MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED OCTOBER 31, 2014

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

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

Basis of presentation

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

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

TABLE OF CONTENTS

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

By their very nature, forward-looking statements are based on assumptions and involve inherent risks and uncertainties, both general and specific in nature. It is therefore possible that the forecasts, projections and other forward-looking statements will not be achieved or will prove to be inaccurate. Although the Bank believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to have been correct.

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

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

SUMMARY OF FINANCIAL RESULTS

HIGHLIGHTS OF 2014

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

TABLE 1

HIGHLIGHTS OF 2014

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

		2014	VARIANCE 2014 / 2013
Net income	$	**140.4**	17 %
Adjusted net income [1]	$	**163.6**	5 %

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

OVERVIEW OF FISCAL 2014

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

In fiscal 2014, the Bank delivered solid earnings growth and maintained its targeted efforts to improve efficiency and maximize operating leverage. The Bank continued to focus on further developing its higher-margin commercial activities and increasing its pan-Canadian footprint to foster profitable revenue growth in an environment of slowing consumer loan demand and compressed margins. The growth in business activities, as well as rigorous control over expenses and the sustained credit quality of the loan portfolio also contributed to the strong financial performance. With regard to the MRS Companies and AGF Trust, the Bank successfully completed the integration of the businesses and delivered cost synergies within its B2B Bank business segment to achieve greater operational efficiency.

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

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

TABLE 2

CONSOLIDATED RESULTS

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

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

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

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

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

2014 FINANCIAL PERFORMANCE

The following table presents management's financial objectives and the Bank's performance for 2014. The Bank met its objectives for the year 2014 and delivered record adjusted net income. In a slow revenue growth environment, disciplined management of expenses, strong credit quality, strategies to increase other income and good organic growth in the higher-margin commercial businesses were the key drivers of the Bank's good financial performance during the year and attainment of its profitability, efficiency and capital objectives.

TABLE 3

2014 PERFORMANCE INDICATORS [1]

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

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

NON-GAAP FINANCIAL MEASURES

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

Adjusted financial measures

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

Adjusting items

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

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

TABLE 4

IMPACT OF ADJUSTING ITEMS

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

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

(1) Comparative figures for 2012 were not restated to reflect the adoption of amendments to IAS 19, *Employee Benefits*.
(2) Severance charges are included in the line item Salaries and benefits in the consolidated statement of income.
(3) Impairment charges related to IT projects are included in the line item Premises and technology in the consolidated statement of income.
(4) The impact of adjusting items on a per share basis does not add due to rounding for the quarter ended October 31, 2014.

Common shareholders' equity

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

The Bank's common shareholders' equity is defined as the sum of the value of common shares, retained earnings and accumulated other comprehensive income, excluding cash flow hedge reserves. This definition is now better aligned with regulatory requirements.

Return on common shareholders' equity

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

TABLE 5

RETURN ON COMMON SHAREHOLDERS' EQUITY

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

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

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

Book value per common share

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

Net interest margin

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

Efficiency ratio and operating leverage

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

Dividend payout ratio

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

Dividend yield

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

OUTLOOK AND OBJECTIVES FOR 2015

ECONOMIC OUTLOOK

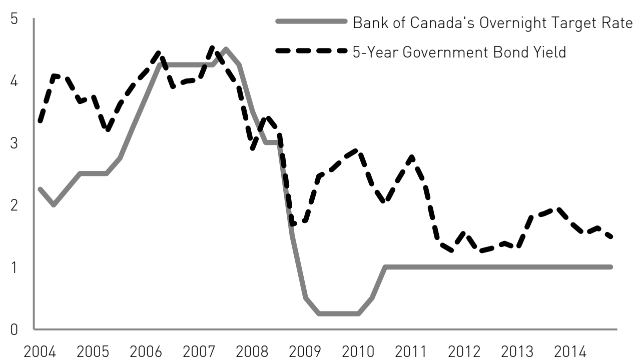
Recent declines in oil prices are expected to support global growth in 2015, although at unequal speeds. Notably in the United States, the moderate pace of economic growth remains intact. In Canada, the depreciation of the Canadian dollar, lower energy costs and robust US demand are expected to improve the outlook in Québec and Ontario and to narrow the discrepancy in economic performance between Western Canada and the rest of the country. Accordingly, the Canadian unemployment rate has resumed its downward path in the fall of this year, with the Québec unemployment rate remaining well-anchored in 2014. With exports and unemployment improving, business investment is also expected to firm up in light of healthy corporate balance sheets and a gradually brighter global outlook. Altogether, the Canadian economy is expected to grow at a pace of approximately 2.5% in 2015.

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

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

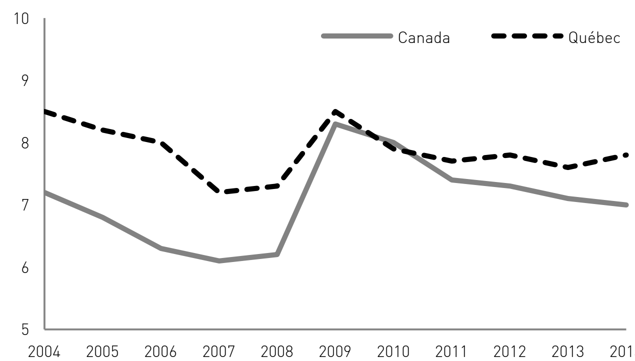
Notwithstanding the expected moderate economic growth in 2015, the Bank's targeted approach to grow in higher-yielding niche markets, renewed efforts on business development as it completed integration activities in 2014, and its strong capital position should contribute to growth into 2015 and beyond.

