MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED OCTOBER 31, 2016

This Management's Discussion and Analysis (MD&A) is a narrative explanation, through the eyes of management, of Laurentian Bank of Canada's financial condition as at October 31, 2016 and how it performed during the year then ended. This MD&A, dated December 6, 2016, should be read in conjunction with the audited annual consolidated financial statements for the year ended October 31, 2016 prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board and set out in the CPA Canada Handbook.

Additional information about the Laurentian Bank of Canada (the Bank), including the Annual Information Form for the year ended October 31, 2016, is available on the Bank's website at www.laurentianbank.ca and on SEDAR at www.sedar.com.

Basis of presentation

The information for the years ended October 31, 2016 and 2015 is presented on the same basis as in the audited annual consolidated financial statements prepared in accordance with IFRS. Certain comparative figures have been reclassified to conform to the current year presentation.

All amounts are denominated in Canadian dollars.

TABLE OF CONTENTS

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

The Bank further cautions that the foregoing list of factors is not exhaustive. For more information on the risks, uncertainties and assumptions that would cause the Bank's actual results to differ from current expectations, please also refer to the "Risk Appetite and Risk Management Framework" on page 37 of the Bank's Management's Discussion and Analysis as contained in the Bank's 2016 Annual Report, as well as to other public filings available at www.sedar.com.

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

SUMMARY OF FINANCIAL RESULTS

HIGHLIGHTS OF 2016

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

TABLE 1

HIGHLIGHTS OF 2016

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

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

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

OVERVIEW OF FISCAL 2016

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

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

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

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

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

TABLE 2

CONSOLIDATED RESULTS

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

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

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

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

EXTERNAL REPORTING CHANGES

SEGMENTED INFORMATION

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

RECLASSIFICATION OF MULTI-UNIT RESIDENTIAL MORTGAGE LOANS

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

NON-GAAP FINANCIAL MEASURES

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

Adjusted financial measures

Certain analyses presented throughout this document are based on the Bank's core activities and therefore exclude the effect of certain amounts designated as adjusting items due to their nature or significance. The Bank presents adjusted results to facilitate understanding of its underlying business performance and related trends. Table 3 presents the impact of adjusting items on reported results.

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

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

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

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

Common shareholders' equity

The Bank's common shareholders' equity is defined as the sum of the value of common shares, retained earnings and accumulated other comprehensive income (AOCI), excluding cash flow hedge reserves.

Return on common shareholders' equity

Return on common shareholders' equity is a profitability measure calculated as the net income available to common shareholders as a percentage of average common shareholders' equity. Table 4 presents additional information about return on common shareholders' equity.

Book value per common share

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

Average earning assets

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

Net interest margin

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

Efficiency ratio and operating leverage

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

Dividend payout ratio

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

Dividend yield

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

TABLE 3

IMPACT OF ADJUSTING ITEMS

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

	FOR THE QUARTERS ENDED OCTOBER 31		FOR THE YEARS ENDED OCTOBER 31		
	2016	2015	**2016**	2015	2014
Impact on net income					
Reported net income (loss)	**$ 18,383**	$ (18,719)	**$ 151,910**	$ 102,470	$ 140,365
Adjusting items, net of income taxes					
Impairment and restructuring charges					
Impairment of goodwill, software and intangible assets, and premises and equipment	**16,178**	57,245	**16,178**	57,245	—
Provisions related to lease contracts	**8,675**	358	**8,675**	358	—
Severance charges	**3,200**	3,014	**3,200**	3,014	4,429
Other impairment charges related to IT projects	**—**	1,153	**—**	1,153	1,162
	28,053	61,770	**28,053**	61,770	5,591
Retirement compensation charge (1)	**—**	—	**—**	3,550	—
Items related to business combinations					
Amortization of net premium on purchased financial instruments and revaluation of contingent consideration					
Amortization of net premium on purchased financial instruments	**868**	1,076	**3,812**	4,409	4,079
Revaluation of contingent consideration	**—**	—	**—**	—	4,100
Costs related to business combinations (2)	**3,238**	—	**3,238**	—	9,447
	4,106	1,076	**7,050**	4,409	17,626
	32,159	62,846	**35,103**	69,729	23,217
Adjusted net income	**$ 50,542**	$ 44,127	**$ 187,013**	$ 172,199	$ 163,582
Impact on diluted earnings per share					
Reported diluted earnings (loss) per share	**$ 0.45**	$ (0.73)	**$ 4.55**	$ 3.21	$ 4.50
Adjusting items					
Impairment and restructuring charges	**0.89**	2.13	**0.92**	2.13	0.19
Retirement compensation charge	**—**	—	**—**	0.12	—
Items related to business combinations	**0.13**	0.04	**0.23**	0.15	0.62
	1.02	2.17	**1.15**	2.41	0.81
Adjusted diluted earnings per share (3)	**$ 1.47**	$ 1.44	**$ 5.70**	$ 5.62	$ 5.31

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

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

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

TABLE 4

RETURN ON COMMON SHAREHOLDERS' EQUITY

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

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

OUTLOOK

ECONOMIC OUTLOOK

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

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

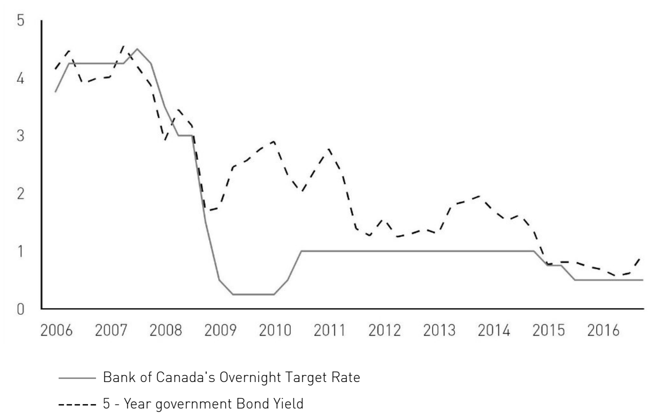
For 2016, 2017 and 2018, the Canadian real Gross Domestic Product (GDP) is forecast to grow by 1.3%, 1.8% and 2.0%, respectively, supported by accommodative financial conditions, the recovery of non-commodity exports, stronger capital spending in non-commodity sectors, the federal tax relief to the middle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

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

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

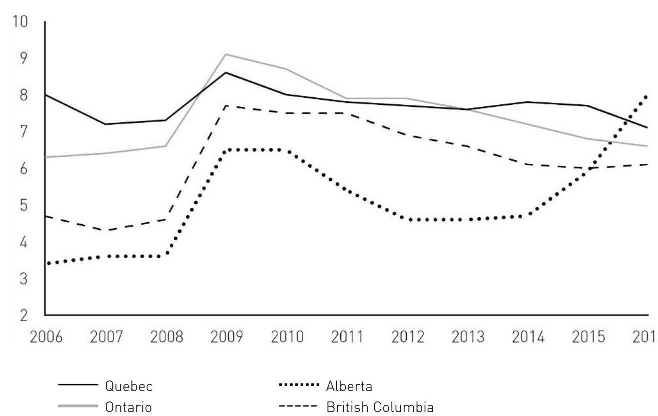
Given this economic backdrop, the Bank's targeted approach to expand its business services activities, its renewed efforts to streamline its retail activities and its strong capital position should contribute to growth into 2017 and beyond.

