2016 ANNUAL REPORT

LAURENTIAN BANK

MINDSET

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

WHY INVEST IN LAURENTIAN BANK?

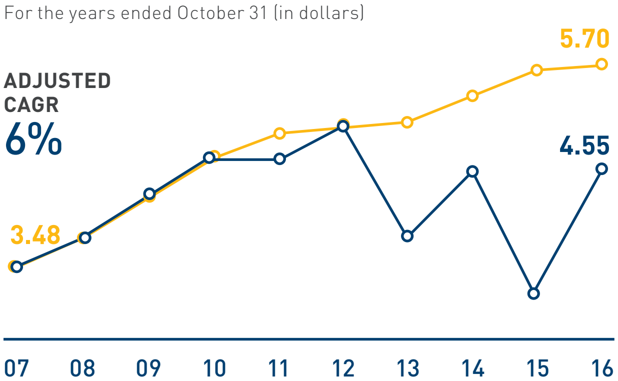
With a market value of over $1.7 billion as at October 31, 2016, we are a small cap financial institution that chooses to invest in select core businesses that have strong growth potential.

- We seek to generate consistent and sustainable earnings growth.
- We look to reward our shareholders with regular dividend increases.
- Our shares provide investors with an attractive dividend yield.
- Our status as a safe harbour rests on our history of good credit quality.
- Our client-focus is 100% Canadian.

Our strategic plan positions Laurentian Bank for success. It will drive returns and create long-term shareholder value.

DILUTED EARNINGS PER SHARE (EPS)[1, 2]

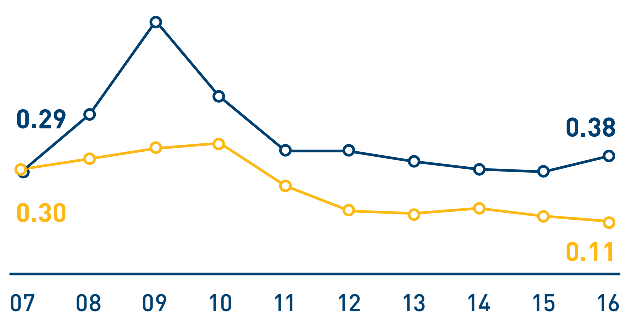
For the years ended October 31 (in dollars)



ADJUSTED DILUTED EARNINGS PER SHARE (EPS)
DILUTED EPS

PROVISION FOR CREDIT LOSSES[1, 2]

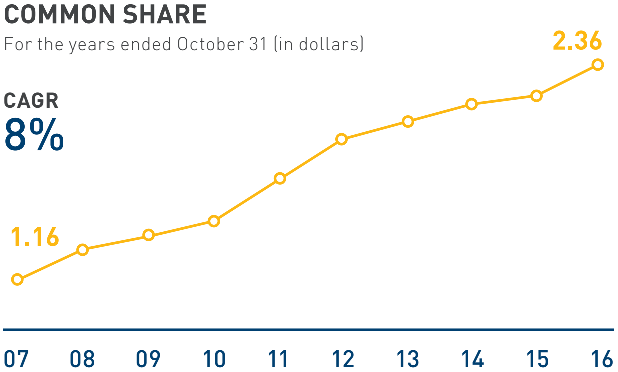
(as a percentage of average loans and acceptances)
For the years ended October 31



LAURENTIAN BANK
CANADIAN BANKING INDUSTRY (BIG 6) – FOR A PERIOD OF 9 MONTHS IN 2016

DIVIDENDS DECLARED PER COMMON SHARE

For the years ended October 31 (in dollars)



10 YEAR TOTAL SHAREHOLDER RETURN

For the period ended October 31, 2016

*XFN: iShares S&P/TSX capped financials index ETF

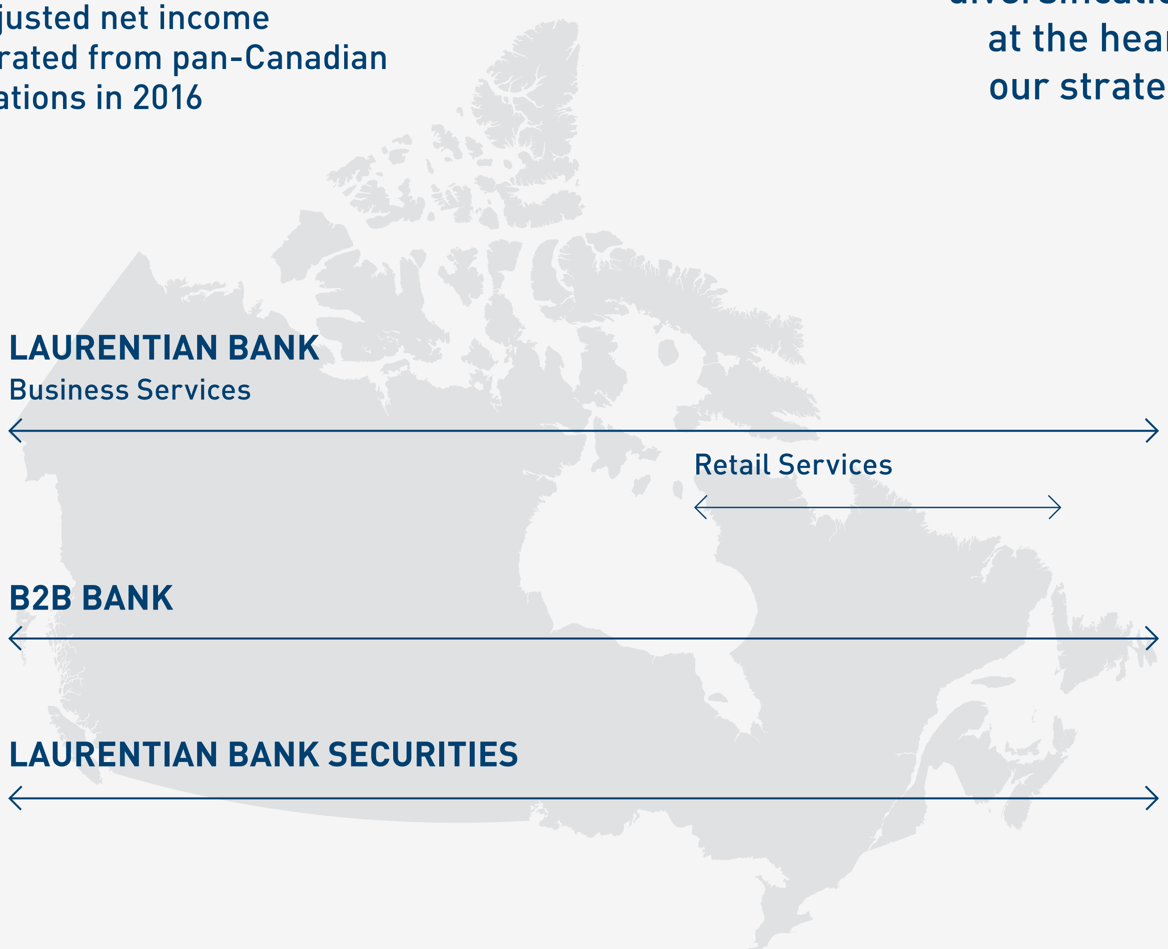
1 Comparative figures prior to 2011 in accordance with previous Canadian GAAP.
2 Comparative figures prior to 2013 were not restated to reflect the adoption of amended IFRS accounting standard on employee benefits.

WHO WE ARE

87%

of adjusted net income generated from pan-Canadian operations in 2016

Geographic diversification is at the heart of our strategies



LAURENTIAN BANK

Business Services

- Commercial business banking and equipment financing
- Real Estate financing

Retail Services

- Comprehensive line of financial services for retail customers

B2B BANK

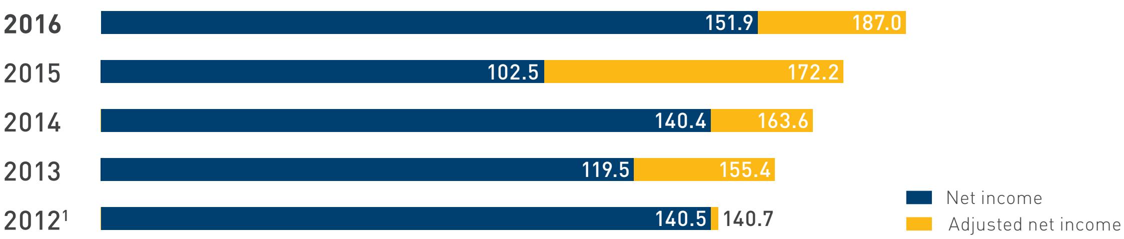
- Products & services designed to enable independent brokers and advisors to build their client's wealth

LAURENTIAN BANK SECURITIES

- Capital markets
- Integrated full-service investment dealer

HIGHLIGHTS

NET INCOME
In millions of dollars



TOTAL REVENUE
In millions of dollars

2016

$915.5

2012	2013	2014	2015
796.6	865.3	874.1	897.1

DEPOSITS
In billions of dollars

2016

$27.6

2012	2013	2014	2015
24.0	23.9	24.5	26.6

We set ambitious growth targets and made good progress in key business areas.

LOANS AND ACCEPTANCES
In billions of dollars

2016

$33.4

2012	2013	2014	2015
26.8	27.2	27.4	30.1

PROVISION FOR CREDIT LOSSES
As a percentage of average loans and acceptances

2016

0.11%

2012	2013	2014	2015
0.14	0.13	0.15	0.12

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

PROGRESS ON OUR MEDIUM-TERM PERFORMANCE AND GROWTH TARGETS

PERFORMANCE

Adjusted ROE

12.0%

Narrow gap to 300 bps by 2019[1]

Adjusted Efficiency Ratio

69.6%

< 68% by 2019

Adjusted Diluted EPS

$5.70

Grow by 5% to 10% annually

Adjusted Operating Leverage

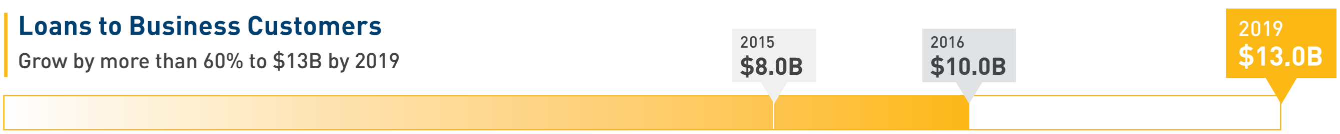
2.5%

Positive

GROWTH[2]

Loans to Business Customers

Grow by more than 60% to $13B by 2019

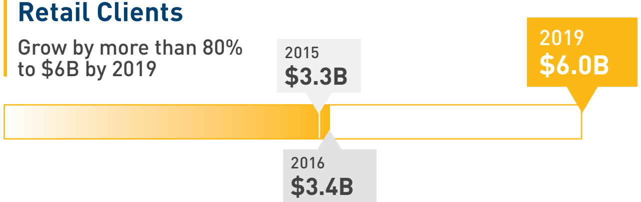


Residential Mortgage Loans Through Independent Brokers and Advisors

Grow by more than 50% to $9B by 2019

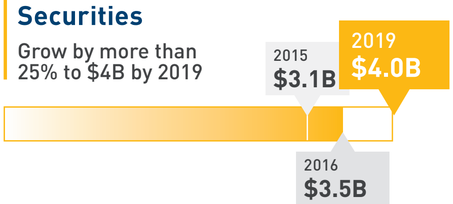
Mutual Funds to Retail Clients

Grow by more than 80% to $6B by 2019



Assets Under Management at Laurentian Bank Securities

Grow by more than 25% to $4B by 2019



1 Compared to the major Canadian banks and achieve a comparable ROE by 2022.

2 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.

MESSAGE FROM THE CHAIR OF THE BOARD

Ms. Courville chairs the Board of Laurentian Bank since 2013 and has served on the Board of Directors since 2007. An engineer and lawyer by training, Ms. Courville was successively President of the Hydro-Québec TransÉnergie division and of the Distribution division from 2007 until 2013. Before joining the state-owned enterprise, she notably was President of Bell Canada's Enterprise Group and President and Chief Executive Officer of Bell Nordiq Group between 2001 and 2006.

The year 2016 has been pivotal both in terms of achievements that have created value for our shareholders and of initiatives which have been put in place to ensure future growth.

During the last fiscal year, our new senior management team, under the leadership of President and Chief Executive Officer, François Desjardins, have made a determined start on those elements planned in the first year of the strategic transformation plan. The Board of Directors supported the senior management in this regard by monitoring the main initiatives as well as by reviewing and approving major projects, including the acquisition of CIT's Canadian equipment financing and corporate financing activities (CIT Canada). It also approved a risk management framework updated to take into account the new strategic plan as well as regulatory requirements. The Board is satisfied with the progress made in recent months and is confident that the Bank will successfully achieve the transformation that will ensure its long term success.

The Board members completed a comprehensive exercise with the aim of enhancing the governance practices of the Bank. We believe that strong leadership in this area is critical to deal effectively with the number, complexity and variety of challenges shaping today's Canadian financial landscape. For this reason, we have set annual governance improvement targets which take into account the evolution of our industry as well as the interests and expectations of the various stakeholders of the Bank.

This year, the Board formalized its commitment towards diversity and adopted a policy for that purpose. Henceforth, when considering candidates for directorship, the application review process will take into account the candidate's combination of competencies and expertise, regional origin, industry background as well as gender and ethnicity. This diversity of backgrounds enriches the Board deliberations and therefore improves its overall effectiveness and that of its various committees.

For several years now, the Board has used a rigorous performance assessment process of its directors to maximise its performance. This year, we have also adopted a framework dealing with term limits for directors, committee chairs and chair of the Board. This will enhance Board performance by allowing, notably, the acquisition of the needed skills over time and will maintain the required independence for effective decision-making.

Finally, we have adopted a special executive incentive program for the senior executive team to support the Bank's transformation plan. This program aligns the performance measures and the strategic directions of the organization.

On behalf of my colleagues, I would like to thank Jean Bazin and Pierre Genest who left the Board of Directors this year. We have also welcomed a new Director, Sonia Baxendale, who has also joined the Audit Committee. She brings a wealth of experience from Saatchi & Saatchi, Amex Bank of Canada and more than 20 years at CIBC.

I would like to commend my fellow directors for their valuable contributions during the past year. On behalf of the entire Board I want to recognize the work of the management team whose expertise and leadership have helped the Bank to generate value. I also want to thank our employees whose dedicated work help our clients improve their financial health. Finally, I want to express my sincere appreciation to our shareholders and to our clients for the loyalty they show in support of the Bank.

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

SONIA BAXENDALE

Corporate Director

Has served on the Board of Directors since August 2016

Member of the Audit Committee

RICHARD BÉLANGER, FCPA, FCA

President of Toryvel Group Inc.

Has served on the Board of Directors since March 2003

Member of the Human Resources and Corporate Governance Committee

MICHAEL T. BOYCHUK, FCPA, FCA

Corporate Director

Has served on the Board of Directors since August 2013

Chair of the Audit Committee and member of the Risk Management Committee

FRANÇOIS DESJARDINS

President and Chief Executive Officer of the Bank

Has served on the Board of Directors since November 2015

Mr. Desjardins does not sit on any of the Board's committees.

MICHEL LABONTÉ

Corporate Director

Has served on the Board of Directors since March 2009

Chair of the Risk Management Committee and member of the Human Resources and Corporate Governance Committee

A. MICHEL LAVIGNE, FCPA, FCA

Corporate Director

Has served on the Board of Directors since March 2013

Member of the Risk Management Committee and member of the Human Resources and Corporate Governance 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

Chair 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 was named President and Chief Executive Officer of Laurentian Bank on November 1, 2015. After joining Laurentian Bank in 1991, he quickly rose through the ranks. A seasoned manager, he was appointed President and Chief Executive Officer of B2B Bank in 2004 and Executive Vice President of Laurentian Bank in 2006.

One year ago, Laurentian Bank announced its seven-year transformation plan with clear objectives to accomplish by 2022: achieve a return on equity that is comparable to the Canadian banking industry, double the size of our organization and, build a solid strategic foundation.

After 12 months, we are well on our way to success. The work that the team has accomplished thus far is impressive.

PUTTING THE CUSTOMER FIRST

Looking towards the future, we see opportunity in the changing behaviors of consumers. Be it for personal or business needs, they are increasingly adopting a digital way of life. By staying true to our value proposition, which puts the needs of our customers first, we will stay relevant and competitive.

BUILDING THE TEAM THAT WILL GET US THERE

To deliver results, our teams' efforts, goals, aspirations and priorities must be aligned. To that end, we rebuilt the first layers of the executive team, optimized our decision-making process and recruited talent in key positions. We also adjusted the individual performance targets and compensation plans and shared our renewed mission, values and strategic objectives directly with team members across the country. These efforts will result in teams being even more engaged towards achieving their objectives.

GETTING THE CRITICAL INITIATIVES UNDERWAY

The transformation plan allows us to focus our efforts, reduce execution risk, cut redundancies and deliver tangible results. Early in the year, we started work on critical initiatives, which include:

- The implementation of a core banking system – the backbone to our digital offer.
- The migration to the AIRB approach – key to building a more robust credit risk management framework.
- The reduction of corporate expenses – essential to achieving a better efficiency ratio.

ENSURING GROWTH AND PERFORMANCE THROUGH LESS THAN IDEAL CONDITIONS

Economic and regulatory environments continue to be challenging, but the greatest test facing the industry is achieving revenue growth despite margin compression.

We set ambitious growth targets and made good progress in key areas of the business. This, combined with expense reductions and low loan losses, has allowed us to maintain our adjusted return on equity at 12% while the Canadian banking industry average fell by 2%, to 15%. As such, closing the gap on ROE is now our measurement of success.

The acquisition of CIT Canada represented a great opportunity for us. Indeed, our Business Services team had already been growing the equipment financing division, and the addition of a strong team, new customers and well-established processes brings us to a new level.

MAINTAINING THE COURSE IN 2017

We will deliver the planned activities related to critical initiatives started in 2016 to ensure on-time and on-budget delivery. I am confident this can be accomplished with the dedication and contribution of the teams in place. I sincerely thank all our team members for their hard work, commitment and trust.

On the next few pages, we highlight the reasons why you might be interested in our organization: what we stand for, what we aspire to become and how we plan to get there.

I invite you to join us as we build the next great Canadian financial institution.

FRANÇOIS DESJARDINS
President and Chief Executive Officer

EXECUTIVE COMMITTEE

SUSAN KUDZMAN, FSA, FICA, CERA

Executive Vice President, Chief Risk Officer and Corporate Affairs

Since 2015, Susan Kudzman has been responsible for risk management, credit management, legal affairs, and corporate human resources. Drawing upon 30 years of experience, Susan Kudzman is an actuary and a specialist in the fields of risk management and human resources. She occupied the position of Chief Risk Officer at the Caisse de dépôt et placement du Québec and held a number of senior management positions at prominent organizations. She also serves on the Board of Directors of Transat and Yellow Pages.

FRANÇOIS LAURIN, FCPA, FCA, CFA

Executive Vice President, Chief Financial Officer

François Laurin is responsible for the Bank's activities in the areas of finance, accounting, treasury, taxation, investor relations, mergers and acquisitions, and internal audit. He has held this role since 2015. With 30 years of experience in corporate financing and financial accounting, François Laurin 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 joined B2B Bank in 2011. In 2015, she was appointed President and Chief Executive Officer of B2B Bank and Chief Information Officer for Laurentian Bank, where she oversees the development and management of information technologies. Prior to joining B2B Bank, Deborah Rose was Senior Vice President, Business Operations at International Financial Data Services. Her career in financial services spans over 20 years.

STÉPHANE THERRIEN

Executive Vice President, Personal & Commercial Banking and President and Chief Executive Officer of LBC Financial Services

Stéphane Therrien has led the Business Services unit since 2012, the year he joined Laurentian Bank. In 2015, he was also appointed to head the Bank's Retail Services. He is a seasoned manager with almost 30 years of experience in the financing sector. He has previously worked for 18 years at GE Capital where he has successfully occupied various senior management positions including seven years as Chief Commercial Officer, Canada.

MICHEL C. TRUDEAU

President and Chief Executive Officer, Laurentian Bank Securities and Executive Vice President, Capital Markets, Laurentian Bank

Michel Trudeau joined Laurentian Bank Securities in 1999 and has served as President and Chief Executive Officer since 2003. In 2009, his role was expanded to include overseeing Laurentian Bank's activities related to capital markets. Michel Trudeau has previously 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.

WE ARE ON A MISSION

PUTTING THE NEEDS OF OUR CUSTOMERS FIRST

Our customers inspire us to build the next great Canadian financial institution.

MISSION

We help customers improve their financial health

VISION

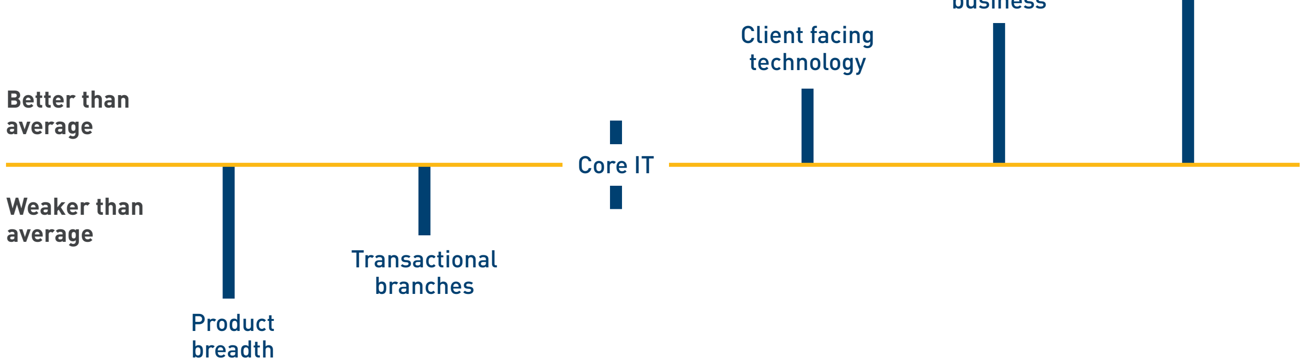
Everyone should have access to a financial professional

VALUES

Proximity • Simplicity • Honesty

STAYING TRUE TO OUR VALUE PROPOSITION

We will stay relevant and competitive by offering what our customers want: more advice, accessibility and digital tools.



ACHIEVING OUR 2022 STRATEGIC OBJECTIVES

Performance

Achieve an ROE that is comparable to the Canadian banking industry

Growth*

Double the size of our organization

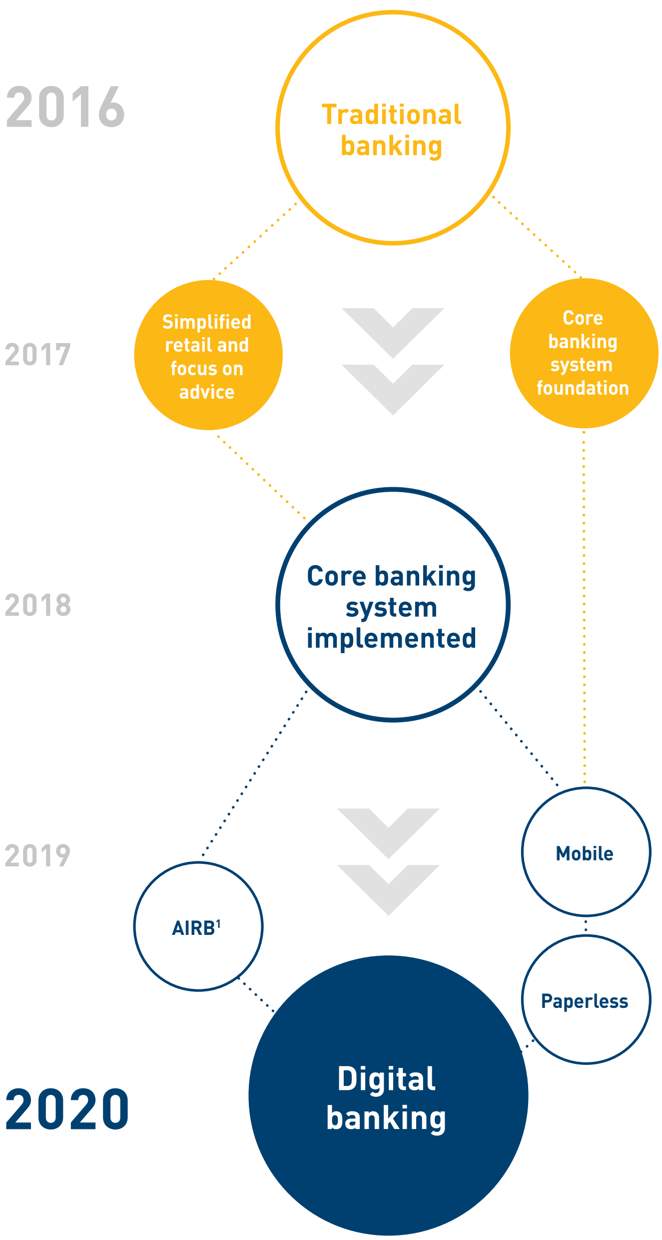
Foundation

Build a solid strategic foundation

* Compared with October 31, 2015.

PATH TO OUR TRANSFORMATION

We intend to transform by rigourously following our seven-year plan.



REMINDER OF OUR 2019 TARGETS[2]

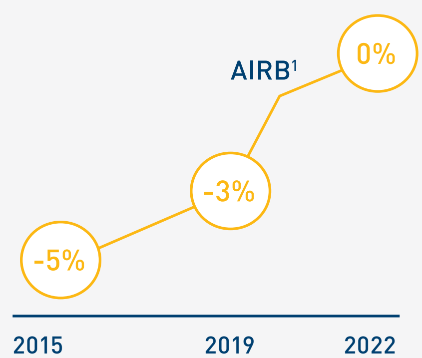
GROWTH*

1. Grow loans to business customers by more than 60% to $13B
2. Grow mortgage loans through independent brokers and advisors by more than 50% to $9B
3. Grow mutual funds to retail clients by more than 80% to $6B
4. Grow assets under management at LBS by more than 25% to $4B

* Compared with October 31, 2015

PERFORMANCE

Adjusted ROE gap target[3]



1 Advanced internal ratings-based (AIRB) approach. Based on the Bank's assessment of current regulatory requirements.
2 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.
3 Compared to the major Canadian banks.

OUR ACHIEVEMENTS AND PRIORITIES

PERFORMANCE

OUR ACHIEVEMENTS IN 2016

- Strong commitment to optimize Retail banking activities
- Progress towards reducing corporate expenses:
  - Agreement with IBM Canada to manage infrastructure and storage operations
- Optimization of securitization financing

OUR PRIORITIES FOR 2017

- Optimize Retail banking activities by merging branches, simplifying the product line, and increasing the size and effectiveness of our team of advisors
- Complete the integration of CIT Canada into LBC Capital
- Revamp product offering directed at independent brokers and advisors
- Continue improving efficiency by reducing expenses

GROWTH

OUR ACHIEVEMENTS IN 2016

- Growth of residential mortgage loans through independent brokers and advisors up 23% year-over-year
- Growth of loans to business customers up 25% year-over-year
- Acquisition of CIT Canada's activities to advance our commercial footprint and expand our pan-Canadian presence

OUR PRIORITIES FOR 2017

- Continue targeted market approach fueling strong and profitable growth
- Focus on financial advice and distribution of mutual funds in Retail Services
- Continue profitable growth and increase assets under management at LBS

FOUNDATION

OUR ACHIEVEMENTS IN 2016

- New core banking system:
  - Agreement with Temenos
- Resume activities for migration to the AIRB approach
- Lease signed for new premises to centralize corporate offices in Montreal, realize synergies and promote a culture based on performance

OUR PRIORITIES FOR 2017

- Continue executing the development of:
  - The core banking platform
  - A more robust credit framework by continuing to work towards migration to the AIRB approach
  - Collaborative spaces for new corporate premises in Montreal

2016 PERFORMANCE

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

	2016	2015	2014
ADJUSTED FINANCIAL MEASURES [1]			
Adjusted net income	**$187,013**	$172,199	$ 163,582
Adjusted diluted earnings per share	**$5.70**	$5.62	$5.31
Adjusted return on common shareholders' equity	**12.0%**	12.0%	11.9%
Adjusted efficiency ratio	**69.6%**	71.3%	71.0%
Adjusted operating leverage	**2.5%**	(0.4)%	2.4%
Adjusted dividend payout ratio	**42.4%**	39.2%	38.7%
FINANCIAL MEASURES			
Total revenue	**$915,451**	$897,126	$874,065
Net income	**$151,910**	$102,470	$140,365
Diluted earnings per share	**$4.55**	$3.21	$4.50
Return on common shareholders' equity [1]	**9.6%**	6.8%	10.1%
Efficiency ratio [1]	**74.2%**	80.6%	73.4%
Operating leverage [1]	**8.0%**	(10.1)%	5.9%
Dividend payout ratio	**53.1%**	68.6%	45.7%
PER COMMON SHARE			
Share price – Close	**$49.57**	$52.97	$49.58
Book value	**$47.92**	$46.33	$45.89
Dividends declared	**$2.36**	$2.20	$2.06
Dividend yield	**4.8%**	4.2%	4.2%
FINANCIAL POSITION			
Balance sheet assets	**$43,006,340**	$39,659,504	$36,482,785
Loans and acceptances	**$33,378,723**	$30,092,545	$27,429,579
Deposits	**$27,573,345**	$26,604,304	$24,523,026
Common shareholders' equity	**$1,621,557**	$1,341,637	$1,328,187
QUALITY OF ASSETS			
Provision for credit losses as a percentage of average loans and acceptances	**0.11%**	0.12%	0.15%
BASEL III REGULATORY CAPITAL RATIO – ALL-IN BASIS			
Common Equity Tier 1 (under the standardized approach)	**8.0%**	7.6%	7.9%

1 Refer to the non-GAAP financial measures section in the Management's Discussion and Analysis.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED OCTOBER 31, 2016

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, 2016 and how it performed during the year then ended. This MD&A, dated December 6, 2016, should be read in conjunction with the audited annual consolidated financial statements for the year ended October 31, 2016 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, 2016, 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, 2016 and 2015 is presented on the same basis as in the audited annual consolidated financial statements prepared in accordance with IFRS. Certain comparative figures have been reclassified to conform to the current year presentation.

