2018 ANNUAL REPORT

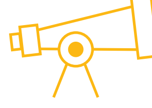
WE THINK SMART, DREAM BIG, ACT SMALL, STAY SIMPLE, EXECUTE WITH SUCCESS

Mission

We help customers improve their financial health

Vision

Everyone should have access to a financial professional



Values

Proximity
Simplicity
Honesty

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WHO WE ARE: LAURENTIAN BANK FINANCIAL GROUP

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

With more than 3,600 employees guided by the values of proximity, simplicity and honesty, the Group provides a broad range of advice-based solutions and services to its business, retail and institutional customers. The Group – with pan-Canadian activities and a presence in the United States – is an important player in numerous market segments.

Our clients

Business

- Commercial banking
- Equipment and inventory financing
- Real estate financing

Retail

- Advisory services in branches
- Private banking advisory services
- Investment securities services
- Advisory services through independent brokers and advisors

Institutional

- Research and market analysis, and advisory services
- Underwriting for debt and equity
- Administrative services and foreign exchange
- Trustee services

Our main operating entities

LAURENTIAN BANK relies on the expertise of its specialized teams to offer solutions to its commercial clients across Canada. The Bank also meets the needs of its retail clients in Quebec through its advisors.

LBC CAPITAL provides equipment financing solutions for suppliers and businesses across Canada.

NORTHPOINT COMMERCIAL FINANCE is a diversified inventory finance company that serves North American manufacturers and their dealer networks.

B2B BANK provides banking products and services and investment accounts through independent brokers and advisors across Canada.

LBC FINANCIAL SERVICES distributes mutual funds and offers financial planning services to clients in Quebec.

LAURENTIAN BANK SECURITIES offers integrated brokerage services to a clientele of institutional and retail investors.

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

LAURENTIAN BANK FINANCIAL GROUP AT A GLANCE

2018 highlights

Total Assets ($ billions)	Deposits ($ billions)	Net Income ($ millions)	Diluted Earnings per Share (in $)
$45.9	$28.0	$224.6	$5.10
Revenue ($ billions)	**Loans and Acceptances** ($ billions)	**Ajusted Net Income**[1] ($ millions)	**Adjusted Diluted Earnings per Share**[1] (in $)
$1.0	$34.4	$241.6	$5.51
Return on Common Shareholders' Equity (in %)	**Adjusted Return on Common Shareholders' Equity**[1] (in %)	**Efficiency Ratio** (in %)	**Adjusted Efficiency Ratio**[1] (in %)
9.7%	10.5%	68.7%	66.7%

Our three strategic objectives

Foundation

Building a stronger foundation

Growth

Investing in profitable growth

Performance

Improving performance

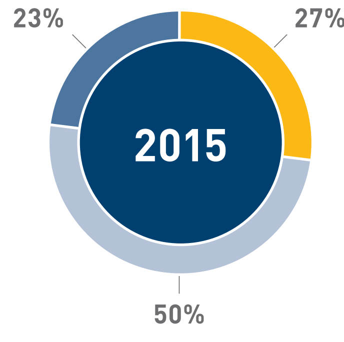
1 Refer to the Non-GAAP and Key Performance Measures section in the Management's Discussion and Analysis.

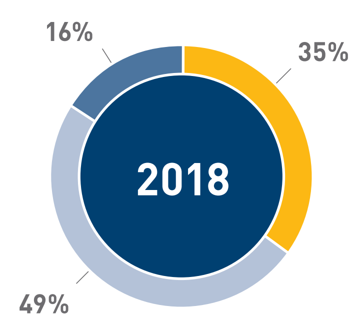
Strategic diversification at the heart of our plan

Evolving loan portfolio mix

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

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

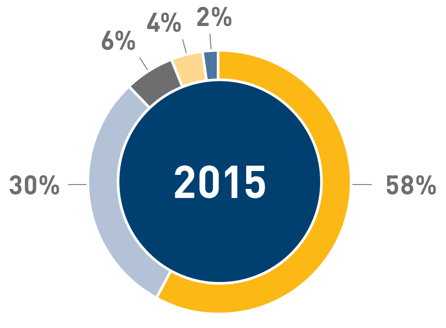


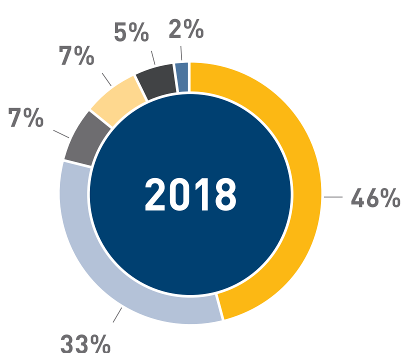


Expanding geographic footprint

Growth generated across Canada and since 2017 in the U.S.

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

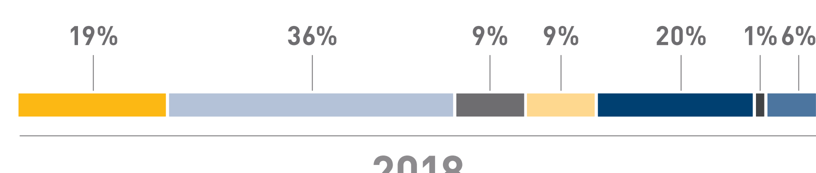




Multiple sources of funds

Well-diversified funding sources to support our growth

- Deposits – Personal – Branches
- Deposits – Personal – Independent brokers and advisors
- Deposits – Business
- Deposits – Institutional
- Debt related to securitization activities
- Subordinated debt
- Shareholders' equity



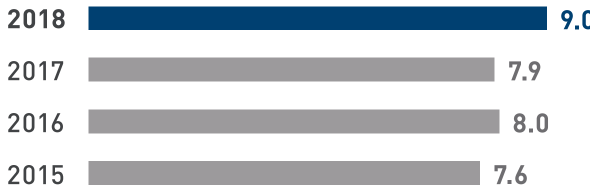
Over 172 years of prudent management, good governance and a history of success

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

Solid financial foundation

A healthy capital position

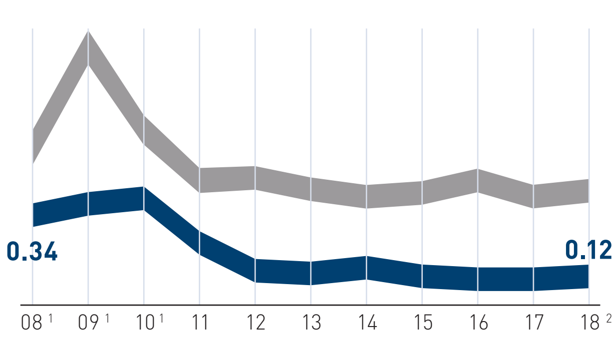
Common Equity Tier 1 capital ratio
(in %)



Good track record of strong credit quality

Provision for credit losses at a fraction of the industry

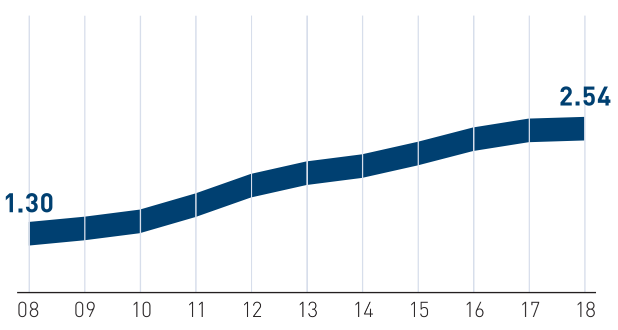
Provision for credit losses
(in %)



History of increasing dividends

Rewarding our shareholders

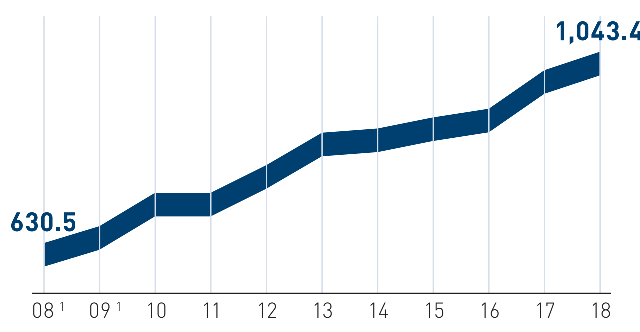
Dividends declared per common share
(in $)



Revenue exceeds $1 billion for the first time

An important milestone

Total revenue
($ millions)



1 Comparative figures prior to 2011 in accordance with previous Canadian GAAP.
2 Canadian banking industry average for the nine months ended July 31, 2018 – Company reports.

2018 PERFORMANCE

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

	2018	2017	2016
Operating results			
Total revenue	**$1,043,410**	$996,410	$915,451
Net income	**$224,646**	$206,461	$151,910
Adjusted net income [1]	**$241,560**	$230,741	$187,013
Operating performance			
Diluted earnings per share	**$5.10**	$5.40	$4.55
Adjusted diluted earnings per share [1]	**$5.51**	$6.09	$5.70
Return on common shareholders' equity	**9.7%**	10.9%	9.6%
Adjusted return on common shareholders' equity [1]	**10.5%**	12.3%	12.0%
Net interest margin	**1.78%**	1.68%	1.71%
Efficiency ratio	**68.7%**	69.2%	74.2%
Adjusted efficiency ratio [1]	**66.7%**	66.1%	69.6%
Operating leverage	**0.7%**	7.4%	8.0%
Adjusted operating leverage [1]	**(0.9)%**	5.4%	2.5%
Financial position ($ millions)			
Loans and acceptances	**$34,394,688**	$36,696,157	$33,378,723
Total assets	**$45,894,683**	$46,682,658	$43,006,340
Deposits	**$28,006,572**	$28,930,360	$27,573,345
Capital measures [2]			
Common Equity Tier 1 capital ratio	**9.0%**	7.9%	8.0%
Common Equity Tier 1 risk-weighted assets ($ millions)	**$20,239**	$20,427	$17,923
Credit quality			
Net impaired loans as a % of loans and acceptances	**0.42%**	0.30%	0.29%
Provision for credit losses as a percentage of average loans and acceptances	**0.12%**	0.11%	0.11%
Common share information			
Closing share price [3]	**$41.56**	$60.00	$49.57
Price / earnings ratio	**8.1**	11.1	10.9
Book value per share	**$53.72**	$51.18	$47.92
Dividends declared per share	**$2.54**	$2.46	$2.36
Dividend yield	**6.1%**	4.1%	4.8%
Dividend payout ratio	**49.6%**	45.7%	53.1%
Adjusted dividend payout ratio [1]	**45.9%**	40.5%	42.4%

1 Refer to the Non-GAAP and Key Performance Measures section in the Management's Discussion and Analysis.
2 Presented on an "all-in" basis, using the Standardized Approach in determining credit risk and operational risk.
3 Toronto Stock Exchange (TSX) closing market price.

MESSAGE FROM THE CHAIR OF THE BOARD

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

Three years ago, Laurentian Bank Financial Group announced the implementation of a comprehensive seven-year plan. The goal was twofold: to improve performance and to respond to what customers really want: more advice and easier banking transactions. The Group made a commitment to become a different and more relevant organization for their customers.

The Board is satisfied with the progress made over the last three years and notes that the strategic choices of 2016 lead to a profound transformation of the Group. The investments made in the implementation of structuring initiatives and the development of growth platforms produce positive results. Already today, Laurentian Bank Financial Group's offering is different. The foundations of the digital platform are in place and revenues from the commercial loan portfolio have increased in part due to two strategic acquisitions: the Canadian equipment financing activities of CIT and Northpoint Commercial Finance, an inventory finance lender, which strengthened the Group's positioning as a leader in the industry. In addition, the retail services network is adapting to the needs of customers and is increasingly focused on offering advice services.

A transformation of this magnitude is demanding for the entire organization. In 2018, the mortgage loan portfolio review, fully resolved with no client impact, was an experience that has taught our organization a great deal. In the end, this event allowed us to become a more resilient, stronger and better equipped organization to face the inevitable challenges of the future.

The Board and its committees have played an integral role advising senior management to ensure that business objectives are met while maintaining the delicate balance of shareholder, client and employee interests. I would like to thank all my fellow directors for the quality of their contributions and their unwavering commitment. I also take this opportunity to acknowledge the contribution of Mr. Richard Bélanger who left the Board this year after serving for 15 years.

The Board also wants to recognize the expertise, perseverance and willingness of the management team, who, under François Desjardins' leadership, make every effort to achieve the targets we set for ourselves. They also want to welcome two new talents to the team: William Mason, Executive Vice President and Chief Risk Officer and Craig Backman, Executive Vice President, Personal Digital Banking.

In closing, I want to thank our clients for their loyalty. I also want to recognize our devoted employees for their daily work and their ability to prioritize our clients during these times of change. Finally, I would like to acknowledge our shareholders' support which is paramount to our success during this transition period. On behalf of the Board and senior management, we offer a special thanks to them for their continued confidence in us.

ISABELLE COURVILLE
Chair of the Board

BOARD OF DIRECTORS

Lise Bastarache
Economist and Corporate Director

Has served on the Board of Directors since March 2006

Member of the Audit Committee

Sonia Baxendale
Corporate Director

Has served on the Board of Directors since August 2016

Member of the Risk Management Committee

Michael T. Boychuk,
FCPA, FCA

Corporate Director

Has served on the Board of Directors since August 2013

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

Gordon Campbell
Corporate Director

Has served on the Board of Directors since December 2016

Member of the Audit Committee

Isabelle Courville
Corporate Director

Has served on the Board of Directors since March 2007

Has been Chair of the Board of Directors since March 2013

Member of the Human Resources and Corporate Governance Committee

François Desjardins
President and Chief Executive Officer

Has served on the Board of Directors since November 2015

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

Michel Labonté
Corporate Director

Has served on the Board of Directors since March 2009

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

A. Michel Lavigne,
FCPA, FCA

Corporate Director

Has served on the Board of Directors since March 2013

Chair of the Human Resources and Corporate Governance Committee

David Morris,
CPA, CA

Corporate Director

Has served on the Board of Directors since October 2017

Member of the Audit Committee

Michelle R. Savoy
Corporate Director

Has served on the Board of Directors since March 2012

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

Susan Wolburgh Jenah
Corporate Director

Has served on the Board of Directors since December 2014

Member of the Risk Management Committee

Director Emeritus:

Jonathan I. Wener,
C.M.

Since March 2017

MESSAGE FROM THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

Three years ago, we launched a 7-year plan focused on making Laurentian Bank Financial Group a renewed financial institution.

Customer behaviours have shifted and continue to evolve at a rapid pace, sparked by advancements in technology and the globalization of banking. In response, we crafted a mission statement that guides us in our journey to renew our organization and sets the tone for every decision we make and every action we take: We help customers improve their financial health.

Putting our words in motion, as a team, we are building a more robust foundation, growing our business strategically in specialized niches, and focusing on improving our financial performance. At the same time, we are committed to maintaining our long track record of solid credit quality and ensuring that our organization remains strong as we become a different, better financial institution.

Foundation

In 2018, we invested in our foundation and continued to make good progress in the execution of our plan. Our focus was to develop features for our new core banking platform and to refine processes, so that we may better transition to a digital environment. More specifically:

- The implementation of phase 1 of the new core banking platform is almost completed and we migrated B2B Bank Guaranteed Investment Certificates accounts at the end of the year. This sets the stage for a better transition to a digital environment.
- We continued the development of digital products that will offer convenient tools and a renewed customer experience.
- We put in place a new, best-in-class system at LBC Capital to support growth in equipment finance.
- We joined THE EXCHANGE® Network to allow clients greater access to their accounts through a vast network of ABMs from coast to coast.

We have also made an important investment in our people by completing the build of a new corporate office in Montreal and moving teams from nine separate locations across the city to one central hub. With our new Montreal office now fully operational, a strong presence in Toronto and offices across the country, we are building a culture of performance that fosters better teamwork and brings the vision of who we are becoming to life.

We invested in essential elements in support of a growing organization. We reinforced our information technology security capabilities, our business continuity programs and global

governance practices. We also upgraded our liquidity management software and fine-tuned related processes resulting in more accurate forecasting.

We emerged from the mortgage loan portfolio review as a stronger organization, having built enhanced mortgage processes, implemented new controls and enriched our oversight and governance. We are now more ready than ever to focus on profitable growth.

Growth
Since 2016, we have been evolving the bank mix by increasing loans to business customers. We saw positive results in higher margin commercial loans, including equipment and inventory financing through LBC Capital and Northpoint Commercial Finance. We have also been expanding our geographic footprint, generating more growth across Canada and, since 2017, in the U.S.

Over the past year, competition in the mortgage market intensified and housing prices softened in part due to changes in regulations – including B-20. These factors contributed to slower growth in residential mortgages, as we had expected. This is aligned with our strategy to move toward higher margin commercial loans and confirms that it is the right approach for us.

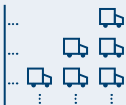
We recently took a step toward our advice-focused model for our retail branch customers by opening our first advice centre in Montreal. So far, a few weeks after our grand opening, we have received very positive feedback from our customers. We are confident that our new concept will be successful and we are eager to expand it, which we expect will result in an increase in deposits from clients.

Performance
Our 2018 results reflect our investments in people, processes, technology and our actions to strengthen the Group's financial foundation, including maintaining healthy liquidity levels which position us well to deliver our strategic objectives. This puts pressure on short-term performance, but ensures the financial strength of this organization.

As well, we regularly review our risk profile to maintain a CET1 capital ratio at an adequate level to withstand market volatility, support our growth and drive the pursuit of our plan. In the current environment, it is the right thing to do.

Looking ahead
A true transition year, 2019 will see the delivery of improved technology and better processes to drive future customer, loan and deposit growth.

We are building a culture of performance that fosters better teamwork and brings the vision of who we are becoming to life.



We saw positive results in higher margin commercial loans, including equipment and inventory financing through LBC Capital and Northpoint Commercial Finance.

Our 2018 results reflect our investments in people, processes, technology and our actions to strengthen the Group's financial foundation.

It will also be a year where our clients will see the first tangible benefits of our new digital offer, which will be gradually launched across Canada under two of our brands: Laurentian Bank and B2B Bank. This new customer base will provide a new source of funding, and will represent added value for independent brokers and advisors. We will also continue moving forward with the conversion of our traditional branches to advice centres.

This will still require discipline as we look forward to profitable growth and reaping the benefits of investments in business opportunities. In short, we are investing in the right places to support future growth and expect to maintain a solid balance sheet into 2019.

Our stakeholders inspire us

For our retail customers, our efforts will result in the **convenience of digital transactions**, coupled with the **value of human advice**.

For our business customers, we will continue to focus on sector specialization to deliver a **great end-to-end experience** – from origination to credit approval, with **professional and reliable customer support**.

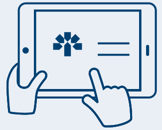
For our institutional customers, we are committed to an ongoing **focus on profitable business opportunities** where we have competitive advantages.

We want to do right by our customers and continue to offer them more. We also want to provide opportunities for our team members so that they may develop in their careers. And, we strive to reward our shareholders by building a better and more sustainable organization.

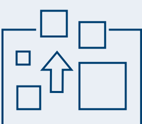
We are proud of our achievements and successes and are on the cusp of an exciting new chapter for our organization. Each day, our seasoned and competent leadership team finds new ways to live up to our mission of helping customers improve their financial heath.

In closing, I would like to express my deepest gratitude to our shareholders for their continued support and trust, our Board members – particularly to the Chair, Isabelle Courville – our team members whose dedication is an inspiration and, most importantly, to our clients who motivate us to surpass their expectations every day.

FRANÇOIS DESJARDINS
President and Chief Executive Officer



In 2019, our customers will see the first tangible benefits of our new digital offer.



For our business customers, we will continue to focus on sector specialization to deliver a great end-to-end experience, from origination to credit approval.

Our clients motivate us to surpass their expectations every day.

Left to right: William Mason, François Desjardins, Deborah Rose, François Laurin, Craig Backman, Stéphane Therrien

EXECUTIVE TEAM

François Desjardins

President and Chief Executive Officer

François Desjardins has been the President and Chief Executive Officer of Laurentian Bank Financial Group since November 1, 2015. After joining the organization in 1991, he quickly rose through the ranks. A seasoned manager, he was appointed President and Chief Executive Officer of B2B Bank in 2004 and Executive Vice President of Laurentian Bank in 2006.

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

Craig Backman

Executive Vice President, Personal Digital Banking

Craig Backman is responsible for the Group's digital retail banking product development and distribution across Canada. As President and Chief Executive Officer of B2B Bank, he oversees the pan-Canadian business growth through independent brokers and advisors.

With a degree in Engineering and an MBA in Marketing and Economics, Mr. Backman has a vast experience in marketing and brand management that spans nearly 35 years. In his previous roles, including at Canadian financial institutions, he developed a core expertise in online and digital marketing.

François Laurin, FCPA, FCA, CFA

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

François Laurin is responsible for the Group's activities in the areas of finance, accounting, treasury, taxation, investor relations, mergers and acquisitions, and capital markets. With more than 30 years of experience, he has held several senior positions throughout his career. He has worked in the financial, mining, telecommunications and technology sectors. He joined the organization in 2015.

Mr. Laurin is also a director and Chair of the Board of Directors of Laurentian Bank Securities.

William Mason

Executive Vice President and Chief Risk Officer

William Mason is Executive Vice President and Chief Risk Officer for the Group and is responsible for risk management, credit management and legal affairs.

Prior to joining the Group, Mr. Mason held the position of Managing Director, Bank Supervision with the Office of the Superintendent of Financial Institutions (OSFI). He has also spent more than 30 years with financial institutions in various senior management roles including asset liability management, risk management, treasury and capital markets.

Deborah Rose

Executive Vice President and Chief Operating Officer

Deborah Rose is responsible for the administration, technology and operational activities of the Group. She is also the Chief Information Officer for Laurentian Bank Financial Group and the President and Chief Executive Officer of LBC Tech. Prior to joining the Group in 2011, Ms. Rose was Senior Vice President, Business Operations at International Financial Data Services.

Her career in the financial services industry spans over 25 years. In 2017, she was named one of Canada's 100 Most Powerful Women by the Women's Executive Network.

Stéphane Therrien

Executive Vice President, Personal & Commercial Banking

Stéphane Therrien has led the Business Services unit since 2012, the year he joined the organization. In 2015, he was also appointed as head of the Bank's Retail Services. He is responsible for all commercial activities in Canada as well as for the retail branch network in Quebec.

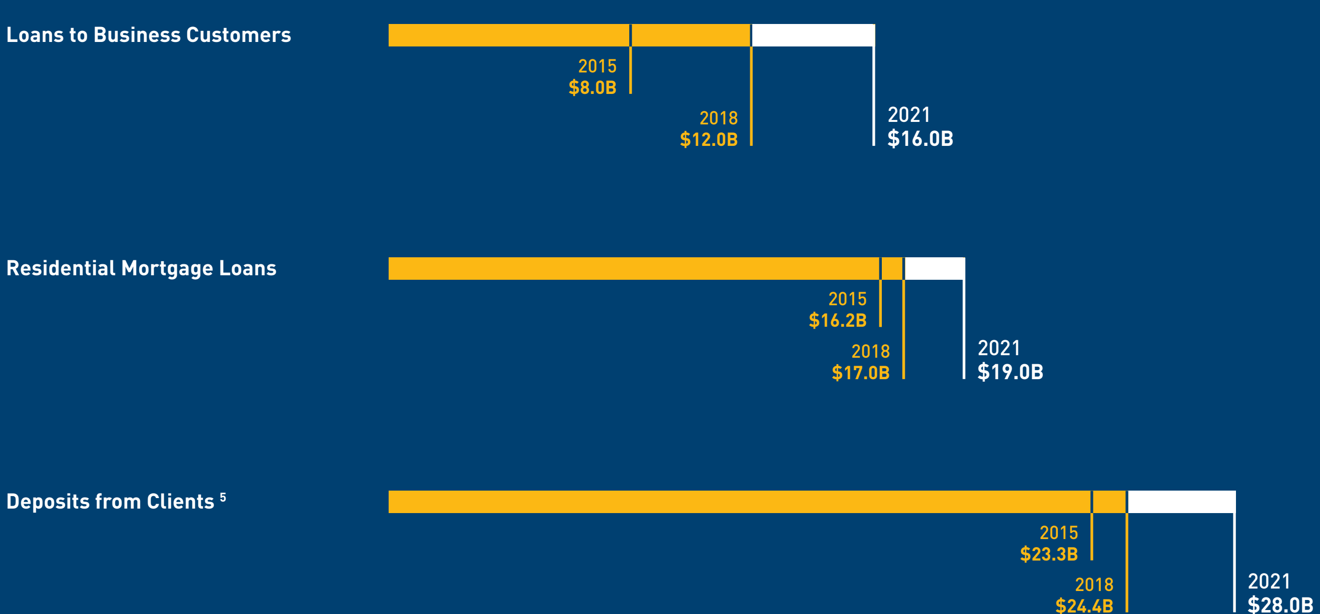
An experienced manager, he has a proven track record in the Canadian financial sector, having held several management positions over his nearly 30-year career. Mr. Therrien is also President and Chief Executive Officer of LBC Financial Services.

2021 MEDIUM-TERM PERFORMANCE AND GROWTH TARGETS

Performance [1, 2]

Adjusted ROE	Adjusted Efficiency Ratio	Adjusted Diluted EPS	Adjusted Operating Leverage
Narrow gap to 250 bps [3]	<63%	Grow by 5% to 10% annually	Positive

Growth [1, 4]



1 Management has updated its medium-term objectives. Please refer to the Outlook section in the Management's Discussion and Analysis.
2 The 2021 financial objectives are based on non-GAAP measures that exclude adjusting items related to restructuring plans and to business combinations. Refer to the Non-GAAP and Key Performance Measures section in the Management's Discussion and Analysis.
3 Compared to the major Canadian banks, based on the Bank using the AIRB approach in determining credit risk and the Standardized approach in determining operational risk.
4 Forward-looking statements are based on assumptions and involve inherent risks and uncertainties. It is therefore possible that the forecasts, projections and other forward-looking statements will not be achieved or will prove to be inaccurate.
5 Including deposits from branches, independent brokers and advisors, as well as commercial clients.

WORKING TOWARD OUR STRATEGIC OBJECTIVES

	OUR 2022 STRATEGIC OBJECTIVES	WE ACHIEVED GREAT MILESTONES OVER THE PAST THREE YEARS	WHAT'S NEXT: INVESTING IN OUR PEOPLE, PROCESSES AND TECHNOLOGY
FOUNDATION	**Building a stronger foundation:** Rebuild a proper account management platform Rightsize and modernize corporate functions Develop new brand elements	We developed the core banking platform and completed the migration of B2B Bank investment and RSP loans as well as Guaranteed Investment Certificates onto our new core banking system. We completed the implementation of a new platform for our equipment financing activities We created LBC Tech to better manage our IT assets We created a new name, Laurentian Bank Financial Group, to better reflect the diverse nature of our business	We will continue the development and migration of existing products and accounts to the core banking platform We will continue to rightsize and modernize our corporate functions We will continue to enhance our regulatory and compliance framework
GROWTH	**Investing in profitable growth:** Develop competitive product offering Build best-in-class teams of advisors and account managers Better understand and service key client segments Expand distribution geographically	We optimized Retail Services activities by simplifying our product offer and rightsizing the branch network We acquired CIT's Canadian activities and Northpoint Commercial Finance and completed their integrations into LBC Capital We diversified our loan portfolios by business lines and geographies We increased loans to business customers by 50% since Q4/15 We increased residential mortgage loans through independent brokers and advisors by 35% since Q4/15	B2B Bank and Laurentian Bank will launch a digital banking offer gradually across Canada to generate a new source of deposits and to diversify our client base LBC Capital and Northpoint Commercial Finance will continue increasing equipment and inventory financing activities to generate higher margin commercial loans LBS and Capital Markets will continue to operate in defined niches where we have a key competitive advantage to generate income from brokerage, treasury, and financial market operations We will continue the transition of all our Retail branches to an advice-only model to help our clients improve their financial health
PERFORMANCE	**Improving performance:** Reduce cost of administration Better manage capital Build a culture of performance	We optimized our funding mix, including securitization and institutional deposits We moved to our new Montreal corporate office We launched a Global Recognition Program to improve the performance within the organization	We will continue to prudently manage a strong balance sheet We will work toward adoption of the AIRB approach to credit risk in late 2020 We will continue to maintain solid credit quality

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED OCTOBER 31, 2018

This Management's Discussion and Analysis (MD&A) is a narrative explanation, through the eyes of management, of the Laurentian Bank of Canada's financial condition as at October 31, 2018 and how it performed during the year then ended. This MD&A, dated December 4, 2018, should be read in conjunction with the audited annual consolidated financial statements for the year ended October 31, 2018 prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB) and set out in the CPA Canada Handbook.

Additional information about the Laurentian Bank of Canada, including the Annual Information Form for the year ended October 31, 2018, is available on the Bank's website at www.lbcfg.ca and on SEDAR at www.sedar.com.

BASIS OF PRESENTATION

The information for the years ended October 31, 2018 and 2017 is presented on the same basis as in the audited annual consolidated financial statements prepared in accordance with IFRS. All amounts are denominated in Canadian dollars, unless otherwise specified.

Current presentation changes

As at November 1, 2017, commercial mortgage loans and commercial loans previously presented separately on the consolidated balance sheet are presented together under the line item commercial loans. This change in presentation better reflects the nature of our business activities. Comparative figures have been reclassified to conform to the current year presentation.

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ABOUT LAURENTIAN BANK FINANCIAL GROUP

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

With more than 3,600 employees guided by the values of proximity, simplicity and honesty, the Group provides a broad range of advice-based solutions and services to its retail, business and institutional customers. With pan-Canadian activities and a presence in the U.S., the Group is an important player in numerous market segments.

The Group has $46 billion in balance sheet assets and $29 billion in assets under administration.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

In this document and in other documents filed with Canadian regulatory authorities or in other communications, we may from time to time make written or oral forward-looking statements within the meaning of applicable securities legislation. Forward-looking statements include, but are not limited to, statements regarding our business plan and financial objectives including statements contained in our 2018 Annual Report under the heading "Outlook". The forward-looking statements contained in this document are used to assist readers in obtaining a better understanding of our financial position and the results of operations as at and for the periods ended on the dates presented and may not be appropriate for other purposes. Forward-looking statements typically use the conditional, as well as words such as prospect, believe, estimate, forecast, project, expect, anticipate, plan, may, should, could and would, or the negative of these terms, variations thereof or similar terminology.

By their very nature, forward-looking statements are based on assumptions and involve inherent risks and uncertainties, both general and specific in nature. It is therefore possible that the forecasts, projections and other forward-looking statements will not be achieved or will prove to be inaccurate. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we can give no assurances that these expectations will prove to be correct. Certain important assumptions by us in making forward-looking statements include, but are not limited to, our estimates and statements regarding our business plan and financial objectives including statements contained in our 2018 Annual Report under the heading "Outlook".

We caution 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 with respect to labour relations, as well as developments in the technological environment. Furthermore, these factors include the ability to execute our plan and in particular the successful reorganization of retail branches, the modernization of the core banking system and the adoption of the Advanced Internal Ratings-Based approach to credit risk (the AIRB approach).

We further caution that the foregoing list of factors is not exhaustive. For more information on the risks, uncertainties and assumptions that would cause our actual results to differ from current expectations, please also refer to the "Risk Appetite and Risk Management Framework" section of our 2018 Annual Report, as well as to other public filings available at www.sedar.com.

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

SUMMARY OF FINANCIAL RESULTS

HIGHLIGHTS OF 2018

- Total revenue exceeds $1.0 billion, up 5% year-over-year.
- Adjusted net income[1] of $241.6 million, up 5% year-over-year, and reported net income of $224.6 million, up 9% year-over-year.
- Adjusted return on common shareholders' equity[1] of 10.5%. Return on common shareholders' equity of 9.7%.
- Adjusted efficiency ratio[1] of 66.7% and reported efficiency ratio of 68.7%.
- Net interest margin up 10 basis points year-over-year.
- Common Equity Tier 1 (CET1) capital ratio at 9.0%.

TABLE 1
HIGHLIGHTS OF 2018
(Millions of Canadian dollars, except per share and percentage amounts)

	2018	2017	2016	Variance 2018/2017
Reported basis				
Net income	**$ 224.6**	$ 206.5	$ 151.9	9 %
Diluted earnings per share	**$ 5.10**	$ 5.40	$ 4.55	(6)%
Return on common shareholders' equity	**9.7%**	10.9%	9.6%	
Efficiency ratio	**68.7%**	69.2%	74.2%	
Common Equity Tier 1 capital ratio – All-in basis	**9.0%**	7.9%	8.0%	
Adjusted basis[1]				
Adjusted net income	**$ 241.6**	$ 230.7	$ 187.0	5 %
Adjusted diluted earnings per share	**$ 5.51**	$ 6.09	$ 5.70	(10)%
Adjusted return on common shareholders' equity	**10.5%**	12.3%	12.0%	
Adjusted efficiency ratio	**66.7%**	66.1%	69.6%	

(1) Certain measures presented on an adjusted basis throughout this document exclude the effect of certain amounts designated as adjusting items and are Non-GAAP measures. Refer to the Non-GAAP and Key Performance Measures section for further details.

OVERVIEW OF FISCAL 2018

For the year ended October 31, 2018, net income was $224.6 million or $5.10 diluted per share, compared with $206.5 million or $5.40 diluted per share in 2017. Return on common shareholders' equity was 9.7% for the year ended October 31, 2018, compared with 10.9% in 2017. On an adjusted basis, net income totalled $241.6 million or $5.51 diluted per share for the year ended October 31, 2018, up 5% and down 10% respectively, compared with $230.7 million or $6.09 diluted per share in 2017. Adjusted return on common shareholders' equity was 10.5% for the year ended October 31, 2018, compared with 12.3% for the year ended October 31, 2017. Reported results for 2018 and 2017 included adjusting items, as detailed in the Non-GAAP and Key Performance Measures section on page 16.

In fiscal 2018, we invested in our people, technology and processes and have strengthened the Bank's financial foundation. We continued to progress towards our transformation, including the implementation of our core banking system, the development of our digital solutions and the adoption of the Advanced Internal Ratings-Based approach to credit risk. As we progressed on these initiatives, as well as to withstand market volatility and to meet increased industry requirements, we maintained higher levels of liquidity and capital, which weighed on short term performance in 2018. These measures improved the financial strength of the Bank and will contribute to support future growth initiatives. In addition, the mortgage loan portfolio review, as detailed in the Securitization and Off-Balance Sheet

Arrangements section below, was completed in 2018 and the situation was successfully resolved.

As at October 31, 2018, the Common Equity Tier 1 (CET1) capital ratio increased to 9.0% under the Standardized approach to credit risk, compared with 7.9% as at October 31, 2017, well above the regulatory requirement of 7.0%. This strong capital position will allow us to manage in the current environment and most importantly, to execute our plan.

The following tables show condensed consolidated results on a reported and on an adjusted basis.

TABLE 2
CONDENSED CONSOLIDATED RESULTS – REPORTED BASIS
(Thousands of Canadian dollars)

	2018	2017	2016	Variance 2018/2017
Net interest income	**$ 705,912**	$ 638,090	$ 589,644	11 %
Other income	**337,498**	358,320	325,807	(6)
Total revenue	**1,043,410**	996,410	915,451	5
Amortization of net premium on purchased financial instruments	**2,296**	3,383	5,190	(32)
Provision for credit losses	**44,000**	37,000	33,350	19
Non-interest expenses	**716,781**	689,359	679,549	4
Income before income taxes	**280,333**	266,668	197,362	5
Income taxes	**55,687**	60,207	45,452	(8)
Net income	**224,646**	206,461	151,910	9
Preferred share dividends, including applicable taxes	**14,038**	17,096	13,313	(18)
Net income available to common shareholders	**$ 210,608**	$ 189,365	$ 138,597	11 %

TABLE 3
CONDENSED CONSOLIDATED RESULTS – ADJUSTED BASIS[1]
(Thousands of Canadian dollars)

	2018	2017	2016	Variance 2018/2017
Net interest income	**$ 705,912**	$ 638,090	$ 589,644	11%
Other income	**337,498**	358,320	325,807	(6)
Total revenue	**1,043,410**	996,410	915,451	5
Provision for credit losses	**44,000**	37,000	33,350	19
Adjusted non-interest expenses[1]	**695,775**	658,492	636,796	6
Adjusted income before income taxes[1]	**303,635**	300,918	245,305	1
Adjusted income taxes[1]	**62,075**	70,177	58,292	(12)
Adjusted net income[1]	**241,560**	230,741	187,013	5
Preferred share dividends, including applicable taxes	**14,038**	17,096	13,313	(18)
Adjusted net income available to common shareholders[1]	**$ 227,522**	$ 213,645	$ 173,700	6%

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

NON-GAAP AND KEY PERFORMANCE MEASURES

NON-GAAP MEASURES

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

Table 4 shows adjusting items and their impact on reported results.

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

	For the quarters ended October 31		For the years ended October 31		
	2018	2017	**2018**	2017	2016
Impact on income before income taxes					
Reported income before income taxes	**$ 61,325**	$ 71,396	**$ 280,333**	$ 266,668	$ 197,362
Adjusting items, before income taxes					
Impairment and restructuring charges[1]					
Severance charges	**925**	3,228	**925**	3,228	4,374
Other restructuring charges	**107**	2,445	**5,019**	7,257	—
Impairment of software and intangible assets and premises and equipment	**—**	—	**—**	—	22,113
Provisions related to the termination of lease contracts	**—**	—	**—**	—	11,857
	1,032	5,673	**5,944**	10,485	38,344
Items related to business combinations					
Amortization of net premium on purchased financial instruments[2]	**495**	707	**2,296**	3,383	5,190
Amortization of acquisition-related intangible assets[3]	**3,366**	3,545	**12,705**	4,291	—
Other costs related to business combinations[4]	**—**	2,862	**2,357**	16,091	4,409
	3,861	7,114	**17,358**	23,765	9,599
	4,893	12,787	**23,302**	34,250	47,943
Adjusted income before income taxes	**$ 66,218**	$ 84,183	**$ 303,635**	$ 300,918	$ 245,305
Impact on net income					
Reported net income	**$ 50,801**	$ 58,635	**$ 224,646**	$ 206,461	$ 151,910
Adjusting items, net of income taxes					
Impairment and restructuring charges[1]					
Severance charges	**678**	2,364	**678**	2,364	3,200
Other restructuring charges	**78**	1,791	**3,679**	5,315	—
Impairment of software and intangible assets, and premises and equipment	**—**	—	**—**	—	16,178
Provisions related to the termination of lease contracts	**—**	—	**—**	—	8,675
	756	4,155	**4,357**	7,679	28,053
Items related to business combinations					
Amortization of net premium on purchased financial instruments[2]	**364**	519	**1,688**	2,487	3,812
Amortization of acquisition-related intangible assets[3]	**2,423**	2,226	**9,143**	2,771	—
Other costs related to business combinations[4]	**—**	941	**1,726**	11,343	3,238
	2,787	3,686	**12,557**	16,601	7,050
	3,543	7,841	**16,914**	24,280	35,103
Adjusted net income	**$ 54,344**	$ 66,476	**$ 241,560**	$ 230,741	$ 187,013
Impact on diluted earnings per share					
Reported diluted earnings per share	**$ 1.13**	$ 1.42	**$ 5.10**	$ 5.40	$ 4.55
Adjusting items					
Impairment and restructuring charges	**0.02**	0.11	**0.11**	0.22	0.92
Items related to business combinations	**0.07**	0.10	**0.30**	0.47	0.23
	0.08	0.21	**0.41**	0.69	1.15
Adjusted diluted earnings per share[5]	**$ 1.22**	$ 1.63	**$ 5.51**	$ 6.09	$ 5.70

(1) Impairment and restructuring charges result from the realignment of strategic priorities of the Bank's Retail Services activities and the transformation of the branch network. Restructuring charges result from the optimization of our Retail Services activities and mostly relate to salaries, provisions related to the termination of lease contracts, communication expenses and professional fees. Impairment charges are composed of impairment of software and intangible assets, and premises and equipment. Impairment and restructuring charges are included on the Non-interest expenses line item.

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

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

(4) Other costs related to business combinations result from the transaction and integration of business acquisitions in 2016 and 2017 and are included on the Non-interest expenses line item.

(5) The impact of adjusting items on a per share basis does not add due to rounding for the quarter ended October 31, 2018.

KEY PERFORMANCE MEASURES

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

Return on common shareholders' equity

Return on common shareholders' equity (ROE) is a profitability measure calculated as the net income available to common shareholders as a percentage of average common shareholders' equity. The Bank's common shareholders' equity is defined as the sum of the value of common shares, retained earnings and accumulated other comprehensive income (AOCI), excluding cash flow hedge reserves. Table 5 shows additional information about return on common shareholders' equity.

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

	2018	2017	2016
Reported net income available to common shareholders	**$ 210,608**	$ 189,365	$ 138,597
Adjusting items, net of income taxes	**16,914**	24,280	35,103
Adjusted net income available to common shareholders	**$ 227,522**	$ 213,645	$ 173,700
Average common shareholders' equity	**$ 2,171,101**	$ 1,735,198	$ 1,443,062
Return on common shareholders' equity	**9.7%**	10.9%	9.6%
Adjusted return on common shareholders' equity	**10.5%**	12.3%	12.0%

Net interest margin

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

Efficiency ratio and operating leverage

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

Dividend payout ratio

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

OUTLOOK

ECONOMIC OUTLOOK

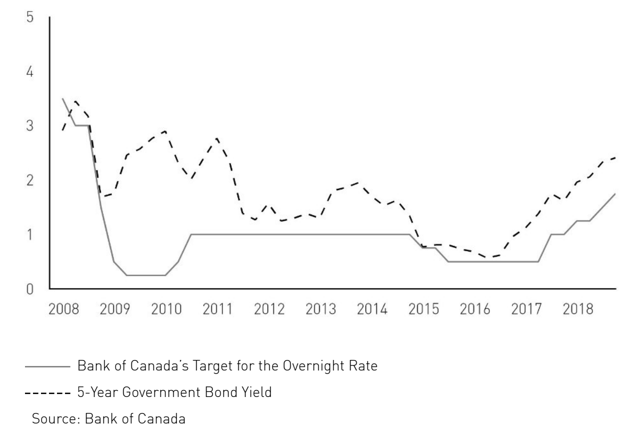
Global economic growth is expected to remain solid despite heightening trade tensions but shows signs of peaking in some major economies including the U.S., the euro zone and China. As the business cycle ages and inflation pressures increase, central banks are continuing to gradually withdraw monetary stimulus, contributing to a rise in interest rates globally. In the U.S., the Federal Reserve is expected to gradually increase its policy rate in 2019 to prevent the U.S. economy, at full employment, from overheating.

