LAURENTIAN BANK

THIRD QUARTER 2012

For the period ended July 31, 2012

Laurentian Bank reports a 21% increase in operating net income for the third quarter of 2012

Highlights of the third quarter 2012

- Net income of $30.0 million, return on common shareholders' equity of 10.2%, and diluted earnings per share of $1.06
- Good loan growth, up 8% year-over-year
- Excellent credit quality as evidenced by loan losses of $7.5 million
- Announcement of the acquisition of AGF Trust, which closed August 1st
- B2B Trust becomes B2B Bank
- Excluding Transaction and Integration Costs related to the acquisitions of the MRS Companies and AGF Trust:
  - Net income of $35.3 million, up 21% year-over-year
  - Return on common shareholders' equity of 12.2%
  - Diluted earnings per share of $1.27, up $0.19 from $1.08 a year earlier

Laurentian Bank of Canada reported net income of $30.0 million, or $1.06 diluted per share, for the third quarter ended July 31, 2012, compared with $29.1 million, or $1.08 diluted per share, for the third quarter of 2011. Return on common shareholders' equity was 10.2% compared with 11.2% for the third quarter of 2011. Excluding Transaction and Integration Costs[1] (T&I Costs), net income was up 21% to $35.3 million or $1.27 diluted per share for the third quarter of 2012 and return on common shareholders' equity was 12.2%.

For the nine-month period ended July 31, 2012, net income totaled $94.8 million or $3.44 diluted per share, compared with $97.0 million or $3.66 diluted per share in 2011. Return on common shareholders' equity was 11.3% for the nine-month period ended July 31, 2012, compared with 13.0% for the same period in 2011. Excluding T&I Costs, net income was up 8% to $104.5 million or $3.83 diluted per share for the nine-month period ended July 31, 2012 and return on common shareholders' equity was 12.5%.

Commenting on the Bank's financial results for the third quarter of 2012, Réjean Robitaille, President and Chief Executive Officer, mentioned: "Once again, we continued to increase the Bank's core profitability amid a challenging environment. We generated good organic loan and deposit growth in all our business lines and continued to benefit from excellent credit quality. Furthermore, the conversion and integration process of the MRS Companies is progressing according to plan with some synergies already being achieved. In the midst of persistent economic uncertainty and a historically low interest rate environment, we are leveraging strategic opportunities such as the MRS acquisition to foster continued revenue growth while we remain focused on closely managing expenses."

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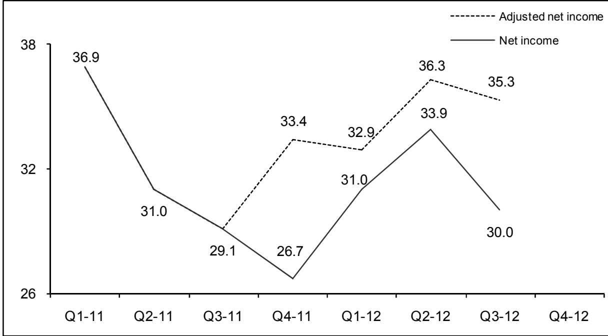
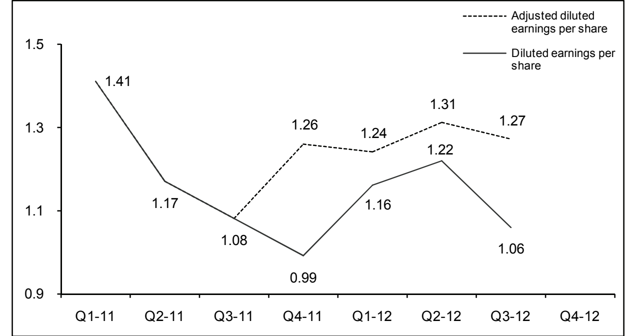
[1] Transaction and Integration Costs (T&I Costs) specifically refer to costs incurred by the Bank to finalize the acquisition of the MRS Companies (which included M.R.S. Inc.; MRS Trust Company; M.R.S. Securities Services Inc.; and M.R.S. Correspondent Corporation) and integrate their operations within the B2B Bank business segment, as well as costs related to the recently acquired AGF Trust Company. Refer to the non-GAAP financial measures section.

Highlights

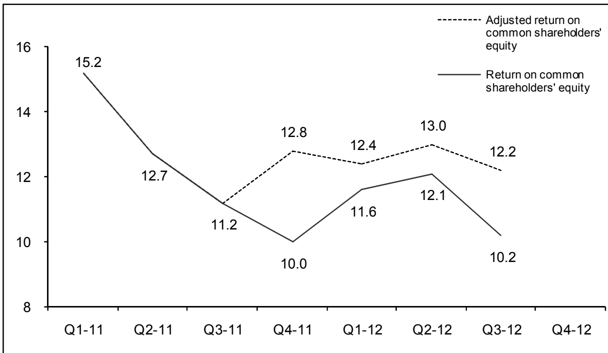
Net income [1]
(in millions of dollars)



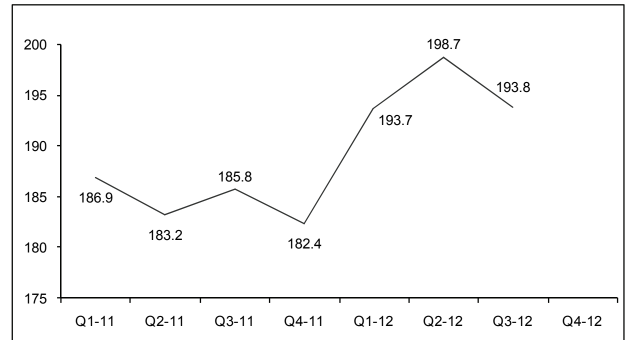
Diluted earnings per share [1]
(in dollars)



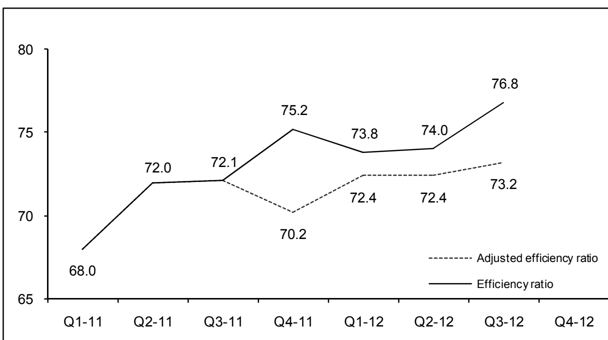
Return on common shareholders' equity [1]
(as a percentage)



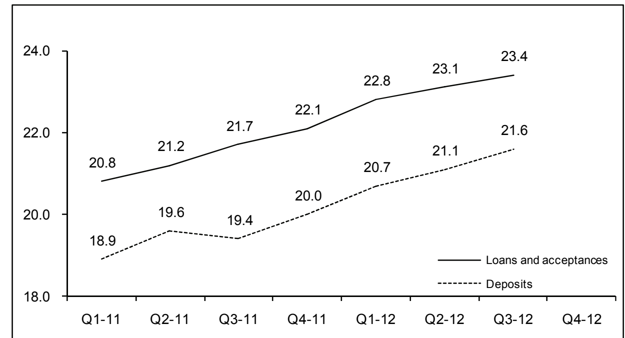
Total revenue
(in millions of dollars)



Efficiency ratio [1]
(as a percentage)



Loans and deposits
(in billions of dollars)



[1] Refer to the non-GAAP financial measures section.

In thousands of Canadian dollars, except per share and percentage amounts (Unaudited)	FOR THE THREE MONTHS ENDED JULY 31 2012	JULY 31 2011	VARIANCE	FOR THE NINE MONTHS ENDED JULY 31 2012	JULY 31 2011	VARIANCE
Profitability						
Total revenue	**$ 193,833**	$ 185,833	4 %	**$ 586,247**	$ 555,925	5 %
Net income	**$ 29,998**	$ 29,072	3 %	**$ 94,823**	$ 97,008	(2) %
Diluted earnings per share	**$ 1.06**	$ 1.08	(2) %	**$ 3.44**	$ 3.66	(6) %
Return on common shareholders' equity [1]	**10.2 %**	11.2 %		**11.3 %**	13.0 %	
Net interest margin [1]	**1.66 %**	1.83 %		**1.71 %**	1.84 %	
Efficiency ratio [1]	**76.8 %**	72.1 %		**74.9 %**	70.7 %	
Profitability - Excluding Transaction and Integration Costs [2]						
Transaction and Integration Costs	**$ 7,157**	$ -		**$ 13,167**	$ -	
Adjusted net income [1]	**$ 35,253**	$ 29,072	21 %	**$ 104,474**	$ 97,008	8 %
Adjusted diluted earnings per share [1]	**$ 1.27**	$ 1.08	18 %	**$ 3.83**	$ 3.66	5 %
Adjusted return on common shareholders' equity [1]	**12.2 %**	11.2 %		**12.5 %**	13.0 %	
Adjusted efficiency ratio [1]	**73.2 %**	72.1 %		**72.7 %**	70.7 %	
Per common share						
Share price						
High	**$ 47.64**	$ 52.49		**$ 48.68**	$ 55.87	
Low	**$ 40.66**	$ 42.44		**$ 40.66**	$ 42.44	
Close	**$ 47.55**	$ 42.86	11 %	**$ 47.55**	$ 42.86	11 %
Price / earnings ratio (trailing four quarters)				**10.7 x**	n.a.	
Book value [1]				**$ 41.78**	$ 38.84	8 %
Market to book value				**114 %**	110 %	
Dividends declared	**$ 0.47**	$ 0.42	12 %	**$ 1.37**	$ 1.20	14 %
Dividend yield [1]	**3.95 %**	3.92 %		**3.84 %**	3.73 %	
Dividend payout ratio [1]	**44.2 %**	38.7 %		**39.8 %**	32.7 %	
Financial position						
Balance sheet assets				**$ 31,415,512**	$ 28,238,630	11 %
Loans and acceptances				**$ 23,435,667**	$ 21,676,239	8 %
Deposits				**$ 21,622,059**	$ 19,425,862	11 %
Basel II regulatory capital ratio [3]						
Tier I				**10.1 %**	11.0 %	
Other information						
Number of full-time equivalent employees				**4,044**	3,807	
Number of branches				**158**	157	
Number of automated banking machines				**426**	424	

[1] Refer to the non-GAAP financial measures section.

[2] Costs related to the acquisition of the MRS Companies and AGF Trust.

[3] The ratio for 2011 is presented in accordance with previous Canadian GAAP as filed with OSFI.

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On the acquisition of AGF Trust Company (AGF Trust) and recent share issuance, Mr. Robitaille added: “I am pleased with the conclusion of these transactions, which closed a few weeks ago. The acquisition of AGF Trust further entrenches the B2B Bank business segment’s leadership position as provider of banking products and services to the Canadian financial advisor community and will contribute to its future growth. In addition, the $120 million common share issuance maintains our financial strength and ability to deploy our strategies and to support future growth.”

IFRS Conversion

The Bank implemented International Financial Reporting Standards (IFRS) as its financial reporting framework on November 1, 2011. Transition to IFRS occurred as at November 1, 2010 and required restatement of the Bank’s 2011 comparative information from Canadian GAAP basis to IFRS basis. Additional information on the impact from the transition is also available in the Bank’s 2011 Annual Report, in the notes to the unaudited condensed interim consolidated financial statements and in the Supplementary Information reported for the third quarter of 2012.

Caution Regarding Forward-looking Statements

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

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

Financial objectives for 2012 are based on expected results presented on an IFRS basis, the conversion towards which should be completed in October 2012.

The *pro forma* impact of Basel III on regulatory capital ratios is based on the Bank’s interpretation of the proposed rules announced by the Basel Committee on Banking Supervision (BCBS) and related requirements of the Office of the Superintendent of Financial Institutions Canada (OSFI). The Basel rules and impact of IFRS conversion could be subject to further change, which may impact the results of the Bank’s analysis.

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

With respect to the MRS Companies and AGF Trust transactions, such factors also include, but are not limited to: the anticipated benefits from the transaction such as it being accretive to earnings and synergies may not be realized in the time frame anticipated; the ability to promptly and effectively integrate the businesses; reputational risks and the reaction of B2B Bank’s or MRS Companies’ and AGF Trust's customers to the transaction; and diversion of management time on acquisition-related issues. In addition, the *pro forma* impact of the acquisition of AGF Trust on regulatory capital ratios includes the preliminary assessments of the impact of the acquisition.

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

Review of Business Highlights

During the third quarter, B2B Trust converted into a Schedule I federally chartered bank under the banner of B2B Bank. This re-branding reflects the evolution of this business segment in the distribution of banking products and services through financial advisors to their clients across Canada. This structure also facilitates serving clients, advisors and dealers, building on B2B Bank's reputation of providing unparalleled service to this community.

On August 1, Laurentian Bank, through its subsidiary B2B Bank, completed the acquisition of AGF Trust. The recent acquisition of the MRS Companies, coupled with the acquisition of AGF Trust, solidify B2B Bank's position as the leader in its market. From a year ago, B2B Bank's loans and deposits increased by 63% and 42% respectively and, by adding over $20 billion of assets under administration, became a significant player in the self-directed market. The number of financial advisors who distribute B2B Bank's products also increased significantly to 27,000 from 15,000 a year ago and the number of clients served grew to about 750,000 from 320,000. B2B Bank's increased size, scale and diversification will serve it and its customers well.

Laurentian Bank Securities took a further step in expanding its presence with the opening of an office in Winnipeg. Hiring an experienced investment banking team in a region with favourable growth prospects should provide additional opportunities for future growth. Laurentian Bank Securities remains focused on providing financial services to the small cap market in Canada and participating in fixed income markets.

The Retail and SME-Québec and the Real Estate and Commercial sectors continued their expansion. Residential mortgages grew by 9% over the year, evidence that our channels of distribution as well as our partnerships are resulting in solid mortgage generation. SME-Québec loans grew by 8% during the last 12 months, reflecting the effectiveness of our targeted approach and the value proposition that the Bank offers. Similarly, Real Estate and Commercial loans and BA's increased by 8% from a year earlier or 10% excluding the second quarter sale of commercial mortgages. This sector will continue to deliver and grow as it expands its partnerships, increases its participation in syndications and further enhances the productivity of its account managers.

Laurentian Bank's assets, including those of AGF Trust on a pro-forma basis, now exceed $35 billion. This is 22% higher than at year-end 2011 and almost double the level 5 years ago. On a similar basis, loans and BAs grew by 20% from year-end 2011 and almost doubled over the past 5 years, with deposits increasing by 22% and 76% respectively. Furthermore, the Laurentian Bank is the only Canadian bank to have increased its earnings per share for the past 7 consecutive years. This exemplifies the effectiveness of Laurentian Bank's business model which supports growth and development and generates sustainable profitability.

Management's Discussion and Analysis

This Management's Discussion and Analysis (MD&A) is a narrative explanation, through the eyes of management, of the Bank's financial condition as at July 31, 2012, and of how it performed during the three-month and nine-month periods then ended. This MD&A, dated August 31, 2012, should be read in conjunction with the unaudited condensed interim consolidated financial statements for the third quarter of 2012, prepared in accordance with IAS 34 *Interim financial reporting,* and IFRS 1 *First-time adoption of IFRS,* as issued by the International Accounting Standards Board (IASB). The comparative figures as at July 31, 2011 and October 31, 2011 and for the three-month and nine-month periods ended July 31, 2011 have been restated to comply with IFRS. For details on the significant adjustments to the interim financial statements, refer to Note 5, "Adoption of IFRS", to the unaudited condensed interim consolidated financial statements. Supplemental information on risk management, critical accounting policies and estimates, and off-balance sheet arrangements is also provided in the Bank's 2011 Annual Report.

Additional information about the Laurentian Bank of Canada, including the Annual Information Form, is available on the Bank's website www.laurentianbank.ca and on SEDAR at www.sedar.com.

Economic Outlook

As we approach the fourth anniversary of the spectacular bankruptcy of Lehman Brothers and the ensuing massive financial crisis and global recession, many questions remain unanswered. Nevertheless, one constant has been the incredibly low interest rate environment. While very low interest rates were expected and understandable from 2008 to mid-2010, they are less so since 2011, particularly in Canada where the economy has been and remains in expansion mode. In fact, 10-year Government of Canada bond yields have declined steadily since February 2011, dropping from 3.42% to an astonishing 1.66% in July, below the core rate of inflation; this movement was particularly intense in June and July. All the while, the Bank of Canada has kept the overnight rate fixed at 1.00%.

Typically, long term interest rates are the product of central bank policy and economic conditions, namely growth and inflation. This time, however, another key factor is also at play: massive international capital flows in search of a safe haven. Canada, for a variety of reasons, has that "safe-haven" status. This gives us a stronger currency and lower bond yields than would otherwise be the case as foreign investors buy Canadian bonds. How long this will last depends primarily on international developments, particularly financial conditions in the eurozone.

Although this very low interest rate environment has eased credit conditions and favored economic development and loan growth, it also poses operational challenges for the banking industry. Management is closely monitoring the impact on competitive pricing and declining margins but nevertheless remains confident that the Bank is well positioned to navigate through this environment.

Acquisition of AGF Trust

On August 1, 2012, the Bank and AGF Management Limited concluded an agreement pursuant to which B2B Bank, a subsidiary of the Bank, acquired 100% of AGF Trust in a share purchase transaction. As of the closing date, assets of AGF Trust were approximately $4.0 billion, essentially cash and marketable securities of $0.8 billion and retail loan portfolios of approximately $3.1 billion. The final purchase price will be based on AGF Trust's net book value as at the closing date, estimated at approximately $247.1 million. The agreement also includes a contingent consideration of a maximum of $20.0 million over five years if credit quality reaches certain thresholds.

To support the Bank's balance sheet, considering this transaction, the Bank entered into subscription agreements with the Caisse de dépôt et placement du Québec and the Fonds de solidarité FTQ, relating to a private placement of 2,867,383 subscription receipts, which were issued on June 12, 2012, at a price of $41.85 per receipt and were exchangeable, on a one-for-one basis, for common shares of the Bank. On August 1, 2012, the subscription receipts were automatically exchanged for 2,867,383 common shares of the Bank for total net proceeds of $115.0 million.

2012 Financial Objectives

The following table presents management's financial objectives for 2012 and the Bank's performance to date. Revenue growth was determined with reference to the restated 2011 IFRS comparative figures. These financial objectives are based on the same assumptions as noted on page 29 of the Bank's 2011 Annual Report under the title "Key assumptions supporting the Bank's objectives" and exclude Transaction and Integration Costs.

2012 FINANCIAL OBJECTIVES [1]

(Excluding Transaction and Integration Costs)	2012 OBJECTIVES	FOR THE NINE MONTHS ENDED JULY 31, 2012
Revenue growth	> 5 %	5 %
Adjusted efficiency ratio	73 % to 70 %	72.7 %
Adjusted return on common shareholders' equity	11.0% to 13.5%	12.5 %
Adjusted diluted earnings per share	$ 4.80 to $ 5.40	$ 3.83

[1] Refer to the non-GAAP financial measures section.

Based on the results for the nine months ended July 31, 2012 and current forecasts, which include the effect of the recent share issuance and the expected contribution from AGF Trust in the fourth quarter, management believes the Bank should meet its objectives as set out at the beginning of the year. Strong loan growth, the acquisition of the MRS Companies, sustained improvements in credit quality and good cost control have contributed to the overall good performance.

Analysis of Consolidated Results

In thousands of Canadian dollars, except per share amounts (Unaudited)	FOR THE THREE MONTHS ENDED			FOR THE NINE MONTHS ENDED	
	JULY 31 2012	APRIL 30 2012	JULY 31 2011	**JULY 31 2012**	JULY 31 2011
Net interest income	**$ 129,664**	$ 128,324	$ 129,426	**$ 388,617**	$ 378,094
Other income	**64,169**	70,346	56,407	**197,630**	177,831
Total revenue	**193,833**	198,670	185,833	**586,247**	555,925
Provision for loan losses	**7,500**	7,500	14,640	**25,000**	38,081
Non-interest expenses	**148,955**	147,111	133,896	**439,086**	392,959
Income before income taxes	**37,378**	44,059	37,297	**122,161**	124,885
Income taxes	**7,380**	10,196	8,225	**27,338**	27,877
Net income	**$ 29,998**	$ 33,863	$ 29,072	**$ 94,823**	$ 97,008
Preferred share dividends, including applicable taxes	**3,164**	3,165	3,107	**9,495**	9,325
Net income available to common shareholders	**$ 26,834**	$ 30,698	$ 25,965	**$ 85,328**	$ 87,683
Earnings per share					
Basic	**$ 1.06**	$ 1.22	$ 1.09	**$ 3.44**	$ 3.67
Diluted	**$ 1.06**	$ 1.22	$ 1.08	**$ 3.44**	$ 3.66

Impact of Transaction and Integration Costs [1]

In thousands of Canadian dollars, except per share amounts (Unaudited)	FOR THE THREE MONTHS ENDED JULY 31 2012	APRIL 30 2012 [2]	JULY 31 2011	FOR THE NINE MONTHS ENDED JULY 31 2012	JULY 31 2011
Items before income taxes					
Income before income taxes as reported	**$ 37,378**	$ 44,059	$ 37,297	**$ 122,161**	$ 124,885
Transaction and Integration Costs :					
MRS Companies Integration-related costs	**6,538**	3,350	-	**12,548**	-
AGF Trust Transaction-related costs	**619**	-	-	**619**	-
	$ 7,157	$ 3,350	$ -	**$ 13,167**	$ -
Adjusted income before income taxes	**$ 44,535**	$ 47,409	$ 37,297	**$ 135,328**	$ 124,885
Items net of income taxes					
Net income as reported	**$ 29,998**	$ 33,863	$ 29,072	**$ 94,823**	$ 97,008
Transaction and Integration Costs :					
MRS Companies Integration-related costs	**4,801**	2,439	-	**9,197**	-
AGF Trust Transaction-related costs	**454**	-	-	**454**	-
	$ 5,255	$ 2,439	$ -	**$ 9,651**	$ -
Adjusted net income	**$ 35,253**	$ 36,302	$ 29,072	**$ 104,474**	$ 97,008
Diluted, per common share					
Diluted earnings per share as reported	**$ 1.06**	$ 1.22	$ 1.08	**$ 3.44**	$ 3.66
Transaction and Integration Costs :					
MRS Companies Integration-related costs	**0.19**	0.10	-	**0.37**	-
AGF Trust Transaction-related costs	**0.02**	-	-	**0.02**	-
	$ 0.21	$ 0.10	$ -	**$ 0.39**	$ -
Adjusted diluted earnings per share	**$ 1.27**	$ 1.31	$ 1.08	**$ 3.83**	$ 3.66

[1] Refer to the non-GAAP financial measures section.

[2] The impact of Transaction and Integration Costs on a per share basis does not add due to rounding.

Three months ended July 31, 2012 compared to three months ended July 31, 2011

Net income was $30.0 million, or $1.06 diluted per share, for the third quarter ended July 31, 2012, compared with $29.1 million, or $1.08 diluted per share, for the third quarter of 2011. Excluding T&I Costs, for the third quarter ended July 31, 2012, net income was up 21% to $35.3 million, or $1.27 diluted per share as presented above.

Total revenue

Total revenue increased $8.0 million or 4% to $193.8 million in the third quarter of 2012, compared with $185.8 million in the third quarter of 2011. The contribution from the MRS Companies to total revenue amounted to $10.7 million for the third quarter of 2012.

Net interest income increased marginally to $129.7 million for the third quarter of 2012, from $129.4 million in the third quarter of 2011, as good loan and deposit growth year-over-year compensated for lower margins. When compared to the third quarter of 2011, margins decreased by 17 basis points to 1.66% in the third quarter of 2012, as the net interest margin continued to be adversely impacted by the continued very low interest rate environment, the flatter yield curve, an increase in lower yielding assets related to securitization activities and high liquidity levels.

Other income was $64.2 million in the third quarter of 2012, compared to $56.4 million in the third quarter of 2011, a $7.8 million or 14% year-over-year increase. This includes a $6.7 million contribution to other income from the recently acquired MRS Companies, largely from revenues related to registered self-directed plans. Higher income from brokerage operations, higher fees and commissions on loan and deposits, and higher card service revenues, have also contributed to the increase year-over-year. These increases were partly offset by lower income from treasury and financial market operations.

Provision for loan losses

The provision for loan losses amounted to $7.5 million in the third quarter of 2012, down $7.1 million or 49% from $14.6 million in the third quarter of 2011. This very low level of losses reflects the continued excellent credit conditions in Canada, the quality of the Bank's loan portfolios and marked improvements in the commercial portfolios year-over-year. Losses in the quarter represented 0.13% of average loans and acceptances, down from 0.27% in the third quarter of 2011.