All amounts are denominated in Canadian dollars.

TABLE OF CONTENTS

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 (the "Bank") 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 readers 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 prospect, 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 be 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, as well as developments in the technological environment. Furthermore, these factors include the ability to execute the Bank's transformation plan and in particular the successful reorganization of retail branches, the modernization of the core banking system and adoption of the Advanced Internal Ratings-Based approach to credit risk (the AIRB approach).

With respect to the anticipated benefits from the acquisition of the Canadian equipment financing and corporate financing activities of CIT Group Inc. ("CIT Canada") and statements with regards to this transaction being accretive to earnings, such factors also include, but are not limited to: the ability to realize synergies in the anticipated time frame, the ability to promptly and effectively integrate the businesses, reputational risks and the reaction of the Bank's and CIT Canada's customers to the transaction, and diversion of management time on acquisition-related issues.

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" on page 37 of the Bank's Management's Discussion and Analysis as contained in the Bank's 2016 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.

SUMMARY OF FINANCIAL RESULTS

HIGHLIGHTS OF 2016

- Solid results for the year, showing good progress on several fronts:
  - Adjusted net income of $187.0 million or $5.70 per share, up 9% and 1% year-over-year, respectively. Adjusted return on common shareholders' equity of 12.0%.
  - Reported net income of $151.9 million or $4.55 per share, including impairment and restructuring charges of $38.3 million ($28.1 million after income taxes), or $0.92 diluted per share related to retail services. Return on common shareholders' equity of 9.6%.
- Good credit quality with credit losses of $33.4 million, down 4% year-over-year
- Strong improvement in the efficiency ratio
- Strong loan growth:
  - Loans to business customers up 25% year-over-year
  - Residential mortgage loans through independent brokers and advisors up 23% year-over-year
- Common Equity Tier 1 capital ratio at 8.0%
- Acquisition of CIT Canada

TABLE 1

HIGHLIGHTS OF 2016

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

	2016	2015	2014	Variance 2016 / 2015
Reported basis				
Net income	**$ 151.9**	$ 102.5	$ 140.4	48 %
Diluted earnings per share	**$ 4.55**	$ 3.21	$ 4.50	42 %
Return on common shareholders' equity	**9.6%**	6.8%	10.1%	
Efficiency ratio	**74.2%**	80.6%	73.4%	
Common Equity Tier I capital ratio – All-in basis	**8.0%**	7.6%	7.9%	
Adjusted basis (1)				
Adjusted net income	**$ 187.0**	$ 172.2	$ 163.6	9 %
Adjusted diluted earnings per share	**$ 5.70**	$ 5.62	$ 5.31	1 %
Adjusted return on common shareholders' equity	**12.0%**	12.0%	11.9%	
Adjusted efficiency ratio	**69.6%**	71.3%	71.0%	

(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 Non-GAAP Financial Measures section for further details.

OVERVIEW OF FISCAL 2016

For the year ended October 31, 2016, adjusted net income totalled $187.0 million or $5.70 diluted per share, respectively up 9% and 1%, compared with adjusted net income of $172.2 million or $5.62 diluted per share for the year ended October 31, 2015. Adjusted return on common shareholders' equity was maintained at 12.0% for the year ended October 31, 2016, compared with 2015.

On a reported basis, net income was $151.9 million or $4.55 diluted per share for the year ended October 31, 2016, compared with $102.5 million or $3.21 diluted per share in 2015. On the same basis, return on common shareholders' equity was 9.6% for the year ended October 31, 2016, compared with 6.8% in 2015. Reported results for 2016 and 2015 took into account adjusting items, including impairment and restructuring charges in 2016 and 2015 related to the Retail activities. Refer to the Non-GAAP Financial Measures and Non-Interest Expenses sections on pages 17 and 24 for further details.

In fiscal 2016, the Bank delivered solid results throughout the year and showed good progress in key elements of its transformation plan. The Bank's focus on its growth targets has generated tangible returns, as evidenced by the strong growth in loans to business customers and residential mortgage loans through independent brokers and advisors.

The CIT Canada acquisition in October 2016 will also accelerate the plan to improve the Bank's position in the equipment financing market.

Furthermore, the Bank improved its financial position in 2016, as evidenced by the 40 basis point increase in the Common Equity Tier I (CET1) capital ratio, which stood at 8.0% as at October 31, 2016 under the standardized approach, well above regulatory requirements. With sound liquidity and capital management, the Bank remains well positioned to invest in its key initiatives and deliver on its plan.

TABLE 2

CONSOLIDATED RESULTS

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

	2016	2015	2014	Variance 2016 / 2015
Net interest income	$ 589,644	$ 575,083	$ 560,980	3 %
Other income	325,807	322,043	313,085	1
Total revenue	915,451	897,126	874,065	2
Amortization of net premium on purchased financial instruments	5,190	5,999	9,653	(13)
Provision for credit losses	33,350	34,900	42,000	(4)
Non-interest expenses (1)	679,549	722,824	641,309	(6)
Income before income taxes	197,362	133,403	181,103	48
Income taxes	45,452	30,933	40,738	47
Net income	151,910	102,470	140,365	48
Preferred share dividends, including applicable taxes	13,313	9,602	10,985	39
Net income available to common shareholders	$ 138,597	$ 92,868	$ 129,380	49 %
Average number of common shares outstanding (in thousands)				
Basic	30,488	28,949	28,724	
Diluted	30,488	28,955	28,732	
Earnings per share				
Basic	$ 4.55	$ 3.21	$ 4.50	42 %
Diluted	$ 4.55	$ 3.21	$ 4.50	42 %
Adjusted financial measures				
Adjusted net income (2)	$ 187,013	$ 172,199	$ 163,582	9 %
Adjusted diluted earnings per share (2)	$ 5.70	$ 5.62	$ 5.31	1 %

(1) Non-interest expenses include certain adjusting items. Refer to the Non-GAAP Financial Measures section for further details.

(2) Refer to the Non-GAAP Financial Measures section.

EXTERNAL REPORTING CHANGES

SEGMENTED INFORMATION

Commencing November 1, 2015, the Bank reports as one business entity and not as four distinct segments as was previously done. This better captures the essence of the Bank's transformation plan which will further integrate its businesses and increase the synergies between the business lines.

RECLASSIFICATION OF MULTI-UNIT RESIDENTIAL MORTGAGE LOANS

As of November 1, 2015, multi-unit residential mortgage loans which were previously reported in residential mortgage loans in the consolidated balance sheet were reclassified to commercial mortgage loans to better reflect the nature of these loans and associated risks. Comparative figures have been reclassified to conform to the current year presentation. As a result, commercial mortgage loans increased by $1.2 billion as at October 31, 2015 and residential mortgage loans decreased by the same amount. Corresponding reclassifications of provision for credit losses as well as impaired loans and allowances for credit losses were made.

NON-GAAP FINANCIAL MEASURES

The Bank uses both generally accepted accounting principles (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 readers 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 due to their nature or significance. The Bank presents adjusted results to facilitate understanding of its underlying business performance and related trends. Table 3 presents the impact of adjusting items on reported results.

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

Impairment and restructuring charges result from the realignment of strategic priorities of the Bank's retail activities. They are comprised of impairment of goodwill, software and intangible assets, and premises and equipment, as well as provisions related to lease contracts, severance charges and other impairment charges related to IT projects. These charges have been designated as adjusting items due to their nature and the significance of the amounts.

The retirement compensation charge is related to the adjustment to the employment contract of a former member of senior management. This charge has been designated as an adjusting item due to its nature and the significance of the amount.

Items related to business combinations relate to gains and expenses that arose as a result of acquisitions. The one-time gain on acquisition resulting from the revaluation at fair value of net assets acquired and the ensuing amortization of net premium on purchased financial instruments are considered adjusting items since they result from a non-recurring event and represent, according to management, significant non-cash adjustments. The revaluation of contingent consideration and costs related to business combinations have been designated as adjusting items due to their nature and the significance of the amounts. Refer to Note 31 to the annual consolidated financial statements for additional information.

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 (AOCI), 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 4 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

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 exclude average earning assets related to trading activities and a personal loan portfolio managed by the Laurentian Bank Securities and Capital Markets' business segment. The averages are based on the daily balances for the period.

Net interest margin

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 3

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		
	2016	2015	**2016**	2015	2014
Impact on net income					
Reported net income (loss)	**$ 18,383**	$ (18,719)	**$ 151,910**	$ 102,470	$ 140,365
Adjusting items, net of income taxes					
Impairment and restructuring charges					
Impairment of goodwill, software and intangible assets, and premises and equipment	**16,178**	57,245	**16,178**	57,245	—
Provisions related to lease contracts	**8,675**	358	**8,675**	358	—
Severance charges	**3,200**	3,014	**3,200**	3,014	4,429
Other impairment charges related to IT projects	**—**	1,153	**—**	1,153	1,162
	28,053	61,770	**28,053**	61,770	5,591
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	**868**	1,076	**3,812**	4,409	4,079
Revaluation of contingent consideration	**—**	—	**—**	—	4,100
Costs related to business combinations (2)	**3,238**	—	**3,238**	—	9,447
	4,106	1,076	**7,050**	4,409	17,626
	32,159	62,846	**35,103**	69,729	23,217
Adjusted net income	**$ 50,542**	$ 44,127	**$ 187,013**	$ 172,199	$ 163,582
Impact on diluted earnings per share					
Reported diluted earnings (loss) per share	**$ 0.45**	$ (0.73)	**$ 4.55**	$ 3.21	$ 4.50
Adjusting items					
Impairment and restructuring charges	**0.89**	2.13	**0.92**	2.13	0.19
Retirement compensation charge	**—**	—	**—**	0.12	—
Items related to business combinations	**0.13**	0.04	**0.23**	0.15	0.62
	1.02	2.17	**1.15**	2.41	0.81
Adjusted diluted earnings per share (3)	**$ 1.47**	$ 1.44	**$ 5.70**	$ 5.62	$ 5.31

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

(2) Costs related to the transaction and integration of CIT Canada in 2016 and to the integration of AGF Trust in 2014.

(3) The impact of adjusting items on a per share basis does not add due to rounding for the year ended October 31, 2015.

TABLE 4

RETURN ON COMMON SHAREHOLDERS' EQUITY

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

	2016	2015	2014
Reported net income available to common shareholders	**$ 138,597**	$ 92,868	$ 129,380
Adjusting items	**35,103**	69,729	23,217
Adjusted net income available to common shareholders	**$ 173,700**	$ 162,597	$ 152,597
Average common shareholders' equity	**$ 1,443,062**	$ 1,355,991	$ 1,280,595
Return on common shareholders' equity	**9.6%**	6.8%	10.1%
Adjusted return on common shareholders' equity	**12.0%**	12.0%	11.9%

OUTLOOK

ECONOMIC OUTLOOK

The level of global financial stress in the immediate aftermath of Brexit has now mostly abated, despite the short-term market volatility caused by the U.S. election outcome. This reflects the cautious optimism worldwide, but nonetheless points towards continued subdued global growth.

For its part, the Canadian economy is expected to continue to adjust to lower commodity prices and a softer Canadian dollar in 2017. The expansion in non-commodity export-oriented sectors has been losing traction due to competitiveness challenges, less capital-intensive trade activity globally and a slower pace of foreign demand for Canadian products. Services industries located in Central Canada have maintained their positive momentum, while the retrenchment of activity in commodity-oriented sectors, mostly in Alberta and Saskatchewan, has shown further signs of bottoming out in recent months.

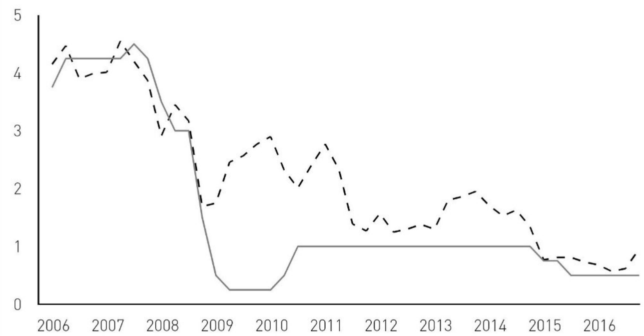
For 2016, 2017 and 2018, the Canadian real Gross Domestic Product (GDP) is forecast to grow by 1.3%, 1.8% and 2.0%, respectively, supported by accommodative financial conditions, the recovery of non-commodity exports, stronger capital spending in non-commodity sectors, the federal tax relief to the middle class and the revamped federal infrastructure program.

Global factors supporting higher interest rates have contributed to lifting Canadian interest rates from their summer lows. Accordingly, additional easing by the Bank of Canada could be required to maintain accommodative financial conditions and sustain the economic recovery. With growing market expectations of divergence between monetary policies in the US and Canada and the continued volatility in crude oil prices, the Canadian dollar is trading around US$0.74.

The new federal mortgage rules are expected to modestly reduce the ability of potential buyers to qualify for the purchase of a home, as well as to lower the level of risk taken by borrowers and lenders in the long run.

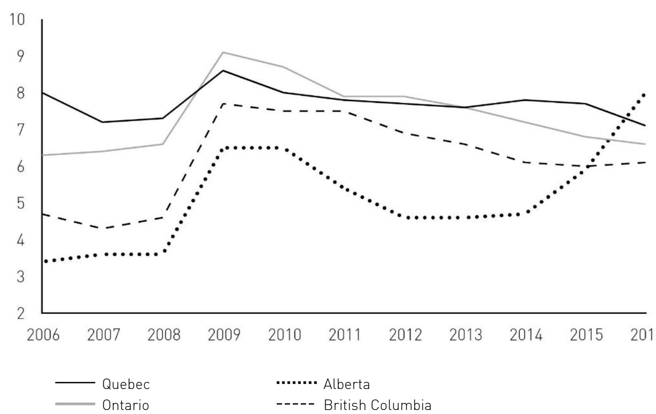
Given this economic backdrop, the Bank's targeted approach to expand its business services activities, its renewed efforts to streamline its retail activities and its strong capital position should contribute to growth into 2017 and beyond.

INTEREST RATES IN CANADA
(quarterly data, end of period, in percentage)



Source: Bank of Canada

UNEMPLOYMENT RATES
(annual data, in percentage)



Source: Statistics Canada

HOW THE BANK WILL MEASURE ITS PERFORMANCE

Medium-term financial objectives

Table 5 below presents the performance and growth targets for the Bank, as introduced in the 2015 Annual Report, and the Bank's performance for 2016. The Bank's cost control efforts resulted in significant progress in 2016 towards its adjusted efficiency ratio and operating leverage objectives. Growth in key business areas also remained strong throughout the year, as loans to business customers were up 25% and residential mortgage loans through independent brokers and advisors were up 23% year-over-year.

Adjusted diluted earnings per share growth was 1%, while net income rose by 9%. Adjusted return on common shareholders' equity was maintained at 12.0% compared with fiscal 2015 notwithstanding tighter margins stemming from the very low interest rate environment, difficult market conditions early in the year and heightened regulatory requirements. Furthermore, two common share issuances during the year contributing to the stronger capital position impacted these profitability metrics.

With regards to the distribution of mutual funds to retail clients, growth was hindered by the lower demand resulting from more volatile markets at the beginning of 2016. As market and economic conditions improve, demand should resume and provide additional opportunities to increase volumes.

As outlined in the 2015 Annual Report, management will continue to focus on meeting the Bank's strategic objectives to double its size by 2022 and achieve a return on common shareholders' equity that is comparable to the Canadian banking industry while building a solid strategic foundation. Given the persisting slow economic growth and competitive environment for Canadian banks, the return on common shareholders' equity of Canadian financial institutions has declined over the last 18 months. On a relative basis, the Bank has therefore already narrowed the gap with the industry as it maintained its 12.0% adjusted return on common shareholders' equity ratio compared to a year ago while strengthening its capital. To better reflect this goal to achieve a return that is comparable to the Canadian banking industry, it will now be presented as a gap versus an absolute target ratio. The ultimate objective remains to entirely close the difference by 2022, including the adoption of the AIRB approach to credit risk in fiscal 2020.

TABLE 5

MEDIUM-TERM FINANCIAL OBJECTIVES AND 2016 PERFORMANCE

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

	2019 OBJECTIVES		2016		2015	Variance 2016 / 2015
Adjusted Financial Performance [1]						
Adjusted return on common shareholders' equity	Narrow gap to 300 bps [2]		**12.0%**		12.0 %	Narrowed gap by 120 bps [3]
Adjusted efficiency ratio	<68%		**69.6%**		71.3 %	(1.7)%
Adjusted diluted earnings per share	Grow by 5% to 10% annually	**$**	**5.70**	$	5.62	1 %
Adjusted operating leverage	Positive		**2.5%**		(0.4)%	3 %
Key growth drivers						
Loans to business customers	Grow by more than 60% to $13B	**$**	**10.0**	$	8.0	25 %
Residential mortgage loans through independent brokers and advisors	Grow by more than 50% to $9B	**$**	**7.0**	$	5.7	23 %
Mutual funds to retail clients	Grow by more than 80% to $6B	**$**	**3.4**	$	3.3	4 %
Assets under management at Laurentian Bank Securities	Grow by more than 25% to $4B	**$**	**3.5**	$	3.1	11 %

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

(2) Compared to the major Canadian banks and achieve a comparable return on common shareholders' equity by 2022.

(3) Compared to 2016 for major Canadian banks.

Key assumptions supporting the Bank's medium-term objectives

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

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

- Strong organic growth to continue in loans to business customers and residential mortgage loans through independent brokers and advisors;
- Relatively stable margins from the 2016 level;
- Simplify the Retail Services offering and increase Business Services in the Bank's mix;
- Loan loss provisions to remain at lower levels than the industry;
- Expenses to be tightly controlled and the size and scope of corporate functions to be reduced;
- Investments to rebuild a proper account management platform and to adopt the AIRB[1] approach in fiscal 2020.

1: Based on the Bank's assessment of current regulatory requirements.

Optimization of the Retail activities

On September 28, 2016, the Bank announced that it will merge fifty of its branches over the next eighteen months. This decision resulted from the strategic analysis initiated in 2015, as well as to more recent changes to the economic landscape. Customer behaviour has changed and, among other things, has led to a reduction in the number of branch visits, a reality seen across the industry. In light of this reality, the branch network has to be optimized to ensure operating efficiency, while meeting the changing demands of customers. As detailed in the Non-Interest Expenses section on page 24, impairment charges, provisions related to lease contracts and severance charges were recorded in the fourth quarter of 2016. The restructuring will also lead to additional costs of approximately $6.0 million related to moving and communication expenses which will be recorded when they will be incurred over the next six to twelve months. On an ongoing basis, the Bank expects to realize substantial cost savings from the reorganization. As clients will continue to be served by branches which are generally in close surroundings, the expected attrition is relatively low.

ACQUISITION OF CIT CANADA

On June 29, 2016, the Bank and CIT Group Inc. ("CIT"), a U.S. company, entered into a definitive agreement under which the Bank agreed to acquire the Canadian equipment financing and corporate financing activities of CIT ("CIT Canada"). The transaction closed on October 1, 2016. The preliminary purchase price, based on the net book value of CIT Canada as at the closing date, is presently estimated at $985.4 million and remains subject to post-closing adjustments. This key acquisition is well aligned with the transformation plan as it increases the proportion of business loans in the Bank's loan portfolio, strengthens its position in the equipment financing market and expands the pan-Canadian footprint.

To support this transaction, on July 20, 2016, the Bank issued 3,247,600 subscription receipts at a price of $47.85 per receipt. Proceeds were placed in escrow until closing of the CIT Canada acquisition. Upon completion of the acquisition on October 1, 2016, the subscription receipts were exchanged for 3,247,600 common shares of the Bank for gross proceeds of $155.4 million.

On October 1, 2016, the acquisition resulted in the inclusion of commercial loan portfolios of $922.5 million, as well as other net assets of $62.9 million, including goodwill and other intangible assets of $30.7 million on the Bank's balance sheet. The allocation of the purchase price for CIT Canada is subject to refinement as the Bank completes the valuation of the assets acquired and liabilities assumed. See Note 31 to the annual consolidated financial statements for additional information on this acquisition.

Integration of CIT Canada's operations is underway and should be substantially completed by the end of calendar year 2017. Total transaction and integration costs should approximate $25.0 to $30.0 million of which $4.4 million was incurred in 2016. The contribution to core-earnings for fiscal 2016 was marginal. The transaction is expected to be accretive to earnings per share in 2018, upon the completion of the integration.

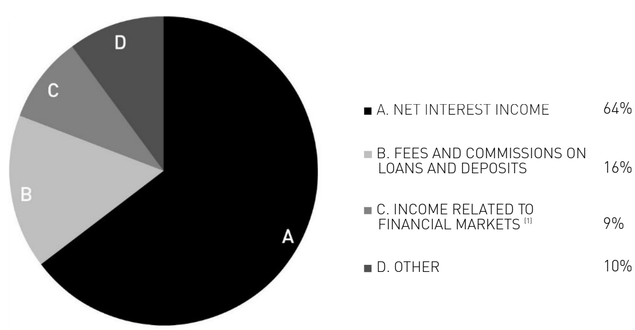
ANALYSIS OF CONSOLIDATED RESULTS

Net income was $151.9 million or $4.55 diluted per share for the year ended October 31, 2016, compared with $102.5 million or $3.21 diluted per share for the year ended October 31, 2015.

Adjusted net income was $187.0 million for the year ended October 31, 2016, up 9% compared with $172.2 million in 2015, while adjusted diluted earnings per share was $5.70, up 1% compared with $5.62 diluted earnings per share in 2015.

TOTAL REVENUE MIX

For the year ended October 31, 2016 (as a percentage)



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

TOTAL REVENUE

Total revenue increased by $18.3 million to $915.5 million for the year ended October 31, 2016, compared with $897.1 million for the year ended October 31, 2015. 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 $14.6 million or 3% to $589.6 million for the year ended October 31, 2016, from $575.1 million for the year ended October 31, 2015. The increase was mainly generated by strong volume growth in loan portfolios, partly offset by compressed margins.

As further detailed in Table 6, net interest margin stood at 1.71% for the year ended October 31, 2016 and decreased by 13 basis points when compared with the year ended October 31, 2015. This tightening was mainly due to the higher proportion of lower-yielding residential mortgage loans, the persistent pressure on lending rates and higher levels of liquid assets held throughout the year, notably to finance the CIT Canada acquisition on October 1, 2016. The Bank is gradually modifying its loan portfolio mix to offset market pressure, notably through its strong organic growth in loans to business customers and newly acquired equipment financing business. Interest margins should continue to trend slightly lower in 2017, as rates and spreads are expected to remain at historical lows. Table 7 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 6

NET INTEREST INCOME

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

	2016			2015		
	AVERAGE VOLUME	**INTEREST**	**AVERAGE RATE**	AVERAGE VOLUME	INTEREST	AVERAGE RATE
Assets						
Cash resources and securities [1]	**$ 2,937,045**	**$ 37,005**	**1.26%**	$ 2,797,155	$ 40,937	1.46%
Securities purchased under reverse repurchase agreements [1]	**671,862**	**3,136**	**0.47**	728,807	4,637	0.64
Loans						
Personal	**6,506,368**	**298,136**	**4.58**	6,307,812	308,009	4.88
Residential mortgage	**15,965,407**	**450,144**	**2.82**	14,085,045	433,610	3.08
Commercial mortgage	**4,382,829**	**172,859**	**3.94**	4,010,579	164,316	4.10
Commercial and other [2]	**3,994,561**	**141,970**	**3.55**	3,318,105	123,545	3.72
Total loans	**30,849,165**	**1,063,109**	**3.45**	27,721,541	1,029,480	3.71
Derivatives and other	**—**	**63,630**	**—**	—	66,104	—
Total interest earning assets	**34,458,072**	**1,166,880**	**3.39**	31,247,503	1,141,158	3.65
Non-interest earnings assets and assets related to trading activities [1]	**6,438,698**	**—**	**—**	6,574,347	—	—
Total assets	**$ 40,896,770**	**$ 1,166,880**	**2.85%**	$ 37,821,850	$ 1,141,158	3.02%
Liabilities and shareholders' equity						
Demand and notice deposits	**$ 7,867,537**	**$ 47,862**	**0.61%**	$ 8,332,023	$ 68,536	0.82%
Term deposits	**19,399,973**	**407,000**	**2.10**	16,876,397	366,997	2.17
Debt related to securitization activities	**6,180,400**	**114,346**	**1.85**	5,185,686	113,102	2.18
Subordinated debt	**200,409**	**6,433**	**3.21**	448,487	16,094	3.59
Other	**—**	**1,595**	**—**	—	1,346	—
Total interest bearing liabilities	**33,648,319**	**577,236**	**1.72**	30,842,593	566,075	1.84
Acceptances	**506,597**	**—**	**—**	385,769	—	—
Non-interest bearing liabilities and liabilities related to trading activities [1]	**4,985,248**	**—**	**—**	4,996,956	—	—
Total liabilities	**39,140,164**	**577,236**	**1.47**	36,225,318	566,075	1.56
Shareholders' equity	**1,756,606**	**—**	**—**	1,596,532	—	—
Total liabilities and shareholders' equity	**$ 40,896,770**	**$ 577,236**	**1.41%**	$ 37,821,850	$ 566,075	1.50%
Net interest income and margin (on average earning assets)		**$ 589,644**	**1.71%**		$ 575,083	1.84%

(1) Earning assets and liabilities exclude volumes related to trading activities.

(2) Including customers' liabilities under acceptances and finance lease receivables.

TABLE 7

CHANGE IN NET INTEREST INCOME

For the year ended October 31, 2016 (in thousands of Canadian dollars)

	2016		
	Increase (decrease) due to change in		
	AVERAGE VOLUME	**AVERAGE RATE**	**NET CHANGE**
Interest earning assets	**$ 117,250**	**$ (91,528)**	**$ 25,722**
Interest bearing liabilities	**(51,495)**	**40,334**	**(11,161)**
Net interest income	**$ 65,755**	**$ (51,194)**	**$ 14,561**

OTHER INCOME

Other income increased by $3.8 million or 1% and amounted to $325.8 million for the year ended October 31, 2016, compared with $322.0 million for the year ended October 31, 2015.

Fees and commissions on loans and deposits increased to $145.7 million for fiscal 2016 compared with 141.6 million in 2015. Higher card service revenues and higher lending fees due to increased underwriting activity in 2016 were partly offset by lower deposit service charges.

Income from brokerage operations increased by 13% to $71.4 million for fiscal 2016 compared with $63.3 million in 2015, as the Bank's brokerage subsidiary capitalized on growth in underwriting activities in the fixed income and small-cap equity markets.

Income from sales of mutual funds increased by 4% to $40.3 million in fiscal 2016 compared with $38.8 million in 2015. Higher net sales in the second half of the year more than offset the slow start in the first half of the year. Additional fee-based revenues related to sales thresholds reached in 2015 also contributed to the increase. Since 2012, the Bank has been distributing a preferred series of co-branded LBC-Mackenzie mutual funds in its Quebec branch network. Over the five years, this partnership has proven to be successful and remains aligned with the focus on investment products.

Income from investment accounts remained relatively unchanged at $30.3 million for fiscal 2016, compared with $30.2 million in 2015, as one-time net revenues of $3.1 million detailed below were offset by lower trading fees and service charges.

In November 2016, an important client of the Bank internalized the administration of its clients' accounts and ended its carrying agreement with B2B Bank Dealer Services[1]. As a result, the Bank recognized in the fourth quarter of 2016 one-time revenues of $3.1 million in other income, net of impairment charges on related intangible assets and associated costs.

Insurance income is 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 increased slightly to $17.5 million for fiscal 2016 from $16.9 million in 2015, essentially as a result of lower claims. Additional information on the Bank's insurance revenues is presented in Note 27 to the annual consolidated financial statements.

Income from treasury and financial market operations decreased to $12.8 million for fiscal 2016 from $23.4 million in 2015. This decrease mainly resulted from challenging financial market conditions in the first half of 2016. Net losses on securities of $3.0 million were realized in 2016, whereas net gains of $5.1 million were recognized in income in 2015. Additional information related to the Bank's securities portfolio is presented in Note 5 to the annual consolidated financial statements.

Other income decreased slightly by 1% amounting to $7.8 million for fiscal 2016, compared with $7.9 million in 2015.

1: B2B Bank Dealer Services is comprised of three firms: B2B Bank Financial Services Inc., B2B Bank Securities Services Inc. and B2B Bank Intermediary Services Inc.

