LAURENTIAN BANK

2012
ANNUAL REPORT

Gaining altitude

10 facts that you might not know about Laurentian Bank

Satisfaction: 95%

B2B Trust becomes... B2B Bank

Diversifying through syndication

Going West

OUR BANK

Laurentian Bank of Canada is a pan-Canadian banking institution that has almost $35 billion in balance sheet assets and $33 billion in assets under administration. Founded in 1846, the Bank employs more than 4,200 employees.

Recognized for its excellent service, proximity and simplicity, Laurentian Bank serves more than one million clients in market segments in which it holds an enviable position. In addition to occupying a choice position among consumers in Québec, where it operates the third largest branch network, the Bank has built a solid reputation across Canada in the area of real estate and commercial financing thanks to its teams working in offices in Ontario, Québec, Alberta and British Columbia. Its subsidiary, B2B Bank, is a Canadian leader in providing banking products as well as investment accounts and services to financial advisors and brokers, while Laurentian Bank Securities is an integrated broker, widely recognized for its expertise and effectiveness nationwide.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

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

The pro forma impact of Basel III on regulatory capital ratios is based on the Bank's interpretation of the rules announced by the Basel Committee on Banking Supervision (BCBS) and related requirements of the Office of the Superintendent of Financial Institutions Canada (OSFI). Changes to the interpretation of Basel III rules may impact 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 anticipated benefits from the acquisitions of the MRS Companies and AGF Trust and the Bank's statements with regards to these transactions being accretive to earnings, such factors also include, but are not limited to: the fact that synergies may not be realized in the time frame anticipated; the ability to promptly and effectively integrate the businesses; the reputation risks and the reaction of B2B Bank's or MRS Companies' and AGF Trust's customers to the transaction; and the diversion of management time on acquisition-related issues.

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

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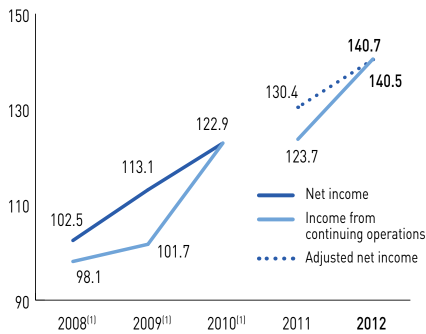
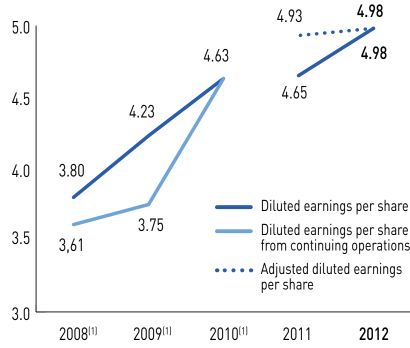
2012 PERFORMANCE

NET INCOME
(in millions of dollars)



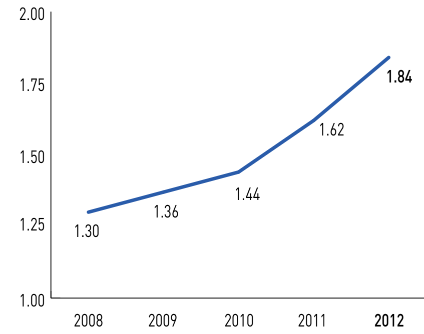
(1) In accordance with previous CGAAP.

DILUTED EARNINGS PER SHARE
(in dollars)

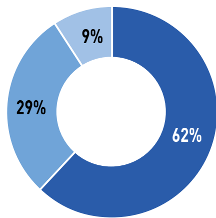


(1) In accordance with previous CGAAP.

DIVIDENDS DECLARED PER COMMON SHARE
(in dollars)

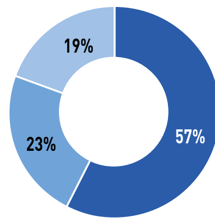


LOAN PORTFOLIO MIX
(as a percentage)



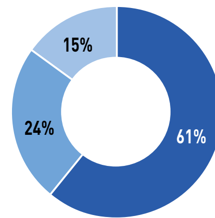
- Mortgage loans
- Personal loans
- Commercial and other loans (including acceptances)

DEPOSIT PORTFOLIO MIX
(as a percentage)



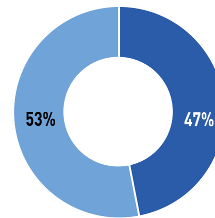
- Personal term deposits
- Personal notice and demand deposits
- Business, banks and other deposits

GEOGRAPHIC DISTRIBUTION OF LOANS
(as a percentage)



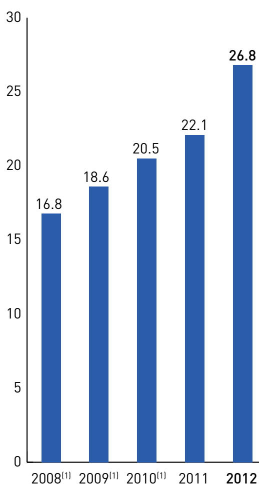
- Québec
- Ontario
- Rest of Canada

GEOGRAPHIC DISTRIBUTION OF PROFITABILITY
(as a percentage)



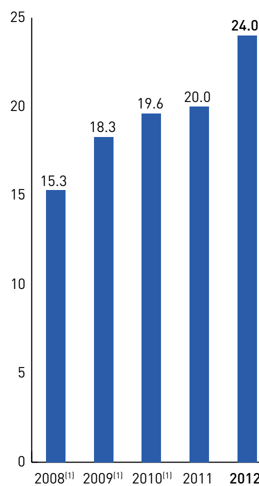
- Québec
- Rest of Canada

LOANS AND ACCEPTANCES
(in billions of dollars)



(1) In accordance with previous CGAAP, including securitized loans.

DEPOSITS
(in billions of dollars)

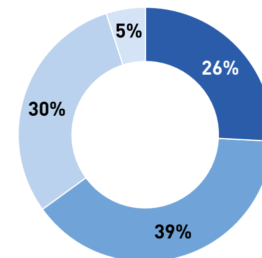


(1) In accordance with previous CGAAP.

CAPITAL RATIOS
(as a percentage)

- Tier 1 BIS capital ratio
- Total BIS capital ratio

CONTRIBUTION TO THE BANK'S NET INCOME
(excluding Other segment and adjusting items)
(as a percentage)



- Retail & SME-Québec
- Real Estate & Commercial
- B2B Bank
- Laurentian Bank Securities and Capital Markets

HIGHLIGHTS

As at or for the years ended October 31 (in thousands of Canadian dollars, except per share and percentage amounts)	2012	2011	2010[1]
Profitability			
Total revenue	**$796,643**	$738,347	$737,446
Net income	**$140,508**	$123,717	$122,941
Diluted earnings per share	**$ 4.98**	$4.65	$4.63
Return on common shareholders' equity	**12.1%**	12.2%	11.5%
Net interest margin	**1.69%**	1.82%	2.15%
Efficiency ratio	**75.9%**	71.8%	68.4%
Other income (as a % of total revenue)	**33.3%**	31.7%	32.7%
Effective tax rate	**23.2%**	21.3%	25.6%
Adjusted measures			
Adjusted net income	**$140,660**	$130,383	$122,941
Adjusted diluted earnings per share	**$4.98**	$4.93	$4.63
Adjusted return on common shareholders' equity	**12.0%**	12.9%	11.5%
Adjusted efficiency ratio	**73.1%**	70.6%	68.4%
Per common share			
Share price			
High	**$48.68**	$55.87	$47.67
Low	**$40.66**	$38.62	$37.76
Close	**$44.45**	$45.98	$44.25
Price / earnings ratio	**8.9x**	9.9x	9.6x
Book value	**$42.81**	$39.59	$41.87
Market to book value	**104%**	116%	106%
Dividends declared	**$1.84**	$1.62	$1.44
Dividend yield	**4.14%**	3.52%	3.25%
Dividend payout ratio	**37.0%**	34.8%	31.1%
Financial position			
Balance sheet assets	**$34,936,826**	$28,963,210	$23,772,138
Loans and acceptances	**$26,780,879**	$22,087,544	$17,708,837
Deposits	**$24,041,443**	$20,016,281	$19,647,730
Average assets	**$31,464,535**	$27,768,297	$23,093,418
Average earning assets	**$22,059,833**	$27,143,591	$21,927,938
Average common shareholders' equity	**$1,059,118**	$915,369	$963,141
Quality of assets			
Gross amount of impaired loans	**$128,023**	$163,725	$188,123
Allowances for loan losses			
Individual	**$47,849**	$69,450	$64,893
Collective	**$69,693**	$73,700	$73,250
Total	**$117,542**	$143,150	$138,143
Net impaired loans	**$10,481**	$20,575	$49,980
(as a % of loans and acceptances)	**0.04%**	0.09%	0.28%
Provision for loan losses	**$33,000**	$51,080	$68,000
(as a % of average loans and acceptances)	**0.14%**	0.24%	0.40%
Unrealized gains and losses on the portfolio of available-for-sale securities	**$23,487**	$41,054	$16,785
Basel II regulatory capital ratio [2]			
Tier 1	**10.9%**	11.0%	10.9%
Other information			
Number of full-time equivalent employees	**4,201**	3,669	3,643
Number of branches	**157**	158	157
Number of automated banking machines	**426**	427	413
Number of brokerage offices	**16**	15	15
Number of commercial banking centres	**38**	36	36

(1) In accordance with previous CGAAP.
(2) The ratios for 2011 and 2010 are presented in accordance with previous CGAAP as filed with OSFI.

The year

Interview with
Réjean Robitaille, FCPA, FCA
President and Chief Executive Officer

Q How would you describe the last year in terms of performance and results?

A We are operating in a very challenging environment, notably due to economic uncertainty and low interest rates. While we may not be able to control the difficult environment, we can adapt to it by applying our ingenuity and agility. In 2012, we succeeded in setting ourselves apart and posting record results for the sixth consecutive year. We recorded growth rates that are among the highest in the industry in almost all of our lines of business. We created B2B Bank and began the integration of the MRS Companies. When it comes to managing our human capital, employee engagement has increased considerably and we are receiving awards for our unique corporate culture and passion for our business. To strengthen our capitalization and comply with new regulatory requirements, we completed capital issuances totalling $482 million. Finally, we made a major acquisition, AGF Trust! In terms of results and accomplishments, it was a very satisfying year for the Bank.

in questions

Q You mentioned the acquisition of AGF Trust. Can you tell us more about it?

A Certainly. To begin with, I can tell you that growth – organic or through acquisitions – must be an integral part of the strategy of an organization such as ours. The Bank has chosen both paths. In recent years, we have achieved impressive internal growth and we intend to continue doing so. When it comes to potential acquisitions, we consider whether they will accelerate our action plan and benefit our clients, employees and shareholders. More specifically, we look for acquisitions that complement our existing activities. For example, the acquisition of AGF Trust clearly strengthens B2B Bank's position as a leader in products and services offered to financial advisors across Canada, while diversifying its operations. The same is true of the acquisition of the MRS Companies. Once the integration of these two companies, which is progressing according to plan and on schedule, has been completed, these acquisitions will enable us to improve the quality of our systems and processes, and to widen our geographic reach.

Q How do those acquisitions fit into your broader business plan?

A Our business plan is based on a clearly targeted strategy, on excellent execution, and on our agility. Given the particularly difficult environment in which we are operating, we have incorporated into our strategy four initiatives designed to adapt to this context. These initiatives are to accelerate development of higher-margin activities, increase non-interest income, maintain rigorous cost controls, and consider opportunities for business partnerships and strategic acquisitions. The agreement to distribute Mackenzie Financial Corporation mutual funds is an excellent example of our action strategy. The partnership increases the depth and quality of our wealth management offerings, a field unrelated to interest rates. It is an excellent addition to our line of products and services.

Canada's Passion Capitalists

In November 2012, Knightsbridge Human Capital Solutions announced that Laurentian Bank was one of the 10 national award recipients in its new Canada's Passion Capitalists program. Canada's Passion Capitalists celebrates organizations that generate the passion, energy, intensity, and sustainability needed to produce superior results. This award proves that a bank can accomplish its mission without sacrificing its human character or its proximity to clients. We are immensely proud to have earned this recognition of the passion that has driven us for more than 165 years.

Q The Bank has seen solid growth in recent years. What is the achievement of which you are proudest?

A Most people don't realize that the Bank's total assets have nearly doubled over the past five years, from $18 billion to $35 billion. That is a major achievement. The credit belongs, first and foremost, to our employees, since organic growth accounts for the bulk of the increase. Thanks to our employees' hard work and dedication, our clients' trust, our solid business plan and our prudent risk management, we have been able to build an organization that is capable of generating strong internal growth, year after year. In fact, we have one of the highest growth rates in the Canadian banking industry. Without seeking growth at any price, we want to stay on the same course and continue moving the company forward.

Q What is the Bank doing to strengthen its presence across Canada?

A Expanding Laurentian Bank's presence in all parts of Canada is definitely one of our objectives. Business opportunities across the country hold enormous potential for the Bank. There are many advantages to having a pan-Canadian presence, including risk diversification, given the varied economic and demographic profiles of Canada's regions. Across the Canadian market, we will continue implementing a clear strategy and one that is targeted at specific niches in which we have already developed expertise and competitive advantages. The Bank will never try to be all things to all people. But it has tremendous potential to take a position, ITS position, at the pan-Canadian level.

Q The Bank was very active on the capital front in 2012. Can you elaborate on this subject?

A It is true that 2012 was an excellent year for the Bank when it comes to capital issuances. These issues give us the room to maneuver we need to respect capital ratios, pursue our operations and seize growth opportunities as they arise. Moreover, the success of our issues, which totalled $482 million, demonstrates the confidence that investors and financial markets have in what we have accomplished over the past several years. That is a very positive signal the market is sending to the Bank.

Q In this regard, what are your investing priorities?

A In a complex and constantly changing regulatory environment, our priorities remain the same. We must ensure that our capital ratios are strong to be able to continue investing in business development and to take advantage of opportunities for growth through acquisitions, such as those we carried out during the past two years. Our sound capital management must also enable us to invest in improvements to our processes, technologies and systems if we wish to be increasingly competitive and innovative in the financial products and services market. Last but not least, healthy capitalization allows us to reward our shareholders, who support us and place their trust in us, by regularly increasing dividends on the Bank's common shares.

Q The Bank is recognized for its corporate culture and the way it manages its human capital. What can you tell us about this?

A Beyond the figures and earnings, we must never forget that there is a human face behind everything a financial institution such as the Laurentian Bank accomplishes. We have had very good relations with our Union for many years. This excellent relationship, which we regard as a true partnership, led to the signing of a new six-year collective agreement in 2012. I am very pleased to be able to say that our employees' commitment, team spirit and pride have grown in recent years. Our efforts have been recognized and rewarded. Laurentian Bank received a prestigious award in the Canada's 10 Most Admired Corporate Cultures Program presented by Waterstone Human Capital, in 2011, and another, Canada's Passion Capitalists program presented by Knightsbridge Human Capital Solutions' in 2012. Canada's Passion Capitalists is unique in that it recognizes organizations that try and succeed in creating passion and generating the energy, intensity, and sustainability needed to produce superior results. These two honours redound to the credit of our 4,200 employees. I pay tribute to their excellent work in 2012 and thank them for all that they do every day for our clients and for the organization.

Q Speaking of clients, let me ask you directly: why do business with Laurentian Bank?

A To state the obvious, our clients are our main raison d'être. Without our clients and our employees, there would be no Bank! We want our clients to see us as a business partner and adviser of choice in all of our lines of business. Laurentian Bank is recognized for its exceptional service, simplicity and proximity. We need to ensure that these values are reflected in all our daily actions. Regardless of the economic environment, the client must remain our absolute priority and must always be our central concern. This is something we must never forget and one of my priorities is to constantly remind everyone of this fact, even at the risk of repeating myself...

Q How do you see the Bank's future?

A To secure a bright future, you have to build on solid foundations. Today, our Bank is better capitalized than ever. Its balance sheet is very healthy. Its business is well diversified, by sector and geography. Our employees are standouts, our clients are highly satisfied and our shareholders continue to have confidence in us. We are well equipped to continue our growth. We therefore have an excellent base and we will work on the areas where we can improve. We have a clear, sharply targeted strategy that has proven itself over the past several years. For all these reasons, the Bank has a very promising future. It is my fervent hope that our clients, employees and shareholders will be with us for many more years to share in the benefits.

THE YEAR 2012 AT A GLANCE

- Made significant progress in integrating the MRS Companies
- Began to sell Laurentian Bank's funds, in collaboration with Mackenzie Investments
- Added two new members to the Management team
- Signed a 6-year collective agreement
- Transitioned from B2B Trust to B2B Bank
- Launched B2B Bank mortgages
- Opened an LBS office in Winnipeg
- Acquired AGF Trust
- Raised $482 million of capital
- Increased the quarterly dividend twice

Governance, Vigilance, Growth

Interview with
Denis Desautels, O.C., FCPA, FCA
Chairman of the Board

Q What issues did the Board focus on during the past year?

A We have been busy but three files in particular merited our attention. The acquisitions we made were of course among the highlights of 2012. When a major deal such as the acquisition of AGF Trust comes along, the Board must ensure that the transaction is well advised, that a fair price is being paid and that the Bank's risk is minimized. On another front, it is clear to us that bank regulation as a whole, particularly the rules arising from the Basel Accords and their impact on the Bank, is an important issue. Given the potential impact of regulation on the Bank's operations, the Board monitors this file closely. Thirdly, the Board is constantly concerned with maintaining the Bank's profitability and growth, particularly in a low interest rate, low margin environment such as we have today. We need to continuously think about and discuss strategy. Flexibility in executing our strategy is key to the Bank's success.

Q What other matters did the Board deal with?

A There were many others, including the transition to International Financial Reporting Standards, IFRS, since the first quarter of 2012. We also looked at executive compensation, which is central to good governance and a matter of legitimate interest to investors. We will continue to devote the necessary time and effort towards improving the effectiveness of the existing compensation programs.

Q What are the main characteristics and strengths of Laurentian Bank's Board?

A In all modesty, I believe the Bank has a very good Board of Directors. We have set ambitious and wide-ranging goals: a balance of representation on the Board between men and women, to which we attach great importance, as well as a balance in terms of talent, expertise, age and geography among its members. It is always possible to improve but ensuring the optimal composition of the Board remains one of my most important responsibilities as Chairman. I am pleased to report that we have been able to continuously renew the Board in a planned and orderly fashion, which is a very good thing.

Q How do you see the Board's independence vis-à-vis senior management?

A There must be a balance between the Board's independence and its ability to work closely with senior management. It is a fundamental principle of good corporate governance that the Board must maintain an independent spirit in relation to the company's officers, while working in partnership with them to execute our strategies. I would note that the strongest and most competent management teams are often those that are not afraid to seek out their directors' opinions and expertise in order to help them make the best decisions for the good of the company. They know it is in their interest to tap into the wealth of experience and wisdom found on their Boards. Based on my experience, I think I can say that the Laurentian Bank has such a management team.

Q You are celebrating your 10th anniversary as the Bank's Chairman. What changes have you seen at the Bank over that time?

A That's true, it's been 10 years already! The Laurentian Bank has a very different face today than it did then. It was an organization with widely scattered and insufficiently profitable activities. Today, the Bank's focus is clear and sharp and it has a solid business plan that leverages its competitive advantages. I can tell you that the way in which we manage our business is now highly disciplined and rigorous. Ten years ago, our Commercial operations and those of B2B Bank were relatively marginal lines of business. Today, they are a significant component of our activities and of our profitability. And our operations outside Quebec now generate a significant portion of our total income. We have also experienced substantial growth, with our balance sheet now reaching almost $35 billion and earnings has increased year after year. That is a dramatic change from 10 years ago.

Q In your opinion, what has been the key to the Bank's growth in recent years?

A The Bank has put in place a management team that has great depth and of which I am very proud. It is a youthful, dynamic and diverse team that is not afraid to assume new challenges. We are living in an uncertain world. Even with the best strategic plan, there is much we cannot anticipate. Hence the importance of having a management team that is capable of overcoming unforeseeable hurdles. That is precisely what we have at the Bank: a talented management team supported by an extraordinary group of employees dedicated to the Bank's development and growth. With these assets, I am confident that the Bank's future is in good hands.

Our Management **Team**

PIERRE MINVILLE
Executive Vice President
and Chief Risk Officer

STÉPHANE THERRIEN
Executive Vice President
Real Estate and Commercial

RÉJEAN ROBITAILLE
President and
Chief Executive Officer

LUC BERNARD
Executive Vice President
Retail and SME–Québec

MICHEL C. LAUZON
Executive Vice President and Chief Financial Officer

GILLES GODBOUT
Executive Vice President Operations and Systems

LORRAINE PILON
Executive Vice President Corporate Affairs, Human Resources and Secretary

FRANÇOIS DESJARDINS
Executive Vice President of the Bank and President and Chief Executive Officer of B2B Bank

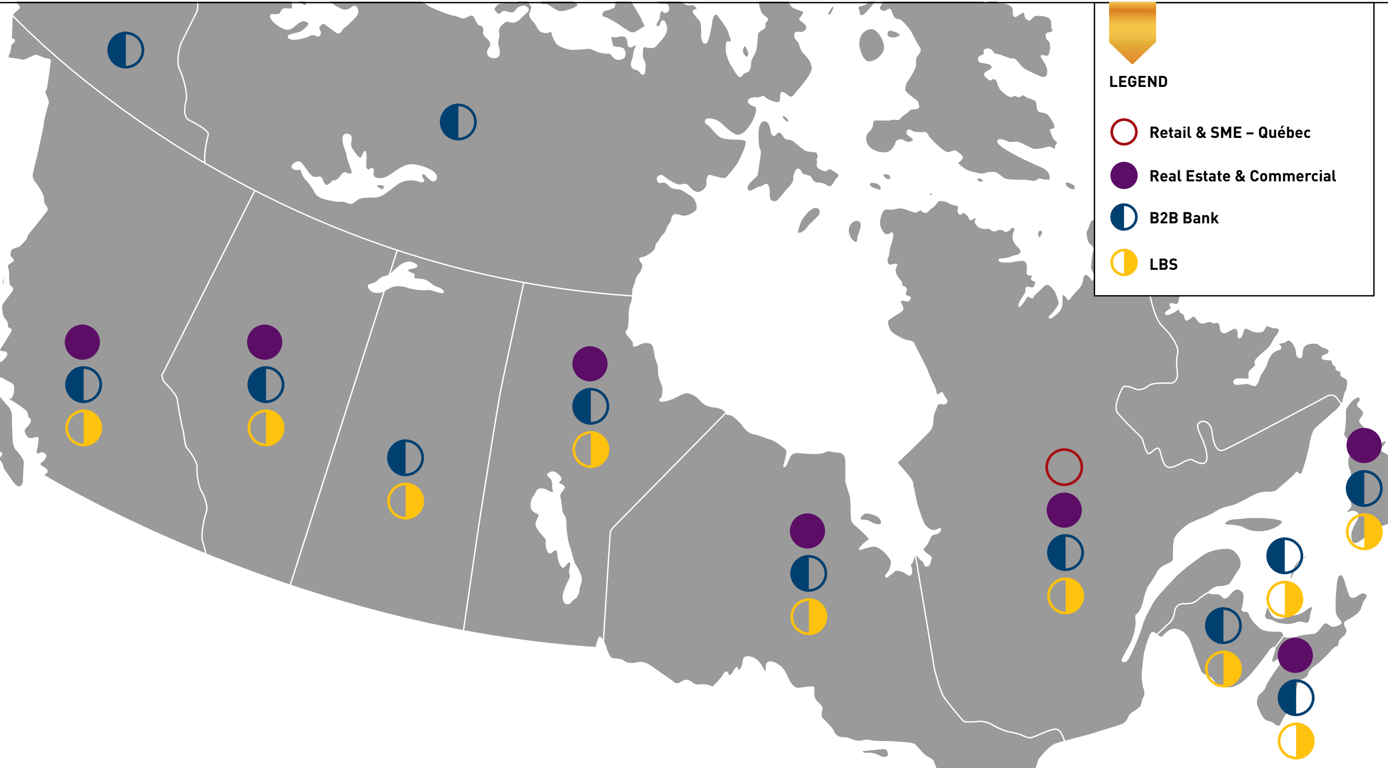
MICHEL C. TRUDEAU
Executive Vice President Capital Markets and President and CEO of Laurentian Bank Securities

OUR CORPORATE STRATEGY

BASED ON 3 PILLARS

1	2	3
FOCUS On profitable markets in Québec and in larger Canadian cities, where we hold distinctive advantages and can appropriately invest to generate growth	**AGILE GROWTH** Promoted through our culture of proximity and service and made possible by our light organizational structure, enabling us to be opportunistic	**EXECUTION** Excellence in execution, facilitated by our proactive approach to our business plan and to risk management

A PAN-CANADIAN PRESENCE



OVERVIEW OF BUSINESS SEGMENTS

	PRESENCE	POSITIONING	GEOGRAPHIC DISTRIBUTION OF LOAN PORTFOLIO
RETAIL & SME-QUÉBEC			
A complete offer of financial products and services for retail and SME in Québec	■ 157 branches ■ 426 ATMs ■ 24 business centers	■ 3rd largest branch network in Québec ■ Well known for its superior service to SMEs as well as its specialization in certain sectors	■ Québec: 100%
REAL ESTATE & COMMERCIAL			
Real estate financing for commercial property and commercial banking for medium-sized enterprises across Canada	■ 14 Real estate and commercial banking centers in B.C., Alberta, Ontario and Québec	■ Widely recognized leadership and expertise in real estate financing within Canada ■ Expert commercial financing through specialized teams	■ Ontario: 56% ■ Québec: 33% ■ Western Canada and Atlantic provinces: 11%
B2B BANK			
Personal banking products such as investment loans, mortgages, high interest accounts, GIC's and investment accounts and services distributed through a network of financial advisors and brokers	■ Business development sales teams servicing financial advisors and their dealers, mortgage brokers and mutual fund manufacturers across Canada	■ Canadian leader in serving the financial advisor and broker market	■ Ontario: 58% ■ Western Canada and Atlantic provinces: 32% ■ Québec: 10%
LAURENTIAN BANK SECURITIES AND CAPITAL MARKETS			
Integrated broker serving Institutional and Retail investors; Bank-related capital market activities	■ 16 offices in Québec, Ontario and Manitoba	■ Recognized and choice provider of Fixed Income Institutional brokerage service in Canada ■ Only Bank-owned dealer with a niche small cap focus	■ Pan-Canadian activities

10 THINGS YOU MAY NOT KNOW ABOUT LAURENTIAN BANK

1. The Bank's assets have nearly doubled to $35 billion in five years and assets under administration now total $33 billion.
2. Laurentian Bank is the only bank in Canada that has increased its earnings per share in each of the last seven years.
3. Laurentian Bank's charter has allowed it to operate outside Québec only since 1987. Its pan-Canadian activities have grown and diversified steadily since that date.
4. More than 50% of the Bank's profits now come from outside Québec.
5. More than 750,000 accounts across Canada hold B2B Bank products owing to the thousands of financial advisors and brokers who recommend them.
6. Laurentian Bank Securities has relationships with the federal government and all 10 provinces, helping them to meet their financing needs through issuing bonds.
7. Five of the thirteen members of Laurentian Bank's Board of Directors, or 38%, are women. It therefore has the highest level of female representation on its Board among Canadian banks.
8. The Bank's dividend has increased 59% over the last five years, a compound annual growth rate of 10%.
9. The Bank has more than 1 million clients.
10. With a 166-year history, Laurentian Bank is the third-oldest company in Montréal.

PASSIONATE ABOUT CLIENT SERVICE

LEVERAGING **SYNERGIES**

"The core of the Retail and SME – Québec segment is its high-quality distribution network," notes Luc Bernard. The Bank's extensive network of 157 branches and 24 commercial business centres covers all regions of Québec.

Luc Bernard, Executive Vice President, Retail and SME – Québec

Expansion of the Bank's presence in investment products and wealth management is certain to be an important area for future development. "Laurentian Bank excels in its role as a retail lender," says Luc Bernard. "Our goal is to use this lever to be equally effective in supporting our clients, mainly young families, in achieving their investment objectives."

The agreement with Mackenzie Financial Corporation, a leading Canadian fund manager, will increase the Bank's reach in the area of investments. The selection of mutual fund products managed by Mackenzie and marketed under the Laurentian Bank name consists of a wide range of funds designed for different investor profiles. Historically, Mackenzie funds have ranked among the best performing in Canada.

Building on the success of the highly effective client relationship management system it has introduced for personal banking, the segment is planning to extend the system to its SME clients in 2013. "This system provides an overview of the services and assets of the client, and helps our advisers come up with the best recommendations," explains Luc Bernard.

More generally, grouping all retail and small business operations in Québec together in one segment yields significant synergies. It enables the Bank to optimize the use of its large branch network by serving SME clients across Québec and to share powerful tools such as the client relationship management system.

4 Four years of solid growth

- 11% average annual growth in residential mortgages, which now exceed the $10 billion mark.
- 14% average annual growth in SME loans in Québec, which now total $1.3 billion.
- 53% average annual growth in small business deposits, which have reached almost $1 billion.

OVERVIEW OF BUSINESS SEGMENT - **RETAIL & SME-QUÉBEC**

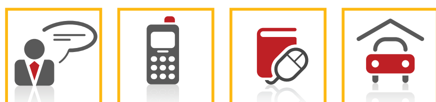
A complete offer of financial products and services for retail and SME in Québec

- 157 branches
- 426 ATMs
- 24 business centers

- 3rd largest branch network in Québec
- Well known for its superior service to SMEs as well as its specialization in certain sectors

100% of loans in Québec

HOW WOULD YOU PREFER TO BANK WITH US?



OUR PLACE, YOUR PLACE, ANY PLACE!

SATISFACTION: 95%

Our true obsession with excellent client service is recognized and appreciated by the people who count the most: our clients! According to our client satisfaction surveys, nearly 95% are satisfied with the quality of the service they receive, of which 80% are very satisfied. Our commitment to our core values of proximity and simplicity, combined with steadily improved training and tools for our employees, are responsible for these strong results.

Virtual network growing by leaps and bounds

The number of clients who use the virtual network has increased by **60 %** in four years!

SIGNIFICANT INCREASE IN SME LOANS

Five years ago, the SME-Québec team introduced a plan to develop business based on a niche strategy, specifically targeting pharmacies, private daycares and agricultural businesses. "We are of course generalists in SME lending, but we also have these specializations that set us apart in the marketplace and account for nearly half the growth in our loan portfolio over the past five years," explains Daniel Desjardins, Senior Vice President, SME-Québec.

As a result of this plan, the segment has posted 14% annual growth in small business loans over the past five years. It is therefore making an increasing contribution to the Bank's performance and profitability while improving credit quality over the years. The recent hiring of a number of new account managers will enhance the segment's sales force.

BECAUSE EACH CLIENT HAS HIS OWN STORY

Carmela Lo Dico,
Sales and Advising Manager,
Saint-Laurent/Ahuntsic branch

After acquiring years of experience with various financial institutions, Carmela Lo Dico joined Laurentian Bank 18 months ago as Sales and Advising Manager at the Saint-Laurent/Ahuntsic branch. She particularly appreciates the way one advisor looks after all the client's needs at Laurentian Bank. "Instead of having to deal with several people, the client is assigned a single advisor with whom he develops a long-term relationship. It is the advisor who ensures that the client obtains the best answers to his questions," explains Carmela Lo Dico.

AND PRESTO!

GET A

1% CASHBACK

WHEN YOU TRANSFER YOUR SAVINGS HERE.

INVESTMENT

NOW'S THE TIME.

LAURENTIAN BANK

Certain conditions apply. The transferred funds and the corresponding cash bonus must remain invested at Laurentian Bank for a minimum of three (3) years once the Bank deposits the funds in the receiving account, otherwise a penalty equal to the cash bonus amount will be charged. Payment of the cash bonus will be in Canadian funds and credited to the Tactical account's non-registered investments up to a maximum of $10,000 per client. To be eligible for the cash bonus, you must visit your branch or contact your advisor. The Bank reserves the right to modify or cancel this offer at any time without notice. Details at your branch. The client is fully responsible for any tax consequences resulting from the cash bonus payment. The cash bonus is taxable in non-registered accounts. To be eligible for this offer, the Transfer Agreement must be signed between September 4 and December 31, 2012. This offer applies to the transfer of any registered or non-registered funds. Transfers must be completed by March 31, 2013.

IT'S HERE!
A BANK 100% FOCUSED ON ADVISORS.

[And 0% focused on anything else.]

We've changed from B2B Trust to B2B Bank. But we haven't changed what we believe in. That's being 100% focused on helping you as an advisor build the wealth of your clients. Because we only succeed when you do.

b2bbank.com

B2B BANK

1.800.263.8349

BANKING THAT WORKS FOR ADVISORS®

LOANS | MORTGAGES | BANKING SERVICES | DEPOSITS | INVESTMENT ACCOUNTS

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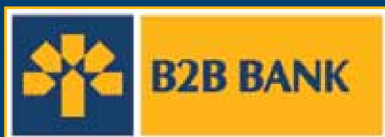
EXPANSION AND **INTEGRATION**

B2B TRUST BECOMES...



In July 2012, B2B Trust officially became B2B Bank, a federally chartered bank. It was a natural evolution as over the past few years, B2B Trust became increasingly well known for delivering quality banking products and services, such as investment loans , deposits and mortgages through a network of financial advisors and brokers from coast-to-coast. The slogan, *B2B Bank, a Bank that works for advisors* demonstrates the focus that the organization places on supporting financial advisors, as they help Canadians build and manage their wealth.

LAYING FOUNDATIONS FOR **FUTURE GROWTH**

2012 was a historic year for B2B Bank in many ways. "We worked on a number of major projects, including the acquisition of AGF Trust, the integration of the MRS Companies, the transition to chartered bank status and the launch of B2B Bank mortgages," reports François Desjardins.

François Desjardins, Executive Vice President of the Bank and President and Chief Executive Officer of B2B Bank

The change from B2B Trust to B2B Bank better reflects the nature of the lending and deposit activities that are the core of B2B Bank's operations. "With the creation of B2B Bank mortgages, we are now able to offer mortgages as well as a full suite of financial products under the B2B Bank name," says François Desjardins. The product, available to mortgage brokers since July 2012, offers great potential.

The recent acquisitions have significantly expanded B2B Bank's scope, providing opportunity for new strategic and commercial development. The MRS Companies were recognized Canadian leaders in the administration of investment accounts, while AGF Trust is a best-in-class provider of financial products and services. "These acquisitions will enable us to improve B2B Bank's practices and systems, in addition to giving us critical mass. The result will be an organization that is stronger and more efficient, while remaining focused on operational and commercial excellence and on meeting the needs of financial advisors and mortgage brokers."

B2B Bank's products and services are designed to help financial advisors build and manage their clients' wealth. "Our mission remains to offer products that meet the needs of financial advisors and mortgage brokers across Canada, while respecting their relationships with their clients. This drives all of our efforts." concludes François Desjardins.

OVERVIEW OF BUSINESS SEGMENT - **B2B BANK**

Personal banking products such as investment loans, mortgages, high interest accounts, GIC's and investment accounts and services distributed through a network of financial advisors and brokers

Business development sales teams servicing financial advisors and their dealers, mortgage brokers and mutual fund manufacturers across Canada

Canadian leader in serving the financial advisor and broker market

Geographic distribution of loan portfolio

Ontario: 58%

Western Canada and Atlantic provinces: 32%

Québec: 10%

B2B BANK BUILDS SCALE	Before acquisitions [1]	After acquisitions [2]	Growth
Total loans and BAs	$5.8 billion	$ 9.3 billion	61%
Deposits	$9.5 billion	$13.0 billion	37%
Assets Under Administration	$3.0 billion	$23.8 billion	683%
Financial Advisors (approximate number)	15,000	27,000	80%

(1) Business segment data as at October 31, 2012, excluding AGF Trust and the MRS Companies at acquisition date
(2) Business segment data as at October 31, 2012, including AGF Trust and the MRS Companies

WE SIMPLIFY YOUR LIFE!

With the launch of B2B Bank Dealer Services, financial advisors have a new suite of tools to help them consolidate and efficiently manage their clients' assets. By leveraging the platform and experience of the recently acquired MRS Group of Companies, we have significantly enhanced the services available to advisors and their clients. When advisors take advantage of B2B Bank Dealer Services' investment accounts and services, including secure online access to all of their clients' investments, they can see the big picture – and provide the advice and services their clients need.

B2B BANK'S CLIENTS... WHO ARE THEY?

B2B Bank is 100% focused on the financial advisor and broker community. Some 27,000 financial advisors, working with mutual fund, investment dealers and insurance companies, along with deposit agents and mortgage brokers, are the backbone of B2B Bank's business. These professionals work with Canadians from coast-to-coast, providing financial advice and assistance for more than 750,000 accounts that hold B2B Bank's products.

B2B Bank respects the relationships advisors have with their clients. B2B Bank supports advisors and brokers with financial solutions that enable Canadians to build and manage their wealth. It's a winning formula!

BUILDING THE FUTURE

SOLID STRATEGY FOR SEGMENT'S DEVELOPMENT AND GROWTH

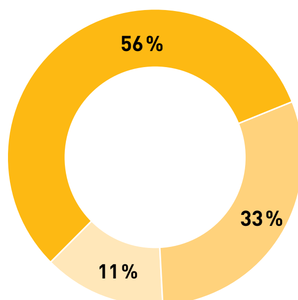
Stéphane Therrien, Executive Vice President, Real Estate & Commercial

Stéphane Therrien joined the Bank in January 2012. "I am very privileged to head up a business segment that has a track record of strong growth and profitability. We are fortunate to be in a sector where there are immense opportunities," Stephane Therrien comments at the outset.

DIVERSIFYING THROUGH SYNDICATION

The Bank's long-standing and valued relationship with Cove Properties Ltd, a well-established Western Canadian developer, resulted in the opportunity to take the lead in a major loan syndication for the construction of a condominium and office complex in downtown Calgary. Taking the lead position in syndications supports our clients' development projects while generating profitable growth for the Bank.

GEOGRAPHIC DISTRIBUTION OF LOANS



- Ontario
- Québec
- Western Canada and Atlantic Canada

The Canadian Real Estate and Commercial market is a huge market to cover. To operate effectively in this market, the Real Estate and Commercial segment's strategy will be to specialize in some market niches and certain types of financing products where it has competitive advantages.

"At the operational level, we want to position ourselves as bankers who are specialized, fast, nimble and easy to do business with," says Stéphane Therrien. The Laurentian Bank is working to differentiate itself in this market with processes that are more streamlined and flexible than the competition. The Bank is also investing in training for its account managers to increase their productivity and level of specialization. "We also want to make sure our managers have more and more time to visit customers in the field and to build a relationship of trust with them over the long-term."

Finally, the segment is working to diversify its revenue streams from sources such as syndication and foreign exchange transactions, and is planning to offer new products such as online business solutions. Diversification will enhance the quality of the Bank's value-added offerings and help drive growth in non-interest revenues.

The Real Estate and Commercial segment is guided by a clear vision: to increase its profitability through an expanded and diversified offer geared to operational and commercial excellence, supported by a team of financing experts who listen to customers and are responsive to their needs. It promises to be a winning strategy for this high-potential team.

OVERVIEW OF BUSINESS SEGMENT - **REAL ESTATE & COMMERCIAL**

Real estate financing for commercial property and commercial banking for medium-sized enterprises across Canada

- 14 Real estate and commercial banking centers in B.C., Alberta, Ontario and Québec
- Widely recognized leadership and expertise in real estate financing within Canada
- Expert commercial financing through specialized teams

Sophie Boucher,
Assistant Vice President, Energy and Infrastructure, Commercial

A SPECIALIZED TEAM

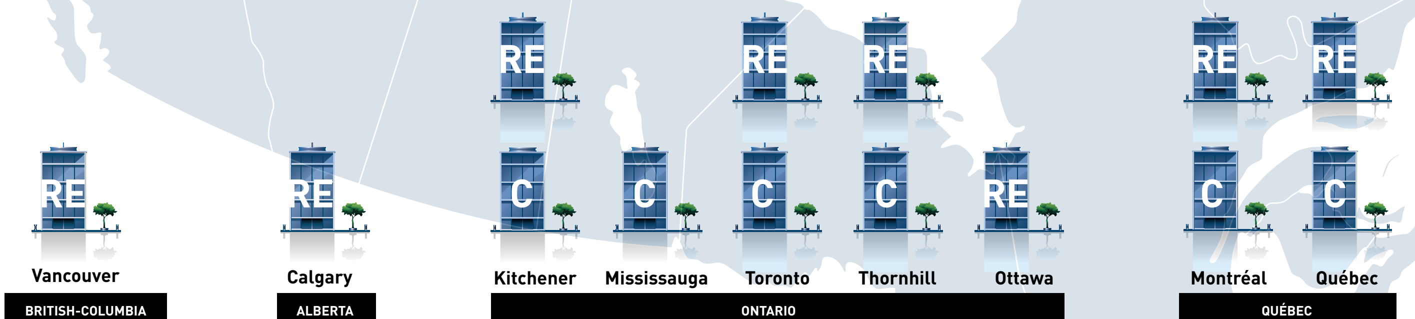
FOR ENERGY AND INFRASTRUCTURE

The Real Estate and Commercial segment now has an Energy and Infrastructure team headed by Sophie Boucher, Assistant Vice President. In 2012, it was part of a consortium providing financing for the Bloomsburg project undertaken by Firelight Infrastructure group and SunEdison Group, a world leader in solar energy. The financing is being used to develop a solar park in Ontario that will generate **10 megawatts of solar energy, or 14 GW/h of clean power per year,** enough to supply approximately 1,000 homes with electricity.

IT IS AN EXAMPLE OF THE BANK'S COMMITMENT TO PARTICIPATING IN INNOVATIVE FINANCING INITIATIVES IN AN EMERGING INDUSTRY.

14 CENTRES IN 4 CANADIAN PROVINCES

LEGEND
RE: Real Estate
C: Commercial



REACHING **FURTHER**

MOVING FORWARD **WITH OUR CLIENTS**

The roots of Laurentian Bank Securities and Capital Markets lie in its Fixed Income operations. Today, these operations remain core and profitable. The team has grown and the business has diversified, but its philosophy remains the same. According to Michel C. Trudeau, "For over 15 years we have achieved consistent organic growth, always focussing on excellent client service."

Underwriting Canada bonds, provincial bonds and a growing participation in corporate bonds account for a significant portion of the Fixed Income activities. Strong relationships exist with all Canadian provinces. Laurentian Bank Securities and Capital Markets is also present in the high yield bond market, as well as in the money market. Its participation in syndications is progressively increasing over time.

While nurturing its longstanding businesses, new ones are being built as well. This year, a Financial Planning team with over 30 years of experience joined Laurentian Bank Securities. "Adding Financial Planning to our Retail Brokerage platform allows us to evolve with our clients and integrate the individual products and services already provided into one complete offering," says Michel C. Trudeau. Clients can also rely on a solid team of strategists and economists capable of meeting all their wealth management needs.

GOING WEST

Laurentian Bank Securities expanded in 2012 with the opening of an office in Winnipeg, Manitoba. This strategic expansion will accelerate business development. It is the Institutional Equities division's first foothold outside of Québec and Ontario. The Winnipeg office is headed by Kevin Hooke, who has more than 30 years' experience in corporate finance. The team's expertise dovetails perfectly with the research coverage that is already in place. The new office wasted little time; within a few weeks after opening, it had already successfully participated in a number of public offerings for western Canadian based companies.

Michel C. Trudeau, Executive Vice President, Capital Markets and President and Chief Executive Officer, Laurentian Bank Securities

OUR NICHE – SMALL CAP SECURITIES

The Institutional Equities division focuses on the small cap market, an area in which it possesses a high level of expertise. Its research coverage, which now totals 70 companies, drives its investment banking, sales and trading activities. This strategic thrust differentiates it from the competition and provides **added value** for its clients.

OVERVIEW OF BUSINESS SEGMENT - **LAURENTIAN BANK SECURITIES AND CAPITAL MARKETS**

Integrated broker serving Institutional and Retail investors; Bank-related capital market activities

16 offices in Québec, Ontario and Manitoba

- Recognized and choice provider of Fixed Income Institutional brokerage service in Canada
- Only Bank-owned dealer with a niche small cap focus

Pan-Canadian activities

Gilles Godbout, Executive Vice President Operations and Systems

Michel C. Lauzon, Executive Vice President and Chief Financial Officer

Pierre Minville, Executive Vice President and Chief Risk Officer

Lorraine Pilon, Executive Vice President Corporate Affairs, Human Resources and Secretary

BUILDING A MORE EFFICIENT AND EFFECTIVE ORGANIZATION

Corporate Services consists of the corporate sectors that provide Bank-wide expertise and support in four broad areas: Operations and Systems; Treasury and Finance; Integrated Risk Management and Corporate Affairs and Human Resources.

RISK MANAGEMENT: AN ESSENTIAL TOOL

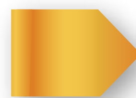
The Risk Management sector supports the risk-taking required to achieve the organization's objectives. By establishing risk appetite and tolerance, and controlling it through limits and good practices, risk management helps maintain an appropriate risk profile. To this end, the Bank has been investing in data systems and data quality for years in order to enable our experts to constantly improve their assessments of risk, whether it be credit, market, operational or any other business risks.

ALL FOR ONE AND ONE FOR ALL

Several teams within the Bank played critical roles in the acquisition of the MRS Companies and AGF Trust. The skills and expertise of professionals in all our segments were harnessed to realize the two acquisitions. These teams, who often work in the shadows, provided the resources and advice needed to successfully integrate the two companies.

Solid capitalization

2012 saw a series of accomplishments on the capitalization front. The Bank issued capital totalling $482 million in 2012 in order to maintain the capital ratios required. A $63 million issuance of common stock was completed in February 2012, followed by a private placement of $119 million. In October 2012, the Bank issued $100 million of Preferred Shares and $200 million Medium-term Notes. Finally, a dividend reinvestment plan was introduced in fall 2012. Under the plan, shareholders can reinvest their dividends in common shares of the Bank. All these initiatives strengthen the capitalization and financial foundation of the Bank.



Always looking to improve efficiency

At an organization of the size of Laurentian Bank, efficiency demands continuous optimization of IT systems. During the year, significant efforts were made to enhance the efficiency of the Bank's computer tools. The purpose of the efforts and the investments are to enable our employees to work more effectively and to offer our customers continuously improved service.

PRIDE IN OUR **EMPLOYEES**

TRAINING IS **A PRIORITY**

Laurentian Bank is a firm believer in professional development for its employees and managers. Its ongoing investments in this area make customized training programs available to the Bank's people. Some of those training programs are delivered by the Laurentian Bank Academy, which has proven to be a resounding success: the number of hours of training has increased six-fold over a few years and now stands at 50,000 hours per year.

AWARDS OF EXCELLENCE – OUR 2012 WINNERS

Our organization's success stems from the efforts of our people. The Bank considers it very important to recognize the superb work of its employees. Every year, the Guy Vanier individual awards and the Ray McManus team awards pay tribute to the individuals and teams that stand out by virtue of their perseverance, determination and passion for the job.

GUY VANIER AWARD

Recipients of the **GUY-VANIER** Awards are distinguished by their positive influence in their work environment and by their conduct that is a source of inspiration for their colleagues.

WHO WAS **GUY VANIER?**

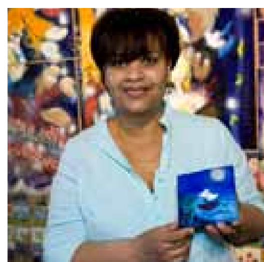
Guy Vanier was President of the Bank from 1950 to 1967. An award in his name was created more than 20 years ago to recognize employees who demonstrate individual excellence.

GUY VANIER AWARD

Jean-François Chalifoux
Sales and Advising Manager | Laurentian Bank Tower branch

GUY VANIER AWARD

Chantal Gaetjens
Senior Mortgage Collection Agent



GUY VANIER AWARD

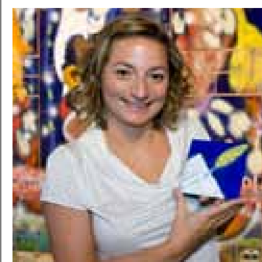
Annie Lefebvre
Human Resources Advisor

GUY VANIER AWARD

Gerry Scolamiero
Client Relations Manager – Information Technology and Real Estate

GUY VANIER AWARD

Julie Turchetto
Manager, Market Planning & Campaign Management, B2B Bank – Marketing & Communications



GENUINE PARTNERSHIP

In 2012, Laurentian Bank's unionized employees accepted an agreement in principle to renew the collective agreement. The new six-year agreement attests to the genuine partnership between the Bank and the Union representing its employees.

IMPACT PROGRAM

The *Impact* program, established in late 2010, is a continuous improvement initiative that embraces projects and efforts aimed at enhancing the employee experience at Laurentian Bank. The program draws on employees' suggestions and recommendations to provide concrete solutions to daily problems and boost employee engagement.