Previously announced tariffs by the U.S. are only expected to have a modest impact on global economic growth and inflation, in part as consumers, businesses and governments are adjusting to targeted tariffs. However, further escalation in trade tensions remains a concern and provides the largest downside risk. The tentative United-States-Mexico-Canada Agreement (USMCA) replacing the North American Free Trade Agreement (NAFTA) reduces uncertainty and stronger commodity prices and solid growth in the U.S. underpin an above-trend rate for Canadian economic growth.

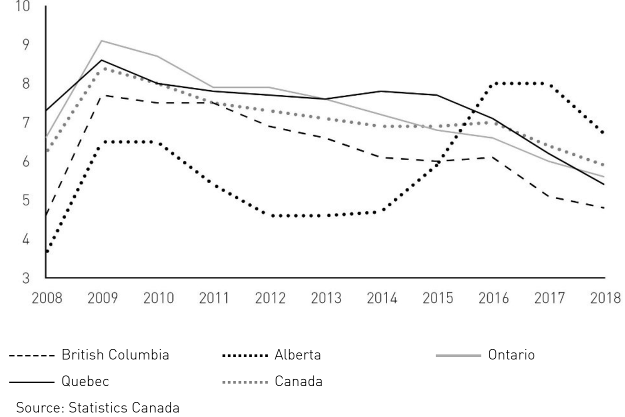
The Canadian housing market has been strengthening over the last six months, recovering from the impact of regulatory reforms introduced at the beginning of 2018. In addition, the pace of residential homebuilding, led by condo and rental units, remains strong and in line with household formation. These favourable developments, combined with the solid labour market and low unemployment, should further contribute to the growth of the Canadian economy.

With above-trend economic growth and slowly increasing consumer inflation, the Bank of Canada raised its policy rate by 25 basis points in October 2018, following four similar increases since mid-2017. The Bank of Canada also signalled to markets that it plans to move its policy rate toward a neutral level. Furthermore, a gradual removal of monetary easing is expected during 2019. The target for the overnight rate stands at 1.75%, the highest level since late 2008, and the Canadian dollar is currently trading at around US$0.75. Canadian real GDP is expected to grow at a respectable pace of 1.9% in 2019 and 1.7% in 2020 after reaching an estimated 2.1% in 2018.

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



UNEMPLOYMENT RATES
(Annual data, in percentage)



MEDIUM-TERM FINANCIAL OBJECTIVES

2018 Performance

Table 6 shows the performance and growth targets for the Bank, as set out in the 2017 Annual Report, and the Bank's performance for 2018.

TABLE 6
2020 MEDIUM-TERM FINANCIAL OBJECTIVES AND 2018 PERFORMANCE
(Billions of Canadian dollars, except per share and percentage amounts)

	2020 Objectives	**2018**	2017	Variance 2018/2017
Adjusted financial performance[1]				
Adjusted return on common shareholders' equity	Narrow gap to 300 bps[2]	**10.5 %**	12.3 %	Current gap at 610 bps
Adjusted efficiency ratio	<65%	**66.7 %**	66.1 %	0.6 %
Adjusted diluted earnings per share	Grow by 5% to 10% annually	**$ 5.51**	$ 6.09	(10)%
Adjusted operating leverage	Positive	**(0.9)%**	5.4 %	n. m.
Key growth drivers				
Loans to business customers	Grow to $14.0B	**$ 12.0**	$ 12.2	(1)%
Residential mortgage loans through independent brokers and advisors	Grow to $10.0B	**$ 7.7**	$ 8.6	(10)%
Assets under administration at Laurentian Bank Securities	Grow to $4.3B	**$ 4.0**	$ 3.9	3 %
Assets under administration from Retail Services clients[3]	Grow to $12.6B	**$ 10.5**	$ 11.0	(5)%
Total deposits from clients[4]	Grow to $27.1B	**$ 24.4**	$ 25.2	(3)%

(1) The 2020 financial objectives are based on non-GAAP measures that exclude adjusting items related to restructuring plans and to business combinations. Refer to the Non-GAAP and Key Performance Measures section.

(2) Compared to the major Canadian banks, based on the Bank using the Standardized approach in determining credit risk and operational risk. The current gap is based on the average of major Canadian banks for the nine months ended July 31, 2018.

(3) Including deposits and mutual funds from Retail clients.

(4) Including deposits from branches, independent brokers and advisors and commercial clients.

2018 was a year of rebalancing our loan portfolio, following two years of accelerated growth. During the year, we also invested in our people, processes and technology. We also strengthened our liquidity and capital positions. Furthermore, changes in the residential mortgage environment ensuing from regulatory reform, higher interest rates and market conditions, in addition to delays incurred in optimizing our Retail Services activities, affected growth in loans and revenue. As a result, profitability metrics for 2018 were impacted. Adjusted return on common shareholders' equity was 10.5% in 2018 compared with 12.3% in fiscal 2017, and the ROE gap relative to the major Canadian banks widened.

The adjusted efficiency ratio of 66.7% for 2018 was slightly above the 2017 level and trended higher in the second half of the year given additional operating costs. Adjusted diluted earnings per share of $5.51 for 2018 were down 10% year-over-year, essentially for the same reasons as noted above.

Medium-term financial performance

In 2019, we will continue our investments in people, processes and technology, maintain a strong balance sheet and work to resolve our labour relations issues. We will also begin to gradually redeploy capital as we resume profitable loan growth. Table 7 below shows our updated medium-term financial objectives and the key growth drivers that are the most meaningful and reflect our global corporate view.

TABLE 7
2021 MEDIUM-TERM FINANCIAL OBJECTIVES
(Billions of Canadian dollars, except per share and percentage amounts)

	2021 Objectives		2018
Adjusted financial performance[1]			
Adjusted return on common shareholders' equity	Narrow gap to 250 bps[2]		**10.5 %**
Adjusted efficiency ratio	<63%		**66.7 %**
Adjusted diluted earnings per share	Grow by 5% to 10% annually	**$**	**5.51**
Adjusted operating leverage	Positive		**(0.9)%**
Key growth drivers			
Loans to business customers	Grow to $16.0 B	**$**	**12.0**
Residential mortgage loans	Grow to $19.0 B	**$**	**17.0**
Deposits from clients[3]	Grow to $28.0 B	**$**	**24.4**

(1) The 2021 financial objectives are based on non-GAAP measures that exclude adjusting items related to restructuring plans and to business combinations. Refer to the Non-GAAP and Key Performance Measures section.

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

(3) Including deposits from branches, independent brokers and advisors and commercial clients.

Business Services has been and will continue to be a growth engine for the Bank. With the resumption of profitable growth in 2019 as we redeploy capital, we expect loans to business customers to reach $16.0 billion in 2021. This reflects our decision to evolve the portfolio toward higher-yielding commercial loans and the opportunities that we have as we leverage our investments. Furthermore, as we evolve toward managing the Bank more holistically, we are introducing a target for growth in total residential mortgage loans at $19.0 billion in 2021. We are no longer tracking assets under administration for Laurentian Bank Securities and Retail Services, as we put more emphasis on growing our deposits from clients and to focus on our key strategies. Lastly, we are increasing our objective for growth in deposits from clients to $28.0 billion in 2021.

Our 2021 financial objectives are also shown in Table 7. The revised ROE objective is to narrow the gap with the major banks to 250 basis points in 2021 as compared to 300 basis points in 2020. As we plan to adopt the AIRB approach to credit risk in late 2020, this gap reflects the initial benefit of gradually redeploying capital. We are also targeting an efficiency ratio of below 63% in 2021, an improvement from below 65% in 2020, and we are continuing to aim for positive operating leverage. Lastly, we are working toward an adjusted diluted earnings per share growth objective, over the medium-term, of 5% to 10% annually.

We remain as committed as ever to execute our strategic plan and work toward our ultimate goal – to improve the Bank's performance and achieve a profitability level similar to that of the other Canadian banks in 2022, as we reap increasing benefits from the adoption of the AIRB approach to credit risk.

Key assumptions supporting the Bank's medium-term objectives

The following assumptions are the most significant items considered in setting the Bank's strategic and financial objectives. The Bank's objectives do not constitute guidance and are based on certain key planning assumptions. Other factors such as those detailed in the Caution Regarding Forward-Looking Statements on page 14 and in the Risk Appetite and Risk Management Framework section of this document could also cause future results to differ materially from these objectives.

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

- Organic growth to resume in loans to business customers and residential mortgage loans;
- Relatively stable product margins in the Bank's main markets;
- Continued progress on optimization of the Retail Services activities;
- Increased relative size of Business Services in the Bank's mix;
- Loan loss provisions to remain at lower levels than the industry;
- Expenses to be tightly controlled and further optimization of corporate functions;
- Successful completion of the account management platform on time and on budget;
- Successful adoption of the AIRB approach to credit risk in fiscal 2021 (based on the Bank's assessment of current regulatory requirements).

STRATEGIC PLAN

Strengthening our foundation

In 2018, we invested in our people, processes and technologies and have strengthened the Bank's financial foundation. We are well positioned to continue progressing towards our transformation, including the implementation of our core banking system, the development of our digital solutions and the adoption of the AIRB approach.

Core-banking system
The Bank is well advanced in its multi-year plan to replace its core-banking system. The new account management platform provides the necessary tools to improve our product offering and advance our transformation to digital banking. During the transition period, we are running concurrent platforms for our core-banking systems.

The program began in 2016 with the first product and account migrations occurring in November 2017 and September 2018 for B2B Bank investment loans and deposit products respectively. The remaining products for B2B Bank and most of Business Services loans are targeted to be migrated at the outset of 2019, marking the conclusion of Phase 1 of the program. Phase 2 of the program will encompass all Retail Services accounts and products, as well as the remaining Business Services products. The target completion date of this phase will be determined once the uncertainty associated with the renewal of the collective bargaining agreement, which expired on December 31, 2017, is clarified.

Total program cost is expected to reach approximately $200 million, relatively in line with initial estimates. As we are nearing the completion of Phase 1, which encompasses the foundation for most of the Bank's operations, approximately $145 million has been invested. The remainder will mostly cover the migration of Phase 2 portfolios.

Advanced Internal Ratings-Based approach to credit risk
As part of our plan to improve the Bank's foundation, we are pursuing our initiative to adopt the AIRB approach to credit risk. This project was first started in 2012. Once fully implemented, it will enable the Bank to optimize regulatory capital, improve profitability and provide a level playing field for credit underwriting activities, as the Bank will be able to calculate its capital requirements on the same basis as its industry peers.

In late 2013, the Bank made the decision to suspend its AIRB development and implementation due to the uncertainty regarding the AIRB approach at the international level. However, several AIRB adoption building blocks were integrated into the Bank's operations and systems and are contributing to enhance the Bank's processes.

Given positive indications, the Bank renewed its commitment to pursuing the AIRB project in early 2016 and defined a comprehensive program to realize the remaining steps toward the adoption of the AIRB approach. The Bank's objective is to obtain the AIRB accreditation in late 2020. As such, the program to achieve AIRB accreditation is expected to be completed in two years, subject to regulatory approval.

Total program cost is expected to reach $105 million, of which approximately $60 million has been invested to date.

Optimization of the Retail Services activities

At the beginning of 2016, we announced our strategic plan, which included optimizing and simplifying Retail Services operations. This strategy led to the decision, in September 2016, to reorganize the branch network. By the end of 2017, we had merged 46 branches and have converted an additional 23 branches into advice-only branches. The response has been largely positive, and the impact on operations and results is in line with expectations. Building on this positive outcome, we decided in September 2017 to focus on delivering financial advice through our branch network, and on migrating customers to electronic and web-based platforms, thus progressing toward our objective to further digitize services.

In fiscal 2018, we merged eight more branches and continued to monitor the impact of branch mergers on our core client base. We are still committed to achieving the conversion to advice-only branches progressively throughout 2019. As we continue to simplify the Bank's retail branch operations, we are progressing toward our goal of becoming a renewed financial institution by 2022. However, the uncertainty associated with the renewal of the collective bargaining agreement may impact the pace at which we will execute this plan.

ANALYSIS OF CONSOLIDATED RESULTS

Net income was $224.6 million or $5.10 diluted per share for the year ended October 31, 2018, compared with $206.5 million or $5.40 diluted per share for the year ended October 31, 2017.

Adjusted net income was $241.6 million for the year ended October 31, 2018, up 5% compared with $230.7 million for 2017, while adjusted diluted earnings per share was $5.51, down 10% compared with $6.09 diluted earnings per share for 2017.

The decrease in earnings per share for the year ended October 31, 2018, compared with the year ended October 31, 2017, is further detailed below and also reflects the common share issuance completed at the beginning of 2018.

ACQUISITIONS

Acquisition of CIT Canada

On October 1, 2016, the Bank acquired from CIT Group Inc. ("CIT") its Canadian equipment financing and corporate financing activities ("CIT Canada") for a purchase price of $987 million. This acquisition significantly accelerated the Bank's plan to increase the proportion of business loans in the Bank's loan portfolio, strengthen its position in the equipment financing market and expand its pan-Canadian footprint. It also provided the infrastructure to further develop this segment and facilitated the acquisition of NCF in 2017.

Integration of CIT Canada's operations was completed in 2018, as teams completed the development and implementation of a new financing and leasing system which provides improved scalability and flexibility to address customers' needs. Total transaction and integration costs were $30.1 million of which $2.4 million was incurred in 2018, $11.6 million in 2017 and $16.1 million in 2016.

Acquisition of Northpoint Commercial Finance

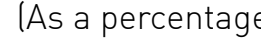
On August 11, 2017, the Bank acquired 100% of the ownership interests in Northpoint Commercial Finance ("NCF"), a U.S. based non-bank inventory finance lender with a portfolio of US$819 million (C$1,039 million), for US$257 million (C$325 million). As part of the transaction, the Bank issued 4,654,560 common shares for gross proceeds of $241 million. This acquisition increased the proportion of revenue generated by commercial activities within the Bank's mix, and provided new growth opportunities and improved overall profitability. Transaction costs amounted to $4.4 million in 2017, and no further integration costs were incurred in 2018.

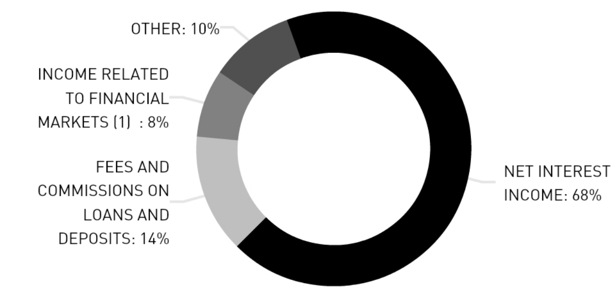
TOTAL REVENUE

Total revenue reached $1,043.4 million for the year ended October 31, 2018, an increase of $47.0 million or 5% compared with $996.4 million for the year ended October 31, 2017. The increase was mainly driven by growth in net interest income stemming from the full-year impact of the acquisition of NCF in August 2017. The contribution to total revenue for 2018 from net interest income and other income is detailed in the following graph.

TOTAL REVENUE MIX

(As a percentage)





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

NET INTEREST INCOME

Net interest income increased by $67.8 million or 11% to $705.9 million for the year ended October 31, 2018, from $638.1 million for the year ended October 31, 2017. The increase was mainly due to the full-year impact of the acquisition of NCF. Over the last 24 months, the Bank has gradually evolved its loan portfolio mix to improve financial performance, notably through its strong growth in loans to business customers through acquisitions and organic growth. Net interest income was also impacted by the lower volumes of personal loans, as well as by the reduction in residential mortgage loans given the recent changes in regulations and our decision to focus on loans to business customers. At the end of the second quarter of 2018, we reduced exposures to lower-yielding commercial loan portfolios and divested the $380 million agricultural loan portfolio. During the second half of the year, we also reduced exposure to the Energy and Infrastructure sector and completed the sale of other commercial loans for a total of $328 million. These transactions contributed to strengthen the Bank in the short term and will enable us to further optimize capital allocation as we redeploy the capital in the coming months. These sales mostly conclude the realignment of our commercial loan portfolio, which is now more in line with our current strategy.

As further detailed in Table 8, net interest margin stood at 1.78% for the year ended October 31, 2018 and increased by 10 basis points when compared with the year ended October 31, 2017. This increase was essentially due to the higher proportion of higher-yielding loans to business customers and was partly offset by the higher level of lower-yielding liquid assets. Net interest margins should trend higher in 2019, due to the continued shift in the Bank's loan portfolio mix and the recent increase in interest rates. Table 9 provides a summary of changes in net interest income.

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

	2018			2017		
	AVERAGE VOLUME	INTEREST	AVERAGE RATE	AVERAGE VOLUME	INTEREST	AVERAGE RATE
Assets						
Cash resources and securities[1]	$ 3,635,549	$ 65,463	1.80%	$ 3,542,182	$ 43,382	1.22%
Securities purchased under reverse repurchase agreements[1]	317,803	4,075	1.28	184,260	1,448	0.79
Loans						
Personal	5,678,903	284,319	5.01	6,288,579	277,903	4.42
Residential mortgage	18,028,659	524,108	2.91	17,548,988	482,299	2.75
Commercial and other[2]	12,001,746	584,434	4.87	10,490,924	408,202	3.89
Total loans	35,709,308	1,392,861	3.90	34,328,491	1,168,404	3.40
Derivatives and other		28,384	—		42,311	—
Total interest earning assets	39,662,660	1,490,783	3.76	38,054,933	1,255,545	3.30
Non-interest earnings assets and assets related to trading activities[1]	7,271,532	—	—	6,791,069	—	—
Total assets	$ 46,934,192	$ 1,490,783	3.18%	$ 44,846,002	$ 1,255,545	2.80%
Liabilities and shareholders' equity						
Demand and notice deposits	$ 6,771,675	$ 55,228	0.82%	$ 7,530,320	$ 44,066	0.59%
Term deposits	22,667,741	527,975	2.33	20,463,905	421,085	2.06
Debt related to securitization activities	8,097,776	166,077	2.05	7,642,101	134,900	1.77
Subordinated debt	348,580	15,214	4.36	318,956	11,718	3.67
Other	—	20,377	—	—	5,686	—
Total interest bearing liabilities	37,885,772	784,871	2.07	35,955,282	617,455	1.72
Acceptances	500,912	—	—	645,595	—	—
Non-interest bearing liabilities and liabilities related to trading activities[1]	6,125,883	—	—	6,171,122	—	—
Total liabilities	44,512,567	784,871	1.76	42,771,999	617,455	1.44
Shareholders' equity	2,421,625		—	2,074,003		—
Total liabilities and shareholders' equity	$ 46,934,192	$ 784,871	1.67%	$ 44,846,002	$ 617,455	1.38%
Net interest income and margin (on average earning assets)		$ 705,912	1.78%		$ 638,090	1.68%

(1) Interest earning assets and interest bearing liabilities exclude volumes related to trading activities.
(2) Comparative figures have been reclassified to conform to the current year presentation.

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

	2018		
	Increase (decrease) due to change in		
	AVERAGE VOLUME	AVERAGE RATE	NET CHANGE
Interest earning assets	$ 53,044	$ 182,194	$ 235,238
Interest bearing liabilities	(33,152)	(134,264)	(167,416)
Net interest income	$ 19,892	$ 47,930	$ 67,822

OTHER INCOME

Other income decreased by $20.8 million or 6%, amounting to $337.5 million for the year ended October 31, 2018, compared with $358.3 million for the year ended October 31, 2017.

Fees and commissions on loans and deposits decreased by $5.3 million to $149.3 million for 2018 compared with $154.6 million for 2017, mainly driven by lower transaction fees and service charges as clients continue to modify their banking behaviour and as a result of product simplification.

Income from brokerage operations decreased by $9.3 million or 12% to $65.8 million for 2018 compared with $75.1 million for 2017. The decrease resulted primarily from the equity-related activities which were affected throughout the year by less favourable market conditions, as well as by a lower volume of fixed-income activity stemming from lower government debt issues.

Income from sales of mutual funds increased by 1% to $47.6 million for 2018 compared with $47.1 million for 2017, due to higher average volumes to Retail Services clients throughout the year. However, lower sales and unfavourable market performance toward the end of the year have limited income growth. Since 2012, the Bank has been distributing a preferred series of co-branded LBC-Mackenzie mutual funds in its Retail network. Over the years, this partnership has proven to be successful and remains aligned with the focus on financial advice.

Income from investment accounts decreased to $20.1 million for 2018, compared with $21.8 million for 2017, mostly as a result of lower volumes of investment accounts under administration given a decline in the retail clientele.

Income from treasury and financial market operations increased to $18.3 million for 2018 from $17.8 million for 2017. This increase resulted mainly from a higher contribution from trading activities, partly offset by lower net securities gains. Additional information related to the Bank's securities portfolio is disclosed in Note 5 to the annual consolidated financial statements.

Insurance income is generated by insurance programs related to the Bank's credit and card product offering. Insurance revenues are presented net of claims and expenses. Net revenues decreased by $2.9 million to $15.3 million for 2018 from $18.2 million for 2017, essentially as a result of lower premiums. Additional information on the Bank's insurance revenues is disclosed in Note 27 to the annual consolidated financial statements.

Other income decreased by $2.7 million to $21.1 million for 2018, compared with $23.8 million for 2017. This decrease resulted mainly from the decrease in revenues related to rental income, net of the depreciation charge of the leased assets, stemming from changes in the equipment financing activities mix. In 2018, other income also included a $4.3 million net gain on the sale of commercial loan portfolios amounting to $708 million. In 2017, other income included a $5.9 million gain on the sale of the Bank's investment in the mortgage broker company, Verico Financial Group Inc. ("Verico").

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

	2018	2017	2016	Variance 2018/2017
Fees and commissions on loans and deposits				
Lending fees	**$ 66,540**	$ 64,810	$ 55,289	3 %
Deposit service charges	**$ 48,972**	$ 56,191	$ 56,973	(13)%
Card service revenues	**33,785**	33,583	33,428	1
	149,297	154,584	145,690	(3)
Income from brokerage operations	**65,811**	75,123	71,435	(12)
Income from sales of mutual funds	**47,609**	47,088	40,299	1
Income from investment accounts	**20,146**	21,804	30,271	(8)
Income from treasury and financial market operations	**18,264**	17,776	12,782	3
Insurance income, net	**15,273**	18,188	17,527	(16)
Other	**21,098**	23,757	7,803	(11)
	188,201	203,736	180,117	(8)
Other income	**$ 337,498**	$ 358,320	$ 325,807	(6)%

AMORTIZATION OF NET PREMIUM ON PURCHASED FINANCIAL INSTRUMENTS

For the year ended October 31, 2018, amortization of net premium on purchased financial instruments amounted to $2.3 million, compared with $3.4 million for the year ended October 31, 2017. Refer to Note 3.3 to the annual consolidated financial statements for additional information.

PROVISION FOR CREDIT LOSSES

The provision for credit losses increased by $7.0 million to $44.0 million for the year ended October 31, 2018 compared with $37.0 million for the year ended October 31, 2017, essentially as a result of higher losses on commercial loans. Overall, the continued low level of credit losses reflects the underlying good credit quality of the loan portfolios.

Losses for both years included the favourable impact of reviews of allowance models, as well as the impact of the evolution of the mix. In 2018, loan losses also included the favourable impact of the reduction in allowances resulting from the sale of the agricultural commercial loan portfolio, as well as the sales of certain other commercial loans in the Energy and Infrastructure sector.

Credit losses on personal loans decreased by $3.7 million for 2018 compared with 2017, mainly as a result of the lower losses related to the investment loan portfolio, in part due to lower volumes.

Credit losses on residential mortgage loans increased by $0.3 million for 2018 compared with 2017. The level of credit losses remains at historically low levels, owing to favourable credit conditions and strong underwriting criteria.

Credit losses on commercial loans increased by $10.3 million for 2018 compared with 2017, mainly as a result of a $10.0 million loss on a single syndicated commercial exposure in the fourth quarter of 2018. The NCF acquisition also contributed to the increase year-over-year. These were partly offset by the positive effect of the sale of commercial loan portfolios in 2018. Losses for 2017 also included favourable improvements on certain accounts, as well as the impact of reviews of allowance models. Credit losses on the commercial portfolio tend to fluctuate more as they can relate, in part, to isolated larger exposures.

The provision for credit losses expressed as a percentage of average loans and acceptances was 12 bp for the year ended October 31, 2018. Over the medium term, the loss ratio should trend gradually higher as the Bank's loan portfolio mix evolves.

Table 11 details the provision for credit losses from 2016 to 2018. The Risk Appetite and Risk Management Framework section in this MD&A provides further discussion with regards to the overall credit condition of the Bank's portfolios.

TABLE 11
PROVISION FOR CREDIT LOSSES
(Thousands of Canadian dollars, except percentage amounts)

	2018	2017	2016
Personal loans	**$ 21,157**	$ 24,823	$ 23,903
Residential mortgage loans	**3,363**	3,027	3,723
Commercial loans and other[1]	**19,480**	9,150	5,724
Provision for credit losses	**$ 44,000**	$ 37,000	$ 33,350
As a % of average loans and acceptances	**0.12%**	0.11%	0.11%

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

NON-INTEREST EXPENSES

Non-interest expenses increased by $27.4 million or 4% to $716.8 million for the year ended October 31, 2018, compared with $689.4 million for the year ended October 31, 2017. Adjusted non-interest expenses increased by $37.3 million or 6% to $695.8 million for the year ended October 31, 2018, compared with $658.5 million for the year ended October 31, 2017. This increase was mainly due to the addition of the acquired NCF's expenses, as well as higher other non-interest expenses.

Salaries and employee benefits increased by $5.0 million or 1% to $366.0 million for 2018, compared with $361.0 million for 2017. This increase was mainly due to regular salary increases and the addition of employees from NCF, partly offset by lower performance-based compensation and lower pension costs.

Premises and technology costs increased by $10.0 million to $192.4 million for 2018, compared with $182.4 million for 2017, mainly as a result of higher technology costs incurred to run concurrent core-banking platforms, and to ongoing activities to enhance IT service levels and security.

Other non-interest expenses increased by $30.7 million to $150.1 million for 2018, compared with $119.4 million for 2017. This increase was mainly due to higher advisory service expenses to support our strategic plan, as well as to additional regulatory expenses incurred in 2018. These included increases in deposit insurance costs and other costs related to various compliance projects such as the conversion to IFRS 9, anti-money laundering process upgrades, business continuity plan updates, and costs related to the review of the Bank's mortgage loan portfolio. Amortization of acquisition-related intangibles resulting from the NCF acquisition also contributed to the year-over-year increase.

Restructuring charges decreased by $4.5 million to $5.9 million for 2018 compared with $10.5 million for 2017. In 2018, restructuring charges mainly included provisions related to the termination of lease contracts and communication costs related to the reorganization of Retail Services operations. In 2017, the Bank incurred charges of $9.4 million in severance charges, salaries, communication expenses and professional fees related to the optimization of Retail Services activities and branch mergers.

Costs related to business combinations amounted to $2.4 million for 2018 compared with $16.1 million for 2017. In 2018, these costs mainly included technology costs to complete the integration of the equipment financing operations of CIT Canada. In 2017, these costs were also related to the integration of the newly acquired equipment financing operations, including severance charges, technology costs and professional fees, in addition to professional fees related to the acquisition of NCF.

Efficiency ratio

The adjusted efficiency ratio was 66.7% for the year ended October 31, 2018, compared with 66.1% for the year ended October 31, 2017. As the Bank invests in its transformation, this ratio may be subject to certain variations, mainly as it relates to costs of hiring account managers, operating the new core-banking platform and adopting the AIRB approach. In addition, new regulatory requirements such as the IFRS 9 guideline, as well as anti-money laundering and regulatory risk-related projects will continue to necessitate additional expenditures. As previously mentioned, this ratio is expected to remain higher over the next few quarters. The adjusted operating leverage was negative year-over-year, mainly as other non-interest expenses increased at a faster pace than revenue.

The efficiency ratio was 68.7% for the year ended October 31, 2018, compared with 69.2% for the year ended October 31, 2017. The improvement year-over-year was mainly attributed to lower restructuring charges and lower costs related to business combinations. Operating leverage was positive year-over-year essentially for the same reasons.

Table 12 details non-interest expenses from 2016 to 2018.

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

	2018	2017	2016	Variance 2018/2017
Salaries and employee benefits				
Salaries	**$ 236,088**	$ 220,226	$ 212,663	
Employee benefits	**73,805**	75,455	71,848	
Performance-based compensation	**56,129**	65,320	50,392	
	366,022	361,001	334,903	1 %
Premises and technology				
Technology costs	**101,972**	89,510	87,070	
Rent and property taxes	**52,987**	53,743	54,693	
Depreciation	**28,515**	30,675	36,777	
Other	**8,903**	8,469	9,156	
	192,377	182,397	187,696	5 %
Other				
Professional and advisory services	**39,318**	30,292	26,601	
Advertising and business development	**35,607**	33,571	31,499	
Communications	**17,489**	17,726	18,588	
Other	**57,667**	37,796	37,509	
	150,081	119,385	114,197	26 %
Impairment and restructuring charges				
Severance charges	**925**	3,228	4,374	
Other restructuring charges	**5,019**	7,257	—	
Impairment of software and intangible assets, and premises and equipment	**—**	—	22,113	
Provisions related to the termination of lease contracts	**—**	—	11,857	
	5,944	10,485	38,344	(43)%
Costs related to business combinations	**2,357**	16,091	4,409	(85)%
Non-interest expenses	**$ 716,781**	$ 689,359	$ 679,549	4 %
Efficiency ratio	**68.7 %**	69.2%	74.2%	
Operating leverage	**0.7 %**	7.4%	8.0%	
Adjusted non-interest expenses[1]	**$ 695,775**	$ 658,492	$ 636,796	6 %
Adjusted efficiency ratio[1]	**66.7 %**	66.1%	69.6%	
Adjusted operating leverage[1]	**(0.9)%**	5.4%	2.5%	

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

INCOME TAXES

For the year ended October 31, 2018, income tax expense was $55.7 million and the effective tax rate was 19.9%. The lower tax rate, compared to the statutory rate, mainly resulted from the favourable effect of holding investments in Canadian securities that generate non-taxable dividend income and the lower taxation level on revenues from foreign operations. For the year ended October 31, 2017, income tax expense was $60.2 million and the effective tax rate was 22.6%. The lower tax rate, compared to the statutory rate, resulted mainly from the aforementioned factors. The lower tax rate for year ended October 31, 2018, when compared to the prior year, mainly resulted from the proportionally lower level of domestic revenue.

On December 22, 2017, the U.S. government enacted new comprehensive tax legislation, which made significant changes to the U.S. tax code. The enacted reduction of the U.S. corporate tax rate has resulted in an immediate decrease of $0.5 million of the Bank's U.S. net deferred tax assets and an equivalent charge to the income statement. This charge was offset during the remainder of the year by the positive effect on earnings of the lower U.S. corporate tax rate. Following the 2018 Canadian federal budget and the proposed legislation released in July 2018, we expect that the new measures will impact future income earned on foreign insurance operations as of fiscal 2019. As a result, the Bank's income tax expense is expected to increase by approximately $4.0 million annually, as previously disclosed.

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

(Thousands of Canadian dollars, except percentage amounts)

			2018			2017
Income taxes at statutory rates	$	**74,749**	**26.7%**	$	71,189	26.7%
Change resulting from:						
Change in tax rate		**531**	**0.2**		—	—
Income related to foreign operations		**(17,483)**	**(6.2)**		(7,756)	(2.9)
Non-taxable dividends and non-taxable portion of capital gains		**(2,176)**	**(0.7)**		(3,751)	(1.4)
Other, net		**66**	**(0.1)**		525	0.2
Income taxes as reported in the Consolidated Statement of Income	$	**55,687**	**19.9%**	$	60,207	22.6%

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, 2018, these loans totalled $38.8 million. Loans to directors of the Board are granted under market conditions for similar risks and are initially measured at fair value. Loans to officers consist mostly of term residential mortgage loans, as well as personal loans, at market rates less a discount based on the type and amount of the loan. Loans to entities controlled by key management personnel are granted under terms similar to those offered to arm's length parties. The interest earned on these loans is recorded under interest income in the consolidated statement of income.

In the normal course of business, the Bank also provides usual banking services to key management personnel, including bank accounts (deposits) under terms similar to those offered to arm's length parties. As at October 31, 2018, these deposits totalled $1.0 million. The Bank also offers employees a discount on annual credit card fees. In addition, for the year ended October 31, 2018, the Bank paid a rental expense of $0.2 million to a related party ($2.1 million for the year ended October 31, 2017).

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

OVERVIEW OF FISCAL 2017

For the year ended October 31, 2017, on a reported basis, net income was $206.5 million or $5.40 diluted per share, compared with $151.9 million or $4.55 diluted per share in 2016. On the same basis, return on common shareholders' equity was 10.9% for the year ended October 31, 2017, compared with 9.6% in 2016. Reported results for 2017 took into account adjusting items, such as costs related to the Bank's branch mergers and the integration of CIT, as well as costs related to the acquisition of NCF. Whereas in 2016, reported results included adjusting items such as impairment and restructuring charges related to Retail Services activities and costs related to the acquisition of CIT Canada. Adjusted net income totalled $230.7 million or $6.09 diluted per share, respectively up 23% and 7%, compared with adjusted net income of $187.0 million or $5.70 diluted per share for the year ended October 31, 2016. Adjusted return on common shareholders' equity improved to 12.3% for the year ended October 31, 2017, compared to 12.0% for the year ended October 31, 2016. Refer to the Non-GAAP and Key Performance Measures on page 16 for further details.

In fiscal 2017, the Bank had made significant progress to improve performance and achieved milestones toward its strategic objectives. The strong organic growth in loans to business customers and residential mortgage loans through independent brokers and advisors contributed to improve the Bank's presence in these key markets. In addition, the Bank acquired NCF in August 2017 to further develop its inventory and equipment financing business, as well as to diversify revenue streams. At year end 2017, the CET1 capital ratio stood at 7.9% under the Standardized approach, compared with 8.0% as at October 31, 2016.

ANALYSIS OF QUARTERLY RESULTS

ANALYSIS OF RESULTS FOR THE FOURTH QUARTER OF 2018

Net income was $50.8 million or $1.13 diluted per share for the fourth quarter of 2018, compared with $58.6 million or $1.42 diluted per share for the fourth quarter of 2017. Adjusted net income was $54.3 million for the fourth quarter of 2018, down 18% from $66.5 million for the fourth quarter of 2017, while adjusted diluted earnings per share were $1.22, down 25% compared with $1.63 in the fourth quarter of 2017. The decrease in earnings per share for the fourth quarter of 2018 is further detailed below and also reflects the common share issuance completed at the beginning of 2018.

Total revenue

Total revenue decreased by $12.1 million or 5% to $255.9 million for the fourth quarter of 2018 from $268.0 million for the fourth quarter of 2017. This decrease was mostly driven by lower other income.

Net interest income decreased by $3.1 million or 2% to $173.2 million for the fourth quarter of 2018, from $176.2 million for the fourth quarter of 2017. The decrease was due to lower year-over-year loan volumes and to the higher level of liquid assets, partly offset by higher margins on loans to business customers as a result of changes in the portfolio mix. Net interest margin stood at 1.77% for the fourth quarter of 2018, an increase of 2 basis points compared with the fourth quarter of 2017, mainly due to the higher proportion of higher-yielding loans to business customers, as well as to recent increases in the prime rate, partly offset by the higher level of lower-yielding liquid assets.

Other income decreased by $9.0 million to $82.7 million for the fourth quarter of 2018, compared with $91.7 million for the fourth quarter of 2017, mainly as results for the fourth quarter of 2017 included a $5.9 million gain on the sale of the Bank's investment in Verico. In addition, fees and commissions on loans and deposits decreased by $2.0 million compared with the fourth quarter of 2017, mainly driven by lower transaction fees and service charges as clients continue to modify their banking behaviour and as a result of product simplification. Income from brokerage operations also decreased by $2.1 million compared with the fourth quarter of 2017, mostly as a result of a lower activity level. These reductions in other income were partly offset by an improved contribution from treasury and financial market operations whose revenues increased by $3.2 million compared with the fourth quarter of 2017, mainly as a result of higher net securities gains.

Amortization of net premium on purchased financial instruments

For the fourth quarter of 2018, amortization of net premium on purchased financial instruments amounted to $0.5 million, compared with $0.7 million for the fourth quarter of 2017. Refer to Note 3.3 to the annual consolidated financial statements for additional information.

Provision for credit losses

The provision for credit losses amounted to $17.6 million for the fourth quarter of 2018 compared with $11.5 million for the fourth quarter of 2017. During the fourth quarter of 2018, credit losses were impacted by a $10.0 million loss on a single syndicated commercial exposure. The Risk Appetite and Risk Management Framework section in this MD&A provides further details about the overall credit condition of the Bank's portfolios.

Non-interest expenses

Non-interest expenses amounted to $176.4 million for the fourth quarter of 2018, a decrease of $7.9 million compared with the fourth quarter of 2017. Adjusted non-interest expenses slightly decreased to $172.0 million for the fourth quarter of 2018, compared with $172.3 million for the fourth quarter of 2017.

Salaries and employee benefits decreased by $6.4 million or 7% to $87.8 million for the fourth quarter of 2018, compared with the fourth quarter of 2017, mainly due to lower performance-based compensation and lower headcount, partly offset by the full-quarter impact of the acquisition of NCF.

Premises and technology costs increased by $2.9 million or 6% to $48.4 million for the fourth quarter of 2018 compared with the fourth quarter of 2017, mainly as a result of higher technology costs incurred to run concurrent core-banking platforms, as well as to ongoing activities to enhance IT service levels and security. During the quarter, we also moved to the new corporate office in Montreal, which generated additional rent expense as the two leases overlapped.

Other non-interest expenses amounted to $39.2 million for the fourth quarter of 2018, an increase of $3.1 million or 9% compared with the fourth quarter of 2017. This increase was mainly due to higher regulatory expenses, including increases in deposit insurance costs and other costs related to various compliance projects.

Restructuring charges amounted to $1.0 million for the fourth quarter of 2018 and mainly included expenses for the reorganization of the Retail Services operations.

Costs related to business combinations were nil for the fourth quarter of 2018 as the integration of CIT Canada's operations was substantially completed in the second quarter of 2018.

Efficiency ratio
The adjusted efficiency ratio was 67.2% for the fourth quarter of 2018, compared with 64.3% for the fourth quarter of 2017, mainly as a result of lower revenue. The adjusted operating leverage was also negative year-over-year. The efficiency ratio, on a reported basis, remained relatively stable at 69.0% for the fourth quarter of 2018, compared with 68.8% for the fourth quarter of 2017, as lower restructuring charges and lower costs related to business combinations were offset by lower revenues.

Income taxes

For the quarter ended October 31, 2018, income tax expense was $10.5 million and the effective tax rate was 17.2%. The lower tax rate, compared to the statutory rate, mainly resulted from the favourable effect of holding investments in Canadian securities that generate non-taxable dividend income, as well as from the lower taxation level on revenues from foreign operations. For the quarter ended October 31, 2017, income tax expense was $12.8 million and the effective tax rate was 17.9%. The lower tax rate, compared to the statutory rate, resulted from the same items as mentioned above, as well as from the lower taxation on the gain resulting from the sale of the Bank's investment in Verico.

QUARTERLY RESULTS AND TREND ANALYSIS

The Bank's intermediation business provides a relatively steady source of income stemming from large volumes of loans and deposits not likely to experience significant fluctuations in the short term. However, treasury operations and certain activities related to financial markets, such as trading activities, may result in significant volatility. In addition, variations in market interest rates or equity markets, as well as in credit conditions can influence the Bank's results. Furthermore, other transactions such as business acquisitions or specific regulatory developments may significantly impact revenues and expenses. Given that the second quarter usually consists of only 89 days compared with 92 days for the other quarters, overall profitability is generally lower for that quarter, mainly as net interest income is impacted. Table 14 summarizes quarterly results for fiscal 2018 and 2017.

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

				2018				2017
	Oct. 31	**July 31**	**April 30**	**Jan. 31**	Oct. 31	July 31	April 30	Jan. 31
Net interest income	**$ 173,152**	**$ 177,013**	**$ 177,112**	**$ 178,635**	$ 176,220	$ 157,707	$ 150,476	$ 153,687
Other income	**82,705**	**83,651**	**82,775**	**88,367**	91,748	90,295	88,331	87,946
Total revenue	**255,857**	**260,664**	**259,887**	**267,002**	267,968	248,002	238,807	241,633
Amortization of net premium on purchased financial instruments	**495**	**547**	**601**	**653**	707	766	878	1,032
Provision for credit losses	**17,600**	**4,900**	**9,500**	**12,000**	11,500	6,400	10,100	9,000
Non-interest expenses	**176,437**	**187,245**	**175,554**	**177,545**	184,365	168,364	168,934	167,696
Income before income taxes	**61,325**	**67,972**	**74,232**	**76,804**	71,396	72,472	58,895	63,905
Income taxes	**10,524**	**13,069**	**15,037**	**17,057**	12,761	17,674	14,323	15,449
Net income	**$ 50,801**	**$ 54,903**	**$ 59,195**	**$ 59,747**	$ 58,635	$ 54,798	$ 44,572	$ 48,456
Earnings per share								
Basic	**$ 1.13**	**$ 1.23**	**$ 1.34**	**$ 1.41**	$ 1.42	$ 1.48	$ 1.19	$ 1.30
Diluted	**$ 1.13**	**$ 1.23**	**$ 1.34**	**$ 1.41**	$ 1.42	$ 1.48	$ 1.19	$ 1.30
Net interest margin	**1.77%**	**1.77%**	**1.82%**	**1.77%**	1.75%	1.63%	1.67%	1.66%
Return on common shareholders' equity[1]	**8.4%**	**9.2%**	**10.5%**	**10.8%**	11.1%	11.8%	9.9%	10.7%
Adjusting items[1], net of income taxes								
Restructuring charges	**$ 756**	**$ 1,645**	**$ 1,283**	**$ 673**	$ 4,155	$ 1,584	$ 1,248	$ 692
Items related to business combinations	**$ 2,787**	**$ 2,826**	**$ 4,147**	**$ 2,797**	$ 3,686	$ 3,524	$ 5,798	$ 3,593
	$ 3,543	**$ 4,471**	**$ 5,430**	**$ 3,470**	$ 7,841	$ 5,108	$ 7,046	$ 4,285
Adjusted financial measures								
Adjusted net income[1]	**$ 54,344**	**$ 59,374**	**$ 64,625**	**$ 63,217**	$ 66,476	$ 59,906	$ 51,618	$ 52,741
Adjusted diluted earnings per share[1]	**$ 1.22**	**$ 1.34**	**$ 1.47**	**$ 1.49**	$ 1.63	$ 1.63	$ 1.39	$ 1.43
Adjusted return on common shareholders' equity[1]	**9.0%**	**10.0%**	**11.6%**	**11.5%**	12.7%	13.0%	11.7%	11.8%
Adjusted non-interest expenses[1]	**$ 172,039**	**$ 181,632**	**$ 169,059**	**$ 173,045**	$ 172,285	$ 162,745	$ 160,591	$ 162,871

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

Trend analysis

Net interest income
Net interest income generally increased over the past eight quarters, mostly as a result of the acquisition of NCF at the end of 2017. The gradual decrease in loan volumes, aimed at optimizing the loan portfolio mix, and higher levels of liquid assets have however affected revenues toward the end of 2018. Net interest margin increased over the last two years from 1.66% during the first quarter of 2017 to 1.77% during the fourth quarter of 2018, mainly as a result of changes in the portfolio mix, including the acquisition of NCF.

