — | — | 84,759 | 84,759 | 72,728 |
| | \$ 1,584,684 | \$ 781,262 | \$ 34,042 | \$ 177,029 | \$ 2,577,017 | \$ 1,679,067 |

(1) Including mortgage-backed securities that are fully guaranteed by the Canada Mortgage and Housing Corporation pursuant to the *National Housing Act*.

Portfolio of held-to-maturity securities

| | | | | | 2014 | 2013 |
|--|------------------|-----------------|------------|------------|-------|-------|
| | Within 1 year | 1 to 5 years | Total | Total | Total | Total |
| Securities issued or guaranteed by Canada ⁽¹⁾ | \$ 289,339 | \$ 33,668 | \$ 323,007 | \$ 620,784 | | |
| Asset-backed securities | — | — | — | 28,090 | | |
| | \$ 289,339 | \$ 33,668 | \$ 323,007 | \$ 648,874 | | |

(1) Including mortgage-backed securities that are fully guaranteed by the Canada Mortgage and Housing Corporation pursuant to the *National Housing Act*.

Refer to Note 7 for additional information on held-to-maturity securities.

5. SECURITIES [CONT'D]

GAINS AND LOSSES RECOGNIZED IN COMPREHENSIVE INCOME

Gains and losses recognized in income from treasury and financial market operations on the portfolio of available-for-sale securities for the years ended October 31.

| | 2014 | | 2013 | |
|----------------------------|------|-------|------|-------|
| Realized net gains | \$ | 8,290 | \$ | 4,290 |
| Write-downs for impairment | | (367) | | (518) |
| | \$ | 7,923 | \$ | 3,772 |

Unrealized gains and losses recognized in other comprehensive income on the portfolio of available-for-sale securities for the years ended October 31.

| | 2014 | | 2013 | |
|------------------------------------|----------------|------------------|-------------------|--------------|
| | Amortized cost | Unrealized gains | Unrealized losses | Fair value |
| Securities issued or guaranteed | | | | |
| by Canada ⁽¹⁾ | \$ 1,129,337 | \$ 65 | \$ 74 | \$ 1,129,328 |
| by provinces | 1,041,510 | 699 | 76 | 1,042,133 |
| Other debt securities | 175,522 | 5,561 | 119 | 180,964 |
| Asset-backed securities | 38,672 | 1,104 | 2 | 39,774 |
| Preferred shares | 99,109 | 1,890 | 940 | 100,059 |
| Common shares and other securities | 71,592 | 13,697 | 530 | 84,759 |
| | \$ 2,555,742 | \$ 23,016 | \$ 1,741 | \$ 2,577,017 |

(1) Including mortgage-backed securities that are fully guaranteed by the Canada Mortgage and Housing Corporation pursuant to the *National Housing Act*.

| | 2014 | | 2013 | |
|------------------------------------|----------------|------------------|-------------------|--------------|
| | Amortized cost | Unrealized gains | Unrealized losses | Fair value |
| Securities issued or guaranteed | | | | |
| by Canada ⁽¹⁾ | \$ 661,167 | \$ 288 | \$ 35 | \$ 661,420 |
| by provinces | 642,518 | 485 | 34 | 642,969 |
| Other debt securities | 181,280 | 5,267 | 607 | 185,940 |
| Asset-backed securities | 31,943 | 1,235 | 36 | 33,142 |
| Preferred shares | 85,177 | 404 | 2,713 | 82,868 |
| Common shares and other securities | 60,540 | 12,806 | 618 | 72,728 |
| | \$ 1,662,625 | \$ 20,485 | \$ 4,043 | \$ 1,679,067 |

(1) Including mortgage-backed securities that are fully guaranteed by the Canada Mortgage and Housing Corporation pursuant to the *National Housing Act*.

Refer to Note 23 for additional information on the determination of fair value of securities.

6. LOANS

LOANS AND IMPAIRED LOANS

| | 2014 | | | | | |
|-------------------------------------|-----------------------|--------------------------------|-----------------------|------------------------|---------------------|------------------|
| | Gross amount of loans | Gross amount of impaired loans | Individual allowances | Collective allowances | | Total allowances |
| | | | | Against impaired loans | Against other loans | |
| Personal | \$ 6,793,078 | \$ 22,359 | \$ — | \$ 9,425 | \$ 28,986 | \$ 38,411 |
| Residential mortgage | 14,825,541 | 32,843 | — | 3,964 | 7,612 | 11,576 |
| Commercial mortgage | 2,651,271 | 16,633 | 3,917 | 1,884 | 20,736 | 26,537 |
| Commercial and other ⁽¹⁾ | 3,159,689 | 30,245 | 18,034 | 1,965 | 22,848 | 42,847 |
| | \$ 27,429,579 | \$ 102,080 | \$ 21,951 | \$ 17,238 | \$ 80,182 | \$ 119,371 |

6. LOANS [CONT'D]

2013

| | Gross amount of loans | Gross amount of impaired loans | Individual allowances | Collective allowances | | Total allowances |
|-------------------------------------|--------------------------|--------------------------------------|--------------------------|------------------------------|---------------------------|---------------------|
| | | | | Against impaired loans | Against other loans | |
| Personal | \$ 7,245,474 | \$ 13,971 | \$ — | \$ 7,008 | \$ 32,953 | \$ 39,961 |
| Residential mortgage | 14,735,211 | 32,651 | — | 3,122 | 5,884 | 9,006 |
| Commercial mortgage | 2,488,826 | 14,082 | 9,731 | 254 | 15,764 | 25,749 |
| Commercial and other ⁽¹⁾ | 2,759,186 | 38,687 | 24,535 | 1,665 | 14,674 | 40,874 |
| | \$ 27,228,697 | \$ 99,391 | \$ 34,266 | \$ 12,049 | \$ 69,275 | \$ 115,590 |

(1) Including customers' liabilities under acceptances for an amount of \$365.5 million (\$271.0 million as at October 31, 2013)

Foreclosed assets

Held-for-sale assets acquired in 2014 with respect to impaired loans which are managed for sale in an orderly manner amounted to \$3.3 million (\$4.7 million in 2013). There were no individual allowances with regards to these loans prior to foreclosure.

INDIVIDUAL ALLOWANCES FOR LOAN LOSSES

| | Commercial mortgage loans | Commercial and other loans ⁽¹⁾ | 2014 Total individual allowances | 2013 Total individual allowances |
|--|---------------------------------|---|---|---|
| Balance at beginning of year | \$ 9,731 | \$ 24,535 | \$ 34,266 | \$ 47,849 |
| Provision for loan losses recorded in the consolidated statement of income | (2,455) | (1,515) | (3,970) | (4,656) |
| Write-offs ⁽²⁾ | (3,312) | (4,952) | (8,264) | (8,153) |
| Recoveries | — | 79 | 79 | 142 |
| Interest accrued on impaired loans | (47) | (113) | (160) | (916) |
| Balance at end of year | \$ 3,917 | \$ 18,034 | \$ 21,951 | \$ 34,266 |

(1) Including customers' liabilities under acceptances

(2) No restructured loans were written off during the fiscal years ended October 31, 2014 and 2013.

COLLECTIVE ALLOWANCES FOR LOAN LOSSES

Collective allowances against impaired loans

| | Personal loans | Residential mortgage loans | Commercial mortgage loans | Commercial and other loans ⁽¹⁾ | 2014 Total collective allowances | 2013 Total collective allowances |
|--|-------------------|----------------------------------|---------------------------------|---|---|---|
| Balance at beginning of year | \$ 7,008 | \$ 3,122 | \$ 254 | \$ 1,665 | \$ 12,049 | \$ 12,492 |
| Provision for loan losses recorded in the consolidated statement of income | 29,029 | 3,602 | 1,890 | 542 | 35,063 | 28,582 |
| Write-offs ⁽²⁾ | (33,503) | (1,633) | — | (44) | (35,180) | (30,458) |
| Recoveries | 7,329 | (740) | — | 24 | 6,613 | 2,499 |
| Interest accrued on impaired loans | (438) | (387) | (260) | (222) | (1,307) | (1,066) |
| Balance at end of year | \$ 9,425 | \$ 3,964 | \$ 1,884 | \$ 1,965 | \$ 17,238 | \$ 12,049 |

(1) Including customers' liabilities under acceptances

(2) No restructured loans were written off during the fiscal years ended October 31, 2014 and 2013.

6. LOANS [CONT'D]

Collective allowances against other loans

| | | | | | 2014 | 2013 |
|--|-------------------|----------------------------------|---------------------------------|---|-----------------------------------|-----------------------------------|
| | Personal loans | Residential mortgage loans | Commercial mortgage loans | Commercial and other loans ⁽¹⁾ | Total collective allowances | Total collective allowances |
| Balance at beginning of year | \$ 32,953 | \$ 5,884 | \$ 15,764 | \$ 14,674 | \$ 69,275 | \$ 57,201 |
| Provision loan losses recorded in the consolidated statement of income | (3,967) | 1,728 | 4,972 | 8,174 | 10,907 | 12,074 |
| Balance at end of year | \$ 28,986 | \$ 7,612 | \$ 20,736 | \$ 22,848 | \$ 80,182 | \$ 69,275 |

(1) Including customers' liabilities under acceptances

An allowance for undrawn amounts under approved credit facilities is also recorded in other liabilities and amounted to \$7.4 million as at October 31, 2014 [\$7.5 million as at October 31, 2013].

LOANS PAST DUE BUT NOT IMPAIRED

Personal and residential mortgage loans past due shown in the table below are not classified as impaired because they are less than 90 days past due or they are secured such as to reasonably expect full recovery. Commercial loans past due but not impaired are not significant.

| | | | | | 2014 |
|-----------------------|-------------------|---------------------|-----------------|------------|------|
| | 1 day- 31 days | 32 days- 90 days | Over 90 days | Total | |
| Personal loans | \$ 82,681 | \$ 26,571 | \$ 5,350 | \$ 114,602 | |
| Residential mortgages | 232,217 | 58,137 | 32,706 | 323,060 | |
| | \$ 314,898 | \$ 84,708 | \$ 38,056 | \$ 437,662 | |

| | | | | | 2013 |
|-----------------------|-------------------|---------------------|-----------------|------------|------|
| | 1 day- 31 days | 32 days- 90 days | Over 90 days | Total | |
| Personal loans | \$ 90,749 | \$ 25,051 | \$ 5,799 | \$ 121,599 | |
| Residential mortgages | 242,398 | 44,159 | 46,952 | 333,509 | |
| | \$ 333,147 | \$ 69,210 | \$ 52,751 | \$ 455,108 | |

7. LOAN SECURITIZATION

The Bank securitizes residential mortgage loans primarily by participating in the Canada Mortgage Bond (CMB) program and through multi-seller conduits set up by large Canadian banks. As the Bank ultimately retains certain prepayment risk, interest rate risk and credit risk related to the transferred mortgage loans, these are not derecognized and the securitization proceeds are recorded as securitization liabilities.

CANADA MORTGAGE BOND PROGRAM

Under the National Housing Act (NHA) mortgage-backed securities (MBS) program, the Bank issues securities backed by residential mortgage loans that are insured by the Canada Mortgage and Housing Corporation (CMHC) against borrowers' default (the NHA MBS). The Bank subsequently sells these NHA MBS to a special purpose trust set-up by the CMHC, the Canada Housing Trust (CHT), which finances the purchases by issuing CMHC guaranteed CMB.

7. LOAN SECURITIZATION [CONT'D]

NHA MBS are amortizing assets that pay back principal and interest cash flows on a monthly basis. For their part, CMBs provide investors with a fixed interest coupon bond with semi-annual interest payments and repayment of principal on specified maturity dates. To address this difference in cash flows, the CHT enters into master swap agreements with approved financial institutions (Swap Counterparties). Under the swap agreements, Swap Counterparties receive the monthly interest flows from the original NHA MBS and the Replacement Assets (see below), and in return provide the CHT with the regular interest payments required to pay out to investors under the terms of the CMB. In addition, under the swap agreements, the Swap Counterparties are responsible to reinvest the monthly principal flows from the NHA MBS on behalf of the CHT. The Swap Counterparties may only carry out this reinvestment in AAA-rated mortgage-backed securities and Canada guaranteed eligible assets (the Replacement Assets). Simultaneously, these Swap Counterparties conclude similar swap agreements with the Bank. At the swap coupon settlement date, the Bank therefore pays/receives the difference between the amount collected from the original NHA MBS, as well as from the Replacement Assets, and the amount payable to investors under the terms of the CMB.

Since the underlying cash flows associated with these swap agreements are captured through the on-balance sheet recognition of the underlying assets and the associated securitization liabilities, these swap agreements are not recognized at fair value on the consolidated balance sheet and fair value changes are not recognized in the consolidated statement of income. The underlying cash flows of the swap agreements are recognized on an accrual basis as described below. As at October 31, 2014, the notional amount of these swaps was \$4.3 billion (\$4.3 billion as at October 31, 2013).

Assets related to securitization activities

As these securitization transactions do not meet derecognition criteria, the securitized mortgage loans remain on balance sheet as residential mortgage loans. However, as the Bank's right, title and interest in the transferred mortgages are legally transferred to the CHT, these are considered pledged assets. Interest income is accrued on these loans as for the Bank's other mortgage loans. In addition, the Replacement Assets are also recorded on balance sheet and considered pledged assets. Interest income is accrued on these securities as for other similar securities. The CMB holders and CMHC have no recourse to other assets of the Bank in the event of failure of debtors to pay when due.

Debt related to securitization activities

As these securitization transactions do not meet derecognition criteria, the proceeds received are recorded as a debt related to CMB transactions on the consolidated balance sheet of the Bank. Interest accrued on debt related to CMB transactions is based on the CMB coupon related to the series in which the Bank participated and is classified in other liabilities as accrued interest payable.

MULTI-SELLER CONDUITS

As part of transactions with multi-seller conduits, the Bank sells mortgage loans to trusts established for the limited purpose of securitization activities. These trusts fund such purchases mainly through the issuance of asset-backed commercial paper. Funding is reduced as mortgage loans are repaid. To reduce the interest-rate risk associated to the mismatch between the fixed rate mortgage loans and the variable rate funding of the trusts, as well as to reduce the risk related to the timing of the collection of cash flows related to the mortgage loans, the trusts enter into swap agreements with third party swap counterparties. Under the swap agreements, these swap counterparties receive the monthly interest flows from the mortgage loans and in return provide the trusts with the regular interest payments required to pay out to investors under the terms of the asset-backed commercial paper. Simultaneously, these swap counterparties conclude similar swap agreements with the Bank. At the swap coupon settlement date, the Bank therefore pays/receives the difference between the amount collected from the mortgage loans and the amount payable to investors. Because the underlying cash flows associated with these interest rate swaps are captured through the on-balance sheet recognition of the underlying mortgage loans and the associated securitization liabilities, these interest rate swaps are not recognized at fair value on the consolidated balance sheet and fair value changes are not recognized in the consolidated statement of income. The underlying cash flows of the interest rate swaps are recognized on an accrual basis as described below. As at October 31, 2014, the notional amount of these swaps was \$0.5 billion (\$0.7 billion as at October 31, 2013).

Assets related to securitization activities

As the Bank provides credit enhancements for these transactions, they do not meet derecognition criteria and the securitized mortgage loans remain on balance sheet as residential mortgages. However, as the Bank's rights, title and interest in the transferred mortgages are legally transferred to the trusts, these are considered pledged assets. Interest income is accrued on these loans as for the Bank's other mortgage loans. The trusts have no recourse to other assets of the Bank in the event of failure of debtors to pay when due, except as noted below.

7. LOAN SECURITIZATION [CONT'D]

Debt related to securitization activities

As these securitization transactions do not meet derecognition criteria, the proceeds received are recorded as a debt related to multi-seller conduits on the consolidated balance sheet. Interest accrued on debt related to multi-seller conduit transactions are mainly based on the commercial paper issued by the trusts to fund the purchases and are classified in other liabilities as accrued interest payable.

Guarantees related to securitization activities

As part of the transactions with a multi-seller conduit, the Bank has guaranteed the payment and performance of certain obligations and liabilities to the securitization trust. The maximum potential amount of future payments under this guarantee totalled \$354.6 million as at October 31, 2014 (\$523.4 million as at October 31, 2013).

FINANCIAL ASSETS NOT QUALIFYING FOR DERECOGNITION AND ASSOCIATED FINANCIAL LIABILITIES

The following table summarizes the carrying amounts, maturity schedule and fair value of financial assets that do not qualify for derecognition and their associated financial liabilities included in the consolidated balance sheet.

| | | | | | | 2014 | |
|---|------------------|-----------------|--------------|--------------------------|----|--------------------------|----------------|
| | Within 1 year | 1 to 5 years | Over 5 years | Total carrying amount | | Fair value | |
| Residential mortgage loans | \$ 1,692,319 | \$ 2,643,614 | \$ 5,679 | \$ 4,341,612 | \$ | 4,370,324 | |
| Replacement Assets | | | | | | | |
| Cash and deposits with other banks | 14,372 | — | — | 14,372 | | 14,372 | |
| Securities purchased under reverse repurchase agreements | 106,489 | — | — | 106,489 | | 106,489 | |
| Other securities | 289,339 | 33,668 | — | 323,007 | | 323,403 | |
| Debt related to securitization activities | \$ (685,987) | \$ (3,931,492) | \$ (246,369) | \$ (4,863,848) | \$ | (4,913,573) | |
| <hr/> | | | | | | | |
| | | | | | | 2013 | |
| | | | | | | Total carrying amount | Fair value |
| Residential mortgage loans | | | | | | \$ 4,241,310 | \$ 4,275,852 |
| Replacement Assets | | | | | | | |
| Cash and deposits with other banks | | | | | | 12,099 | 12,099 |
| Securities purchased under reverse repurchase agreements | | | | | | 8,410 | 8,410 |
| Other securities | | | | | | 648,874 | 649,388 |
| Debt related to securitization activities | | | | | | \$ (4,974,714) | \$ (5,043,715) |

The following table summarizes the securitization activities carried out by the Bank.

| | 2014 | | 2013 | |
|--|------|-----------|------|---------|
| Carrying amounts of mortgages transferred during the year related to new financing | \$ | 1,028,779 | \$ | 738,458 |
| Carrying amounts of mortgages transferred during the year as Replacement Assets | \$ | 404,768 | \$ | 416,232 |

LOANS UNDER MANAGEMENT

The Bank manages commercial mortgage loans for third parties. The total principal amount of outstanding commercial mortgages loans under management amounted to \$224.1 million at the end of fiscal 2014 (\$397.9 million in 2013). The Bank is not exposed to any credit risk under the servicing agreements in respect of these loans.

SALE OF COMMERCIAL MORTGAGE LOANS

During the year ended October 31, 2014, the Bank sold a portfolio of commercial mortgage loans with a carrying amount of \$102.4 million (\$94.7 million for the year ended October 31, 2013) and recognized a \$3.7 million gain in other income (\$3.7 million in 2013).

