MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED OCTOBER 31, 2015

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, 2015 and how it performed during the year then ended. This MD&A, dated December 9, 2015, should be read in conjunction with the Audited Annual Consolidated Financial Statements for the year ended October 31, 2015 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, 2015, 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, 2015 and 2014 is presented on the same basis as in the audited annual consolidated financial statements prepared in accordance with IFRS[1]. Certain comparative figures have been reclassified to conform to the current year presentation.

All amounts are denominated in Canadian dollars.

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CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

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

The Bank cautions readers against placing undue reliance on forward-looking statements when making decisions, as the actual results could differ considerably from the opinions, plans, objectives, expectations, forecasts, estimates and intentions expressed in such forward-looking statements due to various material factors. Among other things, these factors include: changes in capital market conditions, changes in government monetary, fiscal and economic policies, changes in interest rates, inflation levels and general economic conditions, legislative and regulatory developments, changes in competition, modifications to credit ratings, scarcity of human resources, developments in the technological environment, the ability to realize the anticipated benefits from the purchase of an investment loan portfolio and the reaction of the seller's customers to the transaction, as well as, the ability to operate the Bank's transformation plan. 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" in the Bank's 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.

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[1] As of November 1, 2014, the Bank adopted the amendments to IAS 32, *Financial Instruments: Presentation*, which required restatement of the Bank's 2014 comparative information and financial measures. The information for the years ended October 31, 2013, 2012 and 2011 has been prepared in accordance with IFRS but has not been restated to reflect the adoption of these amendments.
As of November 1, 2013, the Bank adopted the amendments to IAS 19, *Employee Benefits*, which required restatement of the Bank's 2013 comparative information and financial measures. The information for the years ended October 31, 2012 and 2011 has been prepared in accordance with IFRS but has not been restated to reflect the adoption of these amendments.

SUMMARY OF FINANCIAL RESULTS

HIGHLIGHTS OF 2015

- Adjusted net income of $172.2 million or $5.62 per share, respectively up 5% and 6% year-over-year
- Reported net income of $102.5 million or $3.21 per share, respectively down 27% and 29% year-over-year, including special impairment and restructuring charges of $78.4 million
- Excellent credit quality with loan losses of $34.9 million, 17% lower than last year
- Strong loan growth of $2.7 billion year-over-year:
  - B2B Bank mortgages up 34% year-over-year
  - Loans to businesses up 18% year-over-year
- No direct exposure to the oil and gas industry

TABLE 1

HIGHLIGHTS OF 2015

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

	2015	2014	VARIANCE 2015 / 2014
Net income	**$ 102.5**	$ 140.4	(27)%
Diluted earnings per share	**$ 3.21**	$ 4.50	(29)%
Return on common shareholders' equity	**6.8%**	10.1%	
Adjusted net income [1]	**$ 172.2**	$ 163.6	5 %
Adjusted diluted earnings per share [1]	**$ 5.62**	$ 5.31	6 %
Adjusted return on common shareholders' equity [1]	**12.0%**	11.9%	

(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 Adjusting Items and Non-GAAP Financial Measures sections for further details.

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 an impairment charge 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 and Non-Interest Expenses sections on pages 14 and 20 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 has generated tangible returns, with the B2B Bank mortgage loan portfolio increasing by 34% and loans to businesses increasing by 18%. The excellent credit quality of its portfolios also contributed to the good financial performance for 2015.

Furthermore, the Bank maintained a solid financial position in 2015, as evidenced by capital ratios under the standardized approach well above minimum requirements. With sound liquidity and capital management, the Bank remains well positioned to invest in its key initiatives and to better serve its customer base.

TABLE 2

CONSOLIDATED RESULTS

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

	2015	2014	2013	VARIANCE 2015 / 2014
Net interest income	**$ 575,083**	$ 560,980	$ 568,760	3 %
Other income	**322,043**	313,085	296,577	3
Total revenue	**897,126**	874,065	865,337	3
Amortization of net premium on purchased financial instruments and revaluation of contingent consideration	**5,999**	9,653	4,426	(38)
Provision for loan losses	**34,900**	42,000	36,000	(17)
Non-interest expenses [1]	**722,824**	641,309	674,079	13
Income before income taxes	**133,403**	181,103	150,832	(26)
Income taxes	**30,933**	40,738	31,355	(24)
Net income	**102,470**	140,365	119,477	(27)
Preferred share dividends, including applicable taxes	**9,602**	10,985	11,749	(13)
Net income available to common shareholders	**$ 92,868**	$ 129,380	$ 107,728	(28)%
Average number of common shares outstanding (in thousands)				
Basic	**28,949**	28,724	28,329	
Diluted	**28,955**	28,732	28,338	
Earnings per share				
Basic	**$ 3.21**	$ 4.50	$ 3.80	(29)%
Diluted	**$ 3.21**	$ 4.50	$ 3.80	(29)%
Return on common shareholders' equity [2]	**6.8 %**	10.1 %	9.1 %	
Efficiency ratio [2]	**80.6 %**	73.4 %	77.9 %	
Operating leverage [2] [3]	**(10.1)%**	5.9 %	n. m.	
Adjusted financial measures				
Adjusted net income [2]	**$ 172,199**	$ 163,582	$ 155,436	5 %
Adjusted diluted earnings per share [2]	**$ 5.62**	$ 5.31	$ 5.07	6 %
Adjusted return on common shareholders' equity [2]	**12.0 %**	11.9 %	12.1 %	
Adjusted non-interest expenses [2]	**$ 639,560**	$ 620,807	$ 629,539	3 %
Adjusted efficiency ratio [2]	**71.3 %**	71.0 %	72.8 %	
Adjusted operating leverage [2] [3]	**(0.4)%**	2.4 %	n. m.	

(1) Non-interest expenses include certain adjusting items, as detailed in the section below.

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

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

2015 FINANCIAL PERFORMANCE

The following table presents management's financial objectives and the Bank's performance for 2015. The Bank met its profitability and capital objectives for the year 2015. Good volume growth in loan portfolios, higher mutual fund commissions and continued strong credit quality were the key drivers of the Bank's financial performance. However, continued pressure on net interest income ensuing from the very low interest rate environment, as well as sustained regulatory and technology cost pressure contributed to the Bank slightly missing its annual efficiency ratio and operating leverage objectives.

TABLE 3

2015 PERFORMANCE INDICATORS [1]

	2015 OBJECTIVES	**2015 RESULTS**
Adjusted diluted earnings per share	5% to 8% growth	**6 %**
Adjusted efficiency ratio	<71.0%	**71.3 %**
Adjusted operational leverage	Positive	**(0.4)%**
Adjusted return on common shareholders' equity	≥ 12.0%	**12.0 %**
Common Equity Tier I capital ratio — All-in basis	> 7.0%	**7.6 %**

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

NON-GAAP FINANCIAL MEASURES

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

Adjusted financial measures

Certain analyses presented throughout this document are based on the Bank's core activities and therefore exclude the effect of certain amounts designated as adjusting items, as detailed below. The Bank presents adjusted results to facilitate understanding of its underlying business performance and related trends. Table 4 presents the impact of adjusting items on reported results.

Adjusting items

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

Impairment of goodwill, software and intangible assets, and premises and equipment follows the comprehensive strategic review of the Bank's retail activities completed during the fourth quarter of 2015. These charges have been designated as adjusting items due to their nature and the significance of the amounts. Impairment of goodwill, software and intangible assets, and premises and equipment are included in the reported results of the Personal & Commercial business segment.

Restructuring charges result from a realignment of strategic priorities and are comprised of severance charges and impairment charges related to IT projects. These charges have been designated as adjusting items due to their nature and the significance of the amounts. Restructuring charges are included in the reported results of all of the business segments and the Other Sector.

The retirement compensation charge is related to the adjustment to the employment contract of the Bank's former CEO following his retirement announcement. This charge has been designated as an adjusting item due to its nature and the significance of the amount. The compensation charge is included in the reported results of the Other sector.

Items related to business combinations relate to special gains and expenses that arose as a result of acquisitions. The one-time gain on acquisition and ensuing amortization of net premium on purchased financial instruments are considered adjusting items since they represent, according to management, significant non-cash and non-recurring adjustments. The revaluation of the contingent consideration and costs related to business combinations (T&I Costs) have been designated as adjusting items due to their nature and the significance of the amounts. Items related to business combinations are included in the reported results of the B2B Bank business segment.

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, 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 5 below 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

Effective November 1, 2014, the Bank has modified its definition of average earning assets, as further detailed in the External Reporting Changes section on page 16. All financial measures for the year ended in 2014 have been amended accordingly.

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 excluding average earning assets of the Laurentian Bank Securities and Capital Markets' business segment. The averages are based on the daily balances for the period.

Net interest margin

Effective November 1, 2014, the Bank has modified its definition of net interest margin, as further detailed in the External Reporting Changes section hereafter. All financial measures for the year ended in 2014 have been amended accordingly.

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 4

IMPACT OF ADJUSTING ITEMS

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

	FOR THE QUARTERS ENDED OCTOBER 31		FOR THE YEARS ENDED OCTOBER 31		
	2015	2014	**2015**	2014	2013
Impact on net income					
Reported net income (loss)	**$ (18,719)**	$ 33,754	**$ 102,470**	$ 140,365	$ 119,477
Adjusting items, net of income taxes					
Impairment of goodwill, software and intangible assets, and premises and equipment	**57,245**	—	**57,245**	—	—
Restructuring charges					
Severance charges [1]	**3,372**	4,429	**3,372**	4,429	4,607
Impairment charges related to IT projects [2]	**1,153**	1,162	**1,153**	1,162	—
	4,525	5,591	**4,525**	5,591	4,607
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	**1,076**	1,108	**4,409**	4,079	3,264
Revaluation of contingent consideration	**—**	—	**—**	4,100	—
Integration costs related to business combinations	**—**	2,138	**—**	9,447	28,088
	1,076	3,246	**4,409**	17,626	31,352
	62,846	8,837	**69,729**	23,217	35,959
Adjusted net income	**$ 44,127**	$ 42,591	**$ 172,199**	$ 163,582	$ 155,436
Impact on diluted earnings per share					
Reported diluted earnings (loss) per share	**$ (0.73)**	$ 1.09	**$ 3.21**	$ 4.50	$ 3.80
Adjusting items					
Impairment of goodwill, software and intangible assets, and premises and equipment	**1.98**	—	**1.98**	—	—
Restructuring charges	**0.16**	0.19	**0.16**	0.19	0.16
Retirement compensation charge	**—**	—	**0.12**	—	—
Items related to business combinations	**0.04**	0.12	**0.15**	0.62	1.11
	2.17	0.31	**2.41**	0.81	1.27
Adjusted diluted earnings per share [3]	**$ 1.44**	$ 1.39	**$ 5.62**	$ 5.31	$ 5.07

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

(2) Impairment charges related to IT projects are included in the line item Premises and technology in the consolidated statement of income.

(3) The impact of adjusting items on a per share basis does not add due to rounding for the quarters.

TABLE 5

RETURN ON COMMON SHAREHOLDERS' EQUITY

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

	2015	2014	2013
Reported net income available to common shareholders	**$ 92,868**	$ 129,380	$ 107,728
Adjusting items	**69,729**	23,217	35,959
Adjusted net income available to common shareholders	**$ 162,597**	$ 152,597	$ 143,687
Average common shareholders' equity	**$ 1,355,991**	$ 1,280,595	$ 1,186,977
Return on common shareholders' equity	**6.8%**	10.1%	9.1%
Adjusted return on common shareholders' equity	**12.0%**	11.9%	12.1%

EXTERNAL REPORTING CHANGES

As of November 1, 2014, the Bank adopted the amendments to IAS 32, *Financial Instruments: Presentation*, which clarified requirements for offsetting financial instruments. As a result, certain securities purchased under reverse repurchase agreements and related obligations that were previously offset on the balance sheet, are now presented on a gross basis. This restatement increased total assets and total liabilities and had no impact on the Bank's comprehensive income, shareholders' equity or cash flows. Table 6 below presents the adjustment.

TABLE 6
ADJUSTMENT TO TOTAL ASSETS
As at October 31 (in thousands of Canadian dollars)

		2014
Total assets – Previously reported	$	34,848,681
Impact of IAS 32 on total assets		1,634,104
Total assets – Restated	$	36,482,785

In light of this change, the Bank revised its use of the net interest margin financial measure to provide a more useful indicator and better align with industry practice. Net interest margin is now defined as the ratio of net interest income to average earning assets, excluding average earning assets of the Laurentian Bank Securities and Capital Markets' (LBS & CM) business segment. This new measure focuses on banking operations and eliminates net interest margin volatility related to variation in assets used in brokerage operations and trading activities. Net interest margin and average earning assets measures for the year ended in 2014 have been amended accordingly. Table 7 presents the adjustments.

TABLE 7
ADJUSTMENTS TO NET INTEREST MARGIN AND AVERAGE EARNINGS ASSETS
For the year ended October 31 (in thousands of Canadian dollars, except percentage amounts)

		2014
Net interest income (A)	$	560,980
Average assets – Previously reported (B)		34,023,265
Average earning assets – Previously reported		32,974,163
Impact of IAS 32 on average earning assets		1,536,926
Average earning assets of LBS & CM		(4,654,654)
Average earning assets – Updated measure (C)	$	29,856,435
Net interest margin – Previously reported (A/B)		1.65%
Net interest margin – Updated measure (A/C)		1.88%

OUTLOOK

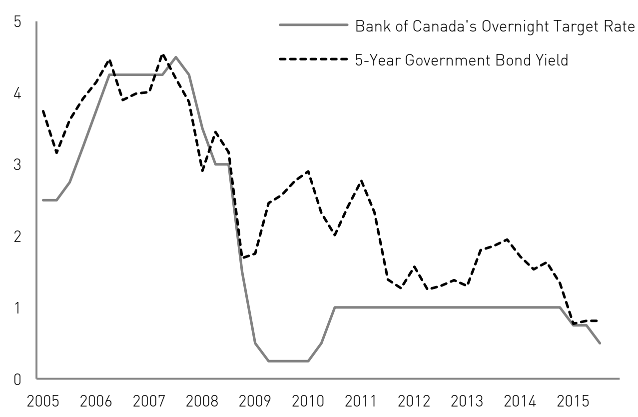
ECONOMIC OUTLOOK

The US economic conditions have continued to strengthen throughout 2015. Meanwhile, growth is slowing in developing economies, impacted by a lower level of growth in China. As a result, the main engine of economic growth is gradually changing in Canada. Non-commodity export-oriented sectors located in Central Canada and services industries are showing some positive momentum, supported by a lower currency and robust US consumer spending, while the commodity sectors, mostly located in the Prairie Region, are still adjusting to lower prices. Overall, economic activity in Canada should have grown by 1.2% for the year 2015, as the rebound in the second half of the year offset the mild contraction experienced during the first half of the year.

