2017 ANNUAL REPORT

LAURENTIAN BANK
FINANCIAL GROUP

We Think Smart, Dream Big, Act Small, Stay Simple, Execute with Success

Mission

We help customers improve their financial health

Vision

Everyone should have access to a financial professional

Values

Proximity
Simplicity
Honesty

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Who We Are: Laurentian Bank Financial Group

Founded in 1846, Laurentian Bank Financial Group[1] is a diversified financial services provider whose mission is to help its customers improve their financial health. With more than 3,700 employees guided by the values of proximity, simplicity and honesty, the Group provides a broad range of advice-based solutions and services to its customers through its businesses: Retail Services, Business Services, B2B Bank and Capital Markets. The Group – with pan-Canadian activities and a presence in the United States – is an important player in numerous market segments.

BUSINESSES

BUSINESS SERVICES

- Commercial banking
- Equipment financing
- Real Estate financing

RETAIL SERVICES

- Advisory services
- Mortgage solutions
- Transactional products and deposits

B2B BANK

- Investment and RSP lending products
- Residential mortgage solutions
- Investment accounts and deposits

CAPITAL MARKETS

- Research Market Analysis and Advisory Services
- Corporate underwriting for debt and equity

LEGAL ENTITIES[2]

- Laurentian Bank of Canada
- B2B Bank
- B2B Bank Financial Services Inc.
- B2B Bank Securities Services Inc.
- B2B Bank Intermediary Services Inc.
- B2B Trustco
- LBC Financial Services
- Laurentian Bank Securities Inc.
- LBC Capital Inc.
- Northpoint Commercial Finance
- Laurentian Trust of Canada Inc.
- LBC Trust
- LBC Investment Management Inc.
- Laurentian Bank Insurance Inc.
- LBC Tech Inc.

1 The Laurentian Bank Financial Group means the Laurentian Bank of Canada and its subsidiaries (collectively referred as "Laurentian Bank Financial Group", "LBCFG" or the "Group"), who provide deposit, investment, loan, securities, trust and other products or services.

2 The Consolidated Subsidiaries section on page 139 of the Annual Report as well as Note 2 to the annual consolidated financial statements, list the inter-corporate relationships among Laurentian Bank of Canada and its significant subsidiaries.

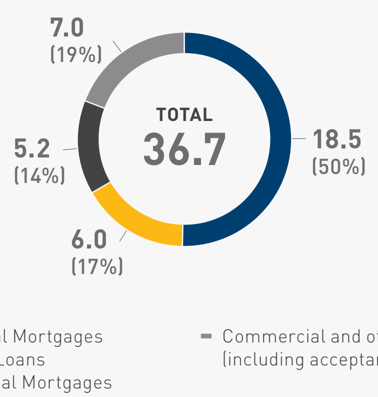
Laurentian Bank Financial Group At a Glance

WE ARE WELL POSITIONED TO TAKE ADVANTAGE OF OPPORTUNITIES IN AN EVOLVING MARKETPLACE

Our business is varied by product

LOAN PORTFOLIO MIX

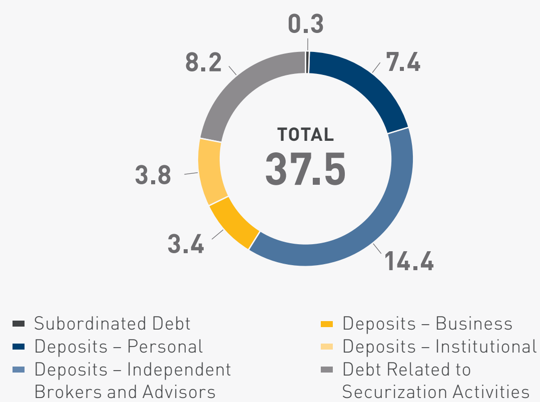
($ billions)



Our funding sources are diverse, stable and robust

FUNDING

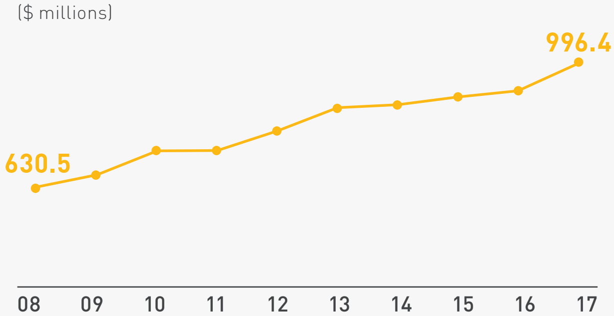
($ billions)



Our revenue streams are growing and becoming increasingly well diversified

TOTAL REVENUE [2]

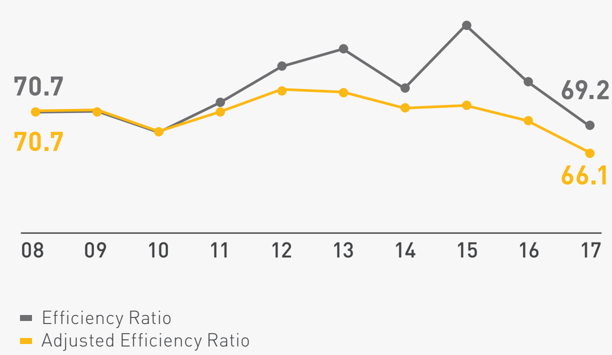
($ millions)



Our efficiency ratio is improving helped by our evolving product mix and our disciplined control of expenses

EFFICIENCY RATIO [1, 2, 3]

(%)



1 Refer to the Non-GAAP and Key Performance Measures section in the Management's Discussion and Analysis.
2 Comparative figures prior to 2011 in accordance with previous Canadian GAAP.
3 Comparative figures prior to 2013 were not restated to reflect the adoption of amended IFRS accounting standard on employee benefits.

WE ARE EXECUTING OUR WELL-ORCHESTRATED TRANSFORMATION PLAN

We launched a transformation plan two years ago, with the goal of becoming a renewed financial institution by 2022. The plan includes three overarching corporate objectives:

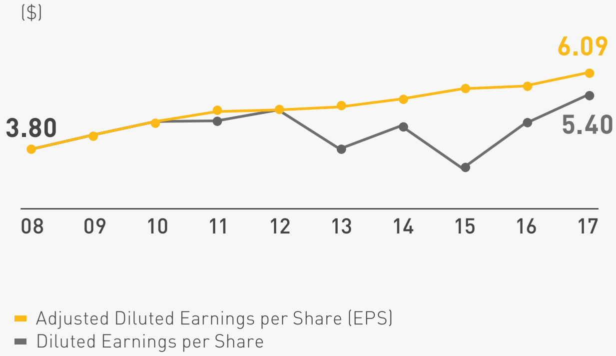
- To achieve an adjusted return on equity that is comparable to the Canadian banking industry[1]
- To double the size of our organization
- To build a solid strategic foundation

WHY INVEST?

- We are a mid-cap financial institution with a market value of over $2 billion as at October 31, 2017, that chooses to invest in select core businesses that have strong growth potential
- We are executing our transformation plan to achieve our 2022 strategic objectives and are progressing well towards our 2020 performance and growth targets
- We have a good track record of increasing our dividend to provide our shareholders with an attractive yield on their investment, while maintaining a conservative adjusted payout ratio

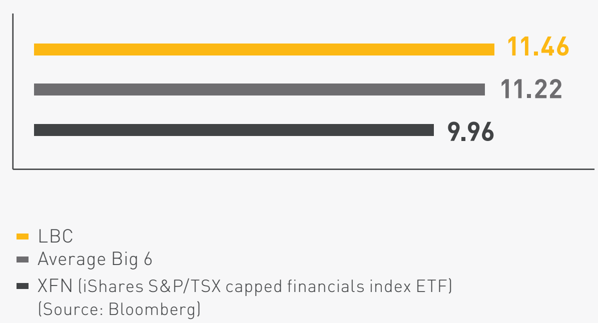
DILUTED EARNINGS PER SHARE (EPS)[2, 3, 4]

($)



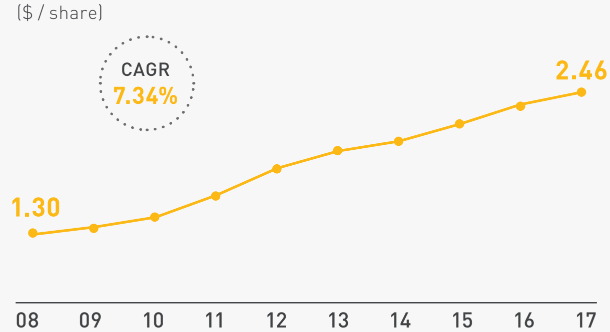
THREE-YEAR TOTAL SHAREHOLDER RETURN

(%)



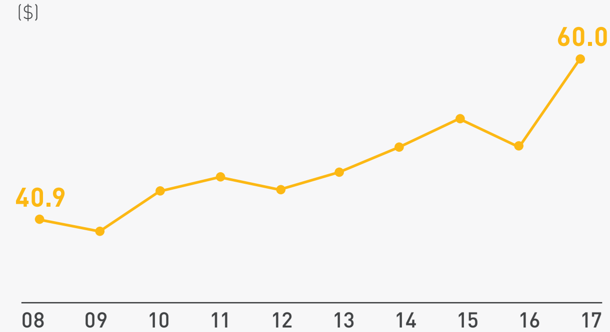
DIVIDENDS DECLARED PER COMMON SHARE

($ / share)



SHARE PRICE

($)



1 "Canadian banking industry" refers to "the average of the major Canadian banks".
2 Refer to the Non-GAAP and Key Performance Measures section in the Management's Discussion and Analysis.
3 Comparative figures prior to 2011 in accordance with previous Canadian GAAP.
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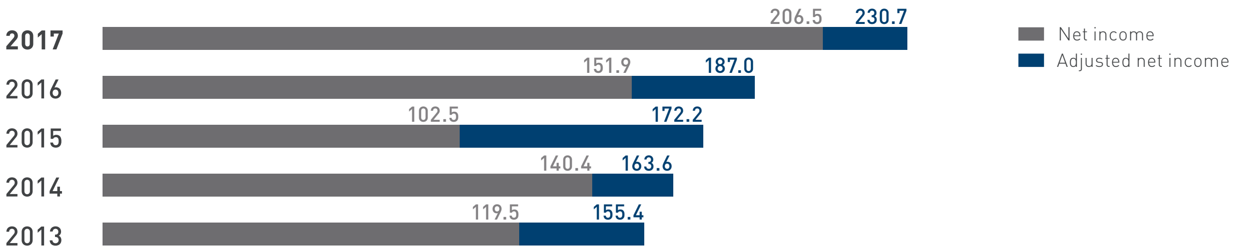
Highlights

NET INCOME

($ millions)



TOTAL REVENUE

($ millions)

2017

$996.4

2013	2014	2015	2016
865.3	874.1	897.1	915.5

DEPOSITS

($ billions)

2017

$28.9

2013	2014	2015	2016
23.9	24.5	26.6	27.6

LOANS AND ACCEPTANCES

($ billions)

2017

$36.7

2013	2014	2015	2016
27.2	27.4	30.1	33.4

PROVISION FOR CREDIT LOSSES

(as a % of average loans and acceptances)

2017

0.11%

2013	2014	2015	2016
0.13	0.15	0.12	0.11

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

2020 Medium-Term Performance and Growth Targets

2017 PERFORMANCE [1, 2]

Adjusted ROE

12.3% (360 bps)

Narrow gap to 300 bps by 2020 [3]

Adjusted Efficiency Ratio

66.1%

< 65% by 2020

Adjusted Diluted EPS

$6.09 (up 7%)

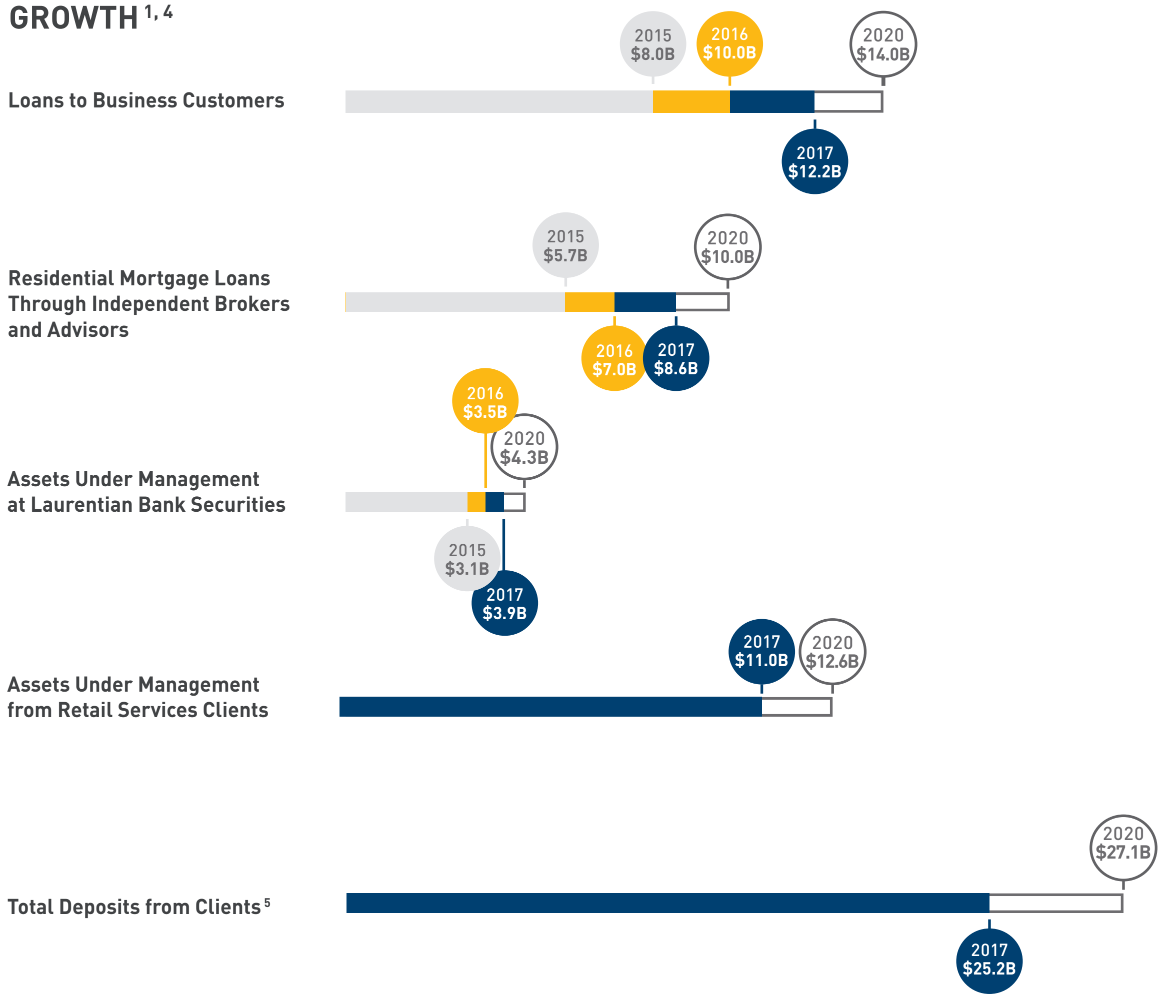
Grow by 5% to 10% annually

Adjusted Operating Leverage

5.4%

Positive

GROWTH [1, 4]



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

2 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 standardized approach in determining credit risk and operational risk. The gap of 360 bps is based on the average of major Canadian banks for the nine months ended July 31, 2017.

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 deposits from branches, independent brokers and advisors and commercial clients.

Message from the Chair of the Board

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

Laurentian Bank Financial Group recorded a solid performance in 2017 and I am pleased to report on the Board of Directors' work during this year, which was marked by generally favorable market conditions, despite certain economic constraints. Low interest rates, the relatively high debt ratios of Canadian consumers, and rising housing costs in some regions have added to our challenges, as our organization undertakes its most significant transformation in its history.

STRATEGIC SUPPORT

The Board of Directors supported management in implementing the strategic initiatives with all the vigilance required by their role. The diversified expertise of Board members has been called upon in the following areas in particular: the deployment of the core banking system and the simplification of Retail Services, key elements of our transformation; as well as in the acquisition of Northpoint Commercial Finance, which strengthens the leadership position of our Business Services sector.

The Board is very satisfied with the progress made in terms of transformation and growth and congratulates the management team for their ability to skillfully deploy the plan.

A BALANCE BETWEEN PERFORMANCE AND RISK-TAKING

The Board committees have played an important role over the past year to ensure that the objectives of the strategic plan are met. The Group delivers the performance expected from all stakeholders by effectively managing the delicate balance between maximizing performance and reasonable risk-taking.

In light of our goal of becoming a digital bank, the Risk Management Committee has prioritized cyber-security which is essential for all companies that, like us, integrate technologies within their operations. The protection of our customers' personal information is fundamental to our business and, the ability to prevent and detect cyberattacks contributes to the overall health of the banking system.

Mechanisms to ensure the quality and compliance of our operations, especially in times of transformation, are crucial. The Audit Committee, in particular, has improved its practices in this regard to allow the Board of Directors to focus on the strategic aspects of the transformation plan. Therefore, the Board has given this Committee a new mandate to conduct an initial review of the acquisitions and divestitures proposed by management and presenting the appropriate recommendations to the Board.

For its part, the Human Resources and Corporate Governance Committee continued to improve governance by revising and updating its policies to support the achievement of objectives. Renewal of Board members also continues to be a key activity that allows the Board to have the expertise required to properly perform its role.

Incidentally, two new directors joined the Board during the year, complementing the current range of expertise. Mr. Gordon Campbell began his term in the first quarter. We are pleased to benefit from his rich experience and perspective developed during his political and diplomatic career. Mr. David Morris was appointed on October 31, 2017. His extensive knowledge of financial disclosure and accounting is an invaluable asset.

OUTLOOK FOR 2018

Regulatory requirements and economic conditions will continue to influence our decisions. We will also keep an eye on the global rise of protectionism that could have a negative impact on the Canadian economy.

Our transformation plan is strong, the team in place is talented and our differentiated positioning gives us the agility to deal with unexpected events.

I want to thank all our employees for their dedication to our customers and for their contribution to our success. I also want to express my appreciation to the management team and my fellow Board members for their passion and competencies. Finally, thank you to our customers and shareholders for their trust and loyalty.

ISABELLE COURVILLE
Chair of the Board

Message from the President and Chief Executive Officer

François Desjardins was named President and Chief Executive Officer of Laurentian Bank on November 1, 2015. After joining Laurentian Bank as a teller 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.

Banking should be simple – basic products to meet basic needs. But over the years, complexity was introduced, largely, for the sake of breadth. Today, what customers actually want from their financial institution is a return to simplicity. Going back to the basics. Working with a friendly advisor or account manager to help them put more money in their pockets while paying less in fees. And that's exactly what we intend to do: simplify banking. Because our mission is to help our customers improve their financial health by combining the value of human advice with the convenience of digital transactions.

We're doing this for our customers because their needs have changed; for our employees because they believe this is the right thing to do and they want to continue helping our customers; for our investors who see the benefits of our transformation and support the model of who we want to become.

We just completed year two of our seven-year transformation and we are making strides on our objectives. By 2022, we plan to achieve an adjusted ROE that is comparable to the Canadian banking industry, double the size of our organization and build a solid strategic foundation.

2017 certainly was a year of accomplishments that bring us closer to our goal of becoming a pan-Canadian digital bank. It was also a year where we saw strong organic growth as well as growth by acquisition which positions us well as we move through an evolving economic environment.

PERFORMANCE

We've made – and continue making – progress on all our financial performance indicators. We are realizing efficiencies through several key initiatives, including our efforts to lower the number of branches and reducing and simplifying our product suite. We have already beaten our 2019 adjusted efficiency ratio objective and closing the gap on adjusted return on equity continues to be the main measurement of success and we are well on our way.

GROWTH

Our book of loans and deposits remains strong and we are ahead of plan in three out of four of our growth targets. In addition to our organic growth this year, we proceeded with a key strategic acquisition: Northpoint Commercial Finance, a leading U.S. and Canadian inventory finance lender.

FOUNDATION

We aim to have strong strategic foundations which include a focused strategy, good governance, established procedures and a robust core technology. Recently, we successfully implemented the first phase of our core banking system initiative. We also improved the organization's inner workings and governance.

And then, our people. We have an incredible team – the heroes who are really making the difference in our organization. This year, we launched a new recognition program to celebrate team members and their accomplishments. Encouraging personal and professional growth is one way that we're building a culture of performance and a future, together.

FAST CHANGING ENVIRONMENT

The very positive past 2 years have also seen more than their share of economic challenges, market disruption and new regulatory requirements.

For us, this means that to continue progressing, 2018 will be a year of investment in people, processes and technologies that aim at ensuring disciplined growth by strengthening the foundation and simplifying the organization.

Taking this into account, we have reset our mid-term objectives from 2019 to 2020 and are keeping the 2022 targets intact.

LOOKING AHEAD

With two years down and five more to go in our transformation, we're looking forward to great years ahead as we continue on our quest to disrupt the traditional banking model.

We will be supportive of financial advice, changing the way we do business to improve the value of our products and services to personal and business customers.

We will continue the implementation of our core banking system which will allow us to move forward with reengineering our processes and launching a fully digital banking experience across various sectors of the organization. We will begin seeing the benefits of this in 2019 and 2020.

In 2019, we will be finishing the development of our AIRB framework. We will manage our Risk Weighted Assets more efficiently and this will give us better profitability through improved capital management. We look forward to applying the framework as of 2020.

OUR SUCCESS IS BECAUSE OF YOU

For more than 170 years, we've helped shape the changes in our country's financial landscape. As we evolve our organization, so too has our name to better reflect the diverse nature of our business and the sum of our parts. Our lines of business and legal entities are now collectively referred to as Laurentian Bank Financial Group. This new name embodies who we are today, and evokes who we are becoming on our mission of helping our customers improve their financial health.

I would like to thank our customers who reward us with their loyalty, our team members who inspire us with their confidence, and our shareholders who motivate us with their trust. We are proud to be your Laurentian Bank Financial Group.

FRANÇOIS DESJARDINS
President and Chief Executive Officer

Board of Directors

LISE BASTARACHE

Economist and Corporate Director

Has served on the Board of Directors since March 2006

Member of the Audit Committee

SONIA BAXENDALE

Corporate Director

Has served on the Board of Directors since August 2016

Member of the Audit Committee

RICHARD BÉLANGER, FCPA, FCA

President of Toryvel Group Inc.

Has served on the Board of Directors since March 2003

Member of the Human Resources and Corporate Governance Committee

MICHAEL T. BOYCHUK, FCPA, FCA

Corporate Director

Has served on the Board of Directors since August 2013

Has been Vice Chair of the Board of Directors since August 2017

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

GORDON CAMPBELL

Corporate Director

Has served on the Board of Directors since December 2016

Member of the Audit Committee

ISABELLE COURVILLE

Corporate Director

Has served on the Board of Directors since March 2007

Has been Chair of the Board of Directors since March 2013

Member of the Human Resources and Corporate Governance Committee

FRANÇOIS DESJARDINS

President and Chief Executive Officer of the Bank

Has served on the Board of Directors since November 2015

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

MICHEL LABONTÉ

Corporate Director

Has served on the Board of Directors since March 2009

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

A. MICHEL LAVIGNE, FCPA, FCA

Corporate Director

Has served on the Board of Directors since March 2013

Chair of the Human Resources and Corporate Governance Committee and member of the Audit Committee

DAVID MORRIS, CPA, CA

Corporate Director

Has served on the Board of Directors since October 2017

Member of the Audit Committee

MICHELLE R. SAVOY

Corporate Director

Has served on the Board of Directors since March 2012

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

Director Emeritus:

JONATHAN I. WENER, C.M.

Since March 2017

Executive Team

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

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

FRANÇOIS LAURIN, FCPA, FCA, CFA
Executive Vice President, Chief Financial Officer

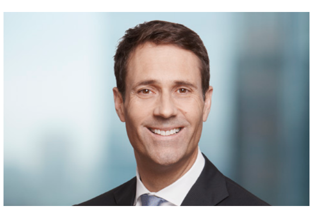
François Laurin is responsible for the Bank's activities in the areas of finance, accounting, treasury, taxation, investor relations, mergers and acquisitions, and internal audit. He has held this role since 2015. With 30 years of experience in corporate financing and financial accounting, François Laurin has worked at a number of large organizations operating within the finance, mining and telecommunications sectors.

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

Deborah Rose joined B2B Bank in 2011. In 2015, she was appointed President and Chief Executive Officer of B2B Bank. Also, in 2017, she was appointed President and Chief Executive Officer of LBC Tech. As Chief Information Officer for Laurentian Bank, she oversees the development and management of information technologies. Prior to joining B2B Bank, Deborah Rose was Senior Vice President, Business Operations at International Financial Data Services. Her career in financial services spans over 20 years.

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

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



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

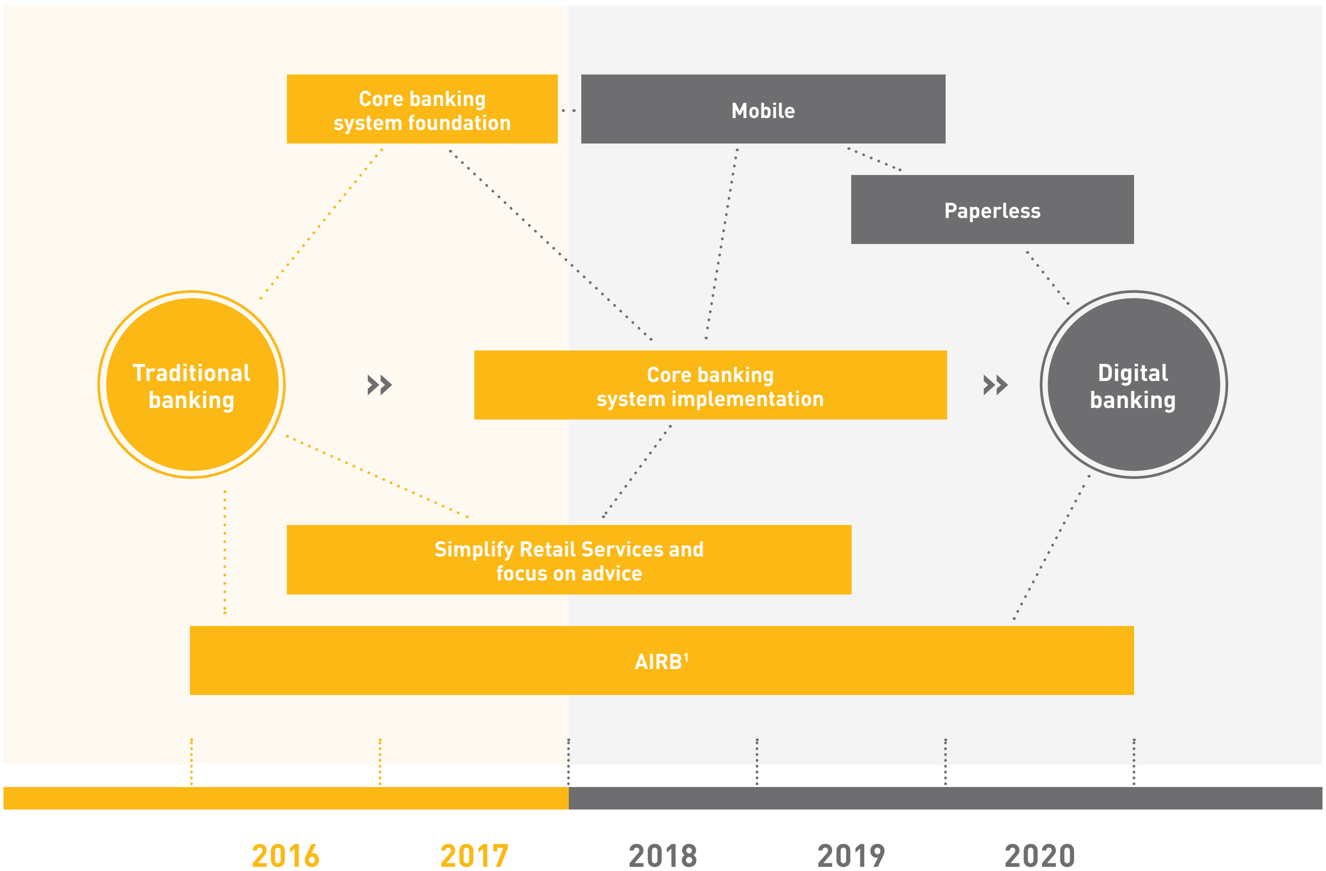
Michel Trudeau joined Laurentian Bank Securities in 1999 and has served as President and Chief Executive Officer since 2003. In 2009, his role was expanded to include overseeing Laurentian Bank's activities related to capital markets. Michel Trudeau has previously worked for more than 15 years within the institutional and fixed income sectors, including 10 years at Merrill Lynch where he successively occupied various senior management positions.

We Did What We Said We Would Do

	WHAT WE SAID WE WOULD DO	WHAT OUR PROGRESS HAS BEEN OVER THE PAST TWO YEARS	WHAT TO EXPECT
Performance	• Reduce and simplify Retail Services offerings • Create a proper distribution network • Rightsize and modernize corporate functions	• Since 2015, we: – Reduced the number of products and focused on the most relevant ones – Optimized our funding, increased securitization and institutional deposits • In 2016, we: – Launched a new TFSA loan product in a first wave of revamping our offering for independent brokers and advisors – Selected the new Montreal corporate office location • In 2017, we: – Successfully merged 41 Retail Services branches and converted 23 branches to advice-only – Advanced the integration of CIT Canada	• In 2018, we will: – Transition all our Retail branches to advice-only – Complete the integration of CIT Canada and Northpoint Commercial Finance into LBC Capital – Relocate the Montreal corporate office
Growth	• Increase Business Services in the Group mix • Ensure growth through independent brokers and advisors • Focus Capital Markets on profitable businesses	• Since 2015: – Loans to business customers are up 52% – Residential mortgage loans through independent brokers and advisors are up 50% – AUM at Laurentian Bank Securities are up 26% • In 2016, we: – Acquired CIT Canada and sustained organic growth • In 2017, we: – Acquired Northpoint Commercial Finance and sustained organic growth	• In 2018, we will: – Maintain the growth momentum in the Business Services – Expand B2B Bank's product suite – Continue transforming the Retail Services from a traditional model to a distributor model – Pursue Capital Markets activities in defined niches
Foundation	• Rebuild a proper account management tool through a new core banking platform • Adopt the Advanced Internal Ratings-Based approach (AIRB) • Build a culture of performance • Develop new brand elements	• Since 2015, we: – Made progress on the development of a more robust credit framework towards migration to the AIRB approach • In 2016, we: – Started the development of the new core banking platform • In 2017, we: – Created a new name, Laurentian Bank Financial Group, to better reflect the diverse nature of our business	• In 2018, we will: – Migrate B2B Bank accounts and a portion of Business Services to the core banking platform – Implement our first mobile offerings at B2B Bank – Continue the development towards migration to the AIRB approach

PATH TO OUR TRANSFORMATION

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



1 Advanced internal ratings-based (AIRB) approach.

2017 Performance

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

	2017	2016	2015
ADJUSTED FINANCIAL MEASURES[1]			
Adjusted net income	**$230,741**	$187,013	$172,199
Adjusted diluted earnings per share	**$6.09**	$5.70	$5.62
Adjusted return on common shareholders' equity	**12.3%**	12.0%	12.0%
Adjusted efficiency ratio	**66.1%**	69.6%	71.3%
Adjusted operating leverage	**5.4%**	2.5%	(0.4)%
Adjusted dividend payout ratio	**40.5%**	42.4%	39.2%
FINANCIAL MEASURES			
Total revenue	**$996,410**	$915,451	$897,126
Net income	**$206,461**	$151,910	$102,470
Diluted earnings per share	**$5.40**	$4.55	$3.21
Return on common shareholders' equity[1]	**10.9%**	9.6%	6.8%
Net interest margin	**1.68%**	1.71%	1.84%
Efficiency ratio[1]	**69.2%**	74.2%	80.6%
Operating leverage[1]	**7.4%**	8.0%	(10.1)%
Dividend payout ratio	**45.7%**	53.1%	68.6%
PER COMMON SHARE			
Share price – Close	**$60.00**	$49.57	$52.97
Book value	**$51.18**	$47.92	$46.33
Dividends declared	**$2.46**	$2.36	$2.20
Dividend yield	**4.1%**	4.8%	4.2%
FINANCIAL POSITION			
Balance sheet assets	**$46,682,658**	$43,006,340	$39,659,504
Loans and acceptances	**$36,696,157**	$33,378,723	$30,092,545
Deposits	**$28,930,360**	$27,573,345	$26,604,304
Common shareholders' equity	**$1,994,155**	$1,621,557	$1,341,637
QUALITY OF ASSETS			
Provision for credit losses as a percentage of average loans and acceptances	**0.11%**	0.11%	0.12%
BASEL III REGULATORY CAPITAL RATIO – ALL-IN BASIS			
Common Equity Tier 1 (under the standardized approach)	**7.9%**	8.0%	7.6%

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED OCTOBER 31, 2017

This Management's Discussion and Analysis (MD&A) is a narrative explanation, through the eyes of management, of Laurentian Bank of Canada's financial condition as at October 31, 2017 and how it performed during the year then ended. This MD&A, dated December 4, 2017, should be read in conjunction with the audited annual consolidated financial statements for the year ended October 31, 2017 prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board and set out in the CPA Canada Handbook.

Additional information about the Laurentian Bank of Canada (the Bank), including the Annual Information Form for the year ended October 31, 2017, is available on the Bank's website at www.lbcfg.ca and on SEDAR at www.sedar.com.

Basis of presentation

The information for the years ended October 31, 2017 and 2016 is presented on the same basis as in the audited annual consolidated financial statements prepared in accordance with IFRS. Certain comparative figures have been reclassified to conform to the current year presentation.

All amounts are denominated in Canadian dollars, unless otherwise specified.

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ABOUT LAURENTIAN BANK FINANCIAL GROUP

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CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

By their very nature, forward-looking statements are based on assumptions and involve inherent risks and uncertainties, both general and specific in nature. It is therefore possible that the forecasts, projections and other forward-looking statements will not be achieved or will prove to be inaccurate. Although the Bank believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to be correct. Certain important assumptions by the Bank in making forward-looking statements include, but are not limited to: the Bank's ability to execute its transformation plan and strategy; the expectation of regulatory stability; the continued favourable economic conditions; the Bank's ability to maintain sufficient liquidity and capital resources; the absence of material unfavorable changes in competition, market conditions or in government monetary, fiscal and economic policies; the maintenance of credit ratings and the Bank's assumption that the in-depth review of the mortgages described under the heading "Off-Balance Sheet Arrangements - Securitization Activities - Review of Mortgage Portfolios" will reveal a level of problematic loans in line with the level discovered through the limited sample audit. See also "How the Bank Will Measure its Performance - Key assumptions supporting the Bank's medium-term objectives".

The Bank cautions readers against placing undue reliance on forward-looking statements when making decisions, as the actual results could differ considerably from the opinions, plans, objectives, expectations, forecasts, estimates and intentions expressed in such forward-looking statements due to various material factors. Among other things, these factors include: changes in capital market conditions, changes in government monetary, fiscal and economic policies, changes in interest rates, inflation levels and general economic conditions, legislative and regulatory developments, changes in competition, modifications to credit ratings, levels of problematic loans being in excess of levels identified during sample file audits, scarcity of human resources, developments with respect to labour relations, as well as developments in the technological environment. Furthermore, these factors include the ability to execute the Bank's transformation plan and in particular the successful reorganization of retail branches, the modernization of the core banking system and the adoption of the Advanced Internal Ratings-Based Approach to credit risk (the AIRB Approach).

With respect to the anticipated benefits from the acquisition of Northpoint Commercial Finance ("NCF") and statements with regards to this transaction being accretive to earnings, such factors also include, but are not limited to: the ability to promptly and effectively integrate the businesses, reputational risks and the reaction of the Bank's and NCF's customers to the transaction; the failure to realize, in the timeframe anticipated or at all, the anticipated benefits and synergies of the acquisition of NCF; the Bank's limited experience in the U.S. market and in inventory financing; and diversion of management time on acquisition-related issues.

With respect to the anticipated benefits from the acquisition of CIT Canada and statements with regards to this transaction being accretive to earnings, such factors also include, but are not limited to: the ability to realize synergies in the anticipated time frame, the ability to promptly and effectively integrate the businesses, and diversion of management time on integration-related issues.

The Bank further cautions that the foregoing list of factors is not exhaustive. For more information on the risks, uncertainties and assumptions that would cause the Bank's actual results to differ from current expectations, please also refer to the "Risk Appetite and Risk Management Framework" on page 44 of the Bank's Management's Discussion and Analysis as contained in the Bank's 2017 Annual Report, as well as to other public filings available at www.sedar.com.

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

SUMMARY OF FINANCIAL RESULTS

HIGHLIGHTS OF 2017[1]

- Adjusted net income of $230.7 million or $6.09 per share, up 23% and 7% year-over-year, respectively. Adjusted return on common shareholders' equity of 12.3%.
- Reported net income of $206.5 million or $5.40 per share, including items related to business combinations of $23.8 million ($16.6 million after income taxes), or $0.47 diluted per share, as well as restructuring charges of $10.5 million ($7.7 million after income taxes), or $0.22 diluted per share related to Retail Services. Return on common shareholders' equity of 10.9%
- Adjusted efficiency ratio of 66.1%, a 350 bps improvement year-over-year. Reported efficiency ratio of 69.2%
- Loans to business customers up 22% year-over-year, from both organic growth and the acquisition of NCF[2]
- Residential mortgage loans through independent brokers and advisors up 22% year-over-year
- Common Equity Tier 1 capital ratio at 7.9%

TABLE 1

HIGHLIGHTS OF 2017

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

	2017	2016	2015	Variance 2017/2016
Reported basis				
Net income	**$ 206.5**	$ 151.9	$ 102.5	36 %
Diluted earnings per share	**$ 5.40**	$ 4.55	$ 3.21	19 %
Return on common shareholders' equity	**10.9%**	9.6%	6.8%	
Efficiency ratio	**69.2%**	74.2%	80.6%	
Common Equity Tier 1 capital ratio – All-in basis	**7.9%**	8.0%	7.6%	
Adjusted basis [1]				
Adjusted net income	**$ 230.7**	$ 187.0	$ 172.2	23 %
Adjusted diluted earnings per share	**$ 6.09**	$ 5.70	$ 5.62	7 %
Adjusted return on common shareholders' equity	**12.3%**	12.0%	12.0%	
Adjusted efficiency ratio	**66.1%**	69.6%	71.3%	

(1) Certain analyses presented throughout this document are based on the Bank's core activities and therefore exclude charges designated as adjusting items. Refer to the Non-GAAP and Key Performance Measures section for further details.
(2) Northpoint Commercial Finance.

OVERVIEW OF FISCAL 2017

For the year ended October 31, 2017, on a reported basis, net income was $206.5 million or $5.40 diluted per share, compared with $151.9 million or $4.55 diluted per share in 2016. On the same basis, return on common shareholders' equity was 10.9% for the year ended October 31, 2017, compared with 9.6% in 2016. Reported results for 2017 took into account adjusting items, such as costs related to the Bank's branch mergers and the integration of CIT, as well as costs related to the acquisition of NCF. Whereas in 2016 , reported results included adjusting items such as impairment and restructuring charges related to Retail Services activities and costs related to the acquisition of CIT Canada. Adjusted net income totalled $230.7 million or $6.09 diluted per share, respectively up 23% and 7%, compared with adjusted net income of $187.0 million or $5.70 diluted per share for the year ended October 31, 2016. Adjusted return on common shareholders' equity improved to 12.3% for the year ended October 31, 2017, compared to 12.0% for the year ended October 31, 2016. Refer to the Non-GAAP and Key Performance Measures and Non-Interest Expenses sections on pages 19 and 28 for further details.

In fiscal 2017, the Bank made significant progress to improve performance and achieved milestones towards its transformation objectives. The strong organic growth in loans to business customers and residential mortgage loans through independent brokers and advisors have generated tangible returns. In addition, the recent acquisition of NCF in August 2017 will further develop the Bank's equipment financing business and diversify revenue streams.

At year end 2017, the Common Equity Tier 1 (CET1) capital ratio stood at 7.9% under the standardized approach, compared to 8.0% as at October 31, 2016, above the regulatory requirement of 7.0%. With sound liquidity and capital management, the Bank is pursuing its key initiatives to deliver on its plan.

TABLE 2

CONSOLIDATED RESULTS

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

	2017	2016	2015	Variance 2017/2016
Net interest income	**$ 638,090**	$ 589,644	$ 575,083	8 %
Other income	**358,320**	325,807	322,043	10
Total revenue	**996,410**	915,451	897,126	9
Amortization of net premium on purchased financial instruments	**3,383**	5,190	5,999	(35)
Provision for credit losses	**37,000**	33,350	34,900	11
Impairment and restructuring charges	**10,485**	38,344	78,409	(73)
Costs related to business combinations	**16,091**	4,409	—	265
Other non-interest expenses	**662,783**	636,796	644,415	4
Non-interest expenses [1]	**689,359**	679,549	722,824	1
Income before income taxes	**266,668**	197,362	133,403	35
Income taxes	**60,207**	45,452	30,933	32
Net income	**206,461**	151,910	102,470	36
Preferred share dividends, including applicable taxes	**17,096**	13,313	9,602	28
Net income available to common shareholders	**$ 189,365**	$ 138,597	$ 92,868	37 %
Average number of common shares outstanding (in thousands)				
Basic	**35,059**	30,488	28,949	
Diluted	**35,059**	30,488	28,955	
Earnings per share				
Basic	**$ 5.40**	$ 4.55	$ 3.21	19 %
Diluted	**$ 5.40**	$ 4.55	$ 3.21	19 %
Adjusted financial measures				
Adjusted net income [2]	**$ 230,741**	$ 187,013	$ 172,199	23 %
Adjusted diluted earnings per share [2]	**$ 6.09**	$ 5.70	$ 5.62	7 %

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

(2) 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 certain non-GAAP measures to assess the Bank's performance. The Bank's non-GAAP measures presented throughout this document exclude the effect of certain amounts designated as adjusting items due to their nature or significance. These 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 Bank's non-GAAP measures are defined as follows:

Adjusted financial measures

Certain analyses presented throughout this document are based on adjusted measures and therefore exclude the effect of certain amounts designated as adjusting items due to their nature or significance that arise from time to time which management believes are not reflective of underlying business performance. The Bank presents adjusted results to facilitate understanding of its underlying business performance and related trends.