8. PREMISES AND EQUIPMENT

The following table presents changes in property, plant and equipment.

| | Premises and Leasehold improvements | | Equipment and furniture | | Computer hardware | | Total |
|---------------------------------|-------------------------------------|---------------|-------------------------|---------------|-------------------|---------------|-------------------|
| Cost | | | | | | | |
| As at October 31, 2012 | \$ | 90,975 | \$ | 88,591 | \$ | 147,292 | \$ 326,858 |
| Additions | | 11,308 | | 2,352 | | 7,292 | 20,952 |
| Write offs | | (30,393) | | (63,067) | | (100,544) | (194,004) |
| As at October 31, 2013 | | 71,890 | | 27,876 | | 54,040 | 153,806 |
| Additions | | 6,552 | | 4,169 | | 1,254 | 11,975 |
| Write offs | | (180) | | (250) | | (4,270) | (4,700) |
| As at October 31, 2014 | \$ | 78,262 | \$ | 31,795 | \$ | 51,024 | \$ 161,081 |
| Accumulated depreciation | | | | | | | |
| As at October 31, 2012 | \$ | 51,806 | \$ | 78,899 | \$ | 124,282 | \$ 254,987 |
| Depreciation | | 7,848 | | 3,277 | | 6,759 | 17,884 |
| Write offs | | (30,080) | | (62,489) | | (99,757) | (192,326) |
| As at October 31, 2013 | | 29,574 | | 19,687 | | 31,284 | 80,545 |
| Depreciation | | 6,164 | | 3,208 | | 6,735 | 16,107 |
| Write offs | | (66) | | (205) | | (4,050) | (4,321) |
| As at October 31, 2014 | \$ | 35,672 | \$ | 22,690 | \$ | 33,969 | \$ 92,331 |
| Carrying amount | | | | | | | |
| As at October 31, 2013 | \$ | 42,316 | \$ | 8,189 | \$ | 22,756 | \$ 73,261 |
| As at October 31, 2014 | \$ | 42,590 | \$ | 9,105 | \$ | 17,055 | \$ 68,750 |

Premises and equipment include \$0.4 million [\$6.3 million in 2013] pertaining to premises under construction yet to be amortized.

Write offs in 2013 were essentially related to fully amortized items no longer in use. Impairment losses on premises and equipment amounted to \$0.4 million in 2014 [\$1.7 million in 2013].

9. GOODWILL

IMPAIRMENT TESTING OF GOODWILL

Goodwill acquired through business combinations has been allocated, as follows, to two individual cash-generating units (CGUs) for impairment testing.

| | As at October 31, 2014 and 2013 | |
|--------------|---------------------------------|---------------|
| Retail unit | \$ | 29,224 |
| B2B Bank | | 34,853 |
| Total | \$ | 64,077 |

Goodwill remained unchanged in 2014 and 2013.

The Bank tests goodwill for impairment on an annual basis. No impairment losses were recognized in 2014 and 2013.

The recoverable amounts for the Retail unit CGU (a part of the Personal & Commercial segment, which encompasses all branch activities and other retail banking activities in Québec) and B2B Bank segment have been determined based on their value in use, using the discounted cash flow (DCF) method.

The DCF method uses projections of cash flows, which are discounted to their present value. Cash flow projections are based on financial plans agreed to by management for a three-year period, estimated based on forecast results, business initiatives and planned capital investments and returns to shareholders. Cash flow projections beyond the initial three-year period are assumed to increase at a constant rate using a nominal long-term growth rate of 3%.

9. GOODWILL [CONT'D]

The discount rate used is based on the bank-wide cost of capital and further adjusted to reflect current market assessment of the risks specific to each CGU. The discount rate used in the annual impairment test was 10%.

In considering the sensitivity of the key assumptions discussed above, management determined that there is no reasonably possible change in any of the above that would cause the carrying value of any of the CGUs to exceed its recoverable amount.

10. SOFTWARE AND OTHER INTANGIBLE ASSETS

| | | Software | | Other intangible assets | | Total |
|---------------------------------|-----------|----------------|-----------|----------------------------|-----------|----------------|
| Cost | | | | | | |
| As at October 31, 2012 | \$ | 426,887 | \$ | 24,235 | \$ | 451,122 |
| Additions | | 59,977 | | 15,771 | | 75,748 |
| Write offs | | (146,694) | | — | | (146,694) |
| As at October 31, 2013 | | 340,170 | | 40,006 | | 380,176 |
| Additions | | 43,364 | | 9,151 | | 52,515 |
| Write offs | | (43,039) | | (140) | | (43,179) |
| As at October 31, 2014 | \$ | 340,495 | \$ | 49,017 | \$ | 389,512 |
| Accumulated amortization | | | | | | |
| As at October 31, 2012 | \$ | 287,886 | \$ | 3,263 | \$ | 291,149 |
| Amortization | | 33,629 | | 3,426 | | 37,055 |
| Write offs | | (145,622) | | — | | (145,622) |
| As at October 31, 2013 | | 175,893 | | 6,689 | | 182,582 |
| Amortization | | 35,903 | | 3,606 | | 39,509 |
| Write offs | | (39,767) | | — | | (39,767) |
| As at October 31, 2014 | \$ | 172,029 | \$ | 10,295 | \$ | 182,324 |
| Carrying amount | | | | | | |
| As at October 31, 2013 | \$ | 164,277 | \$ | 33,317 | \$ | 197,594 |
| As at October 31, 2014 | \$ | 168,466 | \$ | 38,722 | \$ | 207,188 |

Software and other intangible assets include \$35.3 million in 2014 [\$62.6 million in 2013] pertaining to projects under development yet to be amortized.

Other intangible assets mainly consist of contractual relationships with financial intermediaries, core deposits and the ongoing program to implement the Basel Internal Ratings Based approach to credit risk.

Write offs in 2014 and 2013 essentially related to fully amortized items no longer in use. In addition, specific impairment losses on other intangible assets amounted to \$3.4 million in 2014 [\$1.1 million in 2013].

11. OTHER ASSETS

| | | 2014 | | 2013 |
|---|-----------|----------------|-----------|----------------|
| Cheques and other items in transit | \$ | 174,096 | \$ | 147,231 |
| Defined benefit plan assets (Note 18) | | 9,080 | | 10,437 |
| Accrued interest receivable | | 68,251 | | 64,511 |
| Accounts receivable, prepaid expenses and other items | | 114,294 | | 184,985 |
| | \$ | 365,721 | \$ | 407,164 |

12. DEPOSITS

| | 2014 | | | |
|---------------------------|--------------|--------------|---------------|---------------|
| | Demand | Notice | Term | Total |
| Personal | \$ 121,401 | \$ 5,656,316 | \$ 12,964,264 | \$ 18,741,981 |
| Business, banks and other | 1,283,208 | 1,168,490 | 3,329,347 | 5,781,045 |
| | \$ 1,404,609 | \$ 6,824,806 | \$ 16,293,611 | \$ 24,523,026 |

| | 2013 | | | |
|---------------------------|--------------|--------------|---------------|---------------|
| | Demand | Notice | Term | Total |
| Personal | \$ 122,589 | \$ 5,581,578 | \$ 13,577,875 | \$ 19,282,042 |
| Business, banks and other | 1,285,501 | 1,192,303 | 2,167,504 | 4,645,308 |
| | \$ 1,408,090 | \$ 6,773,881 | \$ 15,745,379 | \$ 23,927,350 |

Demand deposits consist of deposits in respect of which the Bank is not authorized to require notice prior to withdrawal by customers. These deposits primarily consist of chequing accounts.

Notice deposits consist of deposits in respect of which the Bank may legally require a withdrawal notice. These deposits generally consist of savings accounts.

Term deposits include deposits maturing at a specific date, particularly term deposits and guaranteed investment certificates, as well as senior unsecured notes.

13. OTHER LIABILITIES

| | 2014 | 2013 |
|--|------------|------------|
| Accrued interest payable | \$ 427,024 | \$ 440,448 |
| Cheques and other items in transit | 119,978 | 161,760 |
| Defined benefit plan liabilities (Note 18) | 62,814 | 77,820 |
| Accounts payable, accrued expenses and other items | 259,213 | 263,084 |
| | \$ 869,029 | \$ 943,112 |

14. DEBT RELATED TO SECURITIZATION ACTIVITIES

The following table details the carrying amount of debt related to securitization activities.

| Maturity | Rate | Nominal Value | 2014 | | 2013 |
|--|-----------------------|---------------|---------------------|-----------|------------------|
| | | | Carrying amount | | Carrying amount |
| Debt related to CMB transactions | | | | | |
| December 2013 | 2.73 % | \$ 301,554 | \$ — | \$ | 301,496 |
| March 2014 | 2.25 | 169,231 | — | | 169,153 |
| June 2014 | 3.18 | 190,541 | — | | 190,430 |
| July 2014 | 3.20 | 62,796 | — | | 62,775 |
| September 2014 | 2.79 | 231,046 | — | | 230,800 |
| December 2014 | 2.80 | 50,639 | 50,630 | | 50,572 |
| March 2015 | 2.98 | 150,264 | 150,207 | | 150,079 |
| June 2015 | 3.20 | 325,637 | 325,412 | | 325,071 |
| December 2015 | 2.49 | 55,755 | 55,677 | | 55,610 |
| December 2015 | 2.78 | 351,028 | 350,526 | | 350,098 |
| June 2016 | 2.80 | 351,108 | 350,542 | | 350,209 |
| June 2016 | 2.81 | 395,984 | 396,742 | | 397,198 |
| December 2016 | 1.89 | 315,014 | 314,347 | | 314,043 |
| December 2016 | 1.88 | 50,152 | 50,321 | | 50,399 |
| June 2017 | 2.10 | 303,903 | 303,183 | | 302,920 |
| June 2017 | 2.11 | 160,948 | 162,038 | | 162,441 |
| December 2017 | 1.74 | 51,139 | 50,954 | | 50,897 |
| December 2017 | 1.73 | 49,676 | 49,569 | | 49,536 |
| June 2018 | 1.81 | 249,696 | 248,969 | | 248,778 |
| June 2018 | 2.11 | 211,897 | 211,126 | | 210,924 |
| December 2018 | 2.42 | 226,073 | 225,085 | | 224,866 |
| December 2018 | 2.38 | 236,655 | 238,386 | | — |
| June 2019 | 2.01 | 252,259 | 251,232 | | — |
| June 2019 | 2.01 | 230,522 | 229,940 | | — |
| September 2019 | 1.25 ⁽¹⁾ | 61,484 | 61,331 | | — |
| December 2019 | 2.07 | 245,519 | 244,518 | | — |
| | | | 4,320,735 | | 4,248,295 |
| Net fair value adjustment ⁽²⁾ | | | 31,770 | | 21,703 |
| | | | 4,352,505 | | 4,269,998 |
| Debt related to multi-seller conduits | | | | | |
| Until August 2017 | 1.78 % ⁽³⁾ | | 511,343 | | 704,716 |
| | | | \$ 4,863,848 | \$ | 4,974,714 |

(1) The interest rate on the debt related to the CMB transaction maturing in September 2019 is based on the CMB variable coupon rate, determined using the 3-month Canadian Dealer Offered Rate as at October 31, 2014.

(2) Carrying value of debt related to securitization activities reflects the impact of interest rate hedges in effective hedge relationships.

(3) The interest rate on the debt related to multi-seller conduits is based on the funding cost of the conduits and corresponds to the rate of the asset-backed commercial paper issued by the conduits, plus related program fees.

15. SUBORDINATED DEBT

The subordinated debt is a direct unsecured obligation of the Bank and is subordinated in right of payment to the claims of depositors and certain other creditors of the Bank. Any repurchase or cancellation of subordinated debt must be approved by OSFI.

ISSUED AND OUTSTANDING

| | | | | 2014 | 2013 |
|--|--------|---------------|--|-----------------|-----------------|
| Maturity | Series | Interest rate | Special terms | Carrying amount | Carrying amount |
| October 2022 | 2012-1 | 3.13% | Redeemable at par as of October 19, 2017 ⁽¹⁾ ; rate to be revised on October 19, 2017 and set at the 90-day bankers' acceptance rate plus 1.46% | \$ 200,000 | \$ 200,000 |
| November 2020 | 2010-1 | 3.70% | Redeemable at par as of November 2, 2015 ⁽¹⁾ ; rate to be revised on November 2, 2015 and set at the 90-day bankers' acceptance rate plus 1.76% | 250,000 | 250,000 |
| | | | | 450,000 | 450,000 |
| Unamortized issuance costs | | | | (931) | (1,488) |
| Net fair value adjustment ⁽²⁾ | | | | (1,546) | (3,039) |
| | | | | \$ 447,523 | \$ 445,473 |

(1) Subject to the provisions of the Bank Act and to the prior consent of OSFI.

(2) Carrying value of subordinated debt reflects the impact of interest rate hedges in effective hedge relationships.

16. SHARE CAPITAL

AUTHORIZED SHARE CAPITAL

Preferred shares – Unlimited number of Class A Preferred Shares, without par value, issuable in series.

Common shares – Unlimited number of common shares, without par value.

PREFERRED SHARES

Terms of preferred shares

The Non-cumulative Class A Preferred Shares, Series 10, were redeemable at the Bank's option since June 15, 2009 at a price of \$25 each plus, if the redemption took place before June 15, 2013, a premium of \$1 which will decrease to zero depending on the redemption date, subject to the provisions of the Bank Act and the prior consent of OSFI. The holders of the Preferred Shares Series 10 were entitled to receive fixed non-cumulative preferential cash dividends payable quarterly, as declared by the Board of Directors, at a rate equal to \$0.328 per share.

The Non-cumulative Class A Preferred Shares, Series 11, are redeemable at the Bank's option, on December 15, 2017 and on December 15 every five years thereafter at a price of \$25 each, subject to the provisions of the Bank Act and to the prior consent of OSFI. On December 15, 2017 and on December 15 every five years thereafter, the holders of Preferred Shares Series 11 may also convert, subject to the automatic conversion provisions and the right of the Bank to redeem those shares, any or all of these preferred shares into an equal number of Preferred Shares Series 12. The holders of the Preferred Shares Series 11 will be entitled to receive fixed non-cumulative preferential cash dividends payable quarterly, as declared by the Board of Directors, at a rate equal to \$0.25 per share until December 15, 2017, at such time and every five years thereafter, the dividend rate will reset to the then current five-year Government of Canada bond yield plus 2.60%.

The Non-cumulative Class A Preferred Shares, Series 12, are redeemable at the Bank's option, by the payment of an amount in cash for each such share so redeemed of (i) \$25 together with all declared and unpaid dividends to the date fixed for redemption in the case of redemptions on December 15, 2022 and on December 15 every five years thereafter, or (ii) \$25.50 together with all declared and unpaid dividends to the date fixed for redemption in the case of redemptions on any other date after December 15, 2017, subject to the provisions of the Bank Act and to the prior consent of OSFI. On December 15, 2022 and on December 15 every five years thereafter, the holders of Preferred Shares Series 12 may also convert, subject to the automatic conversion provisions and the right of the Bank to redeem those shares, any or all of these preferred shares into an equal number of Preferred Shares Series 11. The holders of the Preferred Shares Series 12 will be entitled to receive floating non-cumulative preferential cash dividends payable quarterly, as declared by the Board of Directors, at a rate equal to the three-month Government of Canada Treasury Bills rate plus 2.60% per share.

16. SHARE CAPITAL [CONT'D]

The Non-cumulative Class A Preferred Shares, Series 13 (the Preferred Shares Series 13), are redeemable at the Bank's option, on June 15, 2019 and on June 15 every five years thereafter at a price of \$25 each together with all declared and unpaid dividends to the date fixed for redemption, subject to the provisions of the Bank Act and to the prior consent of OSFI. On June 15, 2019 and on June 15 every five years thereafter, the holders may elect to convert, subject to the automatic conversion provision, any or all of their Preferred Shares Series 13 into an equal number of Non-Cumulative Class A Preferred Shares, Series 14 (the Preferred Shares Series 14). For the initial five-year period ending on, but excluding, June 15, 2019, the holders of the Preferred Shares, Series 13 will be entitled to receive non-cumulative preferential quarterly dividends yielding 4.3% annually, as and when declared by the Board of Directors of the Bank. Thereafter, the dividend rate will reset every five years to be equal to the then current 5-Year Government of Canada bond yield plus 2.55%. The Bank may be required to convert any or all of the Preferred Shares Series 13 into a variable number of common shares upon the occurrence of a non-viability trigger event.

The Non-cumulative Class A Preferred Shares, Series 14 (the Preferred Shares Series 14), are redeemable at the Bank's option, by the payment of an amount in cash for each such share so redeemed of (i) \$25 together with all declared and unpaid dividends to the date fixed for redemption in the case of redemptions on June 15, 2024 and on June 15 every five years thereafter, or (ii) \$25.50 together with all declared and unpaid dividends to the date fixed for redemption in the case of redemptions on any other date after June 15, 2019, subject to the provisions of the Bank Act and to the prior consent of OSFI. On June 15, 2024 and on June 15 every five years thereafter, the holders may elect to convert, subject to the automatic conversion provision, any or all of their Preferred Shares Series 14 into an equal number of Preferred Shares Series 13. The holders of the Preferred Shares Series 14 will be entitled to receive non-cumulative preferential quarterly dividends at a floating quarterly dividend rate equal to the 90-day Canadian Treasury Bill rate plus 2.55%, as and when declared by the Board of Directors of the Bank. The Bank may be required to convert any or all of the Preferred Shares Series 14 into a variable number of common shares upon the occurrence of a non-viability trigger event.

Issued and outstanding

The variation and outstanding number and amounts of preferred shares were as follows.

| | 2014 | | 2013 | |
|----------------------------------|------------------|------------|------------------|------------|
| | Number of shares | Amount | Number of shares | Amount |
| Class A Preferred shares | | | | |
| Series 9 | | | | |
| Outstanding at beginning of year | n.a. | n.a. | 4,000,000 | \$ 97,885 |
| Repurchase of shares | n.a. | n.a. | (4,000,000) | (97,885) |
| Outstanding at end of year | n.a. | n.a. | — | — |
| Series 10 | | | | |
| Outstanding at beginning of year | 4,400,000 | \$ 107,642 | 4,400,000 | 107,642 |
| Repurchase of shares | (4,400,000) | (107,642) | — | — |
| Outstanding at end of year | — | — | 4,400,000 | 107,642 |
| Series 11 | | | | |
| Outstanding at beginning of year | 4,000,000 | 97,562 | 4,000,000 | 97,722 |
| Net adjustment to issuance cost | n.a. | — | n.a. | (160) |
| Outstanding at end of year | 4,000,000 | 97,562 | 4,000,000 | 97,562 |
| Series 13 | | | | |
| Outstanding at beginning of year | — | — | n.a. | n.a. |
| Issuance of shares | 5,000,000 | 125,000 | n.a. | n.a. |
| Net issuance costs | n.a. | (2,929) | n.a. | n.a. |
| | 5,000,000 | 122,071 | n.a. | n.a. |
| | 9,000,000 | \$ 219,633 | 8,400,000 | \$ 205,204 |

There were no outstanding non-cumulative class A preferred shares, series 12 and series 14 as at October 31, 2014.

16. SHARE CAPITAL [CONT'D]

Repurchase of preferred shares

On March 15, 2013, the Bank repurchased 4,000,000 Non-cumulative Class A Preferred Shares, Series 9 at a price of \$25 per share, for an aggregate amount of \$100.0 million.

On June 15, 2014, the Bank repurchased 4,400,000 Non-cumulative Class A Preferred Shares, Series 10 at a price of \$25 per share, for an aggregate amount of \$110.0 million.

Issuance of preferred shares

On April 3, 2014, the Bank issued 5,000,000 Preferred Shares Series 13, at a price of \$25 per share for gross proceeds of \$125.0 million.

COMMON SHARES

Issued and outstanding

The variation and outstanding number and amounts of common shares were as follows.

| | 2014 | | 2013 | |
|--|-------------------|-------------------|-------------------|-------------------|
| | Number of shares | Amount | Number of shares | Amount |
| Common shares | | | | |
| Outstanding at beginning of year | 28,532,412 | \$ 446,496 | 28,117,520 | \$ 428,526 |
| Issuance under the Shareholder Dividend Reinvestment and Share Purchase Plan | 410,587 | 19,387 | 384,892 | 16,952 |
| Net issuance costs | n.a. | (29) | n.a. | (2) |
| Issuance under the employee share purchase option plan | — | — | 30,000 | 1,020 |
| Total common shares | 28,942,999 | \$ 465,854 | 28,532,412 | \$ 446,496 |

Dividend reinvestment and share purchase plan

On December 5, 2012 the Bank introduced its Shareholder Dividend Reinvestment and Share Purchase Plan (the Plan) to eligible Canadian shareholders. Participation in the Plan is optional. Under the terms of the Plan, dividends on common and preferred shares are reinvested to purchase additional common shares of the Bank. Shareholders also have the opportunity to make optional cash payments to acquire additional common shares. At the option of the Bank, the common shares may be issued from the Bank's treasury at an average market price with a discount up to 5%, or from the open market at market price. The Bank determined that reinvestments related to the dividend declared would be made in common shares issued from treasury at a 2% discount.