TABLE 8

OTHER INCOME

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

	2016	2015	2014	Variance 2016 / 2015
Fees and commissions on loans and deposits				
Deposit service charges	$ **56,973**	$ 59,723	$ 62,665	(5)%
Lending fees	**55,289**	50,768	49,682	9
Card service revenues	**33,428**	31,098	29,502	7
	145,690	141,589	141,849	3
Income from brokerage operations	**71,435**	63,294	63,640	13
Income from sales of mutual funds	**40,299**	38,811	29,228	4
Income from investment accounts	**30,271**	30,202	31,658	—
Insurance income, net	**17,527**	16,903	19,246	4
Income from treasury and financial market operations	**12,782**	23,365	16,138	(45)
Other	**7,803**	7,879	11,326	(1)
	180,117	180,454	171,236	—
Other income	$ **325,807**	$ 322,043	$ 313,085	1 %

AMORTIZATION OF NET PREMIUM ON PURCHASED FINANCIAL INSTRUMENTS

For the year ended October 31, 2016, the line item "Amortization of net premium on purchased financial instruments" amounted to $5.2 million, down marginally compared with $6.0 million for the year ended October 31, 2015. Refer to Note 31 to the annual consolidated financial statements.

PROVISION FOR CREDIT LOSSES

The provision for credit losses decreased by $1.6 million to $33.4 million for the year ended October 31, 2016 from $34.9 million for the year ended October 31, 2015. The low level of credit losses continues to reflect the good overall underlying credit quality of the Bank's loan portfolios.

For the year ended October 31, 2016, credit losses on personal loans decreased by $5.8 million compared with last year, mainly due to lower write-offs and, to a lesser extent, to the net favourable impact of the regular review of collective allowance models in the second quarter of 2016.

Credit losses on residential mortgage loans decreased by $1.6 million. The level of credit losses remains low and is a result of the favourable credit conditions and strong underwriting criteria.

Credit losses on commercial mortgages and commercial loans amounted to a combined $5.7 million compared with losses of negative $0.1 million for the same period in 2015. The year-over-year increase of $5.8 million resulted from fewer favourable settlements and less improvement in the commercial mortgage portfolio compared with last year. Loan losses on these portfolios tend to fluctuate more as they can relate, in part, to isolated larger exposures.

The level of credit losses, expressed as a percentage of average loans, stood at 0.11%, reflecting the good condition of the loan portfolio. Over the medium term, the loss ratio could trend gradually higher as the Bank's loan portfolio mix evolves.

The following table details the provision for credit losses from 2014 to 2016. The Risk Appetite and Risk Management Framework section in this MD&A provides further discussion with regards to the overall credit condition of the Bank's portfolios.

TABLE 9

PROVISION FOR CREDIT LOSSES

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

	2016	2015	2014
Personal loans	**$ 23,903**	$ 29,677	$ 25,062
Residential mortgage loans	**3,723**	5,324	5,220
Commercial mortgage loans	**(1,040)**	(90)	4,217
Commercial and other [1]	**6,764**	(11)	7,201
Provision for credit losses	**$ 33,350**	$ 34,900	$ 41,700
As a % of average loans and acceptances	**0.11%**	0.12%	0.15%

(1) Including customers' liabilities under acceptances and finance lease receivables.

NON-INTEREST EXPENSES

Non-interest expenses decreased to $679.5 million for the year ended October 31, 2016, compared with $722.8 million for the year ended October 31, 2015. Expenses for 2016 and 2015 were affected by impairment and restructuring charges of $38.3 million and $78.4 million respectively, as noted below. Adjusted non-interest expenses remained well under control, decreasing to $636.8 million for the year ended October 31, 2016 from $639.6 million for the year ended October 31, 2015.

Salaries and employee benefits decreased by $7.4 million or 2% to $334.9 million for the year ended October 31, 2016, compared with $342.3 million for the year ended October 31, 2015. Salaries for 2015 included a retirement compensation charge of $4.9 million related to the adjustment to the employment contract of a former member of senior management. On an adjusted basis, salaries and employee benefits decreased by $2.5 million, mainly due to lower headcount from restructuring initiatives in the fourth quarter of 2015 and lower performance-based compensation, partly offset by regular annual salary increases.

Premises and technology costs decreased by $10.1 million to $187.7 million compared with the year ended October 31, 2015. The decrease mostly stems from the lower amortization expense resulting from impairment charges on assets recorded in 2015. This was partly offset by a $3.1 million charge for the strategic decision to terminate a technology agreement incurred in the third quarter of 2016 and higher project expenses.

Other non-interest expenses increased by $9.8 million to $114.2 million for the year ended October 31, 2016, from $104.4 million for the year ended October 31, 2015, mainly due to the annual increase of Canada Deposit Insurance Corporation (CDIC) premiums, as well as higher professional fees incurred to support the Bank's transformation, regulatory costs and advertising costs.

Impairment and restructuring charges amounted to $38.3 million for the year ended October 31, 2016 compared with $78.4 million for the year ended October 31, 2015.

In the fourth quarter of 2016, the Bank announced that it will optimize its retail activities by merging fifty branches over the next eighteen months as part of its transformation plan. As a result, the value of the assets related to the Retail unit was reviewed and impairment charges of $22.1 million were recorded for the year ended October 31, 2016. This charge related to the impairment of software for $16.7 million and premises and equipment for $5.4 million. As part of the planned restructuring, provisions related to lease contracts amounting to $11.9 million and severance charges of $4.4 million were also recorded.

In the fourth quarter of 2015, a comprehensive strategic review of the Bank's retail activities was completed and impairment charges of $72.2 million were recorded for the year ended October 31, 2015. Severance charges, provisions related to lease contracts and other impairment charges related to IT projects for a combined amount of $6.2 million were also recorded in 2015 as part of restructuring initiatives.

Refer to Note 30 to the annual consolidated financial statements for additional information.

Costs related to business combinations amounted to $4.4 million for the year ended October 31, 2016 and included acquisition-related costs as well as salaries, professional fees and other expenses for the integration of CIT Canada operations.

Efficiency ratio

The adjusted efficiency ratio was 69.6% for the year ended October 31, 2016, compared with 71.3% for the year ended October 31, 2015. The adjusted operating leverage was positive year-over-year, mainly driven by total revenue growth. Table 10 details non-interest expenses from 2014 to 2016.

TABLE 10

NON-INTEREST EXPENSES

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

	2016	2015	2014	Variance 2016 / 2015
Salaries and employee benefits				
Salaries [1]	$ 212,663	$ 217,253	$ 212,113	
Employee benefits	71,848	71,906	71,335	
Performance-based compensation	50,392	53,110	50,893	
	334,903	342,269	334,341	(2)%
Premises and technology				
Technology costs	87,070	83,635	69,825	
Rent and property taxes	54,693	54,539	53,455	
Depreciation	36,777	50,875	53,712	
Maintenance and repairs	7,064	6,893	6,124	
Public utilities	1,579	1,601	1,591	
Other	513	235	376	
	187,696	197,778	185,083	(5)%
Other				
Advertising and business development	26,851	25,789	22,477	
Fees and commissions	26,601	24,358	24,143	
Communications and travelling expenses	23,236	23,402	22,329	
Taxes and insurance	19,974	18,200	16,529	
Stationery and publications	6,848	6,929	7,095	
Recruitment and training	2,136	2,675	1,917	
Other	8,551	3,015	6,893	
	114,197	104,368	101,383	9 %
Impairment and restructuring charges				
Impairment of goodwill, software and intangible assets, and premises and equipment	22,113	72,226	—	
Provisions related to lease contracts	11,857	489	—	
Severance charges	4,374	4,118	6,053	
Other impairment charges related to IT projects	—	1,576	1,588	
	38,344	78,409	7,641	(51)%
Costs related to business combinations [2]	4,409	—	12,861	n. a.
Non-interest expenses	$ 679,549	$ 722,824	$ 641,309	(6)%
Efficiency ratio [3]	74.2%	80.6 %	73.4%	
Operating leverage [3]	8.0%	(10.1)%	5.9%	
Adjusted non-interest expenses [3]				
Adjusted salaries and employee benefits	$ 334,903	$ 337,414	$ 334,341	(1)%
Adjusted premises and technology	187,696	197,778	185,083	(5)%
Adjusted other non-interest expenses	114,197	104,368	101,383	9 %
	$ 636,796	$ 639,560	$ 620,807	— %
Adjusted efficiency ratio [3]	69.6%	71.3 %	71.0%	
Adjusted operating leverage [3]	2.5%	(0.4)%	2.4%	

(1) Salaries for 2015 included a retirement compensation charge of $4.9 million related to the adjustment to the employment contract of a former member of senior management designated as an adjusting item (nil in 2016 and 2014). Refer to the non-GAAP financial measures section for further details.

(2) Costs related to the transaction and integration of CIT Canada in 2016 and to the integration of AGF Trust in 2014.

(3) Refer to the Non-GAAP Financial Measures section.

INCOME TAXES

For the year ended October 31, 2016, the income tax expense was $45.5 million and the effective tax rate was 23.0%. The lower tax rate, compared to the statutory rate, resulted mainly from the lower taxation level on revenues from foreign insurance operations and the favourable effect of holding investments in Canadian securities that generate non-taxable dividend income. 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 aforementioned factors, partly offset by the mostly non tax-deductible goodwill impairment charge recorded in 2015.

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

TABLE 11

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)

			2016			2015
Income taxes at statutory rates	$	52,733	26.7%	$	35,625	26.7%
Change resulting from:						
Income related to foreign insurance operations		(5,283)	(2.7)		(5,910)	(4.4)
Non-taxable dividends		(2,548)	(1.3)		(3,926)	(3.0)
Impairment of goodwill		—	—		4,347	3.3
Other, net		550	0.3		797	0.6
Income taxes as reported in the Consolidated Statement of Income	$	45,452	23.0%	$	30,933	23.2%

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, 2016, these loans totalled $19.7 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, 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 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, 2016, these deposits totalled $1.4 million. The Bank also offers employees a discount on annual credit card fees. In addition, for the year ended October 31, 2016, the Bank paid a rental expense of $2.2 million to a related party ($2.2 million for the year ended October 31, 2015).

See Note 21 to the annual consolidated financial statements for additional information on related party transactions.

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 impairment and restructuring charges 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 section on page 17 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 generated tangible returns, with residential mortgage loans through brokers and advisors increasing by 34% and loans to businesses increasing by 18%. The excellent credit quality of loan portfolios also contributed to the good financial performance for 2015.

ANALYSIS OF QUARTERLY RESULTS

ANALYSIS OF RESULTS FOR THE FOURTH QUARTER OF 2016

Net income was $18.4 million or $0.45 diluted per share for the fourth quarter of 2016, compared with a loss of $18.7 million or a loss of $0.73 diluted per share for the fourth quarter of 2015. As noted above, results for the fourth quarter of 2016 were adversely impacted by impairment and restructuring charges of $38.3 million ($28.1 million after income taxes) or $0.89 diluted per share and results for the fourth quarter of 2015 included impairment and restructuring charges of $78.4 million ($61.8 million after income taxes) or $2.13 diluted per share. Adjusted net income was $50.5 million for the fourth quarter of 2016, up 15%

from $44.1 million for the fourth quarter of 2015, while adjusted diluted earnings per share were $1.47, up 2% compared with $1.44 for the fourth quarter of 2015.

Total revenue

Total revenue increased by $4.7 million or 2% to $236.4 million for the fourth quarter of 2016 from $231.6 million for the fourth quarter of 2015, driven by growth in other income.

Net interest income decreased by $1.9 million or 1% to $148.7 million for the fourth quarter of 2016, from $150.7 million for the fourth quarter of 2015. The decrease was mainly due to tighter margins stemming from the very low interest rate environment and higher liquidity levels, partly offset by strong volume growth in the loan portfolios. Net interest margin (as a percentage of average earning assets) stood at 1.67% for the fourth quarter of 2016, a decrease of 17 basis points compared with the fourth quarter of 2015, due to the persistent pressure on lending rates, the tightening of the Prime-BA spread, the higher proportion of lower-yielding residential mortgage loans and higher liquid assets held throughout the quarter.

Other income increased by $6.7 million, amounting to $87.6 million for the fourth quarter of 2016, compared with $81.0 million for the fourth quarter of 2015. As mentioned above, income from investment accounts in the fourth quarter of 2016 included one-time net revenues of $3.1 million related to the termination of an agreement for the administration of investment accounts. Furthermore, the increase of $3.3 million in income from brokerage operations and the increase of $2.2 million in fees and commissions on loans and deposits were partly offset by a decrease of $2.4 million in income from treasury and financial markets.

Amortization of net premium on purchased financial instruments

For the fourth quarter of 2016, the amortization of net premium on purchased financial instruments amounted to $1.2 million, compared with $1.5 million for the fourth quarter of 2015. Refer to Note 31 in the annual consolidated financial statements for additional information.

Provision for credit losses

The provision for credit losses increased to $10.3 million for the fourth quarter of 2016 from $9.4 million for the fourth quarter of 2015. This low level of credit losses continues to reflect the overall underlying good credit quality of the loan portfolios. Over the medium term, the provision for credit losses could trend gradually higher as the loan portfolio mix evolves and volumes increase.

Non-interest expenses

Non-interest expenses amounted to $202.0 million for the fourth quarter of 2016, a decrease of $40.3 million compared with the fourth quarter of 2015. Non-interest expenses for the fourth quarter of 2016 and for the fourth quarter of 2015 were affected by impairment and restructuring charges of $38.3 million and $78.4 million respectively, as noted below. Adjusted non-interest expenses remained well under control, decreasing by $4.7 million or 3% to $159.2 million for the fourth quarter of 2016 from $163.9 million for the fourth quarter of 2015.

Salaries and employee benefits decreased by $3.3 million or 4% to $82.4 million for the fourth quarter of 2016, compared with the fourth quarter of 2015, in part due to lower headcount from the restructuring of certain activities in the fourth quarter of 2015, lower performance-based compensation and higher capitalized salaries as the Bank is actively working on rebuilding its account management platform. This was partly offset by regular annual salary increases.

Premises and technology costs decreased by $4.2 million to $46.2 million compared with the fourth quarter of 2015. The decrease mostly stems from the lower amortization expense resulting from impairment charges on assets recorded in the fourth quarter of 2015 and lower technology costs, as the Bank is optimizing its technology architecture.

Other non-interest expenses increased by $2.9 million to $30.7 million compared with the fourth quarter of 2015, mainly due to the annual increase in CDIC premiums, as well as higher professional fees incurred to support the Bank's transformation.

Impairment and restructuring charges amounted to $38.3 million for the fourth quarter of 2016 compared with $78.4 million for the fourth quarter of 2015. As mentioned above, the value of the assets related to the Retail unit was reviewed and impairment charges of $22.1 million were recorded for the fourth quarter of 2016. Provisions related to lease contracts amounting to $11.9 million and severance charges of $4.4 million were also recorded during the quarter as a result of the announcement of branch mergers. In the fourth quarter of 2015, impairment charges of $72.2 million and severance charges, provisions related to lease contracts and other impairment charges related to IT projects for a combined amount of $6.2 million were recorded. Refer to Note 30 to the annual consolidated financial statements for additional information.

Costs related to business combinations amounted to $4.4 million for the fourth quarter of 2016 and included acquisition-related costs as well as salaries, professional fees and other expenses for the integration of CIT Canada operations.

The adjusted efficiency ratiowas 67.4% for the fourth quarter of 2016, compared with 70.8% for the fourth quarter of 2015. The adjusted operating leverage was positive year-over-year, driven by both revenue growth and expense control.

Income taxes

For the quarter ended October 31, 2016, the income tax expense was $4.5 million and the effective tax rate was 19.7%. The lower tax rate, compared to the statutory rate, mainly resulted from the favourable effect of holding investments in Canadian securities that generate non-taxable dividend income, as well as the lower taxation level on revenues from insurance operations, and reflects the lower level of Canadian income given the impairment and restructuring charges. For the quarter ended October 31, 2015, the income tax recovery was $2.8 million and the effective tax rate was 13.2%. The lower tax rate, compared to the statutory rate, was impacted by the same factors as noted above for the fourth quarter of 2016.

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 and deposits 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 (90 days in 2016), compared with 92 days for the other quarters, overall profitability is generally lower for that quarter, mainly as net interest income is impacted. Table 12 summarizes quarterly results for fiscal 2016 and 2015.

TABLE 12
QUARTERLY RESULTS
For the quarters ended (in thousands of Canadian dollars, except per share and percentage amounts)

				2016				2015
	Oct. 31	**July 31**	**April 30**	**Jan. 31**	Oct. 31	July 31	April 30	Jan. 31
Net interest income	**$ 148,727**	**$ 147,991**	**$ 143,428**	**$ 149,498**	$ 150,667	$ 147,229	$ 137,691	$ 139,496
Other income	**87,642**	**81,086**	**83,375**	**73,704**	80,982	79,409	82,988	78,664
Total revenue	**236,369**	**229,077**	**226,803**	**223,202**	231,649	226,638	220,679	218,160
Amortization of net premium on purchased financial instruments	**1,181**	**1,267**	**1,337**	**1,405**	1,465	1,531	1,531	1,472
Provision for credit losses	**10,300**	**8,200**	**5,750**	**9,100**	9,400	7,000	8,000	10,500
Non-interest expenses	**201,998**	**160,474**	**160,066**	**157,011**	242,340	161,037	158,750	160,697
Income (loss) before income taxes	**22,890**	**59,136**	**59,650**	**55,686**	(21,556)	57,070	52,398	45,491
Income taxes (recovery)	**4,507**	**13,999**	**13,936**	**13,010**	(2,837)	12,904	11,210	9,656
Net income (loss)	**$ 18,383**	**$ 45,137**	**$ 45,714**	**$ 42,676**	$ (18,719)	$ 44,166	$ 41,188	$ 35,835
Earnings (loss) per share								
Basic	**$ 0.45**	**$ 1.34**	**$ 1.43**	**$ 1.36**	$ (0.73)	$ 1.44	$ 1.34	$ 1.16
Diluted	**$ 0.45**	**$ 1.34**	**$ 1.43**	**$ 1.36**	$ (0.73)	$ 1.44	$ 1.34	$ 1.15
Net interest margin [1]	**1.67%**	**1.69%**	**1.71%**	**1.78%**	1.84 %	1.85%	1.84%	1.83%
Return on common shareholders' equity [1]	**3.7%**	**11.2%**	**12.5%**	**11.6%**	(6.1)%	12.1%	11.8%	9.9%
Adjusted financial measures								
Adjusted net income [1]	**$ 50,542**	**$ 46,067**	**$ 46,696**	**$ 43,708**	$ 44,127	$ 45,291	$ 42,313	$ 40,468
Adjusted diluted earnings per share [1]	**$ 1.47**	**$ 1.37**	**$ 1.46**	**$ 1.39**	$ 1.44	$ 1.48	$ 1.38	$ 1.32
Adjusted return on common shareholders' equity [1]	**12.1%**	**11.4%**	**12.8%**	**11.9%**	12.1 %	12.4%	12.1%	11.3%
Adjusted non-interest expenses [1]	**$ 159,245**	**$ 160,474**	**$ 160,066**	**$ 157,011**	$ 163,931	$ 161,037	$ 158,750	$ 155,842

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

Over the past eight quarters, net income has generally increased, except for both fourth quarters which were impacted by impairment and restructuring charges, as noted below. Adjusted net income has generally trended upward, driven mainly by good volume growth in loan portfolios, continued strong credit quality and continued cost control efforts.

Other specific factors, as detailed below, have also affected results during fiscal 2016 and 2015.

2016

- Net interest income increased in 2016, as strong loan growth continued to contribute to earnings, while margins remained under pressure.
- Other income in the fourth quarter included one-time net revenues of $3.1 million related to the termination of an agreement for the administration of investment accounts.
- The provision for credit losses remained low during the year. Contributing to further reduce loan losses, the second quarter included a net favourable adjustment of $2.7 million resulting from the regular review of collective allowance models.
- Non-interest expenses in the fourth quarter included impairment and restructuring charges of $38.3 million following the announcement that the Bank will optimize its retail activities by merging fifty branches over the next eighteen months. Expenses in the fourth quarter also included $4.4 million of costs related to the acquisition and integration of CIT Canada. Excluding these items, adjusted non-interest expenses decreased in 2016, mainly due to continued cost control, as well as to lower salaries and employee benefits and lower amortization expenses resulting from the impairment and restructuring charges recorded in 2015.

2015

- Net interest income increased in 2015 compared to 2014, as the impact of good loan growth over the previous months and higher prepayment penalties on residential mortgage loans, notably in the third quarter, positively contributed to earnings. Net interest margins were also impacted by the low interest rate environment.
- Other income increased throughout 2015 mainly due to solid mutual fund commissions and higher income from treasury and financial market operations.
- The provision for credit losses decreased in 2015 compared to the previous year, 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 a former member of senior management. Expenses in the fourth quarter also included impairment and restructuring charges of $78.4 million incurred in the context of a comprehensive strategic review of the Bank's retail activities. Adjusted non-interest expenses were slightly higher in 2015 than in 2014, mainly as a result of increases in salaries and employee benefits, as well as in technology costs.

ANALYSIS OF FINANCIAL CONDITION

The Bank has reported solid balance sheet growth over the past three years, both organic and through acquisitions, and strong capital to support its operations. The overall credit quality of the loan portfolio, combined with a sound retail funding base continue to provide the foundation for sustainable growth and the ability to implement the transformation plan.

As at October 31, 2016, the Bank's total assets amounted to $43.0 billion, an 8% increase compared with $39.7 billion as at October 31, 2015, as shown in Table 13. These changes are explained in the following sections of the MD&A.

TABLE 13

BALANCE SHEET ASSETS

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

	2016	2015	2014	Variance 2016 / 2015
Cash and deposits with other banks	**$ 187,099**	$ 200,864	$ 248,855	(7)%
Securities	**5,660,432**	4,487,357	4,880,460	26
Securities purchased under reverse repurchase agreements	**2,879,986**	3,911,439	3,196,781	(26)
Loans				
Personal	**6,613,392**	7,063,229	6,793,078	(6)
Residential mortgage	**16,749,387**	14,998,867	13,707,489	12
Commercial mortgage	**4,658,734**	4,248,761	3,769,323	10
Commercial and other [1]	**4,727,385**	3,308,144	2,794,232	43
Customers' liabilities under acceptances	**629,825**	473,544	365,457	33
	33,378,723	30,092,545	27,429,579	11
Allowances for loan losses	**(105,009)**	(111,153)	(119,371)	(6)
	33,273,714	29,981,392	27,310,208	11
Other assets	**1,005,109**	1,078,452	846,481	(7)
Balance sheet assets	**$ 43,006,340**	$ 39,659,504	$ 36,482,785	8 %
Cash, deposits with other banks, securities and securities purchased under reverse repurchase as a % of balance sheet assets	**20.3%**	21.7%	22.8%	

(1) Including finance lease receivables.

LIQUID ASSETS

Liquid assets consist of cash, deposits with other banks, securities and securities purchased under reverse repurchase agreements. As at October 31, 2016, these assets totalled $8.7 billion, an increase of $0.1 billion compared with $8.6 billion as at October 31, 2015.

Over the year, the Bank has increased its securitization activities to improve its funding mix and raised broker-sourced deposits to meet additional liquidity needs, including in part to fund the acquisition of CIT Canada that closed on October 1, 2016.

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 20% of total assets as at October 31, 2016 compared with 22% as at October 31, 2015.

As at October 31, 2016, securities used in brokerage operations and treasury activities amounted to $5.7 billion, including a portfolio of available-for-sale securities totalling $2.7 billion.

As at October 31, 2016, net unrealized gains in this portfolio, included in accumulated other comprehensive income, amounted to $4.2 million, compared with unrealized net losses of $10.5 million as at October 31, 2015, reflecting the relatively good 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 $33.3 billion as at October 31, 2016, up $3.3 billion or 11% from October 31, 2015. This increase reflects the acquisition of CIT Canada's $0.9 billion net commercial loan portfolios, as well as the Bank's continued strong organic growth.

Personal loans amounted to $6.6 billion and decreased by $0.4 billion or 6% since October 31, 2015, mainly due to net repayments in the investment loan portfolio, reflecting expected attrition.

Residential mortgage loans stood at $16.7 billion as at October 31, 2016, an increase of $1.8 billion or 12% year-over-year. This mainly reflected continued growth in residential mortgage loans distributed through independent brokers and advisors.

Commercial loans, including acceptances, increased by $1.6 billion or 42% since October 31, 2015, mainly due to CIT Canada's $0.9 billion net commercial loan portfolios, as well as by increased volumes from syndication activities. Commercial mortgage loans increased by $0.4 billion or 10% over the same period. When combined, these loans to business customers amounted to $10.0 billion as at October 31, 2016, up 25% year-over-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 decreased by $0.1 billion to $1.0 billion as at October 31, 2016, primarily reflecting a decrease in cheques and other items in transit that was partly offset by the addition of CIT Canada's assets to the Bank's balance sheet.

TABLE 14

BALANCE SHEET LIABILITIES

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

	2016	2015	2014	Variance 2016 / 2015
Deposits				
Personal	**$ 21,001,578**	$ 19,377,716	$ 18,741,981	8 %
Business, banks and other	**6,571,767**	7,226,588	5,781,045	(9)
	27,573,345	26,604,304	24,523,026	4
Other liabilities	**6,013,890**	5,524,930	5,103,778	9
Debt related to securitization activities	**7,244,454**	5,493,602	4,863,848	32
Subordinated debt	**199,824**	449,641	447,523	(56)
Balance sheet liabilities	**$ 41,031,513**	$ 38,072,477	$ 34,938,175	8 %
Personal deposits as a % of total deposits	**76.2%**	72.8%	76.4%	
Total deposits as a % of balance sheet liabilities	**67.2%**	69.9%	70.2%	

DEPOSITS

Deposits increased by $1.0 billion or 4% to $27.6 billion as at October 31, 2016 compared with $26.6 billion as at October 31, 2015. Personal deposits stood at $21.0 billion as at October 31, 2016, up $1.6 billion compared with October 31, 2015, mainly driven by higher term deposits sourced through independent brokers and advisors. Business and other deposits decreased by $0.7 billion to $6.6 billion over the same period, mainly reflecting lower institutional deposits. Personal deposits represented 76% of total deposits as at October 31, 2016, compared with 73% as at October 31, 2015, and contributed to the Bank's good liquidity position.

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

OTHER LIABILITIES

Other liabilities increased to $6.0 billion as at October 31, 2016 from $5.5 billion as at October 31, 2015. The year-over-year increase resulted mainly from higher obligations related to securities sold under repurchase agreements, associated with trading activities, and higher acceptances.

Debt related to securitization activities increased by $1.8 billion or 32% compared with October 31, 2015 and stood at $7.2 billion as at October 31, 2016. During the year, the Bank continued to optimize this preferred source of term funding for residential mortgages, in light of strong growth in this portfolio. The Bank also obtained funding of $0.4 billion by securitizing LBC Capital's finance lease receivables through a multi-seller conduit during the fourth quarter of 2016. Furthermore, in 2016, the Bank initiated a program to securitize insured residential mortgage loans through the issuance of National Housing Act mortgage-backed securities (NHA MBS) which were sold to investors.

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 $199.8 million as at October 31, 2016, compared with $449.6 million as at October 31, 2015. During the first quarter of 2016, 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 subordinated debt is an integral part of the Bank's regulatory capital and affords its depositors additional protection.

SHAREHOLDERS' EQUITY

Shareholders' equity stood at $1,974.8 million as at October 31, 2016, compared with $1,587.0 million as at October 31, 2015. This $387.8 million increase is mainly explained by the $155.4 million common share issuance in the fourth quarter of 2016 to support the CIT Canada transaction, the $125.0 million preferred share issuance completed in the second quarter of 2016 and the $67.5 million common share offering completed during the first quarter of 2016. The remaining increase is 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 $47.92 as at October 31, 2016 from $46.33 as at October 31, 2015. The table below provides the details of the share capital.

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

TABLE 15

SHARES ISSUED AND OUTSTANDING

As at November 30, 2016 (in number of shares/options)

Preferred shares	
Series 11	4,000,000
Series 13	5,000,000
Series 15	5,000,000
Common shares	33,842,487

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 16 below summarizes assets under administration and assets under management. As at October 31, 2016 these items totalled $43.7 billion, up $1.5 billion or 3% compared with October 31, 2015. Fees, commissions and other income related to these assets contribute significantly to the Bank's profitability.

TABLE 16

ASSETS UNDER ADMINISTRATION AND ASSETS UNDER MANAGEMENT

As at October 31 (in thousands of Canadian dollars)

	2016	2015	2014
Registered and non-registered investment accounts	**$ 36,323,405**	$ 35,386,071	$ 35,484,148
Clients' brokerage assets	**3,457,660**	3,122,090	2,848,440
Mutual funds	**3,421,933**	3,299,986	3,009,944
Loans under management	**404,003**	328,661	224,102
Institutional assets	**72,432**	78,767	77,095
Other	**9,049**	9,610	12,224
Assets under administration and assets under management	**$ 43,688,482**	$ 42,225,185	$ 41,655,953

Assets related to registered and non-registered investment accounts in B2B Bank Dealer Services and LBC Financial Services were up by $0.9 billion year-over-year, reflecting higher underlying asset values driven by market performance. B2B Bank Dealer Services 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, mainly through the Bank branch network.

Clients' brokerage assets increased by $335.6 million or 11%, essentially as a result of increased discount and full-service brokerage activity.

Mutual fund assets under administration in LBC Financial Services increased by $121.9 million or 4% during fiscal 2016, driven by the exclusive offering of a preferred series of LBC-Mackenzie mutual funds.

Loans under management increased by $75.3 million, as a result of increased commercial activity and volumes.

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 $25.0 billion as at October 31, 2016 with a net positive fair value of $82.3 million.

Notes 22 to 25 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 and finance lease receivables in order to optimize and diversify sources of funding 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 credit ratings of bonds or commercial paper. 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 programs developed by the Canada Mortgage and Housing Corporation (CMHC). The Bank also securitizes residential mortgage loans and finance lease receivables through multi-seller conduits set up by large Canadian banks. As the Bank ultimately retains certain prepayment risk, interest rate risk and credit risk related to the transferred loans and receivables, these are not derecognized and the securitization proceeds are recorded as securitization liabilities.

