ANNUAL REPORT

2015

LAURENTIAN BANK

2015 PERFORMANCE

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

	2015	2014	2013
ADJUSTED FINANCIAL MEASURES [1]			
Adjusted net income	**$172,199**	$163,582	$155,436
Adjusted diluted earnings per share	**$5.62**	$5.31	$5.07
Adjusted return on common shareholders' equity	**12.0 %**	11.9 %	12.1 %
Adjusted efficiency ratio	**71.3 %**	71.0 %	72.8 %
Adjusted operating leverage [2]	**(0.4) %**	2.4 %	n.m.
Adjusted dividend payout ratio	**39.2 %**	38.7 %	39.0 %
FINANCIAL MEASURES			
Total revenue	**$897,126**	$874,065	$865,337
Net income	**$102,470**	$140,365	$119,477
Diluted earnings per share	**$3.21**	$4.50	$3.80
Return on common shareholders' equity [1]	**6.8 %**	10.1 %	9.1 %
Efficiency ratio [1]	**80.6 %**	73.4 %	77.9 %
Operating leverage [1][2]	**(10.1) %**	5.9 %	n.m.
Dividend payout ratio	**68.6 %**	45.7 %	52.0 %
PER COMMON SHARE			
Share price - Close	**$52.97**	$49.58	$46.55
Book value	**$46.33**	$45.89	$43.19
Dividends declared	**$2.20**	$2.06	$1.98
Dividend yield	**4.2 %**	4.2 %	4.3 %
FINANCIAL POSITION			
Balance sheet assets [3]	**$39,659,504**	$36,482,785	$33,911,026
Loans and acceptances	**$30,092,545**	$27,429,579	$27,228,697
Deposits	**$26,604,304**	$24,523,026	$23,927,350
Common shareholders' equity	**$1,341,637**	$1,328,187	$1,232,379
QUALITY OF ASSETS			
Provision for loan losses as a % of average loans and acceptances	**0.12 %**	0.15 %	0.13 %
Basel III regulatory capital ratio – All-in basis			
Common Equity Tier 1 (under standardized methodology)	**7.6 %**	7.9 %	7.6 %

(1) Refer to the non-GAAP financial measures section.
(2) Operating leverage for 2013 is not meaningful as 2012 results were not restated to reflect the adoption of amendments to IAS 19, *Employee Benefits*.
(3) Comparative figures for 2013 were not restated to reflect the adoption of the amendments to IAS 32, *Financial Instruments: Presentation*.

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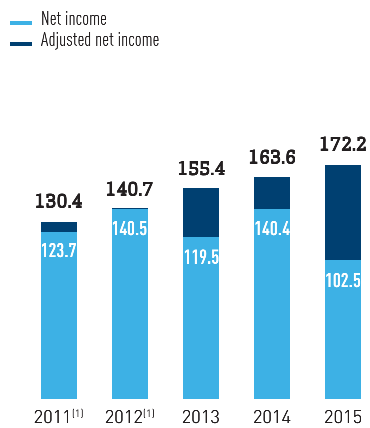
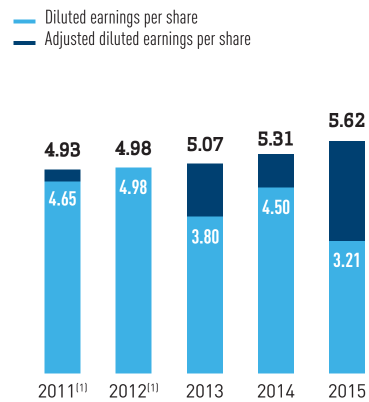
HIGHLIGHTS

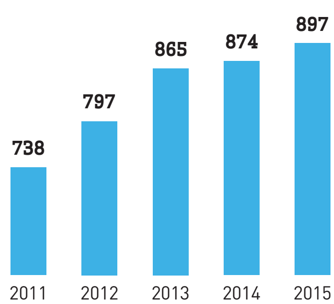
NET INCOME
(in millions of dollars)



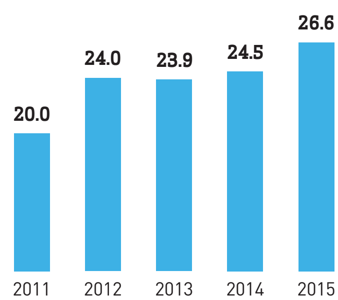
DILUTED EARNINGS PER SHARE
(in dollars)



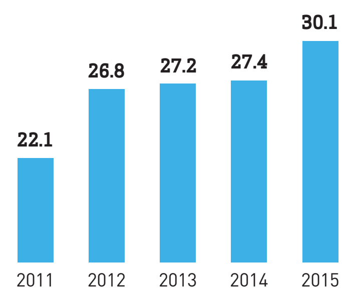
TOTAL REVENUE
(in millions of dollars)



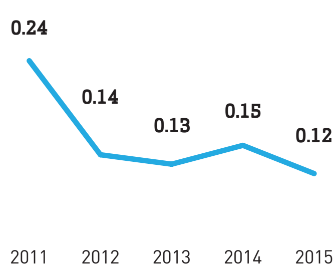
DEPOSITS
(in billions of dollars)



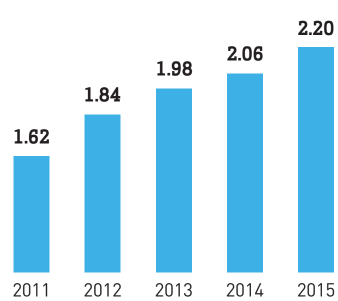
LOANS AND ACCEPTANCES
(in billions of dollars)



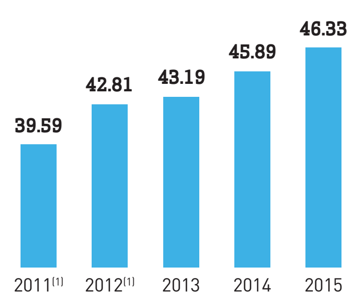
PROVISION FOR LOAN LOSSES
(as a percentage of average loans and acceptances)



DIVIDENDS DECLARED PER COMMON SHARE
(in dollars)



BOOK VALUE PER COMMON SHARE
(in dollars)



(1) Comparative figures prior to 2013 were not restated to reflect the adoption of the amended IFRS accounting standard on employee benefits.

MESSAGE FROM THE CHAIR OF THE BOARD

Isabelle Courville
Corporate Director

Has served on the Board of Directors since March 2007. She is Chair of the Board, a member of the Audit Committee and a member of the Human Resources and Corporate Governance Committee.

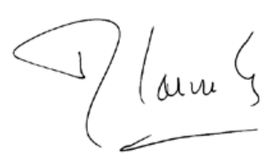
2015 HAS BEEN A YEAR OF HARMONIOUS TRANSITION FOR LAURENTIAN BANK. After serving as President and CEO over the past nine years, Réjean Robitaille retired on October 31, 2015. On behalf of the Board and all of the Bank's stakeholders, I would like to sincerely thank Réjean for his significant contribution. Under his leadership, Laurentian Bank has had remarkable growth and positioned itself as an important niche player in Canada. Réjean leaves us an important legacy - a solid Bank and a talented team. I would also like to thank the other members of the senior management group who played an important role in advancing the Bank's development over this period.

The Board of Directors has had a busy year. The selection process of our new CEO was of paramount importance. After an extensive search, which was conducted internally and externally in accordance with the Bank's succession plan, François Desjardins proved to be the best candidate. During the course of his successful 24-year career with the organization, he has demonstrated exceptional leadership. François has always been at the cutting edge of change, having built the Bank's telebanking center in the nineties and more recently, having been the driving force behind B2B Bank becoming a leader in serving financial advisors and brokers across Canada.

The Board was also actively engaged in the oversight of a new strategic plan which will guide the Bank's long-term development. Careful consideration was given to the ever-evolving operating context, with the result being a sound and transformational plan which meshes traditional Bank values with modern technology.

The Board and I are very happy about François Desjardins' appointment. We have every confidence that François, accompanied by a strong Executive Committee, will successfully execute the new strategic plan which will propel Laurentian Bank's development over the coming years.

In conclusion, I would like to express my gratitude to our shareholders and clients for their trust, as well as to our Board, our management team and our employees for their ongoing commitment to create value and participate in the long-term growth of our business.



Isabelle Courville
Chair of the Board

BOARD OF DIRECTORS

Lise Bastarache

Economist and Corporate Director

Has served on the Board of Directors since March 2006. Member of the Audit 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

Corporate Director

Has served on the Board of Directors since August 2013. Member of the Audit Committee.

François Desjardins

President and Chief Executive Officer of the Bank

Has served on the Board of Directors since November 1, 2015. Mr. Desjardins does not sit on any of the Board's committees.

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 Risk Management Committee.

Jacqueline C. Orange

Corporate Director

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

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.

MESSAGE FROM THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

François Desjardins
President and Chief Executive Officer

François Desjardins is a passionate manager who rose through all the ranks at the Bank. In recent years, he served as President and CEO of B2B Bank and Executive Vice President of Laurentian Bank, prior to being named President and Chief Executive Officer of LBC effective November 1, 2015.

A NEW BEGINNING

I am thrilled to be addressing you as the 27th President and Chief Executive Officer of the Laurentian Bank of Canada. I wish to thank the members of the Board of Directors for the trust they have placed in me to lead our company into the future.

I am truly humbled by the support expressed by team members everywhere and honored to be at the helm of an organization that will celebrate its 170th anniversary in 2016.

My mandate begins with a solid balance sheet and strong core earnings. All of our teams' efforts over the last decade have not only enabled us to weather the financial crisis but have also produced real growth and wealth for shareholders. We should be proud of what has been accomplished so far.

WHERE WE ARE NOW

As it stands and despite our efforts to date, we have not yet delivered on one measure - a return on equity that is comparable to the Canadian banking industry. Consequently, our price-to-book value ratio stands at just over one. Many consider this to be a great investment given the attractive dividend yield and moreover, we believe that our shareholders expect this growth story to culminate in great performance. We have been looking at ways to modify our business plan to achieve just that. After a year of review, we concluded that in order to progress, a true transformation is required. We are convinced that it is the right thing to do and the right time to do it.

Increasing performance in itself is key and even more so looking forward. The challenge for all financial institutions is to develop a winning formula in an environment where technology and demographics are changing customer expectations and where the economic context and regulatory framework are constantly evolving.

AN AMBITIOUS PLAN

We must therefore modify our approach to financial services. By focusing on what customers really need and by being there when it counts, we believe we will better serve our customer base and be a better employer for our team members.

As you will see in the next pages, we have an ambitious plan, but we have done our homework and we have the right ingredients. Our size makes us agile; our team, of which I am proud to be a part of, is talented and dedicated; and our focus is sharp. That is why we will be able to effectively execute our transformation plan.

THANK YOU

Many have contributed to building our strong foundations and I appreciate all of their efforts. In particular, I would like to extend a special thank you to our awesome employees whose hard work and dedication inspire our clients to entrust our Bank with their financial health.

François Desjardins
President and Chief Executive Officer

A STRONG EXECUTIVE TEAM

SUSAN KUDZMAN
Executive Vice President,
Chief Risk Officer and Corporate Affairs

Susan Kudzman was named Executive Vice-President and Chief Risk and Corporate Affairs Officer of Laurentian Bank in October 2015. She is responsible for Risk Management, Credit Management, Legal Affairs and Corporate Human Resources.

A specialist in the fields of risk management and human resources, Ms. Kudzman, Actuary, previously served as Laurentian Bank's Senior Vice-President, Human Resources. She has also occupied the position of Senior Vice-President and Chief Risk Officer at the Caisse de dépôt et de placement du Québec, prior to which she held a number of management positions at prominent organizations and at a consulting firm.

FRANÇOIS LAURIN
Executive Vice President,
Chief Financial Officer

François Laurin was appointed Executive Vice-President and Chief Financial Officer of Laurentian Bank in August 2015. He is responsible for the Bank's activities in the areas of finance, accounting, treasury, taxation, investor relations, mergers and acquisitions, and internal audit.

With over 30 years of experience in corporate financing and financial accounting, Mr. Laurin has extensive knowledge of the technologies, capital markets and corporate financing fields. He has worked at a number of large organizations operating within the finance, mining and telecommunications sectors.

DEBORAH ROSE
President and Chief Executive Officer of B2B Bank
Executive Vice President, Intermediary Banking
and Chief Information Officer, Laurentian Bank

Deborah Rose is President and Chief Executive Officer of B2B Bank, a leading provider of banking products to financial advisors and mortgage brokers across Canada, since the summer of 2015. In October, 2015, Ms. Rose was appointed Chief Information Officer for Laurentian Bank.

Ms. Rose joined B2B Bank in 2011 as Senior Vice President, Operations and Business Solutions. In this role, she was responsible for overseeing all aspects of the business line's operations, technology and projects, including the integrations of the MRS Group of Companies and of AGF Trust Company.

Prior to joining B2B Bank, she was a financial services consultant and held the position of Senior Vice President, Business Operations at International Financial Data Services (IFDS). Her career in financial services spans over 20 years.

STÉPHANE THERRIEN
Executive Vice President, Personal
& Commercial Banking and President
& CEO of LBC Financial Services

Stéphane Therrien is Executive Vice President, Personal & Commercial Banking and President & CEO of LBC Financial Services since the summer of 2015.

Mr. Therrien joined the Bank in January 2012 as Executive Vice-President of Real Estate and Commercial Financing. With almost 30 years of experience in the commercial financing sector, he is a seasoned manager.

For 18 years, Stéphane Therrien occupied various different positions at GE Capital, including Senior Vice-President for Eastern Canada, prior to being named Senior Vice-President and Chief of Commercial Affairs for Canada. Under his leadership, his sector posted positive growth in recent years. Previously, he held various management positions in the banking industry.

MICHEL C. TRUDEAU
President and Chief Executive Officer,
Laurentian Bank Securities and Executive
Vice President, Capital Markets, Laurentian Bank

Michel C. Trudeau was named President and Chief Executive Officer of Laurentian Bank Securities (LBS) in June 2003. Since November 2009, he has also been responsible for Laurentian Bank's activities related to capital markets.

He joined LBS in 1999 as Executive Vice-President of Fixed Income and was appointed Chief Operating Officer of the Institutional group in 2002. Well known within the brokerage sector, he rapidly rose through the ranks at firms in both Toronto and Montréal, having worked for more than 15 years within the institutional and fixed income sectors, including 10 years at Merrill Lynch where he successively occupied various senior management positions.

OUR TRANSFORMATION

NEW MISSION, CORPORATE VALUES, STRATEGIC GOAL AND OUR MINDSET

OUR MISSION

We help customers improve their financial health.

OUR VALUES

Simplicity, Proximity and Honesty will guide our decisions moving forward.

OUR STRATEGIC GOAL

Our goal is to double the size of our company by 2022 and achieve an ROE that is comparable to the Canadian banking industry while building a solid strategic foundation.

OUR MINDSET

We think smart, dream big, act small, stay simple, execute with success.

In order to fully engage all team members, we will rally teams around a renewed mission and promote a culture set on achieving common goals with a new mindest. We are proud to announce that we are modifying our mission statement, corporate values and strategic goal.

Inspiration came from three sources:

- our rich history and original mandate of helping customers improve their financial health;
- our future, particularly as it pertains to the benefits and opportunities that technology brings;
- and finally, our current team members who give us confidence in what our company is capable of accomplishing.

In crafting our new mission statement and corporate values, we are combining the wholesome ways of the past with service delivery of the future.

A WELL-ORCHESTRATED TRANSFORMATION PLAN

Our Challenge:

REBUILD A SOLID, RELEVANT, PROFITABLE AND SUSTAINABLE FINANCIAL INSTITUTION WITHOUT COMPROMISING CURRENT PROFITABILITY LEVELS.

7 YEARS

OUR TRANSFORMATION PLAN, TO BE IMPLEMENTED OVER THE NEXT 7 YEARS, WILL BE STRUCTURED IN MANAGEABLE PHASES AND WILL BE PROGRESSIVE. AS SUCH, WE WILL IMPLEMENT KEY INITIATIVES THAT HAVE A COMMON OBJECTIVE.

Our Objective:

TO BECOME A SIMPLER, MORE EFFICIENT AND MODERN ORGANIZATION WITH A SOLID FOUNDATION FOR SUSTAINABLE GROWTH.

TRANSFORM THE BANK TO IMPROVE PROFITABILITY

REBUILD ACCOUNT MANAGEMENT PLATFORM
Which will allow us to adopt the Advanced Internal Ratings-Based approach (AIRB) to credit risk – and enable rapid development of online and mobile services as well as a more robust credit framework.

MODERNIZE OUR RETAIL DISTRIBUTION NETWORK,
revamp our branch offerings and review the functions of branch personnel, focusing on effectiveness and client-centricity.

MOVE TOWARDS A SIMPLER AND LESS EXPENSIVE OPERATING MODE

SIMPLIFY

Simplify the retail product offering to make products and services easy to understand and value oriented; retool and retrain staff in order to prioritize advice delivery in our Retail distribution network.

OPTIMIZE

Optimize by reducing the costs of corporate functions and increasing our efforts relating to compliance and oversight.

FOCUS

Focus team members' efforts on customer-facing and revenue generating activities and reduce administrative tasks.

HARMONIZE

Harmonize our branding to position the financial health of our clients at the forefront and renew our marketing efforts to promote who we are.

PROMOTE

Promote a culture based on achieving common goals, articulated around our new mission.

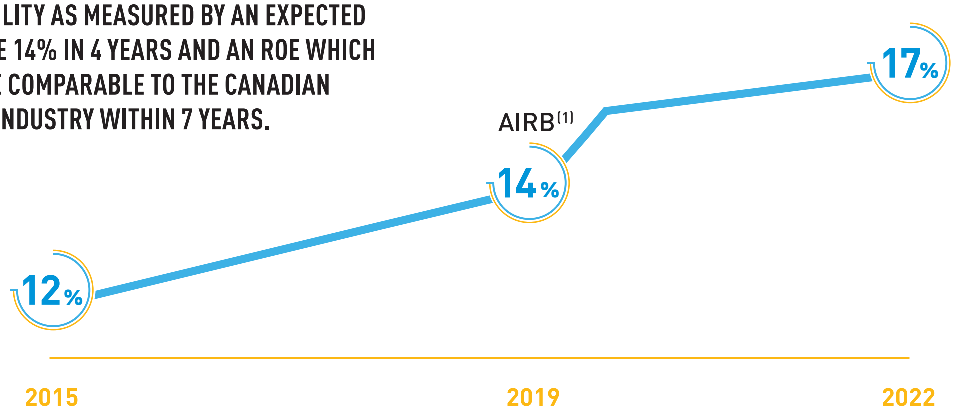
4 YEAR GROWTH TARGETS*

CONTINUE TO LEVERAGE OUR STRENGTHS TO ACHIEVE BY 2019:

$13 BILLION	OF LOANS TO BUSINESS CUSTOMERS	MORE THAN 60% GROWTH
$9 BILLION	OF MORTGAGE LOANS THROUGH INDEPENDENT BROKERS AND ADVISORS	MORE THAN 50% GROWTH
$6 BILLION	OF MUTUAL FUNDS TO RETAIL CUSTOMERS	MORE THAN 80% GROWTH
$4 BILLION	OF ASSETS UNDER MANAGEMENT AT LAURENTIAN BANK SECURITIES	MORE THAN 25% GROWTH

4 AND 7 YEAR PERFORMANCE TARGETS*

GIVEN OUR CURRENT ASSUMPTIONS, WE BELIEVE THAT THIS PLAN WILL IMPROVE PROFITABILITY AS MEASURED BY AN EXPECTED ROE ABOVE 14% IN 4 YEARS AND AN ROE WHICH WOULD BE COMPARABLE TO THE CANADIAN BANKING INDUSTRY WITHIN 7 YEARS.



(1) Based on the Bank's assessment of current regulatory requirements

EXPANDED FOOTPRINT ACROSS CANADA THROUGH ORGANIC GROWTH AND ACQUISITIONS

* Forward-looking statements are based on assumptions and involve inherent risks and uncertainties. It is therefore possible that the forecasts, projections and other forward-looking statements will not be achieved or will prove to be inaccurate.

SOCIAL RESPONSIBILITY

FOUNDED IN 1846 WITH A MISSION OF PROMOTING THE MERITS OF SAVING TO ITS CUSTOMERS, LAURENTIAN BANK REMAINS LOYAL TO ITS HERITAGE BY FOSTERING A RENEWED MISSION OF HELPING CLIENTS IMPROVE THEIR FINANCIAL HEALTH.

GOVERNANCE

We attach utmost importance to the governance of our organization. Our values of simplicity, honesty and proximity guide our actions and decisions daily. We were the first institution to separate the functions of Chairman and President and CEO. In addition, all committees of the Board are composed of independent directors and the representation of women is equivalent to 32% of senior executives within our organization, which is above the industry average. In 2016, we also will join the Canadian chapter of the 30% Club, an organization that aims to promote a greater presence of women in senior management and on corporate boards.

COMMUNITIES

In recent years, the focus of our social involvement has been in supporting causes affecting education, health and community action either through donations or through the volunteerism of our employees. In 2015, we supported close to 200 organizations and causes. We will continue our involvement in causes that support improving the financial health of the community.

EMPLOYEES

All of our employees have the opportunity to engage and contribute to the development and growth of our organization. In the coming years, advisory services will be at the heart of the training offered to our employees so that they are well equipped to serve our mission of helping our customers improve their financial health. We also promote inclusion and diversity initiatives, which are integral to our activities. We created a Diversity Committee whose mandate is to continuously develop our approach in diversity management. This Committee includes employer and union representatives, employees from different business sectors as well as individuals representative of four diversity groups. Every year, we hold a career event aimed at recruiting individuals from various groups: First Nations, persons with disabilities and people from various cultural communities. We also work closely with diversified workforce outreach partners in order to network with potential candidates.

ENVIRONMENT

Over the years, we have implemented practices aimed at reducing our environmental footprint. We have adopted business practices that allow us to reduce our consumption of paper and developed a specialty in financing renewable energy projects. In 2015, 62% of these specialized loans were funded for solar energy projects. We also finance projects in public-private partnership for water treatment stations, sports, social and hospital infrastructures in various Canadian provinces.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED OCTOBER 31, 2015

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, 2015 and how it performed during the year then ended. This MD&A, dated December 9, 2015, should be read in conjunction with the Audited Annual Consolidated Financial Statements for the year ended October 31, 2015 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, 2015, 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, 2015 and 2014 is presented on the same basis as in the audited annual consolidated financial statements prepared in accordance with IFRS[1]. Certain comparative figures have been reclassified to conform to the current year presentation.

All amounts are denominated in Canadian dollars.

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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, developments in the technological environment, the ability to realize the anticipated benefits from the purchase of an investment loan portfolio and the reaction of the seller's customers to the transaction, as well as, the ability to operate the Bank's transformation plan. 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" in the Bank's Annual Report, as well as to 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.

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[1] As of November 1, 2014, the Bank adopted the amendments to IAS 32, *Financial Instruments: Presentation*, which required restatement of the Bank's 2014 comparative information and financial measures. The information for the years ended October 31, 2013, 2012 and 2011 has been prepared in accordance with IFRS but has not been restated to reflect the adoption of these amendments.
As of November 1, 2013, the Bank adopted the amendments to IAS 19, *Employee Benefits*, 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 these amendments.

SUMMARY OF FINANCIAL RESULTS

HIGHLIGHTS OF 2015

- Adjusted net income of $172.2 million or $5.62 per share, respectively up 5% and 6% year-over-year
- Reported net income of $102.5 million or $3.21 per share, respectively down 27% and 29% year-over-year, including special impairment and restructuring charges of $78.4 million
- Excellent credit quality with loan losses of $34.9 million, 17% lower than last year
- Strong loan growth of $2.7 billion year-over-year:
  - B2B Bank mortgages up 34% year-over-year
  - Loans to businesses up 18% year-over-year
- No direct exposure to the oil and gas industry

TABLE 1

HIGHLIGHTS OF 2015

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

		2015		2014	VARIANCE 2015 / 2014
Net income	$	**102.5**	$	140.4	(27)%
Diluted earnings per share	$	**3.21**	$	4.50	(29)%
Return on common shareholders' equity		**6.8%**		10.1%	
Adjusted net income [1]	$	**172.2**	$	163.6	5 %
Adjusted diluted earnings per share [1]	$	**5.62**	$	5.31	6 %
Adjusted return on common shareholders' equity [1]		**12.0%**		11.9%	

(1) Certain analyses presented throughout this document are based on the Bank's core activities and therefore exclude charges designated as adjusting items. Refer to the Adjusting Items and Non-GAAP Financial Measures sections for further details.

OVERVIEW OF FISCAL 2015

For the year ended October 31, 2015, adjusted net income totalled $172.2 million or $5.62 diluted per share, respectively up 5% and 6%, compared with adjusted net income of $163.6 million or $5.31 diluted per share for the year ended October 31, 2014. Adjusted return on common shareholders' equity was 12.0% for the year ended October 31, 2015, compared with 11.9% in 2014.

On a reported basis, net income was $102.5 million or $3.21 diluted per share for the year ended October 31, 2015, compared with $140.4 million or $4.50 diluted per share in 2014. On the same basis, return on common shareholders' equity was 6.8% for the year ended October 31, 2015, compared with 10.1% in 2014. Reported results for 2015 and 2014 took into account adjusting items, including an impairment charge related to the Retail activities emanating from a comprehensive strategic review completed in the fourth quarter of 2015. Refer to the Non-GAAP Financial Measures and Non-Interest Expenses sections on pages 14 and 20 for further details.

In fiscal 2015, the Bank delivered strong core earnings growth throughout the year and met its profitability objectives. In addition, the Bank's focus on its priority activities has generated tangible returns, with the B2B Bank mortgage loan portfolio increasing by 34% and loans to businesses increasing by 18%. The excellent credit quality of its portfolios also contributed to the good financial performance for 2015.

Furthermore, the Bank maintained a solid financial position in 2015, as evidenced by capital ratios under the standardized approach well above minimum requirements. With sound liquidity and capital management, the Bank remains well positioned to invest in its key initiatives and to better serve its customer base.

TABLE 2

CONSOLIDATED RESULTS

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

	2015	2014	2013	VARIANCE 2015 / 2014
Net interest income	**$ 575,083**	$ 560,980	$ 568,760	3 %
Other income	**322,043**	313,085	296,577	3
Total revenue	**897,126**	874,065	865,337	3
Amortization of net premium on purchased financial instruments and revaluation of contingent consideration	**5,999**	9,653	4,426	(38)
Provision for loan losses	**34,900**	42,000	36,000	(17)
Non-interest expenses [1]	**722,824**	641,309	674,079	13
Income before income taxes	**133,403**	181,103	150,832	(26)
Income taxes	**30,933**	40,738	31,355	(24)
Net income	**102,470**	140,365	119,477	(27)
Preferred share dividends, including applicable taxes	**9,602**	10,985	11,749	(13)
Net income available to common shareholders	**$ 92,868**	$ 129,380	$ 107,728	(28)%
Average number of common shares outstanding (in thousands)				
Basic	**28,949**	28,724	28,329	
Diluted	**28,955**	28,732	28,338	
Earnings per share				
Basic	**$ 3.21**	$ 4.50	$ 3.80	(29)%
Diluted	**$ 3.21**	$ 4.50	$ 3.80	(29)%
Return on common shareholders' equity [2]	**6.8 %**	10.1 %	9.1 %	
Efficiency ratio [2]	**80.6 %**	73.4 %	77.9 %	
Operating leverage [2] [3]	**(10.1)%**	5.9 %	n. m.	
Adjusted financial measures				
Adjusted net income [2]	**$ 172,199**	$ 163,582	$ 155,436	5 %
Adjusted diluted earnings per share [2]	**$ 5.62**	$ 5.31	$ 5.07	6 %
Adjusted return on common shareholders' equity [2]	**12.0 %**	11.9 %	12.1 %	
Adjusted non-interest expenses [2]	**$ 639,560**	$ 620,807	$ 629,539	3 %
Adjusted efficiency ratio [2]	**71.3 %**	71.0 %	72.8 %	
Adjusted operating leverage [2] [3]	**(0.4)%**	2.4 %	n. m.	

(1) Non-interest expenses include certain adjusting items, as detailed in the section below.

(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.*

2015 FINANCIAL PERFORMANCE

The following table presents management's financial objectives and the Bank's performance for 2015. The Bank met its profitability and capital objectives for the year 2015. Good volume growth in loan portfolios, higher mutual fund commissions and continued strong credit quality were the key drivers of the Bank's financial performance. However, continued pressure on net interest income ensuing from the very low interest rate environment, as well as sustained regulatory and technology cost pressure contributed to the Bank slightly missing its annual efficiency ratio and operating leverage objectives.