For 2016, the Canadian GDP is expected to grow moderately by 2%, led by further strengthening of exports, an anticipated increase in capital spending in non-commodity sectors and additional fiscal stimulus.

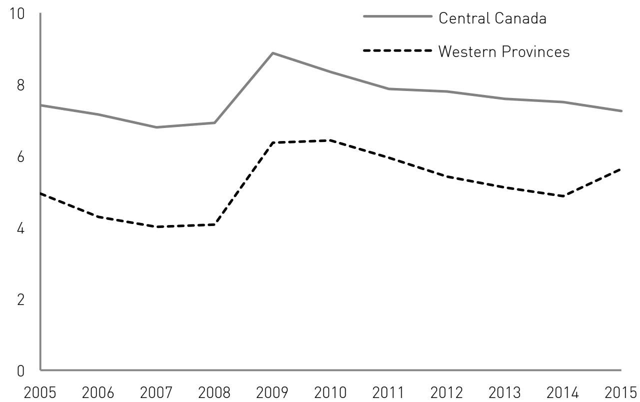
Given the current US economic situation, the Federal Reserve Bank is expected to modestly increase its policy rate before year end, if not in 2016. Nonetheless, the very low-interest rate environment should persist in Canada, as concerns about growth in emerging markets and the depressed commodity prices contribute to temporarily reduce inflationary pressure. This, again, should support housing activity in Canada, except in western oil-producing regions where a softening should occur.

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

With the introduction of the new transformation plan aimed at improving performance, the Bank will focus entirely on meeting its Strategic Goal to double the size of the company by 2022 and achieve banking industry average performance while building a solid strategic foundation. Given the plan, return on equity should increase above the 14% level in 4 years and, with the implementation of AIRB, to a level which would be comparable to the industry in 7 years. To meet these objectives, the Bank will have to execute its plan and ensure that it maintains its focus on its key initiatives.

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

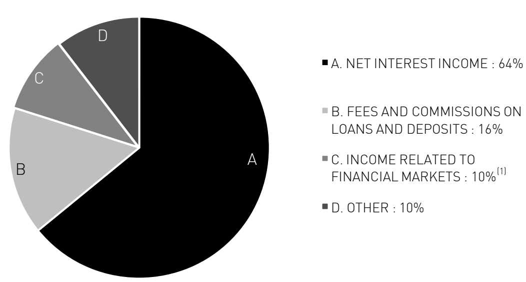
- Grow earnings per share by 5% to 10% annually
- Move the efficiency ratio below 68%
- Generate positive operating leverage
- Continue to leverage the Bank's strengths and grow by 2019:
  - Loans to business customers by more than 60% to $13 billion
  - Residential mortgage loans through independent brokers and advisors by more than 50% to $9 billion
  - Mutual funds to retail clients by more than 80% to $6 billion
  - Assets under management at Laurentian Bank Securities by more than 25% to $4 billion

ANALYSIS OF CONSOLIDATED RESULTS

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 for the year ended October 31, 2014.

Adjusted net income was $172.2 million for the year ended October 31, 2015, up 5% compared with $163.6 million in 2014, while adjusted diluted earnings per share was $5.62, up 6% compared with $5.31 diluted per share in 2014.

TOTAL REVENUE MIX
For the year ended October 31, 2015 (as a percentage)



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

TOTAL REVENUE

Total revenue increased by $23.1 million to $897.1 million for the year ended October 31, 2015, compared with $874.1 million for the year ended October 31, 2014. 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 $14.1 million or 3% to $575.1 million for the year ended October 31, 2015, from $561.0 million for the year ended October 31, 2014. Good loan growth over the last year had a positive impact on net interest income, while margins remained under pressure.

When compared with the year ended October 31, 2014, net interest margin (as a percentage of average earning assets) decreased by 4 basis points to 1.84% for the year ended October 31, 2015, as further detailed in Table 8. This tightening was mainly due to the persistent low interest rates and the fierce competition, mostly in the residential mortgage segment. Additional lower-yielding liquid assets held throughout the year, notably to finance the purchase of an investment loan portfolio in the fourth quarter also contributed to reduce the reported net interest margins. The Bank is gradually modifying its loan portfolio mix to offset market pressure, notably by leveraging its new Alt-A mortgage offering and equipment financing business. Nonetheless, interest margins should continue to trend lower over the next quarters, as rates are expected to remain at historical lows. Table 9 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 8

NET INTEREST INCOME

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

	2015			2014 [1]		
	AVERAGE VOLUME	**INTEREST**	**AVERAGE RATE**	AVERAGE VOLUME	INTEREST	AVERAGE RATE
Assets						
Cash resources and securities	**$ 2,797,155**	**$ 40,937**	**1.46%**	$ 2,467,505	$ 41,504	1.68%
Securities purchased under reverse repurchase agreements	**728,807**	**4,637**	**0.64**	702,081	6,794	0.97
Loans						
Personal	**6,307,812**	**308,009**	**4.88**	6,574,958	332,862	5.06
Residential mortgage	**15,239,091**	**472,438**	**3.10**	14,697,978	491,933	3.35
Commercial mortgage	**2,856,533**	**125,488**	**4.39**	2,514,397	114,640	4.56
Commercial and other (including acceptances)	**3,318,105**	**123,545**	**3.72**	2,899,516	110,408	3.81
Total loans	**27,721,541**	**1,029,480**	**3.71**	26,686,849	1,049,843	3.93
Derivatives and other	**—**	**66,104**	**—**	—	47,080	—
Total interest earning assets	**31,247,503**	**1,141,158**	**3.65**	29,856,435	1,145,221	3.84
Other non-interest earnings assets	**6,574,347**	**—**	**—**	5,703,755	—	—
Total assets	**$ 37,821,850**	**$ 1,141,158**	**3.02%**	$ 35,560,190	$ 1,145,221	3.22%
Liabilities and shareholders' equity						
Demand and notice deposits	**$ 8,332,023**	**$ 68,536**	**0.82%**	$ 8,158,528	$ 73,857	0.91%
Term deposits	**16,876,397**	**366,997**	**2.17**	16,053,412	375,244	2.34
Debt related to securitization activities	**5,185,686**	**113,102**	**2.18**	4,862,280	118,269	2.43
Subordinated debt	**448,487**	**16,094**	**3.59**	446,410	16,071	3.60
Other	**—**	**1,346**	**—**	—	800	—
Total interest bearing liabilities	**30,842,593**	**566,075**	**1.84**	29,520,630	584,241	1.98
Acceptances	**385,769**	**—**	**—**	330,265	—	—
Other non-interest bearing liabilities	**4,996,956**	**—**	**—**	4,216,179	—	—
Total liabilities	**36,225,318**	**566,075**	**1.56**	34,067,074	584,241	1.71
Shareholders' equity	**1,596,532**	**—**	**—**	1,493,116	—	—
Total liabilities and shareholders' equity	**$ 37,821,850**	**$ 566,075**	**1.50%**	$ 35,560,190	$ 584,241	1.64%
Net interest income and margin (on average earning assets)		**$ 575,083**	**1.84%**		$ 560,980	1.88%

(1) Comparative figures for 2014 were restated to reflect the adoption of the amendments to IAS 32, *Financial Instruments: Presentation* and the modification of the Bank's definition of net interest margin. Refer to the Non-GAAP Financial measures and External reporting Changes sections.

TABLE 9

CHANGE IN NET INTEREST INCOME

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

			2015 / 2014
	Increase (decrease) due to change in		
	AVERAGE VOLUME	**AVERAGE RATE**	**NET CHANGE**
Interest earning assets	**$ 53,358**	**$ (57,421)**	**$ (4,063)**
Interest bearing liabilities	**(26,163)**	**44,329**	**18,166**
Net interest income	**$ 27,195**	**$ (13,092)**	**$ 14,103**

OTHER INCOME

Other income increased by $9.0 million or 3% and amounted to $322.0 million for the year ended October 31, 2015, compared with $313.1 million for the year ended October 31, 2014. Of note, other income in the year ended October 31, 2014 included a $3.7 million gain on the sale of a $102.4 million commercial mortgage loan portfolio.

Fees and commissions on loans and deposits amounted to $141.6 million for fiscal 2015 from, essentially unchanged compared with 141.8 million in 2014. Lower deposit service charges, as clients optimized their use of the Bank's offering, were offset by higher card service revenues in 2015 and higher lending fees due to increased underwriting activity.

Income from brokerage operations remained relatively unchanged at $63.3 million for fiscal 2015 compared with $63.6 million in 2014, as lower underwriting fees in the small-cap equity market from the Bank's brokerage subsidiary were offset by higher revenues from growth in underwriting activities in the fixed income market.

Income from sales of mutual funds increased by 33% to $38.8 million in fiscal 2015 compared with $29.2 million in 2014. The increase results from the solid growth in mutual fund sales and from additional fee-based revenues related to sales thresholds. Starting in January 2012, the Bank has been distributing a preferred series of co-branded LBC-Mackenzie mutual funds in its Québec branch network. Over the last four years, this partnership has been very beneficial, and led to more than a two-fold increase in commission revenues.

Income from investment accounts decreased to $30.2 million for fiscal 2015, compared with $31.7 million earned in 2014, as the Bank's B2B Bank Dealer Services earned lower trading fees and service charges. This trend is expected to continue over the medium term as financial institutions internalize the management of their own clients' self-directed plans.

Income from treasury and financial market operations increased to $23.4 million for fiscal 2015 from $16.1 million in 2014. This increase mainly resulted from a better contribution from trading activities and higher foreign-exchange revenues, partly offset by lower realized net gains on securities compared with 2014. Additional information related to the Bank's securities portfolio is presented in Note 5 to the annual consolidated financial statements.

Insurance revenues are generated by insurance programs related to the Bank's credit and card product offering. Insurance revenues are presented net of claims and expenses. Net revenues decreased by 12% to $16.9 million for fiscal 2015 from $19.2 million in 2014, essentially as a result of a higher level of claims. Additional information on the Bank's insurance revenues is presented in Note 28 to the annual consolidated financial statements.

TABLE 10

OTHER INCOME

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

	2015	2014	2013	VARIANCE 2015 / 2014
Fees and commissions on loans and deposits				
Deposit service charges	**$ 59,723**	$ 62,665	$ 63,195	(5)%
Lending fees	**50,768**	49,682	42,774	2
Card service revenues	**31,098**	29,502	27,822	5
	141,589	141,849	133,791	—
Income from brokerage operations	**63,294**	63,640	60,607	(1)
Income from sales of mutual funds	**38,811**	29,228	22,501	33
Income from investment accounts	**30,202**	31,658	32,694	(5)
Income from treasury and financial market operations	**23,365**	16,138	17,877	45
Insurance income, net	**16,903**	19,246	16,881	(12)
Other	**7,879**	11,326	12,226	(30)
	180,454	171,236	162,786	5
Other income	**$ 322,043**	$ 313,085	$ 296,577	3 %

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

For the year ended October 31, 2015, the line item "Amortization of net premium on purchased financial instruments and revaluation of contingent consideration" amounted to $6.0 million, compared with $9.7 million for the year ended October 31, 2014. The higher charge in 2014 essentially resulted from a $4.1 million non tax-deductible charge to settle the contingent consideration related to the AGF Trust acquisition. The amortization of net premium on purchased financial instruments amounted to $6.0 million for the year ended October 31, 2015, compared with $5.6 million for the year ended October 31, 2014. Refer to Note 30 to the audited annual consolidated financial statements.

PROVISION FOR LOAN LOSSES

The provision for loan losses decreased by $7.1 million to $34.9 million for the year ended October 31, 2015 from $42.0 million for the year ended October 31, 2014. The current level of provisions continues to reflect the underlying strong credit quality of the Bank's loan portfolios and prolonged favourable lending conditions in the Canadian market. Furthermore, the Bank has no direct exposure to the oil and gas industry and a relatively low exposure to the oil-producing provinces, which should contribute positively to maintaining a relatively low level of losses.

For the year ended October 31, 2015, loan losses on personal loans increased by $4.6 million compared with last year, mainly due to a return to a normalized provision level in the retail and B2B Bank's portfolios. Loan losses on residential mortgage loans increased by

$0.4 million, a level that remained low as a result of the favourable credit conditions and strong underwriting criteria. Loan losses on commercial mortgages and commercial loans amounted to a combined negative $0.5 million compared with losses of $11.6 million for the same period in 2014. The year-over-year decrease of $12.1 million reflects the good underlying credit quality of the portfolios and a higher amount of favourable settlements compared to last year. Loan losses on these portfolios tend to be more volatile as they relate, in part, to isolated larger exposures.

The overall level of losses, expressed as a percentage of average loans, stood at a very low 0.12%, reflecting the excellent condition of the loan portfolio.

The following table details the provision for loan losses from 2013 to 2015. The Risk Appetite and Risk Management Framework section in this MD&A provides further discussion with regard to the Bank's portfolios' overall credit condition.

TABLE 11

PROVISION FOR LOAN LOSSES

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

	2015	2014	2013
Personal loans	**$ 29,677**	$ 25,062	$ 31,668
Residential mortgage loans	**5,694**	5,330	8,713
Commercial mortgage loans	**(460)**	4,407	(3,640)
Commercial and other loans (including acceptances)	**(11)**	7,201	(741)
Provision for loan losses	**$ 34,900**	$ 42,000	$ 36,000
As a % of average loans and acceptances	**0.12%**	0.15%	0.13%

NON-INTEREST EXPENSES

Non-interest expenses totalled $722.8 million for the year ended October 31, 2015, while they stood at $641.3 million for the year ended October 31, 2014. Non-interest expenses for 2015 were particularly affected by the Retail unit impairment charge of $72.2 million, as noted below. Expenses for 2014 included costs amounting to $12.9 million to finalize integration work at B2B Bank.