Table 3 presents the impact of adjusting items on reported results.

Adjusting items
Adjusting items are related to restructuring plans, to a special retirement compensation charge, and to items resulting from business combinations. These items have been designated as adjusting items due to their nature and the significance of the amounts, as well as to the fact that, in certain cases, they represent significant non-cash charges.

Impairment and restructuring charges result from the realignment of strategic priorities of the Bank's Retail Services activities and the transformation of the branch network. Impairment charges are comprised of impairment of goodwill, software and intangible assets, and premises and equipment. Restructuring charges are comprised of provisions related to lease contracts, severance charges, other restructuring charges including salaries, communication expenses and professional fees, as well as other impairment charges related to IT projects.

Items related to business combinations include the amortization of acquisition-related intangible assets, as well as integration costs related to acquired businesses. These costs mainly consist of legal costs, information technology costs, external professional consulting costs, severance charges and marketing costs. The amortization of the net premium on purchased financial instruments, which resulted from the revaluation at fair value of net assets acquired as part of a business combination, was also considered an adjusting item. Refer to Note 31 to the annual consolidated financial statements for additional information.

The retirement compensation charge is related to the adjustment to the employment contract of a former member of senior management.

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

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.

TABLE 3

IMPACT OF ADJUSTING ITEMS

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

	FOR THE QUARTERS ENDED OCTOBER 31		FOR THE YEARS ENDED OCTOBER 31		
	2017	2016	**2017**	2016	2015
Impact on net income					
Reported net income	**$ 58,635**	$ 18,383	**$ 206,461**	$ 151,910	$ 102,470
Adjusting items, net of income taxes					
Impairment and restructuring charges					
Impairment of goodwill, software and intangible assets, and premises and equipment	**—**	16,178	**—**	16,178	57,245
Provisions related to lease contracts	**—**	8,675	**—**	8,675	358
Severance charges	**2,364**	3,200	**2,364**	3,200	3,014
Other restructuring charges	**1,791**	—	**5,315**	—	—
Other impairment charges related to IT projects	**—**	—	**—**	—	1,153
	4,155	28,053	**7,679**	28,053	61,770
Retirement compensation charge [1]	**—**	—	**—**	—	3,550
Items related to business combinations					
Amortization of net premium on purchased financial instruments	**519**	868	**2,487**	3,812	4,409
Amortization of acquisition-related intangible assets [2]	**2,226**	—	**2,771**	—	—
Other costs related to business combinations [3]	**941**	3,238	**11,343**	3,238	—
	3,686	4,106	**16,601**	7,050	4,409
	7,841	32,159	**24,280**	35,103	69,729
Adjusted net income	**$ 66,476**	$ 50,542	**$ 230,741**	$ 187,013	$ 172,199
Impact on diluted earnings per share					
Reported diluted earnings per share	**$ 1.42**	$ 0.45	**$ 5.40**	$ 4.55	$ 3.21
Adjusting items					
Impairment and restructuring charges	**0.11**	0.89	**0.22**	0.92	2.13
Retirement compensation charge	**—**	—	**—**	—	0.12
Items related to business combinations	**0.09**	0.13	**0.47**	0.23	0.15
	0.21	1.02	**0.69**	1.15	2.41
Adjusted diluted earnings per share [4]	**$ 1.63**	$ 1.47	**$ 6.09**	$ 5.70	$ 5.62

(1) Retirement compensation charges are included in the line item Salaries and employee benefits in the Consolidated Statement of Income.
(2) The amortization of acquisition-related intangible assets is included in the line item Other non-interest expenses in the Consolidated Statement of Income.
(3) Costs related to the transaction and integration of NCF in 2017 and CIT Canada in 2017 and 2016.
(4) The impact of adjusting items on a per share basis does not add due to rounding for the quarter ended October 31, 2017 and for the year ended October 31, 2015.

TABLE 4

RETURN ON COMMON SHAREHOLDERS' EQUITY

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

	2017	2016	2015
Reported net income available to common shareholders	**$ 189,365**	$ 138,597	$ 92,868
Adjusting items	**24,280**	35,103	69,729
Adjusted net income available to common shareholders	**$ 213,645**	$ 173,700	$ 162,597
Average common shareholders' equity	**$ 1,735,198**	$ 1,443,062	$ 1,355,991
Return on common shareholders' equity	**10.9%**	9.6%	6.8%
Adjusted return on common shareholders' equity	**12.3%**	12.0%	12.0%

OUTLOOK

ECONOMIC OUTLOOK

The economic recovery remains robust globally. The continuous improvement in global economic conditions has led central banks to withdraw some stimulus. The Federal Reserve raised its policy rate by 25 basis points three times since December 2016, while the Bank of England increased its policy rate by 25 basis points for the first time in more than a decade. This, in addition to other measures taken by central banks is expected to contribute to slightly higher rates across the yield curve over time. In the same manner, financial markets expect the gradual pace of increase in the federal funds rate target to continue in the medium-term, including a 25 basis point increase in December 2017.

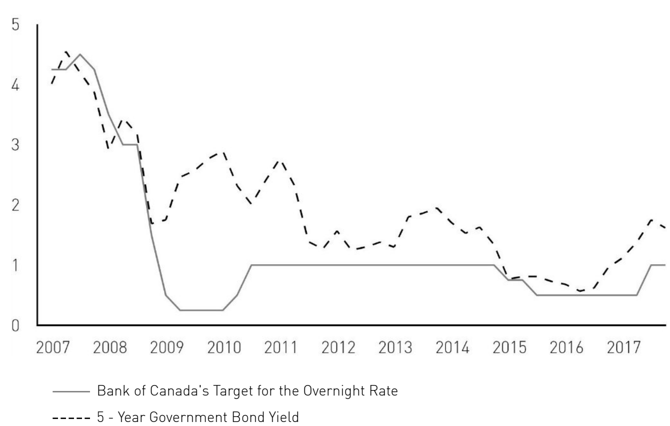
Uncertainty relative to the future of the North American Free Trade Agreement remains after negotiations held this fall stalled. The U.S. government has abandoned the idea of a cross border tax, a positive development for Canadian exporters, but recently proposed a higher U.S. content in North American automotive products. While discussions surrounding a significant tax package have intensified in Washington, uncertainty remains elevated regarding the timing and magnitude of stimulative U.S. fiscal policies.

Canadian labour market conditions have continued to strengthen. Full-time employment rose by 400,000 during the last year, the best performance in the current business cycle. Canada's unemployment rate also stood at a nine-year low of 6.3% in October 2017. Thus, Canadian housing demand remains dynamic despite the implementation of new regulatory mortgage reforms from federal authorities. The pace of homebuilding is at a five-year high and remains in line with household formation and job creation. Resale market conditions are also more robust in all major markets. Notably, a rebound in activity started this fall in the Toronto area after last spring's targeted housing policies had curbed speculative activity and kept domestic buyers on the sidelines.

Last summer's broadly-based economic momentum across various sectors and regions caused the Bank of Canada to raise its policy rate by 25 basis points in both July and September. Market participants now expect the Bank of Canada to pause until the end of the year, followed by a very gradual removal of monetary easing in the medium-term. The target for the overnight rate stands at 1.00% and the Canadian dollar is currently trading around US$0.78.

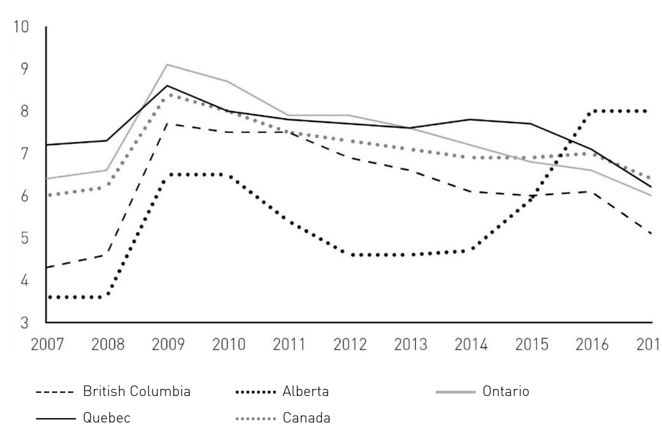
Going forward, higher commodity prices, robust U.S. demand for Canadian products and stimulative fiscal policies from the federal and provincial governments should support the Canadian economy. However, the slightly higher interest rate environment and stronger Canadian dollar may slightly moderate economic growth. All things considered, Canadian real GDP is expected to grow at a respectable pace of 2.0% in 2018 and 1.8% in 2019, after reaching 3.0% in 2017.

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



Source: Bank of Canada

UNEMPLOYMENT RATES
(annual data, in percentage)



Source: Statistics Canada

HOW THE BANK WILL MEASURE ITS PERFORMANCE

Medium-term financial objectives

Table 5 below presents the revised performance and growth targets for the Bank, as introduced in the 2015 Annual Report, and the Bank's performance for 2017. The Bank's cost control efforts resulted in significant progress in 2017 towards achieving its adjusted efficiency ratio and operating leverage objectives. Growth in key business areas also remained strong throughout the year, as loans to business customers were up 22% and residential mortgage loans through independent brokers and advisors were up 22% year-over-year.

Adjusted diluted earnings per share growth was 7%, while adjusted net income rose by 23%. Adjusted return on common shareholders' equity improved to 12.3% compared with 12.0% in fiscal 2016, while maintaining a ROE gap[3] with major Canadian banks at 360 bps.

The positive past 2 years have also seen economic challenges, market disruptions and new regulatory requirements. To continue to progress in 2018 and to ensure disciplined growth, the Bank will make further investments in its people, processes and technologies. These investments will ensure disciplined growth, strengthen the Bank's foundation and simplify the organization. Given this fast changing environment, management has reset the mid-term objectives from 2019 to 2020 while keeping the 2022 targets intact.

TABLE 5

MEDIUM-TERM FINANCIAL OBJECTIVES AND 2017 PERFORMANCE

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

	2020 OBJECTIVES		2017		2016	Variance 2017/2016
Adjusted Financial Performance [1]						
Adjusted return on common shareholders' equity	Narrow gap to 300 bps [2]		**12.3%**		12.0%	Current gap at 360 bps [3]
Adjusted efficiency ratio	<65%		**66.1%**		69.6%	(3.5)%
Adjusted diluted earnings per share	Grow by 5% to 10% annually	**$**	**6.09**	$	5.70	7 %
Adjusted operating leverage	Positive		**5.4%**		2.5%	3 %
Key growth drivers						
Loans to business customers	Grow to $14.0B	**$**	**12.2**	$	10.0	22 %
Residential mortgage loans through independent brokers and advisors	Grow to $10.0B	**$**	**8.6**	$	7.0	22 %
Assets under management at Laurentian Bank Securities	Grow to $4.3B	**$**	**3.9**	$	3.5	13 %
Assets under management from Retail Services clients	Grow to $12.6B	**$**	**11.0**		n.a.	n.a.
Total deposits from clients	Grow to $27.1B	**$**	**25.2**		n.a.	n.a.

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

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

(3) Compared to Q3 2017 year-to-date for major Canadian banks.

Key assumptions supporting the Bank's medium-term objectives

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

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

- Organic growth to continue in loans to business customers and residential mortgage loans through independent brokers and advisors;
- Relatively stable product margins in the Bank's main markets;
- Continued progress on simplifying the Retail Services offering and increasing the relative size of Business Services in the Bank's mix;
- Loan loss provisions to remain at lower levels than the industry;
- Expenses to be tightly controlled and further optimization of corporate functions;
- Investments to rebuild a proper account management platform and to adopt the AIRB[1] approach in fiscal 2020.

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

Optimization of the Retail Services activities

At the beginning of 2016, the Bank announced its seven-year transformation plan, which included optimizing and simplifying retail operations. This strategy led to the initial decision, in September 2016, to reorganize the branch network by the end of 2017. To date, 41 branches have been merged and another 23 branches have become advice-only. These concrete measures address the changes in customer behaviour and have provided for a significant improvement in operating efficiency. Management continues to monitor the impact of these actions on its core client base. The initial response from customers and employees has been positive and the impact on operations and results are in line with expectations. Building on this positive outcome, the Bank decided in September 2017 to further digitize services. As such, the branch model will transition to focus on delivering financial advice while migrating customers to electronic- and web-based platforms by December 2018. These actions are in line with customer preferences towards online banking over branch visits. As well, in order to improve flexibility and efficiency, certain administrative functions were outsourced at the end of 2017.

As detailed in the Non-Interest Expenses section on page 28, these measures led to additional restructuring charges, mainly with regards to severance charges. Additional costs are expected to be incurred over the next 12 months as the reorganization continues. In addition it was decided, as of November 1, 2017 Retail Services in Quebec will solely originate residential mortgages through the branch network and no longer through the mortgage broker channel.

Industry Developments

Over the past year, Canadian financial markets have been facing challenging conditions related to the housing sector, including new policy measures from the Federal Government. The new mortgage rules issued last fall by the CMHC have temporarily reduced the ability of potential buyers to qualify for the purchase of a home. In July, OSFI issued draft changes to its Guideline B-20 "Residential Mortgage Underwriting Practices and Procedures". Changes were finalized in October 2017 and are applicable as of January 1, 2018. The new guideline introduces more stringent mortgage loan origination requirements, and could further affect access to mortgage financing. These measures combined with concerns about overheated housing markets in the greater Toronto and Vancouver areas, have kept housing in the spotlight. Notwithstanding, the Bank's activities are well diversified, and its business plan strategically positions it to meet these challenges. It is very difficult to predict the extent of the impact on the market as the behavior of current and future home owners will probably adapt to the new regulations.

In addition, intensifying competition for funding through the brokered deposit network has gained attention. The Bank benefits from well diversified sources of deposits, including personal deposits sourced through its branch network and through independent advisors and brokers. As well, the expanding securitization activities and institutional funding program contribute to diversified, strong and stable funding. Furthermore, given current market conditions, the Bank continues to prudently manage the level of liquid assets and maintains an adequate level of liquidity to meet current obligations and support growth.

ACQUISITIONS

ACQUISITION OF NORTHPOINT COMMERCIAL FINANCE

On May 18, 2017, the Bank entered into a definitive agreement under which it agreed to acquire 100% of the ownership interests in NCF, a U.S. based non-bank inventory finance lender with a portfolio of US$819 million (C$1,039 million). The transaction closed on August 11, 2017. The purchase price of US$257 million (C$326 million) was based on the book value of the net assets of NCF as at the closing date. As part of the transaction, the Bank has also reimbursed previous credit facilities of NCF for US$668 million (C$848 million).

To support the Bank's balance sheet, considering this transaction, on May 26, 2017 the Bank issued 4,654,560 subscription receipts at a price of $51.70 per receipt. The proceeds of the offering were placed in escrow until the closing of the NCF acquisition (see Note 31). Upon the completion of the acquisition on August 11, 2017, the subscription receipts were automatically exchanged for 4,654,560 common shares of the Bank for gross proceeds of $240.6 million.

On August 11, 2017, the acquisition resulted in the inclusion of finance lease receivables of US$818.7 million (C$1,038.7 million), as well as other assets of US$182.6 million (C$231.7 million), including goodwill and other intangible assets of US$108.3 million (C$137.4 million) on the Bank's balance sheet. The allocation of the purchase price for NCF is subject to refinement as the Bank completes the valuation of the assets acquired and liabilities assumed. See Note 31 to the annual consolidated financial statements for additional information on this acquisition.

Total transaction and integration costs of $4.4 million were incurred in 2017 and the contribution to earnings for fiscal 2017 was $3.9 million after deducting the $2.2 million net amortization charges on acquisition-related intangible assets. The transaction is expected to be accretive to earnings per share in 2018.

This acquisition increases the proportion of revenue generated by commercial activities within the Bank's mix, and is expected to provide new growth opportunities and improve overall profitability. It is also an excellent strategic fit with the Bank's equipment finance subsidiary, LBC Capital, enhancing the line of products and services, as well as creating a comprehensive equipment financing platform. The acquisition broadens the Canadian offering and creates a U.S. presence, an important customer attribute for manufacturers and dealers looking for a single North American point of service. Furthermore, it adds talented employees and their expertise to the Bank.

ACQUISITION OF CIT CANADA

On June 29, 2016, the Bank and CIT Group Inc. ("CIT"), a U.S. company, entered into a definitive agreement under which the Bank agreed to acquire the Canadian equipment financing and corporate financing activities of CIT ("CIT Canada"). The transaction closed on October 1, 2016. The final purchase price, based on the net book value of CIT Canada as at the closing date, was valued at $986.7 million. This key acquisition significantly accelerated the Bank's plan to increase the proportion of business loans in the Bank's loan portfolio, strengthen its position in the equipment financing market and expand its pan-Canadian footprint. It also provided the infrastructure to further develop this segment and facilitated the acquisition of NCF in 2017.

Concurrently, the Bank proceeded with an offering of subscription receipts. Upon completion of the acquisition on October 1, 2016, the subscription receipts were automatically exchanged for 3,247,600 common shares of the Bank for gross proceeds of $155.4 million.

On October 1, 2016, the acquisition resulted in the inclusion of commercial loan portfolios of $919.4 million, as well as other net assets of $67.3 million, including goodwill and other intangible assets of $35.8 million on the Bank's balance sheet. See Note 31 to the annual consolidated financial statements for additional information on this acquisition.

Integration of CIT Canada's operations is almost completed, as teams are completing the development and implementation of the new lease management platform. Total transaction and integration costs were $16.0 million of which $11.6 million was incurred in 2017 and $4.4 million in 2016. The transaction is expected to be accretive to earnings per share in 2018, upon the completion of the integration.

ANALYSIS OF CONSOLIDATED RESULTS

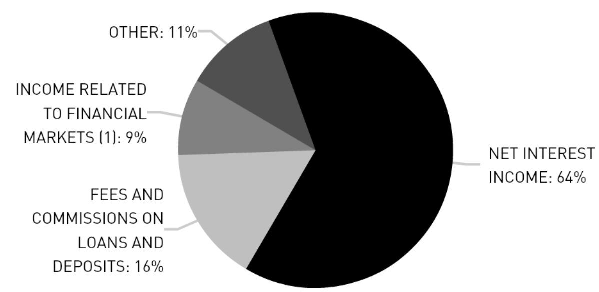
Net income was $206.5 million or $5.40 diluted per share for the year ended October 31, 2017, compared with $151.9 million or $4.55 diluted per share for the year ended October 31, 2016.

Adjusted net income was $230.7 million for the year ended October 31, 2017, up 23% compared with $187.0 million in 2016, while adjusted diluted earnings per share was $6.09, up 7% compared with $5.70 diluted earnings per share in 2016.

TOTAL REVENUE

Total revenue increased by $81.0 million to $996.4 million for the year ended October 31, 2017, compared with $915.5 million for the year ended October 31, 2016. Net interest income and other income both contributed to the increase year-over-year, as detailed in the following graph.

TOTAL REVENUE MIX
For the year ended October 31, 2017 (as a percentage)



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

NET INTEREST INCOME

Net interest income increased by $48.4 million or 8% to $638.1 million for the year ended October 31, 2017, from $589.6 million for the year ended October 31, 2016. The increase was mainly generated by strong volume growth in loan portfolios, both organic and through acquisitions, partly offset by compressed margins.

As further detailed in Table 6, net interest margin stood at 1.68% for the year ended October 31, 2017 and decreased by 3 basis points when compared with the year ended October 31, 2016. This tightening was mainly due to the higher proportion of lower-yielding residential mortgage loans, the persistent pressure on lending rates and higher levels of liquid assets held throughout the year, notably to finance the NCF acquisition, partly offset by the increased level of higher yielding commercial loans. The Bank is gradually modifying its loan portfolio mix to offset market pressure, notably through its strong growth in loans to business customers. Interest margins should trend higher in 2018, due to the shift in the Bank's loan portfolio mix, including the full-year impact of the NCF acquisition, and the recent increase in lending rates. Table 7 provides a summary of net interest income changes.

TABLE 6

NET INTEREST INCOME

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

	2017			2016		
	AVERAGE VOLUME	INTEREST	AVERAGE RATE	AVERAGE VOLUME	INTEREST	AVERAGE RATE
Assets						
Cash resources and securities [1]	$ 3,542,182	$ 43,382	1.22%	$ 2,937,045	$ 37,005	1.26%
Securities purchased under reverse repurchase agreements [1]	184,260	1,448	0.79	671,862	3,136	0.47
Loans						
Personal	6,288,579	277,903	4.42	6,506,368	298,136	4.58
Residential mortgage	17,548,988	482,299	2.75	15,965,407	450,144	2.82
Commercial mortgage	4,901,301	192,138	3.92	4,382,829	172,859	3.94
Commercial and other [2]	5,589,623	216,064	3.87	3,994,561	141,970	3.55
Total loans	34,328,491	1,168,404	3.40	30,849,165	1,063,109	3.45
Derivatives and other		42,311	—	—	63,630	—
Total interest earning assets	38,054,933	1,255,545	3.30	34,458,072	1,166,880	3.39
Non-interest earnings assets and assets related to trading activities [1]	6,791,069	—	—	6,438,698	—	—
Total assets	$ 44,846,002	$ 1,255,545	2.80%	$ 40,896,770	$ 1,166,880	2.85%
Liabilities and shareholders' equity						
Demand and notice deposits	$ 7,530,320	$ 44,066	0.59%	$ 7,867,537	$ 47,862	0.61%
Term deposits	20,463,905	421,085	2.06	19,399,973	407,000	2.10
Debt related to securitization activities	7,642,101	134,900	1.77	6,180,400	114,346	1.85
Subordinated debt	318,956	11,718	3.67	200,409	6,433	3.21
Other	—	5,686	—	—	1,595	—
Total interest bearing liabilities	35,955,282	617,455	1.72	33,648,319	577,236	1.72
Acceptances	645,595	—	—	506,597	—	—
Non-interest bearing liabilities and liabilities related to trading activities [1]	6,171,122	—	—	4,985,248	—	—
Total liabilities	42,771,999	617,455	1.44	39,140,164	577,236	1.47
Shareholders' equity	2,074,003		—	1,756,606	—	—
Total liabilities and shareholders' equity	$ 44,846,002	$ 617,455	1.38%	$ 40,896,770	$ 577,236	1.41%
Net interest income and margin (on average earning assets)		$ 638,090	1.68%		$ 589,644	1.71%

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

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

TABLE 7

CHANGE IN NET INTEREST INCOME

For the year ended October 31, 2017 (in thousands of Canadian dollars)

	2017		
	Increase (decrease) due to change in		
	AVERAGE VOLUME	AVERAGE RATE	NET CHANGE
Interest earning assets	$ 121,803	$ (33,138)	$ 88,665
Interest bearing liabilities	(39,576)	(643)	(40,219)
Net interest income	$ 82,227	$ (33,781)	$ 48,446

OTHER INCOME

Other income increased by $32.5 million or 10% and amounted to $358.3 million for the year ended October 31, 2017, compared with $325.8 million for the year ended October 31, 2016.

Fees and commissions on loans and deposits increased to $154.6 million for fiscal 2017 compared with $145.7 million in 2016, mainly driven by higher lending fees due to increased activity in the commercial portfolios.

Income from brokerage operations increased by 5% to $75.1 million for fiscal 2017 compared with $71.4 million in 2016, reflecting growth in underwriting activities and improved market conditions.

Income from sales of mutual funds increased by 17% to $47.1 million in fiscal 2017 compared with $40.3 million in 2016, due to higher volumes to Retail Services clients driven by net sales and good market performance. Since 2012, the Bank has been distributing a preferred series of co-branded LBC-Mackenzie mutual funds in its Quebec branch network. Over the years, this partnership has proven to be successful and remains aligned with the focus on financial advice.

Income from investment accounts decreased by 28% to $21.8 million for fiscal 2017, compared with $30.3 million in 2016, mainly due to the decision of an important client to internalize the administration of its clients' accounts at the beginning of the year. As a result, the Bank had recognized in the fourth quarter of 2016 one-time revenues of $3.1 million in other income, net of impairment charges on related intangible assets and associated costs.

Insurance income is generated by insurance programs related to the Bank's credit and card product offering. Insurance revenues are presented net of claims and expenses. Net revenues increased slightly to $18.2 million for fiscal 2017 from $17.5 million in 2016, essentially as a result of lower claims. Additional information on the Bank's insurance revenues is presented in Note 27 to the annual consolidated financial statements.

Income from treasury and financial market operations increased to $17.8 million for fiscal 2017 from $12.8 million in 2016. This increase mainly resulted from net gains on securities of $8.2 million realized in 2017, whereas net losses of $3.0 million were recognized in income in 2016. This increase was partly offset by lower contribution from trading activities. Additional information related to the Bank's securities portfolio is presented in Note 5 to the annual consolidated financial statements.

Other income increased significantly by 204% amounting to $23.8 million for fiscal 2017, compared with $7.8 million in 2016. The overall good performance in other income, included a $12.6 million contribution stemming from the recently acquired CIT Canada operations throughout the year. In addition, other income included a $5.9 million gain on the sale of the Bank's investment in the mortgage broker company, Verico Financial Group Inc. ("Verico"), in the fourth quarter of 2017.

TABLE 8

OTHER INCOME

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

	2017	2016	2015	Variance 2017/2016
Fees and commissions on loans and deposits				
Deposit service charges	**$ 56,191**	$ 56,973	$ 59,723	(1)%
Lending fees	**64,810**	55,289	50,768	17
Card service revenues	**33,583**	33,428	31,098	—
	154,584	145,690	141,589	6
Income from brokerage operations	**75,123**	71,435	63,294	5
Income from sales of mutual funds	**47,088**	40,299	38,811	17
Income from investment accounts	**21,804**	30,271	30,202	(28)
Insurance income, net	**18,188**	17,527	16,903	4
Income from treasury and financial market operations	**17,776**	12,782	23,365	39
Other	**23,757**	7,803	7,879	204
	203,736	180,117	180,454	13
Other income	**$ 358,320**	$ 325,807	$ 322,043	10 %

AMORTIZATION OF NET PREMIUM ON PURCHASED FINANCIAL INSTRUMENTS

For the year ended October 31, 2017, the line item "Amortization of net premium on purchased financial instruments" amounted to $3.4 million, down compared with $5.2 million for the year ended October 31, 2016. Refer to Note 3.3 to the annual consolidated financial statements.

PROVISION FOR CREDIT LOSSES

The provision for credit losses increased by $3.7 million to $37.0 million for the year ended October 31, 2017 from $33.4 million for the year ended October 31, 2016, and includes the favorable impact of reviews of allowance models, as well as the impact of the evolution of the mix and overall growth in the loan portfolio. The low level of credit losses continues to reflect the good overall underlying credit quality of the Bank's loan portfolios.

For the year ended October 31, 2017, credit losses on personal loans increased slightly by $0.9 million compared with last year. Credit losses for both 2017 and 2016 included the net favourable impact of the regular review of collective allowance models.

Credit losses on residential mortgage loans decreased by $0.7 million. The level of credit losses remains at historically low levels and is a result of the favourable credit conditions and strong underwriting criteria.

Credit losses on commercial mortgages and commercial loans amounted to a combined $9.2 million compared with $5.7 million for the same period in 2016. The year-over-year increase of $3.4 million is driven by the increase in loan volumes to business customers, as the Bank's loan portfolio mix has evolved over the year, including the impact of the recently acquired CIT Canada and NCF portfolios. Loan losses on commercial exposures tend to fluctuate more as they can relate, in part, to isolated larger exposures.

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

The following table details the provision for credit losses from 2015 to 2017. The Risk Appetite and Risk Management Framework section in this MD&A provides further discussion with regards to the overall credit condition of the Bank's portfolios.

TABLE 9

PROVISION FOR CREDIT LOSSES

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

	2017	2016	2015
Personal loans	**$ 24,823**	$ 23,903	$ 29,677
Residential mortgage loans	**3,027**	3,723	5,324
Commercial mortgage loans	**(1,499)**	203	(90)
Commercial and other [1]	**10,649**	5,521	(11)
Provision for credit losses	**$ 37,000**	$ 33,350	$ 34,900
As a % of average loans and acceptances	**0.11%**	0.11%	0.12%

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

NON-INTEREST EXPENSES

Non-interest expenses increased to $689.4 million for the year ended October 31, 2017, compared with $679.5 million for the year ended October 31, 2016. Expenses for 2017 and 2016 were affected by costs related to business combinations of $16.1 million and $4.4 million respectively, in addition to impairment and restructuring charges of $10.5 million and $38.3 million respectively, as noted below. Adjusted non-interest expenses increased to $658.5 million for the year ended October 31, 2017 from $636.8 million for the year ended October 31, 2016, mainly as the result of the full-year impact of the acquisition of CIT Canada and the additional costs related to NCF incurred at the end of 2017.

Salaries and employee benefits increased by $26.1 million or 8% to $361.0 million for the year ended October 31, 2017, compared with $334.9 million for the year ended October 31, 2016. This increase is mainly due to the addition of employees from CIT Canada throughout the year, in addition to higher performance-based compensation and higher pension costs. This was partly offset by the reduction in salaries related to the branch mergers.

Premises and technology costs decreased by $5.3 million to $182.4 million compared with the year ended October 31, 2016. The decrease mostly stems from the lower amortization expense resulting from impairment charges on assets recorded in the fourth quarter 2016, partly offset by higher project expenses.

Other non-interest expenses increased by $5.2 million to $119.4 million for the year ended October 31, 2017, from $114.2 million for the year ended October 31, 2016, mainly due to the amortization of acquisition related intangibles, the annual increase of Canada Deposit Insurance Corporation (CDIC) premiums, higher professional fees incurred to support the Bank's transformation, as well as advertising costs. This was partly offset by a favorable adjustment to sales taxes.

Impairment and restructuring charges decreased to $10.5 million for the year ended October 31, 2017 compared with $38.3 million for the year ended October 31, 2016.

In 2017, the Bank incurred charges of $9.4 million in severances, salaries, communication expenses and professional fees related to the optimization of Retail Services activities and branch mergers. Furthermore, $1.1 million in additional costs of were incurred towards the end of the year as a result of the decision to outsource certain back-office functions in order to improve flexibility and efficiency.

In the fourth quarter of 2016, impairment charges of $22.1 million were recorded with regards to Retail Services activities. This charge related to the impairment of software for $16.7 million and premises and equipment for $5.4 million. Furthermore, as part of the planned branch restructuring, provisions related to lease contracts amounting to $11.9 million and severance charges of $4.4 million were also recorded.

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

Costs related to business combinations amounted to $16.1 million for the year ended October 31, 2017 compared with $4.4 million for the year ended October 31, 2016, this increase was mainly due to costs related to the integration of CIT Canada's operations, including, severance charges, technology costs and professional fees, in addition to professional fees related to the recent acquisition of NCF.

Efficiency ratio

The adjusted efficiency ratio was 66.1% for the year ended October 31, 2017, compared with 69.6% for the year ended October 31, 2016. This efficiency ratio compares favorably to the performance target set two years ago and is expected to remain relatively stable over the next year. However, as the Bank invests in its transformation, this ratio may be subject to certain variations, mainly as it relates to costs of hiring account managers, operating the new core-banking platform and adopting the AIRB Approach. In addition, new regulatory requirements such as the IFRS 9 guideline, as well as AML and regulatory risks-related projects will necessitate additional expenditures. The adjusted operating leverage was positive year-over-year, mainly driven by total revenue growth. Table 10 details non-interest expenses from 2015 to 2017.

The efficiency ratio was 69.2% for the year ended October 31, 2017, compared with 74.2% for the year ended October 31, 2016, a significant portion of this improvement was from core results, as well as a reduction in restructuring charges.

TABLE 10

NON-INTEREST EXPENSES

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

	2017	2016	2015	Variance 2017/2016
Salaries and employee benefits				
Salaries [1]	$ 220,226	$ 212,663	$ 217,253	
Employee benefits	75,455	71,848	71,906	
Performance-based compensation	65,320	50,392	53,110	
	361,001	334,903	342,269	8 %
Premises and technology				
Technology costs	89,510	87,070	83,635	
Rent and property taxes	53,743	54,693	54,539	
Depreciation	30,675	36,777	50,875	
Maintenance and repairs	6,359	7,064	6,893	
Public utilities	1,858	1,579	1,601	
Other	252	513	235	
	182,397	187,696	197,778	(3)%
Other				
Advertising and business development	28,097	26,851	25,789	
Fees and commissions	30,292	26,601	24,358	
Communications and travelling expenses	23,200	23,236	23,402	
Taxes and insurance	18,359	19,974	18,200	
Stationery and publications	6,809	6,848	6,929	
Recruitment and training	2,397	2,136	2,675	
Other [2]	10,231	8,551	3,015	
	119,385	114,197	104,368	5 %
Impairment and restructuring charges				
Impairment of goodwill, software and intangible assets, and premises and equipment	—	22,113	72,226	
Provisions related to lease contracts	—	11,857	489	
Severance charges	3,228	4,374	4,118	
Other restructuring charges [3]	7,257	—	—	
Other impairment charges related to IT projects	—	—	1,576	
	10,485	38,344	78,409	(73)%
Costs related to business combinations [4]	16,091	4,409	—	265 %
Non-interest expenses	$ 689,359	$ 679,549	$ 722,824	1 %
Efficiency ratio [5]	69.2%	74.2%	80.6 %	
Operating leverage [5]	7.4%	8.0%	(10.1)%	
Adjusted non-interest expenses [5]				
Adjusted salaries and employee benefits	$ 361,001	$ 334,903	$ 337,414	8 %
Adjusted premises and technology	182,397	187,696	197,778	(3)%
Adjusted other non-interest expenses	115,094	114,197	104,368	1 %
	$ 658,492	$ 636,796	$ 639,560	3 %
Adjusted efficiency ratio [5]	66.1%	69.6%	71.3 %	
Adjusted operating leverage [5]	5.4%	2.5%	(0.4)%	

(1) Salaries for 2015 included a retirement compensation charge of $4.9 million related to the adjustment to the employment contract of a former member of senior management designated as an adjusting item (nil in 2017 and 2016). Refer to the Non-GAAP and Key Performance Measures section for further details.

(2) Other non-interest expenses included the amortization of acquisition-related intangible assets. Refer to the Non-GAAP and Key Performance Measures section for further details.

(3) Other restructuring charges results from the realignment of strategic priorities of the Bank's Retail Services activities.

(4) Costs related to the transaction and integration of NCF in 2017 and CIT Canada in 2016 and 2017.

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

INCOME TAXES

For the year ended October 31, 2017, the income tax expense was $60.2 million and the effective tax rate was 22.6%. The lower tax rate, compared to the statutory rate, mainly resulted from the favourable effect of holding investments in Canadian securities that generate non-taxable dividend income, the lower taxation level on revenues from foreign operations. For the year ended October 31, 2016, the income tax expense was $45.5 million and the effective tax rate was 23.0%. The lower tax rate, compared to the statutory rate, resulted mainly from the aforementioned factors.

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

TABLE 11

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

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

		2017			2016
Income taxes at statutory rates	$	**71,189**	**26.7%**	$ 52,733	26.7%
Change resulting from:					
Income related to foreign operations		**(7,756)**	**(2.9)**	(5,283)	(2.7)
Non-taxable dividends and non-taxable portion of capital gains		**(3,751)**	**(1.4)**	(2,548)	(1.3)
Other, net		**525**	**0.2**	550	0.3
Income taxes as reported in the Consolidated Statement of Income	$	**60,207**	**22.6%**	$ 45,452	23.0%

TRANSACTIONS WITH RELATED PARTIES

The Bank provides loans to related parties, which consist of key management personnel and their close family members, as well as their related companies. Key management personnel consist of members of the Executive Committee or the Board of Directors. As at October 31, 2017, these loans totalled $23.0 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, 2017, these deposits totalled $1.9 million. The Bank also offers employees a discount on annual credit card fees. In addition, for the year ended October 31, 2017, the Bank paid a rental expense of $2.1 million to a related party ($2.2 million for the year ended October 31, 2016).

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

OVERVIEW OF FISCAL 2016

For the year ended October 31, 2016, on a reported basis, net income was $151.9 million or $4.55 diluted per share, compared with $102.5 million or $3.21 diluted per share in 2015. On the same basis, return on common shareholders' equity was 9.6% for the year ended October 31, 2016, compared with 6.8% in 2015. Reported results for 2016 and 2015 took into account adjusting items, including impairment and restructuring charges in 2016 and 2015 related to the Retail Services activities. Refer to the Non-GAAP and Key Performance Measures section on page 19 for further details.

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

In fiscal 2016, the Bank delivered solid results throughout the year and showed good progress in key elements of its transformation plan. The Bank's focus on its growth targets had generated tangible returns, as evidenced by the strong growth in loans to business customers and residential mortgage loans through independent brokers and advisors. Stringent cost control, and the favorable impact of the restructuring charges incurred at the end of 2015 also contributed to a sharp improvement in efficiency.

The CIT Canada acquisition in October 2016 also significantly accelerated the plan to improve the Bank's position in the equipment financing market and to expand its pan-Canadian footprint.

Furthermore, the Bank improved its financial position in 2016, as evidenced by the 40 basis point increase in the Common Equity Tier 1 (CET1) capital ratio, which stood at 8.0% as at October 31, 2016 under the standardized approach.

ANALYSIS OF QUARTERLY RESULTS

ANALYSIS OF RESULTS FOR THE FOURTH QUARTER OF 2017

Net income was $58.6 million or $1.42 diluted per share for the fourth quarter of 2017, compared with $18.4 million or $0.45 diluted per share for the fourth quarter of 2016. As noted above, results for the fourth quarter of 2016 included impairment and restructuring charges of $38.3 million ($28.1 million after income taxes) or $0.89 diluted per share. Adjusted net income was $66.5 million for the fourth quarter of 2017, up 32% from $50.5 million for the fourth quarter of 2016, while adjusted diluted earnings per share were $1.63, up 11% compared with $1.47 for the fourth quarter of 2016.

Total revenue

Total revenue increased by $31.6 million or 13% to $268.0 million for the fourth quarter of 2017 from $236.4 million for the fourth quarter of 2016, driven by growth in net interest income stemming in part from acquisitions.

Net interest income increased by $27.5 million or 18% to $176.2 million for the fourth quarter of 2017, from $148.7 million for the fourth quarter of 2016. This increase was mainly due to strong volume growth in the commercial loan portfolio, both organic and from acquisitions, coupled with the higher margins earned on these loans. Net interest margin stood at 1.75% for the fourth quarter of 2017, an increase of 8 basis points compared with the fourth quarter of 2016, essentially due to the higher proportion of higher-yielding loans to business customers.

Other income increased by $4.1 million, amounting to $91.7 million for the fourth quarter of 2017, compared with $87.6 million for the fourth quarter of 2016. As mentioned above, other income included a $5.9 million gain on the sale of the Bank's investment in Verico, in the fourth quarter of 2017. In addition, fees and commissions on loans and deposits increased by $2.2 million, mainly driven by higher lending fees due to increased activity in the commercial portfolios. These increases were partly offset by a decrease in income from investment accounts of $4.6 million, mainly due to the decision of an important client to internalize the administration of its clients' accounts at the beginning of the year. As a result, the Bank had recognized in the fourth quarter of 2016, one-time revenues of $3.1 million in other income, net of impairment charges on related intangible assets and associated costs. Furthermore, income from treasury markets decreased by $1.6 million.

Amortization of net premium on purchased financial instruments

For the fourth quarter of 2017, the amortization of net premium on purchased financial instruments amounted to $0.7 million, compared with $1.2 million for the fourth quarter of 2016. Refer to Note 3.3 in the annual consolidated financial statements for additional information.

Provision for credit losses

The provision for credit losses increased to $11.5 million for the fourth quarter of 2017 from $10.3 million for the fourth quarter of 2016. This low level of credit losses continues to reflect the overall underlying good credit quality of the loan portfolios. Over the medium term, the provision for credit losses should trend gradually higher as the loan portfolio mix evolves and volumes increase.

Non-interest expenses

Non-interest expenses amounted to $184.4 million for the fourth quarter of 2017, a decrease of $17.6 million compared with the fourth quarter of 2016. Non-interest expenses for the fourth quarter of 2017 and for the fourth quarter of 2016 were affected by impairment and restructuring charges of $5.7 million and $38.3 million respectively, as noted below. Adjusted non-interest expenses increased by $13.0 million or 8% to $172.3 million for the fourth quarter of 2017 from $159.2 million for the fourth quarter of 2016, due to the full-quarter impact of the acquisition of CIT Canada and additional costs incurred in 2017 following the acquisition of NCF.

Salaries and employee benefits increased by $11.8 million or 14% to $94.2 million for the fourth quarter of 2017, compared with the fourth quarter of 2016, this increase is mainly due to the addition of employees from CIT Canada and NCF, as well as higher performance-based compensation.

Premises and technology costs decreased by $0.8 million to $45.5 million compared with the fourth quarter of 2016. The decrease mostly stems from the lower amortization expense resulting from impairment charges on assets recorded in the fourth quarter of 2016.

Other non-interest expenses increased by $5.5 million to $36.2 million compared with the fourth quarter of 2016, mainly due to the amortization of acquisition related intangibles, the annual increase in CDIC premiums, as well as higher professional fees incurred to support the Bank's transformation.

Impairment and restructuring charges amounted to $5.7 million for the fourth quarter of 2017 compared with $38.3 million for the fourth quarter of 2016. As mentioned above, in 2017 the Bank incurred salaries, communication expenses and professional fees related to the optimization of Retail Services activities and branch mergers.