DECLARED DIVIDENDS

| | 2014 | | 2013 | |
|-------------------------------|--------------------|--------------------|--------------------|--------------------|
| | Dividend per share | Dividends declared | Dividend per share | Dividends declared |
| Class A Preferred shares | | | | |
| Series 9 | n.a. | n.a. | \$ 0.750 | \$ 3,000 |
| Series 10 | \$ 0.984 | \$ 4,331 | \$ 1.312 | 5,775 |
| Series 11 | \$ 1.000 | 4,000 | \$ 0.909 | 3,636 |
| Series 13 | \$ 0.484 | 2,419 | n.a. | n.a. |
| Total preferred shares | | \$ 10,750 | | \$ 12,411 |
| Common shares | \$ 2.06 | \$ 59,105 | \$ 1.98 | \$ 56,037 |

On November 6, 2014, the Board of Directors declared regular dividends on the various series of preferred shares to shareholders of record on December 8, 2014.

At its meeting on December 10, 2014, the Board of Directors declared dividends of \$0.54 per common share, payable on February 1, 2015, to shareholders of record on January 2, 2015.

16. SHARE CAPITAL [CONT'D]

RESTRICTIONS ON THE PAYMENT OF DIVIDENDS

The Bank is prohibited by the Bank Act from declaring or paying any dividends on its preferred shares or common shares if there are reasonable grounds for believing that, in so doing, the Bank would not comply with capital adequacy and liquidity regulations or related guidance provided by OSFI.

The Bank's ability to pay common share dividends is also restricted by the terms of the outstanding preferred shares. These terms provide that the Bank may not pay dividends on its common shares at any time without the approval of holders of the outstanding preferred shares, unless all dividends that are then payable have been declared and paid or set apart for payment.

CAPITAL MANAGEMENT

Management's objective is to maintain an adequate level of capital in a cost-effective structure that: considers the Bank's targeted capital ratios and internal assessment of required capital that is aligned with the Bank's Strategic Plan and shareholders' expectations; is consistent with the Bank's targeted credit ratings; underscores the Bank's capacity to cover risks related to its business operations; provides depositor confidence and produces an acceptable return for shareholders.

The Board of Directors, on the recommendation of the Risk Management Committee, approves annually several capital-related documents, including the Capital Management and Adequacy Policy, the Internal Capital Adequacy Assessment Process, the Stress Testing Program, as well as the Capital Plan. It further reviews capital adequacy on a quarterly basis.

Regulatory capital

The regulatory capital is based on the guideline issued by OSFI originating from the Basel Committee on Banking Supervision (BCBS) regulatory risk based capital framework, commonly referred to as Basel III. Under OSFI's guideline, the Bank must maintain minimum levels of capital depending on various criteria. Tier 1 capital, the most permanent and subordinated forms of capital, must be more predominantly composed of common equity. Tier 1 capital consists of two components: Common equity Tier 1 and Additional Tier 1, to ensure that risk exposures are backed by a high quality capital base. Tier 2 capital consists of supplementary capital instruments and contributes to the overall strength of a financial institution as a going concern.

Under OSFI's guideline, minimum Common Equity Tier 1, Total Tier 1 and Total capital ratios were set at 4.0%, 5.5% and 8.0% respectively for 2014. These ratios include phase-in of certain regulatory adjustments through 2019 and phase-out of non-qualifying capital instruments through 2022, (the "transitional" basis). The guideline also provides for annual increases in minimum capital ratio requirements, which will reach 7.0%, 8.5% and 10.5% respectively in 2019, including the effect of capital conservation buffers.

Furthermore, OSFI indicated that it expects deposit-taking institutions to attain target capital ratios without transition arrangements, as of January 1, 2013, equal to or greater than the 2019 minimum capital ratios plus a conservation buffer (the "all-in" basis), including a minimum 7.0% Common Equity Tier 1 ratio target. The "all-in" basis includes all of the regulatory adjustments that will be required by 2019 but retains the phase-out rules for non-qualifying capital instruments. OSFI also requires that Canadian deposit-taking financial institutions maintain an Asset-to-Capital Multiple.

The guideline provides additional guidance regarding the treatment of non-qualifying capital instruments and specifies that certain capital instruments no longer fully qualify as capital as of January 1, 2013. The Bank's Series 11 preferred shares, as well as Series 2010-1 and 2012-1 subordinated Medium Term Notes are considered non-qualifying capital instruments under Basel III and are subject to a 10% phase-out per year since 2013. On April 3, 2014, the Bank issued Preferred Shares Series 13 which fully qualify as Additional Tier 1 capital under Basel III. Also, on June 15, 2014, the Bank repurchased the Preferred Shares Series 10, which were non-qualifying instruments under Basel III.

The Bank has complied with regulatory capital requirements throughout the year ended October 31, 2014. Regulatory capital is detailed below.

16. SHARE CAPITAL [CONT'D]

| | 2014 | | 2013 ⁽¹⁾ | |
|--|--------------|--------------------|---------------------|--------------------|
| | All-in basis | Transitional basis | All-in basis | Transitional basis |
| Common shares | \$ 465,854 | \$ 465,854 | \$ 446,496 | \$ 446,496 |
| Share-based payment reserve | 91 | 91 | 91 | 91 |
| Retained earnings | 848,905 | 848,905 | 829,678 | 829,678 |
| Accumulated other comprehensive income, excluding cash flow hedge reserve | 13,338 | 13,338 | 9,535 | 9,535 |
| Deductions from Common Equity Tier 1 capital ⁽²⁾ | (240,964) | (48,193) | (268,141) | n.a. |
| Common Equity Tier 1 capital | 1,087,224 | 1,279,995 | 1,017,659 | 1,285,800 |
| Non-qualifying preferred shares ⁽³⁾ | 97,562 | 97,562 | 205,204 | 205,204 |
| Qualifying preferred shares | 122,071 | 122,071 | n.a. | n.a. |
| Deductions from Tier 1 capital | n.a. | (51,262) | n.a. | (64,077) |
| Additional Tier 1 capital | 219,633 | 168,371 | 205,204 | 141,127 |
| Tier 1 capital | 1,306,857 | 1,448,366 | 1,222,863 | 1,426,927 |
| Subordinated debt ⁽⁴⁾ | 355,048 | 355,048 | 399,429 | 399,429 |
| Collective allowances | 87,546 | 87,546 | 88,853 | 88,853 |
| Deductions from Tier 2 capital | (1,925) | (385) | (16,978) | n.a. |
| Tier 2 capital | 440,669 | 442,209 | 471,304 | 488,282 |
| Total capital | \$ 1,747,526 | \$ 1,890,575 | \$ 1,694,167 | \$ 1,915,209 |

(1) Regulatory capital for 2013 is presented as filed with OSFI and has not been adjusted to include the impact of the adoption of amendments to IAS 19, *Employee Benefits*.

(2) Mainly comprised of deductions for software and other intangible assets, goodwill and pension plan assets.

(3) There is currently no deduction related to the 10% phase-out per year of non-qualifying capital instruments under Basel III as the phase-out is calculated on the outstanding balance as at January 1, 2013, which included the Preferred Shares Series 9 and Series 10 subsequently repurchased by the Bank.

(4) Net of an amount of \$92.5 million (\$46.0 million as at October 31, 2013) due to the 10% phase-out per year of non-qualifying capital instruments under Basel III.

17. SHARE-BASED PAYMENTS

SHARE PURCHASE OPTION PLAN

The Bank offers a share purchase option plan to members of its senior management. Under this plan, the exercise price of options for the purchase of common shares must not be less than the market prices of such shares immediately prior to the grant date. The right to exercise the options vests gradually over a maximum five-year period and the options may be exercised at any time up to ten years after they have been granted.

The Bank had initially reserved 1,600,000 common shares for the potential exercise of share purchase options, of which 124,962 were still available as at October 31, 2014 (124,962 as at October 31, 2013). No new share options were granted in 2014 and 2013.

The following table summarizes the Bank's share purchase option activities for the years ended October 31.

| | 2014 | | 2013 | |
|----------------------------------|-------------------|---------------------------|-------------------|---------------------------|
| | Number of options | Exercise price per option | Number of options | Exercise price per option |
| Outstanding at beginning of year | 20,000 | \$ 29.47 | 50,000 | \$ 29.47 |
| Exercised | — | n.a. | (30,000) | 29.47 |
| Outstanding at end of year | 20,000 | \$ 29.47 | 20,000 | \$ 29.47 |
| Exercisable at end of year | 20,000 | \$ 29.47 | 20,000 | \$ 29.47 |

All outstanding options as at October 31, 2014 are expiring in December 2016.

17. SHARE-BASED PAYMENTS [CONT'D]

SHARE APPRECIATION RIGHTS PLAN

The Bank offers a share appreciation rights (SARs) plan to members of its senior management. These SARs may be cash settled for an amount equal to the difference between the SAR exercise price and the closing price of the common shares at the measurement date. SARs vest over a maximum period of five years and can be exercised over a maximum period of ten years. The fair value of SARs is measured using the Black-Scholes-Merton option pricing model, taking into account the terms and condition upon which the instruments were granted, including the dividend yield. The expense related to these units was recognized in net income over their vesting period with a corresponding liability recognized on the balance sheet. At each reporting date, until the liability is settled, the liability is remeasured with changes in fair value recognized in the consolidated statement of income. No SARs were granted during 2014 and 2013.

The following table summarizes the Bank's SARs outstanding balances as at October 31.

Share appreciation rights

| | Weighted average exercise price | Number of SARs outstanding | Weighted average remaining contractual life (years) | Number of SARs exercisable |
|------|--|----------------------------------|---|----------------------------------|
| 2014 | \$ 37.01 | 138,460 | 3.11 | 138,460 |
| 2013 | \$ 36.51 | 185,847 | 3.92 | 178,597 |

PERFORMANCE-BASED SHARE UNIT PLAN

The Bank offers a performance-based share unit (PSU) plan to certain members of its senior management. This plan was amended in 2012. All PSUs are cash settled at fair value. Under the original plan, rights to 37.5% of the units vested over three years. The rights to the remaining 62.5% units vested after three years and upon meeting certain financial objectives. Under the amended plan, all rights to the PSUs vest over three years and upon meeting certain financial objectives. The holders of all PSUs are entitled to an amount equivalent to the dividends paid on the Bank's common shares, which is also converted into additional share units. The expense related to these units is recognized in net income over their vesting period. A deferred version of the plan exists under which the participant is paid on termination of employment rather than at the end of the three-year period.

The following table summarizes the Bank's PSU plan activities for the years ended October 31.

Performance share units

| | Number of units granted | Value of units granted | Vesting date |
|------|----------------------------|---------------------------|-----------------|
| 2014 | 174,730 | \$ 47.10 | December 2016 |
| 2013 | 191,167 | \$ 45.07 | December 2015 |

The number of units outstanding as at October 31, 2014 was 526,723 of which 67,344 units were legally vested under the deferred version of the plan (385,701 units as at October 31, 2013 of which 61,256 units were legally vested).

RESTRICTED SHARE UNIT PLANS

The Bank offers a restricted share unit (RSU) plan to certain members of its senior management. Under the plan, 50% of the annual bonus otherwise payable to an eligible employee, under the Bank's short-term incentive compensation program, can be withheld and converted into fully vested restricted share units at the employees' option. The Bank undertakes to grant additional RSUs equal to 60% of the withheld bonus. These additional units vest at the end of the three-year period following their award. A deferred version of the plan exists under which the participant is paid on termination of employment rather than at the end of the three-year period.

The Bank also offers a RSU plan to certain employees of the capital markets sector. Under that plan, 30% of the annual bonus over a certain amount that would otherwise be payable to an eligible employee has to be withheld and converted into fully vested restricted share units. This plan does not provide for any employer contribution and a third of the restricted share units are redeemed at each of the first three anniversary dates of the grant.

17. SHARE-BASED PAYMENTS [CONT'D]

The holders of share units of both plans are entitled to an amount equivalent to the dividends paid on the Bank's common shares, which is also converted into additional share units. The expense related to these units is recognized in income over their vesting period.

The following table summarizes the Bank's RSU plans activities for the years ended October 31.

| Restricted share units | | | | | |
|------------------------|-------------------|--|-------------------------|------------------------|---------------|
| Plan | | Number of units converted ⁽¹⁾ | Number of units granted | Value of units granted | Vesting date |
| 2014 | Senior management | 53,409 | 33,925 | \$ 47.05 | December 2016 |
| | Capital markets | 30,056 | — | \$ 47.08 | n.a. |
| 2013 | Senior management | 51,572 | 35,503 | \$ 45.06 | December 2015 |
| | Capital markets | 27,904 | — | \$ 45.07 | n.a. |

(1) Corresponds to the portion of annual bonuses converted in RSU. These units are fully vested at grant date.

The number of units outstanding for Senior Management as at October 31, 2014 was 293,760 of which 199,997 units were legally vested under the deferred version of the plan (259,586 units as at October 31, 2013 of which 175,007 units were legally vested). The number of units outstanding for Capital markets as at October 31, 2014 was 58,996, all of which were vested (53,272 units as at October 31, 2013, all of which were vested).

DEFERRED SHARE UNIT PLAN

The Bank offers a deferred share unit plan to non-employee directors of the Bank. Under this plan, each director may choose to receive all or a percentage of his or her remuneration in the form of deferred share units which can be settled in cash or common shares. The deferred share units are converted when the holder steps down from the Board of Directors. In 2014, 2,036 deferred share units were redeemed and settled in cash (1,558 units in 2013). In 2014, the Bank granted 7,384 deferred share units as compensation (7,094 in 2013). As at October 31, 2014, there were 24,187 units (18,839 units in 2013) outstanding with a total value of \$1.2 million (\$0.9 million in 2013).

EMPLOYEE SHARE PURCHASE PLAN

The Bank offers an employee share purchase plan. Under this plan, employees who meet the eligibility criteria can contribute up to 5% of their annual gross salary by way of payroll deductions. The Bank matches 30% of the employee contribution amount, up to a maximum of \$1,500 per year. The Bank's contributions vest to the employee two years after each employee contribution. The Bank's contributions, totalling \$0.6 million during fiscal 2014 (\$0.5 million in 2013), are recognized in salaries and employee benefits. The average value of the granted shares under this plan was \$47.63 in fiscal 2014 (\$44.18 in 2013).

SHARE-BASED PAYMENT PLAN EXPENSE AND RELATED LIABILITY

The following table presents the expense related to all share based payment plans, net of the effect of related hedging transactions.

| | 2014 | | 2013 | |
|--|------|---------|------|---------|
| Expense arising from cash-settled share-based payment transactions | \$ | 11,584 | \$ | 9,474 |
| Effect of hedges | | (3,702) | | (2,596) |
| | \$ | 7,882 | \$ | 6,878 |

With a view to reducing volatility in the share-based compensation plans expense, the Bank enters into total return swap contracts with third parties, the value of which is linked to the Bank's share price. Changes in fair value of these derivative instruments partially offset the share-based payment expense over the period in which the swaps are in effect.

The carrying amount of the liability relating to the cash-settled plans was \$37.8 million as at October 31, 2014 (\$29.1 million as at October 31, 2013).

The intrinsic value of the total liability related to legally vested rights and units was \$15.8 million as at October 31, 2014 (\$13.4 million as at October 31, 2013).

18. POST-EMPLOYMENT BENEFITS

DESCRIPTION OF BENEFIT PLANS

Pension plans

The Bank has a number of defined benefit pension plans, which in certain cases include a defined contribution portion. The benefit plans provide pension benefits to most of the Bank's employees. The defined benefit pension plans are based on years of service and final average salary at retirement time.

Pension plans are registered with OSFI and are subject to the federal Pension Benefits Standards Act, 1985. They are also registered with the Régie des rentes du Québec (RRQ) and are subject to the Québec Supplemental Pension Plan Act. The Bank's Human resources and corporate governance committee of the Board has the responsibility to ensure that management implements appropriate internal oversight systems with a view to adequately manage pension plans in accordance with the laws and regulations in effect.

Other group plans

The Bank offers other post-employment benefits to its employees such as a salary continuance plan during maternity leave and the payment of group insurance plan premiums during a disability period or maternity leave. In addition, certain retired employees have other retirement benefits, including health and life insurance.

RISKS ASSOCIATED WITH PENSION PLANS

Pension plans expose the Bank to a broad range of risks. These risks are managed with the objective of meeting pension benefit obligations, while maintaining a reasonable risk profile for the Bank. The pension obligation is mainly subject to demographic risks such as salary inflation and longevity improvements. In addition, the obligation is impacted by the discount rate. Pension plan assets are subject to market risks and more precisely to equity value, long-term interest rates and credit spreads. To manage risks associated with the pension obligation, the Bank monitors its plan benefits and makes adjustments with the objective of optimizing the overall employee benefits. Defined benefit pension plan assets are invested in order to meet pension obligations. To manage the predominant interest rate risk, the Bank has adopted a liability-driven investment policy. This approach provides more control over the plan's financial position by investing in assets that are correlated with liabilities and that allow a reduction in volatility. Factors taken into consideration in developing the asset allocation include but are not limited to the following:

- (i) the nature of the underlying benefit obligations, including the duration and term profile of the liabilities;
- (ii) the member demographics, including normal retirement age, terminations, and mortality;
- (iii) the financial position of the pension plans; and
- (iv) the diversification benefits obtained by the inclusion of multiple asset classes.

In addition, a portion of the plans' assets can be invested in other asset classes, such as common shares, emerging market equities, high-yield fixed income securities, private equity or debt investments, as well as other alternative investments to improve potential returns.

FUNDING REQUIREMENTS

The Bank's pension plans are funded by both employee and employer contributions, which are determined based on the financial position and the funding policy of the plan. The employer contributions must be sufficient to cover the value of the obligations that currently accrue in the plan, including fees paid by the plan, as well as special contributions required to amortize any deficit. The Bank assumes all the risks and costs related to the pension plans, including any deficit.

DEFINED BENEFIT PLAN MEASUREMENT DATES

The Bank measures its defined benefit obligations and the fair value of plan assets for accounting purposes as at October 31 of each year. The most recent actuarial valuations were performed as at December 31, 2013 for all plans. The next required actuarial valuation for funding purposes will be as at December 31, 2014 for all funded plans.