Other income
Other income generally increased throughout 2017 and decreased throughout 2018 due to lower fees on deposits, as clients continue to modify their banking behaviour, and as a result of product simplification and lower income from brokerage operations. The second quarter of 2018 included a net $5.3 million gain on the sale of a $380 million commercial loan portfolio. The fourth quarter of 2017 included a $5.9 million gain on the sale of the Bank's investment in Verico. These two gains more than offset the lower contribution from treasury and financial market operations for these two quarters.

Provision for credit losses
The provision for credit losses generally decreased throughout 2017 and in the first nine months of 2018, given the overall underlying good credit quality of the loan portfolios. During the fourth quarter of 2018, credit losses were affected by a $10.0 million loss on a single commercial exposure. Provisions included certain reductions in allowances resulting from updates to risk model parameters, as well as the impact of lower loan volumes in 2018.

Non-interest expenses
Non-interest expenses generally increased over the period mainly due to the acquisition of NCF in the fourth quarter of 2017, higher advisory service expenses to support our strategic plan, as well as higher regulatory expenses. During the period, costs were also incurred to complete the integration of CIT Canada, as well as to continue the branch network restructuring initiative. The sequential decrease in the fourth quarter of 2018 mainly reflected lower variable compensation and tighter cost control measures.

ANALYSIS OF FINANCIAL CONDITION

During 2018, significant efforts were devoted to strengthen the Bank's financial foundation. This resulted in holding a higher level of liquid assets and more capital. This also led to a decrease in loans as we better positioned the Bank's portfolio mix in order to foster profitable growth. These measures, combined with the overall credit quality of the loan portfolio and a sound retail funding base will contribute to resume growth in 2019 and provide the ability to implement our plan to renew the Bank.

As at October 31, 2018, the Bank's total assets amounted to $45.9 billion, a 2% decrease compared with $46.7 billion as at October 31, 2017, as shown in Table 15. These changes are explained in the following sections of the MD&A.

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

	2018	2017	2016	Variance 2018/2017
Cash and deposits with banks	**$ 490,727**	$ 327,362	$ 187,099	50 %
Securities	**6,061,144**	5,586,014	5,660,432	9
Securities purchased under reverse repurchase agreements	**3,652,498**	3,107,841	2,879,986	18
Loans				
Personal	**5,372,468**	6,038,692	6,613,392	(11)
Residential mortgage	**16,986,338**	18,486,449	16,749,387	(8)
Commercial[1]	**11,839,106**	11,464,007	9,386,119	3
Customers' liabilities under acceptances	**196,776**	707,009	629,825	(72)
	34,394,688	36,696,157	33,378,723	(6)
Allowances for loan losses	**(93,026)**	(99,186)	(105,009)	(6)
	34,301,662	36,596,971	33,273,714	(6)
Other assets	**1,388,652**	1,064,470	1,005,109	30
Balance sheet assets	**$ 45,894,683**	$ 46,682,658	$ 43,006,340	(2)%
Cash, deposits with banks, securities and securities purchased under reverse repurchase as a % of balance sheet assets	**22.2%**	19.3%	20.3%	

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

LIQUID ASSETS

Liquid assets consist of cash, deposits with banks, securities and securities purchased under reverse repurchase agreements. As at October 31, 2018, these assets totalled $10.2 billion, an increase of $1.2 billion compared with $9.0 billion as at October 31, 2017.

Over the past year, we continued to prudently manage the level of liquid assets as we are progressing on our various initiatives. The Bank benefits from well-diversified funding sources and the current level of cash resources is sufficient to meet obligations, under both normal and stressed conditions.

Liquid assets represented 22% of total assets as at October 31, 2018 compared with 19% as at October 31, 2017.

As at October 31, 2018, securities used in brokerage operations and treasury activities amounted to $6.1 billion, including a portfolio of available-for-sale securities totalling $2.7 billion. As at October 31, 2018, net unrealized losses in this portfolio, included in accumulated other comprehensive income, amounted to $10.7 million, compared with net unrealized gains of $7.5 million as at October 31, 2017, mainly reflecting the less favourable performance of the Canadian preferred share market at the end of the year and realized gains on preferred shares and fixed-income securities during the year.

Additional information on liquidity and funding risk management is included on page 53 of this MD&A.

LOANS

Loans and bankers' acceptances, net of allowances, stood at $34.3 billion as at October 31, 2018, down $2.3 billion or 6% from October 31, 2017. This decrease mostly reflected the gradual decrease in residential mortgage loans and personal loans, as well as the sale of certain commercial loans as detailed below.

Personal loans amounted to $5.4 billion and decreased by $0.7 billion or 11% since October 31, 2017, mainly due to net repayments in the investment loan portfolio, reflecting expected attrition given some deleveraging in the retail consumer market.

Residential mortgage loans stood at $17.0 billion as at October 31, 2018, a decrease of $1.5 billion or 8% year-over-year. This mostly reflected a gradual decrease in origination as we focus on higher yielding commercial loans in order to optimize product mix. The decision of Retail Services to solely originate residential mortgages through the branch network and no longer through the mortgage broker channel in Quebec as of November 1, 2017 also resulted in lower volumes. Furthermore, since January 1, 2018, growth was slowed by the newly applicable Office of the Superintendent of Financial Institution Canada (OSFI) B-20 mortgage underwriting regulation and the ensuing challenging prime mortgage market conditions. The decrease was partly offset by the acquisition of mortgage loans originated by third parties as part of our program initiated in 2016 to optimize the usage of National Housing Act mortgage-backed securities (NHA MBS) allocations.

In 2018, we generated organic growth of approximately $572 million or 5% in commercial loans and acceptances, mostly in inventory financing volumes through NCF and in real estate financing loans. As a result of the loan portfolio sales to optimize portfolio mix, the commercial loan portfolio decreased by $135.1 million or 1% since October 31, 2017. The Bank sold lower-yielding commercial loan portfolios amounting to $708 million in 2018, including $328 million in the second half of 2018, which mostly conclude the realignment of our commercial loan portfolio.

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

OTHER ASSETS

Other assets increased by $324.2 million to $1.4 billion as at October 31, 2018, compared with $1.1 billion as at October 31, 2017, and mainly included cheques and other items in transit, cash reserve deposits related to securitization activities, software and other intangible assets, as well as goodwill. Additions to intangibles of $107.7 million during the year contributed to the increase, development progressed on our new core-banking system and our project to adopt the AIRB approach to credit risk, and as we completed the deployment of LBC Capital's financing and leasing system. Additions to premises and equipment of $53.3 million mostly related to our new Montreal corporate office also explain the increase in other assets.

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

	2018	2017	2016	Variance 2018/2017
Deposits				
Personal	**$ 20,995,453**	$ 21,198,982	$ 21,001,578	(1)%
Business, banks and other	**7,011,119**	7,731,378	6,571,767	(9)
	28,006,572	28,930,360	27,573,345	(3)
Other liabilities	**7,255,394**	6,842,540	6,013,890	6
Debt related to securitization activities	**7,787,753**	8,230,921	7,244,454	(5)
Subordinated debt	**348,762**	348,427	199,824	—
Balance sheet liabilities	**$ 43,398,481**	$ 44,352,248	$ 41,031,513	(2)%
Personal deposits as a % of total deposits	**75.0%**	73.3%	76.2%	
Total deposits as a % of balance sheet liabilities	**64.5%**	65.2%	67.2%	

DEPOSITS

Deposits decreased by $0.9 billion or 3% to $28.0 billion as at October 31, 2018 compared with $28.9 billion as at October 31, 2017. Personal deposits stood at $21.0 billion as at October 31, 2018, down $0.2 billion compared with October 31, 2017, mainly driven by a slight decrease in deposits sourced through the branch network. Business and other deposits decreased by $0.7 billion to $7.0 billion over the same period, mainly as we optimized our funding and in light of the reduction in total assets. Personal deposits represented 75% of total deposits as at October 31, 2018, compared with 73% as at October 31, 2017, and contributed to our good liquidity position.

Additional information on deposits and other funding sources is included in the Liquidity and Funding Risk Management section on page 53 of this MD&A.

OTHER LIABILITIES

Other liabilities increased to $7.3 billion as at October 31, 2018 from $6.8 billion as at October 31, 2017. The year-over-year increase resulted mainly from higher obligations related to securities sold short associated with trading activities.

Debt related to securitization activities decreased by $0.4 billion or 5% compared with October 31, 2017 and stood at $7.8 billion as at October 31, 2018. The decrease stemmed primarily from maturities of liabilities related to the Canada Mortgage Bond program, as well as the repurchase of certain mortgage loans as detailed in the Securitization and Off-Balance Sheet Arrangements section of this MD&A and normal repayments. In 2018, the Bank securitized $1.2 billion of residential mortgage loans in relation to new financing transactions. For additional information on the Bank's securitization activities, please refer to Notes 7 and 14 to the annual consolidated financial statements.

Subordinated debt was essentially unchanged and stood at $348.8 million as at October 31, 2018, compared with $348.4 million as at October 31, 2017. Refer to Note 15 to the annual consolidated financial statements for additional information. Subordinated debt is an integral part of the Bank's regulatory capital and affords its depositors additional protection.

SHAREHOLDERS' EQUITY

Shareholders' equity stood at $2,496.2 million as at October 31, 2018, compared with $2,330.4 million as at October 31, 2017. This $165.8 million increase mainly results from the 2,624,300 common share public offering completed in January 2018 for gross proceeds of $143.8 million (net proceeds of $139.2 million), which was partially offset by the $100.0 million Class A Preferred Shares Series 11 redemption in December 2017. Shareholders' equity also increased as a result of the net income contribution, net of declared dividends, as well as by the issuance of common shares under the Shareholder Dividend Reinvestment and Share Purchase Plan. 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 $53.72 as at October 31, 2018 from $51.18 as at October 31, 2017. The table below provides the details on share capital.

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

TABLE 17
SHARES ISSUED AND OUTSTANDING
As at November 29, 2018 (in number of shares/options)

Preferred shares	
Series 13	5,000,000
Series 15	5,000,000
Common shares	42,075,382
Share purchase options	124,962

SECURITIZATION AND 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 administers clients' assets that are not reported on the balance sheet. Moreover, off-balance sheet arrangements include derivatives, as well as credit commitments and guarantees. The Bank also uses structured entities to securitize residential mortgage loans, finance lease receivables and personal investment loans, as detailed below.

OFF-BALANCE SHEET ARRANGEMENTS

Assets under administration

Assets under administration mainly include assets of clients to whom the Bank provides various administrative services. The Bank also administers retail and institutional investment portfolios. Table 18 below summarizes assets under administration. As at October 31, 2018 these items totalled $29.2 billion, down $2.9 billion or 9% compared with October 31, 2017. Fees, commissions and other income related to these assets contribute significantly to the Bank's profitability.

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

	2018	2017	2016
Registered and non-registered investment accounts	**$ 21,095,703**	$ 23,934,182	$ 36,323,405
Clients' brokerage assets	**4,028,458**	3,903,944	3,457,660
Mutual funds	**3,321,480**	3,673,092	3,421,933
Loans under administration	**643,675**	471,443	404,003
Institutional assets	**84,484**	78,239	72,432
Other	**7,863**	9,127	9,049
Assets under administration	**$ 29,181,663**	$ 32,070,027	$ 43,688,482

Assets related to registered and non-registered investment accounts in B2B Bank Dealer Services and LBC Financial Services were down by $2.8 billion year-over-year in part as a result of the loss of a client and to the decrease in market value of the underlying assets at the end of the year. B2B Bank Dealer Services provides account administration, clearing and settlement, and reporting services to more than 300,000 investors, through its association with independent dealers and advisors across Canada. LBC Financial Services offers a team of investment representatives who support their clients with strategies to manage their portfolios, mainly through the Bank branch network.

Clients' brokerage assets increased by $124.5 million or 3% year-over-year, essentially as a result of increased introducing brokers activity, as well as increased full-service and discount brokerage activities.

Mutual fund assets under administration in LBC Financial Services, mainly composed of the preferred series of LBC-Mackenzie mutual funds, decreased by $351.6 million or 10% year-over-year, mainly as a result of redemptions and market conditions at the end of the year.

Loans under administration, including syndication activities and loans administered for third parties, increased by $172.2 million as a result of increased commercial activity and volumes.

Derivatives

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

All derivatives are recorded on the balance sheet at fair value. Derivative values are calculated using notional amounts. However, these amounts are not recorded on the balance sheet, as they do not represent the actual amounts exchanged. Likewise, notional amounts do not reflect the credit risk related to derivatives, although they serve as a reference for determining the amount of cash flows to be exchanged. The notional amounts of the Bank's derivatives totalled $24.0 billion as at October 31, 2018 with a net negative fair value of $191.2 million.

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

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 26 details the maximum amount of additional credit that the Bank could be required to extend if the commitments are fully used.

In the normal course of its operations, the Bank also enters into guarantee agreements such as standby letters of credit and performance guarantees to support its clients. Table 19 details significant guarantees.

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

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

	2018	2017
Undrawn amounts under approved credit facilities[1]	**$ 4,305,531**	$ 5,139,954
Standby letters of credit and performance guarantees	**$ 161,906**	$ 167,903
Documentary letters of credit	**$ 8,464**	$ 6,362

(1) Excluding credit facilities revocable at the Bank's option totalling $4.1 billion as at October 31, 2018 ($4.4 billion as at October 31, 2017).

SECURITIZATION ACTIVITIES

The Bank uses structured entities to securitize residential mortgage loans, finance lease receivables and personal investment loans in order to optimize and diversify sources of funding and to enhance its liquidity position. The Bank consolidates certain of the intermediary structured entities when it has control over the entities and underlying assets, whereas certain structured entities are not consolidated when the Bank does not have control. Notes 7 and 14 to the annual consolidated financial statements, as well as the Critical accounting policies and estimates section of this MD&A provide additional information on these transactions.

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

Mortgage loan portfolio review

This section provides the summary of events related to the mortgage loans sold to (i) Canada Mortgage and Housing Corporation ("CMHC") securitization programs (previously referred to as the "Other Third-Party Purchaser") and (ii) a third-party purchaser (the "TPP"). All issues identified during 2017 or earlier in 2018 related to mortgages sold into CMHC securitization programs or insured by CMHC, as well as to mortgages sold to the TPP have been resolved in 2018, with no impact on our customers and no material impact on the Bank's business, capital, operations, liquidity and funding.

Since November 1, 2017, we have implemented improved quality control and origination processes throughout the Bank along with additional employee training. We are confident that these enhanced measures significantly have strengthened the Bank's mortgage loan origination and securitization activities.

CMHC programs

In 2017, we identified certain mortgage loans that were inadvertently portfolio insured and sold into CMHC securitization programs. These mortgage loans amounting to $88 million were repurchased at the beginning of 2018. The CMHC then completed an audit of a sample of the Bank's portfolio insured mortgage loans. The audit highlighted similar issues as those identified in 2017, as certain mortgage loans were inadvertently portfolio insured while they did not meet CMHC portfolio insurance eligibility criteria. Subsequently, we completed a review of all B2B Bank and branch-originated mortgage loan portfolios insured by CMHC. In addition, an independent third-party issued a report to the Bank on the review process and results. Further to our review and taking into account the independent third-party findings, we have identified and repurchased mortgage loans inadvertently portfolio insured and sold into CMHC securitization programs amounting to $135 million. CMHC insurance on mortgage loans inadvertently portfolio insured by CMHC but not sold to, as well as on portfolio insured mortgage loans sold into CMHC securitization programs was cancelled concurrently.

We continue to work with CMHC on reviewing and ensuring solid controls are in place, in addition to our continued engagement in the normal course audits by CMHC from time to time. In that respect and as previously announced, an independent third-party report of the adequacy of new controls implemented by the Bank with respect to the eligibility of its mortgage loans for securitization and portfolio insurance purposes will be provided to the Bank toward the end of 2018.

As previously indicated, mortgage loans identified and repurchased did not represent a credit issue as they were all performing in line with the Bank's overall mortgage portfolio and were secured by valid collateral on a property. CMHC securitization programs remained available, and the Bank has securitized mortgage loans as usual during 2018.

The following table summarizes the review of the CMHC mortgage loan portfolio.

TABLE 20
REVIEW OF THE CMHC MORTGAGE LOAN PORTFOLIO
(Millions of Canadian dollars)

		Total
Total mortgage loans sold [1]	$	5,157
Total identified mortgage loans inadvertently portfolio insured and sold, repurchased in 2018 [2]	$	223

(1) As at September 30, 2017, as reported in our 2017 Annual Report, excluding the impact of repurchases and new securitizations to CMHC. As at October 31, 2018, mortgage loans sold into CMHC's securitization programs totalled $4,487 million. The variation from what was previously disclosed is due to new securitizations, net repayments and the aforementioned repurchases.
(2) Mortgage loans inadvertently sold relate to low loan-to-value mortgage loans which did not meet CMHC criteria.

Third-party purchaser program

In 2017, we were advised by the TPP, following a normal course audit, that certain mortgage loans previously sold to the TPP did not meet their documentation and eligibility criteria.

In regards to the *B2B Bank-originated mortgage loans* sold to the TPP, we completed a full review of these mortgage loans in 2017. This review led to the Bank repurchasing $89 million of ineligible mortgage loans in 2018, as detailed in the table below. In addition, the Bank provided a cash reserve deposit to the TPP in relation to these mortgage loans, of which $23 million has initially been retained by the TPP as credit enhancements for the program. The cash reserve deposit is currently being remitted to the Bank over time as the B2B Bank originated mortgage loans amortize.

In regards to the *branch-originated mortgage loans* sold to the TPP, a comprehensive internal review of approximately 1,900 mortgage loans was completed in 2018. The mortgage loans not forming part of the sample reviewed will only be assessed at the time of their renewal or will not be subject to any review. Based on this internal review, the Bank had identified certain ineligible mortgage loans amounting to $115 million. As agreed to with the TPP, these loans were repurchased by the Bank in 2018. The TPP has also agreed to continue to consider future purchases, subject to terms and conditions to be agreed upon at the time of each purchase, including a prefunding audit of the mortgages to be purchased.

In addition, the Bank provided the TPP an additional cash reserve deposit in the initial amount of $61 million in relation to these mortgage loans. As part of the agreement with the TPP, $6 million of this cash reserve deposit was released to the Bank. The remainder of this cash reserve deposit was retained by the TPP as additional credit enhancements to the program. The cash reserve deposit is currently being remitted to the Bank over time as the branch-originated mortgage loans amortize.

As part of our internal review and as previously disclosed, we had also identified certain low loan-to-value (LTV) mortgage loans that were sold to the TPP and that did not meet the program eligibility criteria amounting to $91 million. These mortgage loans were repurchased by the Bank in 2018.

The following table summarizes the review of the TPP mortgage loan portfolio.

TABLE 21
REVIEW OF THE TPP MORTGAGE LOAN PORTFOLIO
(Millions of Canadian dollars)

	B2B Bank	Branch network	Total
Total mortgage loans sold [1]	$ 655	$ 1,157	$ 1,812
Identified ineligible mortgage loans [2]	$ 89	$ 115	$ 204
Identified mortgage loans inadvertently sold [3]	1	90	91
Total identified ineligible mortgage loans or identified mortgage loans inadvertently sold, repurchased in 2018	$ 90	$ 205	$ 295

(1) As at September 30, 2017, as reported in our 2017 Annual Report, excluding the impact of repurchases. As at October 31, 2018, mortgage loans sold to the TPP by B2B Bank and the branch network totalled $473 million and $658 million respectively. The variations from what was previously disclosed are due net repayments and the aforementioned repurchases.
(2) Mortgage loans with documentation issues ineligible for securitization.
(3) Mortgage loans inadvertently sold relate to low LTV mortgage loans which did not meet the TPP criteria for securitization.

CAPITAL MANAGEMENT

GOVERNANCE

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

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

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

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

- The ***Board of Directors*** annually approves the Capital Management and Adequacy Policy, the Capital Plan, as well as the Business Plan and Multi-Year Financial Plan.
- The ***Risk Management Committee of the Board of Directors*** reviews and approves, annually, capital-related documents, including the ICAAP and the integrated stress testing program. It also reviews the overall capital adequacy of the Bank on a quarterly basis.
- The ***Corporate Risk Committee***, mandated by the Executive Committee, monitors regulatory capital ratios on a monthly basis.
- ***Corporate Risk Management*** provides oversight of the Bank's capital management framework. This includes monitoring capital limits and adequacy, as well as developing and implementing the Capital Management and Adequacy Policy, the ICAAP and the integrated stress testing program.
- ***Corporate Finance*** develops the Business Plan which includes a Multi-Year Financial Plan and the Capital Plan annually. It is also responsible for managing capital and updating the Capital Plan on an ongoing basis, as well as measuring regulatory capital ratios. Corporate Finance also has responsibility for maintaining compliance with regulatory capital adequacy requirements for each of the subsidiaries, which may include restrictions on the transfer of assets in the form of cash, dividends, loans or advances.

REGULATORY CAPITAL

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

Under OSFI's guideline, minimum Common Equity Tier 1, Tier 1 and Total capital ratios were set at 6.375%, 7.875% and 9.875% respectively, for 2018. These ratios include the phase-in of the capital conservation buffer and of certain regulatory adjustments through 2019 and, as detailed below, phase-out of non-qualifying capital instruments through 2022, (the "transitional" basis). The guideline also

provides for annual increases in minimum capital ratio requirements, which will reach 7.0%, 8.5% and 10.5% respectively, in 2019, including the 2.5% capital conservation buffers.

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

Certain banks in Canada have been designated by OSFI as Domestic Systemically Important Banks (D-SIBs). Under this designation, these banks have been asked to hold a further 1 % of Common Equity Tier 1 capital since January 1, 2016. OSFI also requested D-SIBS to hold a domestic stability buffer to protect against risks associated with systemic vulnerabilities. The buffer level, to vary between 0% and 2.5% of risk-weighted assets, is identical for all D-SIBs and has been set at 1.5%. This buffer consists exclusively of CET1 capital and took effect in the third quarter of 2018. As the Bank has not been designated as a D-SIB, these changes do not apply and are not expected to have any effect on the Bank.

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 were considered non-qualifying capital instruments under Basel III and were subject to a 10% phase-out per year prior to the redemption on December 15, 2017. The Preferred Shares Series 13 and Series 15 fully qualify as Additional Tier 1 capital, and the notes (subordinated indebtedness) due June 22, 2027 fully qualify as Tier 2 capital under Basel III.

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

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

Regulatory capital developments

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

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

The implementation of the AIRB approach remains one of our key initiatives that should strengthen our credit risk management, optimize regulatory capital and provide a level playing field for credit underwriting activities. As such, we plan to transition to the AIRB approach in late 2020, pending regulatory approval.

Revisions to the Pillar 3 disclosure
The Pillar 3 disclosure framework seeks to promote market discipline through regulatory disclosure requirements. In March 2017, the BCBS issued the "Pillar 3 disclosure requirements – consolidated and enhanced framework", which represents the second phase of the BCBS's review of the Pillar 3 disclosure framework and builds on the first phase of revisions published in January 2015. In February 2018, the BCBS issued the consultative document "Pillar 3 disclosure requirements – updated framework", which sets out the proposals for the third phase review of the Pillar 3 disclosure framework. Together with the first phase and second phase of the revised Pillar 3 disclosure requirements, the proposed disclosure requirements would comprise the single Pillar 3 framework. We are currently reviewing the final March 2017 and proposed February 2018 framework and awaiting OSFI's related guidance.

Canadian Bank Recapitalization (Bail-in) Regime
Bail-in regimes are being implemented in a number of jurisdictions in an effort to limit taxpayer exposure to losses of a failing institution and ensure the institution's shareholders and creditors remain responsible for bearing such losses. On June 22, 2016, legislation came into force, amending certain federal statutes pertaining to banks to create a bank recapitalization, or "bail-in" regime, for the six domestic systemically important banks in Canada (D-SIBs). On April 18, 2018, the Department of Finance published bail-in regulations under the Canada Deposit Insurance Corporation (CDIC) Act and the Bank Act. Under these regulations, in circumstances when OSFI has determined that a bank may no longer be viable, the Governor in Council may, upon a recommendation of the Minister of Finance that he or she is of the opinion that it is in the public interest to do so, grant an order directing the CDIC to convert all or a portion of certain shares and liabilities of that bank into common shares. The regulations are effective September 23, 2018. As the Bank has not been designated as a D-SIB, these changes do not apply and are not expected to have any effect on the Bank.

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

Tables 22 and 23 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 22
REGULATORY CAPITAL[1]
As at October 31 (Thousands of Canadian dollars, except percentage amounts)

	2018	2017
Regulatory capital		
Common Equity Tier 1 capital	**$ 1,812,007**	$ 1,612,299
Tier 1 capital	**$ 2,056,045**	$ 1,953,899
Total capital[2]	**$ 2,472,788**	$ 2,364,589
Total risk-weighted assets[2]	**$ 20,238,803**	$ 20,426,719
Regulatory capital ratios		
Common Equity Tier 1 capital ratio	**9.0%**	7.9%
Tier 1 capital ratio	**10.2%**	9.6%
Total capital ratio	**12.2%**	11.6%

(1) The amounts are presented on an "all-in" basis.
(2) Using the Standardized approach in determining credit risk and operational risk.

As shown in the graph on the next page, the Common Equity Tier 1 capital ratio stood at 9.0% as at October 31, 2018, compared with 7.9% as at October 31, 2017. The common share offering completed in January 2018 for net proceeds of $139.2 million contributed to the improvement in capital ratios in 2018. As the Bank moves through an evolving economic environment, we replaced the preferred share issue that was redeemed on December 15, 2017 with common equity. This strengthened the Bank's capital base and provided greater flexibility to pursue organic growth, as well as to continue to invest in the implementation of our core banking system, the development of our digital solutions and the project to adopt the AIRB approach to credit risk. During the year, we also reviewed asset growth to manage capital, as well as to optimize the product mix with a view to improve profitability as we redeploy capital. These measures were only partly offset by the additional deductions to capital for intangible assets related to ongoing projects.

CHANGE IN COMMON EQUITY TIER 1 CAPITAL RATIO

(In percentage)

TABLE 23
RISK-WEIGHTED ASSETS

As at October 31 (Thousands of Canadian dollars)

	2018			2017		
	TOTAL EXPOSURE	**RISK-WEIGHTED ASSETS[1]**	**CAPITAL REQUIRE-MENTS**	TOTAL EXPOSURE	RISK-WEIGHTED ASSETS [1]	CAPITAL REQUIRE-MENTS
Exposure Class (after risk mitigation)						
Corporate	**$ 9,516,064**	**$ 9,495,820**	**$ 664,707**	$ 9,576,328	$ 9,561,494	$ 669,305
Sovereign	**7,828,063**	**59,224**	**4,146**	6,656,302	77,036	5,393
Bank	**546,723**	**113,422**	**7,940**	346,320	78,866	5,521
Retail residential mortgage loans	**19,065,558**	**3,693,064**	**258,514**	20,296,623	3,813,719	266,960
Other retail	**2,377,181**	**1,465,382**	**102,577**	2,494,944	1,549,106	108,437
Small business entities treated as other retail	**2,021,634**	**1,512,162**	**105,851**	2,228,129	1,610,688	112,748
Equity	**364,584**	**364,584**	**25,521**	292,310	292,310	20,462
Securitization	**9,255**	**9,054**	**634**	21,495	15,246	1,067
Other assets	**1,451,342**	**690,476**	**48,333**	1,174,819	637,362	44,615
	43,180,404	**17,403,188**	**1,218,223**	43,087,270	17,635,827	1,234,508
Derivatives[2]	**139,783**	**76,529**	**5,357**	111,263	54,803	3,836
Credit commitments	**1,130,227**	**1,075,661**	**75,296**	1,178,095	1,105,339	77,374
Operational risk		**1,683,425**	**117,840**		1,630,750	114,153
	$ 44,450,414	**$ 20,238,803**	**$ 1,416,716**	$ 44,376,628	$ 20,426,719	$ 1,429,870
Balance sheet items						
Cash, deposits with banks, securities and securities financing transactions		**$ 761,829**			$ 748,999	
Personal loans		**1,799,266**			1,925,806	
Residential mortgage loans		**4,003,333**			4,311,313	
Commercial loans and acceptances		**10,356,401**			10,256,178	
Other assets		**482,359**			393,531	
		$ 17,403,188			$ 17,635,827	

(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, 2018 was $27.1 million for CET1 capital risk-weighted assets, $28.1 million for Tier 1 capital risk-weighted assets and $29.1 million for Total capital risk-weighted assets ($24.2 million, $26.0 million and $27.3 million respectively as at October 31, 2017). Risk-weighted assets above are presented based on the CET1 capital approach.

BASEL III LEVERAGE RATIO

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

As detailed in the table below, the leverage ratio stood at 4.5% as at October 31, 2018 and exceeded current requirements.

TABLE 24
BASEL III LEVERAGE RATIO
As at October 31 (Thousands of Canadian dollars, except percentage amounts)

	2018	2017
Tier 1 capital	**$ 2,056,045**	$ 1,953,899
Total exposures	**$ 46,042,387**	$ 46,673,239
Basel III leverage ratio	**4.5%**	4.2%

DIVIDENDS

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

On December 4, 2018, the Board of Directors declared a quarterly dividend of $0.65 per common share, payable on February 1, 2019, to shareholders of record on January 2, 2019. This quarterly dividend is up 5% compared with the dividend declared one year ago. The Board of Directors also determined that shares attributed under the Bank's Shareholder Dividend Reinvestment and Share Purchase Plan will be made in common shares issued from treasury at a 2% discount.

TABLE 25
SHARE DIVIDENDS AND PAYOUT RATIO
(Thousands of Canadian dollars, except per share and percentage amounts)

	2018	2017	2016
Dividends declared on preferred shares	**$ 13,688**	$ 16,688	$ 13,006
Dividends declared per common share	**$ 2.54**	$ 2.46	$ 2.36
Dividends declared on common shares	**$ 104,493**	$ 86,560	$ 73,622
Dividend payout ratio	**49.6%**	45.7%	53.1%
Adjusted dividend payout ratio[1]	**45.9%**	40.5%	42.4%

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

RISK APPETITE AND RISK MANAGEMENT FRAMEWORK

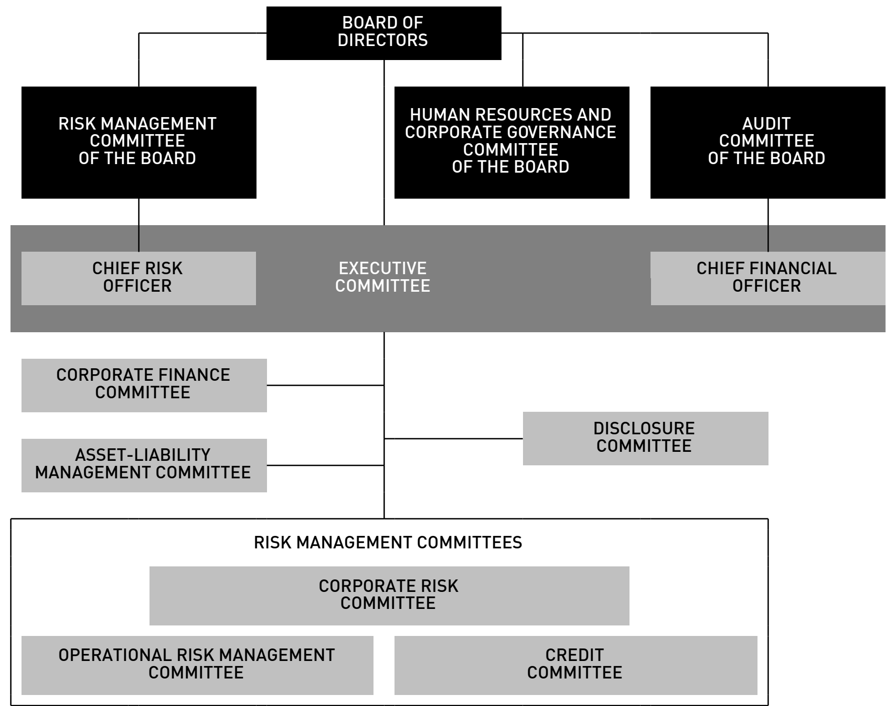
The shaded areas in the following sections of this MD&A represent a discussion on risk management policies and procedures relating to credit, market, and liquidity and funding risks as required under IFRS 7, *Financial Instruments - Disclosures*, which permits these specific disclosures to be included in the MD&A. Therefore, these shaded areas form an integral part of the annual consolidated financial statements for the years ended October 31, 2018 and 2017.

RISK CULTURE

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

RISK GOVERNANCE STRUCTURE

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



Roles and responsibilities of the Board of Directors' committees

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

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

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

The *Audit Committee of the Board* is responsible for supporting the Board of Directors in overseeing the integrity of the Bank's financial statements, the relevance and effectiveness of its internal controls, the qualifications and independence of the external auditor and the performance of the internal audit function and of the external auditor.

Roles and responsibilities of other risk management committees of the Bank

The *Executive Committee*, chaired by the President and Chief Executive Officer, is the Bank's ultimate risk management committee. It ensures that the Risk Management Framework is properly implemented. Senior management plays an active role in identifying, assessing and managing risk and is responsible for implementing the necessary framework for regulatory, strategic, reputational and insurance risk management. The Executive Committee assists the Risk Management Committee of the Board, in assessing and reviewing the risk management policies on key risks.

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

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

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

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

The *Operational Risk Management Committee*, chaired by the Senior Vice President, Integrated Risk Management, reviews the operational risk management policies and the reports on operational losses incurred. Furthermore, it reviews and approves tools for identifying and assessing the frequency and the impact of operational risks. The Operational Risk Management Committee is responsible for monitoring business continuity plans and fraud prevention. The Operational Risk Management Committee reports into the Corporate Risk Committee.

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

RISK MANAGEMENT FRAMEWORK

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

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

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

- 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.

The Framework outlines the Bank's process for identification of material risks. This process is achieved using a central risk registry that is applicable to the entire enterprise. By using a common taxonomy, the risk registry process ensures that all levels of the organization speak the same language when it comes to risk management. Tolerances are established within the Framework for each identified material risk.

RISK APPETITE

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

Risk appetite is defined as the risk level that the organization is prepared to accept to achieve its financial and strategic objectives. It is defined by business niche, type and level of risk, performance objectives, capital, liquidity, and external ratings. It is restricted by tolerance limits.

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

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

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

INTEGRATED STRESS TESTING PROGRAM

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

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

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

CRISIS RECOVERY PLAN

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

FUNCTIONS SUPPORTING RISK MANAGEMENT

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

- *Operations* are key to risk management as business unit managers take risks and are accountable for their ongoing management. They are on the front lines to identify and actively manage risks by applying the risk policies and implementing controls and risk mitigation measures. They are the first line of defence.
- The *Control Environment* hinges on five functions: risk management, regulatory risk management, financial certification, human resources and strategic planning. Together these groups provide independent oversight, effective challenge, and independent assessment of risk management practices. The risk management, regulatory risk functions, and select corporate functions constitute the second line of defence of the Bank.
- The *Internal Audit* function also plays a key role as a third line of defence. It is responsible for implementing and maintaining a reliable and comprehensive system to adequately monitor the effectiveness of controls exercised within the different Framework functions.

In addition, regulatory and statutory requirements are an integral part of the Bank's Framework.

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

RISK MANAGEMENT PROCESS

The Bank's risk management processes are closely tied to the strategic planning process from which the Bank's strategic and business plans are derived. These processes converge during the development of the Bank's integrated financial plan. Policies approved by the Board are implemented by the business units and their application monitored by the appropriate risk management committees.

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

CREDIT RISK MANAGEMENT

Credit risk

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

Credit risk management

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

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

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

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

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

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

In addition to individual allowances, the Bank maintains collective allowances to cover impairment for all individually insignificant loans, as well as for loans that have been assessed for impairment individually and found not to be impaired. The collective allowances cover impairment due to incurred but not identified loss events. To establish collective allowances, the Bank uses credit risks models based on the internal risk rating of credit facilities. The key parameters driving these models are:

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

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

Additional information on impaired loans and allowances is provided in Tables 27, 28 and 29.

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

Loan portfolio mix is detailed in the following pages

Derivative-related credit risk

Most of the Bank's credit concentration in derivatives lies with financial institutions, primarily Canadian banks. Credit risk in derivative transactions arises from a potential counterparty default on contractual obligations when one or more transactions have a positive replacement cost for the Bank. Replacement cost represents what it would cost to replace transactions at prevailing market conditions in the event of a default. The credit equivalent amount arising from a derivative transaction is defined as the sum of the replacement cost plus an estimated amount reflecting the potential change in market value of the transaction through to maturity.
Derivative-related credit risk is generally managed using the same credit approval, limit and monitoring standards as those used for managing other credit transactions. Moreover, the Bank negotiates derivative master netting agreements with all significant counterparties with which it contracts. These agreements reduce credit risk exposure in the event of a default by providing for the simultaneous netting of all transactions with a given counterparty. These contracts also allow the Bank to require the counterparty to pay or guarantee the current market value of its positions when the value exceeds a given threshold. For all significant financial counterparties, the Bank actively manages these rights and requires collateral daily.

Wrong-way risk

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

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

Exposure to credit risk

The amount that best represents the Bank's exposure to credit risk as at October 31, 2018 and 2017 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 26
EXPOSURE TO CREDIT RISK
As at October 31 (Millions of Canadian dollars)

	2018	2017
Financial assets, as stated in the consolidated balance sheet[1]	$ 44,913	$ 45,863
Credit commitments[2]	$ 4,314	$ 5,146
	$ 49,227	$ 51,009

(1) Excluding equity securities and potential exposures for derivatives.

(2) Excluding credit facilities revocable at the Bank's option totalling $4.1 billion as at October 31, 2018 ($4.4 billion as at October 31, 2017).

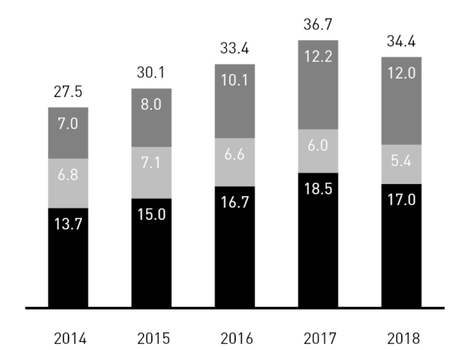
Loan portfolio mix

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

Reflecting the Bank's strong presence with personal clients through its branch network and through independent brokers and advisors, exposures related to personal loans and residential mortgage loans represented 65% of the Bank's total loan portfolio as at October 31, 2018, compared with 67% a year ago. Commercial loans, including customers' liabilities under acceptances accounted for 35% of total loans as at October 31, 2018, compared with 33% a year ago.

LOAN PORTFOLIO MIX

As at October 31 (in billions of Canadian dollars)



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

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, 2018, this portfolio totaled $5.4 billion, a decrease of $0.7 billion compared with October 31, 2017, mainly due to net repayments in the investment loan portfolio, reflecting expected attrition given some deleveraging in the retail consumer market.

Residential mortgage loans

The residential mortgage loan portfolio includes retail mortgage loans secured by one- to four-unit dwellings. As at October 31, 2018, this portfolio amounted to $17.0 billion and decreased by $1.5 billion or 8% during fiscal 2018. This mostly reflects a gradual decrease in origination as we focus on higher yielding commercial loans in order to optimize the product mix. The decision of Retail Services to solely originate residential mortgages through the branch network and no longer through the mortgage broker channel in Quebec as of November 1, 2017 also contributed to the decrease in volumes. Furthermore, as expected, since January 1, 2018 growth was slowed by the newly applicable OSFI B-20 mortgage underwriting regulation and the ensuing challenging prime mortgage market conditions. The decrease was partly offset by the acquisition of mortgage loans originated by third parties as part of our program initiated in 2016 to optimize the usage of National Housing Act mortgage-backed securities (NHA MBS) allocations.

The residential mortgage loan portfolio contributes to improved geographic diversification across Canada and therefore enhances the overall profile of the Bank. Table 28 presents the geographic distribution of residential mortgage loans.

Commercial loans

The commercial loan portfolio, including customers' liabilities under acceptances, comprises loans to business customers in specific markets where the Bank can efficiently compete across Canada, as well as in the U.S. through NCF. As at October 31, 2018, the commercial loan portfolio amounted to $12.0 billion, down $135.1 million or 1% from $12.2 billion as at October 31, 2017. In 2018, the good organic growth, mainly in inventory financing and in real estate financing, was offset by the decrease in lower yielding segments as a result of measures aimed at optimizing the Bank's portfolio mix. At the end of the second quarter of 2018, we reduced exposures to lower-yielding commercial loan portfolios and divested the $380 million agricultural loan portfolio. During the second half of the year, we also reduced exposure to the Energy and Infrastructure sector and completed the sale of other commercial loans for a total of $328 million. LBC Capital Inc.'s equipment financing activities also contributed substantially to the Bank's commercial activities, strengthening its presence in this market since 2016. The commercial loan portfolio also includes real estate financing loans mostly to developers of revenue-generating properties. The average loan carrying value for real estate financing loans was $3.5 million as at October 31, 2018 and $3.0 million as at October 31, 2017.

The commercial loan portfolio covers a wide range of industries, with no specific industry accounting for more than 10% (9% in 2017) of total loans and acceptances, demonstrating good diversification and risk management.

See Table 27 for additional information.