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



Source: Bank of Canada

UNEMPLOYMENT RATES
(annual data, in percentage)



Source: Statistics Canada

HOW THE BANK WILL MEASURE ITS PERFORMANCE IN 2015

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

TABLE 6

2015 FINANCIAL OBJECTIVES (1)

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

(1) Refer to the Non-GAAP financial measures section.
(2) These objectives for 2015 should be read concurrently with the following paragraphs on key assumptions.

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

Management is confident that the Bank is well positioned to further improve its performance in 2015. Strategies to foster growth in higher-margin products, mainly through its commercial activities, as well as its new lease financing and Alt-A offerings, should further improve the loan portfolio mix, including its geographical diversification, and enable the Bank to maintain its momentum. In addition, the Bank will continue to exhibit expense discipline and focus on materializing revenue opportunities to further improve its efficiency. Furthermore, management expects that the loan portfolio credit quality will continue to compare advantageously versus the industry.

Key assumptions supporting the Bank's objectives

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

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

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

Medium term outlook

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

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

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

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

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

ANALYSIS OF CONSOLIDATED RESULTS

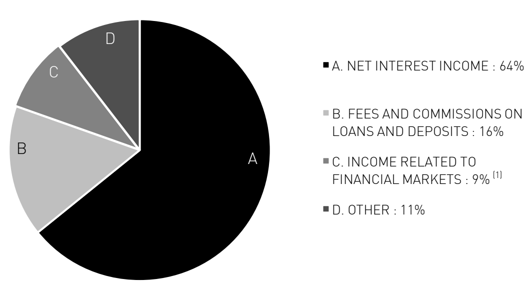
Net income improved to $140.4 million or $4.50 diluted per share for the year ended October 31, 2014, compared with $119.5 million or $3.80 diluted per share for the year ended October 31, 2013. Adjusted net income was $163.6 million for the year ended October 31, 2014, up 5% compared with $155.4 million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

TOTAL REVENUE

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

TOTAL REVENUE MIX

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



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

NET INTEREST INCOME

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

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

TABLE 7

CHANGES IN NET INTEREST INCOME

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

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

TABLE 8

ANALYSIS OF CHANGE IN NET INTEREST INCOME

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

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

OTHER INCOME

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

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

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

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

Income from sales of mutual funds improved by 30% to $29.2 million in fiscal 2014 compared with $22.5 million in 2013. During the year, the Bank continued to distribute a preferred series of LBC-Mackenzie mutual funds in its Québec branch network which contributed to solid mutual fund sales and also benefitted from improved equity markets to generate significant growth in assets under administration.

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

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

TABLE 9

OTHER INCOME

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

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

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

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

PROVISION FOR LOAN LOSSES

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

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

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

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

TABLE 10

PROVISION FOR LOAN LOSSES

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

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

NON-INTEREST EXPENSES

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

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

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

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

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

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

Efficiency ratio

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

TABLE 11

NON-INTEREST EXPENSES

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

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

(1) Comparative figures for 2012 were not restated to reflect the adoption of amendments to IAS 19, *Employee Benefits*.
(2) Salaries for 2014 included severance charges of $6.1 million as part of restructuring initiatives ($6.3 million for 2013 and nil for 2012).
(3) Depreciation for 2014 included impairment charges of $1.6 million related to IT projects as part of restructuring initiatives (nil for 2013 and 2012).
(4) Costs related to the integration of the MRS Companies and AGF Trust (T&I Costs).
(5) Refer to the non-GAAP financial measures section.

INCOME TAXES

For fiscal 2014, income tax expense totalled $40.7 million and the effective income tax rate was 22.5%, compared with $31.4 million and 20.8%, respectively, for fiscal 2013. Note 19 to the annual consolidated financial statements provides further information on income tax expense. As detailed in the table below, the increase in the effective tax rate compared to a year-ago mainly resulted from the relatively higher level of domestic taxable income and a $4.1 million non tax-deductible charge as a result of the final settlement of the contingent consideration related to the AGF Trust acquisition.

TABLE 12

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

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

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

TRANSACTIONS WITH RELATED PARTIES

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

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

OVERVIEW OF FISCAL 2013

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

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

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

ANALYSIS OF QUARTERLY RESULTS

ANALYSIS OF RESULTS FOR THE FOURTH QUARTER OF 2014

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

TOTAL REVENUE

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

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

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

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

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

PROVISION FOR LOAN LOSSES

The provision for loan losses increased by $0.5 million to $10.5 million for the fourth quarter of 2014 from $10.0 million for the fourth quarter of 2013. Loan losses remained at a low level reflecting the overall underlying quality of the loan portfolios and the continued favourable credit environment. Loan losses on personal loans decreased by $2.4 million compared with the fourth quarter of 2013, mainly reflecting lower provisions in the investment and point-of-sale financing loan portfolios compared to last year because of reduced exposure. Loan losses on residential mortgage loans were up $0.4 million from the fourth quarter of 2013. Loan losses on commercial mortgages and commercial loans cumulatively amounted to $0.7 million for the fourth quarter of 2014, a year-over-year increase of $2.5 million compared with a net recovery amount of $1.8 million in the fourth quarter of 2013. The year-over-year increase in loan losses mainly results from growth in the underlying portfolios, as well as higher favourable settlements and improvements in the fourth quarter of 2013 compared with the fourth quarter of 2014.