18. POST-EMPLOYMENT BENEFITS [CONT'D]

DEFINED BENEFIT PLAN OBLIGATIONS

Changes in the present value of the defined benefit obligation are as follows.

| | 2014 | | 2013 | |
|--|---------------|-------------|---------------|-------------|
| | Pension plans | Other plans | Pension plans | Other plans |
| Change in defined benefit obligation | | | | |
| Defined benefit obligation at beginning of year | \$ 517,671 | \$ 35,026 | \$ 517,092 | \$ 34,690 |
| Current service cost | 14,272 | 53 | 14,700 | 55 |
| Past service cost | 1,189 | — | — | — |
| Interest expense | 23,661 | 1,340 | 22,878 | 1,279 |
| Benefits paid | (32,006) | (1,396) | (25,554) | (1,210) |
| Employee contributions | 3,230 | — | 3,372 | — |
| Actuarial losses (gains) arising from changes in assumptions | | | | |
| Demographic | 6,905 | 287 | 7,798 | 1,118 |
| Economic | 22,193 | 1,160 | (17,620) | (1,077) |
| Actuarial losses (gains) arising from plan experience | (2,714) | (304) | (4,995) | 171 |
| Defined benefit obligation at end of year | \$ 554,401 | \$ 36,166 | \$ 517,671 | \$ 35,026 |

DEFINED BENEFIT PENSION PLAN ASSETS

Changes in fair value of pension plan assets are as follows.

| | 2014 | 2013 |
|--|------------|------------|
| Change in fair value of pension plan assets | | |
| Fair value of plan assets at beginning of year | \$ 485,314 | \$ 447,123 |
| Interest income (at prescribed rate) | 22,191 | 19,739 |
| Actuarial gains arising from the difference between the actual return on plan assets and interest income | 33,784 | 13,664 |
| Administration costs (other than costs of managing plan assets) | (1,009) | (1,166) |
| Bank contributions | 25,329 | 28,136 |
| Employee contributions | 3,230 | 3,372 |
| Benefits paid | (32,006) | (25,554) |
| Fair value of plan assets at end of year | \$ 536,833 | \$ 485,314 |

RECONCILIATION OF THE FUNDED STATUS OF THE BENEFIT PLANS TO THE AMOUNTS RECORDED IN THE CONSOLIDATED FINANCIAL STATEMENTS

| | 2014 | | 2013 | |
|--|---------------|-------------|---------------|-------------|
| | Pension plans | Other plans | Pension Plans | Other Plans |
| Fair value of plan assets | \$ 536,833 | \$ — | \$ 485,314 | \$ — |
| Defined benefit obligation | 554,401 | 36,166 | 517,671 | 35,026 |
| Funded status – plan deficit | (17,568) | (36,166) | (32,357) | (35,026) |
| Defined benefit plan assets included in other assets | 9,080 | — | 10,437 | — |
| Defined benefit plan liabilities included in other liabilities | \$ 26,648 | \$ 36,166 | \$ 42,794 | \$ 35,026 |

18. POST-EMPLOYMENT BENEFITS [CONT'D]

DEFINED BENEFIT PLAN COSTS RECOGNIZED DURING THE YEAR

| | 2014 | | 2013 | |
|---|------------------|-----------------|-------------------|-----------------|
| | Pension plans | Other plans | Pension plans | Other plans |
| Amounts recognized in income | | | | |
| Current service cost | \$ 14,272 | \$ 53 | \$ 14,700 | \$ 55 |
| Past service cost | 1,189 | — | — | — |
| Administration costs (other than costs of managing plan assets) | 1,009 | — | 1,166 | — |
| Interest expense | 23,661 | 1,340 | 22,878 | 1,279 |
| Interest income (at prescribed rate) | (22,191) | — | (19,739) | — |
| Loss (gain) on short-term employee benefits | — | 108 | — | (53) |
| | 17,940 | 1,501 | 19,005 | \$ 1,281 |
| Amounts recognized in other comprehensive income | | | | |
| Actuarial gain (loss) on defined benefit obligation | 26,384 | 1,035 | (14,817) | 265 |
| Actuarial gain on plan assets | (33,784) | — | (13,664) | — |
| | (7,400) | 1,035 | (28,481) | 265 |
| Total defined benefit cost | \$ 10,540 | \$ 2,536 | \$ (9,476) | \$ 1,546 |

The Bank expects to contribute \$19.5 million to its defined benefit pension plans for the year ending October 31, 2015.

ASSET ALLOCATION OF DEFINED BENEFIT PENSION PLANS

| | 2014 | 2013 |
|--|-------------------|-------------------|
| Asset category | | |
| Cash and cash equivalents | \$ 10,455 | \$ 4,680 |
| Equity funds | 124,037 | 155,376 |
| Debt securities | | |
| Canadian governments and other public administration | 72,188 | 69,279 |
| Corporate and other | 296,567 | 223,295 |
| Other | 33,586 | 32,684 |
| | \$ 536,833 | \$ 485,314 |

Equity funds include \$0.4 million in equity securities of the Bank as at October 31, 2014, [\$0.2 million as at October 31, 2013]. All plan assets are not quoted in active markets.

SIGNIFICANT ASSUMPTIONS FOR PENSION PLANS AND OTHER PLANS

| | 2014 | 2013 |
|--|--------|--------|
| Weighted average of assumptions to determine benefit obligation | | |
| Discount rate at end of year | 4.25 % | 4.55 % |
| Rate of compensation increase | 2.75 % | 2.75 % |
| Weighted average of assumptions to determine benefit expense | | |
| Discount rate | 4.55 % | 4.40 % |
| Rate of compensation increase | 2.75 % | 3.50 % |

For 2014, the weighted average financial duration of the pension plans was approximately 14.3 years (14.0 years in 2013).

18. POST-EMPLOYMENT BENEFITS [CONT'D]

ASSUMED HEALTH CARE COST TREND RATES

| | 2014 | 2013 |
|---|-------|-------|
| Assumed annual rate of increase in the cost of health care benefits | 7.6 % | 8.0 % |
| Level to which it should decline and at which it is assumed to subsequently stabilize | 5.0 % | 5.0 % |
| Year that the rate is assumed to stabilize | 2027 | 2027 |

SENSITIVITY ANALYSIS

Due to the long-term nature of post-employment benefits, there are significant uncertainties related to the recognition of balances surrounding the assumptions used.

Discount rates could have a significant impact on the defined benefit plan assets (liabilities) as well as, depending on the funding status of the plan, on pension plan and other post-employment benefit expenses. The following table summarizes the impact of a 0.25 percentage point change in this key assumption on the defined benefit plan obligation and cost for the year ended October 31, 2014.

| | Impact of a potential change of 0.25% to the discount rate ⁽¹⁾ | |
|------------------|---|----------|
| | Obligation | Cost |
| On Pension Plans | \$ 19,821 | \$ 1,568 |
| On Other Plans | \$ 989 | \$ (34) |

(1) The sensitivities presented in this table should be used with caution, as the impact is hypothetical and changes in assumptions may not be linear.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. The following table summarizes the impact of a one percentage point change in this key assumption on the defined benefit plan obligation and cost for the year ended October 31, 2014, with all other assumptions remaining constant.

| | 1% increase | 1% decrease |
|--|-------------|-------------|
| Increase (decrease) in total of service and interest expense | \$ 120 | \$ (101) |
| Increase (decrease) in defined benefit obligation | \$ 3,090 | \$ (2,613) |

EXPENSE FOR POST-EMPLOYMENT BENEFITS

The total expense recognized for post-employment benefit plans was as follows.

| | 2014 | 2013 |
|------------------------------------|-----------|-----------|
| Defined benefit pension plans | \$ 17,940 | \$ 19,005 |
| Defined contribution pension plans | 6,559 | 6,851 |
| Other plans | 1,501 | 1,281 |
| | \$ 26,000 | \$ 27,137 |

19. INCOME TAXES

DEFERRED INCOME TAXES

Significant components of the Bank's deferred income tax assets and liabilities are as follows.

| | 2014 | 2013 |
|--|-----------------|------------------|
| Deferred income tax assets | | |
| Allowances for loan losses | \$ 30,504 | \$ 27,733 |
| Defined benefit plan liabilities | 14,413 | 18,001 |
| Amount related to share-based payments | 10,555 | 8,101 |
| Provisions | 9,669 | 8,717 |
| Premises and equipment | 5,895 | 7,086 |
| Derivatives | 1,165 | 1,468 |
| Deposits | 648 | 2,062 |
| Other temporary differences | 3,827 | 3,300 |
| | 76,676 | 76,468 |
| Deferred income tax liabilities | | |
| Software | 31,214 | 22,603 |
| Deferred charges | 20,723 | 23,298 |
| Other intangible assets | 6,138 | 4,406 |
| Loans | 5,513 | 8,225 |
| Securitization and securities | 4,673 | 5,704 |
| Other temporary differences | 489 | 489 |
| | 68,750 | 64,725 |
| Deferred income taxes, net | \$ 7,926 | \$ 11,743 |

Net deferred income taxes are reported in the consolidated balance sheet as follows.

| | 2014 | 2013 |
|---------------------------------|-----------------|------------------|
| Deferred income tax assets | \$ 7,936 | \$ 21,588 |
| Deferred income tax liabilities | (10) | (9,845) |
| Deferred income taxes, net | \$ 7,926 | \$ 11,743 |

The components of deferred income tax expense recorded in the consolidated statement of income are as follows.

| | 2014 | 2013 |
|--|-----------------|-----------------|
| Deferred income tax expense | | |
| Software | \$ 8,611 | \$ 6,611 |
| Other intangible assets | 1,732 | 4,538 |
| Deposits | 1,414 | 3,110 |
| Defined benefit plan liabilities | 1,306 | 2,444 |
| Premises and equipment | 1,191 | 1,352 |
| Allowances for loan losses | (2,771) | (2,152) |
| Loans | (2,712) | (4,079) |
| Deferred charges | (2,575) | (2,307) |
| Amount related to share-based payments | (2,511) | (2,442) |
| Securitization and securities | (1,137) | (648) |
| Provisions | (952) | (2,812) |
| Other temporary differences | 1,085 | 208 |
| | \$ 2,681 | \$ 3,823 |

Income tax loss carry-forwards were \$1.1 million as at October 31, 2014 (\$1.3 million as at October 31, 2013).

19. INCOME TAXES [CONT'D]

INCOME TAX EXPENSE

Significant components of the income tax expense recorded in the consolidated statement of income for the years ended October 31.

| | 2014 | | 2013 | |
|---|------|---------------|------|---------------|
| Current income taxes | | | | |
| Income tax expense for the year | \$ | 37,094 | \$ | 23,095 |
| Previous years income tax expense adjustment | | 963 | | 4,437 |
| | | 38,057 | | 27,532 |
| Deferred income taxes | | | | |
| Origination and reversal of temporary differences | | 3,541 | | 8,314 |
| Previous years income tax (recovery) adjustment | | (860) | | (4,491) |
| | | 2,681 | | 3,823 |
| | \$ | 40,738 | \$ | 31,355 |

Significant components of the income tax expense recorded in the consolidated statement of comprehensive income for items related to other comprehensive income, for the years ended October 31.

| | 2014 | | 2013 | |
|---|------|--------------|------|-----------------|
| Items that may subsequently be reclassified to the statement of income | | | | |
| Income taxes related to change in unrealized gains on available-for-sale securities | \$ | 3,151 | \$ | 30 |
| Income taxes (recovery) related to reclassification of net gains on available-for-sale securities to net income | | (2,646) | | (1,020) |
| Income taxes (recovery) related to net change in value of derivatives designated as cash flow hedges | | 304 | | (9,468) |
| | \$ | 809 | \$ | (10,458) |
| Items that may not subsequently be reclassified to the statement of income | | | | |
| Income taxes related to actuarial gains on employee benefit plans | | 1,633 | | 7,571 |
| | \$ | 2,442 | \$ | (2,887) |
| Composition of income taxes | | | | |
| Current income taxes (recovery) | \$ | 400 | \$ | (1,246) |
| Deferred income taxes (recovery) | | 2,042 | | (1,641) |
| | \$ | 2,442 | \$ | (2,887) |

Significant components of the income tax expense recorded in the consolidated statement of changes in shareholders' equity for the years ended October 31.

| | 2014 | | 2013 | |
|---|------|----------------|------|--------------|
| Income taxes on preferred share dividends | | | | |
| Current income tax expense (recovery) | \$ | 235 | \$ | (662) |
| Income taxes on issuance of common and preferred shares | | | | |
| Current income taxes (recovery) | | (227) | | (12) |
| Deferred income taxes (recovery) | | (908) | | (49) |
| | | (1,135) | | (61) |
| | \$ | (900) | \$ | (723) |

RECONCILIATION WITH THE STATUTORY RATE

The reconciliation of income tax expense reported in the consolidated statement of income to the dollar amount of income taxes using the statutory rates is as follows.

| | 2014 | | | | 2013 | | | |
|--|--------|---------------|-------------|----------|--------|---------------|-------------|----------|
| | Amount | | | | Amount | | | |
| Income taxes at statutory rates | \$ | 48,476 | 26.8 | % | \$ | 40,340 | 26.7 | % |
| Change resulting from: | | | | | | | | |
| Income related to foreign insurance operations | | (5,612) | (3.1) | | | (4,823) | (3.2) | |
| Dividends and tax-exempt gains | | (4,354) | (2.4) | | | (4,147) | (2.7) | |
| Other, net | | 2,228 | 1.2 | | | (15) | — | |
| Income taxes as reported in the consolidated statement of income | \$ | 40,738 | 22.5 | % | \$ | 31,355 | 20.8 | % |

19. INCOME TAXES [CONT'D]

Income earned on foreign insurance operations would generally be taxed only upon repatriation to Canada. Since the Bank's management does not expect to repatriate income accumulated after July 27, 2006 and based on current tax interpretation, no deferred income tax expense and related provision have been recognized on such income. Income taxes that would be payable if all unremitted earnings were repatriated were estimated at \$34.8 million as at October 31, 2014 [\$29.2 million as at October 31, 2013].

20. EARNINGS PER SHARE

Basic and diluted earnings per share for the years ended October 31 is detailed as follows.

| | 2014 | 2013 |
|---|------------|------------|
| Earnings per share – basic | | |
| Net income | \$ 140,365 | \$ 119,477 |
| Preferred share dividends, including applicable taxes | 10,985 | 11,749 |
| Net income attributable to common shareholders | \$ 129,380 | \$ 107,728 |
| <hr/> | | |
| Average number of outstanding common shares (in thousands) | 28,724 | 28,329 |
| Earnings per share – basic | \$ 4.50 | \$ 3.80 |
| <hr/> | | |
| Earnings per share – diluted | | |
| Net income attributable to common shareholders | \$ 129,380 | \$ 107,728 |
| <hr/> | | |
| Average number of outstanding common shares (in thousands) | 28,724 | 28,329 |
| Dilutive share purchase options (in thousands) | 8 | 9 |
| Diluted weighted average number of outstanding common shares (in thousands) | 28,732 | 28,338 |
| Earnings per share – diluted | \$ 4.50 | \$ 3.80 |

There have been no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of the completion of these consolidated financial statements which would require the restatement of earnings per share.

21. SEGMENTED INFORMATION

The Bank determines its reportable segments based on the different services it provides to individuals, businesses, financial intermediaries and institutional clients. The three business segments of the Bank are: Personal & Commercial, B2B Bank and Laurentian Bank Securities & Capital Markets. The Bank's other activities are grouped into the Other sector.

Commencing November 1, 2013, the Bank reports its retail and commercial activities, which were previously reported in the Retail & SME-Québec and Real Estate & Commercial business segments, in the newly formed Personal & Commercial segment. The new business segment better reflects the interdependencies associated with these activities. The B2B Bank and Laurentian Bank Securities & Capital Markets segments were not affected by this realignment. Furthermore, certain restructurings implemented in the fourth quarter of 2013 resulted in minor adjustments to segment allocations. Comparative figures were reclassified to conform to the current presentation.

The Personal & Commercial segment caters to the financial needs of business clients across Canada and retail clients in Québec. The Bank serves retail clients mainly through a network of branches and ATM, providing a full range of savings, investment and financing products. Electronic and mobile services, as well as transactional, card and insurance products complete the offering. Small businesses and larger companies, along with real estate developers are provided with a suite of financing options, including leasing solutions. Services such as deposits, cash management and foreign exchange complete the offering.

The B2B Bank segment supplies banking and financial products to independent financial advisors and non-bank financial institutions across Canada.

Laurentian Bank Securities & Capital Markets segment consists of the Laurentian Bank Securities Inc. subsidiary, a full-service broker, and the Bank's capital market activities.

The Other sector encompasses the Bank's corporate functions, including Corporate Treasury.

Results for the Bank's segments are based on internal financial reporting systems and are consistent with the accounting principles followed in the preparation of the Bank's consolidated financial statements.

All transactions between business segments are eliminated in the Other sector. Transfer pricing regarding the funding of segments' assets and liabilities is based on funding costs which best reflect the nature and maturities of these items. Income and expenses directly associated with each segment are included in determining business segment performance. Corporate expenses are generally allocated pro-rata to each business segment.

| | 2014 | | | | |
|--|--------------------------|--------------|--|--------------|---------------|
| | Personal & Commercial | B2B Bank | Laurentian Bank Securities & Capital Markets | Other | Total |
| Net interest income | \$ 394,961 | \$ 177,567 | \$ 3,324 | \$ (14,872) | \$ 560,980 |
| Other income | 202,677 | 35,361 | 65,082 | 9,965 | 313,085 |
| Total revenue (loss) | 597,638 | 212,928 | 68,406 | (4,907) | 874,065 |
| Amortization of net premium on purchased financial instruments and revaluation of contingent consideration | — | 9,653 | — | — | 9,653 |
| Provision for loan losses | 33,235 | 8,765 | — | — | 42,000 |
| Non-interest expenses | 411,040 | 125,330 | 54,332 | 37,746 | 628,448 |
| Costs related to business combinations (see Note 30) | — | 12,861 | — | — | 12,861 |
| Income (loss) before income taxes | 153,363 | 56,319 | 14,074 | (42,653) | 181,103 |
| Income taxes (recovery) | 36,251 | 16,313 | 3,777 | (15,603) | 40,738 |
| Net income (loss) | \$ 117,112 | \$ 40,006 | \$ 10,297 | \$ (27,050) | \$ 140,365 |
| Average assets ⁽¹⁾ | \$ 18,154,650 | \$ 8,858,800 | \$ 3,189,394 | \$ 3,820,421 | \$ 34,023,265 |

(1) Assets are disclosed on an average basis, as this measure is most relevant to a financial institution.

21. SEGMENTED INFORMATION [CONT'D]

2013

| | Personal & Commercial | B2B Bank | Laurentian Bank Securities & Capital Markets | Other | Total |
|---|--------------------------|--------------|--|--------------|---------------|
| Net interest income | \$ 386,848 | \$ 190,928 | \$ 4,123 | \$ (13,139) | \$ 568,760 |
| Other income | 191,261 | 36,705 | 63,708 | 4,903 | 296,577 |
| Total revenue (loss) | 578,109 | 227,633 | 67,831 | (8,236) | 865,337 |
| Amortization of net premium on purchased financial instruments | — | 4,426 | — | — | 4,426 |
| Provision for loan losses | 21,438 | 14,562 | — | — | 36,000 |
| Non-interest expenses ⁽¹⁾ | 424,412 | 132,188 | 53,407 | 25,828 | 635,835 |
| Costs related to business combinations (see Note 30) | — | 38,244 | — | — | 38,244 |
| Income (loss) before income taxes | 132,259 | 38,213 | 14,424 | (34,064) | 150,832 |
| Income taxes (recovery) | 30,342 | 10,290 | 3,572 | (12,849) | 31,355 |
| Net income (loss) | \$ 101,917 | \$ 27,923 | \$ 10,852 | \$ (21,215) | \$ 119,477 |
| Average assets ⁽²⁾ | \$ 17,614,241 | \$ 9,338,540 | \$ 3,073,257 | \$ 4,172,639 | \$ 34,198,677 |

(1) The Bank retroactively adjusted its corporate expenses allocation methodology. As a result, non-interest expenses amounting to \$4.0 million in 2013, which were previously reported in the Other sector, were reclassified to the B2B Bank business segment. This change generated a \$2.9 million decrease in B2B Bank's net income and a \$2.9 million increase in the Other sector's net income in 2013.

(2) Assets are disclosed on an average basis, as this measure is most relevant to a financial institution.

22. RELATED PARTY TRANSACTIONS

Related parties of the Bank include:

- key management personnel and their close family members;
- entities which are controlled, jointly controlled or significantly influenced, or for which significant voting power is held, by key management personnel or their close family members;
- post-employment benefit plans for Bank employees.