In the fourth quarter of 2016, the value of the assets related to the Retail Services unit was reviewed and impairment charges of $22.1 million were recorded. Provisions related to lease contracts amounting to $11.9 million and severance charges of $4.4 million were also recorded during the quarter as a result of the announcement of branch mergers. Refer to Note 30 to the annual consolidated financial statements for additional information.

Costs related to business combinations amounted to $2.9 million for the fourth quarter of 2017 and included technology costs related to CIT Canada's operations, in addition to costs related to the acquisition of NCF which closed mid-August.

The adjusted efficiency ratio was 64.3% for the fourth quarter of 2017, compared with 67.4% for the fourth quarter of 2016, mainly reflecting the impact of the CIT Canada and NCF acquisitions and continued cost control initiatives, as well as the savings related to the branch optimization measures and restructuring charges of 2016. The adjusted operating leverage was positive year-over-year, driven by both revenue growth and expense control.

Income taxes

For the quarter ended October 31, 2017, the income tax expense was $12.8 million and the effective tax rate was 17.9%. The lower tax rate, compared to the statutory rate, mainly resulted from the favourable effect of holding investments in Canadian securities that generate non-taxable dividend income, the lower taxation level on revenues from foreign operations and tax-exempt gains. For the quarter ended October 31, 2016, the income tax expense was $4.5 million and the effective tax rate was 19.7%. The lower tax rate, compared to the statutory rate, resulted mainly from the aforementioned factors and the lower level of Canadian income given the impairment and restructuring charges.

ANALYSIS OF THE EVOLUTION OF THE QUARTERLY RESULTS

The Bank's intermediation business provides a relatively steady source of income stemming from large volumes of loans and deposits not likely to experience significant fluctuations in the short term. However, treasury operations and certain activities related to financial markets, such as trading activities, may result in significant volatility. In addition, variations in market interest rates or equity markets, as well as in credit conditions can influence the Bank's results. Furthermore, other transactions such as business acquisitions or specific regulatory developments may significantly impact revenues and expenses. Given that the second quarter usually consists of only 89 days (90 days in 2016), compared with 92 days for the other quarters, overall profitability is generally lower for that quarter, mainly as net interest income is impacted. Table 12 summarizes quarterly results for fiscal 2017 and 2016.

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

				2017				2016
	Oct. 31	**July 31**	**April 30**	**Jan. 31**	Oct. 31	July 31	April 30	Jan. 31
Net interest income	**$ 176,220**	**$ 157,707**	**$ 150,476**	**$ 153,687**	$ 148,727	$ 147,991	$ 143,428	$ 149,498
Other income	**91,748**	**90,295**	**88,331**	**87,946**	87,642	81,086	83,375	73,704
Total revenue	**267,968**	**248,002**	**238,807**	**241,633**	236,369	229,077	226,803	223,202
Amortization of net premium on purchased financial instruments	**707**	**766**	**878**	**1,032**	1,181	1,267	1,337	1,405
Provision for credit losses	**11,500**	**6,400**	**10,100**	**9,000**	10,300	8,200	5,750	9,100
Non-interest expenses	**184,365**	**168,364**	**168,934**	**167,696**	201,998	160,474	160,066	157,011
Income before income taxes	**71,396**	**72,472**	**58,895**	**63,905**	22,890	59,136	59,650	55,686
Income taxes	**12,761**	**17,674**	**14,323**	**15,449**	4,507	13,999	13,936	13,010
Net income	**$ 58,635**	**$ 54,798**	**$ 44,572**	**$ 48,456**	$ 18,383	$ 45,137	$ 45,714	$ 42,676
Earnings per share								
Basic	**$ 1.42**	**$ 1.48**	**$ 1.19**	**$ 1.30**	$ 0.45	$ 1.34	$ 1.43	$ 1.36
Diluted	**$ 1.42**	**$ 1.48**	**$ 1.19**	**$ 1.30**	$ 0.45	$ 1.34	$ 1.43	$ 1.36
Net interest margin [1]	**1.75%**	**1.63%**	**1.67%**	**1.66%**	1.67%	1.69%	1.71%	1.78%
Return on common shareholders' equity [1]	**11.1%**	**11.8%**	**9.9%**	**10.7%**	3.7%	11.2%	12.5%	11.6%
Adjusted financial measures								
Adjusted net income [1]	**$ 66,476**	**$ 59,906**	**$ 51,618**	**$ 52,741**	$ 50,542	$ 46,067	$ 46,696	$ 43,708
Adjusted diluted earnings per share [1]	**$ 1.63**	**$ 1.63**	**$ 1.39**	**$ 1.43**	$ 1.47	$ 1.37	$ 1.46	$ 1.39
Adjusted return on common shareholders' equity [1]	**12.7%**	**13.0%**	**11.7%**	**11.8%**	12.1%	11.4%	12.8%	11.9%
Adjusted non-interest expenses [1]	**$ 172,285**	**$ 162,745**	**$ 160,591**	**$ 162,871**	$ 159,245	$ 160,474	$ 160,066	$ 157,011

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

Over the past eight quarters, net income has generally increased, except for the fourth quarter of 2016 which was impacted by impairment and restructuring charges, as noted below. Adjusted net income has generally trended upward, driven mainly by the acquisitions of CIT Canada and NCF, as well as by organic growth, continued strong credit quality and continued cost control efforts.

2017

- Net interest income and other income increased throughout 2017, including the contribution stemming from the acquired CIT Canada operations at the end of fiscal 2016, as well as the NCF operations in the last quarter of 2017. In addition, the gain on sale of the Bank's participation in Verico in the last quarter of 2017 increased other income by $5.9 million and more than offset the lower contribution from treasury and financial market operations for that quarter.
- The provision for credit losses trended higher in 2017, given the increase in loan volumes, with the exception of the third quarter, which included a favorable adjustment related to the review of allowance models of approximately $3.0 million.
- Non-interest expenses increased throughout 2017, reflecting the acquisition of CIT Canada, as well as the acquisition of NCF in the fourth quarter of 2017. Non-interest expenses also include integration costs related to CIT Canada and restructuring charges related to the branch network, as well as the amortization of acquisition related intangible assets.

2016

- Other income in the fourth quarter included one-time net revenues of $3.1 million related to the termination of an agreement for the administration of investment accounts.
- The provision for credit losses remained low during the year. Contributing to further reduce loan losses, the second quarter included a net favourable adjustment of $2.7 million resulting from the regular review of collective allowance models.
- Non-interest expenses in the fourth quarter included impairment and restructuring charges of $38.3 million following the announcement that the Bank will optimize its Retail Services activities by merging branches over the next 18 months. Expenses in the fourth quarter also included $4.4 million of costs related to the acquisition and integration of CIT Canada. Excluding these items, adjusted non-interest expenses decreased in 2016, mainly due to continued cost control, as well as to lower salaries and employee benefits and lower amortization expenses resulting from the impairment and restructuring charges recorded in 2015.

ANALYSIS OF FINANCIAL CONDITION

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

As at October 31, 2017, the Bank's total assets amounted to $46.7 billion, a 9% increase compared with $43.0 billion as at October 31, 2016, as shown in Table 13. These changes are explained in the following sections of the MD&A.

TABLE 13

BALANCE SHEET ASSETS

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

	2017	2016	2015	Variance 2017/2016
Cash and deposits with other banks	**$ 327,362**	$ 187,099	$ 200,864	75 %
Securities	**5,586,014**	5,660,432	4,487,357	(1)
Securities purchased under reverse repurchase agreements	**3,107,841**	2,879,986	3,911,439	8
Loans				
Personal	**6,038,692**	6,613,392	7,063,229	(9)
Residential mortgage	**18,486,449**	16,749,387	14,998,867	10
Commercial mortgage	**5,161,470**	4,658,734	4,248,761	11
Commercial and other [1]	**6,302,537**	4,727,385	3,308,144	33
Customers' liabilities under acceptances	**707,009**	629,825	473,544	12
	36,696,157	33,378,723	30,092,545	10
Allowances for loan losses	**(99,186)**	(105,009)	(111,153)	(6)
	36,596,971	33,273,714	29,981,392	10
Other assets	**1,064,470**	1,005,109	1,078,452	6
Balance sheet assets	**$ 46,682,658**	$ 43,006,340	$ 39,659,504	9 %
Cash, deposits with other banks, securities and securities purchased under reverse repurchase as a % of balance sheet assets	**19.3 %**	20.3 %	21.7 %	

(1) Including finance lease receivables.

LIQUID ASSETS

Liquid assets consist of cash, deposits with other banks, securities and securities purchased under reverse repurchase agreements. As at October 31, 2017, these assets totalled $9.0 billion, an increase of $0.3 billion compared with $8.7 billion as at October 31, 2016.

Over the past year, the Bank has increased its securitization activities to improve its funding mix and raised institutional sourced deposits to meet additional liquidity needs, including in part to fund the acquisition of NCF that closed on August 11, 2017. Overall, the Bank continues to prudently manage the level of liquid assets and to hold sufficient cash resources from various sources in order to meet its current and future financial obligations, under both normal and stressed conditions.

Liquid assets represented 19% of total assets as at October 31, 2017 compared with 20% as at October 31, 2016.

As at October 31, 2017, securities used in brokerage operations and treasury activities amounted to $5.6 billion, including a portfolio of available-for-sale securities totalling $3.0 billion. As at October 31, 2017, net unrealized gains in this portfolio, included in accumulated other comprehensive income, amounted to $7.5 million, compared with net unrealized gains of $4.2 million as at October 31, 2016, reflecting the relatively good performance of the Canadian preferred share market and gains on fixed-income securities during the year.

Additional information on liquidity and funding risk management is included on page 57 of the MD&A.

LOAN PORTFOLIO

Loans and bankers' acceptances, net of allowances, stood at $36.6 billion as at October 31, 2017, up $3.3 billion or 10% from October 31, 2016. This increase reflects the acquisition of NCF, as well as strong organic growth in loans to business customers and residential mortgage loans as detailed below.

Personal loans amounted to $6.0 billion and decreased by $0.6 billion or 9% since October 31, 2016, mainly due to net repayments in the investment loan portfolio, reflecting expected attrition given some deleveraging in the retail consumer market.

Residential mortgage loans stood at $18.5 billion as at October 31, 2017, an increase of $1.7 billion or 10% year-over-year. This reflected continued growth in residential mortgage loans distributed through independent brokers and advisors, as well as the acquisition of insured mortgage loans originated by third-parties as part of a program initiated by the Bank in 2016 to optimize the usage of National Housing Act mortgage-backed securities (NHA MBS) allocations.

Commercial loans, including acceptances, increased by $1.7 billion or 31% since October 31, 2016, mainly due to the acquisition of NCF's loan portfolio of $1.0 billion as well as growth in equipment financing loans through LBC Capital Inc., and increased volumes from syndication activities. Commercial mortgage loans increased by $0.5 billion or 11% over the same period. Of note during the fourth quarter of 2017, the Bank sold a $155.7 million commercial loan portfolio to optimize its portfolio mix, which resulted in a nominal loss. When combined, total loans to business customers amounted to $12.2 billion as at October 31, 2017, up 22% year-over-year as a result of strong organic growth and of the acquisition of NCF in the fourth quarter of 2017.

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

OTHER ASSETS

Other assets stood at $1.1 billion as at October 31, 2017, $59.4 million higher than as at October 31, 2016, and mainly included goodwill, software and other intangible assets, as well as the fair value of derivatives. Investments to modernize and grow the Bank have contributed to increase other assets year-over-year, including increases in internally developed intangibles increased as the Bank continued to progress on the development of its new core banking system and its project to adopt the AIRB Approach to credit risk. The acquisition of NCF further resulted in goodwill and acquisition related intangibles assets of $137.4 million. These increases were partly offset by a decrease in the value of the derivatives mainly used to manage market risks associated with the Bank's portfolios.

TABLE 14

BALANCE SHEET LIABILITIES

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

	2017	2016	2015	Variance 2017/2016
Deposits				
Personal	**$ 21,198,982**	$ 21,001,578	$ 19,377,716	1 %
Business, banks and other	**7,731,378**	6,571,767	7,226,588	18
	28,930,360	27,573,345	26,604,304	5
Other liabilities	**6,842,540**	6,013,890	5,524,930	14
Debt related to securitization activities	**8,230,921**	7,244,454	5,493,602	14
Subordinated debt	**348,427**	199,824	449,641	74
Balance sheet liabilities	**$ 44,352,248**	$ 41,031,513	$ 38,072,477	8 %
Personal deposits as a % of total deposits	**73.3%**	76.2%	72.8%	
Total deposits as a % of balance sheet liabilities	**65.2%**	67.2%	69.9%	

DEPOSITS

Deposits increased by $1.4 billion or 5% to $28.9 billion as at October 31, 2017 compared with $27.6 billion as at October 31, 2016. Personal deposits stood at $21.2 billion as at October 31, 2017, up $0.2 billion compared with October 31, 2016, mainly driven by higher term deposits sourced through independent brokers and advisors. Business and other deposits increased by $1.2 billion to $7.7 billion over the same period, mainly reflecting higher institutional deposits. Personal deposits represented 73% of total deposits as at October 31, 2017, compared with 76% as at October 31, 2016, and contributed to the Bank's good liquidity position.

Additional information on deposits and other funding sources is included in the Liquidity and Funding Risk Management section on page 57 of this MD&A.

OTHER LIABILITIES

Other liabilities increased to $6.8 billion as at October 31, 2017 from $6.0 billion as at October 31, 2016. The year-over-year increase resulted mainly from higher obligations related to securities sold short and under repurchase agreements, associated with trading activities.

Debt related to securitization activities increased by $1.0 billion or 14% compared with October 31, 2016 and stood at $8.2 billion as at October 31, 2017. Over the last twelve months, the Bank continued to optimize this source of term funding for residential mortgages by participating in the CMHC NHA MBS and CMB programs. During the year, the Bank also developed a new securitization program with another large Canadian bank for personal investment loans, a first in Canada. This new program contributes to further diversify the Bank funding sources and reduce cost of funds. A first tranche of $0.2 billion was securitized during the third quarter of 2017.

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

Subordinated debt increased to $348.4 million as at October 31, 2017, from $199.8 million as at October 31, 2016. During the third quarter of 2017, the Bank issued $350.0 million of notes (Non-Viability Contingent Capital (NVCC)) (subordinated indebtedness). During the fourth quarter of 2017, the Bank redeemed all of its Series 2012-1 subordinated Medium Term Notes maturing in 2022, with an aggregate notional amount of $200.0 million. Refer to Note 15 to the annual 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 $2,330.4 million as at October 31, 2017, compared with $1,974.8 million as at October 31, 2016. This $355.6 million increase is mainly explained by the $240.6 million common share issuance in the fourth quarter of 2017 to support the NCF transaction and the net income contribution for the year, net of declared dividends. For additional information, please refer to the annual consolidated statement of changes in shareholders' equity. On November 14, 2017, the Bank announced that it will redeem, on December 15, 2017, all of its Non-Cumulative Class A Preferred Shares Series 11 then outstanding for a total amount of $100.0 million.

The Bank's book value per common share appreciated to $51.18 as at October 31, 2017 from $47.92 as at October 31, 2016. The table below provides the details of the share capital.

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

TABLE 15

SHARES ISSUED AND OUTSTANDING

As at November 29, 2017 (in number of shares/options)

Preferred shares	
Series 11 [1]	4,000,000
Series 13	5,000,000
Series 15	5,000,000
Common shares	38,966,498

(1) On November 14, 2017 the Bank announced that it would repurchase 4,000,000 Non-cumulative Class A Preferred Shares, Series 11 on December 15, 2017.

OFF-BALANCE SHEET ARRANGEMENTS

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

ASSETS UNDER ADMINISTRATION AND ASSETS UNDER MANAGEMENT

Assets under administration and assets under management mainly include assets of clients to whom the Bank provides various administrative services, as well as commercial mortgage loans managed for third parties. Through its subsidiary Laurentian Bank Securities, the Bank also manages retail and institutional investment portfolios. Table 16 below summarizes assets under administration and assets under management. As at October 31, 2017 these items totalled $32.1 billion, down $11.6 billion or 27% compared with October 31, 2016. Fees, commissions and other income related to these assets contribute significantly to the Bank's profitability.

TABLE 16

ASSETS UNDER ADMINISTRATION AND ASSETS UNDER MANAGEMENT

As at October 31 (in thousands of Canadian dollars)

	2017	2016	2015
Registered and non-registered investment accounts	**$ 23,934,182**	$ 36,323,405	$ 35,386,071
Clients' brokerage assets	**3,903,944**	3,457,660	3,122,090
Mutual funds	**3,673,092**	3,421,933	3,299,986
Loans under management	**471,443**	404,003	328,661
Institutional assets	**78,239**	72,432	78,767
Other	**9,127**	9,049	9,610
Assets under administration and assets under management	**$ 32,070,027**	$ 43,688,482	$ 42,225,185

Assets related to registered and non-registered investment accounts in B2B Bank Dealer Services and LBC Financial Services were down by $12.4 billion year-over-year, mainly due to the loss of a large client at the beginning of the year. 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 branch network.

Clients' brokerage assets increased by $446.3 million or 13% year-over-year, essentially as a result of increased introducing brokers activity, as well as increased full-service and discount brokerage activity.

Mutual fund assets under administration in LBC Financial Services increased by $251.2 million or 7% during fiscal 2017, driven by the exclusive offering of a preferred series of LBC-Mackenzie mutual funds, as well as by the good market conditions.

Loans under management increased by $67.4 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 $19.9 billion as at October 31, 2017 with a net negative fair value of $113.4 million.

Notes 22 to 25 to the annual consolidated financial statements provide further information on the various types of derivative products and their recognition in the consolidated financial statements.

SECURITIZATION ACTIVITIES

The Bank uses 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 7 and 14 to the annual consolidated financial statements, as well as the Critical accounting policies and estimates section of this MD&A 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.

Review of Mortgage Portfolios

Following an ordinary course sample audit by a third party purchaser (the "Third Party Purchaser"), the Bank completed a full audit of the B2B Bank mortgages sold to the Third Party Purchaser and identified documentation issues and client misrepresentations with respect to some of these mortgages. The Bank will repurchase the affected mortgages, amounting to approximately $89 million or 4.9% of all the mortgages sold to the Third Party Purchaser and 13.6% of the $655 million of B2B Bank mortgages sold to the Third Party Purchaser, during the first quarter of 2018. The Bank also conducted a limited sample file audit of mortgages underwritten in the branch network that were also sold to the Third Party Purchaser and found documentation issues. Over the coming months, the Bank intends to perform an in-depth review of the mortgages originated in its branch network that have been sold to the Third Party Purchaser and to work with such purchaser to resolve any issues it identifies, including repurchasing any problematic mortgages if required. The total mortgages underwritten in the branch network that were sold to the Third Party Purchaser amount to approximately $1,157 million. Applying the level of problematic loans found in the limited sample of branch-underwritten mortgages to the entire branch-underwritten mortgage portfolio sold to the Third Party Purchaser would result in a total of approximately $124 million of problematic loans, although the definitive amount will only be determinable upon completion of the audit. Refer to the section Caution Regarding Forward Looking Statements of this MD&A.

The Bank has also identified that despite being underwritten in accordance with the Bank's underwriting policies, $91 million of mortgages were inadvertently sold to the Third Party Purchaser. The Bank will therefore repurchase those mortgages as well during the first quarter of 2018.

The affected Third Party Purchaser facility will not be available to the Bank until the Third Party Purchaser is satisfied with its confirmatory audit and the new quality control functions and underwriting procedures being implemented by the Bank. The Bank has provided an additional $40 million to the Third Party Purchaser by means of a cash reserve deposit, which amount will be released following the confirmatory audit and repurchase by the Bank of all mortgages that do not satisfy the purchase criteria. This situation is not expected to have a material impact on the Bank's funding as it has other reliable sources of funds available while the Third Party Purchaser facility remains unavailable.

Moreover, the Bank extended the scope of its audit and identified a number of mortgage loans that were also inadvertently portfolio insured while they may not have been eligible for insurance. These mortgages were underwritten in accordance with the Bank's underwriting policies. A portion of these mortgages were included in another third party sale transaction. The total of these mortgages represents $76 million or less than 1.5% of the mortgages sold to such other third party purchaser (the "Other Third Party Purchaser"). The Bank has notified this Other Third Party Purchaser of these discrepancies and of the results of the file audit noted above affecting the aforementioned third-party purchaser facility, and will work with such Other Third Party Purchaser to resolve any issues that may arise which have yet to be determined. The mortgage loans sold to this Other Third Party Purchaser total approximately $5,157 million, and no internal audit of such loans has been conducted.

To address issues identified, as of November 1, 2017, the Bank has commenced to enhance its quality control functions and underwriting procedures, including introducing new internal monitoring processes and reorganizing employees who deal with mortgage intake and processing.

All of the mortgages to be repurchased are performing in line with the Bank's overall mortgage portfolio. No employees were implicated in any misrepresentations and the documentation issues appear to have been unintentional. After inquiry, the Bank found no significant concentration of mortgages with misrepresentations with any single broker. Issues identified to date represent $256 million or 3.7% of the mortgage portfolio sold to third party purchasers, and the Bank expects that total potential repurchases of mortgage loans sold to third party purchasers that are problematic or do not meet the purchase criteria once it completes its audit of the branch-originated mortgages sold to the Third-Party Purchaser to be in the range of $304 million, assuming the results found in the sampled branch-originated mortgages are consistent throughout the portfolio and assuming the problematic loans sold to the Other Third Party Purchaser are not required to be repurchased unless the loans actually default. Based on the foregoing, the above repurchases are not expected to be material to the Bank's operations, funding or capital. While the Bank believes that its assumptions and expectations with respect to (i) the amounts of mortgages to be repurchased, (ii) the successful implementation of its enhanced quality control functions and underwriting procedures and (iii) the Third Party Purchaser facility being unavailable for a limited period of time to be reasonable assumptions and expectations, these are subject to certain risks and uncertainties and may prove inaccurate. Specific risks and uncertainties which may cause these assumptions and expectations to be inaccurate and may adversely affect the Bank's business, results of operations and financial condition include (i) the results of the limited sample audit of mortgages referred to above not being representative of the entire branch-underwritten mortgage portfolio sold to the Third Party Purchaser, (ii) the Other Third Party Purchaser requiring an audit or the purchase of an amount of ineligible or problematic loans sold to the Other Third Party Purchaser, (iii) the enhanced quality control functions and underwriting procedures not working as contemplated and (iv) the Third Party Purchaser not being satisfied with the enhanced quality control functions and underwriting procedures and delaying the reopening or refusing to reopen the Third Party Purchaser facility.

CREDIT COMMITMENTS AND GUARANTEES

In the normal course of its operations, the Bank enters into various off-balance sheet credit instruments to meet the financing needs of its clients and earn fee income. These instruments may expose the Bank to liquidity and credit risk and are subject to adequate risk management. Table 22 presents the maximum amount of additional credit that the Bank could be required to extend if the commitments are fully used.

In the normal course of its operations, the Bank also enters into guarantee agreements such as standby letters of credit and performance guarantees to support its clients. Table 17 presents significant guarantees.

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

TABLE 17

CREDIT COMMITMENTS AND GUARANTEES

As at October 31 (in thousands of Canadian dollars)

	2017	2016
Undrawn amounts under approved credit facilities [1]	**$ 5,139,954**	$ 4,315,251
Standby letters of credit and performance guarantees	**$ 167,903**	$ 143,881
Documentary letters of credit	**$ 6,362**	$ 3,232

(1) Excluding credit facilities revocable at the Bank's option totalling $4.4 billion as at October 31, 2017 ($4.3 billion as at October 31, 2016).

CAPITAL MANAGEMENT

GOVERNANCE

Management's objective is to maintain an adequate level of capital that: considers the Bank's targeted capital ratios and internal assessment of required capital that is aligned with the Bank's 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 this objective, the Bank leverages its capital management framework that includes a Capital Management and Adequacy Policy, a Capital Plan, an Internal Capital Adequacy Assessment Process (ICAAP) and stress testing.

The ICAAP is an integrated process that evaluates capital adequacy relative to the Bank's risk profile and helps set the appropriate capital level for the Bank. Capital adequacy depends on various internal and external factors. As a result, the Bank's capital adequacy targets vary over time in line with these factors. The Bank's capital level underscores its solvency and capacity to fully cover risks related to its operations while providing depositors and creditors with the safeguards they seek.

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

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

- The ***Board of Directors*** annually approves the Capital Management and Adequacy Policy, the Capital Plan, as well as the Business Plan and 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 monitors regulatory capital ratios on a monthly basis.
- The ***Risk Management Department*** oversees the Bank's capital management framework on an ongoing basis. This oversight includes monitoring capital limits and adequacy, as well as developing and implementing the Capital Management and Adequacy Policy, the ICAAP and the integrated stress testing program.
- The ***Finance Department*** develops the Business Plan, the 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.

REGULATORY CAPITAL

OSFI requires banks to meet minimum risk-based capital ratios drawn on the Basel Committee on Banking Supervision (BCBS) capital framework, commonly referred to as Basel III. Under OSFI's Capital Adequacy Requirements guideline, the Bank must maintain minimum levels of capital depending on various criteria. Tier 1 capital, the most permanent and subordinated forms of capital, must be more predominantly composed of common equity. Tier 1 capital consists of two components: Common Equity Tier 1 and Additional Tier 1, to ensure that risk exposures are backed by a high quality capital base. Tier 2 capital consists of supplementary capital instruments and contributes to the overall strength of a financial institution as a going concern. Institutions are expected to meet minimum risk-based capital requirements for exposure to credit risk, operational risk and, where they are internationally active, market risk.

Under OSFI's guideline, minimum Common Equity Tier 1, Tier 1 and Total capital ratios were set at 5.75%, 7.25% and 9.25% respectively for 2017. These ratios include phase-in of the capital conservation buffer and of certain regulatory adjustments through 2019 and, as detailed below, phase-out of non-qualifying capital instruments through 2022, (the "transitional" basis). The guideline also provides for annual increases in minimum capital ratio requirements, which will reach 7.0%, 8.5% and 10.5% respectively in 2019, including the 2.5% capital conservation buffers.

Furthermore, OSFI expects deposit-taking institutions to maintain target capital ratios without transition arrangements equal to or greater than the 2019 minimum capital ratios plus a conservation buffer (the "all-in" basis), including a minimum 7.0% Common Equity Tier 1 ratio target. The "all-in" basis includes all of the regulatory adjustments that will be required by 2019 but retains the phase-out rules for non-qualifying capital instruments detailed below.

Certain banks in Canada have been designated by OSFI as Domestic Systemically Important Banks (D-SIBs). Under this designation, these banks have been asked to hold a further 1% of Tier 1 Common Equity since January 1, 2016. Laurentian Bank, however, has not been so designated.

OSFI's guideline provides additional guidance regarding the treatment of non-qualifying capital instruments and specifies that certain capital instruments no longer fully qualify as capital as of January 1, 2013. The Bank's Series 2012-1 subordinated Medium Term Notes were considered non-qualifying capital instruments under Basel III and were subject to a 10% phase-out per year prior to the announcement on September 15, 2017 of their redemption on October 19, 2017. The Bank's Series 11 preferred shares were also considered non-qualifying capital instruments under Basel III and were subject to a 10% phase-out per year since 2013, prior to the announcement on November 14, 2017 that they will be redeemed on December 15, 2017. The Preferred Shares Series 13 and Series 15 fully qualify as Additional Tier 1 capital, as well as the notes (subordinated indebtedness) due June 22, 2027 fully qualify as Tier 2 capital under Basel III.

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

Regulatory capital developments

Revisions to the standardized approach
The Bank uses the Standardized Approach in determining credit risk capital and to account for operational risk. Currently, the Bank's capital requirements for credit risk under the Standardized Approach are not calculated on the same basis as its industry peers, as larger Canadian financial institutions predominantly use the more favourable AIRB approach.

In December 2015, the BCBS issued a second consultative document entitled Revisions to the Standardised Approach for credit risk providing new prudential proposals which, if implemented, will change how the Bank is calculating some elements of its regulatory capital. The BCBS has also proposed or announced a number of new requirements modifying the calculation of regulatory capital for banks. These changes include modifications to the AIRB approach, the introduction of a new floor for the AIRB approach and new methods to measure regulatory capital for sovereign exposure and operational risk. However, the BCBS's consultations on capital rules scheduled to be finalized by the end of 2016 are still ongoing. The Bank is closely monitoring these developments and assessing potential impacts on its business to promptly manage these new regulations.

The implementation of the AIRB approach remains a key initiative of the Bank's transformation plan that should strengthen its credit risk management, optimize regulatory capital and provide a level-playing field for credit underwriting activities. As such, the Bank plans to transition to the AIRB approach in fiscal 2020.

Tables 18 and 19 outline the regulatory capital and risk-weighted assets (RWA) used to calculate regulatory capital ratios. The Bank was in compliance with OSFI's capital requirements throughout the year.

TABLE 18

REGULATORY CAPITAL (1)

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

	2017	2016
Regulatory capital		
Common Equity Tier 1 capital	**$ 1,612,299**	$ 1,439,376
Tier 1 capital	**$ 1,953,899**	$ 1,780,976
Total capital (2)	**$ 2,364,589**	$ 2,056,180
Total risk-weighted assets (2)	**$ 20,426,719**	$ 17,922,653
Regulatory capital ratios		
Common Equity Tier 1 capital ratio	**7.9%**	8.0%
Tier 1 capital ratio	**9.6%**	9.9%
Total capital ratio	**11.6%**	11.5%

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

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

As shown in the graph on the next page, the Common Equity Tier 1 capital ratio stood at 7.9% as at October 31, 2017, compared with 8.0% as at October 31, 2016. The decrease compared with October 31, 2016 was mainly driven by the significant investments in the core-banking system and the project to adopt the AIRB Approach to credit risk, which are key initiatives of the Bank's transformation. Otherwise, the $240.6 million common share issuance that closed in August 2017 and internal capital generation more than provided the necessary capital to support the strong growth, including the NCF acquisition.

CHANGE IN COMMON EQUITY TIER 1 CAPITAL RATIO

For the year ended October 31, 2017 (in percentage)

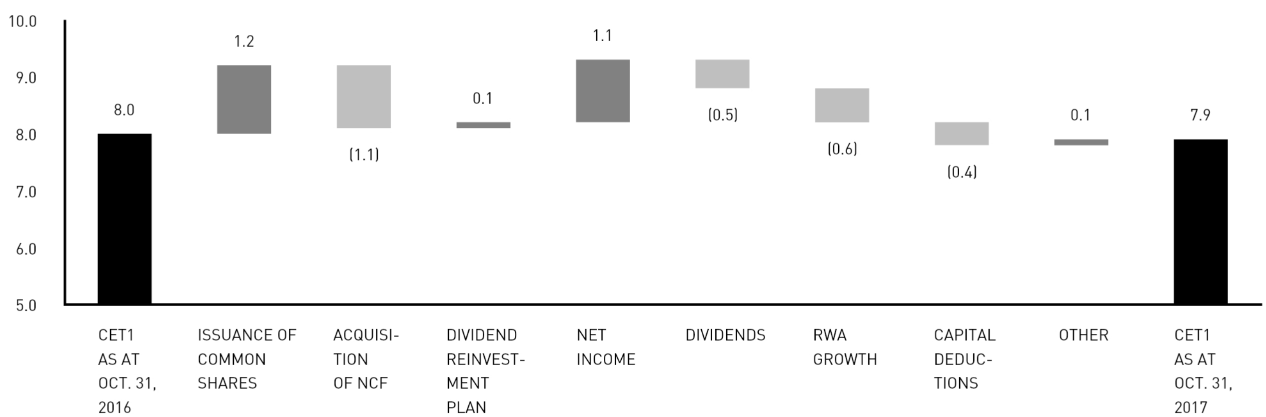


TABLE 19

RISK-WEIGHTED ASSETS

As at October 31 (in thousands of Canadian dollars)

	2017 TOTAL EXPOSURE	2017 RISK-WEIGHTED ASSETS [1]	2016 TOTAL EXPOSURE	2016 RISK-WEIGHTED ASSETS [1]
Exposure Class (after risk mitigation)				
Corporate	$ 9,576,328	$ 9,561,494	$ 8,192,883	$ 8,202,743
Sovereign	6,656,302	77,036	6,604,090	38,838
Bank	346,320	78,866	245,435	57,101
Retail residential mortgage loans	20,296,623	3,813,719	18,322,547	3,160,469
Other retail	2,494,944	1,549,106	2,815,932	1,788,173
Small business entities treated as other retail	2,228,129	1,610,688	1,647,907	1,173,392
Equity	292,310	292,310	287,576	287,576
Securitization	21,495	15,246	27,710	23,669
Other assets	1,174,819	637,362	1,131,444	632,694
	43,087,270	17,635,827	39,275,524	15,364,655
Derivatives [2]	111,263	54,803	182,321	100,752
Credit commitments	1,178,095	1,105,339	992,210	922,383
Operational risk		1,630,750		1,534,863
	$ 44,376,628	$ 20,426,719	$ 40,450,055	$ 17,922,653
Balance sheet items				
Cash, deposits with other banks, securities and securities financing transactions		$ 748,999		$ 672,927
Personal loans		1,925,806		2,188,052
Residential mortgage loans		4,311,313		3,699,348
Commercial mortgage loans, commercial loans and acceptances		10,256,178		8,376,334
Other assets		393,531		427,994
		$ 17,635,827		$ 15,364,655

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

(2) The CVA capital charge after phase-in adjustments as at October 31, 2017 was $24.3 million for CET1 capital risk-weighted assets, $26.0 million for Tier 1 capital risk-weighted assets and $27.3 million for Total capital risk-weighted assets ($45.1 million, $50.0 million and $54.2 million respectively as at October 31, 2016). Risk-weighted assets above are presented based on the CET1 capital approach.

BASEL III LEVERAGE RATIO

The Basel III capital reforms introduced a non-risk based leverage ratio requirement to act as a supplementary measure to the risk-based capital requirements. Under OSFI's Leverage Requirements Guideline, federally regulated deposit-taking institutions are expected to maintain a Basel III leverage ratio that meets or exceeds 3% at all times. The leverage ratio is defined as the Tier 1 capital divided by unweighted on-balance sheet assets and off-balance sheet commitments, derivatives and securities financing transactions, as defined within the requirements.

As detailed in the table below, the leverage ratio stood at 4.2% as at October 31, 2017 and exceeded current requirements.

TABLE 20

BASEL III LEVERAGE RATIO

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

	2017	2016
Tier 1 capital	$ 1,953,899	$ 1,780,976
Total exposures	$ 46,673,239	$ 43,094,642
Basel III leverage ratio	4.2%	4.1%

DIVIDENDS

The Board of Directors must approve dividend payments on preferred and common shares on a quarterly basis. The declaration and payment of dividends are subject to certain legal restrictions, as explained in Note 16 to the annual consolidated financial statements. The level of dividends declared on common shares reflects management and Board views of the Bank's financial outlook and takes into consideration market and regulatory expectations, as well as the Bank's growth objectives in its strategic plan. The following table summarizes dividends declared for the last three years.

On December 4, 2017, the Board of Directors declared a quarterly dividend of $0.63 per common share, payable on February 1, 2018, to shareholders of record on January 2, 2018. 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 21

SHARE DIVIDENDS AND PAYOUT RATIO

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

	2017	2016	2015
Dividends declared on preferred shares	**$ 16,688**	$ 13,006	$ 9,375
Dividends declared per common share	**$ 2.46**	$ 2.36	$ 2.20
Dividends declared on common shares	**$ 86,560**	$ 73,622	$ 63,691
Dividend payout ratio	**45.7%**	53.1%	68.6%
Adjusted dividend payout ratio	**40.5%**	42.4%	39.2%

RISK APPETITE AND RISK MANAGEMENT FRAMEWORK

The shaded areas in the following sections of this MD&A represent a discussion on risk management policies and procedures relating to credit, market, and liquidity and funding risks as required under IFRS 7, *Financial Instruments - Disclosures*, which permits these specific disclosures to be included in the MD&A. Therefore, these shaded areas form an integral part of the annual consolidated financial statements for the years ended October 31, 2017 and 2016.

RISK MANAGEMENT FRAMEWORK

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

The Framework defines the risk governance structure, risk management processes and major risks the Bank may encounter. The internal control structure and corporate governance that promotes sound integrated risk management is also presented in the Framework. It contains mechanisms that enable the Bank to identify, measure and monitor risks it faces, subject to risk limits and other controls. The Framework is updated on regular basis in order to reflect the Bank's changing business environment.

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

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

RISK APPETITE

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

Risk appetite is defined as the risk level that the organization is ready to accept to reach its financial and strategic objectives, especially when there is an associated benefit. It is defined by business niche, type and level of risk, performance objectives, capital, liquidity, and external ratings. It is restricted by tolerance limits.

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

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

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

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

INTEGRATED STRESS TESTING PROGRAM

Stress testing is a risk management technique that helps the Bank understand and assess its vulnerability and resilience to exceptional but plausible events. It is forward-looking and complements other quantitative risk management tools. 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.

Stress testing includes scenario analysis, which is mainly used for strategic decision-making, and sensitivity analyses, which is used for tactical decision-making. In developing and assessing scenarios, the Bank's enterprise-wide stress testing program brings together the views of experts from various departments, including Economic Research, Finance, Treasury and Risk Management. These experts evaluate scenarios that display a range of severities, including scenarios that challenge the viability of the Bank (reverse stress testing).

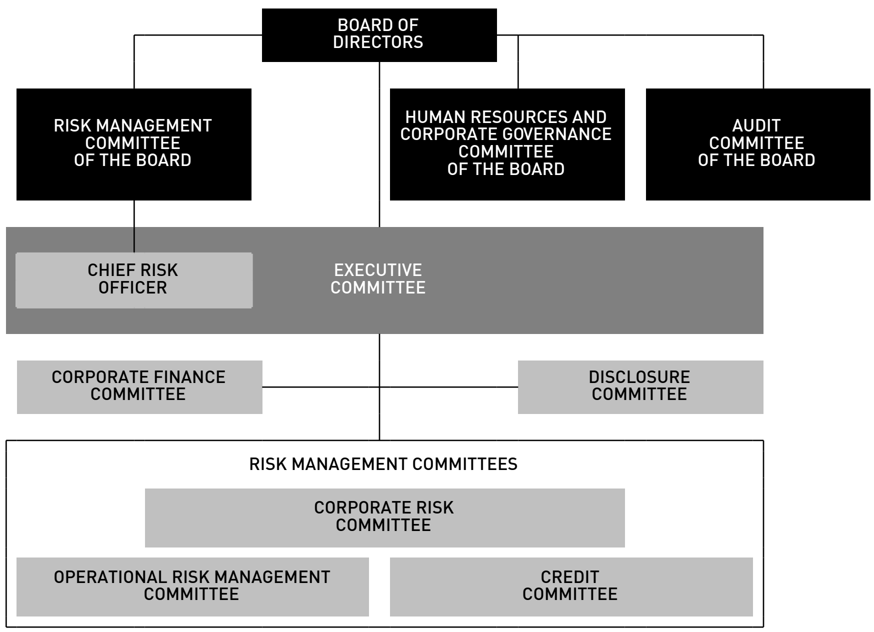
Senior management is involved in the entire exercise, from the design of scenarios to contingency planning. The results are presented to the Corporate risk Committee as well as to the Board, which is responsible for the overall stress testing program. Stress testing results are used by senior management in making strategic decisions, managing risk, and managing capital.

RECOVERY PLAN

The Bank maintains a Recovery Plan that describes a range of actions to be taken in the event of a financial crisis: 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 and maintain the confidence of market participants. This Plan is reviewed and approved annually by the Board of Directors.

GOVERNANCE STRUCTURE

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



Roles and responsibilities of the Board of Directors' committees

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

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

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

Roles and responsibilities of other risk management committees of the Bank

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

The *Corporate Risk Committee,* chaired by the Chief Risk Officer, is mandated to oversee and monitor all the material risks of the Bank, including but not limited to credit risk, market risk, interest rate structural risk and operational risk. The objective of the committee is to assist the Executive Committee in its risk oversight responsibility. Therefore, the Corporate Risk Committee makes sure that adequate policies, including the Bank's risk appetite framework, are in place, recommends policies for approval by the Executive Committee and ensures that these policies are respected.

The *Corporate Finance Committee,* chaired by the Chief Financial Officer, is responsible for following-up on trends, products/fee structures and risks that may impact the Bank's results in the short or long term. It analyses the progression and structure of capital, while ensuring that adequate operational liquidities are maintained.

The *Operational Risk Management Committee,* chaired by the Senior Vice President Integrated Risk Management, reviews the operational risk management policies and the reports on operational losses incurred. Furthermore, it reviews and approves tools for identifying and assessing the frequency and the impact of operational risks, reviews reports submitted to the Executive Committee on business units' action plans for mitigating and improving management of operational risk, and reviews the operational risk indicators. Finally, the Operational Risk Management Committee is responsible for monitoring business continuity plans and fraud prevention.

The *Credit Committee,* chaired by the Senior Vice President Credit, is responsible for approving loans within set limits. It also reviews delinquency on all types of loans, supervises the impaired loan resolution process and ensures the adequacy of the provisions for loan losses.

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

FUNCTIONS SUPPORTING RISK MANAGEMENT

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

- *Operations* are key to risk management as business unit managers take risks and are accountable for their ongoing management. They are on the front lines to identify and actively manage risks by applying the risk policies and implementing controls and risk mitigation measures. They are the first line of defence.
- The *control environment* hinges on five functions: risk management, regulatory risk management, financial certification, human resources and strategic planning. The risk management function complements the business unit's risk activities through its monitoring and reporting responsibilities. It is responsible for overseeing the Bank's risk activities and assessing risks independently. The regulatory risk function routinely monitors compliance with laws, corporate governance rules, regulations, codes and policies to which the Bank is subject. The risk management and regulatory risk functions of the control environment constitute the second line of defence of the Bank.
- The *Internal Audit* function also plays a key role as a third line of defence. It is responsible for implementing and maintaining a reliable and comprehensive system to adequately monitor the effectiveness of controls exercised within the different Framework functions. In addition, regulatory and statutory requirements are an integral part of the Bank's Framework.

