2019 ANNUAL REPORT

LAURENTIAN BANK
FINANCIAL GROUP

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Every day our team members help our customers improve their financial health.

mission

We help customers improve their financial health

values

Proximity
Simplicity
Honesty

Who we are

Laurentian Bank Financial Group[1] is a diversified financial services provider whose mission is to help its customers improve their financial health. The Laurentian Bank of Canada (founded in 1846) and its entities are collectively referred to as Laurentian Bank Financial Group.

With 3,200 employees guided by the values of proximity, simplicity and honesty, the Group provides a broad range of advice-based solutions and services to its personal, business and institutional customers. With pan-Canadian activities and a presence in the U.S., the Group is an important player in numerous market segments.

Our clients

Personal

Individuals who care about their financial health benefit from our three-pronged approach, which draws on the advice and expertise of financial professionals, as well as a range of simple and accessible products and services, through:

- Financial Clinics
- Advisors and Brokers
- Digital Direct to Customers

Business

Entrepreneurs and business leaders – in Canada and in the United States – benefit from the expertise our account managers have developed in their industries, as well as customized solutions for their banking and financing needs:

- Commercial Banking
- Equipment and Inventory Financing through our subsidiaries LBC Capital and Northpoint Commercial Finance
- Real Estate Financing

Institutional

Our institutional clients have access to a range of services tailored to their needs in capital markets, broker services, trustee and administrative services.

1 Referred to as “Laurentian Bank Financial Group”, “LBCFG”, the “Group”, or the “Bank”.

2019 highlights

$44.4
Total Assets
($ billions)

$25.7
Deposits
($ billions)

$968.5
Revenue
($ millions)

$33.7
Loans and Acceptances
($ billions)

7.0%
Return on Common Shareholders' Equity

7.9%
Adjusted Return on Common Shareholders' Equity[1]

$172.7
Net Income
($ millions)

$193.2
Adjusted Net Income[1]
($ millions)

$3.77
Diluted Earnings per Share

$4.26
Adjusted Diluted Earnings per Share[1]

75.0%
Efficiency Ratio

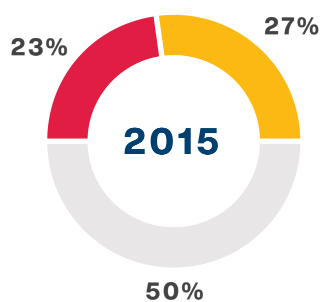
72.3%
Adjusted Efficiency Ratio[1]

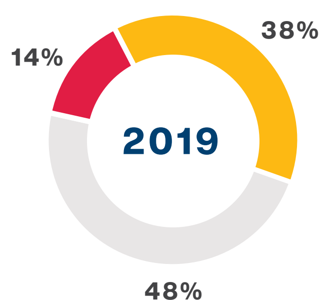
1 Refer to the Non-GAAP and Key Performance Measures section in the Management's Discussion and Analysis.

Strategic diversification at the heart of our plan

Evolving loan portfolio mix

A greater proportion of higher margin commercial loans in the Group mix

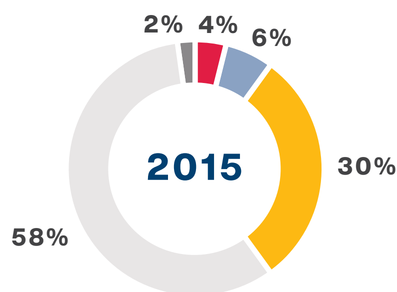


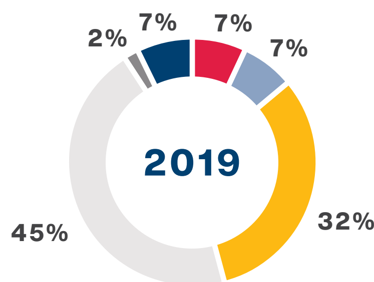


- Commercial loans (including acceptances)
- Residential mortgage loans
- Personal loans

Expanding geographic footprint

Loan growth across Canada and since 2017 in the U.S.

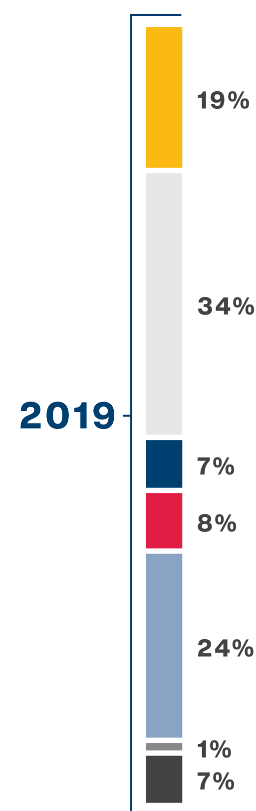




- British Columbia
- Alberta & Prairies
- Ontario
- Quebec
- Atlantic provinces
- United States

Multiple sources of funding

Well-diversified funding sources to support our growth



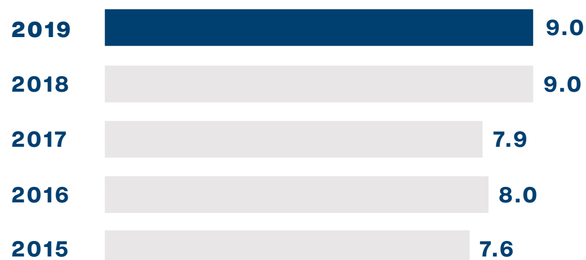
- Deposits – Personal – Financial Clinics
- Deposits – Personal – Advisors and Brokers
- Deposits – Business
- Deposits – Institutional
- Debt related to securitization activities
- Subordinated debt
- Shareholders' equity

Solid financial foundation

We are well positioned to take advantage of opportunities in an evolving marketplace

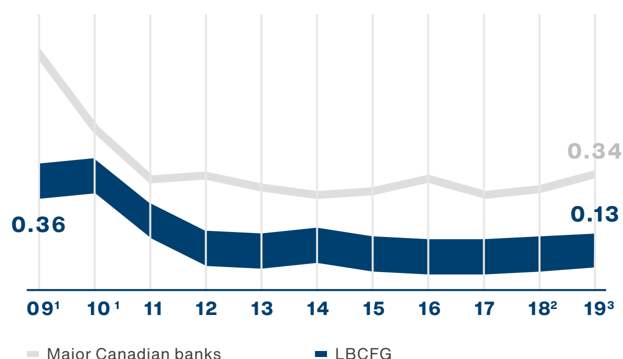
A healthy capital position

Common Equity Tier 1 capital ratio
(in %)



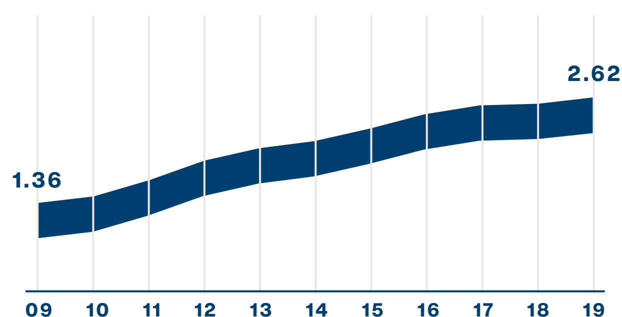
Good track record of strong credit quality

Provision for credit losses
(in %)



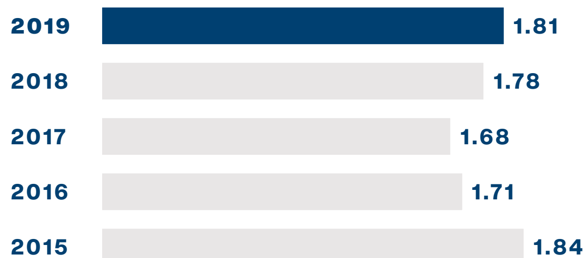
History of increasing dividends

Dividends declared per common share
(in $)



Net interest margin

NIM
(in %)



1 Comparative figures prior to 2011 in accordance with previous Canadian GAAP.
2 In Q1/18 the 6 major Canadian banks adopted IFRS 9. LBC adopted IFRS 9 on November 1, 2018, therefore LBC's ratio is based on IAS 39 for fiscal 2018.
3 Based on the average of the Canadian banking industry for the nine months ended July 31, 2019 – Quarterly reports.

2022 medium-term performance and growth targets

Performance[1, 2]

Adjusted ROE

Narrow gap to **250** bps[3]

Adjusted Efficiency Ratio

<63%

Adjusted Diluted EPS

Grow by **5% to 10%** annually

Adjusted Operating Leverage

+ (Positive)

Growth[1, 4]

Loans to Business customers

Loans to Personal customers[5]

Deposits from clients[6]

1 Management has updated its medium-term objectives. Please refer to the Outlook section in the Management's Discussion and Analysis.

2 The 2022 financial objectives are based on non-GAAP measures that exclude adjusting items related to restructuring plans and to business combinations. Refer to the Non-GAAP and Key Performance Measures section in the Management's Discussion and Analysis.

3 Compared to the major Canadian banks, based on the Bank using the AIRB approach in determining credit risk and the Standardized approach in determining operational risk.

4 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.

5 Including personal loans and residential mortgages.

6 Including deposits from Financial Clinics, Advisors and Brokers, Digital Direct to Customers and Business customers.

Message from the Chair of the Board

A Productive First Year

It was with great pride that almost a year ago, I became Chair of the Board of Laurentian Bank of Canada. It has been a stimulating and productive year, both for the Board and the Laurentian Bank Financial Group. Today I am pleased to report on the progress that we have made on the priorities that the Board established for 2019.

The Board continued to work with senior management to ensure the advancement of the Strategic Plan. We participated in planning sessions and detailed business reviews with leaders from different sectors over the past year. The quality of discussions during these sessions, as well as within the various Board committees, have allowed Directors to fulfill their strategic role. It also permitted deep dives into key opportunities and challenges. At all times, our efforts have been focused on creating a relevant organization, taking into account the needs and wants of all stakeholders and, ultimately long term value for our shareholders.

Transforming our financial institution, by focusing on advisory services and digital offerings, is a sound strategy: a way forward into the next decade that I can report is progressing well. The confidence that the Board has in the Group's overall strategy and leadership of senior management has been reinforced by the significant progress made over the past year. My fellow Directors and I believe that the four-year foundational steps that have been completed will bring the Group closer to its goal of enhancing growth and sustainable performance over the long term.

Board Governance and Renewal

The Board recognizes the need for sound corporate governance, and its role in the business being conducted in an effective, ethical and transparent manner. As Chair of the Board, I strongly believe that to be effective and relevant, governance must be dynamic. The Board's priority is to adapt its governance practices to meet evolving legal and regulatory requirements, and to anticipate and respond to the changing expectations and interests of all stakeholders.

Accordingly, the diversity and renewal of the Board is a continuing focus. We have taken active steps in the past year to ensure that our Board is comprised of members with complementary areas of expertise, striking the right balance between new ideas and experience, in order to meet the current and future needs of the organization.

I am pleased to welcome Ms. Andrea Bolger and Mr. David Mowat who joined the Board last August. Ms. Bolger has extensive expertise in strategic direction and risk management from Canada's largest financial institution. Mr. Mowat headed the largest financial institution in Alberta, where he oversaw the replacement of its core banking system and IT infrastructure.

I would also like to take this opportunity to recognize the four Directors who retired from the Board last year. They are: Isabelle Courville, who served as Chair of the Board for 6 years, and Directors Gordon Campbell, Michel Labonté and Jonathan I. Wener. I want to sincerely thank them for their valuable contribution to the development and growth of our organization.

As we are now midway through the roll-out of the Strategic Plan, the Board has also completed a review of, and has updated the composition of its Board Committees and is in the process of reviewing its mandates, to ensure their effectiveness.

The Future is Now

Throughout the year, Directors continued to participate in training sessions related to the Group's core business and latest trends in financial services. We have had the opportunity to enhance our knowledge of emerging developments in business risk management, financial information relating to climate change, open banking, and artificial intelligence in the banking sector.

I would also like to highlight two key areas of focus for the Board, namely cybersecurity and the Group's engagement and response in relation to environmental, social and governance (ESG) factors.

Cybersecurity remains a strategic priority. Laurentian Bank Financial Group has developed disciplined and rigorous policies based on advanced data security practices which the Board considers to be appropriate. With a growing digital economy, Directors completed comprehensive training this year on the subject, which incorporated the concepts of fraud prevention, anti-money laundering and terrorist financing and cyber security as it relates to financial crimes.

With respect to ESG, the Board supports the Group's initiative to advance the development of its framework and the hiring of an external expertise to enhance its disclosure and build a road map leading to the adoption of the recommendations of the Task Force on Climate Related Financial Disclosure (TCFD). We are pursuing these worthwhile initiatives commensurate with the size and resources of our organization.

Nothing Worthwhile Comes Easy
On behalf of my fellow Directors, I would like to thank François Desjardins, our President and Chief Executive Officer, as well as his leadership team, for their vision and ability to successfully lead the Group to its current success during the most significant change in its history.

This team has taken on responsibility to move the organization to the next level by tackling foundational and strategic elements that if unadressed, were or would have held LBCFG back from attaining its full potential. Their steadfast resolve and managerial courage is to be commended.

I would be remiss not to acknowledge the hard work of my fellow Directors, whose valuable advice is essential to our success.

I also wish to express our appreciation to our shareholders and clients. Their loyalty and trust are essential to accomplish our mission. Finally, a big thank you to all our team members for their continuous commitment and professionalism.

Michael Mueller
Chair of the Board

Mr. Michael Mueller chairs the Board since April 2019 after joining the Bank as Vice Chair of the Board in December 2018. He is a corporate director with a diversified expertise in various industries, such as financial, pharmaceutical, mining and medical.

All through his career, Mr. Mueller held a series of senior positions in a major Canadian bank, where he was notably responsible for Global Credit and Global Investment Banking. He also acted as the country Head of the U.S. Division.

Very involved in his community, Mr. Mueller is Vice Chair of the Board of Emily's House in Toronto.

Message from the President and CEO

Banking is changing: We can see this everyday

We are in the midst of the 4th Industrial Revolution. It deeply changes our personal and professional lives: the convergence of virtual worlds, digital design and operations management is creating unprecedented breakthroughs in consumer habits and the financial sector must adapt. Indeed, banking is evolving. But, customer behavior is evolving even faster. Digital is now part of their daily life and they are more than ready for the next technological advances.

With our eyes wide-open, we embarked on a transformative journey in 2015 that would take this organization into the next decade and further. We are more than halfway there. Our accomplishments so far: replacing our 60-year-old systems; establishing a new labour relations environment, retooling and retraining our team members; rethinking and refocusing our organization. We are also preparing for simpler and higher-value, convenience-driven products. Preparing for products and services that do not yet exist. Preparing for tomorrow's customer today.

This move ahead was based on two underlying beliefs: first, all transactions will become digital and second, most customers will want to engage with human beings to make life-changing decisions that influence financial health. As such, we chose to be better than average on advisor and account manager competency, on ease of doing business and on customer-facing technologies. We also had the courage to abandon other attributes, less valued by most customers.

2019 – A Year of Strategic Wins

Core Banking

In the first quarter of 2019, we became the largest bank in Canada to have implemented the foundation of a new core banking system – Temenos T24, which has propelled us into the digital era. This accomplishment allowed us to migrate all B2B Bank products and most of our loans to business customers to the new platform. The initiative is 75% complete and we are preparing for the migration of all remaining accounts. This is a true win as we are now able to build our future personal banking product suite.

Financial Clinics – 100% Advice

Traditional branches, vaults, paper deposit slips, walking around velvet ropes and waiting in line are things of the past. We now operate over 80 Financial Clinics in Quebec where personal and business customers are encouraged to seek the advice of financial professionals and build long-term relationships. We are having real conversations with customers about their goals and how we can help them get there.

Financial health is important to personal customers. A survey we commissioned showed that 98% value it but only 45% had a recent financial plan. As well, less than one in two individuals actively consult a professional to help them make decisions regarding their personal finances. We know we're onto something here – and the potential is great.

Digital Offering

We launched a fully digital offering to Canadians to meet their everyday personal banking needs, first through the B2B Bank network of Advisors and Brokers and direct to customers under the LBC Digital brand. Anyone who so desires is now able to open, with straight through, on-the-spot processing, chequing, high interest savings and GIC accounts, using their mobile devices.

Digital is important on multiple fronts: it gives current customers access to a renewed and modern mobile-first banking experience, it allows for immediate and effective communication, it extends the reach of our Group to attract and serve new customers from coast to coast and finally, it lays the foundation for more products, services, transactions and growth.

Renewed Labour Relations Environment

In the first half of the year, negotiations with union leadership grew stagnant and Management had to make tough decisions to be able to move the strategic plan forward and improve the labour relations environment for the long term. Therefore,

the organization needed to prioritize resources on building a business continuity plan in preparation for a possible labour conflict.

The signature of a new collective agreement in 2019, along with the change in composition of the collective bargaining unit significantly improves our ability to serve customers and implement process efficiencies. Now, the bargaining unit covers customer-facing positions almost exclusively, and none can be added. As well, the agreement puts the emphasis on individual performance rather than on tenure and job security.

Growth and Financial Results: A Short-term Investment for a Long-term Benefit

For the year, we achieved good growth in loans to business customers, namely in real estate, equipment and inventory financing. By contrast, during the difficult union negotiations, we deliberately slowed growth in all personal lending – including B2B Bank – to shore up liquidity in case of a possible work conflict. At the same time, Capital Market revenues were impacted by the unstable market environment.

Despite some great strategic wins, and despite stable Risk Weighted Assets, in 2019, we saw our total assets reduced and financial results impacted. These consequences, albeit temporary, were worthwhile to achieve a long-lasting positive shift in culture for the organization going forward.

François Desjardins has been the President and Chief Executive Officer of Laurentian Bank Financial Group since November 1, 2015. After joining the organization 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.

With over 25 years of experience in financial services, Mr. Desjardins has developed a deep understanding of the financial ecosystem by staying attuned to technological change and customer behaviours.

“With our eyes wide-open, we embarked on a transformative journey in 2015 that would take this organization into the next decade and further. We are more than halfway there. We are preparing for simpler and higher-value, convenience-driven products. Preparing for products and services that do not yet exist. Preparing for tomorrow's customer today.”

Stronger Fundamentals Than Ever Before

With the spotlight on transformation, we tend to overlook some interesting fundamentals that set us apart. We are a diversified bank, with multiple business units and sub-channels, targeting specialized niches across Canada, and with a presence in the U.S. for equipment and inventory financing.

Our organization posted a 9% CET1 capital ratio, a full 1.4% above the 2015 level. The Group's funding is well-diversified and strong. Moreover, 98% of our loans are secured, with real estate or investments, and our provision for credit losses are about one third the level of the industry. We are the only Canadian mid-sized bank to have two investment grade ratings.

2020 – The Heavy Lifting Comes to an End

2020 will be the year during which we will complete major initiatives and focus on growth in preparation for 2021 – our 175th anniversary year – the first year of a digital era for our Group.

Personal Customers

In all channels – Financial Clinics, Advisors and Brokers and Digital Direct to Customers – this year's focus will be on the customer experience and growth, specifically in personal lending products. To enhance the customer experience, digital teams are working towards adding

functionality, transactions and products to the platform and promoting our offer to Canadians from coast to coast. For Financial Clinics, teams will focus on migrating all current personal customers to the new core banking platform so that, at the end of 2020, they will have access to modern digital interfaces. Once this is completed, we will be able to gradually decommission our legacy systems which will eliminate the operating costs associated with maintaining them.

Business Customers
One of our growth engines has been and continues to be our Business Services unit. Over the past four years, this area has grown by more than 60%, from $8 billion to $13 billion. This is a direct reflection of our solid expertise and the strong relationships we have built in real estate financing, commercial banking and equipment and inventory financing. The investments we made in equipment and inventory financing are bearing fruit. We will be making additional investments in infrastructure to expand operations in the U.S. and further upgrade customer facing technology to improve the business client experience.

Institutional Customers
We are committed to harnessing more opportunities in the institutional segment and we have put plans in motion to do just that, beginning with the appointment of new leadership in Capital Markets. We believe this will contribute to driving performance in 2020 and beyond.

Corporate Functions
As we evolve into a digital environment, we will continue working on improving and automating our processes, enhancing controls and adapting practices. We will also maintain discipline, rigor and continuous improvement around cybersecurity, data security and privacy because our utmost responsibility is to protect our customers' personal information.

Banking Has Changed and So Have We
We are building a better and different banking experience – and we are starting to see the positive, tangible results of our efforts. It has been a long road, but with every decision, we are making it count for all of our stakeholders.

Our customers will benefit from our three-pronged approach to delivering a better experience for them that includes: top-notch advice-based services, processes that make it easier to do business with us and, improved customer-facing technologies. We aim to build customer loyalty and are committed to helping improve the financial health of our current and future customers.

For our team members, we are building a brand and a united culture of performance that will inspire and encourage personal growth – always striving to be an employer of choice. A big thank you to team members across the organization: through your efforts and continued resolve, we are building our future together. An additional thank you to all Board members for their continued insight, support and positive energy and especially to our Chair, Michael Mueller, for his valuable counsel.

For our shareholders, we are confident this plan will not only reduce costs and improve profitability, but it will set us apart and position Laurentian Bank Financial Group for sustainable, long-term profitable growth and performance in this ever-evolving industry. Thank you again for your patience and commitment to the brand. You are investing in something great.

François Desjardins
President and Chief Executive Officer

Board of Directors

Michael Mueller

Corporate Director

Has served on the Board of Directors since December 2018

Chair of the Board

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

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

Andrea Bolger

Corporate Director

Has served on the Board of Directors since August 2019

Member of the Risk Management 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

Has served on the Board of Directors since November 2015

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

A. Michel Lavigne, FCPA, FCA

Corporate Director

Has served on the Board of Directors since March 2013

Member of the Human Resources and Corporate Governance Committee

David Morris, CPA, CA

Corporate Director

Has served on the Board of Directors since October 2017

Member of the Audit Committee

David Mowat

Corporate Director

Has served on the Board of Directors since August 2019

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 and 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 and member of the Human Resources and Corporate Governance Committee

Executive Team

Craig Backman

Executive Vice President,
Personal Digital Banking

Craig Backman is responsible for the development and distribution of digital personal banking products across Canada. He is also responsible for the growth of personal banking and investment products offered through the network of Advisors and Brokers.

William Mason

Executive Vice President
and Chief Risk Officer

William Mason is responsible for the continuous application of sound risk management practices across the organization. He is also responsible for credit management, legal affairs including compliance functions, and for the corporate secretariat.

Kelsey Gunderson

Executive Vice President,
Capital Markets

Kelsey Gunderson is responsible for all Capital Markets activities for the Group and oversees the strategy and development of services to our institutional clients in the areas of broker services, trustee and administrative services.

Deborah Rose

Executive Vice President
and Chief Operating Officer

Deborah Rose is responsible for the administration, operations and technology corporate functions. This includes, among other things, managing the enterprise infrastructure, corporate real estate and supply chain, and productivity improvement initiatives. As Chief Information Officer, she oversees all technology assets, including their evolution, and ensures sound governance.

François Laurin, FCPA, FCA, CFA

Executive Vice President,
Finance, Treasury,
and Chief Financial Officer

François Laurin is responsible for financial reporting and governance, treasury and capital management, mergers and acquisitions, investor relations and taxation for the Group.

Stéphane Therrien

Executive Vice President,
Personal & Commercial
Banking

Stéphane Therrien is responsible for business development for personal and business clients. He leads the Group's efforts to accelerate growth in the Financial Clinics in Quebec and in the areas of real estate financing, commercial banking, as well as equipment and inventory financing in Canada and the United States.

Working toward our strategic objectives

Our 2022 strategic objectives

Foundation

Building a strong foundation:

Rebuild a proper account management platform

Rightsize and modernize corporate functions

Develop new brand elements

Growth

Investing in profitable growth:

Develop competitive product offering

Build best-in-class teams of advisors and account managers

Better understand and service key client segments

Expand distribution geographically

Performance

Improving performance:

Reduce cost of administration

Better manage capital

Build a culture of performance

What is completed

Implementation of the foundation of the core banking system

Migration of B2B Bank products and most of the Business Services accounts onto the new core banking system

Implementation of a platform for our equipment financing activities

Creation of Laurentian Bank Financial Group, LBC Tech and LBC Capital

Consolidation of various corporate functions

Optimization of branch network activities in Quebec

Implementation of 100% Advice Financial Clinics

Launch of a digital banking offer to clients of Advisors and Brokers

Launch of a digital banking offer under the LBC Digital brand

Acquisition and integration of CIT Canada activities and those of Northpoint Commercial Finance

Increase of loans to business customers in the loan portfolio mix

Efficiency improvements of some administrative functions

Optimization of our sources of financing including securitization and institutional deposits

Consolidation of our Montreal corporate offices

Launch of a new Global Performance Recognition Program within the organization

Renewed labor relations environment including the redefinition of the bargaining unit

What must be achieved

Migrate all remaining products and accounts to the new core banking system

Continue to automate and improve the efficiency of our processes

Refine our regulatory and compliance frameworks

Launch of an online commercial banking platform to improve business client experience

Improve client experience through enhanced digital and social media functionalities

Continued investment in cybersecurity

Develop brand presence in social media

Resume growth in residential mortgages and personal loans

Gain personal deposits with digital direct to customer offering across Canada

Enhance digital direct to customer offering with lending products

Continue to grow loans to business customers in Canada and in the U.S.

Increase revenues from brokerage, treasury and capital markets activities

Focus growth activities on advice in Financial Clinics

Optimize footprint by creating regional hubs

Invest in infrastructure to expand equipment and inventory financing activities in the U.S.

Prudently manage a strong balance sheet and maintain good credit quality

Continue to work toward adopting the AIRB approach to credit risk

Social responsibility

Our team members

50% | 50%

Gender parity of independent board members

55%

of team members are women

45%

of leadership are women

Eco-conscious procurement

Since joining the Bullfrogpowered community, LBCFG displaced **1,083 tonnes of CO_2**, which is equivalent to:

- **229 fewer cars** on the road for a year;
- **343 tonnes of waste** diverted from landfills;
- **461,361 litres of fuel** being consumed;
- The amount of carbon sequestered by **415 ha of wooded areas**.

High standards and good governance practices

Keeping our team members up-to-date on governance practices is a priority. In 2019, all Group's employees received several training sessions **– representing more than 15,000 hours –** on themes related to cybersecurity, privacy and compliance.

Responsible Lender

Sustainable Investment

We have participated in the issuance of

$2.25B

of green bonds in 2019.

974 works of art

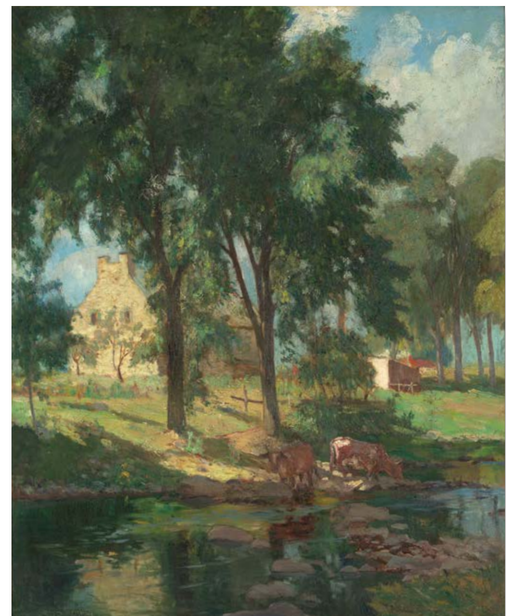
donated by LBCFG to Canadian museums and foundations.

Engaged in our communities

In 2019, a total of **more than half a million $** was donated in the form of donations or sponsorships.

> Conscious of the growing impacts of climate change and in line with the interests of our stakeholders, we have begun the development of a sustainability program that will include the creation of a roadmap for the adoption of the recommendations of the Climate Change Financial Reporting Working Group (TCFD).

Maurice Cullen

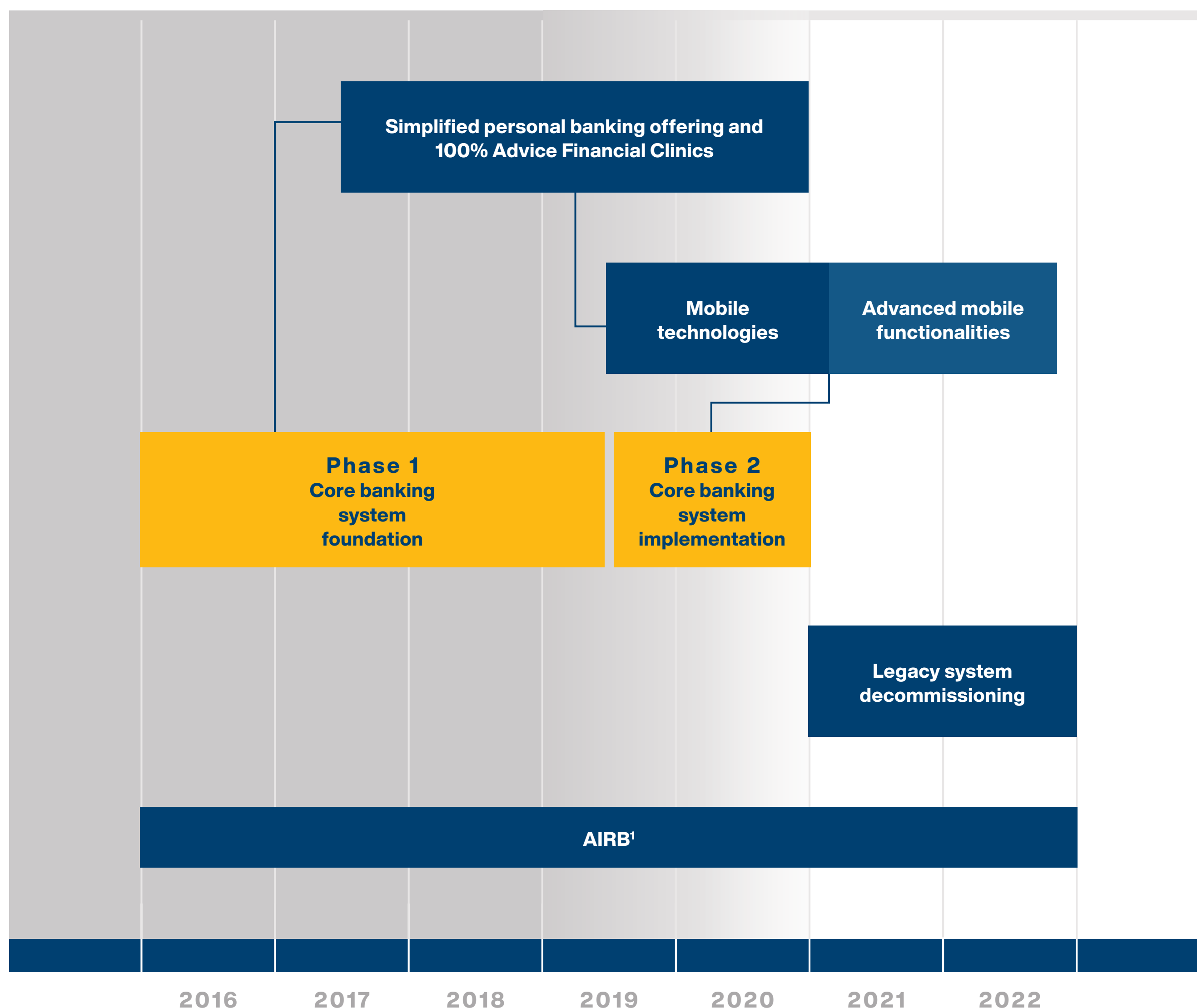


© MNBAQ, Denis Legendre

Été à Saint-Eustache

Circa 1906, oil on canvas, 73.8 x 59.8 cm. Musée national des beaux-arts du Québec Collection. Donated by Laurentian Bank Financial Group (2018.292)

Path to our transformation



1 Focus towards adoption in late 2022.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED OCTOBER 31, 2019

This Management's Discussion and Analysis (MD&A) is a narrative explanation which presents management's view of Laurentian Bank of Canada's financial condition as at October 31, 2019 and its operating results for the year then ended, compared with the corresponding year shown. This MD&A should be read in conjunction with the Audited Consolidated Financial Statements and related notes for the year ended October 31, 2019. This MD&A is dated December 3, 2019.

Additional information about Laurentian Bank of Canada, including the 2019 Annual Information Form, is available on our website at www.lbcfg.ca and on the Canadian Securities Administrators' website at www.sedar.com.

BASIS OF PRESENTATION

The financial information reported herein is based on the audited Consolidated Financial Statements and related notes for the year ended October 31, 2019, and, unless otherwise indicated, has been prepared in accordance with International Financial Reporting standards (IFRS), as issued by the International Accounting Standards Board (IASB). All amounts are presented in Canadian dollars.

Financial reporting changes

Adoption of New Accounting Standards

The Bank adopted IFRS 9, *Financial Instruments* (IFRS 9) and IFRS 15, *Revenue from Contracts with Customers* (IFRS 15) as at November 1, 2018. The adoption of IFRS 9 resulted in a decrease of $7.7 million of shareholders' equity as at November 1, 2018, or a decrease of 4 bps of the CET1 capital ratio. As permitted by IFRS 9, the Bank did not restate comparative amounts for prior periods. The adoption of IFRS 15 had no significant impact on the Bank's Consolidated Financial Statements as at November 1, 2018. For details on these accounting policy changes and on the impact of adoption as at November 1, 2018, refer to Notes 2 and 5 to the Consolidated Financial Statements.

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ABOUT LAURENTIAN BANK FINANCIAL GROUP

Founded in 1846, Laurentian Bank Financial Group is a diversified financial services provider whose mission is to help its customers improve their financial health. The Laurentian Bank of Canada and its entities are collectively referred to as Laurentian Bank Financial Group (the "Group" or the "Bank").

With more than 3,200 employees guided by the values of proximity, simplicity and honesty, the Group provides a broad range of advice-based solutions and services to its personal, business and institutional customers. With pan-Canadian activities and a presence in the U.S., the Group is an important player in numerous market segments.

The Group has $44 billion in balance sheet assets and $29 billion in assets under administration.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

In this document and in other documents filed with Canadian regulatory authorities or in other communications, we may, from time to time, make written or oral forward-looking statements within the meaning of applicable securities legislation. Forward-looking statements may include, but are not limited to, statements regarding our business plan and financial objectives including statements contained in our 2019 Annual Report under the heading "Outlook". The forward-looking statements contained in this document are used to assist readers in obtaining a better understanding of our 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 are identified with words or phrases such as believe, estimate, forecast, project, expect, anticipate, plan, goal, target, may, should, could, would, will, intend or the negative of these terms, variations thereof or similar terminology.

By their very nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties, both general and specific in nature. There is significant risk that the predictions, forecasts, projections or conclusions will prove to be inaccurate, that our assumptions may not be correct, and that actual results may differ materially from such predictions, forecasts, projections or conclusions.

We caution readers against placing undue reliance on forward-looking statements, as a number of factors, many of which are beyond our control and the effects of which can be difficult to predict, could cause our actual results to differ materially from the targets, plans, objectives, expectations, forecasts, estimates and intentions expressed in such forward-looking statements.

The future outcomes that relate to forward-looking statements may be influenced by many factors, including but not limited to: general economic and market conditions; changes in government monetary, fiscal or economic policies; changes in currency and interest rates; legislative and regulatory developments, including tax legislation and interpretation; critical accounting estimates and the effect of changes to accounting standards, rules and interpretations on these estimates; changes in competition; modifications to credit ratings; scarcity of human resources; developments with respect to labour relations; information technology and cyber security; developments in the technological environment; environmental risk including changes to global environmental policy and the effects of climate change; the possible effects of global conflicts and terrorism, natural disasters, public health emergencies, disruptions to public infrastructure and other catastrophic events; our ability to execute our strategic plans including the reorganization of our retail branches, the modernization of our core banking system and implementation of the Advanced Internal Ratings-Based (AIRB) Approach to credit risk, as well as our ability to anticipate and effectively manage risks arising from the foregoing.

We further caution that the foregoing list of factors is not exhaustive. Other factors and risks could adversely affect our results. For more information on the risks, uncertainties and assumptions that would cause our actual results to differ from current expectations, please also refer to the "Risk Appetite and Risk Management Framework" section of our 2019 Annual Report, as well as to other public filings available at www.sedar.com.

We do not undertake to update any forward-looking statements, whether oral or written, made by us or on our behalf, except to the extent required by securities regulations.

HIGHLIGHTS

TABLE 1 FINANCIAL HIGHLIGHTS
As at or for the years ended October 31
(Thousands of Canadian dollars, except when noted)

	2019	2018	2017
Operating results			
Total revenue	**$ 968,510**	$ 1,043,410	$ 996,410
Net income	**$ 172,710**	$ 224,646	$ 206,461
Adjusted net income[1]	**$ 193,227**	$ 241,560	$ 230,741
Operating performance			
Diluted earnings per share	**$ 3.77**	$ 5.10	$ 5.40
Adjusted diluted earnings per share[1]	**$ 4.26**	$ 5.51	$ 6.09
Return on common shareholders' equity	**7.0 %**	9.7 %	10.9 %
Adjusted return on common shareholders' equity[1]	**7.9 %**	10.5 %	12.3 %
Net interest margin	**1.81 %**	1.78 %	1.68 %
Efficiency ratio	**75.0 %**	68.7 %	69.2 %
Adjusted efficiency ratio[1]	**72.3 %**	66.7 %	69.2 %
Operating leverage	**(8.5)%**	0.7 %	7.4 %
Adjusted operating leverage[1]	**(7.8)%**	(0.9)%	5.4 %
Financial position ($ millions)			
Loans and acceptances	**$ 33,667**	$ 34,395	$ 36,696
Total assets	**$ 44,353**	$ 45,895	$ 46,683
Deposits	**$ 25,653**	$ 28,007	$ 28,930
Common shareholders' equity	**$ 2,303**	$ 2,260	$ 1,994
Key growth drivers ($ millions)			
Loans to Business customers	**$ 12,966**	$ 12,036	$ 12,171
Loans to Personal customers[2]	**$ 20,700**	$ 22,359	$ 24,525
Deposits from clients[3]	**$ 22,518**	$ 24,410	$ 25,173
Basel III regulatory capital ratios			
Common Equity Tier 1 (CET1) capital ratio[4]	**9.0 %**	9.0 %	7.9 %
CET1 risk-weighted assets ($ millions)	**$ 20,407**	$ 20,239	$ 20,427
Credit quality			
Gross impaired loans as a % of loans and acceptances	**0.52 %**	0.53 %	0.41 %
Net impaired loans as a % of loans and acceptances	**0.40 %**	0.42 %	0.30 %
Provision for credit losses as a % of average loans and acceptances	**0.13 %**	0.12 %	0.11 %
Common share information			
Closing share price[5]	**$ 45.30**	$ 41.56	$ 60.00
Price / earnings ratio	**12.0x**	8.1x	11.1x
Book value per share	**$ 54.02**	$ 53.72	$ 51.18
Dividends declared per share	**$ 2.62**	$ 2.54	$ 2.46
Dividend yield	**5.8 %**	6.1 %	4.1 %
Dividend payout ratio	**69.3 %**	49.6 %	45.7 %
Adjusted dividend payout ratio[1]	**61.4 %**	45.9 %	40.5 %

(1) Refer to the Non-GAAP and Key Performance Measures section.
(2) Including loans to personal customers and residential mortgage loans.
(3) Including personal deposits from Financial Clinics, Advisors and Brokers, Digital direct to customers offering and Business customers. The transition of all our traditional branches into Financial Clinics and our new digital offering are discussed in the Outlook section of the Management's Discussion and Analysis.
(4) Using the Standardized Approach in determining credit risk and operational risk.
(5) Toronto Stock Exchange (TSX) closing market price.

SUMMARY OF FINANCIAL RESULTS

OVERVIEW OF FISCAL 2019

For the year ended October 31, 2019, net income was $172.7 million or $3.77 diluted per share, compared with $224.6 million or $5.10 diluted per share in 2018. Return on common shareholders' equity was 7.0% for the year ended October 31, 2019, compared with 9.7% in 2018. On an adjusted basis, net income totalled $193.2 million or $4.26 diluted per share for the year ended October 31, 2019, down 20% and 23% respectively, compared with $241.6 million or $5.51 diluted per share in 2018. Adjusted return on common shareholders' equity was 7.9% for the year ended October 31, 2019, compared with 10.5% for the year ended October 31, 2018. Reported results for 2019 and 2018 included adjusting items, as detailed in the "Non-GAAP and Key Performance Measures" section on page 25.

In November 2015, we launched a 7-year plan focused on becoming a better and different bank to address advancements in technology, globalization of banking and better meet our customers' needs. To achieve this, we outlined three strategic objectives: Build a stronger foundation; Invest in profitable growth; and Improve financial performance. Throughout 2019, we executed on these strategic objectives with our ultimate goal – to improve the Bank's performance and achieve a profitability level similar to that of the major Canadian banks. In that regard, 2019 remains a year of investments in our people, processes and technology. Fiscal 2019 was also marked by the labour negotiation at the outset of the year, but most importantly by the new collective agreement which strengthens our foundation and is expected to contribute to improvements in financial performance.

The Common Equity Tier 1 (CET1) capital ratio, under the Standardized approach to credit risk, was essentially unchanged compared with October 31, 2018 and stood at 9.0% as at October 31, 2019, well above the regulatory requirement of 7.0%. This strong capital position provides us with the required flexibility to manage in the current environment and execute our plan.

TABLE 2

CONDENSED CONSOLIDATED RESULTS – REPORTED BASIS

(Thousands of Canadian dollars)

	2019	2018	2017	Variance 2019/2018
Net interest income	**$ 686,411**	$ 705,912	$ 638,090	(3)%
Other income	**282,099**	337,498	358,320	(16)
Total revenue	**968,510**	1,043,410	996,410	(7)
Amortization of net premium on purchased financial instruments	**1,452**	2,296	3,383	(37)
Provision for credit losses	**44,400**	44,000	37,000	1
Non-interest expenses	**726,493**	716,781	689,359	1
Income before income taxes	**196,165**	280,333	266,668	(30)
Income taxes	**23,455**	55,687	60,207	(58)
Net income	**172,710**	224,646	206,461	(23)
Preferred share dividends, including applicable taxes	**12,966**	14,038	17,096	(8)
Net income available to common shareholders'	**$ 159,744**	$ 210,608	$ 189,365	(24)%

TABLE 3

CONDENSED CONSOLIDATED RESULTS – ADJUSTED BASIS[1]

(Thousands of Canadian dollars)

	2019	2018	2017	Variance 2019/2018
Net interest income	**$ 686,411**	$ 705,912	$ 638,090	(3)%
Other income	**282,099**	337,498	358,320	(16)
Total revenue	**968,510**	1,043,410	996,410	(7)
Provision for credit losses	**44,400**	44,000	37,000	1
Adjusted non-interest expenses[1]	**700,103**	695,775	658,492	1
Adjusted income before income taxes[1]	**224,007**	303,635	300,918	(26)
Adjusted income taxes[1]	**30,780**	62,075	70,177	(50)
Adjusted net income[1]	**193,227**	241,560	230,741	(20)
Preferred share dividends, including applicable taxes	**12,966**	14,038	17,096	(8)
Adjusted net income available to common shareholders'[1]	**$ 180,261**	$ 227,522	$ 213,645	(21)%

(1) Refer to the Non-GAAP and Key Performance Measures section.

NON-GAAP AND KEY PERFORMANCE MEASURES

NON-GAAP MEASURES

Management uses both generally accepted accounting principles (GAAP) and non-GAAP measures to assess the Bank's performance. Results prepared in accordance with GAAP are referred to as "reported" results. Non-GAAP measures presented throughout this document are referred to as "adjusted" measures and exclude amounts designated as adjusting items. Adjusting items relate to restructuring plans and to business combinations and have been designated as such as management does not believe they are indicative of underlying business performance. Non-GAAP measures are considered useful to readers in obtaining a better understanding of how management analyzes the Bank's results and in assessing underlying business performance and related trends. 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 issuers.

The following table shows adjusting items and their impact on reported results.

TABLE 4
IMPACT OF ADJUSTING ITEMS ON REPORTED RESULTS
(Thousands of Canadian dollars, except per share amounts)

	For the quarters ended October 31		For the years ended October 31		
	2019	2018	**2019**	2018	2017
Impact on income before income taxes					
Reported income before income taxes	**$ 47,926**	$ 61,325	**$ 196,165**	$ 280,333	$ 266,668
Adjusting items, before income taxes					
Impairment and restructuring charges[1]					
Severance charges	**1,735**	925	**6,474**	925	3,228
Other restructuring charges	**3,696**	107	**6,205**	5,019	7,257
	5,431	1,032	**12,679**	5,944	10,485
Items related to business combinations					
Amortization of net premium on purchased financial instruments[2]	**284**	495	**1,452**	2,296	3,383
Amortization of acquisition-related intangible assets[3]	**3,416**	3,366	**13,711**	12,705	4,291
Other costs related to business combinations[4]	**—**	—	**—**	2,357	16,091
	3,700	3,861	**15,163**	17,358	23,765
	9,131	4,893	**27,842**	23,302	34,250
Adjusted income before income taxes	**$ 57,057**	$ 66,218	**$ 224,007**	$ 303,635	$ 300,918
Impact on net income					
Reported net income	**$ 41,343**	$ 50,801	**$ 172,710**	$ 224,646	$ 206,461
Adjusting items, net of income taxes					
Impairment and restructuring charges[1]					
Severance charges	**1,274**	678	**4,752**	678	2,364
Other restructuring charges	**2,712**	78	**4,554**	3,679	5,315
	3,986	756	**9,306**	4,357	7,679
Items related to business combinations					
Amortization of net premium on purchased financial instruments[2]	**209**	364	**1,067**	1,688	2,487
Amortization of acquisition-related intangible assets[3]	**2,428**	2,423	**10,144**	9,143	2,771
Other costs related to business combinations[4]	**—**	—	**—**	1,726	11,343
	2,637	2,787	**11,211**	12,557	16,601
	6,623	3,543	**20,517**	16,914	24,280
Adjusted net income	**$ 47,966**	$ 54,344	**$ 193,227**	$ 241,560	$ 230,741
Impact on diluted earnings per share					
Reported diluted earnings per share	**$ 0.90**	$ 1.13	**$ 3.77**	$ 5.10	$ 5.40
Adjusting items					
Impairment and restructuring charges	**0.09**	0.02	**0.22**	0.11	0.22
Items related to business combinations	**0.06**	0.07	**0.27**	0.30	0.47
	0.15	0.08	**0.49**	0.41	0.69
Adjusted diluted earnings per share[5]	**$ 1.05**	$ 1.22	**$ 4.26**	$ 5.51	$ 6.09

(1) Restructuring charges mainly result from the optimization of our Financial Clinic operations and the related streamlining of certain back-office and corporate functions. Restructuring charges also result from the reorganization of retail brokerage activities and other measures aimed at improving efficiency as detailed in the Efficiency measure topic in the "Outlook" section. Restructuring charges include severance charges, salaries, provisions related to the termination of lease contracts, communication expenses and professional fees. Restructuring charges are included on the Non-interest expenses line item. For the year ended October 31, 2019, severance charges are presented net of a $4.8 million curtailment gain on pension plans and other post-employment benefits obligations, as well as of reversals of provisions amounting to $3.5 million.