Non-interest expenses

Non-interest expenses totaled $149.0 million for the third quarter of 2012, compared to $133.9 million for the third quarter of 2011. Excluding T&I Costs of $7.2 million and the addition of operating expenses related to the MRS Companies of $6.6 million, non-interest expenses were up only 1% to $135.2 million compared to a year ago.

Salaries and employee benefits increased by $6.8 million or 10% to $77.2 million compared to the third quarter of 2011, mainly due to increased headcount from the acquisition of the MRS Companies, regular salary increases, higher performance-based compensation and increased pension costs.

Premises and technology costs increased by $2.4 million to $38.6 million compared to the third quarter of 2011. This increase is mainly due to higher software and amortization expense related to completed IT development projects, increased rental costs due to the acquisition of the MRS Companies, and additional square footage of leased premises.

Other non-interest expenses decreased by $1.3 million to $26.0 million for the third quarter of 2012 from $27.3 million for the third quarter of 2011. This decrease is attributable to lower advertising expenses compared to last year and overall decreases in other non-interest expenses as the Bank continued to exercise disciplined control over expenses in light of a slower revenue growth environment.

T&I Costs for the third quarter of 2012 totaled $7.2 million and mainly related to IT, legal and communication expenses for the integration of the MRS Companies. In addition, T&I Costs now include transaction costs related to the acquisition of AGF Trust of $0.6 million. With regards to the MRS Companies, the integration process is progressing according to plan.

Excluding the T&I Costs, the efficiency ratio was 73.2% in the third quarter of 2012, compared to 72.1% in the third quarter of 2011. With pressure on net interest income likely to persist in the near future, as interest rates continue to be at record lows, the Bank remains committed to control costs and leverage the two recent acquisitions to generate additional revenue growth.

Income taxes

For the quarter ended July 31, 2012, the income tax expense was $7.4 million and the effective tax rate was 19.7%. The lower tax rate, compared to the statutory rate, mainly resulted from the favourable effect of holding investments in Canadian securities that generate non-taxable dividend income and the lower taxation level on revenues from insurance operations. For the quarter ended July 31, 2011, the income tax expense was $8.2 million and the effective tax rate was 22.1%. Year-over-year, the lower income tax rate for the third quarter ended July 31, 2012 reflects a higher level of revenues from insurance operations and non-taxable dividends, combined with the 1.5% reduction in Federal income tax rates, effective this year.

Nine months ended July 31, 2012 compared to nine months ended July 31, 2011

Net income was $94.8 million, or $3.44 diluted per share, for the nine months ended July 31, 2012, compared with $97.0 million, or $3.66 diluted per share, in 2011. Excluding T&I Costs, net income was $104.5 million, or $3.83 diluted per share.

Total revenue

Total revenue increased $30.3 million or 5% to $586.2 million for the nine months ended July 31, 2012, compared with $555.9 million for the nine months ended July 31, 2011. The contribution from the MRS Companies to total revenue amounted to $29.8 million for the nine months ended July 31, 2012.

Net interest income increased to $388.6 million for the nine months ended July 31, 2012, compared with $378.1 million for the same period in 2011. This increase is mainly explained by the sustained loan and deposit volume growth year-over-year of $1.8 billion and $2.2 billion respectively, both organic and from the acquisition of MRS. This was partly offset by a decrease in net interest margin of 13 basis points over the same period. As noted above, the compression in net interest margin resulted from the persistently low interest rate environment, the increase in lower-yielding Replacement Assets related to securitization activities compared to last year as well as high liquidity levels.

Other income was $197.6 million for the nine months ended July 31, 2012, compared to $177.8 million for the same period in 2011, an 11% year-over-year increase. This includes a $19.4 million contribution to other income from the acquisition of the MRS Companies, largely from revenues related to registered self-directed plans. The increase in other income is also explained by higher fees and commissions on loans and deposits, as well as higher card service revenues year-over-year. These increases were partly offset by lower credit insurance income resulting from a higher level of claims in the first half of the year.

Provision for loan losses

The provision for loan losses amounted to $25.0 million for the nine months ended July 31, 2012, a significant decrease of $13.1 million or 34% from $38.1 million for the nine months ended July 31, 2011. This reflects excellent credit conditions in the Canadian market, proactive credit management decisions and the quality of the Bank's loan portfolios, with marked improvements in the commercial loan portfolios.

Non-interest expenses

Non-interest expenses totaled $439.1 million for the nine months ended July 31, 2012, compared to $393.0 million for the nine months ended July 31, 2011. Excluding T&I Costs of $13.2 million and current operating costs related to MRS Companies of $21.3 million, non-interest expenses increased by $11.6 million or 3% to $404.6 million.

Salaries and employee benefits increased by $21.3 million or 10% to $233.5 million compared to the nine months ended July 31, 2011, mainly due to increased headcount from the acquisition of the MRS Companies. Regular salary increases and variable compensation, as well as higher employee benefits costs related to certain group insurance programs and higher pension costs also contributed to the increase year-over-year.

Premises and technology costs increased by $8.0 million to $113.8 million compared to $105.8 million for the nine months ended July 31, 2011. Higher IT costs related to ongoing business growth and amortization expense related to completed IT development projects, as well as higher rental costs due to the acquisition of the MRS Companies and increased square footage of leased premises accounted for the increase.

Other non-interest expenses increased by $3.7 million to $78.6 million for the nine months ended July 31, 2012, from $74.9 million for the same period of 2011, mainly as a result of the acquisition of the MRS Companies.

T&I Costs for the nine months ended July 31, 2012 totaled $13.2 million and were related to IT, legal and communication expenses for the integration of the MRS Companies. As of the third quarter of 2012, T&I Costs also include transaction costs of $0.6 million related to the acquisition of AGF Trust.

For the nine months ended July 31, 2012, excluding the T&I Costs, the efficiency ratio was 72.7%, compared with 70.7% for the nine months ended July 31, 2011 as the moderate increase in total revenue did not fully compensate for increases in expenses. The integration of the MRS Companies and AGF Trust should contribute to improving the overall efficiency ratio over the next 12 to 18 months.

Income taxes

For the nine months ended July 31, 2012, the income tax expense was $27.3 million and the effective tax rate was 22.4%. 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 insurance operations. For the nine months ended July 31, 2011, the income tax expense was $27.9 million and the effective tax rate was 22.3%.

Three months ended July 31, 2012 compared to three months ended April 30, 2012

Net income was $30.0 million or $1.06 diluted per share for the third quarter of 2012 compared with $33.9 million or $1.22 diluted per share for the second quarter of 2012. Excluding T&I Costs, net income was $35.3 million, or $1.27 diluted per share, compared to $36.3 million or $1.31 diluted per share for the second quarter ended April 30, 2012.

Total revenue decreased to $193.8 million in the third quarter of 2012, from $198.7 million in the previous quarter. Net interest income increased by $1.3 million sequentially to $129.7 million as loan and deposit growth and the two additional days in the third quarter more than offset the sequential margin decrease of 7 basis points. Higher levels of lower-yielding liquid securities and mortgages renewing at lower interest rates explains the sequential drop in the net interest margin.

Other income decreased by $6.2 million sequentially, largely due to a $3.1 million gain on sale of a $77.0 million commercial mortgage loan portfolio during the second quarter, lower income from treasury and financial markets and income from brokerage operations as the resurgence of global economic concerns in the latter part of the second quarter continued throughout the third quarter.

The provision for loan losses remained unchanged for the third quarter of 2012, compared to the second quarter of 2012, reflecting the ongoing excellent quality of the portfolio and continued favourable credit conditions in Canada.

Non-interest expenses amounted to $149.0 million in the third quarter of 2012, compared to $147.1 million in the second quarter of 2012. Excluding T&I Costs of $7.2 million in the third quarter and of $3.4 million in the second quarter of 2012, non-interest expenses decreased by $2.0 million sequentially as the Bank continued to apply tight cost control measures and began to benefit from expense synergies related to the MRS acquisition.

Financial Condition

CONDENSED BALANCE SHEET

In thousands of Canadian dollars (Unaudited)	**AS AT JULY 31 2012**	AS AT OCTOBER 31 2011	AS AT JULY 31 2011
ASSETS			
Cash and deposits with other banks	**$ 917,923**	$ 367,059	$ 669,765
Securities	**5,178,810**	5,175,866	4,918,253
Securities purchased under reverse repurchase agreements	**1,173,704**	720,317	540,220
Loans and acceptances, net	**23,303,028**	21,944,394	21,535,086
Other assets	**842,047**	755,574	575,306
	$ 31,415,512	$ 28,963,210	$ 28,238,630
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits	**$ 21,622,059**	$ 20,016,281	$ 19,425,862
Other liabilities	**3,137,239**	2,725,215	2,940,555
Debt related to securitization activities	**5,109,015**	4,760,847	4,442,256
Subordinated debt	**243,869**	242,551	242,113
Shareholders' equity	**1,303,330**	1,218,316	1,187,844
	$ 31,415,512	$ 28,963,210	$ 28,238,630

Balance sheet assets stood at $31.4 billion as at July 31, 2012, up $2.5 billion from year-end 2011. Over the last twelve months, balance sheet assets increased by $3.2 billion or 11%.

Liquid assets

Liquid assets, including cash, deposits with other banks, securities and securities purchased under reverse repurchase agreements, increased by $1.0 billion from year-end 2011, as the Bank maintained diverse funding sources and continued to prudently manage its liquidity levels to support the growth in business activity. Liquid assets as a percentage of total assets increased marginally to 23% from 22% as at October 31, 2011.

Loans

Total loans and bankers' acceptances stood at $23.4 billion as at July 31, 2012, up $1.3 billion or 6% from October 31, 2011 and 8% year-over-year. Despite intense competition and recent tightening of mortgage lending rules in Canada, the Bank had another solid quarter of organic growth, with loans up $314.2 million sequentially. Since the beginning of the year, the Bank generated $1.0 billion in organic growth while the acquisition of the MRS Companies added $0.3 billion to the loan portfolio. Personal loans increased by $307.4 million or 5% since October 31, 2011, as investment loans acquired through the MRS Companies transaction, as well as higher home equity lines of credit and personal loans granted under the Immigrant Investor Program more than offset slowing run-offs in point-of-sale financing. Residential mortgage loans also increased by $684.7 million over the same period, including $67.4 million related to the acquisition of the MRS Companies, reflecting the Bank's strength in the retail market. In addition, commercial loans, including bankers' acceptances, increased by $246.0 million or 12% from October 31, 2011 while commercial mortgage loans grew by $110.0 million or 5% over the same period, despite a loan sale of $77.0 million during the second quarter of 2012.

Deposits

Personal deposits increased by $1.2 billion or 8% from October 31, 2011 and stood at $16.8 billion as at July 31, 2012 including $0.7 billion resulting from the acquisition of the MRS Companies and $0.5 billion generated from organic growth. Business and other deposits, which include institutional deposits, were up $378.6 million since the beginning of the year to $4.8 billion as at July 31, 2012, including a $200.0 million of three-year senior deposit notes raised during the second quarter.

While the Bank continues to actively manage its liquidity levels and to maintain diversified funding sources, it focuses its efforts on retail deposit gathering through its Retail & SME-Québec and B2B Bank business segments, which represented 78% of total deposits as at July 31, 2012.

Other Liabilities

Debt related to securitization activities increased by $348.2 million since the beginning of the year and stood at $5.1 billion as at July 31, 2012. Since October 31, 2011, the Bank securitized and legally sold $518.3 million of residential mortgage loans, including $163.7 million in the third quarter, which led to an increase in debt related to securitization activities of $516.0 million. In addition, loans totalling $621.0 million were sold as Replacement Assets during the same period, of which $161.8 million were sold in the third quarter. For additional information on the Bank's debt related to securitization activities, please refer to Note 8 to the unaudited condensed interim financial statements.

Subordinated debt stood at $243.9 million as at July 31, 2012, relatively unchanged from October 31, 2011.

Shareholders' equity

Shareholders' equity stood at $1,305.4 million as at July 31, 2012, compared with $1,218.3 million as at October 31, 2011. This increase mainly resulted from the issuance of 1,325,100 common shares for net proceeds of $60.9 million during the second quarter of 2012 and from internal capital generation, which more than offset the decrease in accumulated other comprehensive income (AOCI). The Bank's book value per common share, excluding AOCI, appreciated to $41.78 as at July 31, 2012 from $39.40 as at October 31, 2011. There were 28,117,520 common shares (including 2,867,383 shares issued as a result of a private placement which closed August 1st, 2012) and 50,000 share purchase options outstanding as at August 20, 2012.

Assets under administration

Assets under administration stood at $32.3 billion as at July 31, 2012, $20.3 billion higher than as at October 31, 2011. The increase is mainly attributable to the growth in assets related to self-directed RRSPs due to the acquisition of the MRS Companies and, to a lesser extent, to mutual funds, which continued to benefit from the distribution agreement related to Mackenzie funds.

Capital Management

The regulatory Tier I capital of the Bank, calculated using the Standardized Approach, reached $1,233.5 million as at July 31, 2012, compared with $1,217.2 million as at October 31, 2011, measured under previous Canadian GAAP. Taking into account that the Bank has elected to phase-in the IFRS adjustments, the Tier 1 BIS capital and total BIS capital ratios stood at 10.1% and 12.6%, respectively, as at July 31, 2012, compared to 11.0% and 13.7%, respectively, as at October 31, 2011 under previous Canadian GAAP. These ratios remain well above present minimum requirements. The decrease in these ratios mainly results from the IFRS transition, while higher risk-weighted assets related to the acquisition of the MRS Companies was partially offset by the common share issue of the second quarter of 2012. The tangible common equity ratio of 8.0% continues to reflect the high quality of the Bank's capital.

On August 1, 2012, to support the Bank's balance sheet considering the acquisition of AGF Trust, the Bank successfully completed the issuance of a private placement of 2,867,383 common shares for net proceeds of $115.0 million. This is consistent with its prudent approach to managing capital and objective to maintain capital ratios above new regulatory requirements as detailed below.

REGULATORY CAPITAL

In thousands of Canadian dollars, except percentage amounts (Unaudited)	**AS AT JULY 31 2012**	AS AT OCTOBER 31 [2] 2011	AS AT JULY 31 [2] 2011
Tier 1 capital (A)	**$ 1,233,467**	$ 1,217,225	$ 1,198,722
Tier I BIS capital ratio (A/C)	**10.1 %**	11.0 %	11.0 %
Total regulatory capital - BIS (B)	**$ 1,535,081**	$ 1,516,840	$ 1,494,221
Total BIS capital ratio (B/C)	**12.6 %**	13.7 %	13.7 %
Total risk-weighted assets (C)	**$ 12,187,979**	$ 11,071,971	$ 10,879,847
Assets to capital multiple	**18.7 x**	16.2 x	16.2 x
Tangible common equity as a % of risk-weighted assets [1]	**8.0 %**	9.2 %	9.2 %

[1] Refer to the non-GAAP financial measures section.

[2] The amounts are presented in accordance with previous Canadian GAAP as filed with OSFI.

Impact of the adoption of IFRS on regulatory capital

Effective November 1, 2011, the Bank adopted IFRS, which impacted its shareholders' equity. The Bank has irrevocably elected to phase-in, over five quarters, the impact of the adjustment to retained earnings arising from the first-time adoption of certain IFRS changes, as allowed by OSFI's transition guidance. As such, for the purposes of calculating capital ratios, the Bank has amortized, since November 1, 2011, the eligible portion of the impact of IFRS on capital initially totaling $136.0 million on a straight-line basis over the next five quarters until January 31, 2013. Therefore, the total impact of the IFRS conversion on the Bank's capital ratios will only be fully reflected as of January 31, 2013. Excluding this transitional provision, the Tier 1 capital ratio and total capital ratio would have been 9.7% and 12.1%, respectively, as at July 31, 2012.

Upon adoption of IFRS, the Bank's assets increased by the amount of securitized residential mortgage loans and replacements assets. For purposes of the Asset to Capital Multiple (ACM) calculation, securitized mortgages sold through the Canada Mortgage Bonds program on or before March 31, 2010 were excluded as permitted by OSFI. However, securitized mortgages sold after that date are now included in the ACM calculation and mainly contributed to the increase in the ACM, which stood at 18.7 as at July 31, 2012.

Proposal for new capital and liquidity regulatory measures

In August 2012, OSFI issued its draft capital adequacy requirements guideline drawn on the BCBS new capital guidelines published in December 2010, commonly referred to as Basel III. In its draft guideline, OSFI indicated that it expects deposit-taking institutions to meet the Basel III capital requirements early in the Basel III transition period beginning January 1, 2013, including a 7% Common Equity Tier 1 ratio target (4.5% minimum plus 2.5% capital conservation buffer).

Considering the Bank's capital position, and based on current understanding of the Basel III rules, management believes that the Bank is well positioned to meet upcoming capital requirements as of the initial date of implementation in January 2013. The *pro forma* Common Equity Tier 1 ratio, as at July 31, 2012, would be approximately 7.0% when applying the full Basel III rules applicable in 2019 (i.e., without transition arrangements). Further details on these capital measures, as well as the related new global liquidity standards, are provided in the Capital Management section of the annual MD&A.

Capital implication of the acquisition of AGF Trust

On August 1, 2012, the Bank, through its subsidiary B2B Bank, concluded its acquisition of 100% of AGF Trust in a share purchase transaction. After incorporating the estimated capital requirements for AGF Trust at closing and the proceeds from the simultaneous private placement, the Bank's Basel II Tier 1 Capital Ratio would be, on a *pro forma* basis, approximately 10.1% as at July 31, 2012, still comfortably above existing regulatory guidelines. Furthermore, the Bank's Basel III Common Equity Tier 1 ratio based on the full Basel III rules applicable in 2019 (i.e. without transition arrangements), would be, on a *pro forma* basis, approximately 7.3% as at July 31, 2012, in line with expected regulatory requirements.

Dividends

On August 22, 2012, the Board of Directors declared regular dividends on the various series of preferred shares to shareholders of record on September 7, 2012. At its meeting on August 31, 2012, the Board of Directors declared a dividend of $0.47 per common share, payable on November 1, 2012, to shareholders of record on October 1, 2012.

COMMON SHARE DIVIDENDS AND PAYOUT RATIO

In Canadian dollars, except payout ratios (Unaudited)	FOR THE THREE MONTHS ENDED			FOR THE NINE MONTHS ENDED	FOR THE YEARS ENDED		
	JULY 31 2012	APRIL 30 2012	JANUARY 31 2012	**JULY 31 2012**	OCTOBER 31 2011	OCTOBER 31 2010	OCTOBER 31 2009
Dividends declared per common share	**$ 0.47**	$ 0.45	$ 0.45	**$ 1.37**	$ 1.62	$ 1.44	$ 1.36
Dividend payout ratio [1][2]	**44.2 %**	37.0 %	38.7 %	**39.8 %**	34.8 %	31.1 %	32.1 %

[1] Refer to the non-GAAP financial measures section.
[2] The ratios for 2010 and 2009 are presented in accordance with previous Canadian GAAP.

Risk Management

The Bank is exposed to various types of risks owing to the nature of its activities. These risks are mainly related to the use of financial instruments. In order to manage these risks, controls such as risk management policies and various risk limits have been implemented. These measures aim to optimize the risk/return ratio in all operating segments. For additional information regarding the Bank's Risk Management Framework, please refer to the 2011 Annual Report.

Credit risk[1]

The following sections provide further details on the credit quality of the Bank's loan portfolios.

[1] Mortgage loans on residential real estate development properties and projects, which were previously reported in residential mortgage loans, were reclassified to commercial mortgage loans to better reflect the nature and risk of these loans.

PROVISION FOR LOAN LOSSES

In thousands of Canadian dollars, except percentage amounts (Unaudited)	FOR THE THREE MONTHS ENDED JULY 31 2012	APRIL 30 2012	JULY 31 2011	FOR THE NINE MONTHS ENDED JULY 31 2012	JULY 31 2011
Provision for loan losses					
Personal loans	**$ 5,715**	$ 5,856	$ 2,868	**$ 17,760**	$ 15,652
Residential mortgage loans	**1,256**	498	(646)	**2,038**	396
Commercial mortgage loans	**13**	2,555	6,227	**3,456**	13,667
Commercial and other loans (including acceptances)	**516**	(1,409)	6,191	**1,746**	8,366
	$ 7,500	$ 7,500	$14,640	**$ 25,000**	$ 38,081
As a % of average loans and acceptances	**0.13 %**	0.13 %	0.27 %	**0.15 %**	0.25 %

The provision for loan losses amounted to $7.5 million in the third quarter of 2012, unchanged from the second quarter of 2012 but down $7.1 million or 49% compared to a year ago, reflecting the excellent credit quality of the Bank's loan portfolios and continued favourable credit conditions in the Canadian market.

The year-over-year increase in loan losses on personal loans partly results from increases in credit card receivables, as well as from higher volumes. The provision on residential mortgage loans was $1.3 million in the third quarter of 2012, up $1.9 million compared to the third quarter of 2011, which was favourably impacted by net reductions.

Loan losses on commercial mortgages and commercial loans remained at a low level during the third quarter and further decreased by a combined $0.6 million sequentially, mainly as a result of improvements in the credit conditions of certain loans and, to a lesser extent, to recoveries. The very low level of loan losses continues to reflect the good credit quality of this portfolio.

IMPAIRED LOANS

In thousands of Canadian dollars, except percentage amounts (Unaudited)	AS AT JULY 31 2012	AS AT OCTOBER 31 2011	AS AT JULY 31 2011
Gross impaired loans			
Personal	**$ 17,774**	$ 14,395	$ 15,369
Residential mortgages	**18,853**	17,053	16,517
Commercial mortgages	**61,418**	62,541	68,160
Commercial and other (including acceptances)	**58,348**	69,736	71,646
	156,393	163,725	171,692
Individual allowances	**(62,052)**	(69,450)	(67,989)
Collective allowances	**(70,587)**	(73,700)	(73,164)
Net impaired loans	**$ 23,754**	$ 20,575	$ 30,539
Impaired loans as a % of loans and acceptances			
Gross	**0.67 %**	0.74 %	0.79 %
Net	**0.10 %**	0.09 %	0.14 %

Gross impaired loans amounted to $156.4 million as at July 31, 2012, compared to $163.7 million as at October 31, 2011 as credit quality remained strong during the quarter. The decrease since October 31, 2011 essentially resulted from improvements in the commercial loan portfolios. The increase in gross impaired loans in the residential mortgage and personal loan portfolios since October 31, 2011 is in line with the growth in the Bank's various loan portfolios.

Since the beginning of the year, individual allowances decreased by $7.4 million to $62.1 million. Over the same period, collective allowances decreased by $3.1 million, including a $3.2 million increase related to the acquisition of the loan portfolio and allowances of the MRS Companies, as improvements in credit quality and market conditions more than offset the impact of higher loan volumes. Net impaired loans amounted to $23.8 million as at July 31, 2012, compared to $20.6 million as at October 31, 2011, a marginal increase to 0.10% of loans and acceptances from 0.09% as at October 31, 2011.

Market risk

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

The purpose of ALM activities is to control structural interest rate risk, which corresponds to the potential negative impact of interest rate movements on the Bank's revenues and economic value. Dynamic management of structural risk is intended to maximize the Bank's profitability while preserving the economic value of common shareholders' equity. As at July 31, 2012, the effect on the economic value of common shareholders' equity and on net interest income before taxes of a sudden and sustained 1% increase in interest rates across the yield curve was as follows.

STRUCTURAL INTEREST RATE SENSITIVITY ANALYSIS

In thousands of Canadian dollars (Unaudited)	**AS AT JULY 31 2012**	AS AT OCTOBER 31 2011
Increase in net interest income before taxes over the next 12 months	**$ 15,923**	$ 22,026
Decrease in the economic value of common shareholders' equity (Net of income taxes)	**$ (22,837)**	$ (15,964)

As shown in the table above, the Bank maintained its short-term ALM sensitivity compared to October 31, 2011. These results reflect management's efforts to take advantage in the movement of short-term and long-term interest rates, all the while maintaining the sensitivity to these fluctuations within approved limits.

Segmented Information

This section outlines the Bank's operations according to its organizational structure. Services to individuals, businesses, financial intermediaries and institutional clients are offered through the following business segments:

- Retail & SME-Québec
- Real Estate & Commercial
- B2B Bank[1]
- Laurentian Bank Securities & Capital Markets
- Other

[1] B2B Trust converted into a Schedule I federally chartered bank under the name of B2B Bank as of July 7, 2012.