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, being members of the Management Committee or Board of Directors.

The following table presents transactions with related parties.

| | 2014 | 2013 |
|---|-----------|-----------|
| Loans ⁽¹⁾ | | |
| Key management personnel | \$ 2,435 | \$ 2,886 |
| Entities controlled by key management personnel | 22,122 | 21,401 |
| | \$ 24,557 | \$ 24,287 |
| Deposits | | |
| Key management personnel | \$ 3,550 | \$ 4,888 |
| Entities controlled by key management personnel | 92 | 639 |
| | \$ 3,642 | \$ 5,527 |

(1) No allowance for loan losses was recorded against these loans.

The Bank provides loans to key management personnel and their related entities. Loans to directors are granted under market conditions for similar risks and are initially measured at fair value. Loans to officers consist mostly of term residential mortgage loans, as well as personal loans, at market rates less a discount based on the type and amount of the loan. Loans to entities controlled by key management personnel are granted under terms similar to those offered to arm's length parties. The interest earned on these loans amounted to \$1.1 million for the year ended October 31, 2014 (\$1.1 million for the year ended October 31, 2013) and was recorded under interest income in the consolidated statement of income.

22. RELATED PARTY TRANSACTIONS [CONT'D]

In the normal course of business, the Bank also provides usual banking services to key management personnel, including bank accounts (deposits) under terms similar to those offered to arm's length parties. The interest paid on deposits amounted to \$0.1 million for the year ended October 31, 2014 (\$0.1 million for the year ended October 31, 2013) and was recorded under interest expense in the consolidated statement of income.

In addition, for the year ended October 31, 2014, the Bank paid a rental expense of \$2.1 million to a related party (\$2.0 million for the year ended October 31, 2013).

The following table presents the total compensation of key management personnel.

| | 2014 | | 2013 |
|--|-----------|----|--------|
| Short-term employee benefits, including salaries | \$ 5,643 | \$ | 5,782 |
| Post-employment benefits | 1,716 | | 392 |
| Share-based payments | 5,069 | | 5,190 |
| | \$ 12,428 | \$ | 11,364 |

23. FINANCIAL INSTRUMENTS – FAIR VALUE

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. Note 3 details the accounting treatment for each measurement category of financial instruments, as well as the estimates and judgment used in measuring the fair value of financial instruments.

CLASSIFICATION OF FAIR VALUE MEASUREMENTS IN THE FAIR VALUE HIERARCHY

Fair value measurements are categorized into levels within a fair value hierarchy based on the valuation inputs used. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Bank's market assumptions. These two types of inputs create the following fair value hierarchy:

- Level 1 — Quoted prices in active markets for identical financial instruments.
- Level 2 — Quoted prices for similar instruments in active markets; quoted prices for identical or similar financial instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.
- Level 3 — Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

DETERMINING FAIR VALUE

Certain assets and liabilities, primarily financial instruments, are carried on the consolidated balance sheet at their fair value. All other financial instruments are carried at amortized cost and the fair value is disclosed below. The following section discusses how the Bank measures fair value.

Fair value is best evidenced by an independent quoted market price for the same instrument in an active market. When available, the Bank generally uses quoted market prices to determine fair value and classifies such items in Level 1.

If quoted market prices are not available, fair value is based on internally developed valuation techniques that use, where possible, current market-based or independently sourced market inputs, such as interest rates, exchange rates and option volatilities. Instruments valued using internal valuation techniques are classified according to the lowest level input or value driver that is significant to the fair value measurement. Thus, an instrument may be classified in Level 3 even though some significant inputs may be observable.

23. FINANCIAL INSTRUMENTS – FAIR VALUE [CONT'D]

Where available, the Bank may also make use of quoted prices for recent trading activity in positions with the same or similar characteristics to that being valued. The frequency and size of transactions and the amount of the bid-ask spread are among the factors considered in determining the liquidity of markets and the relevance of observed prices from those markets. If relevant and observable prices are available, those valuations would be classified in Level 2. If prices are not available, other valuation techniques are used and items are classified in Level 3. For these assets and liabilities, the inputs used in determining fair value may require significant management judgment. Due to the inherent uncertainty in these estimates, the values may differ significantly from those that would have been used if an active market had existed for the financial instruments. Moreover, the estimates of fair value for the same or similar financial instruments may differ among financial institutions. The calculation of fair value is based on market conditions as at each balance sheet date.

Valuation methodologies

The following section describes the valuation methodologies used by the Bank to measure and disclose certain significant financial instruments at fair value, including an indication of the level in the fair value hierarchy in which each instrument is generally classified. Where appropriate, the description includes details of the valuation models, the key inputs to those models as well as any significant assumptions.

Securities purchased under reverse repurchase agreements and obligations related to securities sold under repurchase agreements

Given that quoted prices are not available for such financial instruments, fair value is determined using a discounted cash flow technique. Cash flows are estimated based on the terms of the contract and discounted using appropriate market rates.

Securities

When available, the Bank uses quoted market prices to determine the fair value of securities; such instruments are classified in Level 1 of the fair value hierarchy; for example exchange-traded equity securities. For bonds traded over the counter, the Bank generally determines fair value using internal valuation techniques or prices obtained from independent vendors. Where available, the Bank may also use quoted prices for recent trading activity of assets with similar characteristics to the bond being valued. Securities priced using such methods are generally classified in Level 2. However, less liquid securities may be classified in Level 3 given that the Bank must then determine the parameters related to certain significant value drivers, including liquidity premiums and credit spreads.

Loans

Quoted market prices in an active market are not available for these financial instruments. As a result, the fair value of loans is estimated by discounting cash flows adjusted to reflect prepayments, if any, at the prevailing market interest rates for new loans with substantially similar terms. For certain variable rate loans subject to frequent rate revisions and loans with indeterminate maturities, the fair value is deemed to represent the carrying amount.

Other assets

Other assets consist primarily of cheques and other items in transit and accrued interest receivable. Quoted market prices in an active market are not available for these financial instruments. The fair value of cheques and other items in transit and accrued interest receivable is determined using the discounted cash flow method.

Derivatives

The fair value of over-the-counter derivatives is calculated using prevailing market prices for instruments with similar characteristics and maturities, based on a discounted net value analysis or an appropriate pricing model that factors in the current and contractual prices of the underlying instruments, the time value of money, the yield curve, counterparty credit risk and volatility factors. These derivatives are classified in Level 2 or Level 3 depending on whether the significant inputs to those pricing models include observable or unobservable inputs. Also, certain exchange-traded derivatives, whose fair value is based on quoted market prices, are classified in Level 1 of the fair value hierarchy.

Deposits

Quoted market prices in an active market are not available for these financial instruments. As a result, the fair value of fixed rate deposits is estimated using discounted cash flows based on prevailing market interest rates for deposits with substantially similar terms. The fair value of deposits without stated maturities or variable rate deposits is deemed to represent their carrying amount.

23. FINANCIAL INSTRUMENTS – FAIR VALUE [CONT'D]

Obligations related to securities sold short

When available, the Bank uses quoted market prices to determine the fair value of obligations related to securities sold short; such instruments are classified in Level 1. For bonds traded over the counter, the Bank generally determines fair value using internal valuation techniques or prices obtained from independent vendors. Where available, the Bank may also use quoted prices for recent trading activity of assets with similar characteristics to the bond being valued. Securities priced using such methods are generally classified in Level 2.

Debt related to securitization activities

Quoted market prices in an active market are not available for debt related to securitization activities. As a result, the fair value of these financial instruments is estimated using discounted cash flows based on prevailing market interest rates for similar issues or rates currently offered for debt securities with the same term to maturity.

Subordinated debt

Quoted market prices in an active market are not available for these financial instruments. As a result, the fair value of subordinated debt is estimated using discounted cash flows based on prevailing market interest rates for similar issues or rates currently offered for debt securities with the same term to maturity.

FAIR VALUE HIERARCHY

Financial assets and liabilities measured at fair value on the consolidated balance sheet

The following table presents the fair value hierarchy of financial instruments measured at fair value on a recurring basis using the valuation methods and assumptions as set out above.

| | | | | 2014 |
|--|---------|----------|---------|----------|
| (in millions of Canadian dollars) | Level 1 | Level 2 | Level 3 | Total |
| Assets | | | | |
| Securities | | | | |
| Available-for-sale | \$ 184 | \$ 2,393 | \$ — | \$ 2,577 |
| Held-for-trading | 67 | 1,913 | — | 1,980 |
| Derivatives | 2 | 130 | 1 | 133 |
| Liabilities | | | | |
| Obligations related to securities sold short | 14 | 1,548 | — | 1,562 |
| Derivatives | \$ 1 | \$ 66 | \$ 24 | \$ 91 |

| | | | | 2013 |
|--|---------|----------|---------|----------|
| (in millions of Canadian dollars) | Level 1 | Level 2 | Level 3 | Total |
| Assets | | | | |
| Securities | | | | |
| Available-for-sale | \$ 155 | \$ 1,524 | \$ — | \$ 1,679 |
| Held-for-trading | 277 | 1,875 | 1 | 2,153 |
| Derivatives | 1 | 125 | 1 | 127 |
| Liabilities | | | | |
| Obligations related to securities sold short | 21 | 1,443 | — | 1,464 |
| Derivatives | \$ 1 | \$ 78 | \$ 23 | \$ 102 |

Level transfers and reclassification

There were no significant transfers between Level 1 and Level 2 of the hierarchy, or changes in fair value measurement methods during the year.

23. FINANCIAL INSTRUMENTS – FAIR VALUE [CONT'D]

Change in level 3 fair value category and sensitivity analysis

The Bank classifies financial instruments in Level 3 of the fair value hierarchy when there is reliance on at least one significant unobservable input to the valuation model. In addition to these unobservable inputs, the valuation models for Level 3 financial instruments typically rely on a number of inputs that are observable either directly or indirectly. Transfers in and out of Level 3 can occur as a result of additional or new information regarding valuation inputs and changes in their observability. Changes in Level 3 financial instruments were not significant for the years ended October 31, 2014 and 2013.

As at October 31, 2014, the Bank considered other reasonably possible alternative assumptions for the valuation models to recalculate the fair value of the instruments and concluded that the resulting potential increase or decrease in total fair value classified in Level 3 was not significant.

Financial assets and liabilities not measured at fair value on the consolidated balance sheet

Financial assets and liabilities not measured at fair value include held-to-maturity securities, loans, deposits, debt related to securitization activities and subordinated debt. For these instruments, fair values are calculated for disclosure purposes only, and the valuation techniques are disclosed above. Their classification in the fair value hierarchy is disclosed in a separate table below. The Bank also determined that the carrying value approximates the fair value for the following assets and liabilities as they are usually liquid floating rate financial instruments and are generally short term in nature: cash and non-interest-bearing deposits with other banks, interest-bearing deposits with banks, securities purchased under reverse repurchase agreements, other assets, obligations related to securities sold under repurchase agreements and acceptances.

The following table presents financial instruments which are not recorded at fair value on the consolidated balance sheet and their classification in the fair value hierarchy.

| (in millions of Canadian dollars) | Carrying amount | Fair value | 2014 | | | 2013 | |
|---|-----------------|------------|---------|---------|---------|-----------------|------------|
| | | | Level 1 | Level 2 | Level 3 | Carrying amount | Fair value |
| Assets | | | | | | | |
| Held-to-maturity securities | \$ 323 | \$ 323 | \$ - | \$ 323 | \$ - | \$ 649 | \$ 649 |
| Loans | 27,310 | 27,486 | - | - | 27,486 | 27,113 | 27,279 |
| Liabilities | | | | | | | |
| Deposits | 24,523 | 24,644 | - | 24,644 | - | 23,927 | 24,049 |
| Debt related to securitization activities | 4,864 | 4,914 | - | 4,914 | - | 4,975 | 5,044 |
| Subordinated debt | \$ 448 | \$ 456 | \$ - | \$ 456 | \$ - | \$ 445 | \$ 455 |

24. FINANCIAL INSTRUMENTS – OFFSETTING

The following table presents information about financial assets and financial liabilities that are subject to an enforceable master netting arrangement or similar agreement and the effect or potential effect of set-off rights.

| 2014 | | | | | | |
|--|--------------------------|--|--|--|--|------------------|
| | Gross recognized amounts | Gross amounts offset in the consolidated balance sheet | Net amounts presented in the consolidated balance sheet ⁽¹⁾ | Amounts not offset in the consolidated balance sheet | | Net amounts |
| | | | | Impact of master netting agreements ⁽²⁾ | Financial collateral received or pledged | |
| Financial assets | | | | | | |
| Securities purchased under reverse repurchase agreements | \$ 3,199,119 | \$ 1,636,442 | \$ 1,562,677 | \$ 13,187 | \$ 1,549,134 | \$ 356 |
| Derivatives | 119,873 | — | 119,873 | 52,307 | 33,846 | 33,720 |
| | \$ 3,318,992 | \$ 1,636,442 | \$ 1,682,550 | \$ 65,494 | \$ 1,582,980 | \$ 34,076 |
| Financial liabilities | | | | | | |
| Obligations related to securities sold under repurchase agreements | \$ 2,218,303 | \$ 1,636,442 | \$ 581,861 | \$ 13,187 | \$ 568,674 | \$ — |
| Derivatives | 62,206 | — | 62,206 | 52,307 | 1,904 | 7,995 |
| | \$ 2,280,509 | \$ 1,636,442 | \$ 644,067 | \$ 65,494 | \$ 570,578 | \$ 7,995 |

| 2013 | | | | | | |
|--|--------------------------|--|--|--|--|------------------|
| | Gross recognized amounts | Gross amounts offset in the consolidated balance sheet | Net amounts presented in the consolidated balance sheet ⁽¹⁾ | Amounts not offset in the consolidated balance sheet | | Net amounts |
| | | | | Impact of master netting agreements ⁽²⁾ | Financial collateral received or pledged | |
| Financial assets | | | | | | |
| Securities purchased under reverse repurchase agreements | \$ 2,232,053 | \$ 1,013,798 | \$ 1,218,255 | \$ 3,374 | \$ 1,214,881 | \$ — |
| Derivatives | 103,764 | — | 103,764 | 48,476 | 22,212 | 33,076 |
| | \$ 2,335,817 | \$ 1,013,798 | \$ 1,322,019 | \$ 51,850 | \$ 1,237,093 | \$ 33,076 |
| Financial liabilities | | | | | | |
| Obligations related to securities sold under repurchase agreements | \$ 1,353,400 | \$ 1,013,798 | \$ 339,602 | \$ 3,374 | \$ 336,228 | \$ — |
| Derivatives | 69,881 | — | 69,881 | 48,476 | 8,349 | 13,056 |
| | \$ 1,423,281 | \$ 1,013,798 | \$ 409,483 | \$ 51,850 | \$ 344,577 | \$ 13,056 |

(1) Excludes financial assets and financial liabilities that are not subject to a master netting agreement or similar agreement.

(2) Carrying amount of financial assets and financial liabilities that are subject to a master netting agreement or similar agreement but that do not meet offsetting criteria, as these agreements give a right of set-off that is enforceable only following a specified event of default or in other circumstances not expected to arise in the normal course of business.

25. FINANCIAL INSTRUMENTS – RISK MANAGEMENT

The Bank is exposed to various types of risks owing to the nature of the business activities it pursues. To ensure that significant risks to which the Bank could be exposed are taken into consideration, a Risk Management Framework has been developed to provide for oversight of risk assessment and control. Risk management is conducted according to tolerance levels established by management committees and approved by the Board of Directors through its committees.

In order to manage the risks associated with financial instruments, including loan and deposit portfolios, securities and derivatives, the Bank has implemented policies prescribing how various risks are to be managed. In practice, management closely monitors various risk limits, as well as a number of other indicators. Oversight of operations is performed by groups independent of the business lines.

25. FINANCIAL INSTRUMENTS – RISK MANAGEMENT [CONT'D]

The risk management policies and procedures of the Bank are disclosed in the Risk Appetite and Management Framework section of Management's Discussion and Analysis (MD&A). The relevant MD&A sections are identified in the shaded text and tables and are an integral part of these audited consolidated financial statements.

The following table details the maturity dates and average effective rates of the Bank's on- and off-balance sheet financial instruments.

(in millions of Canadian dollars)

| | | | | | | | 2014 |
|---|----------|------------------|-------------------------------|------------------------------|-----------------|-------------------------------|----------|
| | Floating | 0 to 3 months | Over 3 months to 1 year | Over 1 year to 5 years | Over 5 years | Non- interest sensitive | Total |
| Assets | | | | | | | |
| Cash, deposits and securities | \$ 2,200 | \$ 1,480 | \$ 1,021 | \$ 326 | \$ 37 | \$ 66 | \$ 5,130 |
| Actual return | | 1.0 % | 1.0 % | 2.0 % | 3.4 % | | |
| Securities purchased under reverse repurchase agreements | 1,563 | — | — | — | — | — | 1,563 |
| Loans | 10,945 | 1,765 | 4,193 | 9,462 | 118 | 827 | 27,310 |
| Actual return | | 3.8 % | 3.8 % | 3.5 % | 4.5 % | | |
| Other assets | — | — | — | — | — | 846 | 846 |
| Total | 14,708 | 3,245 | 5,214 | 9,788 | 155 | 1,739 | 34,849 |
| Actual return | | 2.5 % | 3.3 % | 3.5 % | 4.2 % | | |
| Liabilities and equity | | | | | | | |
| Deposits | 3,192 | 3,829 | 6,048 | 10,621 | 133 | 700 | 24,523 |
| Actual return | | 1.0 % | 1.8 % | 1.9 % | 3.3 % | | |
| Treasury items | 2,144 | — | — | — | — | — | 2,144 |
| Other liabilities | — | 35 | 61 | 121 | 1 | 1,108 | 1,326 |
| Actual return | | 2.2 % | 2.2 % | 2.3 % | 3.2 % | | |
| Debt related to securitization activities | — | 655 | 476 | 3,488 | 245 | — | 4,864 |
| Actual return | | 0.4 % | 3.2 % | 2.3 % | 2.2 % | | |
| Subordinated debt and equity | — | — | — | 675 | — | 1,317 | 1,992 |
| Actual return | | — % | — % | 2.3 % | — % | | |
| Total | 5,336 | 4,519 | 6,585 | 14,905 | 379 | 3,125 | 34,849 |
| Actual return | | 0.9 % | 1.9 % | 2.0 % | 2.6 % | | |
| Swaps, net | — | (9,610) | 3,681 | 5,719 | 210 | — | — |
| Sensitivity gap | 9,372 | (10,884) | 2,310 | 602 | (14) | (1,386) | — |
| Cumulative gap | \$ 9,372 | \$ (1,512) | \$ 798 | \$ 1,400 | \$ 1,386 | \$ — | \$ — |

(in millions of Canadian dollars)

| | | | | | | | 2013 |
|-------------------------------|-----------|------------------|-------------------------------|------------------------------|-----------------|-------------------------------|-----------|
| | Floating | 0 to 3 months | Over 3 months to 1 year | Over 1 year to 5 years | Over 5 years | Non- interest sensitive | Total |
| Assets | | | | | | | |
| Cash, deposits and securities | \$ 13,870 | \$ 2,728 | \$ 4,779 | \$ 10,667 | \$ 173 | \$ 1,694 | \$ 33,911 |
| Actual return | | 2.6 % | 3.5 % | 3.8 % | 4.5 % | | |
| Liabilities and equity | | | | | | | |
| Cash, deposits and securities | 4,922 | 3,568 | 6,536 | 15,598 | 292 | 2,995 | 33,911 |
| Actual return | | 1.3 % | 2.0 % | 2.1 % | 2.7 % | | |
| Swaps, net | — | (8,845) | 2,683 | 6,041 | 121 | — | — |
| Sensitivity gap | 8,948 | (9,685) | 926 | 1,110 | 2 | (1,301) | — |
| Cumulative gap | \$ 8,948 | \$ (737) | \$ 189 | \$ 1,299 | \$ 1,301 | \$ — | \$ — |

Maturity assumptions

Assets, liabilities and equity are shown at the earlier of the date of maturity or contractual revaluation while taking into consideration estimated redemptions or prepayments, except for the following:

- Deposits for which the interest rates are not indexed on a specific rate and which can be non-sensitive to changes in market rates are classified based on the historical trends in balances;
- Subordinated debt for which interest rates can be revised at a future date are classified at the re-pricing date;
- Preferred shares are classified using the date on which they become redeemable.