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

RISK MANAGEMENT PROCESS

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

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

STRATEGIC RISK MANAGEMENT

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

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

Through the Executive Committee, the Bank monitors the execution of its transformation plan. The Bank's ability to meet its objectives and deliver the strategic plan depend on its capacity to transform the organisation 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.

CREDIT RISK MANAGEMENT

Credit risk is the risk of a financial loss occurring if a counterparty (including a debtor, an issuer or a guarantor) in a transaction fails to fully honour its contractual or financial obligations towards the Bank.

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

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

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

Loan-related credit risk

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

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

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

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

Additional information on impaired loans and allowances is provided in Tables 23, 24 and 25.

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

The loan portfolio mix is detailed in the following pages

Derivative-related credit risk

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

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

Exposure to credit risk

The amount that best represents the Bank's maximum exposure to credit risk as at October 31, 2017 and 2016 without factoring in any collateral held or other credit enhancements, represents the sum of financial assets in the Bank's consolidated balance sheet, plus credit commitments as set out below.

TABLE 22

MAXIMUM EXPOSURE TO CREDIT RISK

As at October 31 (in millions of Canadian dollars)

		2017		2016
Financial assets, as stated in the consolidated balance sheet [1]	$	45,863	$	42,390
Credit commitments [2]		5,140		4,315
	$	51,003	$	46,705

(1) Excluding equity securities.

(2) Excluding credit facilities revocable at the Bank's option totalling $4.4 billion as at October 31, 2017 ($4.3 billion as at October 31, 2016).

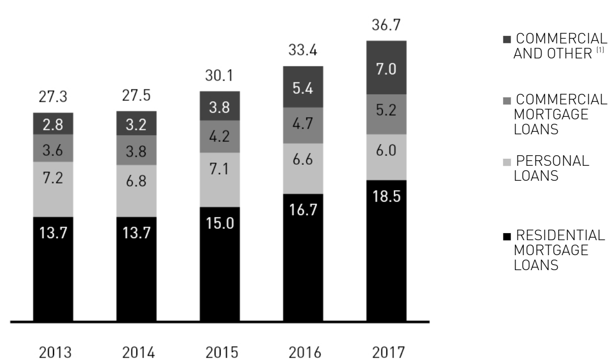
Loan portfolio mix

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

Reflecting the Bank's strong presence with personal clients through its branch network and through independent brokers and advisors, exposures related to personal loans and residential mortgages represented 67% of the Bank's total loan portfolio as at October 31, 2017, compared with 70% a year ago. Commercial loans and mortgages, including bankers' acceptances and finance lease receivables accounted for 33% of total loans as at October 31, 2017, compared with 30% a year ago.

LOAN PORTFOLIO MIX

As at October 31 (in billions of Canadian dollars)



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

Personal loans

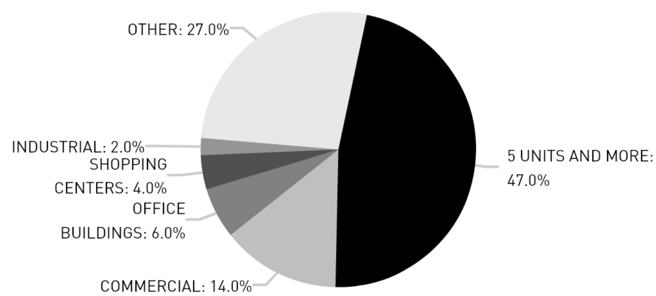
The personal loan portfolio includes a range of consumer credit products such as investment loans, home-equity lines of credit (HELOCs), credit cards, personal lines of credit and other consumer loans. As at October 31, 2017, this portfolio totalled $6.0 billion, a decrease of $0.6 billion compared with October 31, 2016, mainly as a result of net repayments of investment loans, reflecting expected attrition.

Residential mortgage loans
The residential mortgage loan portfolio includes retail mortgage loans secured by one- to four-unit dwellings. As at October 31, 2017, this portfolio amounted to $18.5 billion and increased by $1.7 billion or 10% during fiscal 2017, fuelled by continued growth in mortgage loans originated through independent brokers and advisors. Growth in mortgage loans distributed through this network is expected to continue, in-line with the Bank's medium-term growth objectives. Of note, as of November 1, 2017, Retail Services in Quebec will solely originate residential mortgages through the branch network and no longer through the mortgage broker channel. This will lead to a gradual decrease in this residential mortgage portfolio. The increase year over year also reflects the acquisition of insured mortgage loans originated by third-parties as part of a program initiated by the Bank in 2016 to optimize the usage of National Housing Act mortgage-backed securities (NHA BS) allocations.

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

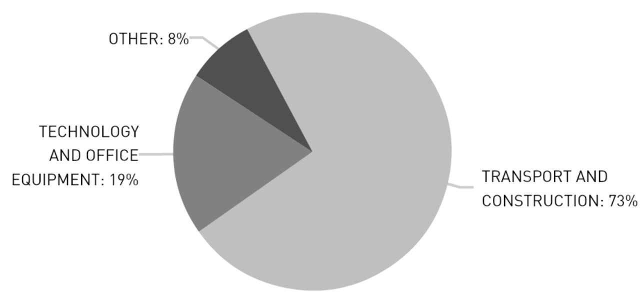
Commercial mortgage loans
The commercial mortgage loans portfolio includes residential mortgage loans secured by five and more unit dwellings, smaller retail multi-unit dwellings, commercial properties, office buildings, shopping centers and other mortgage loans. As at October 31, 2017, this portfolio totalled $5.2 billion, an increase of $0.5 billion or 11% from fiscal 2016. This growth is aligned with the Bank's strategy to increase the proportion of business services loans and to focus on serving clientele in specific markets where it can efficiently compete. The average loan carrying value was $3.0 million as at October 31, 2017 and October 31, 2016.

COMMERCIAL MORTGAGE LOANS BY PROPERTY TYPE
As at October 31, 2017 (as a percentage)



Commercial loans
As at October 31, 2017, the portfolio of commercial loans, including bankers' acceptances and finance lease receivables, amounted to $7.0 billion, up $1.7 billion or 31% from $5.4 billion as at October 31, 2016. The Bank continued to develop its commercial activities and generated significant growth in equipment financing loans through LBC Capital Inc. as well as mid-market lending across Canada and the U.S. with the acquisition of NCF. The acquisition of CIT Canada in 2016 and the grouping of the equipment financing activities under LBC Capital Inc. contributed substantially to strengthening the Bank's presence in these markets. The following graph presents information about the $1.2 billion equipment financing portfolio.

FINANCE LEASE RECEIVABLES BY LINE OF BUSINESS
As at October 31, 2017 (as a percentage)



The commercial loan portfolio covers a wide range of industries, with no specific industry accounting for more than 3% (unchanged from 2016) of total loans and acceptances, demonstrating good diversification and sound risk management.

See Table 23 for additional information.

TABLE 23

DISTRIBUTION OF LOANS BY CREDIT PORTFOLIO AND INDUSTRY

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

2017

	GROSS AMOUNT OF LOANS	GROSS AMOUNT OF IMPAIRED LOANS	INDIVIDUAL ALLOWANCES	COLLECTIVE ALLOWANCES AGAINST IMPAIRED LOANS	NET IMPAIRED LOANS [1]	COLLECTIVE ALLOWANCES AGAINST OTHER LOANS	PROVISION FOR CREDIT LOSSES [2]
Personal	$ 6,038,692	$ 20,874	$ —	$ 11,462	$ 9,412	$ 16,687	$ 24,823
Residential mortgage	18,486,449	30,326	—	2,703	27,623	8,078	3,027
Commercial mortgage	5,161,470	23,503	3,437	451	19,615	14,944	(1,499)
	29,686,611	74,703	3,437	14,616	56,650	39,709	26,351
Commercial and other [3]							
Inventory financing	1,228,540	8,509	471	—	8,038	497	1,061
Real estate, renting and lease	1,156,608	294	—	731	(437)	3,785	2,223
Public utilities	884,057	—	—	—	—	284	107
Other services and government	591,836	8,647	6,122	864	1,661	4,126	5,871
Wholesale and retail	577,058	18,968	8,501	—	10,467	2,325	(200)
Financial services	480,693	1,392	1,244	—	148	1,292	(940)
Construction	474,337	2,175	168	1,290	717	1,412	1,026
Agriculture	473,697	104	—	—	104	1,155	36
Manufacturing	389,580	1,032	177	294	561	936	(1,028)
Transportation and communication	291,600	—	—	—	—	301	(1,105)
Transformation and natural resources	212,455	340	294	1	45	324	395
Other	249,085	35,727	4,387	32	31,308	411	3,203
	7,009,546	77,188	21,364	3,212	52,612	16,848	10,649
Total	$ 36,696,157	$ 151,891	$ 24,801	$ 17,828	$ 109,262	$ 56,557	$ 37,000
As a % of loans and acceptances		0.41%			0.30%		

2016

	GROSS AMOUNT OF LOANS	GROSS AMOUNT OF IMPAIRED LOANS [4]	INDIVIDUAL ALLOW-ANCES [4]	COLLECTIVE ALLOWANCES AGAINST IMPAIRED LOANS	NET IMPAIRED LOANS [1]	COLLECTIVE ALLOWANCES AGAINST OTHER LOANS	PROVISION FOR CREDIT LOSSES [2]
Personal	$ 6,613,392	$ 18,018	$ —	$ 10,156	$ 7,862	$ 23,695	$ 23,903
Residential mortgage	16,749,387	31,549	—	3,355	28,194	7,663	3,723
Commercial mortgage	4,658,734	37,894	7,437	507	29,950	16,218	203
	28,021,513	87,461	7,437	14,018	66,006	47,576	27,829
Commercial and other [3]							
Real estate, renting and lease	1,058,288	9,662	352	546	8,764	3,071	1,598
Public utilities	790,692	1	—	—	1	184	(1,985)
Other services and government	626,557	7,166	1,510	194	5,462	4,327	(392)
Wholesale and retail	590,255	4,583	4,533	16	34	7,007	10,916
Financial services	422,090	1,543	2,210	—	(667)	1,494	1,250
Construction	423,750	4,293	1,091	384	2,818	1,695	491
Agriculture	367,260	5,458	82	299	5,077	998	657
Manufacturing	339,726	2,321	1,993	411	(83)	799	(715)
Transportation and communication	372,327	9,326	—	—	9,326	1,428	592
Transformation and natural resources	153,959	51	—	1	50	269	(7,303)
Other	212,306	390	—	108	282	976	412
	5,357,210	44,794	11,771	1,959	31,064	22,248	5,521
Total	$ 33,378,723	$ 132,255	$ 19,208	$ 15,977	$ 97,070	$ 69,824	$ 33,350
As a % of loans and acceptances		0.40%			0.29%		

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

(2) Recorded in the consolidated statement of income.

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

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

Impaired loans

Gross impaired loans amounted to $151.9 million in 2017, a 15% increase compared with $132.3 million in 2016. This increase is in line with the strong growth in the Bank's loan portfolio, including the impact of the recent acquisitions.

Impaired commercial mortgages amounted to $23.5 million in 2017, compared with $37.9 million in 2016. The net decrease resulted from the settlements and improvements on certain loans during the year. Impaired commercial loans amounted to $77.2 million in 2017, compared with $44.8 million in 2016. The increase, essentially during the fourth quarter, was related to two distinct loans totalling $31.9 million, as well as a $8.5 million impact from the acquisition of NCF. Regardless, the level of impaired loans remains at a very low level.

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

Individual allowances increased by $5.6 million since October 31, 2016 to $24.8 million as at October 31, 2017, in-line with the increase in impaired commercial loans mentioned above. Over the same period, collective allowances against impaired loans increased by $1.9 million to $17.8 million as at October 31, 2017, mainly for impaired personal loans. Other collective allowances decreased by $13.3 million, driven by changes in the business portfolios, as well as the review of allowance models. Collective allowances reflect management's estimate of losses incurred due to the deterioration in credit quality in loans which are not individually significant and for loans that have been assessed for impairment individually and found not to be impaired. See Note 6 to the annual consolidated financial statements for additional information.

Geographic distribution of loans

The Bank operates across Canada. In Quebec, it offers most of its lending products mainly through its branch network and commercial banking centers. Throughout Canada, the Bank extends its real estate and commercial operations through other commercial banking centers in British Columbia, Alberta, Ontario and Nova Scotia. Following the acquisition of CIT Canada at the end of 2016, the Bank's equipment financing suite of products is now distributed through a new vendor-dealer network throughout Canada. Furthermore, with the recent acquisition of NCF, the Bank is providing specialized inventory financing solutions to clients throughout the U.S. and Canada. The Bank also offers its retail products to a wide network of independent brokers and advisors across Canada. As at October 31, 2017, the geographic distribution of total loans was as follows: 6% in British Columbia and Territories, 7% in Alberta and the Prairies, 33% in Ontario, 49% in Quebec, 2% in the Atlantic provinces and 3% in the United States.

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

TABLE 24

GEOGRAPHIC DISTRIBUTION OF LOANS BY CREDIT PORTFOLIO

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

						2017
	PERSONAL	**RESIDENTIAL MORTGAGE**	**COMMERCIAL MORTGAGE**	**COMMERCIAL AND OTHER [1]**	**GROSS AMOUNT OF LOANS**	**GROSS AMOUNT OF LOANS (IN %)**
British Columbia and Territories	**$ 657,018**	**$ 1,112,994**	**$ 290,168**	**$ 232,879**	**$ 2,293,059**	**6.2%**
Alberta and Prairies	**580,111**	**1,167,311**	**270,742**	**437,952**	**2,456,116**	**6.7%**
Ontario	**2,062,513**	**6,576,591**	**1,685,049**	**1,906,509**	**12,230,662**	**33.3%**
Quebec	**2,524,854**	**9,323,423**	**2,882,577**	**3,087,470**	**17,818,324**	**48.6%**
Atlantic provinces	**212,624**	**306,130**	**32,934**	**201,938**	**753,626**	**2.1%**
United States	**1,572**	**—**	**—**	**1,142,798**	**1,144,370**	**3.1%**
	$ 6,038,692	**$ 18,486,449**	**$ 5,161,470**	**$ 7,009,546**	**$ 36,696,157**	**100.0%**

						2016
	PERSONAL	RESIDENTIAL MORTGAGE	COMMERCIAL MORTGAGE	COMMERCIAL AND OTHER [1]	GROSS AMOUNT OF LOANS	GROSS AMOUNT OF LOANS (IN %)
British Columbia and Territories	$ 710,451	$ 822,989	$ 133,857	$ 144,389	$ 1,811,686	5.4%
Alberta and Prairies	654,427	996,714	270,737	316,897	2,238,775	6.7%
Ontario	2,315,162	5,356,099	1,634,055	1,683,028	10,988,344	32.9%
Quebec	2,676,274	9,332,889	2,599,463	3,079,788	17,688,414	53.0%
Atlantic provinces	257,078	240,697	20,621	133,108	651,504	2.0%
	$ 6,613,392	$ 16,749,387	$ 4,658,734	$ 5,357,210	$ 33,378,723	100.0%

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

TABLE 25

GEOGRAPHIC DISTRIBUTION OF IMPAIRED LOANS BY CREDIT PORTFOLIO

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

2017	PERSONAL	RESIDENTIAL MORTGAGE	COMMERCIAL MORTGAGE	COMMERCIAL AND OTHER [1]	GROSS AMOUNT OF IMPAIRED LOANS	GROSS AMOUNT OF IMPAIRED LOANS (IN %)
British Columbia and Territories	$ —	$ 1,295	$ —	$ 3	$ 1,298	0.9%
Alberta and Prairies	119	4,373	—	271	4,763	3.1%
Ontario	17,020	7,634	16,619	16,909	58,182	38.3%
Quebec	3,732	15,742	6,884	51,579	77,937	51.3%
Atlantic provinces	2	1,282	—	—	1,284	0.9%
United States	—	—	—	8,425	8,425	5.5%
	$ 20,874	$ 30,326	$ 23,503	$ 77,188	$ 151,891	100.0%

2016	PERSONAL	RESIDENTIAL MORTGAGE	COMMERCIAL MORTGAGE [2]	COMMERCIAL AND OTHER [1][2]	GROSS AMOUNT OF IMPAIRED LOANS	GROSS AMOUNT OF IMPAIRED LOANS (IN %)
British Columbia and Territories	$ 69	$ 4,593	$ —	$ 3	$ 4,665	3.5%
Alberta and Prairies	265	—	—	—	265	0.2%
Ontario	14,437	2,462	15,274	7,329	39,502	29.9%
Quebec	3,245	19,396	22,620	36,896	82,157	62.1%
Atlantic provinces	2	5,098	—	566	5,666	4.3%
	$ 18,018	$ 31,549	$ 37,894	$ 44,794	$ 132,255	100.0%

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

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

Insurance and guarantees held in respect of loan portfolios

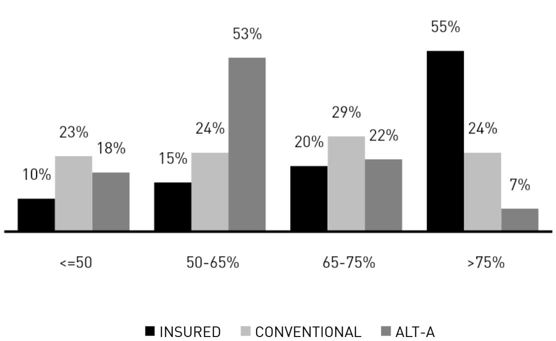
A significant proportion of the Bank's loan portfolio is insured by CMHC and by Genworth Canada (Genworth), or secured by assets pledged as collateral by borrowers or, for finance lease receivables, directly owned by the Bank.

CMHC and Genworth offer mortgage loan insurance programs which reduce the overall credit risk associated to the residential mortgage loan portfolio. The Bank also insures pools of mortgage loans through a specific CMHC insurance program. Moreover, by maintaining insured residential mortgage loans, the Bank retains its capacity to engage in securitization operations to finance its activities at optimal cost and manage its cash resources. By the end of fiscal 2017, 47% of residential mortgage loans secured by one- to four-unit dwellings were insured, compared with 53% as at October 31, 2016. The Bank also holds guarantees in respect of the real estate property for the other conventional mortgage loans, including HELOCs. In accordance with legal requirements, the non-amortizing HELOC component of a residential mortgage is limited to a maximum authorized loan-to-value ratio of 65%. Additional mortgage credit (beyond the loan-to-value ratio limit of 65% for HELOCs) can be extended to a borrower. However, the loan portion over the 65% loan-to-value ratio threshold must be amortizing. The total loan value of the Bank's conventional mortgage loans never exceeds 80% of the initially estimated value of the property, in accordance with legal requirements.

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

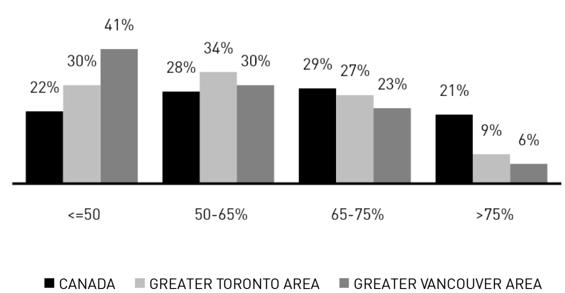
LOAN-TO-VALUE DISTRIBUTION

As at October 31, 2017



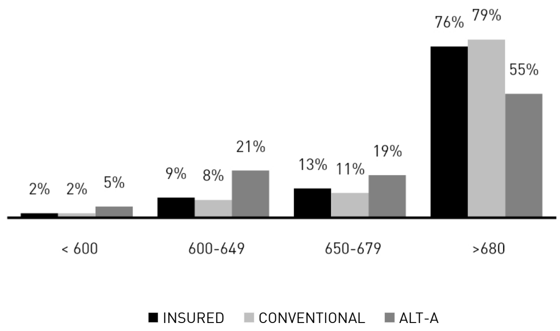
LOAN-TO-VALUE DISTRIBUTION (UNINSURED) [1]

As at October 31, 2017

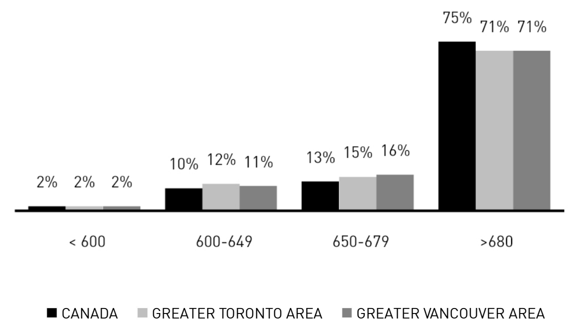


(1) Uninsured includes conventional and Alt-A

BEACON DISTRIBUTION
As at October 31, 2017



GEOGRAPHIC BEACON DISTRIBUTION (UNINSURED) (1)
As at October 31, 2017



(1) Uninsured includes conventional and Alt-A

As at October 31, 2017, the estimated average loan-to-value ratio was 66% for insured residential mortgage loans and 59% for uninsured residential mortgage loans, including the authorized limit for related HELOCs.

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

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

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

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

Loan underwriting for HELOCs allows for the assessment of client credit risk. In addition, real estate assets and other assets collateralize these loans. Finally, 7% of the Bank's personal loan portfolio consists of student loans and loans granted under the Immigrant Investor Program, which are guaranteed by the federal or provincial government.

Other guarantees held

When entering into activities such as reverse repurchase agreements and derivative transactions, the Bank requires counterparties to pledge collateral that will protect the Bank from losses in the event of the counterparty's default. Collateral transactions are conducted under terms that are usual and customary in standard trading activities. The following are examples of general terms and conditions on collateral assets that the Bank may sell, pledge or repledge:

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

As at October 31, 2017, the approximate market value of collateral pledged to the Bank in connection with assets purchased under reverse repurchase agreements was $4.2 billion ($2.9 billion as at October 31, 2016).

MARKET RISK MANAGEMENT

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

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

Foreign exchange risk is the losses that the Bank may incur subsequent to adverse fluctuations in exchange rates. Assets and liabilities that are denominated in foreign currencies have foreign exchange risk.

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 this impact. When the Canadian dollar fluctuates against the U.S. dollar, 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 RWA dominated in U.S. dollars and capital deductions will be 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 and through trading operations.

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

Policies and standards

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

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

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

Market risk assessment and management

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

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

Limits on notional amount

The Bank sets limits that are consistent with its business plan and its risk appetite for market risk. In setting limits, the Bank takes into account market volatility, market liquidity, organizational experience and business strategies. Limits are set at the aggregate Bank level and then are broken down by a "cascade" process across the different lines of business and at the portfolio level and are monitored on a daily basis.

Value at Risk

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

Stress testing and other sensitivity measures

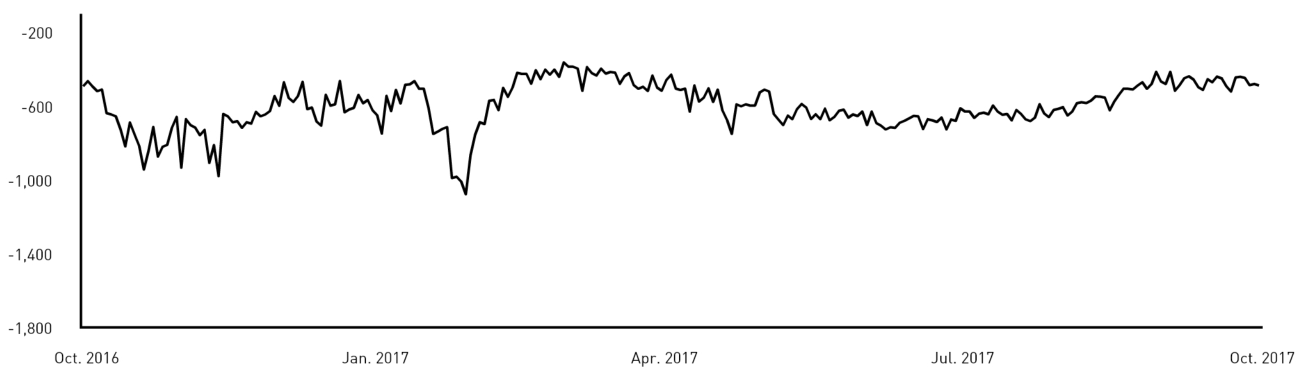
Parallel to VaR calculations, the impact of stress tests on profits and losses is assessed for the trading and investment portfolios and the ensuing results are used to assess the impact of exceptional but plausible market situations. Stress tests constitute a complementary risk measure to VaR and strive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

Trading activities

Trading activities are aligned with the needs of the Bank and its customers. The market risk associated with trading activities ensues from activities for which the Bank acts as the principal or agent for its customers. The graph below presents the daily total VaR of the trading portfolio for the 2017 fiscal year.

DAILY TRADING VaR

For the year ended October 31, 2017 (in thousands of Canadian dollars)



Asset and liability management activities

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

Structural risk management requires monitoring of four distinct portfolio groups:

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

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

Structural risk is globally managed by the Bank's Corporate Treasury and monitored by the Corporate Risk Committee and Executive Committee in accordance with the Treasury and Capital Market Risks Policy, which is approved by the Risk Management Committee of the Board. This policy defines limits relative to the measurement of the economic value of shareholders' equity and net interest income risks.

Risk limits are based on measures calculated by simulating the impact of immediate and sustained parallel movements of 100 basis points in rates for all maturities. Net interest income risk measures the negative impact on net interest income from interest rate movements over the next 12 months. Economic value of shareholders' equity risk measures the net negative impact on the present value of balance sheet and off-balance sheet assets and liabilities.

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

To ensure sound management of structural risk, a repricing gap report is produced weekly. This report is then used as the basis for the simulation analysis of the impact of interest rate variation on net interest income and economic value of common shareholders' equity. One of the simulation exercises consists of subjecting the Bank's balance sheet to a sudden parallel and sustained 1% increase and decrease in interest rates. As at October 31, 2017, for all portfolios, a 1% increase in interest rate would have triggered an increase of approximately $21.1 million in net interest income before taxes over the next 12 months and a $49.3 million negative impact on the economic value of common shareholders' equity. As shown in Table 26, sensitivity to sudden changes in interest rates increased slightly year-over-year, reflecting the Bank's effort to benefit from fluctuations in interest rates while maintaining the risk within approved limits.

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

The Bank's interest rate gap position as at October 31, 2017 is presented in Note 24 to the annual consolidated financial statements.

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

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

TABLE 26

SENSITIVITY ANALYSIS OF THE STRUCTURAL INTEREST RATE RISK

As at October 31 (in thousands of Canadian dollars)

	2017		2016	
	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	**$ 21,149**	**$ (49,266)**	$ 13,040	$ (51,837)
Decrease of 100 basis points	**$ (22,897)**	**$ 67,656**	$ (11,393)	$ 42,724

(1) Over the next 12 months.

(2) Net of income taxes.

Foreign exchange risk

Foreign exchange risk is monitored using notional limits and other sensitivity analysis for trading operations as described above. For non-trading activities, as at October 31, 2017, assets and liabilities carried in Canadian entities and denominated in U.S. dollars amounted to $682.2 million ($624.4 million as at October 31, 2016) and $669.4 million ($569.1 million as at October 31, 2016) respectively. In addition, U.S. dollar exposure related to derivatives is limited as these contracts are bought and sold mainly to meet specific customer needs. As at October 31, 2017, with regard to these positions, the effect of a sudden 5% change in foreign exchange rates would have no significant impact on net income and shareholders' equity.

Assets and deposit liabilities in other foreign currencies were essentially denominated in British pounds and Euros and amounted to $18.8 million ($31.4 million as at October 31, 2016) and $14.4 million ($15.5 million as at October 31, 2016) respectively. Currencies other than U.S. dollars are generally bought and sold solely to meet specific customer needs. As a result, the Bank has very limited exposure to these currencies.

The Bank is also exposed to foreign exchange risk through the translation of its investment in its U.S. based foreign operation. As previously noted, the Bank hedges this exposure in order to minimize risks.

Equity risk

The Bank's equity positions consist primarily of Canadian and U.S. publicly traded securities and, as a result, portfolio sensitivity generally correlates to the Canadian and U.S. stock markets performance. A portion of the Bank's equity positions is used to hedge index-linked deposits. In addition, the Bank has an equity exposure through its pension plans. As at October 31, 2017, a fluctuation in the stock markets of 10% would have had a $17.7 million impact on the Bank's shareholders' equity ($15.5 million as at October 31, 2016).

LIQUIDITY AND FUNDING RISK MANAGEMENT

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

The Bank's overall liquidity risk is managed by Corporate Treasury with oversight by the Risk Management department and by the Corporate Risk 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 cash 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. In order to maintain sound diversification, funding sources are subject to concentration limits developed and monitored by its Risk Management group. 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 with regard to liquidity risk.

The stability of the funding sources is also taken into consideration when measuring liquidity requirement 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 on a daily basis by the Risk Management department and is overseen by the Bank's Corporate Risk Committee and the Risk Committee of the Board of Directors.

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

The Bank also conducts additional liquidity stress-test scenarios on a monthly basis. Outflows on NMD's and redeemable term deposits are stressed in different scenarios and different time horizons to provide management with various views on the Bank's liquidity. Results are reported to the Liquidity Committee and ALM Committee on a monthly basis.

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 85% 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.

In 2017, Treasury and Risk Management have proceeded with the implementation of a new liquidity management and ALM system to better support these strategic oversight functions.

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, 2017.

Regulatory developments concerning liquidity

The aforementioned Basel III liquidity framework also outlines the Net Stable Funding Ratio (NSFR) as a minimum regulatory standard with an effective date of January 2018. The NSFR measures the proportion of long-term assets which are funded by long-term, stable funding. The Bank monitors these developments as they unfold. In March 2017, OSFI provided notification to Canadian deposit-taking institutions that it intends to extend the domestic implementation timeline of the NSFR to January 2019.

Detailed information on liquid assets

The Bank's liquid assets consist of cash and non-interest bearing deposits with other banks, interest-bearing deposits with other banks, securities, as well as securities purchased under reverse repurchase agreements. They are mainly composed of low-credit risk direct investments in or transactions secured by marketable securities issued or guaranteed by the Canadian government, provinces or municipal corporations. As at October 31, 2017, these assets totalled $9.0 billion, an increase of $0.3 billion compared to the level held on October 31, 2016.

The level of liquidity reflects deposit gathering from multiple sources and funding from securitization activities used to finance the Bank's expected loan growth. Overall, the Bank continues to prudently manage the level of liquid assets and to hold sufficient cash resources from various sources in order to meet its current and future financial obligations, under both normal and stressed conditions.

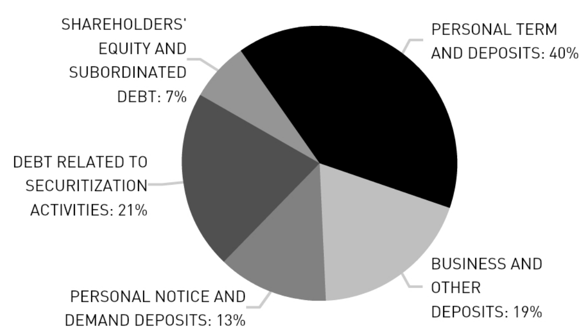
These liquid assets provide the Bank with flexibility to manage its loan and deposit portfolio maturities and commitments, and meet other current operating needs. Management of the liquid assets, both in terms of optimizing levels and mix, contributes significantly to the Bank's results.

Funding

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

The Bank can also access the institutional deposit market as an alternative source of funding in order to optimize the overall funding sources. Furthermore, the Bank uses securitization of residential mortgage loans through the CMHC programs and, to a lesser extent, securitization of residential mortgage, personal loans and finance lease receivables through structured entities. These liquidity cost effective sources provide added flexibility to meet specific increases in funding needs.

FUNDING SOURCES
As at October 31, 2017 (as a percentage)



Personal deposits

Personal deposits include notice, demand and term deposits sourced through the Bank's retail branch network and through independent brokers and advisors. A significant proportion of these deposits are insured by the Canada Deposit Insurance Corporation, up to $100,000 per client, per regulated deposit-taking financial institution, which contributes to their stability.

The majority of deposits sourced through independent brokers and advisors are drawn from brokers affiliated to several of the major Canadian banks.

Total personal deposits increased to $21.2 billion as at October 31, 2017, compared with $21.0 billion as at October 31, 2016 as shown in Table 27. This reflected the Bank's increased usage of term deposits sourced through independent brokers and advisors in response to strong loan growth during the year, offset by lower branch sourced deposits, as shown in Table 27. In 2017, the Bank merged 41 branches to optimize its Retail Services activities. Management monitors the impact of these actions and, so far, the impact on deposit balances are in line with expectations.

Business, banks and other deposits

Deposits from businesses, banks and other increased by $1.2 billion since October 31, 2016 to $7.7 billion as at October 31, 2017. These deposits contribute to the diversification of the Bank's funding sources and to the active management of its liquidity levels. They are sourced from an institutional clientele and the Bank's network of account managers serving commercial clients.

TABLE 27

DEPOSITS

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

	2017		2016	
Personal				
Notice and demand				
Branch network	$ 2,583,101	8.9%	$ 2,630,475	9.6%
Independent brokers and advisors	2,443,505	8.5	2,647,770	9.6
	5,026,606	17.4	5,278,245	19.2
Term				
Branch network	4,792,799	16.6	5,112,570	18.5
Independent brokers and advisors	11,379,577	39.3	10,610,763	38.5
	16,172,376	55.9	15,723,333	57.0
	21,198,982	73.3	21,001,578	76.2
Business, banks and other				
Notice and demand	2,199,952	7.6	2,402,316	8.7
Term	5,531,426	19.1	4,169,451	15.1
	7,731,378	26.7	6,571,767	23.8
Deposits	$ 28,930,360	100.0%	$ 27,573,345	100.0%

Credit ratings

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

The Bank monitors weekly the impact of a hypothetical downgrade of its credit rating on the collateral requirements. As at October 31, 2017, additional collateral that would be required in the event of a one to three notch rating downgrade was not significant.

On May 12, 2017, S&P's confirmed the Bank's ratings, and revised its credit rating outlook to negative from stable.

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

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

TABLE 28

CREDIT RATINGS [1]

As at November 29, 2017

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

(1) A S&P rating outlook assesses the potential direction of a long-term credit rating over the intermediate term (typically six months to two years). In determining a rating outlook, consideration is given to any changes in the economic and/or fundamental business conditions. An outlook is not necessarily a precursor of a rating change or future action.
The S&P rating outlooks have the following meanings:
– "Positive" means that a rating may be raised
– "Negative" means that a rating may be lowered
– "Stable" means that a rating is not likely to change
– "Developing" means a rating may be raised or lowered
Each DBRS rating category is appended with one of three rating trends —"Positive," "Stable," "Negative"— in addition to "Under Review." The rating trend helps to give the investor an understanding of DBRS's opinion regarding the outlook for the rating in question. However, the investor must not assume that a positive or negative trend necessarily indicates that a rating change is imminent.

Contractual obligations

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

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

Table 29 summarizes the remaining contractual maturity for the Bank's significant financial liabilities and other contractual obligations as at October 31, 2017 and 2016. Note 29 to the annual consolidated financial statements provides further information on this subject.

The Bank is also exposed to liquidity risk when it contracts credit commitments. As at October 31, 2017, these commitments amounted to approximately $4.4 billion ($4.3 billion as at October 31, 2016), excluding credit facilities unconditionally revocable at the Bank's option.

TABLE 29

CONTRACTUAL OBLIGATIONS [1]

As at October 31 (in thousands of Canadian dollars)

2017

	DEMAND AND NOTICE	TERM: UNDER 1 YEAR	1 TO 3 YEARS	3 TO 5 YEARS	OVER 5 YEARS	TOTAL
Financial liabilities						
Deposits						
Personal	$ 5,026,606	$ 7,654,161	$ 6,626,628	$ 1,802,599	$ 88,988	$ 21,198,982
Business, banks and other	2,199,952	3,288,287	1,579,623	660,771	2,745	7,731,378
Obligations related to securities sold short	—	2,165,097	—	—	—	2,165,097
Obligations related to securities sold under repurchase agreements	—	2,678,629	—	—	—	2,678,629
Debt related to securitization activities	—	1,519,688	3,436,269	2,780,775	436,394	8,173,126
Subordinated debt	—	—		350,000		350,000
Derivatives[2]	—	16,889	18,430	8,292	5,913	49,524
	7,226,558	17,322,751	11,660,950	5,602,437	534,040	42,346,736
Other contractual obligations						
Commitments under leases, technology services and other contracts	—	134,714	138,376	83,411	198,397	554,898
Total	$ 7,226,558	$ 17,457,465	$ 11,799,326	$ 5,685,848	$ 732,437	$ 42,901,634

2016

	DEMAND AND NOTICE	TERM: UNDER 1 YEAR	1 TO 3 YEARS	3 TO 5 YEARS	OVER 5 YEARS	TOTAL
Financial liabilities						
Deposits						
Personal	$ 5,278,245	$ 5,859,154	$ 7,874,899	$ 1,873,645	$ 115,635	$ 21,001,578
Business, banks and other	2,402,316	2,109,321	1,239,707	816,112	4,311	6,571,767
Obligations related to securities sold short	—	1,707,293	—	—	—	1,707,293
Obligations related to securities sold under repurchase agreements	—	2,525,441	—	—	—	2,525,441
Debt related to securitization activities	—	1,377,678	2,514,990	2,959,866	335,672	7,188,206
Subordinated debt	—	200,000	—	—	—	200,000
Derivatives[2]	—	4,031	2,450	1,154	3,078	10,713
	7,680,561	13,782,918	11,632,046	5,650,777	458,696	39,204,998
Other contractual obligations						
Commitments under leases, technology services and other contracts	—	130,543	178,886	92,298	35,026	436,753
Total	$ 7,680,561	$ 13,913,461	$ 11,810,932	$ 5,743,075	$ 493,722	$ 39,641,751

(1) Comparative figures have been reclassified to conform to the current year presentation.
(2) The obligations related to derivatives represent solely the theoretical payments related to derivatives designated as cash flow hedges and used for interest rate risk management whose net fair values were negative as at October 31. The notional amounts associated with the derivatives are summarized by maturity in Note 25 to the annual consolidated financial statements.

OPERATIONAL RISK MANAGEMENT

Operational risk is defined as the risk of harm from people, inadequate or failed internal processes and systems, or from external events including legal risk but excluding strategic and reputation risk. Operational risk is inherent in the normal course of business and in all of the Bank's activities, including services it receives from key suppliers. Failure to effectively manage operational risk may result in financial losses, reputational damages and regulatory interventions, which could have strategic impacts. The extent of operational risk that the Bank is willing to assume is limited by the Board of Directors approved Risk Appetite Framework, Bank policies and the Code of Conduct.

The Operational Risk Management Policy, reviewed annually by the Risk Management Committee of the Board describes the operational risk management program based on the "three lines of defence" model and specifies the roles and responsibilities of the various stakeholders. As the first line of defence, the business units own the risks generated by their day-to-day activities and are accountable for their effective management. The Operational Risk Management department, 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. Finally, the Internal Audit department, as the third line of defence, examines the approach and effectiveness of the operational risk management program.

The operational risk management program includes the following:

- *Risk Appetite Framework and Policies* establish boundaries of permitted risk taking and establish internal control requirements.
- *Risk and control assessment* is performed by the various business units and aims to identify and assess the key operational risks related to their activities and their key processes. This process also generates a general overview of operational risk across the organization.
- *Risk and control assessment related to change management* is performed to ensure that the key risks related to important initiatives are identified, assessed and are effectively mitigated.
- *Information gathering and analysis on operational 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 analysis of major events to prevent their re-occurrence.
- *Key risk indicators* provide insight into risk trends and warn when risk levels exceed tolerance.
- *Scenario Analysis* provides insight to the potential impact of low probability but severe impact risks 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 in order 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.
- *A corporate insurance program* protects against unexpected material losses and is used to satisfy requirements under the law, regulations or contractual agreements.
- *Accountability and communication on operational risks* informs the various governance committees on operational risk across the Bank, significant losses, measures taken with respect to these risks and emerging risks.

REGULATORY COMPLIANCE RISK MANAGEMENT

Regulatory compliance risk refers to the risk of non-compliance with applicable laws, regulatory authorities' guidances, public commitments and voluntary codes. The Regulatory Risk Management Policy implements the Bank's Regulatory Risk Management Framework, which includes the following elements:

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

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

The Regulatory Risk Management Committee is responsible to:

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

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

Regulatory risk management reports are submitted annually to the Corporate Risk Committee and the Risk Management Committee of the Board. The effectiveness of the Regulatory Risk Management Framework and the AML Program is assessed annually.

INSURANCE RISK MANAGEMENT

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

ENVIRONMENTAL RISK MANAGEMENT

Environmental risk is the risk that financial loss may be incurred when restoring the assets of the Bank or those seized from clients to a sound environmental state, or as a result of claims from third parties in relation to the environmental impact of such assets. Environmental risk related to financing activities is managed within the loan approval process, while risks related to the Bank's assets, although limited, are mainly managed by the Real Estate department.

REPUTATIONAL RISK MANAGEMENT

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

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

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

OTHER RISKS THAT MAY AFFECT FUTURE RESULTS

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

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

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

Processes are in place to protect the Bank's network and operations from cyber incidents and emerging cyber threats. Nonetheless, the Bank is exposed to risks related to cybersecurity and the increasing sophistication of cyber-attacks. Losses related to these evolving risks are mainly related to potential reputational damage, the inappropriate use of confidential information, as well as business operation disruption. Furthermore, such attacks may result in negative consequences, including remediation costs, loss of revenue, additional regulatory scrutiny, litigation and reputational damage.