(2) Amortization of net premium on purchased financial instruments results from a one-time gain on a business acquisition in 2012 and is included on the Amortization of net premium on purchased financial instruments line item.

(3) Amortization of acquisition-related intangible assets results from business acquisitions in 2016 and 2017 and is included on the Non-interest expenses line-item.

(4) Other costs related to business combinations result from the transaction and integration of business acquisitions in 2016 and are included on the Non-interest expenses line item.

(5) The impact of adjusting items on a per share basis may not add due to rounding.

KEY PERFORMANCE MEASURES

Management also uses a number of financial metrics to assess the Bank's performance. The Bank's key performance measures are defined as follows:

Return on common shareholders' equity

Return on common shareholders' equity (ROE) is a profitability measure calculated as the net income available to common shareholders as a percentage of average 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. Table 5 shows additional information about return on common shareholders' equity.

TABLE 5
RETURN ON COMMON SHAREHOLDERS' EQUITY
(Thousands of Canadian dollars, except percentage amounts)

	2019	2018	2017
Reported net income available to common shareholders	**$ 159,744**	$ 210,608	$ 189,365
Adjusting items, net of income taxes	**20,517**	16,914	24,280
Adjusted net income available to common shareholders	**$ 180,261**	$ 227,522	$ 213,645
Average common shareholders' equity	**$ 2,270,617**	$ 2,171,101	$ 1,735,198
Return on common shareholders' equity	**7.0%**	9.7%	10.9%
Adjusted return on common shareholders' equity	**7.9%**	10.5%	12.3%

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

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

OUTLOOK

ECONOMIC OUTLOOK

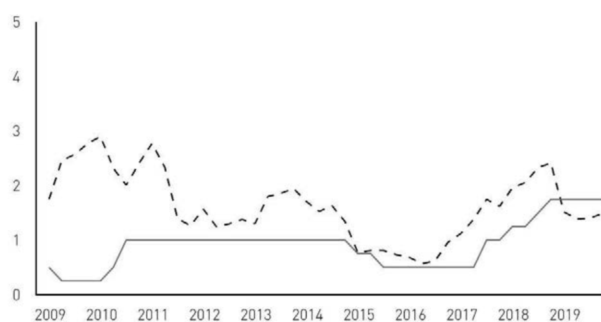
Trade conflicts, particularly between the U.S. and China, have led to a modest contraction of global manufacturing activity, a decline in capex spending and weaker commodity prices for most of 2019. But the risk of negative spillovers to the economy eased this fall, as the contraction in global manufacturing activity shows signs of bottoming. Activity and employment in services-oriented activities remain resilient globally, including in Canada. In response to the slower pace of global economic growth triggered by trade tensions and associated uncertainty, a majority of central banks in the world have eased financial conditions, leading to lower borrowing costs across the world including Canada.

In the U.S., the moderate pace of economic growth is principally supported by robust household spending. The improvement in labour market conditions continues, underpinning lending activities and consumer discretionary expenditures. As a response to global trade tensions and their potential impact on the U.S. economy, the Federal Reserve has reduced its policy rate by a cumulative 75 bps since last summer. The Federal Reserve is expected to pause going into 2020.

In Canada, the economic momentum remains moderate, supported by a soft currency, lower borrowing costs and improvement in labour market conditions. US-China trade tensions have indirectly led to a decline in exports and weaker business investment. China's ban on targeted Canadian agricultural products has affected the Prairies, but the recent lift of the ban on Canadian pork and beef products is a positive development. In 2019, job creation has been strong, particularly in the services sectors in Ontario, B.C. and Quebec. Wage growth has accelerated as a result of the nationwide unemployment rate standing at a near four-decade low. The Canadian housing market outlook has improved. An acceleration in household disposable income growth and a decline in mortgage rates have led to a slight improvement in housing affordability. Meanwhile, the appreciation in home prices remains generally modest. Strong population growth and the rapid integration of job seekers into the labour market continue to fuel the property market. In Toronto and Vancouver, housing conditions have tightened since last summer as resale activity accelerated. In terms of residential construction, homebuilding has strengthened, led by Montreal and the Greater Toronto Area.

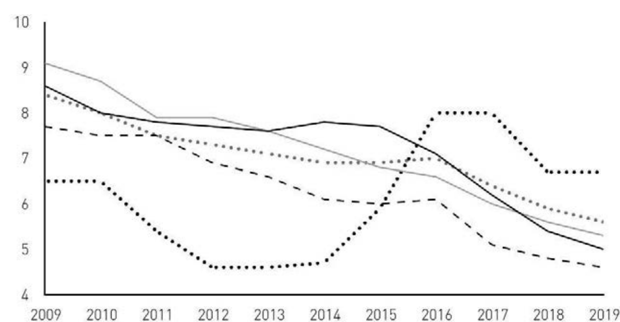
Finally, in contrast to many other central banks, the Bank of Canada has not reduced its policy rate this year, since Canadian CPI inflation stands close to its 2% target. The Bank of Canada overnight rate target has remained at 1.75% since the fall of 2018. Meanwhile, the value of the Canadian dollar relative to the US dollar has been stable since last summer. After advancing by 1.5% in 2019, Canadian real GDP is expected to accelerate by 1.7% and 1.6% in 2020 and 2021, respectively. The outlook is driven by accommodative monetary and fiscal policies and diminishing transportation constraints in the energy sector.

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



Bank of Canada's Target for the Overnight Rate
5-Year Government Bond Yield
Source: Bank of Canada

UNEMPLOYMENT RATES
(Annual data, in percentage)



British Columbia
Quebec
Alberta
Canada
Ontario
Source: Statistics Canada

MEDIUM-TERM PERFORMANCE TARGETS

Table 6 shows the medium-term performance targets for the Bank and the Bank's performance for 2019. Considering the key achievements of 2019 with regard to the core banking system, the transition of all our traditional branches into 100% Advice Financial Clinics, the launch of our digital offering and the ratification of the new collective agreement, we remain confident that we can achieve our targets. However, given 2019's labor relations environment and the impact on the current year performance as described below, we are delaying them by one year to 2022. In addition, growth drivers were adjusted to reflect our new business segmentation.

TABLE 6
2021 MEDIUM-TERM PERFORMANCE TARGETS AND 2019 PERFORMANCE
(Billions of Canadian dollars, except per share and percentage amounts)

	2021 Mid-term Targets[1]	2019	2018	Variance 2019/2018
Adjusted financial performance[2]				
Adjusted return on common shareholders' equity	Narrow gap to 250 bps[3]	**7.9 %**	10.5 %	Current gap at 790 bps
Adjusted efficiency ratio	<63%	**72.3 %**	66.7 %	5.6 %
Adjusted diluted earnings per share	Grow by 5% to 10% annually	**$ 4.26**	$ 5.51	(23)%
Adjusted operating leverage	Positive	**(7.8)%**	(0.9)%	n.m.
Key growth drivers				
Loans to Business customers	Grow to $16.0B	**$ 13.0**	$ 12.0	8 %
Residential mortgage loans	Grow to $19.0B	**$ 16.0**	$ 17.0	(6)%
Deposits from clients[4]	Grow to $28.0B	**$ 22.5**	$ 24.4	(8)%

(1) Mid-term targets, as set out in the 2018 Annual Report.
(2) The 2021 financial objectives are based on non-GAAP measures that exclude adjusting items related to restructuring plans and to business combinations. Refer to the Non-GAAP and Key Performance Measures section.
(3) Compared to the major Canadian banks, based on the Bank using the AIRB approach in determining credit risk and the Standardized approach in determining operational risk. The current gap is based on the average of major Canadian banks for the nine months ended July 31, 2019.
(4) Including deposits from Financial Clinics, Advisors and Brokers and Business customers.

2019 Performance

Throughout the year, as we advanced on our strategic initiatives, we maintained an elevated capital position. In addition, during the first half of the year, we incurred significant costs to mitigate risks associated with a possible labour conflict, including from holding a higher level of liquidity as well as from additional legal and labor related expenses. The uncertainty related to our labour relations environment hampered business development activities and postponed process efficiency measures. The signature of the new collective agreement now provides us with the right conditions to resume growth in the Personal segment. Our Business Services segment, on the other hand, posted another strong performance. Our solid expertise and relationships in Real Estate Financing, Commercial Banking and Equipment and Inventory Financing are yielding results. Loans to Business customers increased by 8%, or 9% adjusting for the sale of a $105 million loan portfolio in the first quarter of 2019, generally in line with the objective we had set last year. This strong growth contributed positively to earnings. At the same time, revenues from our Institutional segment were impacted by the unstable market environment.

As a result, profitability metrics for 2019 were impacted. Adjusted return on common shareholders' equity was 7.9% in 2019 compared with 10.5% in fiscal 2018, and the ROE gap relative to the major Canadian banks widened. The adjusted efficiency ratio of 72.3% for 2019 increased compared to the 2018 level given lower revenues and, to a lesser extent, additional operating costs. Adjusted diluted earnings per share of $4.26 for 2019 was down 23% year-over-year, essentially for the same reasons as noted above.

TABLE 7
2022 MEDIUM-TERM PERFORMANCE TARGETS
(Billions of Canadian dollars, except per share and percentage amounts)

	2022 Mid-term Targets		2019
Adjusted financial performance[1]			
Adjusted return on common shareholders' equity	Narrow gap to 250 bps[2]		**7.9 %**
Adjusted efficiency ratio	<63%		**72.3 %**
Adjusted diluted earnings per share	Grow by 5% to 10% annually	**$**	**4.26**
Adjusted operating leverage	Positive		**(7.8)%**
Key growth drivers			
Loans to Business customers	Grow to $17.5 B	**$**	**13.0**
Loans to Personal customers[3]	Grow to $22.5 B	**$**	**20.7**
Deposits from clients[4]	Grow to $26.0 B	**$**	**22.5**

(1) The 2022 financial objectives are based on non-GAAP measures that exclude adjusting items related to restructuring plans and to business combinations. Refer to the Non-GAAP and Key Performance Measures section.
(2) Compared to the major Canadian banks, based on the Bank using the AIRB approach in determining credit risk and the Standardized approach in determining operational risk.
(3) Including personal loans and residential mortgage loans.
(4) Including personal deposits from Financial Clinics, Advisors and Brokers, Digital direct to customers offering and Business customers.

New Medium-term targets

Performance Targets
As shown in Table 7 above, the ROE objective remains to narrow the gap with the major banks to 250 bps in 2022. As we plan to adopt the AIRB approach to credit risk in 2022, this gap reflects the initial benefit of gradually redeploying capital. We are also targeting an efficiency ratio of below 63% in 2022 versus last year's plan in 2021, and we are continuing to aim for positive operating leverage. Lastly, we are working toward an adjusted diluted earnings per share growth objective, over the medium-term, of 5% to 10% annually. We remain as committed as ever to execute our strategic plan and work toward our ultimate goal - to improve the Bank's performance and achieve a profitability level similar to that of the major Canadian banks.

Growth Targets
Business Services is expected to continue its profitable growth. As shown in Table 7, loans to Business customers are now projected to reach $17.5 billion in 2022. This reflects our decision to evolve the portfolio toward higher-yielding loans to Business customers and the opportunities that we have as we leverage our investments. This represents a future annual growth of 10% over the next 3 years. Furthermore, in regards to our new Personal segment and in line with our objective to resume growth in personal loans and mortgages, we are introducing a target for growth in loans to Personal customers at $22.5 billion in 2022. Lastly, we are reviewing our objective for growth in deposits from clients to $26.0 billion in 2022.

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 on page 22 and in the "Risk Appetite and Risk Management Framework" section of this document could also cause future results to differ materially from these objectives.

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

- Organic growth to continue in loans to Business customers and to resume in loans to personal customers;
- Relatively stable product margins in the Bank's main markets;
- Continued progress on optimization of the Financial Clinic operations;
- Continued optimization of the loan portfolio mix, including increasing higher margin loans to Business customers;
- Loan loss provisions to remain at lower levels than the industry;
- Expenses to be tightly controlled and further optimization of corporate functions;
- Successful completion of the account management platform (core-banking system) on time and on budget;
- Successful adoption of the AIRB approach to credit risk in fiscal 2022 (based on the Bank's assessment of current regulatory requirements).

STRATEGIC PLAN

In November 2015, we launched a 7-year plan focused on becoming a better and different bank to address advancements in technology, globalization of banking and better meet our customers' needs. To achieve this, we outlined three strategic objectives: Build a stronger foundation; Invest in profitable growth; and Improve financial performance. We strive to execute on these strategic objectives with our ultimate goal – to improve the Bank's performance and achieve a profitability level similar to that of the major Canadian banks once the AIRB approach is fully implemented. In that regard, 2019 remained a year of investments in our people, processes and technology. Throughout the year, we made important progress on our key initiatives, as detailed below. We also executed on our business plan by delivering strong profitable growth in equipment and inventory financing activities, as well as in real estate financing. We will continue to grow these segments to improve the Bank's profitability and diversification.

New Collective Agreement
At the beginning of the year, to move the strategic plan forward and improve the labour relations environment for the long term, we prioritize resources to resolve the collective agreement situation. From our perspective, this became an prerequisite to improve our ability to serve customers and implement process efficiencies. The signature of a new collective agreement in March 2019, along with the change in composition of the collective bargaining unit, which is now covering Quebec-based-customer-facing positions almost exclusively, strengthens our foundation and is expected to improve the Bank's financial performance. In late April, we also began to optimize certain back-office, credit and collection functions which mainly support Financial Clinics. Concurrently, we entered into certain outsourcing arrangements to generate efficiencies. In the third quarter of 2019, we reduced our liquidity levels, reduced legal expenses and other labour related costs and re-tasked team members to revenue generating priorities. We previously indicated that on an annual basis, carrying the right level of liquidity would improve net interest income by $7.0 million and reducing legal and labor related expenses would reduce non-interest expenses by $3 million. These items were realized during the second half of 2019.

Update on key initiatives

Core-banking system
The Bank is well advanced in its multi-year plan to replace its core-banking system. The new account management platform provides the necessary tools to improve our product offering and advance our transformation to digital banking. During the transition period, we are running concurrent platforms for our core-banking systems. The program began in 2016 with the first product and account migrations occurring in November 2017 and September 2018 for our investment loan portfolio and for deposit products sourced through the Advisors and Brokers channel, respectively. The remaining products from the adviser and broker channel and most Business Services loans were migrated onto the new platform at the outset of 2019, marking the conclusion of Phase 1 of the program. Phase 2 of the program will encompass all accounts and products from our Financial Clinics, as well as the few remaining Business Services products. The target for completion of Phase 2 is December 2020, at which time, 100% of all products will have been migrated from the old banking platform to our new core banking platform. From this point on, we will be able to start decommissioning the legacy system.

The total program cost is expected to reach approximately $200 million, relatively in line with initial estimates. As we have completed Phase 1, which encompasses the foundation for most of the Bank's operations, approximately $180 million has been invested.

Transition of Financial Clinic operations and efficiency measures
At the beginning of fiscal year 2016, we announced our strategic plan, which included optimizing and simplifying our branch network in Quebec. This strategy led us to complete, in September 2019, the transition of all our traditional branches into 100% Advice Financial Clinics, where clients obtain financial advice. For basic transactions, such as bill payments, deposits, withdrawals and fund transfers, customers have 24/7 access to electronic and web-base platforms. The shift to this new approach has been carefully planned with all our customers to ensure a smooth transition to our new model. With this milestone behind us, our Financial Clinics in Quebec are starting a new and promising phase that will be driven by growth. Staff are engaged to succeed in the pursuit of our mission to help our customers improve their financial health.

At the end of February 2019, we announced measures to further lower costs, including headcount reductions through attrition, early retirement and targeted job reductions. As we converted our traditional branches to Financial Clinics and from the optimization of certain back-office functions, we achieved the majority of the expected cost reductions. The remaining synergies and cost reductions are expected to be gradually delivered through the end of the first half of 2020. Once fully implemented, these measures are expected to generate total savings between $15 to $20 million on an annual basis.

Digital offering
Once we completed Phase 1 of the implementation of our core-banking system in January 2019, we focused on the development of our new Digital direct to customers offering. This new offering was gradually launched to advisors and brokers in the fourth quarter of 2019. Furthermore, at the beginning of fiscal 2020, we launched a Digital direct to customers offering under the LBC Digital brand. In the coming year, we plan to further enhance our customer experience by adding functionalities, transactions and products to the offering.

Advanced Internal Ratings-Based approach to credit risk
As part of our plan to improve the Bank's foundation, we are pursuing our initiative to adopt the AIRB approach to credit risk. Once fully implemented, it will enable the Bank to optimize regulatory capital, improve profitability and provide a level playing field for credit underwriting activities, as the Bank will be able to calculate its capital requirements on the same basis as its industry peers.

In late 2013, the Bank made the decision to suspend its AIRB development and implementation due to the uncertainty regarding the AIRB approach at the international level. However, several AIRB adoption building blocks were integrated into the Bank's operations and systems and are contributing to enhance the Bank's processes. Given positive indications, the Bank renewed its commitment to pursuing the AIRB project in early 2016 and defined a comprehensive program to realize the remaining steps toward the adoption of the AIRB approach. The Bank's objective is, subject to regulatory approval, to obtain the AIRB accreditation in 2022.

Total AIRB program cost is expected to reach $105 million, of which approximately $76 million has been invested to date.

ANALYSIS OF CONSOLIDATED RESULTS

Net income was $172.7 million or $3.77 diluted per share for the year ended October 31, 2019, compared with $224.6 million or $5.10 diluted per share for the year ended October 31, 2018.

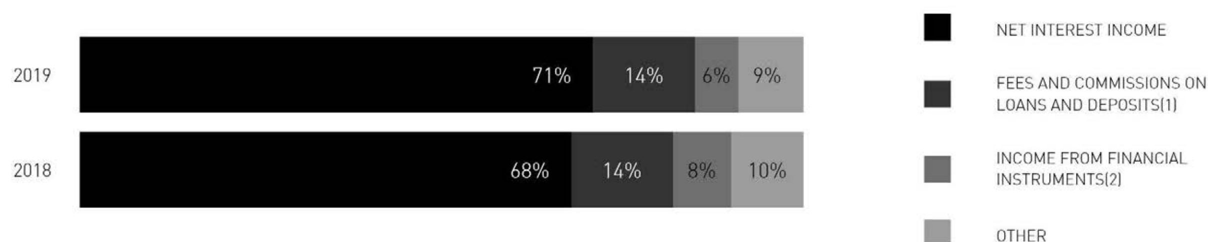
Adjusted net income was $193.2 million for the year ended October 31, 2019, down 20% compared with $241.6 million for 2018, while adjusted diluted earnings per share was $4.26, down 23% compared with $5.51 diluted earnings per share for 2018.

The decrease in earnings per share for the year ended October 31, 2019, compared with the year ended October 31, 2018, is further detailed below.

TOTAL REVENUE

Total revenue reached $968.5 million for the year ended October 31, 2019, a decrease of $74.9 million or 7% compared with $1,043.4 million for the year ended October 31, 2018. The contribution to total revenue for 2019 from net interest income and other income is detailed in the following graph.

TOTAL REVENUE MIX
As at October 31 (as a percentage)



(1) Including Lending fees, Service charges and Card service revenues.
(2) Including Fees and securities brokerage commissions and Income from financial instruments.

NET INTEREST INCOME

Net interest income decreased by $19.5 million or 3% to $686.4 million for the year ended October 31, 2019, from $705.9 million for the year ended October 31, 2018. The decrease was mainly due to lower year-over-year loan volume, partially offset by a lower cost of liquidity.

Over the last two years, we have been repositioning our loan portfolio and have focused on higher yielding commercial loans. This contributed to improving income generation and optimizing capital allocation. However, this was offset by the impact of decreasing volumes of residential mortgage loans and personal loans, as well as the cumulative sale of $813 million of lower-yielding commercial loans in 2018 and in the first quarter of 2019.

As further detailed in Table 8, net interest margin as a percentage of average earning assets stood at 1.81% for the year ended October 31, 2019 and increased by 3 bps when compared with the year ended October 31, 2018, mainly as a result of the higher proportion of higher-yielding commercial loans, and a reduction in liquidity as of the end of the second quarter following the ratification of the collective agreement. Table 9 provides a summary of changes in net interest income.

TABLE 8
NET INTEREST INCOME
(Thousands of Canadian dollars, except percentage amounts)

	2019			2018		
	AVERAGE VOLUME	INTEREST	AVERAGE RATE	AVERAGE VOLUME	INTEREST	AVERAGE RATE
Assets						
Cash resources and securities[1]	$ 3,762,547	$ 84,918	2.26%	$ 3,635,549	$ 65,463	1.80%
Securities purchased under reverse repurchase agreements[1]	242,268	4,116	1.70	317,803	4,075	1.28
Loans						
Personal	5,008,475	273,120	5.45	5,678,903	284,319	5.01
Residential mortgage	16,383,173	502,357	3.07	18,028,659	524,108	2.91
Commercial and other	12,440,248	660,509	5.31	12,001,746	584,434	4.87
Total loans	33,831,896	1,435,986	4.24	35,709,308	1,392,861	3.90
Derivatives and other		31,362	—		28,384	—
Total interest earning assets	37,836,711	1,556,382	4.11	39,662,660	1,490,783	3.76
Non-interest earnings assets and assets related to trading activities[1]	7,447,493	—	—	7,271,532	—	—
Total assets	$ 45,284,204	$ 1,556,382	3.44%	$ 46,934,192	$ 1,490,783	3.18%
Liabilities and shareholders' equity						
Demand and notice deposits	$ 6,063,113	$ 58,181	0.96%	$ 6,771,675	$ 55,228	0.82%
Term deposits	21,470,442	580,208	2.70	22,667,741	527,975	2.33
Debt related to securitization activities	7,844,227	172,419	2.20	8,097,776	166,077	2.05
Subordinated debt	348,918	15,214	4.36	348,580	15,214	4.36
Other	—	43,949	—	—	20,377	—
Total interest-bearing liabilities	35,726,700	869,971	2.44	37,885,772	784,871	2.07
Acceptances	224,628	—	—	500,912	—	—
Non-interest bearing liabilities and liabilities related to trading activities[1]	6,802,026	—	—	6,125,883	—	—
Total liabilities	42,753,354	869,971	2.03	44,512,567	784,871	1.76
Shareholders' equity	2,530,850		—	2,421,625		—
Total liabilities and shareholders' equity	$ 45,284,204	$ 869,971	1.92%	$ 46,934,192	$ 784,871	1.67%
Net interest income and margin (on average earning assets)		$ 686,411	1.81%		$ 705,912	1.78%

(1) Interest earning assets and interest-bearing liabilities exclude volumes related to trading activities.

TABLE 9
CHANGES IN NET INTEREST INCOME
(Thousands of Canadian dollars)

	2019		
	Increase (decrease) due to change in		
	AVERAGE VOLUME	AVERAGE RATE	NET CHANGE
Interest earning assets	$ (68,631)	$ 134,230	$ 65,599
Interest bearing liabilities	44,729	(129,829)	(85,100)
Net interest income	$ (23,902)	$ 4,401	$ (19,501)

OTHER INCOME

Other income decreased by $55.4 million or 16%, amounting to $282.1 million for the year ended October 31, 2019, compared with $337.5 million for the year ended October 31, 2018.

Lending fees, Service charges and Card service revenues decreased in total by $12.6 million or 8% to $136.7 million for 2019, compared with $149.3 million for 2018. The decrease is mainly driven by lower service charges, due to product simplification and reorganization initiatives, as well as by clients gradually modifing their banking behavior to favour digital offerings.

Fees and securities brokerage commissions decreased by $7.5 million or 15% to $43.9 million for 2019, compared with $51.4 million for 2018. The decrease results from lower investment-banking fees amid weak market conditions at the outset of the year, and also at the beginning of the third quarter of 2019, combined with volatile capital markets driven by the trade-related uncertainty that impacted capital market activities globally. However, trading activity improved toward the end of the year and the investment-banking pipeline remains healthy.

Commissions from sales of mutual funds decreased by $4.7 million or 10% to $42.9 million for 2019, compared with $47.6 million for 2018, mainly as a result of lower average assets under administration due to the market decline at the beginning of the year, as well as to lower net sales and pressure on fees.

Fees on investment accounts decreased by $1.9 million or 10% to $18.2 million for 2019, compared with $20.1 million for 2018, as a result of lower average volumes of investment accounts under administration.

Income from financial instruments decreased by $20.2 million or 62% to $12.5 million for 2019, compared with $32.7 million for 2018. In 2018, under the previous IAS 39 accounting guideline, the Bank had recognized net gains on available-for-sale securities of $7.6 million. In 2019, no such gains were realized, in part as a result of the adoption of IFRS 9 which eliminate gains, on sales of available-for-sale equity securities in other income and drove changes to our portfolios' compositions. Furthermore, the decrease was driven by lower income from non-trading financial instruments, as well as from lower trading revenues, including a $3.8 million loss resulting from a revaluation of trading securities during the fourth quarter of 2019.

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 decreased by $1.4 million or 9% to $13.9 million for 2019, compared with $15.3 million for 2018, essentially as a result of lower levels of activity in recent years. Additional information on the Bank's insurance revenues is disclosed in Note 28 to the Consolidated Financial Statements.

Other income decreased by $7.1 million or 34% to $14.0 million for 2019, compared with $21.1 million for 2018, mainly as, in 2018, other income also included net gains of $4.3 million on the sale of commercial loan portfolios.

TABLE 10
OTHER INCOME
(Thousands of Canadian dollars, except percentage amounts)

	2019	2018	2017	Variance 2019/2018
Lending fees	$ 61,459	$ 66,540	$ 64,810	(8)%
Service charges	42,033	48,972	56,191	(14)
Card service revenues	33,238	33,785	33,583	(2)
Fees and securities brokerage commissions[1]	43,892	51,388	52,503	(15)
Commissions from sales of mutual funds	42,892	47,609	47,088	(10)
Fees on investment accounts	18,231	20,146	21,804	(10)
Insurance income, net	13,941	15,273	18,188	(9)
Income from financial instruments[1]	12,460	32,687	40,396	(62)
Other	13,953	21,098	23,757	(34)
Other income	$ 282,099	$ 337,498	$ 358,320	(16)%

(1) Comparative figures have been reclassified to conform the current year presentation.

AMORTIZATION OF NET PREMIUM ON PURCHASED FINANCIAL INSTRUMENTS

For the year ended October 31, 2019, amortization of net premium on purchased financial instruments amounted to $1.5 million, compared with $2.3 million for the year ended October 31, 2018. Refer to the "Non-GAAP and Key Performance Measures" section for additional information.

PROVISION FOR CREDIT LOSSES

The provision for credit losses increased by $0.4 million or 1% to $44.4 million for the year ended October 31, 2019 compared with $44.0 million for the year ended October 31, 2018. Loan losses for 2018 included the favourable impact of the reduction in allowances resulting from the sale of commercial loan portfolios as well as favourable releases of provisions. Overall, economic conditions have remained sound in 2019, providing for a sound credit environment. The continued low level of credit losses also reflects the underlying good credit quality of our loan portfolios.

Refer to the "Risk Appetite and Risk Management" section for additional information.

Credit losses on personal loans decreased by $3.4 million for 2019 compared with 2018, mainly as a result of lower loan volumes.

Credit losses on residential mortgage loans at $3.3 million was relatively unchanged for 2019 compared with 2018. The level of credit losses remains at historically low levels, owing to favourable credit conditions and strong underwriting criteria.

Credit losses on commercial loans increased by $3.9 million for 2019 compared with 2018. In 2018, as noted above, loan losses included the favourable impact of the reduction in allowances resulting from the sale of commercial loan portfolios, as well as other favourable releases of provisions. These adjustments to allowances were more than offset by a $10.0 million loss on a single syndicated commercial exposure at the end of 2018. In 2019, higher loan volumes led to the increase in collective allowance, and an additional $4.5 million allowance in the first quarter on the aforementioned syndicated loan also contributed to the increase year-over-year.

The provision for credit losses expressed as a percentage of average loans and acceptances was 13 bps for the year ended October 31, 2019 (12 bps for the year ended October 31, 2018).

Table 11 details the provision for credit losses from 2017 to 2019. 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 11
PROVISION FOR CREDIT LOSSES
(Thousands of Canadian dollars, except percentage amounts)

	2019	2018	2017
Personal loans			
Stage 1 and 2	**$ (4,561)**	n/a	n/a
Stage 3	**22,341**	n/a	n/a
	17,780	$ 21,157	$ 24,823
Residential mortgage loans			
Stage 1 and 2	**(430)**	n/a	n/a
Stage 3	**3,714**	n/a	n/a
	3,284	3,363	3,027
Commercial loans			
Stage 1 and 2	**2,516**	n/a	n/a
Stage 3	**20,820**	n/a	n/a
	23,336	19,480	9,150
Provision for credit losses	**$ 44,400**	$ 44,000	$ 37,000
As a % of average loans and acceptances	**0.13%**	0.12%	0.11%

NON-INTEREST EXPENSES

Non-interest expenses increased by $9.7 million or 1% to $726.5 million for the year ended October 31, 2019, compared with $716.8 million for the year ended October 31, 2018. Adjusted non-interest expenses increased by $4.3 million or 1% to $700.1 million for the year ended October 31, 2019, compared with $695.8 million for the year ended October 31, 2018.

Salaries and employee benefits decreased by $8.6 million or 2% to $357.4 million for 2019, compared with $366.0 million for 2018, mainly due to lower salary expense from lower headcount, lower pension costs and lower performance-based compensation, partly offset by higher share-based compensation.

Premises and technology costs increased by $5.0 million to $197.4 million for 2019, compared with $192.4 million for 2018, mainly as a result of higher technology costs and higher amortization expense for the completed Phase 1 of the core-banking system program, partly offset by lower rent expense.

Other non-interest expenses increased by $9.0 million to $159.1 million for 2019, compared with $150.1 million for 2018. This increase is mainly due to higher regulatory expenses, including year-over-year increases in costs related to deposit insurance, new IFRS standards implementation, anti-money laundering and regulatory compliance management, as well as to labour relation costs associated with renegotiating the new collective agreement.

Restructuring charges increased by $6.7 million to $12.7 million for 2019 compared with $5.9 million for 2018. In 2019, restructuring charges mainly included expenses for the optimization of the Financial Clinics operations and the related streamlining of certain back-office and corporate functions. Restructuring charges also resulted from the reorganization of retail brokerage activities and other measures aimed at improving efficiency as detailed in the "Outlook" section under Strategic Plan. Restructuring charges include severance charges, salaries, provisions related to the termination of lease contracts, communication expenses and professional fees. Gross costs related to restructuring measures of $21 million for the year, were partly offset by a $4.8 million curtailment gain on pension plans and other post-employment benefit obligations, as well as by reversals of previously accrued provisions amounting to $3.5 million, following the ratification of the new collective agreement at the end of the second quarter of 2019. In 2018, restructuring charges mainly included provisions related to the termination of lease contracts and communication costs related to the reorganization of Financial Clinic operations. In 2018, the Bank incurred $9.4 million in severance charges, salaries, communication expenses and professional fees related to the optimization of Financial Clinic operations and branch mergers.

Costs related to business combinations were nil in 2019 as the integration of the equipment financing operations acquired in 2016 was substantially completed in the second quarter of 2018.

Efficiency ratio

The adjusted efficiency ratio was 72.3% for the year ended October 31, 2019, compared with 66.7% for the year ended October 31, 2018. Efficiency was mainly affected by lower revenues, as noted above, and, to a lesser extent, by higher expenses as the Bank continued to invest in its transformation. The adjusted operating leverage was negative year-over-year.

The efficiency ratio, on a reported basis, was 75.0% for the year ended October 31, 2019, compared with 68.7% for the year ended October 31, 2018, essentially for the same reasons as noted above.

Table 12 details non-interest expenses from 2017 to 2019.

TABLE 12
NON-INTEREST EXPENSES
(Thousands of Canadian dollars, except percentage amounts)

	2019	2018	2017	Variance 2019/2018
Salaries and employee benefits				
Salaries	$ 233,453	$ 236,088	$ 220,226	
Employee benefits	70,407	73,805	75,455	
Performance-based compensation	53,536	56,129	65,320	
	357,396	366,022	361,001	(2)%
Premises and technology				
Technology costs	113,323	101,972	89,510	
Rent and property taxes	45,088	52,987	53,743	
Depreciation	32,030	28,515	30,675	
Other	6,910	8,903	8,469	
	197,351	192,377	182,397	3 %
Other				
Professional and advisory services	40,079	39,318	30,292	
Advertising and business development	36,060	35,607	33,571	
Communications	15,943	17,489	17,726	
Other	66,985	57,667	37,796	
	159,067	150,081	119,385	6 %
Impairment and restructuring charges				
Severance charges	6,474	925	3,228	
Other restructuring charges	6,205	5,019	7,257	
	12,679	5,944	10,485	113 %
Costs related to business combinations	—	2,357	16,091	(100)%
Non-interest expenses	$ 726,493	$ 716,781	$ 689,359	1 %
Efficiency ratio	75.0 %	68.7 %	69.2 %	
Operating leverage	(8.5)%	0.7 %	7.4 %	
Adjusted non-interest expenses[1]	$ 700,103	$ 695,775	$ 658,492	1 %
Adjusted efficiency ratio[1]	72.3 %	66.7 %	66.1 %	
Adjusted operating leverage[1]	(7.8)%	(0.9)%	5.4 %	

(1) Refer to the Non-GAAP and Key Performance Measures section.

INCOME TAXES

For the year ended October 31, 2019, income tax expense was $23.5 million, and the effective tax rate was 12.0%. The lower tax rate, compared to the statutory rate, mainly resulted from a lower taxation level on revenues from foreign operations, as well as from the favourable effect of holding investments in Canadian securities that generate non-taxable dividend income. For the year ended October 31, 2018, income tax expense was $55.7 million, and the effective tax rate was 19.9%. The lower tax rate for year ended October 31, 2019, when compared to the prior year, mainly resulted from the proportionally lower level of domestic revenue. As previously mentioned, as a result of changes introduced in the 2018 Canadian federal budget, we expect that the new measures will impact income earned on foreign insurance operations of fiscal 2020 by approximately $4.9 million.

Note 20 to the Consolidated Financial Statements provides further information on income tax expense.

TABLE 13
RECONCILIATION OF THE INCOME TAX EXPENSE TO THE DOLLAR AMOUNT OF INCOME TAX USING THE STATUTORY RATE
(Thousands of Canadian dollars, except percentage amounts)

			2019			2018
Income taxes at statutory rates	$	52,161	26.6 %	$	74,749	26.7 %
Change resulting from:						
Change in tax rate		—	—		531	—
Income related to foreign operations		(27,050)	(13.8)		(17,483)	(6.2)
Non-taxable dividends and non-taxable portion of capital gains		(2,495)	(1.3)		(2,176)	(0.7)
Other, net		839	0.5		66	(0.1)
Income taxes as reported in the Consolidated Statement of Income	$	23,455	12.0 %	$	55,687	19.9 %

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 Bank's Board of Directors (the "Board" or "Board of Directors"). As at October 31, 2019, these loans totalled $2.2 million. Loans to directors of the Board 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, 2019, these deposits totalled $0.9 million. The Bank also offers employees a discount on annual credit card fees.

See Note 22 to the Consolidated Financial Statements for additional information on related party transactions.

OVERVIEW OF FISCAL 2018

For the year ended October 31, 2018, net income was $224.6 million or $5.10 diluted per share, compared with $206.5 million or $5.40 diluted per share in 2017. Return on common shareholders' equity was 9.7% for the year ended October 31, 2018, compared with 10.9% in 2017. On an adjusted basis, net income totalled $241.6 million or $5.51 diluted per share for the year ended October 31, 2018, up 5% and down 10% respectively, compared with $230.7 million or $6.09 diluted per share in 2017. Adjusted return on common shareholders' equity was 10.5% for the year ended October 31, 2018, compared with 12.3% for the year ended October 31, 2017. Reported results for 2018 and 2017 included adjusting items, as detailed in the "Non-GAAP and Key Performance Measures" section on page 25 for further details.

In fiscal 2018, the third year of our 7-year strategic plan, we invested in our people, technology and processes and strengthened the Bank's financial foundation. We continued to progress towards our transformation, including the implementation of our core banking system, the development of our digital solutions and the adoption of the Advanced Internal Ratings-Based approach to credit risk. As we progressed on these initiatives, as well as to withstand market volatility and to meet increased industry requirements, we maintained higher levels of liquidity and capital, which weighed on short-term performance in 2018. These measures improved the financial strength of the Bank and contributed to support future growth initiatives.

ANALYSIS OF QUARTERLY RESULTS

ANALYSIS OF RESULTS FOR THE FOURTH QUARTER OF 2019

Net income was $41.3 million or $0.90 diluted per share for the fourth quarter of 2019, compared with $50.8 million or $1.13 diluted per share for the fourth quarter of 2018. Adjusted net income was $48.0 million for the fourth quarter of 2019, down 12% from $54.3 million for the fourth quarter of 2018, while adjusted diluted earnings per share was $1.05, down 14% compared with $1.22 for the fourth quarter of 2018. The decrease in earnings per share for the fourth quarter of 2019 is further detailed below.

Total revenue

Total revenue decreased by $14.2 million or 6% to $241.6 million for the fourth quarter of 2019 from $255.9 million for the fourth quarter of 2018. This decrease was driven by lower other income.

Net interest income was $173.2 million for the fourth quarter of 2019, which is in line with the fourth quarter of 2018. Net interest margin as a percentage of average earning assets stood at 1.84% for the fourth quarter of 2019, an increase of 7 bps compared with the fourth quarter of 2018, due to the combined effect of an improving loan portfolio mix, a reduction in liquidity and an improvement in the Prime/BA spread.

Other income decreased by $14.3 million to $68.4 million for the fourth quarter of 2019, compared with $82.7 million for the fourth quarter of 2018. Other income for the fourth quarter of 2019 was impacted by lower capital market related revenues, including a $3.8 million loss resulting from a revaluation of trading securities, whereas other income for the fourth quarter of 2018 included gains of $4.9 million on available-for-sale securities, no longer available as a result of the adoption of IFRS 9 which eliminates gains on available-for-sale equity securities in other income and drove changes to our portfolios' compositions. Fees and commissions on loans and deposits, which include lending fees, service charges and card service revenues, also decreased by $3.0 million, mainly as a result of lower lending fees given the evolving mix towards commercial loans favoring higher margins.

Amortization of net premium on purchased financial instruments

For the fourth quarter of 2019, amortization of net premium on purchased financial instruments amounted to $0.3 million, compared with $0.5 million for the fourth quarter of 2018. Refer to Note 3.4 to the Consolidated Financial Statements for additional information.

Provision for credit losses

The provision for credit losses amounted to $12.6 million for the fourth quarter of 2019, compared with $17.6 million for the fourth quarter of 2018. Credit losses for the fourth quarter of 2018 were impacted by a $10.0 million loss on a single syndicated commercial exposure. Credit losses for the fourth quarter of 2019 were impacted, in part, by higher losses on personal loans. The overall level of losses remains low and is commensurate with the gradual increase in higher margin loans. The Risk Appetite and Risk "Management Framework" section in this MD&A provides further details about the overall credit condition of the Bank's portfolios.

Non-interest expenses

Non-interest expenses amounted to $180.8 million for the fourth quarter of 2019, an increase of $4.4 million compared with the fourth quarter of 2018. Adjusted non-interest expenses of $172.0 million for the fourth quarter of 2019 were relatively unchanged compared to the fourth quarter of 2018.

Salaries and employee benefits decreased by $3.0 million or 3% to $84.8 million for the fourth quarter of 2019, compared with the fourth quarter of 2018, mainly due to lower performance-based compensation, a favourable adjustment to pension costs and lower headcount.

Premises and technology costs increased by $0.7 million or 1% to $49.0 million for the fourth quarter of 2019 compared with the fourth quarter of 2018, mainly as a result of higher technology costs and higher amortization expense for the completed Phase 1 of the core-banking system program, partly offset by lower rent expenses.

Other non-interest expenses amounted to $41.6 million for the fourth quarter of 2019, an increase of $2.4 million or 6% compared with the fourth quarter of 2018. This increase was mainly due to higher advertising and business development expenses as we developed our strategy to support the launch of our new digital offering.

Restructuring charges amounted to $5.4 million for the fourth quarter of 2019 and mainly included expenses for the optimization of the Financial Clinic operations and the related streamlining of certain back-office and corporate functions. Restructuring charges for the fourth quarter of 2019 also resulted from other measures aimed at improving efficiency as detailed in the "Outlook" section under Strategic Plan.

Efficiency ratio

The adjusted efficiency ratiowas 71.2% for the fourth quarter of 2019, compared with 67.2% for the fourth quarter of 2018, mainly as a result of lower revenue. The adjusted operating leverage was also negative year-over-year. The efficiency ratio, on a reported basis, was 74.8% for the fourth quarter of 2019, compared with 69.0% for the fourth quarter of 2018, essentially for the same reasons.

Income taxes

For the quarter ended October 31, 2019, income tax expense was $6.6 million, and the effective tax rate was 13.7%. The lower tax rate, compared to the statutory rate, mainly resulted from the lower taxation level on revenues from foreign operations, as well as from the favourable effect of holding investments in Canadian securities that generate non-taxable dividend income. For the quarter ended October 31, 2018, income tax expense was $10.5 million, and the effective tax rate was 17.2%. The lower tax rate, compared to the statutory rate, resulted from the same factors as noted above.

QUARTERLY RESULTS AND TREND ANALYSIS

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 or specific regulatory developments may significantly impact revenues and expenses. Given that the second quarter usually consists of only 89 days compared with 92 days for the other quarters, overall profitability is generally lower for that quarter, mainly as net interest income is impacted.

Table 14 summarizes quarterly results for fiscal 2019 and 2018.

TABLE 14
QUARTERLY RESULTS
(Thousands of Canadian dollars, except per share and percentage amounts)

	2019				2018			
	Oct. 31	**July 31**	**April 30**	**Jan. 31**	Oct. 31	July 31	April 30	Jan. 31
Net interest income	**$ 173,205**	**$ 176,042**	**$ 164,564**	**$ 172,600**	$ 173,152	$ 177,013	$ 177,112	$ 178,635
Other income	**68,433**	**68,611**	**75,317**	**69,738**	82,705	83,651	82,775	88,367
Total revenue	**241,638**	**244,653**	**239,881**	**242,338**	255,857	260,664	259,887	267,002
Amortization of net premium on purchased financial instruments	**284**	**336**	**390**	**442**	495	547	601	653
Provision for credit losses	**12,600**	**12,100**	**9,200**	**10,500**	17,600	4,900	9,500	12,000
Non-interest expenses	**180,828**	**177,858**	**183,131**	**184,676**	176,437	187,245	175,554	177,545
Income before income taxes	**47,926**	**54,359**	**47,160**	**46,720**	61,325	67,972	74,232	76,804
Income taxes	**6,583**	**6,561**	**3,847**	**6,464**	10,524	13,069	15,037	17,057
Net income	**$ 41,343**	**$ 47,798**	**$ 43,313**	**$ 40,256**	$ 50,801	$ 54,903	$ 59,195	$ 59,747
Earnings per share								
Basic	**$ 0.90**	**$ 1.05**	**$ 0.95**	**$ 0.88**	$ 1.13	$ 1.23	$ 1.34	$ 1.41
Diluted	**$ 0.90**	**$ 1.05**	**$ 0.95**	**$ 0.88**	$ 1.13	$ 1.23	$ 1.34	$ 1.41
Net interest margin	**1.84%**	**1.85%**	**1.77%**	**1.80%**	1.77%	1.77%	1.82%	1.77%
Return on common shareholders' equity	**6.6%**	**7.8%**	**7.3%**	**6.5%**	8.4%	9.2%	10.5%	10.8%
Adjusting items[1], net of income taxes								
Restructuring charges	**$ 3,986**	**$ 1,323**	**$ 2,525**	**$ 1,472**	$ 756	$ 1,645	$ 1,283	$ 673
Items related to business combinations	**$ 2,637**	**$ 2,761**	**$ 2,888**	**$ 2,925**	$ 2,787	$ 2,826	$ 4,147	$ 2,797
	$ 6,623	**$ 4,084**	**$ 5,413**	**$ 4,397**	$ 3,543	$ 4,471	$ 5,430	$ 3,470
Adjusted financial measures[1]								
Adjusted net income	**$ 47,966**	**$ 51,882**	**$ 48,726**	**$ 44,653**	$ 54,344	$ 59,374	$ 64,625	$ 63,217
Adjusted diluted earnings per share	**$ 1.05**	**$ 1.15**	**$ 1.08**	**$ 0.98**	$ 1.22	$ 1.34	$ 1.47	$ 1.49
Adjusted return on common shareholders' equity	**7.8%**	**8.5%**	**8.3%**	**7.3%**	9.0%	10.0%	11.6%	11.5%
Adjusted non-interest expenses	**$ 171,981**	**$ 172,630**	**$ 176,255**	**$ 179,237**	$ 172,039	$ 181,632	$ 169,059	$ 173,045

(1) Refer to the Non-GAAP and Key Performance Measures section.

Trend analysis

Net interest income
Net interest income generally decreased throughout 2018 and in the first half of 2019, mostly as a result of the gradual decrease in loan volumes, aimed at optimizing the loan portfolio mix, and higher levels of liquid assets. As the new collective agreement was ratified at the end of March 2019, we gradually decreased the level of liquid assets, which positively contributed to net interest income in the second half of 2019. Net interest margin increased over the last two years from 1.77% during the first quarter of 2018 to 1.84% during the fourth quarter of 2019, mainly as a result of the change in mix of the loan portfolio.

Other income
Other income generally decreased throughout 2018 and 2019, mostly as a result of the more volatile market driven revenues, including trading and brokerage operations. The decrease in other income is also explained by the gradually lower level of service charges due to product simplification and reorganization initiatives, as well as to modification of clients banking behavior to favour digital offerings. Lower lending fees given the decrease in volumes of larger syndicated financing, and as we are favoring the higher margin inventory financing activities, have also hampered other income as noted above. The fourth quarter of 2019 included a $3.8 million loss resulting from a revaluation of trading securities. The second quarter of 2018 included a $5.3 million gain on the sale of a commercial loan portfolio.

Provision for credit losses
The provision for credit losses generally decreased throughout the first nine months of 2018, given the overall underlying good credit quality of the loan portfolios. Credit losses were however affected by a $10.0 million loss on a single syndicated commercial exposure in the fourth quarter of 2018, and by an additional $4.5 million provision on the same exposure recorded in the first quarter of 2019. Throughout 2019, the provision generally increased in part as a result of changes to collective allowances stemming from changes to the macro-economic environment.

Non-interest expenses
Non-interest expenses generally increased throughout 2018 and in the first half of 2019 due to higher regulatory expenses, labour related expenses and advisory service expenses to support the delivery of our strategic plan. In the second half of 2019, core expenses improved slightly as a result of lower compensation costs, partly offset by higher professional fees to support our transformation. Restructuring charges mostly for the second and fourth quarter of 2019, also impacted the level of non-interest expenses. The sequential decrease in the fourth quarter of 2018 reflected lower variable compensation and tighter cost control measures.

ANALYSIS OF FINANCIAL CONDITION

As at October 31, 2019, total assets amounted to $44.4 billion, a 3% decrease compared with $45.9 billion as at October 31, 2018.This mainly reflects a decrease in liquid assets of $1.0 billion, as the new labor relations environment allowed us to reduce liquidity as of the end of the second quarter. Commercial loans increased as a result of our efforts to optimize capital allocation and focus on higher-yielding loans. Lower personal and residential mortgage loans also contributed to the decrease, as further explained in the following sections of the MD&A.