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



Source: Bank of Canada

UNEMPLOYMENT RATES
(annual data, in percentage)



Source: Statistics Canada

HOW THE BANK WILL MEASURE ITS PERFORMANCE

Medium-term financial objectives

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

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

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

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

TABLE 5

MEDIUM-TERM FINANCIAL OBJECTIVES AND 2016 PERFORMANCE

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

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

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

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

(3) Compared to 2016 for major Canadian banks.

Key assumptions supporting the Bank's medium-term objectives

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

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

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

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

Optimization of the Retail activities

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

ACQUISITION OF CIT CANADA

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

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

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

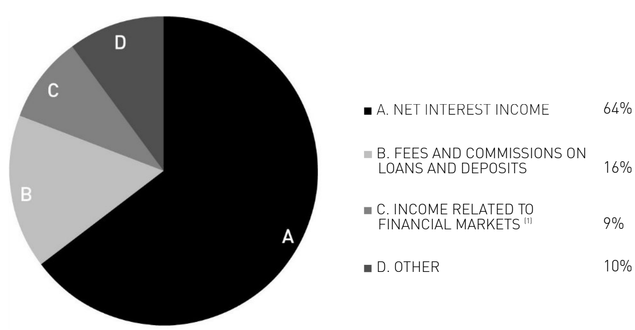
Integration of CIT Canada's operations is underway and should be substantially completed by the end of calendar year 2017. Total transaction and integration costs should approximate $25.0 to $30.0 million of which $4.4 million was incurred in 2016. The contribution to core-earnings for fiscal 2016 was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

ANALYSIS OF CONSOLIDATED RESULTS

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

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

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



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

TOTAL REVENUE

Total revenue increased by $18.3 million to $915.5 million for the year ended October 31, 2016, compared with $897.1 million for the year ended October 31, 2015. Net interest income and other income both contributed to the increase year-over-year, as detailed below.

NET INTEREST INCOME

Net interest income increased by $14.6 million or 3% to $589.6 million for the year ended October 31, 2016, from $575.1 million for the year ended October 31, 2015. The increase was mainly generated by strong volume growth in loan portfolios, partly offset by compressed margins.

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

The Bank uses derivatives to manage the interest rate risk associated with some of its loan and deposit portfolios. Depending on interest rate fluctuations and on the portfolio mix in terms of maturity and product types, actual return on portfolios can vary substantially. The Bank uses models to quantify the potential impact of various rate scenarios on future revenues and equity, as explained in the Asset and Liability Management Activities section on page 46 of this MD&A.

TABLE 6

NET INTEREST INCOME

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

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

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

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

TABLE 7

CHANGE IN NET INTEREST INCOME

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

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

OTHER INCOME

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

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

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

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

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

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

Insurance income is generated by insurance programs related to the Bank's credit and card product offering. Insurance revenues are presented net of claims and expenses. Net revenues increased slightly to $17.5 million for fiscal 2016 from $16.9 million in 2015, essentially as a result of lower claims. Additional information on the Bank's insurance revenues is presented in Note 27 to the annual consolidated financial statements.

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

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

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

TABLE 8

OTHER INCOME

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

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

AMORTIZATION OF NET PREMIUM ON PURCHASED FINANCIAL INSTRUMENTS

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

PROVISION FOR CREDIT LOSSES

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

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

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

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

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

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

TABLE 9

PROVISION FOR CREDIT LOSSES

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

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

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

NON-INTEREST EXPENSES

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

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

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

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

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

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

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

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

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

Efficiency ratio

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

TABLE 10

NON-INTEREST EXPENSES

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

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

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

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

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

INCOME TAXES

For the year ended October 31, 2016, the income tax expense was $45.5 million and the effective tax rate was 23.0%. The lower tax rate, compared to the statutory rate, resulted mainly from the lower taxation level on revenues from foreign insurance operations and the favourable effect of holding investments in Canadian securities that generate non-taxable dividend income. For the year ended October 31, 2015, the income tax expense was $30.9 million and the effective tax rate was 23.2%. The lower tax rate, compared to the statutory rate, resulted mainly from the aforementioned factors, partly offset by the mostly non tax-deductible goodwill impairment charge recorded in 2015.

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

TABLE 11

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

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

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

TRANSACTIONS WITH RELATED PARTIES

The Bank provides loans to related parties, which consist of key management personnel and their close family members, as well as their related companies. Key management personnel consist of members of the Executive Committee or the Board of Directors. As at October 31, 2016, these loans totalled $19.7 million. Loans to directors are granted under market conditions for similar risks and are initially measured at fair value. Loans to officers consist mostly of term residential mortgage loans, as well as personal loans, at market rates less a discount based on the type and amount of the loan. Loans to entities controlled by key management personnel are granted under terms similar to those offered to arm's length parties. The interest earned on these loans is recorded under interest income in the consolidated statement of income.

In the normal course of business, the Bank also provides usual banking services to key management personnel, including bank accounts (deposits) under terms similar to those offered to arm's length parties. As at October 31, 2016, these deposits totalled $1.4 million. The Bank also offers employees a discount on annual credit card fees. In addition, for the year ended October 31, 2016, the Bank paid a rental expense of $2.2 million to a related party ($2.2 million for the year ended October 31, 2015).

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

OVERVIEW OF FISCAL 2015

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

On a reported basis, net income was $102.5 million or $3.21 diluted per share for the year ended October 31, 2015, compared with $140.4 million or $4.50 diluted per share in 2014. On the same basis, return on common shareholders' equity was 6.8% for the year ended October 31, 2015, compared with 10.1% in 2014. Reported results for 2015 and 2014 took into account adjusting items, including impairment and restructuring charges related to the Retail activities emanating from a comprehensive strategic review completed in the fourth quarter of 2015. Refer to the Non-GAAP Financial Measures section on page 17 for further details.

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

ANALYSIS OF QUARTERLY RESULTS

ANALYSIS OF RESULTS FOR THE FOURTH QUARTER OF 2016

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

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

Total revenue

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

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

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

Amortization of net premium on purchased financial instruments

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

Provision for credit losses

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

Non-interest expenses

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

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

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

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

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

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

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

Income taxes

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

ANALYSIS OF THE EVOLUTION OF THE QUARTERLY RESULTS

The Bank's intermediation business provides a relatively steady source of income stemming from large volumes of loans and deposits not likely to experience significant fluctuations in the short term. However, treasury operations and certain activities related to financial markets, such as trading activities, may result in significant volatility. In addition, variations in market interest rates or equity markets, as well as in credit conditions can influence the Bank's results. Furthermore, other transactions such as business acquisitions, specific events or regulatory developments may significantly impact revenues and expenses. Given that the second quarter usually consists of only 89 days (90 days in 2016), compared with 92 days for the other quarters, overall profitability is generally lower for that quarter, mainly as net interest income is impacted. Table 12 summarizes quarterly results for fiscal 2016 and 2015.