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 22 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 17 presents significant guarantees.

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

TABLE 17

CREDIT COMMITMENTS AND GUARANTEES

As at October 31 (in thousands of Canadian dollars)

		2016		2015
Undrawn amounts under approved credit facilities [1]	**$**	**4,315,251**	$	3,859,804
Standby letters of credit and performance guarantees	**$**	**143,881**	$	152,779
Documentary letters of credit	**$**	**3,232**	$	3,344

(1) Excluding credit facilities revocable at the Bank's option totalling $4.3 billion as at October 31, 2016 ($4.3 billion as at October 31, 2015).

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 Three-Year Financial 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 Corporate Risk 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 ***Finance Department*** develops the Business Plan, the Three-Year Financial Plan and the Capital Plan annually. It is also responsible for managing capital on an ongoing basis and measuring 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 Capital Adequacy Requirements 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 5.125%, 6.625% and 8.625% respectively for 2016. 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 2.5% capital conservation buffers.

Furthermore, OSFI expects deposit-taking institutions to maintain 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 and Series 15 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 AIRB approach.

In December 2015, the BCBS issued a second consultative document entitled *Revisions to the Standardised Approach for credit risk* providing new prudential proposals which, if implemented, will change how the Bank is calculating some elements of its regulatory capital. The BCBS has also proposed or announced a number of new requirements modifying the calculation of regulatory capital for banks. These changes include modifications to the AIRB approach, the introduction of a new floor for the AIRB approach and new methods to measure regulatory capital for sovereign exposure and operational risk. Management is closely monitoring these developments.

The implementation of the AIRB approach remains a key initiative of the Bank's 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 in fiscal 2020.

Bail-in regime in Canada
On April 20, 2016, the Government of Canada introduced legislation to create a bank recapitalization or "bail-in" regime for the six Canadian D-SIBs. The bail-in regime holds shareholders and bondholders responsible for a bank's risk in the event of failure, and aims to limit the taxpayer exposure. The bail-in regime would convert eligible long-term debt into common shares in order to recapitalize a bank and allow it to remain viable and operating. As the Bank has not been designated as a D-SIB, these changes should not have any effect on the Bank's capital.

Tables 18 and 19 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 18
REGULATORY CAPITAL [1]
As at October 31 (in thousands of Canadian dollars, except percentage amounts)

	2016	2015
Regulatory capital		
Common Equity Tier 1 capital	$ 1,439,376	$ 1,175,238
Tier 1 capital	$ 1,780,976	$ 1,394,871
Total capital [2]	$ 2,056,180	$ 1,668,416
Total risk-weighted assets [2]	$ 17,922,653	$ 15,422,282
Regulatory capital ratios		
Common Equity Tier 1 capital ratio	8.0%	7.6%
Tier 1 capital ratio	9.9%	9.0%
Total capital ratio	11.5%	10.8%

(1) The amounts are presented on an "all-in" basis.
(2) Using the Standardized Approach in determining credit risk and operational risk.

As shown in the graph on the next page, the Common Equity Tier 1 capital ratio stood at 8.0% as at October 31, 2016, compared with 7.6% as at October 31, 2015. The increase compared with October 31, 2015 was mainly driven by the $155.4 million common share issuance that closed in October 2016, the $67.5 million common share issuance that closed in December 2015 and internal capital generation. This was partly offset by growth in risk-weighted exposures, including the CIT Canada acquisition, as well as by actuarial losses on pension benefit plans stemming from the decline of the discount rate and additional deductions to capital for goodwill and intangible assets resulting from the CIT Canada acquisition.

Overall, the acquisition of CIT Canada, including the effect of the related share issuance completed in October 2016, contributed to improve the Common Equity Tier 1 capital ratio by 23 basis points.

The impact of impairment charges of $22.1 million ($16.2 million after income taxes) recorded in 2016 on the Common Equity Tier 1 capital ratio was limited to 2 basis points, as a significant portion of the charge was related to software which was already deducted from regulatory capital.

CHANGE IN COMMON EQUITY TIER 1 CAPITAL RATIO

For the year ended October 31, 2016 (in percentage)

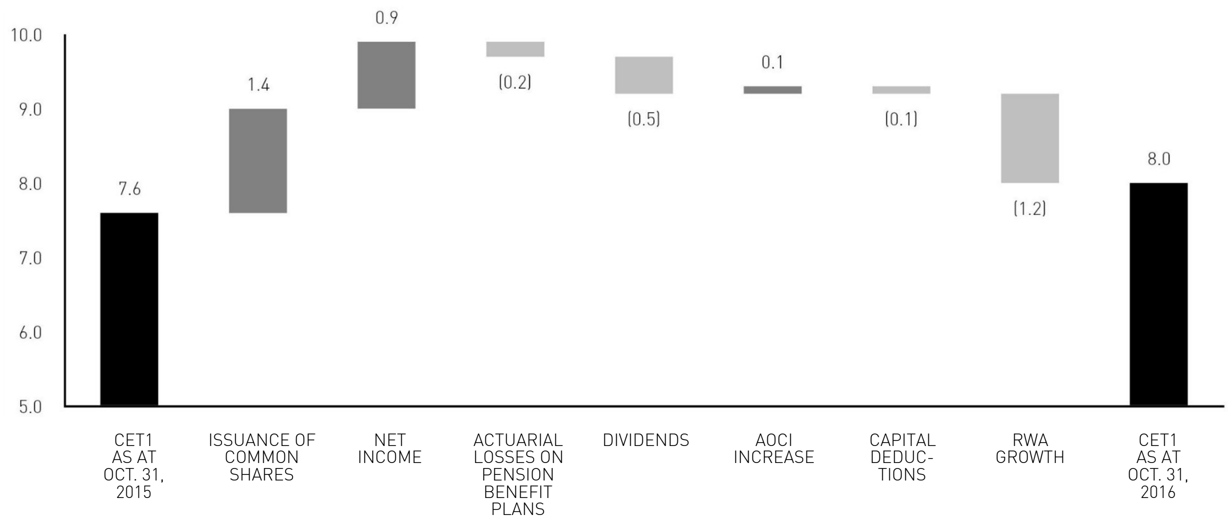


TABLE 19

RISK-WEIGHTED ASSETS

As at October 31 (in thousands of Canadian dollars)

	2016		2015	
	TOTAL EXPOSURE	**RISK-WEIGHTED ASSETS** [1]	TOTAL EXPOSURE	RISK-WEIGHTED ASSETS [1]
Exposure Class (after risk mitigation)				
Corporate	**$ 8,192,883**	**$ 8,202,743**	$ 6,611,115	$ 6,583,804
Sovereign	**6,604,090**	**38,838**	5,926,851	27,868
Bank	**245,435**	**57,101**	234,854	62,354
Retail residential mortgage loans	**18,322,547**	**3,160,469**	16,289,250	2,830,032
Other retail	**2,815,932**	**1,788,173**	2,717,859	1,693,518
Small business entities treated as other retail	**1,647,907**	**1,173,392**	1,392,139	980,081
Equity	**287,576**	**287,576**	310,558	310,558
Securitization	**27,710**	**23,669**	70,772	38,729
Other assets	**1,131,444**	**632,694**	1,246,997	518,997
	39,275,524	**15,364,655**	34,800,395	13,045,941
Derivatives [2]	**182,321**	**100,752**	224,492	114,483
Credit commitments	**992,210**	**922,383**	939,436	860,270
Operational risk		**1,534,863**		1,401,588
	$ 40,450,055	**$ 17,922,653**	$ 35,964,323	$ 15,422,282
Balance sheet items				
Cash, deposits with other banks, securities and securities financing transactions		**$ 672,927**		$ 715,097
Personal loans		**2,188,052**		2,106,529
Residential mortgage loans		**3,699,348**		3,327,940
Commercial mortgage loans, commercial loans and acceptances		**8,376,334**		6,576,289
Other assets		**427,994**		320,086
		$ 15,364,655		$ 13,045,941

(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, 2016 was $45.1 million for CET1 capital risk-weighted assets, $50.0 million for Tier 1 capital risk-weighted assets and $54.2 million for Total capital risk-weighted assets ($39.6 million, $44.0 million and $47.7 million respectively as at October 31, 2015). 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, 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 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.

As detailed in the table below, the leverage ratio stood at 4.1% as at October 31, 2016 and exceeded current requirements.

TABLE 20

BASEL III LEVERAGE RATIO

For the year ended October 31, 2016 (in thousands of Canadian dollars, except percentage amounts)

	2016	2015
Tier 1 capital	**$ 1,780,976**	$ 1,394,871
Total exposures	**$ 43,094,377**	$ 39,557,300
Basel III leverage ratio	**4.1%**	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 21

SHARE DIVIDENDS AND PAYOUT RATIO

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

	2016	2015	2014
Dividends declared on preferred shares	**$ 13,006**	$ 9,375	$ 10,750
Dividends declared per common share	**$ 2.36**	$ 2.20	$ 2.06
Dividends declared on common shares	**$ 73,622**	$ 63,691	$ 59,105
Dividend payout ratio [1]	**53.1%**	68.6%	45.7%
Adjusted dividend payout ratio [1]	**42.4%**	39.2%	38.7%

(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, 2016 and 2015.

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, measure and monitor risks it faces, subject to risk limits and other 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 risk level that the organization is ready to accept to reach its financial and strategic objectives, especially when there is an associated benefit. It is defined by business niche, type and level of risk, performance objectives, capital, liquidity, and external ratings. It is restricted by tolerance limits.

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 to absorb 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;
- 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.

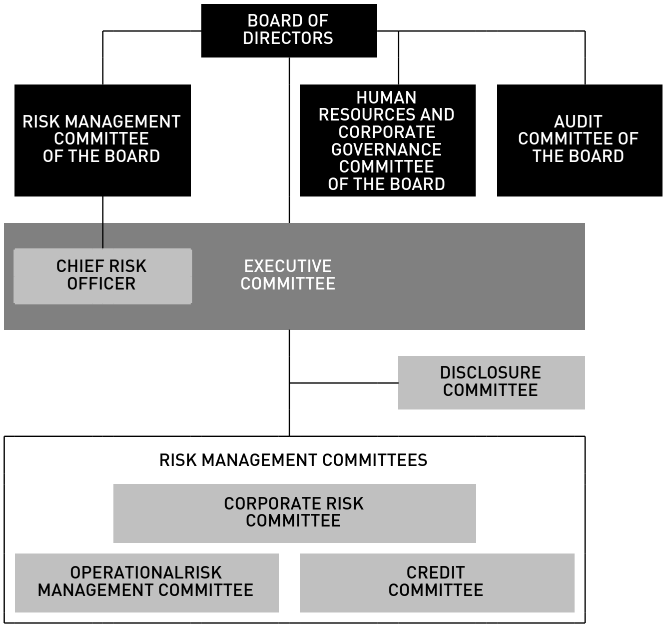
The Bank's integrated stress testing program evaluates a range of scenarios of different severities resulting from deteriorating economic conditions that could adversely impact its strategic plan. The impact on market and credit risks is determined and aggregated to give a view of such scenarios on the 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 through the Corporate Risk Committee 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 Corporate Risk 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 risk, 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 *Corporate Risk Committee,* chaired by the Chief Risk Officer, is mandated to oversee and monitor all the material risks of the Bank, including but not limited to credit risk, market risk, interest rate structural risk and operational risk. The objective of the committee is to assist the Executive Committee in its risk oversight responsibility. Therefore, the Corporate Risk Committee makes sure that adequate policies, including the Bank's risk appetite framework, are in place, recommends policies for approval by the Executive Committee and ensures that these policies are respected.

The *Operational Risk Management Committee* reviews the operational risk management policies and 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 responsible 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 *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.

FUNCTIONS SUPPORTING RISK MANAGEMENT

The following table presents the Bank's corporate control, which includes several governance functions designed to enhance risk management. The corporate functions are designed in respect of the "three lines of defence" model. This corporate control is divided into three distinct areas: operations, control environment and internal audit:

- *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 defence.
- 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. The risk management and regulatory risk functions of the control environment constitute the second line of defence of the Bank.
- The *Internal Audit* function also plays a key role as a third line of defence. 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.

OPERATIONS (FIRST LINE OF DEFENCE)	CONTROL ENVIRONMENT (SECOND LINE OF DEFENCE)	INTERNAL AUDIT (THIRD LINE OF DEFENCE)
Business activities and corporate functions	**Risk management and oversight functions**	**Independent assurance function**
- Policy implementation - Risk identification, detection and management - Disclosure of risks and losses - Control implementation - Business continuity plans - Application of the regulatory risk management framework	- Designing and developing policies and programs - Determining risk tolerance - Development of measurement and self-assessment tools - Risk disclosure - Coordination of continuity plans and templates - Coordination of the Regulatory Risk Management Framework	- Providing an independent assurance to the Executive Committee and to the Board of Directors on the effectiveness of risk management practices

RISK MANAGEMENT PROCESS

The Bank's risk management process is closely tied to the strategic planning process from which the Bank's strategic and business plan is derived. Policies approved by the Board are implemented by the business units and their application monitored by the appropriate risk management committees.

Risk management is carried out across departments by various business unit 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, opportunities, and threats in order to determine the profitability and risk profiles of the Bank. 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 and the Corporate Risk Committee are 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 for 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 23, 24 and 25.

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, 2016 and 2015 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 22

MAXIMUM EXPOSURE TO CREDIT RISK

As at October 31 (in millions of Canadian dollars)

	2016	2015
Financial assets, as stated in the consolidated balance sheet [1]	$ 42,390	$ 39,086
Credit commitments [2]	4,315	3,860
	$ 46,705	$ 42,946

(1) Excluding equity securities.

(2) Excluding credit facilities revocable at the Bank's option totalling $4.3 billion as at October 31, 2016 ($4.3 billion as at October 31, 2015).

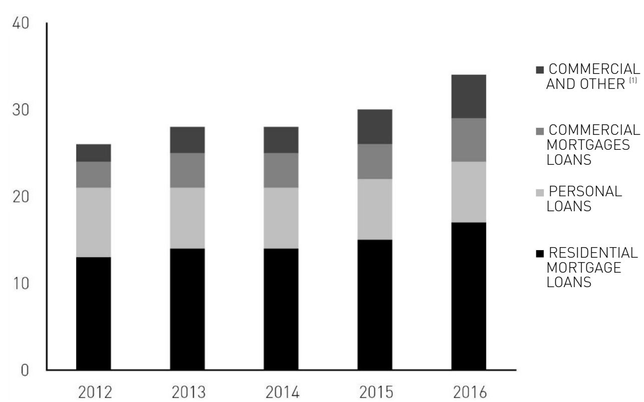
Loan portfolio mix

The Bank's loan portfolio consists of personal loans, residential mortgage loans, commercial mortgage loans and commercial loans, including acceptances and finance lease receivables. Overall, the proportion of loans to business customers in the loan portfolio mix as at October 31, 2016 increased year-over-year in line with one of the Bank's key objectives, while the proportion of personal loans decreased.

Reflecting the Bank's strong presence with personal clients through its retail network and through independent brokers and advisors, exposures related to personal loans and residential mortgages represented 70% of the Bank's total loan portfolio as at October 31, 2016, compared with 73% a year ago. Commercial loans and mortgages, including bankers' acceptances and finance lease receivables accounted for 30% of total loans as at October 31, 2016, compared with 27% a year ago.

LOAN PORTFOLIO MIX

As at October 31 (in billions of Canadian dollars)



(1) Including customers' liabilities under acceptances and finance lease receivables.

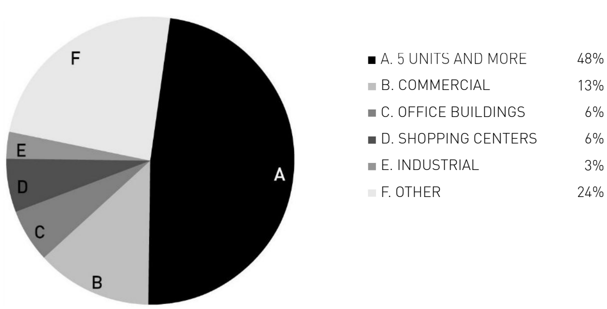
Personal loans
The personal loan portfolio includes a range of consumer credit products such as investment loans, home-equity lines of credit (HELOCs), credit cards, personal lines of credit and other consumer loans. As at October 31, 2016, this portfolio totalled $6.6 billion, a decrease of $0.4 billion compared with October 31, 2015, as a result of net repayments of investment loans 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
The residential mortgage loan portfolio includes retail mortgage loans secured by one- to four-unit dwellings. As at October 31, 2016, this portfolio amounted to $16.7 billion and increased by $1.8 billion or 12% during fiscal 2016, fuelled by continued growth in mortgage loans originated through 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. Furthermore, the Bank initiated a program in 2016 to optimize the usage of NHA MBS allocations. As part of this initiative, the Bank is acquiring insured mortgage loans originated by third-parties and subsequently pooling them into NHA MBS to be sold to investors. During the fourth quarter of 2016, Laurentian Bank Securities completed the first transaction for $277.1 million.

The residential mortgage loan portfolio also contributes to improve geographic diversification across Canada and therefore enhances the overall profile of the Bank. Table 24 on page 43 presents the geographic distribution of residential mortgage loans.

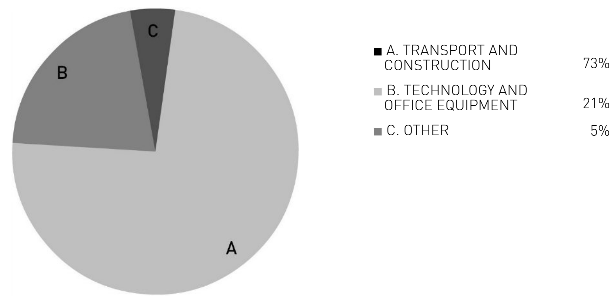
Commercial mortgage loans
The commercial mortgage loans portfolio includes residential mortgage loans secured by five and more unit dwellings, smaller retail multi-unit dwellings, commercial properties, office buildings, shopping centers and other mortgage loans. As at October 31, 2016, this portfolio totalled $4.7 billion, an increase of $0.4 billion or 10% from fiscal 2015. This growth is aligned with the Bank's strategy to increase the proportion of business services loans and to focus on serving clientele in specific markets where it can efficiently compete . The average loan carrying value was $3.0 million as at October 31, 2016, compared with $3.3 million as at October 31, 2015.

COMMERCIAL MORTGAGE LOANS BY PROPERTY TYPE
As at October 31, 2016 (as a percentage)



Commercial loans
As at October 31, 2016, the portfolio of commercial loans, including bankers' acceptances and finance lease receivables, amounted to $5.4 billion, up $1.6 billion or 42% from $3.8 billion as at October 31, 2015. In 2016, 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 Quebec. The acquisition of CIT Canada in October 2016 and the grouping of the equipment financing activities under a new national subsidiary called LBC Capital Inc. are expected to further strengthen the Bank's presence in these markets. The graph below presents information about the $0.7 billion equipment financing portfolio.

FINANCE LEASE RECEIVABLES BY LINE OF BUSINESS
As at October 31, 2016 (as a percentage)



The commercial loan portfolio covers a wide range of industries, with no specific industry accounting for more than 3% (unchanged from 2015) of total loans and acceptances, demonstrating good diversification and sound risk management.

See Table 23 for additional information.

TABLE 23

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)

2016

	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 CREDIT LOSSES [2]
Personal	$ 6,613,392	$ 18,018	$ —	$ 10,156	$ 7,862	$ 23,695	$ 23,903
Residential mortgage	16,749,387	31,549	—	3,355	28,194	7,663	3,723
Commercial mortgage	4,658,734	18,584	4,855	507	13,222	16,218	(1,040)
	28,021,513	68,151	4,855	14,018	49,278	47,576	26,586
Commercial and other [3]							
Real estate, renting and lease	1,058,288	13,827	429	546	12,852	3,071	1,263
Public utilities	790,692	1	—	—	1	184	(1,470)
Other services and government	626,557	10,255	1,841	194	8,220	4,327	53
Wholesale and retail	590,255	6,558	5,527	16	1,015	7,007	9,114
Construction	423,750	6,143	1,331	384	4,429	1,695	612
Financial services	422,090	2,209	2,695	—	(486)	1,494	1,428
Transportation and communication	372,327	13,346	—	—	13,346	1,428	438
Agriculture	367,260	7,811	100	299	7,413	998	505
Manufacturing	339,726	3,322	2,430	411	481	799	(76)
Transformation and natural resources	153,959	72	—	1	71	269	(5,408)
Other	212,306	560	—	108	450	976	305
	5,357,210	64,104	14,353	1,959	47,792	22,248	6,764
Total	$ 33,378,723	$ 132,255	$ 19,208	$ 15,977	$ 97,070	$ 69,824	$ 33,350
As a % of loans and acceptances		0.40%			0.29%		

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 CREDIT LOSSES [2]
Personal	$ 7,063,229	$ 18,703	$ —	$ 11,156	$ 7,547	$ 27,575	$ 29,677
Residential mortgage	14,998,867	32,760	—	4,721	28,039	7,271	5,324
Commercial mortgage	4,248,761	49,431	9,536	265	39,630	14,076	(90)
	26,310,857	100,894	9,536	16,142	75,216	48,922	34,911
Commercial and other [3]							
Real estate, renting and lease	892,339	6,828	730	1,054	5,044	2,695	667
Public utilities	405,231	—	—	—	—	1,603	(214)
Other services and government	479,486	1,151	517	96	538	5,948	6,527
Wholesale and retail	533,205	1,820	1,509	15	296	2,469	(747)
Construction	293,237	5,731	1,514	12	4,205	2,173	877
Financial services	249,737	3,509	709	1,275	1,525	904	1,813
Transportation and communication	179,351	145	—	7	138	995	(1,142)
Agriculture	236,404	7,582	1,013	8	6,561	365	601
Manufacturing	259,832	4,158	3,055	64	1,039	1,315	(1,605)
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%		

(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.

(3) Including customers' liabilities under acceptances and finance lease receivables.

Impaired loans

Gross impaired loans amounted to $132.3 million in 2016, a 5% decrease compared with $138.6 million in 2015. The settlement of impaired commercial mortgage loans during the year was partly offset by an increase in impaired commercial loans, including CIT Canada's $9.4 million impaired loans as at October 31, 2016.

Impaired commercial loans remained relatively low as at October 31, 2016 despite volume growth. This reflects the excellent quality of the portfolio, which, continued to benefit from the overall good prevailing economic conditions in 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 decreased by $4.5 million since October 31, 2015 to $19.2 million as at October 31, 2016, in-line with the decrease in impaired commercial mortgage loans mentioned above. Over the same period, collective allowances against impaired loans decreased by $2.7 million to $16.0 million as at October 31, 2016, mainly for impaired personal loans. Other collective allowances increased by $1.0 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 Quebec, 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. Following the acquisition of CIT Canada, the Bank's equipment financing suite of products is now distributed through a new vendor-dealer network throughout Canada. The Bank also offers its products to a wide network of independent brokers and advisors across Canada. As at October 31, 2016, the geographic distribution of total loans was as follows: 53% in Quebec, 33% in Ontario, 7% in the Prairies, 5% in British Columbia, and 2% in the Atlantic provinces and Territories.

Tables 24 and 25 below present the geographic distribution of gross loans and impaired loans.

TABLE 24

GEOGRAPHIC DISTRIBUTION OF LOANS BY CREDIT PORTFOLIO

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

2016

	PERSONAL	RESIDENTIAL MORTGAGE	COMMERCIAL MORTGAGE	COMMERCIAL AND OTHER (1)	GROSS AMOUNT OF LOANS	GROSS AMOUNT OF LOANS (IN %)
Quebec	**$ 2,676,274**	**$ 9,332,889**	**$ 2,599,463**	**$ 3,079,788**	**$ 17,688,414**	**53.0%**
Ontario	**2,315,162**	**5,356,099**	**1,634,055**	**1,683,028**	**10,988,344**	**32.9%**
Prairies	**654,427**	**996,714**	**270,737**	**316,897**	**2,238,775**	**6.7%**
British Colombia	**704,293**	**822,549**	**133,857**	**141,622**	**1,802,321**	**5.4%**
Atlantic provinces and Territories	**263,236**	**241,136**	**20,622**	**135,875**	**660,869**	**2.0%**
	$ 6,613,392	**$ 16,749,387**	**$ 4,658,734**	**$ 5,357,210**	**$ 33,378,723**	**100.0%**

2015

	PERSONAL	RESIDENTIAL MORTGAGE	COMMERCIAL MORTGAGE	COMMERCIAL AND OTHER (1)	GROSS AMOUNT OF LOANS	GROSS AMOUNT OF LOANS (IN %)
Quebec	$ 2,872,127	$ 9,594,688	$ 2,206,208	$ 2,718,376	$ 17,391,399	57.8%
Ontario	2,416,478	3,927,602	1,673,329	907,229	8,924,638	29.7%
Prairies	726,511	758,372	309,634	35,657	1,830,174	6.1%
British Colombia	747,527	522,543	52,017	80,172	1,402,259	4.6%
Atlantic provinces and Territories	300,586	195,662	7,573	40,254	544,075	1.8%
	$ 7,063,229	$ 14,998,867	$ 4,248,761	$ 3,781,688	$ 30,092,545	100.0%

(1) Including customers' liabilities under acceptances and finance lease receivables.

TABLE 25

GEOGRAPHIC DISTRIBUTION OF IMPAIRED LOANS BY CREDIT PORTFOLIO

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

						2016
	PERSONAL	RESIDENTIAL MORTGAGE	COMMERCIAL MORTGAGE	COMMERCIAL AND OTHER [1]	GROSS AMOUNT OF IMPAIRED LOANS	GROSS AMOUNT OF IMPAIRED LOANS (IN %)
Quebec	$ 3,245	$ 19,396	$ 6,469	$ 53,047	$ 82,157	62.1%
Ontario	14,437	2,462	12,115	10,488	39,502	29.9%
Prairies	265	—	—	—	265	0.2%
British Colombia	69	4,593	—	3	4,665	3.5%
Atlantic provinces and Territories	2	5,098	—	566	5,666	4.3%
	$ 18,018	$ 31,549	$ 18,584	$ 64,104	$ 132,255	100.0%

						2015
	PERSONAL	RESIDENTIAL MORTGAGE	COMMERCIAL MORTGAGE	COMMERCIAL AND OTHER [1]	GROSS AMOUNT OF IMPAIRED LOANS	GROSS AMOUNT OF IMPAIRED LOANS (IN %)
Quebec	$ 2,721	$ 17,970	$ 8,635	$ 35,751	$ 65,077	47.0
Ontario	15,667	8,817	39,470	1,933	65,887	47.5
Prairies	181	1,518	—	—	1,699	1.2
British Colombia	116	3,672	1,326	63	5,177	3.7
Atlantic provinces and Territories	18	783	—	—	801	0.6
	$ 18,703	$ 32,760	$ 49,431	$ 37,747	$ 138,641	100.0%

(1) Including customers' liabilities under acceptances and finance lease receivables.

Insurance and guarantees held in respect of loan portfolios

A significant proportion of the Bank's loan portfolio is insured by CMHC and by Genworth Canada (Genworth), or secured by assets pledged as collateral by borrowers or, for finance lease receivables, directly owned by the Bank.

CMHC and Genworth offer mortgage loan insurance programs which reduce 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 2016, 51% of residential mortgage loans secured by one- to four-unit dwellings were insured, compared with 53% as at October 31, 2015. 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, 2016, the estimated average loan-to-value ratio was 67% for insured residential mortgage loans and 61% for uninsured residential mortgage loans, including the authorized limit for related HELOCs.

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, the Bank believes 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, including finance lease receivables, 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.

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, 2016, the approximate market value of collateral pledged to the Bank in connection with assets purchased under reverse repurchase agreements was $2.9 billion ($3.9 billion as at October 31, 2015).

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 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 capital markets and 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

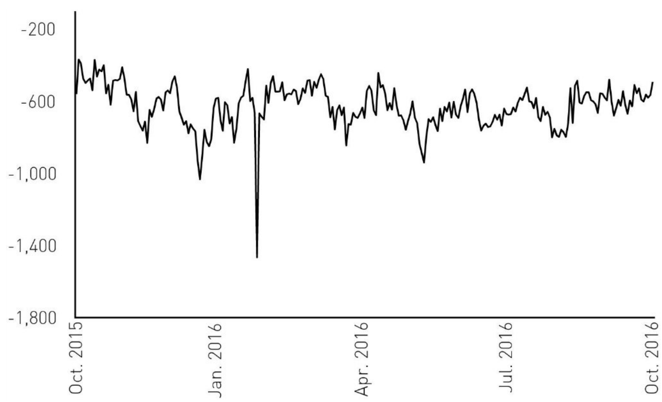
Parallel to VaR calculations, the impact of stress tests on profits and losses is assessed for the trading and investment portfolios and the ensuing results are used to assess the impact of exceptional but plausible market situations. Stress tests constitute a complementary risk measure to VaR and strive 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. The graph below presents the daily total VaR of the trading portfolio for the 2016 fiscal year.