Table 15 details Balance sheet assets from 2017 to 2019.

TABLE 15
BALANCE SHEET ASSETS
(Thousands of Canadian dollars, except percentage amounts)

	2019	2018	2017	Variance 2019/2018
Cash and deposits with banks	**$ 413,555**	$ 490,727	$ 327,362	(16)%
Securities	**6,299,936**	6,061,144	5,586,014	4
Securities purchased under reverse repurchase agreements	**2,538,285**	3,652,498	3,107,841	(31)
Loans				
Personal	**4,660,524**	5,372,468	6,038,692	(13)
Residential mortgage	**16,039,680**	16,986,338	18,486,449	(6)
Commercial	**12,646,332**	11,839,106	11,464,007	7
Customers' liabilities under acceptances	**319,992**	196,776	707,009	63
	33,666,528	34,394,688	36,696,157	(2)
Allowances for loan losses	**(100,457)**	(93,026)	(99,186)	8
	33,566,071	34,301,662	36,596,971	(2)
Other assets	**1,535,280**	1,388,652	1,064,470	11
Balance sheet assets	**$ 44,353,127**	$ 45,894,683	$ 46,682,658	(3)%
Cash, deposits with banks, securities and securities purchased under reverse repurchase as a % of balance sheet assets	**20.9%**	22.2%	19.3%	

LIQUID ASSETS

Liquid assets consist of cash, deposits with banks, securities and securities purchased under reverse repurchase agreements. As at October 31, 2019, these assets totalled $9.3 billion, a decrease of $1.0 billion compared with $10.2 billion as at October 31, 2018.

Over the past year, we continued to prudently manage the level of liquid assets as we are progressing on our various initiatives. The Bank benefits from well-diversified funding sources and the current level of cash resources is sufficient to meet obligations, under both normal and stressed conditions. Liquid assets represented 21% of total assets as at October 31, 2019 compared with 22% as at October 31, 2018.

Additional information on liquidity and funding risk management is included on page 61 of this MD&A.

LOANS

Loans and bankers' acceptances, net of allowances, stood at $33.6 billion as at October 31, 2019, down $0.7 billion or 2% from October 31, 2018. This is consistent with the continued optimization of our portfolio mix aimed at improving capital allocation and returns on risk-weighted assets. Variances are further explained by the items outlined below.

Personal loans amounted to $4.7 billion and decreased by $0.7 billion or 13% since October 31, 2018, mainly as a result of the continued reduction in the investment loan portfolio, reflecting an ongoing consumer behavior to reduce leverage.

Residential mortgage loans stood at $16.0 billion as at October 31, 2019, a decrease of $0.9 billion or 6% year-over-year. This mostly reflects a gradual decrease in origination and a focus on higher-yielding commercial loans to optimize product mix. The decrease was partly offset by the acquisition of mortgage loans originated by third-parties as part of our program to optimize the usage of National Housing Act mortgage-backed securities (NHA MBS) allocations.

Commercial loans and acceptances amounted to $13.0 billion as at October 31, 2019, up 8% since October 31, 2018. This increase is mainly due to inventory financing volumes through NCF, as well as to equipment financing and real estate financing loans. At the beginning of the year, we sold lower-yielding commercial loans amounting to $105 million, which concluded the realignment of our commercial loan portfolio. As a result, the commercial loan portfolio increased by 9% net of loan sales since October 31, 2018.

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 of this MD&A.

OTHER ASSETS

Other assets were essentially unchanged compared with October 31, 2018 and stood at $1.5 billion as at October 31, 2019. They mainly included cheques and other items in transit, software and other intangible assets, derivatives, as well as goodwill.

TABLE 16
BALANCE SHEET LIABILITIES
As at October 31 (Thousands of Canadian dollars, except percentage amounts)

	2019	2018	2017	Variance 2019/2018
Deposits				
Personal	**$ 19,747,260**	$ 20,995,453	$ 21,198,982	(6)%
Business, banks and other	**5,905,344**	7,011,119	7,731,378	(16)
	25,652,604	28,006,572	28,930,360	(8)
Other liabilities	**6,870,428**	7,255,394	6,842,540	(5)
Debt related to securitization activities	**8,913,333**	7,787,753	8,230,921	14
Subordinated debt	**349,101**	348,762	348,427	—
Balance sheet liabilities	**$ 41,785,466**	$ 43,398,481	$ 44,352,248	(4)%
Personal deposits as a % of total deposits	**77.0%**	75.0%	73.3%	
Total deposits as a % of balance sheet liabilities	**61.4%**	64.5%	65.2%	

DEPOSITS

Deposits decreased by $2.4 billion or 8% to $25.7 billion as at October 31, 2019 compared with $28.0 billion as at October 31, 2018 mainly given the reduction in liquidity following the ratification of the new collective agreement mid-year, and as we increased our funding through securitization. Personal deposits stood at $19.7 billion as at October 31, 2019, down $1.2 billion compared with October 31, 2018 driven by lower term deposits sourced through the Advisors and Brokers channel. Business and other deposits decreased by $1.1 billion to $5.9 billion over the same period, mostly in institutional funding. Personal deposits represented 77% of total deposits as at October 31, 2019, compared with 75% as at October 31, 2018, and contributed to our good liquidity position.

Additional information on deposits and other funding sources is included in the "Liquidity and Funding Risk Management" section on page 61 of this MD&A.

OTHER LIABILITIES

Other liabilities decreased to $6.9 billion as at October 31, 2019 from $7.3 billion as at October 31, 2018. The year-over-year decrease resulted mainly from lower obligations related to securities sold short associated with trading activities.

Debt related to securitization activities increased by $1.1 billion or 14% compared with October 31, 2018 and stood at $8.9 billion as at October 31, 2019. Since the beginning of the year, mortgage loan securitization through both the CMHC programs and a third-party program, as well as securitization of finance lease receivables and investment loans more than offset maturities of liabilities related to the Canada Mortgage Bond program, as well as normal repayments. For additional information on the Bank's securitization activities, please refer to Notes 8 and 15 to the Consolidated Financial Statements.

Subordinated debt was essentially unchanged and stood at $349.1 million as at October 31, 2019, compared with $348.8 million as at October 31, 2018. Refer to Note 15 to the Consolidated Financial Statements for additional information. Subordinated debt is an integral part of the Bank's regulatory capital and affords its depositors additional protection.

SHAREHOLDERS' EQUITY

Shareholders' equity stood at $2,567.7 million as at October 31, 2019, compared with $2,496.2 million as at October 31, 2018. As mentioned in the "Basis of Presentation" section of this MD&A, the adoption of IFRS 9 resulted in a net decrease of $7.7 million of shareholders' equity as at November 1, 2018. In 2019, shareholders' equity increased mainly as a result of the net income contribution, net of declared dividends, and an increase in AOCI related to cash flow hedges, as well as the issuance of common shares under the Shareholder Dividend Reinvestment and Share Purchase Plan. For additional information, please refer to the Consolidated Statement of Changes in Shareholders' Equity.

The Bank's book value per common share appreciated to $54.02 as at October 31, 2019 from $53.72 as at October 31, 2018. The table below provides the details on share capital.

The "Capital Management" section of this MD&A provides additional information on capital-related matters.

TABLE 17
SHARES ISSUED AND OUTSTANDING
As at November 29, 2019 (in number of shares/options)

Preferred shares	
Series 13	5,000,000
Series 15	5,000,000
Common shares	42,624,963
Share purchase options	124,962

OFF-BALANCE SHEET ARRANGEMENTS AND SECURITIZATION

In the normal course of its operations, the Bank uses structured entities to securitize financial assets, as detailed below. The Bank also 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 administers clients' assets that are not reported on the balance sheet. Moreover, off-balance sheet arrangements include derivatives, as well as credit commitments and guarantees, as detailed below.

OFF-BALANCE SHEET ARRANGEMENTS

Assets under administration

Assets under administration mainly include assets of clients to whom the Bank provides various administrative services. The Bank also administers retail and institutional investment portfolios. Table 18 below summarizes assets under administration. As at October 31, 2019 these items totalled $28.9 billion, down $0.3 billion or 1% compared with October 31, 2018. Fees, commissions and other income related to these assets contribute significantly to the Bank's profitability.

TABLE 18
ASSETS UNDER ADMINISTRATION
As at October 31 (Thousands of Canadian dollars)

	2019	2018	2017
Registered and non-registered investment accounts	**$ 20,381,169**	$ 21,095,703	$ 23,934,182
Clients' brokerage assets	**4,462,402**	4,028,458	3,903,944
Mutual funds	**3,299,609**	3,321,480	3,673,092
Loans under administration	**662,530**	643,675	471,443
Institutional assets	**91,906**	84,484	78,239
Other	**8,100**	7,863	9,127
Assets under administration	**$ 28,905,716**	$ 29,181,663	$ 32,070,027

Assets related to registered and non-registered investment accounts in B2B Bank Dealer Services and LBC Financial Services were down by $714.5 million year-over-year, reflecting some client attrition in the dealer services business. B2B Bank Dealer Services 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 investment representatives who support their clients with strategies to manage their portfolios, mainly through the Bank's Financial Clinics.

Clients' brokerage assets increased by $433.9 million or 11% year-over-year, as a result of good market conditions, as well as increased full-service and discount brokerage activities.

Mutual fund assets under administration in LBC Financial Services, mainly composed of the preferred series of LBC-Mackenzie mutual funds, decreased by $21.9 million or 1% year-over-year as a result of net redemptions. While market conditions at the beginning of the year were difficult, the strong performance in the reminder of the year helped to improve the value of the underlying funds.

Loans under administration, including syndication activities and loans administered for third parties, increased by $18.9 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 $20.6 billion as at October 31, 2019 with a net positive fair value of $31.1 million.

Notes 23 to 26 to the Consolidated Financial Statements provide further information on the various types of derivative products and their recognition in the Consolidated Financial Statements.

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 24 details 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 19 details significant guarantees.

Note 30 to the Consolidated Financial Statements provides additional information.

TABLE 19
CREDIT COMMITMENTS AND GUARANTEES
As at October 31 (Thousands of Canadian dollars)

	2019	2018
Undrawn amounts under approved credit facilities[1]	**$ 5,268,028**	$ 4,305,531
Standby letters of credit and performance guarantees	**$ 161,182**	$ 161,906
Documentary letters of credit	**$ 7,015**	$ 8,464

(1) Excluding credit facilities revocable at the Bank's option totalling $4.0 billion as at October 31, 2019 ($4.1 billion as at October 31, 2018).

SECURITIZATION ACTIVITIES

The Bank uses structured entities to securitize residential mortgage loans, finance lease receivables and personal investment loans in order to optimize and diversify sources of funding and to enhance its liquidity position. The Bank consolidates certain of the intermediary structured entities when it has control over the entities and underlying assets, whereas certain structured entities are not consolidated when the Bank does not have control. Notes 8 and 15 to the Consolidated Financial Statements provide additional information on these transactions.

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.

CAPITAL MANAGEMENT

GOVERNANCE

Management seeks 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 risk appetite, 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 these objectives, the Bank leverages its capital management framework. This framework is underpinned by the Bank's Capital Management and Adequacy Policy which outlines the mechanisms for capital planning, management and adequacy assessment. A key component of the capital management framework, the Internal Capital Adequacy Assessment Process (ICAAP) evaluates capital adequacy relative to the Bank's risk profile and establishes the appropriate capital level for the year ahead. In setting its capital targets, management considers the ICAAP which takes into account results from the integrated stress tests using severe scenarios as well as its assessment of the Bank's risk exposures in a non-stress environment. Both approaches rely on the Bank's risk registry to ensure all material risks are considered.

The capital targets established through the ICAAP set the minimum requirements incorporated in the Bank's Capital Plan.

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 Multi-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 ***Corporate Risk Committee***, mandated by the Executive Committee, reviews the Bank's capital adequacy under internal and external measures and approves risk management processes and approaches supporting this objective.
- The ***Asset-Liability Management Committee,*** mandated by the Corporate Risk Committee, monitors regulatory capital ratios on a monthly basis.
- ***Corporate Risk Management*** provides oversight of the Bank's capital management framework. This 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 exercise.
- ***Corporate Finance*** develops the Business Plan which includes a Multi-Year Financial Plan and the Capital Plan annually. It is also responsible for managing capital and updating the Capital Plan on an ongoing basis, as well as measuring regulatory capital ratios. Corporate Finance also has responsibility for maintaining compliance with regulatory capital adequacy requirements for each of the subsidiaries, which may include restrictions on the transfer of assets in the form of cash, dividends, loans or advances.

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, consists of two components: Common Equity Tier 1 capital and Additional Tier 1 capital. Tier 1 capital must be more predominantly composed of common equity 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 are set at 7.0%, 8.5% and 10.5% respectively including the 2.5% capital conservation buffer.

Certain banks in Canada have been designated by OSFI as Domestic Systemically Important Banks (D-SIBs). Under this designation, these banks must hold a further 1 % of Common Equity Tier 1 capital. OSFI also required D-SIBS to hold a domestic stability buffer to protect against risks associated with systemic vulnerabilities. The buffer level, to vary between 0% and 2.5% of risk-weighted assets, is identical for all D-SIBs and has been set at 2.0% as of October 31, 2019. As the Bank has not been designated as a D-SIB, these measures do not apply to the Bank.

The Basel Accord proposes a range of approaches of varying complexity, the choice of which determines the sensitivity of capital to risks. We are using the less complex Standardized Approach, which uses regulatory weightings. As noted above, as part of our plan to improve the Bank's foundation, we are pursuing our initiative to adopt the AIRB approach to credit risk in 2022, which will use the Bank's internal estimates of risk components to establish risk-weighted assets and calculate regulatory capital. The AIRB approach will optimize regulatory capital allocation and provide a level playing field for credit underwriting activities.

Effective January 1, 2014, the Bank accounts 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 had, nor is it expected to have, a significant impact on its regulatory capital ratios.

Capital adequacy requirements are applied on a consolidated basis, as further discussed in Note 2 of the Consolidated Financial Statements, except for the Bank's participation in a reinsurance company (Venture Reinsurance Ltd.), which is excluded from the regulatory scope of consolidation.

Regulatory capital developments

Revisions to the Standardised approach for credit risk
We use the Standardized approach to determine credit risk capital and to account for operational risk. Currently, our capital requirements for credit risk under the Standardized approach are not calculated on the same basis as larger Canadian financial institutions which predominantly use the more favourable AIRB approach.

On December 7, 2017, the BCBS issued a document titled *Basel III: Finalising post-crisis reforms*. This document sets out the BCBS's finalization of the Basel III framework and follows the BCBS consultative documents issued in 2014 and 2015. It complements the initial phase of Basel III reforms previously finalized by the Committee. A key objective of the revisions incorporated into the framework is to reduce excessive variability of risk-weighted assets and improve the comparability of banks' capital ratios. The new framework revises the Standardized approach by improving its granularity and risk sensitivity by modifying the risk weight associated to various categories of assets. The changes also include modifications to the AIRB approach, such as placing limits on certain inputs used to calculate capital requirements and introducing a new more robust risk-sensitive floor based on Committee's revised Basel III standardized approaches, as well as to the methods used to measure regulatory capital for operational risk. The BCBS established an implementation date of January 2022 for the reform. Management is currently assessing the potential impact of the adoption of this new framework, which remains subject to OSFI's issuing its related guidelines.

Revisions to the capital and liquidity requirements for small and medium-sized deposit-taking institutions
On July 11, 2019, OSFI released a discussion paper titled *Advancing Proportionality: Tailoring Capital and Liquidity Requirements for Small and Medium-Sized Deposit-Taking Institutions*. The discussion paper explores potential adjustments to adapt OSFI's regulatory and supervisory approaches to small and medium-sized deposit-taking institutions, including by developing a more tailored set of capital and liquidity requirements.

Revisions to the Pillar 3 disclosure
The Pillar 3 disclosure framework seeks to promote market discipline through regulatory disclosure requirements. In January 2015, March 2017 and December 2018, the BCBS issued a series of updates to the Pillar 3 disclosure requirements framework. We are currently reviewing the proposed changes and awaiting OSFI's related guidance for non D-SIBs.

Canadian Bank Recapitalization (Bail-in) Regime
Canada has implemented a bail-in regime for D-SIBs in an effort to limit taxpayer exposure to losses of a failing institution and ensure the institution's shareholders and creditors remain responsible for bearing such losses. Under regulations made effective on September 23, 2018, in certain circumstances when OSFI has determined that a bank may no longer be viable, CDIC may be instructed to convert all or a portion of certain shares and liabilities of that bank into common shares. As the Bank has not been designated as a D-SIB, these changes do not apply and are not expected to have any effect on the Bank.

Total Loss Absorbing Capacity (TLAC)
On April 18, 2018, OSFI released its final guideline on TLAC, which applies to Canadian D-SIBs as part of the Federal Government's bail-in regime. The guideline is consistent with the TLAC standard released on November 9, 2015 by the Financial Stability Board for institutions designated as global systemically important banks (G-SIBs) but tailored to the Canadian context. The standards are intended to address the sufficiency of a systemically important bank's loss absorbing capacity in supporting its recapitalization in the event of its failure. TLAC is defined as the aggregate of Tier 1 capital, Tier 2 capital, and other TLAC instruments (such as unsecured notes), which allow conversion in whole or in part into common shares under the CDIC Act and meet all of the eligibility criteria under the guideline. D-SIBs are expected to comply with the disclosure requirements beginning the first quarter of 2019 and the remaining TLAC standard requirements by November 1, 2021. As the Bank has not been designated as a D-SIB, the TLAC requirements do not apply and are not expected to have any effect on the capital instrument issued by the Bank.

Tables 20 and 21 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 20
REGULATORY CAPITAL
As at October 31 (Thousands of Canadian dollars, except percentage amounts)

	2019	2018
Regulatory capital		
Common Equity Tier 1 capital	**$ 1,841,382**	$ 1,812,007
Tier 1 capital	**$ 2,085,420**	$ 2,056,045
Total capital	**$ 2,497,108**	$ 2,472,788
Total risk-weighted assets[1]	**$ 20,406,556**	$ 20,238,803
Regulatory capital ratios		
Common Equity Tier 1 capital ratio	**9.0%**	9.0%
Tier 1 capital ratio	**10.2%**	10.2%
Total capital ratio	**12.2%**	12.2%

(1) Using the Standardized approach in determining credit risk and operational risk.

As shown in the graph below, the Common Equity Tier 1 capital ratio stood at 9.0% October 31, 2019, unchanged compare to the previous year. This level of capital provides the Bank's with the flexibility to pursue organic growth, as well as to continue to invest in the implementation of our core banking system, the development of our digital solutions and the project to adopt the AIRB approach to credit risk. During the year, we continued to manage capital, as well as to optimize the product mix with a view to improving profitability as we redeploy capital.

CHANGE IN COMMON EQUITY TIER 1 CAPITAL RATIO
(In percentage)

(1) Including IFRS9 adoption.

TABLE 21
RISK-WEIGHTED ASSETS
As at October 31 (Thousands of Canadian dollars)

			2019			2018
	TOTAL EXPOSURE	**RISK-WEIGHTED ASSETS[1]**	**CAPITAL REQUIRE-MENTS**	TOTAL EXPOSURE	RISK-WEIGHTED ASSETS[1]	CAPITAL REQUIRE-MENTS
Exposure Class (after risk mitigation)						
Corporate	**$ 10,092,564**	**$ 10,042,695**	**$ 702,989**	$ 9,516,064	$ 9,495,820	$ 664,707
Sovereign	**6,391,251**	**50,006**	**3,500**	7,828,063	59,224	4,146
Bank	**463,256**	**102,765**	**7,194**	546,723	113,422	7,940
Retail residential mortgage loans	**18,197,377**	**3,276,607**	**229,362**	19,065,558	3,693,064	258,514
Other retail	**2,028,742**	**1,233,815**	**86,367**	2,377,181	1,465,382	102,577
Small business entities treated as other retail	**2,031,275**	**1,518,425**	**106,290**	2,021,634	1,512,162	105,851
Equity	**393,011**	**393,011**	**27,511**	364,584	364,584	25,521
Securitization	**9,985**	**6,405**	**448**	9,255	9,054	634
Other assets	**1,493,918**	**649,619**	**45,473**	1,451,342	690,476	48,333
	41,101,379	**17,273,348**	**1,209,134**	43,180,404	17,403,188	1,218,223
Derivatives	**269,732**	**136,806**	**9,576**	139,783	76,529	5,357
Credit commitments	**1,351,657**	**1,313,177**	**91,922**	1,130,227	1,075,661	75,296
Operational risk		**1,683,225**	**117,826**		1,683,425	117,840
	$ 42,722,768	**$ 20,406,556**	**$ 1,428,459**	$ 44,450,414	$ 20,238,803	$ 1,416,716
Balance sheet items						
Cash, deposits with banks, securities and securities financing transactions		**$ 772,798**			$ 761,829	
Personal loans		**1,513,148**			1,799,266	
Residential mortgage loans		**3,541,953**			4,003,333	
Commercial loans and acceptances		**10,972,139**			10,356,401	
Other assets		**473,310**			482,359	
		$ 17,273,348			$ 17,403,188	

(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.

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 4.6% as at October 31, 2019 and exceeded current requirements.

TABLE 22
BASEL III LEVERAGE RATIO
As at October 31 (Thousands of Canadian dollars, except percentage amounts)

	2019	2018
Tier 1 capital	**$ 2,085,420**	$ 2,056,045
Total exposures	**$ 45,475,982**	$ 46,042,387
Basel III leverage ratio	**4.6%**	4.5%

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 17 to the 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.

On December 3, 2019, the Board of Directors declared a quarterly dividend of $0.67 per common share, payable on February 1, 2020 to shareholders of record on January 2, 2020. This quarterly dividend is up 5% compared with the dividend declared one year ago. The Board of Directors also determined that shares attributed under the Bank's Shareholder Dividend Reinvestment and Share Purchase Plan will be made in common shares issued from treasury at a 2% discount.

TABLE 23
SHARE DIVIDENDS AND PAYOUT RATIO
(Thousands of Canadian dollars, except per share and percentage amounts)

	2019	2018	2017
Dividends declared on preferred shares	**$ 12,632**	$ 13,688	$ 16,688
Dividends declared per common share	**$ 2.62**	$ 2.54	$ 2.46
Dividends declared on common shares	**$ 110,737**	$ 104,493	$ 86,560
Dividend payout ratio	**69.3%**	49.6%	45.7%
Adjusted dividend payout ratio[1]	**61.4%**	45.9%	40.5%

(1) Refer to the Non-GAAP and Key Performance Measures section.

RISK APPETITE AND RISK MANAGEMENT FRAMEWORK

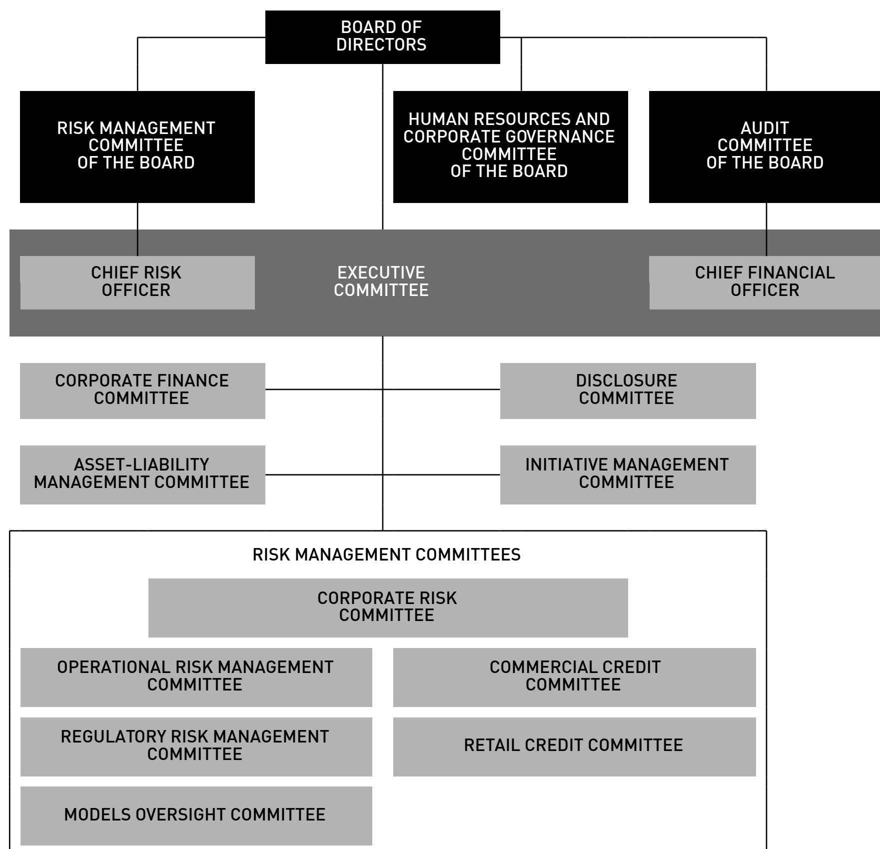
The shaded areas in the following sections of this MD&A represent a discussion on risk management policies and procedures relating to credit, market, and liquidity and funding risks as required under IFRS 7, *Financial Instruments - Disclosures*, which permits these specific disclosures to be included in the MD&A. Therefore, these shaded areas form an integral part of the Consolidated Financial Statements for the years ended October 31, 2019 and 2018.

RISK CULTURE

At Laurentian Bank Financial Group, we are dedicated to promoting a risk management culture throughout the institution. This is achieved by setting a "tone-from-the top" that focuses on the importance of risk culture and delivering this message through a comprehensive risk governance structure and risk appetite framework. Together, these instil a sense of responsibility for risk management throughout the Bank.

RISK 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 Corporate Risk Management, 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 *Human Resources and Corporate Governance Committee of the Board* is constituted by the Board of Directors to support it in exercising its human resources and corporate governance functions.

The *Audit Committee of the Board* is responsible for supporting 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.

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 ultimate risk management committee. It ensures that the Risk Management 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 the management of all material risks.

The *Corporate Finance Committee*, chaired by the Chief Financial Officer, is responsible for monitoring the Bank's financial performance as well as products/fee structures and risks that may impact the Bank's results in the short or long term.

The *Disclosure Committee*, chaired by the Chief Financial Officer, is responsible for reviewing and approving the Bank's financial information subject to public or regulatory disclosure.

The *Asset-Liability Management Committee*, chaired by the Chief Financial Officer, is responsible for evaluating the structural risks associated with the Bank's assets and liabilities. The committee manages interest rate risk while ensuring adequate returns and liquidity. The committee is also responsible for capital funding.

The *Corporate Risk Committee*, chaired by the Chief Risk Officer, is mandated to monitor and oversee the management of all material risks of the Bank. The objective of the committee is to assist the Executive Committee in its ultimate responsibility for risk management. The Corporate Risk Committee ensures that the Bank maintains and adheres to a robust and current suit of risk policies, including a risk appetite framework, and recommends such policies for approval by the Executive Committee.

The *Operational Risk Management Committee*, chaired by the Vice President, Operational Risk, 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. The Operational Risk Management Committee is responsible for monitoring business continuity plans and fraud prevention. The Operational Risk Management Committee reports into the Corporate Risk Committee.

The *Regulatory Risk Committee*, chaired by the Chief Compliance Officer, is mandated to monitor and review all activities related to the regulatory risks to which the Bank may be exposed.

The *Retail and Commercial Credit Committees*, chaired by the Senior Vice President, Credit, are responsible for approving loans within set limits. They also review delinquency on all types of loans, supervise the impaired loan resolution process and ensure the adequacy of the provisions for credit losses. The Credit Committees report into the Corporate Risk Committee.

The *Models Oversight Committee*, chaired by the Chief Risk Officer, is responsible for the Bank's model risk management, overseeing all the stages of the model management life cycle.

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. The main objective of the Bank's Risk Management Framework (the "Framework") is to promote and maintain a strong risk management culture enterprise-wide, enabling senior management to ensure the existence of sound practices necessary for the efficient and prudent management of the Bank's operations and major risks.

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. The Framework is updated regularly to reflect the Bank's changing business environment.

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

- Communicate key principles which support the Bank's approach to managing risk across the organization and establish the appropriate tone for desired behaviors;
- Adopt sound and prudent risk management policies;
- Define the committees' roles and responsibilities regarding risk management;
- Ensure risk management processes align with strategic, financial and capital plans;
- Establish processes to continuously identify, understand and assess material risks as well as internal control mechanisms.

The Framework outlines the Bank's process for identification of material risks. This process is achieved using a central risk registry that is applicable to the entire enterprise. By using a common taxonomy, the risk registry facilitates risk-related discussions throughout the Bank. Tolerances are established within the Framework for each identified material risk.

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 Risk Appetite Framework Policy, and continuously attempts to maintain a balance between its risk appetite and risk capacity. Risk Appetite is dynamic and may be influenced by changes in the regulatory and macroeconomic environments. 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 prepared to accept to achieve its financial and strategic objectives. It is defined by business niche, type and level of risk, performance objectives, capital, liquidity, and external ratings. It is achieved through the imposition of limits on various key risk indicators and thresholds to ensure that the Bank's risk profile remains in line with its risk appetite.

Main objectives of the Risk Appetite Framework include:

- Communicate the Bank's expectations with regard to acceptable risk levels in the pursuit of its strategic and business objectives;
- Align with the Bank's strategic, financial and capital plans to ensure coherence between the processes.

INTEGRATED STRESS TESTING PROGRAM

Stress testing is a risk management technique that helps the Bank understand and assess its vulnerability and resilience to exceptional but plausible events. As a forward-looking tool, stress testing complements other quantitative risk management techniques and is used by senior management for strategic decision making. Stress testing is a fundamental part of the Bank's risk management and risk appetite framework and is incorporated in the Bank's ICAAP. As such, it helps in setting and achieving internal capital targets that are consistent with the Bank's strategic plan, risk profile and operating environment.

In developing scenarios, the Bank's enterprise-wide stress testing program brings together the views of experts from various departments, including Economic Research, Corporate Finance, Corporate Treasury and Corporate Risk Management. These experts evaluate scenarios that display a range of severities, including scenarios that challenge the viability of the Bank (reverse stress testing).

The Corporate Risk Committee oversees the execution of the stress testing program, including the design of scenarios and contingency planning. The results are reviewed by Corporate Risk Committee and presented to the Board, which is responsible for the overall stress testing program.

CRISIS RECOVERY PLAN

The Bank maintains a Crisis Recovery Plan that describes a range of actions to be taken in the event of a financial stress: capital or liquidity situations. The primary goal of such a Plan is to develop a list of possible actions that would enable the Bank to respond promptly to a wide range of internal and external stresses, to return to normal operating conditions as fast as possible and maintain the confidence of its stakeholders. This Plan is reviewed and approved annually by the Board of Directors.

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. Business unit managers 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. Together these groups provide independent oversight, effective challenge, and independent assessment of risk management practices. The risk management, regulatory risk management, and select corporate functions 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 frameworks - Determining risk management thresholds - Development of risk measurement and self-assessment tools - Risk reporting and disclosure - Assessment of business continuity plans - Independent review of risk management practices.	- 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 processes are closely tied to the strategic planning process from which the Bank's strategic and business plans are derived. These processes converge during the development of the Bank's integrated financial plan. Policies approved by the Board are implemented by the business units and their application is monitored by the appropriate risk management committees.

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

CREDIT RISK MANAGEMENT

Credit risk

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

Credit risk management is independent of operations, thus protecting the independence and integrity of risk assessment.

The Credit Committees and the Corporate Risk Committee are responsible for operational oversight of overall credit risk management. The Chief Risk Officer 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.

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. Regarding commercial loans, applications are also analyzed on a case-by-case basis by specialized teams.

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 under credit watch and are managed per specific procedures. Regarding portfolio quality, 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.

Each month, the Bank's Commercial Credit Committee reviews is material impaired loans as well as analyses on other impaired loans where payment is past due by 90 days or more. Collection processes are centralized and are based on specialized expertise.

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.

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 collective allowances, the Bank uses credit risks models based on the internal risk rating of credit facilities. The key parameters driving these models are:

- Probability of default (PD): An estimated percentage that represents the likelihood of default within a given time period of an obligor for a specific rating grade or for a particular pool of exposure.
- Exposure at default (EAD): An amount expected to be owed by an obligor at the time of default.
- Loss given default (LGD): An estimated percentage of EAD that is not expected to be recovered during the collections and recovery process.

Forward-looking macroeconomic factors such as interest rates, unemployment rates, gross domestic product (GDP) forecasts and housing price indices are also taken into account for these risk parameters.

Each credit facility is assigned an LGD rate that is largely driven by factors that impact the extent of losses anticipated in the event the obligor defaults. These factors mainly include seniority of debt, collateral security, and the industry sector in which the obligor operates. Estimated LGD rates draw primarily on internal loss experience, supplemented by external data. EAD is estimated based on the current exposure to the obligor and the possible future changes in that exposure driven by factors such as the nature of the credit commitment. Estimates of PD, LGD and EAD are validated by an independent validation team within the Bank, on a regular basis.

Additional information on impaired loans and allowances is provided in Note 7 to the Consolidated Financial Statements and in Tables 25, 26 and 27.

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 outside the Bank's risk appetite. Concentration of credit risk may also exist where several counterparties engaged in similar activities are 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.

Derivative-related credit risk

Most 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, collateralize or guarantee the current market value of its positions when the value exceeds a given threshold. For all significant financial counterparties, the Bank actively manages these rights and requires collateral to be posted daily.

Wrong-way risk

Wrong-way risk is the risk that exposure to a counterparty or obligor is adversely correlated with the credit quality of that counterparty. There are two types of wrong-way risk:

- Specific wrong-way risk, which exists when our exposure to a particular counterparty is positively and highly correlated with the probability of default of the counterparty due to the nature of our transactions with them (e.g., loan collateralized by shares or debt issued by the counterparty or a related party); and
- General wrong-way risk, which exists when there is a positive correlation between the probability of default of counterparties and general macroeconomic or market factors. This typically occurs with derivatives (e.g., the size of the exposure increases) or with collateralized transactions (e.g., the value of the collateral declines).

Exposure to credit risk

The amount that best represents the Bank's exposure to credit risk as at October 31, 2019 and 2018 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 24
EXPOSURE TO CREDIT RISK
As at October 31 (Millions of Canadian dollars)

	2019	2018
Financial assets, as stated in the consolidated balance sheet[1]	$ 43,318	$ 44,913
Credit commitments[2]	5,275	4,314
	$ 48,593	$ 49,227

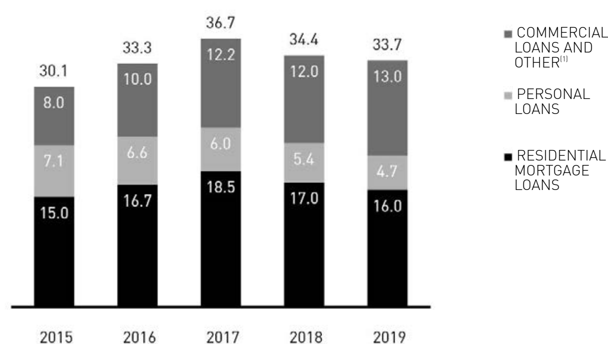
(1) Excluding equity securities.
(2) Excluding credit facilities revocable at the Bank's option totalling $4.0 billion as at October 31, 2019 ($4.1 billion as at October 31, 2018).

Loan portfolio mix

The Bank's loan portfolio consists of personal loans, residential mortgage loans and commercial loans, including customers' liabilities under acceptances. Overall, the proportion of commercial loans increased year-over-year, in line with one of the Bank's key objectives.

Reflecting the Bank's strong presence with personal clients through its Financial Clinics and through the Advisors and Brokers channel, exposures related to personal loans and residential mortgage loans represented 61% of the Bank's total loan portfolio as at October 31, 2019, compared with 65% a year ago. Commercial loans, including customers' liabilities under acceptances accounted for 39% of total loans as at October 31, 2019, compared with 35% a year ago.

LOAN PORTFOLIO MIX
As at October 31 (in billions of Canadian dollars)



(1) Including customers' liabilities under acceptances.

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, 2019, this portfolio totaled $4.7 billion, a decrease of $0.7 billion compared with October 31, 2018, mainly as a result of the continued reduction in the investment loan portfolio, reflecting an ongoing consumer behavior to reduce leverage.

Residential mortgage loans
The residential mortgage loan portfolio includes retail mortgage loans secured by one- to four-unit dwellings. As at October 31, 2019, this portfolio amounted to $16.0 billion and decreased by $0.9 billion or 6% during fiscal 2019. This mostly reflects a gradual decrease in origination as we focus on higher yielding commercial loans in order to optimize the product mix. Our decision as of November 2017 to solely originate residential mortgages through the Financial Clinics and no longer through the mortgage broker channel in Quebec also contributed to the decrease in volumes over the last two years. The decrease was partly offset in 2019 by an increase of $1.3 billion of mortgage loans acquired from third parties as part of a strategy to optimize the usage of National Housing Act mortgage-backed securities (NHA MBS) allocations.

The residential mortgage loan portfolio contributes to improved geographic diversification across Canada and therefore enhances the overall profile of the Bank.

Table 26 presents the geographic distribution of residential mortgage loans.

Commercial loans
The commercial loan portfolio, including customers' liabilities under acceptances, comprises commercial loans in specific markets where the Bank can efficiently compete across Canada, as well as in the U.S. As at October 31, 2019, the commercial loan portfolio amounted to $13.0 billion, up $1 billion or 8% from $12.0 billion as at October 31, 2018. In 2019, good organic growth, mainly in inventory financing and in real estate financing, was partly offset by the decrease in lower yielding segments as a result of measures aimed at optimizing the Bank's portfolio mix, including the cumulative sale of $813 million of lower-yielding commercial loans in 2018 and in the first quarter of 2019. LBC Capital Inc.'s equipment financing activities also contributed to the Bank's commercial activities, strengthening its presence in this market since 2016.

The commercial loan portfolio covers a wide range of industries, with no specific industry accounting for more than 12% (10% in 2018) of total loans and acceptances, demonstrating good diversification and risk management.

See Table 25 for additional information.

TABLE 25

DISTRIBUTION OF LOANS BY CREDIT PORTFOLIO AND INDUSTRY

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

2019 (IFRS 9)

	GROSS AMOUNT OF LOANS	GROSS AMOUNT OF IMPAIRED LOANS[1]	ALLOWANCES AGAINST IMPAIRED LOANS (STAGE 3)	NET IMPAIRED LOANS[2]	PROVISION FOR CREDIT LOSSES ON IMPAIRED LOANS (STAGE 3)[3]
Personal	$ 4,660,524	$ 17,642	$ 4,732	$ 12,910	$ 17,780
Residential mortgage	16,039,680	59,236	1,050	58,186	3,284
Commercial and other[4]					
Real estate, renting and lease	4,152,704	6,516	1,300	5,216	(555)
Construction[5]	3,016,990	7,932	4,629	3,303	4,097
Wholesale and retail	2,567,938	50,609	21,067	29,542	16,019
Transportation and communication	1,065,610	5,002	2,831	2,171	2,683
Other services and government	664,377	18,228	3,841	14,387	478
Financial services	496,549	131	126	5	700
Manufacturing	304,668	984	815	169	136
Public utilities	287,152	8,005	301	7,704	341
Transformation and natural resources	138,367	90	25	65	(334)
Agriculture	88,619	508	62	446	332
Other	183,350	278	163	115	(561)
	12,966,324	98,283	35,160	63,123	23,336
Total	$ 33,666,528	$ 175,161	$ 40,942	$ 134,219	$ 44,400

2018 (IAS 39)

	GROSS AMOUNT OF LOANS	GROSS AMOUNT OF IMPAIRED LOANS	INDIVIDUAL ALLOW-ANCES	COLLECTIVE ALLOWANCES AGAINST IMPAIRED LOANS	NET IMPAIRED LOANS[6]	COLLECTIVE ALLOWANCES AGAINST OTHER LOANS	PROVISION FOR CREDIT LOSSES[2]
Personal	$ 5,372,468	$ 19,805	$ —	$ 4,844	$ 14,961	$ 18,665	$ 21,157
Residential mortgage	16,986,338	37,134	—	2,104	35,030	7,816	3,363
Commercial and other[4]							
Construction[5]	3,371,271	11,351	3,952	109	7,290	10,752	2,125
Real estate, renting and lease	2,928,416	5,654	274	580	4,800	7,880	674
Wholesale and retail	2,260,516	40,025	15,041	32	24,952	3,416	14,343
Other services and government	668,603	22,323	3,153	1,405	17,765	2,861	1,048
Public utilities	494,445	—	—	—	—	861	17
Financial services	447,660		—	16	(16)	453	5
Manufacturing	350,923	12,345	1,553	26	10,766	805	599
Transportation and communication	254,335	875	—	205	670	207	39
Transportation and natural resources	173,958	3	—	—	3	364	3
Agriculture	65,436	—	—	—	—	15	47
Other	1,020,319	31,755	4,469	415	26,871	753	580
	12,035,882	124,331	28,442	2,788	93,101	28,367	19,480
Total	$ 34,394,688	$ 181,270	$ 28,442	$ 9,736	$ 143,092	$ 54,848	$ 44,000

(1) As of the adoption of IFRS 9, all loans classified in Stage 3 of the ECL model are impaired loans

(2) Net impaired loans under IFRS 9 are calculated as gross impaired loans less allowances for credit losses against impaired loans.

(3) Recorded in the consolidated statement of income.

(4) Including customers' liabilities under acceptances.

(5) Including loans to developers of revenue-generating properties.

(6) Net impaired loans under IAS 39 are calculated as gross impaired loans less individual allowances and collective allowances against impaired loans.

Impaired loans

The Bank's definition of impairment follows its definition of debtor default. Debtor default occurs in the context of one or both of the following events:

- The Bank considers the obligor unlikely to pay their credit obligations to the banking group in full, without recourse to actions such as realizing a security (if held);
- The obligor is more than 90 days past due on any credit obligation to the banking group. Overdrafts are considered past due once the client has breached the authorized limit, or been advised of a limit lower than current outstandings.

Gross impaired loans amounted to $175.2 million as at October 31, 2019, down $6.1 million or 3% compared with October 31, 2018 mostly due to the adoption of the new IFRS 9 guideline on November 1, 2018. Under IFRS 9, all loans classified in Stage 3 of the ECL model are impaired loans, including $27.1 million of insured residential mortgage loans and $3.3 million of insured personal loans as at October 31, 2019 that were not considered impaired under the previous IAS 39 guideline. Excluding the impact of the accounting standard, impaired loans decreased over the last twelve months, mostly in the commercial loan book as economic conditions in Canada remain good.

In 2019, allowances against impaired loans (Stage 3) increased by $2.8 million to $40.9 million, essentially in commercial loans, mainly as a result of an additional $4.5 million allowance on a single syndicated commercial exposure. Allowances on performing loans (Stages 1 and 2) amounted to $59.5 million as at October 31, 2019, up $4.7 million compared with October 31, 2018, essentially in personal loans as a result of the adoption of IFRS 9 at the beginning of the year. The Bank remains comfortably provisioned as overall credit conditions continue to provide strong support to lending activities. In addition, the Bank's loan portfolio is generally well collateralized, which reduces potential exposures. See Note 7 to the Consolidated Financial Statements for additional information.

Geographic distribution of loans

The Bank operates across Canada and in the U.S. As at October 31, 2019, the geographic distribution of total loans was as follows: 7% in British Columbia and Territories, 7% in Alberta and the Prairies, 32% in Ontario, 45% in Quebec, 2% in the Atlantic provinces and 7% in the United States.

Tables 26 and 27 below present the geographic distribution of gross loans and impaired loans. The evolution of the geographic distribution in 2019 compared with 2018 is consistent with our strategy to diversify our operations.

TABLE 26
GEOGRAPHIC DISTRIBUTION OF LOANS BY CREDIT PORTFOLIO
As at October 31 (Thousands of Canadian dollars, except percentage amounts)

					2019
	PERSONAL LOANS	**RESIDENTIAL MORTGAGE LOANS**	**COMMERCIAL LOANS AND OTHER[1]**	**GROSS AMOUNT OF LOANS**	**GROSS AMOUNT OF LOANS (IN %)**
British Columbia and Territories	**$ 578,300**	**$ 1,173,832**	**$ 589,083**	**$ 2,341,215**	**7.0%**
Alberta and Prairies	**415,865**	**1,519,949**	**534,677**	**2,470,491**	**7.3%**
Ontario	**1,647,255**	**5,709,963**	**3,463,479**	**10,820,697**	**32.1%**
Quebec	**1,852,770**	**7,287,233**	**6,111,064**	**15,251,067**	**45.3%**
Atlantic provinces	**166,334**	**348,703**	**52,490**	**567,527**	**1.7%**
United States	**—**	**—**	**2,215,531**	**2,215,531**	**6.6%**
	$ 4,660,524	**$ 16,039,680**	**$ 12,966,324**	**$ 33,666,528**	**100.0%**

					2018
	PERSONAL LOANS	RESIDENTIAL MORTGAGE LOANS	COMMERCIAL LOANS AND OTHER[1]	GROSS AMOUNT OF LOANS	GROSS AMOUNT OF LOANS (IN %)
British Columbia and Territories	$ 582,317	$ 1,150,924	$ 649,416	$ 2,382,657	6.9%
Alberta and Prairies	510,523	1,296,228	765,096	2,571,847	7.5%
Ontario	1,814,129	6,136,528	3,401,575	11,352,232	33.0%
Quebec	2,292,607	8,099,016	5,385,502	15,777,125	45.9%
Atlantic provinces	171,293	303,642	181,898	656,833	1.9%
United States	1,599	—	1,652,395	1,653,994	4.8%
	$ 5,372,468	$ 16,986,338	$ 12,035,882	$ 34,394,688	100.0%

(1) Including customers' liabilities under acceptances.

TABLE 27
GEOGRAPHIC DISTRIBUTION OF IMPAIRED LOANS BY CREDIT PORTFOLIO
As at October 31 (Thousands of Canadian dollars, except percentage amounts)

									2019
		PERSONAL LOANS		**RESIDENTIAL MORTGAGE LOANS**		**COMMERCIAL LOANS AND OTHER[1]**		**GROSS AMOUNT OF IMPAIRED LOANS**	**GROSS AMOUNT OF IMPAIRED LOANS (IN %)**
British Columbia and Territories	$	**498**	$	**2,366**	$	**8**	$	**2,872**	**1.7%**
Alberta and Prairies		**703**		**9,130**		**10**		**9,843**	**5.6%**
Ontario		**4,454**		**13,892**		**12,852**		**31,198**	**17.8%**
Quebec		**11,406**		**31,255**		**69,244**		**111,905**	**63.9%**
Atlantic provinces		**581**		**2,593**		**—**		**3,174**	**1.8%**
United States		**—**		**—**		**16,169**		**16,169**	**9.2%**
	$	**17,642**	$	**59,236**	$	**98,283**	$	**175,161**	**100.0%**

									2018
		PERSONAL LOANS		RESIDENTIAL MORTGAGE LOANS		COMMERCIAL LOANS AND OTHER[1]		GROSS AMOUNT OF IMPAIRED LOANS	GROSS AMOUNT OF IMPAIRED LOANS (IN %)
British Columbia and Territories	$	34	$	3,204	$	10	$	3,248	1.8%
Alberta and Prairies		105		4,602		—		4,707	2.6%
Ontario		16,958		6,593		32,588		56,139	31.0%
Quebec		2,696		21,414		83,989		108,099	59.6%
Atlantic provinces		12		1,321		—		1,333	0.7%
United States		—		—		7,744		7,744	4.3%
	$	19,805	$	37,134	$	124,331	$	181,270	100.0%

(1) Including customers' liabilities under acceptances.