TABLE 3

2015 PERFORMANCE INDICATORS [1]

	2015 OBJECTIVES	2015 RESULTS
Adjusted diluted earnings per share	5% to 8% growth	**6 %**
Adjusted efficiency ratio	<71.0%	**71.3 %**
Adjusted operational leverage	Positive	**(0.4)%**
Adjusted return on common shareholders' equity	≥ 12.0%	**12.0 %**
Common Equity Tier I capital ratio — All-in basis	> 7.0%	**7.6 %**

(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. Table 4 presents the impact of adjusting items on reported results.

Adjusting items
Adjusting items are related to impairment, restructuring plans and to a special retirement compensation charge, as well as to business combinations.

Impairment of goodwill, software and intangible assets, and premises and equipment follows the comprehensive strategic review of the Bank's retail activities completed during the fourth quarter of 2015. These charges have been designated as adjusting items due to their nature and the significance of the amounts. Impairment of goodwill, software and intangible assets, and premises and equipment are included in the reported results of the Personal & Commercial business segment.

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 reported results of all of the business segments and the Other Sector.

The retirement compensation charge is related to the adjustment to the employment contract of the Bank's former CEO following his retirement announcement. This charge has been designated as an adjusting item due to its nature and the significance of the amount. The compensation charge is included in the reported results of the Other sector.

Items related to business combinations relate to special gains and expenses that arose as a result of acquisitions. The one-time 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 their nature and the significance of the amounts. Items related to business combinations are included in the reported results of the B2B Bank business segment.

Common shareholders' equity

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.

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 below presents additional information about return on common shareholders' equity.

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.

Average earning assets

Effective November 1, 2014, the Bank has modified its definition of average earning assets, as further detailed in the External Reporting Changes section on page 16. All financial measures for the year ended in 2014 have been amended accordingly.

Average earning assets include the Bank's loans net of allowances, as well as interest-bearing deposits with other banks, securities, securities purchased under reverse repurchase agreements used in the Bank's treasury operations and derivatives, but excluding average earning assets of the Laurentian Bank Securities and Capital Markets' business segment. The averages are based on the daily balances for the period.

Net interest margin

Effective November 1, 2014, the Bank has modified its definition of net interest margin, as further detailed in the External Reporting Changes section hereafter. All financial measures for the year ended in 2014 have been amended accordingly.

Net interest margin is the ratio of net interest income to average earning 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.

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		
	2015	2014	**2015**	2014	2013
Impact on net income					
Reported net income (loss)	**$ (18,719)**	$ 33,754	**$ 102,470**	$ 140,365	$ 119,477
Adjusting items, net of income taxes					
Impairment of goodwill, software and intangible assets, and premises and equipment	**57,245**	—	**57,245**	—	—
Restructuring charges					
Severance charges [1]	**3,372**	4,429	**3,372**	4,429	4,607
Impairment charges related to IT projects [2]	**1,153**	1,162	**1,153**	1,162	—
	4,525	5,591	**4,525**	5,591	4,607
Retirement compensation charge [1]	**—**	—	**3,550**	—	—
Items related to business combinations					
Amortization of net premium on purchased financial instruments and revaluation of contingent consideration					
Amortization of net premium on purchased financial instruments	**1,076**	1,108	**4,409**	4,079	3,264
Revaluation of contingent consideration	**—**	—	**—**	4,100	—
Integration costs related to business combinations	**—**	2,138	**—**	9,447	28,088
	1,076	3,246	**4,409**	17,626	31,352
	62,846	8,837	**69,729**	23,217	35,959
Adjusted net income	**$ 44,127**	$ 42,591	**$ 172,199**	$ 163,582	$ 155,436
Impact on diluted earnings per share					
Reported diluted earnings (loss) per share	**$ (0.73)**	$ 1.09	**$ 3.21**	$ 4.50	$ 3.80
Adjusting items					
Impairment of goodwill, software and intangible assets, and premises and equipment	**1.98**	—	**1.98**	—	—
Restructuring charges	**0.16**	0.19	**0.16**	0.19	0.16
Retirement compensation charge	**—**	—	**0.12**	—	—
Items related to business combinations	**0.04**	0.12	**0.15**	0.62	1.11
	2.17	0.31	**2.41**	0.81	1.27
Adjusted diluted earnings per share [3]	**$ 1.44**	$ 1.39	**$ 5.62**	$ 5.31	$ 5.07

(1) Severance and retirement compensation charges are included in the line item Salaries and employee benefits in the consolidated statement of income.

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

(3) The impact of adjusting items on a per share basis does not add due to rounding for the quarters.

TABLE 5

RETURN ON COMMON SHAREHOLDERS' EQUITY

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

	2015	2014	2013
Reported net income available to common shareholders	**$ 92,868**	$ 129,380	$ 107,728
Adjusting items	**69,729**	23,217	35,959
Adjusted net income available to common shareholders	**$ 162,597**	$ 152,597	$ 143,687
Average common shareholders' equity	**$ 1,355,991**	$ 1,280,595	$ 1,186,977
Return on common shareholders' equity	**6.8%**	10.1%	9.1%
Adjusted return on common shareholders' equity	**12.0%**	11.9%	12.1%

EXTERNAL REPORTING CHANGES

As of November 1, 2014, the Bank adopted the amendments to IAS 32, *Financial Instruments: Presentation*, which clarified requirements for offsetting financial instruments. As a result, certain securities purchased under reverse repurchase agreements and related obligations that were previously offset on the balance sheet, are now presented on a gross basis. This restatement increased total assets and total liabilities and had no impact on the Bank's comprehensive income, shareholders' equity or cash flows. Table 6 below presents the adjustment.

TABLE 6

ADJUSTMENT TO TOTAL ASSETS

As at October 31 (in thousands of Canadian dollars)

		2014
Total assets – Previously reported	$	34,848,681
Impact of IAS 32 on total assets		1,634,104
Total assets – Restated	$	36,482,785

In light of this change, the Bank revised its use of the net interest margin financial measure to provide a more useful indicator and better align with industry practice. Net interest margin is now defined as the ratio of net interest income to average earning assets, excluding average earning assets of the Laurentian Bank Securities and Capital Markets' (LBS & CM) business segment. This new measure focuses on banking operations and eliminates net interest margin volatility related to variation in assets used in brokerage operations and trading activities. Net interest margin and average earning assets measures for the year ended in 2014 have been amended accordingly. Table 7 presents the adjustments.

TABLE 7

ADJUSTMENTS TO NET INTEREST MARGIN AND AVERAGE EARNINGS ASSETS

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

		2014
Net interest income (A)	$	560,980
Average assets – Previously reported (B)		34,023,265
Average earning assets – Previously reported		32,974,163
Impact of IAS 32 on average earning assets		1,536,926
Average earning assets of LBS & CM		(4,654,654)
Average earning assets – Updated measure (C)	$	29,856,435
Net interest margin – Previously reported (A/B)		1.65%
Net interest margin – Updated measure (A/C)		1.88%

OUTLOOK

ECONOMIC OUTLOOK

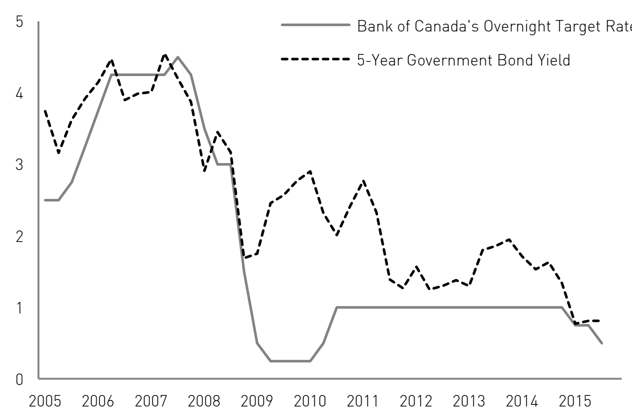
The US economic conditions have continued to strengthen throughout 2015. Meanwhile, growth is slowing in developing economies, impacted by a lower level of growth in China. As a result, the main engine of economic growth is gradually changing in Canada. Non-commodity export-oriented sectors located in Central Canada and services industries are showing some positive momentum, supported by a lower currency and robust US consumer spending, while the commodity sectors, mostly located in the Prairie Region, are still adjusting to lower prices. Overall, economic activity in Canada should have grown by 1.2% for the year 2015, as the rebound in the second half of the year offset the mild contraction experienced during the first half of the year.

For 2016, the Canadian GDP is expected to grow moderately by 2%, led by further strengthening of exports, an anticipated increase in capital spending in non-commodity sectors and additional fiscal stimulus.

Given the current US economic situation, the Federal Reserve Bank is expected to modestly increase its policy rate before year end, if not in 2016. Nonetheless, the very low-interest rate environment should persist in Canada, as concerns about growth in emerging markets and the depressed commodity prices contribute to temporarily reduce inflationary pressure. This, again, should support housing activity in Canada, except in western oil-producing regions where a softening should occur.

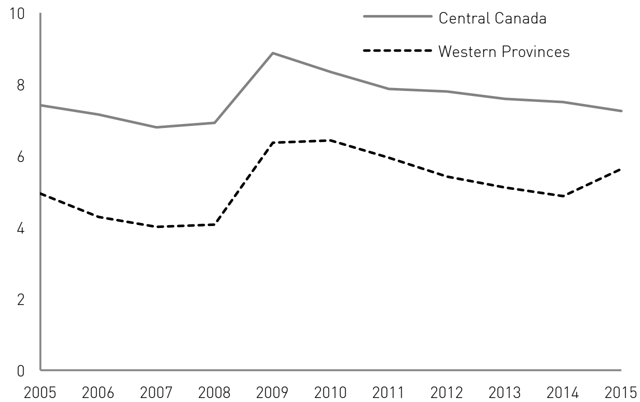
INTEREST RATES IN CANADA

(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

With the introduction of the new transformation plan aimed at improving performance, the Bank will focus entirely on meeting its Strategic Goal to double the size of the company by 2022 and achieve banking industry average performance while building a solid strategic foundation. Given the plan, return on equity should increase above the 14% level in 4 years and, with the implementation of AIRB, to a level which would be comparable to the industry in 7 years. To meet these objectives, the Bank will have to execute its plan and ensure that it maintains its focus on its key initiatives.

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

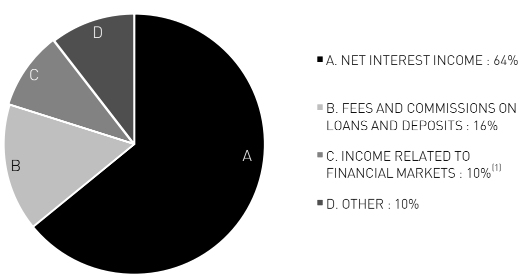
- Grow earnings per share by 5% to 10% annually
- Move the efficiency ratio below 68%
- Generate positive operating leverage
- Continue to leverage the Bank's strengths and grow by 2019:
    - Loans to business customers by more than 60% to $13 billion
    - Residential mortgage loans through independent brokers and advisors by more than 50% to $9 billion
    - Mutual funds to retail clients by more than 80% to $6 billion
    - Assets under management at Laurentian Bank Securities by more than 25% to $4 billion

ANALYSIS OF CONSOLIDATED RESULTS

Net income was $102.5 million or $3.21 diluted per share for the year ended October 31, 2015, compared with $140.4 million or $4.50 diluted per share for the year ended October 31, 2014.

Adjusted net income was $172.2 million for the year ended October 31, 2015, up 5% compared with $163.6 million in 2014, while adjusted diluted earnings per share was $5.62, up 6% compared with $5.31 diluted per share in 2014.

TOTAL REVENUE MIX
For the year ended October 31, 2015 (as a percentage)



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

TOTAL REVENUE

Total revenue increased by $23.1 million to $897.1 million for the year ended October 31, 2015, compared with $874.1 million for the year ended October 31, 2014. Net interest income and other income both contributed to the increase year-over-year, as detailed below.

NET INTEREST INCOME

Net interest income increased by $14.1 million or 3% to $575.1 million for the year ended October 31, 2015, from $561.0 million for the year ended October 31, 2014. Good loan growth over the last year had a positive impact on net interest income, while margins remained under pressure.

When compared with the year ended October 31, 2014, net interest margin (as a percentage of average earning assets) decreased by 4 basis points to 1.84% for the year ended October 31, 2015, as further detailed in Table 8. This tightening was mainly due to the persistent low interest rates and the fierce competition, mostly in the residential mortgage segment. Additional lower-yielding liquid assets held throughout the year, notably to finance the purchase of an investment loan portfolio in the fourth quarter also contributed to reduce the reported net interest margins. The Bank is gradually modifying its loan portfolio mix to offset market pressure, notably by leveraging its new Alt-A mortgage offering and equipment financing business. Nonetheless, interest margins should continue to trend lower over the next quarters, as rates are expected to remain at historical lows. Table 9 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 46 of this MD&A.

TABLE 8

NET INTEREST INCOME

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

	2015			2014 [1]		
	AVERAGE VOLUME	INTEREST	AVERAGE RATE	AVERAGE VOLUME	INTEREST	AVERAGE RATE
Assets						
Cash resources and securities	$ 2,797,155	$ 40,937	1.46%	$ 2,467,505	$ 41,504	1.68%
Securities purchased under reverse repurchase agreements	728,807	4,637	0.64	702,081	6,794	0.97
Loans						
Personal	6,307,812	308,009	4.88	6,574,958	332,862	5.06
Residential mortgage	15,239,091	472,438	3.10	14,697,978	491,933	3.35
Commercial mortgage	2,856,533	125,488	4.39	2,514,397	114,640	4.56
Commercial and other (including acceptances)	3,318,105	123,545	3.72	2,899,516	110,408	3.81
Total loans	27,721,541	1,029,480	3.71	26,686,849	1,049,843	3.93
Derivatives and other	—	66,104	—	—	47,080	—
Total interest earning assets	31,247,503	1,141,158	3.65	29,856,435	1,145,221	3.84
Other non-interest earnings assets	6,574,347	—	—	5,703,755	—	—
Total assets	$ 37,821,850	$ 1,141,158	3.02%	$ 35,560,190	$ 1,145,221	3.22%
Liabilities and shareholders' equity						
Demand and notice deposits	$ 8,332,023	$ 68,536	0.82%	$ 8,158,528	$ 73,857	0.91%
Term deposits	16,876,397	366,997	2.17	16,053,412	375,244	2.34
Debt related to securitization activities	5,185,686	113,102	2.18	4,862,280	118,269	2.43
Subordinated debt	448,487	16,094	3.59	446,410	16,071	3.60
Other	—	1,346	—	—	800	—
Total interest bearing liabilities	30,842,593	566,075	1.84	29,520,630	584,241	1.98
Acceptances	385,769	—	—	330,265	—	—
Other non-interest bearing liabilities	4,996,956	—	—	4,216,179	—	—
Total liabilities	36,225,318	566,075	1.56	34,067,074	584,241	1.71
Shareholders' equity	1,596,532	—	—	1,493,116	—	—
Total liabilities and shareholders' equity	$ 37,821,850	$ 566,075	1.50%	$ 35,560,190	$ 584,241	1.64%
Net interest income and margin (on average earning assets)		$ 575,083	1.84%		$ 560,980	1.88%

(1) Comparative figures for 2014 were restated to reflect the adoption of the amendments to IAS 32, *Financial Instruments: Presentation* and the modification of the Bank's definition of net interest margin. Refer to the Non-GAAP Financial measures and External reporting Changes sections.

TABLE 9

CHANGE IN NET INTEREST INCOME

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

	2015 / 2014		
	Increase (decrease) due to change in		
	AVERAGE VOLUME	AVERAGE RATE	NET CHANGE
Interest earning assets	$ 53,358	$ (57,421)	$ (4,063)
Interest bearing liabilities	(26,163)	44,329	18,166
Net interest income	$ 27,195	$ (13,092)	$ 14,103

OTHER INCOME

Other income increased by $9.0 million or 3% and amounted to $322.0 million for the year ended October 31, 2015, compared with $313.1 million for the year ended October 31, 2014. Of note, other income in the year ended October 31, 2014 included a $3.7 million gain on the sale of a $102.4 million commercial mortgage loan portfolio.

Fees and commissions on loans and deposits amounted to $141.6 million for fiscal 2015 from, essentially unchanged compared with 141.8 million in 2014. Lower deposit service charges, as clients optimized their use of the Bank's offering, were offset by higher card service revenues in 2015 and higher lending fees due to increased underwriting activity.

Income from brokerage operations remained relatively unchanged at $63.3 million for fiscal 2015 compared with $63.6 million in 2014, as lower underwriting fees in the small-cap equity market from the Bank's brokerage subsidiary were offset by higher revenues from growth in underwriting activities in the fixed income market.

Income from sales of mutual funds increased by 33% to $38.8 million in fiscal 2015 compared with $29.2 million in 2014. The increase results from the solid growth in mutual fund sales and from additional fee-based revenues related to sales thresholds. Starting in January 2012, the Bank has been distributing a preferred series of co-branded LBC-Mackenzie mutual funds in its Québec branch network. Over the last four years, this partnership has been very beneficial, and led to more than a two-fold increase in commission revenues.

Income from investment accounts decreased to $30.2 million for fiscal 2015, compared with $31.7 million earned in 2014, as the Bank's B2B Bank Dealer Services earned lower trading fees and service charges. This trend is expected to continue over the medium term as financial institutions internalize the management of their own clients' self-directed plans.

Income from treasury and financial market operations increased to $23.4 million for fiscal 2015 from $16.1 million in 2014. This increase mainly resulted from a better contribution from trading activities and higher foreign-exchange revenues, partly offset by lower realized net gains on securities compared with 2014. Additional information related to the Bank's securities portfolio is presented in Note 5 to the annual consolidated financial statements.

Insurance revenues are generated by insurance programs related to the Bank's credit and card product offering. Insurance revenues are presented net of claims and expenses. Net revenues decreased by 12% to $16.9 million for fiscal 2015 from $19.2 million in 2014, essentially as a result of a higher level of claims. Additional information on the Bank's insurance revenues is presented in Note 28 to the annual consolidated financial statements.

TABLE 10

OTHER INCOME

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

	2015	2014	2013	VARIANCE 2015 / 2014
Fees and commissions on loans and deposits				
Deposit service charges	**$ 59,723**	$ 62,665	$ 63,195	(5)%
Lending fees	**50,768**	49,682	42,774	2
Card service revenues	**31,098**	29,502	27,822	5
	141,589	141,849	133,791	—
Income from brokerage operations	**63,294**	63,640	60,607	(1)
Income from sales of mutual funds	**38,811**	29,228	22,501	33
Income from investment accounts	**30,202**	31,658	32,694	(5)
Income from treasury and financial market operations	**23,365**	16,138	17,877	45
Insurance income, net	**16,903**	19,246	16,881	(12)
Other	**7,879**	11,326	12,226	(30)
	180,454	171,236	162,786	5
Other income	**$ 322,043**	$ 313,085	$ 296,577	3 %

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

For the year ended October 31, 2015, the line item "Amortization of net premium on purchased financial instruments and revaluation of contingent consideration" amounted to $6.0 million, compared with $9.7 million for the year ended October 31, 2014. The higher charge in 2014 essentially resulted 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 $6.0 million for the year ended October 31, 2015, compared with $5.6 million for the year ended October 31, 2014. Refer to Note 30 to the audited annual consolidated financial statements.

PROVISION FOR LOAN LOSSES

The provision for loan losses decreased by $7.1 million to $34.9 million for the year ended October 31, 2015 from $42.0 million for the year ended October 31, 2014. The current level of provisions continues to reflect the underlying strong credit quality of the Bank's loan portfolios and prolonged favourable lending conditions in the Canadian market. Furthermore, the Bank has no direct exposure to the oil and gas industry and a relatively low exposure to the oil-producing provinces, which should contribute positively to maintaining a relatively low level of losses.

For the year ended October 31, 2015, loan losses on personal loans increased by $4.6 million compared with last year, mainly due to a return to a normalized provision level in the retail and B2B Bank's portfolios. Loan losses on residential mortgage loans increased by

$0.4 million, a level that remained low as a result of the favourable credit conditions and strong underwriting criteria. Loan losses on commercial mortgages and commercial loans amounted to a combined negative $0.5 million compared with losses of $11.6 million for the same period in 2014. The year-over-year decrease of $12.1 million reflects the good underlying credit quality of the portfolios and a higher amount of favourable settlements compared to last year. Loan losses on these portfolios tend to be more volatile as they relate, in part, to isolated larger exposures.

The overall level of losses, expressed as a percentage of average loans, stood at a very low 0.12%, reflecting the excellent condition of the loan portfolio.

The following table details the provision for loan losses from 2013 to 2015. 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 11

PROVISION FOR LOAN LOSSES

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

	2015	2014	2013
Personal loans	**$ 29,677**	$ 25,062	$ 31,668
Residential mortgage loans	**5,694**	5,330	8,713
Commercial mortgage loans	**(460)**	4,407	(3,640)
Commercial and other loans (including acceptances)	**(11)**	7,201	(741)
Provision for loan losses	**$ 34,900**	$ 42,000	$ 36,000
As a % of average loans and acceptances	**0.12%**	0.15%	0.13%

NON-INTEREST EXPENSES

Non-interest expenses totalled $722.8 million for the year ended October 31, 2015, while they stood at $641.3 million for the year ended October 31, 2014. Non-interest expenses for 2015 were particularly affected by the Retail unit impairment charge of $72.2 million, as noted below. Expenses for 2014 included costs amounting to $12.9 million to finalize integration work at B2B Bank.

Adjusted non-interest expenses remained well under control, increasing 3%, to $639.6 million for the year ended October 31, 2015 from $620.8 million for the year ended October 31, 2014, mainly as a result of technology costs, as detailed below.

Salaries and employee benefits increased by $6.0 million or 2% to $346.4 million for the year ended October 31, 2015, compared with the year ended October 31, 2014. Salaries for the year ended October 31, 2015 included severance charges of $4.6 million as part of restructuring initiatives, compared with a similar charge of $6.1 million in 2014. In addition, salaries included a retirement compensation charge of $4.9 million related to the adjustment to the employment contract of the Bank's former CEO at the beginning of 2015.

On an adjusted basis, salaries and employee benefits increased very modestly by $2.6 million or less than 1%, mainly due to regular salary increases and higher payroll taxes introduced in December 2014, partly offset by lower headcount from restructuring initiatives at the end of 2014.

Premises and technology costs increased by $13.2 million to $199.8 million compared with the year ended October 31, 2014. The increase mostly stems from higher project expenses, in part as a result of additional costs amounting to $4.0 million incurred to improve branch-level account administration systems in light of the new Client Relationship Model - Phase 2 (CRM2) standards prescribed by the Canadian Securities Administrators.

Other non-interest expenses slightly increased by $3.0 million to $104.4 million for the year ended October 31, 2015, from $101.4 million for the year ended October 31, 2014, essentially as a result of increased business development activities and higher sales taxes.

Impairment of goodwill, software and intangible assets, and premises and equipment amounted to $72.2 million for the year ended October 31, 2015. This charge was related to the impairment of goodwill for an amount of $29.2 million, of software and intangible assets for $33.1 million and of premises and equipment for $9.9 million. Refer to notes 8 to 10 to the audited annual consolidated financial statements.

Efficiency ratio

The adjusted efficiency ratio was 71.3% for the year ended October 31, 2015, compared with 71.0% for the year ended October 31, 2014. The adjusted operating leverage was slightly negative year-over-year, reflecting the challenging environment for revenue growth and sustained regulatory and technology costs pressure.

Table 12 illustrates the changes in non-interest expenses from 2013 to 2015.

TABLE 12

NON-INTEREST EXPENSES

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

	2015	2014	2013	VARIANCE 2015 / 2014
Salaries and employee benefits				
Salaries [1]	$ 221,371	$ 218,166	$ 233,574	
Employee benefits	71,906	71,335	75,009	
Performance-based compensation	53,110	50,893	49,909	
	346,387	340,394	358,492	2 %
Premises and technology				
Equipment and computer services	83,635	69,825	63,288	
Rent and property taxes	54,539	53,455	51,191	
Depreciation [2]	52,451	55,300	49,309	
Maintenance and repairs	7,382	6,124	6,036	
Public utilities	1,601	1,591	1,552	
Other	235	376	(101)	
	199,843	186,671	171,275	7 %
Other				
Advertising and business development	25,789	22,477	22,484	
Fees and commissions	24,358	24,143	24,434	
Communications and travelling expenses	23,402	22,329	22,767	
Taxes and insurance	18,200	16,529	17,433	
Stationery and publications	6,929	7,095	7,456	
Recruitment and training	2,675	1,917	2,324	
Other	3,015	6,893	9,170	
	104,368	101,383	106,068	3 %
Impairment of goodwill, software and intangible assets, and premises and equipment	72,226	—	—	n. m.
Costs related to business combinations and other [3]	—	12,861	38,244	(100)%
Non-interest expenses	$ 722,824	$ 641,309	$ 674,079	13 %
As a % of total revenue (efficiency ratio) [4]	80.6 %	73.4 %	77.9 %	
Adjusted non-interest expenses [4]				
Adjusted salaries and employee benefits	$ 336,925	$ 334,341	$ 352,196	1 %
Adjusted premises and equipment	198,267	185,083	171,275	7 %
Adjusted other non-interest expenses	104,368	101,383	106,068	3 %
	$ 639,560	$ 620,807	$ 629,539	3 %
As a % of total revenue (adjusted efficiency ratio) [4]	71.3 %	71.0 %	72.8 %	

(1) Salaries for 2015 included severance charges of $4.6 million as part of restructuring initiatives and a retirement compensation charge of $4.9 million related to the adjustment to the employment contract of the Bank's former CEO (severance charges of $6.1 million for 2014 and $6.3 million for 2013).

(2) Depreciation for 2015 included impairment charges of $1.6 million related to IT projects as part of restructuring initiatives ($1.6 million for 2014 and nil for2013).

(3) Costs related to the integration of the MRS Companies and AGF Trust.

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

INCOME TAXES

For the year ended October 31, 2015, the income tax expense was $30.9 million and the effective tax rate was 23.2%. The lower tax rate, compared to the statutory rate, resulted mainly 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, partly offset by the mostly non tax-deductible goodwill impairment charge recorded in 2015. For the year ended October 31, 2014, the income tax expense was $40.7 million and the effective tax rate was 22.5%. The lower tax rate, compared to the statutory rate, resulted from the same favourable items as noted above, and included the effect of the $4.1 million non tax-deductible final settlement of the contingent consideration related to the AGF Trust acquisition.

Note 19 to the annual consolidated financial statements provides further information on income tax expense.

TABLE 13

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)

		2015			2014	
Income taxes at statutory rates	$	**35,625**	**26.7 %**	$	48,476	26.8 %
Change resulting from:						
Income related to foreign insurance operations		**(5,910)**	**(4.4)**		(5,612)	(3.1)
Non-taxable dividends		**(3,926)**	**(3.0)**		(4,354)	(2.4)
Impairment of goodwill		**4,347**	**3.3**		—	—
Non tax-deductible contingent consideration charge		**—**	**—**		1,088	0.6
Other		**797**	**0.6**		1,140	0.6
Income taxes as reported in the consolidated statement of income	$	**30,933**	**23.2 %**	$	40,738	22.5 %

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 Executive Committee or the Board of Directors. As at October 31, 2015, these loans totalled $37.9 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, 2015, these deposits totalled $1.9 million. The Bank also offers employees a discount on annual credit card fees. In addition, for the year ended October 31, 2015, the Bank paid a rental expense of $2.2 million to a related party. See Note 22 to the annual consolidated financial statements for additional information on related party transactions.

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 in the Non-GAAP financial measures section.

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 had 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.

ANALYSIS OF QUARTERLY RESULTS

ANALYSIS OF RESULTS FOR THE FOURTH QUARTER OF 2015

Net loss was $18.7 million or a loss of $0.73 diluted per share for the fourth quarter of 2015, compared with net income of $33.8 million or earnings of $1.09 diluted per share for the fourth quarter of 2014. As noted above, results for the fourth quarter of 2015 were adversely impacted by an impairment charge of $72.2 million ($57.2 million after income taxes) or $1.98 diluted per share, and restructuring charges of $6.2 million ($4.5 million after income taxes), or $0.16 diluted per share recorded in the context of the Bank's new transformation plan. Adjusted net income was $44.1 million for the fourth quarter ended October 31, 2015, up from $42.6 million for the same quarter of 2014, while adjusted diluted earnings per share were $1.44, up 4% compared with $1.39 diluted per share in 2014.