NON-INTEREST EXPENSES

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

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

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

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

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

Efficiency ratio

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

INCOME TAXES

For the quarter ended October 31, 2014, the income tax expense was $9.4 million and the effective tax rate was 21.7%. The lower tax rate, compared to the statutory rate, mainly resulted from the favourable effect of holding investments in Canadian securities that generate non-taxable dividend income and the lower taxation level on revenues from foreign insurance operations. For the quarter ended October 31, 2013, the income tax expense was $6.0 million and the effective tax rate was 18.8%. Year-over-year, the higher effective tax rate for the quarter ended October 31, 2014 resulted from the relatively higher level of domestic taxable income.

ANALYSIS OF THE EVOLUTION OF THE QUARTERLY RESULTS

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

TABLE 13

QUARTERLY RESULTS

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

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

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

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

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

2014

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

2013

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

BUSINESS SEGMENTS

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

Realignment of reportable segments

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

PERSONAL & COMMERCIAL

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

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

TABLE 14

SEGMENT CONTRIBUTION

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

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

(1) Comparative figures for 2012 reflect the realignment of reportable segments but were not restated to reflect the adoption of amendments to IAS 19, *Employee Benefits*.
(2) Refer to the non-GAAP financial measures section. Adjusted financial measures exclude restructuring charges designated as adjusting items.

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

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

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

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

B2B BANK

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

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

TABLE 15

SEGMENT CONTRIBUTION

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

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

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

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

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

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

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

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

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

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

LAURENTIAN BANK SECURITIES & CAPITAL MARKETS

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

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

TABLE 16

SEGMENT CONTRIBUTION

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

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

(1) Comparative figures for 2012 were not restated to reflect the adoption of amendments to IAS 19, *Employee Benefits*.
(2) Refer to the non-GAAP financial measures section.

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

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

OTHER

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

For the year ended October 31, 2014, the Other sector's contribution to adjusted net income was a negative $26.2 million, compared with a negative $20.5 million for the year ended October 31, 2013. Reported net income for the year ended October 31, 2014 was negative $27.1 million, compared with negative $21.2 million for the year ended October 31, 2013.

TABLE 17

SEGMENT CONTRIBUTION

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

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

(1) Comparative figures for 2012 reflect the realignment of reportable segments but were not restated to reflect the adoption of amendments to IAS 19, *Employee Benefits*.
(2) In 2014, the Bank retroactively adjusted its corporate expenses allocation methodology. As a result, non-interest expenses amounting to $4.0 million ($2.8 million net of income taxes) in 2013, which were previously reported in the Other sector, were reclassified to the B2B Bank business segment.
(3) Refer to the non-GAAP financial measures section. Adjusted financial measures exclude restructuring charges designated as adjusting items.

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

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

ANALYSIS OF FINANCIAL CONDITION

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

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

TABLE 18

BALANCE SHEET ASSETS

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

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

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

LIQUID ASSETS

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

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

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

LOAN PORTFOLIO

Loans and bankers' acceptances, net of allowances, stood at $27.3 billion as at October 31, 2014, up marginally from October 31, 2013. The increase in the Bank's loan portfolios mainly reflects the strong organic growth in the higher-margin business portfolios, including commercial loans, acceptances and mortgages, up 11% year-over-year, which was partly muted by a decrease in personal loans. In 2014, in an environment of slowing consumer loan demand, the Bank focused its efforts on growth opportunities in niche markets and on the deployment of new product offerings such as lease financing and alternative mortgages. Executing on its niche strategy, the Bank maintained overall growth in total loans and bankers' acceptances year-over-year.

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

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

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

Impaired loans

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

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

OTHER ASSETS

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

TABLE 19

BALANCE SHEET LIABILITIES

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

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

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

DEPOSITS

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

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

OTHER LIABILITIES

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

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

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

SHAREHOLDERS' EQUITY

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

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

Repurchase and issuance of preferred shares

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

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

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

TABLE 20

SHARES ISSUED AND OUTSTANDING

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

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

OFF-BALANCE SHEET ARRANGEMENTS

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

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 21 below summarizes assets under administration and assets under management. As at October 31, 2014, these items totalled $41.7 billion, up $3.9 billion or 10% compared with October 31, 2013. Fees, commissions and other income related to these assets contribute significantly to the Bank's profitability.

TABLE 21

ASSETS UNDER ADMINISTRATION AND ASSETS UNDER MANAGEMENT

As at October 31 (in thousands of Canadian dollars)

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

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

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

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

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

DERIVATIVES

In the normal course of its operations, the Bank enters into various contracts and commitments to protect itself against the risk of fluctuations in interest rates, foreign exchange rates, stock prices and indices on which returns of index-linked deposits are based, as well as to meet clients' requirements and generate revenues from trading activities. These contracts and commitments constitute derivatives. The Bank does not enter into any credit default swaps.