Retail & SME-Québec

In thousands of Canadian dollars, except percentage amounts (Unaudited)	FOR THE THREE MONTHS ENDED JULY 31 2012	APRIL 30 2012	JULY 31 2011	FOR THE NINE MONTHS ENDED JULY 31 2012	JULY 31 2011
Net interest income	**$ 80,163**	$ 76,096	$ 83,137	**$ 234,984**	$ 241,466
Other income	**34,662**	33,422	32,699	**99,887**	99,256
Total revenue	**114,825**	109,518	115,836	**334,871**	340,722
Provision for loan losses	**6,474**	4,855	3,724	**17,545**	17,978
Non-interest expenses	**91,107**	91,268	92,352	**273,635**	272,473
Income before income taxes	**17,244**	13,395	19,760	**43,691**	50,271
Income taxes	**3,709**	2,737	5,015	**9,077**	10,974
Net income	**$ 13,535**	$ 10,658	$ 14,745	**$ 34,614**	$ 39,297
Efficiency ratio [1]	**79.3 %**	83.3 %	79.7 %	**81.7 %**	80.0 %

[1] Refer to the non-GAAP financial measures section.

The Retail & SME-Québec business segment's contribution to net income was $13.5 million in the third quarter of 2012, compared with $14.7 million in the third quarter of 2011.

Total revenue decreased from $115.8 million in the third quarter of 2011 to $114.8 million in the third quarter of 2012, as higher other income was more than offset by lower net interest income. Year-over-year, net interest income decreased by $3.0 million, as significant growth in loan and deposit volumes, notably in the residential mortgage loan portfolio and SME portfolio, did not fully compensate for the decline in net interest margin stemming from the ongoing low interest rate environment. Other income increased from $32.7 million in the third quarter of 2011 to $34.7 million for the same period in 2012 as higher revenues from card services due to increased fees and transactional volume, and higher fees on deposits was partly offset by lower credit insurance income.

Loan losses increased by $2.8 million, from $3.7 million in the third quarter of 2011 to $6.5 million in the third quarter of 2012, as higher provisions were required for increased volume in the retail portfolio. This increase was tempered by the continued decrease in the point-of-sale portfolio stemming from the reduced exposure. Non-interest expenses were down $1.2 million, from $92.4 million in the third quarter of 2011 to $91.1 million in the third quarter of 2012, resulting from cost control initiatives.

For the nine months ended July 31, 2012, net income decreased $4.7 million to $34.6 million, essentially due to lower interest margins, which more than offset strong loan growth as explained above. Despite continued investments in SME Québec capabilities and as a result of the continued focus on controlling costs, non-interest expenses increased by less than 1% over the same period.

Balance sheet highlights

- Loans up 7% or $937.8 million over the last 12 months
- Increase in deposits of 4% or $336.9 million over the last 12 months, to $9.7 billion as at July 31, 2012

Real Estate & Commercial

In thousands of Canadian dollars, except percentage amounts (Unaudited)	FOR THE THREE MONTHS ENDED JULY 31 2012	APRIL 30 2012	JULY 31 2011	FOR THE NINE MONTHS ENDED JULY 31 2012	JULY 31 2011
Net interest income	**$ 21,731**	$ 22,049	$ 22,942	**$ 65,992**	$ 68,551
Other income	**8,327**	10,451	8,837	**26,784**	24,782
Total revenue	**30,058**	32,500	31,779	**92,776**	93,333
Provision for loan losses	**436**	1,755	10,458	**5,042**	18,695
Non-interest expenses	**7,756**	7,484	7,555	**22,996**	21,918
Income before income taxes	**21,866**	23,261	13,766	**64,738**	52,720
Income taxes	**5,915**	6,292	3,940	**17,512**	15,091
Net income	**$ 15,951**	$ 16,969	$ 9,826	**$ 47,226**	$ 37,629
Efficiency ratio [1]	**25.8 %**	23.0 %	23.8 %	**24.8 %**	23.5 %

[1] Refer to the non-GAAP financial measures section.

The Real Estate & Commercial business segment's contribution to net income increased by $6.1 million or 62% to $16.0 million in the third quarter of 2012, compared with $9.8 million in the third quarter of 2011.

Total revenue decreased by $1.7 million, from $31.8 million in the third quarter of 2011 to $30.1 million in the third quarter of 2012. This decrease is mainly explained by a reduction in net interest income, which continued to be impacted by margin compression, and other income resulting from lower underwriting fees. Loan losses continued to decline to $0.4 million in the third quarter of 2012, compared with $10.5 million in the third quarter of 2011. This exceptionally low level of losses reflects the overall good credit quality of the loan portfolios, enhanced by the ongoing favourable credit conditions in Canada. Non-interest expenses increased marginally to $7.8 million in the third quarter of 2012 compared with $7.6 million in the third quarter of 2011 essentially due to salary costs related to additional headcount hired to support increased business activity.

For the nine months ended July 31, 2012, net income increased by 26% to $47.2 million as a result of improved loan losses and an increase in other income due to the gain on sale of a commercial mortgage loan portfolio in the second quarter. Non-interest expenses increased marginally by $1.1 million compared to the nine months ended July 31, 2011, mainly due to increased salaries and benefits and rental costs as explained above.

Balance sheet highlights

- Loans and BAs up 8% or $245.5 million over the last 12 months
- Increase in deposits of 18% or $87.4 million over the last 12 months

B2B Bank

In thousands of Canadian dollars, except percentage amounts (Unaudited)	FOR THE THREE MONTHS ENDED JULY 31 2012	APRIL 30 2012	JULY 31 2011	FOR THE NINE MONTHS ENDED JULY 31 2012	JULY 31 2011
Net interest income	**$ 32,119**	$ 30,689	$ 30,072	**$ 93,772**	$ 87,294
Other income	**8,408**	9,116	2,110	**25,667**	7,054
Total revenue	**40,527**	39,805	32,182	**119,439**	94,348
Provision for loan losses	**590**	890	458	**2,413**	1,408
Non-interest expenses	**22,913**	24,483	16,545	**70,818**	48,113
Costs related to an acquisition and other [1]	**7,157**	3,350	-	**13,167**	-
Income before income taxes	**9,867**	11,082	15,179	**33,041**	44,827
Income taxes	**2,612**	2,953	4,300	**8,786**	12,703
Net income	**$ 7,255**	$ 8,129	$ 10,879	**$ 24,255**	$ 32,124
Efficiency ratio [2]	**74.2 %**	69.9 %	51.4 %	**70.3 %**	51.0 %
Adjusted net income [2]	**$ 12,510**	$ 10,568	$ 10,879	**$ 33,906**	$ 32,124
Adjusted efficiency ratio [2]	**56.5 %**	61.5 %	51.4 %	**59.3 %**	51.0 %

[1] Costs related to the acquisition of the MRS Companies and AGF Trust.

[2] Refer to the non-GAAP financial measures section.

Excluding after-tax T&I Costs related to the acquisition of AGF Trust and MRS Companies of $5.3 million, the B2B Bank business segment's contribution to net income was $12.5 million in the third quarter of 2012, up $1.6 million from the third quarter of 2011. Reported net income for the third quarter of 2012 was $7.3 million.

Total revenue increased to $40.5 million in the third quarter of 2012 compared with $32.2 million in the third quarter of 2011, mainly as a result of the increase in other income from registered self-directed plans related to the acquisition of the MRS Companies. Net interest income also increased by $2.0 million compared to last year, essentially as a result of the acquisition of the MRS Companies.

Loan losses increased marginally from $0.5 million in the third quarter of 2011 to $0.6 million in the third quarter of 2012, as higher provisions were required on increased volumes of investment loans. Non-interest expenses increased by $6.4 million to $22.9 million in the third quarter of 2012, compared with $16.5 million in the third quarter of 2011. This increase includes current operating costs of $6.6 million related to the MRS Companies. Otherwise, expenses decreased by $0.3 million or 2% year-over-year, due to lower other expenses which more than compensated the slight increase in salary expense. T&I Costs amounted to $7.2 million for the third quarter of 2012, resulting mainly from IT costs incurred and additional headcount hired to integrate the MRS Companies, as well as costs of $0.6 million related to the recently acquired AGF Trust.

The acquisition of the MRS Companies, after eight and a half months, is yielding excellent results and contributing to improve revenue diversification as evidenced by the growth in other income and assets under administration. The integration of the MRS Companies is progressing according to plan, with the IT integration proceeding smoothly and some synergies already achieved. Management remains focused on completing this process in order to ensure anticipated synergies are achieved within the next three quarters.

For the nine months ended July 31, 2012, net income, excluding after-tax T&I Costs related to the acquisition of AGF Trust and MRS Companies of $9.7 million, was $33.9 million, slightly higher than the same period of 2011 essentially as the contribution of MRS Companies of $6.3 million to net income was partially offset by narrower margins on B2B Bank's other portfolios. Reported net income for the nine months ended July 31, 2012 was $24.3 million.

The announced acquisition of AGF Trust by B2B Bank closed on August 1, 2012. This strategic transaction will further contribute to strengthening B2B Bank's industry-leading position and providing the Canadian financial advisory and mortgage brokerage communities with best-in-class products and services to meet their unique needs.

Balance sheet highlights

- Loans up 9% or $497.5 million over the last 12 months
- Total deposits up 13% or $1.2 billion over the last 12 months

Laurentian Bank Securities & Capital Markets

In thousands of Canadian dollars, except percentage amounts (Unaudited)	FOR THE THREE MONTHS ENDED JULY 31 2012	APRIL 30 2012	JULY 31 2011	FOR THE NINE MONTHS ENDED JULY 31 2012	JULY 31 2011
Total revenue	**$ 13,256**	$ 16,265	$ 11,851	**$ 44,176**	$ 45,964
Non-interest expenses	**11,668**	12,530	11,035	**36,358**	37,656
Income before income taxes	**1,588**	3,735	816	**7,818**	8,308
Income taxes	**412**	956	130	**1,988**	2,168
Net income	**$ 1,176**	$ 2,779	$ 686	**$ 5,830**	$ 6,140
Efficiency ratio [1]	**88.0 %**	77.0 %	93.1 %	**82.3 %**	81.9 %

[1] Refer to the non-GAAP financial measures section.

The Laurentian Bank Securities and Capital Markets (LBS & CM) business segment's contribution to net income increased to $1.2 million in the third quarter of 2012, compared with $0.7 million in the third quarter of 2011.

Total revenue increased by $1.4 million to $13.3 million in the third quarter of 2012 compared with $11.9 million for the same quarter of 2011, as underwriting and trading activities benefited from slightly improved market conditions compared to a year ago, while bond market uncertainty persists and small-cap equity markets are sidelined. This increase in underwriting and trading earnings was partly offset by reduced retail brokerage revenue resulting from a lower level of activity. Non-interest expenses increased by $0.6 million, largely related to higher performance-based compensation, in line with higher market-driven income.

For the nine months ended July 31, 2012, net income decreased by $0.3 million compared to the same period last year, as lower expenses did not fully compensate for the decrease in revenues, essentially for the same reasons presented above.

Balance sheet highlight

- Assets under management stood at $2.2 billion as at July 31, 2012

Other Sector

In thousands of Canadian dollars (Unaudited)	FOR THE THREE MONTHS ENDED JULY 31 2012	APRIL 30 2012	JULY 31 2011	FOR THE NINE MONTHS ENDED JULY 31 2012	JULY 31 2011
Net interest income	**$ (5,134)**	$ (1,206)	$ (7,336)	**$ (8,121)**	$ (21,270)
Other income	**301**	1,788	1,521	**3,106**	2,828
Total revenue	**(4,833)**	582	(5,815)	**(5,015)**	(18,442)
Non-interest expenses	**8,354**	7,996	6,409	**22,112**	12,799
Loss before income taxes	**(13,187)**	(7,414)	(12,224)	**(27,127)**	(31,241)
Income taxes recovery	**(5,268)**	(2,742)	(5,160)	**(10,025)**	(13,059)
Net loss	**$ (7,919)**	$ (4,672)	$ (7,064)	**$ (17,102)**	$ (18,182)

The Other sector posted a negative contribution to net income of $7.9 million in the third quarter of 2012 compared with a negative contribution of $7.1 million in the third quarter of 2011.

Net interest income improved to negative $5.1 million in the third quarter of 2012, compared to negative $7.4 million in the third quarter of 2011, reflecting good market positioning as well as some adjustments to transfer pricing initiated in the first quarter of 2012. Other income for the third quarter of 2012 was $0.3 million, compared to $1.5 million for the third quarter of 2011 and essentially relates to gains on treasury activities.

Non-interest expenses in the third quarter of 2012 amounted to $8.4 million compared to $6.4 million a year ago, a $2.0 million increase. Higher pension costs, regular salary increases, as well as higher software and amortization expense related to completed IT development projects contributed to the increase compared to last year.

For the nine months ended July 31, 2012, the negative contribution stood at $17.1 million, compared to negative $18.2 million for the nine months ended July 31, 2011, mainly due to the same reasons as noted above.

Additional Financial Information – Quarterly Results

In thousands of Canadian dollars, except per share and percentage amounts (Unaudited)	IFRS							CANADIAN GAAP
	JULY 31 2012	APRIL 30 2012	JANUARY 31 2012	OCTOBER 31 2011	JULY 31 2011	APRIL 30 2011	JANUARY 31 2011	OCTOBER 31 2010
Total revenue	**$ 193,833**	$ 198,670	$ 193,744	$ 182,422	$ 185,833	$ 183,237	$ 186,855	$ 190,074
Net income	**$ 29,998**	$ 33,863	$ 30,962	$ 26,709	$ 29,072	$ 31,016	$ 36,920	$ 32,514
Earnings per share								
Basic	**$ 1.06**	$ 1.22	$ 1.16	$ 0.99	$ 1.09	$ 1.17	$ 1.41	$ 1.24
Diluted	**$ 1.06**	$ 1.22	$ 1.16	$ 0.99	$ 1.08	$ 1.17	$ 1.41	$ 1.24
Return on common shareholders' equity [1]	**10.2 %**	12.1 %	11.6 %	10.0 %	11.2 %	12.7 %	15.2 %	11.8 %
Balance sheet assets (in millions of dollars)	**$ 31,416**	$ 30,708	$ 29,921	$ 28,963	$ 28,239	$ 27,896	$ 26,919	$ 23,772
Excluding Transaction and Integration Costs [2]								
Adjusted net income [1]	**$ 35,253**	$ 36,302	$ 32,919	$ 33,375	$ 29,072	$ 31,016	$ 36,920	$ 32,514
Adjusted diluted earnings per share [1]	**$ 1.27**	$ 1.31	$ 1.24	$ 1.26	$ 1.08	$ 1.17	$ 1.41	$ 1.24
Adjusted return on common shareholders equity [1]	**12.2 %**	13.0 %	12.4 %	12.8 %	11.2 %	12.7 %	15.2 %	11.8 %

[1] Refer to the non-GAAP financial measures section.

[2] Costs related to the acquisition of the MRS Companies and AGF Trust.

Accounting Policies

A summary of the Bank's significant accounting policies is presented in Notes 2 and 3 of the July 31, 2012 unaudited condensed interim consolidated financial statements. The unaudited condensed interim consolidated financial statements for the third quarter of 2012 have been prepared in accordance with these accounting policies.

Future changes in accounting policy

The IASB has issued new standards and amendments to existing standards on financial instruments, consolidation, fair value measurement, employee benefits, offsetting and presentation of other comprehensive income. These future accounting changes will be applicable for the Bank in various annual periods beginning on November 1, 2012 at the earliest. The Bank is currently assessing the impact of the adoption of these standards on its financial statements. Additional information on the new standards and amendments to existing standards can be found in Note 4 to the unaudited condensed interim consolidated financial statements.

Corporate Governance and Changes in Internal Control over Financial Reporting

On November 16, 2011, the Bank completed the acquisition of the MRS Companies. In accordance with Canadian securities law, which allows an issuer to limit its design of the disclosure controls and procedures, and internal controls over financial reporting to exclude the controls, policies and procedures of a business acquired not more than 365 days before the last day of the period covered by the interim filings, management has excluded the controls, policies and procedures of MRS Companies, the results of which are included in the unaudited condensed interim consolidated financial statements of the Bank for the period ended July 31, 2012. MRS Companies constituted approximately 2% of total assets, 2% of total liabilities, 5% of total revenue and 7% of total net income as at and for the nine-month period ended July 31, 2012. For additional information on the assets acquired and liabilities assumed at the date of acquisition, refer to Note 15 to the unaudited condensed interim consolidated financial statements.

During the last quarter ended July 31, 2012, there have been no changes in the Bank's policies or procedures and other processes that comprise its internal control over financial reporting which have materially affected, or are reasonably likely to materially affect, the Bank's internal control over financial reporting.

The Board of Directors and the Audit Committee of Laurentian Bank reviewed this document prior to its release.

Non-GAAP Financial Measures

The Bank has adopted IFRS as its accounting framework. IFRS are the generally accepted accounting principles (GAAP) for Canadian publicly accountable enterprises for years beginning on or after January 1, 2011. The Bank uses both GAAP and certain non-GAAP measures to assess performance. Non-GAAP measures do not have any standardized meaning prescribed by GAAP and are unlikely to be comparable to any similar measures presented by other companies. These non-GAAP financial measures are considered useful to investors and analysts in obtaining a better understanding of the Bank's financial results and analyzing its growth and profit potential more effectively. The Bank's non-GAAP financial measures are defined as follows:

Return on common shareholders' equity

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

Book value per common share

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

Tangible common equity ratio

Tangible common equity is defined as common shareholders' equity, excluding accumulated other comprehensive income, less goodwill and contractual and customer relationship intangible assets. The tangible common equity ratio is defined as the tangible common equity as a percentage of risk-weighted assets.

Net interest margin

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

Efficiency ratio and operating leverage

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

Dividend payout ratio

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

Dividend yield

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

Adjusted GAAP and non-GAAP measures

Certain analyses presented throughout this document are based on the Bank's core activities and therefore exclude the effect of the transaction and integration costs related to the acquisition of the MRS Companies and AGF Trust.

Operating net income

Operating net income is based on Bank's core activities and is defined as net income excluding the transaction and integration costs related to the acquisition of the MRS Companies and AGF Trust, net of income taxes.

Laurentian Bank of Canada

Unaudited Condensed Interim Consolidated Financial Statements

As at and for the period ended July 31, 2012

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Consolidated Balance Sheet [1]

In thousands of Canadian dollars (Unaudited)	NOTES	AS AT JULY 31 **2012**	AS AT OCTOBER 31 2011	AS AT JULY 31 2011	AS AT NOVEMBER 1 2010
ASSETS					
Cash and non-interest-bearing deposits with other banks		**$ 89,287**	$ 81,600	$ 70,013	$ 72,444
Interest-bearing deposits with other banks		**828,636**	285,459	599,752	99,394
Securities	6				
Available-for-sale		**1,956,279**	2,108,075	2,042,824	2,138,861
Held-to-maturity		**979,170**	885,822	830,964	559,457
Held-for-trading		**2,243,361**	2,181,969	2,044,465	1,496,583
Designated as at fair value through profit or loss		**-**	-	-	624,642
		5,178,810	5,175,866	4,918,253	4,819,543
Securities purchased under reverse repurchase agreements		**1,173,704**	720,317	540,220	994,674
Loans	7 and 8				
Personal		**6,081,592**	5,774,207	5,732,870	5,636,203
Residential mortgage		**12,554,098**	11,869,412	11,578,930	10,859,647
Commercial mortgage		**2,473,833**	2,363,808	2,302,562	2,166,375
Commercial and other		**2,094,100**	1,900,977	1,863,448	1,691,190
Customers' liabilities under acceptances		**232,044**	179,140	198,429	165,450
		23,435,667	22,087,544	21,676,239	20,518,865
Allowances for loan losses		**(132,639)**	(143,150)	(141,153)	(131,567)
		23,303,028	21,944,394	21,535,086	20,387,298
Other					
Premises and equipment		**68,890**	61,708	60,580	55,727
Derivatives		**179,275**	228,261	146,143	158,066
Goodwill		**64,077**	29,224	29,224	29,224
Software and other intangible assets		**147,886**	113,949	105,082	101,671
Deferred tax assets		**12,938**	4,160	7,736	47,995
Other assets		**368,981**	318,272	226,541	289,289
		842,047	755,574	575,306	681,972
		$ 31,415,512	$ 28,963,210	$ 28,238,630	$ 27,055,325
LIABILITIES AND SHAREHOLDERS' EQUITY					
Deposits					
Personal		**$ 16,837,043**	$ 15,609,853	$ 15,534,529	$ 15,354,851
Business, banks and other		**4,785,016**	4,406,428	3,891,333	4,250,819
		21,622,059	20,016,281	19,425,862	19,605,670
Other					
Obligations related to securities sold short		**1,519,105**	1,471,254	1,436,439	1,362,336
Obligations related to securities sold under repurchase agreements		**417,962**	36,770	367,814	60,050
Acceptances		**232,044**	179,140	198,429	165,450
Derivatives		**114,924**	129,969	104,027	115,235
Deferred tax liabilities		**1,411**	6,362	1,019	27,543
Other liabilities		**851,793**	901,720	832,827	945,939
		3,137,239	2,725,215	2,940,555	2,676,553
Debt related to securitization activities	8	**5,109,015**	4,760,847	4,442,256	3,486,634
Subordinated debt		**243,869**	242,551	242,113	150,000
Shareholders' equity					
Preferred shares	9	**210,000**	210,000	210,000	210,000
Common shares	9	**320,435**	259,492	259,492	259,363
Share-based payment reserve		**227**	227	227	243
Retained earnings		**734,339**	683,007	669,458	610,483
Accumulated other comprehensive income		**38,329**	65,590	48,667	56,379
		1,303,330	1,218,316	1,187,844	1,136,468
		$ 31,415,512	$ 28,963,210	$ 28,238,630	$ 27,055,325

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

[1] Comparative figures have been prepared in accordance with IFRS. See Note 5.

Consolidated Statement of Income [1]

In thousands of Canadian dollars, except per share amounts (Unaudited)	NOTES	FOR THE THREE MONTHS ENDED JULY 31 2012	APRIL 30 2012	JULY 31 2011	FOR THE NINE MONTHS ENDED JULY 31 2012	JULY 31 2011
Interest income						
Loans		**$ 248,073**	$ 240,943	$ 244,008	**$ 734,099**	$ 720,857
Securities		**16,802**	18,377	18,777	**54,070**	55,262
Deposits with other banks		**2,304**	1,276	1,594	**4,604**	4,193
Other, including derivatives		**14,457**	14,557	16,289	**44,711**	45,593
		281,636	275,153	280,668	**837,484**	825,905
Interest expense						
Deposits		**108,394**	104,653	112,032	**320,720**	334,394
Debt related to securitization activities		**40,891**	39,508	36,333	**120,071**	102,191
Subordinated debt		**2,408**	2,374	2,411	**7,185**	9,142
Other, including derivatives		**279**	294	466	**891**	2,084
		151,972	146,829	151,242	**448,867**	447,811
Net interest income		**129,664**	128,324	129,426	**388,617**	378,094
Other income						
Fees and commissions on loans and deposits		**31,522**	29,657	29,448	**89,690**	85,673
Income from brokerage operations		**12,517**	14,354	10,221	**40,420**	40,097
Credit insurance income		**3,682**	3,662	4,104	**11,114**	13,597
Income from treasury and financial market operations		**2,398**	5,856	4,919	**12,968**	15,041
Income from sales of mutual funds		**4,478**	4,488	4,483	**13,295**	13,050
Income from registered self-directed plans		**7,190**	7,648	1,674	**21,639**	5,748
Other income		**2,382**	4,681	1,558	**8,504**	4,625
		64,169	70,346	56,407	**197,630**	177,831
Total revenue		**193,833**	198,670	185,833	**586,247**	555,925
Provision for loan losses	7	**7,500**	7,500	14,640	**25,000**	38,081
Non-interest expenses						
Salaries and employee benefits		**77,177**	79,282	70,354	**233,491**	212,199
Premises and technology		**38,644**	37,998	36,282	**113,808**	105,837
Other		**25,977**	26,481	27,260	**78,620**	74,923
Costs related to an acquisition and other	15	**7,157**	3,350	-	**13,167**	-
		148,955	147,111	133,896	**439,086**	392,959
Income before income taxes		**37,378**	44,059	37,297	**122,161**	124,885
Income taxes		**7,380**	10,196	8,225	**27,338**	27,877
Net income		**$ 29,998**	$ 33,863	$ 29,072	**$ 94,823**	$ 97,008
Preferred share dividends, including applicable taxes		**3,164**	3,165	3,107	**9,495**	9,325
Net income available to common shareholders		**$ 26,834**	$ 30,698	$ 25,965	**$ 85,328**	$ 87,683
Average number of common shares outstanding (in thousands)						
Basic		**25,250**	25,235	23,925	**24,800**	23,923
Diluted		**25,267**	25,253	23,943	**24,818**	23,944
Earnings per share						
Basic		**$ 1.06**	$ 1.22	$ 1.09	**$ 3.44**	$ 3.67
Diluted		**$ 1.06**	$ 1.22	$ 1.08	**$ 3.44**	$ 3.66
Dividends declared per share						
Common share		**$ 0.47**	$ 0.45	$ 0.42	**$ 1.37**	$ 1.20
Preferred share - Series 9		**$ 0.38**	$ 0.38	$ 0.38	**$ 1.13**	$ 1.13
Preferred share - Series 10		**$ 0.33**	$ 0.33	$ 0.33	**$ 0.98**	$ 0.98

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

[1] Comparative figures have been prepared in accordance with IFRS. See Note 5.