Total revenue

Total revenue increased by $10.2 million or 5% to $231.6 million for the fourth quarter of 2015, compared with $221.4 million for the fourth quarter of 2014, essentially as a result of growth in net interest income year-over-year.

Net interest income increased by $10.5 million or 8% to $150.7 million for the fourth quarter of 2015, from $140.1 million for the fourth quarter of 2014. The increase was mainly generated by strong volume growth in loan portfolios. Net interest margin (as a percentage of average earning assets) stood at 1.84% for the fourth quarter of 2015, unchanged compared with the fourth quarter of 2014, as the effect of persistent pressure on lending rates was offset by lower funding costs.

Other income slightly decreased by $0.3 million and amounted to $81.0 million for the fourth quarter of 2015, compared with $81.3 million for the fourth quarter of 2014. Fees and commissions on loans and deposits decreased by $2.9 million, essentially due to lower loan prepayment penalties in the commercial mortgage loan portfolio. This was partly offset by an increase of $2.3 million or 29% in mutual fund commissions compared with the fourth quarter of 2014, largely driven by new sales and additional fee-based revenues earned on the co-branded LBC-Mackenzie mutual fund assets under administration.

Amortization of net premium on purchased financial instruments and revaluation of contingent consideration

For the fourth quarter of 2015, the amortization of net premium on purchased financial instruments amounted to $1.5 million, unchanged compared with the fourth quarter of 2014. Refer to Note 30 to the audited annual consolidated financial statements.

Provision for loan losses

The provision for loan losses decreased by 10% to $9.4 million for the fourth quarter of 2015 from $10.5 million for the fourth quarter of 2014. This low level of loan losses continues to be consistent with the overall underlying good quality of the loan portfolios. Loan losses on personal loans increased by $0.8 million compared with the fourth quarter of 2014 and stood at $8.4 million in the fourth quarter of 2015, mainly due to an additional provision related to the $0.6 billion investment loan portfolio purchased in early August. Loan losses on residential mortgage loans decreased by $0.6 million compared with the fourth quarter of 2014. Loan losses on commercial mortgages and commercial loans cumulatively amounted to negative $0.6 million in the fourth quarter of 2015, a decrease of $1.3 million compared with the same quarter last year, mainly resulting from a higher amount of favourable settlements and improvements during the fourth quarter of 2015.

Non-interest expenses

Non-interest expenses increased by $76.0 million to $242.3 million for the fourth quarter of 2015, compared with $166.3 million for the fourth quarter of 2014, essentially as a result of the impairment of goodwill and other assets totalling $72.2 million, partly offset by lower restructuring charges and costs related to business combinations. Adjusted non-interest expenses increased by $8.2 million or 5%, as a result of higher salaries and employee benefits, as well as higher technology costs, as detailed below.

Salaries and employee benefits increased by $2.3 million or 3% to $89.8 million for the fourth quarter of 2015, compared with the fourth quarter of 2014. As noted above, salaries for the fourth quarter of 2015 included $4.6 million of severance charges related to restructuring initiatives, compared with a similar $6.1 million charge in the fourth quarter of 2014. On an adjusted basis, salaries and employee benefits increased by $3.7 million mainly due to regular annual salary increases and higher staffing levels in business services, partly offset by lower headcount from the optimization of certain retail and corporate activities in the fourth quarter of 2014. Higher performance-based compensation and higher payroll taxes introduced in December 2014 also contributed to the increase.

Premises and technology costs increased by $2.9 million to $52.5 million compared with the fourth quarter of 2014. The increase mostly stems from higher project expenses, in part as a result of additional costs amounting to $1.9 million incurred to meet the new CRM2 standards, as described above.

Other non-interest expenses increased by $1.5 million to $27.8 million compared with the fourth quarter of 2014, essentially due to higher business development expenses.

Impairment of goodwill, software and intangible assets, and premises and equipment amounted to $72.2 million for the fourth quarter of 2015, as detailed above. Refer to notes 8 to 10 to the audited annual consolidated financial statements.

Efficiency ratio
The adjusted efficiency ratio was 70.8% for the fourth quarter of 2015, compared with 70.3% for the fourth quarter of 2014.

Income taxes

For the quarter ended October 31, 2015, the income tax recovery was $2.8 million and the effective tax rate was 13.2%. The tax rate, compared to the statutory rate, was impacted by the goodwill impairment charge recorded during the quarter which was only partly tax-deductible. 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, resulted mainly 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.

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. Table 14 summarizes quarterly results for fiscal 2015 and 2014.

TABLE 14
QUARTERLY RESULTS
For the quarters ended (in thousands of Canadian dollars, except per share and percentage amounts)

				2015				2014
	Oct. 31	**July 31**	**April 30**	**Jan. 31**	Oct. 31	July 31	April 30	Jan. 31
Net interest income	**$ 150,667**	**$ 147,229**	**$ 137,691**	**$ 139,496**	$ 140,149	$ 141,249	$ 138,726	$ 140,856
Other income	**80,982**	**79,409**	**82,988**	**78,664**	81,272	78,396	78,164	75,253
Total revenue	**231,649**	**226,638**	**220,679**	**218,160**	221,421	219,645	216,890	216,109
Amortization of net premium on purchased financial instruments and revaluation of contingent consideration	**1,465**	**1,531**	**1,531**	**1,472**	1,508	1,511	5,498	1,136
Provision for loan losses	**9,400**	**7,000**	**8,000**	**10,500**	10,500	10,500	10,500	10,500
Non-interest expenses	**242,340**	**161,037**	**158,750**	**160,697**	166,299	155,973	159,904	159,133
Income (loss) before income taxes	**(21,556)**	**57,070**	**52,398**	**45,491**	43,114	51,661	40,988	45,340
Income taxes (recovery)	**(2,837)**	**12,904**	**11,210**	**9,656**	9,360	11,564	9,999	9,815
Net income (loss)	**$ (18,719)**	**$ 44,166**	**$ 41,188**	**$ 35,835**	$ 33,754	$ 40,097	$ 30,989	$ 35,525
Earnings (loss) per share								
Basic	**$ (0.73)**	**$ 1.44**	**$ 1.34**	**$ 1.16**	$ 1.09	$ 1.27	$ 0.99	$ 1.16
Diluted	**$ (0.73)**	**$ 1.44**	**$ 1.34**	**$ 1.15**	$ 1.09	$ 1.27	$ 0.99	$ 1.16
Net interest margin (on average earning assets) [1]	**1.84 %**	**1.85%**	**1.84%**	**1.83%**	1.84%	1.89%	1.93%	1.86%
Return on common shareholders' equity [1]	**(6.1)%**	**12.1%**	**11.8%**	**9.9%**	9.5%	11.2%	9.2%	10.5%
Segment net income (loss)								
Personal & Commercial	**$ (24,627)**	**$ 36,217**	**$ 32,191**	**$ 30,700**	$ 28,599	$ 29,953	$ 30,282	$ 28,278
B2B Bank	**14,832**	**14,311**	**10,132**	**12,423**	8,456	13,035	5,082	13,433
Laurentian Bank Securities & Capital Markets	**2,480**	**2,692**	**4,113**	**2,409**	2,424	3,037	2,584	2,252
Other sector	**(11,404)**	**(9,054)**	**(5,248)**	**(9,697)**	(5,725)	(5,928)	(6,959)	(8,438)
Net income (loss)	**$ (18,719)**	**$ 44,166**	**$ 41,188**	**$ 35,835**	$ 33,754	$ 40,097	$ 30,989	$ 35,525
Adjusted financial measures								
Adjusted net income [1]	**$ 44,127**	**$ 45,291**	**$ 42,313**	**$ 40,468**	$ 42,591	$ 42,355	$ 39,375	$ 39,261
Adjusted diluted earnings per share [1]	**$ 1.44**	**$ 1.48**	**$ 1.38**	**$ 1.32**	$ 1.39	$ 1.35	$ 1.29	$ 1.29
Adjusted return on common shareholders' equity [1]	**12.1 %**	**12.4%**	**12.1%**	**11.3%**	12.2%	11.9%	11.9%	11.7%
Adjusted non-interest expenses [1]	**$ 163,931**	**$ 161,037**	**$ 158,750**	**$ 155,842**	$ 155,747	$ 154,409	$ 155,467	$ 155,184

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

Over the past eight quarters, adjusted net income has generally trended upward, driven mainly by good volume growth in loan portfolios, higher mutual fund commissions and continued strong credit quality. Furthermore, certain specific factors, as detailed below, have affected results during fiscal 2015 and 2014.

2015

- Net interest income increased in 2015, as the impact of good loan growth over the last twelve months and higher prepayment penalties on residential mortgage loans, notably in the third quarter, positively contributed to earnings.
- Other income increased throughout 2015 mainly due to solid mutual fund commissions and higher income from treasury and financial market operations.
- The provision for loan losses decreased in 2015, reflecting the strong quality of the portfolio and the favourable credit underwriting environment.
- Non-interest expenses in the first quarter included a retirement compensation charge of $4.9 million related to the adjustment to the employment contract of the Bank's former CEO. Expenses in the fourth quarter also included an impairment charge of $72.2 million and restructuring charges of $6.2 million incurred in the context of the Bank's new transformation plan.
- Adjusted non-interest expenses were slightly higher in 2015, mainly as a result of increases in salaries and employee benefits, as well as in technology costs.

2014

- Net interest income slightly decreased in 2014, as margin compressions and lower prepayment penalties on residential mortgage loans were only 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 remained very stable throughout the year, reflecting the excellent Canadian credit environment, as well as the Bank's strong underwriting.
- Non-interest expenses in 2014 included costs related to business combinations, which decreased throughout the year as the integration work in the B2B Bank business segment was completed at the end of the year. Expenses in the fourth quarter also included restructuring charges of $7.6 million for the optimization of certain retail and corporate activities.
- Adjusted non-interest expenses trended lower in 2014, mainly as a result of tight cost control, acquisition synergies and process reviews.

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 following three business segments: Personal &Commercial, which is comprised of Retail Services and Business Services groups, B2B Bank, as well as Laurentian Bank Securities & Capital Markets. The Bank's other activities are grouped into the Other sector.

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 mainly through a network of branches and ATMs, 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 and medium-sized enterprises, along with real estate developers are provided with a suite of financing options, including leasing solutions, as well as, investment, cash management and international services.

For the year ended October 31, 2015, reported net income of the Personal & Commercial business segment was $74.5 million compared with $117.1 million for the year ended October 31, 2014. Reported results of the segment were adversely impacted by an impairment charge of $72.2 million ($57.2 million after income taxes), and restructuring charges of $0.8 million ($0.6 million after income taxes).

Adjusted net income was $132.3 million for the year ended October 31, 2015, a 9% increase compared with $121.9 million for the year ended October 31, 2014.

TABLE 15

SEGMENT CONTRIBUTION

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

	2015	2014	2013
Net interest income	**$ 409,868**	$ 394,961	$ 386,848
Other income	**210,219**	202,677	191,261
Total revenue	**620,087**	597,638	578,109
Provision for loan losses	**25,517**	33,235	21,438
Non-interest expenses	**493,712**	411,040	424,412
Income before income taxes	**100,858**	153,363	132,259
Income taxes	**26,377**	36,251	30,342
Net income	**$ 74,481**	$ 117,112	$ 101,917
Efficiency ratio [1]	**79.6%**	68.8%	73.4%
Adjusted net income [1]	**$ 132,293**	$ 121,872	$ 105,793
Adjusted non-interest expenses [1]	**$ 420,712**	$ 404,534	$ 419,115
Adjusted efficiency ratio [1]	**67.8%**	67.7%	72.5%
Average loans and acceptances	**$ 18,594,524**	$ 17,923,035	$ 17,341,392
Average deposits	**$ 10,400,023**	$ 10,122,211	$ 10,014,583

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

Total revenue increased by $22.4 million from $597.6 million for the year ended October 31, 2014 to $620.1 million for the year ended October 31, 2015, mainly driven by good volume growth in the business loan portfolios and a strong increase in other income. Net interest income increased by $14.9 million to $409.9 million, reflecting a better loan portfolio mix, partly offset by persistent low interest rates which resulted in tighter margins. Other income increased by 4% or $7.5 million to $210.2 million for the year ended October 31, 2015, mainly due to higher mutual fund commissions.

Loan losses decreased by $7.7 million from $33.2 million for the year ended October 31, 2014 to $25.5 million for the year ended October 31, 2015. This year-over-year decrease mainly reflects the underlying good credit quality of the portfolios and lower losses on commercial mortgages and commercial loans. This was mainly attributable to a higher amount of favourable settlements compared to last year, as well as continued improvements in the underlying portfolios. Furthermore, the Personal & Commercial segment has no direct exposure to the oil and gas industry and a relatively low exposure to the oil-producing provinces, which has contributed positively to maintaining a low level of losses.

Non-interest expenses increased by $82.7 million, from $411.0 million for the year ended October 31, 2014 to $493.7 million for the year ended October 31, 2015. The increase is essentially related to the goodwill and other assets impairment charge affecting the Retail unit totalling $72.2 million. This impairment charge is the result of a combination of factors, including the continued pressure on net interest margins stemming from the persistent low interest rates and competitive landscape, the change in customers' behavior driven by significant changes in technology and lifestyle, the emergence of new competitors, as well as the additional administrative burden associated with new regulatory measures.

Adjusted non-interest expenses only increased by $16.2 million, as higher ongoing technology costs and higher staffing levels in business services were partly offset by lower salaries from the optimization of certain retail activities in the fourth quarter of 2014. The adjusted efficiency ratio was 67.8% for the year ended October 31, 2015, compared with 67.7% for the year ended October 31, 2014.

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, 2015, reported net income of the B2B Bank business segment was $51.7 million, compared with $40.0 million for the year ended October 31, 2014. Adjusted net income was $56.6 million for the year ended October 31, 2015, slightly down $1.1 million compared with $57.6 million for the year ended October 31, 2014.

TABLE 16

SEGMENT CONTRIBUTION

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

	2015	2014	2013
Net interest income	**$ 179,488**	$ 177,567	$ 190,928
Other income	**33,707**	35,361	36,705
Total revenue	**213,195**	212,928	227,633
Amortization of net premium on purchased financial instruments and revaluation of contingent consideration	**5,999**	9,653	4,426
Provision for loan losses	**9,383**	8,765	14,562
Non-interest expenses	**126,802**	138,191	170,432
Income before taxes	**71,011**	56,319	38,213
Income taxes	**19,313**	16,313	10,290
Net income	**$ 51,698**	$ 40,006	$ 27,923
Efficiency ratio [1]	**59.5%**	64.9%	74.9%
Adjusted net income [1]	**$ 56,553**	$ 57,632	$ 59,275
Adjusted non-interest expenses [1]	**$ 126,190**	$ 125,330	$ 132,188
Adjusted efficiency ratio [1]	**59.2%**	58.9%	58.1%
Average loans and acceptances	**$ 9,216,059**	$ 8,748,134	$ 9,218,339
Average deposits	**$ 12,167,770**	$ 12,553,141	$ 12,973,188

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

Total revenue slightly increased to $213.2 million for the year ended October 31, 2015 from $212.9 million for the year ended October 31, 2014. Net interest income increased by $1.9 million to $179.5 million due to strong residential and investment loan growth over the last year, partly offset by tighter margins. Other income amounted to $33.7 million for the year ended October 31, 2015, down $1.7 million compared with $35.4 million for the year ended October 31, 2014, 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" amounted to $6.0 million for the year ended October 31, 2015, compared with $9.7 million for the year ended October 31, 2014. The higher charge in 2014 essentially resulted 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 $6.0 million for the year ended October 31, 2015, compared with $5.6 million for the year ended October 31, 2014. Refer to Note 30 to the audited annual consolidated financial statements.

Loan losses increased by $0.6 million compared with the year ended October 31, 2014 and amounted to $9.4 million for the year ended October 31, 2015. The modest increase reflects a return to a normalized provision level in the personal loan portfolios. Overall, loan losses remained low, reflecting the strong credit quality of the portfolio.

Non-interest expenses decreased by $11.4 million to $126.8 million for the year ended October 31, 2015 compared with $138.2 million for the year ended October 31, 2014, essentially as a result of $12.9 million lower costs related to the integration work at B2B Bank, which was completed at the end of last year. Adjusted non-interest expenses growth was limited to 1% year-over-year, reflecting tight cost control. The adjusted efficiency ratio was 59.2% for the year ended October 31, 2015, compared with 58.9% for the year ended October 31, 2014.

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.

For the year ended October 31, 2015, reported net income of the Laurentian Bank Securities & Capital Markets business segment increased to $11.7 million, compared with $10.3 million for the year ended October 31, 2014. Adjusted net income was $12.1 million, a 17% increase compared with $10.3 million for the year ended October 31, 2014.

TABLE 17

SEGMENT CONTRIBUTION

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

	2015	2014	2013
Total revenue	**$ 71,507**	$ 68,406	$ 67,831
Non-interest expenses	**56,810**	54,332	53,407
Income before taxes	**14,697**	14,074	14,424
Income taxes	**3,003**	3,777	3,572
Net income	**$ 11,694**	$ 10,297	$ 10,852
Efficiency ratio [1]	**79.4%**	79.4%	78.7%
Adjusted net income [1]	**$ 12,088**	$ 10,297	$ 10,852
Adjusted non-interest expenses [1]	**$ 56,271**	$ 54,332	$ 53,407
Adjusted efficiency ratio [1]	**78.7%**	79.4%	78.7%
Clients' brokerage assets	**$ 3,122,090**	$ 2,848,440	$ 2,465,747

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

Total revenue increased by $3.1 million to $71.5 million for the year ended October 31, 2015, as higher revenues from growth in underwriting activities in the fixed income market and higher trading revenues were partly offset by lower underwriting fees in the small-cap equity market. Non-interest expenses increased by $2.5 million to $56.8 million for the year ended October 31, 2015, mainly due to higher performance-based compensation, commissions and transaction fees, in-line with higher market-driven income. Non-interest expenses for the year ended October 31, 2015 also included adjusting items related to severance charges of $0.5 million as part of restructuring initiatives.

OTHER

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

For the year ended October 31, 2015, the Other sector's contribution to reported net income was negative $35.4 million, compared with negative $27.1 million for the year ended October 31, 2014. Adjusted net income was negative $28.7 million for the year ended October 31, 2015, compared with negative $26.2 million for the year ended October 31, 2014.

TABLE 18

SEGMENT CONTRIBUTION

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

	2015	2014	2013
Net interest income	**$ (17,787)**	$ (14,872)	$ (13,139)
Other income	**10,124**	9,965	4,903
Total revenue	**(7,663)**	(4,907)	(8,236)
Non-interest expenses	**45,500**	37,746	25,828
Loss before income taxes	**(53,163)**	(42,653)	(34,064)
Income taxes recovery	**(17,760)**	(15,603)	(12,849)
Net loss	**$ (35,403)**	$ (27,050)	$ (21,215)
Adjusted net loss [1]	**$ (28,735)**	$ (26,219)	$ (20,484)
Adjusted non-interest expenses [1]	**$ 36,387**	$ 36,611	$ 24,828

(1) Refer to the non-GAAP financial measures section. Adjusted financial measures exclude restructuring charges and a retirement compensation charge designated as adjusting items.

Net interest income decreased to negative $17.8 million for the year ended October 31, 2015 compared with negative $14.9 million for the year ended October 31, 2014, mainly as a result of additional lower-yielding liquid assets held throughout the year, notably to finance the purchase of an investment loan portfolio in the fourth quarter. Other income increased by $0.2 million and amounted to $10.1 million for the year ended October 31, 2015, as higher trading and foreign-exchange revenues were partly offset by lower net securities gains. Of note, a $2.5 million portion of a gain related to the sale of commercial mortgage loans attributed to Corporate Treasury was presented in this sector in 2014.

Non-interest expenses increased by $7.8 million to $45.5 million for the year ended October 31, 2015 compared with $37.7 million for the year ended October 31, 2014. Non-interest expenses for the year ended October 31, 2015 included a $4.9 million retirement compensation charge and restructuring charges totalling $4.3 million, compared with a similar restructuring charge of $1.1 million for the year ended October 31, 2014. Excluding these items, adjusted non-interest expenses decreased by 1%. Unallocated expenses mainly relate to executive management compensation, costs related to treasury operations and corporate regulatory costs.

ANALYSIS OF FINANCIAL CONDITION

The Bank bolsters a solid balance sheet and a strong capital to support its operations. The overall credit quality of the loan portfolio, combined with a sound retail funding base provide the foundation for sustainable growth and the ability to implement the new Transformation Plan.

As at October 31, 2015, the Bank reported total assets of $39.7 billion, compared with $36.5 billion as at October 31, 2014, as shown in Table 19. These changes are explained in the following sections of the MD&A.

TABLE 19

BALANCE SHEET ASSETS

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

	2015	2014	2013 [1]	VARIANCE 2015 / 2014
Cash and deposits with other banks	**$ 200,864**	$ 248,855	$ 208,838	(19)%
Securities	**4,487,357**	4,880,460	4,480,525	(8)
Securities purchased under reverse repurchase agreements	**3,911,439**	3,196,781	1,218,255	22
Loans				
Personal	**7,063,229**	6,793,078	7,245,474	4
Residential mortgage	**16,192,009**	14,825,541	14,735,211	9
Commercial mortgage	**3,055,619**	2,651,271	2,488,826	15
Commercial and other	**3,308,144**	2,794,232	2,488,137	18
Customers' liabilities under acceptances	**473,544**	365,457	271,049	30
	30,092,545	27,429,579	27,228,697	10
Allowances for loan losses	**(111,153)**	(119,371)	(115,590)	(7)
	29,981,392	27,310,208	27,113,107	10
Other assets	**1,078,452**	846,481	890,301	27
Balance sheet assets	**$ 39,659,504**	$ 36,482,785	$ 33,911,026	9 %
Cash, deposits with other banks, securities and securities purchased under reverse repurchase as a % of balance sheet assets	**21.7 %**	22.8 %	n. m.	

(1) Comparative figures for 2013 were not restated to reflect the adoption of the amendments to IAS 32, *Financial Instruments: Presentation*.

LIQUID ASSETS

Liquid assets consist of cash, deposits with other banks, securities and securities purchased under reverse repurchase agreements. As at October 31, 2015, these assets totalled $8.6 billion, an increase of $0.3 billion compared with $8.3 billion as at October 31, 2014.

The higher level of liquidity reflects deposit gathering from multiple sources and funding from securitization activities used to finance the Bank's 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 22% of total assets as at October 31, 2015 compared with 23% as at October 31, 2014.

As at October 31, 2015, securities used in brokerage operations and treasury activities amounted to $4.5 billion, including a portfolio of available-for-sale securities totalling $2.4 billion. As at October 31, 2015, net unrealized losses in this portfolio, included in accumulated other comprehensive income, amounted to $10.5 million, reflecting the relatively poor performance of the Canadian preferred share market during the year.

Additional information on liquidity and funding risk management is included on page 47 of the MD&A.

LOAN PORTFOLIO

Loans and bankers' acceptances, net of allowances, stood at $30.0 billion as at October 31, 2015, up 10% from October 31, 2014. This increase mainly reflects the Bank's continued strong organic growth in the higher-margin business portfolios and B2B Bank's residential mortgage loan portfolio, while a $0.6 billion investment loan purchase also contributed. Executing on its niche strategy, the Bank accelerated overall loan growth in 2015, with focused efforts on growth opportunities such as lease financing and B2B Bank mortgages.

Personal loans amounted to $7.1 billion and increased by $0.3 billion since October 31, 2014. This increase reflects a $0.6 billion investment loan portfolio purchase partly offset by net repayments as investors continued to reduce leverage and, to a lesser extent, the continued run-offs in loans granted under the Immigrant investor program and point-of-sale financing.

Residential mortgage loans stood at $16.2 billion as at October 31, 2015, an increase of $1.4 billion or 9% year-over-year. This mainly reflected strong growth in mortgage loans at B2B Bank, helped by its expanded and alternative mortgage solutions.

Loans to businesses consist of commercial mortgage loans, commercial loans and customers' liabilities under acceptances. As at October 31, 2015, these higher-margin loans amounted to $6.8 billion, up $1.0 billion or 18% year-over-year. In 2015, the Bank continued to develop its commercial activities and generated strong organic growth across all business loan portfolios. The Bank's equipment financing offer launched in 2014 is also bearing fruit, as this portfolio's volume increased by more than $200 million during the year.

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 increased by $0.2 billion to $1.1 billion as at October 31, 2015, primarily reflecting an increase in derivative financial instruments and cheques and other items in transit. This increase was partially offset by lower goodwill, intangibles assets and premises and equipment resulting from the impairment charge recorded in the fourth quarter of 2015.

TABLE 20

BALANCE SHEET LIABILITIES

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

	2015	2014	2013 (1)	VARIANCE 2015 / 2014
Deposits				
Personal	**$ 19,377,716**	$ 18,741,981	$ 19,282,042	3 %
Business, banks and other	**7,226,588**	5,781,045	4,645,308	25
	26,604,304	24,523,026	23,927,350	8
Other liabilities	**5,524,930**	5,103,778	3,129,918	8
Debt related to securitization activities	**5,493,602**	4,863,848	4,974,714	13
Subordinated debt	**449,641**	447,523	445,473	—
Balance sheet liabilities	**$ 38,072,477**	$ 34,938,175	$ 32,477,455	9 %
Personal deposits as a % of total deposits	**72.8 %**	76.4 %	80.6 %	
Total deposits as a % of balance sheet liabilities	**69.9 %**	70.2 %	73.7 %	

(1) Comparative figures for 2013 were not restated to reflect the adoption of the amendments to IAS 32, *Financial Instruments: Presentation.*

DEPOSITS

The deposit portfolio increased by $2.1 billion or 8% to $26.6 billion as at October 31, 2015 from $24.5 billion as at October 31, 2014. Personal deposits stood at $19.4 billion as at October 31, 2015, up $0.6 billion compared with October 31, 2014, while business and other deposits increased by $1.4 billion to $7.2 billion over the same period. The Bank continues to optimize its current funding strategy by focusing on client deposits through its retail branch network and B2B Bank's advisor relationships, which contribute to the Bank's good liquidity position. During the year, the Bank further diversified its funding sources by increasing its usage of institutional funding and solidifying its presence in that market, in light of strong loan growth. As a result, personal deposits represented 73% of total deposits as at October 31, 2015, compared with 76% as at October 31, 2014. This ratio remains nonetheless well above the Canadian average and contributes to meet OSFI's liquidity adequacy requirements implemented in 2015.

Additional information on deposits and other funding sources is included in the Liquidity and Funding Risk Management sub-section of the Risk Appetite and Risk Management Framework section on page 47 of this MD&A.

OTHER LIABILITIES

Other liabilities increased to $5.5 billion as at October 31, 2015 from $5.1 billion as at October 31, 2014. The year-over-year increase resulted mainly from higher obligations related to securities sold short, associated with trading activities, and acceptances.

Debt related to securitization activities totalling $5.5 billion remains a preferred source of term funding and increased by $0.6 billion or 13% compared with October 31, 2014. The Bank optimized this funding source for residential mortgages during the year through its participation in both the Canada Mortgage Bond program and a third-party multi-seller mortgage securitization facility.

For additional information on the Bank's securitization activities, please refer to Notes 7 and 14 to the annual consolidated financial statements.

Subordinated debt stood at $449.6 million as at October 31, 2015, essentially unchanged compared with $447.5 million as at October 31, 2014. The subordinated debt is an integral part of the Bank's regulatory capital and affords its depositors additional protection. On November 2, 2015, the Bank redeemed all of its Series 2010-1 subordinated Medium Term Notes maturing in 2020, with an aggregate notional amount of $250.0 million. The Series 2010-1 subordinated Medium Term Notes were redeemed at par plus accrued and unpaid interest to the date of redemption.

SHAREHOLDERS' EQUITY

Shareholders' equity stood at $1,587.0 million as at October 31, 2015, compared with $1,544.6 million as at October 31, 2014. This $42.4 million increase is mainly explained by the net income contribution for the year, net of declared dividends. For additional information, please refer to the annual consolidated statement of changes in shareholders' equity.

The Bank's book value per common share appreciated to $46.33 as at October 31, 2015 from $45.89 as at October 31, 2014. The table below provides the details of the share capital.

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

TABLE 21

SHARES ISSUED AND OUTSTANDING

As at December 2, 2015 (in number of shares/options)

Preferred shares	
Series 11	4,000,000
Series 13	5,000,000
Common shares [1]	28,964,619
Share purchase options [1]	–

(1) On December 2, 2015, 8,000 common shares were issued as a result of the exercise of the remaining share purchase options.