Adjusted non-interest expenses remained well under control, increasing 3%, to $639.6 million for the year ended October 31, 2015 from $620.8 million for the year ended October 31, 2014, mainly as a result of technology costs, as detailed below.

Salaries and employee benefits increased by $6.0 million or 2% to $346.4 million for the year ended October 31, 2015, compared with the year ended October 31, 2014. Salaries for the year ended October 31, 2015 included severance charges of $4.6 million as part of restructuring initiatives, compared with a similar charge of $6.1 million in 2014. In addition, salaries included a retirement compensation charge of $4.9 million related to the adjustment to the employment contract of the Bank's former CEO at the beginning of 2015.

On an adjusted basis, salaries and employee benefits increased very modestly by $2.6 million or less than 1%, mainly due to regular salary increases and higher payroll taxes introduced in December 2014, partly offset by lower headcount from restructuring initiatives at the end of 2014.

Premises and technology costs increased by $13.2 million to $199.8 million compared with the year ended October 31, 2014. The increase mostly stems from higher project expenses, in part as a result of additional costs amounting to $4.0 million incurred to improve branch-level account administration systems in light of the new Client Relationship Model - Phase 2 (CRM2) standards prescribed by the Canadian Securities Administrators.

Other non-interest expenses slightly increased by $3.0 million to $104.4 million for the year ended October 31, 2015, from $101.4 million for the year ended October 31, 2014, essentially as a result of increased business development activities and higher sales taxes.

Impairment of goodwill, software and intangible assets, and premises and equipment amounted to $72.2 million for the year ended October 31, 2015. This charge was related to the impairment of goodwill for an amount of $29.2 million, of software and intangible assets for $33.1 million and of premises and equipment for $9.9 million. Refer to notes 8 to 10 to the audited annual consolidated financial statements.

Efficiency ratio

The adjusted efficiency ratio was 71.3% for the year ended October 31, 2015, compared with 71.0% for the year ended October 31, 2014. The adjusted operating leverage was slightly negative year-over-year, reflecting the challenging environment for revenue growth and sustained regulatory and technology costs pressure.

Table 12 illustrates the changes in non-interest expenses from 2013 to 2015.

TABLE 12

NON-INTEREST EXPENSES

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

	2015	2014	2013	VARIANCE 2015 / 2014
Salaries and employee benefits				
Salaries [1]	**$ 221,371**	$ 218,166	$ 233,574	
Employee benefits	**71,906**	71,335	75,009	
Performance-based compensation	**53,110**	50,893	49,909	
	346,387	340,394	358,492	2 %
Premises and technology				
Equipment and computer services	**83,635**	69,825	63,288	
Rent and property taxes	**54,539**	53,455	51,191	
Depreciation [2]	**52,451**	55,300	49,309	
Maintenance and repairs	**7,382**	6,124	6,036	
Public utilities	**1,601**	1,591	1,552	
Other	**235**	376	(101)	
	199,843	186,671	171,275	7 %
Other				
Advertising and business development	**25,789**	22,477	22,484	
Fees and commissions	**24,358**	24,143	24,434	
Communications and travelling expenses	**23,402**	22,329	22,767	
Taxes and insurance	**18,200**	16,529	17,433	
Stationery and publications	**6,929**	7,095	7,456	
Recruitment and training	**2,675**	1,917	2,324	
Other	**3,015**	6,893	9,170	
	104,368	101,383	106,068	3 %
Impairment of goodwill, software and intangible assets, and premises and equipment	**72,226**	—	—	n. m.
Costs related to business combinations and other [3]	**—**	12,861	38,244	(100)%
Non-interest expenses	**$ 722,824**	$ 641,309	$ 674,079	13 %
As a % of total revenue (efficiency ratio) [4]	**80.6 %**	73.4 %	77.9 %	
Adjusted non-interest expenses [4]				
Adjusted salaries and employee benefits	**$ 336,925**	$ 334,341	$ 352,196	1 %
Adjusted premises and equipment	**198,267**	185,083	171,275	7 %
Adjusted other non-interest expenses	**104,368**	101,383	106,068	3 %
	$ 639,560	$ 620,807	$ 629,539	3 %
As a % of total revenue (adjusted efficiency ratio) [4]	**71.3 %**	71.0 %	72.8 %	

(1) Salaries for 2015 included severance charges of $4.6 million as part of restructuring initiatives and a retirement compensation charge of $4.9 million related to the adjustment to the employment contract of the Bank's former CEO (severance charges of $6.1 million for 2014 and $6.3 million for 2013).

(2) Depreciation for 2015 included impairment charges of $1.6 million related to IT projects as part of restructuring initiatives ($1.6 million for 2014 and nil for2013).

(3) Costs related to the integration of the MRS Companies and AGF Trust.

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

INCOME TAXES

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 favourable effect of holding investments in Canadian securities that generate non-taxable dividend income and the lower taxation level on revenues from foreign insurance operations, partly offset by the mostly non tax-deductible goodwill impairment charge recorded in 2015. For the year ended October 31, 2014, the income tax expense was $40.7 million and the effective tax rate was 22.5%. The lower tax rate, compared to the statutory rate, resulted from the same favourable items as noted above, and included the effect of the $4.1 million non tax-deductible final settlement of the contingent consideration related to the AGF Trust acquisition.

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

TABLE 13

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

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

		2015			2014	
Income taxes at statutory rates	**$**	**35,625**	**26.7 %**	$	48,476	26.8 %
Change resulting from:						
Income related to foreign insurance operations		**(5,910)**	**(4.4)**		(5,612)	(3.1)
Non-taxable dividends		**(3,926)**	**(3.0)**		(4,354)	(2.4)
Impairment of goodwill		**4,347**	**3.3**		—	—
Non tax-deductible contingent consideration charge		**—**	**—**		1,088	0.6
Other		**797**	**0.6**		1,140	0.6
Income taxes as reported in the consolidated statement of income	**$**	**30,933**	**23.2 %**	$	40,738	22.5 %

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, 2015, these loans totalled $37.9 million. Loans to directors are granted under market conditions for similar risks and are initially measured at fair value. Loans to officers consist mostly of term residential mortgage loans below posted rates, as well as personal loans and personal lines of credit at market rates less a discount based on the type and amount of the loan. Loans to related entities of key management personnel are granted under terms similar to those offered to arm's length parties. The interest earned on these loans is recorded under interest income in the consolidated statement of income.

In the normal course of business, the Bank also provides usual banking services to key management personnel, including bank accounts (deposits) under terms similar to those offered to arm's length parties. As at October 31, 2015, these deposits totalled $1.9 million. The Bank also offers employees a discount on annual credit card fees. In addition, for the year ended October 31, 2015, the Bank paid a rental expense of $2.2 million to a related party. See Note 22 to the annual consolidated financial statements for additional information on related party transactions.

OVERVIEW OF FISCAL 2014

For the year ended October 31, 2014, adjusted net income totalled $163.6 million or $5.31 diluted per share, up 5%, compared with $155.4 million or $5.07 diluted per share in 2013. Adjusted return on common shareholders' equity was 11.9% for the year ended October 31, 2014, compared with 12.1% for the same period in 2013.

On a reported basis, net income was $140.4 million or $4.50 diluted per share for the year ended October 31, 2014, compared with $119.5 million or $3.80 diluted per share for the same period in 2013. Return on common shareholders' equity was 10.1% for the year ended October 31, 2014, compared with 9.1% for the same period in 2013. Reported results for 2014 and 2013 included items related to business combinations and restructuring charges, as detailed in the Non-GAAP financial measures section.

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

ANALYSIS OF QUARTERLY RESULTS

ANALYSIS OF RESULTS FOR THE FOURTH QUARTER OF 2015

Net loss was $18.7 million or a loss of $0.73 diluted per share for the fourth quarter of 2015, compared with net income of $33.8 million or earnings of $1.09 diluted per share for the fourth quarter of 2014. As noted above, results for the fourth quarter of 2015 were adversely impacted by an impairment charge of $72.2 million ($57.2 million after income taxes) or $1.98 diluted per share, and restructuring charges of $6.2 million ($4.5 million after income taxes), or $0.16 diluted per share recorded in the context of the Bank's new transformation plan. Adjusted net income was $44.1 million for the fourth quarter ended October 31, 2015, up from $42.6 million for the same quarter of 2014, while adjusted diluted earnings per share were $1.44, up 4% compared with $1.39 diluted per share in 2014.

Total revenue

Total revenue increased by $10.2 million or 5% to $231.6 million for the fourth quarter of 2015, compared with $221.4 million for the fourth quarter of 2014, essentially as a result of growth in net interest income year-over-year.

Net interest income increased by $10.5 million or 8% to $150.7 million for the fourth quarter of 2015, from $140.1 million for the fourth quarter of 2014. The increase was mainly generated by strong volume growth in loan portfolios. Net interest margin (as a percentage of average earning assets) stood at 1.84% for the fourth quarter of 2015, unchanged compared with the fourth quarter of 2014, as the effect of persistent pressure on lending rates was offset by lower funding costs.

Other income slightly decreased by $0.3 million and amounted to $81.0 million for the fourth quarter of 2015, compared with $81.3 million for the fourth quarter of 2014. Fees and commissions on loans and deposits decreased by $2.9 million, essentially due to lower loan prepayment penalties in the commercial mortgage loan portfolio. This was partly offset by an increase of $2.3 million or 29% in mutual fund commissions compared with the fourth quarter of 2014, largely driven by new sales and additional fee-based revenues earned on the co-branded LBC-Mackenzie mutual fund assets under administration.

Amortization of net premium on purchased financial instruments and revaluation of contingent consideration

For the fourth quarter of 2015, the amortization of net premium on purchased financial instruments amounted to $1.5 million, unchanged compared with the fourth quarter of 2014. Refer to Note 30 to the audited annual consolidated financial statements.

Provision for loan losses

The provision for loan losses decreased by 10% to $9.4 million for the fourth quarter of 2015 from $10.5 million for the fourth quarter of 2014. This low level of loan losses continues to be consistent with the overall underlying good quality of the loan portfolios. Loan losses on personal loans increased by $0.8 million compared with the fourth quarter of 2014 and stood at $8.4 million in the fourth quarter of 2015, mainly due to an additional provision related to the $0.6 billion investment loan portfolio purchased in early August. Loan losses on residential mortgage loans decreased by $0.6 million compared with the fourth quarter of 2014. Loan losses on commercial mortgages and commercial loans cumulatively amounted to negative $0.6 million in the fourth quarter of 2015, a decrease of $1.3 million compared with the same quarter last year, mainly resulting from a higher amount of favourable settlements and improvements during the fourth quarter of 2015.

Non-interest expenses

Non-interest expenses increased by $76.0 million to $242.3 million for the fourth quarter of 2015, compared with $166.3 million for the fourth quarter of 2014, essentially as a result of the impairment of goodwill and other assets totalling $72.2 million, partly offset by lower restructuring charges and costs related to business combinations. Adjusted non-interest expenses increased by $8.2 million or 5%, as a result of higher salaries and employee benefits, as well as higher technology costs, as detailed below.

Salaries and employee benefits increased by $2.3 million or 3% to $89.8 million for the fourth quarter of 2015, compared with the fourth quarter of 2014. As noted above, salaries for the fourth quarter of 2015 included $4.6 million of severance charges related to restructuring initiatives, compared with a similar $6.1 million charge in the fourth quarter of 2014. On an adjusted basis, salaries and employee benefits increased by $3.7 million mainly due to regular annual salary increases and higher staffing levels in business services, partly offset by lower headcount from the optimization of certain retail and corporate activities in the fourth quarter of 2014. Higher performance-based compensation and higher payroll taxes introduced in December 2014 also contributed to the increase.

Premises and technology costs increased by $2.9 million to $52.5 million compared with the fourth quarter of 2014. The increase mostly stems from higher project expenses, in part as a result of additional costs amounting to $1.9 million incurred to meet the new CRM2 standards, as described above.

Other non-interest expenses increased by $1.5 million to $27.8 million compared with the fourth quarter of 2014, essentially due to higher business development expenses.

Impairment of goodwill, software and intangible assets, and premises and equipment amounted to $72.2 million for the fourth quarter of 2015, as detailed above. Refer to notes 8 to 10 to the audited annual consolidated financial statements.

Efficiency ratio

The adjusted efficiency ratio was 70.8% for the fourth quarter of 2015, compared with 70.3% for the fourth quarter of 2014.

Income taxes

For the quarter ended October 31, 2015, the income tax recovery was $2.8 million and the effective tax rate was 13.2%. The tax rate, compared to the statutory rate, was impacted by the goodwill impairment charge recorded during the quarter which was only partly tax-deductible. For the quarter ended October 31, 2014, the income tax expense was $9.4 million and the effective tax rate was 21.7%. The lower tax rate, compared to the statutory rate, resulted mainly from the favourable effect of holding investments in Canadian securities that generate non-taxable dividend income and the lower taxation level on revenues from foreign insurance operations.

ANALYSIS OF THE EVOLUTION OF THE QUARTERLY RESULTS

The Bank's intermediation business provides a relatively steady source of income, stemming from large volumes of loans, deposits and investment accounts not likely to experience significant fluctuations in the short term. However, treasury operations and certain activities related to financial markets, such as trading activities, may result in significant volatility. In addition, variations in market interest rates or equity markets as well as in credit conditions can influence the Bank's results. Furthermore, other transactions such as business acquisitions, specific events or regulatory developments may significantly impact revenues and expenses. Given that the second quarter usually consists of only 89 days, compared with 92 days for the other quarters, overall profitability is generally lower for that quarter, mainly as net interest income is impacted. Table 14 summarizes quarterly results for fiscal 2015 and 2014.