26. DERIVATIVES AND HEDGES

In the normal course of business, the Bank enters into various contracts and commitments in order to protect itself against the risk of fluctuations in interest rates, foreign exchange rates, stock prices and indexes used to determine the return of index-linked deposits, as well as to meet its customers' demands and to earn trading income, as described below.

The various derivatives listed in the tables below are as follows:

- [i] Interest rate swaps involve the exchange of fixed and floating interest payment obligations based on a predetermined notional amount for a specified period of time. Foreign exchange swaps involve the exchange of the principal and fixed or floating interest payments in different currencies.
- [ii] Options are agreements between two parties in which the writer of the option grants the buyer the right, but not the obligation, to buy or to sell, at or by a specified date, a specific amount of a financial instrument at a price agreed upon when the agreement is entered into. The writer receives a premium for selling this instrument.
- [iii] Futures are commitments to purchase or deliver a financial instrument on a specified future date at a specified price. Futures are traded in standardized amounts on organized exchanges and are subject to daily cash margining.
- [iv] Foreign exchange forward contracts are commitments to purchase or sell foreign currencies for delivery at a specified date in the future at a pre-determined rate.
- [v] Total return swaps involve floating payments based on changes in the value of a reference asset or group of assets, including any associated return such as dividends, in exchange for amounts based on prevailing market funding rates.

The following tables present the notional amounts associated with the derivatives. The amounts are not indicative of the potential gain or loss related to the credit or market risk of these instruments.

26. DERIVATIVES AND HEDGES [CONT'D]

AGGREGATE NOTIONAL AMOUNTS

(in millions of Canadian dollars)

2014

| Notional amount | Period to maturity | | | Total | Designated as hedge contracts ⁽¹⁾ | Other contracts ⁽²⁾ |
|---|--------------------|-----------------|-----------------|-----------|---|-----------------------------------|
| | Within 1 year | 1 to 5 years | Over 5 years | | | |
| Interest rate contracts | | | | | | |
| Over-the-counter contracts | | | | | | |
| Swaps | \$ 4,360 | \$ 7,234 | \$ 1,252 | \$ 12,846 | \$ 11,679 | \$ 1,167 |
| Exchange-traded contracts | | | | | | |
| Futures | 9 | 10 | — | 19 | — | 19 |
| Foreign exchange contracts | | | | | | |
| Over-the-counter contracts | | | | | | |
| Foreign exchange swaps | 955 | 76 | — | 1,031 | — | 1,031 |
| Forwards | 1,413 | 27 | — | 1,440 | — | 1,440 |
| Options purchased | 101 | 12 | — | 113 | — | 113 |
| Options written | 67 | 12 | — | 79 | — | 79 |
| Equity- and index-linked contracts | | | | | | |
| Options purchased | 17 | 20 | — | 37 | — | 37 |
| Options written | 117 | 130 | — | 247 | — | 247 |
| Total return swaps | 23 | 16 | — | 39 | 3 | 36 |
| | \$ 7,062 | \$ 7,537 | \$ 1,252 | \$ 15,851 | \$ 11,682 | \$ 4,169 |

(1) Include notional amounts of \$0.5 billion related to basis swaps at October 31, 2014.

(2) Include derivatives used in trading operations to meet customer demands and to earn trading income, as well as derivatives used to manage the Bank's risk exposures that are not designated in hedge relationships.

(in millions of Canadian dollars)

2013

| Notional amount | Period to maturity | | | Total | Designated as hedge contracts ⁽¹⁾ | Other contracts ⁽²⁾ |
|---|--------------------|-----------------|-----------------|-----------|---|-----------------------------------|
| | Within 1 year | 1 to 5 years | Over 5 years | | | |
| Interest rate contracts | | | | | | |
| Over-the-counter contracts | | | | | | |
| Swaps | \$ 3,222 | \$ 8,024 | \$ 1,370 | \$ 12,616 | \$ 10,320 | \$ 2,296 |
| Exchange-traded contracts | | | | | | |
| Futures | 459 | — | — | 459 | — | 459 |
| Options written | 250 | — | — | 250 | — | 250 |
| Foreign exchange contracts | | | | | | |
| Over-the-counter contracts | | | | | | |
| Foreign exchange swaps | 1,114 | 26 | — | 1,140 | — | 1,140 |
| Forwards | 1,946 | 27 | — | 1,973 | — | 1,973 |
| Options purchased | 237 | — | — | 237 | — | 237 |
| Options written | 183 | — | — | 183 | — | 183 |
| Equity- and index-linked contracts | | | | | | |
| Options purchased | 13 | 11 | — | 24 | — | 24 |
| Options written | 57 | 144 | — | 201 | — | 201 |
| Total return swaps | 207 | 17 | — | 224 | 2 | 222 |
| | \$ 7,688 | \$ 8,249 | \$ 1,370 | \$ 17,307 | \$ 10,322 | \$ 6,985 |

(1) Include notional amounts of \$0.4 billion related to basis swaps at October 31, 2013.

(2) Include derivatives used in trading operations to meet customer demands and to earn trading income, as well as derivatives used to manage the Bank's risk exposures that are not designated in hedge relationships.

26. DERIVATIVES AND HEDGES [CONT'D]

FAIR VALUE OF DERIVATIVES

| | 2014 | | |
|---------------------------------------|-------------------|--------------------|------------------|
| | Fair value | | |
| | Favourable | Unfavourable | Net amount |
| DESIGNATED AS HEDGE CONTRACTS | | | |
| Fair value hedges | | | |
| Interest rate contracts | | | |
| Swaps | \$ 55,207 | \$ (2,700) | \$ 52,507 |
| Cash flow hedges | | | |
| Interest rate contracts | | | |
| Swaps | 22,191 | (11,840) | 10,351 |
| Equity- and index-linked contracts | | | |
| Total return swaps | 160 | — | 160 |
| OTHER CONTRACTS ⁽¹⁾ | | | |
| Interest rate contracts | | | |
| Swaps | 30,271 | (28,792) | 1,479 |
| Foreign exchange contracts | | | |
| Foreign exchange swaps | 9,543 | (13,299) | (3,756) |
| Forwards | 11,929 | (8,833) | 3,096 |
| Options purchased | 337 | — | 337 |
| Options written | — | (111) | (111) |
| Equity- and index-linked contracts | | | |
| Options purchased | 2,287 | — | 2,287 |
| Options written | — | (25,255) | (25,255) |
| Total return swaps | 884 | (10) | 874 |
| Total | \$ 132,809 | \$ (90,840) | \$ 41,969 |

| | 2013 | | |
|---------------------------------------|-------------------|---------------------|------------------|
| | Fair value | | |
| | Favourable | Unfavourable | Net amount |
| DESIGNATED AS HEDGE CONTRACTS | | | |
| Fair value hedges | | | |
| Interest rate contracts | | | |
| Swaps | \$ 43,351 | \$ (6,093) | \$ 37,258 |
| Cash flow hedges | | | |
| Interest rate contracts | | | |
| Swaps | 21,189 | (19,303) | 1,886 |
| Equity- and index-linked contracts | | | |
| Total return swaps | 175 | — | 175 |
| OTHER CONTRACTS ⁽¹⁾ | | | |
| Interest rate contracts | | | |
| Swaps | 29,402 | (21,742) | 7,660 |
| Foreign exchange contracts | | | |
| Foreign exchange swaps | 7,205 | (4,479) | 2,726 |
| Forwards | 21,646 | (21,124) | 522 |
| Options purchased | 812 | — | 812 |
| Options written | — | (537) | (537) |
| Equity- and index-linked contracts | | | |
| Options purchased | 1,432 | — | 1,432 |
| Options written | — | (22,979) | (22,979) |
| Total return swaps | 1,405 | (5,784) | (4,379) |
| Total | \$ 126,617 | \$ (102,041) | \$ 24,576 |

(1) Include derivatives used in trading operations to meet customer demands and to earn trading income as well as derivatives used to manage the Bank's risk exposures that do not qualify for hedge accounting.

26. DERIVATIVES AND HEDGES [CONT'D]

INFORMATION REGARDING HEDGING RELATIONSHIPS

The swap contracts designated as hedging instruments are used by the Bank primarily for purposes of balance sheet matching and minimizing volatility in net interest income. The value of such swap contracts can vary significantly.

Fair value hedges

The Bank uses interest rate swaps to hedge changes in fair value of assets, liabilities or firm commitments. The notional amount of swap contracts designated as hedging instruments in fair value hedges was \$4.4 billion as at October 31, 2014 (\$3.6 billion as at October 31, 2013).

The following table presents ineffectiveness related to fair value hedges.

| | 2014 | | 2013 | |
|---|------|----------|------|---------|
| Gains (losses) recognized on hedging instrument | \$ | (13,777) | \$ | 8,292 |
| Gains (losses) recognized on hedged item | | 14,121 | | (8,174) |
| Ineffectiveness gains recognized in net income | \$ | 344 | \$ | 118 |

Cash flow hedges

The Bank uses interest rate swaps to hedge the variability in cash flows related to a variable rate asset or liability. The Bank also uses total return swaps to hedge the variability in cash flows related to the RSU and PSU plans. The notional amount of swap contracts designated as hedging instruments in cash flow hedges was \$6.9 billion as at October 31, 2014 (\$6.3 billion as at October 31, 2013).

Changes in fair value of interest rate swaps designated as cash flow hedging instruments could result in significant changes in accumulated other comprehensive income, in shareholders' equity.

Ineffectiveness losses related to cash flow hedges of \$0.5 million was recognized in net income for the year ended October 31, 2014 (ineffectiveness gains of \$0.5 million in 2013).

The remaining balance of accumulated other comprehensive income related to cash flow hedges as at October 31, 2014 is expected to be reclassified to the consolidated statement of income over the next 5 years.

CREDIT EXPOSURE

(in millions of Canadian dollars)

| | 2014 | | | 2013 | | |
|-------------------------------------|------------------------------------|---|--|------------------------------------|---|--|
| | Replacement cost ⁽¹⁾ | Credit equivalent amount ⁽²⁾ | Risk- weighted amount ⁽³⁾ | Replacement cost ⁽¹⁾ | Credit equivalent amount ⁽²⁾ | Risk- weighted amount ⁽³⁾ |
| Interest rate contracts | \$ 112 | \$ 183 | \$ 39 | \$ 97 | \$ 171 | \$ 36 |
| Foreign exchange contracts | 22 | 53 | 24 | 33 | 69 | 33 |
| Equity- and index-linked contracts | 3 | 8 | 2 | 1 | 18 | 4 |
| | 137 | 244 | 65 | 131 | 258 | 73 |
| Impact of master netting agreements | (65) | (113) | (23) | (62) | (122) | (25) |
| | \$ 72 | \$ 131 | \$ 42 | \$ 69 | \$ 136 | \$ 48 |

(1) Represents what it would cost to replace transactions at prevailing market conditions in the event of a default. This is the favourable fair market value of all outstanding contracts, excluding options written since they do not constitute a credit risk.

(2) Represents the sum of (i) the total replacement cost of all outstanding contracts and (ii) an amount representing the assessed potential future credit risk, using guidelines issued by OSFI.

(3) Represents the credit risk equivalent amount weighted based on the creditworthiness of the counterparty, as prescribed by OSFI.

27. INCOME RELATED TO FINANCIAL INSTRUMENTS HELD-FOR-TRADING

Financial instruments held-for-trading, including held-for-trading securities, derivatives not designated in hedge relationships, and obligations related to securities sold short are measured at fair value, with gains and losses recognized in the consolidated statement of income.

The following table presents the income related to these instruments. Income comprises net interest income as well as other income included in income from treasury and financial market operations or in income from brokerage operations. Income excludes underwriting fees and commissions on securities transactions.

| | 2014 | 2013 |
|--|------------------|------------------|
| Net interest income | \$ 21,488 | \$ 23,253 |
| Other income included in: | | |
| Income from brokerage operations | 17,439 | 19,589 |
| Income from treasury and financial market operations | 4,211 | 5,600 |
| | \$ 21,650 | \$ 25,189 |

28. INSURANCE INCOME

Insurance income reported in other income in the consolidated statement of income is detailed as follows.

| | 2014 | 2013 |
|-----------------------|-----------|-----------|
| Insurance revenues | \$ 30,603 | \$ 29,980 |
| Claims and expenses | (11,357) | (13,099) |
| Insurance income, net | \$ 19,246 | \$ 16,881 |

29. COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES

CREDIT-RELATED COMMITMENTS

The Bank uses certain off-balance sheet credit instruments as a means of meeting the financial needs of its customers. Undrawn amounts under approved credit facilities represent a commitment to make credit available in the form of loans or other credit instruments for specific amounts and maturities, subject to specific conditions.

Documentary letters of credit are documents issued by the Bank on behalf of customers, authorizing a third party to draw drafts to a stipulated amount under specific conditions. These letters are guaranteed by the underlying shipments of goods.

The amounts of credit-related commitments represent the maximum amount of additional credit that the Bank could be obliged to extend. These amounts are not necessarily indicative of credit risk as many of these commitments are contracted for a limited period of usually less than one year and will expire or terminate without being drawn upon.

GUARANTEES

Standby letters of credit and performance guarantees

In the normal course of its operations, the Bank offers its customers the possibility of obtaining standby letters of credit and performance guarantees. These represent irrevocable assurances that the Bank will make payments in the event that clients cannot meet their obligations to third parties. The term of these guarantees varies according to the contracts and normally does not exceed one year. The Bank's policy for requiring collateral security with respect to these instruments is similar to its policy for loans. The maximum potential amount of future payments under these guarantees totalled \$125.3 million as at October 31, 2014 [\$133.5 million as at October 31, 2013].

29. COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES [CONT'D]

Derivatives

To meet certain customers' hedging needs against foreign exchange rate fluctuations, the Bank sells put options (foreign exchange contracts), which are contractual agreements under which the Bank grants customers the right, but not the obligation to sell, by or on a set date, a specified amount of foreign currencies at a predetermined price. The term of these options does not exceed 12 months. These options are recorded at fair value, which reflects the estimated amount of future payments under these derivatives as at the date of the valuation. The maximum potential amount of future payments under these derivatives, corresponding to the notional value of outstanding contracts, totalled \$34.8 million as at October 31, 2014 (\$109.6 million as at October 31, 2013).

Other indemnification agreements

In the normal course of its operations, the Bank provides indemnification agreements to counterparties in certain transactions such as purchase contracts, service agreements and sales of assets. These indemnification agreements require the Bank to compensate the counterparties for costs incurred as a result of changes in laws and regulations (including tax legislation) or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The Bank also indemnifies directors and officers, to the extent permitted by law, against certain claims that may be made against them as a result of their being, or having been, directors or officers at the request of the Bank. The terms of these indemnification agreements vary based on the contract. The nature of the indemnification agreements prevents the Bank from making a reasonable estimate of the maximum potential amount it could be required to pay to counterparties. Historically, the Bank has not made any significant payments under such indemnification agreements. No amount has been accrued with respect to these indemnification agreements.

LEASE COMMITMENTS, SERVICE CONTRACTS FOR INFORMATION TECHNOLOGY SERVICES AND OTHER CONTRACTS

Minimum future payments under leases, service contracts for outsourced technology services and other contracts are as follows.

| | 2014 | | |
|---|------------|---|-----------|
| | Premises | Information technology service contracts ⁽¹⁾ | Other |
| Due within one year | \$ 62,239 | \$ 54,346 | \$ 7,468 |
| Due within 1 to 5 years | 178,723 | 108,088 | 10,637 |
| Due after 5 years | 76,615 | 1,718 | — |
| | 317,577 | 164,152 | 18,105 |
| Less: Future minimum sublease payments to be received | (20,444) | — | — |
| Total | \$ 297,133 | \$ 164,152 | \$ 18,105 |

(1) The Bank may terminate certain major service contracts in certain circumstances.

Payments under these commitments recognized as an expense amounted to \$55.4 million for the year ended October 31, 2014 (\$59.3 million for the year ended October 31, 2013).

FINANCIAL ASSETS PLEDGED AS COLLATERAL

In the normal course of its operations, the Bank pledges financial assets presented in the consolidated balance sheet. This collateral security is pledged under the usual terms that provide, among other things, that the Bank bear the risks and rewards related to the collateral security and the pledged assets be returned to the Bank when the terms and conditions requiring them to be pledged as security cease to apply.

Financial assets pledged as collateral under securitization operations are detailed in Note 7. The following table details the financial assets pledged as collateral under other arrangements.

| | 2014 | 2013 |
|---|--------------|------------|
| Pledged assets: | | |
| To participate in clearing and payment systems | \$ 355,020 | \$ 250,873 |
| For obligations related to securities sold under repurchase agreements and for securities borrowed | 1,401,139 | 685,532 |
| For obligations related to derivatives in a liability position | 63,414 | 61,625 |
| | \$ 1,819,573 | \$ 998,030 |
| Pledged assets are detailed as follows: | | |
| Securities | \$ 1,610,137 | \$ 750,368 |
| Residential mortgage loans (NHA MBS) | 209,436 | 247,662 |
| | \$ 1,819,573 | \$ 998,030 |

29. COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES [CONT'D]

CONTINGENT LIABILITIES

In the ordinary course of business, the Bank is involved in various legal actions and claims, including some with regulatory bodies. Many of these disputes are related to loans granted by the Bank and are in reaction to steps taken to collect delinquent loans and realize the underlying collateral. Certain claims have also been brought against the Bank, particularly with respect to trustee operations related to portfolio administration and the charging of certain bank fees. Management considers that adequate provisions have been set aside to cover any potential losses and any amounts that might not be recoverable from insurance companies, as the case may be, in connection with these actions.

Marcotte v. Banks

This class action, brought on behalf of cardholders, alleged that ten Canadian financial institutions, including the Bank, were in breach of certain provisions of the Québec Consumer Protection Act (CPA). The alleged violations included fees charged by the ten banks to their credit card holders on the conversion of foreign currency transactions into Canadian dollars. The defendant banks had jointly raised a constitutional challenge to the CPA on the basis that banks were not required to comply with provincial legislation because banking and cost of borrowing disclosure is a matter of exclusive federal jurisdiction.

On September 19, 2014, the Supreme Court of Canada unanimously concluded that the Bank had properly disclosed the fees charged to their credit card holders regarding the conversion of foreign currency transactions into Canadian dollars. The Bank did not incur any monetary losses in this case. The judgment also concluded that the CPA is constitutionally applicable to federally regulated financial institutions.

30. BUSINESS COMBINATIONS

CONTINGENT CONSIDERATION

On August 1, 2012, the Bank acquired 100% of the outstanding shares of AGF Trust Company (AGF Trust) from AGF Management Limited. The agreement included a contingent consideration of a maximum of \$20.0 million over five years if credit quality reached certain criteria, which was initially valued at \$5.9 million. The contingent consideration was recognized in other liabilities and amounted to \$5.9 million as at October 31, 2013. On May 30, 2014, the Bank reached an agreement with AGF Management Limited to settle the contingent consideration for a total amount of \$10.0 million. To reflect this agreement, the Bank recorded an additional \$4.1 million non tax-deductible charge in 2014 under the amortization of net premium on purchased financial instruments and revaluation of contingent consideration line-item.