OUR FAMILY OF AWARDS IS GROWING!

- The **GUY VANIER CAREER AWARD,** introduced in 2012, pays tribute to employees who have made an important contribution to the Bank's expansion and development over a period of at least 25 years through their sustained commitment, exceptional work and exemplary careers.
- The **LAURENTIAN BANK UP-AND-COMING AWARD** was created in 2012 to recognize high-performing employees who have been with the Bank for three to five years.

GUY VANIER CAREER AWARD

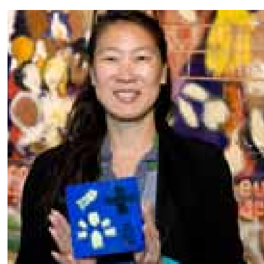
Solange Veilleux
Advisor, Retail Services/ Saint-Georges de Beauce branch

LAURENTIAN BANK UP-AND-COMING AWARD

Monique Lo
Senior Manager / Health Group, SME Québec

LAURENTIAN BANK UP-AND-COMING AWARD

Nadia Padassery
Senior Manager, Human Resources, B2B Bank



RAY McMANUS AWARDS

A FEW WORDS ABOUT **RAYMOND McMANUS**

Raymond McManus was President and Chief Executive Officer of Laurentian Bank from 2002 to 2006. During his tenure, he oversaw a major repositioning in which the Bank built firmer foundations and improved its profitability. The awards that bear his name recognize excellent teamwork at Laurentian Bank.

Ray McManus Team Award

THE WHOLE IS GREATER THAN THE SUM OF ITS PARTS

The SME – Québec team's prodigious numbers show that collective effort can yield extraordinary results. Close teamwork has made it possible to double assets from $500 million to $1 billion in five years.

Ray McManus Project Award

ROSE PROJECT HELPS DRIVE BUSINESS

The ROSE project has considerably improved efficiencies in the Operations and Expert Services segment and the Retail segment. The project has implemented new mortgage processes that make it easier for employees to do their work.

SOCIAL RESPONSIBILITY

Laurentian Bank is committed to good corporate citizenship. It makes sure to conduct itself responsibly and proudly discloses its practices in its annual Social Responsibility Report, which is prepared in accordance with the Global Reporting Initiative "GRI" framework. Its 2012 report tracked 72 GRI indicators.

OUR EXECUTIVES GET INVOLVED...

Our president, **Réjean Robitaille**, served as honorary co-president of the 30th Ball of Stars, a benefit for pediatric research in Québec. He was also honorary president of the 2011 Bal du Maire de Québec, which raised $205,000 for the Fondation Québec-Jeunes.

For the fifth consecutive year, **Luc Bernard**, Executive Vice President, Retail and SME-Québec, presided over the OLO Foundation's benefit lunch. The event raised a record $150,000 to provide food supplements and vitamins for disadvantaged pregnant women.

Bal du maire de Québec

Michel Trudeau, Executive Vice President, Capital Markets and President and CEO of Laurentian Bank Securities Inc., is a member of the Board of Directors of Les Grands Ballets canadiens. A donation by the Bank made it possible for underprivileged children to attend a performance of The Nutcracker.

...AND SO DO OUR EMPLOYEES

The Bank attaches great importance to employee community involvement. To reinforce this, the Bank has made it a priority to support and encourage their volunteer activities.

Our employees and executives participated in and contributed to many fundraising campaigns in 2012, including the Ride for Juvenile Diabetes, Movember, the Big Media Food Drive, the CURE Foundation for breast cancer, 300 km for Life (Fondation de la Cité de la santé), the Centraide Cup soccer tournament and a number of annual golf tournaments.

Ride for Juvenile Diabetes

© Paul Ducharme

Big Media Food Drive

SUPPORTING THE COMMUNITY

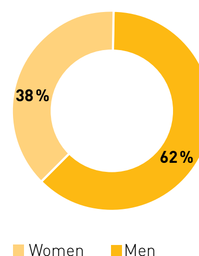
Laurentian Bank concentrates on several priorities: investing in the future of youths and families, building a healthy society, encouraging mutual support and backing community involvement by its employees. Every year, it supports more than 200 organizations across Québec.

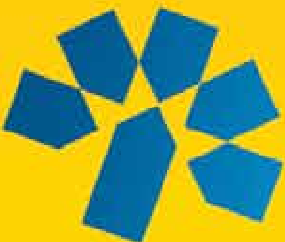
GOVERNANCE AND INTEGRITY

The importance attached to governance by the Board of Directors and the Management Committee has enabled the Bank to thrive while respecting principles of integrity and complying with all applicable laws and regulations. The Bank's management practices are guided by its commitment to sound corporate governance. In this area, the Bank takes an uncompromisingly ethical approach. Integrity is also a core value at Laurentian Bank; it is the bedrock on which clients' trust in the Bank and its subsidiaries rests.

Five of the 13 members of the Bank's Board of Directors are women. Laurentian Bank has led the Canadian banking industry in female representation on the Board since 2007.

Male/female representation on Board of Directors
(percent)




LAURENTIAN BANK IS PROUD TO BE PITCHING IN FOR YOUTH

NOW'S THE TIME.
LAURENTIAN BANK

RESPONSIBLE ACTIONS

The Bank strives to reduce the environmental impact of its operations. Not only do the resulting gains benefit the environment but the best practices in question also have positive effects on management and profitability.

Caution and rigour in business lending

The Bank exercises caution by factoring the environmental impact into its credit assessment procedures. It applies a number of credit review policies before extending loans, as well as an environmental risk management policy.

IN TOWN WITHOUT MY CAR

For the third consecutive year, the Bank was the presenter of In Town Without My Car event, organized by Montréal's Agence métropolitaine de transport.

ENVIRONMENTALLY RESPONSIBLE EVENTS

For six years, the Bank has been the official presenter of the International Balloon Festival of Saint-Jean-sur-Richelieu. In 2011, the festival ranked among the top 10 organizations certified under Québec's responsible event management standard, approved by the Bureau de normalisation du Québec.

The Bank's shareholders' meetings and employee meetings are now environmentally responsible. Sustainable development principles are applied in the organization of these events.

GREEN INITIATIVES

To reduce the Bank's environmental footprint, photocopiers have been replaced, yielding energy and printing savings in the order of 15%.

A number of initiatives have been implemented at the branches. For example, outdoor signs are gradually being upgraded to LED lighting systems. The interior layout of the branches and the offices readily lends itself to the use of materials such as floor coverings made from recycled tires and recycled paint.

ECONOMIC OUTLOOK

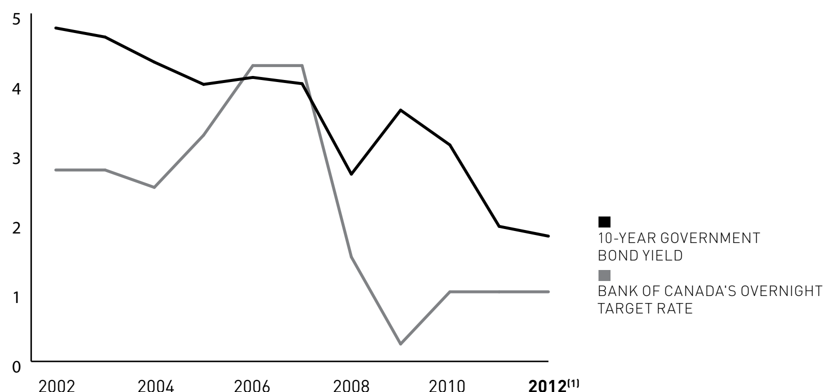
Carlos Leitao, Chief Economist and Strategist
Laurentian Bank Securities

IMPROVING ECONOMIC BACKDROP TEMPERED BY U.S. AND EUROPEAN POLICY UNCERTAINTY

As we approach the end of another year marked by unsatisfactory economic growth and turbulent financial markets, four main themes emerge:

The global economy continues to grow, albeit at a slow and fragile pace. Significant risks remain namely in the euro-zone and in the United States and relating primarily to public policies. The Eurozone is now in recession and progress towards a closer fiscal union remains uneven. Nevertheless, the more extreme financial risks appear better contained now given the more aggressive monetary policy adopted by the European central bank in September. In the United States, the real economy appears to be turning around but uncertainty relating to the so-called "fiscal cliff", i.e. a possible massive fiscal contraction in early 2013, is keeping investors and consumers on the sidelines.

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



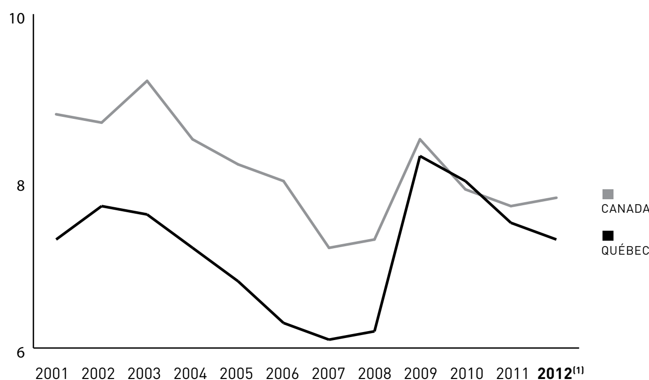
Source : Bank of Canada
(1) LBS Economic Research predictions

2 In such an uncertain environment, central banks, including the Bank of Canada, continue to maintain highly accommodating monetary policies. Global interest rates continue to grind lower and will stay low for longer than previously anticipated. The Bank of Canada has kept its policy rate at 1.00% since September 2010 and we now expect this long pause to last at least another year.

3 Canada is obviously not immune to these global trends. One way this is having a concrete impact here is via massive capital inflows which not only contribute to lower government bond yields but also put significant upward pressure on the currency. An overvalued currency, in turn, contributes to a loss of international competitiveness and a persistent current account deficit. As the vicious cycle of low interest rates and persistent current account deficits intensifies, resources are misallocated resulting in overconsumption and underinvestment, trends that are unsustainable into the medium-term.

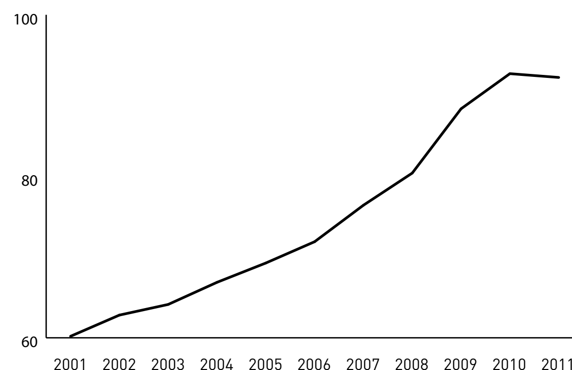
4 For these reasons, we expect 2013 to be a year of transition in Canada. Overall economic growth will likely slow to about 1.8% from an estimated rate of 2.1% in 2012, and accelerate moderately to 2.3% in 2014. Moreover, the composition of that growth should change considerably from the pattern of 2010-11-12: business investment and, eventually, net exports, will contribute more to growth while the contribution from the household sector will diminish. Such relatively weak growth rates will prevent the rate of unemployment from improving noticeably during 2013. It isn't until later in 2014 that we expect the rate of unemployment to ease towards 7.0% in both Canada and Quebec; currently, those rates stand at 7.4% and 7.7% respectively. Barring a major external macro-economic shock, however, we still do not expect the Canadian and Quebec economies to slide back into recession. The housing market will continue cooling in response to elevated levels of household debt and the tighter mortgage rules put in place over the past 18 months. As long as the rate of unemployment does not climb over 8.0%, however, this is not expected to be problematic.

UNEMPLOYMENT RATE
(in a percentage)



Source: Statistics Canada
(1) LBS Economic Research predictions

CANADIAN HOUSEHOLD INDEBTEDNESS
(debt to nominal GDP, in percentage)



Source: Statistics Canada

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended October 31, 2012

SUMMARY OF FINANCIAL RESULTS

OVERVIEW OF FISCAL 2012

For the year ended October 31, 2012, the Bank reported net income of $140.5 million, or diluted earnings of $4.98 per share, compared with $123.7 million, or diluted earnings of $4.65 per share in 2011. Return on common shareholders' equity was 12.1% in 2012, compared with 12.2% in 2011.

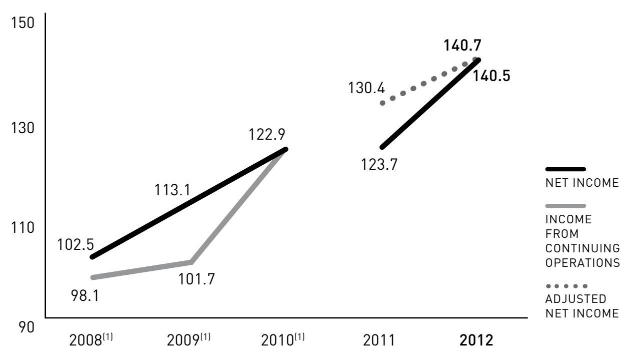
Excluding the adjusting items described below, net income was $140.7 million, up 8% year-over-year, and adjusted return on common shareholders' equity was 12.0%. Adjusted diluted earnings per share totalled $4.98 in 2012 compared to $4.93 in 2011, a 0.05$ increase.

In fiscal 2012, the Bank successfully improved its earnings year-over-year, despite the challenging retail banking and low interest rate environment. During the year, organic growth in loan and deposit volumes and the Bank's business acquisitions of the MRS Companies[1] and AGF Trust Company (AGF Trust) generated strong revenue growth and diversification, which compensated for the persistent pressure on net interest margins resulting from the very low interest rate environment. The excellent credit quality of the Bank's loan portfolios and favourable credit conditions in Canada throughout the year also contributed to these results. In the midst of persistent economic uncertainty, the Bank continued to prudently invest in various initiatives in its business lines while closely controlling costs, with a constant focus on profitable growth to optimize the deployment of its shareholders' equity. During 2012, the Bank also delivered a significant portion of the expected synergies from the integration of the MRS Companies and began to distribute LBC-Mackenzie mutual funds through its Québec branch network under a new distribution agreement. As its efforts now gradually turn to the integration of the AGF Trust business, the Bank will remain focused on materializing the full potential from these business transactions.

The Bank maintained a strong financial position throughout the year and prudently managed its capital in light of the recent acquisitions and significant balance sheet growth. With sound liquidity and capital management, the Bank remains well positioned to pursue its growth initiatives and to meet new regulatory requirements.

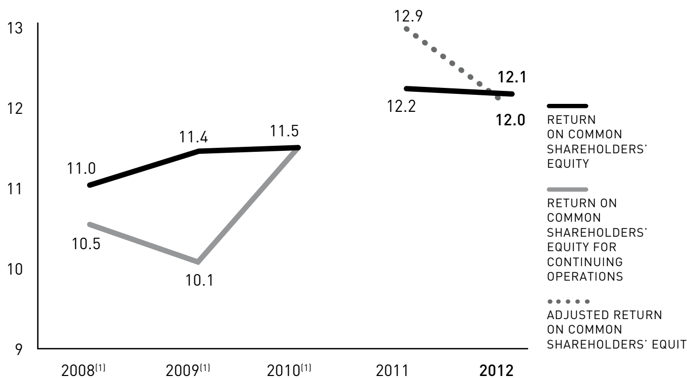
(1) The MRS Companies include the renamed B2B Bank Financial Services Inc., B2B Bank Securities Services Inc. and B2B Bank Intermediary Services Inc. as well as MRS Trust , which merged with B2B Bank as of April 16, 2012.

NET INCOME
(in millions of Canadian dollars)



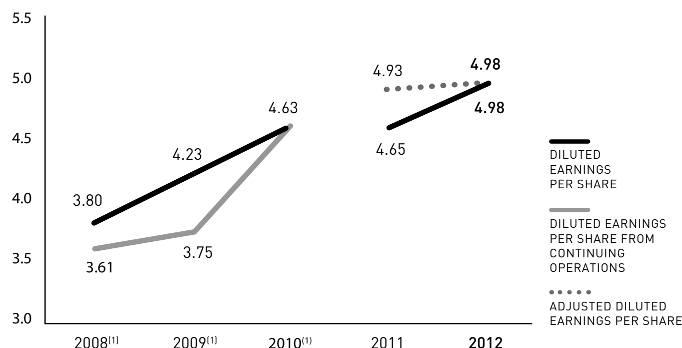
(1) In accordance with previous CGAAP.

RETURN ON COMMON SHAREHOLDERS' EQUITY
(as a percentage)



(1) In accordance with previous CGAAP.

DILUTED EARNINGS PER SHARE
(in Canadian dollars)



(1) In accordance with previous CGAAP.

BUSINESS SEGMENTS

FOR THE YEARS ENDED OCTOBER 31
(IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT PERCENTAGE AMOUNTS)

	OVERVIEW	KEY ACCOMPLISHMENTS
RETAIL & SME-QUÉBEC	The Retail & SME-Québec segment provides a full range of financial products and services, offered through its distribution networks, for retail clients and small and medium-sized enterprises in Quebec. With its network of 157 branches, 26 commercial banking centres and 426 automated banking machines, it operates the third largest retail branch network in Québec.	■ Significant growth in loan portfolios, up more than $750 million over the last twelve months ■ Continued strong credit quality ■ Stable non-interest expenses mitigated the reduced level of earnings ■ Reached the $10 billion milestone in residential mortgage loans ■ Increased SME loans by 17% and SME deposits by 7% ■ Began to offer LBC-Mackenzie mutual funds
REAL ESTATE & COMMERCIAL	The Real Estate & Commercial business segment includes two areas of operation. The first is real estate financing, specializing in financing for condominiums, office buildings, shopping centers and residential developments. The second is commercial financing specializing in financing for medium-sized enterprises across Canada. This segment also offers international services dedicated to the foreign trade activities for the Bank's clients.	■ Recorded solid growth in profitability, with net income up 25% year-over-year ■ Loan losses down more than 80% year-over-year ■ Positioned the energy and infrastructure team as an increasingly important player in its sector ■ Maintained disciplined loan underwriting standards while providing service and response times that are among the most competitive in the industry ■ Invested in human capital, training and staff specialization to further improve the client experience
B2B BANK	The B2B Bank business segment is a leader in providing banking products and investment accounts and services distributed through a network of 27,000 financial advisors and brokers. B2B Bank offers a broad range of banking products from high interest accounts and GICs to mortgages, investment and RRSP loans while B2B Bank Dealer Services offers a comprehensive suite of registered and non-registered investment accounts and services.	■ Increased scale with loans rising by 66% and deposits by 39% over the last twelve months ■ Improved adjusted profitability by 18% year-over-year ■ Transitioned B2B Trust into B2B Bank and launched B2B Bank branded mortgage products ■ Integrated the MRS Companies into B2B Bank ■ Acquired AGF Trust ■ Expanded B2B Bank's distribution network of Financial Advisors and Deposit and Mortgage Brokers by 80% to some 27,000 financial professionals
LAURENTIAN BANK SECURITIES & CAPITAL MARKETS	The Laurentian Bank Securities & Capital Markets business segment acts as an integrated broker serving retail and institutional clients and manages bank-related capital market activities. Its Institutional Fixed Income division has a particularly strong presence in Government and Corporate underwriting, as well as in secondary markets, while the Institutional Equities Group continues to expand in the small cap space. Its Institutional Services Group largely serves small- and mid-sized money managers and brokerage firms.	■ 36% increase in net income year-over-year, in a relatively unfavourable environment ■ Expanded operations, opening an office in Winnipeg to leverage the platform of the Institutional Equity Group ■ Built new relationships and strengthened existing ones with Government and Corporate Fixed Income clients ■ Added a Financial Planning Group to further demonstrate a commitment to providing a full service offering to its investor base ■ Managed risk prudently in volatile markets
OTHER	The Other segment includes the activities of the Bank's various corporate support sectors, mainly Treasury, Credit, Finance, Risk Management, Technology, Operations, Corporate Affairs and Human Resources. Revenues and expenses from these sectors are generally reallocated to the other business segments. However, certain treasury operations such as liquidity management and other corporate activities are reported in this segment.	■ Improvement in net interest income management ■ Non-interest expenses well controlled despite higher employee benefits expenses and ongoing regulatory compliance projects ■ Successfully raised $482 million of capital including two common shares issues, a preferred share issue and a medium term note (subordinated debt) issue ■ Actively managed the Bank's risk-weighted asset and capital structure in order to meet 2013 capital adequacy requirements under Basel III ■ Renewed the collective agreement for a six-year term

PRIORITIES FOR 2013

SEGMENT CONTRIBUTION

RETAIL & SME-QUÉBEC

- Continue to improve operational efficiency through end-to-end process streamlining
- Optimize net interest margin by modifying the product mix and emphasising SME loans
- Increase other income by pursuing cross-selling opportunities
- Continue to exercise tight expense control

TABLE 2

	2012	2011	2010 [1]
Net interest income	**$ 310,776**	$ 321,578	$ 323,740
Other income	**135,121**	132,346	129,774
Total revenue	**445,897**	453,924	453,514
Provision for loan losses	**23,978**	24,060	40,919
Non-interest expenses	**366,994**	363,825	352,621
Income before taxes	**54,925**	66,039	59,974
Income taxes	**11,018**	14,148	12,961
Net income	**$ 43,907**	$ 51,891	$ 47,013
Efficiency ratio [2]	**82.3%**	80.2%	77.8%
Average loans and acceptances	**$13,341,941**	$12,412,591	$11,688,722
Average deposits	**$ 9,589,392**	$ 9,146,968	$ 8,580,912

(1) In accordance with previous CGAAP.
(2) Refer to the non-GAAP financial measures section.

REAL ESTATE & COMMERCIAL

- Grow the balance sheet profitably and within acceptable risk parameters
- Specialize the Commercial banking teams to better target the most profitable niches
- Develop new products and sectors to diversify our offer and our revenue streams
- Remain focused on operational and commercial excellence in order to offer a distinctive, value-added client experience and build a best-in-class commercial bank

TABLE 3

	2012	2011	2010 [1]
Net interest income	**$ 87,825**	$ 90,656	$ 84,475
Other income	**34,430**	33,738	34,852
Total revenue	**122,255**	124,394	119,327
Provision for loan losses	**3,002**	22,677	24,124
Non-interest expenses	**31,582**	30,211	24,801
Income before income taxes	**87,671**	71,506	70,402
Income taxes	**23,716**	20,469	21,313
Net income	**$ 63,955**	$ 51,037	$ 49,089
Efficiency ratio [2]	**25.8%**	24.3%	20.8%
Average loans and acceptances	**$ 3,374,481**	$3,072,592	$2,896,376
Average deposits	**$ 511,215**	$ 513,690	$ 485,012

(1) In accordance with previous CGAAP.
(2) Refer to the non-GAAP financial measures section.

B2B BANK

- Finalize MRS integration
- Integrate AGF Trust into B2B Bank
- Execute key elements of our strategic plan in order to be well positioned to focus on customer service excellence for 2014

TABLE 4

	2012	2011	2010 [1]
Net interest income	**$ 143,593**	$ 117,769	$ 114,194
Other income	**34,590**	8,967	10,419
Total revenue	**178,183**	126,736	124,613
Gain on acquisition and amortization of net premium on purchased financial instruments	**23,795**	-	-
Provision for loan losses	**6,020**	4,343	2,957
Non-interest expenses	**106,077**	64,040	54,449
Costs related to business combinations and other [2]	**21,997**	1,349	-
Income before income taxes	**67,884**	57,004	67,207
Income taxes	**18,436**	16,149	20,813
Net income	**$ 49,448**	$ 40,855	$ 46,394
Adjusted net income [3]	**$ 49,600**	$ 42,056	$ 46,394
Efficiency ratio [3]	**71.9%**	51.6%	43.7%
Adjusted efficiency ratio [3]	**59.5%**	50.5%	43.7%
Average loans and acceptances	**$ 6,747,686**	$5,400,231	$4,973,835
Average deposits	**$ 10,863,952**	$9,213,139	$9,232,384

(1) In accordance with previous CGAAP.
(2) Integration costs related to the acquisition of the MRS Companies and AGF Trust.
(3) Refer to the non-GAAP financial measures section.

LAURENTIAN BANK SECURITIES & CAPITAL MARKETS

- Accelerate growth in assets under administration
- Grow the footprint in western Canada
- Further integrate activities of the Financial Planning Group into the Retail offering
- Continue to capitalize on the small cap market niche in Institutional Equities

TABLE 5

	2012	2011	2010 [1]
Total revenue	**$ 59,902**	$ 56,353	$ 61,115
Non-interest expenses	**48,439**	47,902	46,938
Income before income taxes	**11,463**	8,451	14,177
Income taxes	**2,941**	2,180	4,189
Net income	**$ 8,522**	$ 6,271	$ 9,988
Efficiency ratio [2]	**80.9%**	85.0%	76.8%
Clients' brokerage assets	**$ 2,253,599**	$2,153,893	$2,274,998

(1) In accordance with previous CGAAP.
(2) Refer to the non-GAAP financial measures section.

OTHER

- Work towards adopting the Internal Ratings Based approach under Basel II.
- Initiate project to enhance the Bank's performance under the upcoming Basel III Liquidity Management guidelines
- Ensure readiness for FATCA (Foreign Account Tax Compliance Act) and CDIC FID (Fast Insurance Determination) regulatory requirements
- Maximize benefits from the MRS Companies and the AGF Trust acquisitions
- Pursue strategies aiming to further improve employee engagement

TABLE 6

	2012	2011	2010 [1]
Net interest income	**$ (14,376)**	$ (28,664)	$ (28,429)
Other income	**4,782**	5,604	7,306
Total revenue	**(9,594)**	(23,060)	(21,123)
Non-interest expenses	**29,374**	15,127	25,427
Costs related to business combinations and other [2]	**–**	7,657	–
Loss before income taxes	**(38,968)**	(45,844)	(46,550)
Income taxes recovered	**(13,644)**	(19,507)	(17,007)
Net loss	**$ (25,324)**	$ (26,337)	$ (29,543)
Adjusted net loss [3]	**$ (25,324)**	$ (20,872)	$ (29,543)

(1) In accordance with previous CGAAP.
(2) Compensation for the termination in 2012 of a mutual fund distribution agreement.
(3) Refer to the non-GAAP financial measures section.

RETAIL & SME-QUÉBEC

The Retail & SME-Québec business segment's contribution to net income was $43.9 million in 2012, compared to $51.9 million for 2011.

Total revenue decreased from $453.9 million in 2011 to $445.9 million in 2012, as lower net interest income more than offset growth in other income. Year-over-year, net interest income decreased by $10.8 million or 3% as the business segment's strong organic growth in loan and deposit volumes throughout the year did not compensate for the compressed margins resulting from the very low interest rate environment and the run-off of higher-margin point-of-sale financing loans. Other income increased by $2.8 million or 2% to $135.1 million in 2012 from $132.3 million a year ago. Higher revenues from card services due to increased fees and transactional volumes, and higher fees on deposits were partly offset by lower credit insurance income resulting from higher claims.

Loan losses were down marginally to $24.0 million in 2012 compared to $24.1 million in 2011, despite a $0.8 billion or 6% increase in the loan portfolio year-over-year. This continued low level reflects the good credit quality of all loan portfolios and marked improvements in the SME and point-of-sale financing portfolios, which more than offset the higher losses on the credit card portfolio.

Non-interest expenses were up marginally by $3.2 million or less than 1%, from $363.8 million in 2011 to $367.0 million in 2012 as cost control measures, including restructuring initiatives, were taken to mitigate the reduced level of earnings.

REAL ESTATE & COMMERCIAL

The Real Estate & Commercial business segment's contribution to net income improved by $12.9 million, or 25%, to $64.0 million in 2012, compared with $51.0 million in 2011.

Total revenue decreased by $2.1 million, from $124.4 million in 2011 to $122.3 million in 2012. In 2012, strong growth in loan and deposit volumes, notably in the real estate portfolio, did not offset the effect of margin compression stemming from persistently low interest rates. Other income increased by $0.7 million or 2% in 2012 reflecting the combined effect of a $3.2 million gain on the sale of $85.2 million of commercial mortgage loans during the year, partly offset by lower revenue from foreign exchange operations resulting from a relatively stable currency environment.

Loan losses were significantly lower at $3.0 million in 2012, compared with $22.7 million in 2011, a $19.7 million or 87% decrease. This improvement includes the effect of favourable settlements and adjustments to individual allowances and reflects the overall strong health of the loan portfolios as further evidenced by a significantly lower level of impaired loans.

Non-interest expenses increased by $1.4 million, from $30.2 million in 2011 to $31.6 million in 2012. Higher salaries and benefits, hiring fees and rental costs related to investments in the sales force and management development mainly contributed to the overall increase in 2012.

B2B BANK

B2B Bank business segment's contribution to adjusted net income was $49.6 million for 2012, up $7.5 million or 18% from $42.1 million in 2011. Reported net income for 2012 was $49.5 million, compared to $40.9 million in 2011.

Total revenue increased by $51.4 million or 41% to $178.2 million in 2012, compared with $126.7 million in 2011, essentially as a result of B2B Bank's strategic acquisitions of the MRS Companies and AGF Trust. Net interest income increased by $25.8 million compared to last year, mainly due to B2B Bank's significant increase in loan portfolios and deposit portfolios year-over-year. This was partially offset by narrower margins on B2B Bank's deposit portfolios. Other income increased to $34.6 million, essentially as a result of a $26.2 million contribution from MRS-sourced fees related to investment accounts. The gain on acquisition and amortization of net premium on purchased financial instruments amounted to $23.8 million in 2012, essentially reflecting the preliminary allocation of the purchase price of AGF Trust.

Provision for loan losses increased from $4.3 million in 2011 to $6.0 million in 2012. Excluding $3.1 million of loan losses associated with AGF Trust's loan portfolios, loan losses decreased by 32% or $1.4 million, reflecting the underlying quality of B2B Bank's loan portfolios.

Non-interest expenses, as shown in the adjacent table, totalled $106.1 million in 2012, compared to $64.0 million in 2011. Excluding ongoing operating costs related to MRS Companies of $30.1 million and AGF Trust of $8.3 million, non-interest expenses otherwise increased by $3.7 million or 6% year-over-year, mainly from the effect of additional employees required to support non acquisition-related business activity and enhanced service levels. T&I Costs, included in the costs related to business combinations and other line item in the adjacent table, totalled $22.0 million for 2012, of which $19.0 million was related to the MRS Companies and $3.0 million to AGF Trust, compared to $1.3 million a year ago. In 2012, T&I Costs were mainly related to IT systems conversion, legal and communication expenses, as well as to severance costs and other transaction costs.

LAURENTIAN BANK SECURITIES & CAPITAL MARKETS

For the year ended October 31, 2012, the Laurentian Bank Securities & Capital Markets (LBS & CM) business segment's contribution to net income increased to $8.5 million compared to $6.3 million in 2011.

Total revenue increased by 6% from $56.4 million in 2011 to $59.9 million in 2012, as a result of higher underwriting fees and trading income. This was partly offset by reduced retail brokerage income, resulting from a lower level of activity throughout the year. Although market conditions improved compared to 2011, they remained challenging in 2012 as bond market uncertainty persisted and small-cap equity markets were sidelined.

Non-interest expenses increased marginally by $0.5 million to $48.4 million in 2012, as a result of performance-based compensation accruals partly compensated by cost control initiatives.

OTHER

The Other segment posted a negative contribution to net income of $25.3 million in 2012 compared to a negative contribution of $26.3 million in 2011. Excluding a compensation expense of $5.5 million (net of income taxes) for termination in 2012 of a mutual fund distribution agreement, adjusted negative contribution to net income in 2011 was $20.9 million.

Net interest income improved to negative $14.4 million in 2012, compared to negative $28.7 million in 2011, reflecting good market positioning as well as some adjustments to inter-segment transfer pricing initiated in early 2012. Other income in 2012 was $4.8 million, compared to $5.6 million for 2011 and essentially relates to gains on treasury activities.

Non-interest expenses, as shown in the adjacent table, increased by $14.2 million to $29.4 million in 2012. The increase was largely due to higher pension costs and employee benefits expenses related to group insurance programs, as well as to higher professional service fees related to the ongoing project to adopt the internal ratings based approach under Basel II and other regulatory compliance projects. In 2011, T&I Costs, included in the costs related to business combinations and other line item in the adjacent table, related to a $7.7 million compensation expense for the termination in 2012 of a mutual fund distribution agreement.

HIGHLIGHTS OF 2012

- Net income, up 14% to $140.5 million, return on common shareholders' equity of 12.1% and diluted earnings per share of $4.98
- Significant increase in loan portfolios, up 21% year-over-year
- Excellent credit quality as evidenced by loan losses of $33.0 million, down 35% year-over-year
- Acquisitions of the MRS Companies and AGF Trust and $182 million common share issuances
- Excluding adjusting items:
  - Adjusted net income of $140.7 million, up 8% year-over-year
  - Adjusted return on common shareholders' equity of 12.0%
  - Adjusted diluted earnings per share of $4.98, up $0.05 from $4.93 a year earlier

TABLE 1
CONSOLIDATED RESULTS

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

	2012	2011	2010 [1]	VARIANCE 12 / 11
Net interest income	**$531,028**	$504,485	$496,421	5%
Other income	**265,615**	233,862	241,025	14
Total revenue	**796,643**	738,347	737,446	8
Gain on acquisition and amortization of net premium on purchased financial instruments	**23,795**	–	–	n.a.
Provision for loan losses	**33,000**	51,080	68,000	(35)
Non–interest expenses	**604,463**	530,111	504,236	14
Income before income taxes	**182,975**	157,156	165,210	16
Income taxes	**42,467**	33,439	42,269	27
Net income	**140,508**	123,717	122,941	14
Preferred share dividends, including applicable taxes	**12,768**	12,436	12,122	3
Net income available to common shareholders	**$127,740**	$111,281	$110,819	15%
Average number of common shares outstanding (in thousands)				
Basic	**25,634**	23,924	23,921	
Diluted	**25,652**	23,943	23,937	
Earnings per share				
Basic	**$ 4.98**	$ 4.65	$ 4.63	7%
Diluted	**$ 4.98**	$ 4.65	$ 4.63	7%
Return on common shareholders' equity [2]	**12.1%**	12.2%	11.5%	
Adjusted measures				
Adjusted net income [2]	**$140,660**	$130,383	$122,941	8%
Adjusted diluted earnings per share [2]	**$4.98**	$ 4.93	$ 4.63	1%
Adjusted return on common shareholders' equity [2]	**12.0%**	12.9%	11.5%	
Adjusted efficiency ratio [2]	**73.1%**	70.6%	68.4%	

(1) In accordance with previous CGAAP.
(2) Refer to the non-GAAP financial measures section.

ADJUSTING ITEMS

The Bank has designated certain amounts as adjusting items and has adjusted GAAP results to facilitate understanding of its underlying business performance and related trends. The Bank assesses performance on a GAAP basis and on an adjusted basis and considers both to be 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. Adjusting items below are essentially related to costs and revenues related to the Bank's recent business combination activities. Adjusted results and measures are non-GAAP measures. Comments on the uses and limitations of such measures are disclosed in the Non-GAAP Financial Measures section on page 74.

TABLE 7

IMPACT OF ADJUSTING ITEMS, NET OF INCOME TAXES

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

	BUSINESS SEGMENT	2012	2011	2010[1]
Impact on net income				
Reported net income		**$140,508**	$123,717	$122,941
Adjusting items, net income taxes [2]				
Gain on acquisition and amortization of net premium on purchased financial instruments				
Gain on acquisition	B2B Bank	**(16,382)**	–	–
Amortization of net premium on purchased financial instruments	B2B Bank	**400**	–	–
Costs related to business combinations and other [3]				
MRS Companies transaction and integration-related costs	B2B Bank	**13,936**	1,201	–
AGF Trust transaction and integration-related costs	B2B Bank	**2,198**	–	–
Compensation for the termination in 2012 of a mutual fund distribution agreement	Other	**–**	5,465	–
		152	6,666	–
Adjusted net income [2]		**$140,660**	$130,383	$122,941
Impact on diluted earnings per share				
Reported diluted earnings per share		**$ 4.98**	$ 4.65	$ 4.63
Adjusting items [2]		**–**	0.28	–
Adjusted diluted earnings per share [2]		**$ 4.98**	$ 4.93	$ 4.63

(1) In accordance with previous CGAAP.
(2) Refer to the non-GAAP financial measures section.
(3) Also referred to as Transaction and Integration Costs (T&I Costs).

2012 FINANCIAL PERFORMANCE

The following table presents management's financial objectives for 2012 and the Bank's performance for the year then ended. The actual performance for 2012 includes results of operations of MRS Companies since November 16, 2011, and of AGF Trust since the acquisition on August 1, 2012. However, it excludes the adjusting items related to the MRS Companies and AGF Trust acquisitions detailed in the Adjusting Items section above.

The Bank met its revenue growth, adjusted return on common shareholders' equity and adjusted diluted earnings per share objectives for the year 2012 and posted, for the sixth year in a row, a record profitability level.

This overall satisfactory performance resulted, in part, from increased net interest income due to strong organic and acquisition-related loan and deposit growth year-over-year. Higher other income from the MRS Companies' investment accounts, as well as the excellent credit quality of the Bank's loan portfolio throughout the year also contributed significantly to the attainment of the objectives.

TABLE 8

2012 PERFORMANCE INDICATORS

(excluding adjusting items)

	2012 OBJECTIVES	2012 RESULTS
Revenue growth	> 5%	**8%**
Adjusted efficiency ratio [1]	**73% to 70%**	**73.1%**
Adjusted return on common shareholders' equity [1]	**11.0% to 13.5%**	**12.0%**
Adjusted diluted earnings per share [1]	**$4.80 to $5.40**	**$4.98**

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

OUTLOOK AND OBJECTIVES FOR 2013

ECONOMIC OUTLOOK – A BRIEF OVERVIEW

Management believes that, as significant challenges remain with regards to the United States and Europe, the overall economic growth, based on the gross domestic product (GDP), will likely slow to about 1.8% in Canada in 2012. It is thus anticipated that interest rates will remain at accommodating historically low levels throughout 2013, which should result in continued higher levels of consumption and a relatively lower level of investment over the near future.

CANADIAN REAL GDP GROWTH
(quarter-over-quarter percentage change in real GDP, at annual rates)

Source: Statistics Canada
(1) LBC Economic Research predictions

HOW WE WILL MEASURE OUR PERFORMANCE IN 2013

The following table presents the Bank's objectives for 2013.

TABLE 9
2013 FINANCIAL OBJECTIVES
(excluding adjusting items)

	2012 RESULTS	2013 OBJECTIVES [2]
Revenue growth	8%	> 5%
Adjusted efficiency ratio [1]	73.1%	72.5% to 69.5%
Adjusted net income (in millions of Canadian dollars) [1]	$140.7	$145.0 to $165.0
Adjusted return on common shareholders' equity [1]	12.0%	10.5% to 12.5%
Common equity tier 1 ratio	n.a.	> 7.0%

(1) Refer to the non-gaap financial measures section.
(2) These objectives for 2013 should be read concurrently with the following paragraphs on key assumptions.

Key assumptions supporting the Bank's objectives

The following assumptions are the most significant items considered in setting the Bank's strategic priorities and financial objectives. The Bank's objectives do not constitute guidance and are based on certain key planning assumptions. In addition, uncertainties regarding potential accounting standard changes and potential regulatory changes could cause actual results to differ materially from management objectives. Other factors such as those detailed in the Caution Regarding Forward-Looking Statements and Integrated Risk Management Framework sections of this MD&A could also cause future results to differ materially from these objectives.

In addition to the 2013 expected overall economic conditions presented above, management believes the following factors will underlie its financial outlook for 2013:

- Good organic growth to continue, particularly in our commercial businesses
- Some attrition in the acquired portfolios
- Compressed margin to stabilize during 2013
- Strategies to grow and diversify other income to be maintained
- Loan loss provisions to increase from 2012 low levels and as a result of the addition of the AGF Trust portfolios
- Continued cooling of the housing market, without any severe correction
- Expenses to be tightly controlled
- Regulatory costs to continue to rise to conform to a heightened regulatory environment
- Integration of MRS/AGF Trust to be completed in late 2013 with further synergies to materialize in 2014
- Full year dilution impact of the common share issuances completed in 2012

These targets exclude expected integration costs pertaining to the acquisitions of the MRS Companies and AGF Trust, and amortization of acquisition-related net premium on purchased financial instruments, as detailed in the Financial impact of the acquisition of AGF Trust section on page 38 of this MD&A.

In addition, in light of heightened regulatory capital requirements coming into effect on January 1, 2013, management will continue to focus on its prudent approach to capital management and leverage on its capital optimization initiatives to maintain a Basel III Common Equity Tier 1 ratio above 7%.

ACQUISITIONS

ACQUISITION OF THE MRS COMPANIES

On November 16, 2011, the Bank and Mackenzie Financial Corporation concluded an agreement pursuant to which B2B Bank, a subsidiary of the Laurentian Bank, acquired 100% of the MRS Companies in a share purchase transaction for a cash consideration of $198.7 million. The transaction strengthens B2B Bank's product line as it is a leader in offering loan and deposit products to financial advisors while MRS is among the leaders offering investment account management services to this group.

At the acquisition date, inclusion of the assets and liabilities of the MRS Companies added $333.1 million of loans and $725.5 million of deposits on the Bank's balance sheet. Assets under administration also increased by $20.8 billion, mostly in assets related to self-directed RRSPs. See Note 29 to the annual consolidated financial statements for additional information on this acquisition.

The acquisition of the MRS Companies, after eleven 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. In 2012, excluding adjusting items, the MRS Companies have contributed approximately $7.5 million to the Bank's net income.

At the acquisition date, integration and conversion costs were estimated to total $38.0 million, of which one-third would relate to new IT system investments. The Bank recorded $25.1 million of such costs in 2012 and the project is expected to remain on budget. In addition, the integration of the MRS Companies is progressing according to plan, with significant milestones of the system conversion and client integration process and related cost synergies now achieved.

ACQUISITION OF AGF TRUST

On August 1, 2012, B2B Bank acquired 100% of AGF Trust in a share purchase transaction for a cash consideration equal to the net book value of the company at closing of approximately $246.3 million. The agreement also includes a contingent consideration of a maximum of $20.0 million payable over five years if credit quality reaches certain criteria.

AGF Trust provides GICs, term deposits, investment loans and real estate secured loans through some 20,500 financial advisors and 1,050 mortgage brokers nation-wide. At acquisition date, inclusion of the assets and liabilities of AGF Trust added $3.2 billion of loans and $2.8 billion of deposits on the Bank's consolidate balance sheet. The Bank acquired AGF Trust to combine it with B2B Bank in order to further strengthen its position as provider of banking products and services to the Canadian financial advisor community, as well as to improve profitability and geographic diversification.

Considering this transaction, the Bank closed a private placement of common shares with the Caisse de dépôt et placement du Québec and the Fonds de solidarité FTQ for total net proceeds of $115.0 million.

After only 3 months, the acquisition of AGF Trust is already contributing to the Bank's earnings. Integration of most corporate functions is already completed. In 2013, upon the completion of the MRS Companies integration, the efforts will gradually turn to the integration of the AGF Trust operations into B2B Bank in order to optimize the benefits for the Bank and its clients. Total integration and conversion costs should approximate $30.0 to $35.0 million of which $3.0 million was incurred in 2012.

In 2012, excluding adjusting items, AGF Trust contributed approximately $7.3 million to the Bank's net income.

Financial impact of the acquisition of AGF Trust

Under IFRS, the preliminary allocation of the purchase price (the difference between the purchase price and the fair value of assets and liabilities of AGF Trust) resulted in a pre-tax gain of $24.3 million ($16.4 million after income taxes) arising on acquisition as the estimated net fair value of assets and liabilities acquired, exceeded the purchase price. The gain mainly represents the favourable effect of the net premium to reflect current market rates on purchased financial instruments, which was partly offset by the estimated fair value of the contingent consideration initially valued at $5.9 million. The purchase price allocation is based on management's best estimates of the fair value of the assets acquired, liabilities assumed and contingent consideration at the date of acquisition.

The portion of the gain resulting from the revaluation of the purchased financial instruments recorded as part of the gain on acquisition in the fourth quarter of 2012 will be amortized in net income over the estimated remaining term of the purchased financial instruments. The following table presents the expected ensuing impact on the Bank's future reported results that will however be excluded on an adjusted basis.

TABLE 10

SUMMARY OF GAIN ON ACQUISITION AND EXPECTED IMPACT OF AMORTIZATION OF NET PREMIUM ON PURCHASED FINANCIAL INSTRUMENTS

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

	GAIN ON ACQUISITION	EXPECTED IMPACT OF AMORTIZATION OF NET PREMIUM ON PURCHASED FINANCIAL INSTRUMENTS					
	2012	**2012** [1]	2013	2014	2015	2016 to 2022	TOTAL
Net premium on purchased financial instruments	**$30,236**	**$(541)**	$(4,533)	$(5,848)	$(6,025)	$(13,289)	$(30,236)
Contingent consideration	**(5,900)**	**–**	–	–	–	–	–
Increase (decrease) in income before income taxes	**24,336**	**(541)**	(4,533)	(5,848)	(6,025)	(13,289)	(30,236)
Income taxes (recovered)	**7,954**	**(141)**	(1,192)	(1,539)	(1,585)	(3,497)	(7,954)
Increase (decrease) in net income	**$16,382**	**$(400)**	$(3,341)	$(4,309)	$(4,440)	$ (9,792)	$(22,282)

(1) Actual amortization recorded in 2012.

The above reversal schedule could be reviewed to reflect changes in the expected remaining term of the purchased financial instruments, considering actual prepayments or other changes in expected cash flows. In addition, future changes in the estimated fair value of the contingent consideration could impact results.

ANALYSIS OF CONSOLIDATED RESULTS

Net income was $140.5 million, or $4.98 diluted per share, for the year ended October 31, 2012, compared with $123.7 million, or $4.65 diluted per share, in 2011. Adjusted net income was up 8% year-over-year to $140.7 million, compared with $130.4 million in 2011, while adjusted diluted net income per share was up $0.05 to $4.98, compared to $4.93 diluted per share, in 2011.

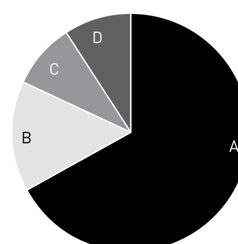
The contribution from the MRS Companies and AGF Trust fuelled the Bank's earnings growth in 2012. When combined with organic growth, excluding adjusting items, the earnings generated by the acquired businesses more than offset the compressed margins stemming from the persistently low interest rate environment throughout the year.

TOTAL REVENUE

Total revenue increased $58.3 million or 8% to $796.6 million for the year ended October 31, 2012, compared with $738.3 million for the year ended October 31, 2011. The contribution from the MRS Companies to total revenue amounted to $40.1 million for the year ended October 31, 2012, and the contribution from AGF Trust amounted to $20.0 million, as these strategic acquisitions accelerated the Bank's revenue growth in 2012. Net interest income increased by 5% to $531.0 million, while other income increased by 14% to $265.6 million, as detailed below.

TOTAL REVENUE MIX

(as a percentage)



A.	NET INTEREST INCOME	67%
B.	FEES AND COMMISSIONS ON LOANS AND DEPOSITS	15%
C.	INCOME RELATED TO FINANCIAL MARKETS [1]	9%
D.	OTHER	9%

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

NET INTEREST INCOME

Net interest income increased to $531.0 million for the year ended October 31, 2012, compared with $504.5 million in 2011. This increase is mainly due to the Bank's sustained loan and deposit volume growth year-over-year, of respectively $1.2 billion and $0.5 billion from organic growth and of $3.5 billion for loans and $3.5 billion for deposits from the acquisitions of the MRS Companies and AGF Trust. As further detailed in Table 12, this growth was partly offset by a decrease in net interest margin of 13 basis points year-over-year, from 1.82% in 2011 to 1.69% in 2012. The compression in net interest margin resulted from the persistently low interest rate environment throughout the year and flatter yield curve affecting earnings on low cost deposits and capital funding as well as continued high liquidity levels, partly offset by the acquired higher-margin loans. Table 11 provides a summary of net interest income.

The Bank uses derivatives to manage the interest rate risk associated with some of its loan and deposit portfolios. In 2012, interest rate swaps generated revenues of $59.2 million and partly compensated lower interest income stemming from variable rate loan portfolios resulting from the low interest rate environment. Depending on interest rate fluctuations and on the portfolio mix in terms of maturity and product types, actual return on portfolios can vary substantially. The Bank uses models to quantify the potential impact of various rate scenarios on future revenues and equity, as explained in the Asset and Liability Management Activities section on page 64 of this MD&A.