TABLE 27

DISTRIBUTION OF LOANS BY CREDIT PORTFOLIO AND INDUSTRY

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

2018

	GROSS AMOUNT OF LOANS	**GROSS AMOUNT OF IMPAIRED LOANS**	**INDIVIDUAL ALLOWANCES**	**COLLECTIVE ALLOWANCES AGAINST IMPAIRED LOANS**	**NET IMPAIRED LOANS[1]**	**COLLECTIVE ALLOWANCES AGAINST OTHER LOANS**	**PROVISION FOR CREDIT LOSSES[2]**
Personal	$ 5,372,468	$ 19,805	$ —	$ 4,844	$ 14,961	$ 18,665	$ 21,157
Residential mortgage	16,986,338	37,134	—	2,104	35,030	7,816	3,363
Commercial and other[3]							
Construction[4]	3,371,271	11,351	3,952	109	7,290	10,752	2,125
Real estate, renting and lease	2,928,416	5,654	274	580	4,800	7,880	674
Inventory financing	1,784,227	7,744	332	—	7,412	1,999	4,177
Other services and government	668,603	22,323	3,153	1,405	17,765	2,861	1,048
Public utilities	494,445	—	—	—	—	861	17
Wholesale and retail	476,289	32,281	14,709	32	17,540	1,417	10,166
Financial services	447,660		—	16	(16)	453	5
Manufacturing	350,923	12,345	1,553	26	10,766	805	599
Transportation and communication	254,335	875	—	205	670	207	39
Transformation and natural resources	173,958	3	—	—	3	364	3
Agriculture	65,436	—	—	—	—	15	47
Other	1,020,319	31,755	4,469	415	26,871	753	580
	12,035,882	124,331	28,442	2,788	93,101	28,367	19,480
Total	$ 34,394,688	$ 181,270	$ 28,442	$ 9,736	$ 143,092	$ 54,848	$ 44,000
As a % of loans and acceptances		0.53%			0.42%		

2017

	GROSS AMOUNT OF LOANS	GROSS AMOUNT OF IMPAIRED LOANS	INDIVIDUAL ALLOW-ANCES	COLLECTIVE ALLOWANCES AGAINST IMPAIRED LOANS	NET IMPAIRED LOANS[1]	COLLECTIVE ALLOWANCES AGAINST OTHER LOANS	PROVISION FOR CREDIT LOSSES[2]
Personal	$ 6,038,692	$ 20,874	$ —	$ 11,462	$ 9,412	$ 16,687	$ 24,823
Residential mortgage	18,486,449	30,326	—	2,703	27,623	8,078	3,027
Commercial and other[3][5]							
Construction[4]	3,295,213	15,917	2,281	1,741	11,895	10,049	(712)
Real estate, renting and lease	3,150,640	4,856	498	731	3,627	9,097	2,143
Inventory financing	1,228,540	8,509	471	—	8,038	497	1,053
Public utilities	884,057	—	—	—	—	284	96
Other services and government	843,009	9,993	6,143	864	2,986	4,691	6,036
Wholesale and retail	577,058	19,082	8,542	—	10,540	2,325	(1,111)
Agriculture	486,548	104	—	—	104	1,230	(45)
Financial services	482,751	1,392	1,244	—	148	1,302	(164)
Manufacturing	392,593	1,032	177	294	561	945	(1,071)
Transportation and communication	291,600	10	—	—	10	301	(1,145)
Transformation and natural resources	212,745	340	294	1	45	326	338
Other	326,262	39,456	5,151	32	34,273	745	3,732
	12,171,016	100,691	24,801	3,663	72,227	31,792	9,150
Total	$ 36,696,157	$ 151,891	$ 24,801	$ 17,828	$ 109,262	$ 56,557	$ 37,000
As a % of loans and acceptances		0.41%			0.30%		

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

(2) Recorded in the consolidated statement of income.

(3) Including customers' liabilities under acceptances.

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

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

Impaired loans

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

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

Gross impaired loans amounted to $181.3 million as at October 31, 2018, up $29.4 million or 19% compared with October 31, 2017 mostly due to commercial exposures. In 2018, individual allowances on commercial loans increased by $3.6 million to $28.4 million, mainly as a result of the $10.0 million allowance on the aforementioned single syndicated commercial exposure, partly offset by settlements of a limited number of accounts since the beginning of the year. Collective allowances against impaired loans also decreased by $8.1 million over the same period, essentially in personal loans. Collective allowances against other loans amounted to $54.8 million as at October 31, 2018, down $1.7 million compared with October 31, 2017, essentially in commercial loans. Despite the lower level of allowances, the Bank remains comfortably provisioned as overall credit conditions continue to provide strong support to lending activities. In addition, the Bank's loan portfolio is generally well collateralized, which reduces potential exposures. See Note 6 to the annual consolidated financial statements for additional information.

Geographic distribution of loans

The Bank operates across Canada and in the U.S. As at October 31, 2018, the geographic distribution of total loans was as follows: 7% in British Columbia and Territories, 7% in Alberta and the Prairies, 33% in Ontario, 46% in Quebec, 2% in the Atlantic provinces and 5% in the United States.

Tables 28 and 29 below present the geographic distribution of gross loans and impaired loans. The evolution of the geographic distribution in 2018 compared with 2017 is consistent with our strategy to diversify our operations.

TABLE 28
GEOGRAPHIC DISTRIBUTION OF LOANS BY CREDIT PORTFOLIO
As at October 31 (Thousands of Canadian dollars, except percentage amounts)

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

					2017
	PERSONAL LOANS	RESIDENTIAL MORTGAGE LOANS	COMMERCIAL LOANS AND OTHER[1][2]	GROSS AMOUNT OF LOANS	GROSS AMOUNT OF LOANS (IN %)
British Columbia and Territories	$ 657,018	$ 1,112,994	$ 523,047	$ 2,293,059	6.2%
Alberta and Prairies	580,111	1,167,311	708,694	2,456,116	6.7%
Ontario	2,062,513	6,576,591	3,591,558	12,230,662	33.3%
Quebec	2,524,854	9,323,423	5,970,047	17,818,324	48.6%
Atlantic provinces	212,624	306,130	234,872	753,626	2.1%
United States	1,572	—	1,142,798	1,144,370	3.1%
	$ 6,038,692	$ 18,486,449	$ 12,171,016	$ 36,696,157	100.0%

(1) Including customers' liabilities under acceptances.

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

TABLE 29

GEOGRAPHIC DISTRIBUTION OF IMPAIRED LOANS BY CREDIT PORTFOLIO

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

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

					2017
	PERSONAL LOANS	RESIDENTIAL MORTGAGE LOANS	COMMERCIAL LOANS AND OTHER[1][2]	GROSS AMOUNT OF IMPAIRED LOANS	GROSS AMOUNT OF IMPAIRED LOANS (IN %)
British Columbia and Territories	$ —	$ 1,295	$ 3	$ 1,298	0.9%
Alberta and Prairies	119	4,373	271	4,763	3.1%
Ontario	17,021	7,634	33,528	58,183	38.3%
Quebec	3,732	15,742	58,464	77,938	51.3%
Atlantic provinces	2	1,282	—	1,284	0.9%
United States	—	—	8,425	8,425	5.5%
	$ 20,874	$ 30,326	$ 100,691	$ 151,891	100.0%

(1) Including customers' liabilities under acceptances.

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

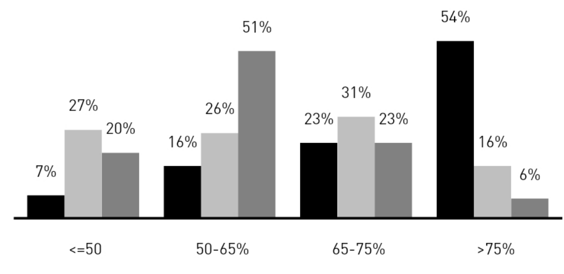
Insurance and guarantees held in respect of loan portfolios

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

Mortgage Insurers offer mortgage loan insurance programs which reduce the overall credit risk associated with the residential mortgage loan portfolio. The Bank also insures pools of mortgage loans through a specific CMHC insurance program. Moreover, by maintaining insured residential mortgage loans, the Bank retains its capacity to engage in securitization operations to finance its activities at optimal cost and manage its cash resources. By the end of fiscal 2018, 44% of residential mortgage loans secured by one- to four-unit dwellings were insured, compared with 47% as at October 31, 2017. The Bank also holds guarantees in respect of the real estate property for the other conventional mortgage loans, including HELOCs. In accordance with legal requirements, the non-amortizing HELOC component of a residential mortgage is limited to a maximum authorized loan-to-value ratio of 65%. Additional mortgage credit (beyond the loan-to-value ratio limit of 65% for HELOCs) can be extended to a borrower. However, the loan portion over the 65% loan-to-value ratio threshold must be amortized. The total loan value of the Bank's conventional mortgage loans never exceeds 80% of the initially estimated value of the property, in accordance with legal requirements.

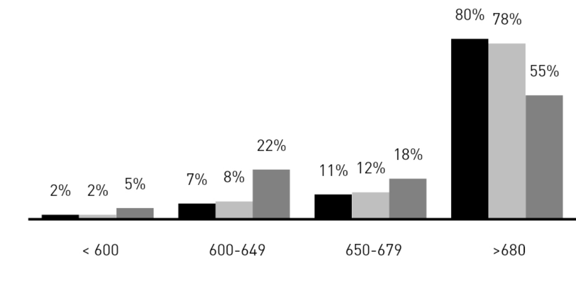
The following graphs provide further information on the quality of the Bank's residential mortgage loan portfolio.

LOAN-TO-VALUE DISTRIBUTION
As at October 31, 2018



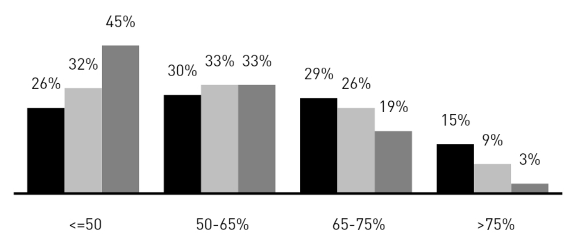
■ INSURED ■ CONVENTIONAL ■ ALT-A

BEACON DISTRIBUTION
As at October 31, 2018



■ INSURED ■ CONVENTIONAL ■ ALT-A

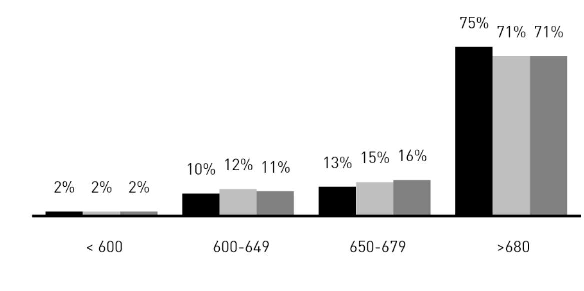
GEOGRAPHIC LOAN-TO-VALUE DISTRIBUTION (UNINSURED) [1]
As at October 31, 2018



■ CANADA ■ GREATER TORONTO AREA ■ GREATER VANCOUVER AREA

(1) Uninsured includes conventional and Alt-A

GEOGRAPHIC BEACON DISTRIBUTION (UNINSURED) [1]
As at October 31, 2018



■ CANADA ■ GREATER TORONTO AREA ■ GREATER VANCOUVER AREA

(1) Uninsured includes conventional and Alt-A

As at October 31, 2018, the estimated average loan-to-value ratio was 68% for insured residential mortgage loans and 57% for uninsured residential mortgage loans, including the authorized limit for related HELOCs.

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

Commercial loans, are generally secured by a wide range of assets such as real estate, equipment, receivables and inventories, as well as, in certain cases, additional liens on real estate and other fixed assets. Real estate financing loans are secured by specific assets, such as five and more unit dwellings, smaller retail multi-unit dwellings, commercial properties, office buildings, shopping centers and other properties. In general, the value of these loans does not exceed 60% to 75% of the initially estimated value of the property, depending on the nature of the loan.

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

Loan underwriting for HELOCs allows for the assessment of client credit risk. In addition, real estate assets and other assets collateralize these loans. Finally, 8% of the Bank's personal loan portfolio as at October 31, 2018 consisted of student loans and loans granted under the Immigrant Investor Program, which are guaranteed by the federal or provincial government.

Other guarantees held

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

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

As at October 31, 2018, the approximate market value of collateral pledged to the Bank related to assets purchased under reverse repurchase agreements was $5.3 billion ($4.2 billion as at October 31, 2017).

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, currency exchange rates or equity prices. This risk is inherent to the Bank's financing, investment, trading and asset and liability management (ALM) activities.

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

Foreign exchange risk is the risk of losses from adverse fluctuations in currency exchange rates. Assets and liabilities that are denominated in foreign currencies have foreign exchange risk.

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

Market risk governance: policies and standards

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

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

- Daily for investment portfolios, to Corporate Risk Management and portfolio managers;
- Weekly for structural interest rate risk, to Corporate Risk Management, Corporate Treasury managers and Executive Committee;
- Monthly for structural foreign-exchange risk, to Corporate Risk Management, Corporate Treasury managers and Executive Committee; and,
- Quarterly, to the Executive Committee and to the Risk Management Committee of the Board.

Market risk assessment and management

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

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

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 consider 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

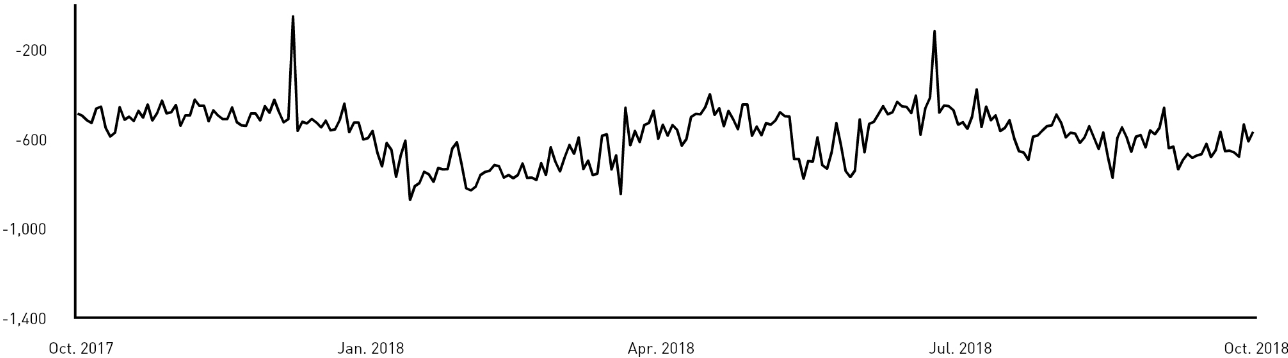
Parallel to VaR calculations, the impact of stress tests on profits and losses is assessed for the trading and investment portfolios and the ensuing results are used to assess the impact of exceptional but plausible market situations. Stress tests constitute a complementary risk measure to VaR and are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

Trading activities

Trading activities are aligned with the needs of the Bank and its customers. The market risk associated with trading activities ensues from activities for which the Bank acts as the principal or agent for its customers. The graph below presents the daily total VaR of the trading portfolio for the 2018 fiscal year.

DAILY TRADING VaR

For the year ended October 31, 2018 (in thousands of Canadian dollars)



Asset and liability management activities

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

Structural interest rate risk management requires monitoring of four distinct portfolio groups:

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

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

Structural interest rate risk is globally managed by the Bank's Corporate Treasury. The Asset-Liability Management Committee and the Executive Committee provide ongoing governance of structural risk measurement and management through risk policies, limits, operating standards and other controls in accordance with the Treasury and Capital Market Risks Policy. This policy, which is approved by the Risk Management Committee of the Board, defines limits relative to the measurement of the economic value of shareholders' equity and net interest income risks.

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

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

To ensure sound management of structural interest rate risk, a repricing gap report is produced weekly. This report is then used as the basis for the simulation analysis of the impact of interest rate variation on net interest income and economic value of common shareholders' equity. One of the simulation exercises consists of subjecting the Bank's balance sheet to a sudden parallel and sustained 1% increase and decrease in interest rates. As shown in Table 29, a 1% increase in interest rate would have triggered an increase of approximately $13.5 million in net interest income before taxes over the next 12 months and a $37.7 million negative impact on the economic value of common shareholders' equity as at October 31, 2018.

The Bank aims to limit its overall exposure to rapid shifts in interest rates. However, the timing of Bank of Canada overnight rate changes and ensuing variations in the prime rate and short-term bankers' acceptances (BA) rates can temporarily impact margins. As such, fluctuations in net interest income may occur, but within controlled tolerance margins.

The Bank's interest rate gap position as at October 31, 2018 is presented in Note 24 to the annual consolidated financial statements. The estimates are based on several 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;
- Structural assumptions about customer behaviour;
- 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 30

SENSITIVITY ANALYSIS OF THE STRUCTURAL INTEREST RATE RISK

As at October 31 (Thousands of Canadian dollars)

	2018		2017	
	EFFECT ON NET INTEREST INCOME[1]	**EFFECT ON THE ECONOMIC VALUE OF COMMON SHAREHOLDERS' EQUITY[2]**	EFFECT ON NET INTEREST INCOME[1]	EFFECT ON THE ECONOMIC VALUE OF COMMON SHAREHOLDERS' EQUITY[2]
Change in interest rates				
Increase of 100 basis points	**$ 13,548**	**$ (37,671)**	$ 21,149	$ (49,266)
Decrease of 100 basis points	**$ (17,508)**	**$ 37,166**	$ (22,897)	$ 67,656

(1) Over the next 12 months.

(2) Net of income taxes.

Foreign exchange risk

Structural foreign exchange risk

Foreign exchange risk is monitored using notional limits and other sensitivity analysis for trading operations as described above. The Bank is exposed to foreign exchange risk mainly through its investment in a U.S. foreign operation. These exposures can have an impact on earnings, shareholders' equity and capital ratios. The Bank uses derivative financial instruments to minimize this impact. When the Canadian dollar fluctuates against the U.S. dollar, unrealized translation gains or losses on the net investment in foreign operations, net of related hedges, impact accumulated other comprehensive income in shareholders' equity. In addition, the Canadian dollar equivalent of risk-weighted assets denominated in U.S. dollars and capital deductions is impacted.
The Bank is also exposed to foreign exchange risk through foreign exchange positions related to commercial activities in its Canadian operations, as well as through positions held to support the supply of products and services in currencies other than the Canadian dollar. In the normal course of business, the Bank also uses foreign exchange derivative financial instruments to hedge its exposure to structural foreign exchange risk.
For non-trading activities, as at October 31, 2018, assets and liabilities carried in Canadian entities and denominated in U.S. dollars amounted to $654.0 million ($697.4 million as at October 31, 2017) and $524.7 million ($518.1 million as at October 31, 2017) respectively. As at October 31, 2018, regarding these positions, the effect of a sudden 5% change in foreign exchange rates would have no significant impact on net income and shareholders' equity.

Currencies other than U.S. dollars are generally bought and sold solely to meet specific customer needs. Thus, the Bank has very limited exposure to these currencies. Assets and deposit liabilities in other foreign currencies were essentially denominated in British pounds and Euros and amounted to $26.9 million ($18.8 million as at October 31, 2017) and $14.7 million ($14.4 million as at October 31, 2017) respectively.

Trading activities

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

Equity risk

The Bank's equity positions consist primarily of Canadian and U.S. publicly traded securities and, thus, portfolio sensitivity generally correlates to Canadian and U.S. stock market performance. A portion of the Bank's equity positions is used to hedge index-linked deposits. In addition, the Bank has equity exposures through its pension plans. As at October 31, 2018, a fluctuation in the stock markets of 10% would have had a $17.7 million impact on the Bank's shareholders' equity ($17.7 million as at October 31, 2017).

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 Corporate Risk Management and by the Corporate Risk Committee, and ultimately by the Risk Management Committee of the Board in accordance with the policies governing funding and liquidity and collateral management. The main purpose of these policies is to ensure that the Bank has sufficient cash resources to meet its current and future financial obligations, under both normal and stressed conditions.

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

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

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

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

The Bank's liquid assets held to satisfy liquidity requirements must be high quality securities that the Bank believes can be monetized quickly in stress conditions with minimum loss in market value. More than 85% of the Bank's high quality liquid assets are invested in Level 1 assets. These assets are Central Bank eligible and can be easily sold or given as collateral during a time of stress. A liquidity contingency plan is prepared and reviewed on a regular basis. It guides the Bank's actions and responses to potential liquidity crises.

The Bank also manages its liquidity to comply with the regulatory liquidity metrics in the OSFI domestic Liquidity Adequacy Requirements (LAR) Guideline. These regulatory metrics include the Liquidity Coverage Ratio (LCR), drawn on the BCBS international Basel III liquidity framework, and the OSFI-designed Net Cumulative Cash Flow (NCCF) supervisory tool. The LCR requires that banks maintain a sufficient stock of high-quality liquid assets to meet net short-term financial obligations over a thirty-day period in an acute stress scenario. The Bank remained compliant with the LAR Guideline throughout the year ended October 31, 2018.

Regulatory developments concerning liquidity

The aforementioned Basel III liquidity framework also outlines the Net Stable Funding Ratio (NSFR) as a minimum regulatory standard. The NSFR measures the proportion of long-term assets which are funded by long-term, stable funding. Based on implementation progress at the international level, OSFI has determined that it will target a revised NSFR implementation date for Canadian deposit-taking institutions of January 2020 for D-DSIBs. We are awaiting confirmation from OSFI for non D-SIBs.

Liquid assets

The Bank's liquid assets consist of cash and non-interest bearing deposits with banks, interest-bearing deposits with banks, securities, as well as securities purchased under reverse repurchase agreements. They are mainly composed of low-credit risk direct investments in or transactions secured by marketable securities issued or guaranteed by the Canadian government, provinces or municipal corporations. As at October 31, 2018, these assets totalled $10.2 billion, an increase of $1.2 billion compared to the level held on October 31, 2017.

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

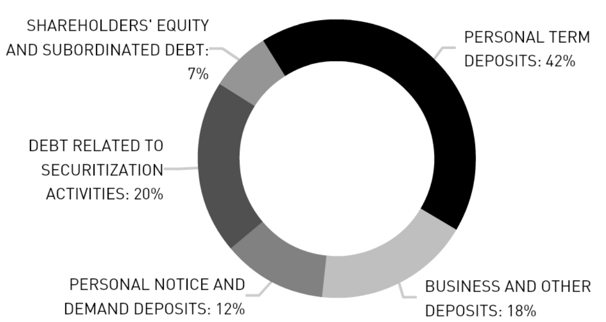
These liquid assets provide the Bank with flexibility to manage its loan and deposit portfolio maturities and commitments, and meet other current operating needs. Management of the liquid assets, both in terms of optimizing levels and mix, contributes significantly to the Bank's results.

Funding

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

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

FUNDING SOURCES
As at October 31, 2018 (as a percentage)



Personal deposits

Personal deposits include notice, demand and term deposits sourced through the Bank's retail branch network and through independent brokers and advisors. A significant proportion of these deposits are insured by the Canada Deposit Insurance Corporation, up to $100,000 per client, per regulated deposit-taking financial institution, which contributes to their stability. Deposits sourced through independent brokers and advisors are mainly drawn from brokers affiliated with all major Canadian banks, as well as by a well-established extended network of independent financial advisors. As well, more than 80% of those deposits are term deposits as at October 31, 2018.

Personal deposits decreased by 1% to $21.0 billion as at October 31, 2018, compared with $21.2 billion as at October 31, 2017 as shown in Table 31. The decrease was mainly driven by lower demand deposits sourced through the branch network and from independent brokers and advisors, partly offset by higher term deposits sourced through independent brokers and advisors. Retail deposits sourced through the branch network have decreased by 3% since October 31, 2017, mainly as a result of increased competition.

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

Business, banks and other deposits

Deposits from businesses, banks and other decreased by $0.7 billion since October 31, 2017 to $7.0 billion as at October 31, 2018. These deposits contribute to the diversification of the Bank's funding sources and to the active management of its liquidity levels. They are sourced from an institutional clientele and the Bank's network of account managers serving commercial clients.

TABLE 31
DEPOSITS
As at October 31 (Thousands of Canadian dollars, except percentage amounts)

	2018		2017	
Personal				
Notice and demand				
Branch network	**$ 2,388,528**	**8.5%**	$ 2,583,101	8.9%
Independent brokers and advisors	**2,112,976**	**7.6**	2,443,505	8.5
	4,501,504	**16.1**	5,026,606	17.4
Term				
Branch network	**4,769,308**	**17.0**	4,792,799	16.6
Independent brokers and advisors	**11,724,641**	**41.9**	11,379,577	39.3
	16,493,949	**58.9**	16,172,376	55.9
	20,995,453	**75.0**	21,198,982	73.3
Business, banks and other				
Notice and demand	**1,999,377**	**7.1**	2,199,952	7.6
Term	**5,011,742**	**17.9**	5,531,426	19.1
	7,011,119	**25.0**	7,731,378	26.7
Deposits	**$ 28,006,572**	**100.0%**	$ 28,930,360	100.0%

Credit ratings

Personal deposits, collected through the branch network and independent brokers and advisors, constitute the most important source of financing for the Bank. The Bank also relies on the wholesale markets to obtain financing through securitization and unsecured financing. The Bank's capacity to obtain such financing, particularly with regard to wholesale funding, as well as the related conditions, are tied to the credit ratings set by rating agencies such as DBRS and Standard & Poor's Rating Services (S&P). Revisions of the Bank's credit ratings may therefore influence the financing of operations, as well as requirements regarding guarantees.

The Bank monitors weekly the impact of a hypothetical downgrade of its credit rating on the collateral requirements. As at October 31, 2018, additional collateral that would be required in the event of a one to three notch rating downgrade was not significant.

On April 27, 2018, Standard and Poor's (S&P) removed the ratings from CreditWatch[1] with negative implications, where they had been placed on December 20, 2017 and affirmed our BBB long-term and A-2 short-term issuer credit ratings, while maintaining the negative outlook[2]. Ratings were confirmed by S&P on June 28, 2018.

On December 11, 2017, DBRS confirmed our A (low) rating on deposits and senior debt and R-1 (low) rating on short-term instruments. In addition, DBRS revised its trends on long-term ratings to negative from stable[3].

Table 32 presents the Bank's credit ratings as established by the rating agencies.

TABLE 32
CREDIT RATINGS
As at November 29, 2018

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

(1) CreditWatch highlights S&P's opinion regarding the potential direction of a short-term or long-term rating, and focuses on identifiable events and short-term trends that cause ratings to be placed under special surveillance.

(2) 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.

(3) Each DBRS rating category is appended with one of three rating trends —"Positive," "Stable," "Negative"— in addition to "Under Review." The rating trend helps to give investors an understanding of DBRS's opinion regarding the outlook for the rating in question. However, investors must not assume that a positive or negative trend necessarily indicates that a rating change is imminent.

Contractual obligations

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

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

The following table summarizes the remaining contractual maturity for the Bank's significant financial liabilities and other contractual obligations as at October 31, 2018 and 2017. The amounts disclosed in the following table are the contractual undiscounted cash flows of financial liabilities and exclude premiums, discounts or mark-to-market adjustments recognized in the instruments' carrying values as at the balance sheet date. Note 29 to the annual consolidated financial statements provides further information on other contractual obligations.

The Bank is also exposed to liquidity risk when it contracts credit commitments. As at October 31, 2018, these commitments amounted to approximately $4.3 billion ($5.1 billion as at October 31, 2017), excluding credit facilities unconditionally revocable at the Bank's option.

TABLE 33

CONTRACTUAL OBLIGATIONS[1]

As at October 31 (Thousands of Canadian dollars)

						2018
		TERM				
	DEMAND AND NOTICE	UNDER 1 YEAR	1 TO 3 YEARS	3 TO 5 YEARS	OVER 5 YEARS	TOTAL
Financial liabilities						
Deposits						
Personal	$ 4,501,504	$ 7,273,402	$ 6,548,714	$ 2,620,368	$ 102,482	$ 21,046,470
Business, banks and other	1,999,377	2,965,403	1,372,278	779,743	3,017	7,119,818
Obligations related to securities sold short	—	3,008,666	—	—	—	3,008,666
Obligations related to securities sold under repurchase agreements	—	2,515,823	—	—	—	2,515,823
Debt related to securitization activities	—	1,546,129	3,610,838	2,366,379	370,512	7,893,858
Subordinated debt	—	—	—	350,000	—	350,000
Derivatives[2]	—	24,928	33,135	13,610	6,123	77,796
	6,500,881	17,334,351	11,564,965	6,130,100	482,134	42,012,431
Other contractual obligations						
Commitments under leases, technology services and other contracts	—	113,326	124,277	75,942	188,711	502,256
Total	$ 6,500,881	$ 17,447,677	$ 11,689,242	$ 6,206,042	$ 670,845	$ 42,514,687

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

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

						2017
		TERM				
	DEMAND AND NOTICE	UNDER 1 YEAR	1 TO 3 YEARS	3 TO 5 YEARS	OVER 5 YEARS	TOTAL
Financial liabilities						
Deposits						
Personal	$ 5,026,606	$ 7,695,011	$ 6,626,628	$ 1,802,599	$ 88,988	$ 21,239,832
Business, banks and other	2,199,952	3,314,089	1,579,623	660,771	2,745	7,757,180
Obligations related to securities sold short	—	2,165,097	—	—	—	2,165,097
Obligations related to securities sold under repurchase agreements	—	2,678,629	—		—	2,678,629
Debt related to securitization activities	—	1,519,688	3,436,269	2,780,775	436,394	8,173,126
Subordinated debt	—	—	—	350,000	—	350,000
Derivatives[2]	—	16,889	18,430	8,292	5,913	49,524
	7,226,558	17,389,403	11,660,950	5,602,437	534,040	42,413,388
Other contractual obligations						—
Commitments under leases, technology services and other contracts	—	134,714	138,376	83,411	198,397	554,898
Total	$ 7,226,558	$ 17,524,117	$ 11,799,326	$ 5,685,848	$ 732,437	$ 42,968,286

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

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

Contractual maturities of assets and liabilities

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

TABLE 34

CONTRACTUAL MATURITIES OF ASSETS AND LIABILITIES[1]

As at October 31 (Thousands of Canadian dollars)

						2018
	TERM					
	0 TO 3 MONTHS	**OVER 3 MONTHS TO 1 YEAR**	**OVER 1 YEAR TO 5 YEARS**	**OVER 5 YEARS**	**NO MATURITY**	**TOTAL**
Assets						
Cash and deposits with banks	**$ 490,727**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 490,727**
Securities	**1,147,058**	**1,241,527**	**2,514,960**	**789,287**	**368,312**	**6,061,144**
Securities purchased under reverse repurchase agreements	**3,652,498**	**—**	**—**		**—**	**3,652,498**
Loans	**3,806,564**	**7,309,529**	**22,337,781**	**773,654**	**74,134**	**34,301,662**
Other assets	**—**	**—**	**—**		**1,388,652**	**1,388,652**
	$ 9,096,847	**$ 8,551,056**	**$ 24,852,741**	**$ 1,562,941**	**$ 1,831,098**	**$ 45,894,683**
Liabilities						
Deposits	**$ 2,742,309**	**$ 7,497,563**	**$ 11,321,144**	**$ 105,499**	**$ 6,340,056**	**$ 28,006,572**
Obligations related to securities sold short or under repurchase agreements	**5,524,489**	**—**	**—**	**—**	**—**	**5,524,489**
Debt related to securitization activities	**573,902**	**974,988**	**5,977,217**	**370,512**	**(108,866)**	**7,787,753**
Other liabilities	**184,576**	**12,200**	**—**	**—**	**1,534,129**	**1,730,905**
Subordinated debt and shareholders' equity	**—**	**125,000**	**475,000**	**—**	**2,244,964**	**2,844,964**
Total	**$ 9,025,276**	**$ 8,609,751**	**$ 17,773,361**	**$ 476,011**	**$ 10,010,283**	**$ 45,894,683**

OPERATIONAL RISK MANAGEMENT

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

The Operational Risk Management Policy, reviewed annually by the Risk Management Committee of the Board describes the operational risk management program based on the "three lines of defence" model and specifies the roles and responsibilities of the various stakeholders. As the first line of defence, the business units own the risks generated by their day-to-day activities and are accountable for their effective management. Operational Risk Management, as part of the second line of defence, establishes the operational risk management framework, provides independent oversight of risk-taking by the first line of defence and conducts an effective objective assessment of their risk profile. Internal Audit, as the third line of defence, examines the approach and effectiveness of the operational risk management program.

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

- *Risk appetite framework and policies* establish boundaries of permitted risk taking and establish internal control requirements.
- *Risk and control assessment* is performed by the various business units and aims to identify and assess the key operational risks related to their activities and their key processes. This process also generates a general overview of operational risk across the organization.
- *Risk and control assessment related to change management* is performed to ensure that the key risks related to important initiatives are identified, assessed and effectively mitigated.
- *Information gathering and analysis on operational risk events* provide useful information to assess the Bank's overall operational risk exposure and to reduce the likelihood of future risk events. Business units are required to produce root cause analyses of major events to prevent their re-occurrence.
- *Key risk indicators* provide insight into risk trends and warn when risk levels exceed tolerance.
- *Scenario analysis* provides insight to the potential impact of low probability but severe impact risk events and insight into how they may be potentially mitigated
- *Sound business continuity management* aims to ensure that key activities are maintained in the event of a disruption to reduce the negative impacts on our customers, counterparties and other stakeholders.
- *Supervision of the supplier risk management* implements robust control mechanisms so that the use of a third party proving to be more efficient, competent or less expensive, does not create undue risk for the Bank.
- *A corporate insurance program* protects against unexpected material losses and is used to satisfy requirements under the law, regulations or contractual agreements.
- *Accountability and communication on operational risks* informs the various governance committees on operational risk across the Bank, significant losses, measures taken with respect to these risks and emerging risks.

REGULATORY COMPLIANCE RISK MANAGEMENT

Regulatory compliance risk refers to the risk of non-compliance with applicable laws, regulatory authorities' guidance, 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 among other things, regulatory requirements related to Anti-Money Laundering and Terrorist Activity Financing (AML) and personal information protection, which are governed by specific policies.

The Regulatory Risk Management Committee is responsible to:

- Review, annually, the Regulatory Risk Management Policy and recommend its approval to the Executive Committee;
- Review and comment on the different reports submitted by the Chief Risk Officer;
- Discuss new regulations and their application with the relevant sectors;

- Review and comment on the different regulatory risk management tools;
- Exchange on internal observations and industry trends, as well as on regulatory risk management best practices to be adopted.

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

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

STRATEGIC RISK MANAGEMENT

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

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

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

INSURANCE RISK MANAGEMENT

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

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 because 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 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 public, and optimizes the company value for shareholders. Reputation is therefore a strategic asset.

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

OTHER RISKS THAT MAY AFFECT FUTURE RESULTS

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

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

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

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

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

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

Accounting policies, estimates and developments
The Bank's accounting policies and estimates are important to understanding its consolidated financial statements; some accounting policies require management to apply judgment to make particularly significant estimates that, by their very nature, involve uncertainties. Changes in these estimates could materially affect the Bank's consolidated financial statements. In addition, changes in accounting standards, including their effect on the Bank's accounting policies, estimates and judgments may affect the Bank's consolidated financial statements when a new standard becomes applicable. Procedures have been established to ensure accounting policies are applied consistently and the process for adopting new accounting standards is well controlled. Refer to the sections Critical Accounting Policies and Estimates and Future Changes to Accounting Policies for further details.

Legal and regulatory developments
Legislative and regulatory developments could affect the Bank by impacting its product and service offering and modifying the financial industry's competitiveness. Some major national and international regulatory changes that were recently introduced to strengthen the capital and liquidity requirements will continue to affect the Bank's activities. New regulations applicable to financial institutions have increased significantly and are evolving at a rapid pace. Current regulations are also impacted and are subject to changes with which the Bank must 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. These developments could also increase ongoing operational, compliance, and technology costs and therefore impact the complexity of operations and profitability.

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

Approximately 33% of the Bank's employees are represented by a union and are covered by a collective bargaining agreement which expired on December 31, 2017. Most of these employees work in Laurentian Bank branches in the Province of Quebec, and certain of them are employed in Corporate Offices in Montreal. Renegotiating the expired collective bargaining agreement could result in higher costs which could have a material effect on our business, results of operations and financial condition. In addition, should we be unable to reach an acceptable negotiated collective bargaining agreement on a timely basis, a strike by affected employees, lock-out or other work disruption may occur which could adversely affect service to Retail Services clients and operations and, in turn, financial performance.

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

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

Technological development
In recent years, non-financial institutions began offering banking products and services in competition with traditional banks through electronic and Internet-based financial solutions. This may require additional investment to remain competitive. The capacity of the Bank to manage these risks, as well as other rapid technological development and innovation can affect prospective results.

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

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

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

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

As at October 31, 2018, 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 52-109, and based on that evaluation, concluded that they were effective and adequately designed at that date.

Also as at October 31, 2018, the President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer caused to be evaluated under their supervision the design and effectiveness of ICFR, in accordance with Regulation 52-109, and based on that evaluation, concluded that it was effective at that date and adequately designed.

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

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

Changes to Internal Control over Financial Reporting

In November 2017, we initiated the first phase of the core banking system implementation with the migration of B2B Bank's investment lending accounts. During the fourth quarter of 2018, we continued the migration with the conversion of B2B Bank's term deposit accounts. The evaluation of the ensuing changes to ICFR for these projects supported that the design and operating effectiveness are appropriate with respect to financial reporting.

With the exception of the above noted item, during the fourth quarter ended October 31, 2018, there have been no changes to internal control over financial reporting that affected materially, or are reasonably likely to materially affect, ICFR.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

IMPAIRMENT OF FINANCIAL ASSETS

Allowances for credit losses

The allowances for credit losses reflect management's estimate of losses incurred in the loan portfolios, including off-balance sheet exposures. Management regularly reviews the portfolios' credit quality to ensure the adequacy of the allowances for credit losses. These

allowances are dependent upon the evaluation of the amounts and dates of future cash flows, the fair value of guarantees and realization costs, and the interpretation of the impact of market and economic conditions. Assessing the amounts and the dates of future cash flows requires significant management judgment regarding key assumptions, including economic and business conditions, probability of default, loss given default and exposure at default and where applicable, the realizable value of any guarantee or collateral. Considering the materiality of the amounts and their inherent uncertainty, changes in current estimates and assumptions used in determining the allowances for credit losses could produce significantly different levels of allowances.

Changes in circumstances may cause future assessments of credit risk to be materially different from current assessments and may consequently entail a significant increase or decrease in the provisions for credit losses in the consolidated statement of income for a given fiscal year. Management believes that the allowance for credit losses, as at October 31, 2018, is adequate to absorb estimated credit losses incurred in the lending portfolio. A detailed description of the methods used to determine the allowances and provisions for credit losses can be found in Note 3 to the annual consolidated financial statements, and in the Credit Risk Management section on page 43 of this MD&A.

Impairment of other financial assets

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

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

MEASURING THE FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

Determining which valuation technique and inputs to apply requires judgment. Valuation techniques include cash flow discounting, comparison with current market prices for financial instruments with similar characteristics and risk profiles and option pricing models. The inputs, among other things, include contractual prices of the underlying instruments, yield curves and volatility factors. The valuations may also be adjusted to reflect the uncertainty in these parameters. In particular, valuation adjustments may be made with respect to the liquidity or counterparty credit risk of financial instruments. Fair value reflects market conditions on a given date and for this reason cannot be representative of future fair values.

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

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

GOODWILL, OTHER INTANGIBLE ASSETS AND OTHER LONG-LIVED ASSETS

Goodwill

As at October 31, 2018, goodwill stood at $116.6 million, compared with $118.1 million as at October 31, 2017. 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 the carrying value, an impairment loss is charged to income. The impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other non-financial assets of the CGU proportionally based on the carrying amount of each asset.

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

Goodwill as at October 31, 2018 has been allocated to the following CGUs: the B2B Bank CGU (which supplies banking and financial products to independent financial advisors and non-bank financial institutions across Canada) and the Business Services CGU (which encompasses services provided to small and medium-sized enterprises across Canada and in the United States). These two CGUs are also operating segments, as described in Note 32 to the annual consolidated financial statements.

B2B Bank CGU
As at October 31, 2018, goodwill of $34.9 million was allocated to the B2B Bank CGU, unchanged compared with October 31, 2017. The recoverable amount of the B2B Bank business segment was estimated using a value in use calculation that was primarily based on the four-year business plan and projected investments. All forecast cash flows were discounted at an after-tax rate of 10.3%. 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 CGU was in excess of its carrying amount. As a result, no impairment charge was recognized during 2018. If alternative reasonably possible changes in key assumptions were applied, the result of the impairment test would not differ.

Business Services CGU
As at October 31, 2018, goodwill of $81.8 million was allocated to the Business Services CGU, which decreased by $1.5 million compared to October 31, 2017 as a result of adjustments to the value initially recognized for the goodwill of NCF and foreign currency translation adjustments. The recoverable amount of the Business Services CGU was estimated using a value in use calculation that was primarily based on the four-year business plan and projected investments. All forecast cash flows were discounted at an after-tax rate of 10.3%. Management considers that these estimates are reasonable. They reflect management's best estimates but include inherent uncertainties that are not under its control. Management determined that for the impairment testing, the estimated recoverable amount of the Business Services CGU was in excess of its carrying amount. As a result, no impairment charge was recognized during 2018. If alternative reasonably possible changes in key assumptions were applied, the result of the impairment test would not differ.

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

Other intangible assets and other long-lived assets

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

Indicators of impairment were identified for the Retail Services CGU in 2018 and the recoverable amount of the assets related to the Retail Services CGU was therefore reviewed for impairment. The recoverable amount of the Retail Services CGU was estimated using a value in use calculation that was primarily based on the four-year business plan and projected investments. All forecast cash flows were discounted at an after-tax rate of 10.3%. Management considers that these estimates are reasonable. They reflect management's best estimates but include inherent uncertainties, such as the ability to execute the strategic plan and in particular the successful transition of the retail branches to the advice-only model. Management determined that for the impairment testing, the estimated recoverable amount of the Retail Services CGU was in excess of its carrying amount. As a result, no impairment charge was recognized during 2018. Changes in estimates and assumptions could significantly impact the impairment test result.

Management also periodically reviews the value of the Bank's assets, such as intangible assets, fixed assets and other deferred charges, in order to identify potential losses in value and to validate the related amortization periods. No other impairment charges on intangible assets and $0.5 million on premises and equipment were recorded in 2018 (respectively $0.7 million and nil in 2017).