TABLE 14
QUARTERLY RESULTS
For the quarters ended (in thousands of Canadian dollars, except per share and percentage amounts)

				2015				2014
	Oct. 31	**July 31**	**April 30**	**Jan. 31**	Oct. 31	July 31	April 30	Jan. 31
Net interest income	**$ 150,667**	**$ 147,229**	**$ 137,691**	**$ 139,496**	$ 140,149	$ 141,249	$ 138,726	$ 140,856
Other income	**80,982**	**79,409**	**82,988**	**78,664**	81,272	78,396	78,164	75,253
Total revenue	**231,649**	**226,638**	**220,679**	**218,160**	221,421	219,645	216,890	216,109
Amortization of net premium on purchased financial instruments and revaluation of contingent consideration	**1,465**	**1,531**	**1,531**	**1,472**	1,508	1,511	5,498	1,136
Provision for loan losses	**9,400**	**7,000**	**8,000**	**10,500**	10,500	10,500	10,500	10,500
Non-interest expenses	**242,340**	**161,037**	**158,750**	**160,697**	166,299	155,973	159,904	159,133
Income (loss) before income taxes	**(21,556)**	**57,070**	**52,398**	**45,491**	43,114	51,661	40,988	45,340
Income taxes (recovery)	**(2,837)**	**12,904**	**11,210**	**9,656**	9,360	11,564	9,999	9,815
Net income (loss)	**$ (18,719)**	**$ 44,166**	**$ 41,188**	**$ 35,835**	$ 33,754	$ 40,097	$ 30,989	$ 35,525
Earnings (loss) per share								
Basic	**$ (0.73)**	**$ 1.44**	**$ 1.34**	**$ 1.16**	$ 1.09	$ 1.27	$ 0.99	$ 1.16
Diluted	**$ (0.73)**	**$ 1.44**	**$ 1.34**	**$ 1.15**	$ 1.09	$ 1.27	$ 0.99	$ 1.16
Net interest margin (on average earning assets) [1]	**1.84 %**	**1.85%**	**1.84%**	**1.83%**	1.84%	1.89%	1.93%	1.86%
Return on common shareholders' equity [1]	**(6.1)%**	**12.1%**	**11.8%**	**9.9%**	9.5%	11.2%	9.2%	10.5%
Segment net income (loss)								
Personal & Commercial	**$ (24,627)**	**$ 36,217**	**$ 32,191**	**$ 30,700**	$ 28,599	$ 29,953	$ 30,282	$ 28,278
B2B Bank	**14,832**	**14,311**	**10,132**	**12,423**	8,456	13,035	5,082	13,433
Laurentian Bank Securities & Capital Markets	**2,480**	**2,692**	**4,113**	**2,409**	2,424	3,037	2,584	2,252
Other sector	**(11,404)**	**(9,054)**	**(5,248)**	**(9,697)**	(5,725)	(5,928)	(6,959)	(8,438)
Net income (loss)	**$ (18,719)**	**$ 44,166**	**$ 41,188**	**$ 35,835**	$ 33,754	$ 40,097	$ 30,989	$ 35,525
Adjusted financial measures								
Adjusted net income [1]	**$ 44,127**	**$ 45,291**	**$ 42,313**	**$ 40,468**	$ 42,591	$ 42,355	$ 39,375	$ 39,261
Adjusted diluted earnings per share [1]	**$ 1.44**	**$ 1.48**	**$ 1.38**	**$ 1.32**	$ 1.39	$ 1.35	$ 1.29	$ 1.29
Adjusted return on common shareholders' equity [1]	**12.1 %**	**12.4%**	**12.1%**	**11.3%**	12.2%	11.9%	11.9%	11.7%
Adjusted non-interest expenses [1]	**$ 163,931**	**$ 161,037**	**$ 158,750**	**$ 155,842**	$ 155,747	$ 154,409	$ 155,467	$ 155,184

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

Over the past eight quarters, adjusted net income has generally trended upward, driven mainly by good volume growth in loan portfolios, higher mutual fund commissions and continued strong credit quality. Furthermore, certain specific factors, as detailed below, have affected results during fiscal 2015 and 2014.

2015

- Net interest income increased in 2015, as the impact of good loan growth over the last twelve months and higher prepayment penalties on residential mortgage loans, notably in the third quarter, positively contributed to earnings.
- Other income increased throughout 2015 mainly due to solid mutual fund commissions and higher income from treasury and financial market operations.
- The provision for loan losses decreased in 2015, 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 the Bank's former CEO. Expenses in the fourth quarter also included an impairment charge of $72.2 million and restructuring charges of $6.2 million incurred in the context of the Bank's new transformation plan.
- Adjusted non-interest expenses were slightly higher in 2015, mainly as a result of increases in salaries and employee benefits, as well as in technology costs.

2014

- Net interest income slightly decreased in 2014, as margin compressions and lower prepayment penalties on residential mortgage loans were only partly offset by a better loan mix.
- Other income increased throughout 2014 as most revenue streams improved mainly due to increased business activity.
- The line item Amortization of net premium on purchased financial instruments and revaluation of contingent consideration for the second quarter of 2014 included a $4.1 million non-tax deductible charge to settle the contingent consideration related to the AGF Trust acquisition.
- The provision for loan losses remained very stable throughout the year, reflecting the excellent Canadian credit environment, as well as the Bank's strong underwriting.
- Non-interest expenses in 2014 included costs related to business combinations, which decreased throughout the year as the integration work in the B2B Bank business segment was completed at the end of the year. Expenses in the fourth quarter also included restructuring charges of $7.6 million for the optimization of certain retail and corporate activities.
- Adjusted non-interest expenses trended lower in 2014, mainly as a result of tight cost control, acquisition synergies and process reviews.

BUSINESS SEGMENTS

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

PERSONAL & COMMERCIAL

The Personal & Commercial segment caters to the financial needs of business clients across Canada and retail clients in Québec. The Bank serves retail clients mainly through a network of branches and ATMs, providing a full range of savings, investment and financing products. Electronic and mobile services, as well as transactional, card and insurance products complete the offering. Small and medium-sized enterprises, along with real estate developers are provided with a suite of financing options, including leasing solutions, as well as, investment, cash management and international services.

For the year ended October 31, 2015, reported net income of the Personal & Commercial business segment was $74.5 million compared with $117.1 million for the year ended October 31, 2014. Reported results of the segment were adversely impacted by an impairment charge of $72.2 million ($57.2 million after income taxes), and restructuring charges of $0.8 million ($0.6 million after income taxes).

Adjusted net income was $132.3 million for the year ended October 31, 2015, a 9% increase compared with $121.9 million for the year ended October 31, 2014.

TABLE 15

SEGMENT CONTRIBUTION

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

		2015		2014		2013
Net interest income	**$**	**409,868**	$	394,961	$	386,848
Other income		**210,219**		202,677		191,261
Total revenue		**620,087**		597,638		578,109
Provision for loan losses		**25,517**		33,235		21,438
Non-interest expenses		**493,712**		411,040		424,412
Income before income taxes		**100,858**		153,363		132,259
Income taxes		**26,377**		36,251		30,342
Net income	**$**	**74,481**	$	117,112	$	101,917
Efficiency ratio [1]		**79.6%**		68.8%		73.4%
Adjusted net income [1]	**$**	**132,293**	$	121,872	$	105,793
Adjusted non-interest expenses [1]	**$**	**420,712**	$	404,534	$	419,115
Adjusted efficiency ratio [1]		**67.8%**		67.7%		72.5%
Average loans and acceptances	**$**	**18,594,524**	$	17,923,035	$	17,341,392
Average deposits	**$**	**10,400,023**	$	10,122,211	$	10,014,583

(1) Refer to the non-GAAP financial measures section. Adjusted financial measures exclude impairment and restructuring charges designated as adjusting items.

Total revenue increased by $22.4 million from $597.6 million for the year ended October 31, 2014 to $620.1 million for the year ended October 31, 2015, mainly driven by good volume growth in the business loan portfolios and a strong increase in other income. Net interest income increased by $14.9 million to $409.9 million, reflecting a better loan portfolio mix, partly offset by persistent low interest rates which resulted in tighter margins. Other income increased by 4% or $7.5 million to $210.2 million for the year ended October 31, 2015, mainly due to higher mutual fund commissions.

Loan losses decreased by $7.7 million from $33.2 million for the year ended October 31, 2014 to $25.5 million for the year ended October 31, 2015. This year-over-year decrease mainly reflects the underlying good credit quality of the portfolios and lower losses on commercial mortgages and commercial loans. This was mainly attributable to a higher amount of favourable settlements compared to last year, as well as continued improvements in the underlying portfolios. Furthermore, the Personal & Commercial segment has no direct exposure to the oil and gas industry and a relatively low exposure to the oil-producing provinces, which has contributed positively to maintaining a low level of losses.

Non-interest expenses increased by $82.7 million, from $411.0 million for the year ended October 31, 2014 to $493.7 million for the year ended October 31, 2015. The increase is essentially related to the goodwill and other assets impairment charge affecting the Retail unit totalling $72.2 million. This impairment charge is the result of a combination of factors, including the continued pressure on net interest margins stemming from the persistent low interest rates and competitive landscape, the change in customers' behavior driven by significant changes in technology and lifestyle, the emergence of new competitors, as well as the additional administrative burden associated with new regulatory measures.

Adjusted non-interest expenses only increased by $16.2 million, as higher ongoing technology costs and higher staffing levels in business services were partly offset by lower salaries from the optimization of certain retail activities in the fourth quarter of 2014. The adjusted efficiency ratio was 67.8% for the year ended October 31, 2015, compared with 67.7% for the year ended October 31, 2014.

B2B BANK

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

For the year ended October 31, 2015, reported net income of the B2B Bank business segment was $51.7 million, compared with $40.0 million for the year ended October 31, 2014. Adjusted net income was $56.6 million for the year ended October 31, 2015, slightly down $1.1 million compared with $57.6 million for the year ended October 31, 2014.

TABLE 16

SEGMENT CONTRIBUTION

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

	2015	2014	2013
Net interest income	$ 179,488	$ 177,567	$ 190,928
Other income	33,707	35,361	36,705
Total revenue	213,195	212,928	227,633
Amortization of net premium on purchased financial instruments and revaluation of contingent consideration	5,999	9,653	4,426
Provision for loan losses	9,383	8,765	14,562
Non-interest expenses	126,802	138,191	170,432
Income before taxes	71,011	56,319	38,213
Income taxes	19,313	16,313	10,290
Net income	$ 51,698	$ 40,006	$ 27,923
Efficiency ratio (1)	59.5%	64.9%	74.9%
Adjusted net income (1)	$ 56,553	$ 57,632	$ 59,275
Adjusted non-interest expenses (1)	$ 126,190	$ 125,330	$ 132,188
Adjusted efficiency ratio (1)	59.2%	58.9%	58.1%
Average loans and acceptances	$ 9,216,059	$ 8,748,134	$ 9,218,339
Average deposits	$ 12,167,770	$ 12,553,141	$ 12,973,188

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

Total revenue slightly increased to $213.2 million for the year ended October 31, 2015 from $212.9 million for the year ended October 31, 2014. Net interest income increased by $1.9 million to $179.5 million due to strong residential and investment loan growth over the last year, partly offset by tighter margins. Other income amounted to $33.7 million for the year ended October 31, 2015, down $1.7 million compared with $35.4 million for the year ended October 31, 2014, mainly explained by lower income from self-directed accounts and related services charges.

As shown above, the line item "Amortization of net premium on purchased financial instruments and revaluation of contingent consideration" amounted to $6.0 million for the year ended October 31, 2015, compared with $9.7 million for the year ended October 31, 2014. The higher charge in 2014 essentially resulted from a $4.1 million non tax-deductible charge to settle the contingent consideration related to the AGF Trust acquisition. The amortization of net premium on purchased financial instruments amounted to $6.0 million for the year ended October 31, 2015, compared with $5.6 million for the year ended October 31, 2014. Refer to Note 30 to the audited annual consolidated financial statements.

Loan losses increased by $0.6 million compared with the year ended October 31, 2014 and amounted to $9.4 million for the year ended October 31, 2015. The modest increase reflects a return to a normalized provision level in the personal loan portfolios. Overall, loan losses remained low, reflecting the strong credit quality of the portfolio.

Non-interest expenses decreased by $11.4 million to $126.8 million for the year ended October 31, 2015 compared with $138.2 million for the year ended October 31, 2014, essentially as a result of $12.9 million lower costs related to the integration work at B2B Bank, which was completed at the end of last year. Adjusted non-interest expenses growth was limited to 1% year-over-year, reflecting tight cost control. The adjusted efficiency ratio was 59.2% for the year ended October 31, 2015, compared with 58.9% for the year ended October 31, 2014.

LAURENTIAN BANK SECURITIES & CAPITAL MARKETS

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

For the year ended October 31, 2015, reported net income of the Laurentian Bank Securities & Capital Markets business segment increased to $11.7 million, compared with $10.3 million for the year ended October 31, 2014. Adjusted net income was $12.1 million, a 17% increase compared with $10.3 million for the year ended October 31, 2014.

TABLE 17

SEGMENT CONTRIBUTION

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

	2015	2014	2013
Total revenue	**$ 71,507**	$ 68,406	$ 67,831
Non-interest expenses	**56,810**	54,332	53,407
Income before taxes	**14,697**	14,074	14,424
Income taxes	**3,003**	3,777	3,572
Net income	**$ 11,694**	$ 10,297	$ 10,852
Efficiency ratio [1]	**79.4%**	79.4%	78.7%
Adjusted net income [1]	**$ 12,088**	$ 10,297	$ 10,852
Adjusted non-interest expenses [1]	**$ 56,271**	$ 54,332	$ 53,407
Adjusted efficiency ratio [1]	**78.7%**	79.4%	78.7%
Clients' brokerage assets	**$ 3,122,090**	$ 2,848,440	$ 2,465,747

(1) Refer to the non-GAAP financial measures section. Adjusted financial measures exclude restructuring charges designated as adjusting items.

Total revenue increased by $3.1 million to $71.5 million for the year ended October 31, 2015, as higher revenues from growth in underwriting activities in the fixed income market and higher trading revenues were partly offset by lower underwriting fees in the small-cap equity market. Non-interest expenses increased by $2.5 million to $56.8 million for the year ended October 31, 2015, mainly due to higher performance-based compensation, commissions and transaction fees, in-line with higher market-driven income. Non-interest expenses for the year ended October 31, 2015 also included adjusting items related to severance charges of $0.5 million as part of restructuring initiatives.

OTHER

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

For the year ended October 31, 2015, the Other sector's contribution to reported net income was negative $35.4 million, compared with negative $27.1 million for the year ended October 31, 2014. Adjusted net income was negative $28.7 million for the year ended October 31, 2015, compared with negative $26.2 million for the year ended October 31, 2014.