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

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

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

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

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

2016

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

2015

- Net interest income increased in 2015 compared to 2014, as the impact of good loan growth over the previous months and higher prepayment penalties on residential mortgage loans, notably in the third quarter, positively contributed to earnings. Net interest margins were also impacted by the low interest rate environment.
- Other income increased throughout 2015 mainly due to solid mutual fund commissions and higher income from treasury and financial market operations.
- The provision for credit losses decreased in 2015 compared to the previous year, reflecting the strong quality of the portfolio and the favourable credit underwriting environment.
- Non-interest expenses in the first quarter included a retirement compensation charge of $4.9 million related to the adjustment to the employment contract of a former member of senior management. Expenses in the fourth quarter also included impairment and restructuring charges of $78.4 million incurred in the context of a comprehensive strategic review of the Bank's retail activities. Adjusted non-interest expenses were slightly higher in 2015 than in 2014, mainly as a result of increases in salaries and employee benefits, as well as in technology costs.

ANALYSIS OF FINANCIAL CONDITION

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

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

TABLE 13

BALANCE SHEET ASSETS

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

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

(1) Including finance lease receivables.

LIQUID ASSETS

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

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

Overall, the Bank continues to prudently manage the level of liquid assets and to hold sufficient cash resources from various sources in order to meet its current and future financial obligations, under both normal and stressed conditions.

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

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

As at October 31, 2016, net unrealized gains in this portfolio, included in accumulated other comprehensive income, amounted to $4.2 million, compared with unrealized net losses of $10.5 million as at October 31, 2015, reflecting the relatively good performance of the Canadian preferred share market during the year.

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

LOAN PORTFOLIO

Loans and bankers' acceptances, net of allowances, stood at $33.3 billion as at October 31, 2016, up $3.3 billion or 11% from October 31, 2015. This increase reflects the acquisition of CIT Canada's $0.9 billion net commercial loan portfolios, as well as the Bank's continued strong organic growth.

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

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

Commercial loans, including acceptances, increased by $1.6 billion or 42% since October 31, 2015, mainly due to CIT Canada's $0.9 billion net commercial loan portfolios, as well as by increased volumes from syndication activities. Commercial mortgage loans increased by $0.4 billion or 10% over the same period. When combined, these loans to business customers amounted to $10.0 billion as at October 31, 2016, up 25% year-over-year.

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

OTHER ASSETS

Other assets decreased by $0.1 billion to $1.0 billion as at October 31, 2016, primarily reflecting a decrease in cheques and other items in transit that was partly offset by the addition of CIT Canada's assets to the Bank's balance sheet.

TABLE 14

BALANCE SHEET LIABILITIES

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

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

DEPOSITS

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

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

OTHER LIABILITIES

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

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

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

Subordinated debt stood at $199.8 million as at October 31, 2016, compared with $449.6 million as at October 31, 2015. During the first quarter of 2016, the Bank redeemed all of its Series 2010-1 subordinated Medium Term Notes maturing in 2020, with an aggregate notional amount of $250.0 million. The subordinated debt is an integral part of the Bank's regulatory capital and affords its depositors additional protection.

SHAREHOLDERS' EQUITY

Shareholders' equity stood at $1,974.8 million as at October 31, 2016, compared with $1,587.0 million as at October 31, 2015. This $387.8 million increase is mainly explained by the $155.4 million common share issuance in the fourth quarter of 2016 to support the CIT Canada transaction, the $125.0 million preferred share issuance completed in the second quarter of 2016 and the $67.5 million common share offering completed during the first quarter of 2016. The remaining increase is explained by the net income contribution for the year, net of declared dividends. For additional information, please refer to the annual consolidated statement of changes in shareholders' equity.

The Bank's book value per common share appreciated to $47.92 as at October 31, 2016 from $46.33 as at October 31, 2015. The table below provides the details of the share capital.

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

TABLE 15

SHARES ISSUED AND OUTSTANDING

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

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

OFF-BALANCE SHEET ARRANGEMENTS

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

ASSETS UNDER ADMINISTRATION AND ASSETS UNDER MANAGEMENT

Assets under administration and assets under management mainly include assets of clients to whom the Bank provides various administrative services, as well as commercial mortgage loans managed for third parties. Through its subsidiary Laurentian Bank Securities, the Bank also manages retail and institutional investment portfolios. Table 16 below summarizes assets under administration and assets under management. As at October 31, 2016 these items totalled $43.7 billion, up $1.5 billion or 3% compared with October 31, 2015. Fees, commissions and other income related to these assets contribute significantly to the Bank's profitability.

TABLE 16

ASSETS UNDER ADMINISTRATION AND ASSETS UNDER MANAGEMENT

As at October 31 (in thousands of Canadian dollars)

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

Assets related to registered and non-registered investment accounts in B2B Bank Dealer Services and LBC Financial Services were up by $0.9 billion year-over-year, reflecting higher underlying asset values driven by market performance. B2B Bank Dealer Services helps Canadians build and manage their wealth and provides account administration, clearing and settlement, and reporting services to more than 300,000 investors, through its association with independent dealers and advisors across Canada.

LBC Financial Services offers a team of specialized investment representatives who support their clients with strategies to manage their portfolios and build wealth, mainly through the Bank branch network.

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

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

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

DERIVATIVES

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

All derivatives are recorded on the balance sheet at fair value. Derivative values are calculated using notional amounts. However, these amounts are not recorded on the balance sheet, as they do not represent the actual amounts exchanged. Likewise, notional amounts do not reflect the credit risk related to derivatives, although they serve as a reference for determining the amount of cash flows to be exchanged. The notional amounts of the Bank's derivatives totalled $25.0 billion as at October 31, 2016 with a net positive fair value of $82.3 million.

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

SECURITIZATION ACTIVITIES

The Bank uses special purpose entities to securitize residential mortgage loans and finance lease receivables in order to optimize and diversify sources of funding and to enhance its liquidity position.

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

The Bank securitizes residential mortgage loans primarily by participating in programs developed by the Canada Mortgage and Housing Corporation (CMHC). The Bank also securitizes residential mortgage loans and finance lease receivables through multi-seller conduits set up by large Canadian banks. As the Bank ultimately retains certain prepayment risk, interest rate risk and credit risk related to the transferred loans and receivables, these are not derecognized and the securitization proceeds are recorded as securitization liabilities.

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

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

CREDIT COMMITMENTS AND GUARANTEES

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

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

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

TABLE 17

CREDIT COMMITMENTS AND GUARANTEES

As at October 31 (in thousands of Canadian dollars)

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

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

CAPITAL MANAGEMENT

GOVERNANCE

Management's objective is to maintain an adequate level of capital that: considers the Bank's targeted capital ratios and internal assessment of required capital that is aligned with the Bank's strategic plan and shareholders' expectations; is consistent with the Bank's targeted credit ratings; underscores the Bank's capacity to cover risks related to its business operations; provides depositor confidence; and produces an acceptable return for shareholders.

In order to achieve this objective, the Bank leverages its capital management framework that includes a Capital Management and Adequacy Policy, a Capital Plan and an Internal Capital Adequacy Assessment Process (ICAAP).

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

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

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

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

REGULATORY CAPITAL

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

Under OSFI's guideline, minimum Common Equity Tier 1, Tier 1 and Total capital ratios were set at 5.125%, 6.625% and 8.625% respectively for 2016. These ratios include phase-in of certain regulatory adjustments through 2019 and, as detailed below, phase-out of non-qualifying capital instruments through 2022, (the "transitional" basis). The guideline also provides for annual increases in minimum capital ratio requirements, which will reach 7.0%, 8.5% and 10.5% respectively in 2019, including the 2.5% capital conservation buffers.