TABLE 11

CHANGES IN NET INTEREST INCOME

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

				2012				2011
	AVERAGE VOLUME IN %	AVERAGE VOLUME	INTEREST	AVERAGE RATE	AVERAGE VOLUME IN %	AVERAGE VOLUME	INTEREST	AVERAGE RATE
Assets								
Cash resources and securities	19.4%	$ 6,106,815	$ 77,468	1.27%	19.9%	$ 5,524,512	$ 79,336	1.44%
Securities purchased under reverse repurchase agreements	2.8	892,200	9,098	1.02	2.8	767,328	8,697	1.13
Loans								
Personal	20.6	6,487,719	309,334	4.77	20.4	5,653,917	278,056	4.92
Residential mortgage	40.2	12,637,878	490,708	3.88	40.6	11,296,315	474,897	4.20
Commercial mortgage	7.7	2,418,315	115,907	4.79	8.0	22,210,288	115,035	5.20
Commercial and other	7.0	2,194,881	89,814	4.09	6.9	1,916,815	86,135	4.49
Derivatives	–	–	59,240	–	–	–	61,345	–
Other assets	2.3	726,727	–	–	1.4	399,122	–	–
Total – assets	100.0%	$31,464,535	$1,151,569	3.66%	100.0%	$27,768,297	$1,103,501	3.97%
Liabilities and shareholders' equity								
Demand and notice deposits		$7,896,765	$70,093	0.89%		$ 7,081,569	$ 66,654	0.94%
Term deposits		14,113,459	375,553	2.66		12,776,035	377,809	2.96
Obligations related to securities sold short or under repurchase agreements		1,927,419	1,176	0.06		1,783,774	2,236	0.13
Acceptances		218,879	–	–		181,788	–	–
Other liabilities		571,010	–	–		524,624	–	–
Debt related to securitization activities		5,153,686	163,880	3.18		4,072,629	140,743	3.46
Subordinated debt		250,445	9,839	3.93		276,671	11,574	4.18
Shareholders' equity		1,332,872	–	–		1,071,207	–	–
Total – liabilities and shareholders' equity		$31,464,535	$ 620,541	1.97%		$27,768,297	$ 599,016	2.15%
Net interest income			$ 531,028	1.69%			$ 504,485	1.82%

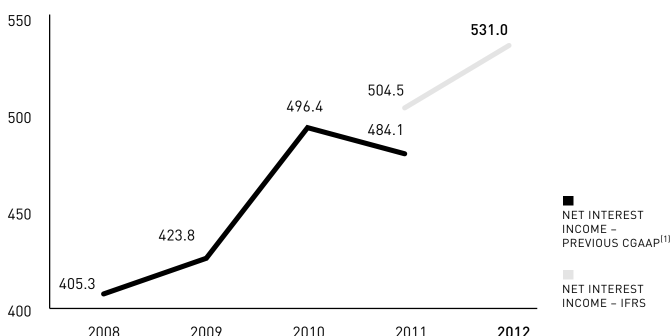
TABLE 12

ANALYSIS OF CHANGE IN NET INTEREST INCOME

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

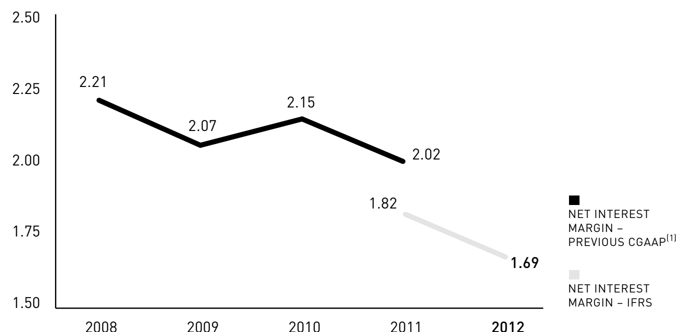
			2012 / 2011
	Increase (decrease) due to change in		
	AVERAGE VOLUME	AVERAGE RATE	NET CHANGE
Assets	$34,490	$ 13,578	$48,068
Liabilities	35,378	(56,903)	(21,525)
Net interest income	$69,868	$(43,325)	$26,543

NET INTEREST INCOME
(in millions of Canadian dollars)



(1) The difference between previous CGAAP and IFRS mainly results from the difference in accounting treatment for securitization transactions. Refer to Note 30 to the annual consolidated financial statements for additional information.

NET INTEREST MARGIN
(as a percentage of average assets)



(1) The difference between previous CGAAP and IFRS mainly results from the difference in accounting treatment for securitization transactions. Refer to Note 30 to the annual consolidated financial statements for additional information.

OTHER INCOME

Other income increased to $265.6 million for the year ended October 31, 2012 from $233.9 million for the year ended October 31, 2011. This includes a $26.2 million contribution to other income from the acquisition of the MRS Companies, largely from fees related to investment accounts.

Fees and commissions on loans and deposits increased by 4% to $120.0 million for fiscal 2012 from $115.0 million in 2011, mainly driven by increased revenues from deposit service charges due to higher fees, while lending fees were slightly lower year-over-year. Card service revenues also contributed to the increase as a result of higher fees and transactional volume.

Income from brokerage operations increased by 13% to $54.8 million for fiscal 2012 compared to $48.4 million in 2011. Although market conditions remained very challenging for trading and underwriting activities throughout the year, with continued subdued activity in the fixed income and in the small-cap equity markets, revenues improved relatively year-over-year.

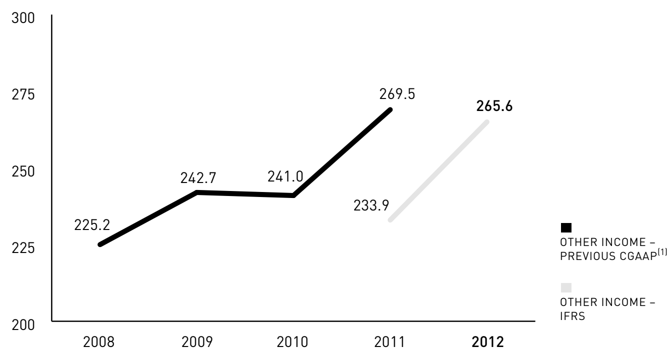
Revenues from registered self-directed plans increased significantly by $21.8 million to $29.1 million for fiscal 2012, compared to $7.3 million earned in 2011. This was a result of the strategic acquisition of the MRS Companies, which allowed the Bank to grow its revenue base and distribution network, and provided diversification to its revenue mix.

Revenues from mutual funds improved by 4% to $18.0 million in fiscal 2012 compared with $17.3 million in 2011. During the year, the Bank's continued efforts resulting in higher mutual fund sales and growth in assets under management. In addition, as principal distributor, the Bank started to distribute a preferred series of LBC-Mackenzie mutual funds in January 2012 in its Québec branch network, setting the base for future growth in this source of revenues.

Income from treasury and financial market operations decreased by $3.4 million to $17.5 million for fiscal 2012 from $20.9 million in 2011. This decrease mainly resulted from lower revenues from foreign exchange markets resulting from relatively more stable rates, which more than offset higher income from structured products, while the contribution from other treasury activities such as secondary liquidity management was relatively unchanged year-over-year. Results in 2011 were also favourably impacted by a $1.3 million gain related to hedging of securitization activities. Additional information related to the Bank's securities portfolio is presented in Note 5 to the annual consolidated financial statements.

Credit insurance revenues are mainly generated by insurance programs related to loans disbursed by the Bank and related premiums are presented net of claims. These revenues decreased by $3.1 million to $15.5 million for fiscal 2012 from $18.6 million in 2011, mainly due to a higher level of claims, which more than offset higher premiums, reflecting growth in the residential mortgage loan portfolio.

OTHER INCOME
(in millions of Canadian dollars)



(1) The difference between previous CGAAP and IFRS mainly results from the difference in accounting treatment for securitization transactions. Refer to Note 30 to the annual consolidated financial statements for additional information.

TABLE 13
OTHER INCOME
For the years ended October 31 (in thousands of Canadian dollars)

	2012	2011	2010 [1]	VARIANCE 12/11
Fees and commissions on loans and deposits				
Deposit service charges	**$ 57,226**	$ 53,809	$ 54,172	6%
Lending fees	**37,788**	38,542	38,985	(2)
Card service revenues	**24,939**	22,655	20,543	10
Sub-total – fees and commissions on loans and deposits	**119,953**	115,006	113,700	4
Other				
Income from brokerage operations	**54,806**	48,429	52,934	13
Income from registered self-directed plans	**29,079**	7,253	8,680	301
Income from sales of mutual funds	**18,026**	17,308	15,012	4
Income from treasury and financial market operations	**17,531**	20,938	18,035	(16)
Credit insurance income	**15,529**	18,591	17,785	(16)
Other	**10,691**	6,337	8,883	69
Securitization income	**–**	–	5,996	n.a.
Sub-total – other	**145,662**	118,856	127,325	23
Total – other income	**$265,615**	$233,862	$241,025	14%

(1) In accordance with previous CGAAP.

GAIN ON ACQUISITION AND AMORTIZATION OF NET PREMIUM ON PURCHASED FINANCIAL INSTRUMENTS

A gain on acquisition and the ensuing amortization of net premium on purchased financial instruments amounted to $23.8 million for the year ended October 31, 2012. This includes a $24.3 million pre-tax gain ($16.4 million after income taxes) resulting from the purchase price of AGF Trust, slightly offset by a $0.5 million amortization of acquisition-related net premium on these financial instruments. Refer to the Financial impact of the acquisition of AGF Trust section on page 38 for further details on these items.

PROVISION FOR LOAN LOSSES

The provision for loan losses amounted to $33.0 million for the year ended October 31, 2012 compared to $51.1 million for the year ended October 31, 2011, a significant decrease of $18.1 million or 35% year-over-year despite the strong increase in the Bank's loan portfolio and $3.1 million of loan losses associated with AGF Trust's loan portfolios. This very low level of losses reflects the continued excellent quality of the Bank's loan portfolios and considerable improvements in the commercial portfolios year-over-year. Losses in 2012 represented 0.14% of average loans and acceptances, down from 0.24% in 2011. Although the Bank benefited from favourable credit conditions in 2012, it remains prudent in the current uncertain economic environment and closely monitors its loan portfolio, with a particular focus on the recently acquired portfolio of AGF Trust. The following table details the provision for loan losses from 2010 to 2012.

TABLE 14
PROVISION FOR LOAN LOSSES
For the years ended October 31 (in thousands of Canadian dollars, except percentage amounts)

	2012	2011	2010 [1]
Personal loans	**$25,328**	$23,341	$31,460
Residential mortgage loans	**3,454**	113	3,486
Commercial mortgage loans	**1,527**	17,404	8,729
Commercial and other loans	**2,691**	10,222	24,325
Total – provision for loan losses	**$33,000**	$51,080	$68,000
As a % of average loans and acceptances	**0.14%**	0.24%	0.40%

(1) In accordance with previous CGAAP.

NON-INTEREST EXPENSES

Non-interest expenses totalled $604.5 million for the year ended October 31, 2012, compared to $530.1 million for the year ended October 31, 2011. Excluding T&I Costs of $22.0 million in 2012, and $9.0 million in 2011, and current operating costs related to MRS Companies of $30.1 million and AGF Trust of $8.3 million, non-interest expenses increased by $23.0 million or 4% year-over-year.

Salaries and employee benefits increased by $38.0 million to $320.6 million compared to the year ended October 31, 2011. Increased headcount from the acquisitions of the MRS Companies and, to a lesser extent, of AGF Trust in the fourth quarter of 2012, accounted for $20.4 million or 54% of this increase. Regular salary increases and variable compensation, as well as severance costs, higher pension costs and expenses related to group insurance programs also contributed to the increase year-over-year.

Premises and technology costs increased by $11.7 million to $152.9 million compared to $141.2 million for the year ended October 31, 2011. This increase is mainly due to higher rental and IT costs related to the acquisition of the MRS Companies and AGF Trust and increased square footage of leased premises. Higher IT costs related to ongoing business growth and amortization expense related to completed IT development projects, also accounted for the increase.

Other non-interest expenses increased by $11.7 million to $108.9 million for the year ended October 31, 2012, from $97.3 million for the same period of 2011. Excluding the effect of the acquisitions during 2012, other non-interest expenses were down $1.5 million compared to last year.

T&I Costs for the year ended October 31, 2012 totalled $22.0 million, of which $19.0 was related to the MRS Companies and $3.0 million to AGF Trust, compared to $9.0 million a year ago. In 2012, T&I Costs were mainly related to IT systems conversion, legal and communication expenses for the integration of the MRS Companies, as well as to severance costs and other transaction costs related to the acquisition of AGF Trust. A further $6.1 million of MRS Companies' expenses were capitalized as B2B Bank invested to develop the IT infrastructure and upgrade in the acquired dealer account management system. A year ago, T&I Costs were mainly composed-of a $7.7 million compensation expense for the termination in 2012 of a distribution agreement of mutual funds.

Table 15 illustrates the changes in non-interest expenses from 2010 to 2012.

TABLE 15
NON-INTEREST EXPENSES
For the years ended October 31 (in thousands of Canadian dollars, except percentage amounts)

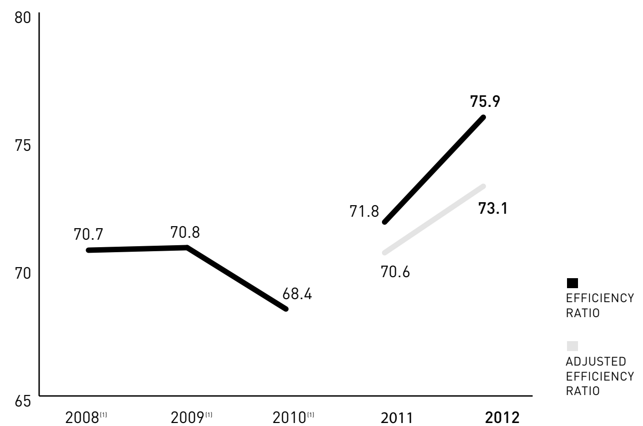
	2012	2011	2010 [1]	VARIANCE 12/11
Salaries and employee benefits				
Salaries	**$214,154**	$192,119	$181,040	
Employee benefits	**64,033**	55,857	55,795	
Performance-based compensation	**42,416**	34,654	39,129	
Sub-total – salaries and employee benefits	**320,603**	282,630	275,964	13%
Premises and technology				
Equipment and computer services	**58,319**	54,234	52,108	
Rent and property taxes	**44,324**	40,101	37,731	
Depreciation	**43,433**	39,967	35,987	
Maintenance and repairs	**5,037**	5,460	5,271	
Public utilities	**1,485**	1,461	1,355	
Other	**321**	(11)	88	
Sub-total – premises and technology	**152,919**	141,212	132,540	8%
Other				
Fees and commissions	**25,813**	24,667	21,700	
Advertising and business development	**23,087**	20,620	22,089	
Taxes and insurance	**21,293**	16,999	16,518	
Communications and travelling expenses	**20,834**	19,582	19,037	
Stationery and publications	**6,232**	5,975	5,962	
Recruitment and training	**3,108**	3,448	4,591	
Other	**8,577**	5,972	5,835	
Sub-total – other	**108,944**	97,263	95,732	12%
Costs related to business combinations and other [2]	**21,997**	9,006	–	144%
Total – non-interest expenses	**$604,463**	$530,111	$504,236	14%
As a % of total revenue (efficiency ratio) [3]	**75.9%**	71.8%	68.4%	
As a % of total revenue (adjusted efficiency ratio) [3]	**73.1%**	70.6%	68.4%	

(1) In accordance with previous CGAAP.
(2) Integration costs related to the acquisition of the MRS Companies and AGF Trust and the compensation for the termination in 2012 a mutual fund distribution agreement.
(3) Refer to the non-GAAP financial measures section.

Efficiency ratio

For the year ended October 31, 2012, the adjusted efficiency ratio was 73.1%, compared with 70.6% for the year ended October 31, 2011. The Bank's 8% revenue growth year-over-year was hampered by the overall low-interest rate environment and margin compression and could not fully compensate for higher expenses from acquired operations incurred throughout the year. The Bank remains nonetheless focused on materializing operating synergies to reap the full benefits from the integration of both the MRS Companies and AGF Trust to increase overall productivity and increase revenues over the next five quarters. The following graph shows the Bank's performance in this regard over the last five years.

EFFICIENCY RATIO
(non-interest expenses as a percentage of total revenue)



(1) In accordance with previous CGAAP.

INCOME TAXES

For fiscal 2012, income tax expense totalled $42.5 million and the effective income tax rate was 23.2%, compared with $33.4 million and 21.3%, respectively, for fiscal 2011. Note 20 to the annual consolidated financial statements provides further information on income tax expense. As detailed in the table below, the increase in the effective tax rate compared to a year-ago mainly results from the lower proportion of revenues from insurance operations, considering the gain on acquisition of AGF Trust, which more than offset the decrease in the statutory rate.

TABLE 16
RECONCILIATION OF THE INCOME TAX EXPENSE TO THE DOLLAR AMOUNT OF INCOME TAX USING THE STATUTORY RATE
For the years ended October 31 (in thousands of Canadian dollars, except percentage amounts)

	2012		2011	
Income taxes at statutory rates	**$49,361**	**27.0%**	$44,958	28.6%
Change resulting from:				
Income related to foreign credit insurance operations	**(3,587)**	**(2.0)**	(5,275)	(3.4)
Dividends and tax-exempt gains	**(4,168)**	**(2.3)**	(3,626)	(2.3)
Tax rate changes	**(375)**	**(0.2)**	–	–
Other	**1,236**	**0.7**	(2,618)	(1.6)
Income taxes, as reported in the consolidated statement of income and effective tax rate	**$42,467**	**23.2%**	$33,439	21.3%

TRANSACTIONS WITH RELATED PARTIES

The Bank provides loans to directors and officers and their related companies. As at October 31, 2012, these amounted to $15.0 million. Loans to directors are granted under market conditions for similar risks and are initially measured at the fair value. Loans to officers consist mostly of term residential mortgage loans at posted rates less 2%, as well as personal loans and personal lines of credit at market rates less a discount based on the type and amount of the loan. Loans to related entities of directors and officers are granted under terms similar to those offered to arm's length parties.

The interest earned on these loans is recorded under interest income in the consolidated statement of income. In the normal course of business, the Bank also provides usual banking services to certain directors and officers and their related companies, including bank accounts (deposits) under terms similar to those offered to arm's length parties. As at October 31, 2012, these amounted to $3.2 million. The Bank also offers employees a subsidy on annual credit card fees. See Note 23 to the annual consolidated financial statements for additional information on related party transactions.

OVERVIEW OF FISCAL 2011

The following analysis presents a comparison between the results for the years ended October 31, 2011, and 2010. Financial results for 2011 were established using IFRS as the basis of accounting, while 2010 data are in compliance with previous Canadian GAAP. Although the conversion to IFRS had no impact on the Bank's operations, it led to significant changes in the measurement and presentation of its performance and financial position, notably with regards to securitization activities and accounting for employee benefits. See Note 30 to the consolidated financial statements for additional information on the impact of the conversion to IFRS.

For the year ended October 31, 2011, the Bank reported net income of $123.7 million, or diluted earnings of $4.65 per share, compared with $122.9 million, or diluted earnings of $4.63 per share in 2010. Return on common shareholders' equity was 12.2% in 2011, compared with 11.5% in 2010.

Excluding the integration costs related to the acquired MRS Companies and the compensation recorded in 2011 for the termination in 2012 of a mutual fund distribution agreement related to the signing of a new distribution agreement for LBC-Mackenzie mutual funds, net income was $130.4 million and return on common shareholders' equity was 12.9%. Excluding these one-time costs, diluted earnings per share totalled $4.93 in 2011.

The Bank reported good results for fiscal 2011, despite the challenging retail banking and low interest rate environment. Already last year, results were affected by interest margin compressions. This impact was, however, generally compensated by the significant increase in loan and deposit volumes, which contributed to support net interest income. Efforts initiated in prior years to increase other income sources such as card service revenues and revenues from mutual fund distribution also yielded good results. Significant improvements in the credit quality of the Bank's loan portfolios also contributed to improve profitability.

ANALYSIS OF QUARTERLY RESULTS

SUMMARY ANALYSIS OF RESULTS FOR THE FOURTH QUARTER OF FISCAL 2012

Net income was $45.7 million, or $1.51 diluted per share, for the fourth quarter ended October 31, 2012, compared with $26.7 million, or $0.99 diluted per share, for the fourth quarter of 2011. Adjusted net income was up 8% year-over-year to $36.2 million for the fourth quarter ended October 31, 2012, compared with $33.4 million in 2011, while adjusted diluted net income per share was down 7% to $1.17, compared to $1.26 diluted per share, in 2011. Adjusting items for the quarter are presented in the table below.

See the Adjusting Items section on page 35 and the Non-GAAP Financial Measures section on page 74 for additional information.

TABLE 17

IMPACT OF ADJUSTING ITEMS, NET OF INCOME TAXES, ON THE FOURTH QUARTER RESULTS

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

	BUSINESS SEGMENT	2012	2011
Impact on net income			
Reported net income		**$45,685**	$26,709
Adjusting items, net of income taxes (1)			
Gain on acquisition and amortization of net premium on purchased financial instruments			
Gain on acquisition	B2B Bank	**(16,382)**	–
Amortization of net premium on purchased financial instruments	B2B Bank	**400**	–
Costs related to business combinations and other (2)			
MRS Companies transaction and integration-related costs	B2B Bank	**4,739**	1,201
AGF Trust transaction and integration-related costs	B2B Bank	**1,744**	–
Compensation for the termination in 2012 of a mutual fund distribution agreement	Other	**–**	5,465
		(9,499)	6,666
Adjusted net income (1)		**$36,186**	$33,375
Impact on diluted earnings per share (3)			
Reported diluted earnings per share		**$ 1.51**	$ 0.99
Adjusting items (1)		**(0.34)**	0.28
Adjusted diluted earnings per share (1)		**$ 1.17**	$ 1.26

(1) Refer to the non-GAAP financial measures section.
(2) Also referred to as Transaction and Integration Costs (T&I Costs).
(3) The impact of adjusting items on a per share basis does not add due to rounding for the quarter ended October 31, 2011.

TOTAL REVENUE

Total revenue increased $28.0 million or 15% to $210.4 million in the fourth quarter of 2012, compared with $182.4 million in the fourth quarter of 2011. The contribution from AGF Trust to total revenue amounted to $20.0 million for the fourth quarter of 2012, and the contribution from the MRS Companies amounted to $10.3 million, with the Bank's comparable revenue base essentially unchanged year-over-year.

Net interest income was up 13% to $142.4 million for the fourth quarter of 2012, from $126.4 million in the fourth quarter of 2011, as significant loan and deposit growth year-over-year, both organic and from acquisitions, more than compensated for lower margins. When compared to the fourth quarter of 2011, margins decreased by 14 basis points to 1.62% in the fourth quarter of 2012. During the quarter, the net interest margin continued to be adversely impacted by the very low interest rate environment and relatively high liquidity levels due to the acquisition of AGF Trust and the Bank's recent issuance of subordinated debt and preferred shares. In this context, the addition of $3.3 billion of higher-yielding loans in the AGF Trust portfolios provided support. Other income totalled $68.0 million in the fourth quarter of 2012, compared to $56.0 million in the fourth quarter of 2011, a $12.0 million or 21% year-over-year increase. This includes a $6.7 million contribution to other income from the MRS Companies, largely from investment account fees. 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.

GAIN ON ACQUISITION AND AMORTIZATION OF NET PREMIUM ON PURCHASED FINANCIAL INSTRUMENTS

The gain on acquisition and ensuing amortization of net premium on purchased financial instruments amounted to $23.8 million in the fourth quarter of 2012, as noted on page 42.

PROVISION FOR LOAN LOSSES

The provision for loan losses decreased by $5.0 million or 38% to $8.0 million in the fourth quarter of 2012, including a $3.1 million provision related to the acquired AGF Trust portfolio, from $13.0 million in the fourth quarter of 2011. This significant improvement reflects continued excellent credit conditions in the Canadian market and the quality of the Bank's loan portfolios, as well as a continued prudent approach to loan provisioning.

NON-INTEREST EXPENSES

Non-interest expenses totalled $165.4 million for the fourth quarter of 2012, compared to $137.2 million for the fourth quarter of 2011. Non-interest expenses during the fourth quarter of 2012 include T&I Costs of $8.8 million and operating expenses related to the MRS Companies of $8.8 million and to AGF Trust of $8.3 million while non-interest expenses in the fourth quarter of 2011 included T&I Costs of $9.0 million.

Salaries and employee benefits increased by $16.7 million or 24% to $87.1 million compared to the fourth quarter of 2011, mainly due to increased headcount from the acquisition of the MRS Companies and AGF Trust. Premises and technology costs increased by $3.7 million to $39.1 million compared to the fourth quarter of 2011. This increase is mainly due to rental and IT costs for the MRS Companies and AGF Trust. Other non-interest expenses increased by $8.0 million to $30.3 million for the fourth quarter of 2012, from $22.3 million for the fourth quarter of 2011. Other non-interest expenses of the MRS Companies and AGF Trust amounted to $5.5 million in the fourth quarter of 2012. The remaining increase is mainly attributable to higher professional service fees related to various initiatives, including costs incurred to initiate the process to adopt the internal ratings based approach under Basel II, as well as other regulatory compliance projects. Higher advertising expenses compared to last year, related to reward points and the changeover from B2B Trust to B2B Bank and higher GST/HST and capital taxes also contributed to the overall increase. In light of a slower revenue growth environment, the Bank continued to exercise disciplined control over expenses.

T&I Costs for the fourth quarter of 2012 totalled $8.8 million and mainly related to IT systems conversion and communication expenses for the integration of the MRS Companies and also included severance and other transaction costs related to AGF Trust of $2.4 million. A year ago, T&I Costs were mainly composed of a $7.7 million compensation expense for the termination in 2012 of a mutual fund distribution agreement.

INCOME TAXES

For the quarter ended October 31, 2012, the income tax expense was $15.1 million and the effective tax rate was 24.9% (and 21.1% on an adjusted basis). 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 October 31, 2011, the income tax expense was $5.6 million and the effective tax rate was 17.2% (19.1% on an adjusted basis). Year-over-year, the higher income tax rate for the fourth quarter ended October 31, 2012 results from the lower proportion of revenues from insurance operations and non-taxable dividends considering the gain on acquisition of AGF Trust, partly offset by the 1.5% reduction in Federal income tax rates, effective this year.

ANALYSIS OF THE EVOLUTION OF THE QUARTERLY RESULTS

The Bank's intermediation business provides a relatively steady source of income, stemming from large volumes of loans, deposits and investment accounts not likely to experience significant fluctuations in the short term. However, treasury operations and certain activities related to financial markets, such as trading activities, may result in significant volatility. In addition, variations in market interest rates or equity markets or credit conditions also influence the Bank's results. Other transactions such as business acquisitions, specific events or regulatory developments may also significantly impact revenues and expenses. Given that the second quarter usually consists of only 89 days (90 days in 2012), compared with 92 days for the other quarters, net interest income for that quarter is generally lower. The following table summarizes quarterly results for fiscal 2012 and 2011.

TABLE 18

QUARTERLY RESULTS

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

				2012				2011
	Oct. 31	**July 31**	**April 30**	**Jan. 31**	Oct. 31	July 31	April 30	Jan. 31
Net interest income	**$142,411**	**$129,664**	**$128,324**	**$130,629**	$126,391	$129,426	$122,065	$126,603
Other income	**67,985**	**64,169**	**70,346**	**63,115**	56,031	56,407	61,172	60,252
Total revenue	**210,396**	**193,833**	**198,670**	**193,744**	182,422	185,833	183,237	186,855
Gain on acquisition and amortization of net premium on purchased financial instruments	**23,795**	**–**	**–**	**–**	–	–	–	–
Provision for loan losses	**8,000**	**7,500**	**7,500**	**10,000**	12,999	14,640	11,984	11,457
Non-interest expenses	**156,547**	**141,798**	**143,761**	**140,360**	128,146	133,896	131,986	127,077
Costs related to business combinations and other [2]	**8,830**	**7,157**	**3,350**	**2,660**	9,006	–	–	–
Income before income taxes	**60,814**	**37,378**	**44,059**	**40,724**	32,271	37,297	39,267	48,321
Income taxes	**15,129**	**7,380**	**10,196**	**9,762**	5,562	8,225	8,251	11,401
Net income	**$ 45,685**	**$ 29,998**	**$ 33,863**	**$ 30,962**	$ 26,709	$ 29,072	$ 31,016	$ 36,920
Earnings per share								
Basic	**$ 1.51**	**$ 1.06**	**$ 1.22**	**$ 1.16**	$ 0.99	$ 1.09	$ 1.17	$ 1.41
Diluted	**$ 1.51**	**$ 1.06**	**$ 1.22**	**$ 1.16**	$ 0.99	$ 1.08	$ 1.17	$ 1.41
Net interest margin [1]	**1.62%**	**1.66%**	**1.73%**	**1.75%**	1.76%	1.83%	1.83%	1.86%
Return on common shareholders' equity [1]	**14.2%**	**10.1%**	**12.0%**	**11.5%**	9.9%	11.2%	12.7%	15.2%
Segment net income (loss)								
Retail & SME-Québec	**$ 9,293**	**$ 13,535**	**$ 10,658**	**$ 10,421**	$ 12,594	$ 14,745	$ 11,518	$ 13,034
Real Estate & Commercial	**16,729**	**15,951**	**16,969**	**14,306**	13,408	9,826	13,205	14,598
B2B Bank	**25,193**	**7,255**	**8,129**	**8,871**	8,731	10,879	10,468	10,777
Laurentian Bank Securities & Capital Markets	**2,692**	**1,176**	**2,779**	**1,875**	131	686	2,732	2,722
Other	**(8,222)**	**(7,919)**	**(4,672)**	**(4,511)**	(8,155)	(7,064)	(6,907)	(4,211)
Net income	**$ 45,685**	**$ 29,998**	**$ 33,863**	**$ 30,962**	$ 26,709	$ 29,072	$ 31,016	$ 36,920
Adjusted measures								
Adjusted net income [1]	**$ 36,186**	**$ 35,253**	**$ 36,302**	**$ 32,919**	$ 33,375	$ 29,072	$ 31,016	$ 36,920
Adjusted diluted earnings per share [1]	**$ 1.17**	**$ 1.27**	**$ 1.31**	**$ 1.24**	$ 1.26	$ 1.08	$ 1.17	$ 1.41
Adjusted return on common shareholders equity [1]	**10.9%**	**12.1%**	**13.0%**	**12.4%**	12.7%	11.2%	12.7%	15.2%

(1) Refer to the non-GAAP financial measures section.
(2) Integration costs related to the acquisition of the MRS Companies and AGF Trust and the compensation for the termination in 2012 of a mutual fund distribution agreement.

Over the past eight quarters, net income, mainly on an adjusted basis, has generally trended upward, driven mainly by sustained growth in loan and deposit portfolios combined with overall improvements in credit quality. Furthermore, certain specific factors, as detailed below, have affected results during fiscal 2012 and 2011.

2012

- Other income and non-interest expenses both increased as of the first quarter of 2012, largely due to higher fees from investment accounts and higher operating expenses related to the acquisition of the MRS Companies.
- Beginning in the second quarter of 2012, the provision for loan losses decreased to very low levels, reflecting the excellent quality of the loan portfolio and the favourable resolution of certain account exposures. This was particularly favourable in the Real Estate & Commercial business segment's results.
- Throughout 2012, net interest income was particularly stable as sustained volume growth compensated for narrowing margins. In the fourth quarter of 2012, acquired loans and deposits of AGF Trust began to contribute to net interest income and operating expenses increased accordingly.
- A net gain on acquisition was recorded in B2B Bank's net income in the fourth quarter of 2012, which mainly resulted from the preliminary allocation of the purchase price of AGF Trust.
- Costs related to business combinations increased gradually in 2012, mainly as the B2B Bank business segment proceeded with the integration of the MRS Companies to deliver on expected synergies from this acquisition.

2011

- In the three last quarters of 2011, net interest income decreased, as strong loan and deposit growth year-over-year did not fully offset lower interest margins resulting from competition in many markets and the low interest rate environment.
- Laurentian Bank Securities & Capital Markets results for the third and fourth quarter were negatively affected by unfavourable market conditions creating a difficult environment for underwriting and trading activities, resulting in lower brokerage and trading revenues.
- On October 14, 2011, the Bank entered into a non-exclusive distribution agreement for a preferred series of LBC-Mackenzie mutual funds as of January 2012. As a result, in the fourth quarter of 2011, the Bank accrued a $7.7 million compensation for the termination in 2012 of a mutual fund distribution agreement.

ANALYSIS OF FINANCIAL CONDITION

Over the past three years, the sustained organic growth in the Bank's businesses, enhanced by business acquisitions in 2012, has steadily increased its earnings, grown its balance sheet and reinforced its capital. In 2012, the Bank prudently raised its capital level to support a significant increase in its balance sheet and maintain a strong capital position. This provides the Bank with the added flexibility to pursue its growth initiatives and to meet increased regulatory capital requirements in 2013.

As at October 31, 2012, the Bank reported total assets of $34.9 billion, compared with $29.0 billion as at October 31, 2011, as shown in Table 19. These changes are explained in the following sections of this MD&A.

TABLE 19

BALANCE SHEET ASSETS

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

	2012	2011	2010 [1]	VARIANCE 12/11
Cash, deposits with other banks and securities	**$ 6,714,004**	$ 5,542,925	$ 4,991,381	21%
Securities purchased under reverse repurchase agreements	**631,202**	720,317	994,674	(12)
Loans				
Personal	**7,806,067**	5,774,207	5,636,203	35
Residential mortgage	**14,169,095**	11,869,412	10,859,647	19
Commercial mortgage	**2,443,634**	2,363,808	2,166,375	3
Commercial and other	**2,150,953**	1,900,977	1,691,190	13
Customers' liabilities under acceptances	**211,130**	179,140	165,450	18
	26,780,879	22,087,544	20,518,865	21
Allowances for loan losses	**(117,542)**	(143,150)	(131,567)	(18)
Total loans	**26,663,337**	21,944,394	20,387,298	22
Other assets	**928,283**	755,574	681,972	23
Balance sheet assets	**$34,936,826**	$28,963,210	$27,055,325	21%
Cash, deposits with other banks, securities and securities purchased under reverse repurchase agreements as a % of balance sheet assets	**21.0%**	21.6%	22.1%	
Total net loans and acceptances as a % of balance sheet assets	**76.3%**	75.8%	75.4%	

(1) In accordance with IFRS as at November 1, 2010.

LIQUID ASSETS

Liquid assets consist of cash, deposits with other banks, securities and securities purchased under reverse repurchase agreements. As at October 31, 2012, these assets totalled $7.3 billion, an increase of $1.1 billion compared to $6.3 billion as at October 31, 2011, a relatively high liquidity level due to the acquisition of AGF Trust and related common share issuance in the fourth quarter of 2012, as well as the Bank's recent issuance of subordinated debt and preferred shares. Overall, the level of liquid assets progressively increased throughout the year, as the Bank maintained diverse funding sources, issued capital instruments prior to Basel III implementation and continued to prudently manage its capital and liquidity levels to support the growth in business activity.

As at October 31, 2012, securities amounted to $6.1 billion, including a portfolio of available-for-sale securities totalling $2.8 billion. Net unrealized gains, included in accumulated other comprehensive income, amounted to $23.5 million as at October 31, 2012.

Additional information on liquidity and funding risk management is included on page 66 of this MD&A.

LOAN PORTFOLIO

Total loans and bankers' acceptances stood at $26.8 billion as at October 31, 2012, a significant increase of $4.7 billion or 21% from $22.1 billion as at October 31, 2011. The Bank recorded another year of strong organic loan growth totalling $1.2 billion in 2012, while the acquisition of the MRS Companies and AGF Trust respectively added $0.3 billion and $3.2 billion to the loan portfolio. Despite headwinds from intense competition throughout the year and recent tightening of mortgage lending rules in Canada, the Bank's efforts and niche approach generated loan growth across all of its business lines, helped by continued favourable market conditions.

Residential mortgage loans stood at $14.2 billion as at October 31, 2012 and increased by $2.3 billion in 2012, including $1.2 billion related to the acquisition of AGF Trust and $1.0 billion resulting from organic growth. The Bank's targeted approach to meet its customers' needs contributed to maintain the growth momentum in this loan portfolio in 2012, reflecting the Bank's strength in the retail market.

Personal loans increased by $2.0 billion or 35% since October 31, 2011, as investment loans and home-equity lines of credit (HELOCs) of $2.2 billion acquired through the MRS Companies and AGF Trust transactions were slightly offset by run-offs of $114.2 million in point-of-sale financing.

Commercial loans, including bankers' acceptances, increased by $282.0 million or 14% from October 31, 2011 while commercial mortgage loans grew by $79.8 million or 3% over the same period, despite loan sales of $85.2 million in 2012.

Impaired loans

Gross impaired loans decreased to $128.0 million in 2012 from $163.7 million in 2011. The decrease in impaired loans reflects the overall improvement in credit quality during the year, notably in the commercial loan portfolio. This was partly offset by the increased volume in the retail portfolio, although purchased loans are not be considered impaired on the acquisition date. Net impaired loans amounted to $10.5 million as at October 31, 2012, compared to $20.6 million as at October 31, 2011, reflecting a higher level of allowances. No allowances were recorded on the purchased $3.2 billion AGF Trust loan portfolio as at the acquisition date. See Note 6 to the annual consolidated financial statements for additional information.

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

OTHER ASSETS

Other assets increased 23% to $928.3 million as at October 31, 2012 from $755.6 million as at October 31, 2011. The year-over-year increase mainly resulted from a higher level of prepaid services and capital expenditures related to IT development projects, including investments in the acquired dealer account management system. Goodwill and intangible assets arising on the acquisition of the MRS Companies also contributed to this increase. This was offset by changes in the fair value of derivatives, which are mainly used to hedge the Bank's exposure to market risks.

DEPOSITS

The deposit portfolio was up 20% or $4.0 billion to $24.0 billion as at October 31, 2012 from $20.0 billion as at October 31, 2011. During the year, the Bank grew its deposit base, both from strategic acquisitions and organic growth, and despite the very low interest rate environment and intense competition in the retail market. Personal deposits increased by $3.8 billion or 24% from October 31, 2011 and stood at $19.4 billion as at October 31, 2012 including $0.7 billion resulting from the acquisition of the MRS Companies, $2.8 billion resulting from the acquisition of AGF Trust, and $0.3 billion generated from organic growth. Excluding the effect of acquisitions, personal deposits, particularly advisor-sourced deposits, grew at a moderate pace, as the Bank relied more heavily on other funding sources such as securitization and capital instruments to support its acquisitions and the organic growth of its loan portfolio throughout the year. Nonetheless, the Bank continued to focus on maintaining its privileged access to the retail market through its Retail & SME-Québec and B2B Bank business segments, a significant asset in light of proposed future increases in regulatory liquidity requirements. Business and other deposits, which include institutional deposits, were up $0.3 billion or 6% from October 31, 2011 to $4.7 billion as at October 31, 2012. During the second quarter of 2012, the Bank raised $200.0 million of three-year senior deposit notes to maintain prudent liquidity. The Bank remains committed to maintain its presence in the institutional money market, since it can provide additional flexibility in funding.

Additional information on deposits and other funding sources is included in the Liquidity and Funding Risk Management sub-section of the Integrated Risk Management Framework section.

OTHER LIABILITIES

Other liabilities were up marginally to $2.9 billion as at October 31, 2012 from $2.7 billion as at October 31, 2011. The year-over-year increase resulted mainly from higher obligations related to securities sold under repurchase agreements.

DEBT RELATED TO SECURITIZATION ACTIVITIES

Debt related to securitization activities increased by $1.3 billion from October 31, 2011 and stood at $6.0 billion as at October 31, 2012, including $0.7 billion resulting from the acquisition of AGF Trust. During the year, the Bank securitized and legally sold $776.3 million of residential mortgage loans, including $207.0 million securitized in the fourth quarter of 2012 through a new multi-seller conduit. In addition, loans totalling $767.0 million were sold as securities held to manage the maturity mismatch of the securitization swap agreements (Replacement Assets) during the year. For additional information on the Bank's debt related to securitization activities, please refer to Note 14 to the annual consolidated financial statements.

SUBORDINATED DEBT

As at October 31, 2012, subordinated debt increased to $443.6 million, compared with $242.6 million as at October 31, 2011. On October 19, 2012 the Bank completed the issuance of $200.0 million Medium Term Notes (Subordinated Indebtedness) Series 2012-1, due October 19, 2022. The subordinated debt is an integral part of the Bank's regulatory capital and affords its depositors additional protection.

SHAREHOLDERS' EQUITY

Shareholders' equity was $1,541.1 million as at October 31, 2012, compared with $1,218.3 million as at October 31, 2011. The 26% increase mainly resulted from common and preferred share issuances in 2012. Internal capital generation, which more than offset the decrease in accumulated other comprehensive income (AOCI), also contributed to the increase in shareholders' equity. The Capital management section provides additional information on the capital transactions of 2012 and other capital-related matters.

The Bank's book value per common share, excluding AOCI, appreciated to $42.81 as at October 31, 2012 from $39.59 as at October 31, 2011. The table below provides the details of the share capital.

TABLE 20

SHARES ISSUED AND OUTSTANDING

As at November 30, 2012 (in number of shares/options)

Preferred shares	
Series 9	4,000,000
Series 10	4,400,000
Series 11	4,000,000
Total preferred shares	12,400,000
Common shares	28,117,520
Options	50,000

OFF-BALANCE SHEET ARRANGEMENTS

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

ASSETS UNDER ADMINISTRATION AND ASSETS UNDER MANAGEMENT

Assets under administration and assets under management mainly include assets of clients to whom the Bank provides various administrative services, as well as commercial mortgage loans managed for third parties. Through its subsidiary Laurentian Bank Securities, the Bank also manages retail and institutional investment portfolios. Table 21 below summarizes assets under administration and assets under management. As at October 31, 2012, these items totalled $33.0 billion, up $20.9 billion compared with October 31, 2011. Fees, commissions and other income related to these assets contribute significantly to the Bank's profitability.

TABLE 21

ASSETS UNDER ADMINISTRATION AND ASSETS UNDER MANAGEMENT

As at October 31 (in thousands of Canadian dollars)

	2012	2011
Registered and non-registered investment accounts	**$28,206,015**	$ 7,616,790
Clients' brokerage assets	**2,253,599**	2,153,893
Mutual funds	**2,110,528**	1,864,577
Mortgage loans under management	**346,436**	300,134
Institutional assets	**76,912**	115,130
Other – Personal	**14,277**	25,382
Total – assets under administration and assets under management	**$33,007,767**	$12,075,906

Assets related to registered and non-registered investment accounts increased by $20.6 billion compared with last year, essentially as a result of the acquisition of the MRS Companies. With this acquisition, B2B Bank now delivers a wide range of investment products and services, to more than 300,000 investors, through its association with more than 27,000 independent advisors and their dealers, across Canada.

Clients' brokerage assets increased by $99.7 million or 5%, as a result of better market performance in 2012 and business development activities.

Mutual fund assets under administration increased by $246.0 million or 13% during fiscal 2012. The new distribution agreement of a preferred series of LBC-Mackenzie mutual funds signed at the beginning of the year, combined with the Bank's efficient distribution network and overall good market conditions in 2012, resulted in strong volume growth over the last twelve months.

Mortgage loans under management were up $46.3 million or 15%, as increased level of commercial mortgage loans sold during fiscal 2012 more than offset maturities and pre-payments on mortgage loans sold in prior years.

DERIVATIVES

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

All derivatives are recorded in the balance sheet at fair value. Derivative values are calculated using notional amounts. However, these amounts are not recorded in the balance sheet, as they do not represent the actual amounts exchanged. Likewise, notional amounts do not reflect the credit risk related to derivatives, although they serve as a reference for determining the amount of cash flows to be exchanged. The notional amounts of the Bank's derivatives totalled $16.1 billion as at October 31, 2012 with a net positive fair value at $66.8 million.

Notes 24 to 26 to the annual consolidated financial statements provide further information on the various types of derivative products and their recognition in the consolidated financial statements.

SECURITIZATION ACTIVITIES

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

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

The Bank securitizes residential mortgage loans primarily by participating to the Canada Mortgage Bonds Program (CMB Program) developed by the Canada Mortgage and Housing Corporation (CMHC) 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. In effect, the securitization activities carried by the Bank, although using special purpose entities which are not as such consolidated, are nonetheless reflected on-balance sheet.

As at October 31, 2012 the carrying amount of residential mortgage loans securitized and legally sold as part of the CMB Program amounted to $3.6 billion ($3.4 billion as at October 31, 2011) and the carrying amount of Replacement Assets amounted to $1.5 billion ($1.3 billion as at October 31, 2011). As at October 31, 2012, the carrying amount of securitized residential mortgage loans legally sold to multi-seller conduits amounted to $0.9 billion (35.8 million as at October 31, 2011). The securitization liability related to these transactions amounted to $6.0 billion as at October 31, 2012 ($4.8 billion as at October 31, 2011).

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

Notes 7, 14 and 28 to the annual consolidated financial statements provide additional information on these transactions.

CREDIT COMMITMENTS AND GUARANTEES

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

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

See Note 28 to the annual consolidated financial statements for further information.

TABLE 22

CREDIT COMMITMENTS AND GUARANTEES

As at October 31 (in thousands of Canadian dollars)

	2012	2011
Undrawn amounts under approved credit facilities [1]	**$3,158,271**	$2,603,217
Documentary letters of credit	**2,384**	4,358
Standby letters of credit and performance guarantees	**$ 149,254**	$ 146,846

(1) Exclude personal credit facilities totalling $1.9 billion ($1.6 billion as at October 31, 2011) and credit card lines amounting to $1.3 billion ($1.2 billion as at October 31, 2011) since they are revocable at the Bank's option.

CAPITAL MANAGEMENT

Management's objective is to maintain an adequate level of capital, in line with its risk appetite, to support the Bank's activities while enhancing shareholder value. In order to achieve this objective, the Bank has a Capital Management Framework that includes a Capital Management and Adequacy Policy, a Capital Plan and an Internal Capital Adequacy Assessment Process ("ICAAP").

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

Each year, the Board of Directors reviews and approves several capital-related documents, including the Capital Management and Adequacy Policy, the ICAAP, the Business and Financial Three-Year Plan, as well as the Capital Plan. The Risk Management Committee of the Board reviews capital adequacy on a quarterly basis. Management monitors capital ratios on a monthly basis. The Integrated Risk Management Department oversees the Bank's Capital Management Framework. Some of these responsibilities include monitoring capital limits and adequacy as well as developing and implementing the Capital Management and Adequacy Policy. The Bank's Treasury Department develops the Capital Plan and manages capital on an ongoing basis.

REGULATORY CAPITAL

The regulatory capital calculation is determined based on the guidelines issued by OSFI originating from the Basel Committee on Banking Supervision (BCBS) regulatory risk-based capital framework. Tier 1 capital represents more permanent forms of capital, is free of mandatory fixed charges against earnings and has a subordinate legal position to the rights of depositors and other creditors of the financial institution. Tier 2 capital consists of supplementary capital instruments that contribute to the overall strength of a financial institution as a going concern. Total capital is defined as the sum of Tier 1 and Tier 2 capital.

Regulatory capital requirements impose minimum levels of capital that have to be taken into consideration with the other factors mentioned above when assessing the Bank's capital adequacy. Under BCBS standards, banks must maintain a minimum Tier 1 capital ratio of 4% and a total capital ratio of at least 8%. OSFI requires that Canadian deposit-taking financial institutions maintain a minimum Tier 1 capital ratio of 7% and a total capital ratio of at least 10%. As at October 31, 2012, these ratios stood at 10.9% and 14.7% respectively for the Bank.

The Bank opted for the Standardized Approach in determining credit risk capital and to account for operational risk. In 2012, the Bank initiated the process to adopt the advanced internal ratings based (AIRB) approach to determine credit risk capital under Basel II. Currently, the Bank's capital measures under the Standardized Approach are not calculated on the same basis as its industry peers, as the AIRB approach is predominantly used in Canadian financial institutions. The Bank's adoption of the AIRB approach should strengthen its credit risk management, improve comparability, optimize regulatory capital and provide a level-playing field for underwriting activities.

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

SIGNIFICANT CHANGES IN 2012

Transition to IFRS

The IFRS conversion had a significant impact on the Bank's shareholders' equity, as new accounting standards led to a reduction of retained earnings of $135.2 million. Considering that the Bank had a strong capital position at the transition date, no specific measures were necessary to address the effect on regulatory capital ratios. Moreover, earlier in 2011, the Bank elected to phase-in the effect of the adjustments over a five-quarter period for purposes of calculating ratios, as permitted by OSFI. Excluding the remaining transitional provision of $27.2 million as at October 31, 2012, the Tier 1 capital ratio and total capital ratio would have been 10.7% and 14.5%, respectively.

Upon adoption of IFRS on November 1, 2011, the Bank's assets increased by the amount of securitized residential mortgage loans and replacements assets under administration. For purposes of the Asset to Capital Multiple (ACM) calculation, securitized mortgages sold through the CMB 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 contributed to the increase in the ACM, which stood at 16.3 as at October 31, 2012.