Consolidated Statement of Comprehensive Income [1]

In thousands of Canadian dollars (Unaudited)	NOTES	FOR THE THREE MONTHS ENDED JULY 31 2012	APRIL 30 2012	JULY 31 2011	FOR THE NINE MONTHS ENDED JULY 31 2012	JULY 31 2011
Net income		**$ 29,998**	$ 33,863	$ 29,072	**$ 94,823**	$ 97,008
Other comprehensive income, net of income taxes	12					
Unrealized net gains (losses) on available-for-sale securities		**(2,714)**	(3,751)	721	**(7,948)**	(7,835)
Reclassification of net (gains) losses on available-for-sale securities to net income		**(334)**	(888)	(803)	**(1,543)**	(2,428)
Net change in value of derivatives designated as cash flow hedges		**13,774**	(23,980)	19,020	**(17,770)**	2,551
		10,726	(28,619)	18,938	**(27,261)**	(7,712)
Comprehensive income		**$ 40,724**	$ 5,244	$ 48,010	**$ 67,562**	$ 89,296

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

[1] Comparative figures have been prepared in accordance with IFRS. See Note 5.

Consolidated Statement of Changes in Shareholders' Equity [1]

FOR THE NINE MONTHS ENDED JULY 31, 2012

In thousands of Canadian dollars (Unaudited)	PREFERRED SHARES (Note 9)	COMMON SHARES (Note 9)	RETAINED EARNINGS	AOCI RESERVES (Note 12) AVAILABLE-FOR-SALE SECURITIES	AOCI RESERVES (Note 12) CASH FLOW HEDGES	AOCI RESERVES (Note 12) TOTAL	SHARE-BASED PAYMENT RESERVE (Note 10)	TOTAL SHARE-HOLDERS' EQUITY
Balance as at October 31, 2011	**$ 210,000**	**$ 259,492**	**$ 683,007**	**$ 22,217**	**$ 43,373**	**$ 65,590**	**$ 227**	**$ 1,218,316**
Net income			**94,823**					**94,823**
Other comprehensive income (net of income taxes)								
Unrealized net gains (losses) on available-for-sale securities				**(7,948)**		**(7,948)**		**(7,948)**
Reclassification of net (gains) losses on available-for-sale securities to net income				**(1,543)**		**(1,543)**		**(1,543)**
Net change in value of derivatives designated as cash flow hedges					**(17,770)**	**(17,770)**		**(17,770)**
Comprehensive income			**94,823**	**(9,491)**	**(17,770)**	**(27,261)**		**67,562**
Net proceeds from issuance of common shares		**60,943**						**60,943**
Equity dividends								
Preferred shares, including applicable taxes			**(9,495)**					**(9,495)**
Common shares			**(33,996)**					**(33,996)**
Balance as at July 31, 2012	**$ 210,000**	**$ 320,435**	**$ 734,339**	**$ 12,726**	**$ 25,603**	**$ 38,329**	**$ 227**	**$ 1,303,330**

FOR THE NINE MONTHS ENDED JULY 31, 2011

In thousands of Canadian dollars (Unaudited)	PREFERRED SHARES (Note 9)	COMMON SHARES (Note 9)	RETAINED EARNINGS	AOCI RESERVES (Note 12) AVAILABLE-FOR-SALE SECURITIES	AOCI RESERVES (Note 12) CASH FLOW HEDGES	AOCI RESERVES (Note 12) TOTAL	SHARE-BASED PAYMENT RESERVE (Note 10)	TOTAL SHARE-HOLDERS' EQUITY
Balance as at November 1, 2010	$ 210,000	$ 259,363	$ 610,483	$ 37,071	$ 19,308	$ 56,379	$ 243	$ 1,136,468
Net income			97,008					97,008
Other comprehensive income (net of income taxes)								
Unrealized net gains (losses) on available-for-sale securities				(7,835)		(7,835)		(7,835)
Reclassification of net (gains) losses on available-for-sale securities to net income				(2,428)		(2,428)		(2,428)
Net change in value of derivatives designated as cash flow hedges					2,551	2,551		2,551
Comprehensive income			97,008	(10,263)	2,551	(7,712)		89,296
Issuance of common shares under share purchase option plan		129						129
Share-based payments							(16)	(16)
Equity dividends								
Preferred shares, including applicable taxes			(9,325)					(9,325)
Common shares			(28,708)					(28,708)
Balance as at July 31, 2011	$ 210,000	$ 259,492	$ 669,458	$ 26,808	$ 21,859	$ 48,667	$ 227	$ 1,187,844

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

[1] Comparative figures have been prepared in accordance with IFRS. See Note 5.

Consolidated Statement of Cash Flows [1]

In thousands of Canadian dollars (Unaudited)	FOR THE THREE MONTHS ENDED JULY 31 2012	APRIL 30 2012	JULY 31 2011	FOR THE NINE MONTHS ENDED JULY 31 2012	JULY 31 2011
Cash flows relating to operating activities					
Net income	**$ 29,998**	$ 33,863	$ 29,072	**$ 94,823**	$ 97,008
Adjustments to determine net cash flows relating to operating activities:					
Provision for loan losses	**7,500**	7,500	14,640	**25,000**	38,081
Net gain on disposal of available-for-sale securities	**(746)**	(1,789)	(1,112)	**(3,077)**	(4,024)
Gain on sale of commercial mortgage loans	**-**	(3,102)	-	**(3,102)**	-
Deferred income taxes	**(19,357)**	11,016	6,204	**(18,970)**	15,339
Depreciation	**3,388**	3,257	2,908	**9,655**	8,356
Amortization of software and other intangible assets	**8,537**	8,839	7,225	**25,052**	21,286
Change in operating assets and liabilities :					
Change in loans	**(327,186)**	(384,552)	(526,138)	**(1,125,185)**	(1,182,855)
Change in securities at fair value through profit and loss	**(61,399)**	(46,116)	203,542	**(61,392)**	76,760
Change in accrued interest receivable	**15,981**	(10,939)	13,762	**16,728**	16,705
Change in derivative assets	**(17,468)**	67,440	(27,424)	**48,986**	11,923
Change in deposits	**561,305**	359,467	(147,915)	**880,238**	(179,808)
Change in accrued interest payable	**(52,867)**	27,040	(36,578)	**(84,872)**	(31,882)
Change in obligations related to securities sold short	**167,098**	2,985	(820)	**47,851**	74,103
Change in derivative liabilities	**(13,702)**	(13,128)	(25,561)	**(15,045)**	(11,208)
Other, net	**(119,997)**	13,390	(12,393)	**(56,353)**	(39,769)
	181,085	75,171	(500,588)	**(219,663)**	(1,089,985)
Cash flows relating to financing activities					
Change in acceptances	**65,140**	(39,349)	11,029	**52,904**	32,979
Change in obligations related to securities sold under repurchase agreements	**(23,570)**	80,910	161,891	**381,192**	307,764
Change in debt related to securitization activities	**57,363**	253,098	390,367	**348,168**	955,622
Issuance of subordinated debt, net of issue costs	**-**	-	-	**-**	248,403
Redemption of subordinated debentures	**-**	-	-	**-**	(150,000)
Redemption of subordinated debt of a subsidiary	**-**	-	-	**(20,000)**	-
Net proceeds from issuance of common shares	**-**	60,943	8	**60,943**	129
Dividends, including applicable income taxes	**(15,031)**	(14,528)	(13,155)	**(43,491)**	(38,033)
	83,902	341,074	550,140	**779,716**	1,356,864
Cash flows relating to investing activities					
Change in available-for-sale securities					
Acquisitions	**(384,337)**	(102,192)	(68,286)	**(593,490)**	(574,997)
Proceeds on sale and at maturity	**479,183**	36,711	83,422	**875,900**	660,992
Change in held-to-maturity securities					
Acquisitions	**(91,369)**	(188,300)	(200,591)	**(834,883)**	(620,866)
Proceeds at maturity	**168,855**	190,122	16,341	**741,522**	349,371
Proceeds on sale of commercial mortgage loans	**-**	79,774	-	**79,774**	-
Change in securities purchased under reverse repurchase agreements	**(195,641)**	(338,459)	85,948	**(453,387)**	454,454
Additions to premises and equipment and software	**(20,035)**	(20,328)	(14,416)	**(52,586)**	(37,906)
Change in interest-bearing deposits with other banks	**(204,385)**	(86,970)	46,781	**(116,523)**	(500,358)
Cash paid for the acquisition of the MRS Companies	**-**	-	-	**(198,693)**	-
	(247,729)	(429,642)	(50,801)	**(552,366)**	(269,310)
Net change in cash and non-interest-bearing deposits with other banks	**17,258**	(13,397)	(1,249)	**7,687**	(2,431)
Cash and non-interest-bearing deposits with other banks at beginning of period	**72,029**	85,426	71,262	**81,600**	72,444
Cash and non-interest-bearing deposits with other banks at end of period	**$ 89,287**	$ 72,029	$ 70,013	**$ 89,287**	$ 70,013
Supplemental disclosure about cash flows relating to operating activities:					
Interest paid during the period	**$ 204,842**	$ 120,116	$ 183,040	**$ 536,041**	$ 480,358
Interest received during the period	**301,939**	259,712	289,160	**862,543**	839,343
Dividends received during the period	**622**	1,520	1,937	**3,981**	5,363
Income taxes paid (received) during the period	**$ (1,779)**	$ 17,375	$ 3,137	**$ 29,796**	$ 27,812

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

[1] Comparative figures have been prepared in accordance with IFRS. See Note 5.

Notes to the Condensed Interim Consolidated Financial Statements

All tabular amounts are in thousands of Canadian dollars, unless otherwise indicated (Unaudited)

1. General Information

Laurentian Bank of Canada and its subsidiaries (Laurentian Bank or the Bank) provide banking services to individuals and small and medium-sized enterprises, as well as to independent advisors across Canada, and operate as a full-service brokerage firm. Laurentian Bank is the ultimate parent of the group. The Bank is a chartered bank under Schedule 1 of the Bank Act (Canada) and has its head office in Montréal, Canada. The common shares of Laurentian Bank (stock symbol: LB) are listed on the Toronto Stock Exchange.

The unaudited condensed interim consolidated financial statements (financial statements) for the period ended July 31, 2012 were approved for issuance by the Board of Directors on August 31, 2012.

2. Basis of Presentation

These 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), the financial statements are to be prepared in accordance with current Canadian generally accepted accounting principles. These financial statements are the second condensed interim consolidated financial statements of the Bank prepared under International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) in accordance with IAS 34, *Interim Financial Reporting*. The accounting policies have been applied consistently to all periods presented within these financial statements. The opening consolidated balance sheet, as at the transition date of November 1, 2010, has been prepared for the purposes of transition to IFRS, using accounting policies that the Bank plans to adopt in its annual consolidated financial statements as at and for the year ending October 31, 2012. Future changes to IFRS, which may be applied to the annual consolidated financial statements for the year ending October 31, 2012, could result in the restatement of these financial statements, including the transition adjustments recorded at the time of the changeover to IFRS. Note 5 includes the required disclosures under IFRS 1, *First-time Adoption of International Financial Reporting Standards,* with regards to the first-time adoption of IFRS and the differences from the Bank's previous accounting framework, Canadian generally accepted accounting principles (Canadian GAAP or GAAP).

These financial statements should be read in conjunction with the audited annual consolidated financial statements for the year ended October 31, 2011 prepared in accordance with GAAP. Certain disclosures which are required to be included in annual financial statements prepared in accordance with IFRS have been included in these financial statements.

The 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 derivative contracts, 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.

Basis of consolidation

The financial statements include the assets, liabilities and results of operations of the Bank and all of its subsidiaries after elimination of intercompany balances and transactions. The financial statements of the Bank's subsidiaries are prepared for the same reporting period as the Bank, using consistent accounting policies.

Consolidated subsidiaries

The principal subsidiaries of the Bank are listed in the table below. All the foregoing subsidiaries are incorporated or continued in Canada under the provisions of a federal act, except V.R. Holding Insurance Company Ltd, which is incorporated under the provisions of an act of Barbados.

B2B Bank [1]	Laurentian Trust of Canada Inc.
M.R.S. Inc.	LBC Trust
M.R.S. Trust Company [2]	Laurentian Bank Securities Inc.
M.R.S. Securities Services Inc.	LBC Financial Services Inc.
M.R.S. Correspondent Corporation	LBC Investment Management Inc.
B2B Trustco	V.R. Holding Insurance Company Ltd

[1] B2B Trust converted into a Schedule I federally chartered bank under the name of B2B Bank as of July 7, 2012

[2] Merged with B2B Trust as of April 16, 2012.

The Bank also consolidates special purpose entities (SPEs) when applicable consolidation criteria are met. Accordingly, the Bank is consolidating Venture Reinsurance Ltd, an entity partially owned by V.R. Holding Insurance Company Ltd.

Reclassification of comparative figures

Certain comparative figures have been reclassified to conform to current period presentation, but did not result from the IFRS changeover. The nature of these adjustments in the financial statements is as follows.

Reclassification of certain mortgage loans

Mortgage loans on residential real estate development properties and projects which were previously reported in residential mortgage loans on the consolidated balance sheet were reclassified to commercial mortgage loans to better reflect the nature of these loans. This reclassification amounted to $550.5 million as at October 31, 2011, $561.0 million as at July 31, 2011 and $527.5 million as at November 1, 2010. Corresponding reclassifications of the provision for loan losses as well as impaired loans and allowances were made.

Investment income related to insurance activities

Investment income related to insurance activities amounting to $0.1 million for the three-month period ended July 31, 2011 and $0.4 million for the nine-month period ended July 31, 2011, which was previously reported as part of credit insurance income, was reclassified to net interest income.

Use of estimates and judgment

The preparation of financial statements in accordance with IFRS requires the Bank to make estimates and assumptions that affect the carrying amounts of assets and liabilities on the balance sheet date, income and other related disclosures. The most significant areas for which the Bank has made estimates are the impairment of assets, the fair value of financial instruments, pension plans and other employee future benefits, fair value of assets acquired and liabilities assumed as a result of business combinations, income taxes, as well as provisions and contingent liabilities. Management has implemented and maintains controls and procedures to ensure these estimates are well controlled, reviewed and consistently applied over time. Management believes that the estimates of the value of the Bank's assets and liabilities are appropriate.

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

Impairment of assets

Allowances for loan losses

The allowances for loan losses adjust the value of loans to reflect management's estimate of losses incurred in the loan portfolios. 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. Considering the materiality of the amounts and their inherent uncertainty, the use of estimates and assumptions that differ from those used in determining the allowances for loan losses could produce significantly different levels of allowances. A detailed description of the methods used to determine the allowances for loan losses can be found in Note 3.

2. Basis of Presentation [Cont'd]

Other financial assets

Financial assets classified in the available-for-sale and held-to-maturity categories are monitored on a quarterly basis to determine whether there is any objective evidence that they are impaired. In evaluating the decline in value, management exercises judgment and takes into account many facts specific to each investment and all the factors that could indicate that there is objective evidence of impairment. The Bank 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 for further details on the accounting of available-for-sale and held-to-maturity financial assets.

Goodwill and other intangible assets

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

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 intangible asset to its carrying amount. If the recoverable amount is less than carrying value, an impairment loss is charged to income.

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

Pension plans and other Employee future benefits

Valuation of employee future benefits for defined benefit pension plans and other post-employment benefits is calculated by the Bank's independent actuaries based on a number of assumptions determined by management annually such as discount rates, expected returns on plan assets, future salary levels, health-care cost escalation, employee turnover rate and retirement age of employees. Considering the importance of accrued benefit obligations and plan assets, changes in assumptions could have a significant impact on the accrued benefit assets (liabilities), as well as, depending on the funding status of the plan, on pension plan and other employee future benefit expenses.

Business combination

Valuation of the identifiable assets and liabilities of the MRS Companies upon initial recognition was based on a number of assumptions determined by management such as estimates of future cash flows and discount rates. Changes in these assumptions could have had a significant impact on the amount of goodwill recognized. Refer to Note 15 for additional information on the assets acquired and liabilities assumed as a result of the acquisition of the MRS Companies.

Income taxes

Deferred income tax assets and liabilities reflect management's estimate of the value of loss carry-forwards, minimum tax carry-overs and other temporary differences. Asset value is 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. Moreover, management must assess whether it is more likely than not that deferred income tax assets will be realized prior to their expiration and, based on all available evidence, determine whether a valuation allowance is required on all or a portion of deferred income tax assets. In addition, to determine the provision for income taxes recorded in the consolidated statement of income, management interprets tax legislation in various jurisdictions. The use of different assumptions or interpretations could translate into significantly different income tax expenses.

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 pending litigations. Provisions are established when it becomes probable that an outflow of resources will be required to settle the obligation and the

amount can be reliably estimated. In addition to the Bank's management, for provisions related to legal actions or pending litigations, internal and external experts are involved in assessing the probability and in estimating any amounts involved. Changes in these assessments may lead to adjustments to the recognized provisions. In addition, the actual costs of resolving these claims may be substantially higher or lower than the amounts accrued for these claims.

3. Summary of Significant Accounting Policies

3.1 Financial instruments

The classification of financial instruments at initial recognition depends on the purpose and the Bank's intention for which the financial instruments were acquired and their characteristics.

Financial instruments at fair value through profit or loss

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

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

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

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

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

Available-for-sale financial assets

Available-for-sale financial assets are those 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 are acquired for an indefinite period and may be sold to meet liquidity requirements or in response to changes in interest rates, exchange rates or equity instrument prices.

Available-for-sale financial assets are initially recorded at fair value on the settlement date including direct 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 equity in an available-for-sale reserve included in the accumulated other comprehensive income 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 asset's expected life. Premiums and/or discounts arising on the purchase of dated 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. These financial assets, including direct and incremental transaction costs, are initially recognized at fair value on the settlement date and measured subsequently at amortized cost, using the effective interest method, less any impairment losses.

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 and the consideration paid, including accrued interest, is recorded in securities purchased under reverse purchase agreements. The difference between the purchase and resale prices is recorded in net interest income and is accrued over the life of the agreement using the effective interest method. These agreements are classified as loans and receivables.

Securities sold under agreements to repurchase at a specified future date are not derecognized from the consolidated balance sheet. The corresponding cash received is recognized in the consolidated balance sheet with a corresponding obligation to return it, including accrued interest as a liability within obligations related to securities sold under repurchase agreements, reflecting the transaction's economic substance as a loan to the Bank. The difference between the sale and repurchase price is treated as interest and recognized over the life of the agreement using the effective interest method. These agreements are generally classified as financial liabilities at amortized cost.

Securities lending and borrowing

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

Securities sold short

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

Securities borrowed are not recognized on the consolidated balance sheet, unless they are then sold to third parties, in which case the obligation to return the securities is also recorded as a short sale.

Loans

Loans are non-derivative financial assets with fixed or determinable payments and are therefore classified as loans and receivables. However, financial assets quoted in an active market do not meet the necessary conditions to be classified as loans and receivables and must 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.

Loans are initially recorded at fair value on the settlement date in the consolidated balance sheet. They are subsequently recorded at amortized cost using the effective interest method in the balance sheet, net of allowances for loan losses and any unearned interest. Interest income related to loans is accounted for using the accrual basis of accounting under the effective interest method. Commissions and origination fees received in respect of loans are considered to be adjustments to the loan yield and are recorded in interest income over the term of the loans. Loan origination and other fees paid are charged to interest income over the term of the loans. Fees received for loan prepayments are included in interest income upon prepayment.

Renegotiated loans

Subject to assessment on a case by case basis, the Bank may either restructure a loan or realize the collateral. Restructuring may involve extending the payment arrangements and agreeing to new loan conditions. Once the terms have been renegotiated any impairment 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 and held for sale 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 loan losses.

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

Mortgage loan securitization is part of the Bank's liquidity and capital management strategies. As such, the Bank participates in the *National Housing Act* (NHA) Mortgage-Backed Securities (MBS) program and also sells mortgage loans to other special purpose entities. Transfers of pools of mortgages under these programs do not result in derecognition of the mortgages from the Bank's consolidated balance sheet as the Bank retains substantially all the risks and rewards related to the loans. As such, securitized residential mortgages continue to be recognized in the consolidated balance sheet and accounted for as loans. In addition, these transactions result in the recognition of a debt related to securitization activities when cash is received as a result of the securitization transactions.

Impairment of financial assets

Impairment of available-for-sale financial assets

Financial assets classified in the available-for-sale category are monitored on a regular basis to determine whether there is any objective evidence that they are impaired. In evaluating the decline in value, the Bank takes into account many facts specific to each investment and all the factors that could indicate that there has been an impairment. The Bank also uses judgment to determine when to recognize an impairment loss.

For available-for-sale equity securities, a significant or prolonged decline in fair value below its cost is considered to be objective evidence of impairment. If the available-for-sale equity securities are impaired, the cumulative loss, measured as the difference between the acquisition cost (net of any principal repayments and amortisation) 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.

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 in the consolidated statement of income, 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.

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 events that occurred after the initial recognition of the asset (a 'loss event') and that loss event has 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 events that occurred after the initial recognition of the asset (a 'loss event') and that loss event has an impact on the estimated future cash flows of the loan or a group of loans that can be reliably estimated.

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 issuer or counterparty; or
- the interest or principal repayment is contractually 90 days or more in arrears, unless the loan is fully secured or in the process of collection, except for credit card balances; or
- the interest or principal is more than 180 days in arrears, except if the interest or principal is guaranteed or insured by the Canadian government, a provincial government or a Canadian government agency; or
- the interest or principal is more than 365 days in arrears, regardless of guarantees.

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. 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 loan 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 loan losses.

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

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 the risks related to the model.

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. 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 loans and receivables. 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 recognized 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 income from treasury and financial market operations, except for derivatives designated as cash flow hedges as described below. Interest income and expenses related to derivatives are 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 or cash flow hedge), 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 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 with a corresponding adjustment to the carrying amount of the hedged item in the consolidated balance sheet. 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 in the periods during which the hedged item affects income. Hedge accounting is also discontinued on the sale or early termination of the hedged item, whereupon the cumulative adjustment to the hedged item's carrying amount is immediately recognized in other income.

Cash flow hedges
Cash flow hedge transactions predominantly use interest rate swaps 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 then immediately reclassified in the consolidated statement of income under other income.

Deposits

Deposits are initially measured at fair value, which is normally the consideration received net of directly attributable transaction costs incurred. Subsequently, they are measured at amortized cost using the effective interest method. The commissions paid and other fees are added to interest expense over the term of the deposits. Deposits are classified as financial liabilities at amortized cost. Deposits are presented net of unamortized commissions and other fees on the consolidated balance sheet.

Indexed deposit contracts
Certain 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 has to be accounted for separately. Accordingly, like all derivatives, it is recorded at fair value and changes in fair value are recognized in the consolidated statement of income under income from treasury and financial market operations. The deposit obligation, excluding the embedded derivative, is recorded at amortized cost using the effective interest method. The deposit obligation, including the embedded derivative, is reported in the consolidated balance sheet under personal deposits.

Debt related to securitization activities

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

Measuring the fair value of financial instruments

Fair value is defined as the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable willing parties.

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 whose variables include only data from observable markets.

Subsequent to initial recognition, the fair values of financial instruments that have a quoted market price in an active market are generally based on bid prices for financial assets held and offer prices for financial liabilities. Where financial instruments have no quoted prices in active markets, fair values are determined using valuation techniques incorporating, among other things, current market prices for financial instruments with similar characteristics and risk profiles, contractual prices of the underlying instruments, yield curves and volatility factors. In certain cases, parameters not based on observable market data must also be used. 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 market prices in an active market.

Fair values of derivatives are generally determined using valuation techniques incorporating certain observable data, such as current market prices and the contractual prices of the underlying instruments, yield curves and volatility factors. Given the use of judgment in applying many of the acceptable estimation and valuation techniques, fair values calculated may vary from one market participant to another. Fair value reflects market conditions on a given date and for this reason cannot be representative of future fair values. It also cannot be considered as being realizable in the event of immediate settlement of these instruments.