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

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

OSFI's guideline provides additional guidance regarding the treatment of non-qualifying capital instruments and specifies that certain capital instruments no longer fully qualify as capital as of January 1, 2013. The Bank's Series 11 preferred shares, as well as Series 2012-1 subordinated Medium Term Notes are considered non-qualifying capital instruments under Basel III and are subject to a 10% phase-out per year since 2013. The Bank's Series 2010-1 subordinated Medium Term Notes were considered non-qualifying capital instruments under Basel III and were subject to a 10% phase-out per year prior to the announcement on September 24, 2015 of their redemption on November 2, 2015. The Preferred Shares Series 13 and Series 15 fully qualify as Additional Tier 1 capital under Basel III.

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

Regulatory capital developments

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

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

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

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

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

TABLE 18

REGULATORY CAPITAL (1)

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

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

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

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

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

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

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

CHANGE IN COMMON EQUITY TIER 1 CAPITAL RATIO

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

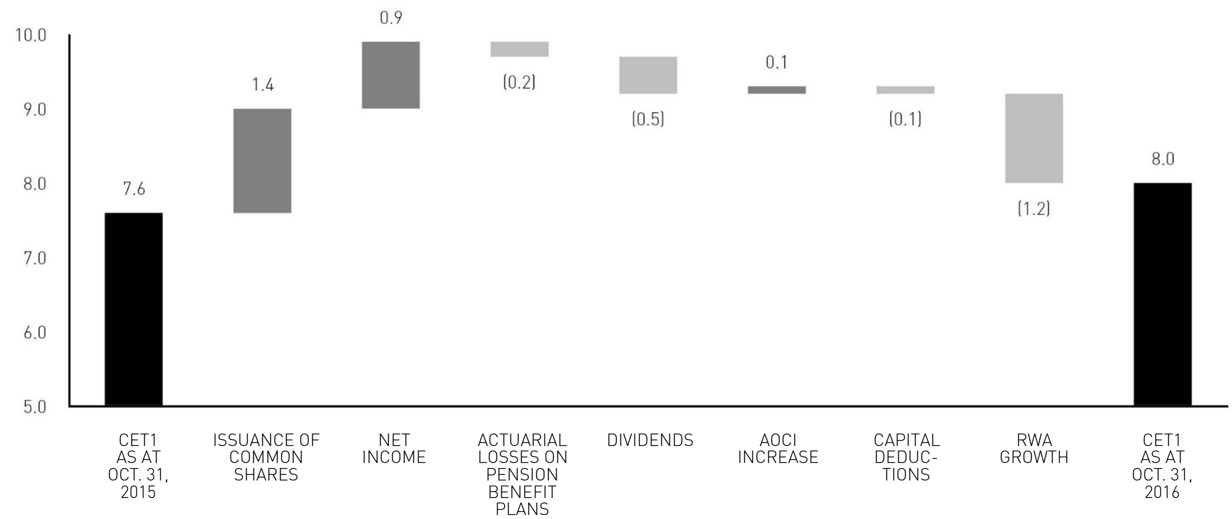


TABLE 19

RISK-WEIGHTED ASSETS

As at October 31 (in thousands of Canadian dollars)

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

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

(2) The CVA capital charge after phase-in adjustments as at October 31, 2016 was $45.1 million for CET1 capital risk-weighted assets, $50.0 million for Tier 1 capital risk-weighted assets and $54.2 million for Total capital risk-weighted assets ($39.6 million, $44.0 million and $47.7 million respectively as at October 31, 2015). Risk-weighted assets above are presented based on the CET1 capital approach.

BASEL III LEVERAGE RATIO

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

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

TABLE 20

BASEL III LEVERAGE RATIO

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

	2016	2015
Tier 1 capital	$ 1,780,976	$ 1,394,871
Total exposures	$ 43,094,377	$ 39,557,300
Basel III leverage ratio	4.1%	3.5%

DIVIDENDS

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

TABLE 21

SHARE DIVIDENDS AND PAYOUT RATIO

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

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

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

RISK APPETITE AND RISK MANAGEMENT FRAMEWORK

The shaded areas in the following sections of this MD&A represent a discussion on risk management policies and procedures relating to credit, market, and liquidity and funding risks as required under IFRS 7, *Financial Instruments - Disclosures*, which permits these specific disclosures to be included in the MD&A. Therefore, these shaded areas form an integral part of the annual consolidated financial statements for the years ended October 31, 2016 and 2015.

RISK MANAGEMENT FRAMEWORK

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

The Framework defines the risk governance structure, risk management processes and major risks the Bank may encounter. The internal control structure and corporate governance that promotes sound integrated risk management is also presented in the Framework. It contains mechanisms that enable the Bank to identify, measure and monitor risks it faces, subject to risk limits and other controls

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

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

RISK APPETITE

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

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

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

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

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

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

INTEGRATED STRESS TESTING PROGRAM

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

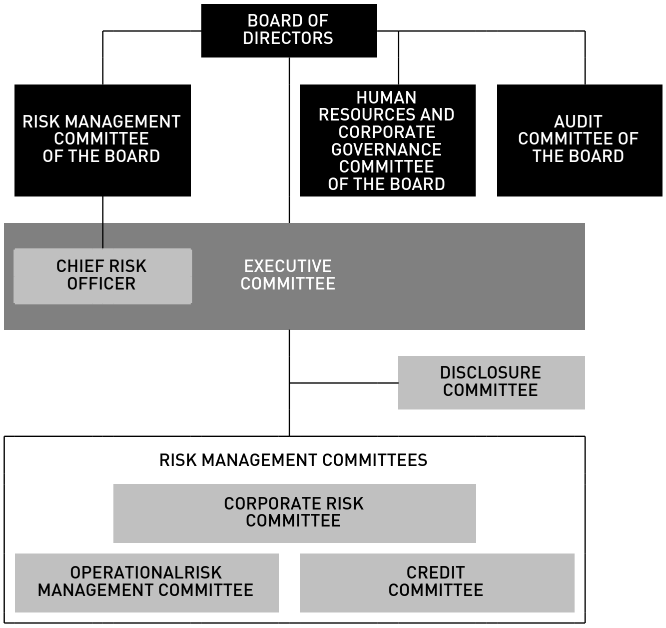
The Bank's integrated stress testing program evaluates a range of scenarios of different severities resulting from deteriorating economic conditions that could adversely impact its strategic plan. The impact on market and credit risks is determined and aggregated to give a view of such scenarios on the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

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

In addition to the integrated stress testing program, Management conducts risk specific scenario and sensitivity analyses to assess the risk level of different activities. These analysis are governed by risk management policies and the results are monitored on a regular basis.

GOVERNANCE STRUCTURE

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



Roles and responsibilities of the Board of Directors' committees

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

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

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

Roles and responsibilities of other risk management committees of the Bank

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

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

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

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

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

FUNCTIONS SUPPORTING RISK MANAGEMENT

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

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

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

RISK MANAGEMENT PROCESS

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

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

STRATEGIC RISK MANAGEMENT

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

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

CREDIT RISK MANAGEMENT

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

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

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

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

Loan-related credit risk

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

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

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

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

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

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

The loan portfolio mix is detailed in the following pages.