DAILY TRADING VaR

For the year ended October 31, 2016 (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 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 Corporate Risk Committee 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 Corporate Risk Committee, 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, 2016, for all portfolios, a 1% increase in interest rate would have triggered an increase of approximately $13.0 million in net interest income before taxes over the next 12 months and a $57.0 million negative impact on the economic value of common shareholders' equity. As shown in Table 26, 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, 2016 is presented in Note 24 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 26

SENSITIVITY ANALYSIS OF THE STRUCTURAL INTEREST RATE RISK

As at October 31 (in thousands of Canadian dollars)

	2016		2015	
	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	**$ 13,040**	**$ (51,837)**	$ 17,222	$ (26,324)
Decrease of 100 basis points	**$ (11,393)**	**$ 42,724**	$ (19,954)	$ 22,362

(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, 2016, assets and liabilities denominated in U.S. dollars amounted to $624.4 million ($454.9 million as at October 31, 2015) and $569.1 million ($469.8 million as at October 31, 2015) 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, 2016, 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 $31.4 million ($34.4 million as at October 31, 2015) and $15.5 million ($18.3 million as at October 31, 2015) 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, 2016, a fluctuation in the stock markets of 10% would have had a $15.5 million impact on the Bank's shareholders' equity ($18.4 million as at October 31, 2015).

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. This reserve does not factor in the availability of the central bank's emergency liquidity facilities. 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.

The Bank also manages its liquidity to comply with the regulatory liquidity metrics in the OSFI domestic Liquidity Adequacy Requirements (LAR) Guideline. These regulatory metrics include the Liquidity Coverage Ratio (LCR), drawn on the BCBS international Basel III liquidity framework, and the OSFI-designed Net Cumulative Cash Flow (NCCF) supervisory tool. The LCR requires that banks maintain a sufficient stock of high-quality liquid assets to meet net short-term financial obligations over a thirty day period in an acute stress scenario.

The Bank remained compliant with the LAR Guideline throughout the year ended October 31, 2016.

Regulatory developments concerning liquidity

The aforementioned Basel III liquidity framework also outlines the Net Stable Funding Ratio (NSFR) as a minimum regulatory standard with an effective date of January 2018. The NSFR measures the proportion of long-term assets which are funded by long-term, stable funding. The Bank monitors these developments as they unfold.

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, 2016, these assets totalled $8.7 billion, an increase of $0.1 billion compared to the level held on October 31, 2015.

The 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.

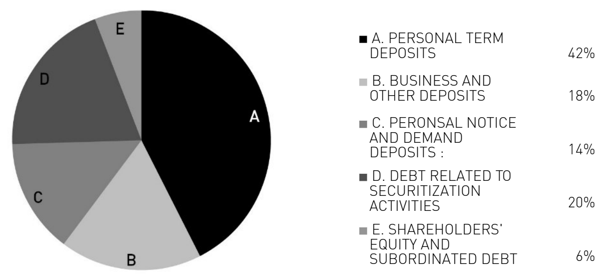
These liquid assets provide the Bank with flexibility to manage its loan and deposit portfolio maturities and commitments, and meet other current operating needs. Management of the liquid assets, both in terms of optimizing levels and mix, contributes significantly to the Bank's results.

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 Quebec and an efficient pan-Canadian network of independent advisors and brokers. 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 CMHC programs and, to a lesser extent, securitization of residential mortgage and finance lease receivables through multi-seller conduits. This liquidity source provides added flexibility to meet specific increases in funding needs.

FUNDING SOURCES
As at October 31, 2016 (as a percentage)



Personal deposits

Personal deposits include notice, demand and term deposits sourced through the Bank's retail branch network and through independent brokers and advisors. 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 deposits sourced through independent brokers and advisors are drawn from brokers affiliated to several of the major Canadian banks.

Total personal deposits increased to $21.0 billion as at October 31, 2016, compared with $19.4 billion as at October 31, 2015. As shown in Table 27, the ratio of personal deposits to total deposits increased to 76% as at October 31, 2016, a ratio well above the Canadian average. This reflected the Bank's increased usage of term deposits sourced through independent brokers and advisors in response to strong loan growth during the year.

Business, banks and other deposits

Deposits from businesses, banks and other decreased by $0.7 billion since October 31, 2015 to $6.6 billion as at October 31, 2016. 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 account managers serving commercial clients.

TABLE 27

DEPOSITS

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

	2016		2015	
Personal				
Notice and demand				
Branch network	$ 2,630,475	9.6%	$ 2,748,671	10.3%
Independent brokers and advisors	2,647,770	9.6	3,186,188	12.0
	5,278,245	19.2	5,934,859	22.3
Term				
Branch network	5,112,570	18.5	4,955,879	18.6
Independent brokers and advisors	10,610,763	38.5	8,486,978	31.9
	15,723,333	57.0	13,442,857	50.5
	21,001,578	76.2	19,377,716	72.8
Business, banks and other				
Notice and demand	2,402,316	8.7	2,499,364	9.4
Term	4,169,451	15.1	4,727,224	17.8
	6,571,767	23.8	7,226,588	27.2
Deposits	$ 27,573,345	100.0%	$ 26,604,304	100.0%

Credit ratings

Personal deposits, collected through the branch network and independent brokers and advisors, 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, 2016, additional collateral that would be required in the event of a one to three notch rating downgrade was not significant.

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

On November 29, 2016, DBRS confirmed the Bank's ratings. All trends are stable.

Table 28 presents the Bank's credit ratings as established by the rating agencies.

TABLE 28

CREDIT RATINGS (1)

As at November 30, 2016

	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 the branch network, the maintenance of 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 29 summarizes the remaining contractual maturity for the Bank's significant financial liabilities and other contractual obligations as at October 31, 2016 and 2015. 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, 2016, these commitments amounted to approximately $4.3 billion ($3.9 billion as at October 31, 2015), excluding credit facilities unconditionally revocable at the Bank's option.

TABLE 29

CONTRACTUAL OBLIGATIONS

As at October 31 (in thousands of Canadian dollars)

2016

	DEMAND AND NOTICE	TERM: UNDER 1 YEAR	TERM: 1 TO 3 YEARS	TERM: 3 TO 5 YEARS	TERM: OVER 5 YEARS	TOTAL
Financial liabilities						
Deposits	$ 7,680,561	$ 7,968,475	$ 9,114,606	$ 2,689,757	$ 119,946	$ 27,573,345
Obligations related to securities sold short	—	1,707,293	—	—	—	1,707,293
Obligations related to securities sold under repurchase agreements	—	2,525,441	—	—	—	2,525,441
Debt related to securitization activities	—	1,433,926	2,514,990	2,959,866	335,672	7,244,454
Subordinated debt	—	200,000	—	—	—	200,000
Derivatives[1]	—	4,031	2,450	1,154	3,078	10,713
	7,680,561	13,839,166	11,632,046	5,650,777	458,696	39,261,246
Other contractual obligations						
Commitments under leases, technology services and other contracts	—	130,543	178,886	92,298	35,026	436,753
Total	$ 7,680,561	$ 13,969,709	$ 11,810,932	$ 5,743,075	$ 493,722	$ 39,697,999

2015

	DEMAND AND NOTICE	TERM: UNDER 1 YEAR	TERM: 1 TO 3 YEARS	TERM: 3 TO 5 YEARS	TERM: 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

(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 25 to the annual consolidated financial statements.

OPERATIONAL RISK MANAGEMENT

Operational risk is defined as an inadequacy or failure attributable to people, processes, systems or external events, including legal risk but excluding strategic and reputation risk.

The Operational Risk Management Policy, reviewed annually by the Risk Management Committee of the Board describes the operational risk management program based on the "three lines of defence" model and specifies the roles and responsibilities of the various stakeholders. As the first line of defence, the business units are responsible for the daily management of inherent risks related to their activities. The Operational Risk Management department, as the second line of defence, supervises and supports the first line of defence and conducts an effective objective assessment of their risk profile. Finally, the Internal Audit department, as the third line of defence, examines the approach and effectiveness of the operational risk management program.

The operational risk management program includes the following:

- *Risk assessment and control* is performed by the various business units and aims to identify the key operational risks related to their operations and controls to mitigate them. This process also generates a general overview of operational risk across the organization.
- *Risk assessment and control measures related to change management* assess the risks and potential impacts of significant changes in the Bank's profile and ensure that they are subject to a rigorous process while paying particular attention to control, approval, monitoring and communication requirements.
- *Information gathering and analysis on internal operational incidents* collects useful information to assess the overall exposure and the effectiveness of control measures. In addition, for major incidents, the business units produce an analysis of the primary causes in order to implement corrective measures to mitigate the consequences and prevent the occurrence of such incidents.
- *Sound business continuity management* aims to ensure that key activities are maintained in case of a disruption in order to reduce the negative impacts on our customers, counterparties and reputation.
- *Supervision of the supplier risk management* implements robust control mechanisms so that the use of a third party proving to be more efficient, competent or less expensive, does not create undue risk for the Bank.
- *A corporate insurance program* protects against significant losses on unpredictable exposure to operational risk and to meet requirements under the law, regulations or contractual agreements.
- *Accountability and communication on operational risks* informs the various governance committees on operational risk across the Bank, significant losses, measures taken with respect to these risks and emerging risks.

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

OTHER RISKS THAT MAY AFFECT FUTURE RESULTS

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

Top risks

The following section presents a summary of the top risks that may affect results, among those other risks described below.

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 6 years will be at the forefront of the success of its modernization, as well as of its future profitability.

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

Other risks

Economic climate in Canada
The Bank's operations are mainly carried in Quebec and Ontario but also in the other Canadian 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. Credit 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 credit 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 (such as 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 attacks 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 with rapid technological development and innovation can 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 intense, and there can be no assurance that the Bank will be able to attract and retain these individuals, which could 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, 2016, 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 subject to the Scope Limitation section below, and based on that evaluation, concluded that they were effective and adequately designed at that date.

Also as at October 31, 2016, 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 subject to the Scope Limitation section below, 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.

Scope Limitation

In accordance with Multilateral Instrument 52-109, which allows an issuer the exclusion of ICFR and DC&P evaluation of businesses acquired not more than 365 days before its fiscal year-end, management has excluded the controls, policies and procedures of CIT Canada. CIT Canada was acquired on October 1, 2016 and accounts for approximately 2% of total assets, and less than 1% of total liabilities, total revenue and total net income as at and for the year ended October 31, 2016.

For additional information on this acquisition refer to Note 31 to the annual consolidated financial statements of this annual report.

Changes to Internal Control over Financial Reporting

During the year ended October 31, 2016, apart from the acquisition of CIT Canada, 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 credit losses

The allowances for credit losses reflect management's estimate of losses incurred in the loan portfolios, including off-balance sheet exposures. Management regularly reviews the portfolios' credit quality to ensure the adequacy of the allowances for credit 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, 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 credit 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 decrease in the provisions for credit losses in the consolidated statement of income for a given fiscal year. A detailed description of the methods used to determine the allowances and provisions for credit 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.

Impairment of 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 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.

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 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.

Additional information on the calculation of fair value is provided in Notes 3 and 22 to the annual consolidated financial statements.

GOODWILL, OTHER INTANGIBLE ASSETS AND OTHER ASSETS

Goodwill

As at October 31, 2016, the balance of goodwill stood at $55.8 million, compared with $34.9 million as at October 31, 2015. 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 non-financial 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 as at October 31, 2016 has been allocated to the following cash-generating units (CGUs): the B2B Bank unit (which supplies banking and financial products to independent financial advisors and non-bank financial institutions across Canada) and the Business Services unit (which encompasses services provided to small and medium-sized enterprises across Canada). Before being written off in October 2015, goodwill was also allocated to the Retail unit (which encompasses all branch activities and other retail banking activities in Quebec).

B2B Bank unit

As at October 31, 2016, goodwill of $34.9 million was allocated to the B2B Bank unit, unchanged compared with October 31, 2015. 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 and projected investments. In addition, a net income growth rate of 2.1% was applied to the terminal forecast year and all forecast cash flows were discounted at an after-tax rate of 10.0%. 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 unit was in excess of its carrying amount. As a result, no impairment charge was recognized during 2016. If alternative reasonably possible changes in key assumptions were applied, the result of the impairment test would not differ.

Business Services unit

As at October 31, 2016, preliminary goodwill of $21.0 million was allocated to the Business Services unit as a result of the acquisition of CIT Canada on October 1, 2016. The recoverable amount of the Business Services unit was estimated using a value in use calculation that was primarily based on the three-year business plan and projected investments. In addition, a net income growth rate of 2.1% was applied to the terminal forecast year and all forecast cash flows were discounted at an after-tax rate of 10.0%. 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 Business Services unit was in excess of its carrying amount. As a result, no impairment charge was recognized during 2016. If alternative reasonably possible changes in key assumptions were applied, the result of the impairment test would not differ.

Retail unit

Following the comprehensive strategic review of the Bank's retail activities during the fourth quarter of 2015, impairment charges 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.

As at October 31, 2016, circumstances indicated that the carrying value of the Retail unit may not be fully recoverable. The recoverable amount of the unit was therefore tested for impairment. Refer to the Other intangible assets and other assets section below for further details.

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. For software and other intangible assets that do not generate separate cash inflows, the recoverable amount is determined for the CGU to which the corporate asset is allocated. Changes in estimates and assumptions could significantly impact results.

Following the announcement that the Bank will optimize its retail activities by merging fifty branches over the next eighteen months, management revised its expectations concerning the perspectives of the Retail unit. This change in expectation was identified as an indicator of impairment and the recoverable amount of the assets related to 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, impairment charges of $22.1 million, affecting specific assets as well as corporate assets allocated to the Retail unit, were recorded for the year ended October 31, 2016 on the Impairment and restructuring charges line item ($43.0 million for the year-end October 31, 2015). These charges were related to software for $16.7 million and to premises and equipment for $5.4 million ($30.0 million on software, $3.1 million on other intangible assets and $9.9 million on premises and equipment in 2015).

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 2.1% (3.0% in 2015) was applied to the terminal forecast year and all forecast cash flows were discounted at an after-tax rate of 11.0% (10.0% in 2015). 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 $6.5 million as at October 31, 2016. 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 $8.9 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 assets related to the Retail unit could result in additional impairment charges in future periods.

Management also periodically reviews the value of the Bank's assets, such as intangible assets, fixed assets and other deferred charges, in order to identify potential losses in value and to validate the related amortization periods. Other impairment charges on intangible assets of $2.1 million and on premises and equipment of $0.1 million were recorded in 2016 ($1.5 million and $0.3 million respectively in 2015).

Refer to Notes 10 and 30 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 3.45% as at October 31, 2016 and 4.30% as at October 31, 2015. 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.

BUSINESS COMBINATIONS

Acquired assets and liabilities are included in the consolidated balance sheet at fair value on the date of acquisition. Valuation of the identifiable assets and liabilities of the acquiree upon initial recognition are 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 and the risk premium associated with the loans. Changes in assumptions could have had a significant impact on the recognized amount of goodwill or gain arising on acquisition.

Refer to Note 31 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. Management and internal and external experts are involved in assessing the probability and in estimating any amounts involved.

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 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 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 leases, which were not yet effective for the year ended October 31, 2016. These future accounting changes will be applicable for the Bank in various annual periods beginning on November 1, 2018 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 adoption of IFRS 9. The transition plan includes the following phases:

- Preliminary assessment – This phase is 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 2017. The detailed analysis will determine the quantitative, qualitative and technological impact of the new IFRS requirements. The Bank is currently designing the application of the expected-loss impairment model to its portfolios which includes defining when a significant increase in credit risk of a financial asset has occurred, determining the measurement of both 12-month and lifetime credit losses and determining the set of forward-looking information factors to be incorporated in the methodology and how those factors will be quantified. The design takes into account that interpretations concerning the application of the expected-loss impairment model continue to evolve. The new models also leverage data, systems and processes that will be used to calculate Basel expected losses regulatory adjustments for the portfolios under the AIRB approach.
- Implementation – This phase will gradually begin as the detailed analyses are completed in 2017. 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, as well as the potential impact of the adoption of IFRS 16, *Leases* and the recognition of lease assets and financial liabilities on its financial statements. IFRS 15 is effective for annual periods beginning on or after January 1, 2018 and IFRS 16, for annual periods beginning on or after January 1, 2019.

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LAURENTIAN BANK OF CANADA CONSOLIDATED FINANCIAL STATEMENTS

AS AT OCTOBER 31, 2016 AND 2015

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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 6, 2016

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, 2016 and 2015, and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years ended October 31, 2016 and 2015, 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, 2016 and 2015, 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 6, 2016

[1] CPA auditor, CA public accountancy permit no. A112431

CONSOLIDATED BALANCE SHEET

As at October 31 (in thousands of Canadian dollars)	Notes	2016	2015
ASSETS			
Cash and non-interest bearing deposits with other banks		$ 123,716	$ 109,055
Interest-bearing deposits with other banks		63,383	91,809
Securities	5, 7 and 29		
Available-for-sale		2,723,693	2,368,757
Held-to-maturity		502,232	393,222
Held-for-trading		2,434,507	1,725,378
		5,660,432	4,487,357
Securities purchased under reverse repurchase agreements	29	2,879,986	3,911,439
Loans	6, 7 and 29		
Personal		6,613,392	7,063,229
Residential mortgage [1]		16,749,387	14,998,867
Commercial mortgage [1]		4,658,734	4,248,761
Commercial and other		4,727,385	3,308,144
Customers' liabilities under acceptances		629,825	473,544
		33,378,723	30,092,545
Allowances for loan losses		(105,009)	(111,153)
		33,273,714	29,981,392
Other			
Derivatives	25	232,791	276,601
Premises and equipment	8	32,989	45,562
Software and other intangible assets	9	150,490	147,135
Goodwill	10	55,812	34,853
Deferred tax assets	19	36,495	17,450
Other assets	11	496,532	556,851
		1,005,109	1,078,452
		$ 43,006,340	$ 39,659,504

	Notes	2016	2015
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits	12		
Personal		$ 21,001,578	$ 19,377,716
Business, banks and other		6,571,767	7,226,588
		27,573,345	26,604,304
Other			
Obligations related to securities sold short		1,707,293	1,839,837
Obligations related to securities sold under repurchase agreements		2,525,441	2,296,890
Acceptances		629,825	473,544
Derivatives	25	150,499	125,683
Deferred tax liabilities	19	32,755	8,294
Other liabilities	13	968,077	780,682
		6,013,890	5,524,930
Debt related to securitization activities	7 and 14	7,244,454	5,493,602
Subordinated debt	15	199,824	449,641
Shareholders' equity			
Preferred shares	16	341,600	219,633
Common shares	16	696,493	466,336
Retained earnings		924,861	886,656
Accumulated other comprehensive income		11,873	14,366
Share-based payment reserve	17	—	36
		1,974,827	1,587,027
		$ 43,006,340	$ 39,659,504

[1] Comparative figures reflect the reclassification of multi-unit residential mortgage loans. 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	2016	2015
Interest income			
Loans		$ 1,066,245	$ 1,034,117
Securities		35,265	40,144
Deposits with other banks		1,740	793
Other, including derivatives		63,630	66,104
		1,166,880	1,141,158
Interest expense			
Deposits		454,862	435,533
Debt related to securitization activities		114,346	113,102
Subordinated debt		6,433	16,094
Other		1,595	1,346
		577,236	566,075
Net interest income		589,644	575,083
Other income			
Fees and commissions on loans and deposits		145,690	141,589
Income from brokerage operations		71,435	63,294
Income from sales of mutual funds		40,299	38,811
Income from investment accounts		30,271	30,202
Insurance income, net	27	17,527	16,903
Income from treasury and financial market operations		12,782	23,365
Other	28	7,803	7,879
		325,807	322,043
Total revenue		915,451	897,126
Amortization of net premium on purchased financial instruments	31	5,190	5,999
Provision for credit losses	6	33,350	34,900
Non-interest expenses			
Salaries and employee benefits		334,903	342,269
Premises and technology		187,696	197,778
Other		114,197	104,368
Impairment and restructuring charges	30	38,344	78,409
Costs related to business combinations	31	4,409	—
		679,549	722,824
Income before income taxes		197,362	133,403
Income taxes	19	45,452	30,933
Net income		$ 151,910	$ 102,470
Preferred share dividends, including applicable taxes		13,313	9,602
Net income available to common shareholders		$ 138,597	$ 92,868
Average number of common shares outstanding (in thousands)			
Basic		30,488	28,949
Diluted		30,488	28,955
Earnings per share	20		
Basic		$ 4.55	$ 3.21
Diluted		$ 4.55	$ 3.21
Dividends declared per share			
Common share		$ 2.36	$ 2.20
Preferred share - Series 11		$ 1.00	$ 1.00
Preferred share - Series 13		$ 1.08	$ 1.08
Preferred share - Series 15		$ 0.73	n.a.

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)	2016	2015
Net income	**$ 151,910**	$ 102,470
Other comprehensive income		
Items that may subsequently be reclassified to the Statement of Income		
Unrealized net gains (losses) on available-for-sale securities	**9,412**	(21,028)
Reclassification of net (gains) losses on available-for-sale securities to net income	**2,182**	(3,700)
Net change in value of derivatives designated as cash flow hedges	**(14,087)**	28,967
	(2,493)	4,239
Items that may not subsequently be reclassified to the Statement of Income		
Remeasurement of gains (losses) on employee benefit plans	**(26,770)**	8,574
Comprehensive income	**$ 122,647**	$ 115,283

INCOME TAXES — OTHER COMPREHENSIVE INCOME

The following table presents the income taxes for each component of other comprehensive income.

For the years ended October 31 (in thousands of Canadian dollars)	2016	2015
Income tax expense (recovery) on:		
Unrealized net gains (losses) on available-for-sale securities	**3,439**	(7,719)
Reclassification of net (gains) losses on available-for-sale securities to net income	**831**	(1,433)
Net change in value of derivatives designated as cash flow hedges	**(5,158)**	10,570
Remeasurement of gains (losses) on employee benefit plans	**(9,734)**	3,145
	$ (10,622)	$ 4,563

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, 2016

(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, 2015	$ 219,633	$ 466,336	$ 886,656	$ (11,391)	$ 25,757	$ 14,366	$ 36	$ 1,587,027
Net income			**151,910**					**151,910**
Other comprehensive income (net of income taxes)								
Unrealized net gains on available-for-sale securities				**9,412**		**9,412**		**9,412**
Reclassification of net losses on available-for-sale securities to net income				**2,182**		**2,182**		**2,182**
Net change in value of derivatives designated as cash flow hedges					**(14,087)**	**(14,087)**		**(14,087)**
Remeasurement of gains (losses) on employee benefit plans			**(26,770)**					**(26,770)**
Comprehensive income			**125,140**	**11,594**	**(14,087)**	**(2,493)**		**122,647**
Issuance of share capital	**121,967**	**230,157**					**(36)**	**352,088**
Dividends								
Preferred shares, including applicable taxes			**(13,313)**					**(13,313)**
Common shares			**(73,622)**					**(73,622)**
Balance as at October 31, 2016	**$ 341,600**	**$ 696,493**	**$ 924,861**	**$ 203**	**$ 11,670**	**$ 11,873**	**$ —**	**$ 1,974,827**

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
Remeasurement of gains (losses) 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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the years ended October 31 (in thousands of Canadian dollars)	Notes	2016	2015
Cash flows relating to operating activities			
Net income		$ 151,910	$ 102,470
Adjustments to determine net cash flows relating to operating activities:			
Provision for credit losses		33,350	34,900
Net gains (losses) on disposal of available-for-sale securities		2,391	(8,253)
Deferred income taxes		(6,441)	(9,077)
Impairment of goodwill, software and intangible assets, and premises and equipment	30	22,113	72,226
Depreciation of premises and equipment		9,798	14,125
Amortization of software and other intangible assets		28,771	38,657
Change in operating assets and liabilities :			
Loans		(2,399,614)	(2,090,419)
Change in acceptances		156,281	108,087
Securities at fair value through profit and loss		(709,129)	255,058
Securities purchased under reverse repurchase agreements		1,031,453	(714,658)
Accrued interest receivable		(5,504)	5,276
Derivative assets		49,546	(143,792)
Deposits		969,041	2,081,278
Obligations related to securities sold short		(132,544)	277,360
Obligations related to securities sold under repurchase agreements		228,551	80,925
Accrued interest payable		15,747	(54,394)
Derivative liabilities		24,816	34,843
Change in debt related to securitization activities		1,750,852	629,754
Other, net		224,835	(173,416)
		1,446,223	540,950
Cash flows relating to financing activities			
Repurchase of subordinated debt	15	(250,000)	—
Net proceeds from issuance of preferred shares	16	121,967	—
Net proceeds from issuance of common shares	16	215,633	387
Dividends		(55,209)	(73,025)
		32,391	(72,638)
Cash flows relating to investing activities			
Change in available-for-sale securities			
Acquisitions		(2,229,090)	(1,970,989)
Proceeds on sale and at maturity		1,885,770	2,152,640
Change in held-to-maturity securities			
Acquisitions		(307,354)	(272,403)
Proceeds at maturity		198,344	202,188
Acquisition of a portfolio of investment loans	6	—	(613,120)
Additions to premises and equipment and intangible assets		(43,549)	(14,619)
Cash paid for business combinations	31	(996,500)	—
Change in interest-bearing deposits with other banks		28,426	30,799
		(1,463,953)	(485,504)
Net change in cash and non-interest-bearing deposits with other banks		14,661	(17,192)
Cash and non-interest-bearing deposits with other banks at beginning of year		109,055	126,247
Cash and non-interest-bearing deposits with other banks at end of year		$ 123,716	$ 109,055
Supplemental disclosure about cash flows relating to operating activities:			
Interest paid during the year		$ 561,770	$ 619,108
Interest received during the year		$ 1,161,519	$ 1,129,223
Dividends received during the year		$ 11,436	$ 15,111
Income taxes paid during the year		$ 35,561	$ 45,041

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at October 31, 2016 and 2015
[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, 2016 were approved for issuance by the Board of Directors on December 6, 2016.

2. BASIS OF PRESENTATION

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

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

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

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

2.1 BASIS OF CONSOLIDATION

These consolidated financial statements include the assets, liabilities and operating results of the Bank and all of the entities which it controls, after elimination of intercompany balances and transactions. The Bank controls an entity when it has the power to direct the activities of the entity which have the most significant impact on the entity's risks and/or returns, it is exposed to significant risks and/or returns arising from the entity, and it is able to use its power to affect the risks and/or returns to which it is exposed.

Subsidiaries

Subsidiaries are consolidated from the date the Bank obtains control and continue to be consolidated until the date when control ceases to exist. 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	**LBC Capital Inc.**
B2B Bank Financial Services Inc.	LBEF Inc.
B2B Bank Securities Services Inc.	LBEL Inc.
B2B Bank Intermediary Services Inc.	LBC Capital GP Inc.
B2B Trustco	LBC Leasing Limited Partnership [1]
Laurentian Bank Insurance Inc.	**LBC Financial Services Inc.**
Laurentian Bank Securities Inc.	**LBC Investment Management Inc.**
Laurentian Capital (USA) Inc.	V.R. Holding Insurance Company Ltd
Laurentian Trust of Canada Inc.	VRH Canada Inc.
	LBC Trust

(1) LBEL Inc. and LBC Capital GP Inc. are respectively the limited partner and the general partner of LBC Leasing Limited Partnership.

Structured entities

Structured entities are consolidated when the substance of the relationship between the Bank and the structured entity indicates that the structured entity is controlled by the Bank. 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 complex judgments that affect the reported amounts of assets, liabilities, net income and other related disclosures. Management has established 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 22 detail the significant 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 financial assets

Allowances for credit losses
The allowances for credit losses reflect management's estimate of losses incurred in the loan portfolios, including off-balance sheet exposures. 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 credit 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. 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.

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. The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are disclosed and further explained in Notes 10 and 30.

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

The acquired assets and liabilities are included in the consolidated balance sheet at fair value on the date of acquisition. Valuation of the identifiable assets and liabilities of the acquiree upon initial recognition are 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 and the risk premium associated with the loans. Changes in assumptions could have had a significant impact on the recognized amount of goodwill or gain arising on acquisition. Refer to Note 31 for additional information on the assets acquired and liabilities assumed as a result of 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. 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.

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, the Bank takes part in the normal course of its business in certain transactions for which the tax impacts are uncertain. Management therefore interprets tax legislation in various jurisdictions and accounts for provisions for uncertain tax positions. The provisions are estimated at the end of each reporting period and reflect management's best estimate of the amounts that may have to be paid. In the case where an audit by tax authorities results in an adjustment to the provision, the difference will impact the income taxes of the period in which the assessment was made.

The use of different assumptions or interpretations could translate into significantly different income tax assets and liabilities, as well as the income tax expense or recovery.

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, 2016 and 2015, 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 include securities which 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 an available-for-sale reserve included in the accumulated other comprehensive income in equity 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 security'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. Held-to-maturity financial assets include securities pledged to participate in securitization programs. These financial assets are initially recognized at fair value on the settlement date, including direct and incremental transaction costs. Subsequently, they are measured at amortized cost using the effective interest method, net of impairment losses. Interest income is recognized on held-to-maturity securities using the effective interest rate, calculated over the security's expected term.

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. An asset corresponding to the consideration paid for the securities is recognized in securities purchased under reverse purchase agreements. Subsequently, the agreements are classified as loans and receivables and are measured at amortized cost using the effective interest method. 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 consideration received is recognized in the consolidated balance sheet and a corresponding liability is recognized in obligations related to securities sold under repurchase agreements. Subsequently, the agreements are classified as other financial liabilities and are measured at amortized cost using the effective interest method. 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 borrowed or purchased under agreements to resell are subsequently sold to third parties, the obligation to deliver the securities is recorded as a short sale within obligations related to securities sold short. These short sales are classified as held-for-trading liabilities 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.

Loans

Loans are non-derivative financial assets with fixed or determinable payments.

Loans are initially recorded at fair value on the settlement date in the consolidated balance sheet. Subsequently, they are generally classified as loans and receivables and measured at amortized cost using the effective interest method, net of allowances for loan losses. Interest income is recognized on loans using the effective interest rate, calculated over the loan's expected term. Commissions received, origination fees and costs, as well as other transaction costs are considered to be adjustments to the loan yield and are recorded in 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.