OFF-BALANCE SHEET ARRANGEMENTS

In the normal course of its operations, the Bank enters into a number of arrangements that, under IFRS, are either not recorded on the Bank's balance sheet or are recorded in amounts that differ from the notional amounts. In particular, the Bank manages or administers clients' assets that are not reported on the balance sheet. Moreover, off-balance sheet items include derivatives, as well as credit commitments and guarantees.

ASSETS UNDER ADMINISTRATION AND ASSETS UNDER MANAGEMENT

Assets under administration and assets under management mainly include assets of clients to whom the Bank provides 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 22 below summarizes assets under administration and assets under management. As at October 31, 2015, these items totalled $42.2 billion, up $0.6 billion or 1% compared with October 31, 2014. Fees, commissions and other income related to these assets contribute significantly to the Bank's profitability.

TABLE 22

ASSETS UNDER ADMINISTRATION AND ASSETS UNDER MANAGEMENT

As at October 31 (in thousands of Canadian dollars)

	2015	2014	2013
Registered and non-registered investment accounts	**$ 35,386,071**	$ 35,484,148	$ 32,222,052
Mutual funds	**3,299,986**	3,009,944	2,568,101
Clients' brokerage assets	**3,122,090**	2,848,440	2,465,747
Mortgage loans under management	**328,661**	224,102	397,864
Institutional assets	**78,767**	77,095	72,475
Other	**9,610**	12,224	13,142
Assets under administration and assets under management	**$ 42,225,185**	$ 41,655,953	$ 37,739,381

Assets related to registered and non-registered investment accounts in B2B Bank Dealer Services and LBC Financial Services were down marginally by $0.1 billion year-over-year, reflecting lower underlying asset values driven by market performance. B2B Bank Dealer Services, comprised of three mutual fund and investment dealers, helps Canadians build and manage their wealth and provides account administration, clearing and settlement, and reporting services to more than 300,000 investors, through its association with independent dealers and advisors across Canada. LBC Financial Services offers a team of specialized investment representatives who support their clients with strategies to manage their portfolios and build wealth.

Mutual fund assets under administration in LBC Financial Services increased significantly by $290.0 million or 10% during fiscal 2015, driven by the exclusive offering of a preferred series of LBC-Mackenzie mutual funds, client appetite for higher-yielding products and the Bank's efficient distribution network.

Clients' brokerage assets increased by $273.7 million or 10%, essentially as a result of increased full-service brokerage activity and additional advisors in 2015.

Mortgage loans under management increased by $104.6 million, as a result of new servicing agreements of commercial mortgage loans contracted during the year and increased activity.

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 $20.0 billion as at October 31, 2015 with a net positive fair value of $150.9 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 residential mortgage loans in order to diversify sources of funding, optimize its balance sheet and to enhance its liquidity position.

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 commonly 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 related to the transferred residential 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 consolidated, are nonetheless reflected on the balance sheet.

As at October 31, 2015 the carrying amount of residential mortgage loans securitized and legally sold as part of the CMB Program amounted to $3.9 billion ($3.8 billion as at October 31, 2014) and the carrying amount of Replacement Assets amounted to $0.8 billion ($0.4 billion as at October 31, 2014). As at October 31, 2015, the carrying amount of securitized residential mortgage loans legally sold to multi-seller conduits amounted to $0.6 billion ($0.5 billion as at October 31, 2014). The securitization liability related to these transactions amounted to $5.5 billion as at October 31, 2015 ($4.9 billion as at October 31, 2014).

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 enters into various off-balance sheet credit instruments to meet the financing needs of its clients and earn fee income. These instruments may expose the Bank to liquidity and credit risk and are subject to adequate risk management. Table 23 presents the maximum amount of additional credit that the Bank could be required to extend if the commitments are fully used.

In the normal course of its operations, the Bank also enters into guarantee agreements such as standby letters of credit and performance guarantees to support its clients. Table 23 presents significant guarantees.

Note 29 to the annual consolidated financial statements provides additional information.

TABLE 23

CREDIT COMMITMENTS AND GUARANTEES

As at October 31 (in thousands of Canadian dollars)

	2015	2014
Undrawn amounts under approved credit facilities [1]	**$ 3,859,804**	$ 3,810,511
Standby letters of credit and performance guarantees	**$ 152,779**	$ 133,640
Documentary letters of credit	**$ 3,344**	$ 6,330

(1) Excluding credit facilities revocable at the Bank's option totalling $4.3 billion as at October 31, 2015 ($4.0 billion as at October 31, 2014).

CAPITAL MANAGEMENT

GOVERNANCE

Management's objective is to maintain an adequate level of capital 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.

In order to achieve this objective, the Bank leverages its 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. As a result, the Bank's capital adequacy targets vary over time in line with these 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.

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 Economic Research, 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 ***Board of Directors*** annually approves the Capital Management and Adequacy Policy, the Capital Plan, as well as the Business Plan and Financial Three-Year Plan.
- 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 ***Executive Committee*** 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.

REGULATORY CAPITAL

OSFI requires banks to meet minimum risk-based capital ratios drawn on the Basel Committee on Banking Supervision (BCBS) 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. Institutions are expected to meet minimum risk-based capital requirements for exposure to credit risk, operational risk and, where they are internationally active, market risk.

Under OSFI's guideline, minimum Common Equity Tier 1, Tier 1 and Total capital ratios were set at 4.5%, 6.0% and 8.0% respectively for 2015. These ratios include phase-in of certain regulatory adjustments through 2019 and, as detailed below, 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 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 detailed below.

Certain banks in Canada have also been designated by OSFI as Domestic Systemically Important Banks (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.

OSFI's 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 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. The Bank's Series 2010-1 subordinated Medium Term Notes were considered non-qualifying capital instruments under Basel III and were subject to a 10% phase-out per year prior to the announcement on September 24, 2015 of their redemption on November 2, 2015. The Preferred Shares Series 13 fully qualify as Additional Tier 1 capital 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.

Regulatory capital developments

Revisions to the standardized approach

The Bank uses the Standardized Approach in determining credit risk capital and to account for operational risk. 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 Advanced Internal Ratings-Based approach (AIRB) approach. 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.

The implementation of the AIRB approach to determine credit risk is a key initiative of the Bank's new transformation plan that should strengthen its credit risk management, optimize regulatory capital and provide a level-playing field for credit underwriting activities. As such, the Bank plans to transition to the AIRB approach by the end of 2019.

Bail-in Regime in Canada

On August 1, 2014, the Department of Finance Canada issued a consultation paper regarding a proposed Taxpayer Protection and Bank Recapitalization Regime. 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.

In its 2015 federal budget, the Canadian Federal Government confirmed its intention to implement the bail-in regime to Canada's D-SIBs. The summary of the proposed bail-in legislation was in line with the proposals in the consultation paper and no implementation timeline has been provided.

Tables 24 and 25 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 24

REGULATORY CAPITAL [1]

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

	2015	2014
Regulatory capital		
Common Equity Tier 1 capital (A)	**$ 1,175,238**	$ 1,087,224
Tier 1 capital (B)	**$ 1,394,871**	$ 1,306,857
Total capital (C) [2]	**$ 1,668,416**	$ 1,747,526
Total risk-weighted assets (D) [3]	**$ 15,422,282**	$ 13,844,014
Regulatory capital ratios		
Common Equity Tier 1 capital ratio (A/D)	**7.6%**	7.9%
Tier 1 capital ratio (B/D)	**9.0%**	9.4%
Total capital ratio (C/D)	**10.8%**	12.6%

(1) The amounts are presented on an "all-in" basis.

(2) Including the effect of the announced redemption of the Series 2010-1 subordinated Medium Term Notes.

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

As shown in the graph on the right, the Common Equity Tier 1 capital ratio decreased in 2015 as internal capital generation did not fully offset the impact of higher risk-weighted exposures and of the decrease in value of available-for-sale securities.

The impact of the impairment charge of $72.2 million ($57.2 million after income taxes) recorded in 2015 on the Common Equity Tier 1 capital ratio was limited to 4 bps, as goodwill and software are already deducted from regulatory capital.

CHANGE IN COMMON EQUITY TIER 1 CAPITAL RATIO

For the year ended October 31, 2015 (in percentage)

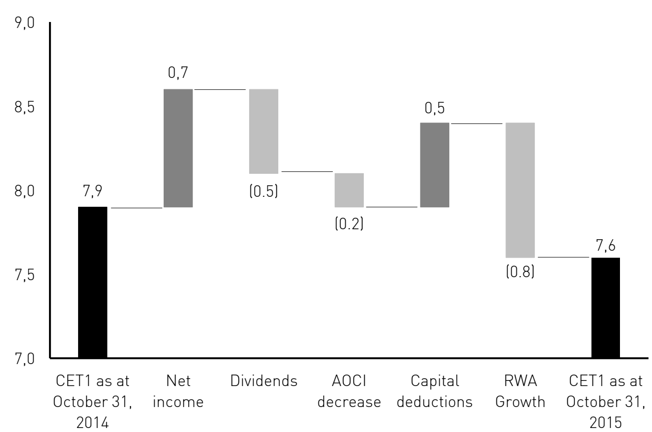


TABLE 25

RISK-WEIGHTED ASSETS

As at October 31 (in thousands of Canadian dollars)

	2015 TOTAL EXPOSURE	2015 RISK-WEIGHTED ASSETS (1)	2014 TOTAL EXPOSURE	2014 RISK-WEIGHTED ASSETS (1)
Exposure Class (after risk mitigation)				
Corporate	$ 6,611,115	$ 6,583,804	$ 5,622,244	$ 5,581,683
Sovereign	5,926,851	27,868	4,129,832	20,909
Bank	234,854	62,354	326,016	72,025
Retail residential mortgage loans	16,289,250	2,830,032	14,891,735	2,290,905
Other retail	2,717,859	1,693,518	2,918,712	1,777,302
Small business entities treated as other retail	1,392,139	980,081	1,434,894	1,003,429
Equity	310,558	310,558	270,227	270,227
Securitization	70,772	38,729	54,697	123,558
Other assets	1,246,997	518,997	1,025,724	505,936
	34,800,395	13,045,941	30,674,081	11,645,974
Derivatives (2)	224,492	114,483	124,519	57,258
Credit commitments	939,436	860,270	815,180	764,082
Operational risk		1,401,588		1,376,700
	$ 35,964,323	$ 15,422,282	$ 31,613,780	$ 13,844,014
Balance sheet items				
Cash, deposits with other banks, securities and securities financing transactions		$ 715,097		$ 802,525
Personal loans		2,106,529		2,191,425
Residential mortgage loans		3,327,940		2,783,479
Commercial mortgage loans, commercial loans and acceptances		6,576,289		5,524,436
Other assets		320,086		344,109
		$ 13,045,941		$ 11,645,974

(1) 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.

(2) The CVA capital charge after phase-in adjustments as at October 31, 2015 was $39.6 million for CET1 capital risk-weighted assets, $44.0 million for Tier 1 capital risk-weighted assets and $47.7 million for Total capital risk-weighted assets ($20.0 million, $22.8 million and $27.0 million respectively as at October 31, 2004). Risk-weighted assets above are presented based on the CET1 capital approach.

BASEL III LEVERAGE RATIO

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. Under OSFI's Leverage Requirements Guideline issued in October 2014, the previous Asset to Capital Multiple (ACM) was replaced with a new leverage ratio as of January 1, 2015. Federally regulated deposit-taking institutions are expected to maintain a Basel III leverage ratio that meets or exceeds 3% at all times. 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 previous ACM requirement in that it includes more off-balance-sheet exposures and a narrower definition of capital (Tier 1 Capital instead of Total Capital).

As detailed in the table below, the leverage ratio stood at 3.5% as at October 31, 2015 and exceeded current requirements.

TABLE 26

BASEL III LEVERAGE RATIO

For the year ended October 31, 2015 (in thousands of Canadian dollars, except percentage amounts)

		2015
Tier 1 capital	$	**1,394,871**
Total exposures	$	**39,557,300**
Basel III leverage ratio		**3.5%**

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 27

SHARE DIVIDENDS AND PAYOUT RATIO

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

		2015		2014		2013
Dividends declared on preferred shares	$	**9,375**	$	10,750	$	12,411
Dividends declared per common share	$	**2.20**	$	2.06	$	1.98
Dividends declared on common shares	$	**63,691**	$	59,105	$	56,037
Dividend payout ratio [1]		**68.6%**		45.7%		52.0%
Adjusted dividend payout ratio [1]		**39.2%**		38.7%		39.0%

(1) 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, 2015 and 2014.

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. Risk appetite is defined notably by types of activities and risks, 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 decisions, managing risk, evaluating capital adequacy and contingency planning. Stress testing includes scenario and sensitivity analyses.

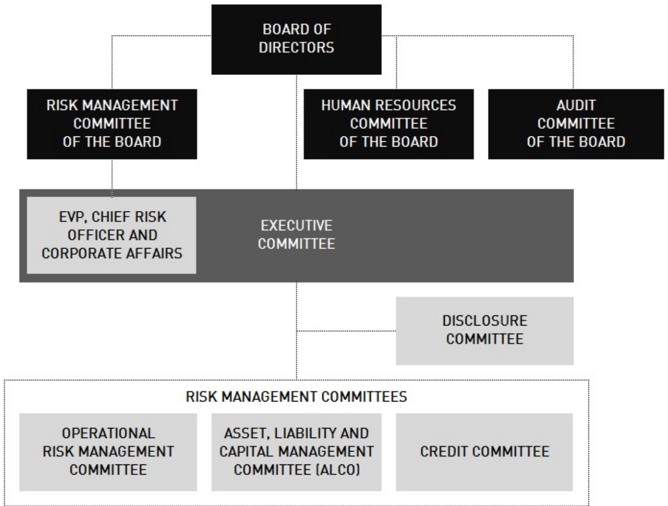
The Bank's integrated stress testing program evaluates a range of scenarios of different severities resulting from deteriorating economic conditions that could adversely impact its strategic plan. The impact on market and credit risks is determined and aggregated to give a view of such scenarios on the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

This exercise involves experts from various departments including Economic Research, 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 the Executive Committee, 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, Management conducts risk specific scenario and sensitivity analyses to assess the risk level of different activities. These analysis are governed by risk management policies and the results are monitored on a regular basis.

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. The Executive Committee 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 the Executive Committee 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 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 *Executive 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 Executive Committee, assesses and reviews the risk management policies on market, liquidity and funding risks, on structural interest rate risk, on credit, as well as on reputational and operational risk. The Executive 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 Executive 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 submitted to the Executive 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, supervises the impaired loan resolution process and ensures the adequacy of the provisions for loan losses.

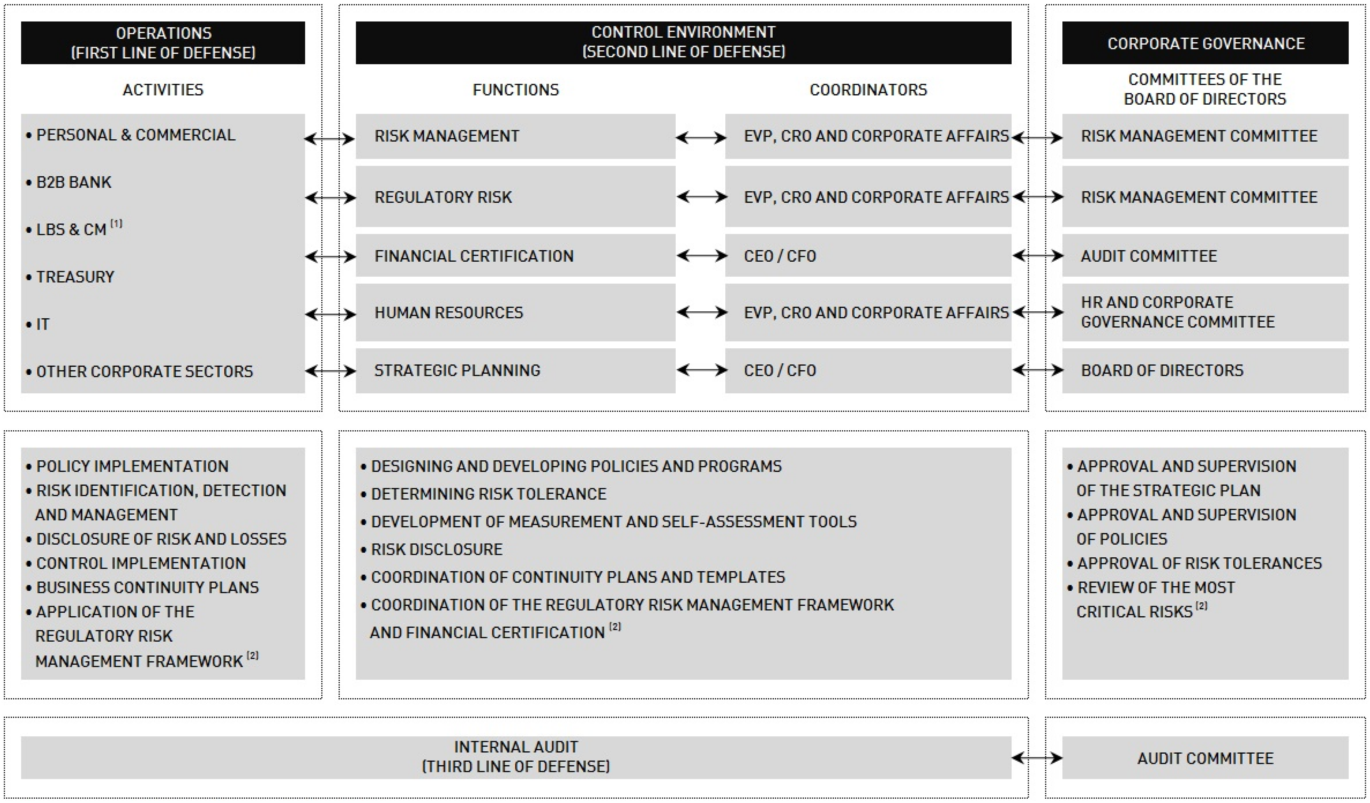
The *Asset, Liability and Capital Management Committee* (ALCO) is responsible for assuring compliance with the interest rate structural risk management limits. It recommends hedging strategies to maintain the risk level within the approved limits. It also supervises liquidity management, and is responsible 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 certification, 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 the Executive Committee. 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.

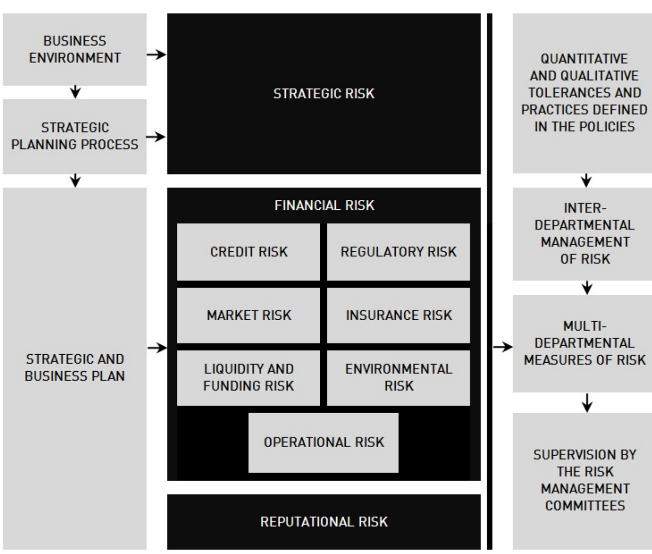


(1) Laurentian Bank Securities and Capital Markets.
(2) This list of functions is not exhaustive.

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 oversee 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.

The Executive Committee 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 the Executive Committee 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) in a transaction fails to fully honour its contractual or financial obligations towards the Bank.

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 Executive 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 for 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 loans to businesses 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 29 and 30.

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 and where 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, 2015 and 2014 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 commitments as set out below.

TABLE 28

MAXIMUM EXPOSURE TO CREDIT RISK

As at October 31 (in millions of Canadian dollars)

		2015		2014
Financial assets, as stated in the consolidated balance sheet (1)	$	**39,086**	$	35,854
Credit commitments (2)		**3,860**		3,811
	$	**42,946**	$	39,665

(1) Excluding equity securities.

(2) Excluding credit facilities revocable at the Bank's option totalling $4.3 billion as at October 31, 2015 ($4.0 billion as at October 31, 2014).

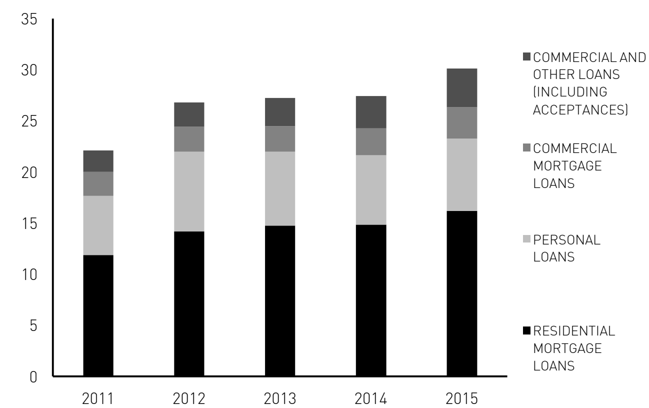
Loan portfolio mix

The Bank's loan portfolio consists of personal loans, residential mortgage loans, commercial mortgage loans and commercial loans, including bankers' acceptances. Overall, the loan portfolio mix as at October 31, 2015 was relatively stable year-over-year, with a notable increase in loans to businesses, in line with the Bank's focus on growing this high-margin portfolio.

Reflecting the Bank's strong presence with personal clients through its retail network and B2B Bank, exposures related to personal loans and residential mortgages represent 77% of the Bank's total loan portfolio, compared to 79% a year ago. Commercial loans and mortgages, including bankers' acceptances, now account for 23% of total loans.

LOAN PORTFOLIO MIX

As at October 31 (in billions of Canadian dollars)



Personal loans

The personal loan portfolio includes a range of consumer credit products such as investment loans, home-equity lines of credit (HELOCs), credit cards, personal lines of credit and other consumer loans. As at October 31, 2015, this portfolio totalled $7.1 billion, an increase of $0.3 billion compared with October 31, 2014. In the fourth quarter of 2015, B2B Bank purchased a $0.6 billion investment loan portfolio to solidify its leadership position in the investment lending space, which contributed to the year-over-year increase. This was partly offset by net repayments as investors continued to reduce leverage and, to a lesser extent, the continued run-offs in loans granted under the Immigrant investor program and point-of-sale financing.

Residential mortgage loans

Residential mortgage loans mainly include retail mortgage loans secured by one- to four-unit dwellings, as well as a $1.2 billion portfolio of smaller retail multi-units dwellings. This portfolio increased by $1.4 billion or 9% during fiscal 2015, fuelled by continued growth in mortgage loans at B2B Bank, helped by its expanded and alternative mortgage solutions distributed across Canada through a large network of independent brokers and advisors. Growth in mortgage loans distributed through this network is expected to continue, in-line with the Bank's medium-term growth objectives.

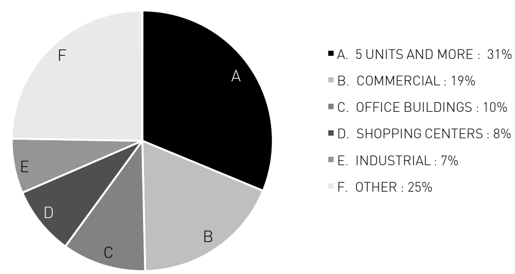
Commercial mortgage loans

Commercial mortgage loans include residential mortgage loans secured by five and more unit dwellings, commercial properties, office buildings, shopping centers and other mortgage loans. In 2015, commercial mortgage loans increased by $404.3 million or 15% from fiscal 2014, totalling $3.1 billion as at October 31, 2015. This strong growth reflects the Bank's efforts to develop its solid client base, its focus on serving its long-established clientele in the Canadian real estate mid-market and the increase in the size of real estate development projects. The average loan carrying value was $2.0 million as at October 31, 2015, compared with $1.8 million as at October 31, 2014.

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, 2015, the proportion of the portfolio granted in Ontario and Western Canada represented 67% of the total commercial mortgage loan portfolio and 33% in Québec (72% in Ontario and Western Canada and 28% in Québec as at October 31, 2014).

COMMERCIAL MORTGAGE LOANS BY PROPERTY TYPE

As at October 31, 2015 (as a percentage)



Commercial loans

As at October 31, 2015, the portfolio of commercial loans, including bankers' acceptances, amounted to $3.8 billion, up $0.6 billion or 20% from $3.2 billion as at October 31, 2014. In 2015, the Bank continued to develop its commercial activities and generated significant growth in mid-market lending across Canada and loans to small- and medium-sized enterprises in Québec. The hiring of additional account managers and the Bank's equipment financing offer launched in 2014 are gradually improving its presence in these markets. The recent announcement of a partnership with the Business Development Bank of Canada to help manufacturers across the country acquire equipment through more flexible financing options is also expected to generate medium-term growth in this strategic portfolio.

The portfolio covers a wide range of industries, with no specific industry accounting for more than 3% (unchanged from 2014) of total loans and acceptances, demonstrating sound risk management of this portfolio.

See Table 29 for additional information.

TABLE 29

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)

2015

	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	$ 7,063,229	$ 18,703	$ —	$ 11,156	$ 7,547	$ 27,575	$ 29,677
Residential mortgage	16,192,009	33,794	—	4,721	29,073	8,912	5,694
Commercial mortgage	3,055,619	48,397	9,536	265	38,596	12,435	(460)
	26,310,857	100,894	9,536	16,142	75,216	48,922	34,911
Commercial and other (including acceptances)							
Real estate, renting and lease	892,339	6,828	730	1,054	5,044	2,695	667
Wholesale and retail	533,205	1,820	1,509	15	296	2,469	(747)
Other services and government	479,486	1,151	517	96	538	5,948	6,527
Public utilities	405,231	—	—	—	—	1,603	(214)
Construction	293,237	5,731	1,514	12	4,205	2,173	877
Manufacturing	259,832	4,158	3,055	64	1,039	1,315	(1,605)
Financial services	249,737	3,509	709	1,275	1,525	904	1,813
Agriculture	236,404	7,582	1,013	8	6,561	365	601
Transportation and communication	179,351	145	—	7	138	995	(1,142)
Transformation and natural resources	127,186	6,099	4,397	3	1,699	1,106	(1,895)
Other	125,680	724	710	—	14	292	(4,893)
	3,781,688	37,747	14,154	2,534	21,059	19,865	(11)
Total	$ 30,092,545	$ 138,641	$ 23,690	$ 18,676	$ 96,275	$ 68,787	$ 34,900
As a % of loans and acceptances		0.46%			0.32%		

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	753,094	2,975	—	367	2,608	3,811	2,652
Wholesale and retail	533,842	2,298	1,376	62	860	4,199	2,260
Other services and government	422,702	2,697	334	958	1,405	3,262	4,859
Public utilities	244,147	—	—	—	—	1,880	1,951
Construction	254,758	1,871	345	125	1,401	2,599	1,108
Manufacturing	203,961	9,067	7,463	81	1,523	1,813	362
Financial services	179,126	1,076	217	302	557	976	(407)
Agriculture	253,222	877	101	20	756	731	(2,964)
Transportation and communication	126,320	69	—	3	66	1,850	1,084
Transformation and natural resources	131,160	7,622	7,105	—	517	1,391	(2,633)
Other	57,357	1,693	1,093	47	553	336	(1,071)
	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%		

(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 amounted to $138.6 million in 2015 compared with $102.1 million in 2014. This increase was mainly due to higher impaired commercial mortgage loans, essentially as a result of a single exposure, which was partly resolved subsequent to year-end in November 2015.

Impaired commercial loans remained relatively low as at October 31, 2015. This reflects the excellent quality of the portfolio, which, given the Bank has no direct exposure to the Canadian oil and gas industry and only a limited exposure to the oil-producing region, continued to benefit from the otherwise good prevailing economic conditions in the rest of Canada.

As well, gross impaired loans in the personal and residential mortgage loan portfolio remained at a historically low level despite volume growth as borrowers continue to benefit from the favourable low interest rate environment. See Note 6 to the annual consolidated financial statements for additional information.