Derivative-related credit risk

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

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

Exposure to credit risk

The amount that best represents the Bank's maximum exposure to credit risk as at October 31, 2016 and 2015 without factoring in any collateral held or other credit enhancements, represents the sum of financial assets in the Bank's consolidated balance sheet, plus credit commitments as set out below.

TABLE 22

MAXIMUM EXPOSURE TO CREDIT RISK

As at October 31 (in millions of Canadian dollars)

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

(1) Excluding equity securities.

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

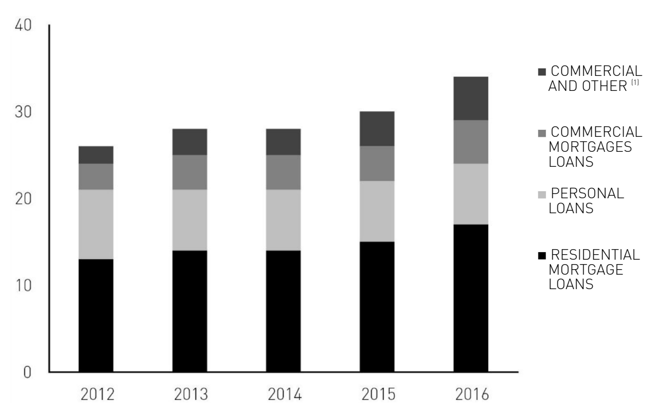
Loan portfolio mix

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

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

LOAN PORTFOLIO MIX

As at October 31 (in billions of Canadian dollars)



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

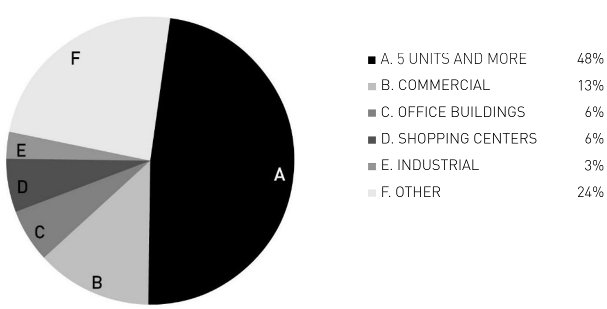
Personal loans
The personal loan portfolio includes a range of consumer credit products such as investment loans, home-equity lines of credit (HELOCs), credit cards, personal lines of credit and other consumer loans. As at October 31, 2016, this portfolio totalled $6.6 billion, a decrease of $0.4 billion compared with October 31, 2015, as a result of net repayments of investment loans as investors continued to reduce leverage and, to a lesser extent, the continued run-offs in loans granted under the Immigrant investor program and point-of-sale financing.

Residential mortgage loans
The residential mortgage loan portfolio includes retail mortgage loans secured by one- to four-unit dwellings. As at October 31, 2016, this portfolio amounted to $16.7 billion and increased by $1.8 billion or 12% during fiscal 2016, fuelled by continued growth in mortgage loans originated through independent brokers and advisors. Growth in mortgage loans distributed through this network is expected to continue, in-line with the Bank's medium-term growth objectives. Furthermore, the Bank initiated a program in 2016 to optimize the usage of NHA MBS allocations. As part of this initiative, the Bank is acquiring insured mortgage loans originated by third-parties and subsequently pooling them into NHA MBS to be sold to investors. During the fourth quarter of 2016, Laurentian Bank Securities completed the first transaction for $277.1 million.

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

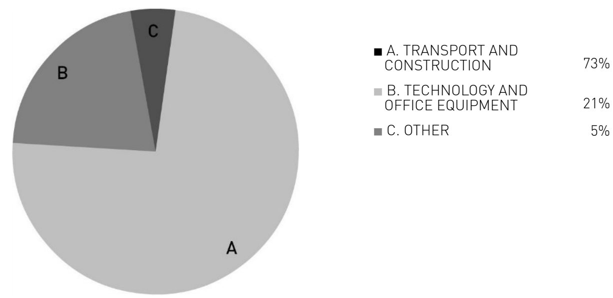
Commercial mortgage loans
The commercial mortgage loans portfolio includes residential mortgage loans secured by five and more unit dwellings, smaller retail multi-unit dwellings, commercial properties, office buildings, shopping centers and other mortgage loans. As at October 31, 2016, this portfolio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

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



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

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



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

See Table 23 for additional information.

TABLE 23

DISTRIBUTION OF LOANS BY CREDIT PORTFOLIO AND INDUSTRY

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

2016

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

2015

	GROSS AMOUNT OF LOANS	GROSS AMOUNT OF IMPAIRED LOANS	INDIVIDUAL ALLOWANCES	COLLECTIVE ALLOWANCES AGAINST IMPAIRED LOANS	NET IMPAIRED LOANS [1]	COLLECTIVE ALLOWANCES AGAINST OTHER LOANS	PROVISION FOR CREDIT LOSSES [2]
Personal	$ 7,063,229	$ 18,703	$ —	$ 11,156	$ 7,547	$ 27,575	$ 29,677
Residential mortgage	14,998,867	32,760	—	4,721	28,039	7,271	5,324
Commercial mortgage	4,248,761	49,431	9,536	265	39,630	14,076	(90)
	26,310,857	100,894	9,536	16,142	75,216	48,922	34,911
Commercial and other [3]							
Real estate, renting and lease	892,339	6,828	730	1,054	5,044	2,695	667
Public utilities	405,231	—	—	—	—	1,603	(214)
Other services and government	479,486	1,151	517	96	538	5,948	6,527
Wholesale and retail	533,205	1,820	1,509	15	296	2,469	(747)
Construction	293,237	5,731	1,514	12	4,205	2,173	877
Financial services	249,737	3,509	709	1,275	1,525	904	1,813
Transportation and communication	179,351	145	—	7	138	995	(1,142)
Agriculture	236,404	7,582	1,013	8	6,561	365	601
Manufacturing	259,832	4,158	3,055	64	1,039	1,315	(1,605)
Transformation and natural resources	127,186	6,099	4,397	3	1,699	1,106	(1,895)
Other	125,680	724	710	—	14	292	(4,893)
	3,781,688	37,747	14,154	2,534	21,059	19,865	(11)
Total	$ 30,092,545	$ 138,641	$ 23,690	$ 18,676	$ 96,275	$ 68,787	$ 34,900
As a % of loans and acceptances		0.46%			0.32%		

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

(2) Recorded in the consolidated statement of income.

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

Impaired loans

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

Impaired commercial loans remained relatively low as at October 31, 2016 despite volume growth. This reflects the excellent quality of the portfolio, which, continued to benefit from the overall good prevailing economic conditions in Canada.

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

Individual allowances decreased by $4.5 million since October 31, 2015 to $19.2 million as at October 31, 2016, in-line with the decrease in impaired commercial mortgage loans mentioned above. Over the same period, collective allowances against impaired loans decreased by $2.7 million to $16.0 million as at October 31, 2016, mainly for impaired personal loans. Other collective allowances increased by $1.0 million, driven by changes in the business portfolios. Collective allowances reflect management's estimate of losses incurred due to the deterioration in credit quality in loans which are not individually significant and for loans that have been assessed for impairment individually and found not to be impaired. See Note 6 to the annual consolidated financial statements for additional information.