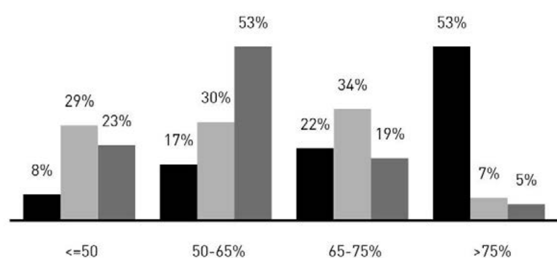
Insurance and guarantees held in respect of loan portfolios

A significant proportion of the Bank's residential mortgage loan portfolio is insured by CMHC, or by Genworth Canada and Canada Guaranty Mortgage Insurance Company (the Mortgage Insurers). In addition, the Bank's loan portfolios are to a large extent, secured by assets pledged as collateral by borrowers or, for finance lease receivables, directly owned by the Bank.

Mortgage Insurers offer mortgage loan insurance programs which reduce the overall credit risk associated with 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 2019, 50% of residential mortgage loans secured by one- to four-unit dwellings were insured, compared with 45% as at October 31, 2018. 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 amortized. 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.

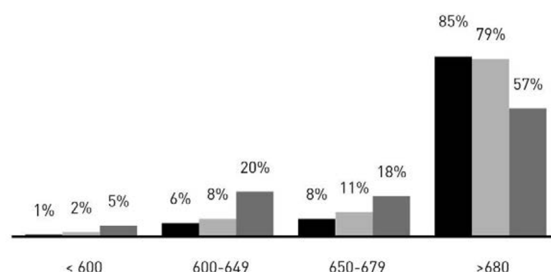
The following graphs provide further information on the quality of the Bank's residential mortgage loan portfolio.

LOAN-TO-VALUE DISTRIBUTION
As at October 31, 2019



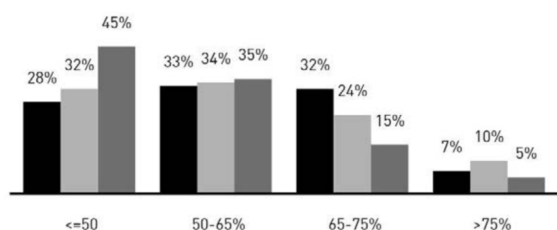
■ INSURED ■ CONVENTIONAL ■ ALT-A

BEACON DISTRIBUTION
As at October 31, 2019



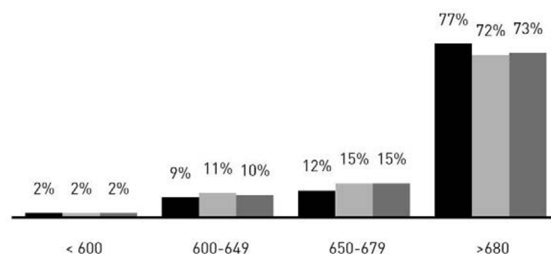
■ INSURED ■ CONVENTIONAL ■ ALT-A

GEOGRAPHIC LOAN-TO-VALUE DISTRIBUTION (UNINSURED)[1]
As at October 31, 2019



■ CANADA ■ GREATER TORONTO AREA ■ GREATER VANCOUVER AREA
(1) Uninsured includes conventional and Alt-A

GEOGRAPHIC BEACON DISTRIBUTION (UNINSURED)[1]
As at October 31, 2019



■ CANADA ■ GREATER TORONTO AREA ■ GREATER VANCOUVER AREA
(1) Uninsured includes conventional and Alt-A

As at October 31, 2019, the estimated average loan-to-value ratio was 66% for insured residential mortgage loans and 53% 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 loans are generally secured by a wide range of assets such as real estate, equipment, receivables and inventories, as well as, in certain cases, additional liens on real estate and other fixed assets. Real estate financing loans are secured by specific assets, such as five and more unit dwellings, smaller retail multi-unit dwellings, commercial properties, office buildings, shopping centers and other properties. 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.

The Bank's personal loan portfolio consists mainly of investment loans. Loan underwriting for those loans 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, 8% of the Bank's personal loan portfolio as at October 31, 2019 consisted 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 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 a 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, 2019, the approximate market value of collateral pledged to the Bank related to assets purchased under reverse repurchase agreements was $6.1 billion ($5.3 billion as at October 31, 2018).

MARKET RISK MANAGEMENT

Market risk is the financial loss that the Bank could incur due to unfavourable fluctuations in the value of financial instruments as a result of changes in the underlying factors used to measure them, such as interest rates, currency 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 interest rate 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 risk of losses from adverse fluctuations in currency exchange rates. Assets and liabilities that are denominated in foreign currencies have foreign exchange risk.

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

Market risk governance: 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 accepted risk tolerance thresholds. 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 regularly and are presented as follows:

- Daily for investment portfolios, to Corporate Risk Management and portfolio managers;
- Weekly for structural interest rate risk, to Corporate Risk Management, Corporate Treasury managers and Executive Committee;
- Monthly for structural foreign-exchange risk, to Corporate Risk Management, Corporate Treasury managers and Executive Committee; 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, per the complexity and nature of its activities:

- Limits on notional amount;
- Expected shortfall; 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 considers market volatility, market liquidity, organizational experience and business strategies. Limits are set at the aggregate Bank level and then are apportioned to the different lines of business and at the portfolio level and are monitored daily.

Expected shortfall

As of 2019, the Bank changed its reference market risk measure from the VaR to the Expected Shortfall. Introduced under the FRTB (Fundamental Review of the Trading Book) and its implementation expected in 2022, the Expected Shortfall, while statistically equivalent to a 99% VaR under a normal distribution, puts more emphasis on tail risk than the VaR measure. Expected shortfall represents the average trading loss beyond a 97.5% confidence interval. For an historical expected shortfall with 300 scenarios, this represents the average of the seven worst days of trading for the Bank. Expected shortfall is calculated daily for all financial market activities. The Bank uses backtesting processes to compare theoretical profits and losses to the results of the expected shortfall for trading activities. This allows validation of the expected shortfall 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.

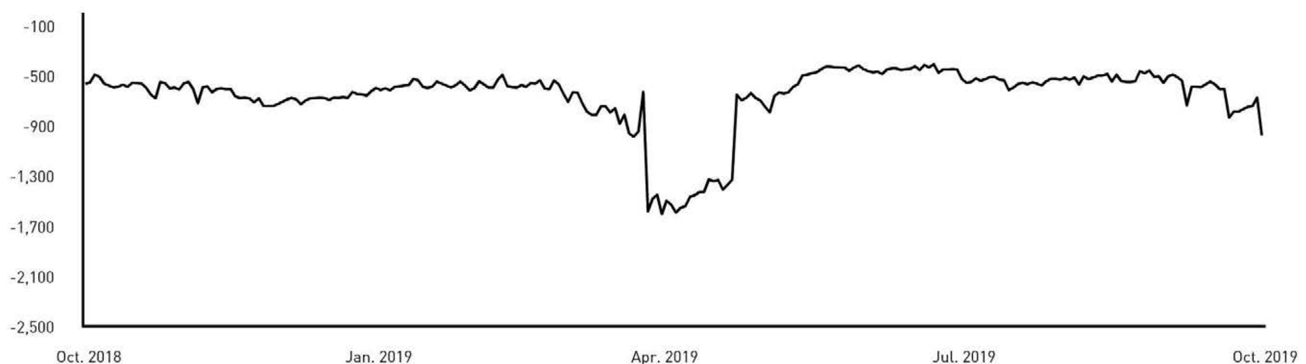
Stress testing and other sensitivity measures

Parallel to expected shortfall 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 expected shortfall and are designed 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 measurements, including measurements 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 expected shortfall of the trading portfolio for the 2019 fiscal year.

DAILY TRADING expected shortfall
For the year ended October 31, 2019 (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 interest rate 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 interest rate 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 interest rate risk is globally managed by the Bank's Corporate Treasury. The Asset-Liability Management Committee and the Executive Committee provide ongoing governance of structural risk measurement and management through risk policies, limits, operating standards and other controls in accordance with the Treasury and Capital Market Risks Policy. This policy, which is approved by the Risk Management Committee of the Board, 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 bps 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.

Interest rate risk exposures are reviewed periodically by the Asset-Liability Management Committee, which is responsible for monitoring the Bank's positioning regarding anticipated interest rate movements and recommending hedging of all undesirable interest rate risk. In addition, risk monitoring reports are presented periodically to the Corporate Risk Committee and the Risk Management Committee of the Board.

To ensure sound management of structural interest rate 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 shown in Table 28.

The Bank aims to limit its overall exposure to rapid shifts in interest rates. 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.

TABLE 28

SENSITIVITY ANALYSIS OF THE STRUCTURAL INTEREST RATE RISK

As at October 31 (Thousands of Canadian dollars)

	2019		2018	
	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	**$ 3,877**	**$ (49,524)**	$ 13,548	$ (37,671)
Decrease of 100 basis points	**$ (9,154)**	**$ 43,627**	$ (17,508)	$ 37,166

(1) Over the next 12 months.

(2) Net of income taxes.

Foreign exchange risk

Structural foreign exchange risk

Foreign exchange risk is monitored using limits and other sensitivity analysis for trading operations as described above. The Bank is exposed to foreign exchange risk mainly through its investment in a U.S. foreign operation. These exposures can have an impact on earnings, shareholders' equity and capital ratios. The Bank uses derivative financial instruments to minimize these impacts. When the Canadian dollar fluctuates against the U.S. dollars unrealized translation gains or losses on the net investment in foreign operations, net of related hedges, impact accumulated other comprehensive income in shareholders' equity. In addition, the Canadian dollar equivalent of risk-weighted assets denominated in U.S. dollars and capital deductions is impacted.

The Bank is also exposed to foreign exchange risk through foreign exchange positions related to commercial activities in its Canadian operations, as well as through positions held to support the supply of products and services in currencies other than the Canadian dollar. In the normal course of business, the Bank also uses foreign exchange derivative financial instruments to hedge its exposure to structural foreign exchange risk.

For non-trading activities, as at October 31, 2019, assets and liabilities carried in Canadian entities and denominated in U.S. dollars amounted to $769.6 million ($654.0 million as at October 31, 2018) and $415.8 million ($524.7 million as at October 31, 2018) respectively. As at October 31, 2019, regarding these positions, the effect of a sudden 5% change in foreign exchange rates would have no significant impact on net income and shareholders' equity.

Currencies other than U.S. dollars are generally bought and sold solely to meet specific customer needs. Thus, the Bank has very limited exposure to these currencies. Assets and deposit liabilities in other foreign currencies were essentially denominated in British pounds and Euros and amounted to $9.4 million ($26.9 million as at October 31, 2018) and $9.0 million ($14.7 million as at October 31, 2018) respectively.

Trading activities

The Bank is also exposed to foreign exchange risk as a result of trading activities as discussed above, including through the use of foreign exchange derivative financial instruments.

Equity risk

The Bank's equity positions consist primarily of Canadian and U.S. publicly traded securities and, thus, portfolio sensitivity generally correlates to Canadian and U.S. stock market performance. A portion of the Bank's equity positions is used to hedge index-linked deposits. In addition, the Bank has equity exposures through its pension plans. As at October 31, 2019, a fluctuation in the stock markets of 10% would have had a $18.2 million impact on the Bank's shareholders' equity ($17.7 million as at October 31, 2018).

LIQUIDITY AND FUNDING RISK MANAGEMENT

Liquidity and funding risk is 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 Corporate Risk Management and by the Asset-Liability Management Committee, and ultimately by the Risk Management Committee of the Board 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 liquidity resources to meet its current and future financial obligations, under both normal and stressed conditions.

The Bank's balance sheet is well diversified, both in terms of assets and funding sources. To maintain sound diversification, funding sources are subject to concentration limits developed and monitored by Corporate Risk Management. Those limits are established, taking into consideration, among other things, the volatility of the funding sources. Of note, the Bank's retail and commercial deposits are largely composed of term deposits, which significantly improve their quality regarding liquidity risk.

The stability of the funding sources is also taken into consideration when measuring liquidity requirements under the Bank's methodology. Run-off factors used in the liquidity stress tests are derived from the historical stability of the various funding sources. The monitoring process is conducted daily by Corporate Risk Management and is overseen by the Asset-Liability Management Committee and the Risk Committee of the Board of Directors.

As a complement to the aforementioned stress tests, the Bank has developed internal models to forecast potential outflows on non-maturing deposits, which are used in liquidity GAPs and funding plans. Behavioral and modeling assumptions are reviewed and tested at least on an annual basis by Corporate Treasury and approved by Asset-Liability Management Committee.

The Bank also conducts additional liquidity stress-test scenarios monthly. Outflows on non-maturing deposits and redeemable term deposits are stressed in different scenarios and over different time horizons to provide management with various views on the Bank's liquidity. Results are reported to the Asset-Liability Management Committee monthly.

The Bank's liquid assets held to satisfy liquidity requirements must be high quality securities that the Bank believes can be monetized quickly in stress conditions with minimum loss in market value. More than 90% of the Bank's high quality liquid assets are invested in Level 1 assets. These assets are Central Bank eligible and can be easily sold or given as collateral during a time of stress. 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, 2019.

Regulatory developments concerning liquidity

In April 2019, OSFI released the final version of its Liquidity Adequacy Requirements (LAR) guideline for implementation on January 1, 2020. OSFI's revised expectations aim to ensure its standards for measuring and monitoring liquidity risk are comprehensive and reflect current sound practice. Revisions to LCR and NCCF measures will further distinguish between certain types of retail deposits that may be subject to sudden withdrawal in a stressed environment. In addition to building resilience to short-term liquidity stresses, OSFI expects institutions to maintain a stable funding profile over a longer-term horizon to reduce future funding stress. To address this, the Basel Committee for Banking Supervision (BCBS) published the Net Stable Funding Ratio (NSFR) liquidity requirement to promote longer-term funding resiliency. The revised LAR guideline implements the NSFR in Canada for Domestic Systemically Important Banks (D-SIBs). Designated D-SIBs are expected to comply with the NSFR requirements by January 1, 2020. A section of OSFI's *Advancing Proportionality: Tailoring Capital and Liquidity Requirements for Small and Medium-Sized Deposit-Taking-Institutions* discussion paper issued on July 11, 2019,explores how the NSFR measure may become applicable for certain non D-SIBs.

Liquid assets

The Bank's liquid assets consist of cash and non-interest-bearing deposits with banks, interest-bearing deposits with 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, 2019, these assets totalled $9.3 billion, a decrease of $1.0 billion compared to the level held on October 31, 2018.

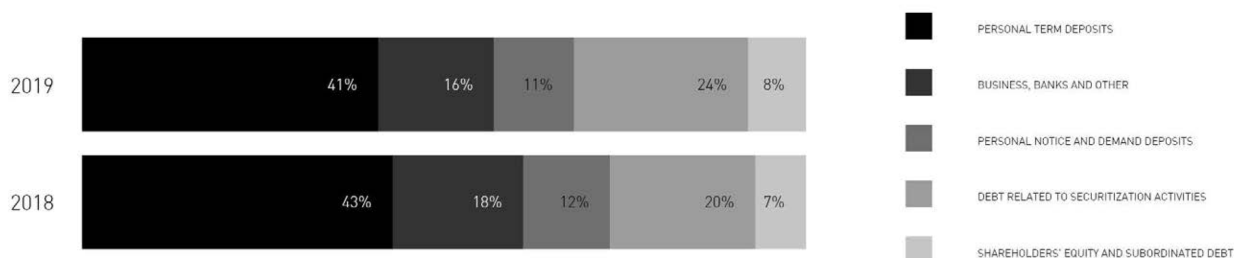
The level of liquidity reflects deposit gathering from multiple sources and funding from securitization activities used to finance the Bank's expected loan growth. Overall, the Bank continues to prudently manage the level of liquid assets and to hold sufficient cash resources from various sources to 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 to 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 well-established Financial Clinics in Quebec and an efficient pan-Canadian network of advisors and brokers. This funding strategy is well aligned with regulatory requirements in the LAR Guideline, which recognizes that personal deposits are the most stable funding source.

The Bank can also access the institutional deposit market as an alternative source of funding 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, personal loans and finance lease receivables through other structured entities. These liquidity sources are cost effective and provide added flexibility to meet specific increases in funding needs.

FUNDING SOURCES
As at October 31 (as a percentage)



Personal deposits

Personal deposits include notice, demand and term deposits sourced through the Bank's Financial Clinics and through the Advisors and Brokers channel. 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. Deposits sourced through the Advisors and Brokers channel are mainly drawn from brokers affiliated with all major Canadian banks, as well as by a well-established extended network of financial advisors. As well, more than 80% of those deposits are term deposits as at October 31, 2019. Personal deposits decreased by 6% to $19.7 billion as at October 31, 2019, compared with $21.0 billion as at October 31, 2018 as shown in Table 29. The decrease was mainly driven by lower term deposits sourced through the Advisors and Brokers channel. Lower demand deposits sourced through the Financial Clinics and from the Advisors and Brokers channel also contributed to the decrease. These declines in deposit volumes are, to a large extent, linked to the decrease in liquidity and loans, as well as to the increased use of securitization.

In the latter part of fiscal 2019, we launched our new Digital direct to customers offering to advisors and brokers. This new offering was subsequently deployed directly to customers across Canada in November 2019. Both new funding sources will gradually improve our liquidity profile and contribute to results.

Over the recent years, we have optimized the size of the Bank's branch network. We monitor closely the impact of these actions, which remain in line with expectations. Furthermore, we are maintaining our plan to focus on delivering financial advice through our Financial Clinics, and on migrating customers to electronic and web-based platforms, thus progressing toward our objective to further digitize services. We remain confident that these measures will provide significant opportunities to grow our deposit base as we dedicate our resources to better meet our clients' needs.

Business, banks and other deposits

Deposits from businesses, banks and other decreased by $1.1 billion since October 31, 2018 to $5.9 billion as at October 31, 2019. 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 29
DEPOSITS
As at October 31 (Thousands of Canadian dollars, except percentage amounts)

	2019		2018	
Personal				
Notice and demand				
Financial Clinics	**$ 2,172,565**	**8.5%**	$ 2,388,528	8.5%
Advisors and Brokers	**1,960,377**	**7.6**	2,112,976	7.6
	4,132,942	**16.1**	4,501,504	16.1
Term				
Financial Clinics	**4,836,235**	**18.9**	4,769,308	17.0
Advisors and Brokers	**10,778,083**	**42.0**	11,724,641	41.9
	15,614,318	**60.9**	16,493,949	58.9
	19,747,260	**77.0**	20,995,453	75.0
Business, banks and other				
Notice and demand	**1,619,004**	**6.3**	1,999,377	7.1
Term	**4,286,340**	**16.7**	5,011,742	17.9
	5,905,344	**23.0**	7,011,119	25.0
Deposits	**$ 25,652,604**	**100.0%**	$ 28,006,572	100.0%

Credit ratings

Personal deposits, collected through Financial Clinics and the Advisors and Brokers channel, constitute the most important source of financing for the Bank. The Bank also relies on the wholesale markets to obtain financing through securitization and unsecured financing. The Bank's capacity to obtain such financing, particularly with regard to wholesale funding, 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 influence the financing of operations, as well as requirements regarding guarantees.

The Bank monitors weekly the impact of a hypothetical downgrade of its credit rating on the collateral requirements. As at October 31, 2019, additional collateral that would be required in the event of a one to three notch rating downgrade was not significant.

On April 30, 2019, Standard and Poor's (S&P) reaffirmed our BBB long-term and A-2 short-term issuer credit ratings, while maintaining the negative outlook[1].

On August 30, 2019, DBRS confirmed our A (low) rating on deposits and senior debt and R-1 (low) rating on short-term instruments. In addition, DBRS revised its trends on long-term ratings to stable from negative[2].

Table 30 presents the Bank's credit ratings as established by the rating agencies.

TABLE 30
CREDIT RATINGS
As at November 29, 2019

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

(1) The 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.
(2) 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 investors an understanding of DBRS's opinion regarding the outlook for the rating in question. However, investors 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.

Contractual maturities of assets and liabilities

The following tables provide remaining contractual maturity profiles of assets and liabilities at their carrying value (e.g., amortized cost or fair value) at the balance sheet date. Details of contractual maturities are a source of information for the management of liquidity risk.

The following table summarizes the remaining contractual maturity for the Bank's financial liabilities and other contractual obligations as at October 31, 2019 and 2018. Details of contractual maturities and commitments to extend funds are a source of information for the management of liquidity risk and does not represent how the Bank manages its interest rate or its liquidity risk and funding needs. These details form a basis for assessing a behavioural balance sheet with effective maturities to calculate liquidity risk measures. For further details, refer to the "Risk measurement" section. Note 30 to the Consolidated Financial Statements provides further information on other contractual obligations.

The Bank is also exposed to liquidity risk when it contracts credit commitments. As at October 31, 2019, these commitments amounted to approximately $5.3 billion ($4.3 billion as at October 31, 2018), excluding credit facilities unconditionally revocable at the Bank's option.

TABLE 31

CONTRACTUAL MATURITIES OF ASSETS AND LIABILITIES

As at October 31 (Thousands of Canadian dollars)

									2019
	TERM								
	0 TO 3 MONTHS	OVER 3 MONTHS TO 6 MONTHS	OVER 6 MONTHS TO 9 MONTHS	OVER 9 MONTHS TO 12 MONTHS	OVER 1 YEAR TO 2 YEARS	OVER 2 YEARS TO 5 YEARS	OVER 5 YEARS	NO SPECIFIC MATURITY	TOTAL
Assets									
Cash and non-interest bearing deposits with banks	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 90,658	$ 90,658
Interest-bearing deposits with banks	252,325	—	—	—	—	—	—	70,572	322,897
Securities	818,057	754,946	410,771	122,511	672,955	2,031,415	1,091,422	397,859	6,299,936
Securities purchased under reserve repurchase agreements	2,538,285	—	—	—	—	—	—	—	2,538,285
Loans[1]									
Personal loans	16,433	14,320	18,025	11,124	76,995	190,406	18,368	4,314,853	4,660,524
Residential mortgages	987,578	1,027,376	1,309,644	1,189,747	3,974,066	7,421,955	36,266	93,048	16,039,680
Commercial loans	2,063,926	840,242	1,029,731	635,460	2,387,209	2,104,681	792,106	2,792,977	12,646,332
Customers' liabilities under acceptances	319,992	—	—	—	—	—	—	—	319,992
Allowances for loan losses	—	—	—	—	—	—	—	(100,457)	(100,457)
	3,387,929	1,881,938	2,357,400	1,836,331	6,438,270	9,717,042	846,740	7,100,421	33,566,071
Others	1,281	1,588	1,200	1,422	2,180	3,805	79	1,523,725	1,535,280
Total assets	$6,997,877	$2,638,472	$2,769,371	$1,960,264	$7,113,405	$11,752,262	$1,938,241	$9,183,235	$ 44,353,127
Liabilities									
Personal deposits[1]	$1,912,268	$1,698,393	$1,534,854	$1,539,422	$4,607,963	$ 4,296,013	$ 51,413	$4,106,934	$ 19,747,260
Business, Banks and other deposits[1]	1,033,869	266,606	267,181	457,174	1,176,759	1,092,123	4,617	1,607,015	5,905,344
Obligations related to securities sold short[2]	499,739	94,645	12,758	3,140	195,115	859,115	930,342	23,293	2,618,147
Obligations related to securities sold under repurchase agreements	2,558,883	—	—	—	—	—	—	—	2,558,883
Other Liabilities	319,992	—	—	—	—	—	—	1,373,406	1,693,398
Debt related to securitization activities[3]	600,757	262,850	559,041	314,816	2,079,666	4,336,901	741,821	17,481	8,913,333
Subordinated debt	—	—	—	—	—	350,000	—	(899)	349,101
Equity	—	—	—	—	125,000	125,000	—	2,317,661	2,567,661
Total liabilities	$6,925,508	$2,322,494	$2,373,834	$2,314,552	$8,184,503	$11,059,152	$1,728,193	$9,444,891	$ 44,353,127

(1) Amounts collectible on demand are considered to have no specific maturity.

(2) Amounts are disclosed according to the remaining contractual maturity of the underlying security.

(3) Personal loan securitization cash flows are based on a behavioral prepayment model.

OPERATIONAL RISK MANAGEMENT

Operational risk is the risk of loss or harm from people, inadequate or failed internal processes and systems, or from external events including legal risk but excluding strategic and reputational risk. Operational risk is inherent in all of the Bank's activities and can lead to significant impacts on the business, including financial loss, reputational harm and/or regulatory sanctions. The Operational Risk Management Framework determines how that risk is identified, evaluated and the decisions made to accept, mitigate or transfer the risk. Operational risk is further broken down into the following categories:

- Fraud;
- Information Security;
- Information Technology;
- Human Resources;
- Customer Products and Practices;
- Business Continuity;
- Execution, Delivery and Process; and
- Supplier

The Operational Risk Management Framework and Policy are 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 own the risks generated by their day-to-day activities and are accountable for their effective management. Operational Risk Management, as part of the second line of defence, establishes the operational risk management framework, provides independent oversight of risk-taking by the first line of defence and conducts an effective objective assessment of their risk profile. Internal Audit, as the third line of defence, examines the approach and effectiveness of the operational risk management program.

The Operational Risk Management Framework outlines how operational risk is managed. Key elements of this framework include:

- The Operational risk appetite is aligned to the overall risk appetite of the organization establishing boundaries of permitted risk taking.
- *Risk and control assessment* is performed by the various business units and aims to identify and assess the key operational risks related to their sectors and their key processes.
- *Risk and control assessment related to initiative management* is performed to ensure that the key risks related to important initiatives are identified, assessed and effectively mitigated.
- *Internal and external risk events* provide useful information to assess the Bank's overall operational risk exposure and to reduce the likelihood of future risk events. Business units are required to produce root cause analyses of major events to prevent their re-occurrence.
- *Key risk indicators* provide objective measurements that facilitate the facilitate the monitoring and management of operational risks.
- *Scenario analysis* provides insight to the potential impact of low probability but severe impact risk events and insight into how they may be potentially mitigated.
- *Sound business continuity management* aims to ensure that key activities are maintained in the event of a disruption to reduce the negative impacts on our customers, counterparties and other stakeholders.
- *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.
- *Reporting of the Operational Risk Profile* is performed on a quarterly basis incorporating all the operational risk tools into the assessment. These risk profiles are discussed and challenged via the various governance committees and ultimately consolidated to provide an enterprise view of operational risk.
- *A corporate insurance program* protects against unexpected material losses and is used to satisfy requirements under the law, regulations or contractual agreements.

REGULATORY COMPLIANCE RISK MANAGEMENT

Regulatory compliance risk is the risk of non-compliance with applicable laws, prescribed practices, public commitments and voluntary codes. Failure to meet regulatory and legal requirements can impact the Bank's ability to meet strategic objectives, poses a risk of regulatory sanctions, may lead to litigation and/or cause reputational harm. 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;
- Definition of key risk indicators to measure and monitor exposure to regulatory risk;
- Risk and control assessments are performed by the various business units to asses compliance with applicable regulatory requirements;
- 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 performed by the Office of the Chief Regulatory Risk Management Officer;
- Identification and reporting of non-compliance issues as appropriate;
- Reinforcement of controls and correction of non-compliance issues.

Regulatory risk management includes among 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;
- 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;
- Escalating issues to the Executive Committee.

A specific Anti-Money Laundering and Terrorist Financing Program Coordination Committee oversees applicable requirements. Its responsibilities mirror those of the Regulatory Risk Management Committee.

Regulatory risk management reports are submitted at least 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 assessed annually.

STRATEGIC RISK MANAGEMENT

Strategic risk is the risk of loss or harm due to inadequate business plans, strategies or decision-making processes and improper allocation and use of the Bank's resources. It also results from the potential adverse effects of changes in the economic, competitive, regulatory, tax or accounting environment on the Bank's results and/or the failure to respond appropriately to these changes as a result of inaction, ineffective strategies or poor implementation of strategies.

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 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.

Through the Executive Committee, the Bank monitors the execution of its strategic plan. The Bank's ability to meet its objectives and deliver on the strategic plan depend on its capacity to transform the organization as it develops its new account management platform and modernizes its retail distribution network, while maintaining an adequate level of service to customers and protecting profitability.

REPUTATIONAL RISK MANAGEMENT

Reputational risk is the risk that perceptions of stakeholders, whether true or not, regarding the Bank's business practices, actions or inactions will negatively impact the Bank's value, brand, liquidity or client base, or require costly measures to remediate.

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. The Bank's reputation is a valuable business asset that is essential to continued growth and shareholder value and therefore, is constantly at risk.

The Corporate Risk Committee controls and supervises reputational risk management through the application of a Reputational Risk Policy. This policy is an integral part of the Risk 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.

MODEL RISK MANAGEMENT

The Bank uses various models to inform business, risk and capital management decision-making. Model risk is the potential for loss or harm arising from models, and other estimation approaches and their outputs, not performing or capturing risk as expected. It also arises from the inappropriate use of a model. The Model Risk Management Policy establishes a formal framework to identify, asses, manage and control the risk inherent to the usage of models. Models are updated on a regular basis to incorporate current trends. In addition, the models are validated by a validation group that is independent of both the specialists who developed the models and the concerned business units.

OTHER RISKS THAT MAY AFFECT FUTURE RESULTS

In addition to the major business risks described above, there are other risks, many of which are beyond the Bank's control and the effects of which can be difficult to predict, that could cause our actual results to differ significantly from our plans, objectives and estimates or other forward-looking statements. All forward-looking statements, including those in this document, are, by their very nature, subject to inherent risks and uncertainties, general and specific, which may cause the Bank's actual results to differ materially from the expectations expressed. Some of these factors are discussed below and others are noted in the "Caution Regarding Forward-Looking Statements" section of this document.

The following section presents a summary of the other risks that may affect results.

Technology, information systems and cybersecurity

The security and performance of the Bank's information and technology infrastructure is critical to business operations, ensuring the integrity of its systems and records and for maintaining confidence of the Bank's clients and other stakeholders. Due to the nature of the Bank's operations, its reliance on technology to conduct day-to-day activities, and its evolving technological infrastructure, it is subject to increased risks in the form of cyber-attacks, data breaches, cyber extortion and similar compromises. The Bank's use of third-party service providers, which are also subject to these potential compromises, increases its risk of a potential attack, breach or disruption as it has less immediate oversight over their systems and control environment.

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 in connection with these evolving risks are mainly related to potential reputational damage, the misappropriation or unauthorized release of confidential financial of personal information, as well as disruption to operations. Furthermore, such attacks may result in regulatory sanctions, litigation, remediation costs, loss of revenue, additional regulatory scrutiny, litigation and reputational damage.

Economic climate in the World, the U.S and Canada

The Bank's operations are mainly carried on in Canada and, to a lesser extent, in the U.S. Consequently, the Bank has limited exposure outside of North America. However, factors such as fluctuations in interest rates, labour market conditions, real estate market conditions, financial market developments, business and household's indebtedness, monetary and fiscal policies, global uncertainty and geopolitical events may have an effect on our overall revenue and earnings. The global economic cycle is ageing, and the nature of the next economic shock could be related to one or multiple causes. First, a major deterioration in global economic conditions could lead to an increase in credit losses. Second, a sharp increase in trade protectionism could paralyze credit demand and adversely impact the performance of loan portfolios. In particular targeted trade bans on Canadian products could also have a negative impact on loans in specific industries. Third, the repricing of credit risk by financial markets could lead to an increase in global interest rates. However, structural factors, currently keeping global interest rates low, mitigate the risk of a spike in Canadian interest rates. On the other hand, negative interest rates that have started to change lending and borrowing activities in other industrialized countries could be part of the Bank's future operations. Fourth, a large correction in housing activity and prices in key urban areas in Canada would deteriorate lenders and borrowers' balance sheets. Fifth, the federal government's expansionist immigration policy is currently beneficial for the economy but policy changes in the future could alter credit demand. Beside economic risks, vulnerabilities can amplify the financial distress of borrowers, lenders and the entire Canadian financial system. The higher level of household and non-financial corporate debt makes Canada more vulnerable to the next economic downturn although household financial metrics have started to improve due to new mortgage regulatory constraints. Intense labour shortages could also temper the increase in unemployment during the next economic downturn and mitigate credit losses of several portfolios.

Accounting policies, estimates and developments

The Bank's accounting policies and estimates are important to understanding its Consolidated Financial Statements. Some accounting policies require management to apply judgment 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. In addition, changes in accounting standards, including their effect on the Bank's accounting policies, estimates and judgments may affect the Bank's Consolidated Financial Statements when a new standard becomes applicable. Procedures have been established to ensure accounting policies are applied consistently and the process for adopting new accounting standards is well controlled. Please refer to the sections "Critical Accounting Policies and Estimates" and "Future Changes to Accounting Policies" for further details.

Legal and regulatory developments

Changes to laws, including tax laws, regulations or regulatory policies, as well as the changes in how they are interpreted, implemented or enforced, could adversely affect the Bank, for example, by lowering barriers to entry in the businesses in which we operate; increasing costs of compliance or limiting the Bank's activities and ability to execute its strategic plan. Global and National regulatory developments, including capital and liquidity requirements under the Basel Committee on Banking Supervisions global standards (Basel III), will continue to affect the Bank's activities. New regulations applicable to financial institutions have increased significantly and are evolving at a rapid pace. 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. These developments could also increase ongoing operational, compliance, and technology costs and therefore impact the complexity of operations and profitability.

Human resources
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.

Approximately 18% of the Bank's employees are represented by a union and are covered by a collective bargaining agreement which was ratified in April 2019 and is valid until December 2021. The majority of the Bank's unionized employees work in our Financial Clinics in the Province of Quebec, and some of them are employed in the Bank's corporate offices in Montreal.

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, quality and variety of products and services and the actions taken by its competitors, could negatively impact the Bank's positioning.

Insurance risk management
Insurance risk is the risk of loss that may occur when assumptions related to insurance risks assumed by the Bank, particularly about 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 regard 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.

Business continuity
Unexpected external events such as natural disasters are factors that can impact the Bank's ability to operate it businesses, including providing clients access to products and services. 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 considered in the Bank's Risk Management Framework and is managed through the Business Continuity Management Policy, which provides us with the capability to restore, maintain and manage critical operations and processes in the event of a business disruption.

Technological development
In recent years, non-financial institutions began offering banking products and services in competition with traditional banks through electronic and internet-based financial solutions. Increased competition from non-traditional service providers may require additional investment in order to meet clients' changing expectations, streamline operations and to remain competitive, which may increase expenses. The capacity of the Bank to manage these risks, as well as other rapid technological developments and innovation can affect prospective results.

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 ability to provide its products and services to its clients, disrupt operations and/or cause reputational harm.

Environmental and social risk
Environmental and social risk refers to the possibility of financial losses or harm resulting from environmental issues including related social issues, whether arising from the Bank's products, clients, credit and investment activities or related to the Bank's operations. It includes risks arising from climate and environment-related events, including acute events such as floods, droughts, wildfires, earthquakes, hurricanes and other extreme weather events, as well as long-term shifts in weather patterns as a result of climate change. These events could potentially disrupt our operations, impact our customers and counterparties, and result in reduced earnings and higher losses. Potential impacts of such events are managed through the Bank's Business Continuity Management Program, which provides us with the capability to restore, maintain and manage critical operations and processes in the event of a business disruption, and through the Bank's Lending Practices and Policies, which help us to evaluate the risks associated with credit counterparty transactions and exposures. Environmental risk also captures other risks associated with climate change including risks stemming from the transition to a low carbon economy, changes in environmental policies and regulation, as well as reputational risks relating to perceptions of how the Bank contributes to or hinders environmental integrity. Recognizing the growing impacts of climate-change on various industries and regions, and in line with its stakeholders' interests, the Bank is working on developing a sustainability program which will include the roadmap of our efforts to implement the Financial Stability Board's Task-Force on Climate-related Financial Disclosures (TCFD) recommendations.

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 this 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 IFRS.

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 *Regulation 52-109 respecting Certification of Disclosure in Issuers' Annual and Interim Filings* (National Instrument 52-109). 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, 2019, 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 National Instrument 52-109, and based on that evaluation, concluded that they were effective and adequately designed at that date.

Also as at October 31, 2019, 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 52-109, and based on that evaluation, concluded that it was effective at that date and adequately designed.

The DC&P evaluation was performed using the control framework established in 2013 by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The evaluation of the design and effectiveness of ICFR was performed in accordance with the COSO control framework for entity level and financial controls, and Control Objectives for Information and related Technologies (COBIT) for general IT controls.

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

Changes to Internal Control over Financial Reporting

In November 2017, we initiated the Phase 1 of the implementation of the core-banking system. The evaluation of the ensuing changes to ICFR for these projects supported that the design and operating effectiveness are appropriate with respect to financial reporting. As previously noted, Phase 1 of the implementation was completed at the outset of 2019.

During the fourth quarter ended October 31, 2019, there have been no changes to internal control over financial reporting that affected materially, or are reasonably likely to materially affect ICFR.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The significant accounting policies followed by the Bank are outlined in Notes 2 and 3 to the Consolidated Financial Statements. Some of these accounting policies are deemed critical as they require management to apply judgment 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.

ALLOWANCES FOR CREDIT LOSSES

At the end of each reporting period, the Bank applies a three-stage impairment approach to measure the expected credit losses (ECL) on all debt instruments measured at amortized cost or at FVOCI, on loan commitments and financial guarantees that are not measured at fair value and on lease receivables. ECLs are a probability-weighted estimate of credit losses over the remaining expected life of the financial instrument. The ECL model is forward looking. Measurement of ECLs at each reporting period reflects reasonable and supportable information about past events, current conditions, and forecasts of future events and economic conditions. Judgment is required in making assumptions and estimates, determining movements between the three stages, and applying forward-looking information. Any changes in assumptions and estimates, as well as the use of different, but equally reasonable, estimates and assumptions, could have an impact on the allowances for credit losses and the provisions for credit losses for the year. All business segments are affected by this accounting estimate. For additional information, see Note 7 to the Consolidated Financial Statements.

Determining the Stage

The ECL three-stage impairment approach is based on the change in the credit quality of financial assets since initial recognition. If, at the reporting date, the credit risk of non-impaired financial instruments has not increased significantly since initial recognition, these financial instruments are classified in Stage 1, and an allowance for credit losses that is measured, at each reporting date, at an amount equal to 12-month expected credit losses is recorded. When there is a significant increase in credit risk since initial recognition, these non-impaired financial instruments are migrated to Stage 2, and an allowance for credit losses that is measured, at each reporting date, at an amount equal to lifetime expected credit losses is recorded. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a significant increase in credit risk since initial recognition, the ECL model requires reverting to Stage 1, i.e. recognition of 12-month expected credit losses. When one or more events that have a detrimental impact on the estimated future cash flows of a financial asset have occurred, the impaired financial asset is migrate to the stage 3, an allowance equal

to the lifetime expected losses continues to be recorded or the financial asset is written off. Interest income is calculated on the gross carrying amount of the financial assets in stages 1 and 2 and on the net carrying amount of the financial assets in stage 3.

Assessment of significant increase in credit risk
In determining whether credit risk has increased significantly, the Bank uses an internal credit risk grading system and external risk ratings. To assess whether the credit risk of a financial instrument has increased significantly, the 12-month probability of default (PD) at the reporting date is compared with the 12-month PD at the date of initial recognition, and reasonable and supportable information indicative of significant increases in credit risk since initial recognition is considered. The Bank includes relative and absolute thresholds in the definition of significant increase in credit risk and a backstop of 30 days past due. All financial instruments that are 30 days past due are migrated to Stage 2 even if other metrics do not indicate that a significant increase in credit risk has occurred. The assessment of a significant increase in credit risk requires significant judgment.

Measurement of expected credit losses
ECLs are measured as the probability-weighted present value of expected cash shortfalls over the remaining expected life of the financial instrument, and reasonable and supportable information about past events, current conditions and forecasts of future events and economic conditions is considered. The estimation and application of forward-looking information requires significant judgment. The cash shortfall is the difference between all contractual cash flows owed to the Bank and all the cash flows that the Bank expects to receive.

The measurement of ECLs is based primarily on the product of the instrument's PD, loss given default (LGD), and exposure at default (EAD). The IFRS 9 ECL calculation has leveraged, where appropriate, the credit risk model parameters used by the Bank for the collective allowance calculation under IAS 39, namely: PD, LGD and EAD. Forward-looking macroeconomic factors such as interest rates, unemployment rates, gross domestic product (GDP) forecasts and housing price indices are incorporated into the risk parameters. The estimate of expected credit losses reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes. The Bank incorporates three forward-looking macroeconomic scenarios in its ECL calculation process: a base scenario, an upside scenario, and a downside scenario. Probability-weights are attributed to each scenario. The scenarios and probability weights are reassessed quarterly and subject to management review. The Bank applies experienced credit judgment to adjust the modeled ECL results when it becomes evident that known or expected risk factors and information were not considered in the credit risk rating and modeling process.

ECLs for all financial instruments are recognized in provisions for credit losses in the Consolidated Statement of Income. In the case of debt instruments measured at FVOCI, ECLs are recognized in provisions for credit losses in the Consolidated Statement of Income, and a corresponding amount is recognized in Other comprehensive income with no reduction in the carrying amount of the asset on the Consolidated Balance Sheet. As for debt instruments measured at amortized cost, they are presented net of the related allowance for credit losses on the Consolidated Balance Sheet. Allowances for credit losses for off-balance-sheet credit exposures that are not measured at fair value are included in other liabilities on the Consolidated Balance Sheet.

Purchased or originated credit-impaired financial assets
On initial recognition of a financial asset, the Bank determines whether the asset is credit-impaired. For financial assets that are credit-impaired upon purchase or origination, in subsequent reporting periods the Bank recognizes only the cumulative changes in lifetime expected credit losses since initial recognition as an allowance for credit losses. The Bank recognizes changes in ECLs in provision for credit losses in the Consolidated Statement of Income, even if the lifetime ECLs are less than ECLs that were included in the estimated cash flows on initial recognition.

Default
The definition of default used by the Bank to measure ECLs and transfer financial instruments between stages is consistent with the definition of default used for internal credit risk management purposes. The Bank considers a financial asset as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of a financial asset have occurred or when contractual payments are 90 days past due.

Write-offs
The Bank writes off an impaired financial asset and its related allowance for credit losses in whole or in part when it considers the probability of recovery to be non-existent and when all guarantees and other remedies available to the Bank have been exhausted and balances owing are not likely to be recovered.

GOODWILL, OTHER INTANGIBLE ASSETS AND OTHER LONG-LIVED ASSETS

Goodwill

As at October 31, 2019, goodwill stood at $116.6 million, unchanged compared with October 31, 2018. Goodwill is subject to an impairment test at least annually as described in Note 3 to the 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 the 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, 2019 has been allocated to two CGUs: the Personal CGU, which caters to the financial needs of retail clients (to the B2B Bank CGU in 2018 and for the purpose of executing the 2019 annual impairment test, as detailed below); and the Business Services CGU, which encompasses services provided to small and medium-sized enterprises across Canada and the United States. These CGUs are also operating segments, as described in Note 33 to the Consolidated Financial Statements.

Personal CGU
As the strategic plan aimed at reorganizing the Bank is being delivered, the operating segments have evolved toward the end of the year and, as of October 31, 2019, goodwill of $34.9 million was allocated to the new Personal CGU, based on the Bank's client segmentation. Until that date and for the purpose of executing the 2019 annual impairment test, goodwill was allocated to the Advisors and Brokers CGU (formerly known as the B2B Bank CGU). The recoverable amount of the Advisors and Brokers CGU was estimated using a value in use calculation that was primarily based on the four-year business plan and projected investments. All forecast cash flows were discounted at an after-tax rate of 9.8%. 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 Advisors and Brokers CGU was in excess of its carrying amount. As a result, no impairment charge was recognized during 2019. If alternative reasonably possible changes in key assumptions were applied, the result of the impairment test would not differ.

Business Services CGU
As at October 31, 2019, goodwill of $81.8 million was allocated to the Business Services CGU, unchanged compared to October 31, 2018 as a result of adjustments to the value initially recognized for the goodwill of NCF, including the effect of foreign currency translation adjustments. The recoverable amount of the Business Services CGU was estimated using a value in use calculation that was primarily based on the four-year business plan and projected investments. All forecast cash flows were discounted at an after-tax rate of 9.8%. 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 CGU was in excess of its carrying amount. As a result, no impairment charge was recognized during 2019. If alternative reasonably possible changes in key assumptions were applied, the result of the impairment test would not differ.

Refer to Note 11 and 33 to the Consolidated Financial Statements for additional information.

Other intangible assets and other long-lived 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.

Indicators of impairment were identified for the Financial Clinic CGU (formerly known as the Retail Services CGU) in 2019, prior to the changes to the Bank's CGUs noted above. As a result, the recoverable amount of the assets related to the former Financial Clinic CGU was reviewed for impairment. The recoverable amount of the former Financial Clinic CGU was estimated using a value in use calculation that was primarily based on the four-year business plan and projected investments. All forecast cash flows were discounted at an after-tax rate of 9.8%. Management considered that these estimates were reasonable. They reflected management's best estimates but included inherent uncertainties, such as the ability to execute the strategic plan and in particular the successful transition of the retail branches - Financial Clinics - to the advice-only model. Management determined that for the impairment testing, the estimated recoverable amount of the former Financial Clinic CGU was in excess of its carrying amount. As a result, no impairment charge was recognized during 2019. Changes in estimates and assumptions could significantly impact the impairment test result.

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. No other impairment charges on intangible assets and $0.9 million on premises and equipment were recorded in 2019 (respectively $0.5 million and nil in 2018).

Refer to Notes 9, 10, 11 and 33 to the Consolidated Financial Statements for additional information.

POST-EMPLOYMENT BENEFITS

The Bank sponsors a number of benefit plans to eligible employees, including registered and supplemental pension plans, and post-retirement medical and dental plans (other post-employment benefit plans). The valuation of employee benefits for defined benefit pension plans and other post-employment benefits are calculated by the Bank's 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 judgment. Other key assumptions are determined by management and require significant 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 3.01% as at October 31, 2019 and 3.94% as at October 31, 2018. 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 19 to the 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, including acquisition-related intangible assets, 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 discount rates requires significant management judgment regarding key assumptions, including the cost to raise funds in the market and risk premiums. Changes in assumptions could have had a significant impact on the value of the assets and liabilities recognized.

Refer to Note 31 to the 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 arise when there is some uncertainty in the timing or amount of a loss in the future. Provisions are based on the Bank's best estimate of all expenditures 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 and credit card 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. The Bank reviews its legal provisions on a case-by-case basis after considering, among other factors, the progress of each case, the Bank's experience, the experience of others in similar cases, and the opinions and views of legal counsel.

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 30 to the Consolidated Financial Statements for additional information.