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

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

SECURITIZATION ACTIVITIES

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

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

The Bank securitizes residential mortgage loans primarily by participating in the Canada Mortgage Bonds Program (CMB Program) developed by the Canada Mortgage and Housing Corporation (CMHC) and through a multi-seller conduit set up by a large Canadian bank. As the Bank ultimately retains certain prepayment risk, interest rate risk and credit risk (for loans sold to multi-seller conduits only) related to the transferred mortgage loans, these are not derecognized and the securitization proceeds are recorded as securitization liabilities. In effect, the securitization activities carried by the Bank, although using special purpose entities which are not as such consolidated, are nonetheless reflected on the balance sheet.

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

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

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

CREDIT COMMITMENTS AND GUARANTEES

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

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

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

TABLE 22

CREDIT COMMITMENTS AND GUARANTEES

As at October 31 (in thousands of Canadian dollars)

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

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

CAPITAL MANAGEMENT

CAPITAL ADEQUACY OVERSIGHT

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

The ICAAP is an integrated process that evaluates capital adequacy relative to the Bank's risk profile and helps set the appropriate capital level for the Bank. Capital adequacy depends on various internal and external factors. The Bank's capital level underscores its solvency and capacity to fully cover risks related to its operations while providing depositors and creditors with the safeguards they seek. Moreover, required capital is aligned with the Bank's Strategic Plan, industry capitalization levels, regulatory requirements and stakeholders' expectations. While rating agencies do not assign credit ratings based solely on capital levels, the Bank's capital must be consistent with the credit rating sought. As a result, the Bank's capital adequacy targets vary over time in line with these factors.

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

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

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

REGULATORY CAPITAL

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

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

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

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

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

Leverage ratio requirement

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

In its Leverage Requirements Guideline issued in October 2014, OSFI indicated that it will replace the ACM with the new Basel III leverage ratio as of January 1, 2015. Federally regulated deposit-taking institutions will be expected to maintain a Basel III leverage ratio that meets or exceeds 3% at all times.

Bail-in Regime in Canada

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

Credit and operational risk

The Bank uses the Standardized Approach in determining credit risk capital and to account for operational risk. In 2012, the Bank initiated the process to adopt the advanced internal ratings-based (AIRB) approach to determine credit risk capital. Currently, the Bank's capital requirements for credit risk under the Standardized Approach are not calculated on the same basis as its industry peers, as larger Canadian financial institutions predominantly use the more favourable AIRB approach. The Bank's adoption of the AIRB approach should strengthen its credit risk management, optimize regulatory capital and provide a level-playing field for credit underwriting activities. Implementation is scheduled for the end of 2018. In November 2014, the BCBS issued a report entitled *Reducing excessive variability in banks' regulatory capital ratios*. This report states that the BCBS will provide new prudential proposals to improve the Standardized Approach for calculating regulatory capital by the end of 2015. The report also suggests that new requirements will be introduced to the AIRB approach, notably with regard to the capital floor and other risk modeling practices. Management is closely monitoring these developments.

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

TABLE 23

REGULATORY CAPITAL [1]

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

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

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

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

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

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

CHANGE IN COMMON EQUITY TIER 1 CAPITAL RATIO

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

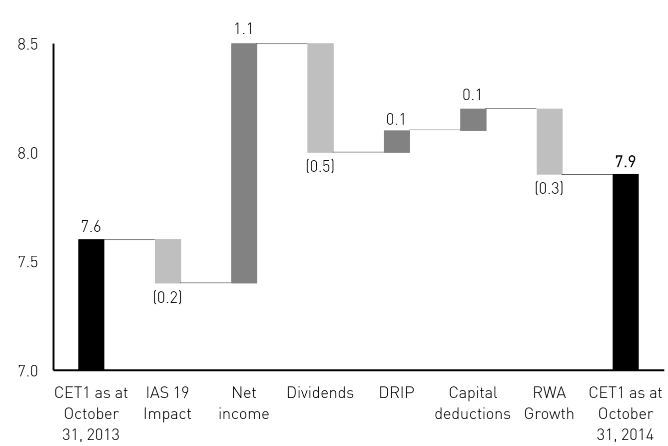


TABLE 24

RISK-WEIGHTED ASSETS

As at October 31 (in thousands of Canadian dollars)

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

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

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

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

DIVIDENDS

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

TABLE 25

SHARE DIVIDENDS AND PAYOUT RATIO

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

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

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

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

RISK APPETITE AND RISK MANAGEMENT FRAMEWORK

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

RISK MANAGEMENT FRAMEWORK

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

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

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

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

RISK APPETITE

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

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

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

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

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

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

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

INTEGRATED STRESS TESTING PROGRAM

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

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

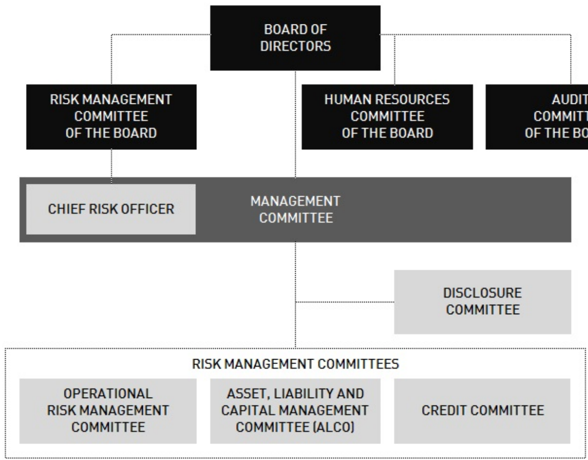
This exercise involves experts from various departments including Economics, Finance, Treasury and Risk Management. Members of senior management are involved in the design of scenarios, while the Risk Management Committee of the Board provides oversight. The results are presented to senior management,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