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

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

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 judgement in order to make particularly significant estimates that, by their very nature, involve uncertainties. Changes in these estimates could materially affect the Bank's consolidated financial statements. 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 are well controlled. Refer to the sections Critical Accounting Policies and Estimates and Future Changes to Accounting Policies for further details.

Legal and regulatory developments
Legislative and regulatory developments could affect the Bank by impacting its product and service offering and modifying the financial industry's competitiveness. Some major national and international regulatory changes that were recently introduced to strengthen the capital and liquidity requirements may affect the Bank's activities. New regulations applicable to financial institutions have increased significantly and are evolving at a rapid pace. In October 2017, the OSFI published the final version of Guideline B-20 - Residential Mortgage Underwriting Practices and Procedures, which comes into effect on January 1, 2018. The changes to B-20 reinforce OSFI's expectation that federally regulated mortgage lenders remain vigilant in their mortgage underwriting practices. Current regulations that are already in place are also impacted and are subject to sudden changes to which the Bank has to comply. This requires considerable mobilization of technical, human and financial resources in a very short span of time. Consequently, the Bank can be burdened with their rapid implementation and the costs that are involved.

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 40% of the Bank's employees are represented by a union and are covered by a collective bargaining agreement which expires on December 31, 2017. The majority of these employees work in Laurentian Bank branches in the Province of Quebec, and certain of them are employed in Corporate Offices in Montreal. Renegotiating the collective bargaining agreement expiring on December 31, 2017 could result in higher labour costs which could have a material effect on the Bank's business, results of operations and financial condition. In addition, should the Bank be unable to reach an acceptable negotiated collective bargaining agreement on a timely basis, a strike by affected employees, lock-out or other work disruption may occur which could adversely affect service to Retail Services clients and operations and, in turn, financial performance.

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

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

Technological development
In recent years, non-financial institutions began offering banking products and services in competition with traditional banks through electronic and Internet-based financial solutions. This may require additional investments in order to remain competitive. The capacity of the Bank to manage these risks, as well as other rapid technological development 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 capacity to provide its products and services to its various clients, and ensure the continuity of its ongoing operations.

Model risk
The Bank uses different models in the ongoing management of its risk that can lead to model risk. Model risk is the potential loss due to the risk of a model not performing or capturing risk as expected. It also arises from the inappropriate use of a model. The Bank validates its models on a regular basis to ensure that they incorporate current trends. The Model Risk Management Policy establishes a formal framework to identify, assess, manage and control the risks inherent to the usage of models by taking materiality into consideration.

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

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Bank's disclosure controls and procedures (DC&P) are designed to provide reasonable assurance that all relevant information has been collected and submitted to the Bank's senior management which ensures adequate disclosure of such information. Internal Control over Financial Reporting (ICFR) is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with 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 National Instrument 52-109 (NI 52-109) regarding the Certification of Disclosure in Issuers' Annual and Interim Filings. They are assisted in this task by the Disclosure Committee, which is comprised of members of the Bank's senior management.

As at October 31, 2017, the President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer caused to be evaluated under their supervision the effectiveness of DC&P, in accordance with regulation NI 52-109 and subject to the Scope Limitation section below, and based on that evaluation, concluded that they were effective and adequately designed at that date.

Also as at October 31, 2017, 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 NI 52-109 and subject to the Scope Limitation section below and based on that evaluation, concluded that it was effective at that date and adequately designed.

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

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

Scope Limitation

In accordance with NI 52-109, which allows an issuer the exclusion of ICFR and DC&P evaluation of businesses acquired not more than 365 days before its fiscal year-end, management has excluded the controls, policies and procedures of NCF. NCF was acquired on August 11, 2017 and accounts for approximately 3% of total assets, and 2% of total liabilities, total revenue and total net income as at and for the year ended October 31, 2017.

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

Changes to Internal Control over Financial Reporting

During the year ended October 31, 2017, apart from the acquisition of NCF, there have been no changes to internal control over financial reporting that affected materially, or are reasonably likely to materially affect, internal control over financial reporting.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

IMPAIRMENT OF FINANCIAL ASSETS

Allowances for credit losses

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

Changes in circumstances may cause future assessments of credit risk to be materially different from current assessments and may consequently entail a significant increase or decrease in the provisions for credit losses in the consolidated statement of income for a given fiscal year. Management believes that the allowance for credit losses, as at October 31, 2017, is adequate to absorb estimated credit losses incurred in the lending portfolio . A detailed description of the methods used to determine the allowances and provisions for credit losses can be found in Note 3 to the annual consolidated financial statements, and in the Credit Risk Management section on page 47 of this MD&A.

Impairment of other financial assets

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

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

MEASURING THE FAIR VALUE OF FINANCIAL INSTRUMENTS

The Bank reports a significant portion of its financial instruments, including derivatives, at fair value. The fair value of financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. Changes in the fair value of the Bank's held-for-trading securities and obligations related to assets sold short, as well as derivatives not designated in hedge relationships, are generally recognized in other income. Fair value measurements are categorized into levels within a fair value hierarchy based on the nature of the valuation inputs (Level 1, 2 or 3), as detailed below.

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 they are available (Level 1). This fair value is based on the quoted price within the bid-offer prices that is most representative of fair value in the circumstances. When no quoted prices in active markets are available, fair value is measured using valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. Valuation models where the significant inputs are observable are categorized as Level 2 of the fair value hierarchy, while models for which one or more of the significant inputs are non-observable are categorized as Level 3.

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. Fair value reflects market conditions on a given date and for this reason cannot be representative of future fair values.

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

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

GOODWILL, OTHER INTANGIBLE ASSETS AND OTHER ASSETS

Goodwill

As at October 31, 2017, the balance of goodwill stood at $118.1 million, including the preliminary estimated value of goodwill resulting from the acquisition of NCF, compared with $55.8 million as at October 31, 2016. Goodwill is subject to an impairment test at least annually as described in Note 3 to the annual consolidated financial statements.

For the purpose of impairment testing, goodwill is allocated to the Bank's cash generating units (CGUs), which represent the lowest level within the Bank at which goodwill is monitored for internal management purposes. The test compares the recoverable amount of the CGU to the carrying amount of its net assets. If the recoverable amount is less than carrying value, an impairment loss is charged to income. The impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other non-financial assets of the CGU proportionally based on the carrying amount of each asset.

Management uses a number of significant estimates, including projected net income growth rates, future cash flows, the number of years used in the cash flow model and the discount rate of future cash flows to determine the recoverable amount of the CGU.

Goodwill as at October 31, 2017 has been allocated to the following CGUs: the B2B Bank unit (which supplies banking and financial products to independent financial advisors and non-bank financial institutions across Canada) and the Business Services unit (which encompasses services provided to small and medium-sized enterprises across Canada and in the United States). Before being written off in October 2015, goodwill was also allocated to the Retail Services unit (which encompasses all branch activities and other retail banking activities in Quebec).

B2B Bank unit

As at October 31, 2017, goodwill of $34.9 million was allocated to the B2B Bank unit, unchanged compared with October 31, 2016. The recoverable amount of the B2B Bank business segment was estimated using a value in use calculation that was primarily based on the three-year business plan and projected investments. All forecast cash flows were discounted at an after-tax rate of 10.0%. Management considers that these estimates are reasonable. They reflect management's best estimates but include inherent uncertainties that are not under its control. Management determined that for the impairment testing, the estimated recoverable amount of the B2B Bank unit was in excess of its carrying amount. As a result, no impairment charge was recognized during 2017. If alternative reasonably possible changes in key assumptions were applied, the result of the impairment test would not differ.

Business Services unit

As at October 31, 2017, goodwill of $83.2 million was allocated to the Business Services unit, which increased by $62.3 million compared to October 31, 2016 as a result of the acquisition of NCF and adjustments to the value initially recognized for the goodwill of CIT Canada. The recoverable amount of the Business Services unit was estimated using a value in use calculation that was primarily based on the three-year business plan and projected investments. All forecast cash flows were discounted at an after-tax rate of 10.0%. Management considers that these estimates are reasonable. They reflect management's best estimates but include inherent uncertainties that are not under its control. Management determined that for the impairment testing, the estimated recoverable amount of the Business Services unit was in excess of its carrying amount. As a result, no impairment charge was recognized during 2017. If alternative reasonably possible changes in key assumptions were applied, the result of the impairment test would not differ.

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

Other intangible assets and other assets

Other intangible assets with finite lives are also tested for impairment whenever circumstances indicate that the carrying value may not be fully recoverable. As it conducts this test, management evaluates the future cash flows it expects to realize from these assets. When the net carrying amount exceeds the estimated discounted future net cash flows, intangible assets with finite lives are considered impaired and are written down to their recoverable amount. Similar tests are performed at least annually for IT projects and other programs under development. For software and other intangible assets that do not generate separate cash inflows, the recoverable amount is determined for the CGU to which the corporate asset is allocated. Changes in estimates and assumptions could significantly impact results.

As a part of its transformation plan to optimize Retail Services activities, the Bank announced in September 2017 that it intends to further digitalized services, and will transition the branch model to focus on delivering financial advice while migrating customers to electronic- and web-based platforms by December 2018. This change in business model was identified as an indicator of impairment and the recoverable amount of the assets related to the Retail Services unit was therefore reviewed for impairment. Based on adjusted forecasts, management determined that the estimated recoverable amount of the Retail Services unit was in excess of its carrying amount. As a result, no impairment charge on the underlying assets of this CGU was recognized during 2017. A similar review in 2016 led to impairment charges affecting specific assets, as well as corporate assets allocated to the Retail Services unit. These charges, in 2016, were recorded on the Impairment and restructuring charges line item and were related to software for $16.7 million and to premises and equipment for $5.4 million.

The recoverable amount of the Retail Services CGU was estimated using a value in use calculation that was primarily based on the three-year business plan. In addition, a net income growth rate of 2.1% (2.1% in 2016) was applied to the terminal forecast year and all forecast cash flows were discounted at an after-tax rate of 11.0% (11.0% in 2016). Management considers that these estimates are reasonable. They reflect management's best estimates but include inherent uncertainties that are not under its control.

A 10% decrease in projected net income growth rates would have resulted in a reduction in the estimated recoverable amount of the Retail Services unit of approximately $6.5 million as at October 31, 2017. Also, a 25 basis point increase in the after-tax discount rate would have resulted in a reduction in the estimated recoverable amount of approximately $9.7 million at that same date. If these changes in key assumptions were applied, the result of the impairment test would not differ per management. These sensitivities are indicative only and should be considered with caution, as the effect of the variation in each assumption on the estimated recoverable amount is calculated in isolation without changing any other assumptions. Reductions in the estimated recoverable amount of assets related to the Retail Services unit could result in additional impairment charges in future periods.

Management also periodically reviews the value of the Bank's assets, such as intangible assets, fixed assets and other deferred charges, in order to identify potential losses in value and to validate the related amortization periods. Other impairment charges on intangible assets of $0.7 million and on premises and equipment of nil were recorded in 2017 ($2.1 million and $0.1 million respectively in 2016).

Refer to Notes 10 and 30 to the annual consolidated financial statements for additional information.

PENSION PLANS AND OTHER 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 judgement. Other key assumptions are determined by management requiring significant management judgment. Considering the importance of defined benefit obligations and due to the long-term nature of these plans, changes in assumptions could have a significant impact on the defined benefit plan assets (liabilities), as well as on pension plan and other post-employment benefit expenses. Discount rates stood at 3.54% as at October 31, 2017 and 3.45% as at October 31, 2016. Other key assumptions and related sensitivity analysis as well as further information on the Bank's pension plans and other post-employment benefits are presented in Note 18 to the annual consolidated financial statements.

BUSINESS COMBINATIONS

Acquired assets and liabilities are included in the consolidated balance sheet at fair value on the date of acquisition. Valuation of the identifiable assets and liabilities of the acquiree upon initial recognition, 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 annual consolidated financial statements for additional information on business combinations.

SECURITIZATION AND STRUCTURED ENTITIES

The Bank sells mortgage loans to the Canadian Mortgage Bond program and to third-party investors under the National Housing Act Mortgage-Backed Securities program. As the Bank continues to be exposed to the prepayment, interest rate and/or credit risk associated with the securitized loans, it was determined that they did not qualify for derecognition. Therefore, loans remain on balance sheet and the related cash proceeds are accounted as secured financing.

In the ordinary course of business, the Bank also enters into transactions with structured entities as part of securitization programs of other Canadian banks to obtain alternative sources of funding. Structured entities have a narrow and well-defined objective and are designed so that voting or similar rights are not the dominate factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. 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 effect the returns. The Bank has determined that it controlled two intermediate structured entities used to securitize personal loans and finance lease receivables. These structured entities are consolidated and as a result, the loans and finance lease receivables, as well as the related interest-bearing liabilities issued by the structured entities are recorded on balance sheet. The Bank also sells residential mortgage loans to another intermediate multi-seller structured entity. The Bank determined that it did not control that structured entity. As the Bank continues to be exposed to the prepayment, interest rate and/or credit risk associated with the securitized loans, it was determined that they did not qualify for derecognition. Therefore, loans remain on balance sheet and the related cash proceeds are accounted as secured financing.

Refer to the Off-Balance Sheet Arrangements section of this MD&A and to Notes 7 and 14 to the annual consolidated financial statements for additional information on securitization activities.

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 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 29 to the annual 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 financial instruments, revenue from contracts with customers and leases, which were not yet effective for the year ended October 31, 2017. These future accounting changes will be applicable for the Bank in various annual periods beginning on November 1, 2018 at the earliest.

Additional information on the new standards and amendments to existing standards can be found in Note 4 to the annual consolidated financial statements.

IFRS 9: ***Financial instruments***

In July 2014, the IASB issued the final version of IFRS 9, Financial Instruments (IFRS 9), which will be replacing IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 provides requirements for how an entity should classify and measure financial assets and liabilities, as well as a new expected credit loss impairment model. It also introduces certain modifications to the general hedge accounting model. The final version supersedes all previous versions of IFRS 9 and is effective for annual periods beginning on or after January 1, 2018, which will be November 1, 2018 for the Bank. Earlier application of IFRS 9 is permitted. IFRS 9 is to be applied retrospectively with certain exceptions. IFRS 9 does not require restatement of comparative period financial statements except in limited circumstances related to aspects of hedge accounting.

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

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

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

Project Status
A project team has been set-up to coordinate and execute the adoption of IFRS 9 and include representation from Risk, Finance and Economics. The transition plan includes the following phases:

- Preliminary assessment – Completed in fiscal 2016, this phase served to heighten management's awareness of the key conversion issues. It also established a timeline mapping out the Bank's priorities with regard to analyses and significant issues.
- Detailed analysis – Started in fiscal 2016, continued throughout 2017. The detailed analysis will determine the quantitative, qualitative and technological impact of the new IFRS requirements. The Bank is currently designing the application of the expected-loss (EL) impairment model to its portfolios which includes defining when a significant increase in credit risk of a financial asset has occurred, determining the measurement of both 12-month and lifetime credit losses and determining the set of forward-looking information factors to be incorporated in the methodology and how those factors will be quantified. The design takes into account that interpretations concerning the application of the expected-loss impairment model continue to evolve.
- Implementation – This phase has gradually begun as certain analyses were completed in 2017, mainly with regards to implementing the necessary changes to information systems for the new expected-loss impairment model. Other implementations, such as: determining new accounting policies; revising and adapting internal control over financial reporting; and developing communication plans for stakeholders will begin as analyses are finalized, and are expected to be completed in 2018.

The adoption of IFRS 9 will have a significant impact on the Bank's information systems and processes as it provides significant new requirements for how an entity should classify and measure financial instruments, including impairment, and for hedge relationships. At this point of the implementation process, it is still too early to determine the impact of the new standard on the Bank's financial position, allowance for loan losses or its capital ratios.

Impairment
IFRS 9 introduces a new expected-loss impairment model that must be applied to all financial assets classified at amortized cost or fair value through other comprehensive income, with the most significant impact expected to be on loans and finance lease receivables. The model will also apply to loan commitments and financial guarantees that are not measured at fair value through profit or loss. The new model results in recognizing an allowance for credit losses on financial assets regardless of whether a loss event occurred.

IFRS 9 requires entities to recognize 12-month expected credit losses (ECL) from the date a financial asset is first recognized ("stage 1 loans") and to recognize lifetime expected credit losses if the credit risk on that financial asset has increased significantly since initial recognition ("stage 2 loans"). In assessing whether credit risk has increased significantly, entities are required to compare the risk of a default occurring on the financial instrument as at the reporting date, with the risk of default occurring on the financial instrument as at the date of initial recognition. Currently, under the incurred loss methodology in IAS 39, allowances are provided for non-impaired loans for losses that are incurred but not yet identified. The ECL model under IFRS 9 also requires that lifetime expected credit losses be recognized for financial assets that are assessed as credit impaired ("stage 3 loans").

ECLs will be measured as the probability-weighted present value of expected cash shortfalls over the remaining expected life of the financial instrument and will consider reasonable and supportable information about past events, current conditions and forecasts of future events and economic conditions that impact our credit risk assessment. Probability-weighted multiple scenarios will be considered when determining stage allocation and measuring ECLs.The IFRS 9 expected credit loss calculation will leverage on the Bank's expected loss model parameters which are currently being developed for Basel regulatory capital purposes including probability of default, loss given default and exposure at default parameters with adjustments as required to comply with the IFRS 9 requirements.

Under IFRS 9, ECLs will be recognized in profit or loss before a loss event has occurred, which could result in earlier recognition of credit losses compared to the current model. Also, given ECL will consider multiple scenarios and forecasts, and that assets will be moving between stages, allowances are expected to be more sensitive and volatile compared to the current IAS 39 model.

The Bank has defined the functional requirements for the calculation of ECLs and is currently developing information systems to monitor credit migration under the new ECL model and to measure both 12-month and lifetime credit losses in a manner that incorporates forward-looking information. The Bank will continue to focus on the development and validation of the new impairment models and related processes and controls in the upcoming year and assess the quantitative impact of applying an ECL approach by the end of 2018.

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

Debt instrument financial assets that do not meet the solely payment of principal and interest ("SPPI") test, including those that contain embedded derivatives, will be classified at initial recognition at fair value through profit or loss. Debt instruments that meet the SPPI test will be classified based on the business model under which the assets are held. Debt instruments managed on a "held for trading" or "fair value" basis will be classified as fair value through profit or loss; on a "hold to collect and for sale" basis will be classified as fair value through other comprehensive income and on "hold to collect" basis will be classified as amortized cost. IFRS 9 also provides an irrevocable designation that can be made at initial recognition to measure a debt instrument at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch and if certain OSFI requirements are met.

All equity financial assets must be classified at initial recognition as fair value through profit and loss unless an irrevocable designation is made to classify the instrument as fair value through other comprehensive income, with no recycling of realized and unrealized gains to profit and loss, only dividends will be recognized in the profit and loss.

Derivatives are classified at initial recognition as fair value through profit and loss.

The classification and measurement of financial liabilities remain essentially unchanged from the current IAS 39 requirements, except for the measurement of financial liabilities elected to be measured at fair value. IFRS 9 requires changes in the fair value of an entity's own credit risk to be recognized in other comprehensive income rather than in profit or loss.

The bank is currently assessing its business models and the contractual cash flow characteristics of financial assets in the scope of IFRS 9. Certain assets may be reclassified upon adoption on November 1, 2018.

Hedge accounting
IFRS 9 introduces certain modifications for hedge accounting that aims to provide a better link between an entity's risk management strategy, the rationale for hedging and the impact of hedging on the financial statements. Accounting for macro hedging has been decoupled from IFRS 9 and may be issued as a separate standard. The current hedge accounting requirements under IAS 39 may continue to be applied until the IASB finalizes its macro hedge accounting project. The Bank is assessing if it will adopt IFRS 9 hedge accounting, if adopted, it will be applied prospectively, with limited exceptions. New expanded qualitative and quantitative hedge accounting disclosure requirements related to amendments to IFRS 7, Financial Instruments: Disclosure, are required for November 1, 2018.

IFRS 15: *Revenue from Contracts with Customers*

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers (IFRS 15), which establishes a comprehensive framework for the recognition, measurement and disclosure of revenues. IFRS 15 applies to all contracts with customers (except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments). Management is currently assessing the potential impact of the adoption of IFRS 15 on the amount and timing of the Bank's revenue recognition and on its financial statements. The standard excludes from its scope revenue arising from items such as financial instruments, insurance contracts, and leases. IFRS 15 is effective for annual periods beginning on or after January 1, 2018.

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, ie the customer ("lessee") and the supplier ("lessor"). IFRS 16 replaces the previous leases standard, IAS 17 Leases, and related interpretations. Management is assessing the potential impact of the adoption of IFRS 16 and the recognition of lease assets and financial liabilities on its financial statements. IFRS 16 is effective for annual periods beginning on or after January 1, 2019.

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*. Management is currently assessing the potential impact of the adoption of IFRS 17. IFRS 17 is effective for annual periods beginning on or after January 1, 2021.

LAURENTIAN BANK OF CANADA CONSOLIDATED FINANCIAL STATEMENTS

AS AT OCTOBER 31, 2017 AND 2016

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

The internal control systems are further supported by a regulatory compliance function, which ensures that the Bank and its employees comply with all regulatory requirements, as well as by 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
Executive Vice President and
Chief Financial Officer

Montréal, Canada
December 4, 2017

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

We have audited the accompanying consolidated financial statements of Laurentian Bank of Canada ("the Bank") which comprise the consolidated balance sheet as at October 31, 2017 and 2016, and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years ended October 31, 2017 and 2016, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at October 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP[1]

Montréal, Canada
December 4, 2017

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

CONSOLIDATED BALANCE SHEET

As at October 31 (in thousands of Canadian dollars)	Notes	2017	2016
ASSETS			
Cash and non-interest bearing deposits with other banks		$ 111,978	$ 123,716
Interest-bearing deposits with other banks		215,384	63,383
Securities	5, 7 and 29		
Available-for-sale		3,032,159	2,723,693
Held-to-maturity		405,088	502,232
Held-for-trading		2,148,767	2,434,507
		5,586,014	5,660,432
Securities purchased under reverse repurchase agreements	29	3,107,841	2,879,986
Loans	6, 7 and 29		
Personal		6,038,692	6,613,392
Residential mortgage		18,486,449	16,749,387
Commercial mortgage		5,161,470	4,658,734
Commercial and other		6,302,537	4,727,385
Customers' liabilities under acceptances		707,009	629,825
		36,696,157	33,378,723
Allowances for loan losses		(99,186)	(105,009)
		36,596,971	33,273,714
Other			
Derivatives	25	104,426	232,791
Premises and equipment	8	35,214	32,989
Software and other intangible assets	9	293,422	150,490
Goodwill	10	118,100	55,812
Deferred tax assets	19	38,702	36,495
Other assets	11	474,606	496,532
		1,064,470	1,005,109
		$ 46,682,658	$ 43,006,340
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits	12		
Personal		$ 21,198,982	$ 21,001,578
Business, banks and other		7,731,378	6,571,767
		28,930,360	27,573,345
Other			
Obligations related to securities sold short		2,165,097	1,707,293
Obligations related to securities sold under repurchase agreements		2,678,629	2,525,441
Acceptances		707,009	629,825
Derivatives	25	217,785	150,499
Deferred tax liabilities	19	22,112	32,755
Other liabilities	13	1,051,908	968,077
		6,842,540	6,013,890
Debt related to securitization activities	7 and 14	8,230,921	7,244,454
Subordinated debt	15	348,427	199,824
Shareholders' equity			
Preferred shares	16	341,600	341,600
Common shares	16	953,536	696,493
Retained earnings		1,035,770	924,861
Accumulated other comprehensive income		(496)	11,873
		2,330,410	1,974,827
		$ 46,682,658	$ 43,006,340

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

Isabelle Courville
Chair of the Board

François Desjardins
President and Chief Executive Officer

CONSOLIDATED STATEMENT OF INCOME

For the years ended October 31 (in thousands of Canadian dollars, except per share amounts)	Notes	2017	2016
Interest income			
Loans		$ 1,169,852	$ 1,066,245
Securities		42,469	35,265
Deposits with other banks		913	1,740
Other, including derivatives		42,311	63,630
		1,255,545	1,166,880
Interest expense			
Deposits		465,151	454,862
Debt related to securitization activities		134,900	114,346
Subordinated debt		11,718	6,433
Other		5,686	1,595
		617,455	577,236
Net interest income		638,090	589,644
Other income			
Fees and commissions on loans and deposits		154,584	145,690
Income from brokerage operations		75,123	71,435
Income from sales of mutual funds		47,088	40,299
Income from investment accounts		21,804	30,271
Insurance income, net	27	18,188	17,527
Income from treasury and financial market operations		17,776	12,782
Other	28	23,757	7,803
		358,320	325,807
Total revenue		996,410	915,451
Amortization of net premium on purchased financial instruments		3,383	5,190
Provision for credit losses	6	37,000	33,350
Non-interest expenses			
Salaries and employee benefits		361,001	334,903
Premises and technology		182,397	187,696
Other		119,385	114,197
Impairment and restructuring charges	30	10,485	38,344
Costs related to business combinations	31	16,091	4,409
		689,359	679,549
Income before income taxes		266,668	197,362
Income taxes	19	60,207	45,452
Net income		$ 206,461	$ 151,910
Preferred share dividends, including applicable taxes		17,096	13,313
Net income available to common shareholders		$ 189,365	$ 138,597
Average number of common shares outstanding (in thousands)			
Basic		35,059	30,488
Diluted		35,059	30,488
Earnings per share	20		
Basic		$ 5.40	$ 4.55
Diluted		$ 5.40	$ 4.55
Dividends declared per share			
Common share		$ 2.46	$ 2.36
Preferred share - Series 11		$ 1.00	$ 1.00
Preferred share - Series 13		$ 1.08	$ 1.08
Preferred share - Series 15		$ 1.46	$ 0.73

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the years ended October 31 (in thousands of Canadian dollars)		2017		2016
Net income	**$**	**206,461**	$	151,910
Other comprehensive income				
Items that may subsequently be reclassified to the Statement of Income				
Net change in available-for-sale securities				
Unrealized net gains on available-for-sale securities		**10,424**		9,412
Reclassification of net (gains) losses on available-for-sale securities to net income		**(5,778)**		2,182
		4,646		11,594
Net change in value of derivatives designated as cash flow hedges (see Note 31)		**(18,963)**		(14,087)
Net foreign currency translation adjustments				
Net unrealized foreign currency translation gains on investments in foreign operations		**5,257**		—
Unrealized net losses on hedges of investments in foreign operations		**(3,309)**		—
		1,948		—
		(12,369)		(2,493)
Items that may not subsequently be reclassified to the Statement of Income				
Remeasurement gains (losses) on employee benefit plans		**8,104**		(26,770)
Comprehensive income	**$**	**202,196**	$	122,647

INCOME TAXES — OTHER COMPREHENSIVE INCOME

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

For the years ended October 31 (in thousands of Canadian dollars)		2017		2016
Income tax expense (recovery) on:				
Net change in available-for-sale securities				
Unrealized net gains on available-for-sale securities		**4,062**		3,439
Reclassification of net (gains) losses on available-for-sale securities to net income		**(2,453)**		831
		1,609		4,270
Net change in value of derivatives designated as cash flow hedges		**(6,877)**		(5,158)
Net foreign currency translation adjustments				
Unrealized net losses on hedges of investments in foreign operations		**(204)**		—
Remeasurement gains (losses) on employee benefit plans		**2,925**		(9,734)
	$	**(2,547)**	$	(10,622)

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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands of Canadian dollars)	Preferred shares (Note 16)	Common shares (Note 16)	Retained earnings	Accumulated Other Comprehensive Income				Share-based payment reserve (Note 17)	Total share-holders' equity
				Available-for-sale securities	Cash flow hedges	Translation of Foreign Operations	Total		
Balance as at October 31, 2016	$ 341,600	$ 696,493	$ 924,861	$ 203	$ 11,670	$ —	$ 11,873	$ —	$ 1,974,827
Net income			**206,461**						**206,461**
Other comprehensive income (net of income taxes)									
Unrealized net gains on available-for-sale securities				**10,424**			**10,424**		**10,424**
Reclassification of net gains on available-for-sale securities to net income				**(5,778)**			**(5,778)**		**(5,778)**
Net change in value of derivatives designated as cash flow hedges					**(18,963)**		**(18,963)**		**(18,963)**
Net unrealized foreign currency translation gains on investments in foreign operations						**5,257**	**5,257**		**5,257**
Unrealized net losses on hedges of investments in foreign operations						**(3,309)**	**(3,309)**		**(3,309)**
Remeasurement gains on employee benefit plans			**8,104**						**8,104**
Comprehensive income			**214,565**	**4,646**	**(18,963)**	**1,948**	**(12,369)**		**202,196**
Issuance of share capital	**—**	**257,043**						**—**	**257,043**
Dividends									
Preferred shares, including applicable taxes			**(17,096)**						**(17,096)**
Common shares			**(86,560)**						**(86,560)**
Balance as at October 31, 2017	**$ 341,600**	**$ 953,536**	**$ 1,035,770**	**$ 4,849**	**$ (7,293)**	**$ 1,948**	**$ (496)**	**$ —**	**$ 2,330,410**
Balance as at October 31, 2015	$ 219,633	$ 466,336	$ 886,656	$ (11,391)	$ 25,757	$ —	$ 14,366	$ 36	$ 1,587,027
Net income			151,910						151,910
Other comprehensive income (net of income taxes)									
Unrealized net gains on available-for-sale securities				9,412			9,412		9,412
Reclassification of net losses on available-for-sale securities to net income				2,182			2,182		2,182
Net change in value of derivatives designated as cash flow hedges					(14,087)		(14,087)		(14,087)
Remeasurement losses on employee benefit plans			(26,770)						(26,770)
Comprehensive income			125,140	11,594	(14,087)	—	(2,493)		122,647
Issuance of share capital	121,967	230,157						(36)	352,088
Dividends									
Preferred shares, including applicable taxes			(13,313)						(13,313)
Common shares			(73,622)						(73,622)
Balance as at October 31, 2016	$ 341,600	$ 696,493	$ 924,861	$ 203	$ 11,670	$ —	$ 11,873	$ —	$ 1,974,827

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the years ended October 31 (in thousands of Canadian dollars)	Notes	2017	2016
Cash flows relating to operating activities			
Net income		$ 206,461	$ 151,910
Adjustments to determine net cash flows relating to operating activities:			
Provision for credit losses		37,000	33,350
Net gains (losses) on disposal of available-for-sale securities		(8,839)	2,391
Deferred income taxes		(3,864)	(6,441)
Impairment of software and intangible assets, and premises and equipment	30	—	22,113
Depreciation of premises and equipment		8,187	9,798
Amortization of software and other intangible assets		28,318	28,771
Change in operating assets and liabilities :			
Loans		(2,486,079)	(2,399,614)
Change in acceptances		77,184	156,281
Securities at fair value through profit and loss		285,740	(709,129)
Securities purchased under reverse repurchase agreements		(227,855)	1,031,453
Accrued interest receivable		(17,272)	(5,504)
Derivative assets		128,365	49,546
Deposits		1,357,015	969,041
Obligations related to securities sold short		457,804	(132,544)
Obligations related to securities sold under repurchase agreements		153,188	228,551
Accrued interest payable		23,039	15,747
Derivative liabilities		67,286	24,816
Change in debt related to securitization activities		986,467	1,750,852
Other, net		(21,625)	224,835
		1,050,520	1,446,223
Cash flows relating to financing activities			
Net proceeds from issuance of subordinated debt	15	348,306	—
Repurchase of subordinated debt	15	(200,000)	(250,000)
Net proceeds from issuance of preferred shares	16	—	121,967
Net proceeds from issuance of common shares	16	230,481	215,633
Dividends		(75,215)	(55,209)
		303,572	32,391
Cash flows relating to investing activities			
Change in available-for-sale securities			
Acquisitions		(4,038,682)	(2,229,090)
Proceeds on sale and at maturity		3,741,815	1,885,770
Change in held-to-maturity securities			
Acquisitions		(855,219)	(307,354)
Proceeds at maturity		952,558	198,344
Proceeds on sale of commercial mortgage loans and other commercial loans		166,081	—
Additions to premises and equipment and intangible assets		(101,918)	(43,549)
Cash paid for business combinations	31	(1,163,616)	(996,500)
Change in interest-bearing deposits with other banks		(66,849)	28,426
		(1,365,830)	(1,463,953)
Net change in cash and non-interest-bearing deposits with other banks		(11,738)	14,661
Cash and non-interest-bearing deposits with other banks at beginning of year		123,716	109,055
Cash and non-interest-bearing deposits with other banks at end of year		$ 111,978	$ 123,716
Supplemental disclosure about cash flows relating to operating activities:			
Interest paid during the year		$ 596,022	$ 561,770
Interest received during the year		$ 1,236,736	$ 1,161,519
Dividends received during the year		$ 9,039	$ 11,436
Income taxes paid during the year		$ 70,110	$ 35,561

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at October 31, 2017 and 2016
[All tabular amounts are in thousands of Canadian dollars, unless otherwise indicated]

1. GENERAL INFORMATION

Laurentian Bank of Canada and its subsidiaries (the Bank) provide banking services to individuals and small and medium-sized enterprises, as well as to independent advisors across Canada, and operate as a full-service brokerage firm. Refer to Note 32 for further details on our business 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 Montréal, Canada. The Bank's common shares (stock symbol: LB) are listed on the Toronto Stock Exchange.

The consolidated financial statements for the year ended October 31, 2017 were approved for issuance by the Board of Directors on December 4, 2017.

2. BASIS OF PRESENTATION

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

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

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

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

2.1 BASIS OF CONSOLIDATION

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

Subsidiaries

Subsidiaries are consolidated from the date the Bank obtains control and continue to be consolidated until the date when control ceases to exist. The financial statements of the Bank's subsidiaries are prepared for the same reporting period as the Bank, using consistent accounting policies.

The subsidiaries of the Bank are listed in the following table. All the foregoing subsidiaries are incorporated or continued in Canada under the provisions of a federal act, except Northpoint Commercial Finance Holdings Inc. and its subsidiaries, which are incorporated in the United States and V.R. Holding Insurance Company Ltd, which is incorporated under the provisions of an act of Barbados.

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.

As noted in the following table, the Bank consolidates two limited partnerships used for securitization purposes. The Bank also consolidates Venture Reinsurance Ltd, an insurance company incorporated under the provisions of an act of Barbados, which is partially owned by V.R. Holding Insurance Company Ltd.

2. BASIS OF PRESENTATION [CONT'D]

CONSOLIDATED SUBSIDARIES

As at October 31, 2017	HEAD OFFICE LOCATION	PERCENTAGE OF VOTING SHARES OWNED BY THE BANK
CORPORATE NAME		
B2B Bank	Toronto, Canada	100 %
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	100 %
Laurentian Bank Securities Inc.	Montreal, Canada	100 %
Laurentian Capital (USA) Inc.		
Laurentian Trust of Canada Inc.	Montreal, Canada	100 %
LBC Capital Inc. [2]	Burlington, Canada	100 %
LBEF Inc.	Burlington, Canada	
LBEL Inc.	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.	Delaware, United States	
NCF Financing LLC	Delaware, United States	
Northpoint Commercial Finance Inc.	Delaware, United States	
Northpoint Commercial Finance LLC	Delaware, United States	
LBC Financial Services Inc.	Montreal, Canada	100 %
LBC Investment Management Inc.	Montreal, Canada	100 %
V.R. Holding Insurance Company Ltd	St. James, Barbados	
VRH Canada Inc.	Montreal, Canada	
LBC Tech Inc.	Toronto, Canada	100 %
LBC Trust	Montreal, Canada	100 %

(1) B2B Bank holds 99.99% of the units of B2B Securitization Limited Partnership and B2B Securitization Inc. holds the remaining 0.01%.

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

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

Associates

Entities over which the Bank has significant influence are associates and are accounted for using the equity method of accounting. Significant influence is the power to participate in the financial and operating policy decisions of an investee, but is not control or joint control over this entity. Investments in associates are accounted for initially at cost and increased or decreased to recognize the Bank's share of the profit or loss of the associate, capital transactions, including the receipt of any dividends, and write-downs to reflect impairment in the value of such entities. These increases or decreases, together with any gains and losses realized on disposition, are reported on the Consolidated Statement of Income. The Bank's 50% participation in Verico Financial Group Inc., a mortgage broker company operating in Canada, was accounted for under this method prior to its disposition in September 2017.

2.2 USE OF ESTIMATES AND JUDGMENT

The preparation of these consolidated financial statements in accordance with IFRS requires management to make complex judgments that affect the reported amounts of assets, liabilities, net income and other related disclosures. Management has established controls and procedures to ensure these estimates are controlled, reviewed and consistently applied over time. Management believes that the estimates of the value of the Bank's assets and liabilities are appropriate.

Notes 3 and 22 detail the significant judgment used in measuring the fair value of financial instruments. Other significant areas that require management's judgment and estimates are described below.

2. BASIS OF PRESENTATION [CONT'D]

Impairment of financial assets

Allowances for credit losses

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

Other financial assets

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

Goodwill and other intangible assets

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

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

Management uses a number of significant estimates, including projected net income growth rates, future cash flows, the number of years used in the cash flow model and the discount rate of future cash flows to determine the recoverable amount of the CGU or intangible asset. Management considers these estimates 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, including a sensitivity analysis, are disclosed and further explained in Notes 10 and 30.

Post-employment benefits

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

Business combinations

The acquired assets and liabilities are included in the consolidated balance sheet at fair value on the date of acquisition. Valuation of the identifiable assets and liabilities of the acquiree upon initial recognition are based on a number of assumptions determined by management such as estimates of future cash flows and discount rates as well as contractual provisions. Assessing the discount rate requires significant management judgment regarding key assumptions, including the cost to raise funds in the market and the risk premium associated with the loans. Changes in assumptions could have had a significant impact on the recognized amount of goodwill or gain arising on acquisition. Refer to Note 31 for additional information on the assets acquired and liabilities assumed as a result of business combinations.

Provisions and contingent liabilities

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

2. BASIS OF PRESENTATION [CONT'D]

Income taxes

Deferred income tax assets and liabilities reflect management's estimate of temporary differences. Asset values are determined using assumptions regarding the results of operations of future fiscal years, timing of reversal of temporary differences and tax rates on the date of reversals, which may well change depending on governments' fiscal policies. Management must also assess whether it is more likely than not that deferred income tax assets will be realized and determine whether a valuation allowance is required on all or a portion of deferred income tax assets.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 FINANCIAL INSTRUMENTS

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

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

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

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

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, 2017 and 2016, the Bank had not designated any financial instrument as at fair value through profit or loss.

Available-for-sale financial assets

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

3. 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 treasury and financial market operations.

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

Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity, other than loans and receivables, which the Bank has the clear intention and ability to hold to maturity. Held-to-maturity financial assets include securities pledged to participate in securitization programs. These financial assets are initially recognized at fair value on the settlement date, including direct and incremental transaction costs. Subsequently, they are measured at amortized cost using the effective interest method, net of impairment losses. Interest income is recognized on held-to-maturity securities using the effective interest rate, calculated over the security's expected term.

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

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

Securities purchased under agreements to resell are not recognized as securities on the consolidated balance sheet. An asset corresponding to the consideration paid for the securities is recognized in securities purchased under reverse repurchase agreements. Subsequently, the agreements are classified as loans and receivables and are measured at amortized cost using the effective interest method. Interest income is allocated over the expected term of the agreement by applying the effective interest rate to the carrying amount of the asset.

Securities sold under agreements to repurchase at a specified future date are not derecognized from the consolidated balance sheet. The consideration received is recognized in the consolidated balance sheet and a corresponding liability is recognized in obligations related to securities sold under repurchase agreements. Subsequently, the agreements are classified as other financial liabilities and are measured at amortized cost using the effective interest method. Interest expense is allocated over the expected term of the agreement by applying the effective interest rate to the carrying amount of the liability.

Securities lending and borrowing

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

Securities sold short

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

Loans

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

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

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

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

If the foreclosed assets are to be held and used, they are initially measured at fair value and then accounted for in the same manner as similar assets acquired in the normal course of business.

Derecognition of financial assets

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

Securitization
The Bank regularly transfers pools of residential mortgages 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 effect the returns.

Refer to Notes 7 and 14 for further detail.

Impairment of financial assets

Impairment of available-for-sale financial assets
Financial assets classified in the available-for-sale category are monitored to determine whether there is any objective evidence that they are impaired.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

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.

Acceptances and customers' liabilities under acceptances

Acceptances represent an obligation for the Bank with respect to short-term negotiable instruments issued by the Bank's customers to third parties and guaranteed by the Bank. Acceptances are classified as other liabilities and measured at amortized cost using the effective interest method. The recourse against the customer in the event that these obligations give rise to a cash outlay is reported as a corresponding asset and classified as a loan and receivable. Commissions earned are recorded in other income in the Consolidated Statement of Income.

Derivatives and hedges

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

All derivatives are measured at fair value in other assets or liabilities, including derivatives embedded in financial instruments or other contracts that are not closely related to the financial instrument or to the host contract. Changes in fair value of derivatives are immediately recognized in the Consolidated Statement of Income under income from treasury and financial market operations, except for derivatives designated as cash flow hedges 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. SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

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

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

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

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

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

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

Net investment hedges
Net investment hedge transactions use derivative instruments to hedge 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 classified as other financial liabilities and measured at amortized cost using the effective interest method. Interest expense is allocated over the expected term of the deposit by applying the effective interest rate to the carrying amount of the liability. Commissions paid and other fees are recorded in interest expense over the term of the deposits. Deposits are presented net of unamortized commissions and other fees on the consolidated balance sheet.

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.

3. SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

Debt related to securitization activities

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

Subordinated debt

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

Measuring the fair value of financial instruments

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

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

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

Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and the net amount is presented in the consolidated balance sheet when the Bank currently has a legally enforceable right to set off the recognized amounts and intends to settle on a net basis or to realize the asset and settle the liability simultaneously. In all other situations, financial assets and liabilities are presented on a gross basis.