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.

Renegotiated loans
Subject to assessment on a case by case basis, the Bank may restructure a loan where a borrower experiences financial difficulties. Restructuring may involve extending the payment arrangements and agreeing to new loan conditions. Once the terms have been renegotiated any impairment loss 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 are generally held for sale and 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 credit losses.

Any future change in the fair value of foreclosed assets is recognized as other income in the Consolidated Statement of Income, but not in excess of the cumulative losses recognized subsequent to the foreclosure date. The revenues generated by foreclosed assets and related operating expenses are included in other income and non-interest expenses.

If the foreclosed 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 and finance lease receivables under securitization programs. As the Bank retains substantially all the risks and rewards related to these assets, these transactions do not result in derecognition of the assets from the Bank's consolidated balance sheet. As such, securitized residential mortgages and finance lease receivables continue to be recognized in the consolidated balance sheet. 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 and 14 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 credit 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 credit 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 and measured at amortized cost using the effective interest method. 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 a loan and receivable. 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 measured 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 the Consolidated Statement of Income under income from treasury and financial market operations, 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 classified as other financial liabilities and measured at amortized cost using the effective interest method. Interest expense is allocated over the expected term of the deposit by applying the effective interest rate to the carrying amount of the liability. Commissions paid and other fees are recorded in 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 personal 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 is accounted for separately and 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 classified as other financial liabilities and is measured at amortized cost using the effective interest method. 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 classified as other financial liabilities and is measured at amortized cost using the effective interest method. 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 LEASES

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

The Bank as a lessor

The Bank provides leasing solutions to business customers.

Finance leases
Leases in which the Bank transfers substantially all the risks and rewards incidental to ownership of an asset are classified as finance leases. Assets held under a finance lease are presented as a receivable on the line item Commercial loans and others in the consolidated balance sheet.

Finance lease receivables are initially recorded at an amount equal to the net investment in the lease at the inception of the lease. This corresponds to the aggregate minimum lease payments receivable plus any unguaranteed residual value accruing to the Bank, discounted at the interest rate implicit in the lease. Finance lease receivables are subsequently recorded at an amount equal to the net investment in the lease at the reporting date, net of allowances for loan losses. Interest income is recognized based on a pattern reflecting a constant periodic rate of return on the Bank's net investment outstanding in respect of the finance lease. Commissions received, origination fees and costs, as well as other transaction costs in respect of finance leases are considered to be adjustments to the yield and are recorded in interest income over the term of the lease. For derecognition and impairment of finance lease receivables, the Bank applies accounting policies applicable to financial instruments described in Section 3.1.

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

Operating leases
Leases in which the Bank does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income.

Rental income arising from operating leases is accounted for on a straight-line basis over the lease term and is included in other income in the Consolidated Statement of Income.

Assets subject to operating leases are classified in the balance sheet in other assets. 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 and are carried at cost less accumulated depreciation, which takes into account their estimated residual value.

The Bank as a lessee
The Bank enters into lease agreements as a lessee for its premises and other contracts. These agreements are accounted for as operating leases as they do not transfer substantially all the risks and rewards incidental to ownership of the leased items to the Bank. 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.

3.3 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 or received 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 a contingent consideration are recorded in net income.

The fair value estimate of purchased financial assets and assumed liabilities 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 credit losses as of the acquisition date. As purchased loans and finance lease receivables are recorded at fair value, no allowance for credit losses is recorded on the date of acquisition. As well, these loans and finance lease receivables are not considered impaired as at the date of acquisition. Subsequently, purchased loans and finance lease receivables are recorded at amortized cost using the effective interest method.

Purchased loans and finance lease receivables 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 credit losses and increase the allowance for loan losses. Decreases in initially estimated incurred credit losses result in a reduction of the provision for credit losses and reduce any previously recorded allowance for loan losses, until the newly recorded allowance is exhausted. Any additional decrease in estimated incurred credit losses is recorded in the Consolidated Statement of Income under net interest income and increases the carrying amount of the purchased loans and finance lease receivables.

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 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. The Bank allocated the goodwill from business combinations to the B2B Bank unit and the Business Services unit, and to the Retail unit until October 2015.

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 amount. The recoverable amount of the CGU is the greater of the value in use and its fair value less cost of disposal. Impairment losses on goodwill are charged to income in the period they are incurred and are not reversed.

3.4 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.

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

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.

3.5 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.

Amortization

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 independent brokers and advisors and vendor-dealers, core deposit intangibles, as well as the core banking system and certain components of the ongoing program to implement the Basel Advanced 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.

Impairment

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 carrying amount exceeds its estimated recoverable amount, the assets with finite lives are considered impaired and are written down to their recoverable amount. Software and other intangible assets that do not generate cash inflows that are largely independent of those from other assets or group of assets are tested for impairment at the CGU level. Any impairment arising from a decline in value of intangible assets is charged to income in the period in which the losses are incurred.

3.6 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

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

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.

3.7 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 recognized but are 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 it becomes available.

3.8 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.

3.9 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.

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

3.11 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.

3.12 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.

3.13 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.

3.14 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.

3.15 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

Segmented information

As of November 1, 2015, the Bank reports as one business entity and not as four distinct segments as was previously done. This change in disclosure was applied prospectively to better present the nature and financial effects of the Bank's business activities.

Provision for off-balance sheet exposures

As of November 1, 2015, the provision for off-balance sheet exposures, such as letters of guarantee and certain undrawn amounts under approved credit facilities, which was previously reported as part of other non-interest expenses was reclassified to the provision for credit losses to better reflect the nature of this expense. This change in presentation was applied prospectively and did not have any significant impact on the Bank's financial position or results.

Multi-unit residential mortgage loans

Multi-unit residential mortgage loans which were previously reported in residential mortgage loans in the consolidated balance sheet were reclassified to commercial mortgage loans to better reflect the nature of these loans and associated risks. This reclassification amounted to $1.2 billion as at October 31, 2015 and $1.1 billion as at November 1, 2014. Corresponding reclassifications of provisions for credit losses as well as impaired loans and allowances for credit losses were made.

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

4.2 FUTURE ACCOUNTING CHANGES

The following section summarizes accounting standards which have been issued but are not yet effective.

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, which will be November 1, 2018 for the Bank. 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 (FRE) 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 decided not to early adopt IFRS 9.

In December 2015, the Basel Committee on Banking Supervision (BCBS) issued its final version of the *Guidance on credit risk and accounting for expected credit losses*. The guidance sets out supervisory expectations on sound credit risk practices associated with the implementation of expected credit loss accounting models as required under IFRS 9.

In June 2016, the OSFI issued the final version of the *IFRS 9 Financial Instruments and Disclosures Guideline*, which reflects the aforementioned BCBS guidance and instructs FRE on the application of IFRS 9. The guideline will take effect when IFRS 9 is applicable to each FRE.

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, with the most significant impact expected to be on loans and finance lease receivables. The model will also apply to loan commitments and financial guarantees that are not measured at fair value through profit or loss.

Specifically, IFRS 9 requires entities to recognize 12-month expected credit losses (ECL) from the date a financial asset is first recognized ("stage 1 loans") and to recognize lifetime expected credit losses if the credit risk on that financial asset has increased significantly since initial recognition ("stage 2 loans"). In assessing whether credit risk has increased significantly, entities are required to compare the risk of a default occurring on the financial instrument as at the reporting date, with the risk of default occurring on the financial instrument as at the date of initial recognition. Currently, under the incurred loss methodology in IAS 39, allowances are provided for non-impaired loans for losses that are incurred but not yet identified.

The ECL model under IFRS 9 also requires that lifetime expected credit losses be recognized for financial assets that are assessed as credit-impaired ("stage 3 loans").

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. The classification and measurement of financial liabilities remain essentially unchanged from the current IAS 39 requirements, except for the measurement of financial liabilities elected to be measured at fair value: 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.

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.

Transition
The impairment and classification and measurement requirements of IFRS 9 will be applied retrospectively by adjusting the opening balance sheet at November 1, 2018. There is no requirement to restate comparative periods. Hedge accounting, if adopted, will be applied prospectively, with limited exceptions. At this stage, it is no possible to quantify the potential financial effect of adoption of IFRS 9 to the Bank.

To coordinate and execute the adoption of IFRS 9, the Bank has established a project team. The Bank's conversion plan includes the following phases: (a) Preliminary Assessment; (b) Detailed Analysis; (c) Implementation, with work streams focused on each of the three required sections of IFRS 9 noted above. The Bank is on track with its project timelines. The Preliminary Assessment phase is completed and the Detailed Analysis phase is in progress.

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

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. The Bank is currently assessing the impact of the adoption of this standard on its consolidated financial statements.

IFRS 16: *Leases*

In January 2016, the IASB issued IFRS 16, *Leases*, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, ie the customer ("lessee") and the supplier ("lessor"). IFRS 16 replaces the previous leases standard, IAS 17 *Leases*, and related interpretations.

For lessees, the most significant effect of the new requirements will be an increase in lease assets and financial liabilities as IFRS 16 eliminates the classification of leases as either operating leases or finance leases. All leases are 'capitalized' by recognizing the present value of the lease payments and showing them either as lease assets (right-of-use assets) or together with property, plant and equipment. If lease payments are made over time, a company also recognizes a financial liability representing its obligation to make future lease payments.

For lessors, IFRS 16 substantially carries forward the accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

IFRS 16 is effective for annual periods beginning on or after January 1, 2019, which will be November 1, 2019 for the Bank. Early application is permitted for entities that also apply IFRS 15, *Revenue from Contracts with Customers*. The Bank is currently assessing the impact of the adoption of this standard on its consolidated financial statements.

5. SECURITIES

MATURITY SCHEDULE OF SECURITIES

	Within 1 year	1 to 5 years	Over 5 years	No specific maturity	2016 Total	2015 Total
Portfolio of available-for-sale securities						
Securities issued or guaranteed						
by Canada [1]	$ 818,625	$ 104,697	$ —	$ —	$ 923,322	$ 785,585
by provinces	624,345	764,991	2,834	—	1,392,170	1,174,426
by municipalities	—	59,279	—	—	59,279	—
Other debt securities	24,517	108,685	34,268	—	167,470	150,246
Asset-backed securities	4,586	—	3,656	—	8,242	33,694
Preferred shares	450	—	17	102,069	102,536	104,978
Common shares and other securities	—	—	—	70,674	70,674	119,828
	$ 1,472,523	$ 1,037,652	$ 40,775	$ 172,743	$ 2,723,693	$ 2,368,757
Portfolio of held-to-maturity securities						
Securities issued or guaranteed by Canada [1]	$ 491,311	$ 10,921	$ —	$ —	$ 502,232	$ 393,222

(1) Including mortgage-backed securities that are fully guaranteed by the Canada Mortgage and Housing Corporation pursuant to the *National Housing Act*.

Refer to Note 7 for additional information on held-to-maturity securities.

5. SECURITIES [CONT'D]

GAINS AND LOSSES RECOGNIZED IN COMPREHENSIVE INCOME

Gains and losses recognized in income from treasury and financial market operations on the portfolio of available-for-sale securities for the years ended October 31

	2016	2015
Realized net gains (losses)	$ (2,391)	$ 8,253
Write-downs for impairment	(622)	(3,120)
	$ (3,013)	$ 5,133

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

2016	Amortized cost	Unrealized gains	Unrealized losses	Fair value
Securities issued or guaranteed				
by Canada [1]	$ 922,152	$ 1,232	$ 62	$ 923,322
by provinces	1,389,637	2,630	97	1,392,170
by municipalities	59,220	96	37	59,279
Other debt securities	163,023	4,683	236	167,470
Asset-backed securities	8,165	77	—	8,242
Preferred shares	109,509	2,534	9,507	102,536
Common shares and other securities	67,824	3,122	272	70,674
	$ 2,719,530	$ 14,374	$ 10,211	$ 2,723,693

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

(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 22 for additional information on the determination of fair value of securities.

6. LOANS

ALLOWANCES FOR CREDIT LOSSES

						2016
	Balance at beginning of year	Provision for credit losses [3]	Write-offs	Recoveries	Interest accrued on impaired loans	Balance at end of year
Personal	$ 41,466	$ 23,903	$ (35,971)	$ 7,739	$ (685)	$ 36,452
Residential mortgage	11,995	3,723	(2,350)	(877)	(1,473)	11,018
Commercial mortgage	25,077	(1,040)	(119)	(73)	(814)	23,031
Commercial and other [1]	37,732	6,764	(3,828)	27	(632)	40,063
Total allowances for credit losses	$ 116,270	$ 33,350	$ (42,268)	$ 6,816	$ (3,604)	$ 110,564
Individual allowances	$ 23,690	$ 309	$ (3,928)	$ (47)	$ (816)	$ 19,208
Collective allowances against impaired loans	18,676	31,566	(38,340)	6,863	(2,788)	15,977
Collective allowances against other loans	68,787	1,037	—	—	—	69,824
Total allowances for loan losses	$ 111,153	$ 32,912	$ (42,268)	$ 6,816	$ (3,604)	$ 105,009
Allowances for off-balance sheet exposures [2]	5,117	438	—	—	—	5,555
Total allowances for credit losses	$ 116,270	$ 33,350	$ (42,268)	$ 6,816	$ (3,604)	$ 110,564

						2015
	Balance at beginning of year	Provision for credit losses [3]	Write-offs	Recoveries	Interest accrued on impaired loans	Balance at end of year
Personal	$ 38,411	$ 29,677	$ (36,067)	$ 7,145	$ (435)	$ 38,731
Residential mortgage	10,169	5,324	(2,466)	(326)	(709)	11,992
Commercial mortgage	27,944	(90)	(2,976)	(82)	(919)	23,877
Commercial and other [1]	42,847	(11)	(6,322)	521	(482)	36,553
Total allowances for loan losses	$ 119,371	$ 34,900	$ (47,831)	$ 7,258	$ (2,545)	$ 111,153
Individual allowances	$ 21,951	$ 10,686	$ (9,225)	$ 521	$ (243)	$ 23,690
Collective allowances against impaired loans	17,238	35,609	(38,606)	6,737	(2,302)	18,676
Collective allowances against other loans	80,182	(11,395)	—	—	—	68,787
Total allowances for loan losses	$ 119,371	$ 34,900	$ (47,831)	$ 7,258	$ (2,545)	$ 111,153

(1) Including customers' liabilities under acceptances and finance lease receivables.

(2) The allowances for off-balance sheet exposures, such as letters of guarantee and certain undrawn amounts under approved credit facilities, are recognized in other liabilities. The reduction in the allowances for off-balance sheet exposures in 2015 amounted to $2.3 million.

(3) The provision for off-balance sheet exposures, which was previously reported as part of other non-interest expenses, was reclassified to the provision for credit losses as of November 1, 2015. Refer to Note 4 for further information.

IMPAIRED LOANS

				2016
	Gross amount	Individual allowances	Collective allowances against impaired loans	Net amount
Personal	$ 18,018	$ —	$ 10,156	$ 7,862
Residential mortgage	31,549	—	3,355	28,194
Commercial mortgage	18,584	4,855	507	13,222
Commercial and other [1]	64,104	14,353	1,959	47,792
	$ 132,255	$ 19,208	$ 15,977	$ 97,070

(1) Including customers' liabilities under acceptances and finance lease receivables.

6. LOANS [CONT'D]

				2015
	Gross amount	Individual allowances	Collective allowances against impaired loans	Net amount
Personal	$ 18,703	—	$ 11,156	$ 7,547
Residential mortgage	32,760	—	4,721	28,039
Commercial mortgage	49,431	9,536	265	39,630
Commercial and other [1]	37,747	14,154	2,534	21,059
	$ 138,641	$ 23,690	$ 18,676	$ 96,275

(1) Including customers' liabilities under acceptances and finance lease receivables.

Foreclosed assets

Held-for-sale assets acquired in 2016 with respect to impaired loans which are managed for sale in an orderly manner amounted to $6.4 million ($8.9 million in 2015). There were no individual allowances with regards to these loans prior to foreclosure.

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.

				2016
	1 day–31 days	**32 days–90 days**	**Over 90 days**	**Total**
Personal loans	**$ 88,434**	**$ 28,260**	**$ 6,815**	**$ 123,509**
Residential mortgages	**246,394**	**34,950**	**24,328**	**305,672**
	$ 334,828	**$ 63,210**	**$ 31,143**	**$ 429,181**

				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	268,341	35,146	25,241	328,728
	$ 372,748	$ 63,755	$ 35,185	$ 471,688

FINANCE LEASE RECEIVABLES

The following table presents information about assets held under finance leases, which are included in the Commercial and other line item.

	2016	2015
Minimum lease payments	**$ 793,151**	$ 108,352
Unguaranteed residual values	**20,017**	—
Gross investment in leases	**813,168**	108,352
Unearned interest income	**(84,794)**	(10,149)
Net investment in leases	**728,374**	98,203
Unamortized deferred costs, security deposits, and other	**9,661**	—
	$ 738,035	$ 98,203

6. LOANS [CONT'D]

Contractual maturities of finance lease receivables

The following table presents information about contractual maturity dates for finance lease receivables.

				2016
		Gross investment in leases	**Unearned interest income**	**Net investment in leases**
Receivable within one year		$ **286,579**	$ **32,961**	$ **253,618**
Receivable within 1 to 5 years		**515,706**	**50,463**	**465,243**
Receivable after 5 years		**10,883**	**1,370**	**9,513**
		$ **813,168**	$ **84,794**	$ **728,374**

				2015
		Gross investment in leases	Unearned interest income	Net investment in leases
Receivable within one year		$ 29,674	$ 4,004	$ 25,670
Receivable within 1 to 5 years		76,255	6,067	70,188
Receivable after 5 years		2,423	78	2,345
		$ 108,352	$ 10,149	$ 98,203

7. TRANSFER OF FINANCIAL ASSETS

7.1 LOAN SECURITIZATION

The Bank securitizes residential mortgage loans by participating in the Canada Mortgage Bond (CMB) program and the National Housing Act (NHA) mortgage-backed securities (MBS) program, as well as through multi-seller conduits set up by large Canadian banks. As the Bank ultimately retains certain prepayment risk, interest rate risk and credit risk related to the transferred mortgage loans, these are not derecognized and the securitization proceeds are recorded as securitization liabilities.

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

Under the NHA MBS program, the Bank issues securities backed by insured residential mortgage loans (the NHA MBS). These NHA MBS may be sold directly to investors or through the CMB program set-up by the Canada Mortgage and Housing Corporation (CMHC).

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 for the CMB program, the CMHC conduit 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 CMHC conduit with the regular interest payments required to pay out to investors under the terms of the CMB. 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, 2016, the notional amount of these swaps was $4.7 billion ($4.8 billion as at October 31, 2015).

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 and NHA MBS 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 debt related to securitization activities on the consolidated balance sheet of the Bank. Interest accrued on the debt is based on the CMB or NHA MBS coupon related to the series and is classified in other liabilities as accrued interest payable.

7. TRANSFER OF FINANCIAL ASSETS [CONT'D]

Multi-seller conduits

As part of transactions with multi-seller conduits, the Bank sells residential mortgage loans and finance lease receivables to special purpose entities (SPEs) established for the limited purpose of securitization activities and incurs interest-bearing liabilities. The SPEs fund such purchases through the issuance of asset-backed commercial paper.

Assets related to securitization activities
As the Bank provides credit enhancements for these transactions, they do not meet derecognition criteria and the securitized loans and finance lease receivables remain on balance sheet. However, as the Bank's rights, title and interest in the transferred loans are legally transferred to the SPEs, these are considered pledged assets. Interest income is accrued on these loans and finance lease receivables as for the Bank's other similar instruments. The SPEs 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 based on the commercial paper issued by the SPEs 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 SPE. The maximum potential amount of future payments under this guarantee totalled $892.5 million as at October 31, 2016 ($309.1 million as at October 31, 2015).

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.

					2016
	Within 1 year	**1 to 5 years**	**Over 5 years**	**Total carrying amount**	**Fair value**
Residential mortgage loans	**$ 2,371,686**	**$ 3,850,160**	**$ 528**	**$ 6,222,374**	**$ 6,252,621**
Commercial loans and other [1]	**170,712**	**247,388**	**1,643**	**419,743**	**433,815**
Replacement Assets					
Cash and deposits with other banks	**10,691**	**—**	**—**	**10,691**	**10,691**
Securities purchased under reverse repurchase agreements	**6,507**	**—**	**—**	**6,507**	**6,507**
Other securities	**491,310**	**10,921**	**—**	**502,231**	**502,311**
Debt related to securitization activities	**$ (1,433,926)**	**$ (5,474,857)**	**$ (335,671)**	**$ (7,244,454)**	**$ (7,278,997)**

(1) Consisting of finance lease receivables.

		2015
	Total carrying amount	Fair value
Residential mortgage loans	$ 4,558,477	$ 4,589,435
Replacement Assets		
Cash and deposits with other banks	13,463	13,463
Securities purchased under reverse repurchase agreements	397,169	397,169
Other securities	393,222	393,322
Debt related to securitization activities	$ (5,493,602)	$ (5,520,176)

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

	2016	2015
Carrying amounts of mortgages transferred during the year related to new financing	**$ 2,939,694**	$ 1,298,644
Carrying amounts of finance lease receivables transferred during the year related to new financing	**$ 434,175**	$ —
Carrying amounts of mortgages transferred during the year as Replacement Assets	**$ 532,780**	$ 460,825

7. TRANSFER OF FINANCIAL ASSETS [CONT'D]

7.2 LOANS UNDER MANAGEMENT

The Bank provides management and administrative services of loans to third parties. The total principal amount of outstanding loans under management amounted to $404.0 million at the end of fiscal 2016 ($328.7 million in 2015). The Bank is not exposed to any credit risk under the servicing agreements in respect of these loans.

8. PREMISES AND EQUIPMENT

	Premises and leasehold improvements	Equipment and furniture	Computer hardware	Total
Cost				
As at October 31, 2014	$ 78,262	$ 31,795	$ 51,024	$ 161,081
Additions	698	618	149	1,465
Fully depreciated assets and impairment	(26,490)	(370)	(13,350)	(40,210)
As at October 31, 2015	52,470	32,043	37,823	122,336
Additions	**760**	**439**	**1,209**	**2,408**
Additions through business combinations (Note 31)	**343**	**—**	**8**	**351**
Impairment and disposals	**(7,936)**	**(6,806)**	**(14,948)**	**(29,690)**
As at October 31, 2016	**$ 45,637**	**$ 25,676**	**$ 24,092**	**$ 95,405**
Accumulated depreciation				
As at October 31, 2014	$ 35,672	$ 22,690	$ 33,969	$ 92,331
Depreciation	5,064	2,992	6,069	14,125
Fully depreciated assets and impairment	(18,603)	(320)	(10,759)	(29,682)
As at October 31, 2015	22,133	25,362	29,279	76,774
Depreciation	**3,072**	**2,474**	**4,252**	**9,798**
Impairment and disposals	**(4,824)**	**(6,326)**	**(13,006)**	**(24,156)**
As at October 31, 2016	**$ 20,381**	**$ 21,510**	**$ 20,525**	**$ 62,416**
Carrying amount				
As at October 31, 2015	$ 30,337	$ 6,681	$ 8,544	$ 45,562
As at October 31, 2016	**$ 25,256**	**$ 4,166**	**$ 3,567**	**$ 32,989**

Premises and equipment include $0.8 million ($0.1 million in 2015) pertaining to premises under construction yet to be amortized.

IMPAIRMENT

Impairment charges amounting to $5.4 million ($9.9 million in 2015) were recorded on premises and equipment related to the Retail CGU on the Impairment and restructuring charges line item; refer to Note 30 for further details. Other impairment charges amounting to $0.1 million were recorded in 2016 ($0.3 million in 2015).

9. SOFTWARE AND OTHER INTANGIBLE ASSETS

		Software		Other intangible assets		Total
Cost						
As at October 31, 2014	$	340,495	$	49,017	$	389,512
Additions		11,862		1,292		13,154
Fully amortized assets and impairment		(83,778)		(3,065)		(86,843)
As at October 31, 2015		268,579		47,244		315,823
Additions		**17,714**		**23,427**		**41,141**
Additions through business combinations (Note 31)		**—**		**9,765**		**9,765**
Impairment		**(37,725)**		**(6,304)**		**(44,029)**
As at October 31, 2016	**$**	**248,568**	**$**	**74,132**	**$**	**322,700**
Accumulated amortization						
As at October 31, 2014	$	172,029	$	10,295	$	182,324
Amortization		35,386		3,271		38,657
Fully amortized assets and impairment		(52,293)		—		(52,293)
As at October 31, 2015		155,122		13,566		168,688
Amortization		**25,449**		**3,322**		**28,771**
Impairment		**(20,849)**		**(4,400)**		**(25,249)**
As at October 31, 2016	**$**	**159,722**	**$**	**12,488**	**$**	**172,210**
Carrying amount						
As at October 31, 2015	$	113,457	$	33,678	$	147,135
As at October 31, 2016	**$**	**88,846**	**$**	**61,644**	**$**	**150,490**

Software and other intangible assets include $53.6 million ($20.0 million in 2015) pertaining to projects under development yet to be amortized.

Other intangible assets mainly consist of contractual relationships with independent brokers and advisors and vendor-dealers, core deposit intangibles, as well as the core banking system and the program to implement the Basel Advanced Internal Ratings Based approach to credit risk.

IMPAIRMENT

Impairment charges amounting to $16.7 million were recorded on software ($30.0 million on software and $3.1 million on other intangible assets in 2015) related to the Retail CGU on the Impairment and restructuring charges line item; refer to Note 30 for further details.

In addition, as a result of the decision of a client of the Bank to end its carrying agreement, an impairment charge of $1.9 million was recorded on related intangible assets in 2016. This charge was presented in other income net of the revenues resulting from the exit agreement. Other impairment charges amounting to $0.2 million were also recorded in 2016 ($1.5 million in 2015).

10. GOODWILL

		B2B Bank unit		Business Services unit		Retail unit		Total
As at October 31, 2014	$	34,853	$	—	$	29,224	$	64,077
Impairment		—		—		(29,224)		(29,224)
As at October 31, 2015	$	34,853	$	—	$	—	$	34,853
Additions through business combinations (Note 31)		**—**		**20,959**		**—**		**20,959**
As at October 31, 2016	**$**	**34,853**	**$**	**20,959**	**$**	**—**	**$**	**55,812**

10. GOODWILL [CONT'D]

IMPAIRMENT

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 of the CGU may not be recoverable.

Goodwill as at October 31, 2016 has been allocated to two CGUs:

- the B2B Bank unit, which supplies banking and financial products to independent financial advisors and non-bank financial institutions across Canada;
- the Business Services unit, which encompasses services provided to small and medium-sized enterprises across Canada.

Before 2016, goodwill was also allocated to the Retail unit, which encompasses all branch activities and other retail banking activities in Québec. Impairment charges amounting to nil ($29.2 million in 2015) were recorded on goodwill related to the Retail CGU on the Impairment and restructuring charges line item; refer to Note 30 for further details.

B2B Bank unit

The recoverable amount of the B2B Bank 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 2.1% based on projected economic growth, and an after-tax 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 unit. The estimated recoverable amount was above its carrying amount. If alternative reasonably possible changes in key assumptions were applied, the result of the impairment test would not differ.

Business Services unit

The recoverable amount of the Business Services 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 2.1% based on projected economic growth, and an after-tax discount rate of 10.0% based on the bank-wide cost of capital and further adjusted to reflect the risks specific to the Business Services unit. The estimated recoverable amount was 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

	2016	2015
Cheques and other items in transit	$ **158,265**	$ 368,593
Accrued interest receivable	**68,479**	62,975
Assets under operating leases (Note 28)	**43,090**	—
Defined benefit plan assets (Note 18)	**3,320**	8,557
Accounts receivable, prepaid expenses and other items	**223,378**	116,726
	$ **496,532**	$ 556,851

12. DEPOSITS

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.

The following table details the carrying amount of deposits.

12. DEPOSITS [CONT'D]

				2016
	Demand	Notice	Term	Total
Personal	$ 124,638	$ 5,153,607	$ 15,723,333	$ 21,001,578
Business, banks and other	1,489,975	912,341	4,169,451	6,571,767
	$ 1,614,613	$ 6,065,948	$ 19,892,784	$ 27,573,345

				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

13. OTHER LIABILITIES

	2016	2015
Accrued interest payable	$ 388,377	$ 372,630
Cheques and other items in transit	83,131	90,997
Defined benefit plan liabilities (Note 18)	76,489	48,198
Accounts payable, accrued expenses and other items	420,080	268,857
	$ 968,077	$ 780,682

14. DEBT RELATED TO SECURITIZATION ACTIVITIES

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

				2016	2015
	Within 1 year	1 to 5 years	More than 5 years	Total carrying amount	Total carrying amount
Debt related to CMB and NHA MBS transactions	$ 909,376	$ 3,812,739	$ 333,916	$ 5,056,031	$ 4,857,759
Contractual yield	1.99%	1.73%	1.62%	1.77%	2.08%
Debt related to multi-seller conduits (1)	524,550	1,662,118	1,755	2,188,423	635,843
Contractual yield (2)				1.62%	1.37%
	$ 1,433,926	$ 5,474,857	$ 335,671	$ 7,244,454	$ 5,493,602

(1) Maturity of debt related to multi-seller conduits is based on anticipated maturity of underlying loans.

(2) The interest rate on the debt related to multi-seller conduits is based on the funding cost of the conduits and corresponds to the rate of the asset-backed commercial paper issued by the conduits, plus related program fees.

15. SUBORDINATED DEBT

The subordinated debt is a direct unsecured obligation of the Bank and is subordinated in right of payment to the claims of depositors and certain other creditors of the Bank. Any repurchase or cancellation of subordinated debt must be approved by OSFI.