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 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. Income and expense are not offset in the consolidated statement of income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

3.2 Premises and equipment

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

Depreciation

Depreciation is calculated using the straight-line method to write down the cost of premises and equipment to their residual values over their estimated useful lives. 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 initial renewal option, or useful life
Equipment and furniture	3−10 years
Computer hardware	5−10 years

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

Impairment

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is considered to be impaired and it is written down immediately to its recoverable amount. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assessing whether such events or circumstances exist is subject to management’s judgment. No premises or equipment assets were impaired during the nine-month periods ended July 31, 2012 and 2011.

3.3 Goodwill and other intangible assets

Goodwill represents the excess of the cost of acquisition over the fair values of the identifiable net assets acquired. 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 cash-generating units (CGUs) or group of CGUs, which are expected to benefit from the synergies of the combination. Each unit to which the goodwill is allocated represents the lowest level within the Bank at which the goodwill is monitored for internal management purposes, and is not larger than an operating segment. The Bank has allocated the goodwill from business combinations to the B2B Bank segment, as well as to a part of the Retail & SME Québec segment referred to as the Retail unit, which encompasses all branch activities and other retail banking activities in Québec.

Goodwill is reviewed for impairment annually, or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired, by comparing the present value of expected future cash flows from the CGU with the carrying value of its net assets, including attributable goodwill. Impairment losses on goodwill are not reversed.

Intangible assets with finite lives mainly consisting of contractual relationships with financial intermediaries and customer relationships, as well as core deposits are amortized on a straight-line basis over their estimated useful life, which ranges from three to fourteen years. Software is amortized on a straight line basis over its estimated useful life, which ranges from five to ten years. Amortization of software is recorded in the consolidated statement of income under premises and technology, and amortization of other intangible assets is included in other non-interest expenses.

Intangible assets with finite lives are tested for impairment whenever circumstances indicate that the carrying value may not be fully recoverable. 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.

Any impairment arising from a decline in value of goodwill or intangible assets is charged to income in the period in which the losses are incurred.

3.4 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 provides post-employment benefits, including pension plans, as well as, for certain retired employees, health and life insurance.

Short-term benefits

The Bank recognizes an expense when it has used services rendered by employees in exchange for employee benefits.

Post-employment benefits

The Bank has a number of funded defined benefit plans, including certain defined contribution portions. Funding is generally provided by both the Bank and the participating employees of the plans.

Defined benefit pension plans
Typically, defined benefit plans provide benefits based on years of service, age, contribution and average earning. The defined benefit asset or liability, recognized on the consolidated balance sheet, corresponds to the present value of the defined obligation less the fair value of the plan assets at the balance sheet date, together with adjustments for any unrecognized actuarial gains and losses and unrecognized non-vested past service cost.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred), as well as the effects of changes in actuarial assumptions. Net actuarial gains or losses are amortized when, at the beginning of the year, the unamortized balance of the gain or loss exceeds 10% of the greater of the accrued benefit obligation or the market value of plan assets. This excess would be amortized on a straight-line basis over the expected average remaining service life of the employee groups covered by the plans which varied from 4 to 11 years under the plans.

The present value of the defined benefit obligation is measured using the estimated future cash outflows discounted with interest rate of high-quality corporate bonds with a maturity approximating the terms of the related defined benefit obligations. Pension plan assets are measured at fair value.

The value of any pension plan asset is restricted to the sum of any actuarial losses and past service cost not yet recognized and 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. 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 demographic assumptions, the probability that employees will leave before retirement age, salary inflation, a discount rate, and the general inflation rate.

Defined benefit costs recognized in the consolidated statement of income under Salaries and employee benefits consist of: [a] cost for the current year's service, [b] interest expense on the defined benefit obligation, [c] expected long-term return on plan assets, [d] amortization of actuarial gains or losses and [e] change in the valuation allowance.

Past service cost is recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits vest immediately following the introduction of, or changes to, a pension plan, the past service cost is recognized immediately.

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.

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.

3.5 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, it is probable that an outflow of resources will be required to settle the obligation and the cost can be reliably estimated.

Contingent liabilities are disclosed when the Bank has a possible obligation depending on whether some uncertain future event occurs, or a present obligation as a result of a past event but payment is not probable or the amount cannot be measured reliably.

3.6 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 outside net income, in which case they are recorded in equity.

3.7 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.

3.8 Insurance

Through an agreement with an unrelated insurance company, the Bank is engaged mainly in credit life and disability insurance activities. Insurance premiums are recognized as revenue, net of reinsurance, on a pro rata basis over the terms of the underlying policies. Insurance claims and changes in policy holder benefits estimates are recorded as incurred. These activities are presented in other income under credit insurance income.

3.9 Share-based payments

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

Compensation expense of equity instruments [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 with a corresponding increase in share-based payment reserve in equity.

Stock appreciation rights (SARs), restricted share units (RSUs), performance share units (PSUs) and deferred share units (DRSUs and DPSUs) are accounted for as cash-settled share-based payment awards and are expensed 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 of the related rights and units.

Share-based compensation is recognized as compensation expense over the applicable vesting period.

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

3.10 Assets under administration and assets under management

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

3.11 Translation of foreign currencies

The financial statements are presented in Canadian dollars which is the functional and reporting currency of all the entities of the group. Financial assets and financial liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rates prevailing at the consolidated balance sheet date. Income and expenses are translated at the average monthly exchange rates. Realized or unrealized gains and losses resulting from the translation of foreign currencies are included in other income.

3.12 Cash and cash equivalents

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

3.13 Leases

The Bank entered into lease agreements for its premises and other contracts. These agreements are accounted for as operating leases as they do not transfer substantially all the risks and benefits incidental to ownership of the leased items. 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.

3.14 Share Capital

Share issue Costs

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

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. The Bank is currently assessing the impact of the adoption of these standards on its financial statements.

IFRS 9: Financial Instruments

In November 2009, the IASB issued, and subsequently amended in October 2010, IFRS 9, *Financial Instruments* as a first phase in its ongoing project to replace IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9, which is to be applied retrospectively, is effective for annual periods beginning on or after January 1, 2015, which will be November 1, 2015 for the Bank. IFRS 9 provides new requirements for how an entity should classify and measure financial assets and liabilities that are currently in the scope of IAS 39.

The standard requires all financial assets to be classified in three categories (amortized cost, fair value through profit or loss and fair value through equity) based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Financial liabilities will be classified in the same categories as those defined in IAS 39, however measurement of financial liabilities under the fair value option has been modified with respect to the entity's own credit risk.

IFRS 10: Consolidated Financial Statements, IFRS 11: Joint Arrangements and IFRS 12: Disclosure of Interests in Other Entities

In May 2011, the IASB issued IFRS 10, *Consolidated Financial Statements*, IFRS 11, *Joint Arrangements* and IFRS 12, *Disclosure of Interests in Other Entities*, which are effective for annual periods beginning on or after January 1, 2013, which will be November 1, 2013 for the Bank, and are to be applied retrospectively.

IFRS 10 replaces the consolidation requirements in SIC-12, *Consolidation – Special Purpose Entities,* and IAS 27, *Consolidated and Separate Financial Statements*, and establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. The standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess.

IFRS 11 supersedes IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly-controlled Entities – Non-monetary Contributions by Venturers*, and provides guidance for the accounting of joint arrangements that focuses on the rights and obligations of the arrangement, rather than its legal form. The standard eliminates the possibility of recognizing joint arrangements using the proportionate consolidation method as well as the distinction between jointly controlled assets and jointly controlled operations.

IFRS 12 provides disclosure requirements about subsidiaries, joint arrangements and associates, as well as structured entities, and replaces existing disclosure requirements.

IFRS 13: Fair Value Measurement

In May 2011, the IASB issued IFRS 13, *Fair Value Measurement*, which is effective for annual periods beginning on or after January 1, 2013, which will be November 1, 2013 for the Bank, and is to be applied prospectively. IFRS 13 establishes a single source of guidance for fair value measurements when fair value is required or permitted by IFRS and provides for enhanced disclosures when fair value is applied.

IAS 19: Employee Benefits

In June 2011, the IASB issued an amended version of IAS 19, *Employee Benefits*, which is effective for annual periods beginning on or after January 1, 2013, which will be November 1, 2013 for the Bank, and is to be applied retrospectively.

The amendments to IAS 19 eliminate the option to defer the recognition of gains and losses resulting from defined benefit plans, known as the "corridor method", which is presently used by the Bank, and requires that remeasurements be presented in other comprehensive income. The amendments also require recognition of expected return on plan assets in net income to be calculated based on the rate used to discount the defined benefit obligation.

IAS 32: Financial Instruments: Presentation and IFRS 7: Financial instruments: Disclosures

In December 2011, the IASB issued amendments to IAS 32, *Financial Instruments: Presentation* to clarify its requirements for offsetting financial instruments. The amendments, which address inconsistencies in current practice when applying the offsetting criteria in IAS 32, are effective for annual periods beginning on or after January 1, 2014, which will be November 1, 2014 for the Bank, and are to be applied retrospectively. In addition, in December 2011, the IASB issued related amendments to IFRS 7, *Financial Instruments: Disclosures* to include new disclosure requirements that are intended to help users to better assess the effect or potential effect of offsetting arrangements on an entity's financial position. These amendments are effective for annual periods beginning on or after January 1, 2013, which will be November 1, 2013 for the Bank, and are to be applied retrospectively.

IAS 1: Presentation of Financial Statements

In June 2011, the IASB issued amendments to IAS 1, *Presentation of Financial Statements* that require entities to group items presented in other comprehensive income on the basis of whether they might be reclassified to the consolidated statement of income in subsequent periods and items that will not be reclassified to the consolidated statement of income. The amendments did not address which items are presented in other comprehensive income and did not change the option to present items net of tax. The amendments to IAS 1 are effective for annual periods beginning on or after July 1, 2012, which will be November 1, 2012 for the Bank, and are to be applied retrospectively. The Bank does not expect that the amendments will have a significant impact on the financial statements.

5. Adoption of IFRS

The Bank has adopted IFRS effective November 1, 2011. For periods up to and including the year ended October 31, 2011, the Bank prepared its consolidated financial statements in accordance with previous Canadian generally accepted accounting principles (Canadian GAAP). The Bank's consolidated financial statements for the year ending October 31, 2012 will be the first annual financial statements prepared in accordance with IFRS. The Bank's transition date was November 1, 2010 (the transition date) and the Bank has prepared its opening consolidated balance sheet as at that date. These financial statements have been prepared in accordance with accounting policies described in Note 3. The Bank will ultimately prepare its opening consolidated balance sheet and consolidated financial statements for 2011 and 2012 by applying existing IFRS with an effective date of October 31, 2012 or prior. Accordingly, the opening balance sheet and consolidated financial statements for 2011 and 2012 may differ from these financial statements.

This note explains how the transition from Canadian GAAP to IFRS affected the Bank's reported consolidated balance sheet and consolidated equity as at November 1, 2010, July 31, 2011 and October 31, 2011, as well as consolidated income for the three-month and nine-month periods ended July 31, 2011. Consolidated comprehensive income is reported for the three-month and nine-month periods ended July 31, 2011, and the twelve-month period ended October 31, 2011.

5.1 Exemptions and exceptions under IFRS 1

IFRS 1, *First-time Adoption of International Financial Reporting Standards*, provides the basis on how to adopt IFRS for the first time. It generally requires a first-time adopter to retrospectively apply all IFRS effective as at the end of its first annual reporting period (October 31, 2012 for the Bank). In addition, it contains certain exemptions and exceptions to the general principle of retrospective application in order to facilitate the transition to IFRS. The Bank analyzed these exceptions and exemptions in order to make choices that allow it to establish its opening balance sheet under IFRS. The information below corresponds to the exemptions and exceptions to the retrospective application of IFRS that the Bank has decided to apply.

Optional exemptions to retrospective application

The Bank applied certain optional exemptions to the retrospective application of IFRS when it prepared its opening balance sheet. The exemptions applied are described below:

a) Securitization
Generally, the Bank's securitization transactions would not meet IAS 39 derecognition criteria. IFRS 1 provides the option to grandfather certain securitization transactions occurring on or before an entity's transition date, or another date of the entity's choosing, instead of the current mandatory date of January 1, 2004. However, in line with OSFI's position, the Bank has applied IAS 39 derecognition requirements to past securitization transactions.

b) Designation of financial instruments
Under IAS 39, entities are permitted to make certain designations only upon initial recognition. IFRS 1 permits an entity to designate a previously recognized financial asset as available-for-sale or as a financial asset at fair value through profit or loss upon transition to IFRS.

Under Canadian GAAP, certain securities held as economic hedges of off-balance sheet securitization activities were designated as at fair value through profit or loss to reduce a recognition inconsistency that would otherwise have arisen from measuring these assets on a different basis than related seller-swaps. Under IFRS, these past securitization transactions do not meet the derecognition requirements and related seller swaps are not recognized on-balance sheet anymore. In order to realign revenue recognition for these transactions, the Bank re-designated these securities as available-for-sale. In addition, the accounting for past securitization transactions under IFRS led to the initial recognition and classification of replacement assets as detailed in Note 5.6(a).

For other financial instruments, the Bank maintained its existing designations as at November 1, 2010.

c) Business combinations

IFRS 1 provides the option to apply IFRS 3, *Business Combinations*, prospectively from the transition date or retrospectively back to any prior business combination provided that IFRS 3 is applied consistently from that business combination through the transition date. The Bank opted to apply this exemption and elected November 1, 2000 as the date to restate prior business combinations. The value of goodwill and intangible assets was amended on the transition date as described in Note 5.6(e).

d) Employee benefits

Instead of restating the accounting of post-employment defined benefit plans, including unamortized actuarial gains and losses, from inception until the transition date as if IAS 19, *Employment Benefits*, had always been applied, the Bank elected, as permitted by IFRS 1, to recognize all unamortized cumulative actuarial gains and losses in the consolidated retained earnings at the date of transition to IFRS. The Bank also elected to disclose the defined benefit obligations, plan assets, deficit and experience adjustments on retirement benefit liabilities and assets prospectively from the date of transition, progressively building the data to present the four years of comparative information required under IFRS.

e) Share-based payments

According to IFRS 1, the Bank elected to use the optional exemption offered, which allows the Bank not to apply IFRS 2, *Share-based Payment*, retrospectively to share-based payment awards granted prior to November 7, 2002 and those that have vested before November 1, 2010. At the transition date, there was no adjustment related to these instruments as a result of this election.

Mandatory exceptions to retrospective application

When preparing its opening balance sheet, the Bank applied mandatory exceptions to the full retrospective application of IFRS, as described below:

a) Hedge accounting

Only hedging relationships that comply with IFRS hedge accounting criteria on the transition date are recognized as hedges on the transition date.

b) Estimates

The Bank did not use hindsight in order to create or revise estimates.

5.2 Reconciliation of balance sheet between Canadian GAAP and IFRS

The following tables present the reconciliation of the balance sheet according to Canadian GAAP and the balance sheet recorded in accordance with IFRS. See Note 5.6 for an explanation of the nature of adjustments and reclassifications.

					AS AT OCTOBER 31, 2011
	ITEM [1]	CANADIAN GAAP [2]	ADJUSTMENTS	RECLASSIFICATIONS	IFRS
ASSETS					
Cash and non-interest-bearing deposits with other banks		$ 81,600	$ -	$ -	$ 81,600
Interest-bearing deposits with other banks	a)	276,429	9,030	-	285,459
Securities					
Available-for-sale	a)	1,096,333	-	1,011,742	2,108,075
Held-to-maturity	a)	-	885,822	-	885,822
Held-for-trading		2,181,969	-	-	2,181,969
Designated as at fair value through profit or loss	a)	1,011,742	-	(1,011,742)	-
		4,290,044	885,822	-	5,175,866
Securities purchased under reverse repurchase agreements	a)	318,753	401,564	-	720,317
Loans					
Personal	n)	5,768,787	-	5,420	5,774,207
Residential mortgage	a), n)	8,378,029	3,394,017	97,366	11,869,412
Commercial mortgage		2,363,808	-	-	2,363,808
Commercial and other		1,900,977	-	-	1,900,977
Customers' liabilities under acceptances		179,140	-	-	179,140
		18,590,741	3,394,017	102,786	22,087,544
Allowances for loan losses	d)	(149,743)	1,000	5,593	(143,150)
		18,440,998	3,395,017	108,379	21,944,394
Other					
Premises and equipment	m)	64,752	(3,044)	-	61,708
Derivatives	a)	228,704	(443)	-	228,261
Goodwill	e)	53,790	(24,566)	-	29,224
Software and other intangible assets	f), m)	123,357	(9,408)	-	113,949
Deferred tax assets	j)	-	19,876	(15,716)	4,160
Other assets	a), c), e), j), n)	612,024	(186,806)	(106,946)	318,272
		1,082,627	(204,391)	(122,662)	755,574
		$ 24,490,451	$ 4,487,042	$ (14,283)	$ 28,963,210
LIABILITIES AND SHAREHOLDERS' EQUITY					
Deposits					
Personal	a), b)	$ 15,610,012	$ (159)	$ -	$ 15,609,853
Business, banks and other	a)	4,457,406	(50,978)	-	4,406,428
		20,067,418	(51,137)	-	20,016,281
Other					
Obligations related to securities sold short		1,471,254	-	-	1,471,254
Obligations related to securities sold under repurchase agreements		36,770	-	-	36,770
Acceptances		179,140	-	-	179,140
Derivatives	a)	246,475	(116,506)	-	129,969
Deferred tax liabilities	j)	-	(17,244)	23,606	6,362
Other liabilities	a), c), d), g), i), j), k), l)	912,190	27,419	(37,889)	901,720
		2,845,829	(106,331)	(14,283)	2,725,215
Debt related to securitization activities	a)	-	4,760,847	-	4,760,847
Subordinated debt	b)	242,512	39	-	242,551
Shareholders' equity					
Preferred shares		210,000	-	-	210,000
Common shares		259,492	-	-	259,492
Share-based payment reserve		227	-	-	227
Retained earnings	o)	818,207	(135,200)	-	683,007
Accumulated other comprehensive income	a), b), h), j)	46,766	18,824	-	65,590
		1,334,692	(116,376)	-	1,218,316
		$ 24,490,451	$ 4,487,042	$ (14,283)	$ 28,963,210

[1] See items in Note 5.6 Nature of adjustments.

[2] See Reclassification of comparative figures in Note 2 Basis of presentation.

5. Adoption of IFRS [Cont'd]

AS AT JULY 31, 2011

	ITEM [1]	CANADIAN GAAP [2]	ADJUSTMENTS	RECLASSIFICATIONS	IFRS
ASSETS					
Cash and non-interest-bearing deposits with other banks	a)	$ 69,820	$ 193	$ -	$ 70,013
Interest-bearing deposits with other banks	a)	596,979	2,773	-	599,752
Securities					
Available-for-sale	a), h)	1,028,953	868	1,013,003	2,042,824
Held-to-maturity	a)	-	830,964	-	830,964
Held-for-trading		2,044,465	-	-	2,044,465
Designated as at fair value through profit or loss	a)	1,013,003	-	(1,013,003)	-
		4,086,421	831,832	-	4,918,253
Securities purchased under reverse repurchase agreements	a)	312,647	227,573	-	540,220
Loans					
Personal	n)	5,728,317	-	4,553	5,732,870
Residential mortgage	a), n)	8,183,447	3,299,905	95,578	11,578,930
Commercial mortgage		2,302,562	-	-	2,302,562
Commercial and other		1,863,448	-	-	1,863,448
Customers' liabilities under acceptances		198,429	-	-	198,429
		18,276,203	3,299,905	100,131	21,676,239
Allowances for loan losses	d)	(147,663)	1,000	5,510	(141,153)
		18,128,540	3,300,905	105,641	21,535,086
Other					
Premises and equipment	m)	63,616	(3,036)	-	60,580
Derivatives	a)	147,009	(866)	-	146,143
Goodwill	e)	53,790	(24,566)	-	29,224
Software and other intangible assets	f), m)	114,812	(9,730)	-	105,082
Deferred tax assets	j)	-	19,570	(11,834)	7,736
Other assets	a), c), j), n)	509,054	(180,762)	(101,751)	226,541
		888,281	(199,390)	(113,585)	575,306
		$ 24,082,688	$ 4,163,886	$ (7,944)	$ 28,238,630
LIABILITIES AND SHAREHOLDERS' EQUITY					
Deposits					
Personal	a), b)	$ 15,606,705	$ (72,176)	$ -	$ 15,534,529
Business, banks and other		3,891,333	-	-	3,891,333
		19,498,038	(72,176)	-	19,425,862
Other					
Obligations related to securities sold short		1,436,439	-	-	1,436,439
Obligations related to securities sold under repurchase agreements		367,814	-	-	367,814
Acceptances		198,429	-	-	198,429
Derivatives	a)	181,758	(77,731)	-	104,027
Deferred tax liabilities	j)	-	(17,241)	18,260	1,019
Other liabilities	a), c), d), g), i), j), k), l)	854,628	4,403	(26,204)	832,827
		3,039,068	(90,569)	(7,944)	2,940,555
Debt related to securitization activities	a)	-	4,442,256	-	4,442,256
Subordinated debt	b)	242,072	41	-	242,113
Shareholders' equity					
Preferred shares		210,000	-	-	210,000
Common shares		259,492	-	-	259,492
Share-based payment reserve		227	-	-	227
Retained earnings	o)	802,795	(133,337)	-	669,458
Accumulated other comprehensive income	a), b), h), j)	30,996	17,671	-	48,667
		1,303,510	(115,666)	-	1,187,844
		$ 24,082,688	$ 4,163,886	$ (7,944)	$ 28,238,630

[1] See items in Note 5.6 Nature of adjustments.

[2] See Reclassification of comparative figures in Note 2 Basis of presentation.

AS AT NOVEMBER 1, 2010

	ITEM [1]	CANADIAN GAAP [2]	ADJUSTMENTS	RECLASSIFICATIONS	IFRS
ASSETS					
Cash and non-interest-bearing deposits with other banks	a)	$ 70,537	$ 1,907	$ -	$ 72,444
Interest-bearing deposits with other banks	a)	95,561	3,833	-	99,394
Securities					
Available-for-sale	a), h)	1,103,744	1,281	1,033,836	2,138,861
Held-to-maturity	a)	-	559,457	-	559,457
Held-for-trading		1,496,583	-	-	1,496,583
Designated as at fair value through profit or loss	a)	1,658,478	-	(1,033,836)	624,642
		4,258,805	560,738	-	4,819,543
Securities purchased under reverse repurchase agreements	a)	803,874	190,800	-	994,674
Loans					
Personal	n)	5,630,788	-	5,415	5,636,203
Residential mortgage	a), n)	8,055,034	2,715,535	89,078	10,859,647
Commercial mortgage		2,166,375	-	-	2,166,375
Commercial and other		1,691,190	-	-	1,691,190
Customers' liabilities under acceptances		165,450	-	-	165,450
		17,708,837	2,715,535	94,493	20,518,865
Allowances for loan losses	d)	(138,143)	840	5,736	(131,567)
		17,570,694	2,716,375	100,229	20,387,298
Other					
Premises and equipment	m)	58,536	(2,809)	-	55,727
Derivatives	a)	162,610	(4,544)	-	158,066
Goodwill	e)	53,790	(24,566)	-	29,224
Software and other intangible assets	f), m)	112,369	(10,698)	-	101,671
Deferred tax assets	j)	-	18,416	29,579	47,995
Other assets	a), c), j), n)	585,362	(172,001)	(124,072)	289,289
		972,667	(196,202)	(94,493)	681,972
		$ 23,772,138	$ 3,277,451	$ 5,736	$ 27,055,325
LIABILITIES AND SHAREHOLDERS' EQUITY					
Deposits					
Personal	a), b)	$ 15,396,911	$ (42,060)	$ -	$ 15,354,851
Business, banks and other		4,250,819	-	-	4,250,819
		19,647,730	(42,060)	-	19,605,670
Other					
Obligations related to securities sold short		1,362,336	-	-	1,362,336
Obligations related to securities sold under repurchase agreements		60,050	-	-	60,050
Acceptances		165,450	-	-	165,450
Derivatives	a)	199,278	(84,043)	-	115,235
Deferred tax liabilities	j)	-	(13,977)	41,520	27,543
Other liabilities	a), c), d), g), i), j), k), l)	947,879	33,844	(35,784)	945,939
		2,734,993	(64,176)	5,736	2,676,553
Debt related to securitization activities	a)	-	3,486,634	-	3,486,634
Subordinated debt		150,000	-	-	150,000
Shareholders' equity					
Preferred shares		210,000	-	-	210,000
Common shares		259,363	-	-	259,363
Share-based payment reserve		243	-	-	243
Retained earnings	o)	741,911	(131,428)	-	610,483
Accumulated other comprehensive income	a), b), h), j)	27,898	28,481	-	56,379
		1,239,415	(102,947)	-	1,136,468
		$ 23,772,138	$ 3,277,451	$ 5,736	$ 27,055,325

[1] See items in Note 5.6 Nature of adjustments.