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

PENSION PLANS AND OTHER POST-EMPLOYMENT BENEFITS

The Bank sponsors a number of benefit plans to eligible employees, including registered and supplemental pension plans, and post-retirement medical and dental plans (other post-employment benefit plans). The valuation of employee benefits for defined benefit pension plans and other post-employment benefits are calculated by the Bank's actuaries based on a number of assumptions such as discount rates, future salary levels, retirement age, mortality rate and health-care cost escalation. The discount rate is determined using a high-quality corporate bond yield curve, whose construction requires significant judgment. Other key assumptions are determined by management and require significant judgment. Considering the importance of defined benefit obligations and due to the long-term nature of these plans, changes in assumptions could have a significant impact on the defined benefit plan assets (liabilities), as well as on pension plan and other post-employment benefit expenses. Discount rates stood at 3.94% as at October 31, 2018 and 3.54% as at October 31, 2017. Other key assumptions and related sensitivity analysis as well as further information on the Bank's pension plans and other post-employment benefits are presented in Note 18 to the annual consolidated financial statements.

BUSINESS COMBINATIONS

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

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

SECURITIZATION AND STRUCTURED ENTITIES

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

In the ordinary course of business, the Bank also enters into transactions with structured entities as part of securitization programs of other Canadian banks to obtain alternative sources of funding. Structured entities have a narrow and well-defined objective and are designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. Structured entities are consolidated if the Bank controls the entity. In assessing control, the Bank evaluates the substance of the relationship, its right or exposure to variable returns and the ability to exercise power to effect the returns. The Bank has determined that it controlled two intermediate structured entities used to securitize personal loans and finance lease receivables. These structured entities are consolidated and as a result, the loans and finance lease receivables, as well as the related interest-bearing liabilities issued by the structured entities are recorded on balance sheet.

The Bank also sells residential mortgage loans to another intermediate multi-seller structured entity established for the limited purpose of securitization activities. The Bank determined that it did not control that structured entity. As the Bank provides credit enhancements for these transactions, they do not meet derecognition criteria and the securitized loans remain on balance sheet. However, as the Bank's rights, title and interest in the transferred loans are legally transferred to the structured entity, these are considered pledged assets.

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

PROVISIONS AND CONTINGENT LIABILITIES

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

Provisions arise when there is some uncertainty in the timing or amount of a loss in the future. Provisions are based on the Bank's best estimate of all expenditures required to settle the obligation and the amount can be reliably estimated, considering all relevant risks and uncertainties. Management and internal and external experts are involved in assessing the probability and in estimating any amounts involved.

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

In the ordinary course of its business, the Bank is involved in various legal actions and claims, including some with regulatory bodies. Many of these disputes are related to loans granted by the Bank and are in reaction to steps taken by the Bank to collect delinquent loans and realize the underlying collateral. Certain claims have also been brought against the Bank, particularly with respect to trustee operations related to portfolio administration and the charging of certain bank and credit card fees. These actions may have a material adverse effect on the financial condition of the Bank even though no provisions may have been accrued. In addition, the Bank must continuously assess its fiscal obligations in various jurisdictions which, considering evolving interpretations, may lead to different income tax consequences. The Bank reviews its legal provisions on a case-by-case basis after considering, among other factors, the progress of each case, the Bank's experience, the experience of others in similar cases, and the opinions and views of legal counsel.

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

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

INCOME TAXES

The Bank is subject to taxation in numerous jurisdictions. There are many transactions and calculations in the ordinary course of business for which the ultimate tax determination is uncertain. The Bank maintains provisions for uncertain tax positions that it believes appropriately reflect the risk of tax positions under discussion, audit, dispute, or appeal with tax authorities, or which are otherwise considered to involve uncertainty. These provisions are made using the Bank's best estimate of the amount expected to be paid based on

an assessment of all relevant factors, which are reviewed at the end of each reporting period. However, it is possible that at some future date, an additional liability could result from audits by the relevant taxing authorities.

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

FUTURE CHANGES TO ACCOUNTING POLICIES

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

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

IFRS 9, *Financial instruments*

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

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

In December 2015, the Basel Committee on Banking Supervision (BCBS) issued its final version of the Guidance on credit risk and accounting for expected credit losses. The guidance sets out supervisory expectations on sound credit risk practices associated with the implementation of expected credit loss accounting models as required under IFRS 9. In June 2016, the OSFI issued the final version of the IFRS 9, *Financial Instruments* and Disclosures Guideline, which reflects the aforementioned BCBS guidance and instructs FRE on the application of IFRS 9. The guideline has taken effect when IFRS 9 became applicable to each FRE.

The Bank's first financial statements presented in accordance with IFRS 9 will be its unaudited interim condensed consolidated financial statements for the quarter ending January 31, 2019. IFRS 9 is required to be applied on a retrospective basis, with certain exceptions. The retrospective impact of applying IFRS 9 will be accounted for through adjustments to the opening balances of retained earnings and accumulated other comprehensive income as at November 1, 2018. As permitted by IFRS 9, the Bank will not restate the comparative period financial statements.

Classification and measurement
IFRS 9 provides a single model for financial asset classification and measurement that is based on both the business model for managing financial assets and the contractual cash flow characteristics of the financial assets. These factors determine whether the financial assets are measured at amortized cost, fair value through other comprehensive income, or fair value through profit or loss. IFRS 9 requires that all debt instrument financial assets that do not meet a "solely payment of principal and interest" (SPPI) condition, including those that contain embedded derivatives, be classified as fair value through profit or loss. For those that meet the SPPI condition, classification at initial recognition will be determined based on the business model under which these assets are managed. Upon transition, the business model test will be based on the facts and circumstances as at November 1, 2018. Debt instruments that are managed on a "held to collect contractual cash flows" basis will be classified as at amortized cost. Debt instruments that are managed on a "held to collect contractual cash flows and to sell financial assets" basis will be classified as at fair value through other comprehensive income (FVOCI), with cumulative gains and losses reclassified to profit or loss upon derecognition. Finally, debt instruments that are managed on a "held for trading" or fair value basis will be classified as at fair value through profit or loss. In addition, IFRS 9 also includes an option to irrevocably designate, at initial recognition, a debt instrument as measured at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch and if OSFI requirements are also met. This designation is available for existing financial assets and liabilities at the date of initial application.

IFRS 9 requires that all equity instrument financial assets be classified as at fair value through profit or loss. However, the Bank may, at initial recognition of a non-trading equity instrument, irrevocably elect to designate the instrument as at fair value through other comprehensive income with no subsequent reclassification of gains and losses to net income. Dividends will continue to be recognized in net income. This designation is also available for existing non-trading equity instruments at the date of initial application.

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

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

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

The ECL model under IFRS 9 is forward-looking and requires the use of reasonable and supportable forecasts of future economic conditions in the determination of significant increases in credit risk and measurement of ECL.

IFRS 9 establishes a simplified impairment approach for finance lease receivables which may be adopted rather than the general approach described above. The simplified approach does not require an entity to track the changes in credit risk, but, instead, requires the entity to recognize a loss allowance based on lifetime ECL at each reporting date, from the date of initial recognition. The Bank has opted to adopt the general approach for finance lease receivables.

Key impairment modeling concepts are defined as follows:

- Measurement of expected credit losses: ECLs are measured as the probability-weighted present value of expected cash shortfalls over the remaining expected life of the financial instrument. The measurement of ECLs will be based primarily on the product of the instrument's probability of default (PD), loss given default (LGD), and exposure at default (EAD). The IFRS 9 ECL calculation has leveraged, where appropriate, the credit risk model parameters used by the Bank for the collective allowance calculation under IAS 39, namely: PD, LGD and EAD. Adjustments to these parameters were made to comply with IFRS 9 requirements. IFRS 9 requires the estimate of expected credit losses to reflect an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes. The Bank will incorporate a minimum of three forward-looking macroeconomic scenarios in its ECL calculation process: a base scenario, an upside scenario, and a downside scenario. Probability-weights will be attributed to each scenario. The scenarios and probability weights will be reassessed quarterly and subject to management review.

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

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

- Definition of default: IFRS 9 does not define default but requires the definition to be consistent with the definition used for internal credit risk management purposes and contains a rebuttable presumption that default does not occur later than when a financial asset is 90 days past due. Under IFRS 9, the Bank will consider a financial asset as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of a financial asset have occurred or when contractual payments are 90 days past due. The Bank's write-off policy under IAS 39 is not expected to be materially different under IFRS 9.

- Incorporation of experienced credit judgment: Management will exercise experienced credit judgment in assessing if an exposure has experienced significant increase in credit risk and in determining the amount of expected credit losses at each reporting date by considering reasonable and supportable information that is not already included in the quantitative models.

Hedge accounting
IFRS 9 introduces a new general hedge accounting model that aims to align hedge accounting with risk management activities. However, the current hedge accounting requirements under IAS 39 may continue to be applied until the IASB finalizes its macro hedge accounting

project. As permitted, the Bank elected not to apply the IFRS 9 hedge accounting requirements and instead will continue applying the IAS 39 hedge accounting requirements. The Bank will comply with the revised hedge accounting disclosures required by the consequential amendments made to IFRS 7.

Project status
To manage our transition to IFRS 9, a project team has been set-up and include representation from Finance, Risk and Economics. During fiscal 2016 and 2017, the Bank completed its initial assessments of the scope of IFRS 9, of differences from IAS 39 and of key accounting interpretations. The Bank also began the design and development of the impairment models and defined the functional requirements for the calculation of ECL. During fiscal 2018, the Bank implemented an integrated end-to-end technology solution for measuring ECLs and tracking credit migration under the IFRS 9 model. The Bank also developed and tested its new impairment models and related processes and controls, and assessed the quantitative impact of applying the ECL approach. The Bank is also updating its accounting and risk policies, implementing changes to financial reporting systems and processes and developing its first quarter of 2019 transitional disclosures. The Bank will continue to refine and validate its new impairment models, and will develop and implement remaining financial and regulatory disclosures related to IFRS 9 in fiscal 2019.

Impacts on governance and controls
As part of the implementation, the Bank is in the process of refining existing internal controls and implementing new controls where required in areas that are impacted by IFRS 9 and contribute to the calculation of expected credit losses, including controls over the development and probability weighting of macroeconomic scenarios, credit risk data and systems, the determination of a significant increase in credit risk and the classification of loans and securities. The Bank will leverage on its existing risk management framework to review, challenge and approve key inputs and assess appropriateness of the allowances for credit losses.

IFRS 15, *Revenue from Contracts with Customers*

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

Transition Impact for IFRS 9 and IFRS 15
The adoption of IFRS 9 is expected to result in certain differences in the classification of financial assets when compared to the classification under IAS 39. The most significant changes include approximately $2.3 billion of debt securities previously classified as available-for-sale to be classified as amortized cost, and approximately $0.3 billion of equity and debt securities previously classified as available-for-sale to be classified as FVOCI. Based on current estimates, the decrease in shareholders' equity at transition for IFRS 9 and IFRS 15 is not expected to exceed $20 million in total, or an approximate decrease of up to 10 basis points of the Common Equity Tier 1 (CET1) capital ratio. The Bank is finalizing its analyses, including potential refinements and validations to the new impairment models which may change the actual impact on adoption.

IFRS 16, *Leases*

In January 2016, the IASB issued IFRS 16, *Leases* (IFRS 16), which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e., the customer ("lessee") and the supplier ("lessor"). IFRS 16 replaces the previous leases standard, IAS 17, *Leases*, and related interpretations. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, which will be November 1, 2019 for the Bank. Management is currently assessing the potential impact of the adoption of IFRS 16 and the recognition of lease assets and financial liabilities on its financial statements.

IFRS 17, *Insurance Contracts*

In May 2017, the IASB issued IFRS 17, *Insurance Contracts (IFRS 17)*, which sets out the principles for the recognition, measurement, presentation and disclosure of insurance contracts. IFRS 17 replaces the previous insurance contract standard, IFRS 4, *Insurance Contracts*. IFRS 17 is effective for annual periods beginning on or after January 1, 2021. On November 14, 2018, the IASB has voted to propose a one-year deferral of the effective date for IFRS 17 to 2022. The proposed deferral is subject to public consultation, which is expected next year. Management is currently assessing the potential impact of the adoption of IFRS 17.

Conceptual Framework for Financial Reporting

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

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

In February 2018, the IAS issued amendments to IAS 19, *Employee Benefits* which specifies how companies determine pension expenses when changes to a defined benefit pension plan occur. IAS 19 specifies how a company accounts for a defined benefit plan. By requiring the use of updated assumptions, the amendments are expected to provide useful information to users of financial statements. The amendments are effective for annual periods beginning on or after January 1, 2019. Management is currently assessing the impact of the adoption of this standard on its consolidated financial statements.

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LAURENTIAN BANK OF CANADA CONSOLIDATED FINANCIAL STATEMENTS

AS AT OCTOBER 31, 2018 AND 2017

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

The internal control systems are further supported by a regulatory compliance function, which ensures that the Bank and its employees comply with all regulatory requirements, as well as by risk management and operational risk management functions that ensure proper risk control including maintaining the related documentation and the measurement of the financial impact of risks. In addition, the internal auditors periodically assess various aspects of the Bank's operations and make recommendations to management for improvements to the internal control systems.

Every year, the Office of the Superintendent of Financial Institutions Canada (OSFI) makes such examinations and inquiries as deemed necessary to satisfy itself that the Bank is in a sound financial position and that it complies with the provisions of the Bank Act, particularly those regarding the safety of the depositors and shareholders of the Bank.

Ernst & Young LLP, independent auditors appointed by the shareholders, audit the Bank's consolidated financial statements and their report follows.

The internal auditors and the independent auditors meet periodically with the Audit Committee, in the presence or absence of management, to discuss all aspects of their duties and matters arising therefrom. In addition, OSFI meets with the Board of Directors annually to present its comments on the Bank's operations.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements and management's discussion and analysis of results of operations and financial condition included in the Annual Report. It oversees the manner in which management discharges its responsibilities for the preparation and presentation of the consolidated financial statements, the maintenance of appropriate internal controls and risk management, as well as the assessment of significant transactions through its Audit Committee and its Risk Management Committee. Both Board committees are composed solely of directors who are not officers or employees of the Bank.

François Desjardins
President and
Chief Executive Officer

François Laurin, FCPA, FCA
Executive Vice President and
Chief Financial Officer

Montréal, Canada
December 4, 2018

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

We have audited the accompanying consolidated financial statements of Laurentian Bank of Canada ("the Bank") which comprise the consolidated balance sheet as at October 31, 2018 and 2017, and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years ended October 31, 2018 and 2017, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at October 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP[1]

Montréal, Canada
December 4, 2018

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

CONSOLIDATED BALANCE SHEET

As at October 31 (in thousands of Canadian dollars)	Notes	2018	2017
Assets			
Cash and non-interest bearing deposits with banks		**$ 116,490**	$ 111,978
Interest-bearing deposits with banks		**374,237**	215,384
Securities	**5, 7 and 29**		
Available-for-sale		**2,710,249**	3,032,159
Held-to-maturity		**655,757**	405,088
Held-for-trading		**2,695,138**	2,148,767
		6,061,144	5,586,014
Securities purchased under reverse repurchase agreements	**29**	**3,652,498**	3,107,841
Loans	**6, 7 and 29**		
Personal		**5,372,468**	6,038,692
Residential mortgage		**16,986,338**	18,486,449
Commercial[1]		**11,839,106**	11,464,007
Customers' liabilities under acceptances		**196,776**	707,009
		34,394,688	36,696,157
Allowances for loan losses		**(93,026)**	(99,186)
		34,301,662	36,596,971
Other			
Derivatives	**25**	**94,285**	104,426
Premises and equipment	**8**	**80,961**	35,214
Software and other intangible assets	**9**	**367,345**	293,422
Goodwill	**10**	**116,617**	118,100
Deferred tax assets	**19**	**25,437**	38,702
Other assets	**11**	**704,007**	474,606
		1,388,652	1,064,470
		$ 45,894,683	$ 46,682,658
Liabilities and shareholders' equity			
Deposits	**12**		
Personal		**$ 20,995,453**	$ 21,198,982
Business, banks and other		**7,011,119**	7,731,378
		28,006,572	28,930,360
Other			
Obligations related to securities sold short		**3,008,666**	2,165,097
Obligations related to securities sold under repurchase agreements		**2,515,823**	2,678,629
Acceptances		**196,776**	707,009
Derivatives	**25**	**285,492**	217,785
Deferred tax liabilities	**19**	**19,081**	22,112
Other liabilities	**13**	**1,229,556**	1,051,908
		7,255,394	6,842,540
Debt related to securitization activities	**7 and 14**	**7,787,753**	8,230,921
Subordinated debt	**15**	**348,762**	348,427
Shareholders' equity			
Preferred shares	**16**	**244,038**	341,600
Common shares	**16**	**1,115,416**	953,536
Retained earnings		**1,152,470**	1,035,770
Accumulated other comprehensive income		**(15,990)**	(496)
Share-based compensation reserve	**17**	**268**	—
		2,496,202	2,330,410
		$ 45,894,683	$ 46,682,658

(1) Comparative figures have been reclassified to conform to the current year presentation. Refer to Note 2 for further information.

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

Isabelle Courville
Chair of the Board

François Desjardins
President and Chief Executive Officer

CONSOLIDATED STATEMENT OF INCOME

For the years ended October 31 (in thousands of Canadian dollars, except per share amounts)	Notes	2018	2017
Interest income			
Loans		$ 1,396,936	$ 1,169,852
Securities		62,035	42,469
Deposits with banks		3,428	913
Other, including derivatives		28,384	42,311
		1,490,783	1,255,545
Interest expense			
Deposits		583,203	465,151
Debt related to securitization activities		166,077	134,900
Subordinated debt		15,214	11,718
Other		20,377	5,686
		784,871	617,455
Net interest income		705,912	638,090
Other income			
Fees and commissions on loans and deposits		149,297	154,584
Income from brokerage operations		65,811	75,123
Income from sales of mutual funds		47,609	47,088
Income from investment accounts		20,146	21,804
Income from treasury and financial market operations		18,264	17,776
Insurance income, net	27	15,273	18,188
Other	6, 28	21,098	23,757
		337,498	358,320
Total revenue		1,043,410	996,410
Amortization of net premium on purchased financial instruments		2,296	3,383
Provision for credit losses	6	44,000	37,000
Non-interest expenses			
Salaries and employee benefits	17, 18	366,022	361,001
Premises and technology	8	192,377	182,397
Other	9	150,081	119,385
Restructuring charges	30	5,944	10,485
Costs related to business combinations	31	2,357	16,091
		716,781	689,359
Income before income taxes		280,333	266,668
Income taxes	19	55,687	60,207
Net income		$ 224,646	$ 206,461
Preferred share dividends, including applicable taxes		14,038	17,096
Net income available to common shareholders		$ 210,608	$ 189,365
Average number of common shares outstanding (in thousands)			
Basic		41,280	35,059
Diluted		41,280	35,059
Earnings per share	20		
Basic		$ 5.10	$ 5.40
Diluted		$ 5.10	$ 5.40
Dividends declared per share			
Common share		$ 2.54	$ 2.46
Preferred share - Series 11		$ 0.25	$ 1.00
Preferred share - Series 13		$ 1.08	$ 1.08
Preferred share - Series 15		$ 1.46	$ 1.46

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the years ended October 31 (in thousands of Canadian dollars)		2018		2017
Net income	**$**	**224,646**	$	206,461
Other comprehensive loss, net of income taxes				
Items that may subsequently be reclassified to the Statement of Income				
Net change in available-for-sale securities				
Unrealized net gains (losses) on available-for-sale securities		**(7,672)**		10,424
Reclassification of net gains on available-for-sale securities to net income		**(5,206)**		(5,778)
		(12,878)		4,646
Net change in value of derivatives designated as cash flow hedges		**(4,951)**		(18,963)
Net foreign currency translation adjustments				
Net unrealized foreign currency translation gains on investments in foreign operations		**9,012**		5,257
Unrealized net losses on hedges of investments in foreign operations		**(6,677)**		(3,309)
		2,335		1,948
		(15,494)		(12,369)
Items that may not subsequently be reclassified to the Statement of Income				
Remeasurement gains on employee benefit plans		**13,023**		8,104
Total other comprehensive loss, net of income taxes		**(2,471)**		(4,265)
Comprehensive income	**$**	**222,175**	$	202,196

INCOME TAXES — OTHER COMPREHENSIVE INCOME

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

For the years ended October 31 (in thousands of Canadian dollars)		2018		2017
Net change in available-for-sale securities				
Unrealized net gains (losses) on available-for-sale securities	**$**	**(2,584)**	$	4,062
Reclassification of net gains on available-for-sale securities to net income		**(2,436)**		(2,453)
		(5,020)		1,609
Net change in value of derivatives designated as cash flow hedges		**(1,793)**		(6,877)
Net foreign currency translation adjustments				
Unrealized net losses on hedges of investments in foreign operations		**—**		(204)
Remeasurement gains on employee benefit plans		**4,740**		2,925
	$	**(2,073)**	$	(2,547)

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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

				Accumulated Other Comprehensive Income					
(in thousands of Canadian dollars)	Preferred shares (Note 16)	Common shares (Note 16)	Retained earnings	Available-for-sale securities	Cash flow hedges	Translation of foreign operations	Total	Share-based compensation reserve (Note 17)	Total shareholders' equity
Balance as at October 31, 2017	$ 341,600	$ 953,536	$ 1,035,770	$ 4,849	$ (7,293)	$ 1,948	$ (496)	$ —	$ 2,330,410
Net income			224,646						224,646
Other comprehensive income (loss), net of income taxes									
Unrealized net losses on available-for-sale securities				(7,672)			(7,672)		(7,672)
Reclassification of net gains on available-for-sale securities to net income				(5,206)			(5,206)		(5,206)
Net change in value of derivatives designated as cash flow hedges					(4,951)		(4,951)		(4,951)
Net unrealized foreign currency translation gains on investments in foreign operations						9,012	9,012		9,012
Unrealized net losses on hedges of investments in foreign operations						(6,677)	(6,677)		(6,677)
Remeasurement gains on employee benefit plans			13,023						13,023
Comprehensive income			237,669	(12,878)	(4,951)	2,335	(15,494)		222,175
Issuance of share capital		161,880							161,880
Repurchase of share capital	(97,562)		(2,438)						(100,000)
Share-based compensation								268	268
Dividends									
Preferred shares, including applicable taxes			(14,038)						(14,038)
Common shares			(104,493)						(104,493)
Balance as at October 31, 2018	$ 244,038	$ 1,115,416	$ 1,152,470	$ (8,029)	$ (12,244)	$ 4,283	$ (15,990)	$ 268	$ 2,496,202
Balance as at October 31, 2016	$ 341,600	$ 696,493	$ 924,861	$ 203	$ 11,670	$ —	$ 11,873	$ —	$ 1,974,827
Net income			206,461						206,461
Other comprehensive income (loss), net of income taxes									
Unrealized net gains on available-for-sale securities				10,424			10,424		10,424
Reclassification of net gains on available-for-sale securities to net income				(5,778)			(5,778)		(5,778)
Net change in value of derivatives designated as cash flow hedges					(18,963)		(18,963)		(18,963)
Net unrealized foreign currency translation gains on investments in foreign operations						5,257	5,257		5,257
Unrealized net losses on hedges of investments in foreign operations						(3,309)	(3,309)		(3,309)
Remeasurement gains on employee benefit plans			8,104						8,104
Comprehensive income			214,565	4,646	(18,963)	1,948	(12,369)		202,196
Issuance of share capital		257,043							257,043
Dividends									
Preferred shares, including applicable taxes			(17,096)						(17,096)
Common shares			(86,560)						(86,560)
Balance as at October 31, 2017	$ 341,600	$ 953,536	$ 1,035,770	$ 4,849	$ (7,293)	$ 1,948	$ (496)	$ —	$ 2,330,410

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the years ended October 31 (in thousands of Canadian dollars)	Notes	2018	2017
Cash flows relating to operating activities			
Net income		$ 224,646	$ 206,461
Adjustments to determine net cash flows relating to operating activities:			
Provision for credit losses	6	44,000	37,000
Net gain on sale of commercial loan portfolios	6	(4,269)	—
Net gains on sale of available-for-sale securities	5	(7,642)	(8,839)
Deferred income taxes	19	9,102	(3,864)
Depreciation of premises and equipment	8	6,881	8,187
Amortization of software and other intangible assets	9	35,146	28,318
Change in operating assets and liabilities:			
Loans		1,547,964	(2,486,079)
Change in acceptances		(510,233)	77,184
Securities at fair value through profit and loss		(546,371)	285,740
Securities purchased under reverse repurchase agreements		(544,657)	(227,855)
Accrued interest receivable		(9,049)	(17,272)
Derivative assets		10,141	128,365
Deposits		(917,942)	1,357,015
Obligations related to securities sold short		843,569	457,804
Obligations related to securities sold under repurchase agreements		(162,806)	153,188
Accrued interest payable		45,175	23,039
Derivative liabilities		67,707	67,286
Change in debt related to securitization activities		(443,168)	986,467
Other, net		(85,532)	(24,634)
		(397,338)	1,047,511
Cash flows relating to financing activities			
Net proceeds from issuance of subordinated debt	15	—	348,306
Repurchase of subordinated debt	15	—	(200,000)
Repurchase of preferred shares	16	(100,000)	—
Net proceeds from issuance of common shares	16	139,122	230,481
Dividends		(88,722)	(75,215)
		(49,600)	303,572
Cash flows relating to investing activities			
Change in available-for-sale securities			
Acquisitions		(4,265,194)	(4,038,682)
Proceeds on sale and at maturity		4,576,553	3,741,815
Change in held-to-maturity securities			
Acquisitions		(861,080)	(855,219)
Proceeds at maturity		610,412	952,558
Proceeds on sale of commercial loan portfolios	6	707,191	166,081
Additions to premises and equipment and software and other intangible assets	8, 9	(160,971)	(101,918)
Cash paid for business combinations	31	233	(1,163,616)
Change in interest-bearing deposits with banks		(158,853)	(66,849)
		448,291	(1,365,830)
Effect of exchange rate changes on cash and non-interest-bearing deposits with banks		3,159	3,009
Net change in cash and non-interest-bearing deposits with banks		4,512	(11,738)
Cash and non-interest-bearing deposits with banks at beginning of year		111,978	123,716
Cash and non-interest-bearing deposits with banks at end of year		$ 116,490	$ 111,978
Supplemental disclosure about cash flows relating to operating activities:			
Interest paid during the year		$ 739,723	$ 596,022
Interest received during the year		$ 1,477,038	$ 1,236,736
Dividends received during the year		$ 11,050	$ 9,039
Income taxes paid during the year		$ 85,365	$ 70,110

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at October 31, 2018 and 2017
[All tabular amounts are in thousands of Canadian dollars, unless otherwise indicated]

1. GENERAL INFORMATION

Laurentian Bank of Canada (the Bank) provides financial services to its retail, business and institutional customers. The Bank operates primarily across Canada and in the United States. Refer to Note 32 for further details on the Bank's operating segments.

The Bank is the ultimate parent of the group. The Bank is a chartered bank under Schedule 1 of the Bank Act (Canada) and has its head office in Montreal, Canada. The Bank's common shares (stock symbol: LB) are listed on the Toronto Stock Exchange.

The consolidated financial statements for the year ended October 31, 2018 were approved for issuance by the Board of Directors on December 4, 2018.

2. BASIS OF PRESENTATION

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

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

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

2.1 BASIS OF CONSOLIDATION

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

Subsidiaries

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

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

Structured entities

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

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

2. BASIS OF PRESENTATION [CONT'D]

As at October 31, 2018	HEAD OFFICE LOCATION	PERCENTAGE OF VOTING SHARES OWNED BY THE BANK
CORPORATE NAME		
B2B Bank	Toronto, Canada	100 %
B2B Bank Financial Services Inc.	Toronto, Canada	
B2B Bank Securities Services Inc.	Toronto, Canada	
B2B Bank Intermediary Services Inc	Toronto, Canada	
B2B Trustco	Toronto, Canada	
B2B Securitization Inc.	Toronto, Canada	
B2B Securitization Limited Partnership[1]	Toronto, Canada	
Laurentian Bank Insurance Inc.	Montreal, Canada	100 %
Laurentian Bank Securities Inc.	Montreal, Canada	100 %
Laurentian Capital (USA) Inc.		
Laurentian Trust of Canada Inc.	Montreal, Canada	100 %
LBC Capital Inc.[2]	Burlington, Canada	100 %
LBEF Inc.	Burlington, Canada	
LBEL Inc.	Burlington, Canada	
LBC Capital GP Inc.	Burlington, Canada	
LBC Leasing Limited Partnership[3]	Burlington, Canada	
NCF International S.à r.l.	Luxembourg, Luxembourg	
Northpoint Commercial Finance Canada Inc.	Burlington, Canada	
NCF Commercial Finance Holdings Inc.	Delaware, United States	
NCF Financing LLC	Delaware, United States	
Northpoint Commercial Finance Inc.	Delaware, United States	
Northpoint Commercial Finance LLC	Delaware, United States	
LBC Financial Services Inc.	Montreal, Canada	100 %
LBC Investment Management Inc.	Montreal, Canada	100 %
V.R. Holding Insurance Company Ltd	St. James, Barbados	
VRH Canada Inc.	Montreal, Canada	
LBC Tech Inc.	Toronto, Canada	100 %
LBC Trust	Montreal, Canada	100 %

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

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

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

Associates

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

2.2 USE OF ESTIMATES AND JUDGMENT

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

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

2. BASIS OF PRESENTATION [CONT'D]

Impairment of financial assets

Allowances for credit losses

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

Other financial assets

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

Goodwill and other intangible assets

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

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

Management uses a number of significant estimates, including projected net income growth rates, future cash flows, the number of years used in the cash flow model and the discount rate of future cash flows to determine the recoverable amount of the CGU or intangible asset. Management considers these estimates to be reasonable and consistent with the Bank's financial objectives. They reflect management's best estimates but include inherent uncertainties that are not under its control. Changes made to one or any of these estimates may significantly impact the calculation of the recoverable amount and the resulting impairment charge. The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are disclosed and further explained in Notes 10 and 30.

Post-employment benefits

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

Business combinations

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

2. BASIS OF PRESENTATION [CONT'D]

Provisions and contingent liabilities

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

Income taxes

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

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

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

2.3 CURRENT PRESENTATION CHANGES

Commercial loans

As at November 1, 2017, commercial mortgage loans and commercial loans previously presented separately on the consolidated balance sheet are presented together under the line item commercial loans. This change in presentation was applied retrospectively, and better reflects the nature of the Bank's business activities. Commercial mortgage loans and commercial loans amounted to $5.2 billion and $6.3 billion respectively at November 1, 2017, and $4.7 billion and $4.7 billion respectively as at November 1, 2016.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 FINANCIAL INSTRUMENTS

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

Financial instruments at fair value through profit or loss

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

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

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

As at October 31, 2018 and 2017, the Bank had not designated any financial instrument as at fair value through profit or loss.

Available-for-sale financial assets

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

Available-for-sale financial assets are initially recorded at fair value on the settlement date including direct and incremental transaction costs and are subsequently remeasured at fair value in the consolidated balance sheet. Equity instruments that do not have a quoted market price in an active market and for which a reliable valuation cannot be obtained are recorded at cost. Unrealized gains and losses are recognized net of applicable income taxes in an available-for-sale reserve included in the accumulated other comprehensive income in equity until the financial assets are either sold or become impaired. On disposal of an available-for-sale financial asset, the accumulated unrealized gain or loss included in the available-for-sale reserve is transferred to the Consolidated Statement of Income for the period and reported under income from treasury and financial market operations.

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

Held-to-maturity financial assets

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

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

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

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

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

Securities lending and borrowing

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

3. SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

Securities sold short

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

Loans

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

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

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

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

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

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

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

Derecognition of financial assets

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

Securitization
The Bank regularly transfers pools of residential mortgages under securitization programs. When the Bank retains substantially all the risks and rewards related to these assets, these transactions do not result in derecognition of the assets from the Bank's consolidated balance sheet. As such, securitized residential mortgages continue to be recognized in the consolidated balance sheet. In addition, these transactions result in the recognition of a debt related to securitization activities when cash is received.

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

Refer to Notes 7 and 14 for further detail.

3. SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

Impairment of financial assets

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

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

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

Impairment of held-to-maturity financial assets
Held-to-maturity financial assets are impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset which have an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

The impairment loss is measured as the difference between the carrying amount of the asset, including accrued interest, and the present value of estimated expected future cash flows discounted at the asset's original effective interest rate.

Impairment of loans
A loan or a group of loans are impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset and that has an impact on the estimated future cash flows of the loan or a group of loans that can be reliably estimated.

At each balance sheet date, the Bank assesses whether objective evidence of impairment exists individually for each significant loan, or collectively for loans that are not individually significant. There is an objective evidence of impairment if, for instance, there is reason to believe that a portion of the principal or interest cannot be collected as a result of significant financial difficulty of the borrower, issuer or counterparty. The Bank takes into consideration interest and prepayment in arrears and type of guarantees to determine evidence of impairment. If the Bank determines that no objective evidence of impairment exists for an individually assessed loan, it includes the loan in a portfolio of loans with similar credit risk characteristics and collectively assesses them for impairment. Loans that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan, including accrued interest, and the present value of estimated expected future cash flows. The carrying amount of the loan is reduced by the use of an allowance account and the amount of the loss is recognized in the Consolidated Statement of Income as a component of the provision for credit losses.

The present value of the estimated future cash flows is discounted at the loan's original effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized loan takes into account the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. Once determined, the present value is accreted over the period from the initial recognition of the provision to the estimated eventual recovery of the loan's future value, resulting in the recording of interest in the Statement of Income, within interest income. If an impairment is later recovered, the recovery is credited to the provision for credit losses.

3. SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

Collective allowances
A collective allowance is calculated for all individually insignificant loans for which no individual impairment tests are performed. In addition, a collective allowance is calculated for loans that have been assessed for impairment individually and found not to be impaired. These loans are assessed collectively, in groups of assets with similar risk characteristics, to determine whether a provision should be made due to incurred but not identified loss events.

To establish the collective allowance, the Bank uses a model based on the internal risk rating of credit facilities and on the related probability of default factors, as well as the loss given default associated with each type of facility. The probability of default and loss given default factors reflect the Bank's historical experience. The collective allowance is adjusted to reflect changes in the portfolios and credit policies and is maintained for each pool of loans with shared risk characteristics. This estimate includes consideration of economic and business conditions, management's judgment and modelling risks. The allowance related to off-balance sheet exposures, such as letters of guarantee and certain undrawn amounts under approved credit facilities, is recognized in other liabilities.

Acceptances and customers' liabilities under acceptances

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

Derivatives and hedges

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

All derivatives are measured at fair value in other assets or liabilities, including derivatives embedded in financial instruments or other contracts that are not closely related to the financial instrument or to the host contract. Changes in fair value of derivatives are immediately recognized in the Consolidated Statement of Income under income from treasury and financial market operations, except for derivatives designated as cash flow hedges and net investment hedges as described below. Interest income and expense related to derivatives is recognized in net interest income in the Consolidated Statement of Income.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

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

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

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

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

For these hedging relationships, the changes in fair value related to the effective portion of the hedge are recognized in other comprehensive income. Changes in fair value related to the ineffective portion of the hedge are immediately recognized in the Consolidated Statement of Income under other income. Upon disposal or partial disposal of the net investment in a foreign operation, the related proportion of accumulated changes in fair value previously recognized in other comprehensive income are reclassified in the Consolidated Statement of Income under other income.

Deposits

Deposits are initially measured at fair value, net of directly attributable transaction costs incurred. Subsequently, they are classified as other financial liabilities and measured at amortized cost using the effective interest method. Interest expense is allocated over the expected term of the deposit by applying the effective interest rate to the carrying amount of the liability. Commissions paid and other fees are recorded in interest expense over the term of the deposits. Deposits are presented net of unamortized commissions and other fees on the consolidated balance sheet.

Indexed deposit contracts
Certain personal deposit obligations, such as equity-linked guaranteed investment certificates where the deposit obligation varies according to the performance of certain stock market indexes, may be subject to a guaranteed minimum redemption amount, such as the obligation to return the investor's initial investment at maturity. These obligations include an embedded derivative instrument that is accounted for separately and is presented in the consolidated balance sheet under derivatives.

Debt related to securitization activities

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

Subordinated debt

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

3. SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

Measuring the fair value of financial instruments

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

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

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

Offsetting of financial assets and liabilities

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

3.2 LEASES

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

The Bank as a lessor

The Bank provides leasing solutions to business customers.

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

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

Operating leases
Leases in which the Bank does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. The leased assets are classified in the balance sheet in other assets and are carried at cost less accumulated depreciation, which takes into account their estimated residual value. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Rental income arising from operating leases is accounted for on a straight-line basis over the lease term and is included in other income in the Consolidated Statement of Income.

The Bank as a lessee

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

3. SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

3.3 BUSINESS COMBINATIONS AND GOODWILL

Business combinations are accounted for using the acquisition method. At the date of acquisition, the purchase price is measured as the aggregate of the fair value of the consideration transferred and includes the impact of related hedges. Acquisition-related costs are recognized directly in net income, under Costs related to business combinations in the period they are incurred. When the Bank acquires a business, it assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual term, economic circumstances and market conditions at the acquisition date.

At the acquisition date, the identifiable assets acquired and liabilities assumed of the acquiree, as well as any contingent consideration to be assumed or received by the Bank, are recognized at their estimated fair value. The excess of the purchase price over the fair value of the net identifiable assets acquired is recorded as goodwill in the balance sheet, while any excess of the fair value of the net identifiable assets over the purchase price is recorded in net income as a gain on acquisition. A day-one gain resulting from the revaluation of purchased financial instruments mainly represents the favourable effect of the discount or premium to reflect current market rates and is amortized in net income over the estimated remaining term of the purchased financial instruments. Subsequent changes in the fair value of a contingent consideration are recorded in net income.

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

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

Impairment of goodwill

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Bank's CGUs, which are expected to benefit from the synergies of the combination. Each CGU to which the goodwill is allocated represents the lowest level within the Bank at which the goodwill is monitored for internal management purposes and must not be larger than an operating segment.

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

3.4 PREMISES AND EQUIPMENT

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

Depreciation

Depreciation begins when the asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation is calculated using the straight-line method to write down the cost of premises and equipment to their residual values over their estimated useful lives. Depreciation of premises and equipment is recorded in the Consolidated Statement of Income under the Premises and technology line item. Land is not depreciated. The estimated useful lives are as follows:

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

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

3. SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

Impairment of premises and equipment

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

3.5 SOFTWARE AND OTHER INTANGIBLE ASSETS

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

Amortization

Amortization begins when the asset is available for use, ie when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Software is amortized on a straight line basis over its estimated useful life, which ranges from two to twenty years. Amortization of software is recorded in the Consolidated Statement of Income under the premises and technology line item. Other intangible assets with finite lives, mainly consisting of contractual relationships with independent brokers and advisors and vendor-dealers, core deposit intangibles, as well as certain components of the core banking system and of the program to implement the Basel Advanced Internal Ratings Based approach to credit risk currently in use, are amortized on a straight-line basis over their estimated useful life, which ranges from three to twenty years. Amortization of other intangible assets is included in other non-interest expenses.

Impairment of software and other intangible assets

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

3.6 EMPLOYEE BENEFITS

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

Short-term benefits

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

Post-employment benefits

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

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

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

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

Funding is generally provided by the Bank.

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

3. SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

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

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

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

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

3.7 PROVISIONS AND CONTINGENT LIABILITIES

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

3.8 INCOME TAXES

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

3.9 EARNINGS PER SHARE

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

3.10 INSURANCE

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

3.11 SHARE-BASED COMPENSATION

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

3.12 ASSETS UNDER ADMINISTRATION

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

3.13 TRANSLATION OF FOREIGN CURRENCIES

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

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

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

3.14 CASH AND CASH EQUIVALENTS

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

3.15 SHARE CAPITAL

Share issue costs

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

Dividend on common shares

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

4. FUTURE ACCOUNTING CHANGES

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

IFRS 9: *Financial Instruments*

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

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

In December 2015, the Basel Committee on Banking Supervision (BCBS) issued its final version of the Guidance on credit risk and accounting for expected credit losses. The guidance sets out supervisory expectations on sound credit risk practices associated with the implementation of expected credit loss accounting models as required under IFRS 9. In June 2016, the OSFI issued the final version of the IFRS 9, *Financial Instruments* and Disclosures Guideline, which reflects the aforementioned BCBS guidance and instructs FRE on the application of IFRS 9. The guideline has taken effect when IFRS 9 became applicable to each FRE.

4. FUTURE ACCOUNTING CHANGES [CONT'D]

The Bank's first financial statements presented in accordance with IFRS 9 will be its unaudited interim condensed consolidated financial statements for the quarter ending January 31, 2019. IFRS 9 is required to be applied on a retrospective basis, with certain exceptions. The retrospective impact of applying IFRS 9 will be accounted for through adjustments to the opening balances of retained earnings and accumulated other comprehensive income as at November 1, 2018. As permitted by IFRS 9, the Bank will not restate the comparative period financial statements.

Classification and measurement

IFRS 9 provides a single model for financial asset classification and measurement that is based on both the business model for managing financial assets and the contractual cash flow characteristics of the financial assets. These factors determine whether the financial assets are measured at amortized cost, fair value through other comprehensive income, or fair value through profit or loss. IFRS 9 requires that all debt instrument financial assets that do not meet a "solely payment of principal and interest" (SPPI) condition, including those that contain embedded derivatives, be classified as fair value through profit or loss. For those that meet the SPPI condition, classification at initial recognition will be determined based on the business model under which these assets are managed. Upon transition, the business model test will be based on the facts and circumstances as at November 1, 2018. Debt instruments that are managed on a "held to collect contractual cash flows" basis will be classified as at amortized cost. Debt instruments that are managed on a "held to collect contractual cash flows and to sell financial assets" basis will be classified as at fair value through other comprehensive income (FVOCI), with cumulative gains and losses reclassified to profit or loss upon derecognition. Finally, debt instruments that are managed on a "held for trading" or fair value basis will be classified as at fair value through profit or loss. In addition, IFRS 9 also includes an option to irrevocably designate, at initial recognition, a debt instrument as measured at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch and if OSFI requirements are also met. This designation is available for existing financial assets and liabilities at the date of initial application.

IFRS 9 requires that all equity instrument financial assets be classified as at fair value through profit or loss. However, the Bank may, at initial recognition of a non-trading equity instrument, irrevocably elect to designate the instrument as at fair value through other comprehensive income with no subsequent reclassification of gains and losses to net income. Dividends will continue to be recognized in net income. This designation is also available for existing non-trading equity instruments at the date of initial application.

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

Impairment

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

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

The ECL model under IFRS 9 is forward-looking and requires the use of reasonable and supportable forecasts of future economic conditions in the determination of significant increases in credit risk and measurement of ECL.