Acquisition of the MRS Companies and AGF Trust Company

As part of the business acquisition process, thorough analyses are completed to identify potential capital implications and to draw plans to ensure that an adequate level of capital is maintained. The acquisitions of the MRS Companies and AGF Trust significantly increased the Bank's balance sheet and risk-weighted assets for regulatory capital ratios calculation purposes. Although no immediate specific measures were taken for the MRS Companies acquisition, the Bank completed a private placement of common shares with the Caisse de dépôt et placement du Québec and the Fonds de solidarité FTQ for net proceeds of $115.0 million simultaneously with the closing of the AGF Trust acquisition to strengthen its capital.

Issuance of common shares, preferred shares and Medium Term Notes

Earlier this year, in February, the Bank had completed a common share issue for net proceeds of $60.9 million, consistent with its prudent approach to managing capital and objective to maintain capital ratios above new regulatory requirements as detailed below.

In addition, in October 2012, the Bank completed the issuance of $200.0 million principal Medium Term Notes (Subordinated Indebtedness) Series 2012-1 and $100.0 million preferred share Series 11. These issuances optimize the Bank's capital structure ahead of the onset of Non-Viability Contingent Capital requirements under Basel III and support its future balance sheet expansion.

PROPOSAL FOR NEW CAPITAL AND LIQUIDITY REGULATORY MEASURES

In August 2012, OSFI issued its draft capital adequacy requirements guideline drawn on the BCBS capital guidelines, commonly referred to as Basel III. These new requirements will take effect in January 2013 and will generally provide more stringent capital adequacy standards. 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 new minimum 7% Common Equity Tier 1 ratio target (4.5% minimum plus 2.5% capital conservation buffer).

These guidelines provide additional guidance regarding the treatment of non-qualifying capital instruments and specify that certain capital instruments will no longer qualify fully as capital beginning on January 1, 2013. The Bank's non-common capital instruments will be considered non-qualifying capital instruments under Basel III and will therefore be subject to a 10% phase-out per year beginning in 2013. These non-common capital instruments include Series 9, 10 and 11 preferred shares, as well as Series 2010-1 and 2012-1 subordinated Medium Term Notes.

Considering the Bank's capital position and the nature of its operations, and based on current understanding of the Basel III rules, management believes that the Bank is well positioned to meet upcoming capital requirements. The pro forma Common Equity Tier 1 ratio, as at October 31, 2012, stood at 7.4% when applying the full Basel III rules applicable in 2019 (i.e., without transition arrangements). Given the evolving nature of international capital rules and the projected outlook for balance sheet expansion, the Bank will nonetheless remain cautious with respect to capital deployment.

In December 2009, the BCBS published proposals on new liquidity requirements, which introduced new global liquidity standards. Updates were also published in 2010, providing additional information. At this stage, it is still too early to determine their definitive impact on liquidity requirements, considering the proposals are yet to be finalized at both the international (BCBS) and national (OSFI) levels and may further change between now and when the final rules take effect. Nevertheless, the Bank initiated in 2012 a gap analysis to highlight anticipated differences between the current liquidity requirements and its liquidity data and reporting systems.

TABLE 23

RISK-WEIGHTED ASSETS

As at October 31 (in thousands of Canadian dollars)

2012

	0%	20%	35%	50%	75%	100%	150%	225%	TOTAL	RISK-WEIGHTED ASSETS
Exposure class										
Corporate	$ –	$ 143,274	$ –	$62,978	$ –	$4,496,408	$14,748	$ –	$ 4,717,408	$ 4,578,674
Sovereign	5,197,071	227,294	–	–	–	–	–	–	5,424,365	45,459
Bank	–	774,649	–	–	–	443	–	–	775,092	155,373
Retail residential mortgage loans	8,427,180	–	5,709,414	–	28,627	23,527	–	–	14,188,748	2,043,292
Other retail	695,949	–	–	–	3,451,949	15,307	–	–	4,163,205	2,604,269
Small business entities treated as other retail	89,470	–	–	–	1,157,776	47,598	–	–	1,294,844	915,930
Equity	–	–	–	–	–	348,663	–	–	348,663	348,663
Securitization	–	55,312	–	7,196	–	183	–	2,132	64,823	19,640
Other assets	82,544	123,866	–	–	–	646,744	–	–	853,154	671,517
	14,492,214	1,324,395	5,709,414	70,174	4,638,352	5,578,873	14,748	2,132	31,830,302	11,382,817
Derivatives	3,741	235,759	–	–	–	10,494	–	–	249,994	57,646
Credit-related commitments	33,608	9,000	–	–	–	600,921	–	–	643,529	602,720
Operational risk										1,393,250
	$14,529,563	$1,569,154	$5,709,414	$70,174	$4,638,352	$6,190,288	$14,748	$2,132	$32,723,825	$13,436,433

Balance sheet items	
Cash, deposits with other banks, securities and securities purchased under reverse repurchase agreements	$ 725,449
Personal loans	2,996,307
Residential mortgage loans	2,536,591
Commercial mortgage loans, commercial loans and acceptances	4,569,207
Other assets	555,263
	$11,382,817

2011[1]

	0%	20%	35%	50%	75%	100%	150%	225%	TOTAL	RISK-WEIGHTED ASSETS
Exposure class										
Corporate	$ 1,544	$ 42,297	$ –	$59,791	$ –	$4,142,379	$9,910	$ –	$ 4,255,921	$ 4,195,599
Sovereign	3,544,374	255,875	–	–	–	–	–	–	3,800,249	51,175
Bank	–	396,122	–	–	–	–	–	–	396,122	79,224
Retail residential mortgage loans	4,062,669	–	4,202,215	–	–	44,114	–	–	8,308,998	1,514,889
Other retail	697,649	–	–	–	2,358,500	9,575	–	–	3,065,724	1,778,450
Small business entities treated as other retail	88,901	–	–	–	1,097,389	–	–	–	1,186,290	823,042
Equity	–	–	–	–	–	326,422	–	–	326,422	326,422
Securitization	–	26,366	–	24	–	2,816	–	1,788	30,994	12,124
Other assets	70,653	128,904	–	–	–	490,024	–	–	689,581	515,805
	8,465,790	849,564	4,202,215	59,815	3,455,889	5,015,330	9,910	1,788	22,060,301	9,296,730
Derivatives	–	359,411	–	–	–	22,127	–	–	381,538	94,009
Credit-related commitments	33,678	6,000	–	–	–	520,944	–	–	560,622	522,144
Operational risk										1,159,088
	$8,499,468	$1,214,975	$4,202,215	$59,815	$3,455,889	$5,558,401	$9,910	$1,788	$23,002,461	$11,071,971

Balance sheet items	
Cash, deposits with other banks, securities and securities purchased under reverse repurchase agreements	$ 588,745
Personal loans	2,076,397
Residential mortgage loans	2,482,595
Commercial mortgage loans, commercial loans and acceptances	3,631,925
Other assets	517,068
	$ 9,296,730

(1) The amounts are presented in accordance with previous CGAAP as filed with OSFI.

TABLE 24

REGULATORY CAPITAL

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

	2012	2011 [1]	VARIANCE 12/11
Tier 1 capital			
Common shares	$ 428,526	$ 259,492	65%
Share-based payment reserve	227	227	–
Retained earnings	774,899	818,207	(5)
Non-cumulative preferred shares	303,249	210,000	44
Goodwill	(64,077)	(53,790)	19
Securitization-related and other deductions	(9,764)	(16,911)	(42)
	1,433,060	1,217,225	18
Adjustment for transition to measurement base under IFRS	27,193	–	n.a.
Total Tier 1 capital (A)	1,460,253	1,217,225	20
Tier 2 capital			
Subordinated debt	443,594	242,512	83
Collective allowances	75,752	73,602	3
Securitization-related and other deductions	(5,539)	(16,499)	(66)
Total Tier 2 capital	513,807	299,615	71
Total regulatory capital – BIS (B)	$ 1,974,060	$ 1,516,840	30%
Total risk-weighted assets (C)	$13,436,433	$11,071,971	
Tier 1 BIS capital ratio (A/C)	10.9%	11.0%	
Total BIS capital ratio (B/C)	14.7%	13.7%	
Assets to capital multiple	16.3x	16.2x	

(1) The amounts are presented in accordance with previous CGAAP as filed with OSFI.

DIVIDENDS

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

On December 5, 2012, the Bank announced the introduction of its Shareholder Dividend and Share Purchase Plan. The plan offers eligible Canadian shareholders of both the Bank's common shares and Class A Preferred Shares the opportunity to have their regular quarterly cash dividends automatically reinvested in additional common shares of the Bank. At its meeting held on December 5, 2012, the Board of Directors approved a $0.02 per share increase to the quarterly dividend on common shares and thus declared a dividend of 0.49$ per common share, and elected to issue common shares under the plan from treasury at a 2% discount from the average market price.

DIVIDENDS DECLARED PER COMMON SHARE

(in Canadian dollars)

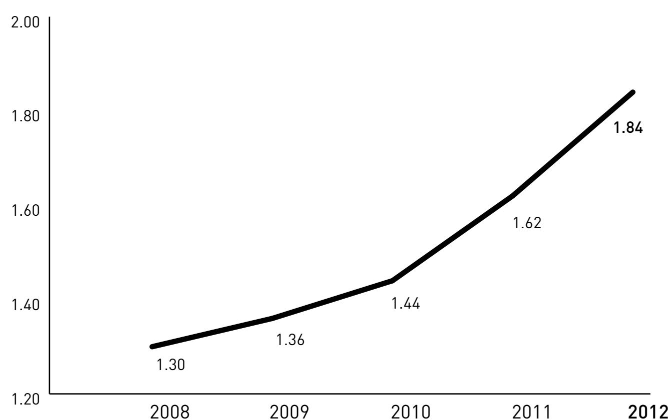


TABLE 25

SHARE DIVIDENDS AND PAYOUT RATIO

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

	2012	2011	2010 [1]
Dividends declared on preferred shares	$11,775	$11,775	$11,775
Dividends declared per common share	$1.84	$1.62	$1.44
Dividends declared on common shares	$47,212	$38,757	$34,446
Payout ratio [2]	37.0%	34.8%	31.1%

(1) In accordance with previous CGAAP.
(2) Refer to the non-GAAP financial measures section.

INTEGRATED RISK MANAGEMENT FRAMEWORK

Risk management is essential for the Bank to achieve its financial objectives and protect its reputation. In this context, and to enable senior management to assure the existence of sound practices favourable to efficient and prudent management of its operations and major risks, the Bank has developed an Integrated Risk Management Framework (the "Risk Framework").

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

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

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

RISK APPETITE

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

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

- It is a broad concept in which is described the types of activities and risks the Bank is willing to develop.
- This risk appetite is defined in terms of performance targets, credit rating, capital ratios, etc.

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

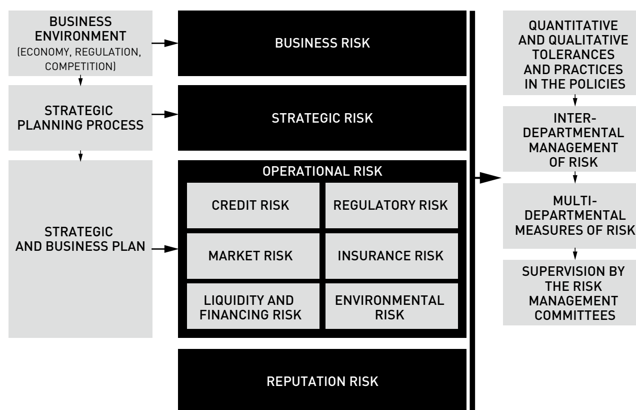
Risk capacity is determined by the availability of resources to assess and mitigate the risks as well as absorbing significant losses.

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

- Strategic objectives: financial objectives, target capital ratios, growth target, business types; and
- A set of limits described in our internal policies that define our risk tolerance (including regulatory constraints).

RISK MANAGEMENT PROCESS

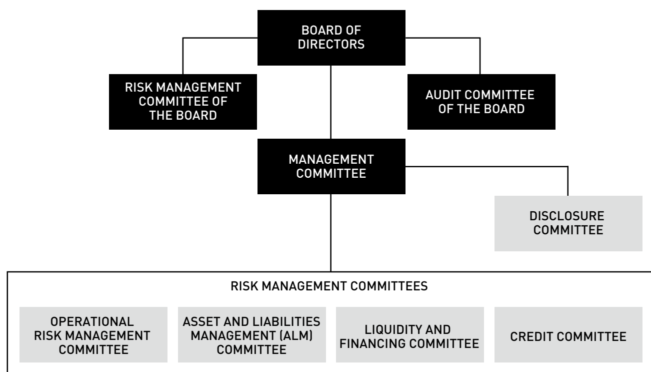
The Bank's risk management process, as illustrated below, is closely tied to the strategic planning process from which the Bank's strategic and business plan is defined. Policies approved by the Board describe tolerances, measures and responsibilities for each significant risk. These policies are implemented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



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

GOVERNANCE STRUCTURE

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



ROLES AND RESPONSIBILITIES OF THE BOARD OF DIRECTORS' COMMITTEES

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

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

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

ROLES AND RESPONSIBILITIES OF INTERNAL RISK MANAGEMENT COMMITTEES

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

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

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

The **ALM Committee** is responsible for assuring compliance with the interest rate structural risk management limits. It recommends hedging strategies to maintain the risk level within the Board's approved limits.

The **Liquidity and financing Committee** supervises liquidity management at the subsidiary and Bank level. It is also responsible for managing the Bank's financing needs and reviewing the liquidity contingency plan.

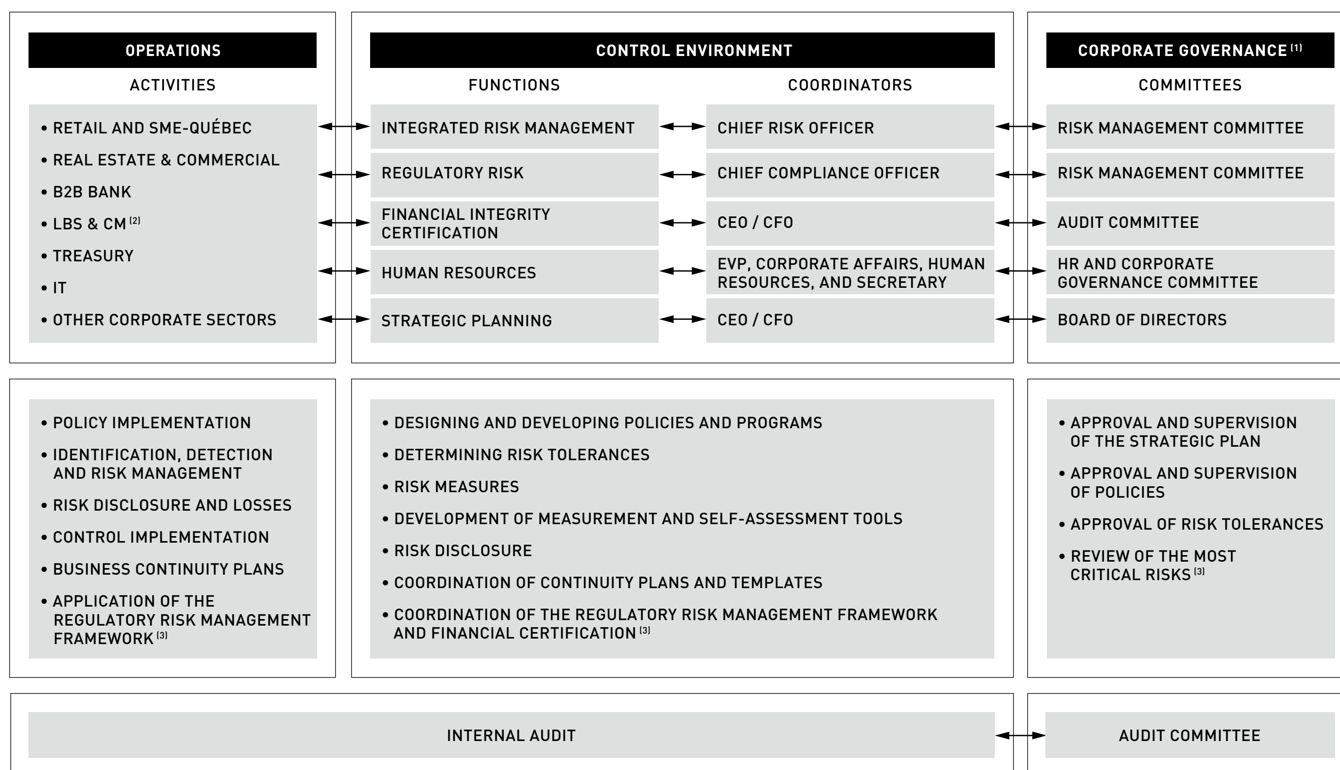
The **Disclosure Committee** is responsible for reviewing and approving the Bank's financial information subject to public or regulatory disclosure. The Disclosure Committee also elaborates the related communication strategies.

GOVERNANCE FUNCTIONS SUPPORTING INTEGRATED RISK MANAGEMENT

The following table presents the Bank's corporate control and risk governance structure (the "Structure"), which includes several governance functions designed to enhance integrated risk management. The Structure is divided into three distinct areas: operations, control environment and corporate governance. Operations are key to risk management as business units managers are on the front lines to identify risks and actively manage them by applying the risk policies and implementing controls and risk mitigation measures. The control environment hinges on five functions: integrated risk management, regulatory risk management, financial integrity, human resources and strategic planning. Responsibility for each function is delegated to members of senior management. The control environment is responsible for the Risk Framework and oversight of risk management, including an independent risk assessment. The Board of Directors' committees oversee the control environment. From a governance perspective, the Board of Directors is responsible for ensuring, to the extent possible, that the Bank's strategies and objectives are consistent with the global risk tolerance.

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

CORPORATE CONTROL AND GOVERNANCE STRUCTURE



(1) Corporate governance provided by the Board of Directors and its committees.
(2) Laurentian Bank Securities and Capital Markets
(3) This list of functions is not exhaustive.

STRATEGIC AND BUSINESS RISK MANAGEMENT

Strategic risk results from inadequate business plans, strategies, decision-making processes, allocation and use of the Bank's resources.

Business risk is the potential adverse effect of changes in the tax, economic, competitive, legal or accounting environment on the Bank's results.

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

CREDIT RISK MANAGEMENT

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

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

The authorization process for loans and counterparties is centralized. The Bank uses expert systems to support the decision-making process for most underwriting for consumer credit, residential mortgage loans and credit cards, as well as small commercial loans. With regard to commercial loans, applications are also analyzed on a case-by-case basis by specialized teams. Through its Credit Risk Management Department, the Bank monitors its financial instrument portfolios on a qualitative and quantitative basis through: [i] mechanisms and policies governing the review of the various types of files; [ii] risk rating systems, and [iii] pricing analysis. Each month, the Bank's Credit Committee reviews impaired loans and performs high-level analyses on loans where payment is past due by 90 days or more. Collection processes are centralized and are based on specialized expertise.

The Bank has various risk management tools at its disposal. These include a 19-level risk rating system used to evaluate all types of commercial credit. Above a specific rating, files are considered to be under credit watch and are managed according to specific procedures. With regard to the portfolios' quality, a loan is considered impaired when interest payments

are past due by three months or more, or if senior management considers that there is reasonable doubt that all principal will be repaid at maturity.

Individual allowances for losses are established to adjust the carrying amount of significant impaired loans to the present value of estimated expected future cash flows. Commercial and real estate impaired loan allowances are revised on an individual basis, as part of a continuous process.

In addition to individual allowances, the Bank maintains collective allowances to cover impairment for all individually insignificant loans as well as loans that have been assessed for impairment individually and found not to be impaired. The collective allowances cover impairment due to incurred but not identified loss events for which there is objective evidence but whose effects are not yet evident. To establish collective allowances, 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. Additional information on impaired loans and allowances is provided in Tables 26 and 27.

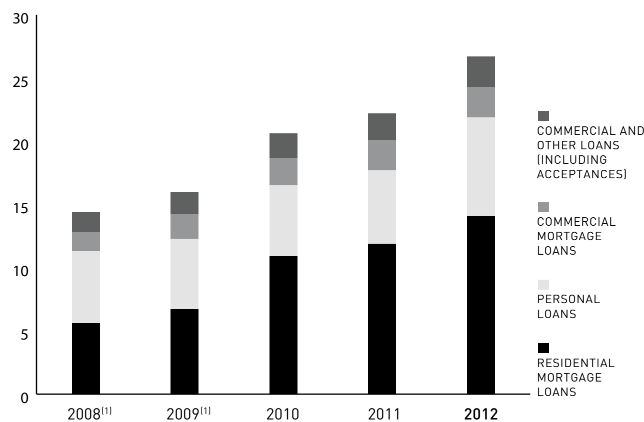
Diversification is one of the fundamental principles of risk management. To this effect, the Credit Policy establishes guidelines to limit concentration of credit by counterparty and sector of activity, and identifies sectors considered risky and thus to be avoided. The loan portfolio mix is detailed in the following graphs.

Loan portfolio mix

The Bank's loan portfolio consists of personal loans, residential mortgage loans, commercial mortgage loans and commercial loans, including bankers' acceptances. The acquisition of significant volumes of personal and residential mortgages loans in 2012 slightly shifted the weight of these portfolios in the loan portfolio mix as at October 31, 2012 when compared with a year ago. Residential mortgage loans mainly include retail mortgage loans.

Reflecting the Bank's strong presence with personal clients through its Retail & SME-Québec and B2B Bank business segments, exposures to individuals and micro-enterprises represent more than 85% of the Bank's total loan portfolio. Furthermore, commercial loans and mortgages are, to a large extent, granted to small and medium-sized businesses.

LOAN PORTFOLIO MIX
(in billions of Canadian dollars)

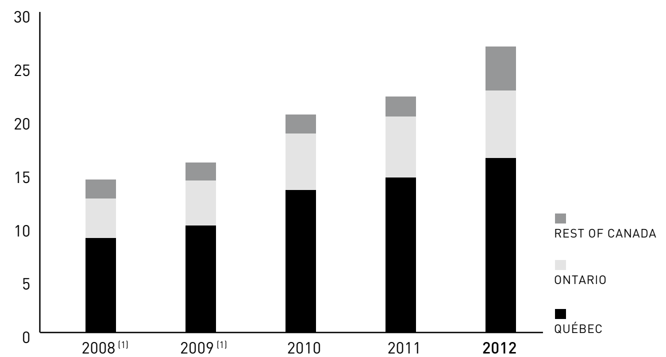


(1) In accordance with previous CGAAP.

Geographic distribution

The Bank operates across Canada. In Québec, it offers most of its lending products mainly through its retail branch network and commercial banking centers. Throughout Canada, the Bank extends its real estate and commercial operations through several other commercial banking centers in Ontario, Alberta and British Columbia. The Bank also offers its products to a wide network of independent financial intermediaries across Canada through B2B Bank. As at October 31, 2012, the proportion of loans granted to borrowers in Québec represented 61% of total loans, while loans granted to borrowers in the rest of Canada stood at 39% (65% and 35% respectively as at October 31, 2011). This significant change mainly results from the acquisitions of AGF Trust and MRS Companies, which further contributed to the Bank's geographic diversification.

GEOGRAPHIC DISTRIBUTION OF LOANS
(in billions of Canadian dollars)



(1) In accordance with previous CGAAP.

Insurance and guarantees

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

CMHC offers a mortgage loan insurance program that ultimately aims to improve access to affordable mortgage loan financing for Canadians. As an approved lender under the program, the Bank benefits from insurance coverage, thereby reducing its global credit risk and improving its capital ratios. The Bank also insures pools of mortgage loans through a specific CMHC insurance program. Moreover, by maintaining a high proportion of insured residential mortgage loans, the Bank retains its capacity to engage in securitization operations to finance its activities at optimal cost and manage its cash resources. By the end of fiscal 2012, 60% of residential mortgage loans were insured, essentially by CMHC, a level relatively unchanged compared to 2011. The Bank considers that it holds excellent guarantees for the other conventional mortgage loans, including HELOCs, whose loan value never exceeds 80% of the initially estimated value of the property, in

accordance with legal requirements. As at October 31, 2012, the estimated average loan-to-value ratio was 66% and 47% for insured and uninsured residential mortgage loans respectively.

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

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

B2B Bank's investment loan portfolio consists mainly of mutual fund loans. Loan underwriting is subject to a rigorous process that allows for the efficient assessment of client credit risk. Authorizations are heavily based on clients' loan servicing ability and overall financial strength, mainly based on credit scoring. Moreover, the portfolio is periodically analyzed to identify potential credit issues. In addition, loans are collateralized by a comprehensive list of eligible mutual and segregated funds. Stricter credit criteria must be met as loan-to-value ratios increase. For loans where disbursements are significant, additional personal income and net worth information are usually required. For the recently acquired investment loan portfolio, loan underwriting was relying more heavily on collateral but however remains subject to a rigorous process.

Loan underwriting for home equity lines of credit and point-of-sale financing loans allows for the assessment of client credit risk. In addition, real estate assets and other assets collateralize these loans. Also, 9% of the Bank's personal loan portfolio consists of student loans and loans granted under the Immigrant Investor Program, which are guaranteed by the federal or provincial government.

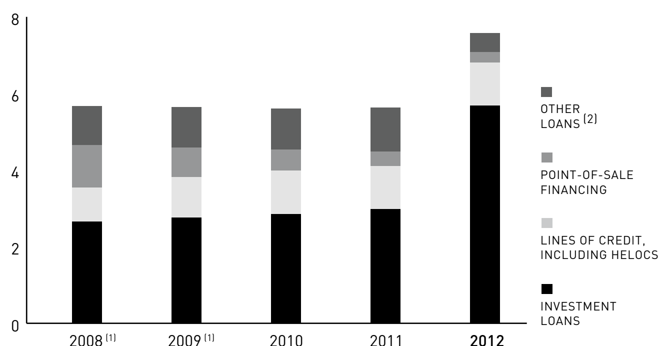
Changes in loan portfolio mix

Personal loans

As at October 31, 2012, the personal loan portfolio was $7.8 billion, a significant increase of $2.0 billion or 35% compared to October 31, 2011. Investment loans and HELOCs acquired through the MRS Companies and AGF Trust transactions increased B2B Bank's loan portfolio by $2.2 billion, which more than offset the continued run-off of $114.2 million in the point-of-sale financing portfolio, reflecting management's decision to gradually exit these higher-risk operations. The Bank's business development efforts to meet customers' needs also generated growth in HELOCs during the year.

A portion of the purchased investment loans of AGF Trust presents a higher credit risk profile that should lead to higher relative provisions in future years. Nevertheless, the purchased loan portfolio is expected to have an overall positive impact on the future return profile of the Bank's personal loan portfolio as it yields relatively higher margins than B2B Bank's originated loan portfolio.

PERSONAL LOAN PORTFOLIO MIX
(in billions of Canadian dollars)



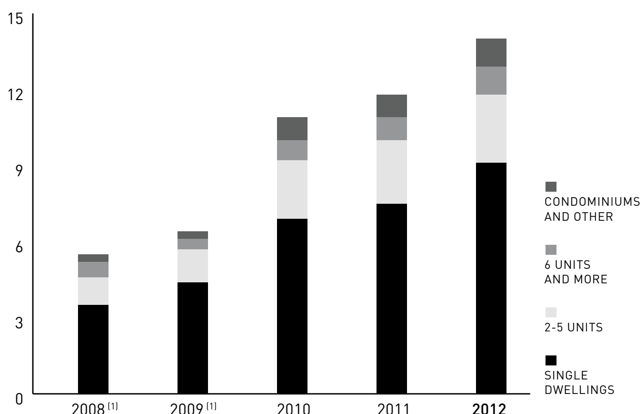
(1) In accordance with previous CGAAP.
(2) Including credit card loans, student loans, loans granted under the Immigrant investor Program and other loans

Residential mortgage loans

As shown in Table 26 on page 62, the residential mortgage loan portfolio increased by $2.3 billion or 19% during fiscal 2012. During the year, with its targeted and client-oriented approach in the Retail and B2B Bank business segments, the Bank continued its development and increased its residential mortgage loan portfolio organically by $1.1 billion. Very low interest rates and relatively stable employment also provided a favourable environment for the Bank to capitalize on various growth opportunities and respond to mortgage loan demand. While headwinds from recent tightening in mortgage lending rules and slower growth in housing prices and activity are challenges to loan growth, the Bank remains confident it can leverage its growth capabilities such as the mobile banker group to further grow profitably this portfolio, albeit at a slower rate.

The acquisition of the MRS Companies in 2012 added $0.1 billion of residential mortgage loans with a similar profile to B2B Bank's originated loan portfolio. The acquisition of AGF Trust added $1.2 billion to B2B Bank's portfolio. Similar to the purchased investment loans, acquired mortgage loans of AGF Trust carry a higher risk/return profile and are expected to have an overall positive impact on the future return profile of this portfolio.

RESIDENTIAL MORTGAGE LOANS BY PROPERTY TYPE (2)
(in billions of Canadian dollars)



(1) In accordance with previous CGAAP.
(2) As reported on the consolidated balance sheet.

Commercial mortgage loans

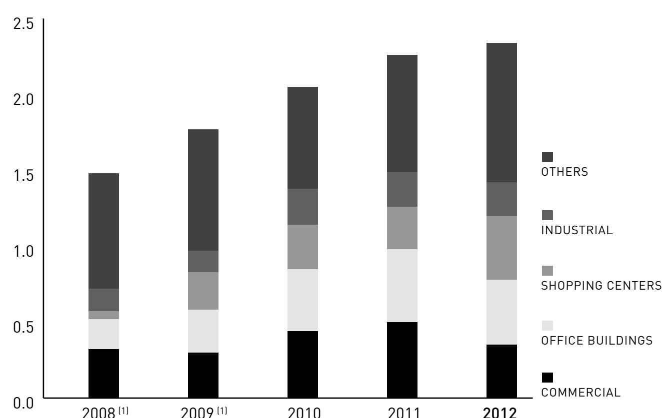
Commercial mortgage loans increased by $79.8 million or 3% from fiscal 2011, totalling $2.4 billion as at October 31, 2012, despite loan sales of $85.2 million in 2012. Through its Real Estate & Commercial business segment, the Bank continued to generate strong growth in this portfolio. In 2012, the proportion of fixed term loans within this portfolio increased to 48%, from 53% at the end of fiscal 2011. This mix of loans provide for a good balance between portfolio volume stability and optimisation of interest margins.

This growing presence in the real estate market has played a key role in improving the Bank's profitability in recent years as the Bank continues to leverage on its solid client base to capitalize on growth opportunities in the Canadian real estate mid-market. The Bank continues to focus on better serving its clientele and, when appropriate, to respond to the increase in the size of real estate development projects.

This portfolio also contributes to improve geographic diversification across Canada and therefore enhances, in this regard, the overall profile of the Bank. As at October 31, 2012, the proportion of the portfolio granted in Ontario and Western Canada represented 72% of the total commercial mortgage loan portfolio and 28% in Québec (75% in Ontario and Western Canada and 25% in Québec as at October 31, 2011). The average loan carrying value was $1.9 million as at October 31, 2012 ($2.0 million as at October 31, 2011).

COMMERCIAL MORTGAGE LOANS BY PROPERTY TYPE

(in billions of Canadian dollars)



(1) In accordance with previous CGAAP.

Commercial loans

As at October 31, 2012, the portfolio of commercial loans, including bankers' acceptances, amounted to $2.4 billion, up $282.0 million from $2.1 billion as at October 31, 2011. This increase results mainly from the small and medium enterprise business in Québec and, to a lesser extent, from mid-market lending across Canada. In 2012, targeted investments in the SME Québec business line contributed to increase loans by $198.7 million or 17%.

As presented in Table 26, the portfolio covers a wide range of industries, with no specific industry representing more than 30% of the overall portfolio.

Impaired loans

Gross impaired loans decreased by $35.7 million since the beginning of the year, totalling $128.0 million as at October 31, 2012. The decrease in impaired loans reflects the overall improvement in credit quality during the year, notably in the commercial loan portfolio, which more than offset the impact of the Bank's increased volume in the retail portfolio. Retail portfolios also performed well as the Bank continued to reduce exposure to the point-of-sale financing market. In addition, borrowers continued to benefit from favourable employment conditions in Canada and a low interest rate environment.

Since October 31, 2011, individual allowances decreased by $21.6 million to $47.8 million. Over the same period, collective allowances decreased by $4.0 million, despite a $3.2 million increase related to the acquisition of the loan portfolio and allowances of the MRS Companies and $3.1 million in new provisions related to the AGF Trust portfolio. Collective allowances reflect management's estimate of losses incurred due to the deterioration in credit quality in the individually insignificant loan portfolios and for loans that have been assessed for impairment individually and found not to be impaired.

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

TABLE 26

DISTRIBUTION OF LOANS BY CREDIT PORTFOLIO AND INDUSTRY

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

2012

	GROSS AMOUNT OF LOANS	GROSS AMOUNT OF IMPAIRED LOANS	INDIVIDUAL ALLOWANCES	COLLECTIVE ALLOWANCES	NET IMPAIRED LOANS	PROVISION FOR LOAN LOSSES [1]
Personal	$ 7,806,067	$ 16,863	$ –	$34,805	$(17,942)	$25,328
Residential mortgage	14,169,095	21,971	–	2,644	19,327	3,454
Commercial mortgage	2,443,634	36,672	14,070	16,406	6,196	1,527
	24,418,796	75,506	14,070	53,855	7,581	30,309
Commercial and other (including acceptances)						
Manufacturing	186,935	19,167	18,377	1,745	(955)	3,046
Transformation and natural resources	111,130	15,672	10,988	350	4,334	1,954
Agriculture	259,402	10,084	494	3,266	6,324	(178)
Public utilities	54,316	–	–	73	(73)	–
Wholesale and retail	423,456	1,508	1,507	2,525	(2,524)	6
Construction	174,578	1,378	315	1,973	(910)	266
Financial services	140,934	903	237	1,646	(980)	34
Real estate, renting and lease	533,953	248	153	1,851	(1,756)	(2,981)
Other services and government	326,387	1,687	475	23	1,189	327
Transportation and communication	109,184	722	614	600	(492)	(347)
Other	41,808	1,148	619	1,786	(1,257)	564
	2,362,083	52,517	33,779	15,838	2,900	2,691
Total	$26,780,879	$128,023	$47,849	$69,693	$10,481	$33,000
As a % of loans and acceptances		0.48%			0.04%	

(1) Recorded in the consolidated statement of income

2011

	GROSS AMOUNT OF LOANS	GROSS AMOUNT OF IMPAIRED LOANS	INDIVIDUAL ALLOWANCES	COLLECTIVE ALLOWANCES	NET IMPAIRED LOANS	PROVISION FOR LOAN LOSSES [1]
Personal	$ 5,774,207	$ 14,395	$ –	$30,216	$(15,821)	$23,341
Residential mortgage	11,869,412	17,053	–	1,424	15,629	113
Commercial mortgage	2,363,808	62,541	22,129	22,183	18,229	17,404
	20,007,427	93,989	22,129	53,823	18,037	40,858
Commercial and other (including acceptances)						
Manufacturing	220,064	19,556	17,399	4,906	(2,749)	(324)
Transformation and natural resources	122,304	23,658	14,303	16	9,339	7,263
Agriculture	225,876	5,845	982	3,649	1,214	235
Public utilities	58,451	53	53	80	(80)	(947)
Wholesale and retail	357,167	8,953	4,951	3,987	15	4,242
Construction	166,400	1,508	1,349	968	(809)	(33)
Financial services	86,219	618	283	322	13	11
Real estate, renting and lease	437,349	5,237	4,395	2,577	(1,735)	1,016
Other services and government	274,188	1,020	501	25	494	(232)
Transportation and communication	93,032	3,208	3,046	649	(487)	(775)
Other	39,067	80	59	2,698	(2,677)	(234)
	2,080,117	69,736	47,321	19,877	2,538	10,222
Total	$22,087,544	$163,725	$69,450	$73,700	$ 20,575	$51,080
As a % of loans and acceptances		0.74%			0.09%	

(1) Recorded in the consolidated statement of income

TABLE 27

GEOGRAPHIC DISTRIBUTION OF LOANS BY CREDIT PORTFOLIO

As at October 31 (in thousands of Canadian dollars)

	2012		2011	
	GROSS AMOUNT OF LOANS	**GROSS AMOUNT OF IMPAIRED LOANS**	GROSS AMOUNT OF LOANS	GROSS AMOUNT OF IMPAIRED LOANS
Québec				
Personal	**$ 3,217,193**	**$ 4,810**	$ 2,708,552	$ 3,550
Residential mortgage	**10,463,663**	**17,372**	9,478,340	9,725
Commercial mortgage	**682,144**	**11,886**	589,798	11,760
Commercial and other (including acceptances)	**1,948,530**	**43,300**	1,688,431	54,417
	16,311,530	**77,368**	14,465,121	79,452
Rest of Canada				
Personal	**4,588,874**	**12,053**	3,065,655	10,845
Residential mortgage	**3,705,432**	**4,599**	2,391,072	7,328
Commercial mortgage	**1,761,490**	**24,786**	1,774,010	50,781
Commercial and other (including acceptances)	**413,553**	**9,217**	391,686	15,319
	10,469,349	**50,655**	7,622,423	84,273
Total	**$26,780,879**	**$128,023**	$22,087,544	$163,725

MARKET RISK MANAGEMENT

Market risk represents the financial losses that the Bank could incur following unfavourable fluctuations in the value of financial instruments subsequent to changes in the underlying factors used to measure them, such as interest rates, exchange rates or equity prices. This risk is inherent to the Bank's financing, investment, trading and asset and liability management (ALM) activities. With the exception of ALM activities, market risk doesn't contribute significantly to the Bank's risk profile.

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

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

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

Policies and standards

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

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

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

Market risk assessment and management methods (interest rate, foreign exchange and equity)

Evaluation of the Bank's market risks is supported by a combination of various measures such as:

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

The Bank sets limits that are consistent with its business plan and its risk appetite for market risk. In setting limits, the Bank takes into account market volatility, market liquidity, organizational experience and business strategies. Limits are set at the portfolio level, the business segment level, the risk factor level, as well as at the aggregate Bank level, and are monitored on a daily basis. Market risk limits are based on the key risk drivers in the business and can include limits on notional amounts, sensitivity measures, VaR and other stress testing. The Bank uses a combination of these methods according to the complexity and nature of its activities.

Value at Risk

VaR corresponds to the potential loss the Bank may incur over a one-day period, with a confidence level of 99%. Consequently, the chances that real losses incurred on any given day exceed the VaR are theoretically 1%. To calculate the VaR, historical

simulations that implicitly take into account correlations between various risk factors are performed. The VaR is based on 300 days of historical data. VaRs are calculated daily for all financial market activities. The Bank uses backtesting processes to compare theoretical profits and losses to the results of the VaR for trading activities. This allows validation of the VaR model's statistical hypotheses. These tests are conducted for each business segment and each risk factor, as well as for the entire trading portfolio. The theoretical change in profits and losses is generated using the daily price movements, and on the assumption that there is no change in the composition of the portfolio.

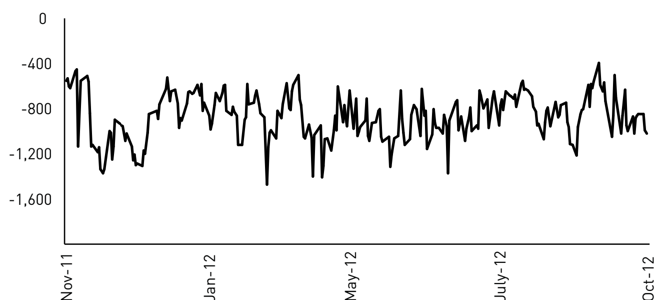
Stress tests and sensitivity measures

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

Trading activities

Trading activities are aligned with the needs of the Bank and its customers. The market risk associated with trading activities ensues from activities for which the Bank acts as the principal or agent for its customers. These activities are primarily carried out by Laurentian Bank Securities and Capital Markets segment and, to a lesser extent, by the Bank's Corporate Treasury. The graph below presents the daily total VaR of the trading portfolio for the 2012 fiscal year.

DAILY TRADING VAR OVER THE LAST 12 MONTHS
(in thousands of Canadian dollars)



Asset and liability management activities

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

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

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

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

Structural risk is globally managed by the Bank's Corporate Treasury Department and monitored by the ALM and Management Committee in accordance with the Structural Risk Management Policy, which is approved by the Risk Management Committee of the Board. This policy defines limits relative to the measurement of economic value and net interest income risk. Risk limits are based on measures calculated by simulating the impact of immediate and sustained parallel movements of 100 basis points in rates for all maturities.

Net interest income risk measures the negative impact on net interest income from interest rate movements over the next 12 months. Economic value of shareholders' equity risk measures the net negative impact on the present value of balance sheet and off-balance sheet assets and liabilities.

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

To ensure sound management of structural risk, a repricing gap report is produced weekly. This statement is then used as the basis for the simulation analysis of the impact of interest rate variation on net interest income and economic value of common shareholders' equity. One of the simulation exercises consists of subjecting the Bank's balance sheet to sudden parallel and sustained 1% and 2% increases and decreases in interest rates, based on a number of assumptions and factors, which include floor levels for deposit liabilities and the renewal of matured loans and deposits at current market terms. For example, as at October 31, 2012, for all portfolios, a 1% increase in interest rate would have triggered an increase of approximately $16.7 million in net interest income before

taxes over the next 12 months and a $19.7 million negative impact on the economic value of common shareholders' equity. As a result of the unusually low interest rate levels at year end, the rate sensitivity analysis provides certain asymmetrical results with regards to the impact on net interest income over the next 12 months. Table 28 below details other interest rate movements. These results reflect senior management's efforts to take advantage of anticipated short-term and long-term interest rate movements, while maintaining the sensitivity to these fluctuations well within approved limits. The Bank's interest rate gap position as at October 31, 2012 appears in Note 25 to the annual consolidated financial statements.

TABLE 28
RISK SENSITIVITY ANALYSIS
As at October 31 (in thousands of Canadian dollars)

	2012		2011	
	EFFECT ON NET INTEREST INCOME	EFFECT ON THE ECONOMIC VALUE OF COMMON SHAREHOLDERS' EQUITY[1]	EFFECT ON NET INTEREST INCOME	EFFECT ON THE ECONOMIC VALUE OF COMMON SHAREHOLDERS' EQUITY[1]
Change in interest rates				
Increase of 100 basis points	**$ 16,701**	**$(19,710)**	$ 21,735	$(16,670)
Decrease of 100 basis points	**(14,948)**	**20,833**	(24,138)	18,324
Change in interest rates				
Increase of 200 basis points	**33,506**	**(38,016)**	43,517	(31,477)
Decrease of 200 basis points	**$(74,716)**	**$ 28,686**	$(74,128)	$ 32,762

(1) Net of income taxes

OPERATIONAL RISK MANAGEMENT

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

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

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

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

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

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

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

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

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

Outsourcing management

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

LIQUIDITY AND FUNDING RISK MANAGEMENT

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

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

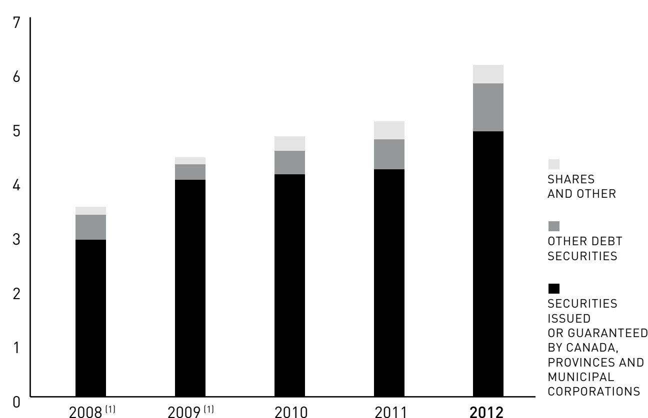
The Bank defines its risk tolerance towards liquidity and funding in terms of a minimum required liquidity level that would assure the bank's survival for 90 days in the event of a liquidity crisis.

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

Detailed information on liquid assets

The Bank's liquid assets consist of cash and non-interest bearing deposits with other banks, interest-bearing deposits with other banks, securities, as well as securities purchased under reverse repurchase agreements. As at October 31, 2012, these assets totalled $7.3 billion, an increase of $1.1 billion compared to $6.3 billion as at October 31, 2011, a relatively high liquidity level due to the acquisition of AGF Trust and related common share issuance in the fourth quarter of 2012, as well as the Bank's recent issuance of subordinated debt and preferred shares. Close to 67% of the Bank's liquid assets are composed of marketable securities issued or guaranteed by the Canadian government, provinces or municipal corporations. Liquid assets provide the Bank with flexibility to manage its loans and deposit portfolio maturities and commitments, and meet other current operating needs. Management of the liquid assets, both in terms of optimizing levels and mix, contributes significantly to the Bank's results. In addition, within the marketable securities portfolio, held-for-trading portfolios offer fixed-income trading opportunities or are used to hedge certain exposures.

SECURITIES
(in billions of Canadian dollars)



(1) In accordance with previous CGAAP.

Funding

The Bank relies mainly on retail deposits (both branch and independent advisor-sourced) to fund its operations. Retail deposits continue to be a particularly stable source of funding for the Bank. This funding strategy is also well aligned with recent regulatory developments, which recognize these deposits as one of the best funding source. This will contribute to lessen the impact of new Basel III liquidity rules, which will need to be adhered to starting in 2015. As at October 31, 2012, these deposits represented 81% of the Bank's total deposit portfolio.

The Bank also uses securitization of residential mortgage loans through the Canada Mortgage Bonds (CMB) Program and, more recently, resumed the use of multi-seller conduits. This liquidity source provides added flexibility to meet specific increases in funding needs. B2B Bank's High Interest Investment Account has continued to provide a significant source of retail funding throughout the year. In this sustained low interest rate environment, this product has proven to be particularly interesting to the Bank's clients and, as such, has provided a significant retail funding source for the Bank.

FUNDING SOURCES
(as a percentage)

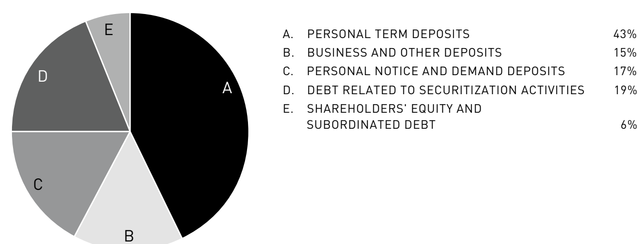


TABLE 29
DEPOSITS
As at October 31 (in thousands of Canadian dollars, except percentage amounts)

	2012		2011	
Personal				
Notice and demand				
Branch network	**$ 2,459,039**	**10.2%**	$ 2,225,036	11.1%
Financial intermediaries	**3,103,670**	**12.9**	2,694,993	13.5
	5,562,709	**23.1**	4,920,029	24.6
Term				
Branch network	**5,511,933**	**22.9**	5,048,772	25.2
Financial intermediaries	**8,294,668**	**34.5**	5,641,052	28.2
	13,806,601	**57.4**	10,689,824	53.4
Sub-total – personal	**19,369,310**	**80.5**	15,609,853	78.0
Business, banks and other				
Notice and demand	**2,465,118**	**10.3**	2,443,988	12.2
Term	**2,207,015**	**9.2**	1,962,440	9.8
Sub-total – business, banks and other	**4,672,133**	**19.4**	4,406,428	22.0
Total – deposits	**$24,041,443**	**100.0%**	$20,016,281	100.0%

Personal deposits

Total personal deposits increased by $3.8 billion, to $19.4 billion as at October 31, 2012, compared with $15.6 billion as at October 31, 2011. During the year, the Bank grew its deposit base, both from acquisitions and organic growth, and despite the very low interest rate environment. The Bank continued to focus on maintaining its privileged position in the retail market and independent advisor-sourced deposit market through its Retail & SME-Québec and B2B Bank business segments to meet future funding needs. A significant proportion of these deposits are insured by the Canada Deposit Insurance Corporation, up to $100,000 per client, per regulated deposit-taking financial institution.

Business, banks and other deposits

Deposits from businesses, banks and other increased by $0.3 billion to $4.7 billion as at October 31, 2012, compared with $4.4 billion as at October 31, 2011. This increase is mainly attributable to a $200.0 million issuance of senior unsecured notes during the year, as the Bank took advantage of favourable market conditions and maintained its presence in the institutional money market, since it can provide additional flexibility in funding.

Credit ratings

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

The Bank monitors weekly the impact of a hypothetical downgrade of its credit rating on the collateral requirements. As at October 31, 2012, no additional collateral would be required in the event of a one notch rating downgrade.

During fiscal 2012, all ratings for the Bank were confirmed and remained unchanged. However, the long term rating trend, as determined by the DBRS Limited was changed to positive while the short-term rating trend remained stable[1]. In addition, the short-term rating outlook from Standard & Poor's credit rating agency, was changed to negative.

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

TABLE 30
CREDIT RATINGS
As at October 31, 2012

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

Contractual obligations

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

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

The following table summarizes the Bank's principal contractual obligations as at October 31, 2012, maturing over each of the next five years and thereafter. Note 28 to the annual consolidated financial statements provides further information on this subject.