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

GOVERNANCE STRUCTURE

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

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



Roles and responsibilities of the Board of Directors' committees

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

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

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

Roles and responsibilities of other risk management committees of the Bank

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

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

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

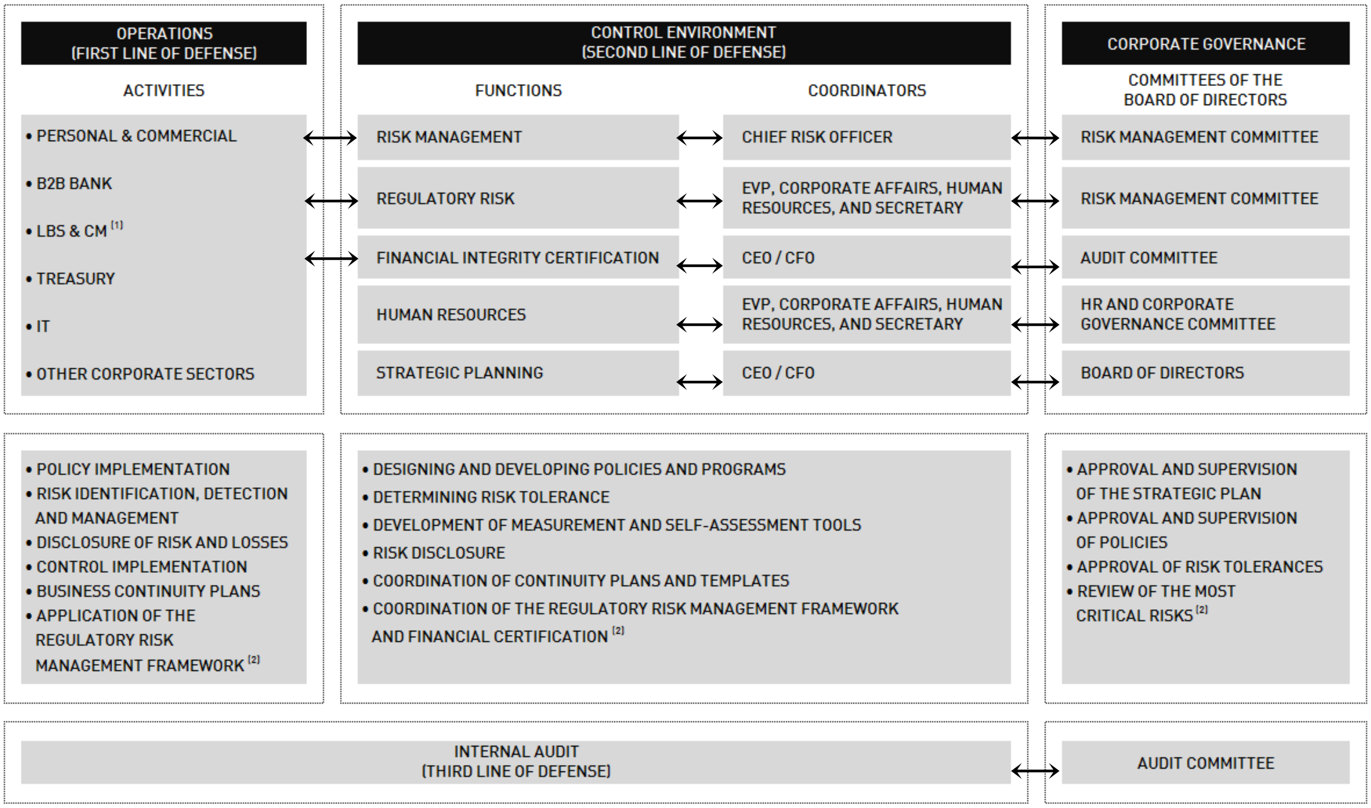
The ***Asset, Liability and Capital Management Committee*** (ALCO) is responsible for assuring compliance with the interest rate structural risk management limits. It recommends hedging strategies to maintain the risk level within the approved limits. It also supervises liquidity management at the subsidiary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