[2] See Reclassification of comparative figures in Note 2 Basis of presentation.

5.3 Reconciliation of statement of income between Canadian GAAP and IFRS

The following table presents the reconciliation of results according to Canadian GAAP and the results recorded in accordance with IFRS. See Note 5.6 for an explanation of the nature of adjustments.

		FOR THE THREE MONTHS ENDED JULY 31, 2011		
	ITEM [1]	CANADIAN GAAP [2]	ADJUSTMENTS	IFRS
Interest income				
Loans	a), d)	$ 203,304	$ 40,704	$ 244,008
Securities	a)	15,737	3,040	18,777
Deposits with other banks	a)	1,584	10	1,594
Other, including derivatives	a), b)	18,221	(1,932)	16,289
		238,846	41,822	280,668
Interest expense				
Deposits		112,032	-	112,032
Debt related to securitization activities	a)	-	36,333	36,333
Subordinated debt		2,411	-	2,411
Other, including derivatives		466	-	466
		114,909	36,333	151,242
Net interest income		123,937	5,489	129,426
Other income				
Fees and commissions on loans and deposits	k)	30,240	(792)	29,448
Income from brokerage operations		10,221	-	10,221
Securitization income	a)	10,201	(10,201)	-
Credit insurance income		4,104	-	4,104
Income from treasury and financial market operations	a), b), h)	4,555	364	4,919
Income from sales of mutual funds		4,483	-	4,483
Income from registered self-directed plans		1,674	-	1,674
Other income		1,558	-	1,558
		67,036	(10,629)	56,407
Total revenue		190,973	(5,140)	185,833
Provision for loan losses	d)	8,000	6,640	14,640
Non-interest expenses				
Salaries and employee benefits	c), g)	72,466	(2,112)	70,354
Premises and technology	l),m)	36,198	84	36,282
Other	a), d), f), k)	28,108	(848)	27,260
		136,772	(2,876)	133,896
Income before income taxes		46,201	(8,904)	37,297
Income taxes	j)	10,919	(2,694)	8,225
Net income		$ 35,282	$ (6,210)	$ 29,072
Preferred share dividends, including applicable taxes		3,107	-	3,107
Net income available to common shareholders		$ 32,175	$ (6,210)	$ 25,965
Average number of common shares outstanding (in thousands)				
Basic		23,925	-	23,925
Diluted		23,943	-	23,943
Earnings per share				
Basic		$ 1.34	$ (0.25)	$ 1.09
Diluted		$ 1.34	$ (0.26)	$ 1.08

[1] See items in Note 5.6 Nature of adjustments.

[2] See Reclassification of comparative figures in Note 2 Basis of presentation.

FOR THE NINE MONTHS ENDED JULY 31, 2011

	ITEM [1]	CANADIAN GAAP [2]	ADJUSTMENTS	IFRS
Interest income				
Loans	a), d)	$ 606,080	$ 114,777	$ 720,857
Securities	a)	46,841	8,421	55,262
Deposits with other banks	a)	4,167	26	4,193
Other, including derivatives	a), b)	50,649	(5,056)	45,593
		707,737	118,168	825,905
Interest expense				
Deposits		334,394	-	334,394
Debt related to securitization activities	a)	-	102,191	102,191
Subordinated debt		9,142	-	9,142
Other, including derivatives		2,084	-	2,084
		345,620	102,191	447,811
Net interest income		362,117	15,977	378,094
Other income				
Fees and commissions on loans and deposits	k)	86,635	(962)	85,673
Income from brokerage operations		40,097	-	40,097
Securitization income	a)	26,655	(26,655)	-
Credit insurance income		13,597	-	13,597
Income from treasury and financial market operations	a), b), h)	13,645	1,396	15,041
Income from sales of mutual funds		13,050	-	13,050
Income from registered self-directed plans		5,748	-	5,748
Other income		4,625	-	4,625
		204,052	(26,221)	177,831
Total revenue		566,169	(10,244)	555,925
Provision for loan losses	d)	35,000	3,081	38,081
Non-interest expenses				
Salaries and employee benefits	c), g)	220,214	(8,015)	212,199
Premises and technology	l), m)	105,507	330	105,837
Other	a), d), f), k)	76,833	(1,910)	74,923
		402,554	(9,595)	392,959
Income before income taxes		128,615	(3,730)	124,885
Income taxes	j)	29,698	(1,821)	27,877
Net income		$ 98,917	$ (1,909)	$ 97,008
Preferred share dividends, including applicable taxes		9,325	-	9,325
Net income available to common shareholders		$ 89,592	$ (1,909)	$ 87,683
Average number of common shares outstanding (in thousands)				
Basic		23,923	-	23,923
Diluted		23,944	-	23,944
Earnings per share				
Basic		$ 3.75	$ (0.08)	$ 3.67
Diluted		$ 3.74	$ (0.08)	$ 3.66

[1] See items in Note 5.6 Nature of adjustments.

[2] See Reclassification of comparative figures in Note 2 Basis of presentation.

5.4 Reconciliation of comprehensive income between Canadian GAAP and IFRS

The following table presents the reconciliation between the comprehensive income presented according to Canadian GAAP and the comprehensive income presented in accordance with IFRS. See Note 5.6 for an explanation of the nature of adjustments.

	ITEM [1]	FOR THE THREE MONTHS ENDED JULY 31 2011	FOR THE NINE MONTHS ENDED JULY 31 2011	FOR THE YEAR ENDED OCTOBER 31 2011
Comprehensive income - Canadian GAAP		$ 50,550	$ 102,015	$ 146,357
Adjustments to net income				
Securitization	a)	(4,066)	(9,657)	(13,000)
Hedge accounting	b)	83	432	150
Employee benefits	c)	1,898	5,693	7,803
Loan loss provisioning	d)	(4,147)	24	24
Business combination	e)	-	-	(826)
Consolidation of B2B Trust	f)	218	653	870
Share-based payments	g)	(390)	28	421
Securities	h)	51	372	319
Tax accounting	j)	232	836	796
Other	k), l), m)	(89)	(290)	(329)
		(6,210)	(1,909)	(3,772)
Adjustments to other comprehensive income, net of income taxes				
Unrealized net gains (losses) on available-for-sale securities	a), b), h), j)	1,656	(8,768)	(9,758)
Net change in value of derivatives designated as cash flow hedges	b), j)	2,014	(2,042)	101
		3,670	(10,810)	(9,657)
Comprehensive income - IFRS		$ 48,010	$ 89,296	$ 132,928

[1] See items in Note 5.6 Nature of adjustments.

5.5 Reconciliation of equity between Canadian GAAP and IFRS

The following table presents the reconciliation of equity recorded according to GAAP and equity recorded in accordance with IFRS. See Note 5.6 for an explanation of the nature of adjustments.

	ITEM [1]	AS AT OCTOBER 31 2011	AS AT JULY 31 2011	AS AT NOVEMBER 1 2010
Shareholders' equity - Canadian GAAP		$ 1,334,692	$ 1,303,510	$ 1,239,415
Effect on retained earnings				
Securitization	a)	(14,543)	(11,199)	(1,543)
Hedge accounting	b)	13	294	(138)
Employee benefits	c)	(86,734)	(88,844)	(94,537)
Loan loss provisioning	d)	(1,539)	(1,540)	(1,563)
Business combination	e)	(22,061)	(21,234)	(21,234)
Consolidation of B2B Trust	f)	(6,861)	(7,078)	(7,731)
Share-based payments	g)	(156)	(549)	(577)
Securities	h)	(889)	(836)	(1,208)
Tax accounting	j)	(758)	(717)	(1,553)
Other	k), l), m)	(1,672)	(1,634)	(1,344)
		(135,200)	(133,337)	(131,428)
Effect on the consolidated accumulated other comprehensive income, net of income taxes				
Available-for-sale reserve	a), b), h), j)	18,645	19,635	28,403
Cash flow hedge reserve	b), j)	179	(1,964)	78
		18,824	17,671	28,481
Shareholders' equity - IFRS		$ 1,218,316	$ 1,187,844	$ 1,136,468

[1] See items in Note 5.6 Nature of adjustments.

5.6 Nature of adjustments

The following section details the adjustments to the consolidated balance sheet as at November 1, 2010, July 31, 2011 and October 31, 2011, as well as to the consolidated statement of income and the consolidated statement of comprehensive income for the three-month and nine-month periods ended July 31, 2011, resulting from the IFRS changeover.

a) Securitization

The Bank securitizes residential mortgage loans primarily by participating to the Canada Mortgage Bonds Program (CMB Program) and through multi-seller conduits set up by large Canadian banks. According to Canadian GAAP, these securitization transactions met derecognition criteria and therefore were accounted for as transfers of receivables. Under IFRS, these transactions did not meet derecognition criteria and therefore were recorded as financing transactions.

The difference in accounting treatment between Canadian GAAP and IFRS for these securitization transactions has resulted in the following adjustments to the Bank's financial statements:

- Recognition of the securitized mortgages that were previously derecognized under Canadian GAAP in the consolidated balance sheet under IFRS; and recognition of related securitization liabilities not previously recognized under Canadian GAAP;
- Recognition of financial assets (the Replacement Assets consisting of cash, deposits with other banks, securities purchased under reverse repurchase agreements and securities) which were previously off-balance sheet to manage the maturity mismatch between the amortizing securitized mortgages and the off-balance sheet securitization liabilities related to the CMB Program;
- Elimination of securitization receivables and payables recognized on the consolidated balance sheet under Canadian GAAP, including deposit liabilities for cash accounts previously off-balance sheet and servicing liabilities related to retained interests, as well as securitization seller swaps;
- Reversal of gains and losses on securitization, including gains and losses on seller swaps[1] and retained interests, as well as amortization of servicing liability previously recognized in net income under Canadian GAAP;
- Recognition of interest income earned on the securitized mortgages and Replacement Assets not previously recognized under Canadian GAAP;
- Recognition of interest expense on the debt related to securitization activities not previously recognized under Canadian GAAP;
- Re-designation of certain securities with a fair value of $1.0 billion as at November 1, 2010 as available-for-sale, which were previously designated as at fair value through profit or loss[2]; and
- As of the first quarter of 2011, as a result of these changes, the Bank also modified certain hedging relationships in order to realign income recognition on derivatives used to hedge securitization activities.

Overall, the difference in accounting treatment between Canadian GAAP and IFRS for these securitization transactions only results in differences as to the timing of the recognition of the cash flows in total comprehensive income. Ultimately, at the end of the life of each securitization pool, the same cumulative total amount of income will have been recognized in shareholders' equity both in Canadian GAAP and IFRS.

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[1] As part of securitization transactions, the Bank enters into seller swaps which are designed to protect the conduits against interest rate and pre-payment risks. These seller swaps are derivatives and were therefore marked-to-market through the consolidated statement of income. Gains and losses on the seller swaps that were recognized in net income under Canadian GAAP were reversed under IFRS as the cash flows associated with these swaps are captured in the interest income recognized on the securitized mortgages and Replacement Assets and the interest expense recognized on the securitization liabilities under IFRS.

[2] These securities were designated as at fair value through profit or loss under Canadian GAAP in order to offset changes in the fair value of seller swaps. As seller swaps are no longer recognized under IFRS, the designation of these securities was amended.

5. Adoption of IFRS [Cont'd]

The adjustments to the consolidated balance sheets and statements of income are summarized as follows:

Principal line items impacted – Balance sheet

	AS AT OCTOBER 31 2011	AS AT JULY 31 2011	AS AT NOVEMBER 1 2010
ASSETS			
Increase in residential mortgage loans	$ 3,394,017	$ 3,299,905	$ 2,715,535
Replacement assets			
Increase in cash and non-interest-bearing deposits with other banks	-	193	1,907
Increase in interest-bearing deposits with other banks	9,030	2,773	3,833
Increase in held-to-maturity securities	885,822	830,964	559,457
Increase in securities purchased under reverse repurchase agreements	401,564	227,573	190,800
	1,296,416	1,061,503	755,997
Decrease in derivatives	(443)	(866)	(4,544)
Decrease in other assets (retained interests and other)	(98,273)	(90,395)	(74,688)
Increase in total assets	$ 4,591,717	$ 4,270,147	$ 3,392,300
LIABILITIES AND SHAREHOLDERS' EQUITY			
Decrease in personal deposits	$ (332)	$ (72,514)	$ (42,313)
Decrease in business, banks and other deposits	(50,978)	-	-
Increase in debt related to securitization activities	4,760,847	4,442,256	3,486,634
Decrease in derivatives	(116,506)	(77,731)	(84,043)
Increase (decrease) in other liabilities	(4,084)	(27,170)	8,237
Increase in total liabilities	4,588,947	4,264,841	3,368,515
Increase in shareholders' equity			
Decrease in retained earnings	(14,543)	(11,199)	(1,543)
Increase in accumulated other comprehensive income	17,313	16,505	25,328
	2,770	5,306	23,785
Increase in liabilities and shareholders' equity	$ 4,591,717	$ 4,270,147	$ 3,392,300

Principal line items impacted –Statement of income

	FOR THE THREE MONTHS ENDED JULY 31 2011	FOR THE NINE MONTHS ENDED JULY 31 2011
Increase in interest income		
Increase in interest income due to the recording of the securitized residential mortgage loans and replacement assets	$ 42,623	$ 120,209
Decrease in other interest income, including derivatives	(1,932)	(5,056)
	40,691	115,153
Increase in interest expense		
Increase in interest expense related to the recording of the debt related to securitization activities	36,333	102,191
Increase in net interest income	4,358	12,962
Decrease in other income		
Reversal of gains on sales and other income related to securitization activities	(10,201)	(26,655)
Other	178	273
	(10,023)	(26,382)
Increase in non-interest expenses	37	119
Decrease in income taxes	(1,636)	(3,882)
Decrease in net income	$ (4,066)	$ (9,657)

b) Hedge accounting

Under Canadian GAAP, the Bank used the shortcut method and the variable cash flow method to measure the ineffectiveness of certain hedging relationships. As these methods cannot be used under IFRS, the Bank has developed admissible substitute quantitative methods. Other hedging relationships that were already using methods admissible under IFRS have not been modified and did not require any adjustments on the transition date.

In addition, the Bank reviewed and modified certain hedging relationships designated under Canadian GAAP due to changes in accounting for securitization transactions as explained above. The impact of these changes is included in the securitization adjustments.

c) Employee benefits

Actuarial gains and losses

Under Canadian GAAP, actuarial gains and losses were amortized through income using a corridor approach over the estimated average remaining service life (EARSL) of employees. At the transition date, the Bank elected to use the exemption from retrospective application permitted by IFRS 1 and recorded the accumulated actuarial losses in retained earnings. Under IFRS, the Bank has elected that additional actuarial gains and losses recognized after the transition date will be amortized using a corridor approach.

Vested past service costs

Under Canadian GAAP, vested past service costs of defined benefit plans were amortized over the EARSL of plan participants from their grant date. Under IFRS, vested past service costs of defined benefit plans must be recognized in income immediately as granted. The Bank's net past service costs, at the transition date, were fully vested and were recognized in retained earnings.

Transitional obligation

Under Canadian GAAP, a transitional obligation resulting from the initial application of the accounting standard with respect to employee future benefits was amortized over the EARSL. Under IFRS, this transitional obligation could not be carried forward and was adjusted through retained earnings.

Fair value of plan assets

According to Canadian GAAP, the expected return on plan assets was recognized using the market-related value method, under which changes in the fair value of plan assets were spread over a three-year period. According to IFRS, the expected return on plan assets are measured using fair value on the reporting date.

As a result of the above, all unamortized cumulative net actuarial gains and losses, transitional obligation and past service costs were charged to retained earnings under IFRS for an amount of $128.8 million ($94.5 million net of taxes) as at November 1, 2010. Accordingly, other assets decreased by $102.5 million as at November 1, 2010, (decreased by $94.5 million and by $91.8 million as at July 31, 2011 and October 31, 2011 respectively) and other liabilities increased by $26.3 million as at November 1, 2010, July 31, 2011 and October 31, 2011. Amortization of actuarial losses and other deferred amounts for the three-month and nine-month periods ended July 31, 2011, previously recognized in salaries and employee benefits, were reversed.

The table below reflects the new status of the plans as at October 31, 2011 and November 1, 2010.

	AS AT OCTOBER 31, 2011		AS AT NOVEMBER 1, 2010	
	PENSION PLANS	OTHER PLANS	PENSION PLANS	OTHER PLANS
Fair value of plan assets	$ 426,900	$ -	$ 428,337	$ -
Defined benefit obligation	447,404	35,196	413,218	34,463
Funded status – plan surplus (deficit)	(20,504)	(35,196)	15,119	(34,463)
Unamortized past service costs	525	-	-	-
Unamortized net actuarial loss	39,176	527	-	-
Defined benefit assets (liabilities) at end of year	$ 19,197	$ (34,669)	$ 15,119	$ (34,463)
Defined benefit assets included in other assets	$ 26,897	$ -	$ 24,878	$ -
Defined benefit liabilities included in other liabilities	$ 7,700	$ 34,669	$ 9,759	$ 34,463

d) Loan loss provisioning

As part of the IFRS conversion, the Bank improved its methodology to assess provisions for groups of similar loans (collective allowances). Collective allowances are established based on the risk rating of credit facilities and on parameters such as the related probability of default (loss frequency) and the loss given default (extent of losses) associated with each type of facility. Collective allowances are adjusted to reflect changes in the portfolios and credit policies and are maintained for each pool of loans with shared risk characteristics. These estimates include consideration of economic and business conditions, management's judgment and the risks related to the model. The improved methodology relies more heavily on the current status of the portfolios in accordance with IFRS requirements. The Bank had already estimated the collective allowance as of October 31, 2011 using the adjusted methodology in its Canadian GAAP financial statements.

Under IFRS, as under Canadian GAAP, loan loss provisions must reflect the time value of money. Under Canadian GAAP, the accretion of the net present value of the written down amount of the loan due to the passage of time was recognized as a reduction of the provisions for loan losses. Under IFRS, the accretion must be recognized as interest income based on the original effective interest rate of the loan.

The adjustments to the provision for loan losses presented in the table below reflect the variation of the allowance due to the improved methodology for the three-month and nine-month periods ended July 31, 2011 and the effect of reclassifications to net interest income and other non-interest expenses for both periods presented.

	FOR THE THREE MONTHS ENDED JULY 31 2011	FOR THE NINE MONTHS ENDED JULY 31 2011
Increase in net interest income (accretion on impaired loans)	$ 1,130	$ 3,015
Decrease (increase) in provision for loan losses	(6,640)	(3,081)
Decrease (increase) in other non-interest expenses (allowances for undrawn amounts)	(174)	226
	(5,684)	160
Decrease (increase) in income taxes	1,537	(136)
Increase (decrease) in net income	$ (4,147)	$ 24

In addition, the allowance for undrawn amounts under approved credit facilities, previously reported with general allowances, was reclassified in other liabilities, for an amount of $5.7 million as at November 1, 2010, $5.5 million as at July 31, 2011, and $5.6 million as at October 31, 2011. As a result of this reclassification and the adjustments described above, the allowances for loan losses decreased by $6.6 million as at November 1, 2010, $6.5 million as at July 31, 2011 and $6.6 million as at October 31, 2011.

e) Business combination

The Bank elected November 1, 2000 as the date to restate prior business combinations which resulted in the restatement of the only business combination prior to transition. This acquisition pertains to the 43 branches acquired from another bank in Québec as at November 1, 2000. Under Canadian GAAP, for acquisitions completed in years 2000 and before, intangible assets were not necessarily identified separately and the excess of the purchase price over the net fair value of acquired assets was allocated to goodwill. Canadian GAAP did not require the restatement of this purchase equation. Under IFRS, intangible assets must be identified as part of the purchase equation. In addition, acquisition costs incurred must be expensed as incurred and cannot be capitalized as part of goodwill. The adjustment mainly resulted in the identification of specific intangible assets which were subsequently fully amortized prior to the transition date. The amount of deferred income tax and provision accounted for in the purchase equation was also modified.

Under Canadian GAAP, the Bank applied section 1581, *Business combination*, whereby acquisition costs were permitted to be capitalized. Under IFRS, acquisition costs related to the MRS transaction incurred during the three-month period ended October 31, 2011 (see Note 15) amounting to $0.8 million, previously presented with other assets, were expensed in the consolidated statement of income.

f) Consolidation of B2B Trust

Under Canadian GAAP, the acquisition of the minority shareholders of B2B Trust in June 2004 was accounted for as a step acquisition and resulted in the accounting of an intangible asset related to contractual relationships with financial intermediaries and customer relationships. Under IFRS, the repurchase of the minority shareholders is considered an equity transaction as the Bank already had control of its subsidiary prior to the repurchase. As a result, under IFRS the excess of the purchase price over the book value of the minority interest was recognized in retained earnings, rather than allocated to the contractual and customer relationships intangible asset as required under Canadian GAAP. Consequently, the related amortization expense of that intangible recorded under Canadian GAAP was eliminated under IFRS. The restatement of the repurchase of the minority shareholders of B2B Trust resulted in a decrease of contractual and customer relationships, within other intangible assets, in the amount of $10.5 million as at November 1, 2010, $9.5 million as at July 31, 2011 and $9.2 million as at October 31, 2011.

g) Share-based payments

Under Canadian GAAP, for the stock appreciation rights (SARs) settled in cash, the excess of the share price over the exercise price, reviewed on an ongoing basis, was recognized in income during the SARs' vesting period. Under IFRS, the

Bank is required to recognize as an expense the fair value of SARs during the vesting period. The Bank measures the fair value of the SARs using the Black and Scholes option pricing model, taking into account the terms and conditions upon which the SARs were granted. This difference led to an increase in other liabilities of $0.8 million as at November 1, 2010, $0.7 million as at July 31, 2011 and $0.2 million as at October 31, 2011, and resulted in related adjustments to retained earnings and net income.

h) Securities

Canadian GAAP requires that investments in equity instruments that do not have a quoted market price in an active market be measured at cost. Under IFRS, these instruments must be measured at fair value if it can be reliably measured. This revaluation resulted in an increase in available-for-sale securities of $1.3 million as at November 1, 2010, $0.9 million as at July 31, 2011 and nil as at October 31, 2011 as these securities were entirely sold, and in an increase in accumulated other comprehensive income of $1.0 million as at November 1, 2010, $0.6 million as at July 31, 2011 and nil as at October 31, 2011.

Under Canadian GAAP, an impairment expense was recognized on available-for-sale securities when there was objective evidence of impairment and when that impairment was considered to be other than temporary. Under IFRS, an impairment of these securities should be recognized as soon as there is objective evidence of the impairment. As a result, unrealized gains and losses on identified securities recorded in accumulated other comprehensive income were adjusted. In addition, related adjustments to retained earnings and net income were made.

i) Contingencies

Under Canadian GAAP and IFRS, provisions are recorded if it is probable that a present obligation exists at the end of the reporting period and a reliable estimate of its amount can be made. However, under IFRS, the probability threshold is interpreted as slightly lower than in Canadian GAAP and the measurement of the liability may be different when there is many possible outcomes to the resolution of the contingencies. Consequently, the Bank reviewed all pending contingencies as at the opening balance sheet date and reviewed the recognition and valuation of its provisions. This entailed an increase of $3.0 million in other liabilities as at November 1, 2010, July 31, 2011 and October 31, 2011 and related adjustments to retained earnings and net income.

j) Income taxes

The adjustment to total equity at the transition date essentially reflects the total tax recovery on all the adjustments from Canadian GAAP to IFRS. Significant components of the Bank's deferred income tax assets and liabilities as at October 31, 2011 and November 1, 2010 are now as follows.