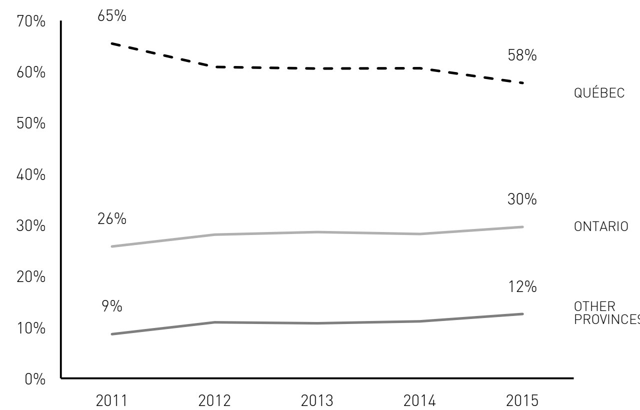
Individual allowances increased by $1.7 million since October 31, 2014 to $23.7 million as at October 31, 2015, in-line with the increase in impaired commercial mortgage loans mentioned above. Over the same period, collective allowances against impaired loans increased by $1.4 million to $18.7 million as at October 31, 2015, mainly for impaired personal loans. Other collective allowances decreased by $11.4 million, driven by changes 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 independent financial advisors and brokers across Canada through B2B Bank. As at October 31, 2015, the proportion of loans granted to borrowers in Québec represented 58% of total loans, while loans granted to borrowers in the other provinces stood at 42% (61% and 39% respectively as at October 31, 2014).

GEOGRAPHIC DISTRIBUTION OF LOANS

As at October 31 (in percentage)



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) and by Genworth Canada (Genworth), or secured by assets pledged as collateral by borrowers.

CMHC and Genworth offer mortgage loan insurance programs which reduces the overall credit risk associated to the residential mortgage loan portfolio. 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 2015, 53% of residential mortgage loans secured by one- to four-unit dwellings were insured, compared with 60% as at October 31, 2014. 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, 2015, the estimated average loan-to-value ratios were 64% and 38% for insured and uninsured residential mortgage loans respectively.

TABLE 30

GEOGRAPHIC DISTRIBUTION OF LOANS BY CREDIT PORTFOLIO

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

	2015			2014		
	GROSS AMOUNT OF LOANS (IN %)	GROSS AMOUNT OF LOANS	GROSS AMOUNT OF IMPAIRED LOANS	GROSS AMOUNT OF LOANS (IN %)	GROSS AMOUNT OF LOANS	GROSS AMOUNT OF IMPAIRED LOANS
Québec						
Personal	9.5%	$ 2,870,572	$ 2,721	10.4%	$ 2,861,858	$ 3,308
Residential mortgage	35.9	10,793,341	19,004	39.1	10,733,329	17,859
Commercial mortgage	3.3	1,006,979	7,601	2.7	730,314	8,684
Commercial and other (including acceptances)	9.0	2,716,644	35,751	8.4	2,302,155	25,429
	57.8	17,387,536	65,077	60.6	16,627,656	55,280
Other provinces						
Personal	13.9	4,192,657	15,982	14.4	3,931,220	19,051
Residential mortgage	17.9	5,398,668	14,790	14.9	4,092,212	14,984
Commercial mortgage	6.8	2,048,640	40,796	7.0	1,920,957	7,949
Commercial and other (including acceptances)	3.5	1,065,044	1,996	3.1	857,534	4,816
	42.2	12,705,009	73,564	39.4	10,801,923	46,800
Total	100.0%	$ 30,092,545	$ 138,641	100.0%	$ 27,429,579	$ 102,080

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, 7% 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 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, 2015, the approximate market value of collateral pledged to the Bank in connection with assets purchased under reverse repurchase agreements was $3.9 billion ($3.2 billion as at October 31, 2014).

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 Executive 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 Executive 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

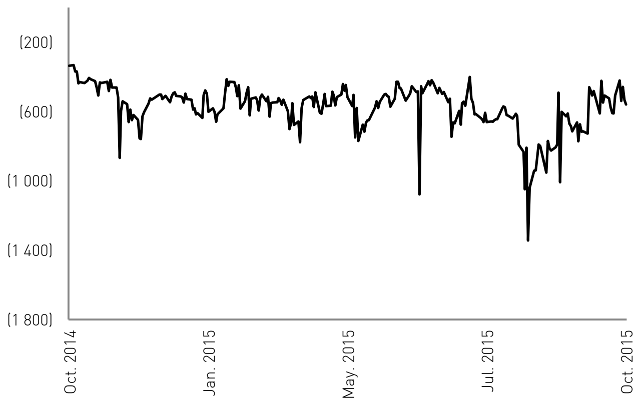
Parallel to VaR calculations, the impact of stress tests on profits and losses is assessed for the trading and investment portfolios and the ensuing results are used to assess the impact of exceptional but plausible market situations. Stress tests constitute a complementary risk measure to VaR and strive to provide an estimate of the worst losses the Bank could incur under multiple scenarios. The Bank's 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 business segment and, to a lesser extent, by the Bank's Corporate Treasury. The graph on the next page presents the daily total VaR of the trading portfolio for the 2015 fiscal year.

DAILY TRADING VaR

For the year ended October 31, 2015 (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 net interest income 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, 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 maintain 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 Executive 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 Executive 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 a sudden parallel and sustained 1% increase and decrease in interest rates. As at October 31, 2015, for all portfolios, a 1% increase in interest rate would have triggered an increase of approximately $17.2 million in net interest income before taxes over the next 12 months and a $26.3 million negative impact on the economic value of common shareholders' equity. As shown in Table 31, sensitivity to sudden changes in interest rates increased slightly year-over-year, reflecting the Bank's effort to benefit from fluctuations in interest rates while maintaining the risk within approved limits.

The Bank remains generally insulated from rapid shifts in interest rates over the long term. However, the timing of Bank of Canada overnight rate changes and ensuing variations in the prime rate and short-term bankers' acceptances (BA) rates can temporarily impact margins. As such, fluctuations in net interest income may occur, but within controlled tolerance margins. Management continues to expect that long term rates will remain within a narrow range for now.

The Bank's interest rate gap position as at October 31, 2015 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 Executive Committee, which include:

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

TABLE 31

SENSITIVITY ANALYSIS OF THE STRUCTURAL INTEREST RATE RISK

As at October 31 (in thousands of Canadian dollars)

	2015		2014	
	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	**$ 17,222**	**$ (26,324)**	$ 10,297	$ (21,990)
Decrease of 100 basis points	**$ (19,954)**	**$ 22,362**	$ (15,793)	$ 22,168

(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 described above. As at October 31, 2015, assets and liabilities denominated in U.S. dollars amounted to $454.9 million ($287.4 million as at October 31, 2014) and $469.8 million ($292.4 million as at October 31, 2014) 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, 2015, 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 in other foreign currencies were essentially denominated in British pounds and euros and amounted to $34.4 million ($21.4 million as at October 31, 2014) and $18.3 million ($16.2 million as at October 31, 2014) 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 and U.S. publicly traded securities and, as a result, portfolio sensitivity generally correlates to the Canadian and U.S. stock markets 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, 2015, a fluctuation in the stock markets of 10% would have had a $18.4 million impact on the Bank's shareholders' equity ($23.1 million as at October 31, 2014).

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 Executive 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 daily 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.

Management monitors cash resources daily and ensures that liquidity indicators are within established limits.It pays particular attention to deposit and loan maturities, as well as to funding availability and demand when planning financing. A reserve of unencumbered liquid assets that are readily available to face contingencies is maintained and constitutes the Bank's liquidity buffer. Cash requirements are based on scenarios evaluating required liquid assets necessary to cover predetermined rates of withdrawal of wholesale financing and retail deposits over specified periods. Management strives to maintain a stable volume of base deposits originating from the Bank's retail, commercial and broker clientele, as well as diversified wholesale financing sources. Limits on funding sources are monitored by the Executive Committee and the Board of Directors. 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 guides the Bank's actions and responses to potential liquidity crises.

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 minimum liquidity measures: the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). The LCR measures the sufficiency of high-quality liquid assets available to meet net short-term financial obligations over a thirty day period in an acute stress scenario. The NSFR measures the proportion of long-term assets which are funded by long-term, stable funding. The Basel III liquidity framework also outlines other supplemental reporting metrics. Further updates regarding the LCR and liquidity risk monitoring tools were also published by the BCBS in 2013 and 2014.

On October 31, 2014, the BCBS issued the *Basel III: the net stable funding ratio (NSFR)* document, which updated the Basel III NSFR and confirmed its effective date of January 2018.

In May 2014, OSFI released a comprehensive domestic *Liquidity Adequacy Requirements (LAR)* Guideline and adopted a minimum LCR requirement of 100% for Canadian banks, effective January 1, 2015. The LAR Guideline also formalized the use of a Net Cumulative Cash Flow (NCCF) supervisory tool.

On July 16, 2014, OSFI issued its LCR disclosure requirements for Domestic Systemically Important Banks (D-SIBs) in Guideline D-11 – *Public Disclosure Requirements for Domestic Systemically Important Banks on Liquidity Coverage Ratio*, which had to be applied as of the second quarter of 2015. As the Bank is not a D-SIB, it is not subject to these disclosure requirements.

The Bank completed the development of the reporting systems regarding these requirements and filed the monthly LCR metric with OSFI as of January 31, 2015, comfortably meeting the minimum requirement. The Bank also reported the NCCF supervisory tool.

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. They are mainly composed of low-credit risk direct investments in or transactions secured by marketable securities issued or guaranteed by the Canadian government, provinces or municipal corporations. As at October 31, 2015, these assets totalled $8.6 billion, an increase of $0.3 billion compared to the level held on October 31, 2014.

The higher level of liquidity reflects deposit gathering from multiple sources and funding from securitization activities used to finance the Bank's 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.

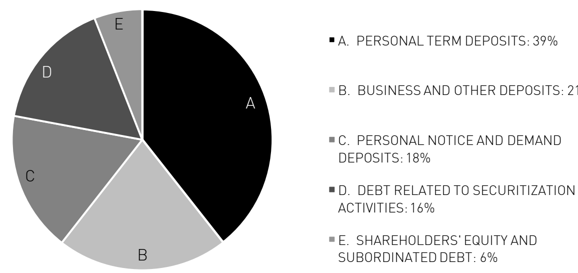
These liquid assets provide the Bank with flexibility to manage its loan and deposit portfolio maturities and commitments, and meet other current operating needs. Management of the liquid assets, both in terms of optimizing levels and mix, contributes significantly to the Bank's results.

Funding

The Bank's lending operations primarily rely on funding from retail deposits, a particularly stable source. The Bank's funding strategy relies on both a well established branch network in Québec and a very efficient pan-Canadian network of independent advisors and brokers managed by B2B Bank. This funding strategy is well aligned with regulatory requirements in the LAR Guideline, which recognizes that retail deposits are the most stable funding source.

The Bank can also 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, 2015 (as a percentage)



Personal deposits

Personal deposits include notice, demand and term deposits sourced through the Bank's retail branch network and B2B Bank's network of independent financial advisors and brokers.
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, which contributes to their stability.

The majority of B2B Bank's deposits are drawn from brokers affiliated to several of the major Canadian banks.

Total personal deposits increased to $19.4 billion as at October 31, 2015, compared with $18.7 billion as at October 31, 2014. As shown in Table 32, the ratio of personal deposits to total deposits decreased slightly to 73% as at October 31, 2015. This reflected the Bank's increased usage of institutional funding in response to strong loan growth during the year. Nonetheless, this ratio remains well above the Canadian average.

Business, banks and other deposits

Deposits from businesses, banks and other increased by $1.4 billion since October 31, 2014 to $7.2 billion as at October 31, 2015. As mentioned, this was mainly due to new deposits raised to support significant loan growth. These deposits contribute to the diversification of the Bank's funding sources and to the active management of its liquidity levels. They are sourced from an institutional clientele and the Bank's network of accounts managers serving commercial clients.

TABLE 32

DEPOSITS

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

	2015		2014	
Personal				
Notice and demand				
Branch network	$ 2,748,671	10.3%	$ 2,626,825	10.7%
Financial intermediaries	3,186,188	12.0	3,150,892	12.8
	5,934,859	22.3	5,777,717	23.5
Term				
Branch network	4,955,879	18.6	5,162,115	21.1
Financial intermediaries	8,486,978	31.9	7,802,149	31.8
	13,442,857	50.5	12,964,264	52.9
	19,377,716	72.8	18,741,981	76.4
Business, banks and other				
Notice and demand	2,499,364	9.4	2,451,698	10.0
Term	4,727,224	17.8	3,329,347	13.6
	7,226,588	27.2	5,781,045	23.6
Deposits	$ 26,604,304	100.0%	$ 24,523,026	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, 2015, additional collateral that would be required in the event of a one to three notch rating downgrade is not significant.

On October 16, 2015, S&P confirmed the Bank's ratings. The outlook on the Bank is stable.

On October 29, 2015, DBRS confirmed the Bank's ratings. All trends are stable.

Table 33 presents the Bank's credit ratings as established by the rating agencies.

TABLE 33

CREDIT RATINGS [1]

As at December 2, 2015

	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 maintain compliance with regulatory requirements.

Table 34 summarizes the remaining contractual maturity for the Bank's significant financial liabilities and other contractual obligations as at October 31, 2015 and 2014. 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, 2015, these commitments amounted to approximately $3.9 billion ($3.8 billion as at October 31, 2014), excluding credit facilities unconditionally revocable at the Bank's option.

TABLE 34

CONTRACTUAL OBLIGATIONS

As at October 31 (in thousands of Canadian dollars)

						2015
		TERM				
	DEMAND AND NOTICE	UNDER 1 YEAR	1 TO 3 YEARS	3 TO 5 YEARS	OVER 5 YEARS	TOTAL
Financial liabilities						
Deposits	$ 8,434,223	$ 7,664,857	$ 7,270,472	$ 3,077,313	$ 157,439	$ 26,604,304
Obligations related to securities sold short	—	1,839,837	—	—	—	1,839,837
Obligations related to securities sold under repurchase agreements	—	2,296,890	—	—	—	2,296,890
Debt related to securitization activities	—	1,516,157	1,647,173	2,153,914	176,358	5,493,602
Subordinated debt	—	250,000	200,000	—	—	450,000
Derivatives[1]	—	7,149	8,157	524	(389)	15,441
	8,434,223	13,574,890	9,125,802	5,231,751	333,408	36,700,074
Other contractual obligations						
Commitments under leases, technology services and other contracts		131,518	182,215	89,760	55,636	459,129
Total	$ 8,434,223	$ 13,706,408	$ 9,308,017	$ 5,321,511	$ 389,044	$ 37,159,203

						2014
		TERM				
	DEMAND AND NOTICE	UNDER 1 YEAR	1 TO 3 YEARS	3 TO 5 YEARS	OVER 5 YEARS	TOTAL
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	—	2,215,965	—	—	—	2,215,965
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	12,758,815	8,198,931	4,052,043	386,591	33,625,795
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	$ 12,882,867	$ 8,398,074	$ 4,150,348	$ 464,925	$ 34,125,629

(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.

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 audit 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. The Operational Risk Management Department will assist the business units and will review 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 prior to 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 risk controls. When necessary, action plans are designed by the business units in order to mitigate any material risks identified; and ensuing risk mitigation measures are 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, the Executive Committee and the Risk Management Committee of the Board. These reports show the Bank's operational risk profile including, among others, data on emerging risks, major incidents and operational loss data.

Corporate insurance

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

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. An Outsourcing Risk Management Policy covering all of the Bank's businesses has been implemented. 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 with applicable laws, regulatory authorities' guidances, public commitments and voluntary codes. The Regulatory Risk Management Policy implements the Bank's Regulatory Risk Management Framework, which includes the following elements:

- Identification of the regulatory requirements applicable to the Bank and regulatory risk assessment ;
- Development, documentation, application of risk mitigation measures and self-assessment of the effectiveness of controls to ensure compliance with regulatory requirements;
- Independent assessment of the effectiveness of controls;
- Identification and reporting of non-compliance issues;
- Reinforcement of controls and correction of non-compliance issues.

Regulatory risk management includes amongst other things, regulatory requirements related to Anti-Money Laundering and Terrorist Activity Financing (AML) and personal information protection, which are governed by specific policies.

The Regulatory Risk Management Committee is responsible to:

- Review, annually, the Regulatory Risk Management Policy and recommend its approval to the Executive Committee;
- Review and comment on the different reports submitted by the EVP, Chief Risk Officer and Corporate Affairs;
- Discuss new regulations and their application with the relevant sectors;
- Review and comment on the different regulatory risk management tools;
- Exchange on internal observations and industry trends, as well as on regulatory risk management best practices to be adopted.

A specific Anti-Money Laundering and Terrorist Financing Program Coordination Committee was also established to oversee applicable requirements. Its responsibilities are similar to those of the Regulatory Risk Management Committee.

Regulatory risk management reports are submitted at least every semester to the Executive Committee and the Risk Management Committee of the Board. The effectiveness of the Regulatory Risk Management Framework and the AML 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 that financial loss may be incurred when restoring the assets of the Bank or those seized from clients to a sound environmental state, or as a result of claims from third parties in relation to the environmental impact of such assets. 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 Executive 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.

TOP RISKS THAT HAVE THE POTENTIAL TO AFFECT THE BANK

As detailed in the following section, the Bank is exposed to a variety of continually changing risks that have the potential to affect its business and financial condition. Top risks that may affect future results are:

- General economic conditions in Canada, including the Canadian household debt;

  The general business and economic conditions are closely tied to the overall performance of the financial industry. The Bank is therefore very sensitive to changes in the Canadian environment, which could impact, among others, anticipated revenue growth and credit losses.

- Execution of the strategic plan;

  The Bank's ability to execute its strategic plan over the next 7 years will be at the forefront of the success its modernization, as well as of its future profitability.

- Technology, information systems and cyber-security.

  The security of the Bank's information and technology infrastructure is crucial for maintaining our banking applications and processes, as well as to keep the trust of clients. Financial institutions, however, continue to be the targets of cyber-attacks which may impact the Bank.

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 other provinces. Consequently, its earnings are particularly sensitive to the business and economic 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. Nonetheless, the Bank is exposed to risks related to cybersecurity and the increasing sophistication of cyber-attacks. Losses related to these evolving risks are mainly related to potential reputational damage, the inappropriate use of confidential information, as well as business operation disruption. Furthermore, such an attack may result in negative consequences, including remediation costs, loss of revenue, additional regulatory scrutiny, litigation and reputational damage.

Strategic Plan

The Bank's ability to meet its objectives and deliver the strategic plan will depend on its capacity to transform the organisation as it rebuilds its account management platform and modernizes its retail distribution network while maintaining a high level of service to customers and protecting profitability.

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 validates its models on a regular basis to ensure that they incorporate current trends.

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, 2015, 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, 2015, 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 2013 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, 2015, 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 39 of this MD&A.

This critical accounting estimate affects all business segments.

Impairment of 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: 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 in 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.

GOODWILL, OTHER INTANGIBLE ASSETS AND OTHER ASSETS

Goodwill

As at October 31, 2015, the balance of goodwill stood at $34.9 million, compared with $64.1 million as at October 31, 2014. Goodwill is subject to an impairment test at least 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. 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. The impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the CGU proportionally based on the carrying amount of each asset. 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.

Goodwill acquired through business combinations had been allocated to two cash-generating units (CGUs): the Retail unit (a part of the Personal & Commercial business segment, which encompasses all branch activities and other retail banking activities in Québec) and the B2B Bank business segment.

Following the comprehensive strategic review of its retail activities completed during the fourth quarter of 2015, Management revised its expectations concerning the perspectives of the Retail unit given its current business model. This change in expectation was identified as an indicator of impairment and the recoverable amount of the Retail unit was therefore reviewed for impairment. Based on adjusted forecasts, Management determined that the carrying amount of the Retail unit exceeded the estimate of its recoverable amount. As a result, an impairment charge of $72.2 million, affecting the Retail unit, was recorded for the year ended October 31, 2015 on the line item Impairment of goodwill, software and intangible assets, and premises and equipment. This charge reduced the carrying amount of the Retail unit's goodwill from $29.2 million to zero and further reduced the value of other assets by $43.0 million.

The recoverable amount of the Retail unit CGU was estimated using a value in use calculation that was primarily based on the three-year business plan. In addition, a net income growth rate of 3% was applied to the terminal forecast year and all forecasted cash flows were discounted at an after-tax rate of 10%. Management considers that these estimates are reasonable. They reflect management's best estimates but include inherent uncertainties that are not under its control.

A 10% decrease in projected net income growth rates would have resulted in a reduction in the estimated recoverable amount of the Retail unit of approximately $11.9 million as at October 31, 2015. Also, a 25 basis point increase in the after-tax discount rate would have resulted in a reduction in the estimated recoverable amount of approximately $11.1 million at that same date. These sensitivities are indicative only and should be considered with caution, as the effect of the variation in each assumption on the estimated recoverable amount is calculated in isolation without changing any other assumptions. Reductions in the estimated recoverable amount of Retail unit could result in additional impairment charges in future periods.

This charge affects the Personal & Commercial business segment.

As at October 31, 2015, goodwill of $34.9 million was allocated to the B2B Bank business segment, unchanged compared with October 31, 2014. The recoverable amount of the B2B Bank business segment was estimated using a value in use calculation that was primarily based on the three-year business plan. In addition, a net income growth rate of 3% was applied to the terminal forecast year and all forecasted cash flows were discounted at an after-tax rate of 10%. Management considers that these estimates are reasonable. They reflect management's best estimates but include inherent uncertainties that are not under its control. Management determined that for the impairment testing, the estimated recoverable amount of the B2B Bank business segment CGU was in excess of its carrying amount. As a result, no impairment charge was recognized during 2015. If alternative reasonably possible changes in key assumptions were applied, the result of the impairment test would not differ.

No impairment charge was reported in fiscal 2014.

Refer to Note 10 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. Changes in estimates and assumptions could significantly impact results.

As a result of the impairment test of the Retail unit CGU, impairment charges amounting to $30.0 million and $3.1 million respectively were recorded on software and other intangible assets related to this CGU. Other impairment charges on intangible assets of $1.5 million were recorded in 2015 ($3.4 million in 2014).

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.

As a result of the impairment test of the Retail unit CGU, an impairment charge amounting to $9.9 million was recorded on premises and equipment related to this CGU. Other impairment charges amounting to $0.3 million were recorded in 2015 ($0.4 million in 2014).

Refer to Notes 8 to 10 to the annual consolidated financial statements for additional information.

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 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 are determined by management requiring 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 4.30% as at October 31, 2015 and 4.25% as at October 31, 2014. 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 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.

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, revenue from contracts with customers and presentation of financial statements, which were not yet effective for the year ended October 31, 2015. Management is also monitoring the proposed changes to the lease accounting standard which should be finalized in 2015. These future accounting changes will be applicable for the Bank in various annual periods beginning on November 1, 2016 at the earliest.

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 presently assessing the impact of the adoption of IFRS 9, *Financial Instruments,* which is effective for annual periods beginning on or after January 1, 2018.

A project team has been set-up to coordinate and execute the conversion to IFRS 9. The conversion plan includes the following phases:

- Preliminary assessment – This phase is mostly completed and served to heighten management's awareness of the key conversion issues. It also established a timeline mapping out the Bank's priorities with regard to analyses and significant issues.
- Detailed analysis – This phase has started and should continue throughout 2016. The detailed analysis will determine the quantitative, qualitative and technological impact of the new IFRS requirements.
- Implementation – This phase will gradually begin as the detailed analyses are completed toward the end of 2016. It will mainly consist in: determining the new accounting policies; implementing the necessary changes to information systems and processes; implementing internal control over financial reporting; and developing communication plans for stakeholders.

Based on the preliminary assessment, 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. IFRS 15 is effective for annual periods beginning on or after January 1, 2018.

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LAURENTIAN BANK OF CANADA CONSOLIDATED FINANCIAL STATEMENTS

AS AT OCTOBER 31, 2015 AND 2014

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 operational 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 (OSFI) 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, OSFI 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 included 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.

François Desjardins
President and
Chief Executive Officer

François Laurin, FCPA, FCA
Executive Vice President and
Chief Financial Officer

Montréal, Canada
December 9, 2015

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, 2015 and 2014, and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years ended October 31, 2015 and 2014, 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, 2015 and 2014, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP[1]

Montréal, Canada
December 9, 2015

[1] CPA auditor, CA public accountancy permit no. A109499

CONSOLIDATED BALANCE SHEET [1]

As at October 31 (in thousands of Canadian dollars)	Notes	2015	2014
ASSETS			
Cash and non-interest bearing deposits with other banks		$ 109,055	$ 126,247
Interest-bearing deposits with other banks		91,809	122,608
Securities	5, 7 and 29		
Available-for-sale		2,368,757	2,577,017
Held-to-maturity		393,222	323,007
Held-for-trading		1,725,378	1,980,436
		4,487,357	4,880,460
Securities purchased under reverse repurchase agreements	29	3,911,439	3,196,781
Loans	6, 7 and 29		
Personal		7,063,229	6,793,078
Residential mortgage		16,192,009	14,825,541
Commercial mortgage		3,055,619	2,651,271
Commercial and other		3,308,144	2,794,232
Customers' liabilities under acceptances		473,544	365,457
		30,092,545	27,429,579
Allowances for loan losses		(111,153)	(119,371)
		29,981,392	27,310,208
Other			
Derivatives	26	276,601	132,809
Premises and equipment	8	45,562	68,750
Software and other intangible assets	9	147,135	207,188
Goodwill	10	34,853	64,077
Deferred tax assets	19	17,450	7,936
Other assets	11	556,851	365,721
		1,078,452	846,481
		$ 39,659,504	$ 36,482,785
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits	12		
Personal		$ 19,377,716	$ 18,741,981
Business, banks and other		7,226,588	5,781,045
		26,604,304	24,523,026
Other			
Obligations related to securities sold short		1,839,837	1,562,477
Obligations related to securities sold under repurchase agreements		2,296,890	2,215,965
Acceptances		473,544	365,457
Derivatives	26	125,683	90,840
Deferred tax liabilities	19	8,294	10
Other liabilities	13	780,682	869,029
		5,524,930	5,103,778
Debt related to securitization activities	7 and 14	5,493,602	4,863,848
Subordinated debt	15	449,641	447,523
Shareholders' equity			
Preferred shares	16	219,633	219,633
Common shares	16	466,336	465,854
Retained earnings		886,656	848,905
Accumulated other comprehensive income		14,366	10,127
Share-based payment reserve	17	36	91
		1,587,027	1,544,610
		$ 39,659,504	$ 36,482,785

[1]Comparative figures reflect the adoption of the amendments to IAS 32, *Financial Instruments: Presentation*. 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

François Desjardins
President and Chief Executive Officer

CONSOLIDATED STATEMENT OF INCOME

For the years ended October 31 (in thousands of Canadian dollars, except per share amounts)	Notes	2015	2014
Interest income			
Loans		$ 1,034,117	$ 1,056,637
Securities		40,144	40,753
Deposits with other banks		793	751
Other, including derivatives		66,104	47,080
		1,141,158	1,145,221
Interest expense			
Deposits		435,533	449,101
Debt related to securitization activities		113,102	118,269
Subordinated debt		16,094	16,071
Other		1,346	800
		566,075	584,241
Net interest income		575,083	560,980
Other income			
Fees and commissions on loans and deposits		141,589	141,849
Income from brokerage operations		63,294	63,640
Income from sales of mutual funds		38,811	29,228
Income from investment accounts		30,202	31,658
Income from treasury and financial market operations		23,365	16,138
Insurance income, net	28	16,903	19,246
Other		7,879	11,326
		322,043	313,085
Total revenue		897,126	874,065
Amortization of net premium on purchased financial instruments and revaluation of contingent consideration	30	5,999	9,653
Provision for loan losses	6	34,900	42,000
Non-interest expenses			
Salaries and employee benefits		346,387	340,394
Premises and technology		199,843	186,671
Other		104,368	101,383
Impairment of goodwill, software and intangible assets, and premises and equipment	10	72,226	—
Costs related to business combinations	30	—	12,861
		722,824	641,309
Income before income taxes		133,403	181,103
Income taxes	19	30,933	40,738
Net income		$ 102,470	$ 140,365
Preferred share dividends, including applicable taxes		9,602	10,985
Net income available to common shareholders		$ 92,868	$ 129,380
Average number of common shares outstanding (in thousands)			
Basic		28,949	28,724
Diluted		28,955	28,732
Earnings per share	20		
Basic		$ 3.21	$ 4.50
Diluted		$ 3.21	$ 4.50
Dividends declared per share			
Common share		$ 2.20	$ 2.06
Preferred share - Series 10		n.a.	$ 0.98
Preferred share - Series 11		$ 1.00	$ 1.00
Preferred share - Series 13		$ 1.08	$ 0.48