TABLE 31
CONTRACTUAL OBLIGATIONS
As at October 31, 2012 (in thousands of Canadian dollars)

	NO FIXED MATURITY	2013	2014	2015	2016	2017	THEREAFTER	TOTAL
Deposits	$8,027,827	$7,426,743	$4,516,460	$2,441,858	$ 988,599	$ 585,159	$ 54,797	$24,041,443
Derivatives	–	6,772	5,737	3,641	1637	646	145	18,578
Obligations related to securities sold short	–	1,349,932	–	–	–	–	–	1,349,932
Obligations related to securities sold under repurchase agreements	–	244,039	–	–	–	–	–	244,039
Debt related to securitization activities	–	1,862,564	1,149,346	679,503	1,333,621	955,350	56,713	6,037,097
Subordinated debt	–	–	–	–	250,000	200,000	–	450,000
Commitments under leases, technology services and other contracts	–	72,989	67,932	63,768	91,188	51,373	90,272	437,522
Total	$8,027,827	$10,963,039	$5,739,475	$3,188,770	$2,665,045	$1,792,528	$201,927	$32,578,611

(1) A Standard & Poor's rating outlook assesses the potential direction of a long-term credit rating over the intermediate term (typically six months to two years). In determining a rating outlook, consideration is given to any changes in the economic and/or fundamental business conditions. An outlook is not necessarily a precursor of a rating change or future action.
The Standard & Poor's rating outlooks have the following meanings:
– "Positive" means that a rating may be raised
– "Negative" means that a rating may be lowered
– "Stable" means that a rating is not likely to change
– "Developing" means a rating may be raised or lowered

Rating trends provide guidance in respect of DBRS's opinion regarding the outlook for the rating in question, with rating trends falling into one of three categories - "Positive", "Stable" or "Negative". The rating trend indicates the direction in which DBRS considers the rating is headed should present tendencies continue, or in some cases, unless challenges are addressed. A Positive or Negative Trend is not an indication that a rating change is imminent. Generally, the conditions that lead to the assignment of a Negative or Positive Trend are resolved within a twelve month period.

REPUTATIONAL RISK MANAGEMENT

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

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

To protect the Bank from any impairment to its reputation and considering the importance of this risk, the Management Committee controls and supervises reputation risk management through the application of a Reputational Risk Policy. Other policies and committees also enable the Management Committee to properly manage potential threats that could have a direct or indirect impact on the Bank's reputation.

REGULATORY RISK MANAGEMENT

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

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

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

Regulatory risk management reports on the application of the AMLTAF program are submitted at least quarterly to the Management Committee and the Risk Management Committee of the Board. A review mechanism, designed to assess the effectiveness of the Regulatory Risk Management Framework and of the AMLTAF program, is also in place.

INSURANCE RISK MANAGEMENT

Insurance risk is the risk of loss that may occur when assumptions related to insurance risks assumed by the Bank, particularly as regards to formulating assumptions used to set premiums or for the valuation of reserves, differ from actual insurance results.

Insurance risk is managed within an independently managed program overseen by insurance experts and by Bank representatives. Reinsurance coverage is underwritten to reduce the Bank's exposure arising from significant claims and catastrophes, including terrorist events. In addition, the design and pricing of insurance products distributed by the Bank are reviewed by actuarial consultants, based on best practices.

ENVIRONMENTAL RISK MANAGEMENT

Environmental risk is the risk of financial loss when restoring the assets of the Bank or those seized from clients to a sound environmental state.

Environmental risk related to financing activities is managed within the loan approval process, while risks related to the Bank's assets, although limited, are mainly managed by the Real Estate segment.

ADDITIONAL RISKS THAT COULD POTENTIALLY AFFECT FUTURE RESULTS

The major business risks that may affect the Bank's results are detailed in the previous sections. This section describes other factors that could have a significant impact on the Bank's results and cause these results to differ materially from the Bank's forward-looking statements as described at the beginning of this document. Although the Bank maintains comprehensive controls and processes to mitigate the risks associated with these factors, by their very nature, they may significantly impact the Bank's performance.

Economic climate in Canada

The Bank operates mainly in Québec and Ontario but also, to a lesser extent, in the rest of Canada. Consequently, its earnings are particularly sensitive to the economic and commercial climate in Canada. Major factors include interest rates, inflation, capital market fluctuations, the strength of the economy and the Bank's volume of business in certain key regions. A prolonged deterioration in the Canadian economic climate could therefore adversely affect the Bank's activities.

Monetary policies and other policies

The monetary policies adopted by the Bank of Canada and the U.S. Federal Reserve's Board of Governors, as well as other measures adopted by central banks, have a major impact on several variables, such as interest rates, exchange rates and bond markets, that can have an impact on the Bank's earnings. The Bank has no control, however, on changes in monetary policies, or on capital market fluctuations.

Competition

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

Legislative and regulatory amendments and legal proceedings

Legislative and regulatory amendments could affect the Bank by impacting its product and service offering and modifying the financial industry's competitiveness. Moreover, the Bank's

failure to comply with applicable legislation and regulations could result in sanctions and financial penalties that would have a negative impact on its earnings and reputation. As well, legal proceedings could affect the Bank negatively. Further details are provided in Note 28 to the annual consolidated financial statements.

Ability to attract and retain key employees

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

Business infrastructure

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

Other factors

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

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

As at October 31, 2012, the President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer caused to be evaluated under their supervision the effectiveness of DC&P, in accordance with regulation MI 52-109 and subject the Scope Limitation section below, and based on that evaluation, concluded that they were effective and adequately designed at that date.

Also as at October 31, 2012, the President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer caused to be evaluated under their supervision the effectiveness of ICFR, in accordance with regulation MI 52-109 and subject the Scope Limitation section below, and based on that evaluation, concluded that it was effective at that date and adequately designed.

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

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

Scope Limitation

In accordance with Multilateral Instrument 52-109, which allows an issuer the exclusion of ICFR and DC&P evaluation of businesses acquired not more than 365 days before its fiscal year-end, management has excluded the controls, policies and procedures of the MRS Companies and AGF Trust.

The MRS Companies were acquired on November 16, 2011 and account for approximately 3% of total assets, 2% of total liabilities, 5% of total revenue and 5% of total net income as at and for the year ended October 31, 2012.

In addition, the Bank completed the acquisition of AGF Trust on August 1, 2012. AGF Trust accounts for approximately 10% of total assets, 9% of total liabilities, 3% of total revenue and 5% of total net income as at and for the year ended October 31, 2012.

For additional information about the acquisitions refer to Note 29 to the consolidated financial statements of this annual report.

Changes to Internal Control over Financial Reporting

During the period ended October 31, 2012, apart from the acquisition of and AGF Trust, there have been no changes to internal control over financial reporting affected materially, or are reasonably likely to materially affect, internal control over financial reporting.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The significant accounting policies followed by the Bank are outlined in Notes 2 and 3 to the annual consolidated financial statements. Some of these accounting policies are deemed critical as they require management to make estimates that, by their very nature, involve uncertainties. Changes in these estimates could materially affect the Bank's consolidated financial statements. The critical accounting policies 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. Management regularly reviews the portfolios' credit quality to ensure the adequacy of the allowances for loan losses. These allowances are dependent upon the evaluation of the amounts and dates of future cash flows, the fair value of guarantees and realization costs, and the interpretation of the impact of market and economic conditions.

Considering the materiality of the amounts and their inherent uncertainty, changes in current estimates and assumptions used in determining the allowances for loan losses could produce significantly different levels of allowances. Changes in circumstances may cause future assessments of credit risk to be materially different from current assessments and may consequently entail a significant increase or a decrease in the allowances for loan losses in the consolidated statement of income for a given fiscal year. A detailed description of the methods used to determine the allowances for loan losses can be found in Note 3 to the annual consolidated financial statements, and in the Credit Risk Management section on page 58 of this MD&A.

Management has developed a valuation model to establish the collective allowances, 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. Changes in assumptions and parameters to this model could have produced different valuations.

This critical accounting estimate affects all business segments.

Other financial assets

Financial assets classified in the available-for-sale and held-to-maturity categories are assessed for impairment on a regular basis, and management must examine various factors to determine whether there is any objective evidence that they are impaired. These factors include the type of investment as well as the length of time and extent by which fair value is below amortized cost. In addition, management considers other factors such as bankruptcy, capital restructuring or dilution, significant modifications in the issuer's operations or other uncertainties. Management must also assert its intent and ability to hold the securities until recovery.

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

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

MEASURING THE FAIR VALUE OF FINANCIAL INSTRUMENTS

The Bank reports most of its financial instruments, including derivatives, at fair value. Fair value is defined as the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable willing parties. Changes in the fair value of the Bank's trading book's securities and obligations related to assets sold short, as well as derivatives not designated in hedge relationships, are generally recognized under other income.

Management uses quoted market prices in active markets, when available, as the best evidence of fair value of its financial instruments as it requires minimal subjectivity. Quoted prices essentially include those obtained from an exchange. For certain instruments not listed on an exchange, but actively traded, fair values may be obtained from a broker, dealer, industry group or from pricing services. For most other financial instruments, the Bank typically uses pricing models based on the discounted value of future cash flows. These models may include observable or unobservable market parameters.

Management's judgment is required when observable market prices do not exist or when only prices from inactive markets are available. Judgment may also be required to develop valuation techniques and determine parameters that are not readily observable on the market.

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

These critical accounting estimates mainly affect the Laurentian Bank Securities & Capital Markets and Other segments. Additional information on the calculation of fair value is provided in Notes 3 and 24 to the annual consolidated financial statements.

PENSION PLANS AND OTHER EMPLOYEE BENEFITS

Valuation of employee benefits for defined benefit pension plans and other post-employment benefits 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. These assumptions are reviewed annually in accordance with accepted actuarial practice and approved by management.

The discount rate used in determining the actual costs and obligations related to pension plans and other benefits reflects the market yields, as at the measurement date, on high-quality debt instruments with cash flows matching expected benefit payments. The expected long-term rate of return on the plans' assets corresponds to the expected returns on various asset categories, weighted by the portfolio's allocation during the fiscal year. Anticipated future long-term performance of individual asset categories is taken into account, according to the expected future inflation rate and the effective yields on fixed income securities and equities. Other assumptions are based on the plans' actual results and management's best estimates.

In accordance with current IFRS, actual results that differ from the expected results as determined using the assumptions are accumulated and amortized over future periods and therefore affect actual costs for these periods. As at October 31, 2012, the net amount of the unamortized actuarial losses was $94.0 million ($39.2 million in 2011) for pension plans, and for other benefits, the net amount of the unamortized actuarial gain was $0.3 million (loss of $0.5 million in 2011).

Discount rates stood at 4.40% as at October 31, 2012 and 5.25% as at October 31, 2011. The expected long-term rate of return on plan assets was 7.25% for fiscal 2012 and (7.25% for fiscal 2011). The trend rate of the estimated annual growth of health-care costs covered, per participant, has been set at 8.0% for 2012 (8.8% for 2011). According to the accepted assumption, this rate should decrease progressively, reaching 5.0% in 2027 and remaining at that level thereafter.

Considering the importance of defined benefit obligations and plan assets, changes in assumptions could have a significant impact on the defined benefit assets (liabilities), as well as, depending of the funding status of the plan, on pension plan and other post-employment benefit expenses. Table 32 summarizes the impact of a 0.25% increase or decrease in the key assumptions on defined benefit obligations would have had as at October 31, 2012 and related defined benefit pension plan costs for 2012.

TABLE 32
SENSITIVITY ANALYSIS

As at or for the year ended October 31, 2012 (in millions of Canadian dollars)

	POTENTIAL IMPACT OF CHANGES OF 0.25%	
	OBLIGATION	COST
Discount rate	$14,978	$1,311
Expected long-term rate of return of plan assets	n.a.	$1,025

The sensitivities presented in this table should be used with caution, as the effects are hypothetical and changes in assumptions may not be linear.

This critical accounting estimate affects all business segments. Further information on the Bank's pension plans and other post-employment benefits can be found in Note 19 to the annual consolidated financial statements.

BUSINESS COMBINATIONS

On the date of the acquisition, the acquiree's assets and liabilities have been included in the consolidated balance sheet at fair value. Valuation of the identifiable assets and liabilities of the acquiree 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 assumptions could have had a significant impact on the amount of the gain on acquisition or goodwill recognized.

This critical accounting estimate affects all business segments. Refer to Note 29 to the annual consolidated financial statements for additional information on the assets acquired and liabilities assumed as a result of business combinations.

PROVISIONS AND CONTINGENT LIABILITIES

Management exercises judgment in determining when the recognition of a provision or the disclosure of a contingent liability is necessary.

Provisions are established when it becomes probable that an outflow of resources will be required to settle the obligation and the amount can be reasonably estimated. In addition to Bank management, internal and external legal experts are involved in assessing the probability and in estimating any amounts involved for provisions related to legal actions or pending litigations.

Contingent liabilities arise when there is some uncertainty whether, as a result of a past event or transaction, the Bank will incur a loss in the future. The Bank and its subsidiaries are involved in various legal actions in the course of business, many of which are loan-related, as well as in certain class action suits mainly related to card services. These actions may have a material adverse effect on the financial condition of the Bank even though no provisions may have been established.

Changes in these assessments may lead to adjustments to recognized provisions. In addition, the actual costs of resolving these claims may be substantially higher or lower than the amounts accrued for these claims.

See Note 28 to annual consolidated financial statements for more details.

GOODWILL, OTHER INTANGIBLE ASSETS AND OTHER ASSETS

Goodwill

As at October 31, 2012, the balance of goodwill stood at $64.1 million, compared to $29.2 million as at October 31, 2011. Goodwill is subject to an impairment test annually, unless certain specific criteria are met, as described in Note 3 to the annual consolidated financial statements.

For the purpose of impairment testing, goodwill is allocated to the Bank's cash generating units (CGUs), which represent the lowest level within the Bank at which goodwill is monitored for internal management purposes. As at October 31, 2012, $34.9 million was allocated to the B2B Bank segment, and $29.2 million was allocated 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. The test compares the recoverable amount of the CGU to the carrying amount of its net assets. If the recoverable amount is less than carrying value, an impairment loss is charged to income.

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

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

No impairment charge was reported in fiscal 2012 or in fiscal 2011. If need be, the amount of the losses in value would be recorded as a non-interest expense for Retail & SME-Québec or B2B Bank, under other expenses.

Further information on goodwill can be found in Note 9 to the annual consolidated financial statements.

Other intangible assets and other assets

Other intangible assets with finite lives are also tested for impairment whenever circumstances indicate that the carrying value may not be fully recoverable. As it conducts this test, management evaluates the future cash flows it expects to realize from these assets, along with their possible disposition. 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. No significant impairment charge was reported in fiscal 2012 or in fiscal 2011.

Management also periodically reviews the value of the Bank's other assets, such as fixed assets and other deferred charges, in order to identify potential losses in value and to validate the related amortization periods. No significant impairment charge was reported in fiscal 2012 or in fiscal 2011.

Changes in estimates and assumptions could significantly impact results.

FUTURE CHANGES TO ACCOUNTING POLICIES

The International Accounting Standards Board 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 also monitoring the proposed changes to the lease accounting standard which should be finalized later in 2013. Additional information on the new standards and amendments to existing standards can be found in Note 4 to the annual consolidated financial statements.

The Bank is currently assessing the impact of the adoption of these standards on its financial statements. Based on preliminary assessments, the adoption of the IFRS 9, *Financial Instruments*, new standard could have a significant impact on the Bank's information systems, processes and financial position as it provides new requirements for how an entity should classify and measure financial instruments. The Bank is also monitoring the effect of the IAS 19, *Employee Benefits*, new standard, as the elimination of the option to defer the recognition of gains and losses resulting from defined benefit plans, under certain circumstances, may have a significant impact on the Bank's financial position.

NON-GAAP FINANCIAL MEASURES

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

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.

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 results and adjusted measures

Certain analyses presented throughout this document are based on the Bank's core activities and therefore exclude the effect of certain amounts designated as Adjusting items, as detailed in the Adjusting items section on page 35 of this MD&A.

Most of the adjusting items relate to gains and expenses that arise as a result of acquisitions. The gain on acquisition and ensuing amortization of net premium on purchased financial instruments are considered adjusting items since they represent, according to management, significant non-cash adjustments and due to their non-recurrence. Transaction and integration-related costs in respect of the MRS Companies and AGF Trust have been designated as adjusting items due to the significance of the amounts and the fact that some of these costs have been incurred with the intent to generate benefits in future periods. The one-time compensation for the termination in 2012 of a mutual fund distribution agreement has been designated as an adjusting item due to its significance and non-recurrence.

BASIS OF PRESENTATION

This Management's Discussion and Analysis (MD&A), dated December 5, 2012, refers to the results of operations and financial condition of the Bank for the year ended October 31, 2012 and presents the views of the Bank's management. The information for the years ended October 31, 2012 and 2011 is presented on the same basis as in the annual consolidated financial statements and has been prepared in accordance with International Financial Reporting Standards (IFRS). The information related to prior periods is presented using previous Canadian generally accepted accounting principles (CGAAP). All information conforms to the accounting requirements of OSFI.

Certain comparative figures have been reclassified to conform to the current year presentation.

Additional information on Laurentian Bank of Canada, including the Annual Information Form for the year ended October 31, 2012, can be found on the Bank's website at www.laurentianbank.ca and on SEDAR at www.sedar.com.

International Financial Reporting Standards Conversion

IFRS are the generally accepted accounting principles (GAAP) for Canadian publicly accountable enterprises for years beginning on or after January 1, 2011. The Bank implemented 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 the previous CGAAP basis to the new IFRS basis. Additional information on the impact from the transition is available in the notes to the annual consolidated financial statements and in the Supplementary Information reported for the fourth quarter of 2012, available on the Bank's website at www.laurentianbank.ca.

LAURENTIAN BANK OF CANADA CONSOLIDATED FINANCIAL STATEMENTS

AS AT OCTOBER 31, 2012 AND 2011 AND NOVEMBER 1, 2010

These consolidated financial statements present a recent financial history of the financial condition, financial performance and cash flows of Laurentian Bank of Canada.

The accompanying notes include important disclosures that are useful in understanding the Bank's operations. They provide information on how amounts presented in the consolidated financial statements were determined, describe significant events or changes that affect these amounts and explain certain line items in the consolidated financial statements. They also include details about the financial results that are not shown in the body of the consolidated financial statements.

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

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

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

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

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

RÉJEAN ROBITAILLE, FCPA, FCA
President and
Chief Executive Officer

MICHEL C. LAUZON
Executive Vice-President
and Chief Financial Officer

Montréal, Canada
December 5, 2012

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

We have audited the accompanying consolidated financial statements of Laurentian Bank of Canada ("the Bank") which comprise the consolidated balance sheet as at October 31, 2012 and 2011 and November 1, 2010, and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years ended October 31, 2012 and 2011, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

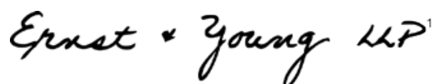
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at October 31, 2012 and 2011 and November 1, 2010, and its financial performance and its cash flows for the years ended October 31, 2012 and 2011 in accordance with International Financial Reporting Standards.



Chartered Professional Accountants

Montréal, Canada
December 5, 2012

[1] CPA auditor, CA public accountancy permit no. A114960

CONSOLIDATED BALANCE SHEET [1]

As at (in thousands of Canadian dollars)	Notes	October 31, 2012	October 31, 2011	November 1, 2010
ASSETS				
Cash and non-interest bearing deposits with other banks		$ 90,860	$ 81,600	$ 72,444
Interest-bearing deposits with other banks		480,183	285,459	99,394
Securities	5 and 28			
Available-for-sale		2,822,588	2,108,075	2,138,861
Held-to-maturity		1,446,751	885,822	559,457
Held-for-trading		1,873,622	2,181,969	1,496,583
Designated as at fair value through profit or loss		—	—	624,642
		6,142,961	5,175,866	4,819,543
Securities purchased under reverse repurchase agreements	28	631,202	720,317	994,674
Loans	6, 7 and 28			
Personal		7,806,067	5,774,207	5,636,203
Residential mortgage		14,169,095	11,869,412	10,859,647
Commercial mortgage		2,443,634	2,363,808	2,166,375
Commercial and other		2,150,953	1,900,977	1,691,190
Customers' liabilities under acceptances		211,130	179,140	165,450
		26,780,879	22,087,544	20,518,865
Allowances for loan losses		(117,542)	(143,150)	(131,567)
		26,663,337	21,944,394	20,387,298
Other				
Premises and equipment	8	71,871	61,708	55,727
Derivatives	26	167,643	228,261	158,066
Goodwill	9	64,077	29,224	29,224
Software and other intangible assets	10	159,973	113,949	101,671
Deferred tax assets	20	4,751	4,160	47,995
Other assets	11	459,968	318,272	289,289
		928,283	755,574	681,972
		$ 34,936,826	$ 28,963,210	$ 27,055,325
LIABILITIES AND SHAREHOLDERS' EQUITY				
Deposits	12			
Personal		$ 19,369,310	$ 15,609,853	$ 15,354,851
Business, banks and other		4,672,133	4,406,428	4,250,819
		24,041,443	20,016,281	19,605,670
Other				
Obligations related to securities sold short		1,349,932	1,471,254	1,362,336
Obligations related to securities sold under repurchase agreements		244,039	36,770	60,050
Acceptances		211,130	179,140	165,450
Derivatives	26	100,867	129,969	115,235
Deferred tax liabilities	20	16,128	6,362	27,543
Other liabilities	13	951,467	901,720	945,939
		2,873,563	2,725,215	2,676,553
Debt related to securitization activities	14	6,037,097	4,760,847	3,486,634
Subordinated debt	15	443,594	242,551	150,000
Shareholders' equity				
Preferred shares	16	303,249	205,527	205,527
Common shares	16	428,526	252,601	252,472
Share-based payment reserve	18	227	227	243
Retained earnings		774,899	694,371	621,847
Accumulated other comprehensive income		34,228	65,590	56,379
		1,541,129	1,218,316	1,136,468
		$ 34,936,826	$ 28,963,210	$ 27,055,325

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

(1) The Bank has adopted IFRS as of November 1, 2011. Comparative figures have also been prepared in accordance with IFRS. See Note 30.

L. Denis Desautels, O.C., FCPA, FCA
Chairman of the Board

Réjean Robitaille, FCPA, FCA
President and Chief Executive Officer

CONSOLIDATED STATEMENT OF INCOME [1]

For the years ended October 31 (in thousands of Canadian dollars, except per share amounts)	Notes	2012	2011
Interest income			
Loans		$ 1,014,861	$ 962,820
Securities		71,320	74,059
Deposits with other banks		6,148	5,277
Other, including derivatives		59,240	61,345
		1,151,569	1,103,501
Interest expense			
Deposits		445,646	444,463
Debt related to securitization activities		163,880	140,743
Subordinated debt		9,839	11,574
Other		1,176	2,236
		620,541	599,016
Net interest income		531,028	504,485
Other income			
Fees and commissions on loans and deposits		119,953	115,006
Income from brokerage operations		54,806	48,429
Income from registered self-directed plans		29,079	7,253
Income from sales of mutual funds		18,026	17,308
Income from treasury and financial market operations		17,531	20,938
Credit insurance income		15,529	18,591
Other income		10,691	6,337
		265,615	233,862
Total revenue		796,643	738,347
Gain on acquisition and amortization of net premium on purchased financial instruments	29	23,795	—
Provision for loan losses	6	33,000	51,080
Non-interest expenses			
Salaries and employee benefits		320,603	282,630
Premises and technology		152,919	141,212
Other		108,944	97,263
Costs related to business combinations and other	29	21,997	9,006
		604,463	530,111
Income before income taxes		182,975	157,156
Income taxes	20	42,467	33,439
Net income		$ 140,508	$ 123,717
Preferred share dividends, including applicable taxes		12,768	12,436
Net income available to common shareholders		$ 127,740	$ 111,281
Average number of common shares outstanding (in thousands)			
Basic		25,634	23,924
Diluted		25,652	23,943
Earnings per share	21		
Basic		$ 4.98	$ 4.65
Diluted		$ 4.98	$ 4.65
Dividends declared per share			
Common share		$ 1.84	$ 1.62
Preferred share - Series 9		$ 1.50	$ 1.50
Preferred share - Series 10		$ 1.31	$ 1.31
Preferred share - Series 11		$ —	n/a

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

(1) The Bank has adopted IFRS as of November 1, 2011. Comparative figures have also been prepared in accordance with IFRS. See Note 30.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME [1]

For the years ended October 31 (in thousands of Canadian dollars)	Notes	2012	2011
Net income		$ 140,508	$ 123,717
Other comprehensive income, net of income taxes	17		
Unrealized net gains (losses) on available-for-sale securities		(7,641)	(11,810)
Reclassification of net (gains) losses on available-for-sale securities to net income		(2,374)	(3,045)
Net change in value of derivatives designated as cash flow hedges		(21,347)	24,066
		(31,362)	9,211
Comprehensive income		$ 109,146	$ 132,928

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

(1) The Bank has adopted IFRS as of November 1, 2011. Comparative figures have also been prepared in accordance with IFRS. See Note 30.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY [1]

For the year ended October 31, 2012

(in thousands of Canadian dollars)	Preferred shares (Note 16)	Common shares (Note 16)	Retained Earnings	AOCI reserves (Note 17) Available-for-sale securities	Cash flow hedges	Total	Share-based payment reserve (Note 18)	Total shareholders' equity
Balance as at October 31, 2011	$ 205,527	$ 252,601	$ 694,371	$ 22,216	$ 43,374	$ 65,590	$ 227	$ 1,218,316
Net income			140,508					140,508
Other comprehensive income (net of income taxes)								
Unrealized net gains (losses) on available-for-sale securities				(7,641)		(7,641)		(7,641)
Reclassification of net (gains) losses on available-for-sale securities to net income				(2,374)		(2,374)		(2,374)
Net change in value of derivatives designated as cash flow hedges					(21,347)	(21,347)		(21,347)
Comprehensive income			140,508	(10,015)	(21,347)	(31,362)		109,146
Net proceeds from issuance of new shares	97,722	175,925						273,647
Equity dividends								
Preferred shares, including applicable taxes			(12,768)					(12,768)
Common shares			(47,212)					(47,212)
Balance as at October 31, 2012	**$ 303,249**	**$ 428,526**	**$ 774,899**	**$ 12,201**	**$ 22,027**	**$ 34,228**	**$ 227**	**$ 1,541,129**

For the year ended October 31, 2011

(in thousands of Canadian dollars)	Preferred shares (Note 16)	Common shares (Note 16)	Retained Earnings	AOCI reserves (Note 17) Available-for-sale securities	Cash flow hedges	Total	Share-based payment reserve (Note 18)	Total shareholders' equity
Balance as at November 1, 2010	$ 205,527	$ 252,472	$ 621,847	$ 37,071	$ 19,308	$ 56,379	$ 243	$ 1,136,468
Net income			123,717					123,717
Other comprehensive income (net of income taxes)								
Unrealized net gains (losses) on available-for-sale securities				(11,810)		(11,810)		(11,810)
Reclassification of net (gains) losses on available-for-sale securities to net income				(3,045)		(3,045)		(3,045)
Net change in value of derivatives designated as cash flow hedges					24,066	24,066		24,066
Comprehensive income			123,717	(14,855)	24,066	9,211		132,928
Issuance of common shares under share purchase option plan		129						129
Share-based payments							(16)	(16)
Equity dividends								
Preferred shares, including applicable taxes			(12,436)					(12,436)
Common shares			(38,757)					(38,757)
Balance as at October 31, 2011	$ 205,527	$ 252,601	$ 694,371	$ 22,216	$ 43,374	$ 65,590	$ 227	$ 1,218,316

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

(1) The Bank has adopted IFRS as of November 1, 2011. Comparative figures have also been prepared in accordance with IFRS. See Note 30.

CONSOLIDATED STATEMENT OF CASH FLOWS [1]

For the years ended October 31 (in thousands of Canadian dollars)	Notes	2012	2011
Cash flows relating to operating activities			
Net income		$ 140,508	$ 123,717
Adjustments to determine net cash flows relating to operating activities:			
Provision for loan losses		33,000	51,080
Net gain on disposal of available-for-sale securities		(4,366)	(4,962)
Gain on sale of commercial mortgage loans	7	(3,194)	—
Deferred income taxes		11,454	18,299
Depreciation		13,255	11,353
Amortization of software and other intangible assets		33,777	28,654
Gain arising on acquisition	29	(24,337)	—
Change in operating assets and liabilities :			
Change in loans		(1,322,053)	(1,604,079)
Change in securities at fair value through profit and loss		308,347	(60,744)
Change in accrued interest receivable		(2,360)	1,088
Change in derivative assets		73,809	(70,195)
Change in deposits		535,487	410,611
Change in accrued interest payable		37,881	(1,163)
Change in obligations related to securities sold short		(121,322)	108,918
Change in derivative liabilities		(30,344)	14,734
Other, net		(239,188)	(52,137)
		(559,646)	(1,024,826)
Cash flows relating to financing activities			
Change in acceptances		31,990	13,690
Change in obligations related to securities sold under repurchase agreements		207,269	(23,280)
Change in debt related to securitization activities		575,533	1,274,213
Net proceeds from issuance of subordinated debt		199,300	248,403
Redemption of subordinated debentures		—	(150,000)
Redemption of subordinated debt of a subsidiary		(129,500)	—
Net proceeds from issuance of preferred shares	16	97,722	—
Repurchase of preferred shares of a subsidiary		(64,000)	—
Net proceeds from issuance of common shares	16	175,925	129
Dividends, including applicable income taxes		(59,980)	(51,193)
		1,034,259	1,311,962
Cash flows relating to investing activities			
Change in available-for-sale securities			
Acquisitions		(2,243,946)	(727,170)
Proceeds on sale and at maturity		2,041,805	745,521
Change in held-to-maturity securities			
Acquisitions		(1,436,991)	(791,913)
Proceeds at maturity		876,047	465,556
Proceeds on sale of commercial mortgage loans	7	88,356	—
Change in securities purchased under reverse repurchase agreements		89,115	274,357
Additions to premises and equipment and software		(77,321)	(58,266)
Change in interest-bearing deposits with other banks		642,616	(186,065)
Cash paid for business combinations	29	(445,034)	—
		(465,353)	(277,980)
Net change in cash and non-interest-bearing deposits with other banks		9,260	9,156
Cash and non-interest-bearing deposits with other banks at beginning of year		81,600	72,444
Cash and non-interest-bearing deposits with other banks at end of year		$ 90,860	$ 81,600
Supplemental disclosure about cash flows relating to operating activities:			
Interest paid during the year		$ 679,022	$ 598,689
Interest received during the year		$ 1,159,222	$ 1,094,443
Dividends received during the year		$ 5,608	$ 7,348
Income taxes paid during the year		$ 39,039	$ 26,796

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

(1) The Bank has adopted IFRS as of November 1, 2011. Comparative figures have also been prepared in accordance with IFRS. See Note 30.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at October 31, 2012 and 2011 and November 1, 2010
[All tabular amounts are in thousands of Canadian dollars, unless otherwise indicated.]

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 operates 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 consolidated financial statements for the year ended October 31, 2012 were approved for issuance by the Board of Directors on December 5, 2012.

2. BASIS OF PRESENTATION

These consolidated financial statements have been prepared in accordance with the Bank Act, which states that, except as otherwise specified by the Office of the Superintendent of Financial Institutions Canada (OSFI), the financial statements are to be prepared in accordance with current Canadian generally accepted accounting principles which are now the International Financial Reporting Standards (IFRS). These financial statements are the first consolidated financial statements of the Bank prepared under IFRS as issued by the International Accounting Standards Board (IASB). The accounting policies have been applied consistently to all periods presented within these consolidated financial statements, including the opening consolidated balance sheet, as at the transition date of November 1, 2010. Note 30 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).

The consolidated financial statements have been prepared under the historical cost convention, except for available-for-sale financial assets, financial assets and financial liabilities classified at fair value through profit or loss and all 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.

2.1 BASIS OF CONSOLIDATION

The consolidated 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. The consolidated financial statements include the results of B2B Bank Financial Services Inc., B2B Bank Securities Services Inc. and B2B Bank Intermediary Services for the 351-day period and AGF Trust Company for the 92-day period from the dates of acquisition. The results of M.R.S. Trust Company for the 152-day period from the date of acquisition until its merger with B2B Bank are also included in the consolidated financial statements.

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.
B2B Bank Financial Services Inc.[2]	LBC Trust
B2B Bank Securities Services Inc.[3]	Laurentian Bank Securities Inc.
B2B Bank Intermediary Services Inc. [4]	LBC Financial Services Inc.
B2B Trustco	LBC Investment Management Inc.
AGF Trust Company	V.R. Holding Insurance Company Ltd

(1) B2B Trust converted into a federally chartered bank under the name of B2B Bank as of July 7, 2012.

(2) M.R.S. Inc. before September 2, 2012.

(3) M.R.S. Securities Services Inc. before September 2, 2012.

(4) M.R.S. Correspondent Corporation before September 2, 2012.

2. BASIS OF PRESENTATION [Cont'd]

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.

2.2 RECLASSIFICATION OF COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to current year presentation, but did not result from the IFRS changeover. The nature of these adjustments in the consolidated 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 in 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 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 $0.4 million for the year ended October 31, 2011, which was previously reported as part of credit insurance income, was reclassified to net interest income to better reflect the nature of this income.

2.3 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 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, changes in current estimates and assumptions 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.

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 for could change if management's assessment of these factors were different. Refer to Note 3 for further detail on the accounting of available-for-sale and held-to-maturity financial assets.

2. BASIS OF PRESENTATION [Cont'd]

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 benefits

Valuation of employee 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 defined benefit obligations and plan assets, changes in assumptions could have a significant impact on the defined benefit assets (liabilities), as well as, depending on the funding status of the plan, on pension plan and other post-employment benefit expenses.

Business combinations

On the date of the acquisition, the acquiree's assets and liabilities have been included in the consolidated balance sheet at fair value. Valuation of the identifiable assets and liabilities of the acquiree 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 assumptions could have had a significant impact on the amount of goodwill or gain arising on acquisition recognized. Refer to Note 29 for additional information on the assets acquired and liabilities assumed as a result of business combinations.

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 values are determined using assumptions regarding the results of operations of future fiscal years, timing of reversal of temporary differences and tax rates on the date of reversals, which may well change depending on governments' fiscal policies. 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 Bank 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 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 and incremental transaction costs and are subsequently remeasured at fair value in the consolidated balance sheet. Equity instruments that do not have a quoted market price in an active market and for which a reliable valuation cannot be obtained are recorded at cost. Unrealized gains and losses are recognized, net of applicable income taxes, in 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

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 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 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

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.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

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 immediately recognized in 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

3.2 BUSINESS COMBINATIONS

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

At the acquisition date, the identifiable assets acquired and liabilities assumed of the acquiree are recognized at their estimated fair value. Any contingent consideration to be assumed by the Bank is also recognized at fair value at the acquisition date. The excess of the purchase price over the fair value of the net identifiable assets acquired is recorded as goodwill in the balance sheet, while any excess of the fair value of the net identifiable assets over the purchase price is recorded in net income as a gain on acquisition under Gain on acquisition and amortization of net premium on purchased financial instruments. Subsequent changes in the fair value of the contingent consideration are recorded in net income.

The fair value estimate of purchased loans and deposits reflects the interest rate premium or discount resulting from the difference between the contractual rates and prevailing market interest rates for financial instruments with similar terms and conditions, as well as the expected loan losses as of the acquisition date. As a result of recording the loans at fair value, no allowance for loan losses is recorded on the date of acquisition. As well, these loans are not considered impaired as at the date of acquisition. Subsequently, those loans and deposits are recorded at amortized cost using the effective interest method and the related premium or discount amortization is recognized in net income under Gain on acquisition and amortization of net premium on purchased financial instruments.

Purchased loans are subject to impairment assessment, consistent with the Bank's methodology for collective allowances. Increases in incurred loan losses are recorded in the provision for loan losses and increase the allowance for loan losses. Decreases in incurred loan losses result in a recovery in the provision for loan losses and reduce any previously recorded allowance for loan losses, until the allowance is exhausted. Any additional decrease is recorded in interest income and increases the carrying amount of the purchased loans.

3.3 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

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 one 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 years ended October 31, 2012 and 2011.

3.4 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 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

3.5 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 earnings. 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 defined benefit obligation or the market value of plan assets. This excess is 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

3.6 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.

3.7 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.

3.8 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.

3.9 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.

3.10 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, restricted share units, performance share units (PSUs) and deferred share units 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 in the value and expenses 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

3.11 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.

3.12 TRANSLATION OF FOREIGN CURRENCIES

The consolidated 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.

3.13 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.

3.14 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.

3.15 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. FUTURES 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.

4. FUTURES ACCOUNTING CHANGES [Cont'd]

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

In May 2011, the IASB issued, and subsequently amended in June 2012, 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. Accordingly, actuarial gains and losses would have been recognized in other comprehensive income as they would have occurred. The amendments also require full recognition of past service costs (gains) immediately in net income, and recognition of expected return on plan assets in net income to be calculated based on the rate used to discount the defined benefit obligation. The amendments include additional disclosures that explain the characteristics of the entity's defined benefit plans and risks associated with the plans, as well as disclosures that describe how defined benefit plans may affect the amount, timing and uncertainty of future cash flows, and details of any asset-liability match strategies used to manage risks.

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.

5. SECURITIES

MATURITY SCHEDULE OF SECURITIES

Portfolio of available-for-sale securities

As at					October 31, 2012
	Within 1 year	1 to 5 years	Over 5 years	No specific maturity	Total
Securities issued or guaranteed					
by Canada[1]	$ 1,349,634	$ 5,543	$ —	$ —	$ 1,355,177
by provinces	653,316	48,083	1,212	—	702,611
Other debt securities	485,055	69,243	60,266	—	614,564
Asset-backed securities	6,226	14,060	985	—	21,271
Preferred shares	—	—	—	72,800	72,800
Common shares and other securities	—	—	—	56,165	56,165
	$ 2,494,231	$ 136,929	$ 62,463	$ 128,965	$ 2,822,588

As at	October 31, 2011	November 1, 2010
Securities issued or guaranteed		
by Canada[1]	$ 1,249,400	$ 1,466,506
by provinces	415,118	411,947
Other debt securities	310,633	139,428
Asset-backed securities	25,054	25,919
Preferred shares	56,929	58,956
Common shares and other securities	50,941	36,105
	$ 2,108,075	$ 2,138,861

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

Portfolio of held-to-maturity securities

As at			October 31, 2012
	Within 1 year	1 to 5 years	Total
Securities issued or guaranteed by Canada[1]	$ 1,271,743	$ 141,219	$ 1,412,962
Asset-backed securities	33,789	—	33,789
	$ 1,305,532	$ 141,219	$ 1,446,751

As at	October 31, 2011	November 1, 2010
Securities issued or guaranteed by Canada[1]	$ 872,523	$ 546,144
Asset-backed securities	13,299	13,313
	$ 885,822	$ 559,457

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

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

5. SECURITIES [Cont'd]

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 year ended	October 31, 2012	October 31, 2011
Realized net gains	$ 4,366	$ 4,962
Write-downs for impairment recognized in income	(1,464)	(445)
	$ 2,902	$ 4,517

GAINS AND LOSSES RECOGNIZED IN COMPREHENSIVE INCOME

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

As at				October 31, 2012
	Amortized cost	Unrealized gains	Unrealized losses	Fair value
Securities issued or guaranteed				
by Canada[1]	$ 1,347,823	$ 7,375	$ 21	$ 1,355,177
by provinces	700,681	1,958	28	702,611
Other debt securities	607,533	7,120	89	614,564
Preferred shares	71,956	1,436	592	72,800
Common shares and other securities	51,189	5,490	514	56,165
Asset-backed securities	19,919	1,372	20	21,271
	$ 2,799,101	$ 24,751	$ 1,264	$ 2,822,588

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

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 Canada Mortgage and Housing Corporation pursuant to the *National Housing Act*.

Note 24 contains additional information on the determination of fair value of securities.

6. LOANS

LOANS AND IMPAIRED LOANS

As at October 31, 2012

	Gross amount of loans	Gross amount of impaired loans	Individual allowances	Collective allowances: Against impaired loans	Collective allowances: Against other loans	Total allowances
Personal	$ 7,806,067	$ 16,863	$ —	$ 10,081	$ 24,724	$ 34,805
Residential mortgage	14,169,095	21,971	—	390	2,254	2,644
Commercial mortgage	2,443,634	36,672	14,070	—	16,406	30,476
Commercial and other[1]	2,362,083	52,517	33,779	2,021	13,817	49,617
	$ 26,780,879	$ 128,023	$ 47,849	$ 12,492	$ 57,201	$ 117,542

As at October 31, 2011

	Gross amount of loans	Gross amount of impaired loans	Individual allowances	Collective allowances: Against impaired loans	Collective allowances: Against other loans	Total allowances
Personal	$ 5,774,207	$ 14,395	$ —	$ 8,192	$ 22,024	$ 30,216
Residential mortgage	11,869,412	17,053	—	546	878	1,424
Commercial mortgage	2,363,808	62,541	22,129	7,175	15,008	44,312
Commercial and other[1]	2,080,117	69,736	47,321	2,644	17,233	67,198
	$ 22,087,544	$ 163,725	$ 69,450	$ 18,557	$ 55,143	$ 143,150

As at November 1, 2010

	Gross amount of loans	Gross amount of impaired loans	Individual allowances	Collective allowances: Against impaired loans	Collective allowances: Against other loans	Total allowances
Personal	$ 5,636,203	$ 16,397	$ —	$ 9,351	$ 22,196	$ 31,547
Residential mortgage	10,859,647	20,914	—	1,937	1,561	3,498
Commercial mortgage	2,166,375	52,706	13,750	2,629	13,201	29,580
Commercial and other[1]	1,856,640	98,106	44,391	7,900	14,651	66,942
	$ 20,518,865	$ 188,123	$ 58,141	$ 21,817	$ 51,609	$ 131,567

(1) Including customers' liabilities under acceptances for an amount of $211.1 million ($179.1 million and $165.5 million as at October 31, 2011 and 2010)

Foreclosed assets

Held-for-sale assets acquired in 2012 with respect to impaired loans which are managed for sale in an orderly manner amounted to $4.9 million ($5.5 million in 2011). There were no specific allowances with regards to these loans prior to foreclosure.

6. LOANS [Cont'd]

INDIVIDUAL ALLOWANCES FOR LOAN LOSSES

For the year ended			October 31, 2012	October 31, 2011
	Commercial mortgage loans	Commercial and other loans[1]	Total individual allowances	Total individual allowances
Balance at beginning of year	$ 22,129	$ 47,321	$ 69,450	$ 58,141
Provision for loan losses recorded in the consolidated statement of income	6,920	6,383	13,303	23,121
Write-offs[2]	(13,827)	(19,741)	(33,568)	(10,555)
Recoveries	—	114	114	51
Interest accrued on impaired loans	(1,152)	(298)	(1,450)	(1,308)
Balance at end of year	$ 14,070	$ 33,779	$ 47,849	$ 69,450

(1) Including customers' liabilities under acceptances
(2) No restructured loans were written off during the fiscal years ended October 31, 2012 and 2011.

COLLECTIVE ALLOWANCES FOR LOAN LOSSES

Collective allowances against impaired loans

For the year ended					October 31, 2012	October 31, 2011
	Personal loans	Residential mortgage loans	Commercial mortgage loans	Commercial and other loans[1]	Total collective allowances	Total collective allowances
Balance at beginning of year	$ 8,192	$ 546	$ 7,175	$ 2,644	$ 18,557	$ 21,817
Provision for loan losses recorded in the consolidated statement of income	25,457	2,452	(6,791)	(276)	20,842	24,425
Write-offs[2]	(25,836)	(1,528)	—	(116)	(27,480)	(28,630)
Recoveries	2,786	(814)	—	4	1,976	3,734
Interest accrued on impaired loans	(518)	(266)	(384)	(235)	(1,403)	(2,789)
Balance at end of year	$ 10,081	$ 390	$ —	$ 2,021	$ 12,492	$ 18,557

(1) Including customers' liabilities under acceptances
(2) No restructured loans were written off during the fiscal years ended October 31, 2012 and 2011.

Collective allowances against other loans

For the year ended					October 31, 2012	October 31, 2011
	Personal loans	Residential mortgage loans	Commercial mortgage loans	Commercial and other loans[1]	Total collective allowances	Total collective allowances
Balance at beginning of year	$ 22,024	$ 878	$ 15,008	$ 17,233	$ 55,143	$ 51,609
Allowances for loan losses resulting from the acquisition of a subsidiary (see Note 29)	2,829	374	—	—	3,203	—
Provision loan losses recorded in the consolidated statement of income	(129)	1,002	1,398	(3,416)	(1,145)	3,534
Balance at end of year	$ 24,724	$ 2,254	$ 16,406	$ 13,817	$ 57,201	$ 55,143

(1) Including customers' liabilities under acceptances

An allowance for undrawn amounts under approved credit facilities is also recorded in other liabilities and amounted to $6.1 million as at October 31, 2012, $5.6 million as at October 31, 2011 and $5.7 million as at November 1, 2010.

6. LOANS [Cont'd]

LOANS PAST DUE BUT NOT IMPAIRED

Personal and residential mortgage loans past due shown in the table below are not classified as impaired because they are less than 90 days past due or they are secured such as to reasonably expect full recovery. Commercial loans past due but not impaired are not significant.

As at				October 31, 2012
	1 day– 31 days	32 days– 90 days	Over 90 days	Total
Personal loans	$ 93,935	$ 23,938	$ 4,307	$ 122,180
Residential mortgages	244,088	40,896	34,446	319,430
	$ 338,023	$ 64,834	$ 38,753	$ 441,610

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 mortgages	257,008	35,773	26,297	319,078
	$ 355,649	$ 73,403	$ 31,485	$ 460,537

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 mortgages	277,957	32,053	32,820	342,830
	$ 381,160	$ 58,531	$ 39,980	$ 479,671

7. 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 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 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.

7. LOAN SECURITIZATION [Cont'd]

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 below. As at October 31, 2012, the notional amount of these swaps was $5.2 billion compared to $4.7 billion as at October 31, 2011 and $3.3 billion as at November 1, 2010.

Assets related to securitization activities

As these 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 sells fixed rate and variable rate 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 is reduced as mortgage loans are repaid. To reduce the interest-rate risk associated to the mismatch between the fixed rate mortgage loans and the variable rate funding of the trusts, as well as to reduce the risk related to the timing of the collection of cash flows related to the mortgage loans, the trusts enter into swap agreements with third party swap counterparties. Under the swap agreements, these swap counterparties receive the monthly interest flows from the mortgage loans and in return provide the trusts with the regular interest payments required to pay out to investors under the terms of the asset-backed commercial paper. 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 mortgage loans and the amount payable to investors. Because the underlying cash flows associated with these interest rate swaps are captured through the on-balance sheet recognition of the underlying mortgage loans 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 below. As at October 31, 2012, the notional amount of these swaps was $0.9 billion compared to $0.04 billion as at October 31, 2011 and $0.2 billion as at November 1, 2010.

Assets related to securitization activities

As the Bank provides credit enhancements for these transactions, they do not meet derecognition criteria and the securitized mortgage loans remain on balance sheet as residential mortgages. However, as the Bank's rights, title and interest in the transferred mortgages are legally transferred to the trusts, these are considered pledged assets. Interest income is accrued on these loans as for the Bank's other mortgage loans. The trusts have no recourse to other assets of the Bank in the event of failure of debtors to pay when due, except as noted below.

Debt related to securitization activities

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

Guarantees related to securitization activities

As part of the transaction with a multi-seller conduit, the Bank has guaranteed the payment and performance of certain obligations and liabilities to the securitization trust. The maximum potential amount of future payments under this guarantee totalled $675.2 million as at October 31, 2012 (nil as at October 31, 2011 and as at November 1, 2010).

7. LOAN SECURITIZATION [Cont'd]

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 do not qualify for derecognition and their associated financial liabilities included in the consolidated balance sheet.

As at					October 31, 2012
	Within 1 year	1 to 5 years	Over 5 years	Total carrying amount	Fair value
Residential mortgage loans	$ 1,554,649	$ 2,881,877	$ 6,030	$ 4,442,556	$ 4,486,829
Replacement Assets					
Cash and deposits with other banks	11,894	—	—	11,894	11,894
Securities purchased under reverse repurchase agreements	63,016	—	—	63,016	63,016
Other securities	1,305,532	141,219	—	1,446,751	1,447,801
Debt related to securitization activities	$ (1,862,564)	$ (4,117,820)	$ (56,713)	$ (6,037,097)	$ (6,143,470)

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	$ (4,760,847)	$ (4,904,049)

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	$ (3,486,634)	$ (3,643,358)

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

For the year ended	October 31, 2012	October 31, 2011
Carrying amounts of mortgages transferred during the year related to new financing	$ 776,342	$ 1,415,985
Carrying amounts of mortgages transferred during the year as Replacement Assets	$ 767,039	$ 136,076

7. LOAN SECURITIZATION [Cont'd]

LOANS UNDER MANAGEMENT

The Bank manages commercial mortgage loans for third parties. The total principal amount of outstanding commercial mortgages loans under management amounted to $346.5 million at the end of fiscal 2012 ($300.1 million in 2011 and $207.7 million as at November 1, 2010). The Bank is not exposed to any credit risk under the servicing agreements in respect of these loans.