INCOME TAXES

The Bank is subject to taxation in numerous jurisdictions. There are many transactions and calculations in the ordinary course of business for which the ultimate tax determination is uncertain. The Bank maintains provisions for uncertain tax positions that it believes appropriately reflect the risk of tax positions under discussion, audit, dispute, or appeal with tax authorities, or which are otherwise considered to involve uncertainty. These provisions are made using the Bank's best estimate of the amount expected to be paid based on an assessment of all relevant factors, which are reviewed at the end of each reporting period. However, it is possible that at some future date, an additional liability could result from audits by the relevant taxing authorities.

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 leases, insurance contracts and employee benefits which were not yet effective for the year ended October 31, 2019. These future accounting changes are applicable for the Bank in various annual periods beginning on November 1, 2019.

Additional information on the new standards and amendments to existing standards can be found in Note 4 of the Consolidated Financial Statements.

IFRS 16, *Leases*

In January 2016, the IASB issued IFRS 16, *Leases* (IFRS 16), which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e., the customer ("lessee") and the supplier ("lessor"). IFRS 16 replaces the previous leases standard, IAS 17, *Leases*, and related interpretations. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, which was November 1, 2019 for the Bank.

Transition Impact for IFRS 16
Based on current estimates, the adoption of IFRS 16 is expected to result in the recognition of right-of-use assets of approximately $138.6 million, net of deferred credits related to previously recorded lease inducements, and lease liabilities of approximately $170.7 million as at November 1, 2019. The decrease in shareholders' equity at IFRS 16 transition is not expected to exceed $8.5 million. The adoption of IFRS 16 is expected to decrease the Bank's Common Equity Tier 1 (CET1) capital ratio by up to 10 basis points. Management is finalizing its analyses of the impact of the adoption of this standard on its Consolidated Financial Statements.

Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)

In February 2018, the IAS issued amendments to IAS 19, *Employee Benefits* which specifies how companies determine pension expenses when changes to a defined benefit pension plan occur. IAS 19 specifies how a company accounts for a defined benefit plan. The amendments are effective for annual periods beginning on or after January 1, 2019, which was November 1, 2019 for the Bank. The adoption of this standard had no significant impact on the Bank's Consolidated Financial Statements as at November 1, 2019.

Conceptual Framework for Financial Reporting

In March 2018, the IASB issued a comprehensive set of concepts for financial reporting, the revised Conceptual Framework for Financial Reporting (Conceptual Framework). The Conceptual Framework sets out the fundamental concepts for financial reporting that guide the IASB in developing IFRS Standards. The revised Conceptual Framework has an effective date of January 1, 2020—with earlier application permitted—for companies that use the Conceptual Framework to develop accounting policies when no IFRS Standard applies to a particular transaction. Management is currently assessing the impact of the adoption of the revised Conceptual Framework on its Consolidated Financial Statements.

IBOR reform (Amendments to IFRS 9, IAS 39 and IFRS 7)

In September 2019, the International Accounting Standards Board ("IASB") published Interest Rate Benchmark Reform, Amendments to IFRS 9, IAS 39 and IFRS 7 (the "Amendments"). This amendment will be applicable in two phases. Phase one of the IASB's work to respond to the effects of Interbank Offered Rates ("IBOR") reform on financial reporting. Phase two work to respond to the IBOR reform will deal with issues that may arise when an existing interest rate benchmark is replaced with an RFR. The amendments are effective for annual periods beginning on or after January 1, 2020 for the phase one. The IASB expects to discuss the phase two issues from October 2019 until February 2020. Management is currently assessing the impact of the adoption of this standard on its Consolidated Financial Statements.

IFRS 17, *Insurance Contracts*

In May 2017, the IASB issued IFRS 17, *Insurance Contracts (IFRS 17)*, which sets out the principles for the recognition, measurement, presentation and disclosure of insurance contracts. IFRS 17 replaces the previous insurance contract standard, IFRS 4, *Insurance Contracts*. IFRS 17 is effective for annual periods beginning on or after January 1, 2021. On November 14, 2018, the IASB has voted to propose a one-year deferral of the effective date for IFRS 17 to 2022. In June 2019, the IASB proposed targeted amendments to IFRS 17 to respond to concerns and challenges raised by stakeholders as IFRS 17 is being implemented. The proposed deferral and targeted amendments to IFRS 17 are subject to public consultation taking place from June to September 2019. Management is currently assessing the potential impact of the adoption of IFRS 17.

LAURENTIAN BANK OF CANADA CONSOLIDATED FINANCIAL STATEMENTS

AS AT OCTOBER 31, 2019 AND 2018

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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 risk management and operational risk management functions that ensure proper risk control including maintaining the 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, CFA
Executive Vice President
and Chief Financial Officer

Montréal, Canada
December 3, 2019

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Laurentian Bank of Canada

Opinion

We have audited the Consolidated Financial Statements of Laurentian Bank of Canada and its subsidiaries (the Group), which comprise the consolidated balance sheets as at October 31, 2019 and 2018, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, and notes to the Consolidated Financial Statements, including a summary of significant accounting policies.

In our opinion, the accompanying Consolidated Financial Statements present fairly, in all material respects the consolidated financial position of the Group as at October 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the Consolidated Financial Statements in Canada, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information included in the Group's 2019 Annual Report

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the Consolidated Financial Statements and our auditor's report thereon, included in the Annual Report.

Our opinion on the Consolidated Financial Statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Consolidated Financial Statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the Consolidated Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis and the Annual report prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the Consolidated Financial Statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of Consolidated Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Consolidated Financial Statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the Consolidated Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Consolidated Financial Statements.

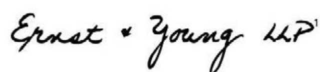
As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Consolidated Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Consolidated Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the Consolidated Financial Statements, including the disclosures, and whether the Consolidated Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Consolidated Financial Statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Ted Di Giorgio.



Montréal, Canada
December 3, 2019

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

CONSOLIDATED BALANCE SHEET[1]

As at October 31 (in thousands of Canadian dollars)	Notes	2019	2018
Assets			
Cash and non-interest bearing deposits with banks		$ 90,658	$ 116,490
Interest-bearing deposits with banks		322,897	374,237
Securities	6, 8 and 30		
At amortized cost		2,744,929	n/a
At fair value through profit or loss (FVTPL)		3,242,146	n/a
At fair value through other comprehensive income (FVOCI)		312,861	n/a
Available-for-sale		n/a	2,710,249
Held-to-maturity		n/a	655,757
Held-for-trading		n/a	2,695,138
		6,299,936	6,061,144
Securities purchased under reverse repurchase agreements	30	2,538,285	3,652,498
Loans	7, 8 and 30		
Personal		4,660,524	5,372,468
Residential mortgage		16,039,680	16,986,338
Commercial		12,646,332	11,839,106
Customers' liabilities under acceptances		319,992	196,776
		33,666,528	34,394,688
Allowances for loan losses		(100,457)	(93,026)
		33,566,071	34,301,662
Other			
Derivatives	26	143,816	94,285
Premises and equipment	9	77,802	80,961
Software and other intangible assets	10	391,162	367,345
Goodwill	11	116,649	116,617
Deferred tax assets	20	37,045	25,437
Other assets	12	768,806	704,007
		1,535,280	1,388,652
		$ 44,353,127	$ 45,894,683
Liabilities and shareholders' equity			
Deposits	13		
Personal		$ 19,747,260	$ 20,995,453
Business, banks and other		5,905,344	7,011,119
		25,652,604	28,006,572
Other			
Obligations related to securities sold short		2,618,147	3,008,666
Obligations related to securities sold under repurchase agreements		2,558,883	2,515,823
Acceptances		319,992	196,776
Derivatives	26	112,737	285,492
Deferred tax liabilities	20	53,102	19,081
Other liabilities	14	1,207,567	1,229,556
		6,870,428	7,255,394
Debt related to securitization activities	8 and 15	8,913,333	7,787,753
Subordinated debt	16	349,101	348,762
Shareholders' equity			
Preferred shares	17	244,038	244,038
Common shares	17	1,139,193	1,115,416
Retained earnings		1,161,668	1,152,470
Accumulated other comprehensive income		20,947	(15,990)
Share-based compensation reserve	18	1,815	268
		2,567,661	2,496,202
		$ 44,353,127	$ 45,894,683

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

(1) The Consolidated Balance Sheet as at October 31, 2019 reflects the adoption of new accounting standards as at November 1, 2018. Refer to Notes 2 and 5 for further information. The comparative information has not been restated.

Michael Mueller
Chairman of the Board

François Desjardins
President and Chief Executive Officer

CONSOLIDATED STATEMENT OF INCOME[1]

For the years ended October 31 (in thousands of Canadian dollars, except per share amounts)	Notes	2019	2018
Interest and dividend income	27		
Loans		$ 1,440,102	$ 1,396,936
Securities		76,562	62,035
Deposits with banks		8,356	3,428
Other		31,362	28,384
		1,556,382	1,490,783
Interest expense	27		
Deposits		638,389	583,203
Debt related to securitization activities		172,419	166,077
Subordinated debt		15,214	15,214
Other, including derivatives		43,949	20,377
		869,971	784,871
Net interest income		686,411	705,912
Other income			
Lending fees		61,459	66,540
Fees and securities brokerage commissions		43,892	51,388
Commissions from sales of mutual funds		42,892	47,609
Service charges		42,033	48,972
Card service revenues		33,238	33,785
Fees on investment accounts		18,231	20,146
Insurance income, net	28	13,941	15,273
Income from financial instruments	29	12,460	32,687
Other	7, 29	13,953	21,098
		282,099	337,498
Total revenue		968,510	1,043,410
Amortization of net premium on purchased financial instruments		1,452	2,296
Provision for credit losses	7	44,400	44,000
Non-interest expenses			
Salaries and employee benefits	18, 19	357,396	366,022
Premises and technology	9	197,351	192,377
Other	10	159,067	150,081
Restructuring charges	31	12,679	5,944
Costs related to business combinations	32	—	2,357
		726,493	716,781
Income before income taxes		196,165	280,333
Income taxes	20	23,455	55,687
Net income		$ 172,710	$ 224,646
Preferred share dividends, including applicable taxes		12,966	14,038
Net income available to common shareholders		$ 159,744	$ 210,608
Weighted-average number of common shares outstanding (in thousands)			
Basic		42,310	41,280
Diluted		42,356	41,280
Earnings per share	21		
Basic		$ 3.78	$ 5.10
Diluted		$ 3.77	$ 5.10
Dividends declared per share			
Common share		$ 2.62	$ 2.54
Preferred share - Series 11		$ —	$ 0.25
Preferred share - Series 13		$ 1.06	$ 1.08
Preferred share - Series 15		$ 1.46	$ 1.46

The accompanying notes are an integral part of the Consolidated Financial Statements.

(1) The Consolidated Statement of Income for the year ended October 31, 2019 reflects the adoption of new accounting standards as at November 1, 2018. Refer to Notes 2 and 5 for further information. The comparative information has not been restated.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME[1]

For the years ended October 31 (in thousands of Canadian dollars)		2019		2018
Net income	**$**	**172,710**	$	224,646
Other comprehensive income (loss), net of income taxes				
Items that may subsequently be reclassified to the Statement of Income				
Net change in debt securities at FVOCI				
Unrealized net gains on debt securities at FVOCI		**2,327**		n/a
Reclassification of net gains on debt securities at FVOCI to net income		**(378)**		n/a
		1,949		n/a
Net change in available-for-sale securities				
Unrealized net losses on available-for-sale securities		**n/a**		(7,672)
Reclassification of net gains on available-for-sale securities to net income		**n/a**		(5,206)
		n/a		(12,878)
Net change in value of derivatives designated as cash flow hedges		**33,293**		(4,951)
Net foreign currency translation adjustments				
Net unrealized foreign currency translation gains on investments in foreign operations		**445**		9,012
Net losses on hedges of investments in foreign operations		**(5,158)**		(6,677)
		(4,713)		2,335
		30,529		(15,494)
Items that may not subsequently be reclassified to the Statement of Income				
Remeasurement (losses) gains on employee benefit plans		**(7,311)**		13,023
Net losses on equity securities designated at FVOCI		**(18,411)**		n/a
		(25,722)		13,023
Total other comprehensive income (loss), net of income taxes		**4,807**		(2,471)
Comprehensive income	**$**	**177,517**	$	222,175

INCOME TAXES — OTHER COMPREHENSIVE INCOME

The following table shows income tax expense (recovery) for each component of other comprehensive income.

For the years ended October 31 (in thousands of Canadian dollars)		2019		2018
Net change in debt securities at FVOCI				
Unrealized net gains on debt securities at FVOCI	**$**	**846**		n/a
Reclassification of net losses on debt securities at FVOCI to net income		**(137)**		n/a
		709		n/a
Net change in available-for-sale securities				
Unrealized net losses on available-for-sale securities		**n/a**	$	(2,584)
Reclassification of net gains on available-for-sale securities to net income		**n/a**		(2,436)
		n/a		(5,020)
Net change in value of derivatives designated as cash flow hedges		**12,034**		(1,793)
Remeasurement (losses) gains on employee benefit plans		**(2,666)**		4,740
Net losses on equity securities designated at FVOCI		**(6,648)**		n/a
	$	**3,429**	$	(2,073)

The accompanying notes are an integral part of the Consolidated Financial Statements.

(1) The Consolidated Statement of Comprehensive Income for the year ended October 31, 2019 reflects the adoption of new accounting standards as at November 1, 2018. Refer to Notes 2 and 5 for further information. The comparative information has not been restated.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY[1]

For the year ended October 31, 2019

(in thousands of Canadian dollars)	Preferred shares (Note 17)	Common shares (Note 17)	Retained earnings	Accumulated Other Comprehensive Income					Share-based compensation reserve (Note 18)	Total shareholders' equity
				Debt securities at FVOCI	Available-for-sale securities	Cash flow hedges	Translation of foreign operations	Total		
Balance as at October 31, 2018	$ 244,038	$ 1,115,416	$ 1,152,470	— $	(8,029) $	(12,244) $	4,283 $	(15,990) $	268 $	2,496,202
Impact of adoption of new accounting standards (Notes 2 and 5)			(14,087)	(1,621)	8,029			6,408		(7,679)
Balance as at November 1, 2018	244,038	1,115,416	1,138,383	(1,621)	—	(12,244)	4,283	(9,582)	268	2,488,523
Net income			172,710							172,710
Other comprehensive income (net of income taxes)										
Unrealized net gains on debt securities at FVOCI				2,327				2,327		2,327
Reclassification of net gains on debt securities at FVOCI to net income				(378)				(378)		(378)
Net change in value of derivatives designated as cash flow hedges						33,293		33,293		33,293
Net unrealized foreign currency translation gains on investments in foreign operations							445	445		445
Net losses on hedges of investments in foreign operations							(5,158)	(5,158)		(5,158)
Remeasurement of losses on employee benefit plans			(7,311)							(7,311)
Net losses on equity securities designated at FVOCI			(18,411)							(18,411)
Comprehensive income			146,988	1,949	n/a	33,293	(4,713)	30,529		177,517
Issuance of share capital		23,777								23,777
Share-based compensation									1,547	1,547
Dividends										
Preferred shares, including applicable taxes			(12,966)							(12,966)
Common shares			(110,737)							(110,737)
Balance as at October 31, 2019	$ 244,038	$ 1,139,193	$ 1,161,668 $	328	n/a $	21,049 $	(430) $	20,947 $	1,815 $	2,567,661

The accompanying notes are an integral part of the Consolidated Financial Statements.

(1) The Consolidated Statement of Changes in Shareholders' Equity for the year ended October 31, 2019 reflects the adoption of new accounting standards as at November 1, 2018. Refer to Notes 2 and 5 for further information. The comparative information has not been restated.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (CONT'D)

									For the year ended October 31, 2018
				Accumulated Other Comprehensive Income					
(in thousands of Canadian dollars)	Preferred shares (Note 17)	Common shares (Note 17)	Retained earnings	Available-for-sale securities	Cash flow hedges	Translation of foreign operations	Total	Share-based compen-sation reserve (Note 18)	Total shareholders' equity
Balance as at October 31, 2017	$ 341,600	$ 953,536	$ 1,035,770	$ 4,849	$ (7,293)	$ 1,948	$ (496)	$ —	$ 2,330,410
Net income			224,646						224,646
Other comprehensive income (loss), (net of income taxes)									
Unrealized net losses on available-for-sale securities				(7,672)			(7,672)		(7,672)
Reclassification of net gains on available-for-sale securities to net income				(5,206)			(5,206)		(5,206)
Net change in value of derivatives designated as cash flow hedges					(4,951)		(4,951)		(4,951)
Net unrealized foreign currency translation gains on investments in foreign operations						9,012	9,012		9,012
Unrealized net losses on hedges of investments in foreign operations						(6,677)	(6,677)		(6,677)
Remeasurement of gains on employee benefit plans			13,023						13,023
Comprehensive income			237,669	(12,878)	(4,951)	2,335	(15,494)		222,175
Issuance of share capital		161,880							161,880
Repurchase of share capital	(97,562)		(2,438)						(100,000)
Share-based compensation								268	268
Dividends									
Preferred shares, including applicable taxes			(14,038)						(14,038)
Common shares			(104,493)						(104,493)
Balance as at October 31, 2018	$ 244,038	$ 1,115,416	$ 1,152,470	$ (8,029)	$ (12,244)	$ 4,283	$ (15,990)	$ 268	$ 2,496,202

The accompanying notes are an integral part of the Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS[1]

For the years ended October 31 (in thousands of Canadian dollars)	Notes	2019	2018
Cash flows relating to operating activities			
Net income		$ 172,710	$ 224,646
Adjustments to determine net cash flows relating to operating activities:			
Provision for credit losses	7	44,400	44,000
Gains on disposal of available-for-sale securities	6	n/a	(7,642)
Net gains on sale of commercial loan portfolios	7	—	(4,269)
Deferred income taxes	20	14,172	9,102
Depreciation of premises and equipment	9	7,145	6,881
Amortization of software and other intangible assets	10	39,449	35,146
Change in operating assets and liabilities:			
Loans		590,389	1,547,964
Acceptances		123,216	(510,233)
Securities at FVTPL		(520,660)	(546,371)
Securities purchased under reverse repurchase agreements		1,114,213	(544,657)
Accrued interest receivable		(18,120)	(9,049)
Derivative assets		(49,531)	10,141
Deposits		(2,353,968)	(917,942)
Obligations related to securities sold short		(390,519)	843,569
Obligations related to securities sold under repurchase agreements		43,060	(162,806)
Accrued interest payable		29,389	45,175
Derivative liabilities		(172,755)	67,707
Debt related to securitization activities		1,125,580	(443,168)
Other, net		(68,269)	(85,532)
		(270,099)	(397,338)
Cash flows relating to financing activities			
Repurchase of preferred shares	17	—	(100,000)
Net proceeds from issuance of common shares	17	11	139,122
Dividends		(102,434)	(88,722)
		(102,423)	(49,600)
Cash flows relating to investing activities			
Change in securities at amortized cost			
Acquisitions		(3,070,698)	n/a
Proceeds on sale and at maturity		3,328,423	n/a
Change in securities at FVOCI			
Acquisitions		(610,427)	n/a
Proceeds on sale and at maturity		612,376	n/a
Change in available-for-sale securities			
Acquisitions		n/a	(4,265,194)
Proceeds on sale and at maturity		n/a	4,576,553
Change in held-to-maturity securities			
Acquisitions		n/a	(861,080)
Proceeds at maturity		n/a	610,412
Proceeds on sale of commercial loan portfolios	7	105,366	707,191
Additions to premises and equipment and software and other intangible assets	9, 10	(68,615)	(160,971)
Cash received (paid) for business combinations	32	—	233
Change in interest bearing deposits with banks		51,340	(158,853)
		347,765	448,291
Effect of exchange rate changes on cash and non-interest-bearing deposits with other banks		(1,075)	3,159
Net change in cash and non-interest bearing deposits with banks		(25,832)	4,512
Cash and non-interest bearing deposits with banks at beginning of period		116,490	111,978
Cash and non-interest bearing deposits with banks at end of period		$ 90,658	$ 116,490
Supplemental disclosure about cash flows relating to operating activities:			
Interest paid during the period		$ 835,330	$ 739,723
Interest received during the period		$ 1,519,846	$ 1,477,038
Dividends received during the period		$ 15,732	$ 11,050
Income taxes paid (received) during the period		$ 38,569	$ 85,365

The accompanying notes are an integral part of the Consolidated Financial Statements.

(1) The Consolidated Statement of Cash Flows for the year ended October 31, 2019 reflects the adoption of new accounting standards as at November 1, 2018. Refer to Notes 2 and 5 for further information. The comparative information has not been restated.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at October 31, 2019 and 2018
(All tabular amounts are in thousands of Canadian dollars, unless otherwise indicated)

1. GENERAL INFORMATION

Laurentian Bank of Canada (the Bank) provides financial services to its personal, business and institutional customers. The Bank operates primarily across Canada and in the United States. Refer to Note 33 for further details on the Bank's operating segments.

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 Montreal, Canada, with a registered office in Toronto, 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, 2019 were approved for issuance by the Board of Directors on December 3, 2019.

2. BASIS OF PRESENTATION

These Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). These Consolidated Financial Statements also comply 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 IFRS.

Unless stated otherwise, the accounting policies described in Note 3, Summary of Significant Accounting Policies have been applied consistently to all periods presented.

These Consolidated Financial Statements were prepared under a historical cost basis, except for certain items carried at fair value as discussed in Note 3.

Unless otherwise indicated, all amounts are expressed in Canadian dollars, which is the Bank's functional and presentation currency.

2.1 ACCOUNTING POLICY CHANGES

The Bank adopted IFRS 9, *Financial Instruments* (IFRS 9) which replaces IAS 39, *Financial Instruments: Recognition and Measurement* (IAS 39), and IFRS 15, *Revenue from Contracts with Customers* (IFRS 15) as at November 1, 2018.

As a result of the application of IFRS 9 and IFRS 15, accounting policies were changed in the areas indicated in Note 3, and these new policies were applicable from November 1, 2018. Note 5 shows the impacts of the adoption of IFRS 9 and IFRS 15 as at November 1, 2018. As permitted by IFRS 9, the Bank did not restate comparative amounts for prior periods. New or amended disclosures required by IFRS 7, *Financial Instruments: Disclosures* have been provided for the current year, where applicable, and comparative period disclosures are consistent with those made in the prior year.

The adoption of IFRS 15 had no significant impact on these Consolidated Financial Statements as at November 1, 2018.

2.2 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 subsidiaries of the Bank are listed in the following table. All the foregoing subsidiaries are incorporated or continued in Canada except as noted in the table below.

2. BASIS OF PRESENTATION (CONT'D)

As at October 31, 2019	Principal office address [4]
CORPORATE NAME	
B2B Bank	Toronto, Canada
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
B2B Securitization Inc.	Toronto, Canada
B2B Securitization Limited Partnership[1]	Toronto, Canada
Laurentian Bank Insurance Inc.	Montreal, Canada
Laurentian Bank Securities Inc.	Montreal, Canada
Laurentian Capital (USA) Inc.	Montreal, Canada
Laurentian Trust of Canada Inc.	Montreal, Canada
LBC Capital Inc.	Burlington, Canada
LBEF Inc.	Burlington, Canada
LBEL Inc.[2]	Burlington, Canada
LBC Capital GP Inc.	Burlington, Canada
LBC Leasing Limited Partnership[3]	Burlington, Canada
Northpoint Commercial Finance Canada Inc.	Burlington, Canada
NCF Commercial Finance Holdings Inc.	Alpharetta, United States
NCF Financing LLC	Alpharetta, United States
Northpoint Commercial Finance Inc.	Alpharetta, United States
Northpoint Commercial Finance LLC	Alpharetta, United States
LBC Financial Services Inc.	Montreal, Canada
LBC Investment Management Inc.	Montreal, Canada
V.R. Holding Insurance Company Ltd.	St. James, Barbados
Venture Reinsurance Company Ltd.	St. James, Barbados
VRH Canada Inc.	Montreal, Canada
LBC Tech Inc.	Toronto, Canada
LBC Trust	Montreal, Canada
NCF International S.à r.l.	Luxembourg, Luxembourg
NCF International Kft	Budapest, Hungary

(1) B2B Bank holds 99.99% of the units of B2B Securitization Limited Partnership and B2B Securitization Inc. holds the remaining 0.01%.
(2) LBC Capital Inc. holds 85% of voting shares of LBEL 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%.
(4) Each subsidiary is incorporated or organized under the laws of the country in which the principal office is located.

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. Structured entities may take the form of a corporation, trust or partnership. They are often created with legal arrangements that impose limits on the decision-making powers of their governing board, trustee, or management over the operations of the entity. When assessing whether the Bank has to consolidate a structured entity, three primary criteria are evaluated: whether the Bank has the power to direct the activities of the structured entity that have the most significant impact on the entity's risks and/or returns; whether the Bank is exposed to significant variable returns arising from the entity; and whether the Bank has the ability to use its power to affect the risks and/or returns to which it is exposed.

The Bank consolidates two limited partnerships used for securitization purposes. The Bank also consolidates Venture Reinsurance Ltd, which was a structured entity prior to a corporate reorganization on August 1, 2019.

2.3 USE OF ESTIMATES AND ASSUMPTIONS

In preparing these Consolidated Financial Statements, management is required to make subjective estimates and assumptions that affect the reported amount of assets, liabilities, net income and related disclosures. Estimates made by management are based on historical experience and other assumptions that are believed to be reasonable. Key sources of estimation uncertainty include: determination of fair value of financial instruments, allowances for credit losses, post-employment benefits, income taxes, recoverable amount and carrying value of the cash generating units related to the goodwill and other intangible assets impairment test, provisions and contingent liabilities, for instance in the case of legal actions or restructuring plans. Accordingly, actual results may differ from these and other estimates thereby impacting the Bank's future Consolidated Financial Statements. Refer to the relevant accounting policies in Note 3 for details on our use of estimates and assumptions.

2. BASIS OF PRESENTATION (CONT'D)

2.4 SIGNIFICANT JUDGMENTS

In preparing these Consolidated Financial Statements, management is required to make significant judgments that affect the carrying amounts of certain assets and liabilities, and the reported amounts of revenues and expenses recorded during the period. Significant judgments have been made in the following areas and discussed as noted in the Consolidated Financial Statements:

Allowances for credit losses	Notes 3 and 7	Post-employment benefits	Notes 3 and 19
Business combinations	Notes 3 et 32	Income taxes	Notes 3 and 20
Goodwill and other intangible assets	Notes 3, 10 and 11	Provisions and contingent liabilities	Notes 3 and 30

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 FINANCIAL INSTRUMENTS

Policies applicable beginning November 1, 2018 (IFRS 9)

Classification and measurement of financial assets (IFRS 9)

At initial recognition, all financial assets are recorded at fair value on the Consolidated Balance Sheet. After initial recognition, financial assets must be measured at: 1) amortized cost 2) FVOCI, or 3) FVTPL.

The Bank determines the classification of debt instruments based on the contractual cash flow characteristics of the financial assets and on the business model it uses to manage these financial assets, as described below. Equity instruments are required to be measured at FVTPL, except where the Bank has elected at initial recognition to irrevocably designate an equity investment, held for purposes other than trading, at FVOCI. Derivatives are required to be measured at FVTPL.

Contractual cash flow characteristics
In order to classify debt instruments, the Bank must determine whether the contractual cash flows associated with the debt instrument are solely payments of principal and interest (SPPI) on the principal amount outstanding. The principal is generally the fair value of the debt instrument at initial recognition. The interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time, and for other basic lending risks and costs as well as of a profit margin. If the Bank determines that the contractual cash flows associated with a debt instrument are not solely payments of principal and interest, the debt instrument must be classified as at FVTPL.

Business model assessment
The Bank determines its business models based on the objective under which each portfolio of financial assets is managed. The business model determination requires the use of judgment and consideration of all the relevant evidence available at the date of determination. In determining its business models, the Bank considers the following:

- Management's intent and strategic objectives and the operation of the stated policies in practice;
- The primary risks that affect the performance of the business model and how these risks are managed;
- How the performance of the portfolio is evaluated and reported to management; and
- The frequency and significance of financial asset sales in prior periods, the reasons for such sales and the expected future sales activities.

A financial asset portfolio is within a "hold to collect" business model when the Bank's primary objective is to hold these financial assets in order to collect contractual cash flows from them and not to sell them. When the Bank's objective is achieved both by collecting contractual cash flows and by selling the financial assets, the financial asset portfolio falls within a "hold to collect and sell" business model. In this type of business model, collecting contractual cash flows and selling financial assets are both integral components to achieving the Bank's objective for this financial asset portfolio. Financial assets are measured at FVTPL if they do not fall within either a "hold to collect" business model or a "hold to collect and sell" business model.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Optional designations
Under the fair value option, debt instruments that fall within a "hold to collect" or "hold to collect and sell" business model may be designated on a voluntary and irrevocable basis as at FVTPL 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; and
- Allows for reliable measurement of the fair value of the financial instruments designated at FVTPL.

As at October 31, 2019 and November 1, 2018, the Bank had not designated any debt instrument as at FVTPL.

In addition, it is permitted to irrevocably designate FVOCI, at initial recognition, an equity instrument that is not held for trading.

Securities at amortized cost
Securities at amortized cost include debt securities for which the contractual terms give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding and that fall within a "hold to collect" business model. Securities at amortized cost are initially recorded at fair value on the settlement date on the Consolidated Balance Sheet, including direct and incremental transaction costs. Subsequently, they are measured at amortized cost using the effective interest rate method, net of allowances for expected credit losses. Interest income is recognized in the Consolidated Statement of Income using the effective interest rate method, including the amortization of transaction costs as well as premium or discounts over the security's expected life.

Securities at FVOCI
Securities at FVOCI include: (i) debt securities for which the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding and that fall within a "hold to collect and sell" business model and (ii) equity securities designated at FVOCI with no subsequent reclassification of gains and losses to net income.

The Bank initially recognizes securities at FVOCI on the Consolidated Balance Sheet at the settlement date, including direct and incremental transaction costs.

For debt securities at FVOCI, unrealized gains and losses are subsequently recognized, net of interest income calculated on the instrument's amortized cost, expected credit losses and income taxes, and provided that they are not hedged by derivative financial instruments in a fair value hedging relationship, in Other comprehensive income. When the securities are sold, realized gains or losses, determined on an average cost basis, are reclassified to Income from financial instruments in the Consolidated Statement of Income. Interest income is recognized in the Consolidated Statement of Income using the effective interest rate method, including the amortization of transaction costs, as well as premium or discounts over the security's expected life.

For equity securities designated at FVOCI, subsequent unrealized gains and losses are presented, net of income taxes, in Other comprehensive income with no subsequent reclassification of realized gains and losses to net income. Dividend income for these instruments is recorded in interest income in the Consolidated Statement of Income.

Securities at FVTPL
Securities at FVTPL include (i) debt securities for which the business model is neither to hold to collect nor hold to collect and sell, (ii) debt securities for which the contractual cash flows are not solely payments of principal and interest on the principal amount outstanding, (iii) debt securities designated at FVTPL under the fair value option, (iv) equity securities held for trading, and (v) equity securities other than those designated at FVOCI.

Securities at FVTPL are initially recorded at fair value on the settlement date on the Consolidated Balance Sheet. Transaction costs and other fees associated with financial instruments at FVTPL are expensed as incurred. Subsequently, these securities are measured at fair value and the realized and unrealized gains and losses are recognized in the Consolidated Statement of Income under Income from financial instruments. The amortization of premiums and discounts, calculated using the effective interest rate method, as well as interest income and dividend income, are recognized in Interest income in the Consolidated Statement of Income.

Loans at amortized cost
Loans at amortized cost include loans originated or purchased by the Bank that are not classified as measured at FVTPL or designated at FVTPL under the fair value option. These loans are held within a business model whose objective is to collect cash flows that are solely payments of principal and interest on the principal amount outstanding. Loans originated by the Bank are recognized at the settlement date on the Consolidated Balance Sheet. Loans are initially measured at fair value plus directly attributable costs and are subsequently measured at amortized cost using the effective interest rate method. Loans are presented net of allowances for credit losses on the Consolidated Balance Sheet.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Loans at FVOCI
Loans at FVOCI include loans originated or purchased by the Bank that are not classified as measured at FVTPL or designated at FVTPL under the fair value option. These loans are held within a "hold to collect and sell" business model business model whose objective is to collect cash flows that are solely payments of principal and interest on the principal amount outstanding and to sell them to generate a profit. Loans originated by the Bank are recognized at the settlement date on the Consolidated Balance Sheet. Loans are initially measured at fair value plus directly attributable costs. Interest income on loans at FVOCI is recorded using the effective interest rate method in Interest income in the Consolidated Statement of Income. Changes in the fair value of loans classified as at FVOCI are presented, net of income taxes, in Other comprehensive income. When the securities are sold, realized gains or losses, are reclassified to Other Income.

As at October 31, 2019 and November 1, 2018, the Bank had no loans at FVOCI.

Loans at FVTPL
Loans at FVTPL include loans designated at FVTPL under the fair value option and loans for which the contractual cash flows are not solely payments of principal and interest on the principal amount outstanding. These loans are initially recognized at fair value on the Consolidated Balance Sheet excluding any transaction costs which are recorded in Lending Fees in the Consolidated Statement of Income. Interest income on loans at FVTPL is recorded in Interest income in the Consolidated Statement of Income. Changes in the fair value of loans classified as at FVTPL and loans designated at FVTPL under the fair value option are recognized in Income from financial instruments.

As at October 31, 2019 and November 1, 2018, the Bank had no loans at FVTPL.

Classification and measurement of financial liabilities (IFRS 9)

At initial recognition, all financial liabilities are recorded at fair value at the settlement date on the Consolidated Balance Sheet. After initial recognition, financial liabilities must be measured as: 1) at amortized cost or 2) at FVTPL.

Financial liabilities at amortized cost
Financial liabilities at amortized cost include deposits, obligations related to securities sold under repurchase agreements, acceptances, subordinated debt, debt related to securitization activities and other liabilities. Financial liabilities at amortized cost are initially recognized at fair value including any transaction costs and subsequently measured at amortized cost. Interest expense on financial liabilities at amortized cost is recognized in the Consolidated Statement of Income, using the effective interest rate method.

Financial liabilities at FVTPL
Financial liabilities at FVTPL are composed of financial instruments held-for-trading including obligations related to securities sold short, derivatives not designated in hedge relationships and financial liabilities designated by the Bank as at FVTPL under the fair value option upon initial recognition. Financial liabilities at FVTPL are initially recorded at fair value at the settlement date on 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 financial instruments. For financial liabilities designated by the Bank as at FVTPL under the fair value option, changes in the fair value which are attributable to changes in own credit risk are presented in other comprehensive income rather than in the Consolidated Statement of Income, unless it creates a mismatch. Interest expense paid is recognized in the Consolidated Statement of Income. Transaction costs and other fees associated with financial instruments at FVTPL are expensed as incurred.

As at October 31, 2019 and November 1, 2018, the Bank had not designated any financial liabilities at FVTPL.

Reclassification of financial assets and financial liabilities (IFRS 9)

Financial assets and financial liabilities are not reclassified subsequent to their initial recognition, except for financial assets for which the Bank changes its business model for managing financial assets. The reclassification is applied prospectively from the reclassification date. Such reclassifications of financial assets are expected to be rare in practice.

Impairment of financial assets (IFRS 9)

At the end of each reporting period, the Bank applies a three-stage impairment approach to measure the expected credit losses (ECL) on all debt instruments measured at amortized cost or at FVOCI, on loan commitments and financial guarantees that are not measured at fair value and on lease receivables. The ECL model is forward looking. Measurement of ECLs at each reporting period reflects reasonable and supportable information about past events, current conditions, and forecasts of future events and economic conditions.

For accounts receivables, the Bank applies a simplified impairment approach which does not track the changes in credit risk, but instead recognizes an allowance based on lifetime ECL at each reporting date from the date of initial recognition.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Determining the Stage

The ECL three-stage impairment approach is based on the change in the credit quality of financial assets since initial recognition. If, at the reporting date, the credit risk of non-impaired financial instruments has not increased significantly since initial recognition, these financial instruments are classified in Stage 1, and an allowance for credit losses that is measured, at each reporting date, at an amount equal to 12-month expected credit losses is recorded. When there is a significant increase in credit risk since initial recognition, these non-impaired financial instruments are migrated to Stage 2, and an allowance for credit losses that is measured, at each reporting date, at an amount equal to lifetime expected credit losses is recorded. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a significant increase in credit risk since initial recognition, the ECL model requires reverting to Stage 1, i.e. recognition of 12-month expected credit losses. When one or more events that have a detrimental impact on the estimated future cash flows of a financial asset have occurred, the impaired financial asset is migrated to stage 3, an allowance equal to the lifetime expected losses continues to be recorded or the financial asset is written off. Interest income is calculated on the gross carrying amount of the financial assets in stages 1 and 2 and on the net carrying amount of the financial assets in stage 3.

Assessment of significant increase in credit risk

In determining whether credit risk has increased significantly, the Bank uses an internal credit risk grading system and external risk ratings. To assess whether the credit risk of a financial instrument has increased significantly, the 12-month probability of default (PD) at the reporting date is compared with the 12-month PD at the date of initial recognition, and reasonable and supportable information indicative of significant increases in credit risk since initial recognition is considered. The Bank includes relative and absolute thresholds in the definition of significant increase in credit risk and a backstop of 30 days past due. All financial instruments that are 30 days past due are migrated to stage 2 even if other metrics do not indicate that a significant increase in credit risk has occurred. The assessment of a significant increase in credit risk requires significant judgment.

Measurement of expected credit losses

ECLs are measured as the probability-weighted present value of expected cash shortfalls over the remaining expected life of the financial instrument, and reasonable and supportable information about past events, current conditions and forecasts of future events and economic conditions is considered. The estimation and application of forward-looking information requires significant judgment. The cash shortfall is the difference between all contractual cash flows owed to the Bank and all the cash flows that the Bank expects to receive.

The measurement of ECLs is based primarily on the product of the instrument's PD, loss given default (LGD), and exposure at default (EAD). The IFRS 9 ECL calculation has leveraged, where appropriate, the credit risk model parameters used by the Bank for the collective allowance calculation under IAS 39, namely: PD, LGD and EAD. Forward-looking macroeconomic factors such as interest rates, unemployment rates, gross domestic product (GDP) forecasts and housing price indices are incorporated into the risk parameters. The estimate of expected credit losses reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes. The Bank incorporates three forward-looking macroeconomic scenarios in its ECL calculation process: a base scenario, an upside scenario, and a downside scenario. Probability-weights are attributed to each scenario. The scenarios and probability weights are reassessed quarterly and subject to management review. The Bank applies experienced credit judgment to adjust the modeled ECL results when it becomes evident that known or expected risk factors and information were not considered in the credit risk rating and modeling process.

ECLs for all financial instruments are recognized in provisions for credit losses in the Consolidated Statement of Income. In the case of debt instruments measured at FVOCI, ECLs are recognized in provisions for credit losses in the Consolidated Statement of Income, and a corresponding amount is recognized in Other comprehensive income with no reduction in the carrying amount of the asset on the Consolidated Balance Sheet. As for debt instruments measured at amortized cost, they are presented net of the related allowance for credit losses on the Consolidated Balance Sheet. Allowances for credit losses for off-balance-sheet credit exposures that are not measured at fair value are included in other liabilities on the Consolidated Balance Sheet.

Purchased or originated credit-impaired financial assets

On initial recognition of a financial asset, the Bank determines whether the asset is credit-impaired. For financial assets that are credit-impaired upon purchase or origination, in subsequent reporting periods the Bank recognizes only the cumulative changes in lifetime expected credit losses since initial recognition as an allowance for credit losses. The Bank recognizes changes in ECLs in provision for credit losses in the Consolidated Statement of Income, even if the lifetime ECLs are less than ECLs that were included in the estimated cash flows on initial recognition.

Default

The definition of default used by the Bank to measure ECLs and transfer financial instruments between stages is consistent with the definition of default used for internal credit risk management purposes. The Bank considers a financial asset as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of a financial asset have occurred or when contractual payments are 90 days past due.

Write-offs

The Bank writes off an impaired financial asset and its related allowance for credit losses in whole or in part when it considers the probability of recovery to be non-existent and when all guarantees and other remedies available to the Bank have been exhausted or if the borrower is bankrupt or winding up and balances owing are not likely to be recovered.For credit cards, the balances and related allowance for credit losses are generally written off when payment is 180 days past due.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Modified Loans
The original terms of a financial asset may be renegotiated or otherwise modified, resulting in changes to the contractual terms of the financial asset that affect the contractual cash flows. The treatment of such modifications depends on the nature and extent of changes. Modifications which are performed for credit reasons, primarily related to troubled debt restructurings, are generally treated as modifications of the original financial asset and do not result in derecognition. Concessions may include payment deferrals, extension of amortization periods, rate reductions, principal forgiveness, debt consolidation, forbearance and other modifications and are intended to minimize the economic loss and to avoid foreclosure or repossession of collateral.

Modifications which are performed for other than credit reasons are generally considered to be an expiry of the original cash flows; accordingly, such renegotiations are treated as a derecognition of the original financial asset and recognition of a new financial asset based on the new contractual terms.

If the Bank determines that a modification does not result in derecognition, the financial asset continues to be subject to the same assessments for significant increase in credit risk relative to initial recognition and credit-impairment, as described above. Expected cash flows arising from the modified contractual terms are considered when calculating the ECL for the modified asset. For loans that were modified while having lifetime ECLs, such loans can revert to having twelve-month ECLs if the borrower's financial condition that led to it being identified as credit-impaired are no longer present and relate objectively to an event occurring after the original credit-impairment was recognized.

If a modification of terms results in derecognition of the original financial asset and recognition of the new financial asset, the new financial asset will generally be recorded in Stage 1, unless it is determined to be credit-impaired at the time of the renegotiation. For the purposes of assessing for significant increases in credit risk, the date of initial recognition for the new financial asset is the date of the modification.

Policies applicable prior to November 1, 2018 (IAS 39)

The classification of financial instruments at initial recognition depends on their characteristics and on the Bank's intention for acquiring them.

Financial instruments at fair value through profit or loss (IAS 39)

Financial instruments at fair value through profit or loss are composed 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 financial instruments. Interest income earned, amortization of premiums and discounts as well as dividends received are included in interest income using the accrual basis of accounting. Transaction costs and other fees associated with financial instruments at fair value through profit or loss are expensed as incurred.

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

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

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

As at October 31, 2018, the Bank had not designated any financial instrument as at fair value through profit or loss.

Available-for-sale financial assets (IAS 39)

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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 financial instruments.

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 (IAS 39)

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.

Loans (IAS 39)

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.

Impairment of financial assets (IAS 39)

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.

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 financial insruments, now presented under the line item Income from financial instruments. 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.

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.

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.

Allowances for credit losses reflect management's estimate of losses incurred in the credit portfolios, including loans and 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

<u>Policies applicable under both IFRS 9 and IAS 39</u>

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 repurchase agreements. Subsequently, the agreements 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 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.

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 financial instruments.

Derecognition of financial assets

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

Securitization
The Bank regularly transfers pools of residential mortgages under securitization programs. When 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 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.

The Bank also enters into transactions with other structured entities as part of securitization programs for finance lease receivables and personal loans. Structured entities are consolidated if the Bank controls the entity. In assessing control, the Bank evaluates the substance of the relationship, its right or exposure to variable returns and the ability to exercise power to affect the returns.

Refer to Notes 8 and 15 for further detail.

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 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 measured at amortized cost using the effective interest method. Commissions earned are recorded in other income in the Consolidated Statement of Income.

Derivatives and hedging activities

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 financial instruments, except for derivatives designated as cash flow hedges and net investment hedges as described below. Interest income and expense related to derivatives is recognized in Net interest income in the Consolidated Statement of Income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Hedge accounting
The Bank elected not to apply the IFRS 9 hedge accounting requirements as at November 1, 2018 and continues to apply the IAS 39 requirements. However, information provided in Note 26 for the year ended October 31, 2019 reflects the new disclosure requirements of IFRS 7, *Financial Instruments: Disclosures*.

The purpose of a hedging transaction is to modify the Bank's exposure to one or more risks by creating an offset between changes in the fair value of, or the cash flows attributable to, the hedged item and the hedging instrument. Hedge accounting ensures that offsetting gains, losses, revenues and expenses are recognized in the Consolidated Statement of Income in the same period or periods.

Where hedge accounting can be applied, the Bank designates and formally documents each hedging relationship, at its inception, by detailing the risk management objective, the hedging strategy, the item being hedged, the related hedging instrument, and the method for assessing the effectiveness or ineffectiveness of the hedging relationship. 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 assessed every month using statistical regression models.

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

For these hedging relationships, the changes in the hedged item's fair value attributable to the hedged risk are recognized in Income from financial instruments on the Consolidated Statement of Income. A corresponding adjustment to the carrying amount of the hedged item in the Consolidated Balance Sheet is also recorded, except for hedges of certain 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 hedged item is no longer adjusted to reflect changes in fair value and the cumulative adjustment with respect to the effective portion of gains and losses attributable to the hedged risk are amortized using the effective interest rate method and 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 or Salaries and employee benefits, depending on the hedged item, 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 or Salaries and employee benefits, depending on the hedged item, 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.

Net investment hedges
Cross currency swaps are used to hedge changes in the fair value of the net investment in foreign operations with a functional currency other than the Canadian dollar.

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 under Other income. Upon disposal or partial disposal of the net investment in a foreign operation, the related proportion of accumulated changes in fair value previously recognized in other comprehensive income are reclassified in the Consolidated Statement of Income under Other income.

Deposits

Deposits are initially measured at fair value, net of directly attributable transaction costs incurred. Subsequently, they are measured at amortized cost using the effective interest method. 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 measured at amortized cost using the effective interest rate 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 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. Subordinated debt is initially measured at fair value net of directly attributable transaction costs incurred. Subsequently, the debt is measured at amortized cost using the effective interest method. 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 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. The leased assets are classified in the balance sheet in other assets and are carried at cost less accumulated depreciation, which takes into account their estimated residual value. 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.

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 REVENUE FROM CONTRACTS WITH CUSTOMERS

The Bank provides banking services to its customers. Revenue from contracts with customers is recognized when control of services provided by the Bank is transferred to the customer at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for those services. Revenue associated with the rendering of services is recognized by reference to the satisfaction of performance obligations at the end of the reporting period. The Bank has generally concluded that it is the principal in its revenue arrangements, except for interchange income described below, because it typically controls the services before transferring them to the customer.

The Bank's fee and commission income from services, including those where performance obligations are satisfied over time, are as follow:

Lending fees

Lending fees include commitment fees, stand-by fees and letter of credit fees. These fees are recognized in income over the period in which the service is provided. Lending fees also include fees to guarantee acceptances issued by our customers, which are recognized over the term of the acceptances.

Commissions from sales of mutual funds

Commissions from sales of mutual funds mainly include trailer commissions. Trailer commissions are recognized over time and are generally calculated based on the average daily net asset value of the funds during the period.

Service charges

Service charges are earned on personal and commercial deposit accounts and consist of account fees and transaction-based service charges. Account fees relate to account maintenance activities and are recognized in income over the period in which the service is provided. Transaction-based service charges are recognized as earned at a point in time when the transaction is complete.

Fees and securities brokerage commissions

Fees and securities brokerage commissions mainly include commission fees and investment banking fees. Commission fees include sales, trailer and brokerage commissions. Sales and brokerage commissions are generally recognized at a point in time when the transaction is executed. Trailer commissions are recognized over time and are generally calculated based on the average daily net asset value of the fund during the period. Investment banking fees include advisory fees and underwriting fees and are generally recognized at a point in time as income upon successful completion of the engagement.