3.2 LEASES

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

The Bank as a lessor

The Bank provides leasing solutions to business customers.

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

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

3. 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.

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.

The Bank as a lessee

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

3.3 BUSINESS COMBINATIONS AND GOODWILL

Business combinations are accounted for using the acquisition method. At the date of acquisition, the purchase price is measured as the aggregate of the fair value of the consideration transferred 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.

The fair value estimate of purchased financial assets and assumed liabilities reflects the interest rate premium or discount resulting from the difference between the contractual rates and prevailing market interest rates for financial instruments with similar terms and conditions, as well as the expected credit losses as of the acquisition date. As purchased loans and finance lease receivables are recorded at fair value, no allowance for credit losses is recorded on the date of acquisition. As well, these loans and finance lease receivables are not considered impaired as at the date of acquisition. Subsequently, purchased loans and finance lease receivables are recorded at amortized cost using the effective interest method.

Purchased loans and finance lease receivables are subject to impairment assessment, consistent with the Bank's methodology for collective allowances. Increases in initially estimated incurred loan losses are recorded in the provision for credit losses and increase the allowance for loan losses. Decreases in initially estimated incurred credit losses result in a reduction of the provision for credit losses and reduce any previously recorded allowance for loan losses, until the newly recorded allowance is exhausted. Any additional decrease in estimated incurred credit losses is recorded in the Consolidated Statement of Income under net interest income and increases the carrying amount of the purchased loans and finance lease receivables.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Bank's CGUs or group of CGUs, which are expected to benefit from the synergies of the combination. Each unit to which the goodwill is allocated represents the lowest level within the Bank at which the goodwill is monitored for internal management purposes. The Bank allocated the goodwill from business combinations to the B2B Bank unit and the Business Services unit, as well as to the Retail Services unit until October 2015.

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

3. SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

3.4 PREMISES AND EQUIPMENT

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

Depreciation

Depreciation is calculated using the straight-line method to write down the cost of premises and equipment to their residual values over their estimated useful lives. Depreciation of premises and equipment is recorded in the Consolidated Statement of Income under the Premises and technology line item. Land is not depreciated. The estimated useful lives are as follows:

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

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

Impairment

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

3.5 SOFTWARE AND OTHER INTANGIBLE ASSETS

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

Amortization

Software is amortized on a straight line basis over its estimated useful life, which ranges from two to ten years. Amortization of software is recorded in the Consolidated Statement of Income under the premises and technology line item. Other intangible assets with finite lives, mainly consisting of contractual relationships with independent brokers and advisors and vendor-dealers, core deposit intangibles, as well as the core banking system and certain components of the ongoing program to implement the Basel Advanced Internal Ratings Based approach to credit risk currently in use, are amortized on a straight-line basis over their estimated useful life, which ranges from three to fourteen years. Amortization of other intangible assets is included in other non-interest expenses.

Impairment

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

3.6 EMPLOYEE BENEFITS

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

Short-term benefits

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

Post-employment benefits

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

3. SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

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

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

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

Funding is generally provided by the Bank.

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

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

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

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

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

3.7 PROVISIONS AND CONTINGENT LIABILITIES

Provisions are liabilities of uncertain timing or amount. They are recognized when the Bank has a present legal or constructive obligation as a result of a past event, and it is both probable that an outflow of resources will be required to settle the obligation and the cost can be reliably estimated. Contingent liabilities are not recognized but are disclosed in the consolidated financial statements when the Bank cannot determine whether an obligation is probable or cannot reliably estimate the amount of loss. The Bank regularly assesses the adequacy of its provisions and makes the necessary adjustments to incorporate new information as it becomes available.

3.8 INCOME TAXES

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

3.9 EARNINGS PER SHARE

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

3. SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

3.10 INSURANCE

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

3.11 SHARE-BASED COMPENSATION

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

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

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

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

3.12 ASSETS UNDER ADMINISTRATION AND ASSETS UNDER MANAGEMENT

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

3.13 TRANSLATION OF FOREIGN CURRENCIES

The consolidated financial statements are presented in Canadian dollars which is the Bank's functional and reporting currency. Each entity in the group determines its own functional currency, which is the currency of the primary economic environment in which they operate, and items reported in the financial statements of each entity are measured using that currency.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency of the entity at the exchange rates prevailing at the consolidated balance sheet date. Non-monetary assets and liabilities are translated at historical exchange rates. Income and expenses are translated at the average monthly exchange rates. Realized or unrealized gains and losses resulting from the translation of foreign currencies are included in other income except for available-for-sale equity securities not designated in fair value hedges, where unrealized translation gains and losses are recorded in other comprehensive income until the asset is sold or becomes impaired.

On consolidation, the assets and liabilities in 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, while income and expenses of the foreign operations are translated at the average monthly exchange rates. 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 rates prevailing at the consolidated balance sheet date. Unrealized gains and losses resulting from translation of foreign operations, along with related hedges and tax effects are recorded 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.

3.14 CASH AND CASH EQUIVALENTS

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

3.15 SHARE CAPITAL

Share issue costs

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

Dividend on common shares

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

4. FUTURE ACCOUNTING CHANGES

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

IFRS 9: *Financial instruments*

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

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

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

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

Impairment
IFRS 9 introduces a new expected-loss impairment model that must be applied to all financial assets classified at amortized cost or fair value through other comprehensive income, with the most significant impact expected to be on loans and finance lease receivables. The model will also apply to loan commitments and financial guarantees that are not measured at fair value through profit or loss.

IFRS 9 requires entities to recognize 12-month expected credit losses (ECL) from the date a financial asset is first recognized ("stage 1 loans") and to recognize lifetime expected credit losses if the credit risk on that financial asset has increased significantly since initial recognition ("stage 2 loans"). In assessing whether credit risk has increased significantly, entities are required to compare the risk of a default occurring on the financial instrument as at the reporting date, with the risk of default occurring on the financial instrument as at the date of initial recognition. Currently, under the incurred loss methodology in IAS 39, allowances are provided for non-impaired loans for losses that are incurred but not yet identified. The ECL model under IFRS 9 also requires that lifetime expected credit losses be recognized for financial assets that are assessed as credit impaired ("stage 3 loans").

Classification and Measurement
IFRS 9 requires all financial assets to be classified in three categories (amortized cost, fair value through profit or loss or fair value through other comprehensive income) based on the cash flow characteristics and the business model under which the assets are held. The classification and measurement of financial liabilities remain essentially unchanged from the current IAS 39 requirements, except for the measurement of financial liabilities elected to be measured at fair value. IFRS 9 requires changes in the fair value of an entity's own credit risk to be recognized in other comprehensive income rather than in profit or loss.

Hedge accounting
IFRS 9 introduces certain modifications for hedge accounting that aims to provide a better link between an entity's risk management strategy, the rationale for hedging and the impact of hedging on the financial statements. Accounting for macro hedging has been decoupled from IFRS 9 and may be issued as a separate standard. The current hedge accounting requirements under IAS 39 may continue to be applied until the IASB finalizes its macro hedge accounting project.

Transition
The impairment and classification and measurement requirements of IFRS 9 will be applied retrospectively by adjusting the opening balance sheet at November 1, 2018. There is no requirement to restate comparative periods. Hedge accounting, if adopted, will be applied prospectively, with limited exceptions.

To coordinate and execute the adoption of IFRS 9, the Bank has established a project team. The Bank's conversion plan includes the following phases: (a) Preliminary Assessment; (b) Detailed Analysis; (c) Implementation, with work streams focused on each of the three required sections of IFRS 9 noted above. The Bank is on track with its project timelines. The Preliminary Assessment phase is completed and the Detailed Analysis phase is in progress, the Implementation phase has gradually begun as certain analyses were completed in 2017.

The adoption of IFRS 9 will have a significant impact on the Bank's information systems and processes as it provides significant new requirements for how an entity should classify and measure financial instruments, including impairment, and for hedge relationships. At this point of the implementation process, it is still too early to determine the impact of the new standard on the Bank's financial position, allowance for loan losses or its capital ratios.

4. FUTURE ACCOUNTING CHANGES [CONT'D]

IFRS 15: *Revenue from Contracts with Customers*

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, which establishes a comprehensive framework for the recognition, measurement and disclosure of revenues. IFRS 15 applies to all contracts with customers (except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments) and replaces, among others, the previous revenue standard IAS 18, *Revenue* and the related interpretation on revenue recognition IFRIC 13, *Customer Loyalty Programmes*. The new standard also includes requirements for accounting for some costs that are related to a contract with a customer. In July 2015, the IASB decided to defer the effective date of IFRS 15 by one year. Accordingly, entities will apply IFRS 15 for annual periods beginning on or after January 1, 2018, which will be November 1, 2018 for the Bank. The Bank is currently assessing the impact of the adoption of this standard on its consolidated financial statements.

IFRS 16: *Leases*

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

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

For lessors, IFRS 16 substantially carries forward the accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, which will be November 1, 2019 for the Bank. Early application is permitted for entities that also apply IFRS 15, Revenue from Contracts with Customers. The Bank is currently assessing the impact of the adoption of this standard on its consolidated financial statements.

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, which will be November 1, 2021 for the Bank. The Bank is currently assessing the impact of the adoption of this standard on its consolidated financial statements.

5. SECURITIES

MATURITY SCHEDULE OF SECURITIES

					2017	2016
	Within 1 year	1 to 5 years	Over 5 years	No specific maturity	Total	Total
Portfolio of available-for-sale securities						
Securities issued or guaranteed						
by Canada [1]	$ 1,277,178	$ 114,523	$ —	$ —	$ 1,391,701	$ 923,322
by provinces	516,306	687,959	148	—	1,204,413	1,392,170
by municipalities	30,828	176,521	—	—	207,349	59,279
Other debt securities	3,323	41,222	19,626	—	64,171	167,470
Asset-backed securities	72	—	3,330	—	3,402	8,242
Preferred shares	26	18	—	145,702	145,746	102,536
Common shares and other securities	—	—	—	15,377	15,377	70,674
	$ 1,827,733	$ 1,020,243	$ 23,104	$ 161,079	$ 3,032,159	$ 2,723,693
Portfolio of held-to-maturity securities						
Securities issued or guaranteed by Canada [1]	$ 265,746	$ 139,342	$ —	$ —	$ 405,088	$ 502,232

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

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

5. SECURITIES [CONT'D]

GAINS AND LOSSES RECOGNIZED IN COMPREHENSIVE INCOME

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

	2017	2016
Realized net gains (losses)	$ 8,839	$ (2,391)
Write-downs for impairment	(608)	(622)
	$ 8,231	$ (3,013)

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

2017	Amortized cost	Unrealized gains	Unrealized losses	Fair value
Securities issued or guaranteed				
by Canada [1]	$ 1,391,378	$ 818	$ 495	$ 1,391,701
by provinces	1,200,864	3,829	280	1,204,413
by municipalities	208,423	100	1,174	207,349
Other debt securities	64,294	513	636	64,171
Asset-backed securities	3,393	9	—	3,402
Preferred shares	141,761	4,828	843	145,746
Common shares and other securities	14,515	912	50	15,377
	$ 3,024,628	$ 11,009	$ 3,478	$ 3,032,159

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

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

Refer to Note 22 for additional information on the determination of fair value of securities.

6. LOANS

ALLOWANCES FOR CREDIT LOSSES

2017	Balance at beginning of year	Provision for credit losses	Write-offs	Recoveries and other [1]	Interest accrued on impaired loans	Balance at end of year
Personal	$ 36,452	$ 24,823	$ (37,185)	$ 7,216	$ (706)	$ 30,600
Residential mortgage	11,018	3,027	(1,457)	(433)	(1,337)	10,818
Commercial mortgage	25,613	(1,499)	(3,588)	376	(393)	20,509
Commercial and other [2]	37,481	10,649	(4,626)	250	(789)	42,965
Total allowances for credit losses	$ 110,564	$ 37,000	$ (46,856)	$ 7,409	$ (3,225)	$ 104,892
Individual allowances	$ 19,208	$ 13,437	$ (8,113)	$ 620	$ (351)	$ 24,801
Collective allowances against impaired loans	15,977	36,679	(38,743)	6,789	(2,874)	17,828
Collective allowances against other loans	69,824	(13,267)	—	—	—	56,557
Total allowances for loan losses	$ 105,009	$ 36,849	$ (46,856)	$ 7,409	$ (3,225)	$ 99,186
Allowances for off-balance sheet exposures [3]	5,555	151	—	—	—	5,706
Total allowances for credit losses	$ 110,564	$ 37,000	$ (46,856)	$ 7,409	$ (3,225)	$ 104,892

2016	Balance at beginning of year	Provision for credit losses	Write-offs	Recoveries and other [1]	Interest accrued on impaired loans	Balance at end of year
Personal	$ 41,466	$ 23,903	$ (35,971)	$ 7,739	$ (685)	$ 36,452
Residential mortgage	11,995	3,723	(2,350)	(877)	(1,473)	11,018
Commercial mortgage [4]	27,428	203	(1,131)	(73)	(814)	25,613
Commercial and other [2] [4]	35,381	5,521	(2,816)	27	(632)	37,481
Total allowances for credit losses	$ 116,270	$ 33,350	$ (42,268)	$ 6,816	$ (3,604)	$ 110,564
Individual allowances	$ 23,690	$ 309	$ (3,928)	$ (47)	$ (816)	$ 19,208
Collective allowances against impaired loans	18,676	31,566	(38,340)	6,863	(2,788)	15,977
Collective allowances against other loans	68,787	1,037	—	—	—	69,824
Total allowances for loan losses	$ 111,153	$ 32,912	$ (42,268)	$ 6,816	$ (3,604)	$ 105,009
Allowances for off-balance sheet exposures [3]	5,117	438	—	—	—	5,555
Total allowances for credit losses	$ 116,270	$ 33,350	$ (42,268)	$ 6,816	$ (3,604)	$ 110,564

(1)Includes impact of foreign exchange movements.
(2) Including customers' liabilities under acceptances and finance lease receivables.
(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.
(4) Comparative figures have been reclassified to conform to the current year presentation.

IMPAIRED LOANS

2017	Gross amount	Individual allowances	Collective allowances against impaired loans	Net amount
Personal	$ 20,874	$ —	$ 11,462	$ 9,412
Residential mortgage	30,326	—	2,703	27,623
Commercial mortgage	23,503	3,437	451	19,615
Commercial and other [1]	77,188	21,364	3,212	52,612
	$ 151,891	$ 24,801	$ 17,828	$ 109,262

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

6. LOANS [CONT'D]

				2016
	Gross amount	Individual allowances	Collective allowances against impaired loans	Net amount
Personal	$ 18,018	—	$ 10,156	$ 7,862
Residential mortgage	31,549	—	3,355	28,194
Commercial mortgage [1]	37,894	7,437	507	29,950
Commercial and other [1] [2]	44,794	11,771	1,959	31,064
	$ 132,255	$ 19,208	$ 15,977	$ 97,070

(1) Comparative figures have been reclassified to conform to the current year presentation.
(2) Including customers' liabilities under acceptances and finance lease receivables.

Foreclosed assets

Held-for-sale assets acquired in 2017 with respect to impaired loans which are managed for sale in an orderly manner amounted to $6.2 million ($6.4 million in 2016). There were no individual allowances with regards to these loans prior to foreclosure.

LOANS PAST DUE BUT NOT IMPAIRED

Personal and residential mortgage loans past due shown in the table below are not classified as impaired because they are less than 90 days past due or they are secured such as to reasonably expect full recovery. Commercial loans past due but not impaired are not significant.

				2017
	1 day–31 days	**32 days–90 days**	**Over 90 days**	**Total**
Personal loans	**$ 78,031**	**$ 26,903**	**$ 7,702**	**$ 112,636**
Residential mortgages	**259,395**	**40,490**	**19,051**	**318,936**
	$ 337,426	**$ 67,393**	**$ 26,753**	**$ 431,572**

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

FINANCE LEASE RECEIVABLES

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

	2017	2016
Minimum lease payments	**$ 875,762**	$ 793,151
Unguaranteed residual values	**22,824**	20,017
Gross investment in leases	**898,586**	813,168
Unearned interest income	**(90,336)**	(84,794)
Net investment in leases	**808,250**	728,374
Unamortized deferred costs, security deposits, and other	**13,130**	9,661
	$ 821,380	$ 738,035

6. LOANS [CONT'D]

Contractual maturities of finance lease receivables

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

						2017
		Gross investment in leases		**Unearned interest income**		**Net investment in leases**
Receivable within one year	$	**288,809**	$	**35,747**	$	**253,062**
Receivable within 1 to 5 years		**590,323**		**50,503**		**539,820**
Receivable after 5 years		**18,044**		**2,676**		**15,368**
	$	**897,176**	$	**88,926**	$	**808,250**

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

7. SECURITIZATION AND STRUCTURED ENTITIES

7.1 TRANSFER OF FINANCIAL ASSETS

The Bank sells mortgage loans to the Canada Mortgage Bond (CMB) program and to third-party investors under the National Housing Act (NHA) Mortgage-Backed Securities (MBS) program, as well as through a multi-seller conduit set up by another Canadian bank. As the Bank continues to be exposed to the prepayment, interest rate and/or credit risk associated with the securitized loans, it was determined that they did not qualify for derecognition. Therefore, loans remain on balance sheet and the related cash proceeds are accounted for as secured financing.

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

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

NHA MBS are amortizing assets that pay back principal and interest cash flows on a monthly basis, while CMBs provide investors with a fixed interest coupon bond with semi-annual interest payments and repayment of principal on specified maturity dates. To address this difference in cash flows for the CMB program, the CMHC conduit enters into master swap agreements with approved financial institutions (Swap Counterparties). Under the swap agreements, Swap Counterparties receive the monthly interest flows from the original NHA MBS and the Replacement Assets (see below), and in return provide the CMHC conduit with the regular interest payments required to pay out to investors under the terms of the CMB. 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.

Since the underlying cash flows associated with these swap agreements are captured through the on-balance sheet recognition of the underlying assets and the associated securitization liabilities, these swap agreements are not recognized at fair value on the consolidated balance sheet and fair value changes are not recognized in the Consolidated Statement of Income. The underlying cash flows of the swap agreements are recognized on an accrual basis as described below. As at October 31, 2017, the notional amount of these swaps was $4.9 billion ($4.7 billion as at October 31, 2016).

Assets and debt related to securitization activities

As these securitization transactions do not meet derecognition criteria, the securitized mortgage loans remain on balance sheet as residential mortgage loans. The Replacement Assets are also recorded on balance sheet. These assets are considered pledged assets. Interest income is accrued on these assets as for the Bank's other similar assets. The CMB and NHA MBS holders and the CMHC have 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 debt related to securitization activities on the consolidated balance sheet of the Bank. Interest accrued on the debt is based on the CMB or NHA MBS coupon related to the series and is classified in other liabilities as accrued interest payable.

7. SECURITIZATION AND STRUCTURED ENTITIES [CONT'D]

Multi-seller conduit

The Bank sells residential mortgage loans to an intermediate multi-seller structured entity 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.

Financial assets not qualifying for derecognition and associated financial liabilities

The following table summarizes the carrying amounts and fair value of financial assets that do not qualify for derecognition and their associated financial liabilities included in the consolidated balance sheet.

		2017		2016
	Total carrying amount	**Fair value**	Total carrying amount	Fair value
Residential mortgage loans	**$ 7,063,929**	**$ 7,013,929**	$ 6,222,374	$ 6,252,621
Replacement Assets				
Cash and deposits with other banks	**10,069**	**10,069**	10,691	10,691
Securities purchased under reverse repurchase agreements	**1,118**	**1,118**	6,507	6,507
Other securities	**405,088**	**404,444**	502,232	502,311
Debt related to securitization activities	**$ (7,524,885)**	**$ (7,566,559)**	$ (6,861,315)	$ (6,895,858)

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

	2017	2016
Carrying amounts of mortgages transferred during the year related to new financing	**$ 2,171,236**	$ 2,939,694
Carrying amounts of mortgages transferred during the year as Replacement Assets	**$ 768,038**	$ 532,780

7.2 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 and fair value of financial assets securitized through structured entities and their associated financial liabilities included in the consolidated balance sheet.

		2017		2016
	Total carrying amount	**Fair value**	Total carrying amount	Fair value
Personal loans	**$ 949,104**	**$ 949,104**	$ —	$ —
Commercial loans and other [1]	**562,421**	**560,377**	419,743	433,815
Debt related to securitization activities involving structured entities	**$ (706,036)**	**$ (706,036)**	$ (383,139)	$ (383,139)

(1) The Bank securitizes finance lease receivables which are included in the Commercial loans and other line item.

7. SECURITIZATION AND STRUCTURED ENTITIES [CONT'D]

The following table summarizes the securitization activities carried out by the Bank's consolidated structured entities.

	2017	2016
Carrying amounts of personal loans transferred during the period related to new financing	$ 1,000,001	$ —
Carrying amounts of finance lease receivables transferred during the year related to new financing	$ 320,204	$ 434,175

8. PREMISES AND EQUIPMENT

	Premises and leasehold improvements	Equipment and furniture	Computer hardware	Total
Cost				
As at October 31, 2015	$ 52,470	$ 32,043	$ 37,823	$ 122,336
Additions	760	439	1,209	2,408
Additions through business combinations (Note 31)	343	—	8	351
Impairment and disposals	(7,936)	(6,806)	(14,948)	(29,690)
As at October 31, 2016	45,637	25,676	24,092	95,405
Additions	**7,921**	**1,040**	**1,640**	**10,601**
Additions through business combinations (Note 31)	**—**	**94**	**34**	**128**
Other and impact of foreign currency translation [1]	**(25)**	**1**	**1**	**(23)**
Disposals	**(485)**	**—**	**(12)**	**(497)**
As at October 31, 2017	**$ 53,048**	**$ 26,811**	**$ 25,755**	**$ 105,614**
Accumulated depreciation				
As at October 31, 2015	$ 22,133	$ 25,362	$ 29,279	$ 76,774
Depreciation	3,072	2,474	4,252	9,798
Impairment and disposals	(4,824)	(6,326)	(13,006)	(24,156)
As at October 31, 2016	20,381	21,510	20,525	62,416
Depreciation	**3,694**	**1,906**	**2,587**	**8,187**
Other and impact of foreign currency translation [1]	**—**	**2**	**—**	**2**
Disposals	**(193)**	**—**	**(12)**	**(205)**
As at October 31, 2017	**$ 23,882**	**$ 23,418**	**$ 23,100**	**$ 70,400**
Carrying amount				
As at October 31, 2016	$ 25,256	$ 4,166	$ 3,567	$ 32,989
As at October 31, 2017	**$ 29,166**	**$ 3,393**	**$ 2,655**	**$ 35,214**

(1) Other includes purchase accounting adjustments related to the acquisition of CIT Canada.

Premises and equipment include $6.0 million ($0.8 million in 2016) pertaining to premises under construction yet to be amortized.

IMPAIRMENT

Impairment charges amounting to $5.4 million in 2016 (nil in 2017) were recorded on premises and equipment related to the Retail Services CGU on the Impairment and restructuring charges line item; refer to Note 30 for further details. Other impairment charges amounting to $0.1 million were recorded in 2016 (nil in 2017).

9. SOFTWARE AND OTHER INTANGIBLE ASSETS

	Software	Acquisition related intangible assets	Other intangible assets	Total
Cost				
As at October 31, 2015	$ 268,579	$ 22,044	$ 25,200	$ 315,823
Additions	17,714	—	23,378	41,092
Additions through business combinations (Note 31)	—	9,765	—	9,765
Impairment	(37,725)	(6,255)	—	(43,980)
As at October 31, 2016	248,568	25,554	48,578	322,700
Additions	**21,858**	**—**	**67,480**	**89,338**
Additions through business combinations (Note 31)	**4**	**81,000**	**—**	**81,004**
Impact of foreign currency translation	**—**	**1,366**	**—**	**1,366**
Other [1]	**—**	**236**	**—**	**236**
Impairment	**(4,271)**	**—**	**—**	**(4,271)**
As at October 31, 2017	**$ 266,159**	**$ 108,156**	**$ 116,058**	**$ 490,373**
Accumulated amortization				
As at October 31, 2015	$ 155,122	$ 12,236	$ 1,330	$ 168,688
Amortization	25,449	2,076	1,246	28,771
Impairment	(20,849)	(4,400)	—	(25,249)
As at October 31, 2016	159,722	9,912	2,576	172,210
Amortization	**20,929**	**5,838**	**1,551**	**28,318**
Impairment	**(3,577)**	—	**—**	**(3,577)**
As at October 31, 2017	**$ 177,074**	**$ 15,750**	**$ 4,127**	**$ 196,951**
Carrying amount				
As at October 31, 2016	$ 88,846	$ 15,642	$ 46,002	$ 150,490
As at October 31, 2017	**$ 89,085**	**$ 92,406**	**$ 111,931**	**$ 293,422**

(1) Other includes purchase accounting adjustments related to the acquisition of CIT Canada.

Acquisition related intangible assets include contractual relationships with independent brokers and advisors and vendor-dealers, as well as core deposit intangibles.

Other intangible assets mainly include the core banking system and the program to implement the Basel Advanced Internal Ratings Based approach to credit risk.

Software and other intangible assets include $33.3 million and $106.1 million respectively ($14.9 million and $38.7 million respectively in 2016) pertaining to projects under development yet to be amortized.

IMPAIRMENT TESTING

The Bank tests intangible assets with finite lives for impairment whenever there are events or changes in circumstances which indicate that the carrying amount may not be recoverable. Intangible assets under development are also tested annually for impairment.

In 2017 and 2016, the Bank tested the Retail Services CGU for Impairment. In 2016, impairment charges amounting to $16.7 million on software were recorded on the Impairment and restructuring charges line item. In 2017, no impairment charges were recorded. Refer to Note 30 for further details.

In addition, as a result of the decision of a client of the Bank to end its carrying agreement, an impairment charge of $1.9 million was recorded on related intangible assets in 2016. This charge was presented in other income net of the revenues resulting from the exit agreement. Other impairment charges amounting to $0.7 million were also recorded in 2017 ($0.2 million in 2016).

10. GOODWILL

	B2B Bank unit	Business Services unit	Total
As at October 31, 2015	$ 34,853	$ —	$ 34,853
Additions through business combinations (Note 31)	—	20,959	20,959
As at October 31, 2016	$ 34,853	$ 20,959	$ 55,812
Additions through business combinations (Note 31)	**—**	**56,437**	**56,437**
Other [1]	**—**	**4,899**	**4,899**
Impact of foreign currency translation	**—**	**952**	**952**
As at October 31, 2017	**$ 34,853**	**$ 83,247**	**$ 118,100**

(1) Other includes purchase accounting adjustments related to the acquisition of CIT Canada, refer to Note 31.

IMPAIRMENT TESTING OF GOODWILL

The Bank tests goodwill for impairment on an annual basis and whenever there are events or changes in circumstances which indicate that the carrying amount of the CGU may not be recoverable. No impairment losses were recognized in 2017 and 2016.

Goodwill as at October 31, 2017 has been allocated to two CGUs:

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

B2B Bank unit

The recoverable amount of the B2B Bank unit was determined based on the value in use approach using a discounted cash flow method. The significant key assumptions included the forecasts of cash flows based on financial plans approved by management covering a three-year period, a terminal growth rate of 2.1% based on projected economic growth, and an after-tax discount rate of 10.0% based on the bank-wide cost of capital and further adjusted to reflect the risks specific to the B2B Bank unit. The estimated recoverable amount was above its carrying amount. If alternative reasonably possible changes in key assumptions were applied, the result of the impairment test would not differ.

Business Services unit

The recoverable amount of the Business Services unit was determined based on the value in use approach using a discounted cash flow method. The significant key assumptions included the forecasts of cash flows based on financial plans approved by management covering a three-year period, a terminal growth rate of 2.1% based on projected economic growth, and an after-tax discount rate of 10.0% based on the bank-wide cost of capital and further adjusted to reflect the risks specific to the Business Services unit. The estimated recoverable amount was above its carrying amount. If alternative reasonably possible changes in key assumptions were applied, the result of the impairment test would not differ.

11. OTHER ASSETS

	2017	2016
Cheques and other items in transit	**$ 132,581**	$ 158,265
Accrued interest receivable	**90,666**	68,479
Assets under operating leases (Note 28)	**25,620**	43,090
Defined benefit plan assets (Note 18)	**3,413**	3,320
Accounts receivable, prepaid expenses and other items	**222,326**	223,378
	$ 474,606	$ 496,532

12. DEPOSITS

Demand deposits consist of deposits in respect of which the Bank is not authorized to require notice prior to withdrawal by customers. These deposits primarily consist of chequing accounts.

Notice deposits consist of deposits in respect of which the Bank may legally require a withdrawal notice. These deposits generally consist of savings accounts.

Term deposits include deposits maturing at a specific date, particularly term deposits and guaranteed investment certificates, as well as senior unsecured notes.

The following table details the carrying amount of deposits.

				2017
	Demand	**Notice**	**Term**	**Total**
Personal	**$ 125,870**	**$ 4,900,736**	**$ 16,172,376**	**$ 21,198,982**
Business, banks and other	**1,360,658**	**839,294**	**5,531,426**	**7,731,378**
	$ 1,486,528	**$ 5,740,030**	**$ 21,703,802**	**$ 28,930,360**

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

13. OTHER LIABILITIES

	2017	2016
Accrued interest payable	**$ 411,416**	$ 388,377
Cheques and other items in transit	**72,364**	83,131
Defined benefit plan liabilities (Note 18)	**62,826**	76,489
Accounts payable, accrued expenses and other items	**505,302**	420,080
	$ 1,051,908	$ 968,077

14. DEBT RELATED TO SECURITIZATION ACTIVITIES AND STRUCTURED ENTITIES

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

	2017	2016
	Total carrying amount	Total carrying amount
Debt related to securitization activities		
Debt related to CMB and NHA MBS transactions	**$ 5,762,584**	$ 5,056,031
Debt related to multi-seller conduits[1]	**1,762,301**	1,805,284
Debt related to securitization activities involving structured entities		
Debt related to bank securitization vehicles[1][2]	**$ 706,036**	$ 383,139
	$ 8,230,921	$ 7,244,454

(1) The interest rate is based on the funding cost of the conduits and corresponds to the rate of the asset-backed commercial paper issued by the conduits, plus related program fees.
(2) Includes debt related to the securitization of personal loans and finance lease receivables.

15. SUBORDINATED DEBT

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

ISSUED AND OUTSTANDING

					2017		2016
Maturity	**Series**	**Interest rate**	**Special terms**		**Carrying amount**		Carrying amount
June 2027		4.25%	Non-Viability Contingent Capital Redeemable at par as of June 22, 2022 [1]; rate to be revised on June 22, 2022 and set at the three-month CDOR rate plus 2.73%	**$**	**350,000**	$	—
October 2022	2012-1	3.13%	Redeemable at par as of October 19, 2017 [1]; rate to be revised on October 19, 2017 and set at the 90-day bankers' acceptance rate plus 1.46%	**$**	**—**		200,000
					350,000		200,000
Unamortized issuance costs					**(1,573)**		(176)
				$	**348,427**	$	199,824

(1) Subject to the provisions of the *Bank Act* and to the prior consent of OSFI.

Issuance of subordinated debt

On June 22, 2017, the Bank issued $350.0 million of notes (Non-Viability Contingent Capital (NVCC)) (subordinated indebtedness) (the "Notes"). The Notes bear interest at a fixed rate of 4.25% per annum (paid semi-annually) until June 22, 2022, and, thereafter, at the three-month CDOR plus 2.73% per annum (paid quarterly) until maturity on June 22, 2027. 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.

Redemption of subordinated debt

On October 19, 2017 the Bank redeemed all of its Series 2012-1 subordinated Medium Term Notes maturing in 2022, with an aggregate notional amount of $200.0 million. The Series 2012-1 subordinated Medium Term Notes were redeemed at par plus accrued and unpaid interest to the date of redemption.

16. SHARE CAPITAL

AUTHORIZED SHARE CAPITAL

Preferred shares – Unlimited number of Class A Preferred Shares, without par value, issuable in series.
Common shares – Unlimited number of common shares, without par value.

PREFERRED SHARES

Terms of preferred shares

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

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

The Non-Cumulative Class A Preferred Shares, Series 13 (the Preferred Shares Series 13), are redeemable at the Bank's option, on June 15, 2019 and on June 15 every five years thereafter at a price of $25.00 each together with all declared and unpaid dividends to the date fixed for redemption, subject to the provisions of the Bank Act and to the prior consent of OSFI. On June 15, 2019 and on June 15 every five years thereafter, the holders may elect to convert, subject to the automatic conversion provision, any or all of their Preferred Shares Series 13 into an equal number of Non-Cumulative Class A Preferred Shares, Series 14 (the Preferred Shares Series 14). For the initial five-year period ending on, but excluding, June 15, 2019, the holders of the Preferred Shares, Series 13 will be entitled to receive non-cumulative preferential quarterly dividends yielding 4.3% annually, as and when declared by the Board of Directors of the Bank. Thereafter, the dividend rate will reset every five years to be equal to the then current 5-Year Government of Canada bond yield plus 2.55%.The Bank may be required to convert any or all of the Preferred Shares Series 13 into a variable number of common shares upon the occurrence of a non-viability trigger event.

The Non-Cumulative Class A Preferred Shares, Series 14 (the Preferred Shares Series 14), are redeemable at the Bank's option, by the payment of an amount in cash for each such share so redeemed of (i) $25.00 together with all declared and unpaid dividends to the date fixed for redemption in the case of redemptions on June 15, 2024 and on June 15 every five years thereafter, or (ii) $25.50 together with all declared and unpaid dividends to the date fixed for redemption in the case of redemptions on any other date after June 15, 2019, subject to the provisions of the Bank Act and to the prior consent of OSFI. On June 15, 2024 and on June 15 every five years thereafter, the holders may elect to convert, subject to the automatic conversion provision, any or all of their Preferred Shares Series 14 into an equal number of Preferred Shares Series 13. The holders of the Preferred Shares Series 14 will be entitled to receive non-cumulative preferential quarterly dividends at a floating quarterly dividend rate equal to the 90-day Canadian Treasury Bill rate plus 2.55%, as and when declared by the Board of Directors of the Bank. The Bank may be required to convert any or all of the Preferred Shares Series 14 into a variable number of common shares upon the occurrence of a non-viability trigger event.

The Non-Cumulative Class A Preferred Shares, Series 15 (the Preferred Shares Series 15), are redeemable at the Bank's option, on June 15, 2021 and on June 15 every five years thereafter at a price of $25.00 each together with all declared and unpaid dividends to the date fixed for redemption, subject to the provisions of the Bank Act and to the prior consent of OSFI. On June 15, 2021 and on June 15 every five years thereafter, the holders may elect to convert, subject to the automatic conversion provision, any or all of their Preferred Shares Series 15 into an equal number of Non-Cumulative Class A Preferred Shares, Series 16 (the Preferred Shares Series 16). For the initial five-year period ending on, but excluding, June 15, 2021, the holders of the Preferred Shares, Series 15 will be entitled to receive non-cumulative preferential quarterly dividends yielding 5.85% annually, as and when declared by the Board of Directors of the Bank. Thereafter, the dividend rate will reset every five years to be equal to the then current 5-Year Government of Canada bond yield plus 5.13%. The Bank may be required to convert any or all of the Preferred Shares Series 15 into a variable number of common shares upon the occurrence of a non-viability trigger event.

16. SHARE CAPITAL [CONT'D]

The Non-Cumulative Class A Preferred Shares, Series 16 (the Preferred Shares Series 16), are redeemable at the Bank's option, by the payment of an amount in cash for each such share so redeemed of (i) $25.00 together with all declared and unpaid dividends to the date fixed for redemption in the case of redemptions on June 15, 2026 and on June 15 every five years thereafter, or (ii) $25.50 together with all declared and unpaid dividends to the date fixed for redemption in the case of redemptions on any other date after June 15, 2021, subject to the provisions of the Bank Act and to the prior consent of OSFI. On June 15, 2026 and on June 15 every five years thereafter, the holders may elect to convert, subject to the automatic conversion provision, any or all of their Preferred Shares Series 16 into an equal number of Preferred Shares Series 15. The holders of the Preferred Shares Series 16 will be entitled to receive non-cumulative preferential quarterly dividends at a floating quarterly dividend rate equal to the 90-day Canadian Treasury Bill rate plus 5.13%, as and when declared by the Board of Directors of the Bank. The Bank may be required to convert any or all of the Preferred Shares Series 16 into a variable number of common shares upon the occurrence of a non-viability trigger event.

Issued and outstanding

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

		2017		2016
	Number of shares	**Amount**	Number of shares	Amount
Non-Cumulative Class A Preferred shares				
Series 11				
Outstanding at beginning and end of year	**4,000,000**	**$ 97,562**	4,000,000	$ 97,562
Series 13				
Outstanding at beginning and end of year	**5,000,000**	**$ 122,071**	5,000,000	$ 122,071
Series 15				
Outstanding at beginning of year	**5,000,000**	**121,967**	—	—
Issuance of shares	**—**	**—**	5,000,000	125,000
Net issuance cost	**n.a.**	**—**	n.a.	(3,033)
Outstanding at end of year	**5,000,000**	**121,967**	5,000,000	121,967
	14,000,000	**$ 341,600**	14,000,000	$ 341,600

There were no outstanding Non-Cumulative Class A Preferred Shares, Series 12, Series 14, Series 16 as at October 31, 2017 and October 31, 2016.

Issuance of preferred shares

On March 17, 2016, the Bank issued 5,000,000 Non-Cumulative Class A Preferred Shares, Series 15 (the "Preferred Shares Series 15"), at a price of $25.00 per share for gross proceeds of $125.0 million.

Repurchase of preferred shares

On November 14, 2017 the Bank announced that it would repurchase 4,000,000 Non-cumulative Class A Preferred Shares, Series 11 on December 15, 2017 at a price of $25.00 per share, for an aggregate amount of $100.0 million.

COMMON SHARES

Issued and outstanding

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

		2017		2016
	Number of shares	**Amount**	Number of shares	Amount
Common shares				
Outstanding at beginning of year	**33,842,170**	**$ 696,493**	28,956,619	$ 466,336
Issuance under public offerings	**4,654,560**	**240,641**	4,544,800	222,852
Issuance under the employee share purchase option plan (see Note 17)	**—**	**—**	8,000	273
Issuance under the Shareholder Dividend Reinvestment and Share Purchase Plan	**469,743**	**26,637**	332,751	15,911
Net issuance cost	**n.a.**	**(10,235)**	n.a.	(8,879)
Total common shares	**38,966,473**	**$ 953,536**	33,842,170	$ 696,493

16. SHARE CAPITAL [CONT'D]

Issuance under a public offering

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

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

On May 26, 2017, the Bank issued 4,654,560 subscription receipts at a price of $51.70 per receipt. The proceeds of the offering were placed in escrow until the closing of the NCF acquisition (see Note 31). Upon the completion of the acquisition on August 11, 2017, the subscription receipts were automatically exchanged for 4,654,560 common shares of the Bank for gross proceeds of $240.6 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 2017, 469,743 common shares (332,751 in 2016) were legally issued from treasury at a 2% discount.

DECLARED DIVIDENDS

		2017			**2017**		2016		2016
		Dividend per share			**Dividends declared**		Dividend per share		Dividends declared
Class A Preferred shares									
Series 11	$	**1.000**	$		**4,000**	$	1.000	$	4,000
Series 13	$	**1.075**			**5,375**	$	1.075		5,375
Series 15	$	**1.463**			**7,313**	$	0.726		3,631
Total preferred shares			$		**16,688**			$	13,006
Common shares	$	**2.46**	$		**86,560**	$	2.36	$	73,622

On November 21, 2017, the Board of Directors declared regular dividends on the various series of preferred shares to shareholders of record on December 7, 2017. On December 4, 2017, the Board of Directors announced a dividend of $0.63 per common share, payable on February 1, 2018, to shareholders of record on January 2, 2018.

RESTRICTIONS ON THE PAYMENT OF DIVIDENDS

The Bank is prohibited by the Bank Act from declaring or paying any dividends on its preferred shares or common shares if there are reasonable grounds for believing that, in so doing, the Bank would not comply with capital adequacy and liquidity regulations or related guidance provided by OSFI.

The Bank's ability to pay common share dividends is also restricted by the terms of the outstanding preferred shares. These terms provide that the Bank may not pay dividends on its common shares at any time without the approval of holders of the outstanding preferred shares, unless all dividends that are then payable have been declared and paid or set apart for payment.

CAPITAL MANAGEMENT

Management's objective is to maintain an adequate level of capital that: considers the Bank's targeted capital ratios and internal assessment of required capital that is aligned with the Bank's 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.

16. SHARE CAPITAL [CONT'D]

Regulatory capital

OSFI requires banks to meet minimum risk-based capital ratios drawn on the Basel Committee on Banking Supervision (BCBS) capital framework, commonly referred to as Basel III. Under OSFI's Capital Adequacy Requirements guideline, the Bank must maintain minimum levels of capital depending on various criteria. Tier 1 capital, the most permanent and subordinated forms of capital, must be more predominantly composed of common equity. Tier 1 capital consists of two components: Common Equity Tier 1 and Additional Tier 1, to ensure that risk exposures are backed by a high quality capital base. Tier 2 capital consists of supplementary capital instruments and contributes to the overall strength of a financial institution as a going concern.

Under OSFI's guideline, minimum Common Equity Tier 1, Tier 1 and Total capital ratios were set at 5.75%, 7.25% and 9.25% respectively for 2017. These ratios include phase-in of the capital conservation buffer and of certain regulatory adjustments through 2019 and phase-out of non-qualifying capital instruments through 2022, (the "transitional" basis). The guideline also provides for annual increases in minimum capital ratio requirements, which will reach 7.0%, 8.5% and 10.5% respectively in 2019, including the 2.5% capital conservation buffers.