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

GOVERNANCE FUNCTIONS SUPPORTING RISK MANAGEMENT

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

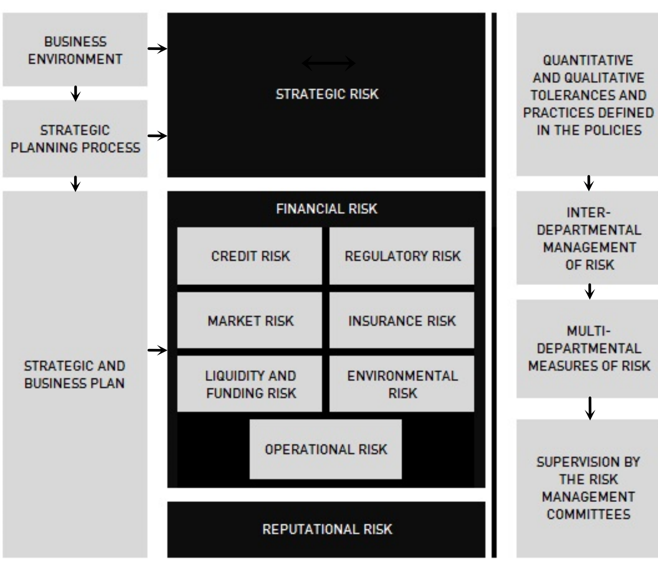
The Internal Audit function also plays a key role as a third line of defense. It is responsible for implementing and maintaining a reliable and comprehensive system to adequately monitor the effectiveness of controls exercised within the different Framework functions. In addition, regulatory and statutory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



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

RISK MANAGEMENT PROCESS

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



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

STRATEGIC RISK MANAGEMENT

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

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

CREDIT RISK MANAGEMENT

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

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

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

Loan-related credit risk

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

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

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

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

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

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

The loan portfolio mix is detailed in the following pages.

Derivative-related credit risk

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

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

Exposure to credit risk

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

TABLE 26

MAXIMUM EXPOSURE TO CREDIT RISK

As at October 31 (in millions of Canadian dollars)

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

(1) Excluding equity securities.

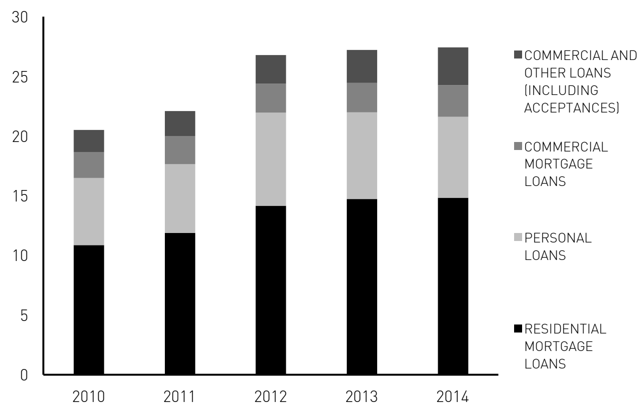
Loan portfolio mix

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

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

LOAN PORTFOLIO MIX

As at October 31 (in billions of Canadian dollars)



Personal loans

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

Residential mortgage loans

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

Commercial mortgage loans

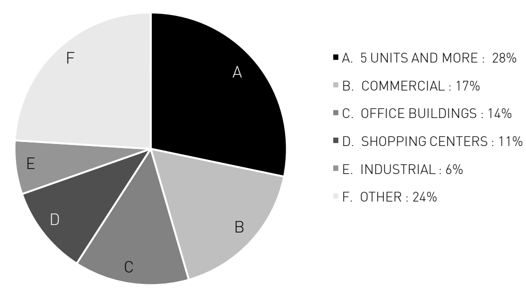
Commercial mortgage loans increased by $162.4 million or 7% from fiscal 2013, totalling $2.7 billion as at October 31, 2014, despite a loan sale of $102.4 million in 2014.

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

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

COMMERCIAL MORTGAGE LOANS BY PROPERTY TYPE

As at October 31, 2014 (as a percentage)



Commercial loans

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

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

See Table 27 for additional information.

TABLE 27

DISTRIBUTION OF LOANS BY CREDIT PORTFOLIO AND INDUSTRY

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

2014

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

2013

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

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

(2) Recorded in the consolidated statement of income.

Impaired loans

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

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

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

Geographic distribution of loans

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

GEOGRAPHIC DISTRIBUTION OF LOANS

As at October 31 (in billions of Canadian dollars)