GAIN ON ACQUISITION AND AMORTIZATION OF NET PREMIUM ON PURCHASED FINANCIAL INSTRUMENTS

In 2012, the allocation of the purchase price of AGF Trust resulted in a gain of \$24.3 million (\$16.4 million net of income taxes) arising on acquisition as the estimated fair values of the net assets acquired exceeded the purchase price. The gain mainly represented the favourable effect of the discount or premium to reflect the then current market rates on purchased financial instruments, partly offset by the initial estimated fair value of the contingent consideration. The unamortized portion of the gain resulting from the revaluation of the purchased financial instruments of \$19.3 million is being amortized in net income over the estimated remaining term of the purchased financial instruments of 8 years and amounted to \$5.6 million for the year ended October 31, 2014 (\$4.4 million for the year ended October 31, 2013).

COSTS RELATED TO BUSINESS COMBINATIONS

In 2014, the Bank incurred costs related to IT systems conversion, salaries, professional fees, employee severances and relocation costs and other expenses for the integration of former AGF Trust operations. These costs were recognized directly in net income, under Costs related to business combinations.

Statistical Review - Consolidated Balance Sheet

| Unaudited, as at October 31 (in thousands of Canadian dollars) | 2014 | 2013 | 2012 ⁽¹⁾ | 2011 ⁽¹⁾ | 2010 ⁽¹⁾ | VARIANCE 2014 / 2010 |
|---|---------------|---------------|---------------------|---------------------|---------------------|-------------------------|
| ASSETS | | | | | | |
| Cash and non-interest-bearing deposits with other banks | \$ 126,247 | \$ 82,836 | \$ 90,860 | \$ 81,600 | \$ 72,444 | 74 % |
| Interest-bearing deposits with other banks | 122,608 | 126,002 | 480,183 | 285,459 | 99,394 | 23 |
| Securities | | | | | | |
| Issued or guaranteed by Canada | 2,058,423 | 1,829,200 | 3,202,058 | 2,896,307 | 3,084,334 | (33) |
| Issued or guaranteed by provinces and municipal corporations | 2,020,964 | 1,655,771 | 1,712,085 | 1,396,980 | 1,029,726 | 96 |
| Other securities | 801,073 | 995,554 | 1,228,818 | 882,579 | 705,483 | 14 |
| | 4,880,460 | 4,480,525 | 6,142,961 | 5,175,866 | 4,819,543 | 1 |
| Securities purchased under reverse repurchase agreements | 1,562,677 | 1,218,255 | 631,202 | 720,317 | 994,674 | 57 |
| Loans | | | | | | |
| Personal | 6,793,078 | 7,245,474 | 7,806,067 | 5,774,207 | 5,636,203 | 21 |
| Residential mortgage | 14,825,541 | 14,735,211 | 14,169,095 | 11,869,412 | 10,859,647 | 37 |
| Commercial mortgage | 2,651,271 | 2,488,826 | 2,443,634 | 2,363,808 | 2,166,375 | 22 |
| Commercial and other | 2,794,232 | 2,488,137 | 2,150,953 | 1,900,977 | 1,691,190 | 65 |
| Customers' liabilities under acceptances | 365,457 | 271,049 | 211,130 | 179,140 | 165,450 | 121 |
| | 27,429,579 | 27,228,697 | 26,780,879 | 22,087,544 | 20,518,865 | 34 |
| Allowances for loan losses | (119,371) | (115,590) | (117,542) | (143,150) | (131,567) | (9) |
| | 27,310,208 | 27,113,107 | 26,663,337 | 21,944,394 | 20,387,298 | 34 |
| Other | | | | | | |
| Premises and equipment | 68,750 | 73,261 | 71,871 | 61,708 | 55,727 | 23 |
| Other assets | 777,731 | 817,040 | 856,412 | 693,866 | 626,245 | 24 |
| | 846,481 | 890,301 | 928,283 | 755,574 | 681,972 | 24 |
| | \$ 34,848,681 | \$ 33,911,026 | \$ 34,936,826 | \$ 28,963,210 | \$ 27,055,325 | 29 % |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | | | |
| Deposits | | | | | | |
| Personal | \$ 18,741,981 | \$ 19,282,042 | \$ 19,369,310 | \$ 15,609,853 | \$ 15,354,851 | 22 % |
| Business, banks and other | 5,781,045 | 4,645,308 | 4,672,133 | 4,406,428 | 4,250,819 | 36 |
| | 24,523,026 | 23,927,350 | 24,041,443 | 20,016,281 | 19,605,670 | 25 |
| Other | | | | | | |
| Obligations related to securities sold short or under repurchase agreements | 2,144,338 | 1,803,871 | 1,593,971 | 1,508,024 | 1,422,386 | 51 |
| Acceptances | 365,457 | 271,049 | 211,130 | 179,140 | 165,450 | 121 |
| Other liabilities | 959,879 | 1,054,998 | 1,068,462 | 1,038,051 | 1,088,717 | (12) |
| | 3,469,674 | 3,129,918 | 2,873,563 | 2,725,215 | 2,676,553 | 30 |
| Debt related to securitization activities | 4,863,848 | 4,974,714 | 6,037,097 | 4,760,847 | 3,486,634 | n.a. |
| Subordinated debt | 447,523 | 445,473 | 443,594 | 242,551 | 150,000 | 198 |
| Shareholders' equity | | | | | | |
| Preferred shares | 219,633 | 205,204 | 303,249 | 205,527 | 205,527 | 7 |
| Common shares | 465,854 | 446,496 | 428,526 | 252,601 | 252,472 | 85 |
| Share-based payment reserve | 91 | 91 | 227 | 227 | 243 | (63) |
| Retained earnings | 848,905 | 776,256 | 774,899 | 694,371 | 621,847 | 37 |
| Accumulated other comprehensive income | 10,127 | 5,524 | 34,228 | 65,590 | 56,379 | (82) |
| | 1,544,610 | 1,433,571 | 1,541,129 | 1,218,316 | 1,136,468 | 36 |
| | \$ 34,848,681 | \$ 33,911,026 | \$ 34,936,826 | \$ 28,963,210 | \$ 27,055,325 | 29 % |

(1) Comparative figures prior to 2013 were not restated to reflect the adoption of amendments to IAS 19, *Employee Benefits*.

Statistical Review - Consolidated Statement of Income

Unaudited, as at and for the years ended October 31
(in thousands of Canadian dollars, except per share
and percentage amounts)

| | 2014 | 2013 | 2012 ⁽¹⁾ | 2011 ⁽¹⁾ | 2010 ⁽²⁾ | VARIANCE 2014 / 2010 |
|--|-------------------|------------|---------------------|---------------------|---------------------|-------------------------|
| Net interest income | \$ 560,980 | \$ 568,760 | \$ 531,028 | \$ 504,485 | \$ 496,421 | 13 % |
| Other income | 313,085 | 296,577 | 265,615 | 233,862 | 241,025 | 30 |
| Total revenue | 874,065 | 865,337 | 796,643 | 738,347 | 737,446 | 19 |
| Gain on acquisition, amortization of net premium on purchased financial instruments and revaluation of contingent consideration | 9,653 | 4,426 | [23,795] | — | — | n.a. |
| Provision for loan losses | 42,000 | 36,000 | 33,000 | 51,080 | 68,000 | [38] |
| Non-interest expenses | | | | | | |
| Salaries and employee benefits | 340,394 | 358,492 | 320,603 | 282,630 | 275,964 | 23 |
| Premises and technology | 186,671 | 171,275 | 152,919 | 141,212 | 132,540 | 41 |
| Other | 101,383 | 106,068 | 108,944 | 97,263 | 95,732 | 6 |
| Costs related to business combinations ⁽³⁾ | 12,861 | 38,244 | 21,997 | 9,006 | — | n.a. |
| | 641,309 | 674,079 | 604,463 | 530,111 | 504,236 | 27 |
| Income before income taxes | 181,103 | 150,382 | 182,975 | 157,156 | 165,210 | 10 |
| Income taxes | 40,738 | 31,355 | 42,467 | 33,439 | 42,269 | [4] |
| Net income | \$ 140,365 | \$ 119,477 | \$ 140,508 | \$ 123,717 | \$ 122,941 | 14 % |
| Preferred share dividends, including applicable taxes | \$ 10,985 | \$ 11,749 | \$ 12,768 | \$ 12,436 | \$ 12,122 | [9]% |
| Net income available to common shareholders | \$ 129,380 | \$ 107,728 | \$ 127,740 | \$ 111,281 | \$ 110,819 | 17 % |
| Average number of common shares outstanding (in thousands) | | | | | | |
| Basic | 28,724 | 28,329 | 25,634 | 23,924 | 23,921 | 20 % |
| Diluted | 28,732 | 28,338 | 25,652 | 23,943 | 23,937 | 20 % |
| Earnings per share | | | | | | |
| Basic | \$ 4.50 | \$ 3.80 | \$ 4.98 | \$ 4.65 | \$ 4.63 | [3]% |
| Diluted | \$ 4.50 | \$ 3.80 | \$ 4.98 | \$ 4.65 | \$ 4.63 | [3]% |
| Common share dividends | \$ 59,105 | \$ 56,037 | \$ 47,212 | \$ 38,757 | \$ 34,446 | 72 % |
| Dividends declared per common share | \$ 2.06 | \$ 1.98 | \$ 1.84 | \$ 1.62 | \$ 1.44 | 43 % |
| Dividend payout ratio ⁽⁴⁾ | 45.7 % | 52.0 % | 37.0 % | 34.8 % | 31.1 % | 47 % |
| Book value per common share ⁽⁴⁾ | \$ 45.89 | \$ 43.19 | \$ 42.81 | \$ 39.59 | \$ 41.87 | 10 % |
| Return on common shareholders' equity ⁽⁴⁾ | 10.1 % | 9.1 % | 12.1 % | 12.2 % | 11.5 % | [12]% |
| Net interest margin ⁽⁴⁾ | 1.65 % | 1.66 % | 1.69 % | 1.82 % | 2.15 % | [23]% |
| Efficiency ratio ⁽⁴⁾ | 73.4 % | 77.9 % | 75.9 % | 71.8 % | 68.4 % | 7 % |
| Provision for loan losses (as a percentage of average loans and acceptances) | 0.15 % | 0.13 % | 0.14 % | 0.24 % | 0.40 % | [63]% |
| Adjusted financial measures | | | | | | |
| Adjusted net income ⁽⁴⁾ | \$ 163,582 | \$ 155,436 | \$ 140,660 | \$ 130,383 | \$ 122,941 | 33 % |
| Adjusted diluted earnings per share ⁽⁴⁾ | \$ 5.31 | \$ 5.07 | \$ 4.98 | \$ 4.93 | \$ 4.63 | 15 % |
| Adjusted return on common shareholders' equity ⁽⁴⁾ | 11.9 % | 12.1 % | 12.0 % | 12.9 % | 11.5 % | 3 % |
| Adjusted efficiency ratio ⁽⁴⁾ | 71.0 % | 72.8 % | 73.1 % | 70.6 % | 68.4 % | 4 % |
| Average assets (in millions of dollars) | \$ 34,023 | \$ 34,199 | \$ 31,465 | \$ 27,768 | \$ 23,093 | 47 % |
| Average earning assets (in millions of dollars) | \$ 32,974 | \$ 31,191 | \$ 30,615 | \$ 27,144 | \$ 21,928 | 50 % |
| Average common shareholders' equity (in millions of dollars) | \$ 1,281 | \$ 1,187 | \$ 1,059 | \$ 915 | \$ 963 | 33 % |
| Number of full-time equivalent employees | 3,667 | 3,987 | 4,201 | 3,669 | 3,643 | 1 % |
| Number of branches | 152 | 153 | 157 | 158 | 157 | [3]% |
| Number of automated banking machines | 418 | 422 | 426 | 427 | 413 | 1 % |

(1) Comparative figures prior to 2013 were not restated to reflect the adoption of amendments to IAS 19, *Employee Benefits*.

(2) In accordance with previous CGAAP.

(3) Integration costs related to the acquisition of the MRS Companies and AGF Trust.

(4) Refer to the non-GAAP financial measures section.

Quarterly Highlights

Unaudited, as at and for the quarters ended
(in thousands of Canadian dollars, except
per share and percentage amounts)

| | 2014 | | | | 2013 | | | |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | OCT. 31 | JULY 31 | APRIL 30 | JAN. 31 | OCT. 31 | JULY 31 | APRIL 30 | JAN. 31 |
| Net interest income | \$ 140,149 | \$ 141,249 | \$ 138,726 | \$ 140,856 | \$ 141,437 | \$ 144,549 | \$ 140,430 | \$ 142,344 |
| Other income | 81,272 | 78,396 | 78,164 | 75,253 | 74,094 | 76,493 | 74,420 | 71,570 |
| Total revenue | 221,421 | 219,645 | 216,890 | 216,109 | 215,531 | 221,042 | 214,850 | 213,914 |
| Amortization of net premium on purchased financial instruments and revaluation of contingent consideration | 1,508 | 1,511 | 5,498 | 1,136 | 1,006 | 1,140 | 1,224 | 1,056 |
| Provision for loan losses | 10,500 | 10,500 | 10,500 | 10,500 | 10,000 | 9,000 | 9,000 | 8,000 |
| Non-interest expenses | 163,388 | 154,409 | 155,467 | 155,184 | 162,700 | 162,105 | 155,494 | 155,536 |
| Costs related to business combinations⁽¹⁾ | 2,911 | 1,564 | 4,437 | 3,949 | 9,951 | 14,600 | 6,136 | 7,557 |
| Income before income taxes | 43,114 | 51,661 | 40,988 | 45,340 | 31,874 | 34,197 | 42,996 | 41,765 |
| Income taxes | 9,360 | 11,564 | 9,999 | 9,815 | 6,008 | 7,213 | 9,157 | 8,977 |
| Net income | \$ 33,754 | \$ 40,097 | \$ 30,989 | \$ 35,525 | \$ 25,866 | \$ 26,984 | \$ 33,839 | \$ 32,788 |
| Preferred share dividends, including applicable taxes | \$ 2,395 | \$ 3,588 | \$ 2,501 | \$ 2,501 | \$ 2,637 | \$ 2,520 | \$ 4,059 | \$ 2,533 |
| Net income available to common shareholders | \$ 31,359 | \$ 36,509 | \$ 28,488 | \$ 33,024 | \$ 23,229 | \$ 24,464 | \$ 29,780 | \$ 30,255 |
| Average number of common shares outstanding (in thousands) | | | | | | | | |
| Basic | 28,873 | 28,775 | 28,677 | 28,570 | 28,474 | 28,385 | 28,287 | 28,169 |
| Diluted | 28,881 | 28,783 | 28,684 | 28,577 | 28,481 | 28,393 | 28,297 | 28,182 |
| Earnings per share | | | | | | | | |
| Basic | \$ 1.09 | \$ 1.27 | \$ 0.99 | \$ 1.16 | \$ 0.82 | \$ 0.86 | \$ 1.05 | \$ 1.07 |
| Diluted | \$ 1.09 | \$ 1.27 | \$ 0.99 | \$ 1.16 | \$ 0.82 | \$ 0.86 | \$ 1.05 | \$ 1.07 |
| Common share dividends | \$ 14,997 | \$ 14,947 | \$ 14,609 | \$ 14,552 | \$ 14,223 | \$ 14,181 | \$ 13,846 | \$ 13,787 |
| Dividends declared per common share | \$ 0.52 | \$ 0.52 | \$ 0.51 | \$ 0.51 | \$ 0.50 | \$ 0.50 | \$ 0.49 | \$ 0.49 |
| Book value per common share ⁽²⁾ | \$ 45.89 | \$ 45.10 | \$ 44.61 | \$ 44.03 | \$ 43.19 | \$ 42.60 | \$ 41.75 | \$ 41.45 |
| Share price – Close | \$ 49.58 | \$ 51.55 | \$ 47.08 | \$ 45.73 | \$ 46.55 | \$ 45.05 | \$ 44.21 | \$ 44.10 |
| Return on common shareholders' equity ⁽²⁾ | 9.5 % | 11.2 % | 9.2 % | 10.5 % | 7.6 % | 8.1 % | 10.4 % | 10.3 % |
| Net interest margin ⁽²⁾ | 1.61 % | 1.65 % | 1.68 % | 1.66 % | 1.66 % | 1.68 % | 1.68 % | 1.63 % |
| Efficiency ratio ⁽²⁾ | 75.1 % | 71.0 % | 73.7 % | 73.6 % | 80.1 % | 79.9 % | 75.2 % | 76.2 % |
| Adjusted financial measures | | | | | | | | |
| Adjusted net income ⁽²⁾ | \$ 42,591 | \$ 42,355 | \$ 39,375 | \$ 39,261 | \$ 38,526 | \$ 38,547 | \$ 39,247 | \$ 39,116 |
| Adjusted diluted earnings per share ⁽²⁾ | \$ 1.39 | \$ 1.35 | \$ 1.29 | \$ 1.29 | \$ 1.26 | \$ 1.27 | \$ 1.24 | \$ 1.30 |
| Adjusted return on common shareholders' equity ⁽²⁾ | 12.2 % | 11.9 % | 11.9 % | 11.7 % | 11.7 % | 12.0 % | 12.2 % | 12.5 % |
| Adjusted efficiency ratio ⁽²⁾ | 70.3 % | 70.3 % | 71.7 % | 71.8 % | 72.6 % | 73.3 % | 72.4 % | 72.7 % |
| Average assets (in millions of dollars) | \$ 34,632 | \$ 34,030 | \$ 33,774 | \$ 33,648 | \$ 33,746 | \$ 34,208 | \$ 34,206 | \$ 34,635 |
| Common Equity Tier 1 capital ⁽³⁾ (in millions of dollars) | \$ 1,087.2 | \$ 1,051.1 | \$ 1,030.3 | \$ 1,014.0 | \$ 1,017.7 | \$ 1,013.6 | \$ 1,018.5 | \$ 1,002.8 |
| Tier 1 capital ⁽³⁾ (in millions of dollars) | \$ 1,306.9 | \$ 1,270.7 | \$ 1,356.4 | \$ 1,219.2 | \$ 1,222.9 | \$ 1,218.7 | \$ 1,223.7 | \$ 1,275.7 |
| Total capital ⁽³⁾ (in millions of dollars) | \$ 1,747.5 | \$ 1,705.7 | \$ 1,811.2 | \$ 1,665.7 | \$ 1,694.2 | \$ 1,701.4 | \$ 1,698.4 | \$ 1,753.6 |
| Total risk-weighted assets ⁽³⁾ (in millions of dollars) | \$ 13,844.0 | \$ 13,715.0 | \$ 13,576.6 | \$ 13,400.9 | \$ 13,379.8 | \$ 13,471.8 | \$ 13,428.6 | \$ 13,286.8 |
| Common Equity Tier 1 capital ratio ⁽³⁾ | 7.9 % | 7.7 % | 7.6 % | 7.6 % | 7.6 % | 7.5 % | 7.6 % | 7.5 % |
| Tier 1 capital ratio ⁽³⁾ | 9.4 % | 9.3 % | 10.0 % | 9.1 % | 9.1 % | 9.0 % | 9.1 % | 9.6 % |
| Total capital ratio ⁽³⁾ | 12.6 % | 12.4 % | 13.3 % | 12.4 % | 12.7 % | 12.6 % | 12.6 % | 13.2 % |

(1) Integration costs related to the acquisition of the MRS Companies and AGF Trust.

(2) Refer to the non-GAAP financial measures section.

(3) Regulatory capital ratios and amounts are determined in accordance with Basel III rules (All-in basis).