IFRS 9 establishes a simplified impairment approach for finance lease receivables which may be adopted rather than the general approach described above. The simplified approach does not require an entity to track the changes in credit risk, but, instead, requires the entity to recognize a loss allowance based on lifetime ECL at each reporting date, from the date of initial recognition. The Bank has opted to adopt the general approach for finance lease receivables.

Hedge accounting

IFRS 9 introduces a new general hedge accounting model that aims to align hedge accounting with risk management activities. However, the current hedge accounting requirements under IAS 39 may continue to be applied until the IASB finalizes its macro hedge accounting project. As permitted, the Bank elected not to apply the IFRS 9 hedge accounting requirements and instead will continue applying the IAS 39 hedge accounting requirements. The Bank will comply with the revised hedge accounting disclosures required by the consequential amendments made to IFRS 7.

4. FUTURE ACCOUNTING CHANGES [CONT'D]

IFRS 15: *Revenue from Contracts with Customers*

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

On transition, IFRS 15 permits to either restate prior periods or to apply the standard on a modified retrospective basis. The Bank plans to use the modified retrospective basis, recognizing the cumulative effect of initially applying the standard as an adjustment to the opening balance of retained earnings as at November 1, 2018, without restating comparative periods.

Transition impact for IFRS 9 and IFRS 15

The adoption of IFRS 9 is expected to result in certain differences in the classification of financial assets when compared to the classification under IAS 39. The most significant changes include approximately $2.3 billion of debt securities previously classified as available-for-sale to be classified as amortized cost, and approximately $0.3 billion of equity and debt securities previously classified as available-for-sale to be classified as FVOCI. Based on current estimates, the decrease in shareholders' equity at transition for IFRS 9 and IFRS 15 is not expected to exceed $20 million in total, or an approximate decrease of up to 10 basis points of the Common Equity Tier 1 (CET1) capital ratio. The Bank is finalizing its analyses, including potential refinements and validations to the new impairment models which may change the actual impact on adoption.

IFRS 16: *Leases*

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

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

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

IFRS 17: *Insurance Contracts*

In May 2017, the IASB issued IFRS 17, *Insurance Contracts*, which sets out the principles for the recognition, measurement, presentation and disclosure of insurance contracts. IFRS 17 replaces the previous insurance contract standard, IFRS 4 Insurance Contracts. The standard is effective for annual periods beginning on or after January 1, 2021. On November 14, 2018, the IASB has voted to propose a one-year deferral of the effective date for IFRS 17 to 2022. The proposed deferral is subject to public consultation, which is expected next year. The Bank is currently assessing the impact of the adoption of this standard on its consolidated financial statements.

Conceptual Framework for Financial Reporting

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

4. FUTURE ACCOUNTING CHANGES [CONT'D]

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

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

In February 2018, the IAS issued amendments to IAS 19, *Employee Benefits* which specifies how companies determine pension expenses when changes to a defined benefit pension plan occur. IAS 19 specifies how a company accounts for a defined benefit plan. When a change to a plan—an amendment, curtailment or settlement—takes place, IAS 19 requires a company to remeasure its net defined benefit liability or asset. The amendments require a company to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. Until now, IAS 19 did not specify how to determine these expenses for the period after the change to the plan. By requiring the use of updated assumptions, the amendments are expected to provide useful information to users of financial statements. The amendments are effective for annual periods beginning on or after January 1, 2019, which will be November 1, 2019 for the Bank. The Bank is currently assessing the impact of the adoption of this standard on its consolidated financial statements.

5. SECURITIES

MATURITY SCHEDULE OF SECURITIES

	Within 1 year	1 to 5 years	Over 5 years	No specific maturity	2018 Total	2017 Total
Portfolio of available-for-sale securities						
Securities issued or guaranteed						
by Canada[1]	$ 831,405	$ 197,240	$ —	$ —	$ 1,028,645	$ 1,391,701
by provinces	751,461	571,685	4,273	—	1,327,419	1,204,413
by municipalities	46,561	78,654	—	—	125,215	207,349
Other debt securities	1,520	29,512	7,288	—	38,320	64,171
Asset-backed securities	—	2,451	—	—	2,451	3,402
Preferred shares	26	18	—	177,265	177,309	145,746
Common shares and other securities	—	—	—	10,890	10,890	15,377
	$ 1,630,973	$ 879,560	$ 11,561	$ 188,155	$ 2,710,249	$ 3,032,159
Portfolio of held-to-maturity securities						
Securities issued or guaranteed by Canada[1]	$ 366,609	$ 289,148	$ —	$ —	$ 655,757	$ 405,088

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

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

GAINS AND LOSSES RECOGNIZED IN COMPREHENSIVE INCOME

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

	2018	2017
Realized net gains	$ 7,642	$ 8,839
Write-downs for impairment	—	(608)
	$ 7,642	$ 8,231

5. SECURITIES [CONT'D]

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

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

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

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

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

6. LOANS

ALLOWANCES FOR CREDIT LOSSES

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

(1) Includes impact of foreign exchange movements.
(2) Including customers' liabilities under acceptances.
(3) Comparative figures have been reclassified to conform to the current year presentation. Refer to Note 2 for further information.
(4) The allowances for off-balance sheet exposures, such as letters of guarantee and certain undrawn amounts under approved credit facilities, are recognized in other liabilities.

6. LOANS [CONT'D]

	Balance at beginning of year	Provision for credit losses	Write-offs	Recoveries and other[1]	Interest accrued on impaired loans	Balance at end of year
						2017
Personal loans	$ 36,452	$ 24,823	$ (37,185)	$ 7,216	$ (706)	$ 30,600
Residential mortgage loans	11,018	3,027	(1,457)	(433)	(1,337)	10,818
Commercial loans[2][3]	63,094	9,150	(8,214)	626	(1,182)	63,474
Total allowances for credit losses	$ 110,564	$ 37,000	$ (46,856)	$ 7,409	$ (3,225)	$ 104,892
Individual allowances	$ 19,208	$ 13,437	$ (8,113)	$ 620	$ (351)	$ 24,801
Collective allowances against impaired loans	15,977	36,679	(38,743)	6,789	(2,874)	17,828
Collective allowances against other loans	69,824	(13,267)	—	—	—	56,557
Total allowances for loan losses	$ 105,009	$ 36,849	$ (46,856)	$ 7,409	$ (3,225)	$ 99,186
Allowances for off-balance sheet exposures[4]	5,555	151	—	—	—	5,706
Total allowances for credit losses	$ 110,564	$ 37,000	$ (46,856)	$ 7,409	$ (3,225)	$ 104,892

(1) Includes impact of foreign exchange movements.
(2) Including customers' liabilities under acceptances.
(3) Comparative figures have been reclassified to conform to the current year presentation. Refer to Note 2 for further information.
(4) The allowances for off-balance sheet exposures, such as letters of guarantee and certain undrawn amounts under approved credit facilities, are recognized in other liabilities.

IMPAIRED LOANS

	Gross amount	**Individual allowances**	**Collective allowances against impaired loans**	**Net amount**
				2018
Personal loans	**$ 19,805**	**$ —**	**$ 4,844**	**$ 14,961**
Residential mortgage loans	**37,134**	**—**	**2,104**	**35,030**
Commercial loans[1][2]	**124,331**	**28,442**	**2,788**	**93,101**
	$ 181,270	**$ 28,442**	**$ 9,736**	**$ 143,092**

	Gross amount	Individual allowances	Collective allowances against impaired loans	Net amount
				2017
Personal loans	$ 20,874	—	$ 11,462	$ 9,412
Residential mortgage loans	30,326	—	2,703	27,623
Commercial loans[1][2]	100,691	24,801	3,663	72,227
	$ 151,891	$ 24,801	$ 17,828	$ 109,262

(1) Including customers' liabilities under acceptances.
(2) Comparative figures have been reclassified to conform to the current year presentation. Refer to Note 2 for further information.

Foreclosed assets

Held-for-sale assets acquired in 2018 with respect to impaired loans which are managed for sale in an orderly manner amounted to $12.5 million ($6.2 million in 2017). There were no individual allowances with regard to these loans prior to foreclosure.

6. LOANS [CONT'D]

LOANS PAST DUE BUT NOT IMPAIRED

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

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

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

SALES OF COMMERCIAL LOANS

During the year ended October 31, 2018, the Bank sold commercial loan amounting to $708 million and recognized a $4.3 million net gain in other income. No such sales occurred in 2017.

FINANCE LEASE RECEIVABLES

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

	2018	2017
Minimum lease payments	**$ 952,756**	$ 875,762
Unguaranteed residual values	**25,584**	22,824
Gross investment in leases	**978,340**	898,586
Unearned interest income	**(99,637)**	(90,336)
Net investment in leases	**878,703**	808,250
Unamortized deferred costs, security deposits, and other	**12,958**	13,130
	$ 891,661	$ 821,380

Contractual maturities of finance lease receivables

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

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

			2017
	Gross investment in leases	Unearned interest income	Net investment in leases
Receivable within one year	$ 288,809	$ 35,747	$ 253,062
Receivable within 1 to 5 years	591,733	51,913	539,820
Receivable after 5 years	18,044	2,676	15,368
	$ 898,586	$ 90,336	$ 808,250

7. SECURITIZATION AND STRUCTURED ENTITIES

7.1 TRANSFER OF FINANCIAL ASSETS

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

CMHC programs

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

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

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

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

Since the underlying cash flows associated with the swap agreements are captured through the on-balance sheet recognition of the underlying assets and the associated securitization liabilities, the swap agreements are not recognized at fair value on the Consolidated Balance Sheet and fair value changes are not recognized in the Consolidated Statement of Income. The underlying cash flows of the swap agreements are recognized on an accrual basis as described above. As at October 31, 2018, the notional amount of these swaps was $4.8 billion ($4.9 billion as at October 31, 2017).

Multi-seller conduit

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

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

Financial assets not qualifying for derecognition and associated financial liabilities

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

7. SECURITIZATION AND STRUCTURED ENTITIES [CONT'D]

		2018		2017
	Total carrying amount	**Fair value**	Total carrying amount	Fair value
Residential mortgage loans	**$ 6,238,035**	**$ 6,106,940**	$ 7,063,929	$ 7,013,929
Replacement Assets				
Cash and deposits with banks	**10,774**	**10,774**	10,069	10,069
Securities purchased under reverse repurchase agreements	**445,367**	**445,367**	1,118	1,118
Other securities	**655,757**	**653,710**	405,088	404,444
Debt related to securitization activities	**$ (7,276,779)**	**$ (7,181,631)**	$ (7,524,885)	$ (7,508,417)

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

	2018	2017
Carrying amounts of residential mortgage loans transferred during the year related to new financing	**$ 1,164,202**	$ 2,171,236
Carrying amounts of residential mortgage loans transferred during the year as Replacement Assets	**$ 523,852**	$ 768,038

In addition, as at October 31, 2018, the Bank has also securitized other residential mortgage loans for a total amount of $599.7 million ($575.0 million as at October 31, 2017) as part of the NHA MBS program, of which $244.7 million ($235.0 million as at October 31, 2017) were pledged as collateral with the Bank of Canada and $355.0 million ($340.0 as at October 31, 2017) was available as collateral. The resulting NHA MBS are presented as part of residential mortgage loans.

Mortgage loan portfolio review

CMHC Programs

In 2017, the Bank identified a number of mortgage loans that were inadvertently portfolio insured while they did not meet CMHC portfolio insurance eligibility criteria. As a result, such identified mortgage loans for an amount of $88 million were repurchased from the CMHC securitization programs at the beginning of 2018.

In 2018, CMHC completed an audit of a sample of the Bank's portfolio insured mortgage loans. The audit highlighted similar issues as those identified in 2017, whereas certain mortgage loans were inadvertently portfolio insured while they did not meet CMHC portfolio insurance eligibility criteria. The Bank then completed a review of all B2B Bank and branch-originated mortgage loan portfolios insured by CMHC. Further to the review, mortgage loans inadvertently portfolio insured and sold into CMHC securitization programs amounting to $135 million were identified and repurchased. CMHC insurance on mortgage loans inadvertently portfolio insured by CMHC but not sold to, as well as on portfolio insured mortgage loans sold into CMHC securitization programs was cancelled concurrently.

Third-Party Purchaser Program

In late September 2017, the Bank was advised by the TPP, following a normal course audit, that certain mortgage loans previously sold to the TPP did not meet their documentation and eligibility criteria.

In regard to the B2B Bank-originated mortgage loans sold to the TPP, a full review of these mortgage loans was completed in 2017. This review led to the Bank repurchasing certain ineligible mortgage loans in 2018 for a total amount of $89 million. In addition, the Bank provided a cash reserve deposit to the TPP in relation to these mortgage loans, of which $23 million has been retained by the TPP as credit enhancement for the program. The cash reserve deposit is currently being remitted to the Bank over time as the B2B Bank originated mortgage loans amortize. The cash reserve deposit is presented as part of other assets.

In regard to the branch-originated mortgage loans sold to the TPP, a comprehensive internal review of approximately 1,900 mortgage loans was completed during 2018. Based on this internal review, the Bank has identified certain ineligible mortgage loans amounting to $115 million which, as agreed to with the TPP, were repurchased by the Bank. In addition, the Bank provided the TPP an additional cash reserve deposit in the amount of $61 million in relation to these mortgage loans. As part of the agreement with the TPP, $6 million of this cash reserve deposit was subsequently released to the Bank. The remainder of this cash reserve deposit was retained by the TPP as additional credit enhancement to the program and is currently being remitted to the Bank over time as the branch-originated mortgage loans amortize. The cash reserve deposit is presented as part of other assets.

In 2017, the Bank also had identified as part of an internal review certain low loan-to-value (LTV) mortgage loans that were sold to the TPP and that did not meet the program eligibility criteria amounting to $91 million. These mortgage loans were repurchased by the Bank in 2018.

7.2 STRUCTURED ENTITIES SECURITIZATON VEHICLES

In the ordinary course of business, the Bank enters into transactions with structured entities as part of securitization programs to obtain alternative sources of funding. The Bank sells personal loans and finance lease receivables to two intermediate partnerships, B2B Securitization Limited Partnership and LBC Leasing Limited Partnership (the Partnerships), respectively. To fund these purchases, the Partnerships issue interest-bearing liabilities to securitization conduits of other Canadian banks. These Partnerships are consolidated

7. SECURITIZATION AND STRUCTURED ENTITIES [CONT'D]

as the Bank holds 100% of the rights, has the ability to direct the relevant activities and can exercise power to affect returns. The interest-bearing liabilities issued by the Partnerships are recorded as debt related to securitization activities involving structured entities.

Financial assets securitized through structured entities

The following table summarizes the carrying amounts and fair value of financial assets securitized through structured entities and their associated financial liabilities included in the Consolidated Balance Sheet.

		2018		2017
	Total carrying amount	**Fair value**	Total carrying amount	Fair value
Personal loans	**$ 1,022,791**	**$ 1,022,791**	$ 949,104	$ 949,104
Commercial loans and other [1]	**351,943**	**345,038**	562,421	560,377
Debt related to securitization activities involving structured entities	**$ (510,974)**	**$ (510,974)**	$ (706,036)	$ (706,036)

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

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

	2018	2017
Carrying amounts of personal loans transferred during the year related to financing	**$ 230,262**	$ 1,000,001
Carrying amounts of finance lease receivables transferred during the year related to financing	**$ —**	$ 320,204

8. PREMISES AND EQUIPMENT

	Premises and leasehold improvements	**Equipment and furniture**	**Computer hardware**	**Total**
Cost				
As at October 31, 2016	$ 45,637	$ 25,676	$ 24,092	$ 95,405
Additions	7,921	1,040	1,640	10,601
Additions through business combinations (Note 31)	—	94	34	128
Disposals	(485)	—	(12)	(497)
Other[1]	(25)	1	1	(23)
As at October 31, 2017	53,048	26,811	25,755	105,614
Additions	**46,616**	**844**	**5,816**	**53,276**
Disposals	**(301)**	**—**	**—**	**(301)**
Other[1]	**—**	**2**	**1**	**3**
Impairment	**(1,311)**	**(452)**	**(153)**	**(1,916)**
As at October 31, 2018	**$ 98,052**	**$ 27,205**	**$ 31,419**	**$ 156,676**
Accumulated depreciation				
As at October 31, 2016	$ 20,381	$ 21,510	$ 20,525	$ 62,416
Depreciation	3,694	1,906	2,587	8,187
Disposals	(193)	—	(12)	(205)
Other[1]	—	2	—	2
As at October 31, 2017	23,882	23,418	23,100	70,400
Depreciation	**4,324**	**1,545**	**1,012**	**6,881**
Disposals	**(111)**	**—**	**—**	**(111)**
Other[1]	**—**	**—**	**1**	**1**
Impairment	**(999)**	**(369)**	**(88)**	**(1,456)**
As at October 31, 2018	**$ 27,096**	**$ 24,594**	**$ 24,025**	**$ 75,715**
Carrying amount				
As at October 31, 2017	$ 29,166	$ 3,393	$ 2,655	$ 35,214
As at October 31, 2018	**$ 70,956**	**$ 2,611**	**$ 7,394**	**$ 80,961**

(1) Other includes the impact of foreign currency translation and purchase accounting adjustments related to the acquisitions of CIT Canada and NCF.

8. PREMISES AND EQUIPMENT [CONT'D]

Premises and equipment as at October 31, 2018 include $6.8 million pertaining to premises under construction yet to be amortized ($6.0 million as at October 31, 2017).

IMPAIRMENT

In 2018 and 2017, the Retail Services CGU's long-lived assets were tested for impairment and no impairment losses were recognized; refer to Note 30 for further details. Other impairment charges amounting to $0.5 million were also recorded in 2018 (nil in 2017).

9. SOFTWARE AND OTHER INTANGIBLE ASSETS

	Software	Acquisition related intangible assets	Other intangible assets	Total
Cost				
As at October 31, 2016	$ 248,568	$ 25,554	$ 48,578	$ 322,700
Additions	21,858	—	67,480	89,338
Additions through business combinations (Note 31)	4	81,000	—	81,004
Impact of foreign currency translation	—	1,366	—	1,366
Other[1]	—	236	—	236
Impairment	(4,271)	—	—	(4,271)
As at October 31, 2017	266,159	108,156	116,058	490,373
Additions	**23,407**	**2,680**	**81,608**	**107,695**
Impact of foreign currency translation	**—**	**1,689**	**—**	**1,689**
As at October 31, 2018	**$ 289,566**	**$ 112,525**	**$ 197,666**	**$ 599,757**
Accumulated amortization				
As at October 31, 2016	$ 159,722	$ 9,912	$ 2,576	$ 172,210
Amortization	20,929	5,838	1,551	28,318
Impairment	(3,577)	—	—	(3,577)
As at October 31, 2017	177,074	15,750	4,127	196,951
Amortization	**19,042**	**13,972**	**2,132**	**35,146**
Impact of foreign currency translation	**—**	**315**	**—**	**315**
As at October 31, 2018	**$ 196,116**	**$ 30,037**	**$ 6,259**	**$ 232,412**
Carrying amount				
As at October 31, 2017	$ 89,085	$ 92,406	$ 111,931	$ 293,422
As at October 31, 2018	**$ 93,450**	**$ 82,488**	**$ 191,407**	**$ 367,345**

(1) Other includes purchase accounting adjustments related to the acquisitions of CIT Canada and NCF.

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

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

Software and other intangible assets include $29.9 million and $129.3 million respectively pertaining to projects under development yet to be amortized as at October 31, 2018 ($33.3 million and $106.1 million respectively as at October 31, 2017).

IMPAIRMENT

In 2018 and 2017, the Retail Services CGU's long-lived assets were tested for impairment and no impairment losses were recognized; refer to Note 30 for further details. No other impairment charges were recorded in 2018 ($0.7 million in 2017).

10. GOODWILL

	B2B Bank CGU	Business Services CGU	Total
As at October 31, 2016	$ 34,853	$ 20,959	$ 55,812
Additions through business combinations (Note 31)	—	56,437	56,437
Impact of foreign currency translation	—	952	952
Other[1]	—	4,899	4,899
As at October 31, 2017	$ 34,853	$ 83,247	$ 118,100
Impact of foreign currency translation	**—**	**1,325**	**1,325**
Other[1]	**—**	**(2,808)**	**(2,808)**
As at October 31, 2018	**$ 34,853**	**$ 81,764**	**$ 116,617**

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

IMPAIRMENT

The Bank tests goodwill for impairment on an annual basis and whenever there are events or changes in circumstances which indicate that the carrying amount of the CGU may not be recoverable. No goodwill impairment losses were recognized in 2018 and 2017.

Goodwill as at October 31, 2018 has been allocated to two CGUs:

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

These two CGUs are also operating segments; refer to Note 32 for further details.

B2B Bank CGU

The recoverable amount of the B2B Bank CGU was determined based on the value in use approach using a discounted cash flow method. The significant key assumptions included the forecasts of cash flows based on financial plans approved by the Board of Directors covering a four-year period, a terminal growth rate of 2.0% based on projected economic growth, and an after-tax discount rate of 10.3% based on the bank-wide cost of capital and further adjusted to reflect the risks specific to the B2B Bank CGU. The estimated recoverable amount was above the CGU's carrying amount. If alternative reasonably possible changes in key assumptions were applied, the result of the impairment test would not differ.

Business Services CGU

The recoverable amount of the Business Services CGU was determined based on the value in use approach using a discounted cash flow method. The significant key assumptions included the forecasts of cash flows based on financial plans approved by the Board of Directors covering a four-year period, a terminal growth rate of 2.0% based on projected economic growth, and an after-tax discount rate of 10.3% based on the bank-wide cost of capital and further adjusted to reflect the risks specific to the Business Services CGU. The estimated recoverable amount was above CGU's carrying amount. If alternative reasonably possible changes in key assumptions were applied, the result of the impairment test would not differ.

11. OTHER ASSETS

	2018	2017
Cheques and other items in transit	**$ 322,338**	$ 132,581
Accrued interest receivable	**98,929**	90,666
Cash reserve deposits (Note 7)	**90,871**	77,817
Assets under operating leases (Note 28)	**15,380**	25,620
Defined benefit plan assets (Note 18)	**5,511**	3,413
Accounts receivable, prepaid expenses and other items	**170,978**	144,509
	$ 704,007	$ 474,606

12. DEPOSITS

	Demand[1]	Notice[2]	Term[3]	2018 Total
Personal	$ 124,081	$ 4,377,423	$ 16,493,949	$ 20,995,453
Business, banks and other	1,382,268	617,110	5,011,741	7,011,119
	$ 1,506,349	$ 4,994,533	$ 21,505,690	$ 28,006,572

	Demand[1]	Notice[2]	Term[3]	2017 Total
Personal	$ 125,870	$ 4,900,736	$ 16,172,376	$ 21,198,982
Business, banks and other	1,360,658	839,294	5,531,426	7,731,378
	$ 1,486,528	$ 5,740,030	$ 21,703,802	$ 28,930,360

(1) Demand deposits consist of deposits in respect of which the Bank is not authorized to require notice prior to withdrawal by customers. These deposits primarily consist of chequing accounts.
(2) Notice deposits consist of deposits in respect of which the Bank may legally require a withdrawal notice. These deposits generally consist of savings accounts.
(3) Term deposits include deposits maturing at a specific date, particularly term deposits and guaranteed investment certificates, as well as senior unsecured notes.

13. OTHER LIABILITIES

	2018	2017
Accrued interest payable	$ 456,552	$ 411,416
Cheques and other items in transit	256,189	72,364
Defined benefit plan liabilities (Note 18)	41,954	62,826
Accounts payable, accrued expenses and other items	474,861	505,302
	$ 1,229,556	$ 1,051,908

14. DEBT RELATED TO SECURITIZATION ACTIVITIES

	2018	2017
Debt related to securitization activities		
Debt related to CMB and NHA MBS transactions	$ 6,146,960	$ 5,762,584
Debt related to multi-seller conduits[1]	1,129,819	1,762,301
	$ 7,276,779	$ 7,524,885
Debt related to securitization activities involving structured entities		
Debt related to securitization activities involving structured entities[1]	510,974	706,036
	$ 7,787,753	$ 8,230,921

(1) The interest rate is based on the funding cost of the conduits and corresponds to the rate of the asset-backed commercial paper issued by the conduits, plus related program fees.

Refer to Note 7 for further details about securitization and structured entities.

15. SUBORDINATED DEBT

The subordinated debt is a direct unsecured obligation of the Bank and is subordinated in right of payment to the claims of depositors and certain other creditors of the Bank.

ISSUED AND OUTSTANDING

				2018		2017
Maturity	Interest rate	Earliest par value redemption date		**Carrying amount**		Carrying amount
June 2027	4.25%	June 22, 2022[1]	**$**	**350,000**	$	350,000
Unamortized issuance costs				**(1,238)**		(1,573)
			$	**348,762**	$	348,427

(1) Non-Viability Contingent Capital (NVCC)) (subordinated indebtedness) (the "Notes"). The Bank may, at its option, with the prior approval of OSFI, redeem the Notes on or after June 22, 2022, at par, in whole at any time or in part from time to time, on not less than 30 days and not more than 60 days notice to registered holders. The NVCC provision is necessary for the Notes to qualify as Tier 2 Capital and as such, the Bank may be required to convert the Notes into a variable number of common shares upon the occurrence of a non-viability trigger event.

CHANGES IN SUBORDINATED DEBT

		2018		2017
Outstanding at beginning of year	**$**	**348,427**	$	199,824
Issuance of subordinated debt, net		**—**		348,306
Redemption of subordinated debt		**—**		(200,000)
Amortization of issuance costs		**335**		297
Outstanding at end of year	**$**	**348,762**	$	348,427

Issuance of subordinated debt
On June 22, 2017, the Bank issued $350.0 million of notes (Non-Viability Contingent Capital (NVCC)) (subordinated indebtedness).

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

16. SHARE CAPITAL

AUTHORIZED SHARE CAPITAL

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

PREFERRED SHARES

Terms of preferred shares

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

16. SHARE CAPITAL [CONT'D]

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

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

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

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

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

16. SHARE CAPITAL [CONT'D]

Issued and outstanding

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

		2018		2017
	Number of shares	**Amount**	Number of shares	Amount
Non-Cumulative Class A Preferred Shares				
Series 11				
Outstanding at beginning of year	**4,000,000**	**$ 97,562**	4,000,000	$ 97,562
Repurchase of shares	**(4,000,000)**	**(97,562)**	—	—
Outstanding at end of year	**—**	**$ —**	4,000,000	$ 97,562
Series 13				
Outstanding at beginning and end of year	**5,000,000**	**$ 122,071**	5,000,000	$ 122,071
Series 15				
Outstanding at beginning and end of year	**5,000,000**	**$ 121,967**	5,000,000	$ 121,967
	10,000,000	**$ 244,038**	14,000,000	$ 341,600

There were no outstanding Non-Cumulative Class A Preferred Shares, Series 12, Series 14 and Series 16, as at October 31, 2018 and October 31, 2017.

Repurchase of preferred shares

On December 15, 2017, the Bank repurchased 4,000,000 Non-cumulative Class A Preferred Shares, Series 11 at a price of $25.00 per share, for an aggregate amount of $100.0 million. Capitalized issuance costs of $2.4 million presented against these preferred shares were directly recorded to retained earnings.

COMMON SHARES

Issued and outstanding

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

		2018		2017
	Number of shares	**Amount**	Number of shares	Amount
Common shares				
Outstanding at beginning of year	**38,966,473**	**$ 953,536**	33,842,170	$ 696,493
Issuance under public offerings	**2,624,300**	**143,812**	4,654,560	240,641
Issuance under the Shareholder Dividend Reinvestment and Share Purchase Plan	**484,511**	**22,821**	469,743	26,637
Net issuance costs	**n.a.**	**(4,753)**	n.a.	(10,235)
	42,075,284	**$ 1,115,416**	38,966,473	$ 953,536

Issuance under a public offering

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

On January 16, 2018, the Bank completed the issuance of 2,282,000 common shares and, in connection with this share issuance, the Bank issued an additional 342,300 common shares on January 18, 2018 related to an over-allotment option, for total gross proceeds of $143.8 million.

Shareholder dividend reinvestment and share purchase plan

The Bank offers a Shareholder Dividend Reinvestment and Share Purchase Plan (the Plan) to eligible Canadian shareholders. Participation in the Plan is optional. Under the terms of the Plan, dividends on common and preferred shares are reinvested to purchase additional common shares of the Bank. Shareholders also have the opportunity to make optional cash payments to acquire additional common shares. At the option of the Bank, the common shares may be issued from the Bank's treasury at an average market price with a discount of up to 5%, or from the open market at market price. In 2018, 484,511 common shares (469,743 in 2017) were legally issued from treasury at a 2% discount.

16. SHARE CAPITAL [CONT'D]

DECLARED DIVIDENDS

			2018		2017
	Dividend per share	**Dividends declared**	Dividend per share	Dividends declared
Non-Cumulative Class A Preferred Shares				
Series 11	**$ 0.250**	**$ 1,000**	$ 1.000	$ 4,000
Series 13	**$ 1.075**	**5,375**	$ 1.075	5,375
Series 15	**$ 1.463**	**7,313**	$ 1.463	7,313
Total preferred shares		**$ 13,688**		$ 16,688
Common shares	**$ 2.54**	**$ 104,493**	$ 2.46	$ 86,560

On November 20, 2018, the Board of Directors declared regular dividends on the various series of preferred shares to shareholders of record on December 7, 2018. On December 4, 2018, the Board of Directors declared a dividend of $0.65 per common share, payable on February 1, 2019, to shareholders of record on January 2, 2019.

RESTRICTIONS ON THE PAYMENT OF DIVIDENDS

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

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

CAPITAL MANAGEMENT

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

The Board of Directors, on the recommendation of the Risk Management Committee, approves annually several capital-related documents, including the Capital Management and Adequacy Policy, the Internal Capital Adequacy Assessment Process, the Stress Testing Program, as well as the Capital Plan. It further reviews capital adequacy on a quarterly basis.

Regulatory capital

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

Under OSFI's guideline, minimum Common Equity Tier 1, Tier 1 and Total capital ratios were set at 6.375%, 7.875% and 9.875% respectively, for 2018. These ratios include the phase-in of the capital conservation buffer and of certain regulatory adjustments through 2019 and phase-out of non-qualifying capital instruments through 2022, (the "transitional" basis). The guideline also provides for annual increases in minimum capital ratio requirements, which will reach 7.0%, 8.5% and 10.5% respectively, in 2019, including the 2.5% capital conservation buffers.

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

OSFI's guideline provides additional guidance regarding the treatment of non-qualifying capital instruments and specifies that certain capital instruments no longer fully qualify as capital as of January 1, 2013. The Bank's Series 11 preferred shares were considered non-qualifying capital instruments under Basel III and were subject to a 10% phase-out per year prior to the redemption on December 15, 2017. The Preferred Shares Series 13 and Series 15 fully qualify as Additional Tier 1 capital, and the notes (subordinated indebtedness) due June 22, 2027 fully qualify as Tier 2 capital under Basel III.

16. SHARE CAPITAL [CONT'D]

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

The Bank has complied with regulatory capital requirements throughout the year ended October 31, 2018. Regulatory capital on an "all-in" basis is detailed below.

	2018	2017
Common shares	**$ 1,115,416**	$ 953,536
Retained earnings	**1,152,470**	1,035,770
Share-based compensation reserve	**268**	—
Accumulated other comprehensive income, excluding cash flow hedge reserve	**(3,746)**	6,797
Deductions from Common Equity Tier 1 capital[1]	**(452,401)**	(383,804)
Common Equity Tier 1 capital	**1,812,007**	1,612,299
Non-qualifying preferred shares[2]	**—**	97,562
Qualifying preferred shares	**244,038**	244,038
Additional Tier 1 capital	**244,038**	341,600
Tier 1 capital	**2,056,045**	1,953,899
Qualifying subordinated debt	**348,762**	348,427
Collective allowances	**67,981**	62,263
Tier 2 capital	**416,743**	410,690
Total capital	**$ 2,472,788**	$ 2,364,589
Common Equity Tier 1 capital ratio	**9.0%**	7.9%
Tier 1 capital ratio	**10.2%**	9.6%
Total capital ratio	**12.2%**	11.6%

(1) Comprised of deductions for software and other intangible assets, goodwill, pension plan assets and other.
(2) There is currently no deduction related to the non-qualifying capital instruments under Basel III.

17. SHARE-BASED COMPENSATION

SHARE PURCHASE OPTION PLAN

The Bank offers a share purchase option plan to members of its senior management. Under this plan, the exercise price of options for the purchase of common shares must not be less than the market prices of such shares immediately prior to the grant date. The right to exercise the options vests gradually over a maximum five-year period and the options may be exercised at any time up to ten years after they have been granted.

The Bank had initially reserved 1,600,000 common shares for the potential exercise of share purchase options, of which none are available as at October 31, 2018 (124,962 were still available at October 31, 2017).

In October 2018, the Bank granted the 124,962 available share purchase options, which are outstanding as at October 31, 2018. There were no options outstanding as at October 31, 2017.

	2018	
	Number of options	Exercise price per option[1]
Outstanding at beginning of year	—	n.a.
Granted	124,962	$ 41.56
Outstanding at end of year	124,962	$ 41.56
Exercisable at end of year	—	n.a.

(1) Preliminary exercise price based on October 31, 2018 closing price. The actual exercise price will be determined on December 6, 2018.

17. SHARE-BASED COMPENSATION (CONT'D)

SHARE APPRECIATION RIGHTS PLAN

The Bank offers a share appreciation rights (SARs) plan to members of its senior management. These SARs may be cash settled for an amount equal to the difference between the SAR exercise price and the closing price of the common shares at the measurement date. SARs vest over a maximum period of five years and can be exercised over a maximum period of ten years. The fair value of SARs is measured using the Black-Scholes-Merton option pricing model, taking into account the terms and conditions upon which the instruments were granted, including the dividend yield.

No SARs were granted during 2018 and 2017. During 2018, the 25,035 units that were outstanding were exercised and cash settled at the weighted average price of $40.37

Share appreciation rights

		Weighted average exercise price	Number of SARs outstanding	Weighted average remaining contractual life (years)	Number of SARs exercisable
2018	**$**	**—**	**—**	**—**	**—**
2017	$	40.37	25,035	0.57	25,035

PERFORMANCE-BASED SHARE UNIT PLANS

Performance-based share units

The Bank offers a performance-based share unit (PSU) plan to certain members of its senior management. Rights to 60% of the PSUs generally vest over three years. The rights to the remaining 40% PSUs generally vest over three years and based on the Bank's total shareholder return relative to the average of a peer group of Canadian financial institutions. During the vesting period, dividend equivalents accrue to the participants in the form of additional share units. All PSUs are cash settled at fair value at the maturity date. A deferred version of the plan exists under which the participant is paid on termination of employment rather than at the end of the three-year period.

The following table summarizes the Bank's PSU plan activities for the years ended October 31, 2018 and 2017

Performance-based share units

	Number of units granted		Value of units granted	Vesting date
2018	**161,182**	**$**	**56.31**	**December 2020**
2017	147,784	$	53.91	December 2019

The number of units outstanding as at October 31, 2018 was 587,385 of which 139,432 units were fully vested under the deferred version of the plan (541,696 units as at October 31, 2017 of which 108,768 units were fully vested).

Transformation performance-based share units

In 2017, the Bank introduced a PSU incentive program for certain members of its senior management that was linked to the successful execution of its transformation plan. The rights to theses PSUs (2017 Transformation PSUs) vested after three years and only if the Bank attains certain performance targets at the end of fiscal 2019.

At the beginning of 2018, in line with the decision to reset the Bank's mid-term objectives from 2019 to 2020 while keeping the 2022 targets intact, all 26,525 units related to the 2017 Transformation performance-based share unit plan were canceled and replaced by 58,411 units of the new 2018 Transformation performance-based share unit plan. The rights to these PSUs (2018 Transformation PSUs) vest after three years and only if the Bank attains certain performance targets at the end of fiscal 2020. In October 2018, 26,045 units of the 2018 Transformation PSUs were canceled.

The following table summarizes the Bank's 2018 Transformation PSU plan activities for the year ended October 31, 2018.

Transformation performance-based share units

	Number of units granted		Value of units granted	Vesting date
2018	**58,411**	**$**	**56.31**	**December 2020**
2017	25,413	$	53.91	December 2019

The number of 2018 Transformation PSUs outstanding as at October 31, 2018 was 32,668. None of the 2017 Transformation PSUs were outstanding as at October 31, 2018.

17. SHARE-BASED COMPENSATION (CONT'D)

RESTRICTED SHARE UNIT PLANS

The Bank offers a restricted share unit (RSU) plan to certain members of its senior management. Under the plan, 50% of the annual bonus otherwise payable to an eligible employee, under the Bank's short-term incentive compensation program, can be withheld and converted into fully vested restricted share units at the employees' option. The Bank undertakes to grant additional RSUs equal to 60% of the withheld bonus. These additional units vest at the end of the three-year period following their award. A deferred version of the plan exists under which the participant is paid on termination of employment rather than at the end of the three-year period.

The Bank also offers a RSU plan to certain employees of the capital markets sector. Under that plan, 30% of the annual bonus over a certain amount that would otherwise be payable to an eligible employee has to be withheld and converted into fully vested restricted share units. This plan does not provide for any employer contribution and a third of the restricted share units are redeemed at each of the first three anniversary dates of the grant.

During the vesting period, under both plans, dividend equivalents accrue to the participants in the form of additional share units.

The following table summarizes the Bank's RSU plans activities for the years ended October 31, 2018 and 2017.

Restricted share units

	Plan	Number of units converted [1]	Number of units granted		Value of units granted	Vesting date
2018	**Senior management**	**56,271**	**38,196**	**$**	**56.08**	**December 2020**
	Capital markets	**32,599**	**—**	**$**	**56.40**	**n.a.**
2017	Senior management	46,079	44,934	$	53.91	December 2019
	Capital markets	39,564	—	$	53.91	n.a.

(1) Corresponds to the portion of annual bonuses converted in RSUs. These units are fully vested at grant date.

The number of units outstanding for the Senior management RSU plan as at October 31, 2018 was 326,327 of which 217,416 units were fully vested under the deferred version of the plan (303,801 units as at October 31, 2017 of which 201,191 units were fully vested). The number of units outstanding for the Capital markets RSU plan as at October 31, 2018 was 70,373 all of which were vested (67,685 units as at October 31, 2017, all of which were vested).

DEFERRED SHARE UNIT PLAN

The Bank offers a deferred share unit plan to non-employee directors of the Bank. Under this plan, each director may choose to receive all or a percentage of his or her remuneration in the form of deferred share units which can be settled in cash or common shares. The deferred share units are converted when the holder steps down from the Board of Directors. In 2018, no deferred share units were redeemed (1,844 units in 2017). In 2018, the Bank granted 25,168 deferred share units as compensation (11,467 units in 2017). As at October 31, 2018, there were 71,687 units (46,519 units in 2017) outstanding with a total value of $3.0 million ($2.8 million in 2017).

EMPLOYEE SHARE PURCHASE PLAN

The Bank offers an employee share purchase plan. Under this plan, employees who meet the eligibility criteria can contribute up to 5% of their annual gross salary by way of payroll deductions. The Bank matches 30% of the employee contribution amount, up to a maximum of $1,500 per year. The Bank's contributions vest to the employee two years after each employee contribution. The Bank's contributions, totalling $0.7 million during fiscal 2018 ($0.7 million in 2017), are recognized in salaries and employee benefits.

SHARE-BASED COMPENSATION PLANS EXPENSE AND RELATED LIABILITY

The following table shows the expense related to share-based compensation plans, net of the effect of related hedging transactions.

		2018		2017
Expense arising from share-based compensation plans	**$**	**(6,988)**	$	18,927
Effect of hedges		**13,275**		(10,495)
	$	**6,287**	$	8,432

With a view to reducing volatility in the share-based compensation plans' expense, the Bank enters into total return swap contracts with third parties, the value of which is linked to the Bank's share price. Changes in fair value of these derivative instruments partially offset the share-based compensation plans' expense related to the share price variations over the period in which the swaps are in effect.

The carrying amount of the liability relating to the cash-settled plans was $33.4 million as at October 31, 2018 ($49.4 million as at October 31, 2017). The intrinsic value of the total liability related to fully vested rights and units was $20.7 million as at October 31, 2018 ($25.9 million as at October 31, 2017).

18. POST-EMPLOYMENT BENEFITS

DESCRIPTION OF BENEFIT PLANS

Pension plans

The Bank has a number of defined benefit pension plans, which in certain cases include a defined contribution portion, as well as defined contribution pension plans. The plans provide pension benefits to most of the Bank's employees. The defined benefit pension plans are based on years of service and final average salary at retirement time.

Pension plans are registered with OSFI and are subject to the federal Pension Benefits Standards Act, 1985. They are also registered with Retraite Québec (RQ) and are subject to the Québec Supplemental Pension Plans Act. The Bank's Human Resources and Corporate Governance Committee of the Board has the responsibility to ensure that management implements appropriate internal oversight systems with a view to adequately manage pension plans in accordance with the laws and regulations in effect.

Other group plans

The Bank offers other post-employment benefits to its employees such as a salary continuance plan during maternity leave and the payment of group insurance plan premiums during a disability period or maternity leave. In addition, certain retired employees have other retirement benefits, including health and life insurance.

RISKS ASSOCIATED WITH PENSION PLANS

Pension plans expose the Bank to a broad range of risks. These risks are managed with the objective of meeting pension benefit obligations, while maintaining a reasonable risk profile for the Bank. The pension obligation is mainly subject to demographic risks such as salary inflation and longevity improvements. In addition, the obligation is impacted by the discount rate. Pension plan assets are subject to market risks and more precisely to equity value, long-term interest rates and credit spreads. To manage risks associated with the pension obligation, the Bank monitors its plan benefits and makes adjustments with the objective of optimizing the overall employee benefits. Defined benefit pension plan assets are invested in order to meet pension obligations. To manage the predominant interest rate risk, the Bank has adopted a liability-driven investment policy. This approach provides more control over the plan's financial position by investing in assets that are correlated with liabilities and that allow a reduction in volatility. Factors taken into consideration in developing the asset allocation include but are not limited to the following:

- (i) the nature of the underlying benefit obligations, including the duration and term profile of the liabilities;
- (ii) the member demographics, including normal retirement age, terminations, and mortality;
- (iii) the financial position of the pension plans; and
- (iv) the diversification benefits obtained by the inclusion of multiple asset classes.

In addition, a portion of the plans' assets can be invested in other asset classes, such as common shares, emerging market equities, high-yield fixed income securities, private equity or debt investments, as well as other alternative investments to improve potential returns.