Geographic distribution of loans

The Bank operates across Canada. In Quebec, it offers most of its lending products mainly through its retail branch network and commercial banking centers. Throughout Canada, the Bank extends its real estate and commercial operations through other commercial banking centers in Ontario, Alberta, British Columbia and Nova Scotia. Following the acquisition of CIT Canada, the Bank's equipment financing suite of products is now distributed through a new vendor-dealer network throughout Canada. The Bank also offers its products to a wide network of independent brokers and advisors across Canada. As at October 31, 2016, the geographic distribution of total loans was as follows: 53% in Quebec, 33% in Ontario, 7% in the Prairies, 5% in British Columbia, and 2% in the Atlantic provinces and Territories.

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

TABLE 24

GEOGRAPHIC DISTRIBUTION OF LOANS BY CREDIT PORTFOLIO

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

						2016
	PERSONAL	**RESIDENTIAL MORTGAGE**	**COMMERCIAL MORTGAGE**	**COMMERCIAL AND OTHER** [1]	**GROSS AMOUNT OF LOANS**	**GROSS AMOUNT OF LOANS (IN %)**
Quebec	**$ 2,676,274**	**$ 9,332,889**	**$ 2,599,463**	**$ 3,079,788**	**$ 17,688,414**	**53.0%**
Ontario	**2,315,162**	**5,356,099**	**1,634,055**	**1,683,028**	**10,988,344**	**32.9%**
Prairies	**654,427**	**996,714**	**270,737**	**316,897**	**2,238,775**	**6.7%**
British Colombia	**704,293**	**822,549**	**133,857**	**141,622**	**1,802,321**	**5.4%**
Atlantic provinces and Territories	**263,236**	**241,136**	**20,622**	**135,875**	**660,869**	**2.0%**
	$ 6,613,392	**$ 16,749,387**	**$ 4,658,734**	**$ 5,357,210**	**$ 33,378,723**	**100.0%**

						2015
	PERSONAL	RESIDENTIAL MORTGAGE	COMMERCIAL MORTGAGE	COMMERCIAL AND OTHER [1]	GROSS AMOUNT OF LOANS	GROSS AMOUNT OF LOANS (IN %)
Quebec	$ 2,872,127	$ 9,594,688	$ 2,206,208	$ 2,718,376	$ 17,391,399	57.8%
Ontario	2,416,478	3,927,602	1,673,329	907,229	8,924,638	29.7%
Prairies	726,511	758,372	309,634	35,657	1,830,174	6.1%
British Colombia	747,527	522,543	52,017	80,172	1,402,259	4.6%
Atlantic provinces and Territories	300,586	195,662	7,573	40,254	544,075	1.8%
	$ 7,063,229	$ 14,998,867	$ 4,248,761	$ 3,781,688	$ 30,092,545	100.0%

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

TABLE 25

GEOGRAPHIC DISTRIBUTION OF IMPAIRED LOANS BY CREDIT PORTFOLIO

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

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

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

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

Insurance and guarantees held in respect of loan portfolios

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

CMHC and Genworth offer mortgage loan insurance programs which reduce the overall credit risk associated to the residential mortgage loan portfolio. The Bank also insures pools of mortgage loans through a specific CMHC insurance program. Moreover, by maintaining insured residential mortgage loans, the Bank retains its capacity to engage in securitization operations to finance its activities at optimal cost and manage its cash resources. By the end of fiscal 2016, 51% of residential mortgage loans secured by one- to four-unit dwellings were insured, compared with 53% as at October 31, 2015. The Bank also holds guarantees in respect of the real estate property for the other conventional mortgage loans, including HELOCs. In accordance with legal requirements, the non-amortizing HELOC component of a residential mortgage is limited to a maximum authorized loan-to-value ratio of 65%. Additional mortgage credit (beyond the loan-to-value ratio limit of 65% for HELOCs) can be extended to a borrower. However, the loan portion over the 65% loan-to-value ratio threshold must be amortizing. The total loan value of the Bank's conventional mortgage loans never exceeds 80% of the initially estimated value of the property, in accordance with legal requirements.

As at October 31, 2016, the estimated average loan-to-value ratio was 67% for insured residential mortgage loans and 61% for uninsured residential mortgage loans, including the authorized limit for related HELOCs.

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

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

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

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

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

Other guarantees held

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

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

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

MARKET RISK MANAGEMENT

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

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

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

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

Policies and standards

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

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

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

Market risk assessment and management

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

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

Limits on notional amount

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

Value at Risk

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

Stress testing and other sensitivity measures

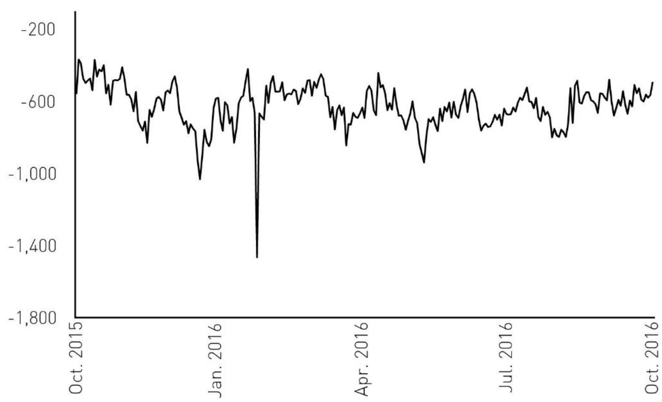
Parallel to VaR calculations, the impact of stress tests on profits and losses is assessed for the trading and investment portfolios and the ensuing results are used to assess the impact of exceptional but plausible market situations. Stress tests constitute a complementary risk measure to VaR and strive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

Trading activities

Trading activities are aligned with the needs of the Bank and its customers. The market risk associated with trading activities ensues from activities for which the Bank acts as the principal or agent for its customers. The graph below presents the daily total VaR of the trading portfolio for the 2016 fiscal year.

DAILY TRADING VaR

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



Asset and liability management activities

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

Structural risk management requires monitoring of four distinct portfolio groups:

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

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

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

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

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

To ensure sound management of structural risk, a repricing gap report is produced weekly. This report is then used as the basis for the simulation analysis of the impact of interest rate variation on net interest income and economic value of common shareholders' equity. One of the simulation exercises consists of subjecting the Bank's balance sheet to a sudden parallel and sustained 1% increase and decrease in interest rates. As at October 31, 2016, for all portfolios, a 1% increase in interest rate would have triggered an increase of approximately $13.0 million in net interest income before taxes over the next 12 months and a $57.0 million negative impact on the economic value of common shareholders' equity. As shown in Table 26, sensitivity to sudden changes in interest rates increased slightly year-over-year, reflecting the Bank's effort to benefit from fluctuations in interest rates while maintaining the risk within approved limits.

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

The Bank's interest rate gap position as at October 31, 2016 is presented in Note 24 to the annual consolidated financial statements.

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

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

TABLE 26

SENSITIVITY ANALYSIS OF THE STRUCTURAL INTEREST RATE RISK

As at October 31 (in thousands of Canadian dollars)

	2016		2015	
	EFFECT ON NET INTEREST INCOME (1)	**EFFECT ON THE ECONOMIC VALUE OF COMMON SHAREHOLDERS' EQUITY (2)**	EFFECT ON NET INTEREST INCOME (1)	EFFECT ON THE ECONOMIC VALUE OF COMMON SHAREHOLDERS' EQUITY (2)
Change in interest rates				
Increase of 100 basis points	**$ 13,040**	**$ (51,837)**	$ 17,222	$ (26,324)
Decrease of 100 basis points	**$ (11,393)**	**$ 42,724**	$ (19,954)	$ 22,362

(1) Over the next 12 months.