	AS AT OCTOBER 31, 2011			AS AT NOVEMBER 1, 2010		
	CANADIAN GAAP	ADJUSTMENTS	IFRS	CANADIAN GAAP	ADJUSTMENTS	IFRS
Deferred income tax assets						
Allowances for loan losses	$ 21,900	$ (81)	$ 21,819	$ 22,068	$ (263)	$ 21,805
Premises and equipment	10,668	869	11,537	15,168	832	16,000
Provisions	7,282	143	7,425	4,804	124	4,928
Amount related to share-based payments	5,305	57	5,362	4,709	209	4,918
Tax loss carryforwards	3,222	-	3,222	-	-	-
Software	-	-	-	11,551	-	11,551
Defined benefit assets-pension plans	-	4,041	4,041	-	4,964	4,964
Other temporary differences	3,059	3,873	6,932	2,899	4,087	6,986
	$ 51,436	$ 8,902	$ 60,338	$ 61,199	$ 9,953	$ 71,152
Deferred income tax liabilities						
Defined benefit assets-pension plans	$ 27,410	$ (27,410)	$ -	$ 29,318	$ (29,318)	$ -
Securitization and securities	21,732	1,180	22,912	16,414	9,235	25,649
Deferred charges	17,149	-	17,149	15,640	-	15,640
Derivatives	16,110	-	16,110	8,118	-	8,118
Software	5,494	-	5,494	-	-	-
Other temporary differences	2,863	(1,988)	875	3,650	(2,357)	1,293
	90,758	(28,218)	62,540	73,140	(22,440)	50,700
Deferred income taxes, net	$ (39,322)	$ 37,120	$ (2,202)	$ (11,941)	$ 32,393	$ 20,452

Under Canadian GAAP, changes in income taxes in a subsequent period were generally charged to the statement of income regardless of where the underlying transaction was initially recorded. Under IFRS, deferred taxes that are related to items that have been charged to equity in previous periods are charged directly to equity in a manner consistent with the underlying transaction.

k) Customer loyalty programs

To promote the use of its credit cards, the Bank grants points that can be redeemed for goods or services. Under Canadian GAAP, the expected cost of these points was recognized as a liability and as a marketing expense. Under IFRS, the points must be accounted for as a separately identifiable component of the sales transactions in which they were granted, based on their estimated fair value. The related amounts are presented in other income under fees and commissions on loans and deposits. This adjustment resulted in an increase in other liabilities of $0.4 million as at November 1, 2010 and $0.5 million as at July 31, 2011 and October 31, 2011, and related adjustments to retained earnings and net income.

l) Operating lease incentives

Under Canadian GAAP, operating leases renegotiated prior to the end of the original lease term were accounted in accordance with the terms of the original lease contract until the end of the original lease term. Accordingly, any incentives received in order to renegotiate the lease were recognized as a reduction of rental expense on a straight-line basis over the term of the lease extension. Under IFRS, the Bank must recognize the benefit of incentives over the term of the renegotiated lease. As a result, the Bank reviewed the amortization periods of its reported operating lease incentives. This entailed a reduction in other liabilities of $1.7 million as at November 1, 2010, $1.5 million as at July 31, 2011 and $1.4 million as at October 31, 2011 and related adjustments to retained earnings and net income.

m) Premises and equipment and software

Under Canadian GAAP, certain equipments and software were depreciated using the declining balance method and straight-line method. IFRS suggest that the depreciation method used should be applied consistently across various types of assets. In order to harmonize the depreciation methods, the Bank changed the depreciation method for certain equipments and software from declining balance to straight-line. This resulted in a reduction of premises and equipment and software of a combined $3.0 million as at November 1, 2010, and $3.2 million as at July 31, 2011 and October 31, 2011, and related adjustments to retained earnings and net income.

n) Reclassification of loan origination fees

Loan origination fees, previously presented in other assets, were reclassified to their respective loan accounts. This reclassification amounted to $94.5 million as at November 1, 2010, $100.1 million as at July 31, 2011, and $102.8 million as at October 31, 2011.

o) Retained earnings

The adjustment to retained earnings at the transition date reflects the net impact of the adjustments from Canadian GAAP to IFRS listed above. See Section 5.5.

p) Adjustments to the consolidated statement of cash flows

The transition from Canadian GAAP to IFRS had no effect on actual cash flows. The presentation of certain cash flows included in financing and investing activities under Canadian GAAP, mostly related to the Bank's securitization activities as well as changes in loans and deposits were reclassified to operating activities under IFRS.

6. Securities

Gains and losses recognized in income

Gains and losses on the portfolio of available-for-sale securities

The following items were recognized in income from treasury and financial market operations with regard to the portfolio of available-for-sale securities.

	FOR THE THREE MONTHS ENDED			FOR THE NINE MONTHS ENDED	
	JULY 31 2012	APRIL 30 2012	JULY 31 2011	**JULY 31 2012**	JULY 31 2011
Realized net gains	**$ 745**	$ 1,789	$ 1,114	**$ 3,005**	$ 4,025
Writedowns for impairment recognized in income	**(287)**	(572)	(300)	**(890)**	(369)
	$ 458	$ 1,217	$ 814	**$ 2,115**	$ 3,656

Gains and losses recognized in comprehensive income

Unrealized gains and losses on the portfolio of available-for-sale securities

Unrealized gains and losses on available-for-sale securities results mainly from fluctuations in market prices as well as changes in interest and exchange rates. The Bank considers that no objective evidence of impairment related to the securities in an unrealized loss position exists, based on the market conditions at the reporting date, and continues to monitor these investments and market conditions.

The following table presents the unrealized gains and unrealized losses on available-for-sale securities, recognized in other comprehensive income.

				AS AT JULY 31, 2012
	AMORTIZED COST	**UNREALIZED GAINS**	**UNREALIZED LOSSES**	**FAIR VALUE**
Securities issued or guaranteed				
by Canada [1]	**$ 952,209**	**$ 10,372**	**$ 23**	**$ 962,558**
by provinces	**248,892**	**2,542**	**1**	**251,433**
Other debt securities	**584,556**	**6,704**	**107**	**591,153**
Asset-backed securities	**27,533**	**1,537**	**17**	**29,053**
Preferred shares	**65,703**	**1,381**	**704**	**66,380**
Common shares and other securities	**52,029**	**5,192**	**1,519**	**55,702**
	$ 1,930,922	**$ 27,728**	**$ 2,371**	**$ 1,956,279**

				AS AT OCTOBER 31, 2011
	AMORTIZED COST	UNREALIZED GAINS	UNREALIZED LOSSES	FAIR VALUE
Securities issued or guaranteed				
by Canada [1]	$ 1,223,334	$ 26,066	$ -	$ 1,249,400
by provinces	410,861	4,286	29	415,118
Other debt securities	303,797	7,396	560	310,633
Asset-backed securities	23,292	1,765	3	25,054
Preferred shares	57,142	1,172	1,385	56,929
Common shares and other securities	48,595	4,596	2,250	50,941
	$ 2,067,021	$ 45,281	$ 4,227	$ 2,108,075

[1] Including mortgage-backed securities that are fully guaranteed by the CMHC pursuant to the *National Housing Act* .

6. Securities [Cont'd]

AS AT JULY 31, 2011	AMORTIZED COST	UNREALIZED GAINS	UNREALIZED LOSSES	FAIR VALUE
Securities issued or guaranteed				
by Canada [1]	$ 1,252,238	$ 25,676	$ -	$ 1,277,914
by provinces	355,559	4,095	-	359,654
Other debt securities	259,658	7,254	10	266,902
Asset-backed securities	25,464	1,950	-	27,414
Preferred shares	61,936	2,325	97	64,164
Common shares and other securities	43,662	4,626	1,512	46,776
	$ 1,998,517	$ 45,926	$ 1,619	$ 2,042,824

AS AT NOVEMBER 1, 2010	AMORTIZED COST	UNREALIZED GAINS	UNREALIZED LOSSES	FAIR VALUE
Securities issued or guaranteed				
by Canada [1]	$ 1,429,664	$ 36,866	$ 24	$ 1,466,506
by provinces	407,449	4,498	-	411,947
Other debt securities	132,595	6,996	163	139,428
Asset-backed securities	24,694	1,278	53	25,919
Preferred shares	56,776	2,232	52	58,956
Common shares and other securities	30,932	5,558	385	36,105
	$ 2,082,110	$ 57,428	$ 677	$ 2,138,861

[1] Including mortgage-backed securities that are fully guaranteed by the CMHC pursuant to the *National Housing Act* .

Financial instruments designated as at fair value through profit or loss

Management elected to designate certain securities as at fair value through profit or loss in order to reduce recognition inconsistency that would otherwise have arisen from recognizing gains and losses on different bases. No amounts related to these securities were recorded in income from treasury and financial market operations for the three-month period ended July 31, 2012 (nil for the three-month periods ended April 30, 2012 and July 31, 2011) and for the nine-month period ended July 31, 2012 ($2.1 million for the nine-month period ended July 31, 2011).

Held-to-maturity

The following table presents the amortized cost of securities classified as held-to-maturity. Refer to Note 8 for additional information on these securities.

	AS AT JULY 31, 2012	AS AT OCTOBER 31, 2011	AS AT JULY 31, 2011	AS AT NOVEMBER 1, 2010
Securities issued or guaranteed by Canada [1]	**$ 917,616**	$ 872,523	$ 817,625	$ 546,144
Asset-backed commercial paper	**61,554**	13,299	13,339	13,313
	$ 979,170	$ 885,822	$ 830,964	$ 559,457

[1] Including mortgage-backed securities that are fully guaranteed by the CMHC pursuant to the *National Housing Act* and treasury bills.

7. Loans[1]

Loans and impaired loans

AS AT JULY 31, 2012

	GROSS AMOUNT OF LOANS	**GROSS AMOUNT OF IMPAIRED LOANS**	**INDIVIDUAL ALLOWANCES**	**COLLECTIVE ALLOWANCES**	**TOTAL ALLOWANCES**
Personal	**$ 6,081,592**	**$ 17,774**	**$ -**	**$ 34,506**	**$ 34,506**
Residential mortgage	**12,554,098**	**18,853**	**-**	**1,743**	**1,743**
Commercial mortgage	**2,473,833**	**61,418**	**28,914**	**17,630**	**46,544**
Commercial and other [1]	**2,326,144**	**58,348**	**33,138**	**16,708**	**49,846**
	$ 23,435,667	**$ 156,393**	**$ 62,052**	**$ 70,587**	**$ 132,639**

AS AT OCTOBER 31, 2011

	GROSS AMOUNT OF LOANS	GROSS AMOUNT OF IMPAIRED LOANS	INDIVIDUAL ALLOWANCES	COLLECTIVE ALLOWANCES	TOTAL ALLOWANCES
Personal	$ 5,774,207	$ 14,395	$ -	$ 30,216	$ 30,216
Residential mortgage	11,869,412	17,053	-	1,424	1,424
Commercial mortgage	2,363,808	62,541	22,129	22,183	44,312
Commercial and other [1]	2,080,117	69,736	47,321	19,877	67,198
	$ 22,087,544	$ 163,725	$ 69,450	$ 73,700	$ 143,150

AS AT JULY 31, 2011

	GROSS AMOUNT OF LOANS	GROSS AMOUNT OF IMPAIRED LOANS	INDIVIDUAL ALLOWANCES	COLLECTIVE ALLOWANCES	TOTAL ALLOWANCES
Personal	$ 5,732,870	$ 15,369	$ -	$ 29,400	$ 29,400
Residential mortgage	11,578,930	16,517	-	2,758	2,758
Commercial mortgage	2,302,562	68,160	20,401	21,950	42,351
Commercial and other [1]	2,061,877	71,646	47,588	19,056	66,644
	$ 21,676,239	$ 171,692	$ 67,989	$ 73,164	$ 141,153

AS AT NOVEMBER 1, 2010

	GROSS AMOUNT OF LOANS	GROSS AMOUNT OF IMPAIRED LOANS	INDIVIDUAL ALLOWANCES	COLLECTIVE ALLOWANCES	TOTAL ALLOWANCES
Personal	$ 5,636,203	$ 16,397	$ -	$ 31,547	$ 31,547
Residential mortgage	10,859,647	20,914	-	3,498	3,498
Commercial mortgage	2,166,375	52,706	13,750	15,830	29,580
Commercial and other [1]	1,856,640	98,106	44,391	22,551	66,942
	$ 20,518,865	$ 188,123	$ 58,141	$ 73,426	$ 131,567

[1] Including customers' liabilities under acceptances.

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[1] Mortgage loans on residential real estate development properties and projects which were previously reported in residential mortgage loans on the consolidated balance sheet were reclassified to commercial mortgage loans to better reflect the nature of these loans. This reclassification amounted to $550.5 million as at October 31, 2011, $561.0 million as at July 31, 2011 and $527.5 million as at November 1, 2010. Corresponding reclassifications of the provision for loan losses as well as impaired loans and allowances were made.

7. Loans [Cont'd]

Allowances for loan losses

	COMMERCIAL MORTGAGE LOANS	COMMERCIAL AND OTHER LOANS [1]	FOR THE NINE MONTHS ENDED JULY 31 2012 TOTAL INDIVIDUAL ALLOWANCES	JULY 31 2011 TOTAL INDIVIDUAL ALLOWANCES
Individual allowances for loan losses				
Balance at beginning of period	**$ 22,129**	**$ 47,321**	**$ 69,450**	$ 58,141
Provision for loan losses recorded in the consolidated statement of income	**7,691**	**4,642**	**12,333**	18,909
Write-offs	**(27)**	**(18,695)**	**(18,722)**	(8,132)
Recoveries	**-**	**79**	**79**	14
Interest accrued on impaired loans	**(879)**	**(209)**	**(1,088)**	(943)
Balance at end of period	**$ 28,914**	**$ 33,138**	**$ 62,052**	$ 67,989

[1] Including customers' liabilities under acceptances.

	PERSONAL LOANS	RESIDENTIAL MORTGAGE LOANS	COMMERCIAL MORTGAGE LOANS	COMMERCIAL AND OTHER LOANS [1]	FOR THE NINE MONTHS ENDED JULY 31 2012 TOTAL COLLECTIVE ALLOWANCES	JULY 31 2011 TOTAL COLLECTIVE ALLOWANCES
Collective allowances for loan losses						
Balance at beginning of period	**$ 30,216**	**$ 1,424**	**$ 22,183**	**$ 19,877**	**$ 73,700**	$ 73,426
Allowances for loan losses resulting from the acquisition of a subsidiary (see Note 15)	**2,829**	**374**	**-**	**-**	**3,203**	-
Provision for loan losses recorded in the consolidated statement of income	**17,760**	**2,038**	**(4,235)**	**(2,896)**	**12,667**	19,172
Write-offs	**(17,983)**	**(1,303)**	**-**	**(81)**	**(19,367)**	(20,198)
Recoveries	**2,050**	**(591)**	**-**	**4**	**1,463**	2,836
Interest accrued on impaired loans	**(366)**	**(199)**	**(318)**	**(196)**	**(1,079)**	(2,072)
Balance at end of period	**$ 34,506**	**$ 1,743**	**$ 17,630**	**$ 16,708**	**$ 70,587**	$ 73,164

[1] Including customers' liabilities under acceptances.

The allowance for undrawn amounts under approved credit facilities, which is recognized in other liabilities, amounted to $6.1 million as at July 31, 2012, $5.6 million as at October 31, 2011, $5.5 million as at July 31, 2011 and $5.7 million as at November 1, 2010.

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.

				AS AT JULY 31, 2012
	1 DAY-31 DAYS	32 DAYS-90 DAYS	OVER 90 DAYS	TOTAL
Personal loans	**$ 79,937**	**$ 24,712**	**$ 5,766**	**$ 110,415**
Residential mortgage loans	**259,780**	**38,910**	**25,055**	**323,745**
	$ 339,717	**$ 63,622**	**$ 30,821**	**$ 434,160**

				AS AT OCTOBER 31, 2011
	1 DAY-31 DAYS	32 DAYS-90 DAYS	OVER 90 DAYS	TOTAL
Personal loans	$ 98,641	$ 37,630	$ 5,188	$ 141,459
Residential mortgage loans	257,008	35,773	26,297	319,078
	$ 355,649	$ 73,403	$ 31,485	$ 460,537

				AS AT JULY 31, 2011
	1 DAY-31 DAYS	32 DAYS-90 DAYS	OVER 90 DAYS	TOTAL
Personal loans	$ 98,428	$ 25,325	$ 5,667	$ 129,420
Residential mortgage loans	296,542	36,574	27,692	360,808
	$ 394,970	$ 61,899	$ 33,359	$ 490,228

				AS AT NOVEMBER 1, 2010
	1 DAY-31 DAYS	32 DAYS-90 DAYS	OVER 90 DAYS	TOTAL
Personal loans	$ 103,203	$ 26,478	$ 7,160	$ 136,841
Residential mortgage loans	277,957	32,053	32,820	342,830
	$ 381,160	$ 58,531	$ 39,980	$ 479,671

Sale of commercial mortgage loans

During the quarter ended April 30, 2012, the Bank sold $77.0 million of commercial mortgage loans and recognized a $3.1 million gain in other income.

8. Loan Securitization

The Bank securitizes residential mortgage loans primarily by participating to the Canada Mortgage Bond (CMB) program and through multi-seller conduits set up by large Canadian banks. As the Bank ultimately retains certain prepayment risk, interest rate risk and credit risk (for loans sold to multi-seller conduits only) related to the transferred mortgage loans, these are not derecognized and the securitization proceeds are recorded as securitization liabilities.

Canada Mortgage Bond program

Under the National Housing Act (NHA) mortgage-backed securities (MBS) program, the Bank issues securities backed by residential mortgage loans that are insured by the Canada Mortgage and Housing Corporation (CMHC) against borrowers' default (the NHA MBS). The Bank subsequently sells these NHA MBS to a special purpose trust set-up by the CMHC, the Canada Housing Trust (CHT), which finances the purchases by issuing the CMHC guaranteed CMB.

NHA MBS are amortizing assets that pay back principal and interest cash flows on a monthly basis. For their part, CMBs provide investors with a fixed interest coupon bond with semi-annual interest payments and repayment of principal on a specified maturity date. To address this difference in cash flows, the CHT enters into master swap agreements with approved financial institutions (Swap Counterparties). Under the swap, 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 agreement, the Swap Counterparties are responsible to reinvest 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. Because the underlying cash flows associated with these interest rate swaps are captured through the on-balance sheet recognition of the underlying assets and the associated securitization liabilities, these interest rate swaps 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 interest rate swaps are recognized on an accrual basis as described above. As at July 31, 2012, the notional amount of these swaps was $5.1 billion compared to $4.7 billion as at October 31, 2011, $4.4 billion as at July 31, 2011 and $3.3 billion as at November 1, 2010.

Assets related to securitization activities

As the above securitization transactions do not meet derecognition criteria, the securitized mortgage loans remain on balance sheet as residential mortgage loans. However, as the Bank's right, title and interest in the transferred mortgages are legally transferred to the CHT, these are considered pledged assets. If the Bank fails to make timely payment under an NHA MBS security, the CMHC may enforce the assignment to CMHC of the mortgages included in all the mortgage pools backing the securities issued. Interest income is accrued on these loans as for the Bank's other mortgage loans. In addition, the Replacement Assets are also recorded on balance sheet and are also considered pledged assets. Interest income is accrued on these securities as for other similar securities. The CMB holders and CMHC have no recourse to other assets of the Bank in the event of failure of debtors to pay when due.

Debt related to securitization activities

As these securitization transactions do not meet derecognition criteria, the proceeds received are recorded as a debt related to CMB transactions on the consolidated balance sheets of the Bank. Interest accrued on debt related to CMB transactions is based on the CMB coupon related to the series in which the Bank participated and is classified in other liabilities as accrued interest payable.

Multi-seller conduits

As part of transactions with multi-seller conduits, the Bank has sold mortgage loans to trusts established for the limited purpose of securitization activities. These trusts fund such purchases mainly through the issuance of asset-backed commercial paper. Funding was reduced as mortgage loans were repaid.

Assets related to securitization activities

As the Bank provided credit enhancements for these transactions, they did not meet derecognition criteria and the securitized mortgage loans remained on balance sheet as residential mortgages. However, as the Bank's rights, title and interest in the transferred mortgages were legally transferred to the trusts, these were considered pledged assets. Interest income was accrued on these loans as for the Bank's other mortgage loans. The trusts had no recourse to other assets of the Bank in the event of failure of debtors to pay when due.

Debt related to securitization activities

As these securitization transactions did not meet derecognition criteria, the proceeds received were recorded as a debt related to multi-seller conduits on the consolidated balance sheet. Interest accrued on debt related to multi-seller conduit transactions was mainly based on the commercial paper issued by the trusts to fund the purchases and was classified in other liabilities as accrued interest payable.

Financial assets and associated financial liabilities not qualifying for derecognition

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

				AS AT JULY 31, 2012
	WITHIN 1 YEAR	1 TO 5 YEARS	TOTAL CARRYING AMOUNT	FAIR VALUE
Residential mortgage loans	**$ 1,334,701**	**$ 2,302,523**	**$ 3,637,224**	**$ 3,684,416**
Replacement Assets				
Cash and deposits with other banks	**3,584**	**-**	**3,584**	**3,584**
Securities purchased under reverse repurchase agreements	**370,460**	**-**	**370,460**	**370,460**
Other securities	**827,502**	**151,668**	**979,170**	**980,439**
Debt related to securitization activities (see below)	**$ 1,458,636**	**$ 3,650,379**	**$ 5,109,015**	**$ 5,232,824**

		AS AT OCTOBER 31, 2011
	CARRYING AMOUNT	FAIR VALUE
Residential mortgage loans	$ 3,394,017	$ 3,445,016
Replacement Assets		
Cash and deposits with other banks	9,030	9,030
Securities purchased under reverse repurchase agreements	401,564	401,564
Other securities	885,822	890,582
Debt related to securitization activities (see below)	$ 4,760,847	$ 4,904,049

		AS AT JULY 31, 2011
	CARRYING AMOUNT	FAIR VALUE
Residential mortgage loans	$ 3,299,906	$ 3,335,422
Replacement Assets		
Cash and deposits with other banks	2,967	2,967
Securities purchased under reverse repurchase agreements	227,573	227,573
Other securities	830,964	834,929
Debt related to securitization activities (see below)	$ 4,442,256	$ 4,579,831

		AS AT NOVEMBER 1, 2010
	CARRYING AMOUNT	FAIR VALUE
Residential mortgage loans	$ 2,715,535	$ 2,775,073
Replacement Assets		
Cash and deposits with other banks	5,740	5,740
Securities purchased under reverse repurchase agreements	190,800	190,800
Other securities	559,457	563,725
Debt related to securitization activities (see below)	$ 3,486,634	$ 3,643,358

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

	FOR THE THREE MONTHS ENDED			FOR THE NINE MONTHS ENDED	
	JULY 31 2012	APRIL 30 2012	JULY 31 2011	**JULY 31 2012**	JULY 31 2011
Carrying amounts of the mortgages transferred during the quarter related to new issuances under the CMB program	**$ 163,695**	$ 303,814	$ 399,994	**$ 518,288**	$ 1,101,242
Carrying amounts of the mortgages transferred during the quarter as Replacement Assets under the CMB program	**$ 161,755**	$ 230,715	$ -	**$ 621,019**	$ 136,076

8. Loan Securitization [Cont'd]

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

MATURITY	RATE	NOMINAL VALUE	AS AT JULY 31 2012	AS AT OCTOBER 31 2011	AS AT JULY 31 2011	AS AT NOVEMBER 1 2010
Debt related to CMB transactions						
March 2011	4.08 %	$ 51,439	**$ -**	$ -	$ -	$ 51,410
June 2012	4.83	51,712	**-**	51,680	51,668	51,633
June 2012	4.03	66,542	**-**	66,489	66,469	66,410
December 2012	4.58	802,641	**802,693**	802,987	803,072	803,321
June 2013	3.98	249,118	**248,853**	248,640	248,570	248,366
June 2013	3.63	407,499	**407,078**	406,738	406,626	406,299
September 2013	3.58	155,944	**155,793**	155,699	155,668	155,577
December 2013	2.73	301,554	**301,041**	300,772	300,683	300,422
March 2014	2.25	169,231	**168,912**	168,770	168,723	168,584
June 2014	3.18	190,541	**190,222**	190,101	190,061	189,944
July 2014	3.20	62,796	**62,739**	62,718	62,712	62,691
September 2014	2.79	231,046	**230,464**	230,268	230,203	230,013
December 2014	2.80	50,639	**50,501**	50,459	50,446	50,405
March 2015	2.98	150,264	**149,919**	149,827	149,796	149,706
June 2015	3.20	325,637	**324,661**	324,423	324,345	324,115
December 2015	2.49	55,755	**55,529**	55,482	55,466	55,421
December 2015	2.78	351,028	**349,580**	349,278	349,179	-
June 2016	2.80	351,108	**349,806**	349,572	349,494	-
June 2016	2.81	395,984	**397,750**	398,074	398,181	-
December 2016	1.89	315,014	**313,672**	313,458	-	-
December 2016	1.88	50,152	**50,494**	-	-	-
June 2017	2.10	303,903	**302,600**	-	-	-
June 2017	2.11 %	$ 160,948	**162,934**	-	-	-
			5,075,241	4,675,435	4,361,362	3,314,317
Net fair value adjustment [1]			**33,774**	43,902	17,321	-
			5,109,015	4,719,337	4,378,683	3,314,317
Debt related to multi-seller conduits						
Until June 2012	2.07 % [2]		**-**	41,510	63,573	172,317
			$ 5,109,015	$ 4,760,847	$ 4,442,256	$ 3,486,634

[1] Carrying value of debt related to securitization activities reflects the impact of interest rate hedges in effective hedge relationships.