ISSUED AND OUTSTANDING

Maturity	Series	Interest rate	Special terms		2016 Carrying amount		2015 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
					200,000		450,000
Unamortized issuance costs					**(176)**		(351)
Net fair value adjustment[2]					**—**		(8)
				$	**199,824**	$	449,641

(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 $25.00 each, subject to the provisions of the Bank Act and to the prior consent of OSFI. On December 15, 2017 and on December 15 every five years thereafter, the holders of Preferred Shares Series 11 may also convert, subject to the automatic conversion provisions and the right of the Bank to redeem those shares, any or all of these preferred shares into an equal number of Preferred Shares Series 12. The holders of the Preferred Shares Series 11 will be entitled to receive fixed non-cumulative preferential cash dividends payable quarterly, as declared by the Board of Directors, at a rate equal to $0.25 per share until December 15, 2017, at such time and every five years thereafter, the dividend rate will reset to the then current five-year Government of Canada bond yield plus 2.60%.

The Non-Cumulative Class A Preferred Shares, Series 12, are redeemable at the Bank's option, by the payment of an amount in cash for each such share so redeemed of (i) $25.00 together with all declared and unpaid dividends to the date fixed for redemption in the case of redemptions on December 15, 2022 and on December 15 every five years thereafter, or (ii) $25.50 together with all declared and unpaid dividends to the date fixed for redemption in the case of redemptions on any other date after December 15, 2017, subject to the provisions of the Bank Act and to the prior consent of OSFI. On December 15, 2022 and on December 15 every five years thereafter, the holders of Preferred Shares Series 12 may also convert, subject to the automatic conversion provisions and the right of the Bank to redeem those shares, any or all of these preferred shares into an equal number of Preferred Shares Series 11. The holders of the Preferred Shares Series 12 will be entitled to receive floating non-cumulative preferential cash dividends payable quarterly, as declared by the Board of Directors, at a rate equal to the three-month Government of Canada Treasury Bills rate plus 2.60% per share.

16. SHARE CAPITAL [CONT'D]

The Non-Cumulative Class A Preferred Shares, Series 13 (the Preferred Shares Series 13), are redeemable at the Bank's option, on June 15, 2019 and on June 15 every five years thereafter at a price of $25.00 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) $25.00 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.

The Non-Cumulative Class A Preferred Shares, Series 15 (the Preferred Shares Series 15), are redeemable at the Bank's option, on June 15, 2021 and on June 15 every five years thereafter at a price of $25.00 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, 2021 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 15 into an equal number of Non-Cumulative Class A Preferred Shares, Series 16 (the Preferred Shares Series 16). For the initial five-year period ending on, but excluding, June 15, 2021, the holders of the Preferred Shares, Series 15 will be entitled to receive non-cumulative preferential quarterly dividends yielding 5.85% 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 5.13%. The Bank may be required to convert any or all of the Preferred Shares Series 15 into a variable number of common shares upon the occurrence of a non-viability trigger event.

The Non-Cumulative Class A Preferred Shares, Series 16 (the Preferred Shares Series 16), are redeemable at the Bank's option, by the payment of an amount in cash for each such share so redeemed of (i) $25.00 together with all declared and unpaid dividends to the date fixed for redemption in the case of redemptions on June 15, 2026 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, 2021, subject to the provisions of the Bank Act and to the prior consent of OSFI. On June 15, 2026 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 16 into an equal number of Preferred Shares Series 15. The holders of the Preferred Shares Series 16 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 5.13%, 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 16 into a variable number of common shares upon the occurrence of a non-viability trigger event.

16. SHARE CAPITAL [CONT'D]

Issued and outstanding

The variation and outstanding number and amounts of preferred shares were as follows.

	2016			2015		
	Number of shares		Amount	Number of shares		Amount
Non-Cumulative Class A Preferred shares						
Series 11						
Outstanding at beginning and end of year	**4,000,000**	**$**	**97,562**	4,000,000	$	97,562
Series 13						
Outstanding at beginning and end of year	**5,000,000**	**$**	**122,071**	5,000,000	$	122,071
Series 15						
Outstanding at beginning of year	**—**		**—**	n.a.		n.a.
Issuance of shares	**5,000,000**		**125,000**	n.a.		n.a.
Net issuance cost	**n.a.**		**(3,033)**	n.a.		n.a.
Outstanding at end of year	**5,000,000**		**121,967**	n.a.		n.a.
	14,000,000	**$**	**341,600**	9,000,000	$	219,633

There were no outstanding Non-Cumulative Class A Preferred Shares, Series 12, Series 14, or Series 16 as at October 31, 2016 (no outstanding preferred shares, Series 12 and Series 14 as at October 31, 2015).

Issuance of preferred shares

On March 17, 2016, the Bank issued 5,000,000 Non-Cumulative Class A Preferred Shares, Series 15 (the "Preferred Shares Series 15"), at a price of $25.00 per share for gross proceeds of $125 million.

COMMON SHARES

Issued and outstanding

The variation and outstanding number and amounts of common shares were as follows.

	2016			2015		
	Number of shares		Amount	Number of shares		Amount
Common shares						
Outstanding at beginning of year	**28,956,619**	**$**	**466,336**	28,942,999	$	465,854
Issuance under public offerings	**4,544,800**		**222,852**	—		—
Issuance under the employee share purchase option plan (see Note 17)	**8,000**		**273**	12,000		408
Issuance under the Shareholder Dividend Reinvestment and Share Purchase Plan	**332,751**		**15,911**	1,620		80
Net issuance cost	**n.a.**		**(8,879)**	n.a.		(6)
Total common shares	**33,842,170**	**$**	**696,493**	28,956,619	$	466,336

16. SHARE CAPITAL [CONT'D]

Issuance under a public offering

On December 17, 2015, the Bank completed the issuance of 1,297,200 common shares for gross proceeds of $67.5 million.

On July 20, 2016, the Bank issued 3,247,600 subscription receipts at a price of $47.85 per receipt. Proceeds were placed in escrow until closing of the CIT Canada acquisition (see Note 31). Upon completion of the acquisition on October 1, 2016, the subscription receipts were exchanged for 3,247,600 common shares of the Bank for gross proceeds of $155.4 million.

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, 332,751 common shares were legally issued from treasury in 2016 at a 2% discount. Other reinvestments related to the dividends declared in 2016 were made in common shares purchased in the open market with no discount applied to the purchase price. In 2015, reinvestments were made in common shares issued from treasury at a 2% discount.

DECLARED DIVIDENDS

		2016		2015
	Dividend per share	**Dividends declared**	Dividend per share	Dividends declared
Class A Preferred shares				
Series 11	**$ 1.000**	**$ 4,000**	$ 1.000	$ 4,000
Series 13	**$ 1.075**	**5,375**	$ 1.075	5,375
Series 15	**$ 0.726**	**3,631**	n.a.	n.a.
Total preferred shares		**$ 13,006**		$ 9,375
Common shares	**$ 2.36**	**$ 73,622**	$ 2.20	$ 63,691

On November 1, 2016, the Board of Directors declared regular dividends on the various series of preferred shares to shareholders of record on December 7, 2016.

On December 6, 2016, the Board of Directors announced a dividend of $0.61 per common share, payable on February 1, 2017, to shareholders of record on January 3, 2017.

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.

16. SHARE CAPITAL [CONT'D]

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 Capital Adequacy Requirements 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 5.125%, 6.625% and 8.625% respectively for 2016. 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 2.5% capital conservation buffers.

Furthermore, OSFI expects deposit-taking institutions to maintain 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 and Series 15 fully qualify as Additional Tier 1 capital under Basel III.

Under OSFI's Leverage Requirements Guideline, 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 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.

The Bank has complied with regulatory capital requirements throughout the year ended October 31, 2016. Regulatory capital on an "all-in" basis is detailed below.

	2016	2015
Common shares	$ 696,493	$ 466,336
Share-based payment reserve	—	36
Retained earnings	924,861	886,656
Accumulated other comprehensive income, excluding cash flow hedge reserve	203	(11,391)
Deductions from Common Equity Tier 1 capital [1]	(182,181)	(166,399)
Common Equity Tier 1 capital	1,439,376	1,175,238
Non-qualifying preferred shares [2]	97,562	97,562
Qualifying preferred shares	244,038	122,071
Additional Tier 1 capital	341,600	219,633
Tier 1 capital	1,780,976	1,394,871
Subordinated debt [3]	199,824	199,641
Collective allowances	75,380	73,904
Tier 2 capital	275,204	273,545
Total capital	$ 2,056,180	$ 1,668,416

(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 non-qualifying capital instruments under Basel III as the phase-out is calculated on the outstanding balance as at January 1, 2013, which included the Preferred Shares Series 9 and Series 10 subsequently repurchased by the Bank.

(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.

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, 2016 (124,962 as at October 31, 2015).

No new share options were granted in 2016 and 2015. The following table summarizes the Bank's share purchase option activities for the years ended October 31 2016 and 2015.

		2016			2015	
	Number of options		**Exercise price per option**	Number of options		Exercise price per option
Outstanding at beginning of year	**8,000**	**$**	**29.47**	20,000	$	29.47
Exercised	**(8,000)**	**$**	**29.47**	(12,000)	$	29.47
Outstanding at end of year	**—**	**$**	**—**	8,000	$	29.47
Exercisable at end of year	**—**	**$**	**—**	8,000	$	29.47

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.

No SARs were granted during 2016 and 2015. The following table summarizes the Bank's SARs outstanding balances as at October 31, 2016 and 2015.

Share appreciation rights

		Weighted average exercise price	Number of SARs outstanding	Weighted average remaining contractual life (years)	Number of SARs exercisable
2016	**$**	**38.45**	**57,560**	**1.19**	**57,560**
2015	$	36.79	90,335	1.97	90,335

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, 2016 and 2015.

Performance share units

	Number of units granted		Value of units granted	Vesting date
2016	**139,442**	**$**	**54.85**	**December 2018**
2015	147,243	$	50.85	December 2017

The number of units outstanding as at October 31, 2016 was 529,351 of which 74,646 units were fully vested under the deferred version of the plan (620,316 units as at October 31, 2015 of which 98,266 units were fully vested).

17. SHARE-BASED COMPENSATION [CONT'D]

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, 2016 and 2015.

Restricted share units

	Plan	Number of units converted [1]	Number of units granted		Value of units granted	Vesting date
2016	**Senior management**	**44,649**	**29,400**	**$**	**54.70**	**December 2018**
	Capital markets	**28,545**	**—**	**$**	**54.90**	**n.a.**
2015	Senior management	50,730	31,063	$	50.83	December 2017
	Capital markets	27,412	—	$	50.85	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, 2016 was 283,239 of which 194,943 units were fully vested under the deferred version of the plan (338,038 units as at October 31, 2015 of which 244,326 units were fully vested). The number of units outstanding for Capital markets as at October 31, 2016 was 60,717 all of which were vested (60,454 units as at October 31, 2015, all of which were vested).

DEFERRED SHARE UNIT PLAN

The Bank offers a deferred share unit plan to non-employee directors of the Bank. Under this plan, each director may choose to receive all or a percentage of his or her remuneration in the form of deferred share units which can be settled in cash or common shares. The deferred share units are converted when the holder steps down from the Board of Directors. In 2016, 3,280 deferred share units were redeemed and settled in cash (2,149 units in 2015). In 2016, the Bank granted 8,666 deferred share units as compensation (9,472 in 2015). As at October 31, 2016, there were 36,896 units (31,510 units in 2015) outstanding with a total value of $1.8 million ($1.7 million in 2015).

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 2016 ($0.6 million in 2015), are recognized in salaries and employee benefits. The average value of the granted shares under this plan was $49.10 in fiscal 2016 ($48.50 in 2015).

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.

		2016		2015
Expense arising from cash-settled share-based compensation transactions	**$**	**2,126**	$	18,134
Effect of hedges		**1,889**		(5,470)
	$	**4,015**	$	12,664

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 related to the share price variations over the period in which the swaps are in effect.

The carrying amount of the liability relating to the cash-settled plans was $39.5 million as at October 31, 2016 ($54.7 million as at October 31, 2015). The intrinsic value of the total liability related to fully vested rights and units was $18.9 million as at October 31, 2016 ($24.5 million as at October 31, 2015).

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 Retraite Québec (RQ) 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 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, and 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, 2015 for all plans. The next required actuarial valuation for funding purposes will be as at December 31, 2016 for all funded plans.

18. POST-EMPLOYMENT BENEFITS [CONT'D]

DEFINED BENEFIT PLAN OBLIGATIONS

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

	2016		2015	
	Pension plans	**Other plans**	Pension plans	Other plans
Change in defined benefit obligation				
Defined benefit obligation at beginning of year	**$ 560,402**	**$ 27,399**	$ 554,401	$ 36,166
Current service cost	**12,474**	**46**	14,681	43
Past service cost [1]	**—**	**—**	2,284	—
Interest expense	**24,093**	**945**	23,630	1,295
Benefits paid	**(34,700)**	**(1,066)**	(29,280)	(1,550)
Employee contributions	**3,072**	**—**	3,088	—
Actuarial losses (gains) arising from changes in assumptions				
Demographic	**—**	**—**	1,421	114
Economic	**68,088**	**2,020**	(3,633)	(2,205)
Actuarial gains arising from plan experience	**(34)**	**—**	(6,190)	(6,464)
Defined benefit obligation at end of year	**$ 633,395**	**$ 29,344**	$ 560,402	$ 27,399

(1) Including a $2.1 million charge in 2015 related to certain enhancements to the pension plan of a former member of senior management.

DEFINED BENEFIT PENSION PLAN ASSETS

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

	2016	2015
Change in fair value of pension plan assets		
Fair value of plan assets at beginning of year	**$ 548,942**	$ 536,833
Interest income (at prescribed rate)	**23,412**	22,605
Actuarial gains (losses) arising from the difference between the actual return on plan assets and interest income	**32,449**	(4,479)
Administration costs (other than costs of managing plan assets)	**(1,990)**	(1,494)
Bank contributions	**18,385**	21,669
Employee contributions	**3,072**	3,088
Benefits paid	**(34,700)**	(29,280)
Fair value of plan assets at end of year	**$ 589,570**	$ 548,942

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

	2016		2015	
	Pension plans	**Other plans**	Pension plans	Other plans
Fair value of plan assets	**$ 589,570**	**$ —**	$ 548,942	$ —
Defined benefit obligation	**633,395**	**29,344**	560,402	27,399
Funded status – plan deficit	**(43,825)**	**(29,344)**	(11,460)	(27,399)
Asset limit and minimum funding adjustment	**—**	**—**	(782)	—
Net amount recognized	**(43,825)**	**(29,344)**	(12,242)	(27,399)
Defined benefit plan assets included in other assets	**3,320**	**—**	8,557	—
Defined benefit plan liabilities included in other liabilities	**$ 47,145**	**$ 29,344**	$ 20,799	$ 27,399

18. POST-EMPLOYMENT BENEFITS [CONT'D]

DEFINED BENEFIT PLAN COSTS RECOGNIZED DURING THE YEAR

	2016		2015	
	Pension plans	**Other plans**	Pension plans	Other plans
Amounts recognized in income				
Current service cost	**$ 12,474**	**$ 46**	$ 14,681	$ 43
Past service cost [1]	**—**	**—**	2,284	—
Administration costs (other than costs of managing plan assets)	**1,990**	**—**	1,494	—
Interest expense	**24,127**	**945**	23,630	1,295
Interest income (at prescribed rate)	**(23,412)**	**—**	(22,605)	—
Loss on short-term employee benefits	**—**	**305**	—	22
	15,179	**1,296**	19,484	1,360
Amounts recognized in other comprehensive income				
Actuarial losses (gains) on defined benefit obligation	**68,054**	**1,715**	(8,402)	(8,577)
Actuarial losses (gains) on plan assets	**(32,449)**	**—**	4,479	—
Change in the effect of the asset limit	**(816)**	**—**	782	—
	34,789	**1,715**	(3,141)	(8,577)
Total defined benefit cost	**$ 49,968**	**$ 3,011**	$ 16,343	$ (7,217)

(1) Including a $2.1 million charge in 2015 related to certain enhancements to the pension plan of a former member of senior management.

The Bank expects to contribute $18.5 million to its defined benefit pension plans for the year ending October 31, 2017.

ASSET ALLOCATION OF DEFINED BENEFIT PENSION PLANS

	2016	2015
Asset category		
Cash and cash equivalents [1]	**$ 27,260**	$ 30,277
Equity funds		
Canada	**20,690**	17,258
United States	**32,738**	26,012
Other	**40,260**	48,013
Debt securities		
Canadian governments and other public administrations	**96,288**	58,945
Corporate and other	**337,914**	332,662
Other	**34,420**	35,775
	$ 589,570	$ 548,942

(1) Cash and cash equivalents consist of mainly Canada and U.S. Treasury Bills.

Equity funds do not include securities of the Bank as at October 31, 2016 or 2015. Plan assets include equity funds of $35.5 million quoted in active markets as at October 31, 2016 ($38.2 million as at October 31, 2015). All other assets are not quoted in active markets.

SIGNIFICANT ASSUMPTIONS FOR PENSION PLANS AND OTHER PLANS

	2016	2015
Weighted average of assumptions to determine benefit obligation		
Discount rate at end of year	**3.45%**	4.30%
Rate of compensation increase	**2.75%**	2.75%
Weighted average of assumptions to determine benefit expense		
Discount rate - Current service	**4.60%**	4.25%
Discount rate - Interest expenses (income), net	**4.30%**	4.25%
Rate of compensation increase	**2.75%**	2.75%

For 2016, the weighted average financial duration of the pension plans was approximately 14.6 years (13.9 years in 2015).

18. POST-EMPLOYMENT BENEFITS [CONT'D]

As of November 1, 2015, to better reflect current service cost, a separate discount rate was determined to account for the timing of future benefit payments associated with the additional year of service to be earned by the plan's active participants. Since these benefits are, on average, being paid at a later date than the benefits already earned by participants as a whole, this method results in the use of a higher discount rate for calculating current service cost than that used to measure obligations where the yield curve is positively sloped.

ASSUMED HEALTH CARE COST TREND RATES

	2016	2015
Assumed annual rate of increase in the cost of health care benefits	**6.75%**	7.00%
Level to which it should decline and at which it is assumed to subsequently stabilize	**4.5%**	4.5%
Year that the rate is assumed to stabilize	**2025**	2025

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, 2016.

	Impact of a potential change of 0.25% to the discount rate on (1)	
	Obligation	**Cost**
Pension Plans	**$ 23,007**	**$ 1,426**
Other Plans	**$ 797**	**$ 72**

(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, 2016, with all other assumptions remaining constant.

	1% increase	**1% decrease**
Increase (decrease) in total of service and interest expense	**$ 304**	**$ (268)**
Increase (decrease) in defined benefit obligation	**$ 1,772**	**$ (1,518)**

EXPENSE FOR POST-EMPLOYMENT BENEFITS

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

	2016	2015
Defined benefit pension plans	**$ 15,179**	$ 19,484
Defined contribution pension plans	**6,739**	6,571
Other plans	**1,296**	1,360
	$ 23,214	$ 27,415

19. INCOME TAXES

DEFERRED INCOME TAXES

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

		2016		2015
Deferred income tax assets				
Allowances for loan losses	$	**26,234**	$	26,294
Defined benefit plan liabilities		**19,525**		10,580
Provisions		**12,463**		9,252
Amount related to share-based payments		**10,567**		14,649
Premises and equipment		**7,947**		7,579
Deferred revenues		**5,273**		4,498
Tax loss carryforwards		**844**		6,048
Other temporary differences		**4,419**		2,277
		87,272		81,177
Deferred income tax liabilities				
Deferred charges		**29,955**		27,830
Leases		**18,768**		196
Software		**18,695**		25,888
Other intangible assets		**4,386**		2,278
Loans		**4,284**		3,561
Derivatives		**4,042**		9,405
Securitization and securities		**1,419**		2,863
Other temporary differences		**1,983**		—
		83,532		72,021
Deferred income taxes, net	$	**3,740**	$	9,156

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

		2016		2015
Deferred income tax assets	$	**36,495**	$	17,450
Deferred income tax liabilities		**(32,755)**		(8,294)
Deferred income taxes, net	$	**3,740**	$	9,156

The components of deferred income tax recovery recorded in the Consolidated Statement of Income are as follows.

		2016		2015
Deferred income tax (recovery) expense				
Amount related to share-based payments	$	**4,082**	$	(4,075)
Deferred charges		**2,125**		3,418
Defined benefit plan liabilities		**789**		689
Allowances for loan losses		**60**		4,210
Software		**(7,193)**		(5,326)
Provisions		**(3,211)**		843
Loans		**(1,511)**		(1,952)
Securitization and securities		**(1,494)**		(1,725)
Other intangible assets		**(511)**		(3,860)
Premises and equipment		**(368)**		(1,684)
Other temporary differences		**791**		385
	$	**(6,441)**	$	(9,077)

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

	2016	2015
Current income taxes		
Income tax expense for the year	$ 51,003	$ 39,118
Previous years income tax expense adjustment	890	892
	51,893	40,010
Deferred income taxes		
Origination and reversal of temporary differences	(5,351)	(8,451)
Previous years income tax recovery adjustment	(1,090)	(626)
	(6,441)	(9,077)
	$ 45,452	$ 30,933

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

	2016	2015
Items that may subsequently be reclassified to the Statement of Income		
Income tax expense (recovery) related to change in unrealized (losses) gains on available-for-sale securities	$ 3,439	$ (7,719)
Income tax expense (recovery) related to reclassification of net gains on available-for-sale securities to net income	831	(1,433)
Income tax (recovery) expense related to net change in value of derivatives designated as cash flow hedges	(5,158)	10,570
	$ (888)	$ 1,418
Items that may not subsequently be reclassified to the Statement of Income		
Income tax (recovery) expense related to actuarial gains on employee benefit plans	(9,734)	3,145
	$ (10,622)	$ 4,563
Composition of income taxes		
Current income tax recovery	$ (1,559)	$ (3,286)
Deferred income tax (recovery) expense	(9,063)	7,849
	$ (10,622)	$ 4,563

Significant components of the income tax expense recorded in the Consolidated Statement of Changes in Shareholders' Equity for the years ended October 31

	2016	2015
Income taxes on preferred share dividends		
Current income tax expense	$ 307	227
Income taxes on issuance of common and preferred shares		
Current income tax recovery	(781)	—
Deferred income tax recovery	(3,108)	(2)
	(3,889)	(2)
	$ (3,582)	225

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.

			2016			2015
		Amount			Amount	
Income taxes at statutory rates	$	52,733	26.7%	$	35,625	26.7%
Change resulting from:						
Income related to foreign insurance operations		(5,283)	(2.7)		(5,910)	(4.4)
Non-taxable dividends		(2,548)	(1.3)		(3,926)	(3.0)
Impairment of goodwill		—	—		4,347	3.3
Other, net		550	0.3		797	0.6
Income taxes as reported in the Consolidated Statement of Income	$	45,452	23.0%	$	30,933	23.2%

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 $46.0 million as at October 31, 2016 ($40.7 million as at October 31, 2015).

20. EARNINGS PER SHARE

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

		2016		2015
Earnings per share – basic				
Net income	$	151,910	$	102,470
Preferred share dividends, including applicable taxes		13,313		9,602
Net income attributable to common shareholders	$	138,597	$	92,868
Average number of outstanding common shares (in thousands)		30,488		28,949
Earnings per share – basic	$	4.55	$	3.21
Earnings per share – diluted				
Net income attributable to common shareholders	$	138,597	$	92,868
Average number of outstanding common shares (in thousands)		30,488		28,949
Dilutive share purchase options (in thousands)		—		6
Diluted weighted average number of outstanding common shares (in thousands)		30,488		28,955
Earnings per share – diluted	$	4.55	$	3.21

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. 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.

		2016		2015
Loans [1]				
Key management personnel	$	1,625	$	2,438
Entities controlled by key management personnel		18,049		35,506
	$	19,674	$	37,944
Deposits				
Key management personnel	$	1,235	$	1,861
Entities controlled by key management personnel		200		—
	$	1,435	$	1,861

(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 $0.8 million for the year ended October 31, 2016 ($1.1 million for the year ended October 31, 2015) 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 $26,000 for the year ended October 31, 2016 ($33,000 for the year ended October 31, 2015) and was recorded under interest expense in the Consolidated Statement of Income.

In addition, for the year ended October 31, 2016, the Bank paid a rental expense of $2.2 million to a related party ($2.2 million for the year ended October 31, 2015).

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

		2016		2015
Short-term employee benefits, including salaries	$	4,608	$	11,378
Post-employment benefits		616		2,984
Share-based payments		4,419		4,811
	$	9,643	$	19,173

22. FINANCIAL INSTRUMENTS – FAIR VALUE

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. Note 3 details the accounting treatment for each measurement category of financial instruments, as well as the estimates and judgment used in measuring the fair value of financial instruments.

CLASSIFICATION OF FAIR VALUE MEASUREMENTS IN THE FAIR VALUE HIERARCHY

Fair value measurements are categorized into levels within a fair value hierarchy based on the valuation inputs used. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Bank's market assumptions. These two types of inputs create the following fair value hierarchy:

- Level 1— Quoted prices in active markets for identical financial instruments.
- Level 2 — Quoted prices for similar instruments in active markets; quoted prices for identical or similar financial instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.
- Level 3 — Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

DETERMINING FAIR VALUE

Certain assets and liabilities, primarily financial instruments, are carried on the consolidated balance sheet at their fair value. All other financial instruments are carried at amortized cost and the fair value is disclosed below. The following section discusses how the Bank measures fair value.

Fair value is best evidenced by an independent quoted market price for the same instrument in an active market. When available, the Bank generally uses quoted market prices to determine fair value and classifies such items in Level 1.

If quoted market prices are not available, fair value is based on internally developed valuation techniques that use, where possible, current market-based or independently sourced market inputs, such as interest rates, exchange rates and option volatilities. Instruments valued using internal valuation techniques are classified according to the lowest level input or value driver that is significant to the fair value measurement. Thus, an instrument may be classified in Level 3 even though some significant inputs may be observable.

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.

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

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.

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.

(in millions of Canadian dollars)				2016
	Level 1	Level 2	Level 3	Total
Assets				
Securities				
Available-for-sale	$ 172	$ 2,552	$ —	$ 2,724
Held-for-trading	$ 103	$ 2,332	$ —	$ 2,435
Derivatives	$ 1	$ 231	$ 1	$ 233
Liabilities				
Obligations related to securities sold short	$ 21	$ 1,686	$ —	$ 1,707
Derivatives	$ 17	$ 107	$ 26	$ 150

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

(in millions of Canadian dollars)								2015
		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

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.

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, 2016 and 2015.

As at October 31, 2016, 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.

(in millions of Canadian dollars)										**2016**				2015
		Carrying amount		**Fair value**		**Level 1**		**Level 2**		**Level 3**		Carrying amount		Fair value
Assets														
Held-to-maturity securities	**$**	**502**	**$**	**502**	**$**	**—**	**$**	**502**	**$**	**—**	$	393	$	394
Loans	**$**	**33,274**	**$**	**33,425**	**$**	**—**	**$**	**—**	**$**	**33,425**	$	29,981	$	30,128
Liabilities														
Deposits	**$**	**27,573**	**$**	**27,689**	**$**	**—**	**$**	**27,689**	**$**	**—**	$	26,604	$	26,718
Debt related to securitization activities	**$**	**7,244**	**$**	**7,279**	**$**	**—**	**$**	**7,279**	**$**	**—**	$	5,494	$	5,520
Subordinated debt	**$**	**200**	**$**	**202**	**$**	**—**	**$**	**202**	**$**	**—**	$	450	$	454

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.

23. 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.

2016												
							Amounts not offset in the consolidated balance sheet					
		Gross recognized amounts		Gross amounts offset in the consolidated balance sheet		Amounts presented in the consolidated balance sheet		Impact of master netting agreements [1]		Financial collateral received or pledged		Net amounts
Financial assets												
Securities purchased under reverse repurchase agreements	$	2,879,986	$	—	$	2,879,986	$	1,601,243	$	1,278,534	$	209
Derivatives		232,791		—		232,791		95,955		60,400		76,436
	$	3,112,777	$	—	$	3,112,777	$	1,697,198	$	1,338,934	$	76,645
Financial liabilities												
Obligations related to securities sold under repurchase agreements	$	2,525,441	$	—	$	2,525,441	$	1,601,243	$	921,611	$	2,587
Derivatives		150,499		—		150,499		95,955		11,996		42,548
	$	2,675,940	$	—	$	2,675,940	$	1,697,198	$	933,607	$	45,135

2015												
							Amounts not offset in the consolidated balance sheet					
		Gross recognized amounts		Gross amounts offset in the consolidated balance sheet		Amounts presented in the consolidated balance sheet		Impact of master netting agreements [1]		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

(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.

24. 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.

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.