FUNDING REQUIREMENTS

The Bank's pension plans are funded by both employee and employer contributions, and are determined based on the financial position and the funding policy of the plan. The employer contributions must be sufficient to cover the value of the obligations that currently accrue in the plan, including fees paid by the plan, as well as special contributions required to amortize any deficit. The Bank assumes all the risks and costs related to the defined benefit pension plans, including any deficit.

DEFINED BENEFIT PLAN MEASUREMENT DATES

The Bank measures its defined benefit obligations and the fair value of plan assets for accounting purposes as at October 31 of each year. The most recent actuarial valuations were performed as at December 31, 2017 for all pension plans. The next required actuarial valuation for funding purposes will be as at December 31, 2018 for all funded plans.

18. POST-EMPLOYMENT BENEFITS [CONT'D]

DEFINED BENEFIT PLAN OBLIGATIONS

Changes in the present value of the defined benefit obligation are as follows.

	2018		2017	
	Pension plans	**Other plans**	Pension plans	Other plans
Change in defined benefit obligation				
Defined benefit obligation at beginning of year	**$ 629,977**	**$ 28,755**	$ 633,395	$ 29,344
Current service cost	**14,367**	**55**	15,257	54
Past service cost	**—**	**—**	70	—
Interest expense	**22,285**	**814**	21,883	814
Benefits paid	**(44,507)**	**(1,567)**	(33,076)	(1,022)
Employee contributions	**2,613**	**—**	2,962	—
Actuarial losses (gains) arising from changes in assumptions				
Demographic	**(1,536)**	**12**	10	—
Economic	**(31,443)**	**(2,225)**	(7,410)	(435)
Actuarial gains arising from plan experience	**(6,878)**	**(810)**	(3,114)	—
Defined benefit obligation at end of year	**$ 584,878**	**$ 25,034**	$ 629,977	$ 28,755

DEFINED BENEFIT PENSION PLAN ASSETS

Changes in fair value of pension plan assets are as follows.

	2018	2017
Change in fair value of pension plan assets		
Fair value of plan assets at beginning of year	**$ 599,319**	$ 589,570
Interest income (at prescribed rate)	**21,026**	20,139
Actuarial gains (losses) arising from the difference between the actual return on plan assets and interest income	**(24,057)**	113
Administration costs (other than costs of managing plan assets)	**(1,507)**	(1,521)
Bank contributions	**20,582**	21,132
Employee contributions	**2,613**	2,962
Benefits paid	**(44,507)**	(33,076)
Fair value of plan assets at end of year	**$ 573,469**	$ 599,319

RECONCILIATION OF THE FUNDED STATUS OF THE BENEFIT PLANS TO THE AMOUNTS RECORDED IN THE CONSOLIDATED FINANCIAL STATEMENTS

	2018		2017	
	Pension plans	**Other plans**	Pension plans	Other plans
Fair value of plan assets	**$ 573,469**	**$ —**	$ 599,319	$ —
Defined benefit obligation	**584,878**	**25,034**	629,977	28,755
Funded status – plan deficit	**(11,409)**	**(25,034)**	(30,658)	(28,755)
Defined benefit plan assets included in other assets	**5,511**	**—**	3,413	—
Defined benefit plan liabilities included in other liabilities	**$ 16,920**	**$ 25,034**	$ 34,071	$ 28,755

18. POST-EMPLOYMENT BENEFITS [CONT'D]

DEFINED BENEFIT PLAN COSTS RECOGNIZED DURING THE YEAR

	2018		2017	
	Pension plans	**Other plans**	Pension plans	Other plans
Amounts recognized in income				
Current service cost	**$ 14,367**	**$ 55**	$ 15,257	$ 54
Past service cost	**—**	**—**	70	—
Administration costs (other than costs of managing plan assets)	**1,507**	**—**	1,521	—
Interest expense	**22,285**	**814**	21,883	814
Interest income (at prescribed rate)	**(21,026)**	**—**	(20,139)	—
Loss (gain) on short-term employee benefits	**—**	**(1,060)**	—	(33)
	17,133	**(191)**	18,592	835
Amounts recognized in other comprehensive income				
Actuarial gains on defined benefit obligation	**(39,857)**	**(1,963)**	(10,514)	(402)
Actuarial losses (gains) on plan assets	**24,057**	**—**	(113)	—
	(15,800)	**(1,963)**	(10,627)	(402)
Total defined benefit cost	**$ 1,333**	**$ (2,154)**	$ 7,965	$ 433

The Bank expects to contribute $19.0 million to its defined benefit pension plans for the year ending October 31, 2019.

ASSET ALLOCATION OF DEFINED BENEFIT PENSION PLANS

	2018	2017
Asset category		
Cash and cash equivalents[1]	**$ 5,501**	$ 5,842
Equity funds		
Canada	**49,541**	29,103
United States	**22,679**	20,156
Other	**20,447**	22,167
Debt securities		
Canadian governments and other public administrations	**57,176**	87,733
Corporate and other	**377,608**	362,522
Other	**40,517**	71,796
	$ 573,469	$ 599,319

(1) Cash and cash equivalents consist of mainly Canada and U.S. Treasury Bills.

Equity funds included $0.1 million in equity securities of the Bank as at October 31, 2018 ($0.2 million as at October 31, 2017). As at October 31, 2018 and 2017, none of the plan assets were quoted in active markets.

SIGNIFICANT ASSUMPTIONS FOR PENSION PLANS AND OTHER PLANS

	2018	2017
Weighted average of assumptions to determine benefit obligation		
Discount rate at end of year	**3.94%**	3.54%
Rate of compensation increase	**2.75%**	2.75%
Weighted average of assumptions to determine benefit expense		
Discount rate - Current service	**3.71%**	3.60%
Discount rate - Interest expenses (income), net	**3.54%**	3.45%
Rate of compensation increase	**2.75%**	2.75%

For 2018, the weighted average financial duration of the pension plans was approximately 13.3 years (14.3 years for 2017).

18. POST-EMPLOYMENT BENEFITS [CONT'D]

To better reflect current service cost, a separate discount rate was determined to account for the timing of future benefit payments associated with the additional year of service to be earned by the plan's active participants. Since these benefits are, on average, being paid at a later date than the benefits already earned by participants as a whole, this method results in the use of a higher discount rate for calculating current service cost than that used to measure obligations where the yield curve is positively sloped.

ASSUMED HEALTH CARE COST TREND RATES

	2018	2017
Assumed annual rate of increase in the cost of health care benefits	**6.50%**	6.50%
Level to which it should decline and at which it is assumed to subsequently stabilize	**4.5%**	4.5%
Year that the rate is assumed to stabilize	**2028**	2025

SENSITIVITY ANALYSIS

Due to the long-term nature of post-employment benefits, there are significant uncertainties related to the recognition of balances surrounding the assumptions used.

Discount rates could have a significant impact on the defined benefit plan assets (liabilities) as well as, depending on the funding status of the plan, on pension plan and other post-employment benefit expenses. The following table summarizes the impact of a 0.25 percentage point change in this key assumption on the defined benefit obligation and cost for the year ended October 31, 2018.

	Impact of a potential change of 0.25% to the discount rate on [1]	
	Obligation	**Expense**
Pension Plans	**$ 19,654**	**$ 1,498**
Other Plans	**$ 613**	**$ 32**

(1) The sensitivities presented in this table should be used with caution, as the impact is hypothetical and changes in assumptions may not be linear.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. The following table summarizes the impact of a one percentage point change in this key assumption on the defined benefit obligation and cost for the year ended October 31, 2018, with all other assumptions remaining constant.

	1% increase	**1% decrease**
Increase (decrease) in total of service and interest expense	**$ 318**	**$ (276)**
Increase (decrease) in defined benefit obligation	**$ 1,408**	**$ (1,219)**

EXPENSE FOR POST-EMPLOYMENT BENEFITS

The total expense recognized for post-employment benefit plans was as follows.

	2018	2017
Defined benefit pension plans	**$ 17,133**	$ 18,592
Defined contribution pension plans	**7,925**	7,568
Other plans	**(191)**	835
	$ 24,867	$ 26,995

19. INCOME TAXES

DEFERRED INCOME TAXES

Significant components of the Bank's deferred income tax assets and liabilities are as follows.

		2018		2017
Deferred income tax assets				
Allowances for loan losses	$	**19,796**	$	22,997
Defined benefit plan liabilities		**9,695**		15,803
Share-based compensation		**7,511**		13,208
Provisions		**9,944**		11,852
Premises and equipment		**4,484**		7,037
Deferred revenues		**7,559**		6,613
Derivatives		**4,422**		2,645
Other temporary differences		**13,291**		9,299
		76,702		89,454
Deferred income tax liabilities				
Deferred charges		**28,509**		33,067
Software		**12,263**		14,296
Leases		**6,532**		13,407
Other intangible assets		**18,243**		8,231
Other temporary differences		**4,799**		3,863
		70,346		72,864
Deferred income taxes, net	$	**6,356**	$	16,590

As at October 31, 2018, unused capital tax losses of $11.0 million (October 31, 2017, $2.0 million) available to offset future capital gains were not recognized as deferred tax assets. The unused capital tax losses can be carried forward indefinitely.

Net deferred income taxes reported in the Consolidated Balance Sheet are as follows.

		2018		2017
Deferred income tax assets	$	**25,437**	$	38,702
Deferred income tax liabilities		**(19,081)**		(22,112)
Deferred income taxes, net	$	**6,356**	$	16,590

The components of deferred income tax recovery recorded in the Consolidated Statement of Income are as follows.

		2018		2017
Deferred income tax (recovery) expense				
Allowances for loan losses	$	**3,239**	$	3,172
Deferred charges		**(4,558)**		3,112
Other intangible assets		**9,008**		2,676
Premises and equipment		**2,556**		908
Provisions		**1,910**		611
Leases		**(6,875)**		(6,724)
Software		**(2,033)**		(4,399)
Share-based compensation		**5,697**		(2,641)
Other temporary differences		**158**		(579)
	$	**9,102**	$	(3,864)

19. INCOME TAXES [CONT'D]

INCOME TAX EXPENSE

Significant components of the income tax expense recorded in the Consolidated Statement of Income for the years ended October 31

		2018		2017
Current income taxes				
Income tax expense for the year	$	48,078	$	63,532
Previous years income tax (recovery) expense adjustment		(1,493)		539
		46,585		64,071
Deferred income taxes				
Origination and reversal of temporary differences		7,032		(3,416)
Previous years income tax expense (recovery) adjustment		1,539		(448)
Change in tax rate		531		—
		9,102		(3,864)
	$	55,687	$	60,207

Significant components of the income tax expense (recovery) recorded in the Consolidated Statement of Comprehensive Income for the years ended October 31

		2018		2017
Income tax (recovery) expense related to change in unrealized gains (losses) on available-for-sale securities	$	(2,584)	$	4,062
Income tax recovery related to reclassification of net losses on available-for-sale securities to net income		(2,436)		(2,453)
Income tax recovery related to net change in value of derivatives designated as cash flow hedges		(1,793)		(6,877)
Income tax recovery related to the unrealized net losses on hedges of investments in foreign operations		—		(204)
Income tax expense related to remeasurement gains on employee benefit plans		4,740		2,925
	$	(2,073)	$	(2,547)
Composition of income taxes				
Current income tax (recovery) expense	$	(4,364)	$	1,161
Deferred income tax expense (recovery)		2,291		(3,708)
	$	(2,073)	$	(2,547)

Significant components of the income tax expense (recovery) recorded in the Consolidated Statement of Changes in Shareholders' Equity for the years ended October 31

		2018		2017
Income taxes on preferred share dividends				
Current income tax expense	$	350	$	408
Income taxes on issuance of common and preferred shares				
Current income tax recovery		(339)		(543)
Deferred income tax recovery		(1,346)		(2,157)
		(1,685)		(2,700)
	$	(1,335)	$	(2,292)

19. INCOME TAXES [CONT'D]

RECONCILIATION WITH THE STATUTORY RATE

The reconciliation of income tax expense reported in the Consolidated Statement of Income to the dollar amount of income taxes using the statutory rates is as follows.

		2018		2017
	Amount	**Rate**	Amount	Rate
Income taxes at statutory rates	**$ 74,749**	**26.7%**	$ 71,189	26.7%
Change resulting from:				
Change in tax rate	**531**	**0.2**	—	—
Income related to foreign operations	**(17,483)**	**(6.2)**	(7,756)	(2.9)
Non-taxable dividends and non-taxable portion of capital gains	**(2,176)**	**(0.7)**	(3,751)	(1.4)
Other, net	**66**	**(0.1)**	525	0.2
Income taxes as reported in the Consolidated Statement of Income	**$ 55,687**	**19.9%**	$ 60,207	22.6%

Income earned on foreign insurance operations would generally be taxed only upon repatriation to Canada. Since the Bank's management does not expect to repatriate income accumulated after July 27, 2006, no deferred income tax expense and related provision have been recognized on such income. Income taxes that would be payable if all unremitted earnings were repatriated were estimated at $55.0 million as at October 31, 2018 ($51.0 million as at October 31, 2017). As of November 1, 2018, as a result of changes to Canadian tax legislation, income earned on foreign insurance operations will be taxed as it is earned. For all other foreign subsidiaries, the additional taxes that would be payable if all unremitted earnings were repatriated were estimated at $0.8 million as at October 31, 2018 (nil as at October 31, 2017). No deferred income tax expense and related provision have been recognized on such earnings.

20. EARNINGS PER SHARE

Basic and diluted earnings per share for the years ended October 31 is detailed as follows.

	2018	2017
Earnings per share – basic		
Net income	**$ 224,646**	$ 206,461
Preferred share dividends, including applicable taxes	**14,038**	17,096
Net income attributable to common shareholders	**$ 210,608**	$ 189,365
Average number of outstanding common shares (in thousands)	**41,280**	35,059
Earnings per share – basic	**$ 5.10**	$ 5.40

	2018	2017
Earnings per share – diluted		
Net income attributable to common shareholders	**$ 210,608**	$ 189,365
Average number of outstanding common shares (in thousands)	**41,280**	35,059
Dilutive share purchase options (in thousands)	**—**	n.a.
Diluted weighted average number of outstanding common shares (in thousands)	**$ 41,280**	$ 35,059
Earnings per share – diluted	**$ 5.10**	$ 5.40

There have been no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of the completion of these consolidated financial statements which would require the restatement of earnings per share.

21. RELATED PARTY TRANSACTIONS

Related parties of the Bank include:

- key management personnel and their close family members;
- entities which are controlled, jointly controlled or significantly influenced, or for which significant voting power is held, by key management personnel or their close family members;
- post-employment benefit plans for Bank employees.

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, being members of the Executive Committee or Board of Directors.

21. RELATED PARTY TRANSACTIONS [CONT'D]

The following table shows the outstanding carrying amount of loans and deposits with related parties.

		2018		2017
Loans[1]				
Key management personnel	$	1,442	$	2,355
Entities controlled by key management personnel		37,352		20,694
	$	38,794	$	23,049
Deposits				
Key management personnel	$	691	$	343
Entities controlled by key management personnel		301		1,548
	$	992	$	1,891

(1) No allowance for loan losses was recorded against these loans as no loans were impaired or past due.

The Bank provides loans to key management personnel and their related entities. Loans to directors of the Board are granted under market conditions for similar risks and are initially measured at fair value. Loans to officers consist mostly of term residential mortgage loans, as well as personal loans, at market rates less a discount based on the type and amount of the loan. Loans to entities controlled by key management personnel are granted under terms similar to those offered to arm's length parties. The interest earned on these loans amounted to $2.0 million for the year ended October 31, 2018 ($1.0 million for the year ended October 31, 2017) and was recorded under interest income in the Consolidated Statement of Income.

In the normal course of business, the Bank also provides usual banking services to key management personnel, including bank accounts (deposits) under terms similar to those offered to arm's length parties. The interest paid on deposits amounted to $ 25,000 for the year ended October 31, 2018 ($34,000 for the year ended October 31, 2017) and was recorded under interest expense in the Consolidated Statement of Income. In addition, for the year ended October 31, 2018, the Bank paid a rental expense of $0.2 million to a related party ($2.1 million for the year ended October 31, 2017).

The following table shows the total compensation of key management personnel.

		2018		2017
Short-term employee benefits, including salaries	$	5,798	$	5,239
Post-employment benefits		828		802
Share-based compensation		4,213		7,399
	$	10,839	$	13,440

22. FINANCIAL INSTRUMENTS – FAIR VALUE

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. Note 3 details the accounting treatment for each measurement category of financial instruments, as well as the estimates and judgment used in measuring the fair value of financial instruments.

CLASSIFICATION OF FAIR VALUE MEASUREMENTS IN THE FAIR VALUE HIERARCHY

Fair value measurements are categorized into levels within a fair value hierarchy based on the valuation inputs used. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Bank's market assumptions. These two types of inputs create the following fair value hierarchy:

- Level 1 — Quoted prices in active markets for identical financial instruments.
- Level 2 — Quoted prices for similar instruments in active markets; quoted prices for identical or similar financial instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.
- Level 3 — Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

22. FINANCIAL INSTRUMENTS – FAIR VALUE [CONT'D]

DETERMINING FAIR VALUE

Certain assets and liabilities, primarily financial instruments, are carried on the Consolidated Balance Sheet at their fair value. All other financial instruments are carried at amortized cost and the fair value is disclosed below. The following section discusses how the Bank measures fair value.

Fair value is best evidenced by an independent quoted market price for the same instrument in an active market. When available, the Bank generally uses quoted market prices to determine fair value and classifies such items in Level 1.

If quoted market prices are not available, fair value is based on internally developed valuation techniques that use, where possible, current market-based or independently sourced market inputs, such as interest rates, exchange rates and option volatilities. Instruments valued using internal valuation techniques are classified according to the lowest level input or value driver that is significant to the fair value measurement. Thus, an instrument may be classified in Level 3 even though some significant inputs may be observable.

Where available, the Bank may also make use of quoted prices for recent trading activity in positions with the same or similar characteristics to that being valued. The frequency and size of transactions and the amount of the bid-ask spread are among the factors considered in determining the liquidity of markets and the relevance of observed prices from those markets. If relevant and observable prices are available, those valuations would be classified in Level 2. If prices are not available, other valuation techniques are used and items are classified in Level 3. For these assets and liabilities, the inputs used in determining fair value may require significant management judgment. Due to the inherent uncertainty in these estimates, the values may differ significantly from those that would have been used if an active market had existed for the financial instruments. Moreover, the estimates of fair value for the same or similar financial instruments may differ among financial institutions. The calculation of fair value is based on market conditions as at each balance sheet date.

VALUATION METHODOLOGIES

The following section describes the valuation methodologies used by the Bank to measure and disclose certain significant financial instruments at fair value, including an indication of the level in the fair value hierarchy in which each instrument is generally classified. Where appropriate, the description includes details of the valuation models, the key inputs to those models as well as any significant assumptions.

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

Given that quoted prices are not available for such financial instruments, fair value is determined using a discounted cash flow technique. Cash flows are estimated based on the terms of the contract and discounted using appropriate market rates.

Securities

When available, the Bank uses quoted market prices to determine the fair value of securities; such instruments are classified in Level 1 of the fair value hierarchy; for example, exchange-traded equity securities. For bonds traded over the counter, the Bank generally determines fair value using internal valuation techniques or prices obtained from independent vendors. Where available, the Bank may also use quoted prices for recent trading activity of assets with similar characteristics to the bond being valued. Securities priced using such methods are generally classified in Level 2. However, less liquid securities may be classified in Level 3 given that the Bank must then determine the parameters related to certain significant value drivers, including liquidity premiums and credit spreads.

Loans

Quoted market prices in an active market are not available for these financial instruments. As a result, the fair value of loans is estimated by discounting cash flows adjusted to reflect prepayments, if any, at the prevailing market interest rates for new loans with substantially similar terms. For certain variable rate loans subject to frequent rate revisions and loans with indeterminate maturities, the fair value is deemed to represent the carrying amount.

Other assets

Other assets consist primarily of cheques and other items in transit, accrued interest receivable and accounts receivable. As quoted market prices in an active market are not available for these financial instruments the Bank determined that the carrying value approximates the fair value due to their short term nature.

Derivatives

The fair value of over-the-counter derivatives is calculated using prevailing market prices for instruments with similar characteristics and maturities, based on a discounted net value analysis or an appropriate pricing model that factors in the current and contractual prices of the underlying instruments, the time value of money, the yield curve, counterparty credit risk and volatility factors. These derivatives are classified in Level 2 or Level 3 depending on whether the significant inputs to those pricing models include observable or unobservable inputs. Also, certain exchange-traded derivatives, whose fair value is based on quoted market prices, are classified in Level 1 of the fair value hierarchy.

22. FINANCIAL INSTRUMENTS – FAIR VALUE [CONT'D]

Deposits

Quoted market prices in an active market are not available for these financial instruments. As a result, the fair value of fixed rate deposits is estimated using discounted cash flows based on prevailing market interest rates for deposits with substantially similar terms. The fair value of deposits without stated maturities or variable rate deposits is deemed to represent their carrying amount.

Obligations related to securities sold short

When available, the Bank uses quoted market prices to determine the fair value of obligations related to securities sold short; such instruments are classified in Level 1. For bonds traded over the counter, the Bank generally determines fair value using internal valuation techniques or prices obtained from independent vendors. Where available, the Bank may also use quoted prices for recent trading activity of assets with similar characteristics to the bond being valued. Securities priced using such methods are generally classified in Level 2.

Other liabilities

Other liabilities consist primarily of cheques and other items in transit, accrued interest payable and accounts payable. Quoted market prices in an active market are not available for these financial instruments and their fair value is deemed to represent their carrying amount due to their short term nature.

Debt related to securitization activities

Quoted market prices in an active market are not available for debt related to securitization activities. As a result, the fair value of these financial instruments is estimated using discounted cash flows based on prevailing market interest rates for similar issues or rates currently offered for debt securities with the same term to maturity.

Subordinated debt

Quoted market prices in an active market are not available for these financial instruments. As a result, the fair value of subordinated debt is estimated using discounted cash flows based on prevailing market interest rates for similar issues or rates currently offered for debt securities with the same term to maturity.

FAIR VALUE HIERARCHY

Financial assets and liabilities measured at fair value in the consolidated balance sheet

The following table shows the fair value hierarchy of financial instruments measured at fair value on a recurring basis using the valuation methods and assumptions as set out above.

(in millions of Canadian dollars)								**2018**
		Level 1		**Level 2**		**Level 3**		**Total**
Assets								
Securities								
Available-for-sale	**$**	**181**	**$**	**2,528**	**$**	**1**	**$**	**2,710**
Held-for-trading	**$**	**174**	**$**	**2,521**	**$**	**—**	**$**	**2,695**
Derivatives	**$**	**1**	**$**	**93**	**$**	**—**	**$**	**94**
Liabilities								
Obligations related to securities sold short	**$**	**20**	**$**	**2,989**	**$**	**—**	**$**	**3,009**
Derivatives	**$**	**2**	**$**	**258**	**$**	**25**	**$**	**285**

(in millions of Canadian dollars)								2017
		Level 1		Level 2		Level 3		Total
Assets								
Securities								
Available-for-sale	$	157	$	2,875	$	—	$	3,032
Held-for-trading	$	136	$	2,013	$	—	$	2,149
Derivatives	$	—	$	104	$	—	$	104
Liabilities								
Obligations related to securities sold short	$	24	$	2,141	$	—	$	2,165
Derivatives	$	6	$	172	$	40	$	218

Level transfers and reclassification

There were no significant transfers between Level 1 and Level 2 of the hierarchy, or changes in fair value measurement methods during the year.

22. FINANCIAL INSTRUMENTS – FAIR VALUE [CONT'D]

Change in level 3 fair value category and sensitivity analysis

The Bank classifies financial instruments in Level 3 of the fair value hierarchy when there is reliance on at least one significant unobservable input to the valuation model. In addition to these unobservable inputs, the valuation models for Level 3 financial instruments typically rely on a number of inputs that are observable either directly or indirectly. Transfers in and out of Level 3 can occur as a result of additional or new information regarding valuation inputs and changes in their observability. Changes in Level 3 financial instruments were not significant for the years ended October 31, 2018 and 2017.

As at October 31, 2018, the Bank considered other reasonably possible alternative assumptions for the valuation models to recalculate the fair value of the instruments and concluded that the resulting potential increase or decrease in total fair value classified in Level 3 was not significant.

Financial assets and liabilities not measured at fair value on the consolidated balance sheet

The following table shows financial instruments which are not recorded at fair value on the Consolidated Balance Sheet and their classification in the fair value hierarchy. For these instruments, fair values are calculated for disclosure purposes only, and the valuation techniques are disclosed above.

(in millions of Canadian dollars)					2018		2017
	Carrying amount	Fair value	Level 1	Level 2	Level 3	Carrying amount	Fair value
Assets							
Held-to-maturity securities	$ 656	$ 654	$ —	$ 654	$ —	$ 405	$ 404
Loans	$ 34,302	$ 33,990	$ —	$ —	$ 33,990	$ 36,597	$ 36,509
Liabilities							
Deposits	$ 28,007	$ 27,842	$ —	$ 27,842	$ —	$ 28,930	$ 28,929
Debt related to securitization activities	$ 7,788	$ 7,720	$ —	$ 7,720	$ —	$ 8,231	$ 8,273
Subordinated debt	$ 349	$ 348	$ —	$ 348	$ —	$ 348	$ 359

The Bank also determined that the carrying value approximates the fair value as at October 31, 2018 and 2017 for the following assets and liabilities as they are generally liquid floating rate financial instruments or are generally short term in nature: cash and non-interest-bearing deposits with banks, interest-bearing deposits with banks, securities purchased under reverse repurchase agreements, other assets, obligations related to securities sold under repurchase agreements, acceptances and other liabilities.

23. FINANCIAL INSTRUMENTS – OFFSETTING

The following table shows information about financial assets and financial liabilities that are subject to an enforceable master netting arrangement or similar agreement and the effect or potential effect of set-off rights.

						2018
				Amounts not offset in the consolidated balance sheet		
	Gross recognized amounts	Gross amounts offset in the consolidated balance sheet	Amounts presented in the consolidated balance sheet	Impact of master netting agreements[1]	Financial collateral received or pledged	Net amounts
Financial assets						
Securities purchased under reverse repurchase agreements	$ 5,717,765	$ 2,065,267	$ 3,652,498	$ 1,151,059	$ 2,495,671	$ 5,768
Derivatives	94,285	—	94,285	70,188	8,381	15,716
	$ 5,812,050	$ 2,065,267	$ 3,746,783	$ 1,221,247	$ 2,504,052	$ 21,484
Financial liabilities						
Obligations related to securities sold under repurchase agreements	$ 4,581,090	$ 2,065,267	$ 2,515,823	$ 1,151,059	$ 1,362,294	$ 2,470
Derivatives	285,492	—	285,492	70,188	162,338	52,966
	$ 4,866,582	$ 2,065,267	$ 2,801,315	$ 1,221,247	$ 1,524,632	$ 55,436

(1) Carrying amount of financial assets and financial liabilities that are subject to a master netting agreement or similar agreements but that do not meet offsetting criteria, as these agreements give a right of set-off that is enforceable only following a specified event of default or in other circumstances not expected to arise in the normal course of business.

23. FINANCIAL INSTRUMENTS – OFFSETTING [CONT'D]

				Amounts not offset in the consolidated balance sheet		2017
	Gross recognized amounts	Gross amounts offset in the consolidated balance sheet	Amounts presented in the consolidated balance sheet	Impact of master netting agreements[1]	Financial collateral received or pledged	Net amounts
Financial assets						
Securities purchased under reverse repurchase agreements	$ 4,158,294	$ 1,050,453	$ 3,107,841	$ 1,620,010	$ 1,485,197	$ 2,634
Derivatives	104,426	—	104,426	95,354	3,890	5,182
	$ 4,262,720	$ 1,050,453	$ 3,212,267	$ 1,715,364	$ 1,489,087	$ 7,816
Financial liabilities						
Obligations related to securities sold under repurchase agreements	$ 3,729,082	$ 1,050,453	$ 2,678,629	$ 1,620,010	$ 1,057,973	$ 646
Derivatives	217,785	—	217,785	95,354	76,743	45,688
	$ 3,946,867	$ 1,050,453	$ 2,896,414	$ 1,715,364	$ 1,134,716	$ 46,334

(1) Carrying amount of financial assets and financial liabilities that are subject to a master netting agreement or similar agreements but that do not meet offsetting criteria, as these agreements give a right of set-off that is enforceable only following a specified event of default or in other circumstances not expected to arise in the normal course of business.

24. FINANCIAL INSTRUMENTS – RISK MANAGEMENT

The Bank is exposed to various types of risks owing to the nature of the business activities it pursues. To ensure that significant risks to which the Bank could be exposed are taken into consideration, a Risk Management Framework has been developed to provide for oversight of risk assessment and control. Risk management is conducted according to tolerance levels established by management committees and approved by the Board of Directors through its committees.

In order to manage the risks associated with financial instruments, including loan and deposit portfolios, securities and derivatives, the Bank has implemented policies prescribing how various risks are to be managed. In practice, management closely monitors various risk limits, as well as a number of other indicators. Oversight of operations is performed by groups independent of the business lines.

The risk management policies and procedures of the Bank are disclosed in the Risk Appetite and Risk Management Framework section of the Management's Discussion and Analysis (MD&A). The relevant MD&A sections are identified in the shaded text and tables and are an integral part of these audited consolidated financial statements.

24. FINANCIAL INSTRUMENTS – RISK MANAGEMENT [CONT'D]

The following table details the maturity dates and average effective rates of the Bank's on-balance sheet financial instruments.

(in millions of Canadian dollars)							2018
	Floating	0 to 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest sensitive	Total
Assets							
Cash, deposits with banks and securities	$ 4,339	$ 748	$ 581	$ 545	$ 12	$ 327	$ 6,552
Actual return		1.9%	1.9%	1.6%	4.8%		
Securities purchased under reverse repurchase agreements	2,044	1,608	—	—	—	—	3,652
Actual return		1.6%	—%	—%	—%		
Loans	9,423	7,830	4,294	12,398	255	102	34,302
Actual return		4.8%	3.7%	3.5%	3.5%		
Other assets	—	—	—	—	—	1,389	1,389
Total	$ 15,806	$ 10,186	$ 4,875	$ 12,943	$ 267	$ 1,818	$ 45,895
Actual return		4.1%	3.5%	3.4%	3.6%		
Liabilities and equity							
Deposits	$ 2,558	$ 4,530	$ 7,396	$ 13,397	$ 54	$ 72	$ 28,007
Actual return		2.1%	2.1%	2.5%	5.3%		
Obligations related to securities sold short or under repurchase agreements	3,482	2,038	4	—	—	—	5,524
Actual return		1.6%	2.0%	—%	—%		
Other liabilities	—	185	12	—	—	1,534	1,731
Actual return		2.0%	2.2%	—%	—%		
Debt related to securitization activities	1,126	1,718	616	4,069	367	(108)	7,788
Actual return		2.4%	2.0%	1.7%	2.2%		
Subordinated debt and shareholders' equity	—	—	125	475	—	2,245	2,845
Actual return		—%	4.0%	4.6%	—%		
Total	$ 7,166	$ 8,471	$ 8,153	$ 17,941	$ 421	$ 3,743	$ 45,895
Actual return		2.0%	2.1%	2.4%	2.6%		
Swaps, net	(690)	(10,331)	4,307	6,412	302	—	—
Sensitivity gap	$ 7,950	$ (8,616)	$ 1,029	$ 1,414	$ 148	$ (1,925)	$ —
Cumulative gap	$ 7,950	$ (666)	$ 363	$ 1,777	$ 1,925	$ —	$ —

(in millions of Canadian dollars)							2017
	Floating	0 to 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest sensitive	Total
Assets	$ 19,865	$ 5,293	$ 5,443	$ 13,401	$ 269	$ 2,412	$ 46,683
Actual return		2.5%	3.0%	3.1%	3.8%		
Liabilities and shareholders' equity	$ 7,987	$ 7,656	$ 8,901	$ 17,265	$ 528	$ 4,346	$ 46,683
Actual return		1.5%	1.6%	1.8%	2.3%		
Swaps, net	—	(9,081)	3,373	5,431	277	—	—
Sensitivity gap	$ 11,878	$ (11,444)	$ (85)	$ 1,567	$ 18	$ (1,934)	$ —
Cumulative gap	$ 11,878	$ 434	$ 349	$ 1,916	$ 1,934	$ —	$ —

Maturity assumptions

Assets, liabilities and equity are presented at the earlier of the date of maturity or contractual revaluation while taking into consideration estimated redemptions or prepayments, except for the following:

- Deposits for which the interest rates are not indexed on a specific rate and which can be non-sensitive to changes in market rates are classified based on the historical trends in balances;
- Subordinated debt for which interest rates can be revised at a future date are classified at the re-pricing date;
- Preferred shares are classified using the date on which they become redeemable.

25. DERIVATIVES AND HEDGES

In the normal course of business, the Bank enters into various contracts and commitments in order to protect itself against the risk of fluctuations in interest rates, foreign exchange rates, stock prices and indexes used to determine the return of index-linked deposits, as well as to meet its customers' demands and to earn trading income, as described below.

The main types of derivatives used are as follows:

[i] Interest rate swaps involve the exchange of fixed and floating interest payment obligations based on a predetermined notional amount for a specified period of time.

[ii] Foreign exchange swaps involve the exchange of the principal and fixed or floating interest payments in different currencies.

[iii] Foreign exchange forward contracts are commitments to purchase or sell foreign currencies for delivery at a specified date in the future at a pre-determined rate.

[iv] Options are agreements between two parties in which the writer of the option grants the buyer the right, but not the obligation, to buy or to sell, at or by a specified date, a specific amount of a financial instrument at a price agreed upon when the agreement is entered into. The writer receives a premium for selling this instrument.

[v] Futures are commitments to purchase or deliver a financial instrument on a specified future date at a specified price. Futures are traded in standardized amounts on organized exchanges and are subject to daily cash margining.

[vi] Total return swaps involve floating payments based on changes in the value of a reference asset or group of assets, including any associated return such as dividends, in exchange for amounts based on prevailing market funding rates.

AGGREGATE NOTIONAL AMOUNTS

The following tables present the notional amounts associated with the derivatives. The amounts are not indicative of the potential gain or loss related to the credit or market risk of these instruments.

(in millions of Canadian dollars) **2018**

	Period to maturity					
Notional amount	Within 1 year	1 to 5 years	Over 5 years	Total	Designated as hedge contracts	Other contracts[1][2]
Interest rate contracts						
Over-the-counter contracts						
Swaps	$ 6,747	$ 10,108	$ 733	$ 17,588	$ 13,699	$ 3,889
Exchange-traded contracts						
Futures	154	—	—	154	—	154
Foreign exchange contracts						
Over-the-counter contracts						
Foreign exchange swaps	3,174	61	—	3,235	251	2,984
Forwards	1,896	65	—	1,961	—	1,961
Options purchased	90	—	—	90	—	90
Options written	69	—	—	69	—	69
Equity- and index-linked contracts						
Options purchased	189	116	—	305	—	305
Options written	216	270	—	486	—	486
Futures	30	—	—	30	—	30
Total return swaps	16	24	—	40	6	34
	$ 12,581	$ 10,644	$ 733	$ 23,958	$ 13,956	$ 10,002

(1) Include notional amounts of $0.4 billion related to basis swaps at October 31, 2018.

(2) Include derivatives used in trading operations to meet customer demands and to earn trading income, as well as derivatives used to manage the Bank's risk exposures that are not designated in hedge relationships.

25. DERIVATIVES AND HEDGES [CONT'D]

(in millions of Canadian dollars)						2017
	Period to maturity					
Notional amount	Within 1 year	1 to 5 years	Over 5 years	Total	Designated as hedge contracts[1]	Other contracts[2]
Interest rate contracts						
Over-the-counter contracts						
Swaps	$ 3,727	$ 9,565	$ 771	$ 14,063	$ 11,735	$ 2,328
Exchange-traded contracts						
Futures	71	40	—	111	—	111
Foreign exchange contracts						
Over-the-counter contracts						
Foreign exchange swaps	1,717	64	—	1,781	193	1,588
Forwards	1,105	72	—	1,177	—	1,177
Options purchased	1,102	—	—	1,102	—	1,102
Options written	1,102	—	—	1,102	—	1,102
Equity- and index-linked contracts						
Options purchased	38	76	—	114	—	114
Options written	116	263	—	379	—	379
Futures	16	—	—	16	—	16
Total return swaps	24	28	—	52	5	47
	$ 9,018	$ 10,108	$ 771	$ 19,897	$ 11,933	$ 7,964

(1) Include notional amounts of $0.4 billion related to basis swaps at October 31, 2017.
(2) Include derivatives used in trading operations to meet customer demands and to earn trading income, as well as derivatives used to manage the Bank's risk exposures that are not designated in hedge relationships.

25. DERIVATIVES AND HEDGES [CONT'D]

FAIR VALUE OF DERIVATIVES

(in thousands of Canadian dollars)			2018		2017
		Assets	Liabilities	Assets	Liabilities
DESIGNATED AS HEDGE CONTRACTS					
Fair value hedges					
Interest rate contracts					
Swaps	$	712	$ (149,301)	$ 16,818	$ (67,413)
Cash flow hedges					
Interest rate contracts					
Swaps		36,958	(50,434)	31,286	(35,908)
Equity- and index-linked contracts					
Total return swaps		—	(632)	658	—
Net investment hedges					
Foreign exchange contracts					
Foreign exchange swaps		—	(4,584)	—	(947)
OTHER CONTRACTS[1]					
Interest rate contracts					
Swaps		23,575	(19,974)	29,544	(24,624)
Foreign exchange contracts					
Foreign exchange swaps		5,938	(30,072)	6,575	(35,877)
Forwards		14,674	(3,290)	5,847	(6,595)
Options purchased		819	—	5,940	—
Options written		—	(821)	—	(6,160)
Equity- and index-linked contracts					
Options purchased		11,482	—	6,677	—
Options written		—	(26,705)	—	(40,097)
Total return swaps		127	321	1,081	(164)
Total	$	94,285	$ (285,492)	$ 104,426	$ (217,785)

(1) Include derivatives used in trading operations to meet customer demands and to earn trading income as well as derivatives used to manage the Bank's risk exposures that do not qualify for hedge accounting.

25. DERIVATIVES AND HEDGES [CONT'D]

INFORMATION REGARDING HEDGING RELATIONSHIPS

The interest rate swaps designated as hedging instruments are primarily used for purposes of balance sheet matching and minimizing volatility in net interest income. The foreign exchange swaps designated as hedging instruments are used to protect the value of the net investment in a subsidiary.

Fair value hedges

The Bank uses interest rate swaps and foreign exchange contracts to hedge changes in fair value of assets, liabilities or firm commitments. The notional amount of derivatives designated as hedging instruments in fair value hedges was $6.8 billion as at October 31, 2018 ($5.9 billion as at October 31, 2017).

The following table shows ineffectiveness related to fair value hedges.

(in thousands of Canadian dollars)		**2018**		2017
Net gains recognized on hedging instrument	**$**	**80,749**	$	113,484
Net losses recognized on hedged item		**(80,098)**		(115,575)
Ineffectiveness (losses) gains recognized in net income	**$**	**651**	$	(2,091)

Cash flow hedges

The Bank uses interest rate swaps to hedge the variability in cash flows related to variable rate assets and liabilities. The Bank also uses total return swaps to hedge the variability in cash flows related to the share-based compensation plans. The notional amount of swap contracts designated as hedging instruments in cash flow hedges was $6.9 billion as at October 31, 2018 ($5.8 billion as at October 31, 2017).

Ineffectiveness gains related to cash flow hedges of $0.4 million was recognized in net income for the year ended October 31, 2018 ($0.4 million in 2017).

The remaining balance of accumulated other comprehensive income related to cash flow hedges as at October 31, 2018 is expected to be reclassified to the Consolidated Statement of Income over the next 13 years.

Net investment hedges

The Bank uses foreign exchange swaps to hedge its net investment in a foreign subsidiary. The notional amount of foreign exchange swap contracts designated as hedging instruments in net investment hedges was $251.0 million as at October 31, 2018 ($193.3 million as at October 31, 2017).

There was no hedge ineffectiveness associated with net investment hedges for the years ended October 31, 2018 and 2017.

CREDIT RISK EXPOSURE OF DERIVATIVES

(in millions of Canadian dollars)						**2018**						2017
		Replacement cost[1]		**Credit equivalent amount[2]**		**Risk-weighted amount[3]**		Replacement cost[1]		Credit equivalent amount[2]		Risk-weighted amount[3]
Interest rate contracts	**$**	**77**	**$**	**170**	**$**	**36**	$	95	$	208	$	45
Foreign exchange contracts		**21**		**79**		**37**		19		65		30
Equity-and index-linked contracts		**12**		**37**		**15**		8		21		5
		110		**286**		**88**		122		294		80
Impact of master netting agreements		**(86)**		**(162)**		**(39)**		(102)		(188)		(43)
	$	**24**	**$**	**124**	**$**	**49**	$	20	$	106	$	37

(1) Represents what it would cost to replace transactions at prevailing market conditions in the event of a default. This is the favourable fair market value of all outstanding contracts, excluding options written since they do not constitute a credit risk, including securitization swaps not recognized on the balance sheet.

(2) Represents the sum of (i) the total replacement cost of all outstanding contracts and (ii) an amount representing the assessed potential future credit risk, using guidelines issued by OSFI.

(3) Represents the credit risk equivalent amount weighted based on the creditworthiness of the counterparty, as prescribed by OSFI.

26. INCOME RELATED TO FINANCIAL INSTRUMENTS HELD-FOR-TRADING

Financial instruments held-for-trading, including held-for-trading securities, derivatives not designated in hedge relationships, and obligations related to securities sold short are measured at fair value, with gains and losses recognized in the Consolidated Statement of Income.

The following table shows the income related to these instruments. Income comprises net interest income, as well as other income included in income from treasury and financial market operations or in income from brokerage operations. Income excludes underwriting fees and commissions on securities transactions.

		2018		2017
Net interest income (expense)	**$**	**(5,506)**	$	1,955
Other income included in:				
Income from brokerage operations		**17,824**		23,957
Income from treasury and financial market operations		**5,004**		284
	$	**22,828**	$	24,241

27. INSURANCE INCOME

Insurance income reported in other income in the Consolidated Statement of Income is detailed as follows.