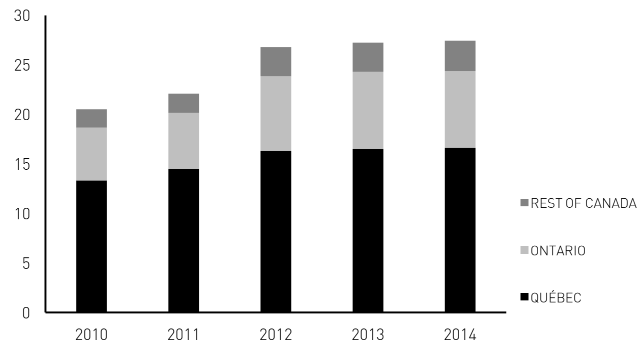


TABLE 28

GEOGRAPHIC DISTRIBUTION OF LOANS BY CREDIT PORTFOLIO

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

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

Insurance and guarantees held in respect of loan portfolios

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

CMHC offers a mortgage loan insurance program that ultimately aims to improve access to affordable mortgage loan financing for Canadians. As an approved lender under the program, the Bank benefits from insurance coverage, thereby reducing its overall credit risk. The Bank also insures pools of mortgage loans through a specific CMHC insurance program. Moreover, by maintaining insured residential mortgage loans, the Bank retains its capacity to engage in securitization operations to finance its activities at optimal cost and manage its cash resources. By the end of fiscal 2014, nearly 57% of residential mortgage loans secured by one- to four-unit dwellings were insured, essentially by CMHC, a level relatively unchanged compared to 2013. The Bank also holds guarantees in respect of the real estate property for the other conventional mortgage loans, including HELOCs. In accordance with legal requirements, the non-amortizing HELOC component of a residential mortgage is limited to a maximum authorized loan-to-value ratio of 65%. Additional mortgage credit (beyond the loan-to-value ratio limit of 65% for HELOCs) can be extended to a borrower. However, the loan portion over the 65% loan-to-value ratio threshold must be amortizing. The total loan value of the Bank's conventional mortgage loans never exceeds 80% of the initially estimated value of the property, in accordance with legal requirements.

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

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

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

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

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

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

Other guarantees held

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

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

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

MARKET RISK MANAGEMENT

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

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

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

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

Policies and standards

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

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

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

Market risk assessment and management

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

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

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

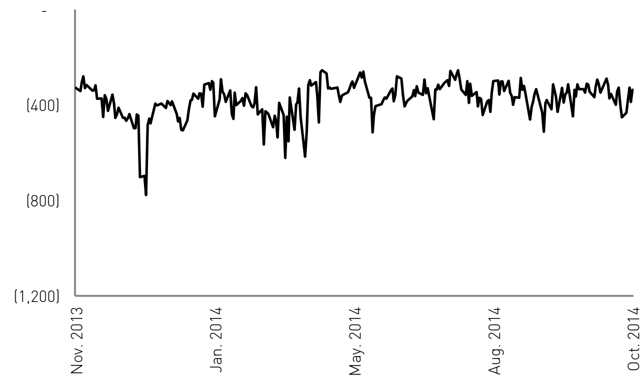
Value at Risk
VaR corresponds to the potential loss the Bank may incur over a one-day period, with a confidence level of 99%. Consequently, chances that real losses incurred on any given day exceed the VaR are theoretically 1%. To calculate the VaR, historical simulations that implicitly take into account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

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

Trading activities

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

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



Asset and liability management activities

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

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

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

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

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

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

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

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

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

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

TABLE 29

SENSITIVITY ANALYSIS OF THE STRUCTURAL INTEREST RATE RISK

As at October 31 (in thousands of Canadian dollars)

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

(1) Over the next 12 months.

(2) Net of income taxes.

Foreign exchange risk

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

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

Equity risk

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

LIQUIDITY AND FUNDING RISK MANAGEMENT

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

The Bank's overall liquidity risk is managed by Corporate Treasury with oversight by the Asset and Liability Management Committee and, ultimately, by the Management Committee, in accordance with the policies governing funding and liquidity and collateral management. The main purpose of these policies is to ensure that the Bank has sufficient cash resources to meet its current and future financial obligations, under both normal and stressed conditions.

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

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

Regulatory developments concerning liquidity

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

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

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

Detailed information on liquid assets

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

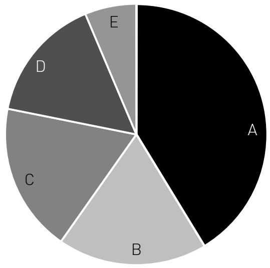
The Bank's liquid assets are mainly composed of direct investments in or transactions secured by marketable securities issued or guaranteed by the Canadian government, provinces or municipal corporations. These liquid assets provide the Bank with flexibility to manage its loan and deposit portfolio maturities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

Funding

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

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

FUNDING SOURCES
As at October 31, 2014 (as a percentage)



Personal deposits

Total personal deposits decreased slightly to $18.7 billion as at October 31, 2014, compared with $19.3 billion as at October 31, 2013, in line with slower loan growth. Nonetheless, the ratio of personal deposits to total deposits remains well above the Canadian average and the Bank continues to focus on maintaining its privileged position in the retail market and independent advisor-sourced deposit market through its retail branch operations and B2B Bank. A significant proportion of these deposits are insured by the Canada Deposit Insurance Corporation, up to $100,000 per client, per regulated deposit-taking financial institution.

Business, banks and other deposits

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

TABLE 30
DEPOSITS
As at October 31 (in thousands of Canadian dollars, except percentage amounts)

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

Credit ratings

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

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

On September 29, 2014, S&P lowered the Bank's Tier 1 Preferred Shares Series 11 credit rating to BB from BB+ and non-viable contingent capital (NVCC) Preferred Shares Series 13 to BB- from BB. The downgrades affected all major Canadian banks and reflected S&P's view that regulators in Canada and elsewhere were adopting a tougher "bail-in" stance (where investors share in the cost of a government's rescue of a failing bank) toward hybrid capital instruments. S&P confirmed all other ratings of the Bank.

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

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

TABLE 31

CREDIT RATINGS (1)

As at December 3, 2014

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

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

Contractual obligations

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

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

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

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

OPERATIONAL RISK MANAGEMENT

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

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

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

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

Collection of operational loss data
Data on operational losses are centralized within the Operational Risk Management Department.