Card service revenues

Card service revenues include interchange income, as well as card fees such as annual and transactional fees. The Bank also offers credit card loyalty points programs which affect the timing of recognition of card service revenues.

Interchange income
Interchange income is recognized at a point in time when the transaction is authorized and funded. The Bank is acting as an agent in these arrangements.

When another party is involved in providing services to its customer, the Bank determines whether it is a principal or an agent in these transactions by evaluating the nature of its promise to the customer. The Bank is a principal and records revenue on a gross basis if it controls the promised services before transferring them to the customer. However, if the Bank's role is only to arrange for another entity to provide the services, then the Bank is an agent and will record revenue at the net amount that it retains for its agency services.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Card fees
Card fees are recognized as earned at the transaction date with the exception of annual fees, which are recognized over a twelve-month period.

Credit card loyalty points programs
The Bank offers credit card loyalty points programs, which allow customers to accumulate points that can be redeemed for free products or services. The loyalty points give rise to a separate performance obligation as they provide a material right to the customer. A portion of the transaction price is allocated to the loyalty points awarded to customers based on relative stand-alone selling price and recognized as a contract liability until the points are redeemed. Revenue is recognized upon redemption of products or services by the customer.

When estimating the stand-alone selling price of the loyalty points, the Bank considers the monetary value assigned to the loyalty points and the likelihood that the customer will redeem the points. In estimating the value of the points issued, the Bank considers the mix of products that will be available in the future in exchange for loyalty points and customers' preferences. In estimating the redemption rate, the Bank considers breakage which represents the portion of the points issued that will never be redeemed. The Bank applies judgment in its estimation of breakage using customers' historical redemption patterns as the main input. The Bank updates its estimates of the points that will be redeemed on a monthly basis and any adjustments to the contract liability balance are charged against revenue.

As points issued under the programs do not expire, estimates of the stand-alone selling price are subject to significant uncertainty. Any significant changes in customers' redemption patterns will impact the estimated redemption rate.

Fees on investment accounts

Fees from investment accounts are earned on personal investment accounts under administration and consist of account fees and transaction-based service charges. Account fees relate to account maintenance activities and are recognized in income over the period in which the service is provided. Transaction-based service charges are recognized as earned at a point in time when the transaction is complete.

Contract balances

Accounts receivables
A receivable represents the Bank's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). The timing of payment of accounts receivable is short term after the satisfaction of the performance obligation. Accounts receivables are measured at amortized cost and included in the Other assets line item.

Contract liabilities
A contract liability is the obligation to transfer goods or services to a customer for which the Bank has received consideration from the customer. If a customer pays consideration before the Bank transfers services to the customer, a contract liability is recognized when the payment is made. Contract liabilities are recognized as revenue when the Bank performs under the contract. Contract liabilities are included in the Other liabilities line item.

3.4 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 and includes the impact of related hedges. 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. A day-one gain resulting from the revaluation of purchased financial instruments mainly represents the favourable effect of the discount or premium to reflect current market rates and is amortized in net income over the estimated remaining term of the purchased financial instruments. Subsequent changes in the fair value of a contingent consideration are recorded in net income.

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. Changes in assumptions could have had a significant impact on the recognized amount of goodwill or gain arising on acquisition.

Purchased financial assets and assumed financial liabilities (IAS 39)

The fair value estimate of purchased financial assets and assumed financial 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Subsequently, purchased loans and finance lease receivables are recorded at amortized cost using the effective interest method and are subject to impairment assessment, consistent with the Bank's methodology for allowances for credit losses. Increases in initially estimated credit loan losses are recorded in the provision for credit losses and increase the allowance for credit losses. Decreases in initially estimated credit losses result in a reduction of the provision for credit losses and reduce any previously recorded allowance for credit losses, until the newly recorded allowance is exhausted. Any additional decrease in estimated 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.

Different rules may apply under IFRS 9 for loans purchased as part of a business combination.

Impairment of goodwill

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Bank's cash-generating units (CGUs), which are expected to benefit from the synergies of the combination. Goodwill is monitored for internal management purposes at the operating segment.

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. If the recoverable amount of the CGU is less than its 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. Impairment losses on goodwill are charged to income in the period they are incurred and are not reversed.

Management uses a number of significant estimates, including projected net income growth rates, future cash flows, the number of years used in the cash flow model and the discount rate of future cash flows to determine the recoverable amount of the CGU. Management considers these estimates to be 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 are disclosed and further explained in Notes 10 and 11.

3.5 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 capitalized only to the extent that they enhance the future economic benefits expected to be derived from the assets.

Depreciation

Depreciation begins when the asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. 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 of premises and equipment

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.6 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 amortization and impairment losses. Additions and subsequent expenditures are capitalized only to the extent that they enhance the future economic benefits expected to be derived from the assets.

Amortization

Amortization begins when the asset is available for use, ie when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Software is amortized on a straight line basis over its estimated useful life, which ranges from two to twenty 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 Advisors and Brokers, core deposit intangibles, as well as certain components of the core banking system and of the 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 twenty years. Amortization of other intangible assets is included in other non-interest expenses.

Impairment of software and other intangible assets

Software and intangible assets with finite lives are tested for impairment whenever there is an indication that the asset may be impaired and at least annually for IT projects and other intangible assets 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.

3.7 EMPLOYEE BENEFITS

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

Short-term benefits

The Bank recognizes a compensation expense as services are rendered by employees.

Post-employment benefits

The Bank has a number of benefit plans, including defined benefit and defined contribution pension plans, as well as other post-employment benefits.

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

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

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

Funding is generally provided by the Bank.

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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.

Assumptions

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.

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.

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.

Deferred tax liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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 income tax expense or recovery.

3.9 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 amount can be reliably estimated, considering all relevant risks and uncertainties. Contingent liabilities are not recognized but are disclosed in the Consolidated Financial Statements when it cannot be determined whether an obligation is probable or the amount of loss cannot reliably be estimated. The adequacy of provisions is regularly assessed and the necessary adjustments to incorporate new information are made as it becomes available.

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. Management and internal and external experts are involved in assessing the probability and in estimating any amounts involved. Furthermore, the actual cost of resolving these obligations may be substantially higher or lower than the amount recognized.

3.10 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.11 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.

3.12 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.

3.13 ASSETS UNDER ADMINISTRATION

The Bank administers assets held by customers that are not recognized in the Consolidated Balance Sheet. Revenues derived from the administration of these assets are recorded in other income, as services are provided.

3.14 TRANSLATION OF FOREIGN CURRENCIES

The Consolidated Financial Statements are presented in Canadian dollars which is the Bank's presentation currency. Items included in the financial statements of each of the Bank's entities are measured using their functional currency, which is the currency of the primary economic environment in which they operate.

Monetary assets and liabilities denominated in a currency that differs from an entity's functional currency are translated into the functional currency of the entity at the exchange rate prevailing at the balance sheet date. Non-monetary assets and liabilities that are measured at historical cost are translated at historical exchange rates. Non-monetary assets that are measured at fair value are translated at the exchange rate prevailing at the balance sheet date. Income and expenses are translated at the average monthly exchange rates prevailing throughout the year. 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 included in other comprehensive income until the asset is sold or becomes impaired.

Assets and liabilities of the foreign operations with a functional currency in U.S. dollars are translated into Canadian dollars at the exchange rates prevailing at the Consolidated Balance Sheet date, and income and expenses of the foreign operations are translated at the average monthly exchange rates prevailing throughout the year. Any goodwill and fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations, and are translated at the exchange rate prevailing at the Consolidated Balance Sheet date. Unrealized gains and losses resulting from the translation of foreign operations, along with related hedges and tax effects are included in other comprehensive income. Upon disposal or partial disposal of a foreign operation, an appropriate proportion of the translation differences previously recognized in other comprehensive income is recognized in other income.

3.15 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash and non-interest-bearing deposits with banks, and are measured at amortized cost. Cash comprises bank notes and coins.

3.16 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. FUTURE ACCOUNTING CHANGES

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

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, i.e. 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. Most leases are presented on the Consolidated Balance Sheet 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 was November 1, 2019 for the Bank.

Lessees must adopt IFRS 16 using either the retrospective approach or the modified retrospective approach. The Bank will apply IFRS 16 on a modified retrospective basis by adjusting the consolidated balance sheet as at November 1, 2019, the date of initial application, with no restatement of comparative periods. The Bank will elect certain transition elections that include:

- Measure the right-of-use assets at the date of initial application as equal to lease liability with certain adjustments;
- Not apply IFRS 16 to operating leases with a remaining lease term of less than 12 months (short-term leases) or low value assets; and
- Not apply IFRS 16 to leases of intangible assets.

Based on current estimates, the adoption of IFRS 16 is expected to result in the recognition of right-of-use assets of approximately $138.6 million, net of deferred credits related to previously recorded lease inducements, and lease liabilities of approximately $170.7 million as at November 1, 2019. The decrease in shareholders' equity at IFRS 16 transition is not expected to exceed $8.5 million. The adoption of IFRS 16 is expected to decrease the Bank's Common Equity Tier 1 (CET1) capital ratio by up to 10 basis points. The Bank is finalizing its analyses of the impact of the adoption of this standard on its Consolidated Financial Statements.

Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)

In February 2018, the IAS issued amendments to IAS 19, *Employee Benefits* which specifies how companies determine pension expenses when changes to a defined benefit pension plan occur. IAS 19 specifies how a company accounts for a defined benefit plan. When a change to a plan—an amendment, curtailment or settlement—takes place, IAS 19 requires a company to remeasure its net defined benefit liability or asset. The amendments require a company to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. Prior to the amendments, IAS 19 did not specify how to determine these expenses for the period after the change to the plan. The amendments are effective for annual periods beginning on or after January 1, 2019, which was November 1, 2019 for the Bank. The adoption of this standard had no significant impact on the Bank's Consolidated Financial Statements as at November 1, 2019.

Conceptual Framework for Financial Reporting

In March 2018, the IASB issued a comprehensive set of concepts for financial reporting, the revised Conceptual Framework for Financial Reporting (Conceptual Framework), replacing the previous version of the Conceptual Framework issued in 2010. The Conceptual Framework sets out the fundamental concepts for financial reporting that guide the IASB in developing IFRS Standards. It helps to ensure that the Standards are conceptually consistent and that similar transactions are treated the same way, so as to provide useful information for investors, lenders and other creditors. The revised Conceptual Framework is effective immediately for the IASB and the IFRS Interpretations Committee.

The revised Conceptual Framework has an effective date of January 1, 2020—with earlier application permitted—for companies that use the Conceptual Framework to develop accounting policies when no IFRS Standard applies to a particular transaction. The Bank is currently assessing the impact of the adoption of the revised Conceptual Framework on its Consolidated Financial Statements.

4. FUTURE ACCOUNTING CHANGES (CONT'D)

IBOR reform (Amendments to IFRS 9, IAS 39 and IFRS 7)

In September 2019, the International Accounting Standards Board ("IASB") published Interest Rate Benchmark Reform, Amendments to IFRS 9, IAS 39 and IFRS 7 (the "Amendments"). This brings to a conclusion phase one of the IASB's work to respond to the effects of Interbank Offered Rates ("IBOR") reform on financial reporting. The Amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (an "RFR"). The Amendments also requires additional disclosures to help users of the financial statements to assess the uncertainty resulting from the Interest Rate Benchmark Reform. The amendments are effective for annual periods beginning on or after January 1, 2020, which will be November 1, 2020 for the Bank. Earlier application is permitted. The Bank is currently assessing the impact of the adoption of this standard on its Consolidated Financial Statements.

Phase two of the IASB's work to respond to the IBOR reform will deal with issues that may arise when an existing interest rate benchmark is replaced with an RFR. The IASB expects to discuss the phase two issues from October 2019 until February 2020.

IFRS 17: *Insurance Contracts*

In May 2017, the IASB issued IFRS 17, *Insurance Contracts*, which sets out the principles for the recognition, measurement, presentation and disclosure of insurance contracts. IFRS 17 replaces the previous insurance contract standard, IFRS 4 Insurance Contracts. The standard is effective for annual periods beginning on or after January 1, 2021. On November 14, 2018, the IASB has voted to propose a one-year deferral of the effective date for IFRS 17 to 2022. In June 2019, the IASB proposed targeted amendments to IFRS 17 to respond to concerns and challenges raised by stakeholders as IFRS 17 is being implemented. The proposed deferral and targeted amendments to IFRS 17 are subject to public consultation taking place from June to September 2019. The Bank is currently assessing the impact of the adoption of this standard on its Consolidated Financial Statements.

5. ADOPTION OF NEW ACCOUNTING STANDARDS

5.1 IFRS 9, *FINANCIAL INSTRUMENTS*

The IFRS 9 classification and measurement requirements as well as the impairment requirements have been applied retrospectively through adjustments to Consolidated Balance Sheet amounts on the date of initial application, i.e., November 1, 2018, with no restatement of comparative periods, as is permitted under the standard. The impacts of IFRS 9 adoption were recognized through adjustments to Retained earnings and Accumulated other comprehensive income on November 1, 2018. The following information presents the Consolidated Balance Sheet impacts as at November 1, 2018.

Classification and measurement of financial instruments at the date of initial application of IFRS 9

The following tables show the measurement categories and carrying amounts of the Bank's financial assets and financial liabilities, as previously established in accordance with IAS 39 as at October 31, 2018, as well as the new measurement categories and new carrying amounts established in accordance with IFRS 9 as at November 1, 2018 and the impact of IFRS 9 adoption on shareholders' equity. With respect to financial instruments for which the measurement method has changed, additional information is provided hereafter.

Impact of IFRS 9 adoption on financial assets

As at November 1, 2018	IAS 39 measurement category	IFRS 9 measurement category	Carrying amount under IAS 39	Classification	Measurement	Carrying amount under IFRS 9	
Financial assets							
Cash and non-interest-bearing deposits with other banks	Loans and receivables	Amortized cost	$ 116,490	$ —	$ —	$ 116,490	
Interest-bearing deposits with other banks	Loans and receivables	Amortized cost	374,237	—	—	374,237	
Securities	Available-for-sale	n/a	2,710,249	(2,710,249)	—	—	
		Amortized cost	—	2,333,880	(140)	2,333,740	(1)
		FVOCI (debt securities)	—	156,804	(60)	156,744	
		FVOCI (designated equity securities)		180,058	—	180,058	(2)
		FVTPL	—	39,507	—	39,507	(3)
	Held-to-maturity	n/a	655,757	(655,757)	—	—	
		Amortized cost	—	655,757	—	655,757	
	Held-for-trading	n/a	2,695,138	(2,695,138)	—	—	
		Amortized cost	—	13,159	—	13,159	(4)
		FVTPL	—	2,681,979	—	2,681,979	
			6,551,871	—	(200)	6,551,671	(5)
Securities purchased under reverse repurchase agreements	Loans and receivables	Amortized cost	3,652,498	—	—	3,652,498	
Loans							
Personal	Loans and receivables	Amortized cost	5,372,468	—	—	5,372,468	
Residential mortgage	Loans and receivables	Amortized cost	16,986,338	—	—	16,986,338	
Commercial	Loans and receivables	Amortized cost	11,839,106	—	—	11,839,106	
Customers' liabilities under acceptances	Loans and receivables	Amortized cost	196,776	—	—	196,776	
			34,394,688	—	—	34,394,688	
Allowances for loan losses			(93,026)	—	(6,578)	(99,604)	(5)
			34,301,662	—	(6,578)	34,295,084	
Derivatives	FVTPL	FVTPL	94,285	—	—	94,285	
Other financial assets	Loans and receivables	Amortized cost	226,674	—	—	226,674	
Sub-total – Impact of IFRS 9 adoption on financial assets, before income taxes			n/a	$ —	$ (6,778)	n/a	

(1) As at October 31, 2018, these debt securities were classified as available-for-sale. They were being recognized at fair value with changes in fair value being recorded in Other comprehensive income. On November 1, 2018, under IFRS 9, the Bank reclassified these debt securities as at amortized cost, since (1) the financial assets are held within a business model whose objective is achieved by collecting contractual cash flows and (2) the contractual terms of these debt securities give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding. The fair value of these debt securities as at October 31, 2018 was treated as their new gross carrying amount or amortized cost, respectively, as at November 1, 2018. Had the Bank not reclassified these debt securities as at amortized cost, the change in fair value that would have been recognized in Other comprehensive income would have been a a gain of $0.9 million for the year ended October 31, 2019.

(2) As at October 31, 2018, these equity securities were classified as available-for-sale. They were being recognized at fair value with changes in fair value being recorded in Other comprehensive income. On November 1, 2018, and as permitted by the IFRS 9 transitional provisions, the Bank made an irrevocable election to designate these equity securities held in non-trading portfolios at FVOCI with no subsequent reclassification of gains and losses to net income.

(3) As at October 31, 2018, these debt securities were classified as available-for-sale. They were being recognized at fair value with changes in fair value being recorded in Other comprehensive income. On November 1, 2018, under IFRS 9, the Bank reclassified these debt securities as at FVTPL, since the financial assets are not held within a "hold to collect" business model nor a "hold to collect and sell" business model.

(4) As at October 31, 2018, these debt securities were classified as held-for-trading. They were being recognized at fair value with changes in fair value being recorded in profit or loss. On November 1, 2018, under IFRS 9, the Bank reclassified these debt securities as at amortized cost, since (1) the financial assets are now held within a business model whose objective is achieved by collecting contractual cash flows and (2) the contractual terms of these debt securities give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding. The fair value of these debt securities as at October 31 2018 was treated as their new gross carrying amount or amortized cost, respectively, as at November 1, 2018. Had the Bank not reclassified these debt securities as amortized cost, changes in fair value that would have been recognized in the Consolidated Statement of Income would have been negligible for the year ended October 31, 2019.

(5) Refer to the Reconciliation of allowances for credit losses at transition date table below for further details.

5. ADOPTION OF NEW ACCOUNTING STANDARDS (CONT'D)

Impact of IFRS 9 adoption on financial liabilities and shareholders' equity

As at November 1, 2018	IAS 39 measurement category	IFRS 9 measurement category	Carrying amount under IAS 39	Classification	Measurement	Carrying amount under IFRS 9	
Financial liabilities							
Deposits	Amortized cost	Amortized cost	$ 28,006,572	$ —	$ —	$ 28,006,572	
Obligations related to securities sold short	FVTPL	FVTPL	3,008,666	—	—	3,008,666	
Obligations related to securities sold under repurchase agreements	Amortized cost	Amortized cost	2,515,823	—	—	2,515,823	
Acceptances	Amortized cost	Amortized cost	196,776	—	—	196,776	
Derivatives	FVTPL	FVTPL	285,492	—	—	285,492	
Other financial liabilities	Amortized cost	Amortized cost	628,822	—	3,655	632,477	(1)
Debt related to securitization activities	Amortized cost	Amortized cost	7,787,753	—	—	7,787,753	
Subordinated debt	Amortized cost	Amortized cost	348,762	—	—	348,762	
Sub-total – Impact of IFRS 9 adoption on financial liabilities, before income taxes			n/a	—	3,655	n/a	
Total – Impact of IFRS 9 adoption, before income taxes			n/a	—	(10,433)	n/a	
Shareholders' equity							
Total Accumulated other comprehensive income, after income taxes			(15,990)	6,408	—	(9,582)	(2)
Total Retained earnings, after income taxes			1,152,470	(6,408)	(7,679)	1,138,383	(2), (3)
Total Shareholders' equity, after income taxes			$ 2,496,202	$ —	$ (7,679)	$ 2,488,523	(3)

(1) Refer to the Reconciliation of allowances for credit losses at transition date table below for further details.
(2) Classification amount represents the impact after income taxes ($8.5 million before income taxes) that resulted from the reclassification of debt securities from available-for-sale under IAS 39 to amortized cost under IFRS 9.
(3) Measurement amount represents the impact after income taxes ($10.4 million before income taxes) of the adoption of the impairment provisions of IFRS 9.

Reconciliation of allowances for credit losses at transition date

The following table presents a reconciliation of the allowances for credit losses amounts established in accordance with IAS 39 as at October 31, 2018 with those established in accordance with IFRS 9 as at November 1, 2018.

	IAS 39/IAS 37				IFRS 9			
As at November 1, 2018	Individual Allowances	Collective Allowances[1]	Total	Transition Adjustments	Stage 1	Stage 2	Stage 3	Total
Debt securities								
At amortized cost[2]	$ —	$ —	$ —	$ 140	$ 140	$ —	$ —	$ 140
At FVOCI[3]	—	—	—	60	60	—	—	60
	—	—	—	200	200	—	—	200
Loans at amortized cost								
Personal	—	23,509	23,509	11,215	9,214	20,582	4,928	34,724
Residential mortgage	—	9,920	9,920	(5,214)	2,435	1,828	443	4,706
Commercial[4]	28,442	31,155	59,597	577	19,536	8,004	32,634	60,174
	28,442	64,584	93,026	6,578	31,185	30,414	38,005	99,604
Off-balance sheet exposures[5]	—	3,396	3,396	3,655	4,523	2,176	352	7,051
Total allowances for credit losses	$ 28,442	$ 67,980	$ 96,422	$ 10,433	$ 35,908	$ 32,590	$ 38,357	$ 106,855

(1) Includes collective allowances for impaired loans and for other loans.
(2) Previously available-for-sale and held-to-maturity securities under IAS 39.
(3) Previously available-for-sale debt securities under IAS 39.
(4) Including customers' liabilities under acceptances.
(5) Including letters of guarantee and certain undrawn amounts under approved credit facilities, established under IAS 37 as at October 31, 2018.

5. ADOPTION OF NEW ACCOUNTING STANDARDS (CONT'D)

5.2 IFRS 15, *REVENUE FROM CONTRACTS WITH CUSTOMERS*

IFRS 15, *Revenue from Contracts with Customers* 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, among others, the previous revenue standard IAS 18, *Revenue* and the related interpretation on revenue recognition IFRIC 13, *Customer Loyalty Programmes*.

IFRS 15 requires that revenue recognised from contracts with customers must be disclosed separately from its other sources of revenue. As such, Fees and commissions on loans and deposits previously presented on a single line item on the Consolidated Statement of Income is now presented under three line items: Lending fees, Service charges and Card service revenues. Income from brokerage operations was also previously presented on a single line item on the Consolidated Statement of Income is now presented separately under two line items: fees and securities brokerage commissions and income from financial instruments as disclosed in Note 29. These changes in presentation were applied retrospectively.

The adoption of IFRS 15 had no significant impact on the Bank's Consolidated Financial Statements as at November 1, 2018.

6. SECURITIES

Credit quality

As at October 31, 2019, debt securities at amortized cost and at FVOCI are classified in Stage 1, with their credit facility falling mainly in the "Low risk" category according the Bank's internal risk-rating categories. As at October 31, 2019, allowances for credit losses amounted to $0.1 million for debt securities at amortized cost and $0.1 million for debt securities at FVOCI.

Securities at amortized cost

		2019
Securities issued or guaranteed		
by Canada[1]	$	1,415,947
by provinces		1,174,121
by municipalities		23,336
Other debt securities		131,525
	$	2,744,929

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

Gains (losses) on disposals of securities at amortized cost

During the year ended October 31, 2019, the Bank sold certain debt securities measured at amortized cost for liquidity management purposes. The carrying value of these securities, mainly consisting of treasury bills, was $428.8 million upon disposal. The Bank recognized a negligible loss in Income from financial instruments in the Consolidated Statement of Income.

Securities at FVOCI

Accumulated unrealized gains and losses recognized in other comprehensive income

								2019
		Amortized cost		Unrealized gains		Unrealized losses		Fair value[1]
Securities issued or guaranteed								
by Canada[2]	$	35,915	$	124	$	20	$	36,019
by provinces		4,954		52		8		4,998
by municipalities		55,346		241		58		55,529
Other debt securities		24,970		421		26		25,365
Asset-backed securities		1,228		6		—		1,234
Preferred shares		192,935		532		31,546		161,921
Common shares and other securities		25,648		2,664		517		27,795
	$	340,996	$	4,040	$	32,175	$	312,861

(1) The allowances for credit losses on debt securities at FVOCI, amounting to $0.1 million as at October 31, 2019, are reported in Accumulated other comprehensive income.
(2) Including mortgage-backed securities that are fully guaranteed by the Canada Mortgage and Housing Corporation pursuant to the National Housing Act.

6. SECURITIES (CONT'D)

Equity securities designated at FVOCI

The Bank designated certain equity securities, the business objective of which is mainly to generate dividend income, at FVOCI without subsequent reclassification of gains and losses to net income. For the year ended October 31, 2019, an amount of $10.3 million in dividend income was recognized on these investments, including a negligible amount for investments that were sold during the year ended October 31, 2019.

		2019
Fair value as at November 1, 2018	**$**	**180,058**
Change in fair value		**(21,573)**
Designated at FVOCI		**71,087**
Sales or redemptions		**(39,856)**
Fair value as at October 31, 2019	**$**	**189,716**

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

Comparative year information

Held-to-maturity securities

		2018
Portfolio of held-to-maturity securities		
Securities issued or guaranteed by Canada[1]	$	655,757

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

Gains and losses recognized in Income from financial instruments on the portfolio of available-for-sale securities

		2018
Realized net gains	$	7,642

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

								2018
		Amortized cost		Unrealized gains		Unrealized losses		Fair value
Securities issued or guaranteed								
by Canada [1]	$	1,028,739	$	351	$	445	$	1,028,645
by provinces		1,327,856		181		618		1,327,419
by municipalities		127,212		—		1,997		125,215
Other debt securities		39,342		5		1,027		38,320
Asset-backed securities		2,453		—		2		2,451
Preferred shares		184,651		8		7,350		177,309
Common shares and other securities		10,658		256		24		10,890
	$	2,720,911	$	801	$	11,463	$	2,710,249

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

7. LOANS AND ALLOWANCES FOR CREDIT LOSSES

As at October 31, 2019, loans are recognized on the Consolidated Balance Sheet at amortized cost as outlined in Note 3 using the financial asset classification criteria defined in IFRS 9. The following information is presented in accordance with IFRS 9 as at October 31, 2019 and in accordance with IAS 39 as at October 31, 2018. For additional information on the adoption of IFRS 9, see Note 5 to these Consolidated Financial Statements.

Determining and measuring expected credit losses (ECL)

Expected Credit Losses

Expected credit losses are determined using a three-stage approach that is based on the change in the credit quality of assets since initial recognition.

- Stage 1: Financial instruments that are not impaired and for which the credit risk has not increased significantly since initial recognition are classified in Stage 1.
- Stage 2: Financial instruments that have experienced a significant increase in credit risk between initial recognition and the reporting date but are not impaired are migrated to Stage 2.
- Stage 3: Financial instruments for which there is objective evidence of impairment, for which one or more events have had a detrimental impact on estimated future cash flows at the reporting date and are considered credit impaired, are classified in Stage 3.
- POCI: Financial instruments that are credit-impaired when purchased or originated (POCI) are classified in the POCI category.

Governance and controls

The Bank's risk management framework is applied to the determination of expected credit losses. The Bank has policies and procedures that govern impairments arising from credit risk. These policies are documented and periodically reviewed by the risk management function. A validation team independent of the team that prepares the calculations reviews the expected credit losses calculations. Complex questions on measurement methodologies and assumptions are reviewed by a group of experts from various functions. Furthermore, the inputs and assumptions used to determine expected credit losses are reviewed on a regular basis by the risk management function.

Measurement of expected credit losses

Expected credit losses are estimated using three main variables: (1) probability of default (PD), (2) loss given default (LGD) and (3) exposure at default (EAD). For accounting purposes, 12-month expected credit losses are estimated by multiplying 12-month PD by LGD and by EAD. Lifetime expected credit losses are estimated using the lifetime PD.

Expected credit losses are measured either on a collective or an individual basis. Financial instruments that have credit losses measured on a collective basis are allocated to groups that share similar credit risk characteristics.

Inputs, assumptions and estimation techniques used

The Bank's approach to calculating expected credit losses for IFRS 9 purposes leverages credit risk models based on the internal risk rating of credit facilities by adjusting parameters.

PD estimates

PD is an estimate of the likelihood that a loan will not be repaid over a given time horizon. The resulting PD estimates are built based on historical data, current market conditions and are estimated by incorporating reasonable and supportable forward-looking economic conditions at the balance sheet date. Some adjustments are made to Basel parameters to transform them into parameters compliant with IFRS 9 requirements, including the conversion of through-the-cycle parameters to point-in-time inputs that consider supportable and relevant information about future economic conditions.

LGD estimates

LGD represents the amount that may not be recovered in the case where a default occurs. LGD estimates are determined based on historical data, facility-specific characteristics such as collateral, direct costs and relevant information about future economic conditions, where appropriate.

EAD estimates

EAD represents an estimate of the exposure at the time a default may occur. Depending on the type of exposure, EAD includes forward-looking expectations about amounts to be drawn on a committed facility, if applicable, or expectations about repayments of drawn balances.

Expected life

For most financial instruments, the expected life used when measuring expected credit losses is the remaining contractual life. For revolving financial instruments where there is no contractual maturity, such as credit cards or lines of credit, the expected life is based on the behavioral life of the product.

7. LOANS AND ALLOWANCES FOR CREDIT LOSSES (CONT'D)

Incorporation of forward-looking information

The Bank's Economy and Strategy group is responsible for developing three macroeconomic scenarios (base scenario, upside scenario and downside scenario) and for recommending probability weights for each scenario. Macroeconomic scenarios are not developed for specific portfolios, as the Economy and Strategy group provides a set of variables for each of the defined scenarios. ECL inputs and models rely on forward-looking macroeconomic factors (interest rates, unemployment rates, GDP forecasts, housing price indices, etc.). The Bank considers other relevant factors that may not be adequately reflected in the information used to calculate the ECL (including late payments and whether the financial asset is subject to additional monitoring such as the watch list for commercial loan portfolios).

Assessment of significant changes in credit risk
To assess whether the credit risk of a financial instrument has increased significantly, the 12-month PD at the reporting date is compared with the 12-month PD at the date of initial recognition, and reasonable and supportable information indicative of significant increases in credit risk since initial recognition is considered. The Bank has included relative and absolute thresholds in the definition of significant increase in credit risk and a backstop of 30 days past due. All financial instruments that are 30 days past due are migrated to stage 2 even if other metrics do not indicate that a significant increase in credit risk has occurred.

Similarly, the Bank determines whether credit risk has decreased significantly for loans that have been migrated to stage 2 or stage 3, using those same factors.

Determination of credit impairment
The Bank considers a financial asset to be impaired when one or more events that have a detrimental impact on the estimated future cash flows of a financial asset have occurred or when contractual payments are 90 days past due.

Credit quality of loans

The following tables present information about credit risk rating grades in accordance with credit risk management.

Credit risk rating grades
Personal credit exposures

The Bank uses behavior scoring models to manage and monitor personal credit exposures. The table below shows the PD categories along with the associated credit qualities of the personal credit portfolios.

PD (%)	Description
0.00-0.33	Very low risk
0.34-0.84	Low risk
0.85-14.98	Medium risk
14.99-99.99	High risk
100	Default

Commercial credit exposures

For internal credit risk management, the Bank uses a 19-level risk rating system to evaluate commercial credit exposures. This risk rating system used by the Bank is similar to the systems used by major external rating agencies. The following table presents a grouping of the grades by major risk category and compares them with the ratings of two major rating agencies.

Ratings	PD (%)	Standard & Poor's	DBRS	Description
1-7	0.00-0.43	AAA to BB+	AAA to BB (high)	Very low risk
8-10	0.44-1.63	BB to BB-	BB to B (high)	Low risk
11-13	1.64-11.38	B+ to B-	B to CCC (high)	Medium risk
14-16	11.39-99.99	CCC+ to C	CC (high) to CCC	High risk
17-19	100	D	D	Default

7. LOANS AND ALLOWANCES FOR CREDIT LOSSES (CONT'D)

Credit risk exposure

The table below presents the gross and net carrying amounts of loans and acceptances and off-balance sheet exposures as at October 31, 2019, according to credit quality and ECL impairment stage of each loan category at amortized cost.

				2019
	Stage 1	Stage 2	Stage 3[1]	Total
Personal loans				
Very low risk	$ 2,811,585	$ 13,126	$ —	$ 2,824,711
Low risk	581,736	208,745	—	790,481
Medium risk	502,264	479,692	—	981,956
High risk	3,736	41,998	—	45,734
Default	—	—	17,642	17,642
Gross carrying amount	3,899,321	743,561	17,642	4,660,524
Allowances for loan losses	5,347	19,568	4,732	29,647
Net carrying amount	$ 3,893,974	$ 723,993	$ 12,910	$ 4,630,877
Residential mortgage loans				
Very low risk	$ 8,131,829	$ 2,477	$ —	$ 8,134,306
Low risk	3,743,129	273,476	—	4,016,605
Medium risk	2,601,941	1,034,080	—	3,636,021
High risk	4,616	188,896	—	193,512
Default	—	—	59,236	59,236
Gross carrying amount	14,481,515	1,498,929	59,236	16,039,680
Allowances for loan losses	2,021	1,802	1,050	4,873
Net carrying amount	$ 14,479,494	$ 1,497,127	$ 58,186	$ 16,034,807
Commercial loans[2]				
Very low risk	$ 2,338,807	$ 3,596	$ —	$ 2,342,403
Low risk	7,590,362	90,310	—	7,680,672
Medium risk	2,464,196	223,084	—	2,687,280
High risk	—	157,686	—	157,686
Default	—	—	98,283	98,283
Gross carrying amount	12,393,365	474,676	98,283	12,966,324
Allowances for loan losses	22,219	8,558	35,160	65,937
Net carrying Amount	$ 12,371,146	$ 466,118	$ 63,123	$ 12,900,387
Total loans				
Gross carrying amount	$ 30,774,201	$ 2,717,166	$ 175,161	$ 33,666,528
Allowances for loan losses	29,587	29,928	40,942	100,457
Net carrying amount	$ 30,744,614	$ 2,687,238	$ 134,219	$ 33,566,071
Off-balance sheet exposures[3]				
Very low risk	$ 1,362,719	$ 78,717	$ —	$ 1,441,436
Low risk	1,207,286	95,355	—	1,302,641
Medium risk	398,580	95,143	—	493,723
High risk	48	5,426	—	5,474
Default	—	—	—	—
Total exposure	2,968,633	274,641	—	3,243,274
Allowances for off-balance sheet exposures losses	3,902	2,434	—	6,336
Total exposure, net	$ 2,964,731	$ 272,207	$ —	$ 3,236,938

(1) As of the adoption of IFRS 9, all loans classified in Stage 3 of the ECL model are impaired loans, including $27.1 million as at October 31, 2019 of insured residential mortgage loans. Under IAS 39, insured loans were generally not considered impaired.
(2) Including customers' liabilities under acceptances.
(3) Including letters of guarantee and certain undrawn amounts under approved credit facilities.

7. LOANS AND ALLOWANCES FOR CREDIT LOSSES (CONT'D)

Impaired loans[1]

				2019
		Gross impaired loans	**Allowances against impaired loans**	**Net impaired loans**
Personal loans		$ **17,642**	$ **4,732**	$ **12,910**
Residential mortgage loans		**59,236**	**1,050**	**58,186**
Commercial loans[2]		**98,283**	**35,160**	**63,123**
		$ **175,161**	$ **40,942**	$ **134,219**

				2018
	Gross impaired loans	Individual allowances	Collective allowances against impaired loans	Net impaired loans
Personal loans	$ 19,805	$ —	$ 4,844	$ 14,961
Residential mortgage loans	37,134	—	2,104	35,030
Commercial loans[2]	124,331	28,442	2,788	93,101
	$ 181,270	$ 28,442	$ 9,736	$ 143,092

(1) As of the adoption of IFRS 9, all loans classified in Stage 3 of the ECL model are impaired loans, including $27.1 million as at October 31, 2019 of insured residential mortgage loans. Under IAS 39, insured loans were generally not considered impaired.

(2) Including customers' liabilities under acceptances.

Loans past due but not impaired

The following table shows loans that are past due but not classified as impaired.

				2019
	1 day-31 days	**32 days-90 days**	**Over 90 days[1]**	**Total**
Personal loans	$ **80,924**	$ **27,330**	$ **—**	$ **108,254**
Residential mortgage loans	**213,697**	**53,474**	**—**	**267,171**
	$ **294,621**	$ **80,804**	$ **—**	$ **375,425**

				2018
	1 day-31 days	32 days-90 days	Over 90 days	Total
Personal loans	$ 64,649	$ 21,856	$ 6,301	$ 92,806
Residential mortgage loans	252,403	48,542	16,642	317,587
	$ 317,052	$ 70,398	$ 22,943	$ 410,393

(1) As of the adoption of IFRS 9, loans more than 90 days past due are considered impaired (Stage 3).

Write-offs

The contractual amount outstanding on financial assets that were written off during the year ended October 31, 2019 and that are still subject to enforcement activity was $9.2 million.

7. LOANS AND ALLOWANCES FOR CREDIT LOSSES (CONT'D)

Reconciliation of allowances for credit losses

The following table presents the reconciliation of allowances for credit losses for each exposure category at amortized cost according to ECL impairment stage.

				2019
	Stage 1	Stage 2	Stage 3	Total
Personal loans				
Balance at beginning of period	$ 11,070	$ 22,498	$ 4,934	$ 38,502
Transfers:				
to Stage 1	7,373	(7,066)	(307)	—
to Stage 2	(1,629)	1,963	(334)	—
to Stage 3	(102)	(934)	1,036	—
Originations	710	—	—	710
Derecognitions	(1,123)	(3,372)	(2,084)	(6,579)
Net remeasurements of allowances	(9,002)	8,621	24,030	23,649
Provision for (reversal of) credit losses	(3,773)	(788)	22,341	17,780
Write-offs	—	—	(28,293)	(28,293)
Recoveries	—	—	6,655	6,655
Foreign exchange and other	—	—	(905)	(905)
Balance at end of period	$ 7,297	$ 21,710	$ 4,732	$ 33,739
Total allowances for loan losses	$ 5,347	$ 19,568	$ 4,732	$ 29,647
Total allowances for off-balance sheet exposures	1,950	2,142	—	4,092
Total allowances for credit losses	$ 7,297	$ 21,710	$ 4,732	$ 33,739
Residential mortgage loans				
Balance at beginning of period	$ 2,446	$ 1,840	$ 443	$ 4,729
Transfers:				
to Stage 1	778	(696)	(82)	—
to Stage 2	(202)	273	(71)	—
to Stage 3	(22)	(138)	160	—
Originations	657	—	—	657
Derecognitions	(334)	(291)	(312)	(937)
Net remeasurements of allowances	(1,291)	836	4,019	3,564
Provision for (reversal of) credit losses	(414)	(16)	3,714	3,284
Write-offs	—	—	(4,353)	(4,353)
Recoveries	—	—	2,771	2,771
Foreign exchange and other	—	—	(1,525)	(1,525)
Balance at end of period	$ 2,032	$ 1,824	$ 1,050	$ 4,906
Total allowances for loan losses	$ 2,021	$ 1,802	$ 1,050	$ 4,873
Total allowances for off-balance sheet exposures	11	22	—	33
Total allowances for credit losses	$ 2,032	$ 1,824	$ 1,050	$ 4,906

7. LOANS AND ALLOWANCES FOR CREDIT LOSSES (CONT'D)

					2019
		Stage 1	Stage 2	Stage 3	Total
Commercial loans					
Balance at beginning of period	$	22,192 $	8,252 $	32,980 $	63,424
Transfers:					
to Stage 1		2,557	(2,304)	(253)	—
to Stage 2		(763)	1,150	(387)	—
to Stage 3		(152)	(1,128)	1,280	—
Originations		9,308	—	—	9,308
Derecognitions		(6,940)	(3,480)	(2,177)	(12,597)
Net remeasurements		(2,070)	6,338	22,357	26,625
Provision for (reversal of) credit losses		1,940	576	20,820	23,336
Write-offs		—	—	(18,930)	(18,930)
Recoveries		—	—	2,093	2,093
Foreign exchange and other		28	—	(1,803)	(1,775)
Balance at end of period	$	24,160 $	8,828 $	35,160 $	68,148
Total allowances for loan losses	$	22,219 $	8,558 $	35,160 $	65,937
Total allowances for off-balance sheet exposures		1,941	270	—	2,211
Total allowances for credit losses	$	24,160 $	8,828 $	35,160 $	68,148
Total exposure					
Total allowances for loan losses	$	29,587 $	29,928 $	40,942 $	100,457
Total allowances for off-balance sheet exposures		3,902	2,434	—	6,336
Total allowances for credit losses	$	33,489 $	32,362 $	40,942 $	106,793

						2018
	Balance at beginning of period	Provision for credit losses	Write-offs	Recoveries and other[1]	Interest accrued on impaired loans	Balance at end of period
Personal loans	$ 30,600	$ 21,157	$ (32,485)	$ 6,789	$ (1,071)	$ 24,990
Residential mortgage loans	10,818	3,363	(1,451)	(1,291)	(1,505)	9,934
Commercial loans[2]	63,474	19,480	(19,855)	627	(2,228)	61,498
Total allowances for credit losses	$ 104,892	$ 44,000	$ (53,791)	$ 6,125	$ (4,804)	$ 96,422
Individual allowances	$ 24,801	$ 22,410	$ (17,618)	$ 96	$ (1,247)	$ 28,442
Collective allowances against impaired loans	17,828	25,609	(36,173)	6,029	(3,557)	9,736
Collective allowances against other loans	56,557	(1,709)	—	—	—	54,848
Total allowances for loan losses	$ 99,186	$ 46,310	$ (53,791)	$ 6,125	$ (4,804)	$ 93,026
Allowances for off-balance sheet exposures[3]	5,706	(2,310)	—	—	—	3,396
Total allowances for credit losses	$ 104,892	$ 44,000	$ (53,791)	$ 6,125	$ (4,804)	$ 96,422

(1) Includes impact of foreign exchange movements.
(2) Including customers' liabilities under acceptances.
(3) 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.

7. LOANS AND ALLOWANCES FOR CREDIT LOSSES (CONT'D)

Main macroeconomic factors

The following table shows the main macroeconomic factors used to estimate the allowances for credit losses. For each scenario, namely, the base scenario, upside scenario and downside scenario, the average values of the factors over the next 12 months (used for Stage 1 credit loss calculations) and over the remaining forecast period (used for Stage 2 credit loss calculations) are presented.

						2019
	Base scenario		Upside scenario		Downside scenario	
	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period
Main macroeconomic factors						
GDP growth[1]	1.6%	1.4%	2.3%	1.7%	(3.0)%	2.8%
Change in unemployment rate (percentage points)	5.5	5.4	5.3	5.1	7.2	7.0
Housing price index growth[1]	3.2%	1.9%	4.5%	3%	(7.5)%	1.1%
S&P/TSX growth[1][2]	3.6%	1.5%	11.3%	7.5%	(22.0)%	8.5%

(1) Growth rate is annualized.
(2) Main stock index in Canada.

The main macroeconomic factors used for the personal and residential mortgage loan portfolios are the unemployment rate, the housing price index and the S&P/TSX growth. The main macroeconomic factors used for the commercial loan portfolio is the GDP growth.

An increase in unemployment will generally correlate with higher allowances for credit losses, whereas an increase in the other macroeconomic factors (GDP growth, S&P/TSX growth and housing price index growth) will generally correlate with lower allowances for credit losses.

Sensitivity analysis of allowances for credit losses on non-impaired loans

Scenarios

The following table shows a comparison of the Bank's allowances for credit losses on non-impaired loans (Stage 1 and 2) under IFRS 9 as at October 31, 2019, including off-balance sheet exposures, with the estimated allowances for credit losses that would result if the base scenario was weighted at 100%.

	Allowances for credit losses on non-impaired loans
Under IFRS 9	$ 65,851
Simulations	
100% base scenario	$ 54,307

Migration

The following table shows a comparison of the Bank's allowances for credit losses on non-impaired loans (Stage 1 and 2) under IFRS 9 as at October 31, 2019, including off-balance sheet exposures, with the estimated allowances for credit losses that would result if all these non-impaired loans were in Stage 1.

	Allowances for credit losses on non-impaired loans
Under IFRS 9	$ 65,851
Simulations	
Non-impaired loans if they were all in stage 1	$ 49,948

Foreclosed assets

Foreclosed assets are repossessed non-financial assets where the Bank gains title, ownership, or possession of individual properties, such as real estate properties, which are managed for sale in an orderly manner with the proceeds used to reduce or repay any outstanding debt. The Bank does not generally occupy foreclosed properties for its business use. Foreclosed assets are recorded in other assets on the Consolidated Balance Sheet. In 2019, the Bank foreclosed on impaired loans and received $7.3 million of assets that were classified as held-for-sale ($12.5 million in 2018).

7. LOANS AND ALLOWANCES FOR CREDIT LOSSES (CONT'D)

Sale of commercial loans

In 2019, the Bank sold commercial loans amounting to $105.4 million and recognized a net gain of nil in other income ($708 million and recognized net gains of $4.3 million in 2018), as part of the strategy initiated in 2018 to optimize the loan portfolio mix.

Finance lease receivables

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

	2019	2018
Minimum lease payments	**$ 1,083,525**	$ 952,756
Unguaranteed residual values	**27,033**	25,584
Gross investment in leases	**1,110,558**	978,340
Unearned interest income	**(112,748)**	(99,637)
Net investment in leases	**997,810**	878,703
Unamortized deferred costs, security deposits, and other	**13,387**	12,958
	$ 1,011,197	$ 891,661

Contractual maturities of finance lease receivables

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

			2019
	Gross investment in leases	**Unearned interest income**	**Net investment in leases**
Receivable within one year	**$ 386,414**	**$ 51,346**	**$ 335,068**
Receivable within 1 to 5 years	**709,680**	**60,825**	**648,855**
Receivable after 5 years	**14,464**	**577**	**13,887**
	$ 1,110,558	**$ 112,748**	**$ 997,810**

			2018
	Gross investment in leases	Unearned interest income	Net investment in leases
Receivable within one year	$ 330,399	$ 44,359	$ 286,040
Receivable within 1 to 5 years	632,470	54,748	577,722
Receivable after 5 years	15,471	530	14,941
	$ 978,340	$ 99,637	$ 878,703

8. SECURITIZATION AND STRUCTURED ENTITIES

8.1 TRANSFER OF FINANCIAL ASSETS

The Bank sells mortgage loans through the Canada Mortgage Bond (CMB) program and to third-party investors under the National Housing Act (NHA) Mortgage-Backed Securities (MBS) program set-up by the Canada Mortgage and Housing Corporation (CMHC), as well as through a multi-seller conduit set up by another Canadian bank.

CMHC programs

Under the NHA MBS program, the Bank issues marketable securities backed by insured eligible residential mortgage loans (the NHA MBS). These NHA MBS may be sold directly to investors or through the CMB program. CMB are CMHC guaranteed bonds issued through the Canada Housing Trust No. 1 (CHT), a special purpose trust.

NHA MBS are amortizing assets that pay back principal and interest cash flows on a monthly basis, while CMB 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 CHT enters into master swap agreements with approved financial institutions (Swap Counterparties). Under the swap agreements, Swap Counterparties receive the monthly interest flows from the original NHA MBS and the Replacement Assets (see below), and in return provide the CHT with the regular interest payments required to pay out to investors under the terms of the CMB. In addition, under the swap agreements, the Swap Counterparties are responsible for reinvesting the monthly principal flows from the NHA MBS on behalf of the CHT. The Swap Counterparties may only carry out this reinvestment in AAA-rated mortgage-backed securities and Canada guaranteed eligible assets (the Replacement Assets). Simultaneously, these Swap Counterparties conclude similar swap agreements with the Bank. At the swap coupon settlement date, the Bank therefore pays/receives the difference between the amount collected from the original NHA MBS, as well as from the Replacement Assets, and the amount payable to investors under the terms of the CMB.