Today, as in the past, strong corporate governance is an important component in managing Laurentian Bank's activities. In 1987, the Bank became the first Canadian financial institution to separate the roles of Chairman of the Board and of President and CEO. Moreover, its corporate governance practices remain among the most exemplary today.

All members of the Board of Directors, except the President and Chief Executive Officer, are independent and unrelated to the Bank's management. The independent status of directors is determined in accordance with criteria defined by the Human Resources and Corporate Governance Committee, which are used to evaluate the status of every director, regardless of which Committee they may sit on. Furthermore, rules concerning directorships in other organizations have been instituted so as to ensure that no more than two directors sit on the board of the same public issuer (unless authorized by the Board Chair).

The role of the Board of Directors is essentially to supervise the management of the business and internal affairs of the Bank. Board deliberations generally end with a discussion period held without the presence of management. The members of the Board commit to act in accordance with standards set forth in the *Code of Conduct for Directors*, which covers issues such as general conduct, contribution to the work of the Board and its Committees, as well as insider trading, conflicts of interest and other situations that may affect a director's independence.

The Board of Directors has delegated some of its responsibilities and functions to three Committees, whose members are appointed from among its directors. The Audit Committee, the Risk Management Committee, and the Human Resources and Corporate Governance Committee regularly submit written and verbal updates and reports on their work to the Board of Directors. Furthermore, these Committees present a report to shareholders to be included in the Management Proxy Circular.

Audit committee

The primary function of the Audit Committee is to support the Board of Directors in overseeing the integrity of the Bank's financial statements, the relevance and effectiveness of its internal controls, the qualifications and independence of the external auditor and the performance of the internal audit function and of the external auditor. In order to do so, the Board has appointed directors meeting the criteria for independence and possessing an appropriate level of financial literacy. The Committee meets on a regular basis with the internal and external auditor without the presence of management. Furthermore, the Committee meetings generally end with a discussion period held without the presence of management.

More specifically, the Committee's responsibilities include the following:

With respect to the external auditor: recommend the appointment or dismissal of the external auditor; assure its competence, independence, and the adequacy of its resources; review the scope of its mission and compensation; oversee its activities and evaluate its performance; approve the external auditor's oversight policy and the policy concerning non-audit related services.

With respect to financial information: oversee the integrity and quality of financial statements and assure that the institution's accounting practices are prudent and appropriate; prior to their publication, review the annual and interim financial statements, management's discussion and analysis and press releases regarding results, as well as the annual information form and any other documents required by regulatory authorities; review the annual financial statements of the subsidiaries supervised by the Office of the Superintendent of Financial Institutions.

With respect to the internal audit function: approve the internal audit's charter and plan; assure the competence, independence and adequacy of internal audit resources, and follow up on material findings and recommendations.

With respect to internal controls: assure that management implements appropriate internal control and information management systems; assure their integrity and effectiveness; assure that management implements procedures regarding the receipt, retention and handling of complaints received with respect to accounting, internal controls or audit.

With respect to oversight agencies: follow up on the findings and recommendations of oversight authorities.

Risk management committee

In addition to reviewing transactions with related parties of the Bank, the Risk Management Committee ensures that the Bank has adopted an adequate and effective risk management process, which includes the identification, assessment and management of risks, as well as the development of adequate policies concerning credit, market, liquidity and financing, operational, capital management, regulatory and reputation risks.

The Committee is composed of independent directors who hold discussions with officers in charge of oversight activities (the internal auditor as well as the chief risk officer and the chief regulatory risk management officer) without the presence of management. Furthermore, the Committee meetings generally end with a discussion period held without the presence of management.

To this end, the Committee must assure that management identifies the organization's principal risks and implements systems to measure and adequately manage them and assure the integrity and effectiveness of such systems; review the overall risk philosophy and risk tolerance; assure the competence,

independence and the adequacy of resources of the function in charge of integrated risk management and approve its mandate; follow up on material findings and recommendations; approve loans, which under the credit policies, are the responsibility of the Committee, and examine the quality of the loan portfolio and the adequacy of allowances for loan losses; assure that management adopts a process to determine the appropriate capital level for the Bank based on assumed risks; review the Code of Ethics and Privacy Code for the Protection of Personal Information applicable to officers and employees and assure they are complied with; assure the competence and independence of the person in charge of regulatory risk management and risk management, and follow up on their findings and recommendations; in collaboration with the Human Resources and Corporate Governance Committee, annually review the alignment of compensation and the Bank's performance and assumed risk with the remuneration standards and principles issued by the Financial Stability Board.

Human resources and corporate governance committee

The Human Resources and Corporate Governance Committee is composed of independent directors, none of whom heads a public company. Certain elements of its mandate are discussed without the presence of management.

More specifically, the Committee's human resources responsibilities include the following:

With respect to human resources management: annually review the performance management process and evaluate its effectiveness; assure that management implements a plan to promote the hiring, retention and motivation of qualified personnel.

With respect to senior officers: review appointments of senior officers; approve the establishment of objectives for members of the Management Committee and evaluate their performance; assure the integrity of senior officers and the adoption of a culture of integrity throughout the Bank.

With respect to compensation: approve the overall compensation framework (including incentive compensation, fringe benefits and pension plans) for senior officers, with a view to furthering the Bank's business objectives, as well as the material terms and conditions of the compensation and employment conditions applicable to the Bank's other employees and officers; in collaboration with the Risk Management Committee, annually approve the alignment of compensation and the Bank's performance and assumed risk with the remuneration standards and principles issued by the Financial Stability Board.

With respect to pension plans: assure that management implements appropriate internal control mechanisms with a view to adequately manage pension plans.

The Committee's corporate governance responsibilities include the following:

With respect to the President and Chief Executive Officer: recommend the appointment or dismissal of the President and Chief Executive Officer to the Board; recommend the objectives of the President and Chief Executive, as well as his/her evaluation, compensation and employment conditions to the Board; implement a succession process for the President and Chief Executive Officer.

With respect to the Board and Committees: review corporate governance rules and assure they are complied with; review the functions of the Board of Directors, its composition (taking the diversity of members into account), compensation and size; review the constitution, membership and functions of Committees; review the Code of Conduct for the members of the Board and assure it is complied with; assure ongoing training for the members of the Board; approve the criteria to evaluate the independence of Board members and assess their independence periodically; evaluate the Board and its members; assure the recruitment of new Board members to be submitted for election by shareholders, and see to their orientation and integration.

With respect to public disclosure: assure that shareholders are well informed of the Bank's affairs and deal with all material disagreements between the Bank and its shareholders.

The complete text outlining the functions of the Board of Directors and the mandate of each Committee can be found in the Corporate Governance section of the Bank's Web site, while Committee reports can be consulted in the Management Proxy Circular.

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LBC Financial Services Inc.

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555 Chabanel St. W.
Suite 520

Private Banking

Montréal

1981 McGill College Avenue
2nd Floor

CONSOLIDATED SUBSIDIARIES

AS AT OCTOBER 31, 2014

| CORPORATE NAME | HEAD OFFICE LOCATION | CARRYING VALUE OF VOTING SHARES OWNED BY THE BANK ⁽¹⁾ (\$'000) | PERCENTAGE OF VOTING SHARES OWNED BY THE BANK |
|------------------------------------|----------------------|---|---|
| B2B Bank | Toronto, Canada | \$619,253 | 100% |
| <i>Wholly-owned subsidiaries</i> | | | |
| B2B Bank Financial Services Inc. | Toronto, Canada | | |
| B2B Bank Securities Services Inc. | Toronto, Canada | | |
| B2B Bank Intermediary Services Inc | Toronto, Canada | | |
| B2B Trustco | Toronto, Canada | | |
| LBC Investment Management Inc. | Montreal, Canada | \$308,847 | 100% |
| <i>Wholly-owned subsidiary</i> | | | |
| V.R. Holding Insurance Company Ltd | St. James, Barbados | | |
| Laurentian Trust of Canada Inc. | Montreal, Canada | \$119,546 | 100% |
| LBC Trust | Montreal, Canada | \$ 60,154 | 100% |
| Laurentian Bank Securities Inc. | Montreal, Canada | \$110,687 | 100% |
| LBC Financial Services Inc. | Montreal, Canada | \$ 6,872 | 100% |
| Laurentian Bank Insurance Inc. | Montreal, Canada | \$ 2 | 100% |

(1) The carrying value of voting shares corresponds to the Bank's interest in the shareholders' equity of the subsidiary.

Allowances for Loan Losses represent an amount deemed adequate by the Bank to absorb credit-related losses on loans and acceptances. Total allowances for loan losses consists of individual and collective allowances and are recorded on the balance sheet as a deduction from loans and acceptances.

Alt-A Mortgages represent a classification of mortgages where borrowers have a clean credit history consistent with prime lending criteria. However, characteristics about the mortgage such as loan to value, loan documentation, occupancy status or property type, may cause the mortgage not to qualify under standard underwriting programs.

Assets under Administration and under Management mostly refers to assets related to registered and non-registered investment accounts, clients' brokerage assets, mutual funds and mortgages administered by the Bank that are beneficially owned by clients and therefore not reported on the balance sheet of the Bank.

Assets to Capital Multiple is an OSFI-regulated capital ratio defined as total assets plus specified off-balance sheet items, divided by Total Capital.

Bankers' Acceptances (BAs) are bills of exchange or negotiable instruments drawn by a borrower for payment at maturity and accepted by a bank. BAs constitute a guarantee of payment by the Bank and can be traded in the money market. The Bank earns a "stamping fee" for providing this guarantee.

Basel II is the second of the Basel Accords, which are recommendations on banking laws and regulations issued by the Basel Committee on Banking Supervision (BCBS). The purpose of Basel II is to create an international standard that banking regulators can use when creating regulations about how much capital banks need to put aside to guard against the types of financial and operational risks banks face.

Basel III is a comprehensive set of reform measures, developed by the BCBS, to strengthen the regulation, supervision and risk management of the banking sector. These measures also include liquidity adequacy requirements.

Basis Point: One one-hundredth of a percentage point.

Book Value per Common Share is defined as common shareholders' equity divided by the number of common shares outstanding at the end of the period.

Collective Allowances are maintained to cover impairment in the existing loan portfolio that cannot yet be associated with specific loans. The Bank employs a collective allowance model based on the internal risk rating of credit facilities and on the related probability of default factors, as well as the loss given default associated with each type of facility.

Common Equity Tier 1 Capital (CET1) represents, under Basel III, more permanent forms of capital, and primarily consists of common shareholder's equity and accumulated other comprehensive income, less a deduction for goodwill, software and other intangibles, pension assets, cash flow hedge reserves and certain other deductions prescribed by OSFI.

CET1 Capital Ratio is defined as CET1 capital divided by risk-weighted assets.

Common Shareholders' Equity is defined as the sum of the value of common shares, retained earnings and accumulated other comprehensive income, excluding cash flow hedge reserves.

Credit and Counterparty Risk is the risk of a financial loss occurring if a counterparty (including a debtor, an issuer or a guarantor) does not fully honor its contractual or financial obligations towards the Bank with regard to a balance sheet or an off-balance sheet financial instrument.

Derivatives are contracts whose value is "derived" from movements in interest or foreign exchange rates, or equity or commodity prices. Derivatives allow for the transfer, modification or reduction of current or expected risks from changes in rates and prices.

Dividend Payout Ratio is defined as dividends declared on common shares as a percentage of net income available to common shareholders.

Dividend Yield represents dividends declared per common share divided by the closing common share price.

Earnings per Share (EPS) is calculated by dividing net income after deduction of preferred dividends, by the average number of common shares outstanding. Diluted EPS is calculated by adjusting the number of shares outstanding for possible conversions of financial instruments into common shares.

Effective Interest Rate represents the discount rate applied to estimated future cash payments or receipts over the expected life of the financial instrument or, when appropriate, a shorter period, to arrive at the net carrying amount of the financial asset or liability.

Efficiency Ratio is a key measure of productivity and cost control. It is defined as non-interest expenses as a percentage of total revenue.

Fair value is the estimated price that would be received or paid in an orderly transaction between market participants at the measurement date.

Hedging is a risk management technique used to neutralize or manage interest rate, foreign currency, or credit exposures arising from normal banking activities by taking positions that are expected to react to market conditions in an offsetting manner.

Impaired Loans are loans for which there is no longer reasonable assurance of the timely recovery of principal or interest.

Individual Allowances reduce the carrying value of impaired loans to the amount the Bank expects to recover when there is evidence of deterioration in credit quality.

Leverage ratio is comprised of Tier 1 capital, divided by unweighted on-balance sheet assets and off-balance sheet commitments, derivatives and securities financing transactions.

Net Interest Income is comprised of earnings on assets, such as loans and securities, including interest and dividend income, less interest expense paid on liabilities, such as deposits.

Net Interest Margin is the ratio of net interest income to total average assets, expressed as a percentage or basis points.

Notional Amount refers to the principal used to calculate interest and other payments under derivative contracts.

Off-Balance Sheet Financial Instruments represent a variety of financial arrangements offered to clients, which include for the Bank derivatives, credit commitments and guarantees, and other indemnifications.

Office of the Superintendent of Financial Institutions Canada (OSFI) is the primary Canadian regulator and supervisor of federally regulated deposit-taking institutions, which include banks, insurance companies and federally regulated private pension plans.

Operating Leverage is the difference between total revenue and non-interest expenses growth rates.

Options are contractual agreements between two parties in which the writer of the option grants the buyer the right, but not the obligation, to either buy or sell, at or by a specified date, a specific amount of a financial instrument at a price agreed upon when the agreement is entered into. The writer receives a premium for selling this instrument.

Provision for Loan Losses is a charge to income that represents an amount deemed adequate by management considering the allowances for loan losses already established to absorb all incurred loan losses in its portfolio, given the composition of the portfolios, the probability of default and the economic environment.

Return on Common Shareholders' Equity is a profitability measure calculated as the net income available to common shareholders as a percentage of average common shareholders' equity.

Risk-weighted Assets are assets calculated by applying a risk-weight factor to on and off-balance sheet exposure. The Bank uses standardized risk-weight factors as stipulated by OSFI, based on the guidelines developed by the Bank for International Settlement (BIS).

Securities Purchased Under Reverse Repurchase Agreements and Obligations Related to Securities Sold Under Repurchase Agreements are short-term purchases of securities under agreements to resell as well as short-term sales of securities under agreements to repurchase at predetermined prices and dates. Given the low risk transfer associated with these purchases and sales, these agreements are treated as collateralized lending.

Swaps are contractual agreements between two parties to exchange a series of cash flows for a specified period of time. The various swap agreements that the Bank enters into are as follows:

- *Interest rate swaps* – counterparties generally exchange fixed and floating rate interest payments based on a predetermined notional amount in a single currency.
- *Foreign exchange swaps* – fixed rate interest payments and principal amounts are exchanged in different currencies.
- *Total return swaps* – floating payments based on changes in the value of a reference asset or group of assets, including any associated return such as dividends, are exchanged for amounts based on prevailing market funding rates.

Tier 1 Capital primarily consists of CET1 and preferred shares.

Tier 1 Capital Ratio is defined as Tier 1 capital divided by risk-weighted assets.

Total Capital includes Tier 1 and Tier 2 capital, net of certain deductions. Tier 2 capital is primarily comprised of subordinated debt and the eligible portion of collective allowances for loan losses.

Total Capital Ratio is defined as total capital divided by risk-weighted assets.

Value at Risk (VaR) corresponds to the potential loss the Bank may incur for a specific portfolio or a group of portfolios over a one-day period, with a confidence level of 99%.

SHAREHOLDER INFORMATION

HEAD OFFICE

Tour Banque Laurentienne
1981 McGill College Avenue
Montréal, Québec H3A 3K3
Tel.: 514 284-4500 ext. 5996
Fax: 514 284-3396

TELEBANKING CENTRE, Automated Banking and Customer Service

Tel.: (514) 252-1846
or 1 800 252-1846
Website: www.laurentianbank.ca
Swift Code: BLCM CA MM

ANNUAL MEETING

The Annual Meeting of the Common Shareholders of the Bank will be held on Wednesday, April 1, 2015, at 9:30 a.m., at the Monument-National, Salle Ludger-Duvernay, 1182 Saint-Laurent Blvd., Montréal, Québec H2X 2S5.

VALUATION DAY PRICE

For capital gains purposes, the market value of Laurentian Bank common shares on Valuation day, December 22, 1971, adjusted for the stock splits of July 1983 and January 1987, was \$3.72.

TRANSFER AGENT AND REGISTRAR

Computershare
Investor Services Inc.
1500 University Street, Suite 700
Montréal, Québec H3A 3S8

OMBUDSMAN'S OFFICE

Laurentian Bank
1981 McGill College Avenue
Suite 1420
Montréal, Québec H3A 3K3
Tel.: 514 284-7192
or 1 800 479-1244

CHANGE OF ADDRESS AND INQUIRIES

Shareholders should notify the Transfer Agent of any change of address. Inquiries or requests may be directed to the Corporate Secretary's Office at Head Office or by calling 514 284-4500 ext. 7545.

INVESTORS AND ANALYSTS

Investors and analysts may contact the Investor Relations Department at Head Office by calling 514 284-4500 ext. 3901.

MEDIA

Journalists may contact the Public Affairs and Communications Department at Head Office by calling 514 284-4500 ext. 3901.

DIVIDEND REINVESTMENT AND SHARE PURCHASE PLAN

The Bank has a dividend reinvestment and share purchase plan for Canadian holders of its common and preferred shares under which they can acquire common shares of the Bank without paying commissions or administration fees. Participants acquire shares through the reinvestment of cash dividends paid on the shares they hold or through optional cash payments of a minimum amount of \$500 per payment, up to an aggregate amount of \$20,000 in each 12 month period ending October 31.

For more information, shareholders may contact the Bank's registrar and transfer agent, Computershare Trust Company of Canada, at 1 800 564-6253. To participate in the plan, the Bank's non-registered common and preferred shareholders must contact their financial institution or broker.

DIRECT DEPOSIT SERVICE

Shareholders of the Bank may, by advising the Transfer Agent in writing, have their dividends deposited directly into an account held at any financial institution member of the Canadian Payments Association.

This Annual Report was produced by the Public Affairs, Communications and Investor Relations Department of Laurentian Bank.

Vous pouvez recevoir une version française de ce rapport annuel en faisant parvenir votre demande par écrit à :
Banque Laurentienne
1981, avenue McGill College,
20^e étage
Montréal (Québec) H3A 3K3

STOCK SYMBOL AND DIVIDEND RECORD AND PAYMENT DATES

| THE COMMON AND PREFERRED SHARES INDICATED BELOW ARE LISTED ON THE TORONTO STOCK EXCHANGE. | CUSIP CODE/ STOCK SYMBOL | RECORD DATE* | DIVIDEND PAYMENT DATE* |
|---|-----------------------------|---|---|
| Common shares | 51925D 10 6 LB | First business day of: January April July October | February 1 May 1 August 1 November 1 |
| Preferred shares | | | March 15 |
| Series 11 | 51925D 84 1 LB.PR.F | ** | June 15 |
| Series 13 | 51925D 82 5 LB.PR.H | ** | September 15 December 15 |

* Subject to the approval of the Board of Directors.

** On such day (which shall not be more than 30 days preceding the date fixed for payment of such dividend) as may be determined from time to time by the Board of Directors of the Bank.

And we chose to be Laurentian Bank.

- Pan-Canadian banking institution
- Some 1.5 million clients across Canada
- 3,700 employees
- Balance sheet assets of \$34 billion
- Assets under management of \$41 billion

We stand apart for:

- our solid reputation among small and medium-sized enterprises and real estate developers throughout Canada;
- our unparalleled in-branch services;
- the nationwide leadership of B2B Bank in the provision of services to financial advisors and brokers;
- the efficiency and specialization of Laurentian Bank Securities



**LAURENTIAN
BANK**

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