(2) Net of income taxes.

Foreign exchange risk

Foreign exchange risk is monitored using notional limits and other sensitivity analysis for trading operations as described above. As at October 31, 2016, assets and liabilities denominated in U.S. dollars amounted to $624.4 million ($454.9 million as at October 31, 2015) and $569.1 million ($469.8 million as at October 31, 2015) respectively. In addition, U.S. dollar exposure related to derivatives is limited as these contracts are bought and sold mainly to meet specific customer needs. As at October 31, 2016, the effect of a sudden 5% change in foreign exchange rates would have no significant impact on net income and shareholders' equity.

Assets and deposit liabilities in other foreign currencies were essentially denominated in British pounds and euros and amounted to $31.4 million ($34.4 million as at October 31, 2015) and $15.5 million ($18.3 million as at October 31, 2015) respectively. Currencies other than U.S. dollars are generally bought and sold solely to meet specific customer needs. As a result, the Bank has very limited exposure to these currencies.

Equity risk

The Bank's equity positions consist primarily of Canadian and U.S. publicly traded securities and, as a result, portfolio sensitivity generally correlates to the Canadian and U.S. stock markets performance. A portion of the Bank's equity positions is used to hedge index-linked deposits. In addition, the Bank has an equity exposure through its pension plans. As at October 31, 2016, a fluctuation in the stock markets of 10% would have had a $15.5 million impact on the Bank's shareholders' equity ($18.4 million as at October 31, 2015).

LIQUIDITY AND FUNDING RISK MANAGEMENT

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

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

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

Management monitors cash resources daily and ensures that liquidity indicators are within established limits. It pays particular attention to deposit and loan maturities, as well as to funding availability and demand when planning financing. A reserve of unencumbered liquid assets that are readily available to face contingencies is maintained and constitutes the Bank's liquidity buffer. This reserve does not factor in the availability of the central bank's emergency liquidity facilities. Cash requirements are based on scenarios evaluating required liquid assets necessary to cover predetermined rates of withdrawal of wholesale financing and retail deposits over specified periods. Management strives to maintain a stable volume of base deposits originating from the Bank's retail, commercial and broker clientele, as well as diversified wholesale financing sources. Limits on funding sources are monitored by the Executive Committee and the Board of Directors. Funding strategies also include loan securitization and the issuance of equity or debt instruments through capital markets. A liquidity contingency plan is prepared and reviewed on a regular basis. It guides the Bank's actions and responses to potential liquidity crises.

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

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

Regulatory developments concerning liquidity

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

Detailed information on liquid assets

The Bank's liquid assets consist of cash and non-interest bearing deposits with other banks, interest-bearing deposits with other banks, securities, as well as securities purchased under reverse repurchase agreements. They are mainly composed of low-credit risk direct investments in or transactions secured by marketable securities issued or guaranteed by the Canadian government, provinces or municipal corporations. As at October 31, 2016, these assets totalled $8.7 billion, an increase of $0.1 billion compared to the level held on October 31, 2015.

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

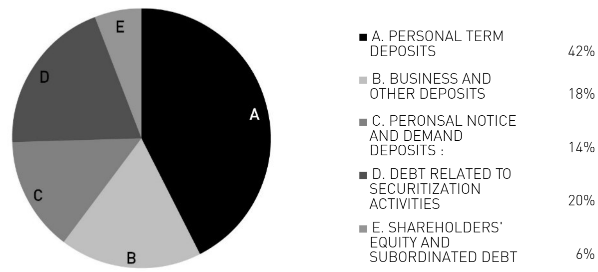
These liquid assets provide the Bank with flexibility to manage its loan and deposit portfolio maturities and commitments, and meet other current operating needs. Management of the liquid assets, both in terms of optimizing levels and mix, contributes significantly to the Bank's results.

Funding

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

The Bank can also access the institutional deposit market as an alternative source of funding in order to optimize the overall funding sources. Furthermore, the Bank uses securitization of residential mortgage loans through the CMHC programs and, to a lesser extent, securitization of residential mortgage and finance lease receivables through multi-seller conduits. This liquidity source provides added flexibility to meet specific increases in funding needs.

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



Personal deposits

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

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

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

Business, banks and other deposits

Deposits from businesses, banks and other decreased by $0.7 billion since October 31, 2015 to $6.6 billion as at October 31, 2016. These deposits contribute to the diversification of the Bank's funding sources and to the active management of its liquidity levels. They are sourced from an institutional clientele and the Bank's network of account managers serving commercial clients.

TABLE 27

DEPOSITS

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

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

Credit ratings

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

The Bank monitors weekly the impact of a hypothetical downgrade of its credit rating on the collateral requirements. As at October 31, 2016, additional collateral that would be required in the event of a one to three notch rating downgrade was not significant.

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

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

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

TABLE 28

CREDIT RATINGS (1)

As at November 30, 2016

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

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

Contractual obligations

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

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

Table 29 summarizes the remaining contractual maturity for the Bank's significant financial liabilities and other contractual obligations as at October 31, 2016 and 2015. Note 29 to the annual consolidated financial statements provides further information on this subject.

The Bank is also exposed to liquidity risk when it contracts credit commitments. As at October 31, 2016, these commitments amounted to approximately $4.3 billion ($3.9 billion as at October 31, 2015), excluding credit facilities unconditionally revocable at the Bank's option.

TABLE 29

CONTRACTUAL OBLIGATIONS

As at October 31 (in thousands of Canadian dollars)

2016

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

2015

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

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

OPERATIONAL RISK MANAGEMENT

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

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

The operational risk management program includes the following:

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

REGULATORY RISK MANAGEMENT

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

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

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

The Regulatory Risk Management Committee is responsible to:

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

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

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

INSURANCE RISK MANAGEMENT

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

ENVIRONMENTAL RISK MANAGEMENT

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

REPUTATIONAL RISK MANAGEMENT

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

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

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

OTHER RISKS THAT MAY AFFECT FUTURE RESULTS

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

Top risks

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

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

Execution of the strategic plan
The Bank's ability to execute its strategic plan over the next 6 years will be at the forefront of the success of its modernization, as well as of its future profitability.

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

Other risks

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

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

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

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

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

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

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

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

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

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

Model risk
The Bank uses different models in the ongoing management of its risk that can lead to model risk. Model risk is the potential loss due to the risk of a model not performing or capturing risk as expected. It also arises from the inappropriate use of a model. The Bank validates its models on a regular basis to ensure that they incorporate current trends.

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

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

As at October 31, 2016, the President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer caused to be evaluated under their supervision the effectiveness of DC&P, in accordance with regulation MI 52-109 and subject to the Scope Limitation section below, and based on that evaluation, concluded that they were effective and adequately designed at that date.

Also as at October 31, 2016, the President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer caused to be evaluated under their supervision the design and effectiveness of ICFR, in accordance with regulation MI 52-109 and subject to the Scope Limitation section below, and based on that evaluation, concluded that it was effective at that date and adequately designed.