Assets and debt related to securitization activities
As the Bank continues to be exposed to the prepayment, interest rate and/or credit risk associated with the securitized mortgage loans, these securitization transactions do not meet derecognition criteria. Therefore, securitized mortgage loans remain on balance sheet and the related cash proceeds are accounted for as secured financing. The Replacement Assets are also recorded on balance sheet and considered pledged assets. Interest income is accrued on these assets as for the Bank's other similar assets.

The NHA MBS and CMB holders and the CHT have no recourse to other assets of the Bank in the event of failure of debtors to pay when due. The proceeds received from securitization transactions 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 NHA MBS or CMB coupon related to the series and is classified in other liabilities as accrued interest payable.

Since the underlying cash flows associated with the swap agreements are captured through the on-balance sheet recognition of the underlying assets and the associated securitization liabilities, the 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 above. As at October 31, 2019, the notional amount of these swaps was $4.4 billion ($4.8 billion as at October 31, 2018).

Multi-seller conduit

The Bank sells residential mortgage loans to an intermediate multi-seller structured entity (the third-party purchaser or TPP) established for the limited purpose of securitization activities. The intermediate multi-seller structured entity funds such purchases through the issuance of interest bearing notes to other structured entities.

Assets and debt related to securitization activities
As the Bank provides credit enhancements for these transactions, they do not meet derecognition criteria and the securitized loans remain on balance sheet. However, as the Bank's rights, title and interest in the transferred loans are legally transferred to the structured entity, these are considered pledged assets. Interest income is accrued on these loans as for the Bank's other similar instruments. The structured entity has no recourse to other assets of the Bank in the event of failure of debtors to pay when due. The proceeds received are recorded as a debt related to a multi-seller conduit on the Consolidated Balance Sheet. Interest accrued on the debt is based on the commercial paper issued by the conduit to fund the purchases and is classified in other liabilities as accrued interest payable.

8. SECURITIZATION AND STRUCTURED ENTITIES (CONT'D)

Financial assets not qualifying for derecognition and associated financial liabilities

The following table summarizes the carrying amounts of financial assets that do not qualify for derecognition and their associated financial liabilities included on the Consolidated Balance Sheet.

	2019	2018
Residential mortgage loans	$ 6,952,703	$ 6,238,035
Replacement Assets[1]	844,926	1,111,898
Debt related to securitization activities	$ (7,840,373)	$ (7,276,779)

(1) Includes cash and deposits with banks, securities purchased under reverse repurchase agreements and securities acquired as part of the principal reinvestment account that is required to be maintained for the Bank to participate in the program.

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

	2019	2018
Carrying amounts of residential mortgage loans transferred during the year related to new financing	$ 2,029,681	$ 1,164,202
Carrying amounts of residential mortgage loans transferred during the year as Replacement Assets	$ 378,407	$ 523,852

In addition, as at October 31, 2019, the Bank has also securitized other residential mortgage loans for a total amount of $530.2 million ($600.5 million as at October 31, 2018) as part of the NHA MBS program. The resulting NHA MBS are presented as part of residential mortgage loans. These NHA MBS were pledged as collateral with the Bank of Canada, refer to Note 30 for further details.

8.2 STRUCTURED ENTITIES SECURITIZATON VEHICLES

In the ordinary course of business, the Bank enters into transactions with structured entities as part of securitization programs to obtain alternative sources of funding. The Bank sells personal loans and finance lease receivables to two intermediate partnerships, B2B Securitization Limited Partnership and LBC Leasing Limited Partnership (the Partnerships), respectively. To fund these purchases, the Partnerships issue interest-bearing liabilities to securitization conduits of other Canadian banks. These Partnerships are consolidated as the Bank holds 100% of the rights, has the ability to direct the relevant activities and can exercise power to affect returns. The interest-bearing liabilities issued by the Partnerships are recorded as debt related to securitization activities involving structured entities.

Financial assets securitized through structured entities

The following table summarizes the carrying amounts of financial assets securitized through other structured entities that do not qualify for derecognition and their associated financial liabilities included in the Consolidated Balance Sheet.

	2019	2018
Personal loans	$ 1,087,058	$ 1,022,791
Commercial loans[1]	746,259	351,943
Debt related to securitization activities involving structured entities	$ (1,072,960)	$ (510,974)

(1) The Bank securitizes finance lease receivables which are included in the Commercial loans line item.

The following table summarizes the activities carried out by the Bank's consolidated structured entities.

	2019	2018
Carrying amounts of personal loans transferred during the year	$ 253,307	$ 230,262
Carrying amounts of finance lease receivables transferred during the year	$ 409,572	$ —

9. PREMISES AND EQUIPMENT

	Premises and leasehold improvements	Equipment and furniture	Computer hardware	Total
Cost				
As at October 31, 2017	$ 53,048	$ 26,811	$ 25,755	$ 105,614
Additions	46,616	844	5,816	53,276
Disposals	(301)	—	—	(301)
Other[1]	—	2	1	3
Impairment	(1,311)	(452)	(153)	(1,916)
As at October 31, 2018	98,052	27,205	31,419	156,676
Additions	**3,452**	**389**	**1,657**	**5,498**
Disposals	**(1,095)**	**—**	**—**	**(1,095)**
Impairment	**(1,771)**	**(2,701)**	**(30)**	**(4,502)**
As at October 31, 2019	**$ 98,638**	**$ 24,893**	**$ 33,046**	**$ 156,577**
Accumulated depreciation				
As at October 31, 2017	$ 23,882	$ 23,418	$ 23,100	$ 70,400
Depreciation	4,324	1,545	1,012	6,881
Disposals	(111)	—	—	(111)
Other[1]	—	—	1	1
Impairment	(999)	(369)	(88)	(1,456)
As at October 31, 2018	27,096	24,594	24,025	75,715
Depreciation	**5,222**	**700**	**1,223**	**7,145**
Disposals	**(434)**	**—**	**—**	**(434)**
Other[1]	**—**	**—**	**1**	**1**
Impairment	**(1,102)**	**(2,520)**	**(30)**	**(3,652)**
As at October 31, 2019	**$ 30,782**	**$ 22,774**	**$ 25,219**	**$ 78,775**
Carrying amount				
As at October 31, 2018	$ 70,956	$ 2,611	$ 7,394	$ 80,961
As at October 31, 2019	**$ 67,856**	**$ 2,119**	**$ 7,827**	**$ 77,802**

(1) Other includes the impact of foreign currency translation and purchase accounting adjustments related to the acquisition of Northpoint Commercial Finance (NCF).

Premises and equipment as at October 31, 2019 include $1.6 million pertaining to premises under construction yet to be amortized ($6.8 million as at October 31, 2018).

Impairment

In 2019 and 2018, long-lived assets associated to the Retail Services CGU (prior to the CGU modification) were tested for impairment and no impairment losses were recognized; refer to Notes 10 and 33 for further details.

Other impairment charges amounting to $0.9 million were also recorded in 2019 ($0.5 million in 2018).

10. SOFTWARE AND OTHER INTANGIBLE ASSETS

	Software	Acquisition related intangible assets	Other intangible assets	Total
Cost				
As at October 31, 2017	$ 266,159	$ 108,156	$ 116,058	$ 490,373
Additions	23,407	2,680	81,608	107,695
Impact of foreign currency translation	—	1,689	—	1,689
As at October 31, 2018	289,566	112,525	197,666	599,757
Additions	**10,804**	**3**	**52,310**	**63,117**
Other	**(11)**	**48**	**—**	**37**
As at October 31, 2019	**$ 300,359**	**$ 112,576**	**$ 249,976**	**$ 662,911**
Accumulated amortization				
As at October 31, 2017	$ 177,074	$ 15,750	$ 4,127	$ 196,951
Amortization	19,042	13,972	2,132	35,146
Impact of foreign currency translation	—	315	—	315
As at October 31, 2018	196,116	30,037	6,259	232,412
Amortization	**15,451**	**14,964**	**9,034**	**39,449**
Other	**(11)**	**(101)**	**—**	**(112)**
As at October 31, 2019	**$ 211,556**	**$ 44,900**	**$ 15,293**	**$ 271,749**
Carrying amount				
As at October 31, 2018	$ 93,450	$ 82,488	$ 191,407	$ 367,345
As at October 31, 2019	**$ 88,803**	**$ 67,676**	**$ 234,683**	**$ 391,162**

Acquisition related intangible assets include contractual relationships with independent brokers and advisors associated to the Personal segment, as well as with vendor-dealers associated to the Business Services segment. Acquisition related intangible assets also include core deposit intangibles associated to the Personal segment.

Other intangible assets are internally developed and include the core banking system and the program to implement the Basel Advanced Internal Ratings Based (AIRB) approach to credit risk. The core banking system, which is currently being amortized, has a carrying amount of $172.2 million as at October 31, 2019, including $0.8 million related to the second phase of the project yet to be amortized ($142.6 million as at October 31, 2018, including $84.8 million yet to be amortized). The program to implement the AIRB approach to credit risk, for which certain components are currently used in credit-related activities, has a carrying amount of $62.5 million as at October 31, 2019, including $47.9 million yet to be amortized as at October 31, 2019 ($48.8 million as at October 31, 2018, including $44.4 million yet to be amortized).

Software includes $25.4 million pertaining to projects under development yet to be amortized as at October 31, 2019 ($29.9 million as at October 31, 2018).

Impairment

In both 2019 and 2018, indicators of impairment were identified for the Retail Services CGU's long-lived assets (prior to the CGU modification, see Note 33). As such, the carrying amount of these assets was reviewed for impairment at the CGU level as they did not generate cash inflows that were largely independent from other assets or group of assets.

The recoverable amount of the previous Retail Services 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 the four-year financial plan approved by the Board of Directors, a terminal growth rate of 2.0% (2.0% in 2018) based on projected economic growth, and an after-tax discount rate of 9.8% (10.3% in 2018) based on the bank-wide cost of capital and further adjusted to reflect the risks specific to the CGU.

In both 2019 and 2018, based on forecasts, management determined that the estimated recoverable amount of the CGU was in excess of its carrying amount. As a result, no impairment charge on the underlying assets of this CGU were recognized. Changes in estimates and assumptions could significantly impact the impairment test result.

11. GOODWILL

		Personal CGU[1]		Business Services CGU		Total
As at October 31, 2017	$	34,853	$	83,247	$	118,100
Impact of foreign currency translation		—		1,325		1,325
Other[2]		—		(2,808)		(2,808)
As at October 31, 2018	$	34,853	$	81,764	$	116,617
Impact of foreign currency translation		**—**		**32**		**32**
As at October 31, 2019	**$**	**34,853**	**$**	**81,796**	**$**	**116,649**

(1) The goodwill was allocated to the B2B Bank CGU prior to October 31, 2019, see below and Note 3 for further details.
(2) Other in 2018 includes purchase accounting adjustments related to the acquisition of NCF, refer to Note 32.

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 a CGU may not be recoverable. No goodwill impairment losses were recognized in 2019 and 2018.

Goodwill as at October 31, 2019 has been allocated to two CGUs:

- the Personal CGU, which caters to the financial needs of retail clients;
- the Business Services CGU, which encompasses services provided to small and medium-sized enterprises across Canada and the United States.

These CGUs are also operating segments.

For the purpose of executing the 2019 and 2018 annual impairment test, as detailed below, goodwill was allocated to the previous B2B Bank CGU and to the Business Services CGU. As further detailed in Note 33, as of October 31, 2019, the CGUs and operating segments of the Bank have been modified to reflect the Bank's new operating model.

The recoverable amount of the CGUs 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 the Board of Directors covering a four-year period, a terminal growth rate of 2.0% based on projected economic growth, and an after-tax discount rate of 9.8% based on the bank-wide cost of capital and further adjusted to reflect the risks specific to the CGUs. The estimated recoverable amount was above the CGU's carrying amount. If alternative reasonably possible changes in key assumptions were applied, the result of the impairment test would not differ.

12. OTHER ASSETS

		2019		2018
Cheques and other items in transit	**$**	**316,953**	$	322,338
Accrued interest receivable		**117,049**		98,929
Cash reserve deposits		**73,379**		90,871
Accounts receivable[1]		**53,010**		32,073
Assets under operating leases (Note 29)		**11,546**		15,380
Defined benefit plan assets (Note 19)		**3,102**		5,511
Prepaid expenses and other items		**193,767**		138,905
	$	**768,806**	$	704,007

(1) As at October 31, 2019, allowances for credit losses for accounts receivable amounted to $0.1 million.

13. DEPOSITS

		Demand[1]		Notice[2]		Term[3]		2019 Total
Personal	$	**112,576**	$	**4,020,366**	$	**15,614,318**	$	**19,747,260**
Business, banks and other[4]		**1,138,037**		**480,967**		**4,286,340**		**5,905,344**
	$	**1,250,613**	$	**4,501,333**	$	**19,900,658**	$	**25,652,604**

		Demand[1]		Notice[2]		Term[3]		2018 Total
Personal	$	124,081	$	4,377,423	$	16,493,949	$	20,995,453
Business, banks and other		1,382,268		617,110		5,011,741		7,011,119
	$	1,506,349	$	4,994,533	$	21,505,690	$	28,006,572

(1) 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.
(2) Notice deposits consist of deposits in respect of which the Bank may legally require a withdrawal notice. These deposits generally consist of savings accounts.
(3) Term deposits include deposits maturing at a specific date, particularly term deposits and guaranteed investment certificates, as well as senior unsecured notes.
(4) In October 2019, the Bank has signed a credit facility agreement for an amount up to $ 250 million secured by insured residential mortgage loans and maturing in August 2021, of which nil was drawn as at October 31, 2019.

14. OTHER LIABILITIES

		2019		2018
Accrued interest payable	$	**485,941**	$	456,552
Cheques and other items in transit		**136,434**		256,189
Defined benefit plan liabilities (Note 19)		**37,579**		41,954
Credit card loyalty points programs liability		**24,855**		22,595
Accounts payable, accrued expenses and other items		**522,758**		452,266
	$	**1,207,567**	$	1,229,556

15. DEBT RELATED TO SECURITIZATION ACTIVITIES

		2019		2018
Debt related to securitization activities				
Debt related to CMB and NHA MBS transactions	$	**7,012,237**	$	6,146,960
Debt related to multi-seller conduits[1]		**828,136**		1,129,819
	$	**7,840,373**	$	7,276,779
Debt related to securitization activities involving structured entities				
Debt related to securitization activities involving structured entities		**1,072,960**		510,974
	$	**8,913,333**	$	7,787,753

Refer to Note 8 for further details about securitization and structured entities.

16. SUBORDINATED DEBT

Issued and outstanding

Maturity	Interest rate	Earliest par value redemption date		2019 Carrying amount		2018 Carrying amount
June 2027	4.25%	June 22, 2022[1]	$	**350,000**	$	350,000
Unamortized issuance costs				**(899)**		(1,238)
			$	**349,101**	$	348,762

(1) Non-Viability Contingent Capital (NVCC) (subordinated indebtedness) (the "Notes"). The Bank may, at its option, with the prior approval of OSFI, redeem the Notes on or after June 22, 2022, at par, in whole at any time or in part from time to time, on not less than 30 days and not more than 60 days notice to registered holders. The NVCC provision is necessary for the Notes to qualify as Tier 2 Capital and as such, the Bank may be required to convert the Notes into a variable number of common shares upon the occurrence of a non-viability trigger event.

17. 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

					2019
	Redemption and conversion date in effect as of[1][2]	Redemption price per share ($)[1]	Convertible into preferred shares[2]	Dividend per share ($)[3]	Reset premium
Non-Cumulative Class A Preferred Shares issued and outstanding					
Series 13[4]	**June 15, 2024[5][6]**	**25.00**	**Series 14**	**0.2577[7]**	**2.55%**
Series 15[4]	**June 15, 2021[5][6]**	**25.00**	**Series 16**	**0.3656[7]**	**5.13%**
Non-Cumulative Class A Preferred Shares authorized but not issued					
Series 14[4]	**June 15, 2024[5]**	**25.00[8]**	**Series 13**	**Floating rate[9]**	**2.55%**
Series 16[4]	**June 15, 2021[5]**	**25.00[8]**	**Series 15**	**Floating rate[9]**	**5.13%**

(1) Redeemable in cash at the Bank's option, subject to the provisions of the Bank Act and to the prior consent of OSFI. Redemption prices are increased by all the declared and unpaid dividends on the preferred shares to the date fixed for redemption.
(2) Convertible at the option of the holders of preferred shares, subject to the automatic conversion provisions and the right of the Bank to redeem those shares.
(3) Fixed non-cumulative preferential cash dividends payable quarterly, as and when declared by the Board of Directors.
(4) The Bank may be required to convert any or all of the preferred shares into a variable number of common shares upon the occurrence of a non-viability trigger event.
(5) Redeemable as of the date fixed for redemption and on the same date every five years thereafter.
(6) Convertible as of the date fixed for conversion and on the same date every five years thereafter, subject to certain conditions.
(7) The dividend amount is set for the initial period ending on the date fixed for redemption. Thereafter, these shares carry a non-cumulative quarterly fixed dividend in an amount per share determined by multiplying the rate of interest equal to the sum of the 5-year Government of Canada bond yield on the applicable fixed-rate calculation date by $25.00, plus the reset premium.
(8) As of the date fixed for redemption, the redemption price will be $25.00 per share. Thereafter, on the same date every five years, the redemption price will be $25.00 per share.
(9) The dividend period begins as of the date fixed for redemption. The amount of the floating quarterly non-cumulative dividend is determined by multiplying the rate of interest equal to the sum of the 90-day Government of Canada treasury bill yield on the floating rate calculation date by $25.00, plus the reset premium.

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

			2019		2018
		Number of shares	**Amount**	Number of shares	Amount
Non-Cumulative Class A Preferred Shares					
Series 11	Outstanding at beginning of year	—	$ —	4,000,000	$ 97,562
	Repurchase of shares	—	—	(4,000,000)	(97,562)
	Outstanding at end of year	—	—	—	—
Series 13	Outstanding at beginning and end of year	**5,000,000**	**122,071**	5,000,000	122,071
Series 15	Outstanding at beginning and end of year	**5,000,000**	**121,967**	5,000,000	121,967
		10,000,000	**$ 244,038**	10,000,000	$ 244,038

Repurchase of preferred shares
On December 15, 2017, the Bank repurchased 4,000,000 Non-cumulative Class A Preferred Shares, Series 11 at a price of $25.00 per share, for an aggregate amount of $100.0 million. Capitalized issuance costs of $2.4 million presented against these preferred shares were directly recorded to retained earnings.

Conversion of preferred shares
On June 17, 2019, none of the outstanding Non-Cumulative Class A Preferred Shares, Series 13 (the "Preferred Shares Series 13") were converted into Non-Cumulative Class A Preferred Shares, Series 14 of the Bank (the "Preferred Shares Series 14"). As a result, no Preferred Shares Series 14 were issued on June 17, 2019 and holders of Preferred Shares Series 13 retained their shares. The dividend rate for the Preferred Shares Series 13 for the five-year period commencing on June 15, 2019, and ending on June 14, 2024, was set at 4.123% per annum.

17. SHARE CAPITAL (CONT'D)

Common shares

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

			2019			2018
	Number of shares		**Amount**	Number of shares		Amount
Common shares						
Outstanding at beginning of year	**42,075,284**	**$**	**1,115,416**	38,966,473	$	953,536
Issuance under a public offering	**—**		**—**	2,624,300		143,812
Issuance under the Shareholder Dividend Reinvestment and Share Purchase Plan	**549,577**		**23,836**	484,511		22,821
Net issuance costs	**n/a**		**(59)**	n/a		(4,753)
	42,624,861	**$**	**1,139,193**	42,075,284	$	1,115,416

Issuance under a public offering
On January 16, 2018, the Bank completed the issuance of 2,282,000 common shares and, in connection with this share issuance, the Bank issued an additional 342,300 common shares on January 18, 2018 related to an over-allotment option, for total gross proceeds of $143.8 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 of up to 5%, or from the open market at market price. In 2019, 549,577 common shares (484,511 in 2018) were legally issued from treasury at a 2% discount.

Declared dividends

				2019				2018
		Dividend per share		**Dividends declared**		Dividend per share		Dividends declared
Non-Cumulative Class A Preferred Shares								
Series 11	**$**	**—**	**$**	**—**	$	0.250	$	1,000
Series 13	**$**	**1.064**		**5,319**	$	1.075		5,375
Series 15	**$**	**1.463**		**7,313**	$	1.463		7,313
Total preferred shares			**$**	**12,632**			$	13,688
Common shares	**$**	**2.62**	**$**	**110,737**	$	2.54	$	104,493

On November 20, 2019, the Board of Directors declared regular dividends on the various series of preferred shares to shareholders of record on December 7, 2019. On December 3, 2019, the Board of Directors declared a dividend of $0.67 per common share, payable on February 1, 2019, to shareholders of record on January 2, 2019.

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.

17. SHARE CAPITAL (CONT'D)

Capital management

Management seeks 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 risk appetite, strategic plan and shareholders' expectations; is consistent with the Bank's targeted credit ratings; underscores the Bank's capacity to cover risks related to its business operations; provides depositor confidence; and produces an acceptable return for shareholders. Management oversees capital adequacy on an ongoing basis.

The Board of Directors, on the recommendation of the Risk Management Committee, approves annually several capital-related documents, including the Capital Management and Adequacy Policy, the Internal Capital Adequacy Assessment Process, the Stress Testing Program, as well as the Capital Plan. It further reviews capital adequacy on a quarterly basis.

Regulatory capital

OSFI requires banks to meet minimum risk-based capital ratios drawn on the Basel Committee on Banking Supervision (BCBS) capital framework, commonly referred to as Basel III. Under OSFI's "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, consists of two components: Common Equity Tier 1 capital and Additional Tier 1 capital. Tier 1 capital must be more predominantly composed of common equity 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 are set at 7.0%, 8.5% and 10.5% respectively including the 2.5% capital conservation buffer.

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, 2019. Regulatory capital is detailed below.

	2019	2018
Common shares	**$ 1,139,193**	$ 1,115,416
Retained earnings	**1,161,668**	1,152,470
Accumulated other comprehensive income, excluding cash flow hedge reserve	**(102)**	(3,746)
Share-based compensation reserve	**1,815**	268
Deductions from Common Equity Tier 1 capital[1]	**(461,192)**	(452,401)
Common Equity Tier 1 capital	**1,841,382**	1,812,007
Qualifying preferred shares	**244,038**	244,038
Additional Tier 1 capital	**244,038**	244,038
Tier 1 capital	**2,085,420**	2,056,045
Qualifying subordinated debt	**349,101**	348,762
Collective allowances	**66,052**	67,981
Deductions from Tier 2 capital[2]	**(3,465)**	—
Tier 2 capital	**411,688**	416,743
Total capital	**$ 2,497,108**	$ 2,472,788
Common Equity Tier 1 capital ratio	**9.0%**	9.0%
Tier 1 capital ratio	**10.2%**	10.2%
Total capital ratio	**12.2%**	12.2%

(1) Comprised of deductions for software and other intangible assets, goodwill, pension plan assets and other.
(2) Investments in own Tier 2 capital instruments.

18. SHARE-BASED COMPENSATION

Share purchase option plan

Old Stock Option Purchase Plan

The Old Stock Option Purchase Plan was offered to members of the Bank's 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 reserved 1,600,000 common shares for the potential exercise of options under this plan, of which none were still available as at October 31, 2019 (none as at October 31, 2018).

On October 31, 2018, the Bank awarded 124,962 stock options under the Old Stock Option Purchase Plan. The weighted-average fair value of the options of $5.64 per option was determined as at December 6, 2018 upon the determination of the exercise price of $38.97. The average fair value of the options awarded was estimated using the Black-Scholes model, as well as the assumptions presented in the section below.

Information relating to outstanding number of options under the Old Stock Option Purchase Plan is as follows.

			2019			2018
	Number of options		Exercise price per option	Number of options		Exercise price per option
Outstanding at beginning of year	**124,962**	**$**	**38.97**	—		n/a
Granted	**—**		**—**	124,962	$	38.97
Outstanding at end of year	**124,962**	**$**	**38.97**	124,962	$	38.97
Exercisable at end of year	**—**		**n/a**	—		n/a

New Stock Option Plan

In December 2018, the Bank established the New Stock Option Plan. The New Stock Option Plan was approved at the Annual General Meeting of shareholders on April 9, 2019. The terms and conditions of the New Stock Option Plan govern the stock options granted by the Board of Directors on December 4, 2018 described thereafter.

Officers, senior executives and other employees of the Bank or its subsidiaries are eligible participants in the New Stock Option Plan. Under this plan, the exercise price of options for the purchase of common shares cannot be below the market value of the Bank's share at the date of grant. Stock options granted will vest 50% after three years and 50% after four years and the options may be exercised at any time up to ten years after they have been granted. The Bank reserved 1,666,000 common shares under this plan, of which 1,282,674 were still available as at October 31, 2019.

On December 4, 2018, the Bank awarded 383,326 stock options under the New Stock Option Plan with an exercise price of $38.97. In accordance with applicable accounting guidance, the fair value of the options was adjusted upon the approval of the New Stock Option Plan by shareholders on April 9, 2019. The weighted-average fair value of the options was estimated at $6.78 using the Black-Scholes model, as well as the assumptions presented in section below.

Information relating to outstanding number of options under the New Stock Option Plan is as follows.

			2019
	Number of options		Exercise price per option
Outstanding at beginning of year	**—**	**$**	**—**
Granted	**383,326**		**38.97**
Forfeited	**(8,198)**		**38.97**
Outstanding at end of year	**375,128**	**$**	**38.97**
Exercisable at end of year	**—**		**n/a**

Assumptions related to the stock options valuations

Assumptions related to the stock options valuations are as follows.

		2019 grant		2018 grant
Share price at grant date	**$**	**40.81**	$	41.56
Risk free interest rate		**1.61%**		2.05%
Expected life of options		**8 years**		8 years
Expected volatility[1]		**22%**		20%
Expected dividend yield		**5.20%**		5.20%

(1) Expected volatility is extrapolated from the implied volatility of the Bank's share price and observable market inputs, which are not necessarily representation of actual results.

18. SHARE-BASED COMPENSATION (CONT'D)

Share appreciation rights plan

The Bank offers a share appreciation rights (SARs) plan to members of its senior management. These SARs may be cash settled for an amount equal to the difference between the SAR exercise price and the closing price of the common shares at the measurement date. SARs vest over a maximum period of five years and can be exercised over a maximum period of ten years. No SARs were outstanding as at October 31, 2019 and 2018.

PERFORMANCE-BASED SHARE UNIT PLANS

Performance-based share units

Effective November 1, 2018, the Bank modified the characteristics of its performance-based share unit (PSU) plan for eligible members of its senior management. All rights to the new PSUs vest over three years with no guaranteed minimum vesting. The number of units vesting will be based on the Bank's total shareholder return relative to the average of a peer group of Canadian financial institutions and on the adjusted return on equity of the Bank relative to budgets. 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.

Performance-based share units

	Number of units granted		Value of units granted	Vesting date
2019	**130,620**	**$**	**40.88**	**December 2021**
2018	161,182	$	56.31	December 2020

The number of units outstanding as at October 31, 2019 was 590,574 of which 204,615 units were fully vested under the deferred version of the plan (587,385 units as at October 31, 2018 of which 139,432 units were fully vested).

Transformation performance-based share units

The Bank's Transformation PSU incentive program for certain members of its senior management is linked to the successful execution of its transformation plan. The rights to these PSUs granted at the beginning of 2018 vest after three years and only if the Bank attains certain performance targets at the end of fiscal 2020.

The following table summarizes the Bank's Transformation PSU plan activities.

Transformation performance-based share units

	Number of units granted		Value of units granted	Vesting date
2018	58,411	$	56.31	December 2020

In October 2018, 26,045 units of the Transformation PSUs were canceled. The number of Transformation PSUs outstanding was 30,366 as at October 31, 2019 (32,668 as at October 2018).

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.

18. SHARE-BASED COMPENSATION (CONT'D)

The following table summarizes the Bank's RSU plans activities.

Restricted share units

	Plan	Number of units converted [1]	Number of units granted		Value of units granted	Vesting date
2019	**Senior management**	**45,451**	**156,860**	**$**	**40.95**	**December 2021**
	Capital markets	**33,057**	**—**	**$**	**40.88**	**n/a**
2018	Senior management	56,271	38,196	$	56.08	December 2020
	Capital markets	32,599	—	$	56.40	n/a

(1) Corresponds to the portion of annual bonuses converted in RSUs. These units are fully vested at grant date.

The number of units outstanding for the Senior management RSU plan as at October 31, 2019 was 471,808 of which 244,082 units were fully vested under the deferred version of the plan (326,327 units as at October 31, 2018 of which 217,416 units were fully vested). The number of units outstanding for the Capital markets RSU plan as at October 31, 2019 was 72,143 all of which were vested (70,373 units as at October 31, 2018, 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 2019, 22,057 deferred share units were redeemed and settled in cash (none in 2018). In 2019, the Bank granted 28,064 deferred share units as compensation (25,168 units in 2018). As at October 31, 2019, there were 77,694 units (71,687 units in 2018) outstanding with a total value of $3.5 million ($3.0 million in 2018).

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 $0.7 million during fiscal 2019 ($0.7 million in 2018), are recognized in salaries and employee benefits.

Share-based compensation plan expense and related liability

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

		2019		2018
Expense arising from share-based compensation plans	**$**	**18,709**	$	(6,988)
Effect of hedges		**(4,522)**		13,275
	$	**14,187**	$	6,287

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 compensation plans' 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 $47.3 million as at October 31, 2019 ($33.4 million as at October 31, 2018). The intrinsic value of the total liability related to fully vested rights and units was $27.1 million as at October 31, 2019 ($20.7 million as at October 31, 2018).

19. 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, as well as defined contribution pension plans. The 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 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 and economic 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. 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.

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.

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 defined benefit 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, 2018 for all pension plans. The next required actuarial valuation for funding purposes will be as at December 31, 2019 for all funded plans.

19. POST-EMPLOYMENT BENEFITS (CONT'D)

Defined benefit plan obligations

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

			2019		2018
	Pension plans	**Other plans**	Pension plans	Other plans
Change in defined benefit obligation				
Defined benefit obligation at beginning of year	**$ 584,878**	**$ 25,034**	$ 629,977	$ 28,755
Current service cost	**11,342**	**26**	14,367	55
Interest expense	**22,088**	**786**	22,285	814
Benefits paid	**(71,708)**	**(1,637)**	(44,507)	(1,567)
Employee contributions	**1,685**	**—**	2,613	—
Curtailment gain[1]	**(4,216)**	**(593)**	—	—
Actuarial losses (gains) arising from changes in assumptions				
Demographic	**—**	**(1,073)**	(1,536)	12
Economic	**76,143**	**1,921**	(31,443)	(2,225)
Actuarial gains arising from plan experience	**(674)**	**—**	(6,878)	(810)
Defined benefit obligation at end of year	**$ 619,538**	**$ 24,464**	$ 584,878	$ 25,034

(1) In 2019, the Bank optimized its Financial Clinic operations, and streamlined certain back-office and corporate functions. These measures led to a reduction of the workforce and in the curtailment of one of the Bank's pension plans as well as to other post-employment benefits. This curtailment resulted in a $4.8 million gain.

Defined benefit pension plan assets

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

	2019	2018
Change in fair value of pension plan assets		
Fair value of plan assets at beginning of year	**$ 573,469**	$ 599,319
Interest income (at prescribed rate)	**21,701**	21,026
Actuarial gains (losses) arising from the difference between the actual return on plan assets and interest income	**67,251**	(24,057)
Administration costs (other than costs of managing plan assets)	**(1,390)**	(1,507)
Bank contributions	**18,517**	20,582
Employee contributions	**1,685**	2,613
Benefits paid	**(71,708)**	(44,507)
Fair value of plan assets at end of year	**$ 609,525**	$ 573,469

Reconciliation of the funded status of the benefit plans to the amounts recorded in the Consolidated Financial Statements

		2019		2018
	Pension plans	**Other plans**	Pension plans	Other plans
Fair value of plan assets	**$ 609,525**	**$ —**	$ 573,469	$ —
Defined benefit obligation	**619,538**	**24,464**	584,878	25,034
Funded status – plan deficit	**(10,013)**	**(24,464)**	(11,409)	(25,034)
Defined benefit plan assets included in other assets	**3,102**	**—**	5,511	—
Defined benefit plan liabilities included in other liabilities	**$ 13,115**	**$ 24,464**	$ 16,920	$ 25,034

19. POST-EMPLOYMENT BENEFITS (CONT'D)

Defined benefit plan costs recognized during the year

	2019		2018	
	Pension plans	**Other plans**	Pension plans	Other plans
Amounts recognized in income				
Current service cost	$ 11,342	$ 26	$ 14,367	$ 55
Administration costs (other than costs of managing plan assets)	1,390	—	1,507	—
Interest expense	22,088	786	22,285	814
Interest income (at prescribed rate)	(21,701)	—	(21,026)	—
Loss (gain) on short-term employee benefits	—	(911)	—	(1,060)
Curtailment gain[1]	(4,216)	(593)	—	—
	8,903	(692)	17,133	(191)
Amounts recognized in other comprehensive income				
Actuarial losses (gains) on defined benefit obligation	75,469	1,759	(39,857)	(1,963)
Actuarial losses (gains) on plan assets	(67,251)	—	24,057	—
	8,218	1,759	(15,800)	(1,963)
Total defined benefit cost	$ 17,121	$ 1,067	$ 1,333	$ (2,154)

(1) In 2019, the Bank optimized its Financial Clinic operations, and streamlined certain back-office and corporate functions. These measures led to a reduction of the workforce and in the curtailment of one of the Bank's pension plans as well as to other post-employment benefits. This curtailment resulted in a $4.8 million gain presented as restructuring charges (see Note 31).

The Bank expects to contribute $15.6 million to its defined benefit pension plans for the year ending October 31, 2020.

Asset allocation of defined benefit pension plans

	2019	2018
Asset category		
Cash and cash equivalents[1]	$ 800	$ 5,501
Equity funds		
Canada	22,650	49,541
United States	15,913	22,679
Other	20,065	20,447
Debt securities		
Canadian governments and other public administrations	48,532	57,176
Corporate and other	420,723	377,608
Other	80,842	40,517
	$ 609,525	$ 573,469

(1) Cash and cash equivalents consist of mainly Canada and U.S. treasury bills.

Equity funds included $0.1 million in equity securities of the Bank as at October 31, 2019 ($0.1 million as at October 31, 2018). As at October 31, 2019 and 2018, none of the plan assets were quoted in active markets.

Significant assumptions for pension plans and other plans

	2019	2018
Weighted-average of assumptions to determine benefit obligation		
Discount rate at end of year	3.01%	3.94%
Rate of compensation increase	2.75%	2.75%
Weighted-average of assumptions to determine benefit expense		
Discount rate - Current service	4.00%	3.71%
Discount rate - Interest expenses (income), net	3.94%	3.54%
Rate of compensation increase	2.75%	2.75%

For 2019, the weighted-average financial duration of the pension plans was approximately 14.1 years (13.3 years for 2018).

19. POST-EMPLOYMENT BENEFITS (CONT'D)

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

	2019	2018
Assumed annual rate of increase in the cost of health care benefits	**5.08%**	6.50%
Level to which it should decline and at which it is assumed to subsequently stabilize	**3.57%**	4.50%
Year that the rate is assumed to stabilize	**2040**	2028

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 obligation and cost for the year ended October 31, 2019.

	Impact of a potential change of 0.25% to the discount rate on [1]	
	Obligation	**Expense**
Pension Plans	**$ 22,565**	**$ 1,470**
Other Plans	**$ 609**	**$ 7**

(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 obligation and cost for the year ended October 31, 2019, with all other assumptions remaining constant.

	1% increase	1% decrease
Increase (decrease) in total of service and interest expense	**$ 233**	**$ (188)**
Increase (decrease) in defined benefit obligation	**$ 1,258**	**$ (1,098)**

Expense for post-employment benefits

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

	2019	2018
Defined benefit pension plans	**$ 13,119**	$ 17,133
Defined contribution pension plans	**7,991**	7,925
Other plans	**(99)**	(191)
Curtailment gain [1]	**(4,809)**	—
	$ 16,202	$ 24,867

(1) In 2019, the Bank optimized its Financial Clinic operations and streamlined certain back-office and corporate functions. These measures led to a reduction of the workforce and in the curtailment of one of the Bank's pension plan as well as to other post-employment benefits.

20. INCOME TAXES

Deferred income taxes

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

		2019		2018
Deferred income tax assets				
Allowances for loan losses	$	21,474	$	19,796
Deferred revenues		13,944		7,559
Provisions		12,335		9,944
Amount related to share-based payments		12,166		7,511
Defined benefit plan liabilities		9,144		9,695
Premises and equipment		3,579		4,484
Derivatives		—		4,422
Other temporary differences		7,428		13,291
		80,070		76,702
Deferred income tax liabilities				
Other intangible assets		38,725		18,243
Deferred charges		21,638		28,509
Leases		18,819		6,532
Software		9,090		12,263
Derivatives		7,599		—
Other temporary differences		256		4,799
		96,127		70,346
Deferred income taxes, net	$	(16,057)	$	6,356

As at October 31, 2019, unused capital tax losses of $19.0 million (October 31, 2018, $11.0 million) available to offset future capital gains were not recognized as deferred tax assets. The unused capital tax losses can be carried forward indefinitely.

As at October 31, 2019, the total amount of temporary differences associated with investments in foreign subsidiaries for which deferred tax liabilities have not been recognized was $269.3 million ($222.5 million as at October 31, 2018).

Net deferred income taxes reported in the Consolidated Balance Sheet are as follows.

		2019		2018
Deferred income tax assets	$	37,045	$	25,437
Deferred income tax liabilities		(53,102)		(19,081)
Deferred income taxes, net	$	(16,057)	$	6,356

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

		2019		2018
Deferred income tax expense (recovery)				
Other intangible assets	$	20,476	$	9,008
Leases		12,287		(6,875)
Allowances for loan losses		1,058		3,239
Premises and equipment		906		2,556
Deferred charges		(11,321)		(4,558)
Amount related to share-based payments		(4,655)		5,697
Software		(3,172)		(2,033)
Provisions		(1,856)		1,910
Other temporary differences		449		158
	$	14,172	$	9,102

20. INCOME TAXES (CONT'D)

Income tax expense

Significant components of the income tax expense (recovery) recorded in the Consolidated Statement of Income for the years ended October 31

		2019		2018
Current income taxes				
Income tax expense for the year	$	9,768	$	48,078
Previous years income tax expense (recovery) adjustment		(485)		(1,493)
		9,283		46,585
Deferred income taxes				
Origination and reversal of temporary differences		13,584		7,032
Previous years income tax expense (recovery) adjustment		588		1,539
Change in tax rate		—		531
		14,172		9,102
	$	23,455	$	55,687

Significant components of the income tax expense (recovery) recorded in the Consolidated Statement of Comprehensive Income for the years ended October 31

		2019		2018
Income tax expense related to change in unrealized gains on debt securities FVOCI	$	846		n/a
Income tax recovery related to reclassification of net losses on debt securities at FVOCI to net income		(137)		n/a
Income tax recovery related to change in unrealized losses on available-for-sale securities		n/a		(2,584)
Income tax recovery related to reclassification of net losses on available-for-sale securities to net income		n/a		(2,436)
Income tax expense (recovery) related to net change in value of derivatives designated as cash flow hedges		12,034		(1,793)
		12,743		(6,813)
Items that may not subsequently be reclassified to the Statement of Income				
Income tax expense (recovery) related to actuarial gains on employee benefit plans		(2,666)		4,740
Income tax recovery related to equity securities designated at FVOCI non-recycling		(6,648)		n/a
	$	3,429	$	(2,073)
Composition of income taxes				
Current income tax expense (recovery)	$	(6,895)	$	(4,364)
Deferred income tax expense		10,324		2,291
	$	3,429	$	(2,073)

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

		2019		2018
Income taxes on preferred share dividends				
Current income tax expense	$	334	$	350
Income taxes on issuance of common and preferred shares				
Current income tax recovery		—		(339)
Deferred income tax recovery		(16)		(1,346)
		(16)		(1,685)
Income taxes on IFRS 9 adoption an other items				
Deferred income tax recovery on allowances for loan losses (IFRS 9 adoption)		(2,736)		n/a
Current income tax recovery on other items		(629)		n/a
Deferred income tax expense on other items		669		n/a
		(2,696)		n/a
	$	(2,378)	$	(1,335)

20. 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.

		2019		2018
	Amount	Rate	Amount	Rate
Income taxes at statutory rates	$ 52,161	26.6 %	$ 74,749	26.7 %
Change resulting from:				
Change in tax rate	—	—	531	0.2
Income related to foreign operations	(27,050)	(13.8)	(17,483)	(6.2)
Non-taxable dividends and non-taxable portion of capital gains	(2,495)	(1.3)	(2,176)	(0.7)
Other, net	839	0.5	66	(0.1)
Income taxes as reported in the Consolidated Statement of Income	$ 23,455	12.0 %	$ 55,687	19.9 %

21. EARNINGS PER SHARE

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

	2019	2018
Earnings per share – basic		
Net income	$ 172,710	$ 224,646
Preferred share dividends, including applicable taxes	12,966	14,038
Net income attributable to common shareholders	$ 159,744	$ 210,608
Weighted-average number of outstanding common shares (in thousands)	42,310	41,280
Earnings per share – basic	$ 3.78	$ 5.10

	2019	2018
Earnings per share – diluted		
Net income attributable to common shareholders	$ 159,744	$ 210,608
Weighted-average number of outstanding common shares (in thousands)	42,310	41,280
Dilutive share purchase options (in thousands)	46	—
Diluted weighted-average number of outstanding common shares (in thousands)	42,356	41,280
Earnings per share – diluted	$ 3.77	$ 5.10

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.

22. RELATED PARTY TRANSACTIONS

Related parties of the Bank include:

- key management personnel and their close family members;
- entities which are controlled, jointly controlled or significantly influenced, or for which significant voting power is held, by key management personnel or their close family members;
- post-employment benefit plans for Bank employees.

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, being members of the Executive Committee or Board of Directors.

The following table shows the outstanding carrying amount of loans and deposits with related parties.

		2019		2018
Loans[1]				
Key management personnel	**$**	**2,245**	$	1,442
Entities controlled by key management personnel		**—**		37,352
	$	**2,245**	$	38,794
Deposits				
Key management personnel	**$**	**841**	$	691
Entities controlled by key management personnel		**92**		301
	$	**933**	$	992

(1) No allowance for loan losses was recorded against these loans as no loans were impaired or past due.

The Bank provides loans to key management personnel and their related entities. Loans to directors of the Board 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 $0.1 million for the year ended October 31, 2019 ($2.0 million for the year ended October 31, 2018) 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 $ 17,000 for the year ended October 31, 2019 ($25,000 for the year ended October 31, 2018) and was recorded under interest expense in the Consolidated Statement of Income. In addition, for the year ended October 31, 2018, the Bank paid a rental expense of $0.2 million to a related party.

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

		2019		2018
Short-term employee benefits, including salaries	**$**	**4,702**	$	5,798
Post-employment benefits		**904**		828
Share-based compensation		**4,733**		4,213
	$	**10,339**	$	10,839

23. FINANCIAL INSTRUMENTS – FAIR VALUE

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

Classification of fair value measurement 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.

23. FINANCIAL INSTRUMENTS – FAIR VALUE (CONT'D)

Other assets
Other assets consist primarily of cheques and other items in transit, accrued interest receivable and accounts receivable. As quoted market prices in an active market are not available for these financial instruments the Bank determined that the carrying value approximates the fair value due to their short term nature.

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.

Other liabilities
Other liabilities consist primarily of cheques and other items in transit, accrued interest payable and accounts payable. Quoted market prices in an active market are not available for these financial instruments and their fair value is deemed to represent their carrying amount due to their short term nature.

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 shows 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)				2019
	Level 1	Level 2	Level 3	Total
Assets				
Securities				
At FVOCI	$ 185	$ 123	$ 5	$ 313
At FVTPL	$ 208	$ 3,031	$ 3	$ 3,242
Derivatives	$ —	$ 144	$ —	$ 144
Liabilities				
Obligations related to securities sold short	$ 23	$ 2,595	$ —	$ 2,618
Derivatives	$ 2	$ 67	$ 44	$ 113

23. FINANCIAL INSTRUMENTS – FAIR VALUE (CONT'D)

(in millions of Canadian dollars)								2018
		Level 1		Level 2		Level 3		Total
Assets								
Securities								
Available-for-sale	$	181	$	2,528	$	1	$	2,710
Held-for-trading	$	174	$	2,521	$	—	$	2,695
Derivatives	$	1	$	93	$	—	$	94
Liabilities								
Obligations related to securities sold short	$	20	$	2,989	$	—	$	3,009
Derivatives	$	2	$	258	$	25	$	285

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, 2019 and 2018.

As at October 31, 2019, 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 shows 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)														2018
										2019				
		Carrying amount		**Fair value**		**Level 1**		**Level 2**		**Level 3**		Carrying amount		Fair value
Assets														
Securities at amortized cost	**$**	**2,745**	**$**	**2,747**	**$**	**—**	**$**	**2,747**	**$**	**—**		n/a		n/a
Held-to-maturity securities		**n/a**		**n/a**		**n/a**		**n/a**		**n/a**	$	656	$	654
Loans	**$**	**33,566**	**$**	**33,383**	**$**	**—**	**$**	**—**	**$**	**33,383**	$	34,302	$	33,990
Liabilities														
Deposits	**$**	**25,653**	**$**	**25,849**	**$**	**—**	**$**	**25,849**	**$**	**—**	$	28,007	$	27,842
Debt related to securitization activities	**$**	**8,913**	**$**	**8,933**	**$**	**—**	**$**	**8,933**	**$**	**—**	$	7,788	$	7,720
Subordinated debt	**$**	**349**	**$**	**356**	**$**	**—**	**$**	**356**	**$**	**—**	$	349	$	348

The Bank also determined that the carrying value approximates the fair value as at October 31, 2019 and 2018 for the following assets and liabilities as they are generally liquid floating rate financial instruments or are generally short term in nature: cash and non-interest-bearing deposits with banks, interest-bearing deposits with banks, securities purchased under reverse repurchase agreements, other assets, obligations related to securities sold under repurchase agreements, acceptances and other liabilities.

24. FINANCIAL INSTRUMENTS – OFFSETTING

The following table shows 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.