TABLE 18

SEGMENT CONTRIBUTION

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

	2015	2014	2013
Net interest income	**$ (17,787)**	$ (14,872)	$ (13,139)
Other income	**10,124**	9,965	4,903
Total revenue	**(7,663)**	(4,907)	(8,236)
Non-interest expenses	**45,500**	37,746	25,828
Loss before income taxes	**(53,163)**	(42,653)	(34,064)
Income taxes recovery	**(17,760)**	(15,603)	(12,849)
Net loss	**$ (35,403)**	$ (27,050)	$ (21,215)
Adjusted net loss [1]	**$ (28,735)**	$ (26,219)	$ (20,484)
Adjusted non-interest expenses [1]	**$ 36,387**	$ 36,611	$ 24,828

(1) Refer to the non-GAAP financial measures section. Adjusted financial measures exclude restructuring charges and a retirement compensation charge designated as adjusting items.

Net interest income decreased to negative $17.8 million for the year ended October 31, 2015 compared with negative $14.9 million for the year ended October 31, 2014, mainly as a result of additional lower-yielding liquid assets held throughout the year, notably to finance the purchase of an investment loan portfolio in the fourth quarter. Other income increased by $0.2 million and amounted to $10.1 million for the year ended October 31, 2015, as higher trading and foreign-exchange revenues were partly offset by lower net securities gains. Of note, a $2.5 million portion of a gain related to the sale of commercial mortgage loans attributed to Corporate Treasury was presented in this sector in 2014.

Non-interest expenses increased by $7.8 million to $45.5 million for the year ended October 31, 2015 compared with $37.7 million for the year ended October 31, 2014. Non-interest expenses for the year ended October 31, 2015 included a $4.9 million retirement compensation charge and restructuring charges totalling $4.3 million, compared with a similar restructuring charge of $1.1 million for the year ended October 31, 2014. Excluding these items, adjusted non-interest expenses decreased by 1%. Unallocated expenses mainly relate to executive management compensation, costs related to treasury operations and corporate regulatory costs.

ANALYSIS OF FINANCIAL CONDITION

The Bank bolsters a solid balance sheet and a strong capital to support its operations. The overall credit quality of the loan portfolio, combined with a sound retail funding base provide the foundation for sustainable growth and the ability to implement the new Transformation Plan.

As at October 31, 2015, the Bank reported total assets of $39.7 billion, compared with $36.5 billion as at October 31, 2014, as shown in Table 19. These changes are explained in the following sections of the MD&A.

TABLE 19

BALANCE SHEET ASSETS

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

	2015	2014	2013 [1]	VARIANCE 2015 / 2014
Cash and deposits with other banks	$ 200,864	$ 248,855	$ 208,838	(19)%
Securities	4,487,357	4,880,460	4,480,525	(8)
Securities purchased under reverse repurchase agreements	3,911,439	3,196,781	1,218,255	22
Loans				
Personal	7,063,229	6,793,078	7,245,474	4
Residential mortgage	16,192,009	14,825,541	14,735,211	9
Commercial mortgage	3,055,619	2,651,271	2,488,826	15
Commercial and other	3,308,144	2,794,232	2,488,137	18
Customers' liabilities under acceptances	473,544	365,457	271,049	30
	30,092,545	27,429,579	27,228,697	10
Allowances for loan losses	(111,153)	(119,371)	(115,590)	(7)
	29,981,392	27,310,208	27,113,107	10
Other assets	1,078,452	846,481	890,301	27
Balance sheet assets	$ 39,659,504	$ 36,482,785	$ 33,911,026	9 %
Cash, deposits with other banks, securities and securities purchased under reverse repurchase as a % of balance sheet assets	21.7 %	22.8 %	n. m.	

(1) Comparative figures for 2013 were not restated to reflect the adoption of the amendments to IAS 32, *Financial Instruments: Presentation*.

LIQUID ASSETS

Liquid assets consist of cash, deposits with other banks, securities and securities purchased under reverse repurchase agreements. As at October 31, 2015, these assets totalled $8.6 billion, an increase of $0.3 billion compared with $8.3 billion as at October 31, 2014.

The higher 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. Liquid assets represented 22% of total assets as at October 31, 2015 compared with 23% as at October 31, 2014.

As at October 31, 2015, securities used in brokerage operations and treasury activities amounted to $4.5 billion, including a portfolio of available-for-sale securities totalling $2.4 billion. As at October 31, 2015, net unrealized losses in this portfolio, included in accumulated other comprehensive income, amounted to $10.5 million, reflecting the relatively poor 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 $30.0 billion as at October 31, 2015, up 10% from October 31, 2014. This increase mainly reflects the Bank's continued strong organic growth in the higher-margin business portfolios and B2B Bank's residential mortgage loan portfolio, while a $0.6 billion investment loan purchase also contributed. Executing on its niche strategy, the Bank accelerated overall loan growth in 2015, with focused efforts on growth opportunities such as lease financing and B2B Bank mortgages.

Personal loans amounted to $7.1 billion and increased by $0.3 billion since October 31, 2014. This increase reflects a $0.6 billion investment loan portfolio purchase partly offset by net repayments 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 stood at $16.2 billion as at October 31, 2015, an increase of $1.4 billion or 9% year-over-year. This mainly reflected strong growth in mortgage loans at B2B Bank, helped by its expanded and alternative mortgage solutions.

Loans to businesses consist of commercial mortgage loans, commercial loans and customers' liabilities under acceptances. As at October 31, 2015, these higher-margin loans amounted to $6.8 billion, up $1.0 billion or 18% year-over-year. In 2015, the Bank continued to develop its commercial activities and generated strong organic growth across all business loan portfolios. The Bank's equipment financing offer launched in 2014 is also bearing fruit, as this portfolio's volume increased by more than $200 million during the 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 increased by $0.2 billion to $1.1 billion as at October 31, 2015, primarily reflecting an increase in derivative financial instruments and cheques and other items in transit. This increase was partially offset by lower goodwill, intangibles assets and premises and equipment resulting from the impairment charge recorded in the fourth quarter of 2015.

TABLE 20

BALANCE SHEET LIABILITIES

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

	2015	2014	2013 [1]	VARIANCE 2015 / 2014
Deposits				
Personal	**$ 19,377,716**	$ 18,741,981	$ 19,282,042	3 %
Business, banks and other	**7,226,588**	5,781,045	4,645,308	25
	26,604,304	24,523,026	23,927,350	8
Other liabilities	**5,524,930**	5,103,778	3,129,918	8
Debt related to securitization activities	**5,493,602**	4,863,848	4,974,714	13
Subordinated debt	**449,641**	447,523	445,473	—
Balance sheet liabilities	**$ 38,072,477**	$ 34,938,175	$ 32,477,455	9 %
Personal deposits as a % of total deposits	**72.8 %**	76.4 %	80.6 %	
Total deposits as a % of balance sheet liabilities	**69.9 %**	70.2 %	73.7 %	

(1) Comparative figures for 2013 were not restated to reflect the adoption of the amendments to IAS 32, *Financial Instruments: Presentation.*

DEPOSITS

The deposit portfolio increased by $2.1 billion or 8% to $26.6 billion as at October 31, 2015 from $24.5 billion as at October 31, 2014. Personal deposits stood at $19.4 billion as at October 31, 2015, up $0.6 billion compared with October 31, 2014, while business and other deposits increased by $1.4 billion to $7.2 billion over the same period. The Bank continues to optimize its current funding strategy by focusing on client deposits through its retail branch network and B2B Bank's advisor relationships, which contribute to the Bank's good liquidity position. During the year, the Bank further diversified its funding sources by increasing its usage of institutional funding and solidifying its presence in that market, in light of strong loan growth. As a result, personal deposits represented 73% of total deposits as at October 31, 2015, compared with 76% as at October 31, 2014. This ratio remains nonetheless well above the Canadian average and contributes to meet OSFI's liquidity adequacy requirements implemented in 2015.

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

OTHER LIABILITIES

Other liabilities increased to $5.5 billion as at October 31, 2015 from $5.1 billion as at October 31, 2014. The year-over-year increase resulted mainly from higher obligations related to securities sold short, associated with trading activities, and acceptances.

Debt related to securitization activities totalling $5.5 billion remains a preferred source of term funding and increased by $0.6 billion or 13% compared with October 31, 2014. The Bank optimized this funding source for residential mortgages during the year through its participation in both the Canada Mortgage Bond program and a third-party multi-seller mortgage securitization facility.

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 $449.6 million as at October 31, 2015, essentially unchanged compared with $447.5 million as at October 31, 2014. The subordinated debt is an integral part of the Bank's regulatory capital and affords its depositors additional protection. On November 2, 2015, the Bank redeemed all of its Series 2010-1 subordinated Medium Term Notes maturing in 2020, with an aggregate notional amount of $250.0 million. The Series 2010-1 subordinated Medium Term Notes were redeemed at par plus accrued and unpaid interest to the date of redemption.

SHAREHOLDERS' EQUITY

Shareholders' equity stood at $1,587.0 million as at October 31, 2015, compared with $1,544.6 million as at October 31, 2014. This $42.4 million increase is mainly 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 $46.33 as at October 31, 2015 from $45.89 as at October 31, 2014. The table below provides the details of the share capital.

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

TABLE 21

SHARES ISSUED AND OUTSTANDING

As at December 2, 2015 (in number of shares/options)

Preferred shares	
Series 11	4,000,000
Series 13	5,000,000
Common shares [1]	28,964,619
Share purchase options [1]	—

(1) On December 2, 2015, 8,000 common shares were issued as a result of the exercise of the remaining share purchase options.

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 22 below summarizes assets under administration and assets under management. As at October 31, 2015, these items totalled $42.2 billion, up $0.6 billion or 1% compared with October 31, 2014. Fees, commissions and other income related to these assets contribute significantly to the Bank's profitability.

TABLE 22

ASSETS UNDER ADMINISTRATION AND ASSETS UNDER MANAGEMENT

As at October 31 (in thousands of Canadian dollars)

	2015	2014	2013
Registered and non-registered investment accounts	**$ 35,386,071**	$ 35,484,148	$ 32,222,052
Mutual funds	**3,299,986**	3,009,944	2,568,101
Clients' brokerage assets	**3,122,090**	2,848,440	2,465,747
Mortgage loans under management	**328,661**	224,102	397,864
Institutional assets	**78,767**	77,095	72,475
Other	**9,610**	12,224	13,142
Assets under administration and assets under management	**$ 42,225,185**	$ 41,655,953	$ 37,739,381

Assets related to registered and non-registered investment accounts in B2B Bank Dealer Services and LBC Financial Services were down marginally by $0.1 billion year-over-year, reflecting lower underlying asset values driven by market performance. B2B Bank Dealer Services, comprised of three mutual fund and investment dealers, 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.

Mutual fund assets under administration in LBC Financial Services increased significantly by $290.0 million or 10% during fiscal 2015, driven by the exclusive offering of a preferred series of LBC-Mackenzie mutual funds, client appetite for higher-yielding products and the Bank's efficient distribution network.

Clients' brokerage assets increased by $273.7 million or 10%, essentially as a result of increased full-service brokerage activity and additional advisors in 2015.

Mortgage loans under management increased by $104.6 million, as a result of new servicing agreements of commercial mortgage loans contracted during the year and increased activity.

DERIVATIVES

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

All derivatives are recorded on the balance sheet at fair value. Derivative values are calculated using notional amounts. However, these amounts are not recorded on the balance sheet, as they do not represent the actual amounts exchanged. Likewise, notional amounts do not reflect the credit risk related to derivatives, although they serve as a reference for determining the amount of cash flows to be exchanged. The notional amounts of the Bank's derivatives totalled $20.0 billion as at October 31, 2015 with a net positive fair value of $150.9 million.

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

SECURITIZATION ACTIVITIES

The Bank uses special purpose entities to securitize residential mortgage loans in order to diversify sources of funding, optimize its balance sheet 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 bonds' or commercial paper's credit ratings. Credit enhancements mainly take the form of cash reserve accounts, over-collateralization in the form of excess assets, and liquidity guarantees. Securitization programs generally include seller swap contracts to protect the special purpose entities against certain interest rate and prepayment risks.

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

As at October 31, 2015 the carrying amount of residential mortgage loans securitized and legally sold as part of the CMB Program amounted to $3.9 billion ($3.8 billion as at October 31, 2014) and the carrying amount of Replacement Assets amounted to $0.8 billion ($0.4 billion as at October 31, 2014). As at October 31, 2015, the carrying amount of securitized residential mortgage loans legally sold to multi-seller conduits amounted to $0.6 billion ($0.5 billion as at October 31, 2014). The securitization liability related to these transactions amounted to $5.5 billion as at October 31, 2015 ($4.9 billion as at October 31, 2014).

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 23 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 23 presents significant guarantees.

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

TABLE 23

CREDIT COMMITMENTS AND GUARANTEES

As at October 31 (in thousands of Canadian dollars)

		2015		2014
Undrawn amounts under approved credit facilities [1]	**$**	**3,859,804**	$	3,810,511
Standby letters of credit and performance guarantees	**$**	**152,779**	$	133,640
Documentary letters of credit	**$**	**3,344**	$	6,330

(1) Excluding credit facilities revocable at the Bank's option totalling $4.3 billion as at October 31, 2015 ($4.0 billion as at October 31, 2014).

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

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 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 4.5%, 6.0% and 8.0% respectively for 2015. 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 effect of capital conservation buffers.

Furthermore, OSFI indicated that it expects deposit-taking institutions to attain target capital ratios without transition arrangements equal to or greater than the 2019 minimum capital ratios plus 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 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 Advanced Internal Ratings-Based approach (AIRB) approach. In November 2014, the BCBS issued a report entitled Reducing excessive variability in banks' regulatory capital ratios. This report states that the BCBS will provide new prudential proposals to improve the Standardized Approach for calculating regulatory capital by the end of 2015. The report also suggests that new requirements will be introduced to the AIRB approach, notably with regard to the capital floor and other risk modeling practices. Management is closely monitoring these developments.

The implementation of the AIRB approach to determine credit risk is a key initiative of the Bank's new 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 by the end of 2019.

Bail-in Regime in Canada

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

In its 2015 federal budget, the Canadian Federal Government confirmed its intention to implement the bail-in regime to Canada's D-SIBs. The summary of the proposed bail-in legislation was in line with the proposals in the consultation paper and no implementation timeline has been provided.