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

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

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

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

Corporate insurance

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

TABLE 32

CONTRACTUAL OBLIGATIONS

As at October 31 (in thousands of Canadian dollars)

2014

	DEMAND AND NOTICE	TERM UNDER 1 YEAR	1 TO 3 YEARS	3 TO 5 YEARS	OVER 5 YEARS	TOTAL
Financial liabilities						
Deposits	$ 8,229,415	$ 8,198,250	$ 5,417,632	$ 2,544,416	$ 133,313	$ 24,523,026
Obligations related to securities sold short	—	1,562,477	—	—	—	1,562,477
Obligations related to securities sold under repurchase agreements	—	581,861	—	—	—	581,861
Debt related to securitization activities	—	776,776	2,326,453	1,507,142	253,477	4,863,848
Subordinated debt	—	—	450,000	—	—	450,000
Derivatives[1]	—	5,347	4,846	485	(199)	10,479
	8,229,415	11,124,711	8,198,931	4,052,043	386,591	31,991,691
Other contractual obligations						
Commitments under leases, technology services and other contracts	—	124,052	199,143	98,305	78,334	499,834
Total	$ 8,229,415	$ 11,248,763	$ 8,398,074	$ 4,150,348	$ 464,925	$ 32,491,525

2013

	DEMAND AND NOTICE	TERM UNDER 1 YEAR	1 TO 3 YEARS	3 TO 5 YEARS	OVER 5 YEARS	TOTAL
Financial liabilities						
Deposits	$ 8,181,971	$ 6,602,041	$ 7,289,729	$ 1,787,386	$ 66,223	$ 23,927,350
Obligations related to securities sold short	—	1,464,269	—	—	—	1,464,269
Obligations related to securities sold under repurchase agreements	—	339,602	—	—	—	339,602
Debt related to securitization activities	—	1,174,985	1,954,444	1,607,181	238,104	4,974,714
Subordinated debt	—	—	250,000	200,000	—	450,000
Derivatives[1]	—	6,294	8,785	2,673	(240)	17,512
	8,181,971	9,587,191	9,502,958	3,597,240	304,087	31,173,447
Other contractual obligations						
Commitments under leases, technology services and other contracts	—	89,486	213,852	141,721	104,029	549,088
Total	$ 8,181,971	$ 9,676,677	$ 9,716,810	$ 3,738,961	$ 408,116	$ 31,722,535

(1) The obligations related to derivatives represent solely the theoretical payments related to derivatives designated as cash flow hedges and used for interest rate risk management whose net fair values were negative as at October 31. The notional amounts associated with the derivatives are summarized by maturity in Note 26 to the annual consolidated financial statements.

Outsourcing management

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

REGULATORY RISK MANAGEMENT

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

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

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

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

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

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

INSURANCE RISK MANAGEMENT

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

ENVIRONMENTAL RISK MANAGEMENT

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

REPUTATIONAL RISK MANAGEMENT

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

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

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

OTHER RISKS THAT MAY AFFECT FUTURE RESULTS

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

Economic climate in Canada

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

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

Legal and regulatory developments

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

Competition

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

Cybersecurity

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

Business continuity

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

Technological development

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

Ability to attract and retain key employees

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

Business infrastructure

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

Model risk

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

Other factors

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

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

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

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

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

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

Changes to Internal Control over Financial Reporting

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

IMPAIRMENT OF FINANCIAL ASSETS

Allowances for loan losses

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

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

This critical accounting estimate affects all business segments.

Other financial assets

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

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

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

MEASURING THE FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

PENSION PLANS AND OTHER EMPLOYEE BENEFITS

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

This critical accounting estimate affects all business segments.

BUSINESS COMBINATIONS

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

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

PROVISIONS AND CONTINGENT LIABILITIES

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

Contingent liabilities arise when it is not possible either to determine whether an obligation, as a result of a past event or transaction, is probable or to reliably estimate the amount of loss, in which case, no provision can be accrued. In the ordinary course of its business, the Bank and its subsidiaries are also involved in various legal actions and claims, including some with regulatory bodies. Many of these disputes are related to loans granted by the Bank and are in reaction to steps taken by the Bank to collect delinquent loans and realize the underlying collateral. Certain claims have also been brought against the Bank, particularly with respect to trustee operations related to portfolio administration and the charging of certain bank fees. These actions may have a material adverse effect on the financial condition of the Bank even though no provisions may have been accrued. In addition, the Bank must continuously assess its fiscal obligations in various jurisdictions which, considering evolving interpretations, may lead to different income tax consequences.

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

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

GOODWILL, OTHER INTANGIBLE ASSETS AND OTHER ASSETS

Goodwill

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

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

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

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

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

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

Other intangible assets and other assets

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

Management also periodically reviews the value of the Bank's other assets, such as fixed assets and other deferred charges, in order to identify potential losses in value and to validate the related amortization periods. Impairment charges of $0.4 million essentially related to IT infrastructure were recorded in fiscal 2014, while a $1.7 million charge was reported in fiscal 2013. Last year, as a result of the decision to relocate B2B Bank employees, amortization periods for certain leasehold improvements, equipment and furniture were reduced in accordance with their new estimated useful life. This led to a $3.3 million additional depreciation charge in 2013.

Changes in estimates and assumptions could significantly impact results.

INCOME TAXES

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

FUTURE CHANGES TO ACCOUNTING POLICIES

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

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

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