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

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

Scope Limitation

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

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

Changes to Internal Control over Financial Reporting

During the year ended October 31, 2016, apart from the acquisition of CIT Canada, there have been no changes to internal control over financial reporting that affected materially, or are reasonably likely to materially affect, internal control over financial reporting.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

IMPAIRMENT OF FINANCIAL ASSETS

Allowances for credit losses

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

Changes in circumstances may cause future assessments of credit risk to be materially different from current assessments and may consequently entail a significant increase or decrease in the provisions for credit losses in the consolidated statement of income for a given fiscal year. A detailed description of the methods used to determine the allowances and provisions for credit losses can be found in Note 3 to the annual consolidated financial statements, and in the Credit Risk Management section on page 39 of this MD&A.

Impairment of other financial assets

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

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

MEASURING THE FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

GOODWILL, OTHER INTANGIBLE ASSETS AND OTHER ASSETS

Goodwill

As at October 31, 2016, the balance of goodwill stood at $55.8 million, compared with $34.9 million as at October 31, 2015. Goodwill is subject to an impairment test at least annually as described in Note 3 to the annual consolidated financial statements.

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

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

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

B2B Bank unit
As at October 31, 2016, goodwill of $34.9 million was allocated to the B2B Bank unit, unchanged compared with October 31, 2015. The recoverable amount of the B2B Bank business segment was estimated using a value in use calculation that was primarily based on the three-year business plan and projected investments. In addition, a net income growth rate of 2.1% was applied to the terminal forecast year and all forecast cash flows were discounted at an after-tax rate of 10.0%. Management considers that these estimates are reasonable. They reflect management's best estimates but include inherent uncertainties that are not under its control. Management determined that for the impairment testing, the estimated recoverable amount of the B2B Bank unit was in excess of its carrying amount. As a result, no impairment charge was recognized during 2016. If alternative reasonably possible changes in key assumptions were applied, the result of the impairment test would not differ.

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

Retail unit
Following the comprehensive strategic review of the Bank's retail activities during the fourth quarter of 2015, impairment charges reduced the carrying amount of the Retail unit's goodwill from $29.2 million to zero and further reduced the value of other assets by $43.0 million.

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

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

Other intangible assets and other assets

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

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

The recoverable amount of the Retail unit CGU was estimated using a value in use calculation that was primarily based on the three-year business plan. In addition, a net income growth rate of 2.1% (3.0% in 2015) was applied to the terminal forecast year and all forecast cash flows were discounted at an after-tax rate of 11.0% (10.0% in 2015). Management considers that these estimates are reasonable. They reflect management's best estimates but include inherent uncertainties that are not under its control.

A 10% decrease in projected net income growth rates would have resulted in a reduction in the estimated recoverable amount of the Retail unit of approximately $6.5 million as at October 31, 2016. Also, a 25 basis point increase in the after-tax discount rate would have resulted in a reduction in the estimated recoverable amount of approximately $8.9 million at that same date. These sensitivities are indicative only and should be considered with caution, as the effect of the variation in each assumption on the estimated recoverable amount is calculated in isolation without changing any other assumptions. Reductions in the estimated recoverable amount of assets related to the Retail unit could result in additional impairment charges in future periods.

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

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

PENSION PLANS AND OTHER EMPLOYEE BENEFITS

Valuation of employee benefits for defined benefit pension plans and other post-employment benefits are calculated by the Bank's independent actuaries based on a number of assumptions such as discount rates, future salary levels, retirement age, mortality rate and health-care cost escalation. The discount rate is determined using a high-quality corporate bond yield curve, whose construction requires significant judgement. Other key assumptions are determined by management requiring significant management judgment. Considering the importance of defined benefit obligations and due to the long-term nature of these plans, changes in assumptions could have a significant impact on the defined benefit plan assets (liabilities), as well as on pension plan and other post-employment benefit expenses. Discount rates stood at 3.45% as at October 31, 2016 and 4.30% as at October 31, 2015. Other key assumptions and related sensitivity analysis as well as further information on the Bank's pension plans and other post-employment benefits are presented in Note 18 to the annual consolidated financial statements.

BUSINESS COMBINATIONS

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

Refer to Note 31 to the annual consolidated financial statements for additional information on business combinations.

PROVISIONS AND CONTINGENT LIABILITIES

Management exercises judgment in determining whether a past event or transaction may result in the recognition of a provision or the disclosure of a contingent liability, for instance in the case of legal actions or restructuring plans.

Provisions are established when management determines that it becomes probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated, considering all relevant risks and uncertainties. Management and internal and external experts are involved in assessing the probability and in estimating any amounts involved.

Contingent liabilities arise when it is not possible either to determine whether an obligation, as a result of a past event or transaction, is probable or to reliably estimate the amount of loss, in which case, no provision can be accrued.

In the ordinary course of its business, the Bank is involved in various legal actions and claims, including some with regulatory bodies. Many of these disputes are related to loans granted by the Bank and are in reaction to steps taken by the Bank to collect delinquent loans and realize the underlying collateral. Certain claims have also been brought against the Bank, particularly with respect to trustee operations related to portfolio administration and the charging of certain bank fees. These actions may have a material adverse effect on the financial condition of the Bank even though no provisions may have been accrued. In addition, the Bank must continuously assess its fiscal obligations in various jurisdictions which, considering evolving interpretations, may lead to different income tax consequences.

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

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

INCOME TAXES

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

FUTURE CHANGES TO ACCOUNTING POLICIES

The International Accounting Standards Board (IASB) has issued new standards and amendments to existing standards on financial instruments, revenue from contracts with customers and leases, which were not yet effective for the year ended October 31, 2016. These future accounting changes will be applicable for the Bank in various annual periods beginning on November 1, 2018 at the earliest.

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

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

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

- Preliminary assessment – This phase is completed and served to heighten management's awareness of the key conversion issues. It also established a timeline mapping out the Bank's priorities with regard to analyses and significant issues.
- Detailed analysis – This phase has started and should continue throughout 2017. The detailed analysis will determine the quantitative, qualitative and technological impact of the new IFRS requirements. The Bank is currently designing the application of the expected-loss impairment model to its portfolios which includes defining when a significant increase in credit risk of a financial asset has occurred, determining the measurement of both 12-month and lifetime credit losses and determining the set of forward-looking information factors to be incorporated in the methodology and how those factors will be quantified. The design takes into account that interpretations concerning the application of the expected-loss impairment model continue to evolve. The new models also leverage data, systems and processes that will be used to calculate Basel expected losses regulatory adjustments for the portfolios under the AIRB approach.
- Implementation – This phase will gradually begin as the detailed analyses are completed in 2017. It will mainly consist in: determining the new accounting policies; implementing the necessary changes to information systems and processes; implementing internal control over financial reporting; and developing communication plans for stakeholders.

Based on the preliminary assessment, the adoption of IFRS 9 could have a significant impact on the Bank's information systems, processes and financial position as it provides new requirements for how an entity should classify and measure financial instruments, including impairment, and for hedge relationships.

Management is also assessing the potential impact of the adoption of IFRS 15, *Revenue from Contracts with Customers*, on the amount and timing of the Bank's revenue recognition and on its financial statements, as well as the potential impact of the adoption of IFRS 16, *Leases* and the recognition of lease assets and financial liabilities on its financial statements. IFRS 15 is effective for annual periods beginning on or after January 1, 2018 and IFRS 16, for annual periods beginning on or after January 1, 2019.

THIS PAGE INTENTIONALLY LEFT BLANK