2019

	Gross recognized amounts	Gross amounts offset in the Consolidated Balance Sheet	Amounts presented in the Consolidated Balance Sheet	Amounts not offset in the Consolidated Balance Sheet: Impact of master netting agreements[1]	Amounts not offset in the Consolidated Balance Sheet: Financial collateral received or pledged	Net amounts
Financial assets						
Securities purchased under reverse repurchase agreements	$ 5,167,670	$ 2,629,385	$ 2,538,285	$ 666,192	$ 1,871,720	$ 373
Derivatives	143,816	—	143,816	51,273	47,746	44,797
	$ 5,311,486	$ 2,629,385	$ 2,682,101	$ 717,465	$ 1,919,466	$ 45,170
Financial liabilities						
Obligations related to securities sold under repurchase agreements	$ 5,188,268	$ 2,629,385	$ 2,558,883	$ 666,192	$ 1,892,542	$ 149
Derivatives	112,737	—	112,737	51,273	13,885	47,579
	$ 5,301,005	$ 2,629,385	$ 2,671,620	$ 717,465	$ 1,906,427	$ 47,728

2018

	Gross recognized amounts	Gross amounts offset in the Consolidated Balance Sheet	Amounts presented in the Consolidated Balance Sheet	Amounts not offset in the Consolidated Balance Sheet: Impact of master netting agreements[1]	Amounts not offset in the Consolidated Balance Sheet: Financial collateral received or pledged	Net amounts
Financial assets						
Securities purchased under reverse repurchase agreements	$ 5,717,765	$ 2,065,267	$ 3,652,498	$ 1,151,059	$ 2,495,671	$ 5,768
Derivatives	94,285	—	94,285	70,188	8,381	15,716
	$ 5,812,050	$ 2,065,267	$ 3,746,783	$ 1,221,247	$ 2,504,052	$ 21,484
Financial liabilities						
Obligations related to securities sold under repurchase agreements	$ 4,581,090	$ 2,065,267	$ 2,515,823	$ 1,151,059	$ 1,362,294	$ 2,470
Derivatives	285,492	—	285,492	70,188	162,338	52,966
	$ 4,866,582	$ 2,065,267	$ 2,801,315	$ 1,221,247	$ 1,524,632	$ 55,436

(1) Carrying amount of financial assets and financial liabilities that are subject to a master netting agreement or similar agreements but that do not meet offsetting criteria, as these agreements give a right of set-off that is enforceable only following a specified event of default or in other circumstances not expected to arise in the normal course of business.

25. FINANCIAL INSTRUMENTS – RISK MANAGEMENT

The Bank is exposed to various types of risks owing to the nature of the business activities it pursues. To ensure that significant risks to which the Bank could be exposed are taken into consideration, a Risk Management Framework has been developed to provide for oversight of risk assessment and control. Risk management is conducted according to tolerance levels established by management committees and approved by the Board of Directors through its committees.

In order to manage the risks associated with financial instruments, including loan and deposit portfolios, securities and derivatives, the Bank has implemented policies prescribing how various risks are to be managed. In practice, management closely monitors various risk limits, as well as a number of other indicators. Oversight of operations is performed by groups independent of the business lines.

The risk management policies and procedures of the Bank are disclosed in the Risk Appetite and Risk Management Framework section of the 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.

26. DERIVATIVES AND HEDGING ACTIVITIES

Derivatives are financial contracts that derive their value from underlying changes in interest rates, foreign exchange rates or other equity prices or indices.

In the normal course of business, the Bank enters into various derivatives to manage its interest rate, foreign exchange and equity risk related to the Bank's lending, funding, investment, and asset and liability management activities, as well as to meet its customer demands and to earn trading income, as described below.

Types of derivatives

The main types of derivatives used are as follows:

Forwards and futures
Forward contracts are non-standardized agreements that are transacted between counterparties in the over-the-counter (OTC) market, whereas futures are standardized contracts with respect to amounts and settlement dates, and are traded on organized exchanges. Examples of forwards and futures are described below.

- Interest rate futures are contractual obligations to buy or sell an interest-rate sensitive financial instrument on a predetermined future date at a specified price.
- Foreign exchange forwards are contractual obligations to exchange one currency for another at a specified price for settlement at a predetermined future date.
- Equity futures are contractual obligations to buy or sell at a fixed value (the specified price) of an equity index, a basket of stocks or a single stock at a predetermined future date.

Swaps
Swaps are OTC contracts in which two counterparties exchange a series of cash flows based on agreed upon rates applied to a notional amount. Examples of swap agreements are described below.

- Interest rate swaps are agreements where two counterparties exchange a series of payments based on different interest rates applied to a notional amount in a single currency. Certain interest rate swaps are transacted and settled through a clearing house which acts as a central counterparty.
- Foreign exchange swaps are agreement to exchange payments in different currencies over predetermined periods of time.

Options
Options are contractual agreements under which the seller (writer) grants the purchaser the right, but not the obligation, either to buy (call option) or sell (put option) a security, exchange rate, interest rate, or other financial instrument or commodity at a specified price, at or by a predetermined future date. The seller (writer) of an option can also settle the contract by paying the cash settlement value of the purchaser's right. The seller (writer) receives a premium from the purchaser for this right. The various option agreements that the Bank enters into include foreign currency options, equity options and index options.

Total return swaps
Total return swaps are contracts where one counterparty agrees to pay or receive from the other cash amounts based on changes in the value of a referenced asset or group of assets, including any returns such as interest earned on these assets, in exchange for amounts that are based on prevailing market funding rates.

Aggregate notional amounts

The following tables present notional amounts of derivatives by term to maturity. The notional amounts of derivatives represents the contract amount used as a reference point to calculate payments. Notional amounts are generally not exchanged by counterparties, and do not reflect the Bank's exposure at default.

26. DERIVATIVES AND HEDGES (CONT'D)

(in millions of Canadian dollars)						2019
	Term to maturity					
Notional amount	Within 1 year	1 to 5 years	Over 5 years	Total	Contracts designated as hedges	Other contracts[1][2]
Interest rate contracts						
Over-the-counter contracts						
Swaps	$ 4,479	$ 9,808	$ 1,005	$ 15,292	$ 13,564	$ 1,728
Exchange-traded contracts						
Futures	4	—	—	4	—	4
Foreign exchange contracts						
Over-the-counter contracts						
Foreign exchange swaps	2,887	40	—	2,927	1,526	1,401
Forwards	984	50	—	1,034	—	1,034
Options purchased	392	1	—	393	—	393
Options written	392	1	—	393	—	393
Equity- and index-linked contracts						
Options purchased	59	69	—	128	—	128
Options written	91	252	—	343	—	343
Futures	4	—	—	4	—	4
Total return swaps	15	36	—	51	6	45
	$ 9,307	$ 10,257	$ 1,005	$ 20,569	$ 15,096	$ 5,473

(in millions of Canadian dollars)						2018
	Term to maturity					
Notional amount	Within 1 year	1 to 5 years	Over 5 years	Total	Contracts designated as hedges	Other contracts[1][2]
Interest rate contracts						
Over-the-counter contracts						
Swaps	$ 6,747	$ 10,108	$ 733	$ 17,588	$ 13,699	$ 3,889
Exchange-traded contracts						
Futures	154	—	—	154	—	154
Foreign exchange contracts						
Over-the-counter contracts						
Foreign exchange swaps	3,174	61	—	3,235	251	2,984
Forwards	1,896	65	—	1,961	—	1,961
Options purchased	90	—	—	90	—	90
Options written	69	—	—	69	—	69
Equity- and index-linked contracts						
Options purchased	189	116	—	305	—	305
Options written	216	270	—	486	—	486
Futures	30	—	—	30	—	30
Total return swaps	16	24	—	40	6	34
	$ 12,581	$ 10,644	$ 733	$ 23,958	$ 13,956	$ 10,002

(1) Include notional amounts of $0.4 billion related to basis swaps as at October 31, 2019 ($0.4 billion as at October 31, 2018).

(2) Include derivatives used in trading operations to meet customer demands and to earn trading income, as well as derivatives used to manage the Bank's risk exposures that are not designated in hedge relationships.

26. DERIVATIVES AND HEDGES (CONT'D)

Fair value of derivatives

(in thousands of Canadian dollars)	2019		2018	
	Assets	**Liabilities**	Assets	Liabilities
CONTRACTS DESIGNATED AS HEDGES				
Fair value hedges				
Interest rate contracts				
Swaps	**$ 50,913**	**$ 27,869**	$ 712	$ 149,301
Cash flow hedges				
Interest rate contracts				
Swaps	**41,899**	**14,788**	36,958	50,434
Equity- and index-linked contracts				
Total return swaps	**426**	**244**	—	632
Net investment hedges				
Foreign exchange contracts				
Foreign exchange swaps	**10,901**	**967**	—	4,584
OTHER CONTRACTS[1]				
Interest rate contracts				
Swaps	**19,348**	**16,758**	23,575	19,974
Foreign exchange contracts				
Foreign exchange swaps	**6,827**	**4,368**	5,938	30,072
Forwards	**5,444**	**1,739**	14,674	3,290
Options purchased	**338**	**—**	819	—
Options written	**—**	**341**	—	821
Equity- and index-linked contracts				
Options purchased	**7,581**	**—**	11,482	—
Options written	**—**	**45,729**	—	26,705
Total return swaps	**139**	**(66)**	127	(321)
Total	**$ 143,816**	**$ 112,737**	$ 94,285	$ 285,492

(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.

Credit risk exposure of derivatives

(in millions of Canadian dollars)	2019			2018		
	Replacement cost[1]	**Credit equivalent amount**[2]	**Risk-weighted amount**[3]	Replacement cost[1]	Credit equivalent amount[2]	Risk-weighted amount[3]
Interest rate contracts	**$ 112**	**$ 304**	**$ 71**	$ 77	$ 170	$ 36
Foreign exchange contracts	**24**	**89**	**29**	21	79	37
Equity-and index-linked contracts	**8**	**35**	**7**	12	37	15
	144	**428**	**107**	110	286	88
Impact of master netting agreements	**(93)**	**(226)**	**(38)**	(86)	(162)	(39)
	$ 51	**$ 202**	**$ 69**	$ 24	$ 124	$ 49

(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.

Hedging relationships

The interest rate swaps designated as hedging instruments are primarily used for purposes of balance sheet matching and minimizing volatility in net interest income. The foreign exchange swaps designated as hedging instruments are used to protect the value of the net investment in a foreign subsidiary from foreign exchange currency fluctuations.

26. DERIVATIVES AND HEDGES (CONT'D)

Derivative instruments designated in hedging relationships

Fair value hedges						2019
	Notional amounts				Carrying amounts	
(in thousands of Canadian dollars)	Within 1 year	1 to 5 years	Over 5 years	Total	Assets	Liabilities
Interest rate risk						
Interest rate contracts						
Hedge of fixed rate assets	$ 100,000	$ 356,880	$ 2,000	$ 458,880	$ 269	$ 914
Hedge of fixed rate liabilities	$ 3,020,800	$ 4,819,500	$ 529,000	$ 8,369,300	$ 50,644	$ 26,955
Weighted-average fixed interest rate						
Hedge of fixed rate assets	2.2%	1.8%	2.9%	1.9%		
Hedge of fixed rate liabilities	1.8%	1.7%	2.0%	1.8%		

Cash flow hedges						2019
	Notional amounts				Carrying amounts	
(in thousands of Canadian dollars)	Within 1 year	1 to 5 years	Over 5 years	Total	Assets	Liabilities
Interest rate risk						
Interest rate contracts						
Hedge of variable rate assets	$ 1,154,200	$ 2,807,000	$ 15,000	$ 3,976,200	$ 37,335	$ 6,746
Hedge of variable rate liabilities	$ 175,000	$ 358,600	$ 226,000	$ 759,600	$ 4,564	$ 8,042
Weighted-average variable interest rate						
Hedge of variable rate assets	2.0%	2.0%	2.0%	2.0%		
Hedge of variable rate liabilities	2.0%	2.0%	2.0%	2.0%		
Equity risk						
Total return swaps	$ 1,774	$ 4,665	$ —	$ 6,439	$ 426	$ 244
Weighted-average price	$ 44.75	$ 45.66	$ —	$ 45.41		

Net investment hedges						2019
	Notional amounts				Carrying amounts	
(in thousands of Canadian dollars)	Within 1 year	1 to 5 years	Over 5 years	Total	Assets	Liabilities
Foreign exchange risk						
Foreign exchange swaps	$ 1,525,505	$ —	$ —	$ 1,525,505	$ 10,901	$ 967
Average CAD-USD exchange rate	$ 1.3258	$ —	$ —	$ 1.3258		

Fair value hedges

The Bank uses interest rate swaps to hedge changes in fair value of assets, liabilities or firm commitments.

Regression analysis is used to test hedge effectiveness and determine the hedge ratio. For fair value hedges, the main source of potential hedge ineffectiveness is a circumstance where the critical terms of the hedging instrument and the hedged item are not closely aligned.

26. DERIVATIVES AND HEDGES (CONT'D)

The following table shows amounts related to hedged items as well as the results of the fair value hedges.

(in thousands of Canadian dollars)	Carrying value of hedged items	Cumulative hedge adjustments from active hedges	Cumulative adjustments from discontinued hedges	Gains (losses) on the hedged items for ineffectiveness measurement	Gains (losses) on the hedging instruments for ineffectiveness measurement	Hedge ineffectiveness[1]
						2019
Interest rate risk						
Securities	$ 450,575	$ 575	$ —	$ 578	$ (566)	$ 12
Securities at FVOCI	4,000	187	(20)	230	(235)	(5)
Loans	4,843	(37)	—	133	(131)	2
Deposits	5,048,101	18,101	426	(60,630)	60,625	(5)
Debt related to securitization activities	3,346,409	7,109	(378)	(117,111)	117,895	784
				$ (176,800)	$ 177,588	$ 788

(1) Included on the Income from financial instruments line-item.

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.

Regression analysis is used to assess hedge effectiveness and to determine the hedge ratio. For cash flow hedges, the main source of potential hedge ineffectiveness is a circumstance where the critical terms of the hedging instrument and the hedged item are not closely aligned.

The following table shows the amounts related to hedged items as well as the results of the cash flow hedges.

(in thousands of Canadian dollars)	Accumulated other comprehensive income from active hedges	Accumulated other comprehensive income from discontinued hedges	Gains (losses) on hedged items for ineffectiveness measurement	Gains (losses) on hedging instruments for ineffectiveness measurement	Hedge ineffectiveness[1]	Unrealized gains (losses) included in Other comprehensive income as the effective portion of the hedging instrument	Losses (gains) reclassified to net interest income
							2019
Interest rate risk							
Loans	$ 30,007	$ (2,599)	$ (80,492)	$ 80,963	$ 471	$ 80,197	$ 6,342
Deposits	(1,889)	(2,278)	29,805	(30,217)	(412)	(25,683)	(10,333)
Debt related to securitization activities	2,965	1,991	8,784	(8,806)	(22)	(8,785)	1,692
	31,083	(2,886)	(41,903)	41,940	37	45,729	(2,299)
Equity price risk							
Other liabilities	490	28	(1,424)	1,424	—	1,578	319
	$ 31,573	$ (2,858)	$ (43,327)	$ 43,364	$ 37	$ 47,307	$ (1,980)

(1) Included on the Income from financial instruments line-item.

Net investment hedges
The Bank uses foreign exchange swaps to hedge its net investment in a foreign subsidiary.

Assessing the effectiveness of net investment hedges consists of comparing changes in fair value of the derivative attributable to exchange rate fluctuations with changes in the net investment in a foreign operation attributable to exchange rate fluctuations. Inasmuch as the notional amount of the hedging instruments and the hedged net investments are aligned, no ineffectiveness is expected.

26. DERIVATIVES AND HEDGES (CONT'D)

(in thousands of Canadian dollars)	Accumulated other comprehensive income from active hedges	Accumulated other comprehensive income from discontinued hedges	Gains (losses) on hedged items for ineffectiveness measurement	Gains (losses) on hedging instruments for ineffectiveness measurement	Hedge ineffectiveness[1]	Losses (gains) reclassified to income
						2019
Net investments in foreign operations						
USD	$ 2,196	$ (17,544)	$ 5,158	$ (5,158)	$ —	$ —

(1) Included on the Income from financial instruments line-item.

Reconciliation of equity components

The following table presents a reconciliation by risk category of Accumulated other comprehensive income attributable to hedge accounting.

	Cash flow hedges reserve	Translation of foreign operations reserve
		2019
Balance at beginning of period	$ (12,244)	$ 4,283
Hedges of net investments in foreign operations		
Effective portion of changes in fair value	n/a	(5,158)
Foreign currency translation gains (losses) on investments in foreign operations	n/a	445
Cash flow hedges		
Effective portion of changes in fair value		
Interest rate risk	45,729	n/a
Equity price risk	1,578	n/a
Net amount reclassified to profit or loss		
Interest rate risk	(2,299)	n/a
Equity price risk	319	n/a
Income taxes	(12,034)	—
Balance at end of period	$ 21,049	$ (430)

Comparative year information

Fair value hedges

The notional amount of derivatives designated as hedging instruments in fair value hedges was $6.8 billion as at October 31, 2018.

The following table shows ineffectiveness related to fair value hedges.

(in thousands of Canadian dollars)	2018
Net gains recognized on hedging instrument	$ 80,749
Net losses recognized on hedged item	(80,098)
Ineffectiveness gains recognized in net income	$ 651

Cash flow hedges

The notional amount of swap contracts designated as hedging instruments in cash flow hedges was $6.9 billion as at October 31, 2018. Ineffectiveness gains related to cash flow hedges of $0.4 million were recognized in net income for the year ended October 31, 2018.

Net investment hedges

The notional amount of foreign exchange swap contracts designated as hedging instruments in net investment hedges was $251.0 million as at October 31, 2018. There was no hedge ineffectiveness associated with net investment hedges for the years ended October 31, 2018.

27. INCOME RELATED TO FINANCIAL INSTRUMENTS

Net interest income from financial instruments

		2019
Interest and similar income		
Interest income calculated using the effective interest method		
Financial instruments measured at amortized cost	$	1,503,943
Financial instruments measured at FVOCI		3,490
Interest and similar income for financial instruments not measured at amortized cost[1]		48,949
		1,556,382
Interest and similar expense		
Interest expenses calculated using the effective interest method		
Financial instruments measured at amortized cost		820,073
Interest expense and derivative expense for financial instruments that are measured at FVTPL		49,898
		869,971
Net interest income	$	686,411

(1) Includes interest income, derivative income and dividend income for financial instruments that are measured at FVTPL and equity securities designated at FVOCI. Dividend income for the year ended October 31, 2019 is $15.7 million.

Comparative year information

Income related to financial instruments held-for-trading (IAS 39)

The net interest loss on held-for-trading financial instruments for the year ended October 31, 2018 was $5.5 million.

28. INSURANCE INCOME

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

		2019		2018
Insurance revenues	$	22,781	$	26,409
Claims and expenses		(8,840)		(11,136)
Insurance income, net	$	13,941	$	15,273

29. OTHER INCOME

Rental Income

The Bank has entered as a lessor into operating leases with clients on an equipment portfolio (Note 12). These leases have terms of between 1 and 7 years. Rental income for these leases of $4.7 million ($7.9 million in 2018) is reported in other income in the Consolidated Statement of Income. The following table shows minimum lease payments receivable from lessees under these non-cancellable operating leases.

		2019		2018
Receivable within one year	$	3,244	$	4,142
Receivable within 1 to 5 years		2,903		5,963
Receivable after 5 years		41		—
	$	6,188	$	10,105

Financial Instruments

The following table shows additional information on Income from financial instruments.

		2019		2018
Income from non-trading financial instruments at FVTPL and foreign exchange	$	5,946	$	9,262
Trading revenues		5,999		15,782
Net gains on FVOCI debt securities (AFS securities in 2018)		515		7,643
	$	12,460	$	32,687

30. 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 $161.2 million as at October 31, 2019 ($161.9 million as at October 31, 2018).

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.

The Bank also enters into other derivative contracts under which it may be required to make payments to counterparties. These derivatives are accounted for in accordance with the policy for derivative instruments (refer to Note 26 for further detail).

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.

			2019
	Leases	Information technology service contracts	Other
Due within one year	$ 46,429	$ 37,753	$ 11,945
Due within 1 to 5 years	132,697	34,401	192
Due after 5 years	158,418	23,456	—
	337,544	95,610	12,137
Less: Future minimum sublease payments to be received	(4,427)	—	—
Total	$ 333,117	$ 95,610	$ 12,137

Payments under these commitments recognized as an expense amounted to $45.0 million for the year ended October 31, 2019 ($52.9 million for the year ended October 31, 2018).

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.

30. COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES (CONT'D)

Financial assets pledged as collateral under securitization operations are detailed in Note 8. The following table details the financial assets pledged as collateral under other arrangements.

		2019		2018
Pledged assets:				
To participate in clearing and payment systems[1]	$	**1,366,214**	$	621,462
For obligations related to securities sold under repurchase agreements and for securities borrowed		**6,148,416**		5,321,744
For obligations related to derivatives in a liability position		**66,136**		212,715
	$	**7,580,766**	$	6,155,921
Pledged assets are detailed as follows:				
Securities	$	**6,781,320**	$	5,555,415
Residential mortgage loans (NHA MBS)[1]		**530,217**		600,506
Other loans		**269,229**		—
	$	**7,580,766**	$	6,155,921

(1) Of which $1,120.0 million was pledged in excess of minimum requirements as at October 31, 2019, including $530.2 million of NHA MBS ($355.0 million as at October 31, 2018, entirely comprised of NHA MBS).

Contingent liabilities

In the ordinary course of business, the Bank and its subsidiaries are involved in various legal and regulatory actions and claims. These matters mainly relate to class actions involving numerous other financial institutions and pertaining to charges on credit cards and banking accounts, as well as other claims in respect to portfolio administration by trustee and cross-claims from clients following the Bank's recovery actions on loans. While there is inherent difficulty in predicting the outcome of legal proceedings, based on current knowledge and in consultation with legal counsel, the outcome of these matters is not expected to have a material adverse effect on the Consolidated Financial Statements. However, the outcome of these matters, individually or in aggregate, may be material to operating results for a particular reporting period.

31. RESTRUCTURING CHARGES

The following table details the Restructuring charges line item.

		2019		2018
Severance charges	$	**10,674**	$	925
Curtailment gain on pension plans and other post-employment benefits obligations		**(4,809)**		—
Charges related to lease contracts		**4,704**		2,011
Other restructuring charges		**2,110**		3,008
Total	$	**12,679**	$	5,944

In 2019, we reiterated our intention to optimize our Financial Clinic operations and announced the streamlining of certain back-office and corporate functions. As a result, restructuring charges of $12.7 million in 2019 mainly included expenses related to these measures.

In 2018, charges of $5.9 million related to advisory service expenses to reorganize the product offering in light of the transition to the advice-only model and to the termination of other lease contracts.

The following table shows the change in the provision for restructuring charges, included in the Other liabilities line item in the Consolidated Balance Sheet.

		2019		2018
Balance at beginning of the year	$	**4,754**	$	9,411
Restructuring charges incurred during the year[1]		**17,488**		5,944
Payments made during the year		**(12,920)**		(10,601)
Balance at end of the year	$	**9,322**	$	4,754

(1) In 2019, excluding a $4.8 million curtailment gain on pension plans and other post-employment benefits obligations presented on the Restructuring charges line-item in the Consolidated Statement of Income.

As at October 31, 2019, the remaining provision mainly relates to lease contracts and severances.

32. BUSINESS COMBINATIONS

Acquisition of Northpoint Commercial Finance

On August 11, 2017, the Bank acquired Northpoint Commercial Finance ("NCF"), a U.S. based non-bank inventory finance lender. The final valuation of fair values of the assets acquired and liabilities was completed in 2018. As the final fair values did not change materially from the initial valuation, the purchase accounting adjustments were recorded in 2018 and 2017 comparative figures were not restated. No costs related to this business combination were incurred in 2018 and 2019.

Acquisition of CIT Canada

On October 1, 2016, the Bank acquired from CIT Group Inc. ("CIT") their Canadian equipment financing and corporate financing activities ("CIT Canada"). In relation to this transaction, the Bank incurred integration related technology costs, professional fees and salaries of $2.4 million in 2018. These costs were recognized directly in net income, under Costs related to business combinations. No additional costs were incurred in 2019.

33. SEGMENTED INFORMATION

The Bank determines its operating segments based on how the Chief Operating Decision maker (the Executive Committee) manages the different services and products provided to clients. Over the recent years, the Bank had four operating segments: Retail Services, Business Services, B2B Bank and Capital Markets. As the strategic plan aimed at reorganizing the Bank is being delivered, the operating segments have evolved and are defined, as of October 31, 2019, as detailed below, based on the new client segmentation. The Bank's other activities, including the Bank's corporate functions and Corporate Treasury, are grouped into the Other sector.

- The Personal segment, which regroups the previous Retail services and B2B Bank CGUs, caters to the financial needs of retail clients. Clients can access the Bank's offering of financial advice, products and services through a network of branches in Quebec referred to as Financial Clinics; an Advisors and Brokers channel targeting independent financial intermediaries across Canada; and a Digital Direct-to-customer platform available to all Canadians.
- The Business Services segment caters to the financial needs of business clients across Canada and in the United States and provides commercial banking; real estate financing; and equipment and inventory financing.
- The Institutional segment provides a range of services, including research, market analysis and advisory services; corporate underwriting for debt and equity; and administrative services.

The Bank has evaluated quantitative and qualitative aggregation criteria to determine that it has one reportable segment. The Bank aggregates operating segments with similar economic characteristics that meet the aggregation criteria. Factors considered in applying aggregation criteria mainly include: the similarity of products and services offered, the nature of operations and processes, as well as the similarity in the regulatory environments in which the segments operate. For the Institutional operating segment, which does not have similar economic characteristics, the Bank applies quantitative thresholds, as well as judgment for aggregation.

The Bank operates primarily within two geographic areas: Canada and the United States . The following table summarizes the Bank's revenues and average earning assets by geographic region.

			2019
	Canada	**United States**	**Total**
Total revenue	**$ 857,899**	**$ 110,611**	**$ 968,510**
Average earning assets	**$ 35,812,076**	**$ 2,024,635**	**$ 37,836,711**

			2018
	Canada	United States	Total
Total revenue	$ 955,459	$ 87,951	$ 1,043,410
Average earning assets	$ 38,320,764	$ 1,341,896	$ 39,662,660

Condensed Consolidated Balance Sheet

As at October 31 (in thousands of Canadian dollars, unaudited)	2019	2018	2017	2016	2015
Assets					
Cash and non-interest-bearing deposits with banks	$ 90,658	$ 116,490	$ 111,978	$ 123,716	$ 109,055
Interest bearing deposits with banks	322,897	374,237	215,384	63,383	91,809
Securities	6,299,936	6,061,144	5,586,014	5,660,432	4,487,357
Securities purchased under reverse repurchase agreements	2,538,285	3,652,498	3,107,841	2,879,986	3,911,439
Loans					
Personal	4,660,524	5,372,468	6,038,692	6,613,392	7,063,229
Residential mortgage	16,039,680	16,986,338	18,486,449	16,749,387	14,998,867
Commercial	12,646,332	11,839,106	11,464,007	9,386,119	7,556,905
Customers' liabilities under acceptances	319,992	196,776	707,009	629,825	473,544
	33,666,528	34,394,688	36,696,157	33,378,723	30,092,545
Allowances for loan losses	(100,457)	(93,026)	(99,186)	(105,009)	(111,153)
	33,566,071	34,301,662	36,596,971	33,273,714	29,981,392
Other	1,535,280	1,388,652	1,064,470	1,005,109	1,078,452
	$ 44,353,127	$ 45,894,683	$ 46,682,658	$ 43,006,340	$ 39,659,504
Liabilities and shareholders' equity					
Deposits					
Personal	$ 19,747,260	$ 20,995,453	$ 21,198,982	$ 21,001,578	$ 19,377,716
Business, banks and other	5,905,344	7,011,119	7,731,378	6,571,767	7,226,588
	25,652,604	28,006,572	28,930,360	27,573,345	26,604,304
Other	6,870,428	7,255,394	6,842,540	6,013,890	5,524,930
Debt related to securitization activities	8,913,333	7,787,753	8,230,921	7,244,454	5,493,602
Subordinated debt	349,101	348,762	348,427	199,824	449,641
Shareholders' equity	2,567,661	2,496,202	2,330,410	1,974,827	1,587,027
	$ 44,353,127	$ 45,894,683	$ 46,682,658	$ 43,006,340	$ 39,659,504

Condensed Consolidated Statement of Income — Reported Basis

For the years ended October 31 (in thousands of Canadian dollars, unaudited)	2019	2018	2017	2016	2015
Net interest income	$ 686,411	$ 705,912	$ 638,090	$ 589,644	$ 575,083
Other income	282,099	337,498	358,320	325,807	322,043
Total revenue	968,510	1,043,410	996,410	915,451	897,126
Amortization of net premium on purchased financial instruments	1,452	2,296	3,383	5,190	5,999
Provision for credit losses	44,400	44,000	37,000	33,350	34,900
Non-interest expenses	726,493	716,781	689,359	679,549	722,824
Income before income taxes	196,165	280,333	266,668	197,362	133,403
Income taxes	23,455	55,687	60,207	45,452	30,933
Net income	$ 172,710	$ 224,646	$ 206,461	$ 151,910	$ 102,470
Preferred share dividends, including applicable taxes	12,966	14,038	17,096	13,313	9,602
Net income available to common shareholders	$ 159,744	$ 210,608	$ 189,365	$ 138,597	$ 92,868

FIVE-YEAR STATISTICAL REVIEW

Condensed Consolidated Statement of Income — Adjusted Basis[1]

For the years ended October 31 (in thousands of Canadian dollars, unaudited)	2019	2018	2017	2016	2015
Net interest income	**$ 686,411**	$ 705,912	$ 638,090	$ 589,644	$ 575,083
Other income	**282,099**	337,498	358,320	325,807	322,043
Total revenue	**968,510**	1,043,410	996,410	915,451	897,126
Provision for credit losses	**44,400**	44,000	37,000	33,350	34,900
Adjusted non-interest expenses	**700,103**	695,775	658,492	636,796	639,560
Adjusted income before income taxes	**224,007**	303,635	300,918	245,305	222,666
Adjusted income taxes	**30,780**	62,075	70,177	58,292	50,467
Adjusted net income	**$ 193,227**	$ 241,560	$ 230,741	$ 187,013	$ 172,199
Preferred share dividends, including applicable taxes	**12,966**	14,038	17,096	13,313	9,602
Adjusted net income available to common shareholders	**$ 180,261**	$ 227,522	$ 213,645	$ 173,700	$ 162,597

Highlights

As at and for the years ended October 31 (in thousands of Canadian dollars, except per share and percentage amounts, unaudited)	2019	2018	2017	2016	2015
Profitability					
Diluted earnings per share	**$ 3.77**	$ 5.10	$ 5.40	$ 4.55	$ 3.21
Return on common shareholders' equity	**7.0 %**	9.7 %	10.9%	9.6%	6.8%
Net interest margin (on average earning assets)	**1.81 %**	1.78 %	1.68%	1.71%	1.84%
Efficiency ratio	**75.0 %**	68.7 %	69.2%	74.2%	80.6%
Adjusted financial measures[1]					
Adjusted diluted earnings per share	**$ 4.26**	$ 5.51	$ 6.09	$ 5.70	$ 5.62
Adjusted return on common shareholders' equity	**7.9 %**	10.5 %	12.3%	12.0%	12.0%
Adjusted efficiency ratio	**72.3 %**	66.7 %	66.1%	69.6%	71.3%
Adjusted dividend payout ratio	**61.4 %**	45.9 %	40.5%	42.4%	39.2%
Per common share					
Closing share price[2]	**$ 45.30**	$ 41.56	$ 60.00	$ 49.57	$ 52.97
Price / earnings ratio	**12.0x**	8.1x	11.1x	10.9x	16.5x
Book value	**$ 54.02**	$ 53.72	$ 51.18	$ 47.92	$ 46.33
Dividends declared	**$ 2.62**	$ 2.54	$ 2.46	$ 2.36	$ 2.2
Dividend yield	**5.8 %**	6.1 %	4.1%	4.8%	4.2%
Dividend payout ratio	**69.3 %**	49.6 %	45.7%	53.1%	68.6%
Average volumes (in millions of dollars)					
Average earning assets	**$ 37,837**	$ 39,663	$ 38,055	$ 34,458	$ 31,248
Average loans and acceptances	**$ 33,966**	$ 35,956	$ 34,563	$ 31,334	$ 28,240
Average common shareholders' equity	**$ 2,271**	$ 2,171	$ 1,735	$ 1,443	$ 1,356
Credit quality					
Provision for credit losses (as a % of average loans and acceptances)	**0.13 %**	0.12 %	0.11%	0.11%	0.12%
Regulatory capital ratio					
Common Equity Tier 1 — All-in basis[3]	**9.0 %**	9.0 %	7.9%	8.0%	7.6%
Other information					
Number of common shares outstanding (in thousands)	**42,625**	42,075	38,966	33,842	28,957
Number of full-time equivalent employees	**3,256**	3,642	3,732	3,687	3,656
Number of Financial Clinics	**88**	96	104	145	150
Number of automated banking machines[4]	**197**	222	341	398	405

(1) Refer to the Non-GAAP and Key Performance Measures section.

(2) Toronto Stock Exchange (TSX) closing market price.

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

(4) Through the Bank's partnership with THE EXCHANGE® Network, customers have access to more than 3,600 automated banking machines in Canada.

QUARTERLY HIGHLIGHTS

As at and for the quarters ended (in thousands of Canadian dollars, except per share and percentage amounts, unaudited)	2019				2018			
	OCT. 31	**JULY 31**	**APRIL 30**	**JAN. 31**	OCT. 31	JULY 31	APRIL 30	JAN. 31
Profitability								
Total revenue	**$241,638**	**$ 244,653**	**$239,881**	**$242,338**	$ 255,857	$ 260,664	$ 259,887	$ 267,002
Net income	**$ 41,343**	**$ 47,798**	**$ 43,313**	**$ 40,256**	$ 50,801	$ 54,903	$ 59,195	$ 59,747
Diluted earnings per share	**$ 0.90**	**$ 1.05**	**$ 0.95**	**$ 0.88**	$ 1.13	$ 1.23	$ 1.34	$ 1.41
Return on common shareholders' equity	**6.6 %**	**7.8%**	**7.3 %**	**6.5 %**	8.4%	9.2 %	10.5 %	10.8 %
Net interest margin (as a % of average earning assets)	**1.84 %**	**1.85%**	**1.77 %**	**1.80 %**	1.77%	1.77 %	1.82 %	1.77 %
Efficiency ratio	**74.8 %**	**72.7%**	**76.3 %**	**76.2 %**	69.0%	71.8 %	67.6 %	66.5 %
Operating leverage	**(2.9)%**	**4.9%**	**(0.2)%**	**(10.0)%**	3.9%	(6.4)%	(1.5)%	3.3 %
Adjusted financial measures[1]								
Adjusted net income	**$ 47,966**	**$ 51,882**	**$ 48,726**	**$ 44,653**	$ 54,344	$ 59,374	$ 64,625	$ 63,217
Adjusted diluted earnings per share	**$ 1.05**	**$ 1.15**	**$ 1.08**	**$ 0.98**	$ 1.22	$ 1.34	$ 1.47	$ 1.49
Adjusted return on common shareholders' equity	**7.8 %**	**8.5%**	**8.3 %**	**7.3 %**	9.0%	10.0 %	11.6 %	11.5 %
Adjusted efficiency ratio	**71.2 %**	**70.6%**	**73.5 %**	**74.0 %**	67.2%	69.7 %	65.1 %	64.8 %
Adjusted operating leverage	**(0.9)%**	**4.0%**	**0.6 %**	**(9.5)%**	3.4%	(7.1)%	(0.4)%	(0.8)%
Adjusted dividend payout ratio	**62.6 %**	**57.4%**	**60.3 %**	**66.1 %**	52.6%	47.7 %	42.8 %	41.7 %
Per common share								
Closing share price[2]	**$ 45.30**	**$ 45.41**	**$ 42.44**	**$ 44.17**	$ 41.56	$ 46.62	$ 49.31	$ 53.20
Price / earnings ratio (trailing four quarters)	**12.0 x**	**11.3 x**	**10.1 x**	**9.6 x**	8.1 x	8.6 x	8.7 x	9.7 x
Book value	**$ 54.02**	**$ 54.00**	**$ 53.97**	**$ 53.41**	$ 53.72	$ 53.43	$ 52.67	$ 52.08
Dividends declared	**$ 0.66**	**$ 0.66**	**$ 0.65**	**$ 0.65**	$ 0.64	$ 0.64	$ 0.63	$ 0.63
Dividend yield	**5.8 %**	**5.8%**	**6.1 %**	**5.9 %**	6.2%	5.5 %	5.1 %	4.7 %
Dividend payout ratio	**73.5 %**	**62.7%**	**68.5 %**	**73.9 %**	56.5%	51.8 %	47.0 %	44.3 %
Credit quality								
Gross impaired loans (as a % of loans and acceptances)	**0.52 %**	**0.59%**	**0.55 %**	**0.56 %**	0.53%	0.45 %	0.43 %	0.42 %
Net impaired loans (as a % of loans and acceptances)	**0.40 %**	**0.45%**	**0.42 %**	**0.43 %**	0.42%	0.37 %	0.34 %	0.31 %
Provision for credit losses (as a % of average loans and acceptances)	**0.15 %**	**0.14%**	**0.11 %**	**0.12 %**	0.20%	0.05 %	0.11 %	0.13 %
Regulatory capital ratio								
Common Equity Tier 1 — All-in basis[3]	**9.0 %**	**9.0%**	**9.0 %**	**8.9 %**	9.0%	8.8 %	8.6 %	8.6 %
Other information								
Number of common shares outstanding (in thousands)	**42,625**	**42,463**	**42,323**	**42,190**	42,075	41,996	41,842	41,721

(1) Refer to the Non-GAAP and Key Performance Measures section.

(2) Toronto Stock Exchange (TSX) closing market price.

(3) Presented on an "all-in" basis, using the Standardized Approach in determining credit risk and operational risk.

The Board of Directors (the "Board") and management of the Bank are committed to promoting and maintaining a high standard of corporate governance. To this end, the Board has approved an updated Board Governance Policy which sets out the Board's key governance policies and practices and which includes, among other matters, standards for Board independence and integrity, director tenure, cross directorships, diversity, skills, training and compensation. 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 the directors is determined in accordance with criteria established under applicable laws and regulations which are used by the Human Resources and Corporate Governance Committee of the Board to evaluate the status of every director. 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 has formalized its commitment towards diversity by adopting a board diversity policy. The Board has set as its target under the Diversity Policy that each gender comprises at least 30% of the Board's independent directors. The Board has also adopted a framework dealing with term limits for directors, Committee chairs and the Chair of the Board.

The role of the Board of Directors is essentially to oversee the management of the business affairs of the Bank. Board deliberations 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 Directors' Code of Conduct, which covers issues such as general conduct, contribution to the work of the Board and its committees, 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, being: the Audit Committee, the Risk Management Committee, and the Human Resources and Corporate Governance Committee, whose members are appointed from among its independent directors. All committees regularly submit written and verbal updates and reports on their work to the Board of Directors. Furthermore, the committees present a report to shareholders on their activities that is included in the Bank's 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 of independence and possessing the appropriate level of financial literacy. The Committee meets on a regular basis with the internal audit function and external auditor, respectively, without the presence of management. Furthermore, the Committee meetings end with a discussion period held without the presence of management.

The Committee's responsibilities include more specifically:

With respect to the external auditor: recommend the appointment or dismissal of the external auditor; ensure its competence, independence, and the adequacy of its resources; review the scope of its mission and compensation; oversee its activities and evaluate its performance; and approve the external auditor's oversight policy and the Bank's policy on non-audit related services.

With respect to financial information: oversee the integrity and quality of financial statements and ensure that the Bank's accounting practices are prudent and appropriate; prior to publication, review the annual and interim financial statements, management's discussion and analysis and press releases regarding the Bank's results, as well as review 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; ensure the competence, independence and adequacy of internal audit resources; follow up on material findings and recommendations.

With respect to internal controls: ensure that management implements appropriate internal controls and information management systems; ensure their integrity and effectiveness; ensure 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

The Risk Management Committee ensures that the Bank has adopted an adequate and effective risk management process, including 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 reputational risks. The Committee is composed of independent directors who meet on a regular basis with officers in charge of oversight functions (the internal auditor as well as the chief risk officer and the chief compliance officer) without the presence of management. Furthermore, the Committee meetings end with a discussion period held without the presence of management.

The Committee's responsibilities include more specifically:

With respect to risk management: ensure that management identifies the organization's principal risks and implements systems to measure and adequately manage them; provide for the integrity and effectiveness of such systems; review the overall risk profile and risk management framework of the Bank; ensure the competence, independence and the adequacy of the risk management function and approve its mandate; follow up on material findings and recommendations; review and, if applicable, approve loans, which under the

credit policies, are the responsibility of the Committee; examine the quality of the Bank's loan portfolio and the adequacy of allowances for loan losses; ensure that management adopts a process to determine the appropriate level of capital for the Bank based on assumed risks; review and approve the Code of Ethics and Privacy Code for the Protection of Personal Information applicable to officers and employees of the Bank and ensure they are complied with; review and follow-up with regulatory authorities on findings and recommendations.

With respect to compensation: annually review, in collaboration with the Human Resources and Corporate Governance Committee, the alignment of the Bank's compensation, performance and assumed risk with the remuneration standards and principles issued by the Financial Stability Board.

In addition to these responsibilities, the Committee also exercises review functions to ensure that management establishes mechanisms for dealing with related party transactions, as well as to review the procedures and their effectiveness. The Committee reports annually on these functions to the Superintendent of Financial Institutions.

HUMAN RESOURCES AND CORPORATE GOVERNANCE COMMITTEE

The Human Resources and Corporate Governance Committee is composed of independent directors. The Committee meetings end with a discussion period held without the presence of management.

The Committee's human resources responsibilities include:

With respect to human resources management: annually review the performance management process and evaluate its effectiveness; ensure 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; ensure the competence and qualifications of senior officers; and ensure the integrity of senior officers and their adoption of a culture of integrity throughout the Bank.

With respect to compensation: approve the overall compensation framework (including incentive compensation, perquisites and pension plans) for senior officers, with a view of furthering the Bank's business objectives, as well as approve the material terms and conditions of the compensation and employment conditions applicable to the Bank's other employees and officers; annually approve, in collaboration with the Risk Management Committee, the alignment of the Bank's compensation, performance and assumed risk with the remuneration standards and principles issued by the Financial Stability Board.

With respect to pension plans: ensure that management implements appropriate internal control mechanisms with a view of adequately managing its pension plans.

The Committee's corporate governance responsibilities include :

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 annually to the Board the objectives of the President and Chief Executive Officer, as well as his/her evaluation, compensation and employment conditions; and implement a succession plan for the President and Chief Executive Officer.

With respect to the Board and its Committees: review corporate governance rules and ensure they are complied with; review the Board's composition (taking the diversity of members into account), its compensation and its size; review the constitution, membership and functions of its Committees; review the Directors' Code of Conduct and ensure it is complied with; ensure 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; and ensure 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: review information on corporate governance prior to its disclosure; ensure 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 mandates of each of its Committees can be found in the Corporate Governance section on the Bank's website. Committee reports to shareholders can be consulted in the Bank's Management Proxy Circular.

CONSOLIDATED SUBSIDIARIES

As at October 31, 2019 (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	$693,978	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		
B2B Securitization Inc.	Toronto, Canada		
B2B Securitization Limited Partnership[2]	Toronto, Canada		
Laurentian Bank Insurance Inc.	Montreal, Canada	$19	100%
Laurentian Bank Securities Inc.	Montreal, Canada	$160,171	100%
Wholly-owned subsidiary			
Laurentian Capital (USA) Inc.	Montreal, Canada		
Laurentian Trust of Canada Inc.	Montreal, Canada	$103,672	100%
LBC Capital Inc.[3]	Burlington, Canada	$2,130,249	100%
Wholly-owned subsidiaries			
LBEF Inc.	Burlington, Canada		
LBEL Inc.[3]	Burlington, Canada		
LBC Capital GP Inc.	Burlington, Canada		
Wholly-owned subsidiaries			
LBC Leasing Limited Partnership[4]	Burlington, Canada		
Northpoint Commercial Finance Canada Inc.	Burlington, Canada		
NCF Commercial Finance Holdings Inc.	Alpharetta, United States		
Wholly-owned subsidiary			
NCF Financing LLC	Alpharetta, United States		
Northpoint Commercial Finance Inc.	Alpharetta, United States		
Wholly-owned subsidiary			
Northpoint Commercial Finance LLC	Alpharetta, United States		
LBC Financial Services Inc.	Montreal, Canada	$33,702	100%
LBC Investment Management Inc.	Montreal, Canada	$381,229	100%
Wholly-owned subsidiary			
V.R. Holding Insurance Company Ltd	St. James, Barbados		
Wholly-owned subsidiary			
Venture Reinsurance Ltd	St. James, Barbados		
VRH Canada Inc.	Montreal, Canada		
LBC Tech Inc.	Toronto, Canada	$284	100%
LBC Trust	Montreal, Canada	$79,652	100%
NCF International S.à.r.l	Luxembourg, Luxembourg	$24,938	100%
NCF International Kft	Budapest, Hungary	$1	100%

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

(2) B2B Bank holds 99.99% of the units of B2B Securitization Limited Partnership and B2B Securitization Inc. holds the remaining 0.01%.

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

(4) 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 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. 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%.

Corporate offices

Montreal
1360 René-Lévesque Blvd West,
Suite 600
Montreal, Quebec H3G 0E5
www.lbcfg.ca

Toronto
199 Bay St, Suite 600
Toronto, Ontario M5L 0A2
www.lbcfg.ca

Ombudsman's office

1360 René-Lévesque Blvd West,
Suite 600
Montreal, Quebec H3G 0E5
ombudsman@lbcfg.ca
Tel.: 514-284-7192
or 1-800-479-1244

Transfer agent and registrar

Computershare Investor
Services Inc.
1500 Robert-Bourassa Blvd,
Suite 700
Montreal, Quebec H3A 3S8
service@computershare.com
Tel.: 514-982-7888

Change of address and inquiries

Shareholders must notify the Bank's transfer agent and registrar of any change of address. Inquiries or requests may be directed to the Bank's Corporate Secretariat's Office at secretary.office@lbcfg.ca or by calling 514-284-4500, ext. 48395.

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 Payments Canada.

Investors and analysts

Investors and analysts may contact the Bank's Investor Relations Department at investor.relations@lbcfg.ca or by calling 514-284-4500, ext. 40452.

Media

Journalists may contact the Bank's Executive Office at media@lbcfg.ca or by calling 514-284-4500, ext. 40015.

Social media

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 transfer agent, Computershare Trust Company of Canada, at service@computershare.com or by calling 1-800-564-6253.
To participate in the plan, the Bank's non-registered shareholders must contact their financial institution or broker.

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 13	51925D 82 5 / LB.PR.H	**	March 15
Series 15	51925D 79 1 / LB.PR.J	**	June 15
		**	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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Laurentian Bank of Canada
1360 René-Lévesque Boulevard West, Suite 600
Montreal, Quebec H3G 0E5

B2B Bank
199 Bay Street, Suite 600
Toronto, Ontario M5L 0A2

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5035 South Service Road
Burlington, Ontario L7L 6M9

LBC Financial Services Inc.
1360 René-Lévesque Boulevard West, Suite 630
Montreal, Quebec H3G 0E5

Laurentian Bank Securities Inc.
1360 René-Lévesque Boulevard West, Suite 620
Montreal, Quebec H3G 0E5

LBC Tech Inc.
199 Bay Street, Suite 600
Toronto, Ontario M5L 0A2

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The photographs of Michael Mueller, François Desjardins and the Executive Team were taken by **Yves Lacombe**.
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