Tables 24 and 25 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 24

REGULATORY CAPITAL [1]

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

	2015	2014
Regulatory capital		
Common Equity Tier 1 capital (A)	**$ 1,175,238**	$ 1,087,224
Tier 1 capital (B)	**$ 1,394,871**	$ 1,306,857
Total capital (C) [2]	**$ 1,668,416**	$ 1,747,526
Total risk-weighted assets (D) [3]	**$ 15,422,282**	$ 13,844,014
Regulatory capital ratios		
Common Equity Tier 1 capital ratio (A/D)	**7.6%**	7.9%
Tier 1 capital ratio (B/D)	**9.0%**	9.4%
Total capital ratio (C/D)	**10.8%**	12.6%

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

(2) Including the effect of the announced redemption of the Series 2010-1 subordinated Medium Term Notes.

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

As shown in the graph on the right, the Common Equity Tier 1 capital ratio decreased in 2015 as internal capital generation did not fully offset the impact of higher risk-weighted exposures and of the decrease in value of available-for-sale securities.

The impact of the impairment charge of $72.2 million ($57.2 million after income taxes) recorded in 2015 on the Common Equity Tier 1 capital ratio was limited to 4 bps, as goodwill and software are already deducted from regulatory capital.

CHANGE IN COMMON EQUITY TIER 1 CAPITAL RATIO

For the year ended October 31, 2015 (in percentage)

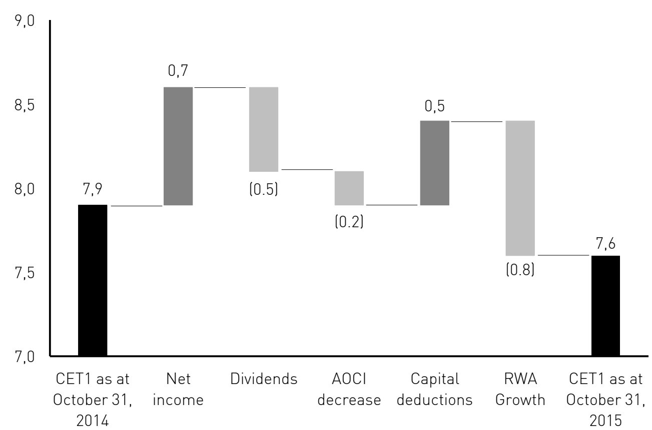


TABLE 25

RISK-WEIGHTED ASSETS

As at October 31 (in thousands of Canadian dollars)

	2015		2014	
	TOTAL EXPOSURE	**RISK-WEIGHTED ASSETS (1)**	TOTAL EXPOSURE	RISK-WEIGHTED ASSETS (1)
Exposure Class (after risk mitigation)				
Corporate	**$ 6,611,115**	**$ 6,583,804**	$ 5,622,244	$ 5,581,683
Sovereign	**5,926,851**	**27,868**	4,129,832	20,909
Bank	**234,854**	**62,354**	326,016	72,025
Retail residential mortgage loans	**16,289,250**	**2,830,032**	14,891,735	2,290,905
Other retail	**2,717,859**	**1,693,518**	2,918,712	1,777,302
Small business entities treated as other retail	**1,392,139**	**980,081**	1,434,894	1,003,429
Equity	**310,558**	**310,558**	270,227	270,227
Securitization	**70,772**	**38,729**	54,697	123,558
Other assets	**1,246,997**	**518,997**	1,025,724	505,936
	34,800,395	**13,045,941**	30,674,081	11,645,974
Derivatives (2)	**224,492**	**114,483**	124,519	57,258
Credit commitments	**939,436**	**860,270**	815,180	764,082
Operational risk		**1,401,588**		1,376,700
	$ 35,964,323	**$ 15,422,282**	$ 31,613,780	$ 13,844,014
Balance sheet items				
Cash, deposits with other banks, securities and securities financing transactions		**$ 715,097**		$ 802,525
Personal loans		**2,106,529**		2,191,425
Residential mortgage loans		**3,327,940**		2,783,479
Commercial mortgage loans, commercial loans and acceptances		**6,576,289**		5,524,436
Other assets		**320,086**		344,109
		$ 13,045,941		$ 11,645,974

(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, 2015 was $39.6 million for CET1 capital risk-weighted assets, $44.0 million for Tier 1 capital risk-weighted assets and $47.7 million for Total capital risk-weighted assets ($20.0 million, $22.8 million and $27.0 million respectively as at October 31, 2004). 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 issued in October 2014, the previous Asset to Capital Multiple (ACM) was replaced with a new leverage ratio as of January 1, 2015. 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 currently defined as the Tier 1 capital divided by unweighted on-balance sheet assets and off-balance sheet commitments, derivatives and securities financing transactions, as defined within the requirements. It differs from OSFI's previous ACM requirement in that it includes more off-balance-sheet exposures and a narrower definition of capital (Tier 1 Capital instead of Total Capital).

As detailed in the table below, the leverage ratio stood at 3.5% as at October 31, 2015 and exceeded current requirements.

TABLE 26

BASEL III LEVERAGE RATIO

For the year ended October 31, 2015 (in thousands of Canadian dollars, except percentage amounts)

		2015
Tier 1 capital	$	1,394,871
Total exposures	$	39,557,300
Basel III leverage ratio		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 27

SHARE DIVIDENDS AND PAYOUT RATIO

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

		2015		2014		2013
Dividends declared on preferred shares	$	9,375	$	10,750	$	12,411
Dividends declared per common share	$	2.20	$	2.06	$	1.98
Dividends declared on common shares	$	63,691	$	59,105	$	56,037
Dividend payout ratio (1)		68.6%		45.7%		52.0%
Adjusted dividend payout ratio (1)		39.2%		38.7%		39.0%

(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, 2015 and 2014.

RISK MANAGEMENT FRAMEWORK

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

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

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

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

RISK APPETITE

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

Risk appetite is defined as the level of risk the organization is willing to accept to achieve its objectives, particularly when there is a benefit associated. Risk appetite is defined notably by types of activities and risks, performance targets, credit ratings and capital ratios.

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

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

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

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

INTEGRATED STRESS TESTING PROGRAM

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

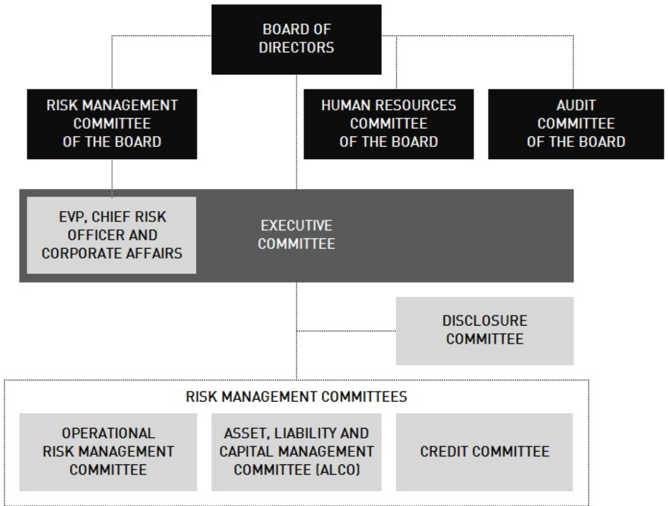
The Bank's integrated stress testing program evaluates a range of scenarios of different severities resulting from deteriorating economic conditions that could adversely impact its strategic plan. The impact on market and credit risks is determined and aggregated to give a view of such scenarios on the 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 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 Executive 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, 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 *Operational Risk Management Committee* reviews the operational risk management policies, recommends their approval to the Executive Committee and reviews the reports on operational losses incurred. Furthermore, it reviews and approves tools for identifying and assessing the frequency and the impact of operational risks, reviews reports 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 primarily responsible for ensuring that adequate credit policies and procedures are in place and that information systems related to managing the Bank's current and potential credit risks have been implemented, and for approving loans within set limits. It also reviews delinquency on all types of loans, supervises the impaired loan resolution process and ensures the adequacy of the provisions for loan losses.

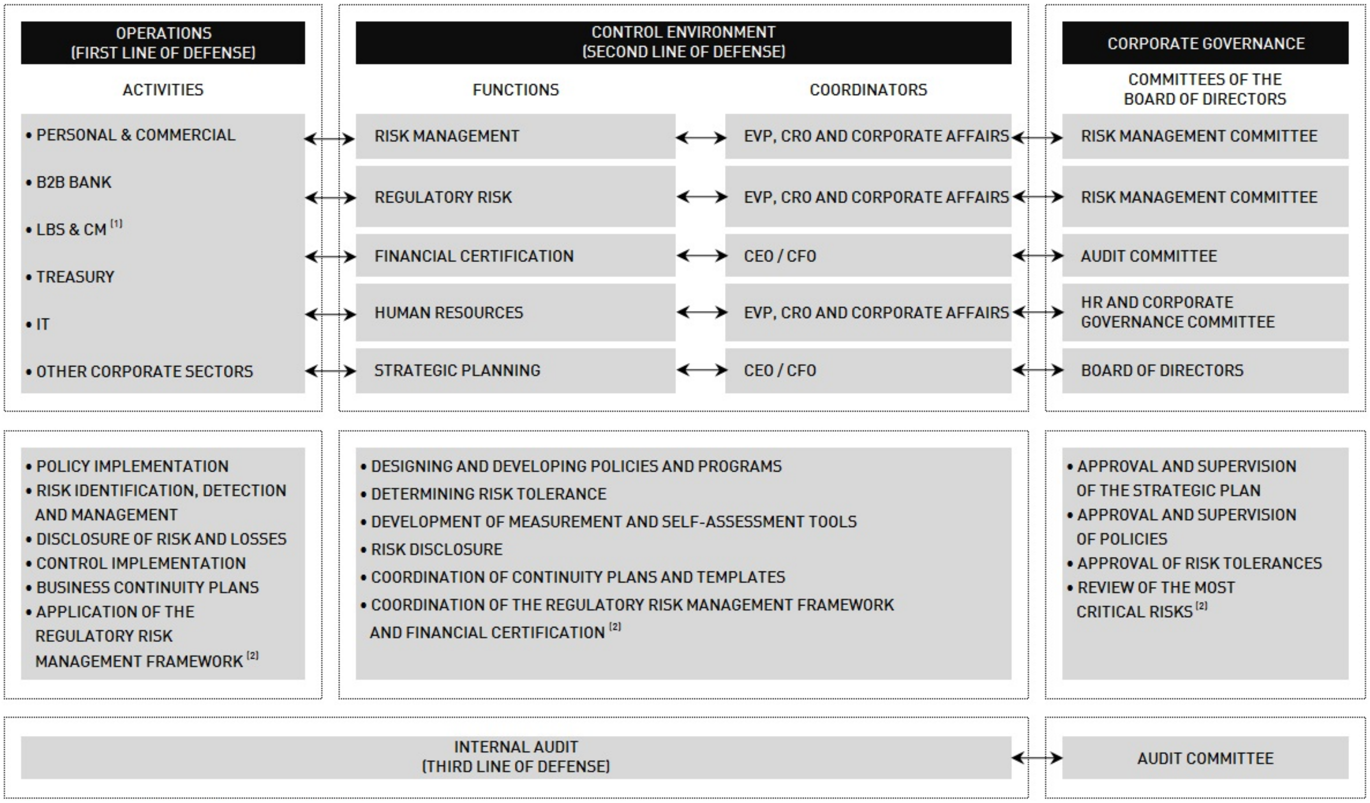
The *Asset, Liability and Capital Management Committee* (ALCO) is responsible for assuring compliance with the interest rate structural risk management limits. It recommends hedging strategies to maintain the risk level within the approved limits. It also supervises liquidity management, and is responsible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

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

GOVERNANCE FUNCTIONS SUPPORTING RISK MANAGEMENT

The following table presents the Bank's corporate control and risk governance structure (the "Structure"), which includes several governance functions designed to enhance risk management. The Structure is divided into three distinct areas: operations, control environment and corporate governance. Operations are key to risk management as business unit managers take risks and are accountable for their ongoing management. They are on the front lines to identify and actively manage risks by applying the risk policies and implementing controls and risk mitigation measures. They are the first line of defense. The control environment hinges on five functions: risk management, regulatory risk management, financial 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. Responsibility for each function is delegated to members of the Executive Committee. The risk management and regulatory risk functions of the control environment constitute the second line of defense of the Bank. The Board of Directors' committees oversee the control environment. From a governance perspective, the Board of Directors is responsible for ensuring, to the extent possible, that the Bank's strategies and objectives are consistent with its global risk tolerance.

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

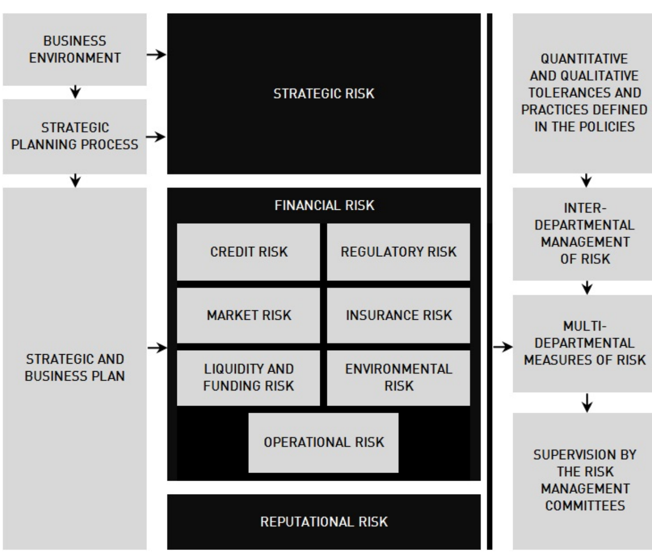


(1) Laurentian Bank Securities and Capital Markets.
(2) This list of functions is not exhaustive.

RISK MANAGEMENT PROCESS

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

Risk management is carried out across departments by business units managers who actively 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, threats and opportunities in order to determine the profitability and risk profiles of the Bank's different business segments. The Bank's overall strategy is established by 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 is 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 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 29 and 30.

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, 2015 and 2014 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 28

MAXIMUM EXPOSURE TO CREDIT RISK

As at October 31 (in millions of Canadian dollars)

	2015	2014
Financial assets, as stated in the consolidated balance sheet [1]	**$ 39,086**	$ 35,854
Credit commitments [2]	**3,860**	3,811
	$ 42,946	$ 39,665

(1) Excluding equity securities.