[2] The interest rate on the debt related to multi-seller conduits was based on the funding cost of the conduits and corresponded to the asset-backed commercial paper rate issued by the conduits, plus related program fees.

9. Capital Stock

Common shares

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

	FOR THE NINE MONTHS ENDED			
	JULY 31, 2012		JULY 31, 2011	
	NUMBER OF SHARES	**AMOUNT**	NUMBER OF SHARES	AMOUNT
Common shares				
Outstanding at beginning of period	**23,925,037**	**$ 259,492**	23,920,962	$ 259,363
Issuance under the employee share purchase option plan	**-**	**-**	4,075	129
Issuance of new shares	**1,325,100**	**63,009**	-	-
Issuance costs, net of income taxes		**(2,066)**		-
Total common shares	**25,250,137**	**$ 320,435**	23,925,037	$ 259,492

On February 2, 2012, the Bank completed the issuance of 1,325,100 common shares for net proceeds of $60.9 million.

Subscription receipts

On June 12, 2012, the Bank issued a private placement of 2,867,383 subscription receipts at a price of $41.85 per receipt. Proceeds were placed in escrow until closing of the AGF Trust Company acquisition (see Note 16). Upon the completion of

the acquisition on August 1, 2012, subscription receipts were automatically exchanged, on a one-for-one basis, for common shares of the Bank.

Preferred shares

The outstanding amounts of preferred shares were as follows.

Issued and outstanding as at November 1, 2010, July 31, 2011, October 31, 2011 and July 31, 2012

	NUMBER OF SHARES	AMOUNT
Class A Preferred shares		
Series 9	4,000,000	$ 100,000
Series 10	4,400,000	110,000
Total preferred shares	8,400,000	$ 210,000

On November 17, 2010, the Bank irrevocably renounced its right of conversion of its Class A preferred shares into common shares.

Dividends declared

On August 22, 2012, the Board of Directors declared regular dividends on the various series of preferred shares to shareholders of record on September 7, 2012.

At its meeting on August 31, 2012, the Board of Directors declared a dividend of $0.47 per common share, payable on November 1, 2012, to shareholders of record on October 1, 2012.

Capital management

Capital must meet minimum regulatory requirements, as defined by the Office of the Superintendent of Financial Institutions Canada (OSFI) and internal capital adequacy objectives.

Regulatory guidelines issued by OSFI require banks to maintain a minimum Tier 1 capital ratio of at least 7% and a Total capital ratio of at least 10%. The Bank opted for the Standardized approach for credit risk and has chosen to use the Standardized Approach to account for operational risk. In addition, Canadian banks are required to ensure that their assets-to-capital multiple, which is calculated by dividing gross adjusted assets by Total capital, does not exceed a maximum level prescribed by OSFI. The Bank has complied with these requirements throughout the nine-month periods ended July 31, 2012 and July 31, 2011. Regulatory capital is detailed below.

	AS AT JULY 31 2012	AS AT OCTOBER 31 [1] 2011	AS AT JULY 31 [1] 2011
Tier I capital			
Common shares	**$ 320,435**	$ 259,492	$ 259,492
Share-based payment reserve	**227**	227	227
Retained earnings	**734,339**	818,207	802,795
Non-cumulative preferred shares	**210,000**	210,000	210,000
Goodwill	**(64,077)**	(53,790)	(53,790)
Securitization-related and other deductions	**(21,843)**	(16,911)	(20,002)
	1,179,081	1,217,225	1,198,722
Adjustment for transition to measurement base under IFRS	**54,386**	-	-
Total- Tier I capital	**1,233,467**	1,217,225	1,198,722
Tier II capital			
Subordinated debt	**243,869**	242,512	242,072
Collective allowances	**76,688**	73,602	71,174
Securitization-related and other deductions	**(18,943)**	(16,499)	(17,747)
Total- Tier II capital	**301,614**	299,615	295,499
Total regulatory capital	**$ 1,535,081**	$ 1,516,840	$ 1,494,221

[1] The amounts are presented in accordance with previous Canadian GAAP as filed with OSFI.

The Bank has elected to phase in the impact of conversion to IFRS on retained earnings.

10. Share-Based Payments

Share purchase option plan

No new share options were granted during the first nine months of 2012. Information relating to outstanding number of options is as follows.

	AS AT JULY 31 2012	AS AT OCTOBER 31 2011	AS AT JULY 31 2011	AS AT NOVEMBER 1 2010
	NUMBER	NUMBER	NUMBER	NUMBER
Share purchase options				
Outstanding at end of period	**50,000**	50,000	50,000	54,075
Exercisable at end of period	**50,000**	50,000	50,000	41,575

Restricted share unit plans

During the first quarter of 2012, under the restricted share unit plan, annual bonuses for certain employees amounting to $1.8 million were converted into 41,422 entirely vested restricted share units. Simultaneously, the Bank also granted 25,703 additional restricted share units that will vest in December 2014. During the second quarter of 2012, the Bank granted 750 restricted share units valued at $45.42 each that will vest in December 2014. During the third quarter of 2012, the Bank granted 1,551 restricted share units valued at $42.20 each that will vest in December 2014.

During the first quarter of 2012, under the restricted share unit plan for employees of the Capital Markets sector, annual bonuses for certain employees amounting to $0.9 million were converted into 20,952 entirely 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. There were no new grants during the second and third quarters of 2012.

Performance-based share unit plan

During the first quarter of 2012, under the revised performance-based share unit plan, the Bank granted 85,268 performance-based share units valued at $43.84 each. The rights to these units will all vest after three years and upon meeting certain financial objectives. There were no new grants during the second and third quarters of 2012.

Share-based payment plan expense

The following table presents the expense related to all share-based payment plans, net of the effect of related hedging transactions.

	FOR THE THREE MONTHS ENDED			FOR THE NINE MONTHS ENDED	
	JULY 31 2012	APRIL 30 2012	JULY 31 2011	JULY 31 2012	JULY 31 2011
Share-based payment plan expense	**$ 4,050**	$ (513)	$ (3,924)	**$ 4,289**	$ 1,827
Effect of hedges	**(3,074)**	1,493	5,678	**(1,978)**	708
	$ 976	$ 980	$ 1,754	**$ 2,311**	$ 2,535

The carrying amount of the liability relating to the cash–settled plans at July 31, 2012 was $20.9 million ($19.1 million at October 31, 2011, $16.9 million at July 31, 2011 and $17.4 million at November 1, 2010).

11. Post-Employment Benefits

	FOR THE THREE MONTHS ENDED			FOR THE NINE MONTHS ENDED	
	JULY 31 2012	APRIL 30 2012	JULY 31 2011	**JULY 31 2012**	JULY 31 2011
Defined benefit pension plan expense	**$ 2,071**	$ 2,013	$ 1,402	**$ 5,452**	$ 3,919
Defined contribution pension plan expense	**1,571**	1,519	1,315	**4,460**	3,786
Other plan expense	**402**	395	404	**1,199**	1,199
	$ 4,044	$ 3,927	$ 3,121	**$ 11,111**	$ 8,904

12. Additional Information Regarding Other Comprehensive Income

	FOR THE THREE MONTHS ENDED								
			JULY 31 2012			APRIL 30 2012			JULY 31 2011
	AMOUNTS BEFORE INCOME TAXES	**INCOME TAXES**	**AMOUNTS NET OF INCOME TAXES**	AMOUNTS BEFORE INCOME TAXES	INCOME TAXES	AMOUNTS NET OF INCOME TAXES	AMOUNTS BEFORE INCOME TAXES	INCOME TAXES	AMOUNTS NET OF INCOME TAXES
Unrealized net gains (losses) on available-for-sale securities	**$ (3,630)**	**$ 916**	**$ (2,714)**	$ (5,190)	$ 1,439	$ (3,751)	$ 1,374	$ (653)	$ 721
Reclassification of net (gains) losses on available-for-sale securities to net income	**(458)**	**124**	**(334)**	(1,217)	329	(888)	(1,113)	310	(803)
	(4,088)	**1,040**	**(3,048)**	(6,407)	1,768	(4,639)	261	(343)	(82)
Net change in value of derivatives designated as cash flow hedges	**18,924**	**(5,150)**	**13,774**	(32,885)	8,905	(23,980)	26,638	(7,618)	19,020
Other comprehensive income	**$ 14,836**	**$ (4,110)**	**$ 10,726**	$ (39,292)	$ 10,673	$ (28,619)	$ 26,899	$ (7,961)	$ 18,938

	FOR THE NINE MONTHS ENDED					
			JULY 31 2012			JULY 31 2011
	AMOUNTS BEFORE INCOME TAXES	**INCOME TAXES**	**AMOUNTS NET OF INCOME TAXES**	AMOUNTS BEFORE INCOME TAXES	INCOME TAXES	AMOUNTS NET OF INCOME TAXES
Unrealized net gains (losses) on available-for-sale securities	**$ (10,858)**	**$ 2,910**	**$ (7,948)**	$ (8,921)	$ 1,086	$ (7,835)
Reclassification of net (gains) losses on available-for-sale securities to net income	**(2,115)**	**572**	**(1,543)**	(4,024)	1,596	(2,428)
	(12,973)	**3,482**	**(9,491)**	(12,945)	2,682	(10,263)
Net change in value of derivatives designated as cash flow hedges	**(24,281)**	**6,511**	**(17,770)**	3,628	(1,077)	2,551
Other comprehensive income	**$ (37,254)**	**$ 9,993**	**$ (27,261)**	$ (9,317)	$ 1,605	$ (7,712)

13. Additional Information Regarding Financial Instruments

Derivatives

The following table presents the fair value of derivative contracts designated as hedging instruments.

	AS AT JULY 31 2012	AS AT OCTOBER 31 2011	AS AT JULY 31 2011	AS AT NOVEMBER 1 2010
Cash flow hedges	**$ 18,110**	$ 33,312	$ 14,617	$ 16,464
Fair value hedges	**34,402**	41,068	17,538	17,506
	$ 52,512	$ 74,380	$ 32,155	$ 33,970

Ineffective portions of hedging relationships

The following tables shows the ineffective portions of hedging relationships recognized in the consolidated statement of income.

	FOR THE THREE MONTHS ENDED			FOR THE NINE MONTHS ENDED	
	JULY 31 2012	APRIL 30 2012	JULY 31 2011	JULY 31 2012	JULY 31 2011
Cash flow hedges	**$ (201)**	$ 513	$ (85)	**$ 462**	$ 669
Fair value hedges	**(383)**	100	(77)	**(647)**	93
	$ (584)	$ 613	$ (162)	**$ (185)**	$ 762

Other information on hedging relationships

The remaining balance of accumulated other comprehensive income related to cash flow hedges will be transferred into net income over the next 7 years.

14. Segmented Information

The Bank determines its reportable segments based on the different services it provides to individuals, businesses, financial intermediaries and institutional clients. The four business segments of the Bank are: Retail & SME-Québec, Real Estate & Commercial, B2B Bank[1], and Laurentian Bank Securities & Capital Markets.

The Retail & SME-Québec segment provides a full range of savings, investment and financing products, and transactional products and services offered through its direct distribution network, which includes branches, electronic networks, a call centre and a mobile sales force. This business segment also offers Visa credit card services, insurance products and trust services. As well, it offers a wide range of commercial financial services to small and medium-sized enterprises in Québec.

The Real Estate & Commercial segment provides real estate financing throughout Canada, commercial financing in Ontario and Quebec, as well as foreign exchange and international services.

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

Laurentian Bank Securities & Capital Markets segment consists of the Laurentian Bank Securities Inc. subsidiary and the Bank's capital market activities.

A fifth "Other segment" encompasses the Bank's corporate functions, including Corporate Treasury.

Results for the Bank's segments are based on internal financial reporting systems and are consistent with the accounting principles followed in the preparation of the Bank's consolidated financial statements.

All transactions between business segments are conducted on an arm's length basis, with inter-segments revenues and costs being eliminated in the Other segment. Transfer pricing regarding the funding of segments' assets and liabilities is

[1] B2B Trust converted into a Schedule I federally chartered bank under the name of B2B Bank as of July 7, 2012.

based on funding costs which best reflect the nature and maturities of these items. Income and expenses directly associated with each segment are included in determining business segment performance. Corporate expenses are generally allocated pro-rata to each business segment.

FOR THE THREE MONTHS ENDED JULY 31, 2012

	RETAIL & SME-QUÉBEC	REAL ESTATE & COMMERCIAL	B2B BANK	LAURENTIAN BANK SECURITIES & CAPITAL MARKETS	OTHER	TOTAL
Net interest income	**$ 80,163**	**$ 21,731**	**$ 32,119**	**$ 785**	**$ (5,134)**	**$ 129,664**
Other income	**34,662**	**8,327**	**8,408**	**12,471**	**301**	**64,169**
Total revenue	**114,825**	**30,058**	**40,527**	**13,256**	**(4,833)**	**193,833**
Provision for loan losses	**6,474**	**436**	**590**	**-**	**-**	**7,500**
Non-interest expenses	**91,107**	**7,756**	**22,913**	**11,668**	**8,354**	**141,798**
Costs related to an acquisition and other [1]	**-**	**-**	**7,157**	**-**	**-**	**7,157**
Income (loss) before income taxes	**17,244**	**21,866**	**9,867**	**1,588**	**(13,187)**	**37,378**
Income taxes (recovered)	**3,709**	**5,915**	**2,612**	**412**	**(5,268)**	**7,380**
Net income (loss)	**$ 13,535**	**$ 15,951**	**$ 7,255**	**$ 1,176**	**$ (7,919)**	**$ 29,998**
Average assets [2]	**$ 13,733,835**	**$ 3,437,273**	**$ 6,177,975**	**$ 3,003,832**	**$ 4,768,131**	**$ 31,121,046**

FOR THE THREE MONTHS ENDED APRIL 30, 2012

	RETAIL & SME-QUÉBEC	REAL ESTATE & COMMERCIAL	B2B BANK	LAURENTIAN BANK SECURITIES & CAPITAL MARKETS	OTHER	TOTAL
Net interest income	$ 76,096	$ 22,049	$ 30,689	$ 696	$ (1,206)	$ 128,324
Other income	33,422	10,451	9,116	15,569	1,788	70,346
Total revenue	109,518	32,500	39,805	16,265	582	198,670
Provision for loan losses	4,855	1,755	890	-	-	7,500
Non-interest expenses	91,268	7,484	24,483	12,530	7,996	143,761
Costs related to an acquisition and other [1]	-	-	3,350	-	-	3,350
Income (loss) before income taxes	13,395	23,261	11,082	3,735	(7,414)	44,059
Income taxes (recovered)	2,737	6,292	2,953	956	(2,742)	10,196
Net income (loss)	$ 10,658	$ 16,969	$ 8,129	$ 2,779	$ (4,672)	$ 33,863
Average assets [2]	$ 13,456,896	$ 3,481,673	$ 6,260,665	$ 2,724,581	$ 4,183,763	$ 30,107,578

FOR THE THREE MONTHS ENDED JULY 31, 2011

	RETAIL & SME-QUÉBEC	REAL ESTATE & COMMERCIAL	B2B BANK	LAURENTIAN BANK SECURITIES & CAPITAL MARKETS	OTHER	TOTAL
Net interest income	$ 83,137	$ 22,942	$ 30,072	$ 611	$ (7,336)	$ 129,426
Other income	32,699	8,837	2,110	11,240	1,521	56,407
Total revenue	115,836	31,779	32,182	11,851	(5,815)	185,833
Provision for loan losses	3,724	10,458	458	-	-	14,640
Non-interest expenses	92,352	7,555	16,545	11,035	6,409	133,896
Income (loss) before income taxes	19,760	13,766	15,179	816	(12,224)	37,297
Income taxes (recovered)	5,015	3,940	4,300	130	(5,160)	8,225
Net income (loss)	$ 14,745	$ 9,826	$ 10,879	$ 686	$ (7,064)	$ 29,072
Average assets [2]	$ 12,826,370	$ 3,124,897	$ 5,444,437	$ 2,760,206	$ 3,903,033	$ 28,058,943

[1] Costs related to the acquisition of the MRS Companies and AGF Trust Company.

[2] Assets are disclosed on an average basis as this measure is most relevant to a financial institution.

14. Segmented Information [Cont'd]

FOR THE NINE MONTHS ENDED JULY 31, 2012

	RETAIL & SME-QUÉBEC	REAL ESTATE & COMMERCIAL	B2B BANK	LAURENTIAN BANK SECURITIES & CAPITAL MARKETS	OTHER	TOTAL
Net interest income	**$ 234,984**	**$ 65,992**	**$ 93,772**	**$ 1,990**	**$ (8,121)**	**$ 388,617**
Other income	**99,887**	**26,784**	**25,667**	**42,186**	**3,106**	**197,630**
Total revenue	**334,871**	**92,776**	**119,439**	**44,176**	**(5,015)**	**586,247**
Provision for loan losses	**17,545**	**5,042**	**2,413**	**-**	**-**	**25,000**
Non-interest expenses	**273,635**	**22,996**	**70,818**	**36,358**	**22,112**	**425,919**
Costs related to an acquisition and other [1]	**-**	**-**	**13,167**	**-**	**-**	**13,167**
Income (loss) before income taxes	**43,691**	**64,738**	**33,041**	**7,818**	**(27,127)**	**122,161**
Income taxes (recovered)	**9,077**	**17,512**	**8,786**	**1,988**	**(10,025)**	**27,338**
Net income (loss)	**$ 34,614**	**$ 47,226**	**$ 24,255**	**$ 5,830**	**$ (17,102)**	**$ 94,823**
Average assets [2]	**$ 13,498,199**	**$ 3,409,446**	**$ 6,148,626**	**$ 2,804,453**	**$ 4,452,088**	**$ 30,312,812**

FOR THE NINE MONTHS ENDED JULY 31, 2011

	RETAIL & SME-QUÉBEC	REAL ESTATE & COMMERCIAL	B2B BANK	LAURENTIAN BANK SECURITIES & CAPITAL MARKETS	OTHER	TOTAL
Net interest income	$ 241,466	$ 68,551	$ 87,294	$ 2,053	$ (21,270)	$ 378,094
Other income	99,256	24,782	7,054	43,911	2,828	177,831
Total revenue	340,722	93,333	94,348	45,964	(18,442)	555,925
Provision for loan losses	17,978	18,695	1,408	-	-	38,081
Non-interest expenses	272,473	21,918	48,113	37,656	12,799	392,959
Income (loss) before income taxes	50,271	52,720	44,827	8,308	(31,241)	124,885
Income taxes (recovered)	10,974	15,091	12,703	2,168	(13,059)	27,877
Net income (loss)	$ 39,297	$ 37,629	$ 32,124	$ 6,140	$ (18,182)	$ 97,008
Average assets [2]	$ 12,580,877	$ 3,058,186	$ 5,371,758	$ 2,555,802	$ 3,950,493	$ 27,517,116

[1] Costs related to the acquisition of the MRS Companies and AGF Trust Company.

[2] Assets are disclosed on an average basis as this measure is most relevant to a financial institution.

15. Business Combination

Acquisition of the MRS Companies[1]

On November 16, 2011, the Bank acquired 100% of the voting shares of the MRS Companies. The MRS Companies, previously part of the Mackenzie Financial Corporation, provide trust and administrative services to dealers, advisors and investors in Canada. The Bank acquired the MRS Companies to combine them with B2B Bank in order to enhance its product and service offering for the Canadian financial advisor community, as well as to further diversify the Bank's revenue streams.

The financial statements include the results of the MRS Companies for the 259 days period from the acquisition date. From the date of acquisition, the MRS Companies have contributed approximately $29.8 million to total revenue and $6.3 million to the net income of the Bank. Had the Bank completed the acquisition on November 1, 2011, the MRS Companies would have contributed approximately $31.4 million to total revenue and $6.5 million to the net income of the Bank.

The preliminary fair value of the identifiable assets and liabilities of the MRS Companies on November 16, 2011 was as follows.

[1] The MRS Companies included: M.R.S. Inc.; M.R.S. Trust Company; M.R.S. Securities Services Inc.; and M.R.S. Correspondent Corporation.

	FAIR VALUE RECOGNISED ON ACQUISITION
ASSETS	
Interest-bearing deposits with other banks	$ 426,654
Securities	145,567
Loans	333,073
Premises and equipment	262
Software and other intangible assets	23,028
Other assets	15,034
	943,618
LIABILITIES	
Deposits	725,540
Other liabilities	34,238
Subordinated debt	20,000
	779,778
Total identifiable net assets at fair value	163,840
Goodwill arising on acquisition	34,853
Purchase consideration transferred	$ 198,693

The allocation of the purchase price for the MRS Companies is subject to refinement as the Bank completes the valuation of the assets acquired and liabilities assumed.

The fair value of loans as at November 16, 2011 was estimated at $333.1 million. The gross amount of loans was $335.3 million. As at November 16, 2011, the Bank expected to collect essentially all the contractual amounts, except for expected loan losses amounting to approximately $3.2 million.

The goodwill recognized above is attributed to the expected synergies and other benefits from combining the assets and activities of the MRS Companies with those of the B2B Bank. The MRS Companies are part of the B2B Bank reportable segment; goodwill associated with this transaction was allocated to this segment. None of the recognized goodwill is expected to be deductible for income tax purposes.

As a result of the additional goodwill arising from the acquisition of the MRS Companies, the Bank's consolidated goodwill balance increased from $29.2 million as at October 31, 2011 to $64.1 million as at July 31, 2012.

The Bank and Mackenzie Investments also entered into a distribution agreement for a preferred series of Mackenzie mutual funds. Under this agreement, the Bank, as principal distributor, started to distribute a preferred series of Mackenzie mutual funds in January 2012. Income generated from sales of Mackenzie mutual funds is recorded in other income.

16. Events After the Reporting Period

Acquisition of AGF Trust Company

On August 1, 2012, the Bank completed the acquisition of 100% of the voting shares of AGF Trust Company (AGF Trust) for a cash consideration corresponding to book value at closing of approximately $247.1 million. The agreement also includes a contingent consideration of a maximum of $20.0 million over five years if credit quality reaches certain criteria. AGF Trust, previously part of AGF Management Limited, offers retail loan and deposit products through financial advisors, mortgage brokers and deposit brokers. AGF Trust will be part of the B2B Bank reportable segment.

Private placement

On August 1, 2012, concurrently with the closing of the acquisition of AGF Trust, all subscription receipts previously issued on June 12, 2012, as part of a private placement were automatically exchanged for 2,867,383 common shares of the Bank for net proceeds of $115.0 million.

Shareholder Information

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Montréal region:
(514) 252-1846
Toll-free:
1-800-252-1846
Website:
www.laurentianbank.ca
Telex: 145069

Transfer Agent and Registrar
Computershare Investor Services
1500 University Street
Suite 700
Montréal, Québec H3A 3S8
Phone: 1-800-564-6253
(toll-free in Canada and the United States)
or (514) 982-7555
(international direct dial)

Investors and analysts
Investors and analysts may contact the Investor Relations Department at Head Office by calling (514) 284-4500 ext. 7511.

Media
Journalists may contact the Public Affairs and Communications Department at Head Office by calling (514) 284-4500 ext. 7511.

Ombudsman's office
Laurentian Bank of Canada
1981 McGill College Avenue
14th Floor
Montréal, Québec H3A 3K3
(514) 284-7192
1-800-473-4782

Change of address and inquiries
Shareholders should notify the Transfer Agent of a change of address. Inquiries or requests may be directed to the Secretary's Office at Head Office or by calling (514) 284-4500 ext. 7545.

Stock symbol and dividend payment

The common and preferred shares indicated below are listed on the Toronto Stock Exchange.	STOCK SYMBOL CODE CUSIP	DIVIDEND RECORD DATE*	DIVIDEND PAYMENT DATE*
Common shares	51925D 10 6LB	First Business day of:	
		January	February 1st
		April	May 1st
		July	August 1st
		October	November 1st
Preferred shares			
Series 9	5195D 87 4 LB.PR.D	**	March 15
Series 10	5195D 86 6 LB.PR.E	**	June 15
			September 15
			December 15

* Subject to the approval of the Board of Directors.

** On such day (which shall not be more than 30 days preceding the date fixed for payment of such dividend) as may be determined from time to time by the Board of Directors of the Bank.