SALE OF COMMERCIAL MORTGAGE LOANS

During the year ended October 31, 2012, the Bank sold $85.2 million ($29.3 million for the year ended October 31, 2011) of commercial mortgage loans and recognized a $3.2 million gain in other income ($0.3 million in 2011).

8. PREMISES AND EQUIPMENT

The following table presents changes in property, plant and equipment.

	Premises and Leasehold improvements	Equipment and furniture	Computer hardware	Total
Cost				
As at November 1, 2010	$ 75,239	$ 81,082	$ 129,933	$ 286,254
Additions	8,259	4,545	4,530	17,334
As at October 31, 2011	83,498	85,627	134,463	303,588
Additions	5,962	2,658	12,388	21,008
Additions through business combinations (Note 29)	1,721	306	441	2,468
Disposals and write offs	(206)	—	—	(206)
As at October 31, 2012	90,975	88,591	147,292	326,858
Accumulated depreciation				
As at November 1, 2010	43,308	72,706	114,513	230,527
Depreciation	4,104	3,075	4,174	11,353
As at October 31, 2011	47,412	75,781	118,687	241,880
Depreciation	4,542	3,118	5,595	13,255
Disposals and write offs	(148)	—	—	(148)
As at October 31, 2012	$ 51,806	$ 78,899	$ 124,282	$ 254,987
Carrying amount				
As at November 1, 2010	$ 31,931	$ 8,376	$ 15,420	$ 55,727
As at October 31, 2011	$ 36,086	$ 9,846	$ 15,776	$ 61,708
As at October 31, 2012	$ 39,169	$ 9,692	$ 23,010	$ 71,871

9. GOODWILL

The following table presents changes in the carrying amount of goodwill.

As at		October 31, 2012		October 31, 2011		November 1, 2010
Balance at beginning of year	$	29,224	$	29,224	$	29,224
Additions through business combinations (Note 29)		34,853		—		—
Balance at end of year	$	64,077	$	29,224	$	29,224

IMPAIRMENT TESTING OF GOODWILL

Goodwill acquired through business combinations has been allocated to two individual cash–generating units (CGUs) for impairment testing as follows:

As at		October 31, 2012		October 31, 2011		November 1, 2010
Retail unit	$	29,224	$	29,224	$	29,224
B2B Bank	$	34,853	$	—	$	—

The Bank tests goodwill for impairment on an annual basis. No impairment losses were recognized in 2012 and 2011.

The recoverable amounts for the Retail unit CGU (a part of the Retail & SME Québec segment, which encompasses all branch activities and other retail banking activities in Québec) and B2B Bank segment have been determined based on their value in use, using the discounted cash flow (DCF) method.

The DCF method uses projections of cash flows, which are discounted to their present value. Cash flow projections are based on financial plans agreed to by management for a three-year period, estimated based on forecast results, business initiatives and planned capital investments and returns to shareholders.

The discount rate used is based on the bank-wide cost of capital and further adjusted to reflect current market assessment of the risks specific to each CGU. The discount rates used in our annual impairment test ranged from 10% to 12%.

In considering the sensitivity of the key assumptions discussed above, management determined that there is no reasonably possible change in any of the above that would cause the carrying value of any of the CGUs to exceed its recoverable amount.

10. SOFTWARE AND OTHER INTANGIBLE ASSETS

	Software	Other intangible assets	Total
Cost			
As at November 1, 2010	$ 330,389	$ —	$ 330,389
Additions	40,932	—	40,932
As at October 31, 2011	371,321	—	371,321
Additions	56,187	126	56,313
Additions through business combinations	1,891	21,597	23,488
As at October 31, 2012	429,399	21,723	451,122
Accumulated amortization			
As at November 1, 2010	228,718	—	228,718
Amortization	28,654	—	28,654
As at October 31, 2011	257,372	—	257,372
Amortization	30,514	3,263	33,777
As at October 31, 2012	$ 287,886	$ 3,263	$ 291,149
Carrying amount			
As at November 1, 2010	$ 101,671	$ —	$ 101,671
As at October 31, 2011	$ 113,949	$ —	$ 113,949
As at October 31, 2012	$ 141,513	$ 18,460	$ 159,973

Other intangible assets mainly consist of contractual relationships with financial intermediaries and core deposits. Impairment losses on intangible assets amounted to $0.1 million in 2012 (nil in 2011).

11. OTHER ASSETS

As at	October 31, 2012	October 31, 2011	November 1, 2010
Cheques and other items in transit	$ 123,866	$ 128,904	$ 115,710
Defined benefit assets (note 19)	31,035	26,897	24,878
Accrued interest receivable	89,063	86,703	87,791
Accounts receivable, prepaid expenses and other items	216,004	75,768	60,910
	$ 459,968	$ 318,272	$ 289,289

12. DEPOSITS

As at								October 31, 2012
		Demand		Notice		Term		Total
Personal	$	121,561	$	5,441,148	$	13,806,601	$	19,369,310
Business, banks and other		1,343,118		1,122,000		2,207,015		4,672,133
	$	1,464,679	$	6,563,148	$	16,013,616	$	24,041,443

As at								October 31,2011
		Demand		Notice		Term		Total
Personal	$	119,022	$	4,801,007	$	10,689,824	$	15,609,853
Business, banks and other		1,418,394		1,025,594		1,962,440		4,406,428
	$	1,537,416	$	5,826,601	$	12,652,264	$	20,016,281

As at								November 1,2010
		Demand		Notice		Term		Total
Personal	$	122,717	$	4,515,255	$	10,716,879	$	15,354,851
Business, banks and other		1,481,642		850,899		1,918,278		4,250,819
	$	1,604,359	$	5,366,154	$	12,635,157	$	19,605,670

Demand deposits consist of deposits in respect of which the Bank is not authorized to require notice prior to withdrawal by customers. These deposits primarily consist of chequing accounts.

Notice deposits consist of deposits in respect of which the Bank may legally require a withdrawal notice. These deposits generally consist of savings accounts.

Term deposits include deposits maturing at a specific date, particularly term deposits and guaranteed investment certificates.

13. OTHER LIABILITIES

As at		October 31, 2012		October 31, 2011		November 1, 2010
Accrued interest payable	$	540,430	$	502,549	$	503,712
Cheques and other items in transit		162,297		179,222		244,342
Defined benefit liabilities (note 19)		41,577		42,369		44,221
Accounts payable, accrued expenses and other items		207,163		177,580		153,664
	$	951,467	$	901,720	$	945,939

14. DEBT RELATED TO SECURITIZATION ACTIVITIES

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

As at			October 31, 2012	October 31, 2011	November 1, 2010
Maturity	Rate	Nominal Value	Carrying amount	Carrying amount	Carrying amount
Debt related to CMB transactions					
March 2011	4.08 %	$ 51,439	$ —	$ —	$ 51,410
June 2012	4.83	51,712	—	51,680	51,633
June 2012	4.03	66,542	—	66,489	66,410
December 2012	4.58	802,641	802,608	802,987	803,321
June 2013	3.98	249,118	248,925	248,640	248,366
June 2013	3.63	407,499	407,194	406,738	406,299
September 2013	3.58	155,944	155,825	155,699	155,577
December 2013	2.73	301,554	301,132	300,772	300,422
March 2014	2.25	169,231	168,960	168,770	168,584
June 2014	3.18	190,541	190,263	190,101	189,944
July 2014	3.20	62,796	62,746	62,718	62,691
September 2014	2.79	231,046	230,530	230,268	230,013
December 2014	2.80	50,639	50,515	50,459	50,405
March 2015	2.98	150,264	149,951	149,827	149,706
June 2015	3.20	325,637	324,742	324,423	324,115
December 2015	2.49	55,755	55,545	55,482	55,421
December 2015	2.78	351,028	349,682	349,278	—
June 2016	2.80	351,108	349,886	349,572	—
June 2016	2.81	395,984	397,641	398,074	—
December 2016	1.89	315,014	313,746	313,458	—
December 2016	1.88	50,152	50,475	—	—
June 2017	2.10	303,903	302,663	—	—
June 2017	2.11	160,948	162,836	—	—
December 2017	1.74	51,139	50,841	—	—
			5,126,706	4,675,435	3,314,317
Net fair value adjustment [1]			32,657	43,902	—
			$ 5,159,363	$ 4,719,337	$ 3,314,317
Debt related to multi-seller conduits					
Until June 2012	2.07 % [2]		—	41,510	172,317
Until August 2017	1.75 [2]		877,734	—	—
			$ 6,037,097	$ 4,760,847	$ 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 are based on the funding cost of the conduits and corresponded to the rate of the asset-backed commercial paper issued by the conduits, plus related program fees.

15. SUBORDINATED DEBT

The subordinated debt is a direct unsecured obligation of the Bank and is subordinated in right of payment to the claims of depositors and certain other creditors of the Bank. Any repurchase or cancellation of subordinated debt must be approved by OSFI.

ISSUANCE

On October 19, 2012, the Bank issued $200.0 million Series 2012-1 Medium Term Notes (Subordinated Indebtedness), for net proceeds of $199.3 million.

On November 2, 2010, the Bank issued $250.0 million Series 2010-1 Medium Term Notes (Subordinated Indebtedness), for net proceeds of $248.4 million.

REDEMPTION

On January 25, 2011, the Bank redeemed all of its 4.90% Subordinated Debentures, Series 10, maturing in 2016, with an aggregate notional amount of $150.0 million. The Debentures were redeemed at par plus accrued and unpaid interest to the date of redemption.

ISSUED AND OUTSTANDING

Maturity	Series	Interest rate	Special terms	October 31, 2012 Carrying amount	October 31, 2011 Carrying amount	November 1, 2010 Carrying amount
October 2022	2012-1	3.13%	Redeemable at par as of October 19, 2017 [1]; rate to be revised on October 19, 2017 and set at the 90-day bankers' acceptance rate plus 1.46%	$ 200,000	$ —	$ —
November 2020	2010-1	3.70%	Redeemable at par as of November 2, 2015; rate to be revised on November 2, 2015 and set at the 90-day bankers' acceptance rate plus 1.76%	250,000	250,000	—
January 2016	10	4.90%	Redeemable at par as of January 25, 2011; rate to be revised on January 25, 2011 and set at the 90-day bankers' acceptance rate plus 1.65%	—	—	150,000
Unamortized issuance costs				(1,918)	(1,555)	—
Adjustment for fair value hedge[2]				(4,488)	(5,894)	—
				$ 443,594	$ 242,551	$ 150,000

(1) Subject to the provisions of the Bank Act and to the prior consent of OSFI.
(2) Carrying value of subordinated debt reflects the impact of interest rate hedges in effective hedge relationships.

16. SHARE CAPITAL

AUTHORIZED SHARE CAPITAL

Preferred shares – Unlimited number of Class A Preferred Shares, without par value, issuable in series.
Common shares – Unlimited number of common shares, without par value.

COMMON SHARES

Issued and outstanding

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

16. SHARE CAPITAL [Cont'd]

For the year ended			October 31, 2012			October 31, 2011
	Number of shares		Amount	Number of shares		Amount
Common shares						
Outstanding at beginning of year	23,925,037	$	252,601	23,920,962	$	252,472
Issuance of new shares	4,192,483		181,825	—		—
Issuance costs, net of income taxes	n/a		(5,900)	n/a		—
Issuance under the employee share purchase option plan	—		—	4,075		129
Total common shares	28,117,520	$	428,526	23,925,037	$	252,601

Issuance of common shares

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

Subscription receipts and related exchange for common shares

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 29). Upon the completion of the acquisition on August 1, 2012, subscription receipts were automatically exchanged for 2,867,383 common shares of the Bank for net proceeds of $115.0 million.

PREFERRED SHARES

Issued and outstanding

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

For the year ended			October 31, 2012			October 31, 2011
	Number of shares		Amount	Number of shares		Amount
Class A Preferred shares						
Series 9						
Outstanding at beginning and end of year	4,000,000	$	97,885	4,000,000	$	97,885
Series 10						
Outstanding at beginning and end of year	4,400,000		107,642	4,400,000		107,642
Series 11						
Outstanding at beginning of year	—		—	—		—
Issuance of new shares	4,000,000		100,000	—		—
Issuance costs, net of income taxes	n/a		(2,278)	n/a		—
Outstanding at end of year			97,722			—
Total preferred shares	12,400,000	$	303,249	8,400,000	$	205,527

Issuance of preferred shares

On October 18, 2012, the Bank issued 4,000,000 Non-cumulative Class A Preferred Shares, Series 11 at a price of $25 per share, for an aggregate amount of $100.0 million. Net proceeds totalled $97.7 million.

Terms of shares

The Non-cumulative Class A Preferred Shares, Series 9, are redeemable at the Bank's option since December 15, 2006 at a price of $25 each, subject to the provisions of the Bank Act and the prior consent of OSFI. The holders of the Preferred Shares Series 9 will be entitled to receive fixed non-cumulative preferential cash dividends payable quarterly, as declared by the Board of directors, at a rate equal to $0.375 per share.

16. SHARE CAPITAL [Cont'd]

The Non-cumulative Class A Preferred Shares, Series 10, are redeemable at the Bank's option since June 15, 2009 at a price of $25 each plus, if the redemption takes place before June 15, 2013, a premium of $1 which will decrease to zero depending on the redemption date, subject to the provisions of the Bank Act and the prior consent of OSFI. The holders of the Preferred Shares Series 10 will be entitled to receive fixed non-cumulative preferential cash dividends payable quarterly, as declared by the Board of directors, at a rate equal to $0.328 per share.

The Bank could also convert all or a portion of the preferred shares Series 9 and Series 10 into common shares under certain circumstances; however, on November 17, 2010, the Bank irrevocably renounced its right of conversion into common shares.

The Non-cumulative Class A Preferred Shares, Series 11, are redeemable at the Bank's option, on December 15, 2017 and on December 15 every five years thereafter at a price of $25 each, subject to the provisions of the Bank Act and to the prior consent of OSFI. On December 15, 2017 and on December 15 every five years thereafter, the holders of Preferred Shares Series 11 may also convert, subject to the automatic conversion provisions and the right of the Bank to redeem those shares, any or all of these preferred shares into an equal number of Preferred Shares Series 12. The holders of the Preferred Shares Series 11 will be entitled to receive fixed non-cumulative preferential cash dividends payable quarterly, as declared by the Board of directors, at a rate equal to $0.25 per share until December 15, 2017, at such time and every five years thereafter, the dividend rate will reset to the then current five-year Government of Canada bond yield plus 2.60%.

The Non-cumulative Class A Preferred Shares, Series 12, are redeemable at the Bank's option, by the payment of an amount in cash for each such share so redeemed of (i) $25.00 together with all declared and unpaid dividends to the date fixed for redemption in the case of redemptions on December 15, 2022 and on December 15 every five years thereafter, or (ii) $25.50 together with all declared and unpaid dividends to the date fixed for redemption in the case of redemptions on any other date after December 15, 2017, subject to the provisions of the Bank Act and to the prior consent of OSFI. On December 15, 2022 and on December 15 every five years thereafter, the holders of Preferred Shares Series 12 may also convert, subject to the automatic conversion provisions and the right of the Bank to redeem those shares, any or all of these preferred shares into an equal number of Preferred Shares Series 11. The holders of the Preferred Shares Series 12 will be entitled to receive floating non-cumulative preferential cash dividends payable quarterly, as declared by the Board of directors, at a rate equal to the three-month Government of Canada Treasury Bills rate plus 2.60% per share. There were no outstanding Non-cumulative Class A Preferred Shares, Series 12 as at October 31, 2012.

DECLARED DIVIDENDS

For the year ended			October 31, 2012	October 31, 2011
		Dividend per share [1]	**Declared dividends**	Declared dividends
Class A Preferred shares				
Series 9	$	1.500	**$ 6,000**	$ 6,000
Series 10		1.312	**5,775**	5,775
Series 11		1.000	**—**	n/a
Total preferred shares			**$ 11,775**	$ 11,775
Common shares	$	1.84	**$ 47,212**	$ 38,757

(1) Non-cumulative dividends on preferred shares

On November 8, 2012, the Board of Directors declared regular dividends on the various series of preferred shares to shareholders of record on December 7, 2012.

At its meeting on December 5, 2012, the Board of Directors declared dividends of $13.8 million, or $0.49 per common share, payable on February 1, 2013, to shareholders of record on January 3, 2013.

RESTRICTIONS ON THE PAYMENT OF DIVIDENDS

The Bank is prohibited by the Bank Act from declaring or paying any dividends on its preferred shares or common shares if there are reasonable grounds for believing that, in so doing, the Bank would not comply with capital adequacy and liquidity regulations or guidance given by OSFI regarding the Bank's capital or liquidity.

The Bank's ability to pay common share dividends is also restricted by the terms of the outstanding preferred shares. These terms provide that the Bank may not pay dividends on its common shares at any time without the approval of holders of the outstanding Preferred Shares, unless all dividends that are then payable have been declared and paid or set apart for payment.

16. SHARE CAPITAL [Cont'd]

CAPITAL MANAGEMENT

Senior management's objective is to maintain an adequate level of capital, in line with its risk profile, to support the Bank's activities, while enhancing shareholder value. In order to achieve this objective, the Bank has a Capital Management Framework that includes a Capital Management and Adequacy Policy, a Capital Plan and an Internal Capital Adequacy Assessment Process (ICAAP).

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

Each year, the Board of Directors reviews and approves several capital-related documents, including the Capital Management and Adequacy Policy, the ICAAP, the Business and Financial Three-Year Plan, as well as the Capital Plan. The Risk Management Committee of the Board reviews capital adequacy on a quarterly basis. Management monitors capital ratios on a monthly basis. The Integrated Risk Management Department oversees the Bank's Capital Management Framework. Some of these responsibilities include monitoring capital limits and adequacy as well as developing and implementing the Capital Management and Adequacy Policy. The Bank's Treasury Department develops the Capital Plan and manages capital on an ongoing basis.

The regulatory capital calculation is determined based on the guidelines issued by OSFI originating from the Basel Committee on Banking Supervision (BCBS) regulatory risk-based capital framework. Tier 1 capital represents more permanent forms of capital, is free of mandatory fixed charges against earnings and has a subordinate legal position to the rights of depositors and other creditors of the financial institution. Tier 2 capital consists of supplementary capital instruments that contribute to the overall strength of a financial institution as a going concern. Total capital is defined as the sum of Tier 1 and Tier 2 capital.

Regulatory capital requirements impose minimum levels of capital that have to be taken into consideration with the other factors mentioned above when assessing the Bank's capital adequacy. Under BCBS current standards (known as Basel II), banks must maintain a minimum Tier 1 capital ratio of 4% and a total capital ratio of at least 8%. OSFI requires that Canadian deposit-taking financial institutions maintain a minimum Tier 1 capital ratio of 7% and a total capital ratio of at least 10%. The Bank opted for the Standardized Approach in determining credit risk capital and the Standardized Approach to account for operational risk. OSFI also requires that Canadian deposit-taking financial institutions maintain an Asset-to-Capital Multiple. The Bank was in compliance with OSFI's capital requirements throughout the year.

As detailed in Note 30, effective November 1, 2011, the Bank adopted IFRS, which impacted its shareholder's 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 totalling $136.0 million on a straight-line basis over five quarters until January 31, 2013. Regulatory capital is detailed below.

As at	October 31, 2012	October 31, 2011[1]	November 1, 2010[1]
Tier I capital			
Common shares	$ 428,526	$ 259,492	$ 259,363
Share-based payment reserve	227	227	243
Retained earnings	774,899	818,207	741,911
Non-cumulative preferred shares	303,249	210,000	210,000
Goodwill	(64,077)	(53,790)	(53,790)
Securitization-related and other deductions	(9,764)	(16,911)	(16,936)
	1,433,060	1,217,225	1,140,791
Adjustment for transition to measurement base under IFRS	27,193	—	—
Total – Tier I capital	1,460,253	1,217,225	1,140,791
Tier II capital			
Subordinated debt	443,594	242,512	150,000
Collective allowances	75,752	73,602	73,250
Securitization-related and other deductions	(5,539)	(16,499)	(13,714)
Total – Tier II capital	513,807	299,615	209,536
Total regulatory capital	$ 1,974,060	$ 1,516,840	$ 1,350,327

(1) The amounts are presented in accordance with previous Canadian GAAP as filed with OSFI.

17. ADDITIONAL INFORMATION REGARDING OTHER COMPREHENSIVE INCOME

For the year ended						October 31, 2012
		Amounts before income taxes		Income taxes		Amounts net of income taxes
Unrealized net gains (losses) on available-for-sale securities	$	(10,613)	$	2,972	$	(7,641)
Reclassification of net (gains) losses on available-for-sale securities to net income		(3,421)		1,047		(2,374)
		(14,034)		4,019		(10,015)
Net change in value of derivatives designated as cash flow hedges		(29,236)		7,889		(21,347)
Other comprehensive income	$	(43,270)	$	11,908	$	(31,362)

For the year ended						October 31, 2011
		Amounts before income taxes		Income taxes		Amounts net of income taxes
Unrealized net gains (losses) on available-for-sale securities	$	(13,799)	$	1,989	$	(11,810)
Reclassification of net (gains) losses on available-for-sale securities to net income		(4,886)		1,841		(3,045)
		(18,685)		3,830		(14,855)
Net change in value of derivatives designated as cash flow hedges		32,343		(8,277)		24,066
Other comprehensive income	$	13,658	$	(4,447)	$	9,211

18. SHARE-BASED PAYMENTS

SHARE PURCHASE OPTION PLAN

The Bank offers a share purchase option plan to senior managers of the Bank and its subsidiaries. Under this plan, the exercise price of options for the purchase of common shares must not be less than the market prices of such shares immediately prior to the grant date.

The right to exercise the options vests gradually over a maximum five-year period and the options may be exercised at any time up to ten years after they have been granted.

The Bank had reserved 1,600,000 common shares (1,600,000 shares in 2011) for the potential exercise of share purchase options, of which 124,962 were still available as at October 31, 2012 (124,962 as at October 31, 2011 and November 1, 2010).

No new share options were granted in 2012 and 2011.

The following table summarizes the Bank's share purchase option activities for the years ended October 31.

For the year ended			October 31, 2012			October 31, 2011
	Number of options		Exercise price per option	Number of options		Weighted average exercise price per option
Outstanding at beginning of year	50,000	$	29.47	54,075	$	29.65
Exercised	—	$	n/a	(4,075)	$	31.80
Outstanding at end of year	50,000	$	29.47	50,000	$	29.47
Exercisable at end of year	50,000	$	29.47	50,000	$	29.47

All outstanding options as at October 31, 2012 are expiring in December 2016.

18. SHARE-BASED PAYMENTS [Cont'd]

SHARE APPRECIATION RIGHTS PLAN

The Bank offers a share appreciation rights (SARs) plan to members of senior management of the Bank and its subsidiaries. These SARs may be cash settled for an amount equal to the difference between the SAR exercise price and the closing price of the common shares at the measurement date. SARs vest over a maximum period of five years and can be exercised over a maximum period of ten years. The fair value of SARs is measured using the Black-Scholes-Merton option pricing model, taking into account the terms and condition upon which the instruments were granted, including the dividend yield. The expense related to these units is recognized in net income over their vesting period with a corresponding liability recognized on the balance sheet. At each reporting date, until the liability is settled, the liability is remeasured with changes in fair value recognized in the consolidated statement of income. No SARs were granted during 2012 and 2011.

The following table summarizes the Bank's SARs outstanding balances as at October 31.

Share appreciation rights

	Weighted Average exercise price	Number of SARs outstanding	Weighted average remaining contractual life (years)	Number of SARs exercisable
2012	$34.95	305,537	4.37	263,912
2011	$34.44	427,540	5.27	283,923

PERFORMANCE-BASED SHARE UNIT PLAN

The Bank offers a performance-based share unit (PSU) plan to certain members of senior management. This plan was amended in 2012. All PSUs are cash settled at fair value. Under the original plan, rights to 37.5% of the units vested over three years. The rights to the remaining 62.5% units vested after three years and upon meeting certain financial objectives. Under the amended plan, all rights to the PSUs vest over three years and upon meeting certain financial objectives. The holders of all PSUs are entitled to an amount equivalent to the dividends paid on the Bank's common shares, which is also converted into additional share units. The expense related to these units is recognized in net income over their vesting period. A deferred version of the plan exists under which the participant is paid on termination of employment rather than at the end of the three-year period.

The following table summarizes the Bank's PSU plan activities for the years ended October 31 and the related outstanding balances as at October 31.

Performance share units

	For the years ended October 31			As at October 31
	Number of units granted	Value of units granted	Vesting date	Number of units outstanding
2012	85,268	$43.84	December 2014	238,114
2011	50,700	$45.77	December 2013	164,782

RESTRICTED SHARE UNIT PLANS

The Bank offers a restricted share unit (RSU) plan to certain members of senior management. Under the plan, 50% of the annual bonus otherwise payable to an eligible employee, under the Bank's short-term incentive compensation program, can be withheld and converted into fully vested restricted share units at the employees' option. The Bank undertakes to grant additional RSUs equal to 60% of the withheld bonus. These additional units will vest at the end of the three-year period following their award. A deferred version of the plan exists under which the participant is paid on termination of employment rather than at the end of the three-year period.

The Bank also offers a RSU plan to certain employees of the capital markets sector. Under that plan, 30 % of the annual bonus over a certain amount that would otherwise be payable to an eligible employee has to be withheld and converted into fully vested restricted share units. This plan does not provide for any employer contribution and a third of the restricted share units are redeemed at each of the first three anniversary dates of the grant.

The holders of share units of both plans are entitled to an amount equivalent to the dividends paid on the Bank's common shares, which is also converted into additional share units. The expense related to these units is recognized in income over their vesting period.

18. SHARE-BASED PAYMENTS [Cont'd]

The following table summarizes the Bank's RSU plans activities for the years ended October 31 and related outstanding balances as at October 31.

Restricted share units

		For the years ended October 31					As at October 31	
	Plan	Number of units converted [1]	Number of units granted		Value of units granted	Vesting date	Number of units outstanding	Number of units vested
2012	Senior management	41,422	28,004	$	43.82	December 2014	242,298	209,854
	Capital markets	20,952	—	$	43.84	n/a	39,365	39,365
2011	Senior management	39,559	23,736	$	45.77	December 2013	225,936	197,666
	Capital markets	25,029	—	$	45.77	n/a	25,892	25,892

(1) Corresponds to the portion of annual bonuses converted in RSU. These units are fully vested at grant date.

DEFERRED SHARE UNIT PLAN

The Bank offers a deferred share unit plan to non-employee directors of the Bank. Under this plan, each director may choose to receive all or a percentage of his or her remuneration in the form of deferred share units which can be settled in cash. The deferred share units are converted when the holder steps down from the Board of Directors. In 2012, the Bank paid out 6,127 deferred share units as compensation (2,843 in 2011). As at October 31, 2012, there were 13,303 units (7,176 in 2011) outstanding with a total value of $0.6 million ($0.3 million in 2011).

EMPLOYEE SHARE PURCHASE PLAN

The Bank offers an employee share purchase plan. Under this plan, employees who meet the eligibility criteria can contribute up to 5% of their annual gross salary by way of payroll deductions. The Bank matches 30% of the employee contribution amount, up to a maximum of $1,500 per year. The Bank's contributions vest to the employee two years after each employee contribution. The Bank's contributions, totalling $0.5 million during fiscal 2012 ($0.4 million in 2011), are recognized in salaries and employee benefits. The average value of the granted shares under this plan was $45.24 in fiscal 2012 ($47.17 in 2011).

SHARE-BASED PAYMENT PLAN EXPENSE AND RELATED LIABILITY

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

For the year ended		October 31, 2012		October 31, 2011
Expense arising from cash-settled share-based payment transactions	$	3,787	$	4,545
Effect of hedges		158		(1,975)
	$	3,945	$	2,570

With a view to reducing volatility in the share-based compensation plans expense, the Bank enters into total return swap contracts with third-parties, the value of which is linked to the price of the Bank's shares. Changes in fair value of these derivative instruments partially offset the share-based payment expense over the period in which the swaps are in effect.

The carrying amount of the liability relating to the cash-settled plans at October 31, 2012 was $19.7 million ($19.1 million at October 31, 2011 and $17.4 million at November 1, 2010).

The intrinsic value of the liability related to legally vested SARs, DSUs, PSUs and RSUs was $12.3 million as at October 31, 2012 ($12.0 million as at October 31, 2011 and $9.5 million as at November 1, 2010).

19. POST-EMPLOYMENT BENEFITS

DESCRIPTION OF BENEFIT PLANS

The Bank has a number of funded defined benefit pension plans, including certain defined contribution portions. The benefit plans provide pension benefits to most of its employees. Its defined benefit pension plans are based on years of service and final average salary at retirement time.

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.

DEFINED BENEFIT PLAN MEASUREMENT DATES

The Bank measures its defined benefit obligations and the fair value of plan assets for accounting purposes as at October 31 of each year. The most recent actuarial valuations were performed as at December 31, 2011. The next required actuarial valuation for funding purposes will be as at December 31, 2012 for all funded plans.

DEFINED BENEFIT PLAN OBLIGATIONS

Changes in the present value of the defined benefit obligation are as follows.

For the year ended	October 31, 2012		October 31, 2011	
	Pension plans	Other plans	Pension plans	Other plans
Change in defined benefit obligation				
Defined benefit obligation at beginning of year	$ 447,404	$ 35,196	$ 413,217	$ 34,463
Current service cost	13,407	47	12,727	45
Past service cost	—	—	578	—
Interest cost on defined benefit obligation	23,695	1,547	22,475	1,558
Benefits paid	(26,148)	(1,286)	(18,987)	(1,397)
Employee contributions	234	—	242	—
Actuarial losses (gains)	58,500	(814)	17,152	527
Defined benefit obligation at end of year	$ 517,092	$ 34,690	$ 447,404	$ 35,196

DEFINED BENEFIT PLAN ASSETS

Changes in fair value of pension plan assets are as follows.

For the year ended	October 31, 2012	October 31, 2011
Change in fair value of pension plan assets		
Fair value of plan assets at beginning of year	$ 426,900	$ 428,337
Expected return on plan assets [1]	29,721	29,775
Actuarial gains (losses)	3,709	(22,024)
Bank contributions	12,707	9,131
Employee contributions	234	242
Benefits paid	(26,148)	(18,561)
Fair value of plan assets at end of year	$ 447,123	$ 426,900

(1) The actual return on plan assets for pension plans was $33.4 million for the year ended October 31, 2012 ($7.8 million for the year ended October 31, 2011).

19. POST-EMPLOYMENT BENEFITS [Cont'd]

RECONCILIATION OF THE FUNDED STATUS OF THE BENEFIT PLANS TO THE AMOUNTS RECORDED IN THE CONSOLIDATED FINANCIAL STATEMENTS

As at		October 31, 2012		October 31, 2011		November 1, 2010
	Pension plans	Other plans	Pension plans	Other plans	Pension plans	Other plans
Fair value of plan assets	$ 447,123	$ —	$ 426,900	$ —	$ 428,337	$ —
Defined benefit obligation	517,092	34,690	447,404	35,196	413,217	34,463
Funded status – plan surplus (deficit)	(69,969)	(34,690)	(20,504)	(35,196)	15,120	(34,463)
Unamortized past service costs	461	—	525	—	—	—
Unamortized net actuarial loss (gain)	93,967	(311)	39,176	527	—	—
Defined benefit assets (liabilities) at end of year	$ 24,459	$ (35,001)	$ 19,197	$ (34,669)	$ 15,120	$ (34,463)
Defined benefit assets included in other assets	$ 31,035	$ —	$ 26,897	$ —	$ 24,878	$ —
Defined benefit liabilities included in other liabilities	$ 6,576	$ 35,001	$ 7,700	$ 34,669	$ 9,758	$ 34,463

ALLOCATION OF THE FAIR VALUE OF PLAN ASSETS AS A PERCENTAGE [(1)]

As at	October 31, 2012	October 31, 2011	November 1, 2010
Asset category			
Equity securities	56 %	59 %	61 %
Debt securities	41	40	38
Other	3	1	1
Total	100 %	100 %	100 %

(1) Measured as of October 31 of each year.

Plan assets include $0.4 million in equity securities of the Bank as at October 31, 2012, (nil as at October 31, 2011 and November 1, 2010).

EXPERIENCE ADJUSTMENTS

For the year ended		October 31, 2012		October 31, 2011
	Pension plans	Other plans	Pension plans	Other plans
Experience (gain) loss adjustments on defined benefit obligation	$ (58,500)	$ 814	$ (17,152)	$ (527)
Experience gain (loss) adjustments on assets	$ 3,709	$ —	$ (22,024)	$ —

ELEMENTS OF DEFINED BENEFIT COSTS RECOGNIZED DURING THE YEAR

For the year ended		October 31, 2012		October 31, 2011
	Pension plans	Other plans	Pension plans	Other plans
Current service cost	$ 13,407	$ 47	$ 12,727	$ 45
Past service cost	64	—	53	—
Interest cost on defined benefit obligation	23,695	1,547	22,475	1,558
Expected return on plan assets	(29,721)	—	(29,775)	—
Amortization of actuarial losses	—	24	—	—
Defined benefit costs recognized	$ 7,445	$ 1,618	$ 5,480	$ 1,603

The Bank expects to contribute $26.7 million to its defined benefit pension plans in the year ending October 31, 2013.

19. POST-EMPLOYMENT BENEFITS [Cont'd]

SIGNIFICANT ASSUMPTIONS FOR PENSION PLANS AND OTHER PLANS

As at	October 31, 2012	October 31, 2011	November 1, 2010
Weighted average of assumptions for defined benefit obligation			
Discount rate at end of year	4.40 %	5.25 %	5.40 %
Rate of compensation increase	3.50 %	3.50 %	3.50 %

For the year ended	October 31, 2012	October 31, 2011
Weighted average of assumptions for defined benefit obligation		
Discount rate for the year	5.25 %	5.40 %
Expected long-term rate or return on plan assets	7.25 %	7.25 %
Rate of compensation increase	3.50 %	3.50 %

The expected return on plan assets is determined by considering the expected returns available on the assets underlying the current investment policy. To determine the expected returns of each asset classes held, management assessed historical return trends and market expectations for the asset class return applicable for the period over which the obligation is to be settled. The overall expected rate of return on assets for the pension plans was then determined as the weighted average of the expected returns by assets class.

ASSUMED HEALTH CARE COST TREND RATES

As at	October 31, 2012	October 31, 2011	November 1, 2010
Assumed annual rate of increase in the cost of health care benefits	8.0 %	8.8 %	9.4 %
Level to which it should decline and at which it is assumed to subsequently stabilize	5.0 %	4.0 %	4.0 %
Year that the rate is assumed to stabilize	2027	2019	2019

SENSITIVITY ANALYSIS

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have had the following effects for the year ended October 31, 2012.

	1% increase	1% decrease
Increase (decrease) in total of service and interest cost	$ 108	$ (135)
Increase (decrease) in defined benefit obligation	$ 2,660	$ (2,265)

EXPENSE FOR POST-EMPLOYMENT BENEFITS

The total expense arising for the defined benefit pension plans, defined contribution pension plans and other plans is as follows.

For the year ended	October 31, 2012	October 31, 2011
Defined benefit pension plan expense	$ 7,445	$ 5,480
Defined contribution pension plan expense	6,128	5,078
Other plan expense	1,618	1,603
	$ 15,191	$ 12,161

20. INCOME TAXES

DEFERRED INCOME TAXES

Significant components of the Bank's deferred income tax assets and liabilities are as follows.

As at	October 31, 2012	October 31, 2011	November 1, 2010
Deferred income tax assets			
Allowances for loan losses	$ 25,581	$ 21,819	$ 21,805
Premises and equipment	8,438	11,537	16,000
Provisions	5,905	7,425	4,928
Amount related to share-based payments	5,638	5,362	4,918
Deposits	5,172	—	—
Defined benefit assets-pension plans	2,746	4,041	4,964
Tax loss carryforwards	402	3,222	—
Software	—	—	11,551
Other temporary differences	3,164	6,932	6,986
	57,046	60,338	71,152
Deferred income tax liabilities			
Deferred charges	25,605	17,149	15,640
Software	15,992	5,494	—
Loans	12,304	—	—
Derivatives	8,161	16,110	8,118
Securitization and securities	5,872	22,912	25,649
Other temporary differences	489	875	1,293
	68,423	62,540	50,700
Deferred income taxes, net	$ (11,377)	$ (2,202)	$ 20,452

Net deferred income taxes are reported in the consolidated balance sheet as follows.

As at	October 31, 2012	October 31, 2011	November 1, 2010
Deferred income tax assets	$ 4,751	$ 4,160	$ 47,995
Deferred income tax liabilities	(16,128)	(6,362)	(27,543)
Deferred income taxes, net	$ (11,377)	$ (2,202)	$ 20,452

The components of deferred income tax expense are as follows.

For the year ended	October 31, 2012	October 31, 2011
Deferred income tax expense		
Premises and equipment	$ 9,216	$ 4,463
Software	3,869	17,044
Deferred charges	4,314	1,510
Defined benefit assets – pension plans	1,295	924
Securitization and securities	(19,838)	1,094
Losses other than capital losses	1,705	(3,222)
Allowances for loan losses	1,102	(14)
Provisions	1,520	(2,497)
Loans	12,039	—
Deposits	(4,425)	—
Other temporary differences	657	(1,003)
	$ 11,454	$ 18,299

20. INCOME TAXES [Cont'd]

Income tax loss carryforwards, as at October 31, 2012 were $1.5 million ($11.2 million as at October 31, 2011 and nil as at November 1, 2010).

INCOME TAX EXPENSE

Significant components of income tax expense are as follows.

For the year ended	October 31, 2012	October 31, 2011
Consolidated statement of income		
Current income taxes		
Income tax for the year	$ 28,933	$ 15,786
Tax rate changes	98	—
Previous years income taxes adjustment	1,982	(646)
	31,013	15,140
Deferred income taxes		
Origination and reversal of temporary differences	14,642	18,379
Tax rate changes	(474)	—
Previous years income taxes adjustment	(2,714)	(80)
	11,454	18,299
	$ 42,467	$ 33,439
Consolidated statement of comprehensive income		
Income taxes related to change in unrealized losses on available-for-sale securities	$ (2,972)	$ (2,793)
Income taxes related to reclassification of net gains on available-for-sale securities to net income	(1,047)	(1,037)
Income taxes related to net change in value of derivatives designated as cash flow hedges	(7,890)	8,278
	$ (11,909)	$ 4,448
Composition of income taxes		
Current income taxes	$ (5,173)	$ —
Deferred income taxes	(6,736)	4,448
	$ (11,909)	$ 4,448
Consolidated statement of changes in shareholders' equity		
Income taxes on preferred share dividends		
Current income tax expense	$ 993	$ 661
Income taxes on issuance of common and preferred shares		
Current income taxes	(606)	—
Deferred income taxes	(2,400)	—
	(3,006)	—
	$ (2,013)	$ 661

20. INCOME TAXES [Cont'd]

RECONCILIATION WITH THE STATUTORY RATE

The reconciliation of income tax expense reported in the consolidated statement of income to the dollar amount of income taxes using the statutory rates is as follows.

For the year ended		October 31, 2012		October 31, 2011
	Amount		Amount	
Income taxes at statutory rates	$ 49,361	27.0 %	$ 44,958	28.6 %
Change resulting from:				
Income related to foreign insurance operations	(3,587)	(2.0)	(5,275)	(3.4)
Dividends and tax-exempt gains	(4,168)	(2.3)	(3,626)	(2.3)
Tax rate changes	(375)	(0.2)	—	—
Other, net	1,236	0.7	(2,618)	(1.6)
Income taxes as reported in the consolidated statement of income	$ 42,467	23.2 %	$ 33,439	21.3 %

On January 1, 2012, a reduction of 1.5% in Federal income tax rates became effective.

Income earned on foreign insurance operations would generally be taxed only upon repatriation to Canada. Since the Bank's management does not expect to repatriate income accumulated after July 27, 2006, no deferred income tax expense has been recognized on such income. Income taxes that would be payable if all unremitted earnings were repatriated are estimated at $24.4 million as at October 31, 2012 ($20.8 million as at October 31, 2011 and $15.9 million as at November 1, 2010).

21. EARNINGS PER SHARE

Basic and diluted earnings per share for the years ended October 31 is detailed as follows.

For the year ended	October 31, 2012	October 31, 2011
Earnings per share – basic		
Net income	$ 140,508	$ 123,717
Preferred share dividends, including related income taxes	12,768	12,436
Net income attributable to common shares	$ 127,740	$ 111,281
Average number of outstanding common shares	25,634,194	23,923,754
Earnings per share – basic	$ 4.98	$ 4.65
Earnings per share – diluted		
Net income attributable to common shares	$ 127,740	$ 111,281
Average number of outstanding common shares	25,634,194	23,923,754
Dilutive share purchase options	17,428	19,067
Diluted weighted average number of outstanding common shares	25,651,622	23,942,821
Earnings per share – diluted	$ 4.98	$ 4.65

The preferred shares Series 9 and Series 10 were convertible into common shares at the Bank's option. However, on November 17, 2010, the Bank irrevocably renounced its right of conversion of these Class A preferred shares into common shares.

There have been no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of the completion of these financial statements which would require the restatement of earnings per share.

22. 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, credit 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 Québec, as well as foreign exchange and international services.

The B2B Bank segment supplies banking and financial products to independent financial advisors 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-segment revenues and costs being eliminated in the Other segment. Transfer pricing regarding the funding of segments' assets and liabilities is 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 year ended						October 31, 2012
	Retail & SME-Québec	Real Estate & Commercial	B2B Bank	Laurentian Bank Securities and Capital Markets	Other	Total
Net interest income	$ 310,776	$ 87,825	$ 143,593	$ 3,210	$ (14,376)	$ 531,028
Other income	135,121	34,430	34,590	56,692	4,782	265,615
Total revenue (loss)	445,897	122,255	178,183	59,902	(9,594)	796,643
Gain on acquisition and amortization of net premium on purchased financial instruments	—	—	23,795	—	—	23,795
Provision for loan losses	23,978	3,002	6,020	—	—	33,000
Non-interest expenses	366,994	31,582	106,077	48,439	29,374	582,466
Costs related to business combinations and other[1]	—	—	21,997	—	—	21,997
Income (loss) before income taxes	54,925	87,671	67,884	11,463	(38,968)	182,975
Income taxes (recovered)	11,018	23,716	18,436	2,941	(13,644)	42,467
Net Income (loss)	$ 43,907	$ 63,955	$ 49,448	$ 8,522	$ (25,324)	$ 140,508
Average assets[2]	$ 13,602,664	$ 3,412,510	$ 6,969,602	$ 2,840,776	$ 4,638,983	$ 31,464,535

(1) Costs related to the acquisition of the MRS Companies and AGF Trust Company (see Note 29).

(2) Assets are disclosed on an average basis, as this measure is most relevant to a financial institution.

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

22. SEGMENTED INFORMATION [Cont'd]

For the year ended						October 31, 2011
	Retail & SME-Québec	Real Estate & Commercial	B2B Bank	Laurentian Bank Securities and Capital Markets	Other	Total
Net interest income	$ 321,578	$ 90,656	$ 117,769	$ 3,146	$ (28,664)	$ 504,485
Other income	132,346	33,738	8,967	53,207	5,604	233,862
Total revenue (loss)	453,924	124,394	126,736	56,353	(23,060)	738,347
Provision for loan losses	24,060	22,677	4,343	—	—	51,080
Non-interest expenses	363,825	30,211	64,040	47,902	15,127	521,105
Costs related to business combinations and other[1]	—	—	1,349	—	7,657	9,006
Income (loss) before income taxes	66,039	71,506	57,004	8,451	(45,844)	157,156
Income taxes (recovered)	14,148	20,469	16,149	2,180	(19,507)	33,439
Net Income (loss)	$ 51,891	$ 51,037	$ 40,855	$ 6,271	$ (26,337)	$ 123,717
Average assets[2]	$ 12,705,708	$ 3,087,813	$ 5,415,340	$ 2,557,806	$ 4,001,630	$ 27,768,297

(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.

23. RELATED PARTY TRANSACTIONS

Related parties of the Bank include:

- key management personnel and their close family members;
- entities which are controlled, jointly controlled or significantly influenced, or for which significant voting power is held, by key management personnel or their close family members;
- post-employment benefit plans for Bank employees.

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, being members of the management committee or board of directors.

The following table presents transactions with related parties.

As at		October 31, 2012		October 31, 2011		November 1, 2010
Loans [1]						
Key management personnel	$	2,333	$	2,833	$	1,957
Entities controlled by key management personnel		12,677		13,234		14,901
	$	15,010	$	16,067	$	16,858
Deposits						
Key management personnel	$	3,146	$	1,669	$	1,180
Entities controlled by key management personnel		65		32		194
	$	3,211	$	1,701	$	1,374

(1) No allowance for loan losses was recorded for these loans.

The Bank provides loans to directors and officers and their related entities. Loans to directors are granted under market conditions for similar risks and are initially measured at fair value. Loans to officers consist mostly of term residential mortgage loans at posted rates less 2%, as well as personal loans and personal lines of credit at market rates less a discount based on the type and amount of the loan. Loans to related entities of directors and officers are granted under terms similar to those offered to arm's length parties. The interest earned on these loans amounts to $0.7 million for the year ended October 31, 2012 ($0.8 million for the year ended October 31, 2011) and is recorded under interest income in the consolidated statement of income.

In the normal course of business, the Bank also provides usual banking services to certain directors and officers, including bank accounts (deposits) under terms similar to those offered to arm's length parties. The interest paid on deposits amounts to $0.1 million for the year ended October 31, 2012 ($0.1 million for the year ended October 31, 2011) and is recorded under interest expense in the consolidated statement of income.

The following table presents the total compensation of key management personnel.

For the year ended		October 31, 2012		October 31, 2011
Short-term employee benefits, including salaries	$	6,401	$	4,582
Post-employment benefits		338		242
Share-based payments		2,492		1,379
	$	9,231	$	6,203

24. FINANCIAL INSTRUMENTS – FAIR VALUE

Fair value is defined as the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable willing parties. Fair value measurements are categorized into levels within a fair value hierarchy based on the nature of valuation inputs (Level 1, 2 or 3) as outlined below. Note 3 details the accounting treatment for each measurement category of financial instruments, as well as the judgment used in measuring the fair value of financial instruments.

CLASSIFICATION OF FAIR VALUE MEASUREMENTS IN THE FAIR VALUE HIERARCHY

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Bank's market assumptions. These two types of inputs create the following fair value hierarchy:

- Level 1—Quoted prices in active markets for identical financial instruments.
- Level 2—Quoted prices for similar instruments in active markets; quoted prices for identical or similar financial instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.
- Level 3—Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

DETERMINING FAIR VALUE

For assets and liabilities carried at fair value, the Bank measures such value as follows.

Fair value is best evidenced by an independent quoted market price for the same instrument in an active market. When available, the Bank generally uses quoted market prices to determine fair value and classifies such items in Level 1.

If quoted market prices are not available, fair value is based on internally developed valuation techniques that use, where possible, current market-based or independently sourced market inputs, such as interest rates, exchange rates and option volatility. Instruments valued using internal valuation techniques are classified according to the lowest level input or value driver that is significant to the fair value measurement. Thus, an instrument may be classified in Level 3 even though some significant inputs may be observable.

Where available, the Bank may also make use of quoted prices for recent trading activity in positions with the same or similar characteristics to that being valued. The frequency and size of transactions and the amount of the bid-ask spread are among the factors considered in determining the liquidity of markets and the relevance of observed prices from those markets. If relevant and observable prices are available, those valuations would be classified in Level 2. If prices are not available, other valuation techniques are used and items are classified in Level 3. For these assets and liabilities, the inputs used in determining fair value may require significant management judgment. Due to the inherent uncertainty in these estimates, the values may differ significantly from those that would have been used if an active market had existed for the financial instruments.

Valuation methodologies

The following section describes the valuation methodologies used by the Bank to measure certain significant financial instruments at fair value, including an indication of the level in the fair value hierarchy in which each instrument is generally classified. Where appropriate, the description includes details of the valuation models, the key inputs to those models as well as any significant assumptions.

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

Given that quoted prices are not available for such financial instruments, fair value is determined using a discounted cash flow technique. Cash flows are estimated based on the terms of the contract and discounted using appropriate market rates. Since these instruments are recorded at amortized cost, they are not classified in the fair value hierarchy.