24. FINANCIAL INSTRUMENTS – RISK MANAGEMENT [CONT'D]

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)							2016
	Floating	0 to 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest sensitive	Total
Assets							
Cash, deposits and securities	$ 2,690	$ 2,407	$ 209	$ 432	$ 40	$ 69	$ 5,847
Actual return		0.7%	1.0%	1.4%	2.6%		
Securities purchased under reverse repurchase agreements	2,880	—	—	—	—	—	2,880
Loans	13,317	2,970	4,378	11,244	211	1,154	33,274
Actual return		3.4%	3.5%	3.2%	4.2%		
Other assets	—	—	—	—	—	1,005	1,005
Total	$ 18,887	$ 5,377	$ 4,587	$ 11,676	$ 251	$ 2,228	$ 43,006
Actual return		2.2%	3.4%	3.1%	3.9%		
Liabilities and equity							
Deposits	$ 3,449	$ 3,081	$ 6,170	$ 14,177	$ 120	$ 576	$ 27,573
Actual return		1.2%	1.5%	1.8%	3.1%		
Treasury items	4,233	—	—	—	—	—	4,233
Other liabilities	—	15	43	116	1	1,606	1,781
Actual return		2.0%	1.9%	2.0%	3.1%		
Debt related to securitization activities	—	3,139	481	3,290	334	—	7,244
Actual return		1.6%	2.1%	1.9%	1.6%		
Subordinated debt and equity	—	—	200	342	—	1,633	2,175
Actual return		—%	3.1%	—%	—%		
Total	$ 7,682	$ 6,235	$ 6,894	$ 17,925	$ 455	$ 3,815	$ 43,006
Actual return		1.4%	1.6%	1.8%	2.0%		
Swaps, net	—	(11,293)	3,884	7,131	278	—	—
Sensitivity gap	$ 11,205	$ (12,151)	$ 1,577	$ 882	$ 74	$ (1,587)	$ —
Cumulative gap	$ 11,205	$ (946)	$ 631	$ 1,513	$ 1,587	$ —	$ —

(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	$ 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	$ 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	—	—
Sensivity gap	$ 10,802	$ (10,426)	$ (47)	$ 782	$ (69)	$ (1,042)	$ —
Cumulative gap	$ 10,802	$ 376	$ 329	$ 1,111	$ 1,042	$ —	$ —

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.

25. 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.

AGGREGATE NOTIONAL AMOUNTS

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.

(in millions of Canadian dollars) — 2016

	Period to maturity					
Notional amount	Within 1 year	1 to 5 years	Over 5 years	Total	Designated as hedge contracts	Other contracts [1], [2]
Interest rate contracts						
Over-the-counter contracts						
Swaps	$ 4,910	$ 10,363	$ 1,288	$ 16,561	$ 14,503	$ 2,058
Forwards	276	—	—	276	—	276
Exchange-traded contracts						
Futures	65	—	—	65	—	65
Foreign exchange contracts						
Over-the-counter contracts						
Foreign exchange swaps	2,342	53	—	2,395	56	2,339
Forwards	1,805	59	—	1,864	—	1,864
Options purchased	1,498	6	—	1,504	—	1,504
Options written	1,457	6	—	1,463	—	1,463
Equity- and index-linked contracts						
Options purchased	50	53	—	103	—	103
Options written	77	260	—	337	—	337
Futures	6	400	—	406	—	406
Total return swaps	20	24	—	44	3	41
	$ 12,506	$ 11,224	$ 1,288	$ 25,018	$ 14,562	$ 10,456

(1) Include notional amounts of $0.4 billion related to basis swaps at October 31, 2016.

(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.

25. DERIVATIVES AND HEDGES [CONT'D]

(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
Forwards	310	—	—	310	—	310
Exchange-traded contracts						
Futures	148	—	—	148	—	148
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.

FAIR VALUE OF DERIVATIVES

(in thousands of Canadian dollars)		**2016**		2015
	Assets	**Liabilities**	Assets	Liabilities
DESIGNATED AS HEDGE CONTRACTS				
Fair value hedges				
Interest rate contracts				
Swaps	**$ 89,482**	**$ (5,932)**	$ 113,022	$ (5,278)
Cash flow hedges				
Interest rate contracts				
Swaps	**34,273**	**(11,460)**	63,428	(16,902)
Equity- and index-linked contracts				
Total return swaps	**2**	**—**	169	—
OTHER CONTRACTS [1]				
Interest rate contracts				
Swaps	**50,079**	**(48,014)**	48,662	(44,709)
Foreign exchange contracts				
Foreign exchange swaps	**21,789**	**(34,778)**	20,232	(32,063)
Forwards	**12,292**	**(7,300)**	19,225	(5,886)
Options purchased	**17,295**	**—**	4,011	—
Options written	**—**	**(16,812)**	—	(3,754)
Equity- and index-linked contracts				
Options purchased	**6,319**	**—**	4,063	—
Options written	**—**	**(26,197)**	—	(17,085)
Total return swaps	**1,260**	**(6)**	3,789	(6)
Total	**$ 232,791**	**$ (150,499)**	$ 276,601	$ (125,683)

(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.

25. 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 $5.1 billion as at October 31, 2016 ($4.4 billion as at October 31, 2015).

The following table presents ineffectiveness related to fair value hedges.

(in thousands of Canadian dollars)		**2016**		2015
Net gains (losses) recognized on hedging instrument	**$**	**6,493**	$	(65,149)
Net gains (losses) recognized on hedged item		**(6,439)**		65,616
Ineffectiveness gains recognized in net income	**$**	**54**	$	467

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 $9.4 billion as at October 31, 2016 ($6.2 billion as at October 31, 2015).

Ineffectiveness gains related to cash flow hedges of $0.1 million was recognized in net income for the year ended October 31, 2016 ($1.1 million in 2015).

The remaining balance of accumulated other comprehensive income related to cash flow hedges as at October 31, 2016 is expected to be reclassified to the Consolidated Statement of Income over the next 15 years.

CREDIT EXPOSURE

(in millions of Canadian dollars)				**2016**								2015
		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	**$**	**176**	**$**	**268**	**$**	**64**	$	227	$	304	$	65
Foreign exchange contracts		**51**		**113**		**62**		43		82		38
Equity-and index-linked contracts		**7**		**20**		**5**		8		25		7
		234		**401**		**131**		278		411		110
Impact of master netting agreements		**(130)**		**(183)**		**(54)**		(114)		(139)		(19)
	$	**104**	**$**	**218**	**$**	**77**	$	164	$	272	$	91

(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, including securitization swaps not recognized on the balance sheet.
(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.

26. 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.

		2016		2015
Net interest income	$	**9,646**	$	17,451
Other income included in:				
Income from brokerage operations		**25,719**		18,735
Income from treasury and financial market operations		**11,766**		8,855
	$	**37,485**	$	27,590

27. INSURANCE INCOME

Insurance income reported in other income in the Consolidated Statement of Income is detailed as follows.

		2016		2015
Insurance revenues	$	**29,189**	$	29,946
Claims and expenses		**(11,662)**		(13,043)
Insurance income, net	$	**17,527**	$	16,903

28. RENTAL INCOME

The Bank has entered as a lessor into operating leases with clients on an equipment portfolio (note 11). These leases have terms of between 1 and 7 years. Rental income for these leases of $1.6 million (nil in 2015) is reported in other income in the Consolidated Statement of Income. The following table presents minimum lease payments receivable from lessees under these non-cancellable operating leases.

		2016
Receivable within one year	$	**12,095**
Receivable within 1 to 5 years		**14,667**
Receivable after 5 years		**542**
	$	**27,304**

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 $143.9 million as at October 31, 2016 ($152.8 million as at October 31, 2015).

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

Derivatives

To meet certain customers' hedging needs against foreign exchange rate fluctuations, the Bank sells put options (foreign exchange contracts), which are contractual agreements under which the Bank grants customers the right, but not the obligation to sell, by or on a set date, a specified amount of foreign currencies at a predetermined price. The term of these options does not exceed 12 months. These options are recorded at fair value, which reflects the estimated amount of future payments under these derivatives as at the date of the valuation. The maximum potential amount of future payments under these derivatives, corresponding to the notional value of outstanding contracts, totalled $400.7 million as at October 31, 2016 ($572.4 million as at October 31, 2015).

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.

LEASES, SERVICE CONTRACTS FOR OUTSOURCED INFORMATION TECHNOLOGY SERVICES AND OTHER CONTRACTS

Minimum future payments under leases, service contracts for outsourced information technology services and other contracts are as follows.

			2016
	Leases	Information technology service contracts	Other
Due within one year	$ 65,316	$ 56,337	$ 8,890
Due within 1 to 5 years	145,743	108,471	16,970
Due after 5 years	35,026	—	—
	246,085	164,808	25,860
Less: Future minimum sublease payments to be received	(13,819)	—	—
Total	$ 232,266	$ 164,808	$ 25,860

Payments under these commitments recognized as an expense amounted to $54.4 million for the year ended October 31, 2016 ($54.3 million for the year ended October 31, 2015).

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.

	2016	2015
Pledged assets:		
To participate in clearing and payment systems	$ 605,778	$ 365,349
For obligations related to securities sold under repurchase agreements and for securities borrowed	3,226,778	2,728,339
For obligations related to derivatives in a liability position	53,337	80,712
	$ 3,885,893	$ 3,174,400
Pledged assets are detailed as follows:		
Securities	$ 3,383,985	$ 2,950,705
Residential mortgage loans (NHA MBS)	501,908	223,695
	$ 3,885,893	$ 3,174,400

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

CONTINGENT LIABILITIES

In the ordinary course of business, the Bank and its subsidiaries are involved in various legal and regulatory actions and claims, relating to, among other matters, class actions, loan portfolios, portfolio administration by trustee and cross-claims further to recovery actions 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 claims.

30. IMPAIRMENT AND RESTRUCTURING CHARGES

The following table details the Impairment and restructuring charges line item.

		2016		2015
Impairment of goodwill, software and intangible assets, and premises and equipment (Notes 8, 9 and 10)	**$**	**22,113**	$	72,226
Provisions related to lease contracts		**11,858**		—
Severance charges		**4,373**		4,607
Other impairment charges related to IT projects		**—**		1,576
Total	**$**	**38,344**	$	78,409

IMPAIRMENT

2016

The announcement that the Bank will optimize its retail activities by merging fifty branches over the next eighteen months was identified as an indicator of impairment of the software, other intangible assets and premises and equipment related to the Retail CGU. As such, the carrying amount of these assets was reviewed for impairment at the Retail CGU level as they do not generate cash inflows that are largely independent from other assets or group of assets.

Based on forecasts, management determined that the carrying amount of the Retail CGU exceeded the estimate of its recoverable amount. As a result, impairment charges of $22.1 million were recorded for the year ended October 31, 2016 on the line item Impairment and restructuring charges. These charges were related to software for $16.7 million and to premises and equipment for $5.4 million.

The recoverable amount of the Retail CGU 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 2.1% based on projected economic growth, and a after-tax discount rate of 11.0% based on the bank-wide cost of capital and further adjusted to reflect the risks specific to the Retail unit.

These impairment charges were 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' behaviour driven by significant changes in technology and lifestyle, the emergence of new competitors, as well as the additional administrative burden associated with regulatory measures.

2015

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, a charge of $72.2 million, affecting the Retail unit, was recorded for the year ended October 31, 2015 on the line item Impairment and restructuring charges. This charge was related to the impairment of goodwill for $29.2 million, to software and intangible assets for $33.1 million and to premises and equipment for $9.9 million.

RESTRUCTURING CHARGES

2016

In September 2016, the Bank announced that it will merge fifty of its branches over the next eighteen months. This decision resulted from the strategic analysis initiated in 2015, as well as to more recent changes to the economic landscape. As part of the planned restructuring, provisions related to lease contracts amounting to $11.9 million and severance charges of $4.4 million were recorded for the year ended October 31, 2016 on the line item Impairment and restructuring charges.

2015

In October 2015, the Bank announced a new organizational structure and executive team. Certain activities were restructured as a first step of the transformation plan towards a simpler and more efficient operating model. Consequently, severance charges amounting to $4.6 million and other impairment charges related to IT projects amounting to $1.6 million were recorded for the year ended October 31, 2015 on the line item Impairment and restructuring charges.

31. BUSINESS COMBINATIONS

ACQUISITION OF CIT CANADA

On June 29, 2016, the Bank and CIT Group Inc. ("CIT"), a U.S. company, entered into a definitive agreement under which the Bank agreed to acquire the Canadian equipment financing and corporate financing activities of CIT ("CIT Canada"). The transaction closed on October 1, 2016. The preliminary purchase price, based on the net book value of CIT Canada as at the closing date, is presently estimated at $985.4 million and remains subject to post-closing adjustments. The Bank acquired CIT Canada to increase the proportion of business loans in the Bank's loan portfolio, strengthen its position in the equipment financing market and expand the pan-Canadian footprint.

The preliminary estimated fair value of the assets acquired and liabilities assumed on October 1, 2016 were as follows.

		CIT Canada
ASSETS		
Loans [1]	$	922,454
Derivatives		5,736
Premises and equipment		351
Software and other intangible assets		9,765
Goodwill		20,959
Deferred tax assets and other		59,016
	$	1,018,281
LIABILITIES		
Deferred tax liabilities and other	$	32,914
Total identifiable net assets acquired	$	985,367
Cash paid	$	996,500
Estimated balance receivable - based on preliminary assessment		11,133
Total estimated purchase consideration	$	985,367

(1) Gross amount of acquired loans and finance lease receivables was $906.2 million.

The allocation of the purchase price for CIT Canada is subject to refinement as the Bank completes the valuation of the assets acquired and liabilities assumed.

Goodwill recognized is attributed to the expected synergies and other benefits from combining the assets and activities of CIT Canada with those of the Bank. Goodwill associated with this transaction was allocated to the Business Services unit. None of the recognized goodwill is deductible for income tax purposes.

The following table presents the impact of the acquisition of CIT Canada on the consolidated statement of income.

		2016
Contribution from date of acquisition [1]		
Total revenue	$	3,288
Net income	$	671
Estimated contribution if the acquisition had occurred on November 1, 2015 [2]		
Total revenue	$	37,002
Net income	$	2,648

(1) Approximate results of CIT Canada for the 31-day period from the date of acquisition.

(2) In determining the estimate, management has assumed that the fair value adjustments that arose on the acquisition date would have been the same if the acquisition had occurred on November 1, 2015.

In 2016, the Bank incurred acquisition-related costs as well as salaries, professional fees and other expenses for the integration of CIT Canada operations. These costs were recognized directly in net income, under Costs related to business combinations.

ACQUISITION OF AGF TRUST COMPANY

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 $8.1 million is being amortized in net income over the estimated remaining term of the purchased financial instruments and amounted to $5.2 million for the year ended October 31, 2016 ($6.0 million for the year ended October 31, 2015).

Condensed Consolidated Balance Sheet

As at October 31 (in thousands of Canadian dollars, unaudited)	2016	2015	2014	2013	2012 [1] [2]
ASSETS					
Cash and non-interest-bearing deposits with other banks	**$ 123,716**	$ 109,055	$ 126,247	$ 82,836	$ 90,860
Interest-bearing deposits with other banks	**63,383**	91,809	122,608	126,002	480,183
Securities	**5,660,432**	4,487,357	4,880,460	4,480,525	6,142,961
Securities purchased under reverse repurchase agreements	**2,879,986**	3,911,439	3,196,781	1,218,255	631,202
Loans					
Personal	**6,613,392**	7,063,229	6,793,078	7,245,474	7,806,067
Residential mortgage	**16,749,387**	14,998,867	13,707,489	13,663,748	13,201,905
Commercial mortgage	**4,658,734**	4,248,761	3,769,323	3,560,289	3,410,824
Commercial and other	**4,727,385**	3,308,144	2,794,232	2,488,137	2,150,953
Customers' liabilities under acceptances	**629,825**	473,544	365,457	271,049	211,130
	33,378,723	30,092,545	27,429,579	27,228,697	26,780,879
Allowances for loan losses	**(105,009)**	(111,153)	(119,371)	(115,590)	(117,542)
	33,273,714	29,981,392	27,310,208	27,113,107	26,663,337
Other	**1,005,109**	1,078,452	846,481	890,301	928,283
	$ 43,006,340	$ 39,659,504	$ 36,482,785	$ 33,911,026	$ 34,936,826
LIABILITIES AND SHAREHOLDERS' EQUITY					
Deposits					
Personal	**$ 21,001,578**	$ 19,377,716	$ 18,741,981	$ 19,282,042	$ 19,369,310
Business, banks and other	**6,571,767**	7,226,588	5,781,045	4,645,308	4,672,133
	27,573,345	26,604,304	24,523,026	23,927,350	24,041,443
Other	**6,013,890**	5,524,930	5,103,778	3,129,918	2,873,563
Debt related to securitization activities	**7,244,454**	5,493,602	4,863,848	4,974,714	6,037,097
Subordinated debt	**199,824**	449,641	447,523	445,473	443,594
Shareholders' equity	**1,974,827**	1,587,027	1,544,610	1,433,571	1,541,129
	$ 43,006,340	$ 39,659,504	$ 36,482,785	$ 33,911,026	$ 34,936,826

Condensed Consolidated Statement of Income — Reported

For the years ended October 31 (in thousands of Canadian dollars, unaudited)	2016	2015	2014	2013	2012 [2]
Net interest income	**$ 589,644**	$ 575,083	$ 560,980	$ 568,760	$ 531,028
Other income	**325,807**	322,043	313,085	296,577	265,615
Total revenue	**915,451**	897,126	874,065	865,337	796,643
Gain on acquisition, amortization of net premium on purchased financial instruments and revaluation of contingent consideration	**5,190**	5,999	9,653	4,426	(23,795)
Provision for credit losses	**33,350**	34,900	42,000	36,000	33,000
Non-interest expenses	**679,549**	722,824	641,309	674,079	604,463
Income before income taxes	**197,362**	133,403	181,103	150,832	182,975
Income taxes	**45,452**	30,933	40,738	31,355	42,467
Net income	**$ 151,910**	$ 102,470	$ 140,365	$ 119,477	$ 140,508
Preferred share dividends, including applicable taxes	**13,313**	9,602	10,985	11,749	12,768
Net income available to common shareholders	**$ 138,597**	$ 92,868	$ 129,380	$ 107,728	$ 127,740

(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)	**2016**	2015	2014	2013	2012 [2]
Net interest income	**$ 589,644**	$ 575,083	$ 560,980	$ 568,760	$ 531,028
Other income	**325,807**	322,043	313,085	296,577	265,615
Total revenue	**915,451**	897,126	874,065	865,337	796,643
Provision for credit losses	**33,350**	34,900	42,000	36,000	33,000
Adjusted non-interest expenses	**636,796**	639,560	620,807	629,539	582,466
Adjusted income before income taxes	**245,305**	222,666	211,258	199,798	181,177
Adjusted income taxes	**58,292**	50,467	47,676	44,362	40,517
Adjusted net income	**$ 187,013**	$ 172,199	$ 163,582	$ 155,436	$ 140,660
Preferred share dividends, including applicable taxes	**13,313**	9,602	10,985	11,749	12,768
Adjusted net income available to common shareholders	**$ 173,700**	$ 162,597	$ 152,597	$ 143,687	$ 127,892

Highlights

As at and for the years ended October 31 (in thousands of Canadian dollars, except per share and percentage amounts, unaudited)	**2016**	2015	2014	2013	2012 [2]
Profitability					
Diluted earnings per share	**$ 4.55**	$ 3.21	$ 4.50	$ 3.80	$ 4.98
Return on common shareholders' equity [1]	**9.6%**	6.8 %	10.1%	9.1%	12.1 %
Net interest margin (on average earning assets) [3]	**1.71%**	1.84 %	1.88%	n.m.	n.m.
Efficiency ratio [1]	**74.2%**	80.6 %	73.4%	77.9%	75.9 %
Adjusted financial measures					
Adjusted diluted earnings per share [1]	**$ 5.70**	$ 5.62	$ 5.31	$ 5.07	$ 4.98
Adjusted return on common shareholders' equity [1]	**12.0%**	12.0 %	11.9%	12.1%	12.0 %
Adjusted efficiency ratio [1]	**69.6%**	71.3 %	71.0%	72.8%	73.1 %
Adjusted dividend payout ratio [1]	**42.4%**	39.2 %	38.7%	39.0%	36.9 %
Per common share					
Share price — Close	**$ 49.57**	$ 52.97	$ 49.58	$ 46.55	$ 44.45
Price / earnings ratio	**10.9x**	16.5x	11.0x	12.3x	8.9x
Book value [1]	**$ 47.92**	$ 46.33	$ 45.89	$ 43.19	$ 42.81
Market to book value [1]	**103%**	114 %	108%	108%	104 %
Dividends declared	**$ 2.36**	$ 2.20	$ 2.06	$ 1.98	$ 1.84
Dividend yield [1]	**4.8%**	4.2 %	4.2%	4.3%	4.1 %
Dividend payout ratio [1]	**53.1%**	68.6 %	45.7%	52.0%	37.0 %
Average volumes (in millions of dollars)					
Average assets [4]	**$ 40,897**	$ 37,822	$ 35,560	$ 34,199	$ 31,465
Average earning assets [1][3]	**$ 34,458**	$ 31,248	$ 29,856	n.m.	n.m.
Average common shareholders' equity	**$ 1,443**	$ 1,356	$ 1,281	$ 1,187	$ 1,059
Quality of assets					
Provision for credit losses (as a % of average loans and acceptances)	**0.11%**	0.12 %	0.15%	0.13%	0.14 %
Regulatory capital ratio					
Common Equity Tier 1 — All-in basis	**8.0%**	7.6 %	7.9%	7.6%	n.a.
Other information					
Number of common shares outstanding (in thousands)	**33,842**	28,957	28,943	28,532	28,118
Number of full-time equivalent employees	**3,687**	3,656	3,667	3,987	4,201
Number of branches	**145**	150	152	153	157
Number of automated banking machines	**398**	405	418	422	426

(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 section 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.*

QUARTERLY HIGHLIGHTS

As at and for the quarters ended (in thousands of Canadian dollars, except per share and percentage amounts, unaudited)	2016				2015			
	OCT. 31	**JULY 31**	**APRIL 30**	**JAN. 31**	OCT. 31	JULY 31	APRIL 30	JAN. 31
Profitability								
Total revenue	**$236,369**	**$ 229,077**	**$226,803**	**$ 223,202**	$ 231,649	$ 226,638	$ 220,679	$ 218,160
Net income (loss)	**$ 18,383**	**$ 45,137**	**$ 45,714**	**$ 42,676**	$ (18,719)	$ 44,166	$ 41,188	$ 35,835
Diluted earnings (loss) per share	**$ 0.45**	**$ 1.34**	**$ 1.43**	**$ 1.36**	$ (0.73)	$ 1.44	$ 1.34	$ 1.15
Return on common shareholders' equity [1]	**3.7 %**	**11.2%**	**12.5 %**	**11.6%**	(6.1)%	12.1 %	11.8 %	9.9 %
Net interest margin (on average earning assets) [1]	**1.67 %**	**1.69%**	**1.71 %**	**1.78%**	1.84 %	1.85 %	1.84 %	1.83 %
Efficiency ratio [1]	**85.5 %**	**70.1%**	**70.6 %**	**70.3%**	104.6 %	71.1 %	71.9 %	73.7 %
Operating leverage [1]	**(22.7)%**	**0.7%**	**(0.3)%**	**n. m.**	n. m.	1.3 %	2.4 %	1.9 %
Adjusted financial measures								
Adjusted net income [1]	**$ 50,542**	**$ 46,067**	**$ 46,696**	**$ 43,708**	$ 44,127	$ 45,291	$ 42,313	$ 40,468
Adjusted diluted earnings per share [1]	**$ 1.47**	**$ 1.37**	**$ 1.46**	**$ 1.39**	$ 1.44	$ 1.48	$ 1.38	$ 1.32
Adjusted return on common shareholders' equity [1]	**12.1 %**	**11.4%**	**12.8 %**	**11.9%**	12.1 %	12.4 %	12.1 %	11.3 %
Adjusted efficiency ratio [1]	**67.4 %**	**70.1%**	**70.6 %**	**70.3%**	70.8 %	71.1 %	71.9 %	71.4 %
Adjusted operating leverage [1]	**3.9 %**	**0.7%**	**(0.3)%**	**0.6%**	0.4 %	1.3 %	(0.7)%	(1.5)%
Adjusted dividend payout ratio [1]	**43.8 %**	**43.6%**	**39.7 %**	**42.5%**	38.9 %	37.8 %	39.2 %	41.1 %
Per common share								
Share price — Close	**$ 49.57**	**$ 48.41**	**$ 49.78**	**$ 47.70**	$ 52.97	$ 49.48	$ 48.29	$ 46.81
Price / earnings ratio (trailing four quarters)	**10.9 x**	**14.2 x**	**14.2 x**	**14.0 x**	16.5 x	9.8 x	9.9 x	10.4 x
Book value [1]	**$ 47.92**	**$ 48.23**	**$ 47.34**	**$ 46.32**	$ 46.33	$ 47.45	$ 47.10	$ 46.34
Market to book value [1]	**103 %**	**100%**	**105 %**	**103%**	114 %	104 %	103 %	101 %
Dividends declared	**$ 0.60**	**$ 0.60**	**$ 0.58**	**$ 0.58**	$ 0.56	$ 0.56	$ 0.54	$ 0.54
Dividend yield	**4.8 %**	**5.0%**	**4.7 %**	**4.9%**	4.2 %	4.5 %	4.5 %	4.6 %
Dividend payout ratio [1]	**143.5 %**	**44.6%**	**40.6 %**	**43.6%**	n.m.	38.8 %	40.3 %	46.7 %
Quality of assets								
Provision for credit losses (as a % of average loans and acceptances)	**0.13 %**	**0.10%**	**0.08 %**	**0.12%**	0.13 %	0.10 %	0.12 %	0.15 %
Net impaired loans (as a % of loans and acceptances)	**0.29 %**	**0.29%**	**0.24 %**	**0.21%**	0.32 %	0.29 %	0.32 %	0.31 %
Regulatory capital ratios								
Common Equity Tier 1 — All-in basis	**8.0 %**	**7.9%**	**7.9 %**	**7.7%**	7.6 %	7.7 %	7.8 %	7.8 %
Basel III Leverage ratio	**4.1 %**	**4.0%**	**4.0 %**	**3.7%**	3.5 %	3.6 %	3.7 %	3.7 %
Other information								
Number of common shares outstanding (in thousands)	**33,842**	**30,496**	**30,393**	**30,319**	28,957	28,957	28,945	28,945

(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 Board of Directors formalized its commitment towards diversity and adopted a policy for that purpose. The Board has also adopted a framework dealing with term limits for directors, committee chairs and 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.

As at October 31, 2016 (in thousands of Canadian dollars, unaudited)	HEAD OFFICE LOCATION	BOOK VALUE OF VOTING SHARES OWNED BY THE BANK [1]	PERCENTAGE OF VOTING SHARES OWNED BY THE BANK
CORPORATE NAME			
B2B Bank	Toronto, Canada	$739,034	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		
Laurentian Bank Insurance Inc.	Montreal, Canada	$13	100 %
Laurentian Bank Securities Inc.	Montreal, Canada	$133,745	100 %
Wholly-owned subsidiary			
Laurentian Capital (USA) Inc.			
Laurentian Trust of Canada Inc.	Montreal, Canada	$120,064	100 %
LBC Capital Inc. [2]	Burlington, Canada	$1,122,130	100 %
Wholly-owned subsidiaries			
LBEF Inc.	Montreal, Canada		
LBEL Inc.	Montreal, Canada		
LBC Capital GP Inc.	Toronto, Canada		
LBC Leasing Limited Partnership [3]	Toronto, Canada		
LBC Financial Services Inc.	Montreal, Canada	$11,617	100 %
LBC Investment Management Inc.	Montreal, Canada	$355,411	100 %
Wholly-owned subsidiary			
V.R. Holding Insurance Company Ltd	St. James, Barbados		
Wholly-owned subsidiary			
VRH Canada Inc.	Montreal, Canada		
LBC Trust	Montreal, Canada	$89,319	100 %

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

(2) Laurentian Bank of Canada holds 85% of voting shares of LBC Capital Inc. and VRH Canada Inc. holds the remaining 15%.

(3) LBEL Inc. holds 99.99% of the units of LBC Leasing Limited Partnership and LBC Capital GP Inc. holds the remaining 0.01%.

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.

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 exclude average earning assets related to trading activities and a personal loan portfolio managed by the Laurentian Bank Securities and Capital Markets' business segment. The averages are based on the daily balances for the period.

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 for credit risk.

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 or 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 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 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 Superintendent of Financial Institutions Canada (OSFI) is the primary Canadian regulator and supervisor of federally regulated deposit-taking institutions, which include banks, insurance companies and federally regulated private pension plans.

Operating Leverage is the difference between total revenue and non-interest expenses growth rates.

Options are contractual agreements between two parties in which the writer of the option grants the buyer the right, but not the obligation, to either buy or sell, at or by a specified date, a specific amount of a financial instrument at a price agreed upon when the agreement is entered into. The writer receives a premium for selling this instrument.

Provision for Credit 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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MEDIA
Journalists may contact the Executive Office by calling 514 284-4500 ext. 3901.

ANNUAL MEETING
The Annual Meeting of the Common Shareholders of the Bank will be held on Wednesday, March 1, 2017, at 9:30 a.m., at
TMX Broadcast Centre
Venue: Gallery
130 King Street West
Toronto, Ontario M5X 1J2

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 by calling 514 284-4500 ext. 7545.

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.

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.

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.

Vous pouvez recevoir une version française de ce rapport annuel en faisant parvenir votre demande par courriel à l'addresse communication@banquelaurentienne.ca ou par la poste 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			
Series 11	51925D 84 1 LB.PR.F	**	March 15
Series 13	51925D 82 5 LB.PR.H	**	June 15
Series 15	51925D 79 1 LB.PR.J	**	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.

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THE BOARD OF DIRECTORS AND EXECUTIVE COMMITTEE PHOTOGRAPHS WERE TAKEN BY **JEAN-FRANÇOIS BÉRUBÉ**, WITH THE EXCEPTION OF SUSAN KUDZMAN'S, WHICH WAS TAKEN BY **JULIE MOREL**.
DESIGN: **GAUTHIER**

LAURENTIAN BANK OF CANADA

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LAURENTIAN BANK

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