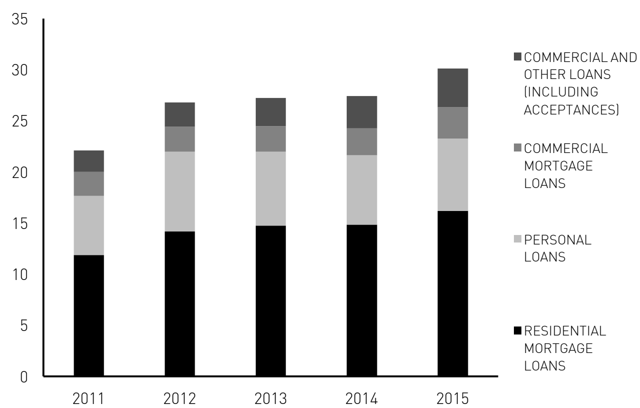
(2) Excluding credit facilities revocable at the Bank's option totalling $4.3 billion as at October 31, 2015 ($4.0 billion as at October 31, 2014).

Loan portfolio mix

The Bank's loan portfolio consists of personal loans, residential mortgage loans, commercial mortgage loans and commercial loans, including bankers' acceptances. Overall, the loan portfolio mix as at October 31, 2015 was relatively stable year-over-year, with a notable increase in loans to businesses, in line with the Bank's focus on growing this high-margin portfolio.

Reflecting the Bank's strong presence with personal clients through its retail network and B2B Bank, exposures related to personal loans and residential mortgages represent 77% of the Bank's total loan portfolio, compared to 79% a year ago. Commercial loans and mortgages, including bankers' acceptances, now account for 23% of total loans.

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



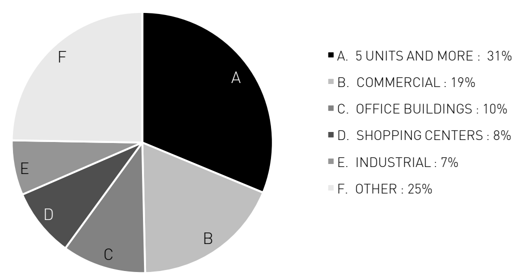
Personal loans
The personal loan portfolio includes a range of consumer credit products such as investment loans, home-equity lines of credit (HELOCs), credit cards, personal lines of credit and other consumer loans. As at October 31, 2015, this portfolio totalled $7.1 billion, an increase of $0.3 billion compared with October 31, 2014. In the fourth quarter of 2015, B2B Bank purchased a $0.6 billion investment loan portfolio to solidify its leadership position in the investment lending space, which contributed to the year-over-year increase. This was partly offset by net repayments 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
Residential mortgage loans mainly include retail mortgage loans secured by one- to four-unit dwellings, as well as a $1.2 billion portfolio of smaller retail multi-units dwellings. This portfolio increased by $1.4 billion or 9% during fiscal 2015, fuelled by continued growth in mortgage loans at B2B Bank, helped by its expanded and alternative mortgage solutions distributed across Canada through a large network of 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.

Commercial mortgage loans
Commercial mortgage loans include residential mortgage loans secured by five and more unit dwellings, commercial properties, office buildings, shopping centers and other mortgage loans. In 2015, commercial mortgage loans increased by $404.3 million or 15% from fiscal 2014, totalling $3.1 billion as at October 31, 2015. This strong growth reflects the Bank's efforts to develop its solid client base, its focus on serving its long-established clientele in the Canadian real estate mid-market and the increase in the size of real estate development projects. The average loan carrying value was $2.0 million as at October 31, 2015, compared with $1.8 million as at October 31, 2014.

The commercial mortgage loan portfolio also contributes to improve geographic diversification across Canada and therefore enhances, in this regard, the overall profile of the Bank. As at October 31, 2015, the proportion of the portfolio granted in Ontario and Western Canada represented 67% of the total commercial mortgage loan portfolio and 33% in Québec (72% in Ontario and Western Canada and 28% in Québec as at October 31, 2014).

COMMERCIAL MORTGAGE LOANS BY PROPERTY TYPE
As at October 31, 2015 (as a percentage)



Commercial loans
As at October 31, 2015, the portfolio of commercial loans, including bankers' acceptances, amounted to $3.8 billion, up $0.6 billion or 20% from $3.2 billion as at October 31, 2014. In 2015, 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 Québec. The hiring of additional account managers and the Bank's equipment financing offer launched in 2014 are gradually improving its presence in these markets. The recent announcement of a partnership with the Business Development Bank of Canada to help manufacturers across the country acquire equipment through more flexible financing options is also expected to generate medium-term growth in this strategic portfolio.

The portfolio covers a wide range of industries, with no specific industry accounting for more than 3% (unchanged from 2014) of total loans and acceptances, demonstrating sound risk management of this portfolio.

See Table 29 for additional information.

TABLE 29

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)

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 LOAN LOSSES [2]
Personal	$ 7,063,229	$ 18,703	$ —	$ 11,156	$ 7,547	$ 27,575	$ 29,677
Residential mortgage	16,192,009	33,794	—	4,721	29,073	8,912	5,694
Commercial mortgage	3,055,619	48,397	9,536	265	38,596	12,435	(460)
	26,310,857	100,894	9,536	16,142	75,216	48,922	34,911
Commercial and other (including acceptances)							
Real estate, renting and lease	892,339	6,828	730	1,054	5,044	2,695	667
Wholesale and retail	533,205	1,820	1,509	15	296	2,469	(747)
Other services and government	479,486	1,151	517	96	538	5,948	6,527
Public utilities	405,231	—	—	—	—	1,603	(214)
Construction	293,237	5,731	1,514	12	4,205	2,173	877
Manufacturing	259,832	4,158	3,055	64	1,039	1,315	(1,605)
Financial services	249,737	3,509	709	1,275	1,525	904	1,813
Agriculture	236,404	7,582	1,013	8	6,561	365	601
Transportation and communication	179,351	145	—	7	138	995	(1,142)
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%		

2014

	GROSS AMOUNT OF LOANS	GROSS AMOUNT OF IMPAIRED LOANS	INDIVIDUAL ALLOWANCES	COLLECTIVE ALLOWANCES AGAINST IMPAIRED LOANS	NET IMPAIRED LOANS [1]	COLLECTIVE ALLOWANCES AGAINST OTHER LOANS	PROVISION FOR LOAN LOSSES [2]
Personal	$ 6,793,078	$ 22,359	$ —	$ 9,425	$ 12,934	$ 28,986	$ 25,062
Residential mortgage	14,825,541	32,843	—	3,964	28,879	7,612	5,330
Commercial mortgage	2,651,271	16,633	3,917	1,884	10,832	20,736	4,407
	24,269,890	71,835	3,917	15,273	52,645	57,334	34,799
Commercial and other (including acceptances)							
Real estate, renting and lease	753,094	2,975	—	367	2,608	3,811	2,652
Wholesale and retail	533,842	2,298	1,376	62	860	4,199	2,260
Other services and government	422,702	2,697	334	958	1,405	3,262	4,859
Public utilities	244,147	—	—	—	—	1,880	1,951
Construction	254,758	1,871	345	125	1,401	2,599	1,108
Manufacturing	203,961	9,067	7,463	81	1,523	1,813	362
Financial services	179,126	1,076	217	302	557	976	(407)
Agriculture	253,222	877	101	20	756	731	(2,964)
Transportation and communication	126,320	69	—	3	66	1,850	1,084
Transformation and natural resources	131,160	7,622	7,105	—	517	1,391	(2,633)
Other	57,357	1,693	1,093	47	553	336	(1,071)
	3,159,689	30,245	18,034	1,965	10,246	22,848	7,201
Total	$ 27,429,579	$ 102,080	$ 21,951	$ 17,238	$ 62,891	$ 80,182	$ 42,000
As a % of loans and acceptances		0.37%			0.23%		

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

(2) Recorded in the consolidated statement of income.

Impaired loans

Gross impaired loans amounted to $138.6 million in 2015 compared with $102.1 million in 2014. This increase was mainly due to higher impaired commercial mortgage loans, essentially as a result of a single exposure, which was partly resolved subsequent to year-end in November 2015.

Impaired commercial loans remained relatively low as at October 31, 2015. This reflects the excellent quality of the portfolio, which, given the Bank has no direct exposure to the Canadian oil and gas industry and only a limited exposure to the oil-producing region, continued to benefit from the otherwise good prevailing economic conditions in the rest of Canada.

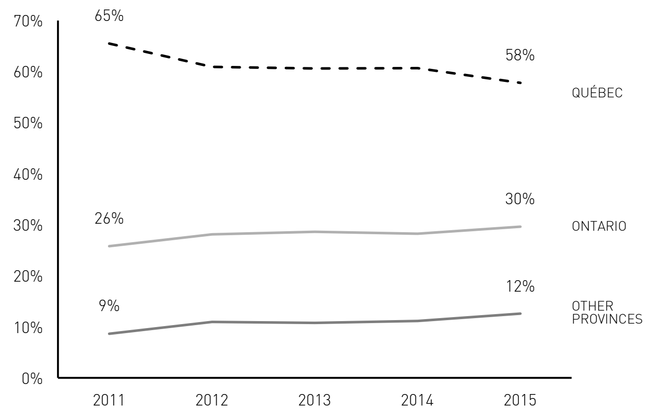
As well, gross impaired loans in the personal and residential mortgage loan portfolio remained at a historically low level despite volume growth as borrowers continue to benefit from the favourable low interest rate environment. See Note 6 to the annual consolidated financial statements for additional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

Individual allowances increased by $1.7 million since October 31, 2014 to $23.7 million as at October 31, 2015, in-line with the increase in impaired commercial mortgage loans mentioned above. Over the same period, collective allowances against impaired loans increased by $1.4 million to $18.7 million as at October 31, 2015, mainly for impaired personal loans. Other collective allowances decreased by $11.4 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 Québec, it offers most of its lending products mainly through its retail branch network and commercial banking centers. Throughout Canada, the Bank extends its real estate and commercial operations through other commercial banking centers in Ontario, Alberta, British Columbia and Nova Scotia. The Bank also offers its products to a wide network of independent financial advisors and brokers across Canada through B2B Bank. As at October 31, 2015, the proportion of loans granted to borrowers in Québec represented 58% of total loans, while loans granted to borrowers in the other provinces stood at 42% (61% and 39% respectively as at October 31, 2014).

GEOGRAPHIC DISTRIBUTION OF LOANS
As at October 31 (in percentage)



Insurance and guarantees held in respect of loan portfolios

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

CMHC and Genworth offer mortgage loan insurance programs which reduces 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 2015, 53% of residential mortgage loans secured by one- to four-unit dwellings were insured, compared with 60% as at October 31, 2014. 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, 2015, the estimated average loan-to-value ratios were 64% and 38% for insured and uninsured residential mortgage loans respectively.

TABLE 30

GEOGRAPHIC DISTRIBUTION OF LOANS BY CREDIT PORTFOLIO

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

	2015			2014		
	GROSS AMOUNT OF LOANS (IN %)	GROSS AMOUNT OF LOANS	GROSS AMOUNT OF IMPAIRED LOANS	GROSS AMOUNT OF LOANS (IN %)	GROSS AMOUNT OF LOANS	GROSS AMOUNT OF IMPAIRED LOANS
Québec						
Personal	9.5%	$ 2,870,572	$ 2,721	10.4%	$ 2,861,858	$ 3,308
Residential mortgage	35.9	10,793,341	19,004	39.1	10,733,329	17,859
Commercial mortgage	3.3	1,006,979	7,601	2.7	730,314	8,684
Commercial and other (including acceptances)	9.0	2,716,644	35,751	8.4	2,302,155	25,429
	57.8	17,387,536	65,077	60.6	16,627,656	55,280
Other provinces						
Personal	13.9	4,192,657	15,982	14.4	3,931,220	19,051
Residential mortgage	17.9	5,398,668	14,790	14.9	4,092,212	14,984
Commercial mortgage	6.8	2,048,640	40,796	7.0	1,920,957	7,949
Commercial and other (including acceptances)	3.5	1,065,044	1,996	3.1	857,534	4,816
	42.2	12,705,009	73,564	39.4	10,801,923	46,800
Total	100.0%	$ 30,092,545	$ 138,641	100.0%	$ 27,429,579	$ 102,080

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

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

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

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

Loan underwriting for HELOCs allows for the assessment of client credit risk. In addition, real estate assets and other assets collateralize these loans. Finally, 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, 2015, the approximate market value of collateral pledged to the Bank in connection with assets purchased under reverse repurchase agreements was $3.9 billion ($3.2 billion as at October 31, 2014).

MARKET RISK MANAGEMENT

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

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

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

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

Policies and standards

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

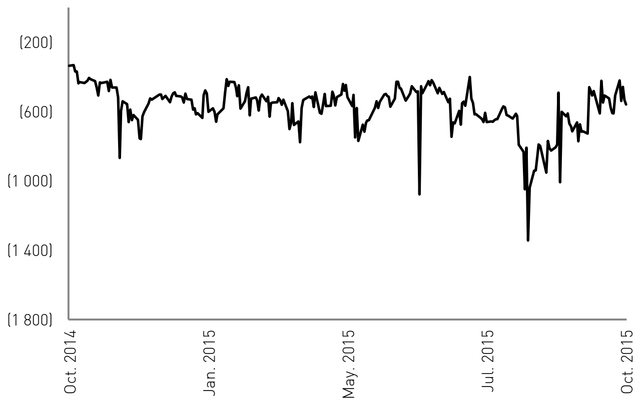
Parallel to VaR calculations, the impact of stress tests on profits and losses is assessed for the trading and investment portfolios and the ensuing results are used to assess the impact of exceptional but plausible market situations. Stress tests constitute a complementary risk measure to VaR and strive 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. These activities are primarily carried out by the Laurentian Bank Securities and Capital Markets business segment and, to a lesser extent, by the Bank's Corporate Treasury. The graph on the next page presents the daily total VaR of the trading portfolio for the 2015 fiscal year.

DAILY TRADING VaR

For the year ended October 31, 2015 (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 rigorous 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 ALCO 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 ALCO, which is responsible for monitoring the Bank's positioning with regard to anticipated interest rate movements and recommending hedging of all undesirable interest rate risk. In addition, risk monitoring reports are presented periodically to the 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, 2015, for all portfolios, a 1% increase in interest rate would have triggered an increase of approximately $17.2 million in net interest income before taxes over the next 12 months and a $26.3 million negative impact on the economic value of common shareholders' equity. As shown in Table 31, 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, 2015 is presented in Note 25 to the annual consolidated financial statements.