24. FINANCIAL INSTRUMENTS – FAIR VALUE [Cont'd]

Securities

When available, the Bank uses quoted market prices to determine the fair value of securities; such instruments are classified in Level 1 of the fair value hierarchy; for example exchange-traded equity securities. For bonds traded over the counter, the Bank generally determines fair value using internal valuation techniques or prices obtained from independent vendors. Where available, the Bank may also use quoted prices for recent trading activity of assets with similar characteristics to the bond being valued. Securities priced using such methods are generally classified in Level 2. However, less liquid securities may be classified in Level 3 given that the Bank must then determine the parameters related to certain significant value drivers, including liquidity premiums and credit spreads. For held-to-maturity securities, since these instruments are recorded at amortized cost, they are not classified in the fair value hierarchy.

Loans

Quoted market prices in an active market are not available for these financial instruments. As a result, the fair value of loans is estimated by discounting cash flows adjusted to reflect prepayments, if any, at the prevailing market interest rates for new loans with substantially similar terms. For certain variable rate loans subject to frequent rate revisions and loans with indeterminate maturities, the fair value is deemed to represent the carrying amount. Since these instruments are recorded at amortized cost, they are not classified in the fair value hierarchy.

Other assets

Other assets consist primarily of cheques and other items in transit and accrued interest receivable. Quoted market prices in an active market are not available for these financial instruments.

The fair value of cheques and other items in transit and accrued interest receivable is determined using the discounted cash flow method. Since these instruments are all recorded at amortized cost, they are not classified in the fair value hierarchy.

Derivatives

The fair value of over-the-counter derivatives is calculated using prevailing market prices for instruments with similar characteristics and maturities, based on a discounted net value analysis or an appropriate pricing model that factors in the current and contractual prices of the underlying instruments, the time value of money, the yield curve, counterparty credit risk and volatility factors. These derivatives are classified in Level 2 or Level 3 depending on whether the significant inputs to those pricing models include observable or unobservable inputs. Also, certain exchange-traded derivatives, whose fair value is based on quoted market prices, are classified in Level 1 of the fair value hierarchy.

Deposits

Quoted market prices in an active market are not available for these financial instruments. As a result, the fair value of fixed rate deposits is estimated using discounted cash flows based on prevailing market interest rates for deposits with substantially similar terms. The fair value of deposits without stated maturities or variable rate deposits is deemed to represent their carrying amount. Since these instruments are primarily recorded at amortized cost, they are not classified in the fair value hierarchy.

Obligations related to securities sold short

When available, the Bank uses quoted market prices to determine the fair value of obligations related to securities sold short; such instruments are classified in Level 1. For bonds traded over the counter, the Bank generally determines fair value using internal valuation techniques or prices obtained from independent vendors. Where available, the Bank may also use quoted prices for recent trading activity of assets with similar characteristics to the bond being valued. Securities priced using such methods are generally classified in Level 2.

Debt related to securitization activities

Quoted market prices in an active market are not available for debt related to securitization activities. As a result, the fair value of these financial instruments is estimated using internal valuation techniques. Since these instruments are recorded at amortized cost, they are not classified in the fair value hierarchy.

24. FINANCIAL INSTRUMENTS – FAIR VALUE [Cont'd]

Subordinated debt

Quoted market prices in an active market are not available for these financial instruments. As a result, the fair value of subordinated debt is estimated using discounted cash flows based on prevailing market interest rates for similar issues or rates currently offered for debt securities with the same term to maturity. Since these instruments are recorded at amortized cost, they are not classified in the fair value hierarchy.

SUMMARY

The amounts in the tables below present the fair value of financial instruments of the Bank based on the valuation methods and assumptions as set out above. In addition, pertaining only to the financial instruments recorded at fair value in the financial statements, the tables present their classification in the fair value hierarchy.

As at (in millions of dollars)					October 31, 2012
			Fair value hierarchy level of financial instruments recorded at fair value[1]		
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Assets					
Cash and non-interest-bearing deposits with other banks	$ 91	$ 91	$ n/a	$ n/a	$ n/a
Interest-bearing deposits with other banks	480	480	n/a	n/a	n/a
Securities					
Available-for-sale	2,823	2,823	128	2,694	1
Held-to-maturity	1,447	1,448	n/a	n/a	n/a
Held-for-trading	1,874	1,874	220	1,651	3
Securities purchased under reverse repurchase agreements	631	631	n/a	n/a	n/a
Loans	26,663	26,866	n/a	n/a	n/a
Derivatives	168	168	—	167	1
Other assets	429	429	n/a	n/a	n/a
	$ 34,606	$ 34,810	$ 348	$ 4,512	$ 5
Liabilities					
Deposits	$ 24,041	$ 24,182	$ —	$ 10	$ —
Obligations related to securities sold short	1,350	1,350	9	1,341	—
Obligations related to securities sold under repurchase agreements	244	244	n/a	n/a	n/a
Acceptances	211	211	n/a	n/a	n/a
Derivatives	101	101	1	89	11
Other liabilities	892	892	n/a	n/a	n/a
Debt related to securitization activities	6,037	6,143	n/a	n/a	n/a
Subordinated debt	444	455	—	43	—
	$ 33,320	$ 33,578	$ 10	$ 1,483	$ 11

(1) For financial instruments recorded at fair value only.

24. FINANCIAL INSTRUMENTS – FAIR VALUE [Cont'd]

As at (in millions of dollars)				October 31, 2011	
			Fair value hierarchy level of financial instruments recorded at fair value[1]		
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Assets					
Cash and non-interest-bearing deposits with other banks	$ 82	$ 82	$ n/a	$ n/a	$ n/a
Interest-bearing deposits with other banks	285	285	n/a	n/a	n/a
Securities					
Available-for-sale	2,108	2,108	102	2,005	1
Held-to-maturity	886	891	n/a	n/a	n/a
Held-for-trading	2,182	2,182	223	1,956	3
Securities purchased under reverse repurchase agreements	720	720	n/a	n/a	n/a
Loans	21,944	22,199	n/a	n/a	n/a
Derivatives	228	228	—	226	2
Other assets	291	291	n/a	n/a	n/a
	$ 28,726	$ 28,986	$ 325	$ 4,187	$ 6
Liabilities					
Deposits	$ 20,016	$ 20,228	$ n/a	$ n/a	$ n/a
Obligations related to securities sold short	1,471	1,471	34	1,437	—
Obligations related to securities sold under repurchase agreements	37	37	n/a	n/a	n/a
Acceptances	179	179	n/a	n/a	n/a
Derivatives	130	130	—	118	12
Other liabilities	867	867	n/a	n/a	n/a
Debt related to securitization activities	4,761	4,904	n/a	n/a	n/a
Subordinated debt	243	252	n/a	n/a	n/a
	$ 27,704	$ 28,068	$ 34	1,555	$ 12

(1) For financial instruments recorded at fair value only.

24. FINANCIAL INSTRUMENTS – FAIR VALUE [Cont'd]

As at (in millions of dollars)						November 1, 2010
			Fair value hierarchy level of financial instruments recorded at fair value[1]			
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Assets					
Cash and non-interest-bearing deposits with other banks	$ 72	$ 72	$ n/a	$ n/a	$ n/a
Interest-bearing deposits with other banks	99	99	n/a	n/a	n/a
Securities					
Available-for-sale	2,139	2,139	89	2,041	9
Held-to-maturity	559	564	n/a	n/a	n/a
Held-for-trading	1,497	1,497	166	1,324	7
Designated as at fair value through profit or loss	625	625	—	625	—
Securities purchased under reverse repurchase agreements	995	995	n/a	n/a	n/a
Loans	20,387	20,670	n/a	n/a	n/a
Derivatives	158	158	—	155	3
Other assets	251	251	n/a	n/a	n/a
	$ 26,782	$ 27,070	$ 255	$ 4,145	$ 19
Liabilities					
Deposits	$ 19,606	$ 19,853	$ n/a	$ n/a	$ n/a
Obligations related to securities sold short	1,362	1,362	7	1,355	—
Obligations related to securities sold under repurchase agreements	60	60	n/a	n/a	n/a
Acceptances	165	165	n/a	n/a	n/a
Derivatives	115	115	—	101	14
Other liabilities	923	923	n/a	n/a	n/a
Debt related to securitization activities	3,487	3,643	n/a	n/a	n/a
Subordinated debt	150	151	n/a	n/a	n/a
	$ 25,868	$ 26,272	$ 7	$ 1,456	$ 14

(1) For financial instruments recorded at fair value only.

LEVEL TRANSFERS AND RECLASSIFICATION

There were no significant transfers between Level 1 and Level 2 of the hierarchy, or changes in fair value measurement methods during the year.

CHANGE IN LEVEL 3 FAIR VALUE CATEGORY AND SENSITIVITY ANALYSIS

The Bank classifies financial instruments in Level 3 of the fair value hierarchy when there is reliance on at least one significant unobservable input to the valuation model. In addition to these unobservable inputs, the valuation models for Level 3 financial instruments typically rely on a number of inputs that are observable either directly or indirectly. Changes in Level 3 financial instruments were not significant for the years ended October 31, 2012 and 2011.

As at October 31, 2012, when other reasonably possible alternative assumptions were available for the valuation models, the Bank used these assumptions to recalculate the fair value of the instruments. The resulting potential increase or decrease in total Level 3 fair value was not significant.

25. FINANCIAL INSTRUMENTS – RISK MANAGEMENT

The Bank is exposed to various types of risks owing to the nature of the business activities it pursues. To ensure that significant risks to which the Bank could be exposed are taken into consideration, an Integrated Risk Management Framework has been developed to provide for oversight of risk assessment and control. Risk management is conducted according to tolerance levels established by management committees and approved by the Board of Directors through its committees.

In order to manage the risks associated with financial instruments, including loan and deposit portfolios, securities and derivatives, the Bank has implemented policies prescribing how various risks are to be managed. In practice, management closely monitors various risk limits, as well as a number of other indicators. Oversight of operations is performed by groups independent of the business lines.

The main risks to which the Bank is exposed in respect of financial instruments are set out below.

- Credit risk
- Liquidity and funding risk
- Market risk
    - *Interest rate risk*
    - *Foreign exchange risk*
    - *Equity risk*

25.1 CREDIT RISK

The use of financial instruments, including derivatives, can result in credit risk exposure representing the risk of financial loss arising from a counterparty's inability or refusal to fully honour its contractual obligations.

The credit risk management policies adopted by the Bank aim at assessing this risk. These policies cover the approval of credit applications by the line of authority concerned, attribution of risk ratings, management of impaired loans, establishment of provisions and risk-based pricing. With respect to loan portfolio diversification, the credit policy sets the guidelines intended to limit credit concentration by counterparty and industry sector, and identifies sectors that are considered riskier and should be avoided. The policies are periodically reviewed and approved by the Risk Management Committee of the Board.

Acting through a risk management group independent of the business segments, the Bank monitors its financial instrument portfolios in terms of both quality and quantity through: [i] mechanisms and policies governing the review of various types of loan files, [ii] risk rating systems, and [iii] pricing analysis.

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

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

25. FINANCIAL INSTRUMENTS – RISK MANAGEMENT [Cont'd]

The amount that best represents the Bank's maximum exposure to credit risk as at October 31, 2012 and 2011 and November 1, 2010 without factoring in any collateral held or other credit enhancements, represents the sum of financial assets in the Bank's consolidated balance sheet, plus credit-related commitments as set out below.

As at	October 31, 2012	October 31, 2011	November 1, 2010
Financial assets, as stated in the consolidated balance sheet [1]	$ 34,251	$ 28,388	$ 26,472
Credit-related commitments			
Personal credit facilities	1,852	1,624	1,403
Credit card lines	1,319	1,170	1,004
Undrawn amounts under approved credit facilities	3,158	2,603	2,469
Documentary letters of credit	2,384	4,358	6,670
	$ 42,964	$ 38,143	$ 38,018

(1) Excludes equity securities.

Concentration of credit risk

Concentration of credit risk may exist where a number of counterparties engaged in similar activities are located in the same geographic area or have comparable economic characteristics. Their ability to meet contractual obligations could be compromised by changing economic, political or other conditions. The Bank's operations are located in Canada.

The following table shows loans based on location:

As at	October 31, 2012	October 31, 2011	November 1, 2010
Québec	61 %	65 %	65 %
Other Canadian provinces [1]	39	35	35
Total	100 %	100 %	100 %

(1) Mainly in the province of Ontario.

No single industry segment accounted for more than 3% (3% in 2011) of the total loans and customers' liabilities under acceptances.

Guarantees held in respect of loan portfolios

Nearly 60% of the Bank's residential mortgage loan portfolio is insured by CMHC. Moreover, the Bank holds guarantees in respect of the real estate property for the other conventional mortgage loans. In addition, the value of such loans never exceeds 80% of the property's initially estimated value, in accordance with statutory requirements.

Nearly 77% of the Bank's personal loan portfolio consists of investment loans and home equity lines of credit. Loan underwriting for these loans is subject to a process which allows for the assessment of client credit risk. In addition, the Bank has defined and requires eligible collateral. Specifically, investment loans are collateralized by qualified Canadian mutual funds and home equity lines of credit are collateralized by real estate assets. Also, 9% of the Bank's personal loan portfolio consists of student loans and loans granted under the Immigrant Investor program, which are guaranteed by the federal or provincial governments.

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

Certain guarantees are also held for other personal and commercial loans in accordance with standard banking practices.

25. FINANCIAL INSTRUMENTS – RISK MANAGEMENT [Cont'd]

Other guarantees held

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

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

As at October 31, 2012 the approximate market value of collateral pledged to the Bank in connection with assets purchased under reverse repurchase agreements was $631.2 million ($720.3 million as at October 31, 2011 and $994.7 million as at November 1, 2010). All collateral received was re-pledged as security in connection with obligations related to securities sold short.

25.2 LIQUIDITY AND FUNDING RISK

Liquidity and funding risk represents the possibility that the Bank may not be able to gather sufficient cash resources, when required and on reasonable conditions, to meet its financial obligations.

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

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

25. FINANCIAL INSTRUMENTS – RISK MANAGEMENT [Cont'd]

Contractual maturities of financial liabilities

The following table shows the principal obligations related to financial liabilities by contractual maturity.

As at					October 31, 2012
	Demand	Term			
	and notice	Under 1 year	1 to 5 years	Over 5 years	Total
Deposits	$ 8,027,827	$ 7,426,743	$ 8,532,076	$ 54,797	$ 24,041,443
Obligations related to securities sold short	—	1,349,932	—	—	1,349,932
Obligations related to securities sold under repurchase agreements	—	244,039	—	—	244,039
Debt related to securitization activities	—	1,862,564	4,117,820	56,713	6,037,097
Subordinated debt	—	—	450,000	—	450,000
Derivatives[1]	—	6,772	11,661	145	18,578
	$ 8,027,827	$ 10,890,050	$ 13,111,557	$ 111,655	$ 32,141,089

As at					October31, 2011
	Demand	Term			
	and notice	Under 1 year	1 to 5 years	Over 5 years	Total
Deposits	$ 7,364,017	$ 5,871,925	$ 6,753,637	$ 26,702	$ 20,016,281
Obligations related to securities sold short	—	1,471,254	—	—	1,471,254
Obligations related to securities sold under repurchase agreements	—	36,770	—	—	36,770
Debt related to securitization activities	—	203,580	4,243,809	313,458	4,760,847
Subordinated debt	—	—	250,000	—	250,000
Derivatives[1]	—	11,986	23,311	(422)	34,875
	$ 7,364,017	$ 7,595,515	$ 11,270,757	$ 339,738	$ 26,570,027

As at					November1, 2010
	Demand	Term			
	and notice	Under 1 year	1 to 5 years	Over 5 years	Total
Deposits	$ 6,970,513	$ 5,534,083	$ 7,082,806	$ 18,268	$ 19,605,670
Obligations related to securities sold short	—	1,362,336	—	—	1,362,336
Obligations related to securities sold under repurchase agreements	—	60,050	—	—	60,050
Debt related to securitization activities	—	223,727	3,207,486	55,421	3,486,634
Subordinated debt	—	150,000	—	—	150,000
Derivatives[1]	—	6,086	8,595	(346)	14,335
	$ 6,970,513	$ 7,336,282	$ 10,298,887	$ 73,343	$ 24,679,025

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

25. FINANCIAL INSTRUMENTS – RISK MANAGEMENT [Cont'd]

The Bank is also exposed to liquidity risk when it contracts credit commitments. As at October 31, 2012, these commitments amounted to approximately $3.2 billion ($2.6 billion as at October 31, 2011 and $2.5 billion as at November 1, 2010), excluding personal credit facilities and credit card lines since they are revocable at the Bank's option.

25.3 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. Exposure to market risk arising from trading, investment, financing and asset and liability management activities is mainly monitored by notional limits, stress testing and various other sensitivity measures, such as value at risk.

Interest rate risk

Asset and liability management activities are designed to control structural interest rate risk, which corresponds to the potential negative impact of interest rate movements on the Bank's revenues and/or economic value of its capital. This risk is mainly attributable to differences in maturity dates or re-pricing dates of balance sheet and off-balance sheet items along with the options embedded in certain banking products, notably loan prepayment clauses and deposit redemption clauses. To manage this risk, various treasury and derivative instruments, mainly interest rate swaps, futures and options, are used to modify the interest rate characteristics of the underlying instruments in the balance sheet and to cover the inherent risk of options embedded in loan and deposit products. The Bank periodically assesses the effect on the economic value of common shareholders' equity and on its net interest income of a sudden and sustained 1% parallel change of the interest rate curve. The table below presents the estimated effect of such a change as at October 31.

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

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

Sensitivity analysis of the structural interest rate risk

As at		October 31, 2012				October 31, 2011		
		Effect on net interest income [1]		Effect on the economic value of common shareholders' equity [2]		Effect on net interest income [1]		Effect on the economic value of common shareholders' equity [2]
Change in interest rates								
Increase of 100 basis points	$	16,701	$	(19,710)	$	21,735	$	(16,670)
Decrease of 100 basis points	$	(14,948)	$	20,833	$	(24,138)	$	18,324

(1) Over the next 12 months
(2) Net of income taxes

25. FINANCIAL INSTRUMENTS – RISK MANAGEMENT [Cont'd]

The following table details the maturity dates and average effective rates of the on- and off-balance sheet financial instruments of the Bank.

As at (in millions of Canadian dollars)							October 31, 2012
	Floating	0 to 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest sensitive	Total
Assets							
Cash, deposits and securities	$ 2,187	$ 2,993	$ 1,153	$ 219	$ 80	$ 83	$ 6,715
Actual return		1.0 %	1.2 %	1.9 %	3.0 %		
Securities purchased under reverse repurchase agreements	631	—	—	—	—	—	631
Loans	10,732	1,466	3,698	9,911	166	690	26,663
Actual return		4.3 %	4.5 %	4.1 %	5.0 %		
Other assets	—	—	—	—	—	928	928
Total	13,550	4,459	4,851	10,130	246	1,701	34,937
Actual return		2.1 %	3.7 %	4.1 %	4.4 %		
Liabilities and equity							
Deposits	3,056	3,270	5,806	11,183	55	671	24,041
Actual return		1.5 %	2.0 %	2.1 %	3.6 %		
Treasury items	1,594	—	—	—	—	—	1,594
Actual return		— %	— %	— %	— %		
Other liabilities	—	39	79	155	—	1,007	1,280
Actual return		2.5 %	2.6 %	2.5 %	— %		
Debt related to securitization activities	—	878	985	4,118	56	—	6,037
Actual return		4.3 %	3.2 %	2.3 %	1.7 %		
Subordinated debt and equity	—	—	100	660	—	1,225	1,985
Actual return		— %	— %	2.4 %	— %		
Total	4,650	4,187	6,970	16,116	111	2,903	34,937
Actual return		2.1 %	2.2 %	2.1 %	2.6 %		
Swaps, net	—	(7,766)	2,029	5,787	(50)	—	—
Sensitivity gap	8,900	(7,494)	(90)	(199)	85	(1,202)	—
Cumulative gap	$ 8,900	$ 1,406	$ 1,316	$ 1,117	$ 1,202	$ —	$ —

As at (in millions of Canadian dollars)							October 31, 2011
	Floating	0 to 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest sensitive	Total
Assets	$ 11,318	$ 2,623	$ 3,674	$ 9,604	$ 275	$ 1,469	$ 28,963
Actual return		2.6 %	4.3 %	4.2 %	5.1 %		
Liabilities and equity	4,489	2,839	5,258	13,442	340	2,595	28,963
Actual return		1.6 %	1.9 %	1.6 %	0.3 %		
Swaps, net	—	100	(5,700)	4,695	905	—	—
Sensivity gap	6,829	(116)	(7,284)	857	840	(1,126)	—
Cumulative gap	$ 6,829	$ 6,713	$ (571)	$ 286	$ 1,126	$ —	$ —

As at (in millions of Canadian dollars)							November 1, 2010
	Floating	0to 3months	Over 3months to1year	Over 1year to5years	Over 5years	Non-interest sensitive	Total
Assets	$ 10,604	$ 1,768	$ 3,019	$ 10,264	$ 294	$ 1,106	$ 27,055
Actual return		3.3 %	4.6 %	4.2 %	5.1 %		
Liabilities and equity	4,309	3,018	4,982	12,066	73	2,607	27,055
Actual return		2.0 %	2.2 %	1.9 %	0.9 %		
Swaps, net	(12)	(4,597)	1,657	2,891	61	—	—
Sensivity gap	6,283	(5,847)	(306)	1,089	282	(1,501)	—
Cumulative gap	$ 6,283	$ 436	$ 130	$ 1,219	$ 1,501	$ —	$ —

25. FINANCIAL INSTRUMENTS – RISK MANAGEMENT [Cont'd]

Maturity assumptions

Assets, liabilities and equity are shown at the earlier of the date of maturity or contractual revaluation while taking into consideration estimated redemptions or prepayments, except for the following:

- Deposits for which the interest rates are not indexed on a specific rate and which can be non-sensitive to changes in market rates are classified based on the historical trends in balances;
- Subordinated debt for which interest rates can be revised at a future date are classified at the re-pricing date;
- Preferred shares are classified using the date on which they become redeemable.

Foreign exchange risk

Foreign exchange risk is the losses that the Bank may incur subsequent to adverse exchange rate fluctuations. It originates mainly from foreign exchange positions held by the Bank to support the supply of products and services in currencies other than the Canadian dollar, trading operations and, to a lesser extent, mismatches in currencies of balance sheet and off-balance sheet assets and liabilities, as well as mismatches in receipts and payments of funds in foreign currencies. This risk is monitored using notional limits and other sensitivity analysis for trading operations. Financial instruments denominated in U.S. dollars are detailed below.

As at (in thousands of Canadian dollars)	October 31, 2012	October 31, 2011	November 1, 2010
Assets			
Cash and Securities	$ 117,148	$ 92,090	$ 143,406
Loans	93,992	81,332	82,738
Other	5,759	23,711	26,980
	$ 216,899	$ 197,133	$ 253,124
Liabilities			
Deposits	$ 202,612	$ 175,393	$ 150,697
Obligations related to securities sold short	4,039	22,173	99,983
Other	428	278	235
	$ 207,079	$ 197,844	$ 250,915

In addition, U.S. dollar exposure related to derivatives is limited as these contracts are bought and sold mainly to meet specific customer needs. As at October 31, the effect of a sudden 5% change in foreign exchange rates would have no significant impact on net income and shareholder's equity.

Assets and deposit liabilities denominated in other foreign currencies, primarily in euros, amount to $12.1 million ($23.3 million as at October 31, 2011 and $10.8 million as at November 1, 2010) and $13.2 million ($12.7 million as at October 31, 2011 and $5.6 million as at November 1, 2010) respectively. Currencies other than U.S. dollars are generally bought and sold solely to meet specific customer needs. As a result, the Bank has limited exposure to these currencies.

Equity risk

Equity risk is the financial loss that the Bank may incur subsequent to adverse fluctuations in certain equity prices or the stock market in general. The Bank's equity positions consist primarily of Canadian publicly traded securities and, as a result, portfolio sensitivity mainly correlates to Canadian stock market performance. A portion of the Bank's equity positions is used to hedge index-linked deposits. The residual portion represents less than 3% (less than 3% as at October 31, 2011 and less than 3% as at November 1, 2010) of the total securities portfolio. A fluctuation in the Canadian stock market of 10% could have a $5.3 million impact on the Bank's shareholders' equity.

26. DERIVATIVES AND HEDGING

In the normal course of business, the Bank enters into various contracts and commitments in order to protect itself against the risk of fluctuations in interest rates, foreign exchange rates and indexes used to determine the return of index-linked deposits, as well as to meet its customers' demands and to earn trading income, as described below.

The various derivatives listed in the tables below are as follows:

[i] Interest rate swaps involve the exchange of fixed and floating interest payment obligations based on a predetermined notional amount for a specified period of time. Foreign exchange swaps involve the exchange of the principal and fixed or floating interest payments in different currencies.

[ii] Options are agreements between two parties in which the writer of the option grants the buyer the right, but not the obligation, to buy or to sell, at or by a specified date, a specific amount of a financial instrument at a price agreed upon when the agreement is entered into. The writer receives a premium for selling this instrument.

[iii] Futures are commitments to purchase or deliver a financial instrument on a specified future date at a specified price. Futures are traded in standardized amounts on organized exchanges and are subject to daily cash margining.

[iv] Foreign exchange forward contracts are commitments to purchase or sell foreign currencies for delivery at a specified date in the future at a pre-determined rate.

[v] Total return swaps involve floating payments based on changes in the value of a reference asset or group of assets, including any associated return such as dividends, in exchange for amounts based on prevailing market funding rates.

The following tables present the notional amounts associated with the derivatives. The amounts are not indicative of the potential gain or loss related to the credit or market risk of these instruments.

AGGREGATE NOTIONAL AMOUNTS

As at (in millions of Canadian dollars)						October 31, 2012
	Period to maturity					
Notional amount	Within 1 year	1 to 5 years	Over 5 years	Total	Designated as hedge contracts [1]	Other contracts [2]
Interest rate contracts						
Over-the-counter contracts						
Swaps	$ 4,473	$ 7,672	$ 1,145	$ 13,290	$ 10,581	$ 2,709
Exchange-traded contracts						
Futures	106	—	—	106	—	106
Foreign exchange contracts						
Over-the-counter contracts						
Foreign exchange swaps	1,324	27	—	1,351	—	1,351
Forwards	784	12	—	796	—	796
Options purchased	135	—	—	135	—	135
Options written	135	—	—	135	—	135
Equity- and index-linked contracts						
Options purchased	22	5	—	27	—	27
Options written	18	81	—	99	—	99
Total return swaps	182	20	—	202	—	202
	$ 7,179	$ 7,817	$ 1,145	$ 16,141	$ 10,581	$ 5,560

(1) Include notional amounts of $0.2 billion related to basis swaps at October 31, 2012.
(2) Include derivatives used in trading operations to meet customer demands and to earn trading income, as well as derivatives used to manage the Bank's risk exposures that are not designated in hedge relationships.

26. DERIVATIVES AND HEDGING [Cont'd]

As at (in millions of Canadian dollars)						October 31, 2011
	Period to maturity					
Notional amount	Within 1 year	1 to 5 years	Over 5 years	Total	Designated as hedge contracts [1]	Other contracts[2]
Interest rate contracts						
Over-the-counter contracts						
Swaps	$ 4,483	$ 9,317	$ 1,371	$ 15,171	$ 8,258	$ 6,913
Exchange-traded contracts						
Futures	244	—	—	244	—	244
Foreign exchange contracts						
Over-the-counter contracts						
Foreign exchange swaps	1,875	54	—	1,929	—	1,929
Forwards	525	37	—	562	—	562
Options purchased	556	—	—	556	—	556
Options written	530	—	—	530	—	530
Equity- and index-linked contracts						
Options purchased	25	21	4	50	—	50
Options written	39	76	4	119	—	119
Total return swaps	185	17	—	202	—	202
	$ 8,462	$ 9,522	$ 1,379	$ 19,363	$ 8,258	$ 11,105

As at (in millions of Canadian dollars)						November 1, 2010
	Period to maturity					
Notional amount	Within 1 year	1 to 5 years	Over 5 years	Total	Designated as hedge contracts [1]	Other contracts[2]
Interest rate contracts						
Over-the-counter contracts						
Swaps	$ 3,488	$ 4,783	$ 489	$ 8,760	$ 7,505	$ 1,255
Exchange-traded contracts						
Futures	19	—	—	19	—	19
Foreign exchange contracts						
Over-the-counter contracts						
Foreign exchange swaps	4,604	35	—	4,639	—	4,639
Forwards	796	46	—	842	—	842
Options purchased	265	—	—	265	—	265
Options written	268	—	—	268	—	268
Equity- and index-linked contracts						
Options purchased	6	33	5	44	—	44
Options written	54	94	5	153	—	153
Total return swaps	130	5	—	135	—	135
	$ 9,630	$ 4,996	$ 499	$ 15,125	$ 7,505	$ 7,620

(1) Include notional amounts of $0.6 billion related to basis swaps as at October 31, 2011 and $1.2 billion as at November 1, 2010.

(2) Include derivatives used in trading operations to meet customer demands and to earn trading income, as well as derivatives used to manage the Bank's risk exposures that are not designated in hedge relationships.

26. DERIVATIVES AND HEDGING [Cont'd]

FAIR VALUE OF DERIVATIVES

As at (in millions of Canadian dollars)			October 31, 2012
			Fair value
	Favourable	Unfavourable	Net amount
DESIGNATED AS HEDGE CONTRACTS			
Fair value hedges			
Interest rate contracts			
Swaps	$ 43	$ (5)	$ 38
Cash flow hedges			
Interest rate contracts			
Swaps	32	(19)	13
OTHER CONTRACTS [1]			
Interest rate contracts			
Swaps	42	(34)	8
Foreign exchange contracts			
Foreign exchange swaps	15	(11)	4
Forwards	9	(11)	(2)
Options purchased	2	—	2
Options written	—	(1)	(1)
Equity- and index-linked contracts			
Options purchased	1	—	1
Options written	—	(11)	(11)
Total return swap	—	—	—
TOTAL [2]	$ 144	$ (92)	$ 52

As at (in millions of Canadian dollars)			October 31, 2011
			Fair value
	Favourable	Unfavourable	Net amount
DESIGNATED AS HEDGE CONTRACTS			
Fair value hedges			
Interest rate contracts			
Swaps	$ 49	$ (8)	$ 41
Cash flow hedges			
Interest rate contracts			
Swaps	68	(35)	33
OTHER CONTRACTS [1]			
Interest rate contracts			
Swaps	55	(37)	18
Foreign exchange contracts			
Foreign exchange swaps	20	(15)	5
Forwards	6	(10)	(4)
Options purchased	10	—	10
Options written	—	(10)	(10)
Equity- and index-linked contracts			
Options purchased	2	—	2
Options written	—	(12)	(12)
Total return swap	—	—	—
TOTAL [2]	$ 210	$ (127)	$ 83

(1) Include derivatives used in trading operations to meet customer demands and to earn trading income as well as derivatives used to manage the Bank's risk exposures that do not qualify for hedge accounting.
(2) Excluding accrued interest.

26. DERIVATIVES AND HEDGING [Cont'd]

As at (in millions of Canadian dollars)			November 1, 2010
			Fair value
	Favourable	Unfavourable	Net amount
DESIGNATED AS HEDGE CONTRACTS			
Fair value hedges			
Interest rate contracts			
Swaps	$ 25	$ (7)	$ 18
Cash flow hedges			
Interest rate contracts			
Swaps	32	(15)	17
OTHER CONTRACTS (1)			
Interest rate contracts			
Swaps	6	(5)	1
Foreign exchange contracts			
Foreign exchange swaps	63	(51)	12
Forwards	6	(12)	(6)
Options purchased	4	—	4
Options written	—	(4)	(4)
Equity- and index-linked contracts			
Options purchased	3	—	3
Options written	—	(14)	(14)
Total return swap	—	—	—
TOTAL (2)	$ 139	$ (108)	$ 31

(1) Include derivatives used in trading operations to meet customer demands and to earn trading income as well as derivatives used to manage the Bank's risk exposures that do not qualify for hedge accounting.
(2) Excluding accrued interest.

Note 25 hereto provides additional disclosures on the credit risk related to derivatives and how it is assessed.

INFORMATION REGARDING HEDGING RELATIONSHIPS

The swap contracts designated as hedging instruments are used by the Bank primarily for purposes of balance sheet matching and minimizing volatility in net interest income. The value of such swap contracts can vary significantly.

Fair value hedges

The Bank uses interest rate swaps to hedge changes in fair value of assets, liabilities or firm commitments. The notional amount of swap contracts designated as hedging instruments in fair value hedges was $4.4 billion as at October 31, 2012 ($2.4 billion as at October 31, 2011 and $2.2 billion as at November 1, 2010).

The following table presents gains or losses related to fair value hedges.

For the year ended	October 31, 2012	October 31, 2011
Gains (losses) recognized on hedging instrument	$ 2,435	$ (35,717)
Gains (losses) recognized on hedged item	(3,256)	36,218
Ineffectiveness recognized in net income	$ (821)	$ 501

26. DERIVATIVES AND HEDGING [Cont'd]

Cash flow hedges

The Bank uses interest rate swaps to hedge the variability in cash flows related to a variable rate asset or liability. The notional amount of swap contracts designated as hedging instruments in cash flow hedges was $6.0 billion as at October 31, 2012 ($5.3 billion as at October 31, 2011 and $4.1 billion as at November 1, 2010).

Changes in fair value of interest rate swaps designated as cash flow hedging instruments could result in significant changes in accumulated other comprehensive income, in shareholders' equity.

The following table presents gains or losses related to cash flow hedges.

For the year ended	October 31, 2012	October 31, 2011
Ineffectiveness recognized in net income	$ 1,166	$ (39)

The remaining balance of accumulated other comprehensive income related to cash flow hedges as at October 31, 2012 is expected to be reclassified to the consolidated statement of income over the next 7 years.

CREDIT EXPOSURE

(in millions of Canadian dollars)

As at	2012			2011			2010		
	Replacement cost [1]	Credit equivalent amount [2]	Risk-weighted amount [3]	Replacement cost	Credit equivalent amount	Risk-weighted amount	Replacement cost	Credit equivalent amount	Risk-weighted amount
Interest rate contracts									
Swaps	$ 117	$ 173	$ 36	$ 172	$ 240	$ 49	$ 63	$ 94	$ 20
Foreign exchange contracts									
Foreign exchange swaps	15	30	5	20	41	9	63	110	23
Fowards	9	17	10	6	13	10	6	16	11
Options purchased	2	3	1	10	15	11	4	6	3
Equity-and index-linked contracts									
Options purchased	1	2	—	2	5	1	3	6	1
Total return swaps	—	13	3	—	12	2	—	8	2
	$ 144	$ 238	$ 55	$ 210	$ 326	$ 82	$ 139	$ 240	$ 60

(1) Represents favourable fair market value, excluding the impact of master netting agreements. Options written are excluded since they do not constitute a credit risk.
(2) Includes (i) the total positive replacement value of all outstanding contracts and (ii) an amount representing the assessed potential credit risk.
(3) Using guidelines issued by OSFI.

27. INCOME RELATED TO FINANCIAL INSTRUMENTS HELD-FOR-TRADING

Financial instruments held-for-trading, including held-for-trading securities, derivatives not designated in hedge relationships, and obligations related to securities sold short are measured at fair value, with gains and losses recognized in the consolidated statement of income.

The following table presents the income related to these instruments. Income comprises net interest income as well as other income included in income from treasury and financial market operations or in income from brokerage operations. Income excludes underwriting fees and commissions on securities transactions.

For the year ended		October 31, 2012		October 31, 2011
Net interest income	$	18,890	$	12,762
Other income included in:				
Income from brokerage operations		18,501		11,963
Income from treasury and financial market operations		7,743		5,819
	$	26,244	$	17,782

28. COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES

CREDIT-RELATED COMMITMENTS

The Bank uses certain off-balance sheet credit instruments as a means of meeting the financial needs of its customers. Undrawn amounts under approved credit facilities represent a commitment to make credit available in the form of loans or other credit instruments for specific amounts and maturities, subject to specific conditions.

Documentary letters of credit are documents issued by the Bank on behalf of customers, authorizing a third party to draw drafts to a stipulated amount under specific conditions. These letters are guaranteed by the underlying shipments of goods.

The amounts of credit-related commitments represent the maximum amount of additional credit that the Bank could be obliged to extend. These amounts are not necessarily indicative of credit risk as many of these commitments are contracted for a limited period of usually less than one year and will expire or terminate without being drawn upon.

Refer to Note 25.1 for additional information on credit-related commitments.

GUARANTEES

Standby letters of credit and performance guarantees

In the normal course of its operations, the Bank offers its customers the possibility of obtaining standby letters of credit and performance guarantees. These represent irrevocable assurances that the Bank will make payments in the event that clients cannot meet their obligations to third parties. The term of these guarantees varies according to the contracts and normally does not exceed one year. The Bank's policy for requiring collateral security with respect to these instruments is similar to its policy for loans. No specific provision is currently recorded with regard to these guarantees. The maximum potential amount of future payments under these guarantees totalled $149.3 million as at October 31, 2012 ($146.8 million as at October 31, 2011 and $175.2 million as at November 1, 2010).

Derivatives

To meet certain customers' hedging needs against foreign exchange rate fluctuations, the Bank sells put options (foreign exchange contracts), which are contractual agreements under which the Bank grants customers the right, but not the obligation to sell, by or on a set date, a specified amount of foreign currencies at a predetermined price. The term of these options does not exceed 12 months. No specific provision is recorded with respect to these derivatives. The maximum potential amount of future payments under these derivatives, corresponding to the notional value of outstanding contracts, totalled $98.7 million as at October 31, 2012 ($213.3 million as at October 31, 2011 and $201.8 million as at November 1, 2010).

Other indemnification agreements

In the normal course of its operations, the Bank provides indemnification agreements to counterparties in certain transactions such as purchase contracts, service agreements and sales of assets. These indemnification agreements require the Bank to compensate the counterparties for costs incurred as a result of changes in laws and regulations (including tax legislation) or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The Bank also indemnifies directors and officers, to the extent permitted by law, against certain claims that may be made against them as a result of their being, or having been, directors or officers at the request of the Bank. The terms of these indemnification agreements vary based on the contract. The nature of the indemnification agreements prevents the Bank from making a reasonable estimate of the maximum potential amount it could be required to pay to counterparties. Historically, the Bank has not made any significant payments under such indemnification agreements. No amount has been accrued with respect to these indemnification agreements.

28. COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES [Cont'd]

LEASE COMMITMENTS, SERVICE CONTRACTS FOR INFORMATION TECHNOLOGY SERVICES AND OTHER CONTRACTS

Minimum future payments under leases, service contracts for outsourced technology services and other contracts are as follows.

As at						October 31, 2012
		Premises		Information technology service contracts[1]		Other
Due within one year	$	49,868	$	13,170	$	9,951
Due within 1 to 5 years		175,062		66,458		32,741
Due after 5 years		81,065		3,227		5,980
Total	$	305,995	$	82,855	$	48,672

(1) The Bank may terminate certain major service contracts in certain circumstances.

Payments under these commitments recognized as an expense amounted to $44.3 million for the year ended October 31, 2012 ($40.1 million for the year ended October 31, 2011).

FINANCIAL ASSETS PLEDGED AS COLLATERAL

In the normal course of its operations, the Bank pledges financial assets presented in the consolidated balance sheet. This collateral security is pledged under the usual terms that provide, among other things, that the Bank bear the risks and rewards related to the collateral security and the pledged assets be returned to the Bank when the terms and conditions requiring them to be pledged as security cease to apply.

Financial assets pledged as collateral under securitization operations are detailed in Note 7. The following table details the financial assets pledged as collateral under other arrangements.

As at		October 31, 2012		October 31, 2011		November 1, 2010
Pledged assets:						
To participate in clearing and payment systems	$	487,651	$	320,348	$	337,376
For obligations related to securities sold under repurchase agreements and for securities borrowed		765,861		1,130,896		179,334
For obligations related to derivatives in a liability position		74,569		96,785		95,362
	$	1,328,081	$	1,548,029	$	612,072
Pledged assets are detailed as follows:						
Securities	$	1,048,266	$	1,438,807	$	354,040
Residential mortgage loans (unsold NHA MBS)		279,815		109,222		258,032
	$	1,328,081	$	1,548,029	$	612,072

CONTINGENT LIABILITIES

The Bank and its subsidiaries are also involved in various legal actions and claims, including some with regulatory bodies. Many of these disputes are related to loans granted by the Bank and are in reaction to steps taken by the Bank to collect delinquent loans and realize the underlying collateral. Certain claims have also been brought against the Bank, particularly with respect to trustee operations related to portfolio administration and the charging of certain bank fees. Management considers that adequate provisions have been set aside to cover any potential losses and any amounts that might not be recoverable from insurance companies, as the case may be, in connection with these actions.

With regards to the class action in the matter *Marcotte v. Banks*, on August 2, 2012, the Court of Appeal of Québec overturned the judgment of the Superior Court and dismissed a class action against six Canadian financial institutions, including the Bank, with regard to fees charged by the six banks to their credit card holders on conversion of foreign currency transactions into Canadian dollars. The judgment of the Court of Appeal confirmed Laurentian Bank position by acknowledging the business practice as sound and reasonable. As a result, the Bank does not anticipate to incur any loses on this case. Leave to appeal from Court of Appeal judgment to the Supreme Court of Canada is sought by many parties including Marcotte, the Attorney General of the Province of Quebec and some banks.

29. BUSINESS COMBINATIONS

ACQUISITION OF THE MRS COMPANIES[1]

On November 16, 2011, the Bank acquired 100% of the outstanding shares of MRS Companies. The MRS Companies, previously part of 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.

Goodwill recognized is attributed to the expected synergies and other benefits from combining the assets and activities of the MRS Companies with those of 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 deductible for income tax purposes.

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.

ACQUISITION OF AGF TRUST COMPANY

On August 1, 2012, the Bank acquired 100% of the outstanding shares of AGF Trust Company (AGF Trust). 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. The Bank acquired AGF Trust to combine it with B2B Bank in order to further strengthen its position as provider of banking products and services to the Canadian financial advisor community, as well as to improve profitability and geographic diversification.

The preliminary allocation of the purchase price resulted in a gain of $24.3 million ($16.4 million net of income taxes) arising on acquisition as the estimated fair values of the net assets acquired exceeded the purchase price, mainly attributable to the limited number of potential acquirers and expected costs related to increased regulatory requirements. The gain mainly represents the favourable effect of the discount or premium to reflect current market rates on purchased financial instruments, which was partly offset by the estimated fair value of the contingent consideration. The purchase price allocation is preliminary, and is based on management's best estimates of the fair values of the assets acquired and liabilities assumed at the date of the acquisition. Therefore, the gain of $24.3 million could be modified following the completion of the purchase price allocation. AGF Trust is part of the B2B Bank reportable segment; the gain associated with this transaction was allocated to this segment.

[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. M.R.S. Trust Company was subsequently merged with B2B Bank as of April 16, 2012.

29. BUSINESS COMBINATIONS [Cont'd]

The estimated fair value of the assets acquired and liabilities assumed at the dates of acquisition were as follows.

	MRS Companies	AGF Trust
ASSETS		
Interest-bearing deposits with other banks	$ 426,654	$ 410,686
Securities	145,567	382,841
Loans [1] [2]	333,073	3,179,124
Premises and equipment	262	2,206
Derivatives	–	13,191
Software and other intangible assets	23,028	460
Other assets	15,034	21,556
	943,618	4,010,064
LIABILITIES		
Deposits	725,540	2,764,135
Derivatives	–	1,242
Deferred tax liabilities	4,227	7,206
Other liabilities	30,011	94,641
Debt related to securitization activities	–	700,717
Subordinated debt	20,000	109,500
	779,778	3,677,441
Preferred shares	–	64,000
Total identifiable net assets acquired	163,840	268,623
Goodwill (gain net of income taxes) arising on acquisition	34,853	(16,382)
Total purchase consideration	$ 198,693	$ 252,241
Cash paid	$ 198,693	$ 246,341
Contingent consideration	–	5,900
Total purchase consideration	$ 198,693	$ 252,241

(1) As at November 16, 2011, gross amount of MRS Companies' loans was $335.3 million.
(2) As at August 1, 2012, gross amount of AGF Trust's loans was $3,152.0 million.

The following table presents the contribution of the MRS Companies and AGF Trust to the consolidated financial statements.

For the year ended		October 31, 2012
	MRS Companies	AGF Trust
Contribution from date of acquisition [1]		
Total revenue	$ 40,115	$ 19,993
Net income	$ 7,522	$ 7,301
Contribution if the acquisition had occurred on November 1, 2011 [2]		
Total revenue	$ 42,000	$ 77,000
Net income	$ 8,000	$ 22,000

(1) Approximate results of the MRS Companies for the 351-days period and of AGF Trust for the 92-days period from dates of acquisition.
(2) In determining this estimate, management has assumed that the fair value adjustments that arose on the acquisition date would have been the same if the acquisition had occurred on November 1, 2011.

During the year, the Bank incurred acquisition-related costs as well as salary, information technology and other integration costs to integrate the operations of MRS Companies and AGF Trust within the Bank. These costs were recognized directly in net income, under Costs related to business combinations and other. As of October 31, 2011, with regards to these transactions the Bank had incurred a $7.7 million charge for termination in 2012 of a distribution agreement.

30. 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 ended October 31, 2012 are 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.

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 and October 31, 2011, as well as consolidated income and comprehensive income for the year ended October 31, 2011.

30.1 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. However, in line with OSFI's position, the Bank has applied IAS 39 derecognition requirements to 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 30.6(a).

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

30. ADOPTION OF IFRS [Cont'd]

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 30.6(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

As permitted by 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.

30. ADOPTION OF IFRS [Cont'd]

30.2 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 30.6 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	o)	210,000	—	(4,473)	205,527
Common shares	o)	259,492	—	(6,891)	252,601
Share-based payment reserve		227	—	—	227
Retained earnings	o), p)	818,207	(135,200)	11,364	694,371
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 30.6 Nature of adjustments
(2) See Reclassification of comparative figures in Note 2 Basis of presentation

30. ADOPTION OF IFRS [Cont'd]

	Item [1]	Canadian GAAP [2]	Adjustments	Reclassifications	IFRS
					As at November 1, 2010
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), e), 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	o)	210,000	—	(4,473)	205,527
Common shares	o)	259,363	—	(6,891)	252,472
Share-based payment reserve		243	—	—	243
Retained earnings	o), p)	741,911	(131,428)	11,364	621,847
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 30.6 Nature of adjustments
(2) See Reclassification of comparative figures in Note 2 Basis of presentation

30. ADOPTION OF IFRS [Cont'd]

30.3 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 30.6 for an explanation of the nature of adjustments.

		For the year ended October 31, 2011		
	Item[1]	Canadian GAAP[2]	Adjustments	IFRS
Interest income				
Loans	a), d)	$ 808,995	$ 153,825	$ 962,820
Securities	a)	62,181	11,878	74,059
Deposits with other banks	a)	5,233	44	5,277
Other, including derivatives	a), b)	66,475	(5,130)	61,345
		942,884	160,617	1,103,501
Interest expense				
Deposits		444,463	—	444,463
Debt related to securitization activities	a)	—	140,743	140,743
Subordinated debt		11,574	—	11,574
Other, including derivatives		2,236	—	2,236
		458,273	140,743	599,016
Net interest income		484,611	19,874	504,485
Other income				
Fees and commissions on loans and deposits	k)	116,595	(1,589)	115,006
Securitization income		48,429	—	48,429
Income from brokerage operations	a)	35,486	(35,486)	—
Credit insurance income		18,591	—	18,591
Income from treasury and financial market operations	a), b), h)	18,973	1,965	20,938
Income from sales of mutual funds		17,308	—	17,308
Income from registered self-directed plans		7,253	—	7,253
Other income		6,337	—	6,337
		268,972	(35,110)	233,862
Total revenue		753,583	(15,236)	738,347
Provision for loan losses	d)	47,000	4,080	51,080
Non-interest expenses				
Salaries and employee benefits	c), g)	293,930	(11,300)	282,630
Premises and technology	j), m)	140,839	373	141,212
Other	a), d), f), k)	99,910	(2,647)	97,263
Costs related to an acquisition and other	e)	8,180	826	9,006
		542,859	(12,748)	530,111
Income before income taxes		163,724	(6,568)	157,156
Income taxes		36,235	(2,796)	33,439
Net income		$ 127,489	$ (3,772)	123,717
Preferred share dividends, including applicable taxes		12,436	—	12,436
Net income available to common shareholders		$ 115,053	$ (3,772)	111,281
Average number of common shares outstanding (in thousands)				
Basic		23,924	—	23,924
Diluted		23,943	—	23,943
Earnings per share				
Basic		$ 4.81	$ (0.16)	$ 4.65
Diluted		$ 4.81	$ (0.16)	$ 4.65

(1) See items in Note 30.6 Nature of adjustments
(2) See Reclassification of comparative figures in Note 2 Basis of presentation

30. ADOPTION OF IFRS [Cont'd]

30.4 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 30.6 for an explanation of the nature of adjustments.