		2018		2017
Insurance revenues	**$**	**26,409**	$	28,553
Claims and expenses		**(11,136)**		(10,365)
Insurance income, net	**$**	**15,273**	$	18,188

28. RENTAL INCOME

The Bank has entered as a lessor into operating leases with clients on an equipment portfolio (note 11). These leases have terms of between 1 and 7 years. Rental income for these leases of $7.9 million ($15.6 million in 2017) is reported in other income in the Consolidated Statement of Income. The following table shows minimum lease payments receivable from lessees under these non-cancellable operating leases.

		2018		2017
Receivable within one year	**$**	**4,142**	$	6,118
Receivable within 1 to 5 years		**5,963**		9,305
Receivable after 5 years		**—**		6
	$	**10,105**	$	15,429

29. COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES

CREDIT-RELATED COMMITMENTS

The Bank uses certain off-balance sheet credit instruments as a means of meeting the financial needs of its customers. Undrawn amounts under approved credit facilities represent a commitment to make credit available in the form of loans or other credit instruments for specific amounts and maturities, subject to specific conditions.

Documentary letters of credit are documents issued by the Bank on behalf of customers, authorizing a third party to draw drafts to a stipulated amount under specific conditions. These letters are guaranteed by the underlying shipments of goods.

The amounts of credit-related commitments represent the maximum amount of additional credit that the Bank could be obliged to extend. These amounts are not necessarily indicative of credit risk as many of these commitments are contracted for a limited period of usually less than one year and will expire or terminate without being drawn upon.

GUARANTEES

Standby letters of credit and performance guarantees

In the normal course of its operations, the Bank offers its customers the possibility of obtaining standby letters of credit and performance guarantees. These represent irrevocable assurances that the Bank will make payments in the event that clients cannot meet their obligations to third parties. The term of these guarantees varies according to the contracts and normally does not exceed one year. The Bank's policy for requiring collateral security with respect to these instruments is similar to its policy for loans. The maximum potential amount of future payments under these guarantees totalled $161.9 million as at October 31, 2018 ($167.9 million as at October 31, 2017).

29. COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES [CONT'D]

Derivatives

To meet certain customers' hedging needs against foreign exchange rate fluctuations, the Bank sells put options (foreign exchange contracts), which are contractual agreements under which the Bank grants customers the right, but not the obligation to sell, by or on a set date, a specified amount of foreign currencies at a predetermined price. The term of these options does not exceed 12 months. These options are recorded at fair value, which reflects the estimated amount of future payments under these derivatives as at the date of the valuation. The maximum potential amount of future payments under these derivatives, corresponding to the notional value of outstanding contracts, totalled $32.7 million as at October 31, 2018 ($157.9 million as at October 31, 2017).

Other indemnification agreements

In the normal course of its operations, the Bank provides indemnification agreements to counterparties in certain transactions such as purchase contracts, service agreements and sales of assets. These indemnification agreements require the Bank to compensate the counterparties for costs incurred as a result of changes in laws and regulations (including tax legislation) or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The Bank also indemnifies directors and officers, to the extent permitted by law, against certain claims that may be made against them as a result of their being, or having been, directors or officers at the request of the Bank. The terms of these indemnification agreements vary based on the contract. The nature of the indemnification agreements prevents the Bank from making a reasonable estimate of the maximum potential amount it could be required to pay to counterparties. Historically, the Bank has not made any significant payments under such indemnification agreements. No amount has been accrued with respect to these indemnification agreements.

LEASES, SERVICE CONTRACTS FOR OUTSOURCED INFORMATION TECHNOLOGY SERVICES AND OTHER CONTRACTS

Minimum future payments under leases, service contracts for outsourced information technology services and other contracts are as follows.

			2018
	Leases	Information technology service contracts	Other
Due within one year	$ 47,018	$ 55,494	$ 10,814
Due within 1 to 5 years	144,879	49,006	6,334
Due after 5 years	167,536	21,175	—
	359,433	125,675	17,148
Less: Future minimum sublease payments to be received	(6,902)	—	—
Total	$ 352,531	$ 125,675	$ 17,148

Payments under these commitments recognized as an expense amounted to $52.9 million for the year ended October 31, 2018 ($53.5 million for the year ended October 31, 2017).

FINANCIAL ASSETS PLEDGED AS COLLATERAL

In the normal course of its operations, the Bank pledges financial assets presented in the consolidated balance sheet. This collateral security is pledged under the usual terms that provide, among other things, that the Bank bear the risks and rewards related to the collateral security and the pledged assets be returned to the Bank when the terms and conditions requiring them to be pledged as security cease to apply.

Financial assets pledged as collateral under securitization operations are detailed in Note 7. The following table details the financial assets pledged as collateral under other arrangements.

	2018	2017
Pledged assets:		
To participate in clearing and payment systems	$ 621,462	$ 578,886
For obligations related to securities sold under repurchase agreements and for securities borrowed	5,321,744	4,216,222
For obligations related to derivatives in a liability position	212,715	162,818
	$ 6,155,921	$ 4,957,926
Pledged assets are detailed as follows:		
Securities	$ 5,555,415	$ 4,382,186
Residential mortgage loans (NHA MBS)	600,506	575,740
	$ 6,155,921	$ 4,957,926

29. COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES [CONT'D]

CONTINGENT LIABILITIES

In the ordinary course of business, the Bank and its subsidiaries are involved in various legal and regulatory actions and claims. These matters mainly relate to class actions involving numerous other financial institutions and pertaining to charges on credit cards and banking accounts, as well as other claims in respect to portfolio administration by trustee and cross-claims from clients following the Bank's recovery actions on loans. While there is inherent difficulty in predicting the outcome of legal proceedings, based on current knowledge and in consultation with legal counsel, the outcome of these matters is not expected to have a material adverse effect on the consolidated financial statements. However, the outcome of these matters, individually or in aggregate, may be material to operating results for a particular reporting period.

30. RESTRUCTURING CHARGES

The following table details the Restructuring charges line item.

		2018		2017
Severance charges	$	925	$	3,228
Charges related to lease contracts		2,011		—
Other restructuring charges		3,008		7,257
Total	$	5,944	$	10,485

In September 2016, the Bank announced that it would reorganize its branch network. This decision resulted from the strategic analysis initiated in 2015, as well as changes to the economic landscape. As part of the planned restructuring, provisions related to lease contracts of $11.9 million and severance charges of $4.4 million were initially recorded on the line item Impairment and restructuring charges in 2016. In 2017, the Bank incurred additional charges of $10.5 million including salaries, communication expenses and professional fees related to the optimization of the Bank's Retail Services activities and branch mergers. In addition, charges of $5.9 million for the year ended October 31, 2018 related to the termination of other lease contracts and to advisory service expenses to reorganize the product offering in light of the transition to the advice-only model.

The following table shows the change in the provision for restructuring charges, included in the Other liabilities line item in the Consolidated Balance Sheet.

		2018		2017
Balance at beginning of the year	$	9,411	$	16,231
Restructuring charges incurred during the year		5,944		10,485
Payments made during the year		(10,601)		(17,305)
Balance at end of the year	$	4,754	$	9,411

As at October 31, 2018, the remaining provision mainly relates to provisions related to lease contracts and severances.

IMPAIRMENT TESTING

In both 2018 and 2017, indicators of impairment were identified for the Retail Services CGU's long-lived assets. As such, the carrying amount of these assets was reviewed for impairment at the Retail Services CGU level as they did not generate cash inflows that were largely independent from other assets or group of assets.

The recoverable amount of the Retail Services CGU was determined based on the value-in-use approach using a discounted cash flow method. The significant key assumptions included the forecasts of cash flows based on the four-year financial plan approved by the Board of Directors, a terminal growth rate of 2.0% (2.1% in 2017) based on projected economic growth, and an after-tax discount rate of 10.3% (11.0% in 2017) based on the bank-wide cost of capital and further adjusted to reflect the risks specific to the Retail Services CGU.

In 2018, based on adjusted forecasts, management determined that the estimated recoverable amount of the Retail Services CGU was in excess of its carrying amount. As a result, no impairment charge on the underlying assets of this CGU was recognized during 2018 (nil in 2017). Changes in estimates and assumptions could significantly impact the impairment test result.

31. BUSINESS COMBINATIONS

ACQUISITION OF NORTHPOINT COMMERCIAL FINANCE

On May 18, 2017, the Bank entered into a definitive agreement under which it agreed to acquire 100% of the ownership interests in Northpoint Commercial Finance ("NCF"), a U.S. based non-bank inventory finance lender with a portfolio of US$819 million (C$1,039 million). The transaction closed on August 11, 2017. The purchase price of US$257 million (C$325 million) was based on the book value of the net assets of NCF as at the closing date. As part of the transaction, the Bank has also reimbursed previous credit facilities of NCF for US$668 million (C$848 million). The Bank acquired NCF to further develop its equipment financing business and diversify revenue streams.

The final fair values of the assets acquired and liabilities assumed on August 11, 2017 were as follows. The final fair values did not change materially from the initial valuation, therefore comparative figures have not been restated.

	NCF Final Valuation	NCF Initial Valuation
Assets		
Loans	**$ 1,038,887**	$ 1,038,650
Software and other intangible assets	**80,997**	81,000
Goodwill	**53,629**	56,437
Other	**89,895**	94,257
	$ 1,263,408	$ 1,270,344
Liabilities		
Credit facilities	**$ 847,759**	$ 847,787
Other	**90,220**	96,923
Total identifiable net assets acquired	**$ 325,429**	$ 325,634
Cash paid - purchase consideration	**$ 325,429**	$ 325,634
Reimbursement of previous credit facilities	**847,759**	847,787
Total	**$ 1,173,188**	$ 1,173,421

Goodwill recognized is attributed to the expected benefits from better funding alternatives and from combining the assets and activities of NCF with those of the Bank. Goodwill associated with this transaction was allocated to the Business Services CGU. Goodwill and other intangible assets are generally deductible for income tax purposes.

In 2017, the Bank incurred acquisition-related professional fees and other expenses of $4.4 million in relation with this transaction. These costs were recognized directly in net income, under Costs related to business combinations. No additional costs were incurred in 2018.

ACQUISITION OF CIT CANADA

On October 1, 2016, the Bank acquired from CIT Group Inc. ("CIT") their Canadian equipment financing and corporate financing activities ("CIT Canada"). In relation to this transaction, the Bank incurred integration related technology costs, professional fees and salaries of $2.4 million in 2018 ($11.6 million in 2017). These costs were recognized directly in net income, under Costs related to business combinations.

32. SEGMENTED INFORMATION

The Bank determines its reportable segments based on how the Chief Operating Decision maker (the Executive Committee) manages the different services and products provided to clients and has identified four operating segments: Retail Services, Business Services, B2B Bank and Capital Markets. The Bank's other activities, including the Bank's corporate functions and Corporate Treasury, are grouped into the Other sector.

- The Retail Services segment caters to the financial needs of retail clients in Québec. The Bank serves retail clients mainly through a network of branches, providing a full range of savings, investment and financing products.
- The Business Services segment caters to the financial needs of business clients across Canada and in the United States. Small and medium-sized enterprises, along with real estate developers are provided with a suite of financing options, including leasing solutions, as well as, investment, cash management and international services.
- The B2B Bank segment supplies banking and financial products to independent financial advisors and non-bank financial institutions across Canada.
- The Capital Markets segment consists of the Laurentian Bank Securities Inc. subsidiary, a full-service broker, and the Bank's capital market activities.

The Bank has evaluated quantitative and qualitative aggregation criteria to determine that it has one reportable segment. The Bank aggregates operating segments with similar economic characteristics that meet the aggregation criteria. Factors considered in applying aggregation criteria mainly include: the similarity of products and services offered, the nature of operations and processes, as well as the similarity in the regulatory environments in which the segments operate. For the Capital Markets operating segment, which does not have similar economic characteristics, the Bank applies quantitative thresholds, as well as judgment for aggregation.

The Bank operates primarily within two geographic areas: Canada and the United States [1]. The following table summarizes the Bank's revenues and average earning assets by geographic region.

						2018
		Canada		**United States[1]**		**Total**
Total revenue	**$**	**955,459**	**$**	**87,951**	**$**	**1,043,410**
Average earning assets	**$**	**38,320,764**	**$**	**1,341,896**	**$**	**39,662,660**

						2017
		Canada		United States[1]		Total
Total revenue	$	981,729	$	14,681	$	996,410
Average earning assets	$	37,813,367	$	241,566	$	38,054,933

(1) The Bank operates in the U.S. since the acquisition of NCF on August 11, 2017. Refer to Note 31 for further details.

Condensed Consolidated Balance Sheet

As at October 31 (in thousands of Canadian dollars, unaudited)	2018	2017	2016	2015	2014
Assets					
Cash and non-interest-bearing deposits with banks	**$ 116,490**	$ 111,978	$ 123,716	$ 109,055	$ 126,247
Interest-bearing deposits with banks	**374,237**	215,384	63,383	91,809	122,608
Securities	**6,061,144**	5,586,014	5,660,432	4,487,357	4,880,460
Securities purchased under reverse repurchase agreements	**3,652,498**	3,107,841	2,879,986	3,911,439	3,196,781
Loans					
Personal	**5,372,468**	6,038,692	6,613,392	7,063,229	6,793,078
Residential mortgage	**16,986,338**	18,486,449	16,749,387	14,998,867	13,707,489
Commercial	**11,839,106**	11,464,007	9,386,119	7,556,905	6,563,555
Customers' liabilities under acceptances	**196,776**	707,009	629,825	473,544	365,457
	34,394,688	36,696,157	33,378,723	30,092,545	27,429,579
Allowances for loan losses	**(93,026)**	(99,186)	(105,009)	(111,153)	(119,371)
	34,301,662	36,596,971	33,273,714	29,981,392	27,310,208
Other	**1,388,652**	1,064,470	1,005,109	1,078,452	846,481
	$ 45,894,683	$ 46,682,658	$ 43,006,340	$ 39,659,504	$ 36,482,785
Liabilities and shareholders' equity					
Deposits					
Personal	**$ 20,995,453**	$ 21,198,982	$ 21,001,578	$ 19,377,716	$ 18,741,981
Business, banks and other	**7,011,119**	7,731,378	6,571,767	7,226,588	5,781,045
	28,006,572	28,930,360	27,573,345	26,604,304	24,523,026
Other	**7,255,394**	6,842,540	6,013,890	5,524,930	5,103,778
Debt related to securitization activities	**7,787,753**	8,230,921	7,244,454	5,493,602	4,863,848
Subordinated debt	**348,762**	348,427	199,824	449,641	447,523
Shareholders' equity	**2,496,202**	2,330,410	1,974,827	1,587,027	1,544,610
	$ 45,894,683	$ 46,682,658	$ 43,006,340	$ 39,659,504	$ 36,482,785

Condensed Consolidated Statement of Income — Reported Basis

For the years ended October 31 (in thousands of Canadian dollars, unaudited)	2018	2017	2016	2015	2014
Net interest income	**$ 705,912**	$ 638,090	$ 589,644	$ 575,083	$ 560,980
Other income	**337,498**	358,320	325,807	322,043	313,085
Total revenue	**1,043,410**	996,410	915,451	897,126	874,065
Amortization of net premium on purchased financial instruments	**2,296**	3,383	5,190	5,999	9,653
Provision for credit losses	**44,000**	37,000	33,350	34,900	42,000
Non-interest expenses	**716,781**	689,359	679,549	722,824	641,309
Income before income taxes	**280,333**	266,668	197,362	133,403	181,103
Income taxes	**55,687**	60,207	45,452	30,933	40,738
Net income	**$ 224,646**	$ 206,461	$ 151,910	$ 102,470	$ 140,365
Preferred share dividends, including applicable taxes	**14,038**	17,096	13,313	9,602	10,985
Net income available to common shareholders	**$ 210,608**	$ 189,365	$ 138,597	$ 92,868	$ 129,380

Condensed Consolidated Statement of Income — Adjusted Basis[1]

For the years ended October 31 (in thousands of Canadian dollars, unaudited)	2018	2017	2016	2015	2014
Net interest income	$ 705,912	$ 638,090	$ 589,644	$ 575,083	$ 560,980
Other income	337,498	358,320	325,807	322,043	313,085
Total revenue	1,043,410	996,410	915,451	897,126	874,065
Provision for credit losses	44,000	37,000	33,350	34,900	42,000
Adjusted non-interest expenses	695,775	658,492	636,796	639,560	620,807
Adjusted income before income taxes	303,635	300,918	245,305	222,666	211,258
Adjusted income taxes	62,075	70,177	58,292	50,467	47,676
Adjusted net income	$ 241,560	$ 230,741	$ 187,013	$ 172,199	$ 163,582
Preferred share dividends, including applicable taxes	14,038	17,096	13,313	9,602	10,985
Adjusted net income available to common shareholders	$ 227,522	$ 213,645	$ 173,700	$ 162,597	$ 152,597

Highlights

As at and for the years ended October 31 (in thousands of Canadian dollars, except per share and percentage amounts, unaudited)	2018	2017	2016	2015	2014
Profitability					
Diluted earnings per share	$ 5.10	$ 5.40	$ 4.55	$ 3.21	$ 4.50
Return on common shareholders' equity	9.7 %	10.9%	9.6%	6.8%	10.1%
Net interest margin (on average earning assets)[2]	1.78 %	1.68%	1.71%	1.84%	1.88%
Efficiency ratio	68.7 %	69.2%	74.2%	80.6%	73.4%
Adjusted financial measures[1]					
Adjusted diluted earnings per share	$ 5.51	$ 6.09	$ 5.70	$ 5.62	$ 5.31
Adjusted return on common shareholders' equity	10.5 %	12.3%	12.0%	12.0%	11.9%
Adjusted efficiency ratio	66.7 %	66.1%	69.6%	71.3%	71.0%
Adjusted dividend payout ratio	45.9 %	40.5%	42.4%	39.2%	38.7%
Per common share					
Closing share price	$ 41.56	$ 60.00	$ 49.57	$ 52.97	$ 49.58
Price / earnings ratio	8.1x	11.1x	10.9x	16.5x	11.0x
Book value	$ 53.72	$ 51.18	$ 47.92	$ 46.33	$ 45.89
Dividends declared	$ 2.54	$ 2.46	$ 2.36	$ 2.2	$ 2.06
Dividend yield	6.1 %	4.1%	4.8%	4.2%	4.2%
Dividend payout ratio	49.6 %	45.7%	53.1%	68.6%	45.7%
Average volumes (in millions of dollars)					
Average assets	$ 46,934	$ 44,846	$ 40,897	$ 37,822	$ 35,560
Average earning assets[2]	$ 39,663	$ 38,055	$ 34,458	$ 31,248	$ 29,856
Average common shareholders' equity	$ 2,171	$ 1,735	$ 1,443	$ 1,356	$ 1,281
Credit quality					
Provision for credit losses (as a % of average loans and acceptances)	0.12 %	0.11%	0.11%	0.12%	0.15%
Regulatory capital ratio					
Common Equity Tier 1 — All-in basis	9.0 %	7.9%	8.0%	7.6%	7.9%
Other information					
Number of common shares outstanding (in thousands)	42,075	38,966	33,842	28,957	28,943
Number of full-time equivalent employees	3,642	3,732	3,687	3,656	3,667
Number of branches	96	104	145	150	152
Number of automated banking machines	222	341	398	405	418

(1) Refer to the non-GAAP and key performance measures section.

(2) Comparative figures for 2014 were restated to reflect the adoption of the amendments to IAS 32, Financial Instruments: Presentation and the modification of the Bank's definition of average earning assets. Refer to the non-GAAP and key performance measures section of the MD&A.

As at and for the quarters ended (in thousands of Canadian dollars, except per share and percentage amounts, unaudited)	2018				2017			
	OCT. 31	JULY 31	APRIL 30	JAN. 31	OCT. 31	JULY 31	APRIL 30	JAN. 31
Profitability								
Total revenue	$ 255,857	$ 260,664	$ 259,887	$ 267,002	$ 267,968	$ 248,002	$ 238,807	$ 241,633
Net income	$ 50,801	$ 54,903	$ 59,195	$ 59,747	$ 58,635	$ 54,798	$ 44,572	$ 48,456
Diluted earnings per share	$ 1.13	$ 1.23	$ 1.34	$ 1.41	$ 1.42	$ 1.48	$ 1.19	$ 1.30
Return on common shareholders' equity	8.4%	9.2 %	10.5 %	10.8 %	11.1 %	11.8 %	9.9 %	10.7 %
Net interest margin	1.77%	1.77 %	1.82 %	1.77 %	1.75 %	1.63 %	1.67 %	1.66 %
Efficiency ratio	69.0%	71.8 %	67.6 %	66.5 %	68.8 %	67.9 %	70.7 %	69.4 %
Operating leverage	3.9%	(6.4)%	(1.5)%	3.3 %	(1.5)%	4.2 %	(1.9)%	n.m
Adjusted financial measures[1]								
Adjusted net income	$ 54,344	$ 59,374	$ 64,625	$ 63,217	$ 66,476	$ 59,906	$ 51,618	$ 52,741
Adjusted diluted earnings per share	$ 1.22	$ 1.34	$ 1.47	$ 1.49	$ 1.63	$ 1.63	$ 1.39	$ 1.43
Adjusted return on common shareholders' equity	9.0%	10.0 %	11.6 %	11.5 %	12.7 %	13.0 %	11.7 %	11.8 %
Adjusted efficiency ratio	67.2%	69.7 %	65.1 %	64.8 %	64.3 %	65.6 %	67.2 %	67.4 %
Adjusted operating leverage	3.4%	(7.1)%	(0.4)%	(0.8)%	2.2 %	2.5 %	0.2 %	— %
Adjusted dividend payout ratio	52.6%	47.7 %	42.8 %	41.7 %	38.7 %	38.0 %	43.7 %	42.6 %
Per common share								
Closing share price	$ 41.56	$ 46.62	$ 49.31	$ 53.20	$ 60.00	$ 54.17	$ 55.84	$ 58.86
Price / earnings ratio (trailing four quarters)	8.1 x	8.6 x	8.7 x	9.7 x	11.1 x	12.3 x	13.0 x	13.0 x
Book value	$ 53.72	$ 53.43	$ 52.67	$ 52.08	$ 51.18	$ 50.54	$ 49.56	$ 48.87
Dividends declared	$ 0.64	$ 0.64	$ 0.63	$ 0.63	$ 0.62	$ 0.62	$ 0.61	$ 0.61
Dividend yield	6.2%	5.5 %	5.1 %	4.7 %	4.1 %	4.6 %	4.4 %	4.1 %
Dividend payout ratio	56.5%	51.8 %	47.0 %	44.3 %	44.3 %	41.8 %	51.4 %	46.7 %
Credit quality								
Net impaired loans (as a % of loans and acceptances)	0.42%	0.37 %	0.34 %	0.31 %	0.30 %	0.23 %	0.25 %	0.28 %
Provision for credit losses (as a % of average loans and acceptances)	0.20%	0.05 %	0.11 %	0.13 %	0.13 %	0.07 %	0.12 %	0.11 %
Regulatory capital ratio								
Common Equity Tier 1 — All-in basis	9.0%	8.8 %	8.6 %	8.6 %	7.9 %	7.9 %	8.1 %	8.2 %
Other information								
Number of common shares outstanding (in thousands)	42,075	41,996	41,842	41,721	38,966	34,190	34,071	33,941

(1) Refer to the non-GAAP and key performance measures section.

Today, as in the past, strong corporate governance is an important component in managing Laurentian Bank's activities. In 1987, the Bank became the first Canadian financial institution to separate the roles of Chair of the Board and President and Chief Executive Officer. Moreover, its corporate governance practices remain among the most exemplary today.

All members of the Board of Directors, except the President and Chief Executive Officer, are independent and unrelated to the Bank's management. The independent status of directors is determined in accordance with criteria established by the Human Resources and Corporate Governance Committee of the Board, which are used to evaluate the status of every director, regardless of which Committee they may sit on. Furthermore, rules concerning directorships in other organizations have been instituted so as to ensure that no more than two directors sit on the board of the same public issuer (unless authorized by the Chair of the Board).

The Board of Directors formalized its commitment towards diversity by adopting a board diversity policy. The Board has also adopted a framework dealing with term limits for directors, Committee chairs and the Chair of the Board.

The role of the Board of Directors is essentially to oversee the management of the business affairs of the Bank. Board deliberations generally end with a discussion period held without the presence of management. The members of the Board commit to act in accordance with standards set forth in the Directors' Code of Conduct, which covers issues such as general conduct, contribution to the work of the Board and its Committees, insider trading, conflicts of interest and other situations that may affect a director's independence.

The Board of Directors has delegated some of its responsibilities and functions to three Committees, being: the Audit Committee, the Risk Management Committee, and the Human Resources and Corporate Governance Committee, whose members are appointed from among its directors. All Committees regularly submit written and verbal updates and reports on their work to the Board of Directors. Furthermore, the Committees present a report to shareholders on their activities that is included in the Bank's Management Proxy Circular.

AUDIT COMMITTEE

The primary function of the Audit Committee is to support the Board of Directors in overseeing the integrity of the Bank's financial statements, the relevance and effectiveness of its internal controls, the qualifications and independence of the external auditor and the performance of the internal audit function and of the external auditor. In order to do so, the Board has appointed directors meeting the criteria of independence and possessing the appropriate level of financial literacy. The Committee meets on a regular basis with the internal audit function and external auditor, respectively, without the presence of management. Furthermore, the Committee meetings generally end with a discussion period held without the presence of management.

The Committee's responsibilities include more specifically:

With respect to the external auditor: recommend the appointment or dismissal of the external auditor; ensure its competence, independence, and the adequacy of its resources; review the scope of its mission and compensation; oversee its activities and evaluate its performance; and approve the external auditor's oversight policy and the Bank's policy on non-audit related services.

With respect to financial information: oversee the integrity and quality of financial statements and ensure that the Bank's accounting practices are prudent and appropriate; prior to publication, review the annual and interim financial statements, management's discussion and analysis and press releases regarding the Bank's results, as well as review the annual information form and any other documents required by regulatory authorities; review the annual financial statements of the subsidiaries supervised by the Office of the Superintendent of Financial Institutions.

With respect to the internal audit function: approve the internal audit's charter and plan; ensure the competence, independence and adequacy of internal audit resources; follow up on material findings and recommendations.

With respect to internal controls: ensure that management implements appropriate internal controls and information management systems; ensure their integrity and effectiveness; ensure that management implements procedures regarding the receipt, retention and handling of complaints received with respect to accounting, internal controls or audit.

With respect to oversight agencies: follow up on the findings and recommendations of oversight authorities.

RISK MANAGEMENT COMMITTEE

The Risk Management Committee ensures that the Bank has adopted an adequate and effective risk management process, including the identification, assessment and management of risks, as well as the development of adequate policies concerning credit, market, liquidity and financing, operational, capital management, regulatory and reputational risks. The Committee is composed of independent directors who meet on a regular basis with officers in charge of oversight functions (the internal auditor as well as the chief risk officer and the chief compliance officer) without the presence of management. Furthermore, the Committee meetings generally end with a discussion period held without the presence of management.

The Committee's responsibilities include more specifically:

With respect to risk management: ensure that management identifies the organization's principal risks and implements systems to measure and adequately manage them; provide for the integrity and effectiveness of such systems; review the overall risk profile and risk management framework of the Bank; ensure the competence, independence and the adequacy of the risk management function and approve its mandate; follow up on material findings and recommendations; review and, if applicable, approve loans, which under the credit policies, are the responsibility of the Committee; examine the quality of the Bank's loan portfolio and the adequacy of allowances for loan losses; ensure that management adopts a process to determine the appropriate level of capital for the Bank based on assumed risks; review and approve the Code of Ethics and Privacy Code for the Protection of Personal Information applicable to officers and employees of the Bank and ensure they are complied with; review and follow-up with regulatory authorities on findings and recommendations.

With respect to compensation: annually review, in collaboration with the Human Resources and Corporate Governance Committee, the alignment of the Bank's compensation, performance and assumed risk with the remuneration standards and principles issued by the Financial Stability Board.

In addition to these responsibilities, the Committee also exercises review functions to ensure that management establishes mechanisms for dealing with related party transactions, as well as to review the procedures and their effectiveness. The Committee reports annually on these functions to the Superintendent of Financial Institutions.

HUMAN RESOURCES AND CORPORATE GOVERNANCE COMMITTEE

The Human Resources and Corporate Governance Committee is composed of independent directors, none of whom heads a public company. The Committee meetings generally end with a discussion period held without the presence of management.

The Committee's human resources responsibilities include:

With respect to human resources management: annually review the performance management process and evaluate its effectiveness; ensure that management implements a plan to promote the hiring, retention and motivation of qualified personnel.

With respect to senior officers: review appointments of senior officers; approve the establishment of objectives for members of the Executive Committee and evaluate their performance; ensure the competence and qualifications of senior officers; and ensure the integrity of senior officers and their adoption of a culture of integrity throughout the Bank.

With respect to compensation: approve the overall compensation framework (including incentive compensation, fringe benefits and pension plans) for senior officers, with a view of furthering the Bank's business objectives, as well as approve the material terms and conditions of the compensation and employment conditions applicable to the Bank's other employees and officers; annually approve, in collaboration with the Risk Management Committee, the alignment of the Bank's compensation, performance and assumed risk with the remuneration standards and principles issued by the Financial Stability Board.

With respect to pension plans: ensure that management implements appropriate internal control mechanisms with a view of adequately managing its pension plans.

The Committee's corporate governance responsibilities include :

With respect to the President and Chief Executive Officer: recommend the appointment or dismissal of the President and Chief Executive Officer to the Board; recommend annually to the Board the objectives of the President and Chief Executive Officer, as well as his/her evaluation, compensation and employment conditions; and implement a succession plan for the President and Chief Executive Officer.

With respect to the Board and its Committees: review corporate governance rules and ensure they are complied with; review the Board's composition (taking the diversity of members into account), its compensation and its size; review the constitution, membership and functions of its Committees; review the Directors' Code of Conduct and ensure it is complied with; ensure ongoing training for the members of the Board; approve the criteria to evaluate the independence of Board members and assess their independence periodically; evaluate the Board and its members; and ensure the recruitment of new Board members to be submitted for election by shareholders, and see to their orientation and integration.

With respect to public disclosure: review information on corporate governance prior to its disclosure; ensure that shareholders are well informed of the Bank's affairs and deal with all material disagreements between the Bank and its shareholders.

The complete text outlining the functions of the Board of Directors and the mandates of each of its Committees can be found in the Corporate Governance section on the Bank's website. Committee reports to shareholders can be consulted in the Bank's Management Proxy Circular.

As at October 31, 2018 (in thousands of Canadian dollars, unaudited)	HEAD OFFICE LOCATION	BOOK VALUE OF VOTING SHARES OWNED BY THE BANK[1]	PERCENTAGE OF VOTING SHARES OWNED BY THE BANK
CORPORATE NAME			
B2B Bank	Toronto, Canada	$718,132	100%
Wholly-owned subsidiaries			
B2B Bank Financial Services Inc.	Toronto, Canada		
B2B Bank Securities Services Inc.	Toronto, Canada		
B2B Bank Intermediary Services Inc	Toronto, Canada		
B2B Trustco	Toronto, Canada		
B2B Securitization Inc.	Toronto, Canada		
B2B Securitization Limited Partnership[2]	Toronto, Canada		
Laurentian Bank Insurance Inc.	Montreal, Canada	$19	100%
Laurentian Bank Securities Inc.	Montreal, Canada	$159,431	100%
Wholly-owned subsidiary			
Laurentian Capital (USA) Inc.			
Laurentian Trust of Canada Inc.	Montreal, Canada	$102,615	100%
LBC Capital Inc.[3]	Burlington, Canada	$2,812,853	100%
Wholly-owned subsidiaries			
LBEF Inc.	Burlington, Canada		
LBEL Inc.[3]	Burlington, Canada		
LBC Capital GP Inc.	Burlington, Canada		
LBC Leasing Limited Partnership[4]	Burlington, Canada		
NCF International S.à r.l.	Luxembourg, Luxembourg		
Northpoint Commercial Finance Canada Inc.	Burlington, Canada		
NCF Commercial Finance Holdings Inc.	Delaware, United States		
Wholly-owned subsidiary			
NCF Financing LLC	Delaware, United States		
Northpoint Commercial Finance Inc.	Delaware, United States		
Wholly-owned subsidiary			
Northpoint Commercial Finance LLC	Delaware, United States		
LBC Financial Services Inc.	Montreal, Canada	$29,460	100%
LBC Investment Management Inc.	Montreal, Canada	$377,656	100%
Wholly-owned subsidiary			
V.R. Holding Insurance Company Ltd	St. James, Barbados		
Wholly-owned subsidiary			
VRH Canada Inc.	Montreal, Canada		
LBC Tech Inc.	Toronto, Canada	$697	100%
LBC Trust	Montreal, Canada	$79,384	100%

(1) The book value of shares with voting rights corresponds to the Bank's interest in the shareholders' equity of the subsidiaries.

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

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

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

Allowances for Loan Losses represent an amount deemed adequate by the Bank to absorb credit-related losses on loans and acceptances. Total allowances for loan losses consists of individual and collective allowances and are recorded on the balance sheet as a deduction from loans and acceptances.

Alt-A Mortgages represent a classification of mortgages where borrowers have a clean credit history consistent with prime lending criteria. However, characteristics about the mortgage such as loan to value, loan documentation, occupancy status or property type, may cause the mortgage not to qualify under standard underwriting programs.

Assets Under Administration mostly refers to assets related to registered and non-registered investment accounts, clients' brokerage assets, mutual funds and mortgages administered by the Bank that are beneficially owned by clients and therefore not reported on the balance sheet of the Bank.

Average Earning Assets include the Bank's loans net of allowances, as well as interest-bearing deposits with other banks, securities, securities purchased under reverse repurchase agreements used in the Bank's treasury operations and derivatives, but exclude average earning assets related to trading activities. The averages are based on the daily balances for the period.

Bankers' Acceptances (BAs) are bills of exchange or negotiable instruments drawn by a borrower for payment at maturity and accepted by a bank. BAs constitute a guarantee of payment by the Bank and can be traded in the money market. The Bank earns a "stamping fee" for providing this guarantee.

Basel II is the second of the Basel Accords, which are recommendations on banking laws and regulations issued by the Basel Committee on Banking Supervision (BCBS). The purpose of Basel II is to create an international standard that banking regulators can use when creating regulations about how much capital banks need to put aside to guard against the types of financial and operational risks banks face. The Basel II Accord also introduced the Advanced Internal-Ratings Based approach for credit risk.

Basel III is a comprehensive set of reform measures, developed by the BCBS, to strengthen the Basel II Accord as well as the supervision and risk management of the banking sector. These measures also introduced liquidity adequacy requirements.

Basis Point: One one-hundredth of a percentage point.

Book Value per Common Share is defined as common shareholders' equity divided by the number of common shares outstanding at the end of the period.

Collective Allowances are maintained to cover impairment in the existing loan portfolio that cannot yet be associated with specific loans. The Bank employs a collective allowance model based on the internal risk rating of credit facilities and on the related probability of default factors, as well as the loss given default associated with each type of facility.

Common Equity Tier 1 Capital (CET1) represents, under Basel III, more permanent forms of capital, and primarily consists of common shareholder's equity and accumulated other comprehensive income, less a deduction for goodwill, software and other intangibles, pension assets, cash flow hedge reserves and certain other deductions prescribed by OSFI.

CET1 Capital Ratio is defined as CET1 capital divided by risk-weighted assets.

Common Shareholders' Equity is defined as the sum of the value of common shares, retained earnings and accumulated other comprehensive income, excluding cash flow hedge reserves.

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

Derivatives are contracts whose value is "derived" from movements in interest or foreign exchange rates, or equity or commodity prices. Derivatives allow for the transfer, modification or reduction of current or expected risks from changes in rates and prices.

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

Dividend Yield represents dividends declared per common share divided by the closing common share price.

Earnings per Share (EPS) is calculated by dividing net income after deduction of preferred dividends, by the average number of common shares outstanding. Diluted EPS is calculated by adjusting the number of shares outstanding for possible conversions of financial instruments into common shares.

Effective Interest Rate represents the discount rate applied to estimated future cash payments or receipts over the expected life of the financial instrument to arrive at the net carrying amount of the financial asset or liability.

Efficiency Ratio is a measure of productivity and cost control. It is defined as non-interest expenses as a percentage of total revenue.

Fair Value is the estimated price that would be received or paid in an orderly transaction between market participants at the measurement date.

Hedging is a risk management technique used to neutralize or manage interest rate, foreign currency, or credit exposures arising from normal banking activities by taking positions that are expected to react to market conditions in an offsetting manner.

Impaired Loans are loans for which there is no longer reasonable assurance of the timely recovery of principal or interest.

Individual Allowances reduce the carrying value of impaired loans to the amount the Bank expects to recover when there is evidence of deterioration in credit quality.

Leverage Ratio is comprised of Tier 1 capital, divided by unweighted on-balance sheet assets and off-balance sheet commitments, derivatives and securities financing transactions.

Liquidity Coverage Ratio measures the sufficiency of high-quality liquid assets available to meet net short-term financial obligations over a thirty day period in an acute stress scenario.

Net Interest Income is comprised of earnings on assets, such as loans and securities, including interest and dividend income, less interest expense paid on liabilities, such as deposits.

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

Notional Amount refers to the principal used to calculate interest and other payments under derivative contracts.

Off-Balance Sheet Financial Instruments represent a variety of financial arrangements offered to clients, which include for the Bank derivatives, credit commitments and guarantees, and other indemnifications.

Office of the Superintendent of Financial Institutions Canada (OSFI) is the primary Canadian regulator and supervisor of federally regulated deposit-taking institutions, which include banks, insurance companies and federally regulated private pension plans.

Operating Leverage is the difference between total revenue and non-interest expenses growth rates.

Options are contractual agreements between two parties in which the writer of the option grants the buyer the right, but not the obligation, to either buy or sell, at or by a specified date, a specific amount of a financial instrument at a price agreed upon when the agreement is entered into. The writer receives a premium for selling this instrument.

Provision for Credit Losses is a charge to income that represents an amount deemed adequate by management considering the allowances for loan losses already established to absorb all incurred loan losses in its portfolio, given the composition of the portfolios, the probability of default and the economic environment.

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

Risk-weighted Assets are assets calculated by applying a risk-weight factor to on and off-balance sheet exposure. The Bank uses standardized risk-weight factors as stipulated by OSFI, based on the guidelines developed by the Bank for International Settlement (BIS).

Securities Purchased Under Reverse Repurchase Agreements and Obligations Related to Securities Sold Under Repurchase Agreements are short-term purchases of securities under agreements to resell as well as short-term sales of securities under agreements to repurchase at predetermined prices and dates. Given the low risk transfer associated with these purchases and sales, these agreements are treated as collateralized lending.

Swaps are contractual agreements between two parties to exchange a series of cash flows for a specified period of time. The various swap agreements that the Bank enters into are as follows:

- Interest rate swaps - counterparties generally exchange fixed and floating rate interest payments based on a predetermined notional amount in a single currency.
- Foreign exchange swaps - fixed rate interest payments and principal amounts are exchanged in different currencies.
- Total return swaps - floating payments based on changes in the value of a reference asset or group of assets, including any associated return such as dividends, are exchanged for amounts based on prevailing market funding rates.

Tier 1 Capital primarily consists of CET1 and preferred shares.

Tier 1 Capital Ratio is defined as Tier 1 capital divided by risk-weighted assets.

Total Capital includes Tier 1 and Tier 2 capital, net of certain deductions. Tier 2 capital is primarily comprised of subordinated debt and the eligible portion of collective allowances for loan losses.

Total Capital Ratio is defined as total capital divided by risk-weighted assets.

Value at Risk (VaR) corresponds to the potential loss the Bank may incur for a specific portfolio or a group of portfolios over a one-day period, with a confidence level of 99%.

Corporate offices
Montreal
1360 René-Lévesque Blvd West,
Suite 600
Montreal, Quebec H3G 0E5
www.lbcfg.ca

Toronto
199 Bay St, Suite 600
Toronto, Ontario M5L 0A2
www.lbcfg.ca

Ombudsman's office
1360 René-Lévesque Blvd West,
Suite 600
Montreal, Quebec H3G 0E5
ombudsman@lbcfg.ca
Tel.: 514-284-7192
or 1-800-479-1244

Transfer agent and registrar
Computershare Investor
Services Inc.
1500 Robert-Bourassa Blvd,
Suite 700
Montreal, Quebec H3A 3S8
service@computershare.com
Tel.: 514-982-7888
or 1-800-564-6253

Change of address and inquiries
Shareholders must notify the Bank's transfer agent and registrar of any change of address. Inquiries or requests may be directed to the Bank's Corporate Secretariat's Office at secretary.office@lbcfg.ca or by calling 514-284-4500, ext. 40448.

Direct deposit service
Shareholders of the Bank may, by advising the transfer agent in writing, have their dividends deposited directly into an account held at any financial institution member of the Payments Canada.

Investors and analysts
Investors and analysts may contact the Bank's Investor Relations Department at investor.relations@lbcfg.ca or by calling 514-284-4500, ext. 40452.

Media
Journalists may contact the Bank's Executive Office at media@lbcfg.ca or by calling 514-284-4500, ext. 40019.

Social media

Dividend reinvestment and share purchase plan
The Bank has a dividend reinvestment and share purchase plan for Canadian holders of its common and preferred shares under which they can acquire common shares of the Bank without paying commissions or administration fees. Participants acquire shares through the reinvestment of cash dividends paid on the shares they hold or through optional cash payments of a minimum amount of $500 per payment, up to an aggregate amount of $20,000 in each 12 month period ending October 31.

For more information, shareholders may contact the Bank's transfer agent, Computershare Trust Company of Canada, at service@computershare.com or by calling 1-800-564-6253.
To participate in the plan, the Bank's non-registered shareholders must contact their financial institution or broker.

STOCK SYMBOL AND DIVIDEND RECORD AND PAYMENT DATES

The common and preferred shares indicated below are listed on the Toronto Stock Exchange.	CUSIP CODE / STOCK SYMBOL	RECORD DATE*	DIVIDEND PAYMENT DATE*
Common shares	51925D 10 6 / LB	First business day of:	
		January	February 1
		April	May 1
		July	August 1
		October	November 1
Preferred shares			
Series 13	51925D 82 5 / LB.PR.H	March 7	March 15
Series 15	51925D 79 1 / LB.PR.J	June 7	June 15
		September 7	September 15
		December 7	December 15

* Subject to the approval of the Board of Directors.

THE PHOTOGRAPHS OF ISABELLE COURVILLE, FRANÇOIS DESJARDINS AND THE EXECUTIVE TEAM WERE TAKEN BY **YVES LACOMBE.**
DESIGN: **GAUTHIER**

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