Furthermore, OSFI expects deposit-taking institutions to maintain target capital ratios without transition arrangements equal to or greater than the 2019 minimum capital ratios plus a conservation buffer (the "all-in" basis), including a minimum 7.0% Common Equity Tier 1 ratio target. The "all-in" basis includes all of the regulatory adjustments that will be required by 2019 but retains the phase-out rules for non-qualifying capital instruments.

OSFI's guideline provides additional guidance regarding the treatment of non-qualifying capital instruments and specifies that certain capital instruments no longer fully qualify as capital as of January 1, 2013. The Bank's Series 2012-1 subordinated Medium Term Notes were considered non-qualifying capital instruments under Basel III and were subject to a 10% phase-out per year prior to the announcement on September 15, 2017 of their redemption on October 19, 2017. The Bank's Series 11 preferred shares were also considered non-qualifying capital instruments under Basel III and were subject to a 10% phase-out per year since 2013, prior to the announcement on November 14, 2017 that they will be redeemed on December 15, 2017. The Preferred Shares Series 13 and Series 15 fully qualify as Additional Tier 1 capital, as well as the notes (subordinated indebtedness) due June 22, 2027 fully qualify as Tier 2 capital under Basel III.

Under OSFI's Leverage Requirements Guideline, Federally regulated deposit-taking institutions are expected to maintain a Basel III leverage ratio that meets or exceeds 3% at all times. The leverage ratio is defined as the Tier 1 capital divided by unweighted on-balance sheet assets and off-balance sheet commitments, derivatives and securities financing transactions, as defined within the requirements.

The Bank has complied with regulatory capital requirements throughout the year ended October 31, 2017. Regulatory capital on an "all-in" basis is detailed below.

	2017	2016
Common shares	$ 953,536	$ 696,493
Retained earnings	1,035,770	924,861
Accumulated other comprehensive income, excluding cash flow hedge reserve	6,797	203
Deductions from Common Equity Tier 1 capital [1]	(383,804)	(182,181)
Common Equity Tier 1 capital	1,612,299	1,439,376
Non-qualifying preferred shares [2]	97,562	97,562
Qualifying preferred shares	244,038	244,038
Additional Tier 1 capital	341,600	341,600
Tier 1 capital	1,953,899	1,780,976
Non-qualifying subordinated debt [2]	—	199,824
Qualifying subordinated debt	348,427	—
Collective allowances	62,263	75,380
Tier 2 capital	410,690	275,204
Total capital	$ 2,364,589	$ 2,056,180
Common Equity Tier 1 capital ratio	7.9%	8.0%
Tier 1 capital ratio	9.6%	9.9%
Total capital ratio	11.6%	11.5%

(1) Comprised of deductions for software and other intangible assets, goodwill, pension plan assets and other.
(2) There is currently no deduction related to the non-qualifying capital instruments under Basel III.

17. SHARE-BASED COMPENSATION

SHARE PURCHASE OPTION PLAN

The Bank offers a share purchase option plan to members of its senior management. Under this plan, the exercise price of options for the purchase of common shares must not be less than the market prices of such shares immediately prior to the grant date. The right to exercise the options vests gradually over a maximum five-year period and the options may be exercised at any time up to ten years after they have been granted.

The Bank had initially reserved 1,600,000 common shares for the potential exercise of share purchase options, of which 124,962 were still available as at October 31, 2017 (124,962 as at October 31, 2016).

No new share options were granted in 2017 and 2016. The following table summarizes the Bank's share purchase option activities for the years ended October 31 2016.

		2016
	Number of options	Exercise price per option
Outstanding at beginning of year	8,000	$ 29.47
Exercised	(8,000)	$ 29.47
Outstanding and exercisable at end of year	—	$ —

SHARE APPRECIATION RIGHTS PLAN

The Bank offers a share appreciation rights (SARs) plan to members of its senior management. These SARs may be cash settled for an amount equal to the difference between the SAR exercise price and the closing price of the common shares at the measurement date. SARs vest over a maximum period of five years and can be exercised over a maximum period of ten years. The fair value of SARs is measured using the Black-Scholes-Merton option pricing model, taking into account the terms and conditions upon which the instruments were granted, including the dividend yield.

No SARs were granted during 2017 and 2016. The following table summarizes the Bank's SARs outstanding balances as at October 31, 2017 and 2016.

Share appreciation rights

	Weighted average exercise price	Number of SARs outstanding	Weighted average remaining contractual life (years)	Number of SARs exercisable
2017	**$ 40.37**	**25,035**	**0.57**	**25,035**
2016	$ 38.45	57,560	1.19	57,560

PERFORMANCE-BASED SHARE UNIT PLANS

Performance-based share units

The Bank offers a performance-based share unit (PSU) plan to certain members of its senior management. Rights to 60% of the PSUs generally vest over three years. The rights to the remaining 40% PSUs generally vest over three years and based on the Bank's total shareholder return relative to the average of a peer group of Canadian financial institutions. During the vesting period, dividend equivalents accrue to the participants in the form of additional share units. All PSUs are cash settled at fair value at the maturity date. A deferred version of the plan exists under which the participant is paid on termination of employment rather than at the end of the three-year period.

The following table summarizes the Bank's PSU plan activities for the years ended October 31, 2017 and 2016.

Performance share units

	Number of units granted	Value of units granted	Vesting date
2017	**147,784**	**$ 53.91**	**December 2019**
2016	139,442	$ 54.85	December 2018

The number of units outstanding as at October 31, 2017 was 541,696 of which 108,768 units were fully vested under the deferred version of the plan (529,351 units as at October 31, 2016 of which 74,646 units were fully vested).

17. SHARE-BASED COMPENSATION [CONT'D]

2017 Transformation performance-based share units

In 2017, the Bank introduced a PSU incentive program for certain members of its senior management that is linked to the successful execution of its transformation plan. The rights to theses PSUs (Transformation PSUs) vest after three years and only if the Bank attains the following performance targets at the end of fiscal 2019: an adjusted return on equity (ROE) - no worse than 300 basis points below the average ROE of the six major Canadian banks for fiscal 2019 (relative performance); or an adjusted ROE of 14% or better for fiscal 2019 (absolute performance).

The following table summarizes the Bank's transformation PSU plan activities for the year ended October 31, 2017.

Transformation performance share units

	Number of units granted		Value of units granted	Vesting date
2017	**25,413**	**$**	**53.91**	**December 2019**

The number of units outstanding as at October 31, 2017 was 26,254 of which no unit were vested.

RESTRICTED SHARE UNIT PLANS

The Bank offers a restricted share unit (RSU) plan to certain members of its senior management. Under the plan, 50% of the annual bonus otherwise payable to an eligible employee, under the Bank's short-term incentive compensation program, can be withheld and converted into fully vested restricted share units at the employees' option. The Bank undertakes to grant additional RSUs equal to 60% of the withheld bonus. These additional units vest at the end of the three-year period following their award. A deferred version of the plan exists under which the participant is paid on termination of employment rather than at the end of the three-year period.

The Bank also offers a RSU plan to certain employees of the capital markets sector. Under that plan, 30% of the annual bonus over a certain amount that would otherwise be payable to an eligible employee has to be withheld and converted into fully vested restricted share units. This plan does not provide for any employer contribution and a third of the restricted share units are redeemed at each of the first three anniversary dates of the grant.

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

The following table summarizes the Bank's RSU plans activities for the years ended October 31, 2017 and 2016.

Restricted share units

	Plan	Number of units converted (1)	Number of units granted		Value of units granted	Vesting date
2017	**Senior management**	**46,079**	**44,934**	**$**	**53.91**	**December 2019**
	Capital markets	**39,564**	**—**	**$**	**53.91**	**n.a.**
2016	Senior management	44,649	29,400	$	54.70	December 2018
	Capital markets	28,545	—	$	54.90	n.a.

(1) Corresponds to the portion of annual bonuses converted in RSU. These units are fully vested at grant date.

The number of units outstanding for Senior Management as at October 31, 2017 was 303,801 of which 201,191 units were fully vested under the deferred version of the plan (283,239 units as at October 31, 2016 of which 194,943 units were fully vested). The number of units outstanding for Capital markets as at October 31, 2017 was 67,685 all of which were vested (60,717 units as at October 31, 2016, 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 2017, 1,844 deferred share units were redeemed and settled in cash (3,280 units in 2016). In 2017, the Bank granted 11,467 deferred share units as compensation (8,666 in 2016). As at October 31, 2017, there were 46,519 units (36,896 units in 2016) outstanding with a total value of $2.8 million ($1.8 million in 2016).

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 2017 ($0.6 million in 2016), are recognized in salaries and employee benefits. The average value of the granted shares under this plan was $54.75 in fiscal 2017 ($49.10 in 2016).

17. SHARE-BASED COMPENSATION [CONT'D]

SHARE-BASED COMPENSATION PLANS EXPENSE AND RELATED LIABILITY

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

		2017		2016
Expense arising from cash-settled share-based compensation transactions	$	18,927	$	2,126
Effect of hedges		(10,495)		1,889
	$	8,432	$	4,015

With a view to reducing volatility in the share-based compensation plan's expense, the Bank enters into total return swap contracts with third parties, the value of which is linked to the Bank's share price. Changes in fair value of these derivative instruments partially offset the share-based payment expense related to the share price variations over the period in which the swaps are in effect.

The carrying amount of the liability relating to the cash-settled plans was $49.4 million as at October 31, 2017 ($39.5 million as at October 31, 2016). The intrinsic value of the total liability related to fully vested rights and units was $25.9 million as at October 31, 2017 ($18.9 million as at October 31, 2016).

18. POST-EMPLOYMENT BENEFITS

DESCRIPTION OF BENEFIT PLANS

Pension plans

The Bank has a number of defined benefit pension plans, which in certain cases include a defined contribution portion. The benefit plans provide pension benefits to most of the Bank's employees. The defined benefit pension plans are based on years of service and final average salary at retirement time.

Pension plans are registered with OSFI and are subject to the federal Pension Benefits Standards Act, 1985. They are also registered with Retraite Québec (RQ) and are subject to the Québec Supplemental Pension Plans Act. The Bank's Human Resources and Corporate Governance Committee of the Board has the responsibility to ensure that management implements appropriate internal oversight systems with a view to adequately manage pension plans in accordance with the laws and regulations in effect.

Other group plans

The Bank offers other post-employment benefits to its employees such as a salary continuance plan during maternity leave and the payment of group insurance plan premiums during a disability period or maternity leave. In addition, certain retired employees have other retirement benefits, including health and life insurance.

RISKS ASSOCIATED WITH PENSION PLANS

Pension plans expose the Bank to a broad range of risks. These risks are managed with the objective of meeting pension benefit obligations, while maintaining a reasonable risk profile for the Bank. The pension obligation is mainly subject to demographic risks such as salary inflation and longevity improvements. In addition, the obligation is impacted by the discount rate. Pension plan assets are subject to market risks and more precisely to equity value, long-term interest rates and credit spreads. To manage risks associated with the pension obligation, the Bank monitors its plan benefits and makes adjustments with the objective of optimizing the overall employee benefits. Defined benefit pension plan assets are invested in order to meet pension obligations. To manage the predominant interest rate risk, the Bank has adopted a liability-driven investment policy. This approach provides more control over the plan's financial position by investing in assets that are correlated with liabilities and that allow a reduction in volatility. Factors taken into consideration in developing the asset allocation include but are not limited to the following:

(i) the nature of the underlying benefit obligations, including the duration and term profile of the liabilities;
(ii) the member demographics, including normal retirement age, terminations, and mortality;
(iii) the financial position of the pension plans; and
(iv) the diversification benefits obtained by the inclusion of multiple asset classes.

In addition, a portion of the plans' assets can be invested in other asset classes, such as common shares, emerging market equities, high-yield fixed income securities, private equity or debt investments, as well as other alternative investments to improve potential returns.

FUNDING REQUIREMENTS

The Bank's pension plans are funded by both employee and employer contributions, and are determined based on the financial position and the funding policy of the plan. The employer contributions must be sufficient to cover the value of the obligations that currently accrue in the plan, including fees paid by the plan, as well as special contributions required to amortize any deficit. The Bank assumes all the risks and costs related to the pension plans, including any deficit.

18. POST-EMPLOYMENT BENEFITS [CONT'D]

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, 2016 for all pension plans. The next required actuarial valuation for funding purposes will be as at December 31, 2017 for all funded plans.

DEFINED BENEFIT PLAN OBLIGATIONS

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

				2017				2016
		Pension plans		Other plans		Pension plans		Other plans
Change in defined benefit obligation								
Defined benefit obligation at beginning of year	$	633,395	$	29,344	$	560,402	$	27,399
Current service cost		15,257		54		12,474		46
Past service cost		70		—		—		—
Interest expense		21,883		814		24,093		945
Benefits paid		(33,076)		(1,022)		(34,700)		(1,066)
Employee contributions		2,962		—		3,072		—
Actuarial losses (gains) arising from changes in assumptions								
Demographic		10		—		—		—
Economic		(7,410)		(435)		68,088		2,020
Actuarial gains arising from plan experience		(3,114)		—		(34)		—
Defined benefit obligation at end of year	$	629,977	$	28,755	$	633,395	$	29,344

DEFINED BENEFIT PENSION PLAN ASSETS

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

		2017		2016
Change in fair value of pension plan assets				
Fair value of plan assets at beginning of year	$	589,570	$	548,942
Interest income (at prescribed rate)		20,139		23,412
Actuarial gains arising from the difference between the actual return on plan assets and interest income		113		32,449
Administration costs (other than costs of managing plan assets)		(1,521)		(1,990)
Bank contributions		21,132		18,385
Employee contributions		2,962		3,072
Benefits paid		(33,076)		(34,700)
Fair value of plan assets at end of year	$	599,319	$	589,570

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

				2017				2016
		Pension plans		Other plans		Pension plans		Other plans
Fair value of plan assets	$	599,319	$	—	$	589,570	$	—
Defined benefit obligation		629,977		28,755		633,395		29,344
Funded status – plan deficit		(30,658)		(28,755)		(43,825)		(29,344)
Defined benefit plan assets included in other assets		3,413		—		3,320		—
Defined benefit plan liabilities included in other liabilities	$	34,071	$	28,755	$	47,145	$	29,344

18. POST-EMPLOYMENT BENEFITS [CONT'D]

DEFINED BENEFIT PLAN COSTS RECOGNIZED DURING THE YEAR

			2017		2016
		Pension plans	**Other plans**	Pension plans	Other plans
Amounts recognized in income					
Current service cost	$	**15,257**	$ **54**	$ 12,474	$ 46
Past service cost		**70**	**—**	—	—
Administration costs (other than costs of managing plan assets)		**1,521**	**—**	1,990	—
Interest expense		**21,883**	**814**	24,127	945
Interest income (at prescribed rate)		**(20,139)**	**—**	(23,412)	—
Loss (gain) on short-term employee benefits		**—**	**(33)**	—	305
		18,592	**835**	15,179	1,296
Amounts recognized in other comprehensive income					
Actuarial losses (gains) on defined benefit obligation		**(10,514)**	**(402)**	68,054	1,715
Actuarial (gains) on plan assets		**(113)**	**—**	(32,449)	—
Change in the effect of the asset limit		**—**	**—**	(816)	—
		(10,627)	**(402)**	34,789	1,715
Total defined benefit cost	$	**7,965**	$ **433**	$ 49,968	$ 3,011

The Bank expects to contribute $20.6 million to its defined benefit pension plans for the year ending October 31, 2018.

ASSET ALLOCATION OF DEFINED BENEFIT PENSION PLANS

		2017		2016
Asset category				
Cash and cash equivalents [1]	$	**5,842**	$	27,260
Equity funds				
Canada		**29,103**		20,690
United States		**20,156**		32,738
Other		**22,167**		40,260
Debt securities				
Canadian governments and other public administrations		**87,733**		96,288
Corporate and other		**362,522**		337,914
Other		**71,796**		34,420
	$	**599,319**	$	589,570

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

Equity funds include $0.2 million in equity securities of the Bank as at October 31, 2017 (nil as at October 31, 2016). As at October 31, 2017 none of the Plan assets were quoted in active markets. As at October, 31 2016, Plan assets included equity funds of $35.5 million quoted in active markets .

SIGNIFICANT ASSUMPTIONS FOR PENSION PLANS AND OTHER PLANS

	2017	2016
Weighted average of assumptions to determine benefit obligation		
Discount rate at end of year	**3.54%**	3.45%
Rate of compensation increase	**2.75%**	2.75%
Weighted average of assumptions to determine benefit expense		
Discount rate - Current service	**3.60%**	4.60%
Discount rate - Interest expenses (income), net	**3.45%**	4.30%
Rate of compensation increase	**2.75%**	2.75%

For 2017, the weighted average financial duration of the pension plans was approximately 14.3 years (14.6 years in 2016).

18. POST-EMPLOYMENT BENEFITS [CONT'D]

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

ASSUMED HEALTH CARE COST TREND RATES

	2017	2016
Assumed annual rate of increase in the cost of health care benefits	**6.50%**	6.75%
Level to which it should decline and at which it is assumed to subsequently stabilize	**4.5%**	4.5%
Year that the rate is assumed to stabilize	**2025**	2025

SENSITIVITY ANALYSIS

Due to the long-term nature of post-employment benefits, there are significant uncertainties related to the recognition of balances surrounding the assumptions used.

Discount rates could have a significant impact on the defined benefit plan assets (liabilities) as well as, depending on the funding status of the plan, on pension plan and other post-employment benefit expenses. The following table summarizes the impact of a 0.25 percentage point change in this key assumption on the defined benefit plan obligation and cost for the year ended October 31, 2017.

	Impact of a potential change of 0.25% to the discount rate on [1]	
	Obligation	**Cost**
Pension Plans	**$ 22,143**	**$ 1,645**
Other Plans	**$ 745**	**$ 61**

(1) The sensitivities presented in this table should be used with caution, as the impact is hypothetical and changes in assumptions may not be linear.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. The following table summarizes the impact of a one percentage point change in this key assumption on the defined benefit plan obligation and cost for the year ended October 31, 2017, with all other assumptions remaining constant.

	1% increase	**1% decrease**
Increase (decrease) in total of service and interest expense	**$ 293**	**$ (259)**
Increase (decrease) in defined benefit obligation	**$ 1,711**	**$ (1,466)**

EXPENSE FOR POST-EMPLOYMENT BENEFITS

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

	2017	2016
Defined benefit pension plans	**$ 18,592**	$ 15,179
Defined contribution pension plans	**7,568**	6,739
Other plans	**835**	1,296
	$ 26,995	$ 23,214

19. INCOME TAXES

DEFERRED INCOME TAXES

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

	2017	2016
Deferred income tax assets		
Allowances for loan losses	$ 22,997	$ 26,234
Defined benefit plan liabilities	15,803	19,525
Amount related to share-based payments	13,208	10,567
Provisions	11,852	12,463
Premises and equipment	7,037	7,947
Deferred revenues	6,613	5,273
Derivatives	2,645	—
Other temporary differences	9,299	5,263
	89,454	87,272
Deferred income tax liabilities		
Deferred charges	33,067	29,955
Software	14,296	18,695
Leases	13,407	18,768
Other intangible assets	8,231	4,386
Securitization and securities	975	1,419
Loans	938	4,284
Derivatives	—	4,042
Other temporary differences	1,950	1,983
	72,864	83,532
Deferred income taxes, net	$ 16,590	$ 3,740

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

	2017	2016
Deferred income tax assets	$ 38,702	$ 36,495
Deferred income tax liabilities	(22,112)	(32,755)
Deferred income taxes, net	$ 16,590	$ 3,740

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

	2017	2016
Deferred income tax (recovery) expense		
Allowances for loan losses	$ 3,172	$ 60
Deferred charges	3,112	2,125
Other intangible assets	2,676	(511)
Premises and equipment	908	(368)
Provisions	611	(3,211)
Leases	(6,724)	1,856
Software	(4,399)	(7,193)
Amount related to share-based payments	(2,641)	4,082
Loans	(768)	(1,511)
Securitization and securities	(418)	(1,494)
Other temporary differences	607	(276)
	$ (3,864)	$ (6,441)

19. INCOME TAXES [CONT'D]

INCOME TAX EXPENSE

Significant components of the income tax expense recorded in the Consolidated Statement of Income for the years ended October 31

	2017	2016
Current income taxes		
Income tax expense for the year	$ 63,532	$ 51,003
Previous years income tax expense adjustment	539	890
	64,071	51,893
Deferred income taxes		
Origination and reversal of temporary differences	(3,416)	(5,351)
Previous years income tax recovery adjustment	(448)	(1,090)
	(3,864)	(6,441)
	$ 60,207	$ 45,452

Significant components of the income tax expense recorded in the Consolidated Statement of Comprehensive Income for items related to other comprehensive income, for the years ended October 31

	2017	2016
Items that may subsequently be reclassified to the Statement of Income		
Income tax expense related to change in unrealized gains on available-for-sale securities	$ 4,062	$ 3,439
Income tax (recovery) expense related to reclassification of net gains (losses) on available-for-sale securities to net income	(2,453)	831
Income tax recovery related to net change in value of derivatives designated as cash flow hedges	(6,877)	(5,158)
Unrealized net losses on hedges of investments in foreign operations	(204)	—
	$ (5,472)	$ (888)
Items that may not subsequently be reclassified to the Statement of Income		
Income tax (recovery) expense related to actuarial gains on employee benefit plans	2,925	(9,734)
	$ (2,547)	$ (10,622)
Composition of income taxes		
Current income tax expense (recovery)	$ 1,161	$ (1,559)
Deferred income tax recovery	(3,708)	(9,063)
	$ (2,547)	$ (10,622)

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

	2017	2016
Income taxes on preferred share dividends		
Current income tax expense	$ 408	307
Income taxes on issuance of common and preferred shares		
Current income tax recovery	(543)	(781)
Deferred income tax recovery	(2,157)	(3,108)
	(2,700)	(3,889)
	$ (2,292)	(3,582)

19. INCOME TAXES [CONT'D]

RECONCILIATION WITH THE STATUTORY RATE

The reconciliation of income tax expense reported in the Consolidated Statement of Income to the dollar amount of income taxes using the statutory rates is as follows.

		2017			2016
		Amount		Amount	
Income taxes at statutory rates	**$**	**71,189**	**26.7%**	$ 52,733	26.7%
Change resulting from:					
Income related to foreign operations		**(7,756)**	**(2.9)**	(5,283)	(2.7)
Non-taxable dividends and non-taxable portion of capital gains		**(3,751)**	**(1.4)**	(2,548)	(1.3)
Other, net		**525**	**0.2**	550	0.3
Income taxes as reported in the Consolidated Statement of Income	**$**	**60,207**	**22.6%**	$ 45,452	23.0%

Income earned on foreign insurance operations would generally be taxed only upon repatriation to Canada. Since the Bank's management does not expect to repatriate income accumulated after July 27, 2006 and based on current tax interpretation, no deferred income tax expense and related provision have been recognized on such income. Income taxes that would be payable if all unremitted earnings were repatriated were estimated at $51.0 million as at October 31, 2017 ($46.0 million as at October 31, 2016).

20. EARNINGS PER SHARE

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

		2017		2016
Earnings per share – basic and diluted				
Net income	**$**	**206,461**	$	151,910
Preferred share dividends, including applicable taxes		**17,096**		13,313
Net income attributable to common shareholders	**$**	**189,365**	$	138,597
Average number of outstanding common shares (in thousands)		**35,059**		30,488
Earnings per share – basic and diluted	**$**	**5.40**	$	4.55

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.

There were no dilutive options or other dilutive potential ordinary shares outstanding as at October 31, 2017 and 2016.

21. RELATED PARTY TRANSACTIONS

Related parties of the Bank include:

- key management personnel and their close family members;
- entities which are controlled, jointly controlled or significantly influenced, or for which significant voting power is held, by key management personnel or their close family members;
- post-employment benefit plans for Bank employees.

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, being members of the Executive Committee or Board of Directors.

The following table presents transactions with related parties.

		2017		2016
Loans (1)				
Key management personnel	**$**	**2,355**	$	1,625
Entities controlled by key management personnel		**20,694**		18,049
	$	**23,049**	$	19,674
Deposits				
Key management personnel	**$**	**343**	$	1,235
Entities controlled by key management personnel		**1,548**		200
	$	**1,891**	$	1,435

(1) No allowance for loan losses was recorded against these loans.

The Bank provides loans to key management personnel and their related entities. Loans to directors 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 $1.0 million for the year ended October 31, 2017 ($0.8 million for the year ended October 31, 2016) 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 $ 34,000 for the year ended October 31, 2017 ($26,000 for the year ended October 31, 2016) and was recorded under interest expense in the Consolidated Statement of Income.

In addition, for the year ended October 31, 2017, the Bank paid a rental expense of $2.1 million to a related party ($2.2 million for the year ended October 31, 2016).

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

		2017		2016
Short-term employee benefits, including salaries	**$**	**5,239**	$	4,608
Post-employment benefits		**802**		616
Share-based payments		**7,399**		4,419
	$	**13,440**	$	9,643

22. FINANCIAL INSTRUMENTS – FAIR VALUE

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

CLASSIFICATION OF FAIR VALUE MEASUREMENTS IN THE FAIR VALUE HIERARCHY

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

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

DETERMINING FAIR VALUE

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

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

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

Where available, the Bank may also make use of quoted prices for recent trading activity in positions with the same or similar characteristics to that being valued. The frequency and size of transactions and the amount of the bid-ask spread are among the factors considered in determining the liquidity of markets and the relevance of observed prices from those markets. If relevant and observable prices are available, those valuations would be classified in Level 2. If prices are not available, other valuation techniques are used and items are classified in Level 3. For these assets and liabilities, the inputs used in determining fair value may require significant management judgment. Due to the inherent uncertainty in these estimates, the values may differ significantly from those that would have been used if an active market had existed for the financial instruments. Moreover, the estimates of fair value for the same or similar financial instruments may differ among financial institutions. The calculation of fair value is based on market conditions as at each balance sheet date.

VALUATION METHODOLOGIES

The following section describes the valuation methodologies used by the Bank to measure and disclose certain significant financial instruments at fair value, including an indication of the level in the fair value hierarchy in which each instrument is generally classified. Where appropriate, the description includes details of the valuation models, the key inputs to those models as well as any significant assumptions.

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

Given that quoted prices are not available for such financial instruments, fair value is determined using a discounted cash flow technique. Cash flows are estimated based on the terms of the contract and discounted using appropriate market rates.

Securities

When available, the Bank uses quoted market prices to determine the fair value of securities; such instruments are classified in Level 1 of the fair value hierarchy; for example exchange-traded equity securities. For bonds traded over the counter, the Bank generally determines fair value using internal valuation techniques or prices obtained from independent vendors. Where available, the Bank may also use quoted prices for recent trading activity of assets with similar characteristics to the bond being valued. Securities priced using such methods are generally classified in Level 2. However, less liquid securities may be classified in Level 3 given that the Bank must then determine the parameters related to certain significant value drivers, including liquidity premiums and credit spreads.

Loans

Quoted market prices in an active market are not available for these financial instruments. As a result, the fair value of loans is estimated by discounting cash flows adjusted to reflect prepayments, if any, at the prevailing market interest rates for new loans with substantially similar terms. For certain variable rate loans subject to frequent rate revisions and loans with indeterminate maturities, the fair value is deemed to represent the carrying amount.

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

Other assets

Other assets consist primarily of cheques and other items in transit and accrued interest receivable. Quoted market prices in an active market are not available for these financial instruments. The fair value of cheques and other items in transit and accrued interest receivable is determined using the discounted cash flow method.

Derivatives

The fair value of over-the-counter derivatives is calculated using prevailing market prices for instruments with similar characteristics and maturities, based on a discounted net value analysis or an appropriate pricing model that factors in the current and contractual prices of the underlying instruments, the time value of money, the yield curve, counterparty credit risk and volatility factors. These derivatives are classified in Level 2 or Level 3 depending on whether the significant inputs to those pricing models include observable or unobservable inputs. Also, certain exchange-traded derivatives, whose fair value is based on quoted market prices, are classified in Level 1 of the fair value hierarchy.

Deposits

Quoted market prices in an active market are not available for these financial instruments. As a result, the fair value of fixed rate deposits is estimated using discounted cash flows based on prevailing market interest rates for deposits with substantially similar terms. The fair value of deposits without stated maturities or variable rate deposits is deemed to represent their carrying amount.

Obligations related to securities sold short

When available, the Bank uses quoted market prices to determine the fair value of obligations related to securities sold short; such instruments are classified in Level 1. For bonds traded over the counter, the Bank generally determines fair value using internal valuation techniques or prices obtained from independent vendors. Where available, the Bank may also use quoted prices for recent trading activity of assets with similar characteristics to the bond being valued. Securities priced using such methods are generally classified in Level 2.

Debt related to securitization activities

Quoted market prices in an active market are not available for debt related to securitization activities. As a result, the fair value of these financial instruments is estimated using discounted cash flows based on prevailing market interest rates for similar issues or rates currently offered for debt securities with the same term to maturity.

Subordinated debt

Quoted market prices in an active market are not available for these financial instruments. As a result, the fair value of subordinated debt is estimated using discounted cash flows based on prevailing market interest rates for similar issues or rates currently offered for debt securities with the same term to maturity.

FAIR VALUE HIERARCHY

Financial assets and liabilities measured at fair value in the consolidated balance sheet

The following table presents the fair value hierarchy of financial instruments measured at fair value on a recurring basis using the valuation methods and assumptions as set out above.

(in millions of Canadian dollars)				2017
	Level 1	Level 2	Level 3	Total
Assets				
Securities				
Available-for-sale	$ 157	$ 2,875	$ —	$ 3,032
Held-for-trading	$ 136	$ 2,013	$ —	$ 2,149
Derivatives	$ —	$ 104	$ —	$ 104
Liabilities				
Obligations related to securities sold short	$ 24	$ 2,141	$ —	$ 2,165
Derivatives	$ 6	$ 172	$ 40	$ 218

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

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

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, 2017 and 2016.

As at October 31, 2017, the Bank considered other reasonably possible alternative assumptions for the valuation models to recalculate the fair value of the instruments and concluded that the resulting potential increase or decrease in total fair value classified in Level 3 was not significant.

Financial assets and liabilities not measured at fair value on the consolidated balance sheet

The following table presents financial instruments which are not recorded at fair value on the consolidated balance sheet and their classification in the fair value hierarchy. For these instruments, fair values are calculated for disclosure purposes only, and the valuation techniques are disclosed above.

(in millions of Canadian dollars)										**2017**				2016
		Carrying amount		**Fair value**		**Level 1**		**Level 2**		**Level 3**		Carrying amount		Fair value
Assets														
Held-to-maturity securities	**$**	**405**	**$**	**404**	**$**	**—**	**$**	**404**	**$**	**—**	$	502	$	502
Loans	**$**	**36,597**	**$**	**36,509**	**$**	**—**	**$**	**—**	**$**	**36,509**	$	33,274	$	33,425
Liabilities														
Deposits	**$**	**28,930**	**$**	**28,929**	**$**	**—**	**$**	**28,929**	**$**	**—**	$	27,573	$	27,689
Debt related to securitization activities	**$**	**8,231**	**$**	**8,273**	**$**	**—**	**$**	**8,273**	**$**	**—**	$	7,244	$	7,279
Subordinated debt	**$**	**348**	**$**	**359**	**$**	**—**	**$**	**359**	**$**	**—**	$	200	$	202

The Bank also determined that the carrying value approximates the fair value for the following assets and liabilities as they are usually liquid floating rate financial instruments and are generally short term in nature: cash and non-interest-bearing deposits with other banks, interest-bearing deposits with banks, securities purchased under reverse repurchase agreements, other assets, obligations related to securities sold under repurchase agreements and acceptances.

23. FINANCIAL INSTRUMENTS – OFFSETTING

The following table presents information about financial assets and financial liabilities that are subject to an enforceable master netting arrangement or similar agreement and the effect or potential effect of set-off rights.

				Amounts not offset in the consolidated balance sheet		2017
	Gross recognized amounts	Gross amounts offset in the consolidated balance sheet	Amounts presented in the consolidated balance sheet	Impact of master netting agreements (1)	Financial collateral received or pledged	Net amounts
Financial assets						
Securities purchased under reverse repurchase agreements	$ 4,158,294	$ 1,050,453	$ 3,107,841	$ 1,620,010	$ 1,485,197	$ 2,634
Derivatives	104,426	—	104,426	84,548	3,890	15,988
	$ 4,262,720	$ 1,050,453	$ 3,212,267	$ 1,704,558	$ 1,489,087	$ 18,622
Financial liabilities						
Obligations related to securities sold under repurchase agreements	$ 3,729,082	$ 1,050,453	$ 2,678,629	$ 1,620,010	$ 1,057,973	$ 646
Derivatives	217,785	—	217,785	84,548	43,126	90,111
	$ 3,946,867	$ 1,050,453	$ 2,896,414	$ 1,704,558	$ 1,101,099	$ 90,757

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

(1) Carrying amount of financial assets and financial liabilities that are subject to a master netting agreement or similar agreement but that do not meet offsetting criteria, as these agreements give a right of set-off that is enforceable only following a specified event of default or in other circumstances not expected to arise in the normal course of business.

24. FINANCIAL INSTRUMENTS – RISK MANAGEMENT

The Bank is exposed to various types of risks owing to the nature of the business activities it pursues. To ensure that significant risks to which the Bank could be exposed are taken into consideration, a Risk Management Framework has been developed to provide for oversight of risk assessment and control. Risk management is conducted according to tolerance levels established by management committees and approved by the Board of Directors through its committees.

In order to manage the risks associated with financial instruments, including loan and deposit portfolios, securities and derivatives, the Bank has implemented policies prescribing how various risks are to be managed. In practice, management closely monitors various risk limits, as well as a number of other indicators. Oversight of operations is performed by groups independent of the business lines.

The risk management policies and procedures of the Bank are disclosed in the Risk Appetite and Management Framework section of Management's Discussion and Analysis (MD&A). The relevant MD&A sections are identified in the shaded text and tables and are an integral part of these audited consolidated financial statements.

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

The following table details the maturity dates and average effective rates of the Bank's on- and off-balance sheet financial instruments.

(in millions of Canadian dollars)							**2017**
	Floating	**0 to 3 months**	**Over 3 months to 1 year**	**Over 1 year to 5 years**	**Over 5 years**	**Non-interest sensitive**	**Total**
Assets							
Cash, deposits and securities	$ 2,437	$ 2,112	$ 799	$ 471	$ 23	$ 72	$ 5,914
Actual return		1.1%	1.1%	1.9%	3.7%		
Securities purchased under reverse repurchase agreements	3,108	—	—	—	—	—	3,108
Loans	14,320	3,181	4,644	12,930	246	1,276	36,597
Actual return		3.4%	3.4%	3.2%	3.8%		
Other assets	—	—	—	—	—	1,064	1,064
Total	$ 19,865	$ 5,293	$ 5,443	$ 13,401	$ 269	$ 2,412	$ 46,683
Actual return		2.5%	3.0%	3.1%	3.8%		
Liabilities and equity							
Deposits	$ 3,143	$ 4,280	$ 8,291	$ 12,567	$ 92	$ 557	$ 28,930
Actual return		1.1%	1.6%	1.8%	3.0%		
Treasury items	4,844	—	—	—	—	—	4,844
Other liabilities	—	25	69	105	—	1,800	1,999
Actual return		1.9%	1.8%	2.1%	—%		
Debt related to securitization activities	—	3,255	541	3,999	436	—	8,231
Actual return		1.9%	1.9%	1.7%	2.2%		
Subordinated debt and equity	—	96	—	594	—	1,989	2,679
Actual return		—%	—%	2.5%	—%		
Total	$ 7,987	$ 7,656	$ 8,901	$ 17,265	$ 528	$ 4,346	$ 46,683
Actual return		1.5%	1.6%	1.8%	2.3%		
Swaps, net	—	(9,081)	3,373	5,431	277	—	—
Sensitivity gap	$ 11,878	$ (11,444)	$ (85)	$ 1,567	$ 18	$ (1,934)	$ —
Cumulative gap	$ 11,878	$ 434	$ 349	$ 1,916	$ 1,934	$ —	$ —

(in millions of Canadian dollars)							2016
	Floating	0 to 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest sensitive	Total
Assets	$ 18,887	$ 5,377	$ 4,587	$ 11,676	$ 251	$ 2,228	$ 43,006
Actual return		2.2%	3.4%	3.1%	3.9%		
Liabilities and equity	$ 7,682	$ 6,235	$ 6,894	$ 17,925	$ 455	$ 3,815	$ 43,006
Actual return		1.4%	1.6%	1.8%	2.0%		
Swaps, net	—	(11,293)	3,884	7,131	278	—	—
Sensivity gap	$ 11,205	$ (12,151)	$ 1,577	$ 882	$ 74	$ (1,587)	$ —
Cumulative gap	$ 11,205	$ (946)	$ 631	$ 1,513	$ 1,587	$ —	$ —

Maturity assumptions

Assets, liabilities and equity are shown at the earlier of the date of maturity or contractual revaluation while taking into consideration estimated redemptions or prepayments, except for the following:

- Deposits for which the interest rates are not indexed on a specific rate and which can be non-sensitive to changes in market rates are classified based on the historical trends in balances;
- Subordinated debt for which interest rates can be revised at a future date are classified at the re-pricing date;
- Preferred shares are classified using the date on which they become redeemable.

25. DERIVATIVES AND HEDGES

In the normal course of business, the Bank enters into various contracts and commitments in order to protect itself against the risk of fluctuations in interest rates, foreign exchange rates, stock prices and indexes used to determine the return of index-linked deposits, as well as to meet its customers' demands and to earn trading income, as described below.

The various derivatives listed in the tables below are as follows:

[i] Interest rate swaps involve the exchange of fixed and floating interest payment obligations based on a predetermined notional amount for a specified period of time. Foreign exchange swaps involve the exchange of the principal and fixed or floating interest payments in different currencies.

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

[iii] Futures are commitments to purchase or deliver a financial instrument on a specified future date at a specified price. Futures are traded in standardized amounts on organized exchanges and are subject to daily cash margining.

[iv] Foreign exchange forward contracts are commitments to purchase or sell foreign currencies for delivery at a specified date in the future at a pre-determined rate.

[v] Total return swaps involve floating payments based on changes in the value of a reference asset or group of assets, including any associated return such as dividends, in exchange for amounts based on prevailing market funding rates.

AGGREGATE NOTIONAL AMOUNTS

The following tables present the notional amounts associated with the derivatives. The amounts are not indicative of the potential gain or loss related to the credit or market risk of these instruments.

(in millions of Canadian dollars)						2017
	Period to maturity					
Notional amount	Within 1 year	1 to 5 years	Over 5 years	Total	Designated as hedge contracts	Other contracts [1], [2]
Interest rate contracts						
Over-the-counter contracts						
Swaps	$ 3,727	$ 9,565	$ 771	$ 14,063	$ 11,735	$ 2,328
Exchange-traded contracts						
Futures	71	40	—	111	—	111
Foreign exchange contracts						
Over-the-counter contracts						
Foreign exchange swaps	1,717	64	—	1,781	193	1,588
Forwards	1,105	72	—	1,177	—	1,177
Options purchased	1,102	—	—	1,102	—	1,102
Options written	1,102	—	—	1,102	—	1,102
Equity- and index-linked contracts						
Options purchased	38	76	—	114	—	114
Options written	116	263	—	379	—	379
Futures	16	—	—	16	—	16
Total return swaps	24	28	—	52	5	47
	$ 9,018	$ 10,108	$ 771	$ 19,897	$ 11,933	$ 7,964

(1) Include notional amounts of $0.4 billion related to basis swaps at October 31, 2017.
(2) Include derivatives used in trading operations to meet customer demands and to earn trading income, as well as derivatives used to manage the Bank's risk exposures that are not designated in hedge relationships.

25. DERIVATIVES AND HEDGES [CONT'D]

(in millions of Canadian dollars)						2016
	Period to maturity					
Notional amount	Within 1 year	1 to 5 years	Over 5 years	Total	Designated as hedge contracts [1]	Other contracts [2]
Interest rate contracts						
Over-the-counter contracts						
Swaps	$ 4,910	$ 10,363	$ 1,288	$ 16,561	$ 14,503	$ 2,058
Forwards	276	—	—	276	—	276
Exchange-traded contracts						
Futures	65	—	—	65	—	65
Foreign exchange contracts						
Over-the-counter contracts						
Foreign exchange swaps	2,342	53	—	2,395	56	2,339
Forwards	1,805	59	—	1,864	—	1,864
Options purchased	1,498	6	—	1,504	—	1,504
Options written	1,457	6	—	1,463	—	1,463
Equity- and index-linked contracts						
Options purchased	50	53	—	103	—	103
Options written	77	260	—	337	—	337
Futures	6	400	—	406	—	406
Total return swaps	20	24	—	44	3	41
	$ 12,506	$ 11,224	$ 1,288	$ 25,018	$ 14,562	$ 10,456

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

(2) Include derivatives used in trading operations to meet customer demands and to earn trading income, as well as derivatives used to manage the Bank's risk exposures that are not designated in hedge relationships.

25. DERIVATIVES AND HEDGES [CONT'D]

FAIR VALUE OF DERIVATIVES

(in thousands of Canadian dollars)	2017		2016	
	Assets	Liabilities	Assets	Liabilities
DESIGNATED AS HEDGE CONTRACTS				
Fair value hedges				
Interest rate contracts				
Swaps	$ 16,818	$ (67,413)	$ 89,482	$ (5,932)
Cash flow hedges				
Interest rate contracts				
Swaps	31,286	(35,908)	34,273	(11,460)
Equity- and index-linked contracts				
Total return swaps	658	—	2	—
Net investment hedges				
Foreign exchange contracts				
Foreign exchange swaps	—	(947)	—	—
OTHER CONTRACTS [1]				
Interest rate contracts				
Swaps	29,544	(24,624)	50,079	(48,014)
Foreign exchange contracts				
Foreign exchange swaps	6,575	(35,877)	21,789	(34,778)
Forwards	5,847	(6,595)	12,292	(7,300)
Options purchased	5,940	—	17,295	—
Options written	—	(6,160)	—	(16,812)
Equity- and index-linked contracts				
Options purchased	6,677	—	6,319	—
Options written	—	(40,097)	—	(26,197)
Total return swaps	1,081	(164)	1,260	(6)
Total	$ 104,426	$ (217,785)	$ 232,791	$ (150,499)

(1) Include derivatives used in trading operations to meet customer demands and to earn trading income as well as derivatives used to manage the Bank's risk exposures that do not qualify for hedge accounting.