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the years ended October 31 (in thousands of Canadian dollars)	2015	2014
Net income	**$ 102,470**	$ 140,365
Other comprehensive income, net of income taxes		
Items that may subsequently be reclassified to the statement of income		
Unrealized net (losses) gains on available-for-sale securities, net of tax recovery of $7,719 (expense of $3,151 in 2014)	**(21,028)**	9,078
Reclassification of net gains on available-for-sale securities to net income, net of tax of $1,433 ($2,646 in 2014)	**(3,700)**	(5,277)
Net change in value of derivatives designated as cash flow hedges, net of tax of $10,570 ($304 in 2014)	**28,967**	802
	4,239	4,603
Items that may not subsequently be reclassified to the statement of income		
Actuarial gains on employee benefit plans, net of tax of $3,145 ($1,633 in 2014)	**8,574**	4,732
Comprehensive income	**$ 115,283**	$ 149,700

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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended October 31, 2015

(in thousands of Canadian dollars)	Preferred shares (Note 16)	Common shares (Note 16)	Retained earnings	Accumulated Other Comprehensive Income: Available-for-sale securities	Accumulated Other Comprehensive Income: Cash flow hedges	Accumulated Other Comprehensive Income: Total	Share-based payment reserve (Note 17)	Total shareholders' equity
Balance as at October 31, 2014	$ 219,633	$ 465,854	$ 848,905	$ 13,337	$ (3,210)	$ 10,127	$ 91	$ 1,544,610
Net income			**102,470**					**102,470**
Other comprehensive income (net of income taxes)								
Unrealized net losses on available-for-sale securities				**(21,028)**		**(21,028)**		**(21,028)**
Reclassification of net gains on available-for-sale securities to net income				**(3,700)**		**(3,700)**		**(3,700)**
Net change in value of derivatives designated as cash flow hedges					**28,967**	**28,967**		**28,967**
Actuarial gains on employee benefit plans			**8,574**					**8,574**
Comprehensive income			**111,044**	**(24,728)**	**28,967**	**4,239**		**115,283**
Issuance of share capital		**482**					**(55)**	**427**
Dividends								
Preferred shares, including applicable taxes			**(9,602)**					**(9,602)**
Common shares			**(63,691)**					**(63,691)**
Balance as at October 31, 2015	**$ 219,633**	**$ 466,336**	**$ 886,656**	**$ (11,391)**	**$ 25,757**	**$ 14,366**	**$ 36**	**$ 1,587,027**

For the year ended October 31, 2014

(in thousands of Canadian dollars)	Preferred shares (Note 16)	Common shares (Note 16)	Retained earnings	Accumulated Other Comprehensive Income: Available-for-sale securities	Accumulated Other Comprehensive Income: Cash flow hedges	Accumulated Other Comprehensive Income: Total	Share-based payment reserve (Note 17)	Total shareholders' equity
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

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	2015	2014
Cash flows relating to operating activities			
Net income		$ 102,470	$ 140,365
Adjustments to determine net cash flows relating to operating activities:			
Provision for loan losses		34,900	42,000
Net gain on disposal of available-for-sale securities		(8,253)	(8,290)
Deferred income taxes		(9,077)	2,681
Impairment of goodwill, software and intangible assets, and premises and equipment	10	72,226	—
Depreciation of premises and equipment		14,125	16,107
Amortization of software and other intangible assets		38,657	39,509
Gain on sale of commercial mortgage loans	7	—	(3,686)
Revaluation of contingent consideration		—	4,100
Change in operating assets and liabilities :			
Loans		(2,090,419)	(340,032)
Securities at fair value through profit and loss		255,058	172,148
Securities purchased under reverse repurchase agreements		(714,658)	(964,728)
Accrued interest receivable		5,276	(3,740)
Derivative assets		(143,792)	(6,192)
Deposits		2,081,278	595,676
Obligations related to securities sold short		277,360	98,208
Obligations related to securities sold under repurchase agreements		80,925	862,565
Accrued interest payable		(54,394)	(13,424)
Derivative liabilities		34,843	(11,201)
Other, net		(173,416)	802
		(196,891)	622,868
Cash flows relating to financing activities			
Change in acceptances		108,087	94,408
Change in debt related to securitization activities		629,754	(110,866)
Net proceeds from issuance of preferred shares	16	—	122,071
Repurchase of preferred shares	16	—	(110,000)
Net proceeds from issuance of common shares	16	387	72
Dividends		(73,025)	(60,803)
		665,203	(65,118)
Cash flows relating to investing activities			
Change in available-for-sale securities			
Acquisitions		(1,970,989)	(3,339,421)
Proceeds on sale and at maturity		2,152,640	2,454,227
Change in held-to-maturity securities			
Acquisitions		(272,403)	(336,335)
Proceeds at maturity		202,188	662,202
Proceeds on sale of commercial mortgage loans	7	—	106,084
Acquisition of a portfolio of investment loans	6	(613,120)	—
Additions to premises and equipment and software		(14,619)	(64,490)
Change in interest-bearing deposits with other banks		30,799	3,394
		(485,504)	(514,339)
Net change in cash and non-interest-bearing deposits with other banks		(17,192)	43,411
Cash and non-interest-bearing deposits with other banks at beginning of year		126,247	82,836
Cash and non-interest-bearing deposits with other banks at end of year		$ 109,055	$ 126,247
Supplemental disclosure about cash flows relating to operating activities:			
Interest paid during the year		$ 619,108	$ 603,473
Interest received during the year		$ 1,129,223	$ 1,129,180
Dividends received during the year		$ 15,111	$ 8,985
Income taxes paid during the year		$ 45,041	$ 19,884

[1] Comparative figures reflect the adoption of the amendments to IAS 32, *Financial Instruments: Presentation*. 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, 2015 and 2014
[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, 2015 were approved for issuance by the Board of Directors on December 9, 2015.

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

The Bank consolidates 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.

Subsidiaries

These consolidated financial statements include the assets, liabilities and operating results of the Bank and all of its consolidated entities 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 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	**Laurentian Bank Securities Inc.**
B2B Bank Financial Services Inc.	Laurentian Capital (USA) 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.**
LBC Trust	

Structured entities

The Bank also consolidates structured entities when applicable consolidation criteria are met. Accordingly, the Bank 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]

Associates

Entities over which the Bank has significant influence are associates and are accounted for using the equity method of accounting. Significant influence is the power to participate in the financial and operating policy decisions of an investee, but is not control or joint control over this entity. Investments in associates are accounted for initially at cost and increased or decreased to recognize the Bank's share of the profit or loss of the associate, capital transactions, including the receipt of any dividends, and write-downs to reflect impairment in the value of such entities. These increases or decreases, together with any gains and losses realized on disposition, are reported on the Consolidated Statement of Income. The Bank's 50% participation in Verico Financial Group Inc., a mortgage broker company operating in Canada, is accounted for under this method.

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 controlled, reviewed and consistently applied over time. Management believes that the estimates of the value of the Bank's assets and liabilities are appropriate.

Notes 3 and 23 detail 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.

Other financial assets
Financial assets classified in the available-for-sale and held-to-maturity categories are monitored 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.

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.

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.

2. BASIS OF PRESENTATION [CONT'D]

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.

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.

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

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, 2015 and 2014, 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, credit spreads, 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.

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. Subsequently, the agreements are measured at amortized cost using the effective interest method and are classified as loans and receivables. Interest income is allocated over the expected term of the agreement by applying the effective interest rate to the carrying amount of the asset.

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. Subsequently, the agreements are measured at amortized cost using the effective interest method and are classified as other financial liabilities. Interest expense is allocated over the expected term of the agreement by applying the effective interest rate to the carrying amount of the liability.

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.

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

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 restructure an impaired loan. 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.

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 to determine whether there is any objective evidence that they are impaired.

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

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 loss events that occurred after the initial recognition of the asset which have an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

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.

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

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.

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 and foreign exchange contracts 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. A corresponding adjustment to the carrying amount of the hedged item in the consolidated balance sheet is also recorded, except for hedges of available-for-sale equity securities, where the adjustment is recognized in accumulated other comprehensive income. 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 financial 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 financial 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 financial 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. In all other situations, financial assets and liabilities are presented on a gross basis.

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.

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. 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.

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

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 in the consolidated statement of income under net interest income 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. Depreciation of premises and equipment is recorded in the consolidated statement of income under the Premises and technology line-item. 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.

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 the premises and technology line-item. 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 projects 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

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 a compensation expense as services are rendered by employees.

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.

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.

Funding is generally provided by the Bank.

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.

Funding is generally provided by both the Bank and the participating employees of the plans.

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.

Funding is generally provided by the Bank and the participating employees of the 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

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 COMPENSATION

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.

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. Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rates prevailing at the consolidated balance sheet date. Non-monetary assets and liabilities are translated at historical exchange rates. 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 except for available-for-sale equity securities not designated in fair value hedges, where unrealized translation gains and losses are recorded in other comprehensive income until the asset is sold or becomes impaired.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

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 32: ***Financial instruments: presentation***

As of November 1, 2014, the Bank adopted the amendments to IAS 32, *Financial Instruments: Presentation*, which clarified requirements for offsetting financial instruments. These amendments have been applied retrospectively by the Bank as of November 1, 2013. As a result, certain securities purchased under reverse repurchase agreements and related obligations that were previously offset on the balance sheet, are now presented on a gross basis. As at October 31, 2014, the adoption of these amendments increased Securities purchased under reverse repurchase agreements and Obligations related to securities sold under repurchase agreements by $1.6 billion ($1.0 billion as at November 1, 2013). This restatement increased total assets and total liabilities and had no impact on the Bank's comprehensive income, shareholders' equity or cash flows.

IFRIC 21: ***Levies***

As of November 1, 2014 the Bank adopted IFRIC 21, *Levies*. IFRIC 21 provides guidance on when to recognize a liability to pay a levy imposed by government, in accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. This standard has been applied retrospectively as of November 1, 2013 and did not have any significant impact on the Bank's financial position or results.

IAS 39: ***Financial instruments: recognition and measurement***

As of November 1, 2014 the Bank adopted an amended version of IAS 39, *Financial Instruments: Recognition and Measurement*. The amendments to IAS 39 provides relief from discontinuing hedge accounting when novation of a derivative designated as a hedge accounting instrument meets certain criteria. These amendments have been applied retrospectively by the Bank as of November 1, 2013 and did not have any impact on the Bank's financial position or results.

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*. 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. The final version supersedes all previous versions of IFRS 9 and is effective for annual periods beginning on or after January 1, 2018. Earlier application of IFRS 9 is permitted.

In January 2015, OSFI issued the final version of the *Advisory on the Early Adoption of IFRS 9, Financial Instruments for Domestic Systemically Important Banks (D-SIBs)*. The Advisory outlines OSFI's expectation that D-SIBs will adopt IFRS 9 for their annual period beginning on November 1, 2017. All other Federally Regulated Entities using an October 31 year-end are permitted to adopt IFRS 9 on November 1, 2017, but are not required to do so. As the Bank has not been designated as a D-SIB, the Bank is assessing the option to early adopt IFRS 9.

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 that must be applied to all financial assets classified at amortized cost or fair value through other comprehensive income. Specifically, IFRS 9 requires entities to recognize 12-month expected credit losses from the date a financial asset is first recognized and to recognize lifetime expected credit losses if the credit risk on that financial asset has increased significantly since initial recognition. The new model is accompanied by enhanced disclosures about expected credit losses and credit risk.

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

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 presently available under IAS 39 (fair value, cash flow and net investment hedges), but includes changes to hedge effectiveness testing. The new standard also requires enhanced disclosures about risk management activities.

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. In July 2015, the IASB decided to defer the effective date of IFRS 15 by one year. Accordingly, entities will apply IFRS 15 for annual periods beginning on or after January 1, 2018, which will be November 1, 2018 for the Bank.

IFRS 10: *Consolidated Financial Statements*, IFRS 12: *Disclosure of Interests in Other Entities* and IAS 28: *Investments in Associates and Joint Ventures*

In December 2014, the IASB issued amendments to IFRS 10, *Consolidated Financial Statements*, IFRS 12, *Disclosure of Interests in Other Entities* and IAS 28 *Investments in Associates and Joint Ventures*, which address issues that have arisen in the application of the investment entities consolidation exception. The amendments are effective for annual periods beginning on or after January 1, 2016, which will be November 1, 2016 for the Bank.

IAS 1: *Presentation of Financial Statements*

In December 2014, the IASB issued amendments to IAS 1, *Presentation of Financial Statements* to further encourage entities to apply professional judgement in determining what information to disclose and how to structure it in their financial statements. The amendments are effective for annual periods beginning on or after January 1, 2016, which will be November 1, 2016 for the Bank.

5. SECURITIES

MATURITY SCHEDULE OF SECURITIES

					2015	2014
	Within 1 year	**1 to 5 years**	**Over 5 years**	**No specific maturity**	**Total**	Total
Portfolio of available-for-sale securities						
Securities issued or guaranteed						
by Canada[1]	**$ 777,021**	**$ 8,564**	**$ —**	**$ —**	**$ 785,585**	$ 1,129,328
by provinces	**753,287**	**421,139**	**—**	**—**	**1,174,426**	1,042,133
Other debt securities	**15,879**	**105,175**	**29,192**	**—**	**150,246**	180,964
Asset-backed securities	**20,786**	**9,065**	**3,843**	**—**	**33,694**	39,774
Preferred shares	**787**	**7**	**18**	**104,166**	**104,978**	100,059
Common shares and other securities	**—**	**—**	**—**	**119,828**	**119,828**	84,759
	$ 1,567,760	**$ 543,950**	**$ 33,053**	**$ 223,994**	**$ 2,368,757**	$ 2,577,017
Portfolio of held-to-maturity securities						
Securities issued or guaranteed by Canada[1]	**$ 393,222**	**$ —**	**$ —**	**$ —**	**$ 393,222**	$ 323,007

(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.

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.

	2015	2014
Realized net gains	**$ 8,253**	$ 8,290
Write-downs for impairment	**(3,120)**	(367)
	$ 5,133	$ 7,923

5. SECURITIES [CONT'D]

Accumulated unrealized gains and losses recognized in other comprehensive income on the portfolio of available-for-sale securities as at October 31.

								2015
		Amortized cost		**Unrealized gains**		**Unrealized losses**		**Fair value**
Securities issued or guaranteed								
by Canada[1]	$	**785,445**	$	**154**	$	**14**	$	**785,585**
by provinces		**1,173,156**		**2,185**		**915**		**1,174,426**
Other debt securities		**146,449**		**4,129**		**332**		**150,246**
Asset-backed securities		**32,945**		**749**		**—**		**33,694**
Preferred shares		**120,511**		**164**		**15,697**		**104,978**
Common shares and other securities		**120,718**		**3,851**		**4,741**		**119,828**
	$	**2,379,224**	$	**11,232**	$	**21,699**	$	**2,368,757**

								2014
		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*.

Refer to Note 23 for additional information on the determination of fair value of securities.

6. LOANS

LOANS AND IMPAIRED LOANS

												2015
							Collective allowances					
		Gross amount of loans		**Gross amount of impaired loans**		**Individual allowances**		**Against impaired loans**		**Against other loans**		**Total allowances**
Personal	$	**7,063,229**	$	**18,703**	$	**—**	$	**11,156**	$	**27,575**	$	**38,731**
Residential mortgage		**16,192,009**		**33,794**		**—**		**4,721**		**8,912**		**13,633**
Commercial mortgage		**3,055,619**		**48,397**		**9,536**		**265**		**12,435**		**22,236**
Commercial and other[1]		**3,781,688**		**37,747**		**14,154**		**2,534**		**19,865**		**36,553**
	$	**30,092,545**	$	**138,641**	$	**23,690**	$	**18,676**	$	**68,787**	$	**111,153**

												2014
							Collective allowances					
		Gross amount of loans		Gross amount of impaired loans		Individual allowances		Against impaired loans		Against other loans		Total allowances
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

(1) Including customers' liabilities under acceptances for an amount of $473.5 million ($365.5 million as at October 31, 2014).

6. LOANS [CONT'D]

Loan purchase

During the year, the Bank purchased an investment loan portfolio for a cash consideration of $613.1 million. This portfolio is part of the B2B Bank segment's assets.

Foreclosed assets

Held-for-sale assets acquired in 2015 with respect to impaired loans which are managed for sale in an orderly manner amounted to $8.9 million ($3.3 million in 2014). There were no individual allowances with regards to these loans prior to foreclosure.

INDIVIDUAL ALLOWANCES FOR LOAN LOSSES

				2015	2014
	Commercial mortgage loans	Commercial and other loans[1]	Total individual allowances	Total individual allowances
Balance at beginning of year	$ 3,917	$ 18,034	$ 21,951	$ 34,266
Provision for loan losses recorded in the consolidated statement of income	8,583	2,103	10,686	(3,970)
Write-offs[2]	(2,922)	(6,303)	(9,225)	(8,264)
Recoveries	—	521	521	79
Interest accrued on impaired loans	(42)	(201)	(243)	(160)
Balance at end of year	$ 9,536	$ 14,154	$ 23,690	$ 21,951

(1) Including customers' liabilities under acceptances.
(2) No restructured loans were written off during the fiscal years ended October 31, 2015 and 2014.

COLLECTIVE ALLOWANCES FOR LOAN LOSSES
Collective allowances against impaired loans

					2015	2014
	Personal loans	Residential mortgage loans	Commercial mortgage loans	Commercial and other loans[1]	Total collective allowances	Total collective allowances
Balance at beginning of year	$ 9,425	$ 3,964	$ 1,884	$ 1,965	$ 17,238	$ 12,049
Provision for loan losses recorded in the consolidated statement of income	31,088	4,394	(742)	869	35,609	35,063
Write-offs[2]	(36,067)	(2,520)	—	(19)	(38,606)	(35,180)
Recoveries	7,145	(408)	—	—	6,737	6,613
Interest accrued on impaired loans	(435)	(709)	(877)	(281)	(2,302)	(1,307)
Balance at end of year	$ 11,156	$ 4,721	$ 265	$ 2,534	$ 18,676	$ 17,238

(1) Including customers' liabilities under acceptances.
(2) No restructured loans were written off during the fiscal years ended October 31, 2015 and 2014.

Collective allowances against other loans

					2015	2014
	Personal loans	Residential mortgage loans	Commercial mortgage loans	Commercial and other loans[1]	Total collective allowances	Total collective allowances
Balance at beginning of year	$ 28,986	$ 7,612	$ 20,736	$ 22,848	$ 80,182	$ 69,275
Provision loan losses recorded in the consolidated statement of income	(1,411)	1,300	(8,301)	(2,983)	(11,395)	10,907
Balance at end of year	$ 27,575	$ 8,912	$ 12,435	$ 19,865	$ 68,787	$ 80,182

(1) Including customers' liabilities under acceptances.

An allowance for undrawn amounts under approved credit facilities is also recorded in other liabilities and amounted to $5.1 million as at October 31, 2015 ($7.4 million as at October 31, 2014).

6. LOANS [CONT'D]

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.

				2015
	1 day– 31 days	**32 days– 90 days**	**Over 90 days**	**Total**
Personal loans	**$ 104,407**	**$ 28,609**	**$ 9,944**	**$ 142,960**
Residential mortgages	**289,611**	**38,029**	**29,628**	**357,268**
	$ 394,018	**$ 66,638**	**$ 39,572**	**$ 500,228**

				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

7. TRANSFER OF FINANCIAL ASSETS

7.1 LOAN SECURITIZATION

The Bank securitizes residential mortgage loans primarily by participating in the Canada Mortgage Bond (CMB) program 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 related to the transferred mortgage loans, these are not derecognized and the securitization proceeds are recorded as securitization liabilities.

National Housing Act mortgage-backed securities and Canada Mortgage Bond programs

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). Through the CMB program, the NHA MBS may be sold to a special purpose trust set-up by the CMHC, the Canada Housing Trust (CHT), which finances the purchases by issuing CMHC guaranteed CMB. The Bank will also hold NHA-MBS, which can be pledged or subsequently sold.

NHA MBS are amortizing assets that pay back principal and interest cash flows on a monthly basis, while 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, 2015, the notional amount of these swaps was $4.8 billion ($4.3 billion as at October 31, 2014).

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. The Replacement Assets are also recorded on balance sheet. These assets are considered pledged assets. Interest income is accrued on these assets as for the Bank's other similar assets. 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.

7. TRANSFER OF FINANCIAL ASSETS [CONT'D]

Multi-seller conduit

As part of transactions with a multi-seller conduit, the Bank sells mortgage loans to a trust established for the limited purpose of securitization activities. The trust funds 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 trust, as well as to reduce the risk related to the timing of the collection of cash flows related to the mortgage loans, the trust enters into swap agreements with a third party swap counterparty. Under the swap agreements, the swap counterparty receives the monthly interest flows from the mortgage loans and in return provides the trust with the regular interest payments required to pay out to investors under the terms of the asset-backed commercial paper. Simultaneously, the swap counterparty concludes 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, 2015, the notional amount of these swaps was $0.6 billion ($0.5 billion as at October 31, 2014).

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 trust, these are considered pledged assets. Interest income is accrued on these loans as for the Bank's other mortgage loans. The trust has no recourse to other assets of the Bank in the event of failure of debtors to pay when due, except as noted below.

Debt related to securitization activities

As these securitization transactions do not meet derecognition criteria, the proceeds received are recorded as a debt related to a multi-seller conduit 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 trust 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 $309.1 million as at October 31, 2015 ($354.6 million as at October 31, 2014).

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.

					2015
	Within 1 year	**1 to 5 years**	**Over 5 years**	**Total carrying amount**	**Fair value**
Residential mortgage loans	**$ 2,026,974**	**$ 2,527,294**	**$ 4,209**	**$ 4,558,477**	**$ 4,589,435**
Replacement Assets					
Cash and deposits with other banks	**13,463**	**—**	**—**	**13,463**	**13,463**
Securities purchased under reverse repurchase agreements	**397,169**	**—**	**—**	**397,169**	**397,169**
Other securities	**393,222**	**—**	**—**	**393,222**	**393,322**
Debt related to securitization activities	**$ (1,516,157)**	**$ (3,801,087)**	**$ (176,358)**	**$ (5,493,602)**	**$ (5,520,176)**

		2014
	Total carrying amount	Fair value
Residential mortgage loans	$ 4,341,612	$ 4,370,324
Replacement Assets		
Cash and deposits with other banks	14,372	14,372
Securities purchased under reverse repurchase agreements	106,489	106,489
Other securities	323,007	323,403
Debt related to securitization activities	$ (4,863,848)	$ (4,913,573)

7. TRANSFER OF FINANCIAL ASSETS [CONT'D]

The following table summarizes the securitization activities carried out by the Bank.

	2015	2014
Carrying amounts of mortgages transferred during the year related to new financing	**$ 1,298,644**	$ 1,028,779
Carrying amounts of mortgages transferred during the year as Replacement Assets	**$ 460,825**	$ 404,768

7.2 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 $328.7 million at the end of fiscal 2015 ($224.1 million in 2014). The Bank is not exposed to any credit risk under the servicing agreements in respect of these loans.

7.3 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 and recognized a $3.7 million gain in other income. No such sale occurred in 2015.

8. PREMISES AND EQUIPMENT

The following table presents changes in the Bank's premises and equipment.

	Premises and leasehold improvements	Equipment and furniture	Computer hardware	Total
Cost				
As at October 31, 2013	$ 71,890	$ 27,876	$ 54,040	$ 153,806
Additions	6,552	4,169	1,254	11,975
Fully depreciated assets and impairment	(180)	(250)	(4,270)	(4,700)
As at October 31, 2014	78,262	31,795	51,024	161,081
Additions	**698**	**618**	**149**	**1,465**
Impairment and disposals	**(8,522)**	**(370)**	**(8,790)**	**(17,682)**
As at October 31, 2015	**$ 70,438**	**$ 32,043**	**$ 42,383**	**$ 144,864**
Accumulated depreciation				
As at October 31, 2013	$ 29,574	$ 19,687	$ 31,284	$ 80,545
Depreciation	6,164	3,208	6,735	16,107
Fully depreciated assets and impairment	(66)	(205)	(4,050)	(4,321)
As at October 31, 2014	35,672	22,690	33,969	92,331
Depreciation	**5,064**	**2,992**	**6,069**	**14,125**
Impairment and disposals	**(635)**	**(320)**	**(6,199)**	**(7,154)**
As at October 31, 2015	**$ 40,101**	**$ 25,362**	**$ 33,839**	**$ 99,302**
Carrying amount				
As at October 31, 2014	$ 42,590	$ 9,105	$ 17,055	$ 68,750
As at October 31, 2015	**$ 30,337**	**$ 6,681**	**$ 8,544**	**$ 45,562**

Premises and equipment include $0.1 million ($0.4 million in 2014) pertaining to premises under construction yet to be amortized.

As part of its annual impairment test on goodwill, the Bank determined that its Retail unit CGU was impaired. As a result, an impairment charge amounting to $9.9 million was recorded on premises and equipment related to this CGU; refer to note 10 for further detail. Other impairment charges amounting to $0.3 million were also recorded in 2015 ($0.4 million in 2014).

9. SOFTWARE AND OTHER INTANGIBLE ASSETS

	Software	Other intangible assets	Total
Cost			
As at October 31, 2013	$ 340,170	$ 40,006	$ 380,176
Additions	43,364	9,151	52,515
Fully amortized assets and impairment	(43,039)	(140)	(43,179)
As at October 31, 2014	340,495	49,017	389,512
Additions	**11,862**	**1,292**	**13,154**
Impairment	**(62,902)**	**(3,065)**	**(65,967)**
As at October 31, 2015	**$ 289,455**	**$ 47,244**	**$ 336,699**
Accumulated amortization			
As at October 31, 2013	$ 175,893	$ 6,689	$ 182,582
Amortization	35,903	3,606	39,509
Fully amortized assets and impairment	(39,767)	—	(39,767)
As at October 31, 2014	172,029	10,295	182,324
Amortization	**35,386**	**3,271**	**38,657**
Impairment	**(31,417)**	**—**	**(31,417)**
As at October 31, 2015	**$ 175,998**	**$ 13,566**	**$ 189,564**
Carrying amount			
As at October 31, 2014	$ 168,466	$ 38,722	$ 207,188
As at October 31, 2015	**$ 113,457**	**$ 33,678**	**$ 147,135**

Software and other intangible assets include $20.0 million ($35.3 million in 2014) 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.

As part of its annual impairment test on goodwill, the Bank determined that its Retail unit CGU was impaired. As a result, impairment charges amounting to $30.0 million and $3.1 million respectively were recorded on software and other intangible assets related to this CGU; refer to note 10 for further detail. Other impairment charges amounting to $1.5 million were also recorded in 2015 ($3.4 million in 2014).

10. GOODWILL

	Retail unit	B2B Bank	Total
As at October 31, 2013 and 2014	$ 29,224	$ 34,853	$ 64,077
Impairment	(29,224)	—	(29,224)
As at October 31, 2015	**$ —**	**$ 34,853**	**$ 34,853**

IMPAIRMENT TESTING

The Bank tests goodwill for impairment on an annual basis and whenever there are events or changes in circumstances which indicate that the carrying amount may not be recoverable.

Goodwill acquired through business combinations has been allocated to two cash-generating units (CGUs): the Retail unit (a part of the Personal & Commercial business segment, which encompasses all branch activities and other retail banking activities in Québec) and the B2B Bank business segment.

10. GOODWILL [CONT'D]

Retail unit

Following the comprehensive strategic review of its retail activities completed during the fourth quarter of 2015, the Bank reviewed the recoverability of the carrying value of certain of its assets for impairment purposes. As a result of the impairment test, an impairment charge of $72.2 million, affecting the Retail unit, was recorded for the year ended October 31, 2015 on the line item Impairment of goodwill, software and intangible assets, and premises and equipment. This charge was related to the impairment of goodwill for an amount of $29.2 million, of software and intangible assets for $33.1 million and of premises and equipment for $9.9 million.

The recoverable amount of the Retail unit was determined based on the value-in-use approach using a discounted cash flow method. The significant key assumptions included the forecasts of cash flows based on financial plans approved by management covering a three-year period, a terminal growth rate of 3.0% based on projected economic growth, and a discount rate of 10.0% based on the bank-wide cost of capital and further adjusted to reflect the risks specific to the Retail unit.

This impairment charge is the result of a combination of factors, including the continued pressure on net interest margins stemming from the persistent low interest rates and competitive landscape, the change in customers' behavior driven by significant changes in technology and lifestyle, the emergence of new competitors, as well as the additional administrative burden associated with new regulatory measures.

As certain of the Bank's software do not generate cash inflows that are largely independent of those from other assets or group of assets, these were allocated to the various CGUs prior to determining any impairment charge. Software amounting to $74.2 million were attributed to the Retail unit, while $57.4 million were attributed to the other CGUs. These software and other software specifically related to the Retail unit were tested for impairment at the CGU level.