The estimates are based on a number of assumptions and factors, consistent with the guidelines approved by the 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 31

SENSITIVITY ANALYSIS OF THE STRUCTURAL INTEREST RATE RISK

As at October 31 (in thousands of Canadian dollars)

	2015		2014	
	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	$ 17,222	$ (26,324)	$ 10,297	$ (21,990)
Decrease of 100 basis points	$ (19,954)	$ 22,362	$ (15,793)	$ 22,168

(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, 2015, assets and liabilities denominated in U.S. dollars amounted to $454.9 million ($287.4 million as at October 31, 2014) and $469.8 million ($292.4 million as at October 31, 2014) 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, 2015, 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 $34.4 million ($21.4 million as at October 31, 2014) and $18.3 million ($16.2 million as at October 31, 2014) 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, 2015, a fluctuation in the stock markets of 10% would have had a $18.4 million impact on the Bank's shareholders' equity ($23.1 million as at October 31, 2014).

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. 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.

Regulatory developments concerning liquidity

In December 2010, the BCBS issued the *Basel III: International framework for liquidity risk measurement, standards and monitoring* (the Basel III liquidity framework), which outlines two minimum liquidity measures: the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). The LCR measures the sufficiency of high-quality liquid assets available to meet net short-term financial obligations over a thirty day period in an acute stress scenario. The NSFR measures the proportion of long-term assets which are funded by long-term, stable funding. The Basel III liquidity framework also outlines other supplemental reporting metrics. Further updates regarding the LCR and liquidity risk monitoring tools were also published by the BCBS in 2013 and 2014.

On October 31, 2014, the BCBS issued the *Basel III: the net stable funding ratio (NSFR)* document, which updated the Basel III NSFR and confirmed its effective date of January 2018.

In May 2014, OSFI released a comprehensive domestic *Liquidity Adequacy Requirements (LAR)* Guideline and adopted a minimum LCR requirement of 100% for Canadian banks, effective January 1, 2015. The LAR Guideline also formalized the use of a Net Cumulative Cash Flow (NCCF) supervisory tool.

On July 16, 2014, OSFI issued its LCR disclosure requirements for Domestic Systemically Important Banks (D-SIBs) in Guideline D-11 – *Public Disclosure Requirements for Domestic Systemically Important Banks on Liquidity Coverage Ratio*, which had to be applied as of the second quarter of 2015. As the Bank is not a D-SIB, it is not subject to these disclosure requirements.

The Bank completed the development of the reporting systems regarding these requirements and filed the monthly LCR metric with OSFI as of January 31, 2015, comfortably meeting the minimum requirement. The Bank also reported the NCCF supervisory tool.

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, 2015, these assets totalled $8.6 billion, an increase of $0.3 billion compared to the level held on October 31, 2014.

The higher 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.

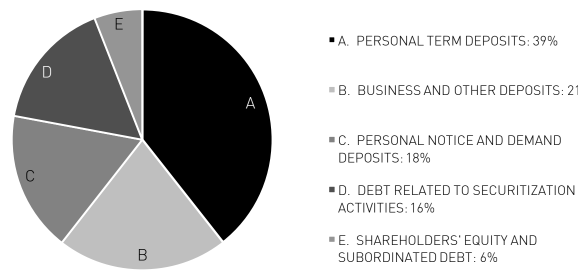
These liquid assets provide the Bank with flexibility to manage its loan and deposit portfolio maturities and commitments, and meet other current operating needs. Management of the liquid assets, both in terms of optimizing levels and mix, contributes significantly to the Bank's results.

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 Québec and a very efficient pan-Canadian network of independent advisors and brokers managed by B2B Bank. 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 Canada Mortgage Bonds (CMB) Program and, to a lesser extent, multi-seller conduits. This liquidity source provides added flexibility to meet specific increases in funding needs.

FUNDING SOURCES
As at October 31, 2015 (as a percentage)



Personal deposits

Personal deposits include notice, demand and term deposits sourced through the Bank's retail branch network and B2B Bank's network of independent financial advisors and brokers. 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 B2B Bank's deposits are drawn from brokers affiliated to several of the major Canadian banks.

Total personal deposits increased to $19.4 billion as at October 31, 2015, compared with $18.7 billion as at October 31, 2014. As shown in Table 32, the ratio of personal deposits to total deposits decreased slightly to 73% as at October 31, 2015. This reflected the Bank's increased usage of institutional funding in response to strong loan growth during the year. Nonetheless, this ratio remains well above the Canadian average.

Business, banks and other deposits

Deposits from businesses, banks and other increased by $1.4 billion since October 31, 2014 to $7.2 billion as at October 31, 2015. As mentioned, this was mainly due to new deposits raised to support significant loan growth. 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 accounts managers serving commercial clients.

TABLE 32

DEPOSITS

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

	2015		2014	
Personal				
Notice and demand				
Branch network	$ 2,748,671	10.3%	$ 2,626,825	10.7%
Financial intermediaries	3,186,188	12.0	3,150,892	12.8
	5,934,859	22.3	5,777,717	23.5
Term				
Branch network	4,955,879	18.6	5,162,115	21.1
Financial intermediaries	8,486,978	31.9	7,802,149	31.8
	13,442,857	50.5	12,964,264	52.9
	19,377,716	72.8	18,741,981	76.4
Business, banks and other				
Notice and demand	2,499,364	9.4	2,451,698	10.0
Term	4,727,224	17.8	3,329,347	13.6
	7,226,588	27.2	5,781,045	23.6
Deposits	$ 26,604,304	100.0%	$ 24,523,026	100.0%

Credit ratings

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

The Bank monitors weekly the impact of a hypothetical downgrade of its credit rating on the collateral requirements. As at October 31, 2015, additional collateral that would be required in the event of a one to three notch rating downgrade is not significant.

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

On October 29, 2015, DBRS confirmed the Bank's ratings. All trends are stable.

Table 33 presents the Bank's credit ratings as established by the rating agencies.

TABLE 33

CREDIT RATINGS (1)

As at December 2, 2015

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

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

Contractual obligations

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

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

Table 34 summarizes the remaining contractual maturity for the Bank's significant financial liabilities and other contractual obligations as at October 31, 2015 and 2014. 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, 2015, these commitments amounted to approximately $3.9 billion ($3.8 billion as at October 31, 2014), excluding credit facilities unconditionally revocable at the Bank's option.

TABLE 34

CONTRACTUAL OBLIGATIONS

As at October 31 (in thousands of Canadian dollars)

						2015
		TERM				
	DEMAND AND NOTICE	UNDER 1 YEAR	1 TO 3 YEARS	3 TO 5 YEARS	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

						2014
		TERM				
	DEMAND AND NOTICE	UNDER 1 YEAR	1 TO 3 YEARS	3 TO 5 YEARS	OVER 5 YEARS	TOTAL
Financial liabilities						
Deposits	$ 8,229,415	$ 8,198,250	$ 5,417,632	$ 2,544,416	$ 133,313	$ 24,523,026
Obligations related to securities sold short	—	1,562,477	—	—	—	1,562,477
Obligations related to securities sold under repurchase agreements	—	2,215,965	—	—	—	2,215,965
Debt related to securitization activities	—	776,776	2,326,453	1,507,142	253,477	4,863,848
Subordinated debt	—	—	450,000	—	—	450,000
Derivatives(1)	—	5,347	4,846	485	(199)	10,479
	8,229,415	12,758,815	8,198,931	4,052,043	386,591	33,625,795
Other contractual obligations						
Commitments under leases, technology services and other contracts	—	124,052	199,143	98,305	78,334	499,834
Total	$ 8,229,415	$ 12,882,867	$ 8,398,074	$ 4,150,348	$ 464,925	$ 34,125,629

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

OPERATIONAL RISK MANAGEMENT

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

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

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

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

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

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

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

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

Production of operational risk reports
The Operational Risk Management Department produces reports that are sent to managers, the Executive Committee and the Risk Management Committee of the Board. These reports show the Bank's operational risk profile including, among others, data on emerging risks, major incidents and operational loss data.

Corporate insurance

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

Outsourcing management

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

REGULATORY RISK MANAGEMENT

Regulatory risk refers to the risk of non-compliance 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 EVP, Chief Risk Officer and Corporate Affairs;
- 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 at least every semester to the Executive 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 Executive 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.

TOP RISKS THAT HAVE THE POTENTIAL TO AFFECT THE BANK

As detailed in the following section, the Bank is exposed to a variety of continually changing risks that have the potential to affect its business and financial condition. Top risks that may affect future results are:

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

- Technology, information systems and cyber-security.

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

OTHER RISKS THAT MAY AFFECT FUTURE RESULTS

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

Economic climate in Canada

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

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

Legal and regulatory developments

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

Competition

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

Cybersecurity

Processes are in place to protect the Bank's network and operations from cyber incidents and emerging cyber threats. 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 an attack 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 to rapid technological development and innovation can also affect prospective results.

Ability to attract and retain key employees

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

Business infrastructure

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

Model risk

The Bank uses different models in the ongoing management of its risk that can lead to model risk. Model risk is the potential loss due to the risk of a model not performing or capturing risk as expected. It also arises from the inappropriate use of a model. The Bank 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, 2015, the President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer caused to be evaluated under their supervision the effectiveness of DC&P, in accordance with regulation MI 52-109, and based on that evaluation, concluded that they were effective and adequately designed at that date.

Also as at October 31, 2015, the President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer caused to be evaluated under their supervision the design and effectiveness of ICFR, in accordance with regulation MI 52-109, and based on that evaluation, concluded that it was effective at that date and adequately designed.

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

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

Changes to Internal Control over Financial Reporting

During the year ended October 31, 2015, there have been no changes to internal control over financial reporting that affected materially, or are reasonably likely to materially affect, internal control over financial reporting.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

IMPAIRMENT OF FINANCIAL ASSETS

Allowances for loan losses

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

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

This critical accounting estimate affects all business segments.

Impairment of other financial assets

Financial assets classified in the available-for-sale and held-to-maturity categories are monitored on a quarterly basis to determine whether there is any objective evidence that they are impaired. In evaluating the decline in value, management exercises judgment and takes into account many facts specific to each investment and all the factors that could indicate that there is objective evidence of impairment: financial difficulty of the issuer or counterparty, default or delinquency in interest or principal payments, probability that the borrower will enter bankruptcy or financial re-organization, a significant or prolonged decline in fair value below its cost and a loss event. Management must also assert its intent and ability to hold the securities until recovery. Management also uses judgment to determine when to recognize an impairment loss. The decision to record an impairment loss, its amounts and the period in which it is accounted could change if management's assessment of these factors were different. Refer to Note 3 to the annual consolidated financial statements for further detail on the accounting of available-for-sale and held-to-maturity financial assets.

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

MEASURING THE FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

GOODWILL, OTHER INTANGIBLE ASSETS AND OTHER ASSETS

Goodwill

As at October 31, 2015, the balance of goodwill stood at $34.9 million, compared with $64.1 million as at October 31, 2014. 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 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 acquired through business combinations had been allocated to two cash-generating units (CGUs): the Retail unit (a part of the Personal & Commercial business segment, which encompasses all branch activities and other retail banking activities in Québec) and the B2B Bank business segment.

Following the comprehensive strategic review of its retail activities completed during the fourth quarter of 2015, Management revised its expectations concerning the perspectives of the Retail unit given its current business model. This change in expectation was identified as an indicator of impairment and the recoverable amount of 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, an impairment charge of $72.2 million, affecting the Retail unit, was recorded for the year ended October 31, 2015 on the line item Impairment of goodwill, software and intangible assets, and premises and equipment. This charge 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.

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 3% was applied to the terminal forecast year and all forecasted cash flows were discounted at an after-tax rate of 10%. 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 $11.9 million as at October 31, 2015. 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 $11.1 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 Retail unit could result in additional impairment charges in future periods.

This charge affects the Personal & Commercial business segment.

As at October 31, 2015, goodwill of $34.9 million was allocated to the B2B Bank business segment, unchanged compared with October 31, 2014. 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. In addition, a net income growth rate of 3% was applied to the terminal forecast year and all forecasted cash flows were discounted at an after-tax rate of 10%. 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 business segment CGU was in excess of its carrying amount. As a result, no impairment charge was recognized during 2015. If alternative reasonably possible changes in key assumptions were applied, the result of the impairment test would not differ.

No impairment charge was reported in fiscal 2014.

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. Changes in estimates and assumptions could significantly impact results.

As a result of the impairment test of the Retail unit CGU, impairment charges amounting to $30.0 million and $3.1 million respectively were recorded on software and other intangible assets related to this CGU. Other impairment charges on intangible assets of $1.5 million were recorded in 2015 ($3.4 million in 2014).

Management also periodically reviews the value of the Bank's other assets, such as fixed assets and other deferred charges, in order to identify potential losses in value and to validate the related amortization periods.

As a result of the impairment test of the Retail unit CGU, an impairment charge amounting to $9.9 million was recorded on premises and equipment related to this CGU. Other impairment charges amounting to $0.3 million were recorded in 2015 ($0.4 million in 2014).

Refer to Notes 8 to 10 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 4.30% as at October 31, 2015 and 4.25% as at October 31, 2014. Other key assumptions and related sensitivity analysis as well as further information on the Bank's pension plans and other post-employment benefits are presented in Note 18 to the annual consolidated financial statements.

This critical accounting estimate affects all business segments.

BUSINESS COMBINATIONS

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

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

PROVISIONS AND CONTINGENT LIABILITIES

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

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

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

In the ordinary course of its business, the Bank and its subsidiaries are 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 presentation of financial statements, which were not yet effective for the year ended October 31, 2015. Management is also monitoring the proposed changes to the lease accounting standard which should be finalized in 2015. These future accounting changes will be applicable for the Bank in various annual periods beginning on November 1, 2016 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 conversion to IFRS 9. The conversion plan includes the following phases:

- Preliminary assessment – This phase is mostly 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 2016. The detailed analysis will determine the quantitative, qualitative and technological impact of the new IFRS requirements.
- Implementation – This phase will gradually begin as the detailed analyses are completed toward the end of 2016. 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. IFRS 15 is effective for annual periods beginning on or after January 1, 2018.