25. DERIVATIVES AND HEDGES [CONT'D]

INFORMATION REGARDING HEDGING RELATIONSHIPS

The 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 subsidiary.

Fair value hedges

The Bank uses interest rate swaps and foreign exchange contracts to hedge changes in fair value of assets, liabilities or firm commitments. The notional amount of derivatives designated as hedging instruments in fair value hedges was $5.9 billion as at October 31, 2017 ($5.1 billion as at October 31, 2016).

The following table presents ineffectiveness related to fair value hedges.

(in thousands of Canadian dollars)		**2017**		2016
Net gains recognized on hedging instrument	**$**	**113,484**	$	6,493
Net losses recognized on hedged item		**(115,575)**		(6,439)
Ineffectiveness (losses) gains recognized in net income	**$**	**(2,091)**	$	54

Cash flow hedges

The Bank uses interest rate swaps to hedge the variability in cash flows related to variable rate assets and liabilities. The Bank also uses total return swaps to hedge the variability in cash flows related to the share-based compensation plans. The notional amount of swap contracts designated as hedging instruments in cash flow hedges was $5.8 billion as at October 31, 2017 ($9.4 billion as at October 31, 2016).

Ineffectiveness gains related to cash flow hedges of $0.4 million was recognized in net income for the year ended October 31, 2017 ($0.1 million in 2016).

The remaining balance of accumulated other comprehensive income related to cash flow hedges as at October 31, 2017 is expected to be reclassified to the Consolidated Statement of Income over the next 14 years.

Net investment hedges

The Bank uses foreign exchange swaps to hedge its net investment in a foreign subsidiary, The notional amount of foreign exchange swap contracts designated as hedging instruments in net investment hedges was $193.3 billion as at October 31, 2017 (nil as at October 31, 2016).

There was no hedge ineffectiveness associated with net investment hedges for the year ended October 31, 2017.

CREDIT EXPOSURE

(in millions of Canadian dollars)						**2017**						2016
		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	**$**	**95**	**$**	**208**	**$**	**45**	$	176	$	268	$	64
Foreign exchange contracts		**19**		**65**		**30**		51		113		62
Equity-and index-linked contracts		**8**		**21**		**5**		7		20		5
		122		**294**		**80**		234		401		131
Impact of master netting agreements		**(102)**		**(188)**		**(43)**		(130)		(183)		(54)
	$	**20**	**$**	**106**	**$**	**37**	$	104	$	218	$	77

(1) Represents what it would cost to replace transactions at prevailing market conditions in the event of a default. This is the favourable fair market value of all outstanding contracts, excluding options written since they do not constitute a credit risk, including securitization swaps not recognized on the balance sheet.
(2) Represents the sum of (i) the total replacement cost of all outstanding contracts and (ii) an amount representing the assessed potential future credit risk, using guidelines issued by OSFI.
(3) Represents the credit risk equivalent amount weighted based on the creditworthiness of the counterparty, as prescribed by OSFI.

26. INCOME RELATED TO FINANCIAL INSTRUMENTS HELD-FOR-TRADING

Financial instruments held-for-trading, including held-for-trading securities, derivatives not designated in hedge relationships, and obligations related to securities sold short are measured at fair value, with gains and losses recognized in the Consolidated Statement of Income.

The following table presents the income related to these instruments. Income comprises net interest income, as well as other income included in income from treasury and financial market operations or in income from brokerage operations. Income excludes underwriting fees and commissions on securities transactions.

		2017		2016
Net interest income	$	1,955	$	9,646
Other income included in:				
Income from brokerage operations		23,957		25,719
Income from treasury and financial market operations		284		11,766
	$	24,241	$	37,485

27. INSURANCE INCOME

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

		2017		2016
Insurance revenues	$	28,553	$	29,189
Claims and expenses		(10,365)		(11,662)
Insurance income, net	$	18,188	$	17,527

28. RENTAL INCOME

The Bank has entered as a lessor into operating leases with clients on an equipment portfolio (note 11). These leases have terms of between 1 and 7 years. Rental income for these leases of $15.6 million ($1.6 million in 2016) is reported in other income in the Consolidated Statement of Income. The following table presents minimum lease payments receivable from lessees under these non-cancellable operating leases.

		2017		2016
Receivable within one year	$	6,118	$	12,095
Receivable within 1 to 5 years		9,305		14,667
Receivable after 5 years		6		542
	$	15,429	$	27,304

29. COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES

CREDIT-RELATED COMMITMENTS

The Bank uses certain off-balance sheet credit instruments as a means of meeting the financial needs of its customers. Undrawn amounts under approved credit facilities represent a commitment to make credit available in the form of loans or other credit instruments for specific amounts and maturities, subject to specific conditions.

Documentary letters of credit are documents issued by the Bank on behalf of customers, authorizing a third party to draw drafts to a stipulated amount under specific conditions. These letters are guaranteed by the underlying shipments of goods.

The amounts of credit-related commitments represent the maximum amount of additional credit that the Bank could be obliged to extend. These amounts are not necessarily indicative of credit risk as many of these commitments are contracted for a limited period of usually less than one year and will expire or terminate without being drawn upon.

GUARANTEES

Standby letters of credit and performance guarantees

In the normal course of its operations, the Bank offers its customers the possibility of obtaining standby letters of credit and performance guarantees. These represent irrevocable assurances that the Bank will make payments in the event that clients cannot meet their obligations to third parties. The term of these guarantees varies according to the contracts and normally does not exceed one year. The Bank's policy for requiring collateral security with respect to these instruments is similar to its policy for loans. The maximum potential amount of future payments under these guarantees totalled $167.9 million as at October 31, 2017 ($143.9 million as at October 31, 2016).

Derivatives

To meet certain customers' hedging needs against foreign exchange rate fluctuations, the Bank sells put options (foreign exchange contracts), which are contractual agreements under which the Bank grants customers the right, but not the obligation to sell, by or on a set date, a specified amount of foreign currencies at a predetermined price. The term of these options does not exceed 12 months. These options are recorded at fair value, which reflects the estimated amount of future payments under these derivatives as at the date of the valuation. The maximum potential amount of future payments under these derivatives, corresponding to the notional value of outstanding contracts, totalled $157.9 million as at October 31, 2017 ($400.7 million as at October 31, 2016).

Other indemnification agreements

In the normal course of its operations, the Bank provides indemnification agreements to counterparties in certain transactions such as purchase contracts, service agreements and sales of assets. These indemnification agreements require the Bank to compensate the counterparties for costs incurred as a result of changes in laws and regulations (including tax legislation) or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The Bank also indemnifies directors and officers, to the extent permitted by law, against certain claims that may be made against them as a result of their being, or having been, directors or officers at the request of the Bank. The terms of these indemnification agreements vary based on the contract. The nature of the indemnification agreements prevents the Bank from making a reasonable estimate of the maximum potential amount it could be required to pay to counterparties. Historically, the Bank has not made any significant payments under such indemnification agreements. No amount has been accrued with respect to these indemnification agreements.

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

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

			2017
	Leases	Information technology service contracts	Other
Due within one year	$ 63,096	$ 61,950	$ 9,668
Due within 1 to 5 years	145,454	55,801	20,532
Due after 5 years	174,494	23,903	—
	383,044	141,654	30,200
Less: Future minimum sublease payments to be received	(11,034)	—	—
Total	$ 372,010	$ 141,654	$ 30,200

Payments under these commitments recognized as an expense amounted to $53.5 million for the year ended October 31, 2017 ($54.4 million for the year ended October 31, 2016).

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

FINANCIAL ASSETS PLEDGED AS COLLATERAL

In the normal course of its operations, the Bank pledges financial assets presented in the consolidated balance sheet. This collateral security is pledged under the usual terms that provide, among other things, that the Bank bear the risks and rewards related to the collateral security and the pledged assets be returned to the Bank when the terms and conditions requiring them to be pledged as security cease to apply.

Financial assets pledged as collateral under securitization operations are detailed in Note 7. The following table details the financial assets pledged as collateral under other arrangements.

	2017	2016
Pledged assets:		
To participate in clearing and payment systems	**$ 578,886**	$ 605,778
For obligations related to securities sold under repurchase agreements and for securities borrowed	**4,216,222**	3,226,778
For obligations related to derivatives in a liability position	**162,818**	53,337
	$ 4,957,926	$ 3,885,893
Pledged assets are detailed as follows:		
Securities	**$ 4,382,186**	$ 3,383,985
Residential mortgage loans (NHA MBS)	**575,740**	501,908
	$ 4,957,926	$ 3,885,893

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.

30. IMPAIRMENT AND RESTRUCTURING CHARGES

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

		2017		2016
Severance charges	$	3,228	$	4,373
Impairment of software and intangible assets, and premises and equipment (Notes 8, 9 and 10)	$	—	$	22,113
Provisions related to lease contracts		—		11,858
Other restructuring charges		7,257		—
Total	$	10,485	$	38,344

IMPAIRMENT TESTING

As a part of its transformation plan to optimize Retail Services activities, the Bank announced in September 2016 that it would optimize its Retail Services activities by merging a number of its branches over the following 18 months. In September 2017, the Bank announced that it intends to further digitalized services, and that it will transition the branch model to focus on delivering financial advice while migrating customers to electronic- and web-based platforms by December 2018. In both 2017 and 2016, these were identified as indicators of impairment of the software, other intangible assets and premises and equipment related to the Retail Services CGU. As such, the carrying amount of these assets was reviewed for impairment at the Retail Services 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 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 financial plans approved by management covering a three-year period, a terminal growth rate of 2.1% (2.1% in 2016) based on projected economic growth, and a after-tax discount rate of 11.0% (11.0% in 2016) based on the bank-wide cost of capital and further adjusted to reflect the risks specific to the Retail Services unit.

In 2017, based on adjusted forecasts, management determined that the estimated recoverable amount of the Retail Services unit was in excess of its carrying amount. As a result, no impairment charge on the underlying assets of this CGU was recognized during 2017. A 10% decrease in projected net income growth rates would have resulted in a reduction in the estimated recoverable amount of the Retail Services unit of approximately $6.5 million as at October 31, 2017. Also, a 25 basis point increase in the after-tax discount rate would have resulted in a reduction in the estimated recoverable amount of approximately $9.7 million at that same date. If these changes in key assumptions were applied, the result of the impairment test would not differ per management.

In 2016, management determined that the carrying amount of the Retail Services CGU exceeded the estimate of its recoverable amount. As a result, impairment charges of $22.1 million were recorded for the year ended October 31, 2016 on the line item Impairment and restructuring charges. These charges were related to software for $16.7 million and to premises and equipment for $5.4 million. These impairment charges were the result of a combination of factors, including the continued pressure on net interest margins stemming from the persistent low interest rates and competitive landscape, the change in customers' behaviour driven by significant changes in technology and lifestyle, the emergence of new competitors, as well as the additional administrative burden associated with regulatory measures.

RESTRUCTURING CHARGES

In September 2016, the Bank announced that it would merge a number of its branches over the following 18 months. This decision resulted from the strategic analysis initiated in 2015, as well as changes to the economic landscape. As part of the planned restructuring, provisions related to lease contracts of $11.9 million and severance charges of $4.4 million were initially recorded on the line item Impairment and restructuring charges in 2016. In addition, charges of $10.5 million were recorded for the year ended October 31, 2017, including severances, salaries, communication expenses and professional fees related to the optimization of the Bank's Retail Services activities and branch mergers.

The following table presents the change in the provision for restructuring charges, included in the Other liabilities line item in the Consolidated Balance Sheet.

		2017		2016
Balance at beginning of the period	$	16,231	$	—
Restructuring charges incurred during the period		10,485		16,231
Payments made during the period		(17,305)		—
Balance at end of the period	$	9,411	$	16,231

As at October 31, 2017, the remaining provision mainly relates to provisions related to lease contracts and severances.

31. BUSINESS COMBINATIONS

ACQUISITION OF NORTHPOINT COMMERCIAL FINANCE

On May 18, 2017, the Bank entered into a definitive agreement under which it agreed to acquire 100% of the ownership interests in Northpoint Commercial Finance ("NCF"), a U.S. based non-bank inventory finance lender with a portfolio of US$819 million (C$1,039 million). The transaction closed on August 11, 2017. The purchase price of US$257 million (C$326 million) was based on the book value of the net assets of NCF as at the closing date. As part of the transaction, the Bank has also reimbursed previous credit facilities of NCF for US$668 million (C$848 million).The Bank acquired NCF to further develop its equipment financing business and diversify revenue streams.

In order to reduce the potential impact on the purchase price of variations in the exchange rate between the date of the definitive agreement (May 18, 2017) and the closing date (August 11, 2017), the Bank entered into forward sale agreements to hedge a portion of the purchase price. On August 11, 2017, the cumulative negative fair value of the derivative on that date of $8.9 million was included as an adjustment to the purchase price upon the closing of the transaction.

The preliminary estimated fair value of the assets acquired and liabilities assumed on August 11, 2017 were as follows.

		NCF
Assets		
Loans	$	1,038,650
Software and other intangible assets		81,000
Goodwill		56,437
Other		94,257
	$	1,270,344
Liabilities		
Other	$	944,710
Total identifiable net assets acquired	$	325,634
Cash paid - estimated purchase consideration	$	325,634
Reimbursement of previous credit facilities		847,787
Total	$	1,173,421

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

Goodwill recognized is attributed to the expected benefits from better funding alternatives and from combining the assets and activities of NCF with those of the Bank. Goodwill associated with this transaction was allocated to the Business Services unit. Goodwill and other intangible assets are generally deductible for income tax purposes.

In 2017, the Bank incurred acquisition-related professional fees and other expenses of $4.4 million in relation with this transaction, these costs were recognized directly in net income, under Costs related to business combinations.

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

		2017
Contribution from date of acquisition [1]		
Total revenue	$	16,125
Net income	$	3,867
Estimated contribution if the acquisition had occurred on November 1, 2016 [2]		
Total revenue	$	67,499
Net income	$	16,923

(1) Approximate results of NCF for the 82-day period from the date of acquisition.

(2) In determining the estimate, management has assumed that the fair value adjustments that arose on the acquisition date would have been the same if the acquisition had occurred on November 1, 2016.

31. BUSINESS COMBINATIONS [CONT'D]

ACQUISITION OF CIT CANADA

On June 29, 2016, the Bank and CIT Group Inc. ("CIT"), a U.S. company, entered into a definitive agreement under which the Bank agreed to acquire the Canadian equipment financing and corporate financing activities of CIT ("CIT Canada"). The transaction closed on October 1, 2016. The final purchase price, based on the net book value of CIT Canada as at the closing date, was valued at $986.7 million. The Bank acquired CIT Canada to increase the proportion of business loans in the Bank's loan portfolio, strengthen its position in the equipment financing market and expand the pan-Canadian footprint.

The final fair values of the assets acquired and liabilities assumed on October 1, 2016 were as follows. The final fair values did not change materially from the initial valuation, therefore comparative figures have not been restated.

		CIT Canada
Assets		
Loans [1]	$	**919,407**
Derivatives		**5,736**
Premises and equipment		**326**
Software and other intangible assets		**9,927**
Goodwill		**25,858**
Other		**55,568**
	$	**1,016,822**
Liabilities		
Other	$	**30,127**
Total net assets acquired	$	**986,695**
Total purchase consideration paid	$	**986,695**

(1) Gross amount of acquired loans and finance lease receivables was $904.7 million.

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

In 2017 and 2016 the Bank incurred salaries, professional fees and other expenses for the acquisition and integration of CIT Canada operations of $11.6 million and $4.4 million respectively. These costs were recognized directly in net income, under Costs related to business combinations.

32. SEGMENTED INFORMATION

The Bank determines its reportable segments based on how the Chief Operating Decision maker (the Executive Committee) manages the different services and products provided to clients and has identified four business segments: Retail Services, Business Services, B2B Bank and Capital Markets. The Bank's other activities, including the Bank's corporate functions and Corporate Treasury, are grouped into the Other sector.

- The Retail Services segment caters to the financial needs of retail clients in Québec. The Bank serves retail clients mainly through a network of branches, providing a full range of savings, investment and financing products.
- The Business Services segment caters to the financial needs of business clients across Canada and in the United States. Small and medium-sized enterprises, along with real estate developers are provided with a suite of financing options, including leasing solutions, as well as, investment, cash management and international services.
- The B2B Bank segment supplies banking and financial products to independent financial advisors and non-bank financial institutions across Canada.
- Capital Markets segment consists of the Laurentian Bank Securities Inc. subsidiary, a full-service broker, and the Bank's capital market activities.

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 Capital Markets operating segment, which does not have similar economic characteristics, the Bank applies quantitative thresholds, as well as judgement for aggregation.

The Bank operates primarily within two geographical areas: Canada and the United States since August 2017. The following table summarizes the Bank's revenues and average earning assets by geographic region.

			2017
	Canada	United States	Total
Total revenue	$ 981,729	$ 14,681	$ 996,410
Average earning assets	$ 37,813,367	$ 241,566	$ 38,054,933

Condensed Consolidated Balance Sheet

As at October 31 (in thousands of Canadian dollars, unaudited)	2017	2016	2015	2014	2013
ASSETS					
Cash and non-interest-bearing deposits with other banks	$ 111,978	$ 123,716	$ 109,055	$ 126,247	$ 82,836
Interest-bearing deposits with other banks	215,384	63,383	91,809	122,608	126,002
Securities	5,586,014	5,660,432	4,487,357	4,880,460	4,480,525
Securities purchased under reverse repurchase agreements	3,107,841	2,879,986	3,911,439	3,196,781	1,218,255
Loans					
Personal	6,038,692	6,613,392	7,063,229	6,793,078	7,245,474
Residential mortgage	18,486,449	16,749,387	14,998,867	13,707,489	13,663,748
Commercial mortgage	5,161,470	4,658,734	4,248,761	3,769,323	3,560,289
Commercial and other	6,302,537	4,727,385	3,308,144	2,794,232	2,488,137
Customers' liabilities under acceptances	707,009	629,825	473,544	365,457	271,049
	36,696,157	33,378,723	30,092,545	27,429,579	27,228,697
Allowances for loan losses	(99,186)	(105,009)	(111,153)	(119,371)	(115,590)
	36,596,971	33,273,714	29,981,392	27,310,208	27,113,107
Other	1,064,470	1,005,109	1,078,452	846,481	890,301
	$ 46,682,658	$ 43,006,340	$ 39,659,504	$ 36,482,785	$ 33,911,026
LIABILITIES AND SHAREHOLDERS' EQUITY					
Deposits					
Personal	$ 21,198,982	$ 21,001,578	$ 19,377,716	$ 18,741,981	$ 19,282,042
Business, banks and other	7,731,378	6,571,767	7,226,588	5,781,045	4,645,308
	28,930,360	27,573,345	26,604,304	24,523,026	23,927,350
Other	6,842,540	6,013,890	5,524,930	5,103,778	3,129,918
Debt related to securitization activities	8,230,921	7,244,454	5,493,602	4,863,848	4,974,714
Subordinated debt	348,427	199,824	449,641	447,523	445,473
Shareholders' equity	2,330,410	1,974,827	1,587,027	1,544,610	1,433,571
	$ 46,682,658	$ 43,006,340	$ 39,659,504	$ 36,482,785	$ 33,911,026

Condensed Consolidated Statement of Income — Reported

For the years ended October 31 (in thousands of Canadian dollars, unaudited)	2017	2016	2015	2014	2013
Net interest income	$ 638,090	$ 589,644	$ 575,083	$ 560,980	$ 568,760
Other income	358,320	325,807	322,043	313,085	296,577
Total revenue	996,410	915,451	897,126	874,065	865,337
Gain on acquisition, amortization of net premium on purchased financial instruments and revaluation of contingent consideration	3,383	5,190	5,999	9,653	4,426
Provision for credit losses	37,000	33,350	34,900	42,000	36,000
Non-interest expenses	689,359	679,549	722,824	641,309	674,079
Income before income taxes	266,668	197,362	133,403	181,103	150,832
Income taxes	60,207	45,452	30,933	40,738	31,355
Net income	$ 206,461	$ 151,910	$ 102,470	$ 140,365	$ 119,477
Preferred share dividends, including applicable taxes	17,096	13,313	9,602	10,985	11,749
Net income available to common shareholders	$ 189,365	$ 138,597	$ 92,868	$ 129,380	$ 107,728

Condensed Consolidated Statement of Income — Adjusted [1]

For the years ended October 31 (in thousands of Canadian dollars, unaudited)	**2017**	2016	2015	2014	2013
Net interest income	**$ 638,090**	$ 589,644	$ 575,083	$ 560,980	$ 568,760
Other income	**358,320**	325,807	322,043	313,085	296,577
Total revenue	**996,410**	915,451	897,126	874,065	865,337
Provision for credit losses	**37,000**	33,350	34,900	42,000	36,000
Adjusted non-interest expenses	**658,492**	636,796	639,560	620,807	629,539
Adjusted income before income taxes	**300,918**	245,305	222,666	211,258	199,798
Adjusted income taxes	**70,177**	58,292	50,467	47,676	44,362
Adjusted net income	**$ 230,741**	$ 187,013	$ 172,199	$ 163,582	$ 155,436
Preferred share dividends, including applicable taxes	**17,096**	13,313	9,602	10,985	11,749
Adjusted net income available to common shareholders	**$ 213,645**	$ 173,700	$ 162,597	$ 152,597	$ 143,687

Highlights

As at and for the years ended October 31 (in thousands of Canadian dollars, except per share and percentage amounts, unaudited)	**2017**	2016	2015	2014	2013
Profitability					
Diluted earnings per share	**$ 5.40**	$ 4.55	$ 3.21	$ 4.50	$ 3.80
Return on common shareholders' equity [1]	**10.9%**	9.6%	6.8%	10.1%	9.1%
Net interest margin (on average earning assets) [2]	**1.68%**	1.71%	1.84%	1.88%	n.m.
Efficiency ratio [1]	**69.2%**	74.2%	80.6%	73.4%	77.9%
Adjusted financial measures [1]					
Adjusted diluted earnings per share	**$ 6.09**	$ 5.70	$ 5.62	$ 5.31	$ 5.07
Adjusted return on common shareholders' equity	**12.3%**	12.0%	12.0%	11.9%	12.1%
Adjusted efficiency ratio	**66.1%**	69.6%	71.3%	71.0%	72.8%
Adjusted dividend payout ratio	**40.5%**	42.4%	39.2%	38.7%	39.0%
Per common share					
Share price — Close	**$ 60.00**	$ 49.57	$ 52.97	$ 49.58	$ 46.55
Price / earnings ratio	**11.1x**	10.9x	16.5x	11.0x	12.3x
Book value [1]	**$ 51.18**	$ 47.92	$ 46.33	$ 45.89	$ 43.19
Market to book value [1]	**117%**	103%	114%	108%	108%
Dividends declared	**$ 2.46**	$ 2.36	$ 2.20	$ 2.06	$ 1.98
Dividend yield [1]	**4.1%**	4.8%	4.2%	4.2%	4.3%
Dividend payout ratio [1]	**45.7%**	53.1%	68.6%	45.7%	52.0%
Average volumes (in millions of dollars)					
Average assets	**$ 44,846**	$ 40,897	$ 37,822	$ 35,560	$ 34,199
Average earning assets [1][2]	**$ 38,055**	$ 34,458	$ 31,248	$ 29,856	n.m.
Average common shareholders' equity	**$ 1,735**	$ 1,443	$ 1,356	$ 1,281	$ 1,187
Quality of assets					
Provision for credit losses (as a % of average loans and acceptances)	**0.11%**	0.11%	0.12%	0.15%	0.13%
Regulatory capital ratio					
Common Equity Tier 1 — All-in basis	**7.9%**	8.0%	7.6%	7.9%	7.6%
Other information					
Number of common shares outstanding (in thousands)	**38,966**	33,842	28,957	28,943	28,532
Number of full-time equivalent employees	**3,732**	3,687	3,656	3,667	3,987
Number of branches	**104**	145	150	152	153
Number of automated banking machines	**341**	398	405	418	422

(1) Refer to the non-GAAP and key performance measures section.

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

As at and for the quarters ended (in thousands of Canadian dollars, except per share and percentage amounts, unaudited)	2017				2016			
	OCT. 31	JULY 31	APRIL 30	JAN. 31	OCT. 31	JULY 31	APRIL 30	JAN. 31
Profitability								
Total revenue	**$267,968**	**$ 248,002**	**$238,807**	**$241,633**	$ 236,369	$ 229,077	$ 226,803	$ 223,202
Net income (loss)	**$ 58,635**	**$ 54,798**	**$ 44,572**	**$ 48,456**	$ 18,383	$ 45,137	$ 45,714	$ 42,676
Diluted earnings (loss) per share	**$ 1.42**	**$ 1.48**	**$ 1.19**	**$ 1.30**	$ 0.45	$ 1.34	$ 1.43	$ 1.36
Return on common shareholders' equity [1]	**11.1 %**	**11.8%**	**9.9 %**	**10.7 %**	3.7%	11.2 %	12.5 %	11.6 %
Net interest margin (on average earning assets) [1]	**1.75 %**	**1.63%**	**1.67 %**	**1.66 %**	1.67%	1.69 %	1.71 %	1.78 %
Efficiency ratio [1]	**68.8 %**	**67.9%**	**70.7 %**	**69.4 %**	85.5%	70.1 %	70.6 %	70.3 %
Operating leverage [1]	**(1.5)%**	**4.2%**	**(1.9)%**	**n.m.**	n.m.	0.7 %	(0.3)%	n.m
Adjusted financial [1]								
Adjusted net income	**$ 66,476**	**$ 59,906**	**$ 51,618**	**$ 52,741**	$ 50,542	$ 46,067	$ 46,696	$ 43,708
Adjusted diluted earnings per share	**$ 1.63**	**$ 1.63**	**$ 1.39**	**$ 1.43**	$ 1.47	$ 1.37	$ 1.46	$ 1.39
Adjusted return on common shareholders' equity	**12.7 %**	**13.0%**	**11.7 %**	**11.8 %**	12.1%	11.4 %	12.8 %	11.9 %
Adjusted efficiency ratio	**64.3 %**	**65.6%**	**67.2 %**	**67.4 %**	67.4%	70.1 %	70.6 %	70.3 %
Adjusted operating leverage	**2.2 %**	**2.5%**	**0.2 %**	**— %**	3.9%	0.7 %	(0.3)%	0.6 %
Adjusted dividend payout ratio	**38.7 %**	**38.0%**	**43.7 %**	**42.6 %**	43.8%	43.6 %	39.7 %	42.5 %
Per common share								
Share price — Close	**$ 60.00**	**$ 54.17**	**$ 55.84**	**$ 58.86**	$ 49.57	$ 48.41	$ 49.78	$ 47.70
Price / earnings ratio (trailing four quarters)	**11.1 x**	**12.3 x**	**13.0 x**	**13.0 x**	10.9 x	14.2 x	14.2 x	14.0 x
Book value [1]	**$ 51.18**	**$ 50.54**	**$ 49.56**	**$ 48.87**	$ 47.92	$ 48.23	$ 47.34	$ 46.32
Market to book value [1]	**117 %**	**107%**	**113 %**	**120 %**	103%	100 %	105 %	103 %
Dividends declared	**$ 0.62**	**$ 0.62**	**$ 0.61**	**$ 0.61**	$ 0.60	$ 0.60	$ 0.58	$ 0.58
Dividend yield	**4.1 %**	**4.6%**	**4.4 %**	**4.1 %**	4.8%	5.0 %	4.7 %	4.9 %
Dividend payout ratio [1]	**44.3 %**	**41.8%**	**51.4 %**	**46.7 %**	143.5%	44.6 %	40.6 %	43.6 %
Quality of assets								
Provision for credit losses (as a % of average loans and acceptances)	**0.13 %**	**0.07%**	**0.12 %**	**0.11 %**	0.13%	0.10 %	0.08 %	0.12 %
Net impaired loans (as a % of loans and acceptances)	**0.30 %**	**0.23%**	**0.25 %**	**0.28 %**	0.29%	0.29 %	0.24 %	0.21 %
Regulatory capital ratios								
Common Equity Tier 1 — All-in basis	**7.9 %**	**7.9%**	**8.1 %**	**8.2 %**	8.0%	7.9 %	7.9 %	7.7 %
Basel III Leverage ratio	**4.2 %**	**4.1%**	**4.1 %**	**4.2 %**	4.1%	4.0 %	4.0 %	3.7 %
Other information								
Number of common shares outstanding (in thousands)	**38,966**	**34,190**	**34,071**	**33,941**	33,842	30,496	30,393	30,319

(1) Refer to the non-GAAP and key performance measures section.

Today, as in the past, strong corporate governance is an important component in managing Laurentian Bank's activities. In 1987, the Bank became the first Canadian financial institution to separate the roles of Chairman of the Board and of President and CEO. Moreover, its corporate governance practices remain among the most exemplary today.

All members of the Board of Directors, except the President and Chief Executive Officer, are independent and unrelated to the Bank's management. The independent status of directors is determined in accordance with criteria defined by the Human Resources and Corporate Governance Committee, which are used to evaluate the status of every director, regardless of which Committee they may sit on. Furthermore, rules concerning directorships in other organizations have been instituted so as to ensure that no more than two directors sit on the board of the same public issuer (unless authorized by the Chair of the Board).

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

The role of the Board of Directors is essentially to supervise the management of the business and internal affairs of the Bank. Board deliberations generally end with a discussion period held without the presence of management. The members of the Board commit to act in accordance with standards set forth in the Code of Conduct for Directors, which covers issues such as general conduct, contribution to the work of the Board and its Committees, as well as insider trading, conflicts of interest and other situations that may affect a director's independence.

The Board of Directors has delegated some of its responsibilities and functions to three Committees, whose members are appointed from among its directors. The Audit Committee, the Risk Management Committee, and the Human Resources and Corporate Governance Committee regularly submit written and verbal updates and reports on their work to the Board of Directors. Furthermore, these Committees present a report to shareholders to be included in the Management Proxy Circular.

AUDIT COMMITTEE

The primary function of the Audit Committee is to support the Board of Directors in overseeing the integrity of the Bank's financial statements, the relevance and effectiveness of its internal controls, the qualifications and independence of the external auditor and the performance of the internal audit function and of the external auditor. In order to do so, the Board has appointed directors meeting the criteria for independence and possessing an appropriate level of financial literacy. The Committee meets on a regular basis with the internal and external auditor without the presence of management. Furthermore, the Committee meetings generally end with a discussion period held without the presence of management.

More specifically, the Committee's responsibilities include the following:

With respect to the external auditor: recommend the appointment or dismissal of the external auditor; assure its competence, independence, and the adequacy of its resources; review the scope of its mission and compensation; oversee its activities and evaluate its performance; approve the external auditor's oversight policy and the policy concerning non-audit related services.

With respect to financial information: oversee the integrity and quality of financial statements and assure that the institution's accounting practices are prudent and appropriate; prior to their publication, review the annual and interim financial statements, management's discussion and analysis and press releases regarding results, as well as the annual information form and any other documents required by regulatory authorities; review the annual financial statements of the subsidiaries supervised by the Office of the Superintendent of Financial Institutions.

With respect to the internal audit function: approve the internal audit's charter and plan; assure the competence, independence and adequacy of internal audit resources, and follow up on material findings and recommendations.

With respect to internal controls: assure that management implements appropriate internal control and information management systems; assure their integrity and effectiveness; assure that management implements procedures regarding the receipt, retention and handling of complaints received with respect to accounting, internal controls or audit.

With respect to oversight agencies: follow up on the findings and recommendations of oversight authorities.

RISK MANAGEMENT COMMITTEE

In addition to reviewing transactions with related parties of the Bank, the Risk Management Committee ensures that the Bank has adopted an adequate and effective risk management process, which includes the identification, assessment and management of risks, as well as the development of adequate policies concerning credit, market, liquidity and financing, operational, capital management, regulatory and reputation risks.

The Committee is composed of independent directors who hold discussions with officers in charge of oversight activities (the internal auditor as well as the chief risk officer and the chief compliance officer) without the presence of management. Furthermore, the Committee meetings generally end with a discussion period held without the presence of management.

To this end, the Committee must assure that management identifies the organization's principal risks and implements systems to measure and adequately manage them and assure the integrity and effectiveness of such systems; review the overall risk philosophy and risk tolerance; assure the competence, independence and the adequacy of resources of the function in charge of integrated risk management and approve its mandate; follow up on material findings and recommendations;

approve loans, which under the credit policies, are the responsibility of the Committee, and examine the quality of the loan portfolio and the adequacy of allowances for loan losses; assure that management adopts a process to determine the appropriate capital level for the Bank based on assumed risks; review the Code of Ethics and Privacy Code for the Protection of Personal Information applicable to officers and employees and assure they are complied with; assure the competence and independence of the person in charge of regulatory risk management and risk management, and follow up on their findings and recommendations; in collaboration with the Human Resources and Corporate Governance Committee, annually review the alignment of compensation and the Bank's performance and assumed risk with the remuneration standards and principles issued by the Financial Stability Board.

HUMAN RESOURCES AND CORPORATE GOVERNANCE COMMITTEE

The Human Resources and Corporate Governance Committee is composed of independent directors, none of whom heads a public company. Certain elements of its mandate are discussed without the presence of management.

More specifically, the Committee's human resources responsibilities include the following:

With respect to human resources management: annually review the performance management process and evaluate its effectiveness; assure that management implements a plan to promote the hiring, retention and motivation of qualified personnel.

With respect to senior officers: review appointments of senior officers; approve the establishment of objectives for members of the Executive Committee and evaluate their performance; assure the integrity of senior officers and the adoption of a culture of integrity throughout the Bank.

With respect to compensation: approve the overall compensation framework (including incentive compensation, fringe benefits and pension plans) for senior officers, with a view to furthering the Bank's business objectives, as well as the material terms and conditions of the compensation and employment conditions applicable to the Bank's other employees and officers; in collaboration with the Risk

Management Committee, annually approve the alignment of compensation and the Bank's performance and assumed risk with the remuneration standards and principles issued by the Financial Stability Board.

With respect to pension plans: assure that management implements appropriate internal control mechanisms with a view to adequately manage pension plans.

The Committee's corporate governance responsibilities include the following:

With respect to the President and Chief Executive Officer: recommend the appointment or dismissal of the President and Chief Executive Officer to the Board; recommend the objectives of the President and Chief Executive, as well as his/her evaluation, compensation and employment conditions to the Board; implement a succession process for the President and Chief Executive Officer.

With respect to the Board and Committees: review corporate governance rules and assure they are complied with; review the functions of the Board of Directors, its composition (taking the diversity of members into account), compensation and size; review the constitution, membership and functions of Committees; review the Code of Conduct for the members of the Board and assure it is complied with; assure ongoing training for the members of the Board; approve the criteria to evaluate the independence of Board members and assess their independence periodically; evaluate the Board and its members; assure the recruitment of new Board members to be submitted for election by shareholders, and see to their orientation and integration.

With respect to public disclosure: assure that shareholders are well informed of the Bank's affairs and deal with all material disagreements between the Bank and its shareholders.

The complete text outlining the functions of the Board of Directors and the mandate of each Committee can be found in the Corporate Governance section of the Bank's Web site, while Committee reports can be consulted in the Management Proxy Circular.

As at October 31, 2017 (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	$791,800	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	$16	100%
Laurentian Bank Securities Inc.	Montreal, Canada	$148,896	100%
Wholly-owned subsidiary			
Laurentian Capital (USA) Inc.			
Laurentian Trust of Canada Inc.	Montreal, Canada	$121,447	100%
LBC Capital Inc. [3]	Burlington, Canada	$2,315,361	100%
Wholly-owned subsidiaries			
LBEF Inc.	Burlington, Canada		
LBEL Inc.	Burlington, Canada		
LBC Capital GP Inc.	Burlington, Canada		
LBC Leasing Limited Partnership [4]	Burlington, Canada		
Northpoint Commercial Finance Canada Inc.	Burlington, Canada		
NCF Commercial Finance Holdings Inc.	Delaware, United States		
Wholly-owned subsidiary			
NCF Financing LLC	Delaware, United States		
Northpoint Commercial Finance Inc.	Delaware, United States		
Wholly-owned subsidiary			
Northpoint Commercial Finance LLC	Delaware, United States		
LBC Financial Services Inc.	Montreal, Canada	$20,870	100%
LBC Investment Management Inc.	Montreal, Canada	$390,747	100%
Wholly-owned subsidiary			
V.R. Holding Insurance Company Ltd	St. James, Barbados		
Wholly-owned subsidiary			
VRH Canada Inc.	Montreal, Canada		
LBC Tech Inc.	Toronto, Canada	$160	100%
LBC Trust	Montreal, Canada	$91,250	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 VRH 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 and under Management mostly refers to assets related to registered and non-registered investment accounts, clients' brokerage assets, mutual funds and mortgages administered by the Bank that are beneficially owned by clients and therefore not reported on the balance sheet of the Bank.

Average earning assets include the Bank's loans net of allowances, as well as interest-bearing deposits with other banks, securities, securities purchased under reverse repurchase agreements used in the Bank's treasury operations and derivatives, but exclude average earning assets related to trading activities. 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%.

HEAD OFFICE
Tour Banque Laurentienne
1981 McGill College Avenue
Montréal, Québec H3A 3K3
Tel.: 514 284-4500
www.lbcfg.ca

OMBUDSMAN'S OFFICE
Laurentian Bank of Canada
1981 McGill College Avenue
Suite 1420
Montréal, Québec H3A 3K3
Tel.: 514 284-7192
or 1 800 479-1244
ombudsman@laurentianbank.ca

ANNUAL MEETING
The Annual Meeting of the Common Shareholders of the Bank will be held on Wednesday, February 28, 2018, at 9:30 a.m., at
Mont-Royal Centre
2200 Mansfield Street
Montréal, Québec H3A 3R8

VALUATION DAY PRICE
For capital gains purposes, the market value of Laurentian Bank common shares on Valuation day December 22, 1971, adjusted for the stock splits of July 1983 and January 1987, was $3.72.

TRANSFER AGENT AND REGISTRAR
Computershare
Investor Services Inc.
1500 Robert-Bourassa Blvd.,
Suite 700
Montréal, Québec H3A 3S8
Tel.: 514 982-7888
or 1 800 564-6253

CHANGE OF ADDRESS AND INQUIRIES
Shareholders should notify the Transfer Agent of any change of address. Inquiries or requests may be directed to the Corporate Secretary's Office by calling 514 284-4500 ext. 7521.

DIRECT DEPOSIT SERVICE
Shareholders of the Bank may, by advising the Transfer Agent in writing, have their dividends deposited directly into an account held at any financial institution member of the Canadian Payments Association.

INVESTORS AND ANALYSTS
Investors and analysts may contact the Investor Relations Department by calling 514 284-4500 ext. 4926.

MEDIA
Journalists may contact the Executive Office by calling 514 284-4500 ext. 4695.

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 registrar and transfer agent, Computershare Trust Company of Canada, at 1-800-564-6253. To participate in the plan, the Bank's non-registered common and preferred shareholders must contact their financial institution or broker.

Vous pouvez recevoir une version française de ce rapport annuel en faisant parvenir votre demande par courriel à l'addresse communication@banquelaurentienne.ca ou par la poste à :
Banque Laurentienne
1981, avenue McGill College
20e étage
Montréal (Québec) H3A 3K3

STOCK SYMBOL AND DIVIDEND RECORD AND PAYMENT DATES

The common and preferred shares indicated below are listed on the Toronto Stock Exchange.	CUSIP CODE / STOCK SYMBOL	RECORD DATE*	DIVIDEND PAYMENT DATE*
Common shares	51925D 10 6 LB	First business day of:	
		January	February 1
		April	May 1
		July	August 1
		October	November 1
Preferred shares			
Series 11	51925D 84 1 LB.PR.F	**	March 15
Series 13	51925D 82 5 LB.PR.H	**	June 15
Series 15	51925D 79 1 LB.PR.J	**	September 15
			December 15

* Subject to the approval of the Board of Directors.

** On such day (which shall not be more than 30 days preceding the date fixed for payment of such dividend) as may be determined from time to time by the Board of Directors of the Bank.

FRANÇOIS DESJARDINS AND THE EXECUTIVE TEAM PHOTOGRAPHS WERE TAKEN BY **JEAN-FRANÇOIS BÉRUBÉ**,
WITH THE EXCEPTION OF ISABELLE COURVILLE AND SUSAN KUDZMAN'S, WHICH WERE TAKEN BY **YVES LACOMBE**.
DESIGN: **GAUTHIER**

**LAURENTIAN BANK
FINANCIAL GROUP**

1981 McGill College Avenue
Montreal, Quebec H3A 3K3

**LAURENTIAN BANK
OF CANADA**

1981 McGill College Avenue
Montreal, Quebec H3A 3K3

B2B BANK

199 Bay Street, Suite 600
Toronto, Ontario M5L 0A2

LBC CAPITAL INC.

5035 South Service Road
Burlington, Ontario L7L 6M9

**LBC FINANCIAL
SERVICES INC.**

1350 René-Lévesque Boulevard West
12th Floor
Montreal, Quebec H3G 0A8

**LAURENTIAN BANK
SECURITIES INC.**

1981 McGill College Avenue
Suite 1900
Montreal, Quebec H3A 3K3

LBC TECH INC.

199 Bay Street, Suite 600
Toronto, Ontario M5L 0A2

**NORTHPOINT
COMMERCIAL FINANCE**

11675 Rainwater Drive, Suite 450
Alpharetta, GA 30009

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