B2B Bank

Goodwill associated to B2B Bank remained unchanged in 2015 and 2014.

The recoverable amount of the B2B Bank business segment was determined based on the value in use approach using a discounted cash flow method. The significant key assumptions included the forecasts of cash flows based on financial plans approved by management covering a three-year period, a terminal growth rate of 3.0% based on projected economic growth, and a discount rate of 10.0% based on the bank-wide cost of capital and further adjusted to reflect the risks specific to the B2B Bank business segment. The estimated recoverable amount was well above its carrying amount. If alternative reasonably possible changes in key assumptions were applied, the result of the impairment test would not differ.

11. OTHER ASSETS

		2015		2014
Cheques and other items in transit	**$**	**368,593**	$	174,096
Defined benefit plan assets (Note 18)		**8,557**		9,080
Accrued interest receivable		**62,975**		68,251
Accounts receivable, prepaid expenses and other items		**116,726**		114,294
	$	**556,851**	$	365,721

12. DEPOSITS

								2015
		Demand		**Notice**		**Term**		**Total**
Personal	**$**	**123,159**	**$**	**5,811,700**	**$**	**13,442,857**	**$**	**19,377,716**
Business, banks and other		**1,304,139**		**1,195,225**		**4,727,224**		**7,226,588**
	$	**1,427,298**	**$**	**7,006,925**	**$**	**18,170,081**	**$**	**26,604,304**

								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

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

		2015		2014
Accrued interest payable	**$**	**372,630**	$	427,024
Cheques and other items in transit		**90,997**		119,978
Defined benefit plan liabilities (Note 18)		**48,198**		62,814
Accounts payable, accrued expenses and other items		**268,857**		259,213
	$	**780,682**	$	869,029

14. DEBT RELATED TO SECURITIZATION ACTIVITIES

The following table details the carrying amount of debt related to securitization activities.

				2015	2014
	Within 1 year	1 to 5 years	More than 5 years	Total carrying amount	Total carrying amount
Debt related to CMB transactions	$ 1,230,183	$ 3,451,218	$ 176,358	$ 4,857,759	$ 4,352,505
Contractual yield	2.64%	1.91%	1.45%	2.08%	2.40%
Debt related to a multi-seller conduit [1]	285,974	349,869	—	635,843	511,343
Contractual yield [2]	n.a.	n.a.	n.a.	1.37%	1.78%
	$ 1,516,157	$ 3,801,087	$ 176,358	$ 5,493,602	$ 4,863,848

(1) Maturity of debt related to a multi-seller conduit based on anticipated maturity of underlying residential mortgage loans.
(2) The interest rate on the debt related to a multi-seller conduit is based on the funding cost of the conduit and corresponds to the rate of the asset-backed commercial paper issued by the conduit, 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

				2015	2014
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				(351)	(931)
Net fair value adjustment[2]				(8)	(1,546)
				$ 449,641	$ 447,523

(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.

Redemption of subordinated debt

On November 2, 2015 the Bank redeemed all of its Series 2010-1 subordinated Medium Term Notes maturing in 2020, with an aggregate notional amount of $250.0 million. The Series 2010-1 subordinated Medium Term Notes were redeemed at par plus accrued and unpaid interest to the date of redemption.

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 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

16. SHARE CAPITAL [CONT'D]

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.

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.

		2015		2014
	Number of shares	**Amount**	Number of shares	Amount
Class A Preferred shares				
Series 10				
Outstanding at beginning of year	**n.a.**	**n.a.**	4,400,000	$ 107,642
Repurchase of shares	**n.a.**	**n.a.**	(4,400,000)	(107,642)
Outstanding at end of year	**n.a.**	**n.a.**	—	—
Series 11				
Outstanding at beginning of year and end of year	**4,000,000**	**97,562**	4,000,000	97,562
Series 13				
Outstanding at beginning of year	**5,000,000**	**122,071**	—	—
Issuance of shares	**—**	**—**	5,000,000	125,000
Net issuance costs	**n.a.**	**—**	n.a.	(2,929)
Outstanding at end of year	**5,000,000**	**122,071**	5,000,000	122,071
	9,000,000	**$ 219,633**	9,000,000	$ 219,633

There were no outstanding non-cumulative class A preferred shares, series 12 and series 14 as at October 31, 2015 and 2014.

16. SHARE CAPITAL [CONT'D]

Repurchase of preferred shares

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.

		2015		2014
	Number of shares	**Amount**	Number of shares	Amount
Common shares				
Outstanding at beginning of year	**28,942,999**	**$ 465,854**	28,532,412	$ 446,496
Issuance under the employee share purchase option plan (see note 17)	**12,000**	**408**	—	—
Issuance under the Shareholder Dividend Reinvestment and Share Purchase Plan	**1,620**	**80**	410,587	19,387
Net issuance costs	**n.a.**	**(6)**	n.a.	(29)
Total common shares	**28,956,619**	**$ 466,336**	28,942,999	$ 465,854

Shareholder dividend reinvestment and share purchase plan

The Bank offers a 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. Accordingly, 1,620 common shares were legally issued from treasury in the first quarter of 2015 at a 2% discount. Other reinvestments related to the dividends declared in 2015 were made in common shares purchased in the open market with no discount applied to the purchase price. In 2014, reinvestments were made in common shares issued from treasury at a 2% discount.

DECLARED DIVIDENDS

		2015		2014
	Dividend per share	**Dividends declared**	Dividend per share	Dividends declared
Class A Preferred shares				
Series 10	**n.a.**	**n.a.**	$ 0.984	$ 4,331
Series 11	**$ 1.000**	**$ 4,000**	$ 1.000	4,000
Series 13	**$ 1.075**	**5,375**	$ 0.484	2,419
Total preferred shares		**$ 9,375**		$ 10,750
Common shares	**$ 2.20**	**$ 63,691**	$ 2.06	$ 59,105

On November 4, 2015, the Board of Directors declared regular dividends on the various series of preferred shares to shareholders of record on December 7, 2015.

On December 9, 2015, the Board of Directors announced a dividend of $0.58 per common share, payable on February 1, 2016, to shareholders of record on January 4, 2016.

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 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. Management oversees capital adequacy on an ongoing basis.

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

OSFI requires banks to meet minimum risk-based capital ratios drawn on the Basel Committee on Banking Supervision (BCBS) 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, Tier 1 and Total capital ratios were set at 4.5%, 6.0% and 8.0% respectively for 2015. 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 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's 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 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. The Bank's Series 2010-1 subordinated Medium Term Notes were considered non-qualifying capital instruments under Basel III and were subject to a 10% phase-out per year prior to the announcement on September 24, 2015 of their redemption on November 2, 2015. The Preferred Shares Series 13 fully qualify as Additional Tier 1 capital under Basel III.

Under OSFI's Leverage Requirements Guideline issued in October 2014, the previous Asset to Capital Multiple (ACM) was replaced with a new leverage ratio as of January 1, 2015. Federally regulated deposit-taking institutions are expected to maintain a Basel III leverage ratio that meets or exceeds 3% at all times. 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 previous ACM requirement in that it includes more off-balance-sheet exposures and a narrower definition of capital (Tier 1 Capital instead of Total Capital).

The Bank has complied with regulatory capital requirements throughout the year ended October 31, 2015. Regulatory capital is detailed below.

16. SHARE CAPITAL [CONT'D]

	2015		2014	
	All-in basis	**Transitional basis**	All-in basis	Transitional basis
Common shares	**$ 466,336**	**$ 466,336**	$ 465,854	$ 465,854
Share-based payment reserve	**36**	**36**	91	91
Retained earnings	**886,656**	**886,656**	848,905	848,905
Accumulated other comprehensive income, excluding cash flow hedge reserve	**(11,391)**	**(11,391)**	13,337	13,337
Deductions from Common Equity Tier 1 capital [1]	**(166,399)**	**(59,270)**	(240,963)	(48,192)
Common Equity Tier 1 capital	**1,175,238**	**1,282,367**	1,087,224	1,279,995
Non-qualifying preferred shares [2]	**97,562**	**97,562**	97,562	97,562
Qualifying preferred shares	**122,071**	**122,071**	122,071	122,071
Deductions from Tier 1 capital	**n.a.**	**(28,201)**	n.a.	(51,262)
Additional Tier 1 capital	**219,633**	**191,432**	219,633	168,371
Tier 1 capital	**1,394,871**	**1,473,799**	1,306,857	1,448,366
Subordinated debt [3][4]	**199,641**	**310,667**	355,048	355,048
Collective allowances	**73,904**	**73,904**	87,546	87,546
Deductions from Tier 2 capital	**—**	**—**	(1,925)	(385)
Tier 2 capital	**273,545**	**384,571**	440,669	442,209
Total capital	**$ 1,668,416**	**$ 1,858,370**	$ 1,747,526	$ 1,890,575

(1) Mainly comprised of deductions for software and other intangible assets, goodwill and pension plan assets.
(2) 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 10 subsequently repurchased by the Bank.
(3) Net of an amount of $250.0 million as at October 31, 2015 due to the announcement on September 24, 2015 of the redemption of the Series 2010-1 subordinated Medium Term Notes on November 2, 2015.
(4) Net of an amount of $92.5 million as at October 31, 2014 due to the 10% phase-out per year of non-qualifying capital instruments under Basel III.

17. SHARE-BASED COMPENSATION

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, 2015 (124,962 as at October 31, 2014).

No new share options were granted in 2015 and 2014. The following table summarizes the Bank's share purchase option activities for the years ended October 31.

	2015		2014	
	Number of options	**Exercise price per option**	Number of options	Exercise price per option
Outstanding at beginning of year	**20,000**	**$ 29.47**	20,000	$ 29.47
Exercised	**(12,000)**	**$ 29.47**	—	n.a.
Outstanding at end of year	**8,000**	**$ 29.47**	20,000	$ 29.47
Exercisable at end of year	**8,000**	**$ 29.47**	20,000	$ 29.47

All outstanding options as at October 31, 2015 are expiring in December 2016.

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.

17. SHARE-BASED COMPENSATION [CONT'D]

No SARs were granted during 2015 and 2014. 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
2015	**$**	**36.79**	**90,335**	**1.97**	**90,335**
2014	$	37.01	138,460	3.11	138,460

PERFORMANCE-BASED SHARE UNIT PLAN

The Bank offers a performance-based share unit (PSU) plan to certain members of its senior management. Rights to 60% of the PSUs generally vest over three years. The rights to the remaining 40% PSUs generally vest over three years and based on the Bank's total shareholder return relative to the average of a peer group of Canadian financial institutions. During the vesting period, dividend equivalents accrue to the participants in the form of additional share units. All PSUs are cash settled at fair value at the maturity date. 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
2015	**147,243**	**$**	**50.85**	**December 2017**
2014	174,730	$	47.10	December 2016

The number of units outstanding as at October 31, 2015 was 620,316 of which 98,266 units were fully vested under the deferred version of the plan (526,723 units as at October 31, 2014 of which 67,344 units were fully 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.

During the vesting period, under both plans, dividend equivalents accrue to the participants in the form of additional share units.

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
2015	**Senior management**	**50,730**	**31,063**	**$**	**50.83**	**December 2017**
	Capital markets	**27,412**	**—**	**$**	**50.85**	**n.a.**
2014	Senior management	53,409	33,925	$	47.05	December 2016
	Capital markets	30,056	—	$	47.08	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, 2015 was 338,038 of which 244,326 units were fully vested under the deferred version of the plan (293,760 units as at October 31, 2014 of which 199,997 units were fully vested). The number of units outstanding for Capital markets as at October 31, 2015 was 60,454 all of which were vested (58,996 units as at October 31, 2014, all of which were vested).

17. SHARE-BASED COMPENSATION [CONT'D]

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 2015, 2,149 deferred share units were redeemed and settled in cash (2,036 units in 2014). In 2015, the Bank granted 9,472 deferred share units as compensation (7,384 in 2014). As at October 31, 2015, there were 31,510 units (24,187 units in 2014) outstanding with a total value of $1.7 million ($1.2 million in 2014).

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 2015 ($0.6 million in 2014), are recognized in salaries and employee benefits. The average value of the granted shares under this plan was $48.50 in fiscal 2015 ($47.63 in 2014).

SHARE-BASED COMPENSATION PLANS EXPENSE AND RELATED LIABILITY

The following table presents the expense related to all share based compensation plans, net of the effect of related hedging transactions.

		2015		2014
Expense arising from cash-settled share-based compensation transactions	$	18,134	$	11,584
Effect of hedges		(5,470)		(3,702)
	$	12,664	$	7,882

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 $54.7 million as at October 31, 2015 ($37.8 million as at October 31, 2014).

The intrinsic value of the total liability related to fully vested rights and units was $19.3 million as at October 31, 2015 ($15.8 million as at October 31, 2014).

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 Plans 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

18. POST-EMPLOYMENT BENEFITS [CONT'D]

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, 2014 for all plans. The next required actuarial valuation for funding purposes will be as at December 31, 2015 for all funded plans.

DEFINED BENEFIT PLAN OBLIGATIONS

Changes in the present value of the defined benefit obligation are as follows.

		2015		2014
	Pension plans	**Other plans**	Pension plans	Other plans
Change in defined benefit obligation				
Defined benefit obligation at beginning of year	**$ 554,401**	**$ 36,166**	$ 517,671	$ 35,026
Current service cost	**14,681**	**43**	14,272	53
Past service cost[1]	**2,284**	**—**	1,189	—
Interest expense	**23,630**	**1,295**	23,661	1,340
Benefits paid	**(29,280)**	**(1,550)**	(32,006)	(1,396)
Employee contributions	**3,088**	**—**	3,230	—
Actuarial losses (gains) arising from changes in assumptions				
Demographic	**1,421**	**114**	6,905	287
Economic	**(3,633)**	**(2,205)**	22,193	1,160
Actuarial gains arising from plan experience	**(6,190)**	**(6,464)**	(2,714)	(304)
Defined benefit obligation at end of year	**$ 560,402**	**$ 27,399**	$ 554,401	$ 36,166

(1) Including a $2.1 million charge related to certain enhancements to the pension plan of the Bank's former President and Chief Executive Officer's as a result of his decision to retire as of November 1, 2015.

DEFINED BENEFIT PENSION PLAN ASSETS

Changes in fair value of pension plan assets are as follows.

	2015	2014
Change in fair value of pension plan assets		
Fair value of plan assets at beginning of year	**$ 536,833**	$ 485,314
Interest income (at prescribed rate)	**22,605**	22,191
Actuarial gains (losses) arising from the difference between the actual return on plan assets and interest income	**(4,479)**	33,784
Administration costs (other than costs of managing plan assets)	**(1,494)**	(1,009)
Bank contributions	**21,669**	25,329
Employee contributions	**3,088**	3,230
Benefits paid	**(29,280)**	(32,006)
Fair value of plan assets at end of year	**$ 548,942**	$ 536,833

18. POST-EMPLOYMENT BENEFITS [CONT'D]

RECONCILIATION OF THE FUNDED STATUS OF THE BENEFIT PLANS TO THE AMOUNTS RECORDED IN THE CONSOLIDATED FINANCIAL STATEMENTS

	2015		2014	
	Pension plans	Other plans	Pension plans	Other plans
Fair value of plan assets	$ 548,942	$ —	$ 536,833	$ —
Defined benefit obligation	560,402	27,399	554,401	36,166
Funded status – plan deficit	(11,460)	(27,399)	(17,568)	(36,166)
Asset limit and minimum funding adjustment	(782)	—	—	—
Net amount recognized	(12,242)	(27,399)	(17,568)	(36,166)
Defined benefit plan assets included in other assets	8,557	—	9,080	—
Defined benefit plan liabilities included in other liabilities	$ 20,799	$ 27,399	$ 26,648	$ 36,166

DEFINED BENEFIT PLAN COSTS RECOGNIZED DURING THE YEAR

	2015		2014	
	Pension plans	Other plans	Pension plans	Other plans
Amounts recognized in income				
Current service cost	$ 14,681	$ 43	$ 14,272	$ 53
Past service cost[1]	2,284	—	1,189	—
Administration costs (other than costs of managing plan assets)	1,494	—	1,009	—
Interest expense	23,630	1,295	23,661	1,340
Interest income (at prescribed rate)	(22,605)	—	(22,191)	—
Loss on short-term employee benefits	—	22	—	108
	19,484	1,360	17,940	1,501
Amounts recognized in other comprehensive income				
Actuarial losses (gains) on defined benefit obligation	(8,402)	(8,577)	26,384	1,035
Actuarial losses (gains) on plan assets	4,479	—	(33,784)	—
Asset limit and minimum funding adjustment	782	—	—	—
	(3,141)	(8,577)	(7,400)	1,035
Total defined benefit cost	$ 16,343	$ (7,217)	$ 10,540	$ 2,536

(1) Including a $2.1 million charge related to certain enhancements to the pension plan of the Bank's former President and Chief Executive Officer's as a result of his decision to retire as of November 1, 2015.

The Bank expects to contribute $18.1 million to its defined benefit pension plans for the year ending October 31, 2016.

ASSET ALLOCATION OF DEFINED BENEFIT PENSION PLANS

	2015	2014
Asset category		
Cash and cash equivalents	$ 30,277	$ 10,455
Equity funds	91,283	124,037
Debt securities		
Canadian governments and other public administration	58,945	72,188
Corporate and other	332,662	296,567
Other	35,775	33,586
	$ 548,942	$ 536,833

Equity funds do not include securities of the Bank as at October 31, 2015 ($0.4 million as at October 31, 2014). Plan assets include equity funds of $38.2 million quoted in active markets as at October 31, 2015 ($nil as at October 31, 2014). All other assets are not quoted in active markets.

18. POST-EMPLOYMENT BENEFITS [CONT'D]

SIGNIFICANT ASSUMPTIONS FOR PENSION PLANS AND OTHER PLANS

	2015	2014
Weighted average of assumptions to determine benefit obligation		
Discount rate at end of year	**4.30%**	4.25%
Rate of compensation increase	**2.75%**	2.75%
Weighted average of assumptions to determine benefit expense		
Discount rate	**4.25%**	4.55%
Rate of compensation increase	**2.75%**	2.75%

For 2015, the weighted average financial duration of the pension plans was approximately 13.9 years (14.3 years in 2014).

ASSUMED HEALTH CARE COST TREND RATES

	2015	2014
Assumed annual rate of increase in the cost of health care benefits	**7.0%**	7.6%
Level to which it should decline and at which it is assumed to subsequently stabilize	**4.5%**	5.0%
Year that the rate is assumed to stabilize	**2025**	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, 2015.

	Impact of a potential change of 0.25% to the discount rate on[1]	
	Obligation	Cost
Pension Plans	$ 19,098	$ 1,765
Other Plans	$ 699	$ 46

(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, 2015, with all other assumptions remaining constant.

	1% increase	1% decrease
Increase (decrease) in total of service and interest expense	$ 446	$ (405)
Increase (decrease) in defined benefit obligation	$ 1,712	$ (1,473)

EXPENSE FOR POST-EMPLOYMENT BENEFITS

The total expense recognized for post-employment benefit plans was as follows.

	2015	2014
Defined benefit pension plans	**$ 19,484**	$ 17,940
Defined contribution pension plans	**6,571**	6,559
Other plans	**1,360**	1,501
	$ 27,415	$ 26,000

19. INCOME TAXES

DEFERRED INCOME TAXES

Significant components of the Bank's deferred income tax assets and liabilities are as follows.

	2015	2014
Deferred income tax assets		
Allowances for loan losses	$ 26,294	$ 30,504
Amount related to share-based payments	14,649	10,653
Defined benefit plan liabilities	10,580	14,413
Provisions	8,842	9,669
Premises and equipment	7,579	5,895
Tax loss carryforwards	6,048	308
Derivatives	—	1,165
Other temporary differences	2,529	4,069
	76,521	76,676
Deferred income tax liabilities		
Software	25,888	31,214
Deferred charges	23,370	20,723
Derivatives	9,405	—
Loans	3,561	5,513
Securitization and securities	2,863	4,673
Other intangible assets	2,278	6,138
Other temporary differences	—	489
	67,365	68,750
Deferred income taxes, net	$ 9,156	$ 7,926

Net deferred income taxes are reported in the consolidated balance sheet as follows.

	2015	2014
Deferred income tax assets	$ 17,450	$ 7,936
Deferred income tax liabilities	(8,294)	(10)
Deferred income taxes, net	$ 9,156	$ 7,926

The components of deferred income tax expense recorded in the consolidated statement of income are as follows.

	2015	2014
Deferred income tax expense		
Allowances for loan losses	$ 4,210	$ (2,771)
Deferred charges	2,647	(2,575)
Provisions	827	(952)
Defined benefit plan liabilities	689	1,954
Software	(5,326)	8,611
Amount related to share-based payments	(4,075)	(2,511)
Other intangible assets	(3,860)	1,732
Loans	(1,952)	(2,712)
Securitization and securities	(1,725)	(1,137)
Premises and equipment	(1,684)	1,191
Other temporary differences	1,172	1,851
	$ (9,077)	$ 2,681

Income tax loss carry-forwards were $22.6 million as at October 31, 2015 ($1.1 million as at October 31, 2014).

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.

	2015	2014
Current income taxes		
Income tax expense for the year	$ 39,118	$ 37,094
Previous years income tax expense adjustment	892	963
	40,010	38,057
Deferred income taxes		
Origination and reversal of temporary differences	(8,451)	3,541
Previous years income tax (recovery) adjustment	(626)	(860)
	(9,077)	2,681
	$ 30,933	$ 40,738

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.

	2015	2014
Items that may subsequently be reclassed to the statement of income		
Income tax (recovery) expense related to change in unrealized (losses) gains on available-for-sale securities	$ (7,719)	$ 3,151
Income tax (recovery) related to reclassification of net gains on available-for-sale securities to net income	(1,433)	(2,646)
Income tax expense related to net change in value of derivatives designated as cash flow hedges	10,570	304
	$ 1,418	$ 809
Items that may not subsequently be reclassed to the statement of income		
Income tax expense related to actuarial gains on employee benefit plans	3,145	1,633
	$ 4,563	$ 2,442
Composition of income taxes		
Current income tax (recovery) expense	$ (3,286)	$ 400
Deferred income tax expense	7,849	2,042
	$ 4,563	$ 2,442

Significant components of the income tax expense recorded in the consolidated statement of changes in shareholders' equity for the years ended October 31.

	2015	2014
Income taxes on preferred share dividends		
Current income tax expense	$ 227	$ 235
Income taxes on issuance of common and preferred shares		
Current income tax (recovery)	—	(227)
Deferred income tax (recovery)	(2)	(908)
	(2)	(1,135)
	$ 225	$ (900)

19. INCOME TAXES [CONT'D]

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.

			2015			2014
		Amount			Amount	
Income taxes at statutory rates	**$**	**35,625**	**26.7%**	$	48,476	26.8%
Change resulting from:						
Income related to foreign insurance operations		**(5,910)**	**(4.4)**		(5,612)	(3.1)
Non-taxable dividends		**(3,926)**	**(3.0)**		(4,354)	(2.4)
Impairment of goodwill		**4,347**	**3.3**		—	—
Non-tax deductible contingent consideration charge		**—**	**—**		1,088	0.6
Other		**797**	**0.6**		1,140	0.6
Income taxes as reported in the consolidated statement of income	**$**	**30,933**	**23.2%**	$	40,738	22.5%

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 $40.7 million as at October 31, 2015 ($34.8 million as at October 31, 2014).

20. EARNINGS PER SHARE

Basic and diluted earnings per share for the years ended October 31 is detailed as follows.

		2015		2014
Earnings per share – basic				
Net income	**$**	**102,470**	$	140,365
Preferred share dividends, including applicable taxes		**9,602**		10,985
Net income attributable to common shareholders	**$**	**92,868**	$	129,380
Average number of outstanding common shares (in thousands)		**28,949**		28,724
Earnings per share – basic	**$**	**3.21**	$	4.50
Earnings per share – diluted				
Net income attributable to common shareholders	**$**	**92,868**	$	129,380
Average number of outstanding common shares (in thousands)		**28,949**		28,724
Dilutive share purchase options (in thousands)		**6**		8
Diluted weighted average number of outstanding common shares (in thousands)		**28,955**		28,732
Earnings per share – diluted	**$**	**3.21**	$	4.50

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.

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 ATMs, 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 and medium-sized enterprises, along with real estate developers are provided with a suite of financing options, including leasing solutions, as well as, investment, cash management and international services.

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.

21. SEGMENTED INFORMATION [CONT'D]

2015

	Personal & Commercial	B2B Bank	Laurentian Bank Securities & Capital Markets	Other	Total
Net interest income	$ 409,868	$ 179,488	$ 3,514	$ (17,787)	$ 575,083
Other income	210,219	33,707	67,993	10,124	322,043
Total revenue (loss)	620,087	213,195	71,507	(7,663)	897,126
Amortization of net premium on purchased financial instruments and revaluation of contingent consideration	—	5,999	—	—	5,999
Provision for loan losses	25,517	9,383	—	—	34,900
Non-interest expenses [1]	493,712	126,802	56,810	45,500	722,824
Income (loss) before income taxes	100,858	71,011	14,697	(53,163)	133,403
Income taxes (recovery)	26,377	19,313	3,003	(17,760)	30,933
Net income (loss)	$ 74,481	$ 51,698	$ 11,694	$ (35,403)	$ 102,470
Average assets[2]	$ 18,821,368	$ 9,317,879	$ 5,676,011	$ 4,006,592	$ 37,821,850

(1) Non-interest expenses include impairment charges of $72.2 million related to the Retail Unit CGU. Refer to note 10 for further detail.
(2) Assets are disclosed on an average basis, as this measure is most relevant to a financial institution.

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	138,191	54,332	37,746	641,309
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][2]	$ 18,154,650	$ 8,858,800	$ 4,751,333	$ 3,795,407	$ 35,560,190

(1) Assets are disclosed on an average basis, as this measure is most relevant to a financial institution.
(2) Comparative figures reflect the adoption of the amendments to IAS 32, *Financial Instruments: Presentation*. As a result, Laurentian Bank Securities & Capital Markets' average assets increased by $1,561.9 million and the Other sector's average assets decreased by $25.0 million for the year ended October 31, 2014. Refer to Note 4 for further information.

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 Executive Committee or Board of Directors.

The following table presents transactions with related parties.

22. RELATED PARTY TRANSACTIONS [CONT'D]

		2015		2014
Loans [1]				
Key management personnel	$	2,438	$	2,435
Entities controlled by key management personnel		35,506		22,122
	$	37,944	$	24,557
Deposits				
Key management personnel	$	1,861	$	3,550
Entities controlled by key management personnel		—		92
	$	1,861	$	3,642

(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, 2015 ($1.1 million for the year ended October 31, 2014) and was 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. The interest paid on deposits amounted to $33,000 for the year ended October 31, 2015 ($69,000 for the year ended October 31, 2014) and was recorded under interest expense in the consolidated statement of income.

In addition, for the year ended October 31, 2015, the Bank paid a rental expense of $2.2 million to a related party ($2.1 million for the year ended October 31, 2014).

The following table presents the total compensation of key management personnel.

		2015		2014
Short-term employee benefits, including salaries	$	11,378	$	5,643
Post-employment benefits		2,984		1,716
Share-based payments		4,811		5,069
	$	19,173	$	12,428

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.

23. FINANCIAL INSTRUMENTS – FAIR VALUE [CONT'D]

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.

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 in 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.

				2015
(in millions of Canadian dollars)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Securities				
Available-for-sale	**$ 219**	**$ 2,150**	**$ —**	**$ 2,369**
Held-for-trading	**72**	**1,653**	**—**	**1,725**
Derivatives	**3**	**273**	**1**	**277**
Liabilities				
Obligations related to securities sold short	**13**	**1,827**	**—**	**1,840**
Derivatives	**$ 4**	**$ 105**	**$ 17**	**$ 126**

				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

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, 2015 and 2014.

As at October 31, 2015, 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

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. For these instruments, fair values are calculated for disclosure purposes only, and the valuation techniques are disclosed above.

					2015		2014
(in millions of Canadian dollars)	Carrying amount	Fair value	Level 1	Level 2	Level 3	Carrying amount	Fair value
Assets							
Held-to-maturity securities	$ 393	$ 394	$ —	$ 394	$ —	$ 323	$ 323
Loans	29,981	30,128	—	—	30,128	27,310	27,486
Liabilities							
Deposits	26,604	26,718	—	26,718	—	24,523	24,644
Debt related to securitization activities	5,494	5,520	—	5,520	—	4,864	4,914
Subordinated debt	$ 450	$ 454	$ —	$ 454	$ —	$ 448	$ 456

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.

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.

2015

	Gross recognized amounts	Gross amounts offset in the consolidated balance sheet	Amounts presented in the consolidated balance sheet	Amounts not offset in the consolidated balance sheet: Impact of master netting agreements[1]	Amounts not offset in the consolidated balance sheet: Financial collateral received or pledged	Net amounts
Financial assets						
Securities purchased under reverse repurchase agreements	$ 3,911,439	$ —	$ 3,911,439	$ 1,650,989	$ 2,260,448	$ 2
Derivatives	276,601	—	276,601	91,222	99,684	85,695
	$ 4,188,040	$ —	$ 4,188,040	$ 1,742,211	$ 2,360,132	$ 85,697
Financial liabilities						
Obligations related to securities sold under repurchase agreements	$ 2,296,890	$ —	$ 2,296,890	$ 1,650,989	$ 645,844	$ 57
Derivatives	125,683	—	125,683	91,222	14,932	19,529
	$ 2,422,573	$ —	$ 2,422,573	$ 1,742,211	$ 660,776	$ 19,586

2014

	Gross recognized amounts	Gross amounts offset in the consolidated balance sheet	Amounts presented in the consolidated balance sheet	Amounts not offset in the consolidated balance sheet: Impact of master netting agreements [1]	Amounts not offset in the consolidated balance sheet: Financial collateral received or pledged	Net amounts
Financial assets						
Securities purchased under reverse repurchase agreements	$ 3,196,781	$ —	$ 3,196,781	$ 1,647,291	$ 1,549,134	$ 356
Derivatives	132,809	—	132,809	54,420	33,624	44,765
	$ 3,329,590	$ —	$ 3,329,590	$ 1,701,711	$ 1,582,758	$ 45,121
Financial liabilities						
Obligations related to securities sold under repurchase agreements	$ 2,215,965	$ —	$ 2,215,965	$ 1,647,291	$ 568,674	$ —
Derivatives	90,840	—	90,840	54,420	1,904	34,516
	$ 2,306,805	$ —	$ 2,306,805	$ 1,701,711	$ 570,578	$ 34,516

(1) 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)							2015
	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	$ 1,953	$ 2,151	$ 274	$ 216	$ 31	$ 63	$ 4,688
Actual return		0.6%	0.7%	1.7%	3.1%		
Securities purchased under reverse repurchase agreements	3,911	—	—	—	—	—	3,911
Loans	12,856	2,221	4,330	9,418	154	1,002	29,981
Actual return		3.5%	3.6%	3.4%	4.0%		
Other assets	—	—	—	—	—	1,080	1,080
Total	18,720	4,372	4,604	9,634	185	2,145	39,660
Actual return		2.1%	3.4%	3.4%	3.8%		
Liabilities and equity							
Deposits	3,781	3,604	5,709	12,750	157	603	26,604
Actual return		0.7%	1.6%	1.8%	3.1%		
Treasury items	4,137	—	—	—	—	—	4,137
Other liabilities	—	13	40	118	1	1,216	1,388
Actual return		2.0%	2.1%	2.1%	3.2%		
Debt related to securitization activities	—	1,428	747	3,143	176	—	5,494
Actual return		1.7%	2.8%	2.0%	1.5%		
Subordinated debt and equity	—	244	—	425	—	1,368	2,037
Actual return		3.8%	—%	1.5%	—%		
Total	7,918	5,289	6,496	16,436	334	3,187	39,660
Actual return		1.1%	1.7%	1.8%	2.3%		
Swaps, net	—	(9,509)	1,845	7,584	80	—	—
Sensitivity gap	10,802	(10,426)	(47)	782	(69)	(1,042)	—
Cumulative gap	$ 10,802	$ 376	$ 329	$ 1,111	$ 1,042	$ —	$ —

(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	$ 16,342	$ 3,245	$ 5,214	$ 9,788	$ 155	$ 1,739	$ 36,483
Actual return		2.5%	3.3%	3.5%	4.2%		
Liabilities and equity	6,970	4,519	6,585	14,905	379	3,125	36,483
Actual return		0.9%	1.9%	2.0%	2.6%		
Swaps, net	—	(9,610)	3,681	5,719	210	—	—
Sensivity gap	9,372	(10,884)	2,310	602	(14)	(1,386)	—
Cumulative gap	$ 9,372	$ (1,512)	798	$ 1,400	$ 1,386	$ —	$ —

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.

AGGREGATE NOTIONAL AMOUNTS

(in millions of Canadian dollars)						2015
	Period to maturity					
Notional amount	Within 1 year	1 to 5 years	Over 5 years	Total	Designated as hedge contracts (1)	Other contracts (2)
Interest rate contracts						
Over-the-counter contracts						
Swaps	2,804	8,904	1,197	12,905	11,064	1,841
Exchange-traded contracts						
Futures	458	—	—	458	—	458
Foreign exchange contracts						
Over-the-counter contracts						
Foreign exchange swaps	1,621	169	—	1,790	84	1,706
Forwards	1,164	57	—	1,221	—	1,221
Options purchased	1,605	3	—	1,608	—	1,608
Options written	1,593	3	—	1,596	—	1,596
Equity- and index-linked contracts						
Options purchased	63	30	—	93	—	93
Options written	95	213	1	309	—	309
Total return swaps	25	24	—	49	2	47
	$ 9,428	$ 9,403	$ 1,198	$ 20,029	$ 11,150	$ 8,879

(1) Include notional amounts of $0.4 billion related to basis swaps at October 31, 2015.

(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]

(in millions of Canadian dollars)						2014
	Period to maturity					
Notional amount	Within 1 year	1 to 5 years	Over 5 years	Total	Designated as hedge contracts [1]	Other contracts [2]
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.

FAIR VALUE OF DERIVATIVES

		2015		2014
	Assets	**Liabilities**	Assets	Liabilities
DESIGNATED AS HEDGE CONTRACTS				
Fair value hedges				
Interest rate contracts				
Swaps	**$ 113,022**	**$ (5,278)**	$ 55,207	$ (2,700)
Cash flow hedges				
Interest rate contracts				
Swaps	**63,428**	**(16,902)**	22,191	(11,840)
Equity- and index-linked contracts				
Total return swaps	**169**	**—**	160	—
OTHER CONTRACTS [1]				
Interest rate contracts				
Swaps	**48,662**	**(44,709)**	30,271	(28,792)
Foreign exchange contracts				
Foreign exchange swaps	**20,232**	**(32,063)**	9,543	(13,299)
Forwards	**19,225**	**(5,886)**	11,929	(8,833)
Options purchased	**4,011**	**—**	337	—
Options written	**—**	**(3,754)**	—	(111)
Equity- and index-linked contracts				
Options purchased	**4,063**	**—**	2,287	—
Options written	**—**	**(17,085)**	—	(25,255)
Total return swaps	**3,789**	**(6)**	884	(10)
Total	**$ 276,601**	**$ (125,683)**	$ 132,809	$ (90,840)

(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 and foreign exchange contracts to hedge changes in fair value of assets, liabilities or firm commitments. The notional amount of derivatives designated as hedging instruments in fair value hedges was $4.4 billion as at October 31, 2015 ($4.4 billion as at October 31, 2014).

The following table presents ineffectiveness related to fair value hedges.

		2015		2014
Net losses recognized on hedging instrument	**$**	**(65,149)**	$	(13,777)
Net gains recognized on hedged item		**65,616**		14,121
Ineffectiveness gains recognized in net income	**$**	**467**	$	344

Cash flow hedges

The Bank uses interest rate swaps to hedge the variability in cash flows related to variable rate assets and liabilities. The Bank also uses total return swaps to hedge the variability in cash flows related to the share-based compensation plans. The notional amount of swap contracts designated as hedging instruments in cash flow hedges was $6.2 billion as at October 31, 2015 ($6.9 billion as at October 31, 2014).

Ineffectiveness gains related to cash flow hedges of $1.1 million was recognized in net income for the year ended October 31, 2015 ($0.5 million in 2014).

The remaining balance of accumulated other comprehensive income related to cash flow hedges as at October 31, 2015 is expected to be reclassified to the consolidated statement of income over the next 5 years.

CREDIT EXPOSURE

(in millions of Canadian dollars)						**2015**						2014
		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	**$**	**227**	**$**	**304**	**$**	**65**	$	112	$	183	$	39
Foreign exchange contracts		**43**		**82**		**38**		22		53		24
Equity-and index-linked contracts		**8**		**25**		**7**		3		8		2
		278		**411**		**110**		137		244		65
Impact of master netting agreements		**(114)**		**(139)**		**(19)**		(65)		(113)		(23)
	$	**164**	**$**	**272**	**$**	**91**	$	72	$	131	$	42

(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.

		2015		2014
Net interest income	**$**	**17,451**	$	21,488
Other income included in:				
Income from brokerage operations		**18,735**		17,439
Income from treasury and financial market operations		**8,855**		4,211
	$	**27,590**	$	21,650

28. INSURANCE INCOME

Insurance income reported in other income in the consolidated statement of income is detailed as follows.

		2015		2014
Insurance revenues	$	**29,946**	$	30,603
Claims and expenses		**(13,043)**		(11,357)
Insurance income, net	$	**16,903**	$	19,246

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 $152.8 million as at October 31, 2015 ($133.6 million as at October 31, 2014).

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 $572.4 million as at October 31, 2015 ($34.8 million as at October 31, 2014).

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.

29. COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES [CONT'D]

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.

			2015
	Premises	Information technology service contracts	Other
Due within one year	$ 62,263	$ 58,375	$ 10,880
Due within 1 to 5 years	165,415	80,011	26,550
Due after 5 years	54,706	930	—
	282,384	139,316	37,430
Less: Future minimum sublease payments to be received	(16,547)	—	—
Total	$ 265,837	$ 139,316	$ 37,430

Payments under these commitments recognized as an expense amounted to $54.3 million for the year ended October 31, 2015 ($55.4 million for the year ended October 31, 2014).

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.

	2015	2014
Pledged assets:		
To participate in clearing and payment systems	$ 365,349	$ 355,020
For obligations related to securities sold under repurchase agreements and for securities borrowed	2,728,339	3,035,243
For obligations related to derivatives in a liability position	80,712	63,414
	$ 3,174,400	$ 3,453,677
Pledged assets are detailed as follows:		
Securities	$ 2,950,705	$ 3,244,241
Residential mortgage loans (NHA MBS)	223,695	209,436
	$ 3,174,400	$ 3,453,677

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.

30. BUSINESS COMBINATIONS

GAIN ON ACQUISITION AND AMORTIZATION OF NET PREMIUM ON PURCHASED FINANCIAL INSTRUMENTS

On August 1, 2012, the Bank acquired 100% of the outstanding shares of AGF Trust Company (AGF Trust) from AGF Management Limited. 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 $13.3 million is being amortized in net income over the estimated remaining term of the purchased financial instruments and amounted to $6.0 million for the year ended October 31, 2015 ($5.6 million for the year ended October 31, 2014).

CONTINGENT CONSIDERATION

On May 30, 2014, the Bank reached an agreement with AGF Management Limited to settle the contingent consideration which was initially valued at $5.9 million for a total amount of $10.0 million. Accordingly, the Bank recorded an additional $4.1 million non tax-deductible charge in 2014 to reflect the impact of the agreement.

COSTS RELATED TO BUSINESS COMBINATIONS

In 2014, the Bank incurred costs related to IT systems conversion, salaries, professional fees 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. Integration of the AGF Trust operations and related costs were finalized in the fourth quarter of 2014.

Condensed Consolidated Balance Sheet

As at October 31 (in thousands of Canadian dollars, unaudited)	2015	2014	2013	2012 [1] [2]	2011 [1] [2]
ASSETS					
Cash and non-interest-bearing deposits with other banks	$ **109,055**	$ 126,247	$ 82,836	$ 90,860	$ 81,600
Interest-bearing deposits with other banks	**91,809**	122,608	126,002	480,183	285,459
Securities	**4,487,357**	4,880,460	4,480,525	6,142,961	5,175,866
Securities purchased under reverse repurchase agreements	**3,911,439**	3,196,781	1,218,255	631,202	720,317
Loans					
Personal	**7,063,229**	6,793,078	7,245,474	7,806,067	5,774,207
Residential mortgage	**16,192,009**	14,825,541	14,735,211	14,169,095	11,869,412
Commercial mortgage	**3,055,619**	2,651,271	2,488,826	2,443,634	2,363,808
Commercial and other	**3,308,144**	2,794,232	2,488,137	2,150,953	1,900,977
Customers' liabilities under acceptances	**473,544**	365,457	271,049	211,130	179,140
	30,092,545	27,429,579	27,228,697	26,780,879	22,087,544
Allowances for loan losses	**(111,153)**	(119,371)	(115,590)	(117,542)	(143,150)
	29,981,392	27,310,208	27,113,107	26,663,337	21,944,394
Other	**1,078,452**	846,481	890,301	928,283	755,574
	$ **39,659,504**	$ 36,482,785	$ 33,911,026	$ 34,936,826	$ 28,963,210
LIABILITIES AND SHAREHOLDERS' EQUITY					
Deposits					
Personal	$ **19,377,716**	$ 18,741,981	$ 19,282,042	$ 19,369,310	$ 15,609,853
Business, banks and other	**7,226,588**	5,781,045	4,645,308	4,672,133	4,406,428
	26,604,304	24,523,026	23,927,350	24,041,443	20,016,281
Other	**5,524,930**	5,103,778	3,129,918	2,873,563	2,725,215
Debt related to securitization activities	**5,493,602**	4,863,848	4,974,714	6,037,097	4,760,847
Subordinated debt	**449,641**	447,523	445,473	443,594	242,551
Shareholders' equity	**1,587,027**	1,544,610	1,433,571	1,541,129	1,218,316
	$ **39,659,504**	$ 36,482,785	$ 33,911,026	$ 34,936,826	$ 28,963,210

Condensed Consolidated Statement of Income — Reported

For the years ended October 31 (in thousands of Canadian dollars, unaudited)	2015	2014	2013	2012 [2]	2011 [2]
Net interest income	$ **575,083**	$ 560,980	$ 568,760	$ 531,028	$ 504,485
Other income	**322,043**	313,085	296,577	265,615	233,862
Total revenue	**897,126**	874,065	865,337	796,643	738,347
Gain on acquisition, amortization of net premium on purchased financial instruments and revaluation of contingent consideration	**5,999**	9,653	4,426	(23,795)	—
Provision for loan losses	**34,900**	42,000	36,000	33,000	51,080
Non-interest expenses	**722,824**	641,309	674,079	604,463	530,111
Income before income taxes	**133,403**	181,103	150,832	182,975	157,156
Income taxes	**30,933**	40,738	31,355	42,467	33,439
Net income	$ **102,470**	$ 140,365	$ 119,477	$ 140,508	$ 123,717
Preferred share dividends, including applicable taxes	**9,602**	10,985	11,749	12,768	12,436
Net income available to common shareholders	$ **92,868**	$ 129,380	$ 107,728	$ 127,740	$ 111,281

(1) Comparative figures prior to 2013 were not restated to reflect the adoption of amendments to IAS 32, *Financial Instruments: Presentation*.

(2) Comparative figures prior to 2013 were not restated to reflect the adoption of amendments to IAS 19, *Employee Benefits*.

Condensed Consolidated Statement of Income — Adjusted [1]

For the years ended October 31 (in thousands of Canadian dollars, unaudited)	2015	2014	2013	2012 [2]	2011 [2]
Net interest income	**$ 575,083**	$ 560,980	$ 568,760	$ 531,028	$ 504,485
Other income	**322,043**	313,085	296,577	265,615	233,862
Total revenue	**897,126**	874,065	865,337	796,643	738,347
Provision for loan losses	**34,900**	42,000	36,000	33,000	51,080
Adjusted non-interest expenses	**639,560**	620,807	629,539	582,466	521,105
Adjusted income before income taxes	**222,666**	211,258	199,798	181,177	166,162
Adjusted income taxes	**50,467**	47,676	44,362	40,517	35,779
Adjusted net income	**$ 172,199**	$ 163,582	$ 155,436	$ 140,660	$ 130,383
Preferred share dividends, including applicable taxes	**9,602**	10,985	11,749	12,768	12,436
Adjusted net income available to common shareholders	**$ 162,597**	$ 152,597	$ 143,687	$ 127,892	$ 117,947

Highlights

As at and for the years ended October 31 (in thousands of Canadian dollars, except per share and percentage amounts, unaudited)	2015	2014	2013	2012 [2]	2011 [2]
Profitability					
Diluted earnings per share	**$ 3.21**	$ 4.50	$ 3.80	$ 4.98	$ 4.65
Return on common shareholders' equity [1]	**6.8 %**	10.1%	9.1%	12.1 %	12.2%
Net interest margin (on average earning assets) [3]	**1.84 %**	1.88%	n.m.	n.m.	n.m.
Efficiency ratio [1]	**80.6 %**	73.4%	77.9%	75.9 %	71.8%
Adjusted financial measures					
Adjusted diluted earnings per share [1]	**$ 5.62**	$ 5.31	$ 5.07	$ 4.98	$ 4.93
Adjusted return on common shareholders' equity [1]	**12.0 %**	11.9%	12.1%	12.0 %	12.9%
Adjusted efficiency ratio [1]	**71.3 %**	71.0%	72.8%	73.1 %	70.6%
Adjusted dividend payout ratio [1]	**39.2 %**	38.7%	39.0%	36.9 %	32.9%
Per common share					
Share price — Close	**$ 52.97**	$ 49.58	$ 46.55	$ 44.45	$ 45.98
Price / earnings ratio	**16.5x**	11.0x	12.3x	8.9x	9.9x
Book value [1]	**$ 46.33**	$ 45.89	$ 43.19	$ 42.81	$ 39.59
Market to book value [1]	**114 %**	108%	108%	104 %	116%
Dividends declared	**$ 2.20**	$ 2.06	$ 1.98	$ 1.84	$ 1.62
Dividend yield [1]	**4.2 %**	4.2%	4.3%	4.1 %	3.5%
Dividend payout ratio [1]	**68.6 %**	45.7%	52.0%	37.0 %	34.8%
Average volumes (in millions of dollars)					
Average assets [4]	**$ 37,822**	$ 35,560	$ 34,199	$ 31,465	$ 27,768
Average earning assets [1] [3]	**$ 31,248**	$ 29,856	n.m.	n.m.	n.m.
Average common shareholders' equity	**$ 1,356**	$ 1,281	$ 1,187	$ 1,059	$ 915
Quality of assets					
Provision for loan losses (as a % of average loans and acceptances)	**0.12 %**	0.15%	0.13%	0.14 %	0.24%
Regulatory capital ratio					
Common Equity Tier 1 — All-in basis	**7.6 %**	7.9%	7.6%	n.a.	n.a.
Other information					
Number of common shares outstanding (in thousands)	**28,957**	28,943	28,532	28,118	23,925
Number of full-time equivalent employees	**3,656**	3,667	3,987	4,201	3,669
Number of branches	**150**	152	153	157	158
Number of automated banking machines	**405**	418	422	426	427

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

(2) Comparative figures prior to 2013 were not restated to reflect the adoption of amendments to IAS 19, *Employee Benefits*.

(3) Comparative figures for 2014 were restated to reflect the adoption of the amendments to IAS 32, *Financial Instruments: Presentation* and the modification of the Bank's definition of average earning assets. Comparative figures prior to 2014 have not been restated to reflect the adoption of these amendments. Refer to the non-GAAP financial measures and external reporting changes sections of the MD&A.

(4) Comparative figures prior to 2013 were not restated to reflect the adoption of the amendments to IAS 32, *Financial Instruments: Presentation.*

As at and for the quarters ended (in thousands of Canadian dollars, except per share and percentage amounts, unaudited)	2015				2014			
	OCT. 31	JULY 31	APRIL 30	JAN. 31	OCT. 31	JULY 31	APRIL 30	JAN. 31
Profitability								
Total revenue	**$ 231,649**	**$ 226,638**	**$ 220,679**	**$ 218,160**	$ 221,421	$ 219,645	$ 216,890	$ 216,109
Net income (loss)	**$ (18,719)**	**$ 44,166**	**$ 41,188**	**$ 35,835**	$ 33,754	$ 40,097	$ 30,989	$ 35,525
Diluted earnings (loss) per share	**$ (0.73)**	**$ 1.44**	**$ 1.34**	**$ 1.15**	$ 1.09	$ 1.27	$ 0.99	$ 1.16
Return on common shareholders' equity [1]	**(6.1)%**	**12.1%**	**11.8 %**	**9.9 %**	9.5 %	11.2 %	9.2 %	10.5 %
Net interest margin (on average earning assets) [1]	**1.84 %**	**1.85%**	**1.84 %**	**1.83 %**	1.84 %	1.89 %	1.93 %	1.86 %
Efficiency ratio [1]	**104.6 %**	**71.1%**	**71.9 %**	**73.7 %**	75.1 %	71.0 %	73.7 %	73.6 %
Operating leverage [1]	**(48.3)%**	**1.3%**	**2.4 %**	**1.9 %**	(5.8)%	3.7 %	(0.1)%	8.1 %
Adjusted financial measures								
Adjusted net income [1]	**$ 44,127**	**$ 45,291**	**$ 42,313**	**$ 40,468**	$ 42,591	$ 42,355	$ 39,375	$ 39,261
Adjusted diluted earnings per share [1]	**$ 1.44**	**$ 1.48**	**$ 1.38**	**$ 1.32**	$ 1.39	$ 1.35	$ 1.29	$ 1.29
Adjusted return on common shareholders' equity [1]	**12.1 %**	**12.4%**	**12.1 %**	**11.3 %**	12.2 %	11.9 %	11.9 %	11.7 %
Adjusted efficiency ratio [1]	**70.8 %**	**71.1%**	**71.9 %**	**71.4 %**	70.3 %	70.3 %	71.7 %	71.8 %
Adjusted operating leverage [1]	**0.4 %**	**1.3%**	**(0.7)%**	**(1.5)%**	(0.1)%	2.0 %	0.2 %	1.1 %
Adjusted dividend payout ratio [1]	**38.9 %**	**37.8%**	**39.2 %**	**41.1 %**	37.3 %	38.6 %	39.6 %	39.6 %
Per common share								
Share price — Close	**$ 52.97**	**$ 49.48**	**$ 48.29**	**$ 46.81**	$ 49.58	$ 51.55	$ 47.08	$ 45.73
Price / earnings ratio (trailing four quarters)	**16.5 x**	**9.8 x**	**9.9 x**	**10.4 x**	11.0 x	12.2 x	12.3 x	11.8 x
Book value [1]	**$ 46.33**	**$ 47.45**	**$ 47.10**	**$ 46.34**	$ 45.89	$ 45.10	$ 44.61	$ 44.03
Market to book value [1]	**114 %**	**104%**	**103 %**	**101 %**	108 %	114 %	106 %	104 %
Dividends declared	**$ 0.56**	**$ 0.56**	**$ 0.54**	**$ 0.54**	$ 0.52	$ 0.52	$ 0.51	$ 0.51
Dividend yield	**4.2 %**	**4.5%**	**4.5 %**	**4.6 %**	4.2 %	4.0 %	4.3 %	4.5 %
Dividend payout ratio [1]	**n. m.**	**38.8%**	**40.3 %**	**46.7 %**	47.8 %	40.9 %	51.3 %	44.1 %
Quality of assets								
Provision for loan losses (as a % of average loans and acceptances)	**0.13 %**	**0.10%**	**0.12 %**	**0.15 %**	0.15 %	0.15 %	0.16 %	0.15 %
Net impaired loans (as a % of loans and acceptances)	**0.32 %**	**0.29%**	**0.32 %**	**0.31 %**	0.23 %	0.23 %	0.23 %	0.24 %
Regulatory capital ratios								
Common Equity Tier 1 — All-in basis	**7.6 %**	**7.7%**	**7.8 %**	**7.8 %**	7.9 %	7.7 %	7.6 %	7.6 %
Basel III Leverage ratio	**3.5 %**	**3.6%**	**3.7 %**	**3.7 %**	n.a.	n.a.	n.a.	n.a.
Other information								
Number of common shares outstanding (in thousands)	**28,957**	**28,957**	**28,945**	**28,945**	28,943	28,837	28,743	28,643

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

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 Chair of the Board).

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 Executive 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.

Alma
500 Sacré-Coeur St. W.
Amos
1 1st Avenue W.
Baie-Comeau
600 Laflèche Blvd.
Beloeil
546 Sir-Wilfrid-Laurier Blvd.
Blainville
1356 Curé-Labelle Blvd., Suite 222
9 de la Seigneurie
Boisbriand
2250 du Faubourg Blvd.
Boucherville
999 Montarville Blvd.
Brossard
1635 Rome Blvd.
Campbell's Bay
148 Front St., P.O. Box 189
Chambly
1495 Brassard St.
Châteauguay
111 Saint-Jean Baptiste Blvd.
Chibougamau
530 3rd Street
Dolbeau–Mistassini
1372 Wallberg Blvd.
Dollard-des-Ormeaux
4057 Saint-Jean Hill
3500 des Sources Blvd.
Drummondville
571 Saint-Joseph Blvd.
Fort Coulonge
532 Baume St.
Gatineau
325 Gréber Blvd, L Unit
75 du Plateau, Unit 109
770 Saint-Joseph Blvd.
Granby
40 Évangéline St.
Grand-Mère
531 6th Avenue
Grenville
240 Principale St.
Joliette
373 Notre-Dame St.
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1430 Poirier St., Saint-Laurent
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Suite 350

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3500 de Maisonneuve Blvd. W.
Suite 1975
Place Alexis-Nihon, Tour 2

Québec
2505 Laurier Blvd.
Suite 100

Pierrefonds
3876 Saint-Charles Blvd.

Rimouski
320, Saint-Germain St. E.
Le Séjour Building

Saint-Jean-sur-Richelieu
100 Richelieu St.
Suite 150

Thetford Mines
222 Frontenac Blvd. W.
Suite 101

Toronto
130 Adelaide St. W.
Suite 301

Winnipeg
201, Portage Avenue
Suite 640

Laurentian Trust of Canada Inc.

Montréal – Head Office
1981 McGill College Avenue

Montréal
555 Chabanel St. W.
Suite 520

LBC Financial Services Inc.

Montréal
1350, René-Lévesque Blvd. W.
12th Floor

LBC Trust

Montréal – Head Office
1981 McGill College Avenue

Montreal
555 Chabanel St. W.
Suite 520

Private Banking

Montréal
1981 McGill College Avenue
2nd Floor

CONSOLIDATED SUBSIDIARIES

AS AT OCTOBER 31, 2015

CORPORATE NAME	HEAD OFFICE LOCATION	BOOK VALUE OF VOTING SHARES OWNED BY THE BANK[1] ($000)	PERCENTAGE OF VOTING SHARES OWNED BY THE BANK
B2B Bank	Toronto, Canada	$676,612	100%
Wholly-owned subsidiaries			
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	$326,379	100%
Wholly-owned subsidiary			
V.R. Holding Insurance Company Ltd	St. James, Barbados		
Laurentian Trust of Canada Inc.	Montreal, Canada	$118,942	100%
LBC Trust	Montreal, Canada	$ 89,192	100%
Laurentian Bank Securities Inc.	Montreal, Canada	$120,706	100%
Wholly-owned subsidiary			
Laurentian Capital (USA) Inc.	Montreal, Canada		
LBC Financial Services Inc.	Montreal, Canada	$ 6,981	100%
Laurentian Bank Insurance Inc.	Montreal, Canada	$ 7	100%

(1) The book value of shares with voting rights corresponds to the Bank's interest in the equity of subsidiary shareholders.

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.

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. The Basel II Accord also introduced the Advanced Internal-Ratings Based approach.

Basel III is a comprehensive set of reform measures, developed by the BCBS, to strengthen the Basel II Accord as well as the supervision and risk management of the banking sector. These measures also introduced 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) in a transaction fails to fully honour its contractual of financial obligation towards the Bank.

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 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.

Liquidity coverage ratio measures the sufficiency of high-quality liquid assets available to meet net short-term financial obligations over a thirty day period in an acute stress scenario.

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 (or average earning 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 Superintendant 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%.

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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 6, 2016, at 9:30 a.m., at TMX Broadcast Centre, venue: Galerie, 130 King Street W., Toronto, Ontario M5X 1J2

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
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Investor Services Inc.
1500 Robert-Bourassa Blvd., 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. 4926.

MEDIA
Journalists may contact the Executive Office 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.

Vous pouvez recevoir une version française de ce rapport annuel en faisant parvenir votre demande par écrit à :
Banque Laurentienne
1981, avenue McGill College,
20e 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	February 1
		April	May 1
		July	August 1
		October	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.

LAURENTIAN
BANK