For the year ended	Item [(1)]	October 31, 2011
Comprehensive income – Canadian GAAP		$ 146,357
Adjustments to net income		
Securitization	a)	(13,000)
Hedge accounting	b)	150
Employee benefits	c)	7,803
Loan loss provisioning	d)	24
Business combination	e)	(826)
Consolidation of B2B Trust	f)	870
Share-based payments	g)	421
Securities	h)	319
Tax accounting	j)	796
Other	k), l), m)	(329)
		(3,772)
Adjustments to other comprehensive income, net of income taxes		
Unrealized net gains (losses) on available-for-sale securities	a), b), h), j)	(9,758)
Net change in value of derivatives designated as cash flow hedges	b), j)	101
		(9,657)
Comprehensive income – IFRS		$ 132,928

(1) See items in Note 30.6 Nature of adjustments.

30.5 RECONCILIATION OF EQUITY BETWEEN CANADIAN GAAP AND IFRS

The following table presents the reconciliation of equity recorded according to Canadian GAAP and equity recorded in accordance with IFRS. See Note 30.6 for an explanation of the nature of adjustments.

As at	Item [(1)]	October 31, 2011	November 1, 2010
Shareholders' equity – Canadian GAAP		$ 1,334,692	$ 1,239,415
Effect on retained earnings			
Securitization	a)	(14,543)	(1,543)
Hedge accounting	b)	13	(138)
Employee benefits	c)	(86,734)	(94,537)
Loan loss provisioning	d)	(1,539)	(1,563)
Business combination	e)	(22,061)	(21,234)
Consolidation of B2B Trust	f)	(6,861)	(7,731)
Share-based payments	g)	(156)	(577)
Securities	h)	(889)	(1,208)
Tax accounting	j)	(758)	(1,553)
Other	k), l), m)	(1,672)	(1,344)
		(135,200)	(131,428)
Effect on the consolidated accumulated other comprehensive income, net of income taxes			
Available-for-sale reserve	a), b), h), j)	18,645	28,403
Cash flow hedge reserve	b), j)	179	78
		18,824	28,481
Shareholders' equity – IFRS		$ 1,218,316	$ 1,136,468

(1) See items in Note 30.6 Nature of adjustments.

30. ADOPTION OF IFRS [Cont'd]

30.6 NATURE OF ADJUSTMENTS

The following section details the adjustments to the consolidated balance sheet as at November 1, 2010 and October 31, 2011, as well as to the consolidated statement of income and the consolidated statement of comprehensive income for the year ended October 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 consolidated 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.

30. 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	November 1, 2010
ASSETS		
Increase in residential mortgage loans	$ 3,394,017	$ 2,715,535
Replacement assets		
Increase in cash and non-interest-bearing deposits with other banks	—	1,907
Increase in interest-bearing deposits with other banks	9,030	3,833
Increase in held-to-maturity securities	885,822	559,457
Increase in securities purchased under reverse repurchase agreements	401,564	190,800
	1,296,416	755,997
Decrease in derivatives	(443)	(4,544)
Decrease in other assets (retained interests and other)	(98,273)	(74,688)
Increase in total assets	$ 4,591,717	$ 3,392,300
LIABILITIES AND SHAREHOLDERS' EQUITY		
Decrease in personal deposits	$ (332)	$ (42,313)
Decrease in business, banks and other deposits	(50,978)	—
Increase in debt related to securitization activities	4,760,847	3,486,634
Decrease in derivatives	(116,506)	(84,043)
Increase (decrease) in other liabilities	(4,084)	8,237
Increase in total liabilities	4,588,947	3,368,515
Increase in shareholders' equity		
Decrease in retained earnings	(14,543)	(1,543)
Increase in accumulated other comprehensive income	17,313	25,328
	2,770	23,785
Increase in liabilities and shareholders' equity	$ 4,591,717	$ 3,392,300

Principal line items impacted – Statement of income

For the year ended	October 31, 2011
Increase in interest income	
Increase in interest income due to the recording of the securitized residential mortgage loans and replacement assets	$ 161,650
Decrease in other interest income, including derivatives	(5,130)
	156,520
Increase in interest expense	
Increase in interest expense related to the recording of the debt related to securitization activities	140,743
Increase in net interest income	15,777
Decrease in other income	
Reversal of gains on sales and other income related to securitization activities	(35,486)
Other	1,310
	(34,176)
Increase in non-interest expenses	212
Decrease in income taxes	(5,611)
Decrease in net income	$ (13,000)

30. ADOPTION OF IFRS [Cont'd]

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 $91.8 million as at October 31, 2011) and other liabilities increased by $26.3 million as at November 1, 2010 and October 31, 2011. Amortization of actuarial losses and other deferred amounts for the year ended October 31, 2011, previously recognized in salaries and employee benefits, were reversed.

The status of the plans as at October 31, 2011 and November 1, 2010 is presented in Note 19.

30. ADOPTION OF IFRS [Cont'd]

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 table below reflects the variation of the allowance due to the improved methodology for year ended October 31, 2011 and the effect of reclassifications to net interest income and other non-interest expenses.

For the year ended		October 31, 2011
Increase in net interest income (accretion on impaired loans)	$	4,097
Increase in provision for loan losses		(4,080)
Decrease in other non-interest expenses (allowances for undrawn amounts)		143
		160
Increase in income taxes		(136)
Increase in net income	$	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, 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 and 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 amounts of deferred income tax and provision accounted for in the purchase equation were 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 year ended October 31, 2011 (see Note 29) amounting to $0.8 million, previously presented with other assets, were expensed in the consolidated statement of income.

30. ADOPTION OF IFRS [Cont'd]

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, 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, and an increase of $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, 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, 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 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.

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 October 31, 2011, and related adjustments to retained earnings and net income.

30. ADOPTION OF IFRS [Cont'd]

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, 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 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 and $102.8 million as at October 31, 2011.

o) Reclassification of share issuance costs

Share issuance costs, net of income taxes, previously presented in equity as a deduction of retained earnings, were reclassified in equity as a deduction of the shares issued. This reclassification amounted to $4.5 million as at November 1, 2010 and October 31, 2011 for preferred shares and $6.9 million as at November 1, 2010 and October 31, 2011 for common shares.

p) 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 Note 30.5.

q) 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.

STATISTICAL REVIEW – CONSOLIDATED BALANCE SHEET

Unaudited, as at October 31 (in thousands of Canadian dollars)	2012	2011	2010	2009[1]	2008[1]	AVERAGE ANNUAL VARIANCE 12/08
ASSETS						
Cash and non-interest-bearing deposits with other banks	**$ 90,860**	$ 81,600	$ 72,444	$ 61,010	$ 54,410	14%
Interest-bearing deposits with other banks	**480,183**	285,459	99,394	239,606	94,291	50
Securities						
Issued or guaranteed by Canada	**3,202,058**	2,896,307	3,084,334	2,864,454	2,415,863	7
Issued or guaranteed by provinces and municipal corporations	**1,712,085**	1,396,980	1,029,726	1,157,180	466,735	38
Other securities	**1,228,818**	882,579	705,483	410,549	607,574	19
	6,142,961	5,175,866	4,819,543	4,432,183	3,490,172	15
Securities purchased under reverse repurchase agreements	**631,202**	720,317	994,674	536,064	661,391	(1)
Loans						
Personal	**7,806,067**	5,774,207	5,636,203	5,655,055	5,694,574	8
Residential mortgage	**14,169,095**	11,869,412	10,859,647	6,641,301	5,629,613	26
Commercial mortgage	**2,443,634**	2,363,808	2,166,375	1,863,540	1,485,946	13
Commercial and other	**2,150,953**	1,900,977	1,691,190	1,555,957	1,454,799	10
Customers' liability under acceptances	**211,130**	179,140	165,450	216,817	110,342	18
	26,780,879	22,087,544	20,518,865	15,932,670	14,375,274	
Allowances for loan losses	**(117,542)**	(143,150)	(131,567)	(114,546)	(112,434)	1
	26,663,337	21,944,394	20,387,298	15,818,124	14,262,840	17
Other						
Premises and equipment	**71,871**	61,708	55,727	58,163	59,927	5
Other assets	**856,412**	693,866	626,245	994,971	934,246	(2)
	928,283	755,574	681,972	1,053,134	994,173	(2)
	$34,936,826	$28,963,210	$27,055,325	$22,140,121	$19,557,277	16%
LIABILITIES AND SHAREHOLDERS' EQUITY						
Deposits						
Personal	**$19,369,310**	$15,609,853	$15,354,851	$15,113,978	$12,407,843	12%
Business, banks and other	**4,672,133**	4,406,428	4,250,819	3,161,329	2,903,774	13
	24,041,443	20,016,281	19,605,670	18,275,307	15,311,617	12
Other						
Obligations related to securities sold short or under repurchase agreements	**1,593,971**	1,508,024	1,422,386	1,339,458	1,955,332	(5)
Acceptances	**211,130**	179,140	165,450	216,817	110,342	18
Other liabilities	**1,068,462**	1,038,051	1,088,717	987,313	946,551	3
	2,873,563	2,725,215	2,676,553	2,543,588	3,012,225	(1)
Debt related to securitization activities	**6,037,097**	4,760,847	3,486,634	–	–	n.a.
Subordinated debt	**443,594**	242,551	150,000	150,000	150,000	31
Shareholders' equity						
Preferred shares	**303,249**	205,527	205,527	210,000	210,000	10
Common shares	**428,526**	252,601	252,472	259,208	257,462	14
Share-based payment reserve	**227**	227	243	209	173	7
Retained earnings	**774,899**	694,371	621,847	665,538	596,974	7
Accumulated other comprehensive income	**34,228**	65,590	56,379	36,271	18,826	16
	1,541,129	1,218,316	1,136,468	1,171,226	1,083,435	9
	$34,936,826	$28,963,210	$27,055,325	$22,140,121	$19,557,277	16%

(1) In accordance with previous CGAAP.

STATISTICAL REVIEW – CONSOLIDATED STATEMENT OF INCOME

Unaudited, as at and for the years ended October 31 (in thousands of Canadian dollars, except per share and percentage amounts	2012	2011	2010 [1]	2009 [1]	2008 [1]	AVERAGE ANNUAL VARIANCE 12 / 08
Interest income						
Loans	**$ 1,014,861**	$ 962,820	$ 757,677	$ 719,538	$ 837,532	5%
Securities	**71,320**	74,059	72,975	71,373	60,873	4
Deposits with other banks	**6,148**	5,277	298	3,903	26,360	(31)
Other, including derivatives	**59,240**	61,345	116,273	137,275	30,190	18
	1,151,569	1,103,501	947,223	932,089	954,955	5
Interest expense						
Deposits	**445,646**	444,463	440,053	493,812	508,403	(3)
Debt related to securitization activities	**163,880**	140,743	–	–	–	n.a.
Subordinated debt	**9,839**	11,574	7,738	7,735	7,742	6
Other, including derivatives	**1,176**	2,236	3,011	6,765	33,547	(57)
	620,541	599,016	450,802	508,312	549,692	3
Net interest income	**531,028**	504,485	496,421	423,777	405,263	7
Other income	**265,615**	233,862	241,025	242,725	225,218	4
Total revenue	**796,643**	738,347	737,446	666,502	630,481	6
Gain on acquisition of net premium on purchased financial instruments	**23,795**	–	–	–	–	n.a.
Provision for loan losses	**33,000**	51,080	68,000	56,000	48,500	(9)
Non-interest expenses						
Salaries and employee benefits	**320,603**	282,630	275,964	249,658	236,280	8
Premises and technology	**152,919**	141,212	132,540	120,054	119,192	6
Other	**108,944**	97,263	95,732	102,278	90,519	5
Costs related to business combinations and other [2]	**21,997**	9,006	–	–	–	n.a.
	604,463	530,111	504,236	471,990	445,991	8
Income from continuing operations before income taxes	**182,975**	157,156	165,210	138,512	135,990	8
Income taxes	**42,467**	33,439	42,269	36,848	37,882	3
Income from continuing operations	**140,508**	123,717	122,941	101,664	98,108	9
Income from discontinued operations, net of income taxes	**–**	–	–	11,469	4,423	(100)
Net income	**$ 140,508**	$ 123,717	$ 122,941	$ 113,133	$ 102,531	8%
Preferred share dividends, including applicable taxes	**$ 12,768**	$ 12,436	$ 12,122	$ 12,116	$ 11,818	2%
Net income available to common shareholders	**$ 127,740**	$ 111,281	$ 110,819	$ 101,017	$ 90,713	9%
Common share dividends	**$ 47,212**	$ 38,757	$ 34,446	$ 32,453	$ 30,993	11%
Average number of common shares outstanding (in thousands)						
Basic	**25,634**	23,924	23,921	23,858	23,837	2%
Diluted	**25,652**	23,943	23,937	23,876	23,880	2%
Earnings per share from continuing operations						
Basic	**$ 4.98**	$ 4.65	$ 4.63	$ 3.75	$ 3.62	8%
Diluted	**$ 4.98**	$ 4.65	$ 4.63	$ 3.75	$ 3.61	8%
Earnings per share						
Basic	**$ 4.98**	$ 4.65	$ 4.63	$ 4.23	$ 3.81	7%
Diluted	**$ 4.98**	$ 4.65	$ 4.63	$ 4.23	$ 3.80	7%
Dividends declared per common share	**$ 1.84**	$ 1.62	$ 1.44	$ 1.36	$ 1.30	9%
Dividend payout ratio [3]	**37.0%**	34.8%	31.1%	32.1%	34.2%	
Book value per common share [3]	**$ 42.81**	$ 39.59	$ 41.87	$ 38.68	$ 35.84	5%
Return on common shareholders' equity [3]	**12.1%**	12.2%	11.5%	11.4%	11.0%	
Adjusted measures						
Adjusted net income [3]	**$ 140,660**	$ 130,383	$ 122,941	$ 113,133	$ 102,531	8%
Adjusted diluted earnings per share [3]	**$ 4.98**	$ 4.93	$ 4.63	$ 4.23	$ 3.80	7%
Adjusted return on common shareholders equity [3]	**12.0%**	12.9%	11.5%	11.4%	11.0%	
Net interest margin [3]	**1.69%**	1.82%	2.15%	2.07%	2.21%	
Provision for loan losses (as a percentage of average loans and acceptances)	**0.14%**	0.24%	0.40%	0.38%	0.35%	
Average assets	**$31,464,535**	$27,768,297	$23,093,418	$20,483,841	$18,339,811	14%
Number of full-time equivalent employees	**4,201**	3,669	3,643	3,528	3,393	5%
Number of branches	**157**	158	157	156	156	–%
Number of automated banking machines	**426**	427	413	408	342	6%

(1) In accordance with previous CGAAP.
(2) Integration costs related to the acquisition of the MRS Companies and AGF Trust and the compensation for the termination in 2012 of a mutual fund distribution agreement.
(3) Refer to the non-GAAP financial measures section.

QUARTERLY HIGHLIGHTS

Unaudited, as at and for the quarters ended (in thousands of Canadian dollars, except per share and percentage amounts)				2012				2011
	OCT. 31	JULY 31	APRIL 30	JAN. 31	OCT. 31	JULY 31	APRIL 30	JAN. 31
Interest income	**$ 314,085**	**$ 281,636**	**$ 275,153**	**$ 280,695**	$ 277,596	$ 280,668	$ 268,417	$ 276,820
Interest expense	**176,674**	**151,972**	**146,829**	**150,066**	151,205	151,242	146,352	150,217
Net interest income	**142,411**	**129,664**	**128,324**	**130,629**	126,391	129,426	122,065	126,603
Other income	**30,263**	**31,522**	**29,657**	**28,511**	29,333	29,448	27,882	28,343
Total revenue	**210,396**	**193,833**	**198,670**	**193,744**	182,422	185,833	183,237	186,855
Gain on acquisition and amortization of net premium on purchased financial instruments	**23,795**	**–**	**–**	**–**	–	–	–	–
Provision for loan losses	**8,000**	**7,500**	**7,500**	**10,000**	12,999	14,640	11,984	11,457
Non-interest expenses	**165,377**	**148,955**	**147,111**	**143,020**	137,152	133,896	131,986	127,077
Income before income taxes	**60,814**	**37,378**	**44,059**	**40,724**	32,271	37,297	39,267	48,321
Income taxes	**15,129**	**7,380**	**10,196**	**9,762**	5,562	8,225	8,251	11,401
Net income	**$ 45,685**	**$ 29,998**	**$ 33,863**	**$ 30,962**	$ 26,709	$ 29,072	$ 31,016	$ 36,920
Preferred share dividends, including applicable taxes	**$ 3,273**	**$ 3,164**	**$ 3,165**	**$ 3,166**	$ 3,111	$ 3,107	$ 3,109	$ 3,109
Net income available to common shareholders	**$ 42,412**	**$ 26,834**	**$ 30,698**	**$ 27,796**	$ 23,598	$ 25,965	$ 27,907	$ 33,811
Net interest margin[1]	**1.62%**	**1.66%**	**1.73%**	**1.75%**	1.76%	1.83%	1.83%	1.86%
Provision for loan losses (as a percentage of average loans and acceptances)	**0.12%**	**0.13%**	**0.13%**	**0.18%**	0.24%	0.27%	0.24%	0.22%
Average assets	**$ 34,894,535**	**$ 31,121,046**	**$ 30,107,578**	**$ 29,705,350**	$ 28,513,647	$ 28,058,943	$ 27,415,276	$ 27,073,808
Return on common shareholders' equity[1]	**14.2%**	**10.1%**	**12.0%**	**11.5%**	9.9%	11.2%	12.7%	15.2%
Average number of common shares outstanding (in thousands)								
Basic	**28,118**	**25,250**	**25,235**	**23,925**	23,925	23,925	23,923	23,922
Diluted	**28,135**	**25,267**	**25,253**	**23,943**	23,941	23,943	23,946	23,942
Earnings per share								
Basic	**$ 1.51**	**$ 1.06**	**$ 1.22**	**$ 1.16**	$ 0.99	$ 1.09	$ 1.17	$ 1.41
Diluted	**$ 1.51**	**$ 1.06**	**$ 1.22**	**$ 1.16**	$ 0.99	$ 1.08	$ 1.17	$ 1.41
Dividends per common share	**$ 0.47**	**$ 0.47**	**$ 0.45**	**$ 0.45**	$ 0.42	$ 0.42	$ 0.39	$ 0.39
Book value per common share[1]	**$ 42.81**	**$ 41.96**	**$ 41.37**	**$ 40.30**	$ 39.59	$ 39.02	$ 38.36	$ 37.58
Share price – Close	**$ 44.45**	**$ 47.55**	**$ 44.03**	**$ 46.20**	$ 45.98	$ 42.86	$ 50.27	$ 53.10
Common share dividends	**$ 13,216**	**$ 11,867**	**$ 11,363**	**$ 10,766**	$ 10,049	$ 10,048	$ 9,331	$ 9,329
Adjusted measures								
Adjusted net income[1]	**$ 36,186**	**$ 35,253**	**$ 36,302**	**$ 32,919**	$ 33,375	$ 29,072	$ 31,016	$ 36,920
Adjusted diluted earnings per share[1]	**$ 1.17**	**$ 1.27**	**$ 1.31**	**$ 1.24**	$ 1.26	$ 1.08	$ 1.17	$ 1.41
Adjusted return on common shareholders' equity[1]	**10.9%**	**12.1%**	**13.0%**	**12.4%**	12.7%	11.2%	12.7%	15.2%
Balance sheet assets	**$ 34,936,826**	**$ 31,415,512**	**$ 30,708,474**	**$ 29,921,236**	$ 28,963,210	$ 28,238,630	$ 27,895,982	$ 26,918,638
Risk-weighted assets	**$ 13,436,433**	**$ 12,187,979**	**$ 11,935,860**	**$ 11,645,279**	$ 11,071,971	$ 10,879,847	$ 10,562,773	$ 10,424,261
Tier 1 capital – BIS	**$ 1,460,253**	**$ 1,233,467**	**$ 1,245,326**	**$ 1,196,462**	$ 1,217,225	$ 1,198,722	$ 1,177,648	$ 1,160,231
Total regulatory capital – BIS	**$ 1,974,060**	**$ 1,535,081**	**$ 1,543,140**	**$ 1,504,338**	$ 1,516,840	$ 1,494,221	$ 1,477,834	$ 1,458,957
Tier 1 BIS capital ratio	**10.9%**	**10.1%**	**10.4%**	**10.3%**	11.0%	11.0%	11.1%	11.1%
Total BIS capital ratio	**14.7%**	**12.6%**	**12.9%**	**12.9%**	13.7%	13.7%	14.0%	14.0%
Assets to capital multiple	**16.3x**	**18.7x**	**18.1x**	**18.0x**	16.2x	16.2x	16.4x	16.1x

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

CORPORATE GOVERNANCE

Today, as in the past, strong corporate governance is an important component in managing Laurentian Bank's activities. In 1987, the Bank became the first financial institution to separate the roles of Chairman of the Board and of President and CEO. Moreover, its corporate governance practices are among the most exemplary.

All members of the Board of Directors, except the President and Chief Executive Officer, are independent and unrelated to the Bank's management. The independent status of directors is determined in accordance with criteria defined by the Human Resources and Corporate Governance Committee which are used to evaluate the status of every director on which ever committee he or she sits.

The role of the Board of Directors is essentially to supervise the management of the business and internal affairs of the Bank. Board deliberations generally end with a discussion period held without the presence of management. The members of the Board commit to act in accordance with standards set forth in the Code of Conduct for Directors, which covers issues such as general conduct, contribution to the work of the Board and its committees, insider trading, conflicts of interest and other situations that may affect a director's independence.

The Board of Directors has delegated some of its responsibilities and functions to three committees whose members are appointed from among the members of the Board. The Audit Committee, the Risk Management Committee and the Human Resources and Corporate Governance Committee provide regular written and verbal updates and reports on their work to the Board of Directors. Furthermore, these committees present a report to shareholders to be included in the management proxy circular.

AUDIT COMMITTEE

The primary function of the Audit Committee is to support the Board of Directors in overseeing the integrity of the Bank's financial statements, the relevance and effectiveness of its internal controls, the qualifications and independence of the external auditor and the performance of the internal audit function and of the external auditor. In order to do so, the Board appointed directors meeting the criteria for independence and possessing an appropriate financial literacy level. The Committee meets on a regular basis with the internal and external auditor without the presence of management. Furthermore, the Committee meetings generally end with a discussion period held without the presence of management.

More specifically, its responsibilities include:

With respect to the external auditor: recommend the appointment or dismissal of the external auditor; assure itself of its competence, independence and the adequacy of its resources and review its mandate and compensation; oversee its activities and review its performance;

With respect to financial information: oversee the integrity and quality of financial statements and assure itself that the institution's accounting practices are prudent and appropriate; review the annual and interim financial statements, management's discussion and analysis and press releases regarding annual and interim results, the annual information form and any statement required by regulatory authorities prior to their publication; review the annual financial statements of the subsidiaries supervised by the Office of the Superintendent of Financial Institutions;

With respect to the internal audit function: assure itself of the competence, independence and the adequacy of the resources of the officer in charge of internal audit and approve his/her mandate as well as the audit plan; follow up on his/her material findings and recommendations;

With respect to internal controls: assure itself that management implements appropriate internal control and management information systems; assure itself of their integrity and effectiveness; assure itself that management implements procedures regarding the receipt, retention and handling of complaints received with respect to accounting, internal accounting controls or audit;

With respect to supervisory agencies: follow up on the findings and recommendations of the regulatory authorities.

RISK MANAGEMENT COMMITTEE

In addition to discharging statutory obligations to review transactions with related parties of the Bank, the Risk Management Committee ensures that the Bank has adopted an adequate and effective risk management process intended to identify, measure and manage risks, and has established relevant policies to manage credit, market, liquidity and financing, operational, capital management, regulatory and reputation risks. In September 2010, the supervision of the regulatory risk was added to the mandate of the Committee. The Committee is composed of independent directors which hold discussions with persons in charge of supervisory activities (the internal auditor as well as the chief risk officer and the chief regulatory risk management officer) without the presence of management. Furthermore, the Committee meetings generally end with a discussion period held without the presence of management.

To this end, the Committee must assure itself that management identifies the business's principal risks and implements systems to enable to measure and adequately manage them and assure itself of the integrity and effectiveness of such systems; review the overall risk philosophy and risk tolerance; assure itself of the competence, independence and the

adequacy of the resources of the officer in charge of integrated risk management and approve his/her mandate; follow up on his/her material findings and recommendations; approve loans which under the credit policies are the responsibility of the Committee and examine the quality of the loan portfolio and the adequacy of allowances for loan losses; assure itself that management adopts a process to determine the appropriate capital level for the Bank based on assumed risks; review the Code of Ethics and Privacy Code for the Protection of Personal Information applicable to officers and employees and assure itself of their respect; assure itself of the competence, independence and the adequacy of the resources of the officer in charge of regulatory risk management and risk management; follow up on their material findings and recommendations; monitor annually, in collaboration with the Human Resources and Corporate Governance Committee, the links between the compensation, the performance and the risk and the Bank's alignment with the remuneration standards and principles issued by the Financial Stability Board.

HUMAN RESOURCES AND CORPORATE GOVERNANCE COMMITTEE

The Human Resources and Corporate Governance Committee is responsible for human resources and corporate governance matters. The Committee is composed of independent directors of which none heads a public company. Certain elements of its mandate are discussed without the presence of management.

With respect to human resources, the Committee's duties include:

With respect to human resources management: annually review the performance management process and evaluate its effectiveness; assure itself that management implements a plan to promote the hiring, retention and motivation of qualified personnel;

With respect to senior officers: review appointments of senior officers; approve the establishment of objectives for members of the management committee and evaluate their performance; assure itself of the integrity of senior officers and that they create a culture of integrity throughout the Bank;

With respect to compensation: review the overall compensation framework (including incentive compensation, fringe benefits and pension plans) for senior officers, with a view to furthering the Bank's business objectives, as well as the material terms and conditions of the compensation and employment conditions applicable to the Bank's other employees and officers; monitor annually, in collaboration with the Risk Management Committee, the links between the compensation, the performance and the risk and of the Bank's alignment with the remuneration standards and principles issued by the Financial Stability Board;

With respect to pension plans: assure itself that management implements appropriate internal oversight systems with a view to adequately manage pension plans.

With respect to corporate governance, the Committee's duties include:

With respect to the President and Chief Executive Officer: recommend to the Board the appointment and dismissal of the President and Chief Executive Officer; review in collaboration with the Board, the objectives of the President and Chief Executive, his/her evaluation, compensation and employment conditions; implement a succession plan for the President and Chief Executive Officer;

With respect to the Board and committees: review corporate governance rules and assure itself of their respect; review the functions of the Board of Directors, its membership, compensation and size; review the constitution, membership and functions of the committees; review the Code of Conduct for the members of the Board and assure itself of its respect; ensure continuing training for the members of the Board; establish criteria to evaluate the independence of the members of the Board and assess their independence periodically; evaluate the Board and its members; ensure the recruitment of new Board members to be submitted to election by the shareholders, and see to their orientation and integration;

With respect to public disclosure: assure itself that the shareholders are well informed of the Bank's state of affairs and deal with all material disagreements between the Bank and its shareholders.

The complete text of the functions of the Board of Directors and the mandates of each Committee as well as the Committees' report can be found in the management proxy circular.

MANAGEMENT COMMITTEE

RÉJEAN ROBITAILLE, FCPA, FCA
President and Chief
Executive Officer

WITH THE BANK SINCE 1988

■ PREVIOUS POSITIONS HELD AT THE BANK

June 2006–December 2006: Senior Executive Vice President and Chief Operating Officer

August 2005–June 2006: Senior Executive Vice President, Retail and Commercial Financial Services

2003–2005: Executive Vice President, Retail Financial Services

2001–2003: Senior Vice President and Treasurer, Corporate Treasury

2000–2001: Vice President and Treasurer, Corporate Treasury

1988–1998: Various functions within the Bank's senior management team

■ EDUCATION

- Bachelor's degree in Business Administration, Accounting, HEC Montréal

■ SPECIAL MENTION

Fellow from the Québec Order of Chartered Accountants

LUC BERNARD
Executive Vice President
Retail and SME – Québec

WITH THE BANK SINCE 2001

■ PREVIOUS POSITIONS HELD AT THE BANK

2005–2007: Executive Vice President, Retail Financial Services

2001–2005: Senior Vice President, Marketing and Product Management

■ OTHER PROFESSIONAL EXPERIENCE

1995–1999: Vice President, Marketing and Actuarial, Unindal Holding (member of the Industrial Alliance Group)

1982–1994: Marketing Director, AXA Insurance

■ EDUCATION

- Master of Business Administration (MBA), Université de Sherbrooke
- Bachelor's degree in Urban Studies, Université du Québec à Montréal

■ SPECIAL MENTION

UQAM ESG Network Performance Award in November 2010

FRANÇOIS DESJARDINS
Executive Vice President
and President and Chief
Executive Officer, B2B Bank

WITH THE BANK SINCE 1991

■ PREVIOUS POSITIONS HELD AT THE BANK

2004–2005: Senior Vice President, Intermediary Banking Services, Laurentian Bank, and President and Chief Operating Officer, B2B Trust

2002–2004: Vice President, Direct Financial Services

2001–2002: Vice President, Telebanking and Electronic Services

1999–2001: Vice President, Telebanking Services

1991–1999: Various senior management functions

■ EDUCATION

- Bachelor's degree in Business Administration, HEC Montréal

■ SPECIAL MENTION

Ranked among *Canada's Top 40 Under 40™* in 2010

GILLES GODBOUT
Executive Vice President
Operations and Systems

WITH THE BANK SINCE 2012 (ALSO FROM 1987 TO 1999)

■ PREVIOUS POSITIONS HELD AT THE BANK

1998–1999: Executive Vice President, Marketing and Chief Information Officer

1994–1998: Executive Vice President, Retail Financial Services

1993–1994: Senior Vice President, Retail Financial Services

1991–1993: Senior Vice President, Operations and Systems

1988–1991: Vice President, Information Systems

1988: Assistant Vice President, Systems Development

■ OTHER PROFESSIONAL EXPERIENCE

2008–2012: Senior Manager, Information Technologies, Hydro-Québec

2007: Vice President, Greater Montréal Financial Sector, CGI Group

1999–2004: Senior Vice President, Credit Union Solutions and Services, CGI Group

■ EDUCATION

- Doctoral studies in Artificial Intelligence, Université de Montréal
- Master of Science degree (M. Sc), Information Technology and Operational Research, Université de Montréal
- Bachelor of Science degree in Information Technology and Operational Research, Université de Montréal

MICHEL C. LAUZON
Executive Vice President
and Chief Financial Officer

WITH THE BANK SINCE 2009
2009 (ALSO FROM 1988 TO 1998)

■ **PREVIOUS POSITIONS HELD AT THE BANK**

1996–1998: Vice President and Treasurer

1995–1996: Vice President, Money Market and Foreign Exchange

1993–1995: Vice President, Product Management

1988–1993: Assistant Vice President and Corporate Controller

■ **OTHER PROFESSIONAL EXPERIENCE**

2005–2007: Senior Vice President, Corporate Development and Chief Financial Officer, Centria Commerce

2002–2005: President and Chief Operating Officer, TAL Global Asset Management

■ **EDUCATION**
- Master of Business Administration (MBA), Concordia University
- Bachelor's degree in Economics, Université de Montréal

PIERRE MINVILLE
Executive Vice President
and Chief Risk Officer

WITH THE BANK SINCE 2000

■ **PREVIOUS POSITIONS HELD AT THE BANK**

2010-2011: Senior Vice President and Chief Risk Officer

2005-2010: Senior Vice President, Integrated Risk Management and Acquisitions

2003–2005: Vice President, Mergers and Acquisitions

2000–2003: Vice President, Finance, Administration and Regulated Products

■ **OTHER PROFESSIONAL EXPERIENCE**

1997–2000: Director, Finance, Mergers and Acquisitions, BCE

1996–1997: Partner, Commercial Financing/Mergers and Acquisitions, Gordon Capital

■ **EDUCATION**
- Chartered Financial Analyst (CFA)
- Master of Science degree, Finance, HEC Montréal
- Bachelor's degree in Business Administration, Finance, Université du Québec à Montréal

LORRAINE PILON
Executive Vice President
Corporate Affairs,
Human Resources
and Secretary

WITH THE BANK SINCE 1990

■ **PREVIOUS POSITIONS HELD AT THE BANK**

2003–2011: Executive Vice President, Corporate Affairs and Secretary

2000–2003: Senior Vice President, Legal Affairs and Compliance

1999–2000: Vice President, Legal Affairs and Compliance

1997–1998: Director, Legal Affairs, and Chief Compliance Officer

1990–1997: Various posts in Legal Affairs

■ **EDUCATION**
- Master of Business Administration (MBA), Université du Québec à Montréal
- Specialized diploma in Commercial Law, Université de Montréal
- Professional training program in Law, École du Barreau du Québec
- Bachelor of Law degree in Civil Law, McGill University
- Bachelor's degree in Science, Administration, Mississippi University for Women, Columbus, United States

STÉPHANE THERRIEN
Executive Vice President
Real Estate and
Commercial

WITH THE BANK SINCE 2012

■ **OTHER PROFESSIONAL EXPERIENCE**

2005–2011: Senior Vice President and Chief Commercial Officer, GE Capital Canada

2000–2004: Senior Commercial Vice President, Eastern Canada, GE Capital Canada

■ **EDUCATION**
- Bachelor's degree in Business Administration, HEC Montréal

MICHEL TRUDEAU
Executive Vice President
Capital Markets and
President and CEO
of Laurentian Bank
Securities (LBS)

WITH THE BANK SINCE 1999

■ **PREVIOUS POSITIONS HELD AT THE BANK**

2009-2011: Senior Vice President, Capital Markets, Laurentian Bank, and President and CEO, LBS

2003–2009: President and CEO, LBS

2002–2003: Executive Vice President, Fixed Income, and Chief Operating Officer, Institutional Group, LBS

1999–2002: Executive Vice President, Fixed Income, LBS

■ **OTHER PROFESSIONAL EXPERIENCE**

1994–1999: Vice President, Director and Administrator, Merrill Lynch Canada

1989–1994: Vice President and Director (Toronto), Merrill Lynch Canada

■ **EDUCATION**
- Master's degree in Finance, McGill University
- Bachelor's degree in Finance and Marketing Administration, McGill University

MEMBERS OF THE BOARD OF DIRECTORS

PIERRE ANCTIL

Pierre Anctil is engineer by trade and as more than 25 years of public and private sector experience in strategic planning, business development and executive management.

MAIN OCCUPATION:
President and Chief Executive Office of Fiera Axium Infrastructure Inc.

- Has served on the board of directors since March 2011
  - Member of the Audit Committee
- Boards of directors of publicly traded companies: Gaz Métro Inc.
- Boards and committees of other corporations and organizations: Montréal Heart Institute

LISE BASTARACHE

Lise Bastarache has worked in the Canadian banking industry for over ten years, holding, among others, the position of Regional Vice President, Québec, Private Banking for a Canadian bank.

MAIN OCCUPATION:
Economist and Corporate Director

- Has served on the board of directors since March 2006
  - Member of the Risk Management Committee
- Boards of directors of publicly traded companies: The Jean Coutu Group (PJC) Inc., Chartwell Seniors Housing Real Estate Investment Trust (REIT)
- Boards and committees of other corporations and organizations: Board of Governors of the Université de Moncton

JEAN BAZIN, C.R.

Attorney since 1965, appointed Queen's Counsel in 1984 and a member of the Senate from 1986 to 1989, Jean Bazin chaired the Canadian Bar Association and the Québec-Japan Business Forum. He is also Chairman of the Board of Investissement Québec.

MAIN OCCUPATION:
Counsel at Fraser Milner Casgrain LLP

- Has served on the board of directors since September 2002
  - Member of the Human Resources and Corporate Governance Committee
- Boards of directors of publicly traded companies: 5N Plus Inc.
- Boards and committees of other corporations and organizations: Investissement Québec, Lambert-Somec Inc. and Canadian Association of Former Parliamentarians

RICHARD BÉLANGER, FCPA, FCA

In 2004, Richard Bélanger was made Fellow and received the Prix Émérite of the Ordre des comptables agréés du Québec.

MAIN OCCUPATION:
President of Toryvel Group Inc.

- Has served on the board of directors since March 2003
  - Chair of the Audit Committee
  - Member of the Risk Management Committee
- Boards of directors of publicly traded companies: Genivar Inc.
- Boards and committees of other corporations and organizations: Toryvel Group Inc. and Doryfor Inc.

ISABELLE COURVILLE

Isabelle Courville is an engineer and a lawyer. Before joining the team at Hydro-Québec, she was President of Bell Enterprise Group and President and General Manager of Bell Nordiq Inc. (Télébec Northern Tel).

MAIN OCCUPATION:
President of Hydro-Québec Distribution

- Has served on the board of directors since March 2007
  - Chair of the Human Resources and Corporate Governance Committee
- Boards of directors of publicly traded companies: Ms. Courville does not sit on the board of directors of any publicly traded company other than the Bank
- Boards and committees of other corporations and organizations: École Polytechnique de Montréal, and APEC (Asia-Pacific Economic Cooperation) Business Advisory Council (ABAC)

L. DENIS DESAUTELS, O.C., FCPA, FCA

Officer of the Order of Canada, Fellow of the Ordre des comptables agréés du Québec and the Institute of Chartered Accountants of Ontario, Denis Desautels was Auditor General of Canada from 1991 to 2001. He is renowned as a Canadian authority in matters of governance.

MAIN OCCUPATION:
Chartered accountant and Corporate Director

- Has served on the board of directors since December 2001
  - Chairman of the Board
  - Member of the Audit Committee
  - Member of the Human Resources and Corporate Governance Committee
- Boards of directors of publicly traded companies: The Jean Coutu Group (PJC) Inc. and Bombardier Inc.
- Boards and committees of other corporations and organizations: International Development Research Centre (IDRC), Board of Governors of the University of Ottawa, Fonds Oblat de l'Université Saint-Paul inc. and Community Foundation of Ottawa

PIERRE GENEST

Actuary by trade, Pierre Genest was President and Chief Executive Officer of SSQ Financial Group for over 15 years before becoming President and Chief Executive Officer of the Fonds de solidarité des travailleurs du Québec (F.T.Q.) until 2006.

MAIN OCCUPATION:
Chairman of the Board of SSQ, Life Insurance Company Inc.

- Has served on the board of directors since March 2006
  - Chair of the Risk Management Committee
- Boards of directors of publicly traded companies: Mr. Genest does not sit on the board of directors of any publicly traded company other than the Bank
- Boards and committees of other corporations and organizations: Professionals' Financial Inc., Alemar Inc., PFT Management Inc., Socodevi: Société de cooperation pour le développement international and Conseil québécois de la coopération et de la mutualité

MICHEL LABONTÉ

Michel Labonté has worked in the banking industry for over 13 years, notably as Senior Vice President, Finance and Control of a Canadian bank.

MAIN OCCUPATION:
Corporate Director

- Has served on the board of directors since March 2009
  - Member of the Risk Management Committee
- Boards of directors of publicly traded companies: Métro Inc.
- Boards and committees of other corporations and organizations: Otéra Capital Inc. and Canadian International Organ Competition

JACQUELINE C. ORANGE

Jacqueline Orange has worked in the financial services sector for over 20 years, holding a variety of senior positions in the banking, trust and life insurance industries. From 1996 to 2005, she was President and CEO of Canada Investment and Savings, a special operating agency of Finance Canada.

MAIN OCCUPATION:
Corporate Director

- Has served on the board of directors since March 2008
  - Member of the Audit Committee
- Boards of directors of publicly traded companies: Ms. Orange does not sit on the board of directors of any publicly traded company other than the Bank
- Boards and committees of other corporations and organizations: First Trust Portfolios Canada and Public Accountants Council of the Province of Ontario

MARIE-FRANCE POULIN

Marie-France Poulin held various positions within the family business, Maax Inc., from 1987 to 2004. She is also Vice President of Kalia Inc.

MAIN OCCUPATION:
Vice President, Camada Group Inc.

- Has served on the board of directors since October 2009
  - Member of the Human Resources and Corporate Governance Committee
- Boards of directors of publicly traded companies: Ms. Poulin does not sit on the board of directors of any publicly traded company other than the Bank
- Boards and committees of other corporations and organizations: Groupe Camada inc., Immoca Inc., Kalia Inc., Hydro-Québec, Industrial Alliance - Auto and Home Insurance Inc., Industrial Alliance Pacific - General Insurance Corporation, Port de Québec, Université Laval and Festival d'été de Québec

RÉJEAN ROBITAILLE, FCPA, FCA

Fellow of the Ordre des comptables agréés du Québec, Réjean Robitaille is a renowned executive. He has in-depth knowledge of the Bank, having held a variety of positions within the management team since 1988.

MAIN OCCUPATION:
President and Chief Executive Officer of the Bank

- Has served on the board of directors since December 2006
  - Mr. Robitaille does not sit on any of the Bank's committees
- Boards of directors of publicly traded companies: Mr. Robitaille does not sit on the board of directors of any publicly traded company other than the Bank
- Boards and committees of other corporations and organizations: Subsidiaries of the Bank

MICHELLE R. SAVOY

Michelle Savoy held numerous executive positions with The Capital Group of Companies, a global investment management organization, including President of Capital Guardian (Canada) Inc. from 2003 to 2011.

MAIN OCCUPATION:
Corporate Director

- Has served on the board of directors since March 2012
  - Member of the Audit Committee
- Boards of directors of publicly traded companies: Ms. Savoy does not sit on the board of directors of any publicly traded company other than the Bank
- Boards and committees of other corporations and organizations: Canadian Scholarship Trust Foundation

JONATHAN I. WENER, C.M.

Member of the Order of Canada, Jonathan Wener is a renowned real estate expert with vast experience in the commercial, industrial, residential, recreational and hotel sectors.

MAIN OCCUPATION:
Chairman of the Board at Canderel Management Inc.

- Has served on the board of directors since January 1998
  - Member of the Risk Management Committee
- Boards of directors of publicly traded companies: Silanis Technologies Inc.
- Boards and committees of other corporations and organizations: The Montréal Museum of Fine Arts Foundation, The Fraser Institute, Goodman Cancer Research Center, Jewish General Hospital and Festival des arts de Saint-Sauveur

BRANCHES

Alma
500 Sacré-Coeur St. W.

Amos
1 1st Avenue W.

Baie Comeau
600 Laflèche Blvd.

Beloeil
546 Sir-Wilfrid-Laurier Blvd.

Blainville
1356 Curé-Labelle Blvd., Suite 222
9 de la Seigneurie

Boisbriand
2250 du Faubourg Blvd.

Boucherville
999 Montarville Blvd.

Brossard
1635 Rome Blvd.

Campbell's Bay
148 Front St., P.O. Box 189

Chambly
1495 Brassard St.

Châteauguay
111 Saint-Jean Baptiste Blvd.

Chibougamau
530 3rd Street

Côte St-Luc
5479 Westminster Ave.

Dolbeau–Mistassini
1372 Wallberg Blvd.

Dollard-des-Ormeaux
4057 Saint-Jean Hill
3500 des Sources Blvd.

Dorval
325 Dorval Ave.

Drummondville
571 Saint-Joseph Blvd.

Fort Coulonge
532 Baume St.

Gatineau
325 Gréber Blvd, L Unit
75 du Plateau, Unit 109
770 Saint-Joseph Blvd.

Granby
40 Évangéline St.

Grand-Mère
531 6th Avenue

Grenville
240 Principale St.

Joliette
373 Notre-Dame St.

Kirkland
3876 Saint-Charles Blvd.

Lachute
470 Principale St. W.

La Prairie
995 Taschereau Blvd.

Laval
928 Highway 13, Chomedey W.
233 Curé-Labelle Blvd.
3387 Dagenais Blvd. W.
510 des Laurentides Blvd.
5720 des Laurentides Blvd.
1699 Le Corbusier Blvd., Suite 100
750 Montrose St.
3870 Notre-Dame Blvd.
1899 René-Laennec Blvd.
4600 Samson Blvd., Suite 19

Longueuil
2588 chemin Chambly
4 Saint-Charles St. E.
6250 Cousineau Blvd, Suite 200
5925 Payer Blvd.
3700 Taschereau Blvd.

Maniwaki
111 Desjardins Blvd.

Mascouche
848 Masson Hill

Mont Laurier
476 de la Madone St.

Montréal
4945 Beaubien St.E.
6593 Beaubien St.E.
4155 Bélanger St. E.
5900 Bélanger St. E., Saint-Leonard
290 Chabanel St. W.
8262 Champlain Blvd., Lasalle
4135 D'Amiens St., Montreal N.
6225 Darlington Ave.
865 Décarie Blvd., Saint-Laurent
5159 Décarie Blvd.
88 Don Quichotte Blvd.
885 Fleury St.E.
2200 Fleury St. E.
10451 Gouin Blvd. W.,
Pierrefonds–Roxboro
5501 Henri-Bourassa Blvd. E.,
Montreal N.
8595 Hochelaga St.
136 Jacques-Bizard Blvd.,
Bizard Island
7050 Jarry St. E., Anjou
4725 Jarry St. E., Saint-Leonard
10 Jean-Talon St. E.
5355 Jean-Talon St. E., Saint-Leonard
555 Jean-Talon St. W.
6651 Joseph-Renaud Blvd., Anjou
9095 Lajeunesse St.
8410 Langelier Blvd., Saint-Leonard
6525 Léger Blvd., Montreal N.
6500 de Lorimier Ave.
2937 Masson St.
8646 Maurice-Duplessis Blvd.,
Rivière-des-Prairies
6270 Monk Blvd.
1981 McGill College Ave.
1100 du Mont-Royal Ave. E.
7333 Newman Blvd., Lasalle
1675 Notre-Dame St., Lachine
3720 Ontario St.E.
7705 Papineau Ave.
5059 Park Ave.
1430 Poirier St., Saint-Laurent
1100 René-Lévesque Blvd. W.
8090 Saint-Denis St.
391 Saint-Jacques St.
4080 Saint-Jacques St.
3823 Saint-Laurent Blvd.
7192 Saint-Michel Blvd.
8930 Saint-Michel Blvd.
1155 Sainte-Catherine St. E.
2490 de Salaberry St.
1805 Sauvé St. W.
6615 Sherbrooke St. E.
12050 Sherbrooke St. E.
5651 Sherbrooke St. W.
1291 Shevchenko Blvd., Lasalle
6640 Somerled Ave.
1447 Van Horne Ave., Outremont
4790 Van Horne Ave.
5501 Verdun Ave., Verdun
8945 Viau Blvd., Saint-Leonard
4214 Wellington St., Verdun

Murdochville
601, 5th Street, P.O. Box 1210

New Carlisle
168 Gérard-D.-Lévesque Blvd.

New Richmond
228 Perron Blvd.

Nicolet
92 Place 21 Mars, P.O, Box 1869

Ottawa
1021 Cyrville Road, Unit 9

Paspébiac
120 Gérard-D.-Lévesque Blvd.,
P.O. Box 39

Port Daniel
10 132 Road, P.O. Box 70

Québec
999 de Bourgogne St.
510 Charest Blvd. E.
1221 Charles-Albanel St.
580 Grande Allée E., Suite 30
8000 Henri-Bourassa Blvd.
2600 Laurier Blvd., Suite 25
2828 Laurier Blvd., Suite 100
1275 Sainte-Foy Road
3930 Wilfrid-Hamel Blvd. W.
3323 du Carrefour Blvd.
1350 Lebourgneuf Blvd.

Repentigny
85, boul. Brien, suite E1A
150 Iberville Blvd.
910A Iberville Blvd.

Rimouski
320 Saint-Germain St.E.

Roberval
773 Saint-Joseph Blvd., Suite 101

Rosemère
401 Labelle Blvd.

Rouyn – Noranda
24 Perreault St. E.

Saguenay
1611 Talbot Blvd., Suite 100,
Chicoutimi
3460 Saint-François Blvd., Jonquière
1220 du Port Ave., La Baie

Saint-Bruno de Montarville
1354 Roberval St.

Saint-Constant
400 132 Road, Suite 170

Saint-Eustache
569 Arthur-Sauvé Blvd.

Saint-Georges
11400 1st Avenue, Suite 35

Saint-Hyacinthe
5915 Martineau St.

Saint-Jean-sur-Richelieu
605 Pierre-Caisse St. W.

Saint-Jérôme
3 de la Salette Blvd.

Saint-Lambert
400 Victoria Ave.

Saint-Raymond
300 Saint-Joseph St.

Sainte-Marie-de-Beauce
16 Notre-Dame St. N.

Sainte-Thérèse-de-Blainville
95 Curé-Labelle Blvd.

Sept-Îles
770 Laure Blvd.

Sherbrooke
2637 King St. W.
5050 Bourque Blvd., Rock Forest

Sorel–Tracy
831 Marie-Victorin Road

Terrebonne
1090 Moody Blvd.

Thetford Mines
222 Frontenac Blvd. W., Suite 101

Trois-Rivières
425 des Forges St.
4450 des Forges Blvd.

Val d'Or
872 3rd Avenue

Valleyfield
187 Victoria St.

Vaudreuil–Dorion
43 Cité des Jeunes

Victoriaville
1073 Jutras Blvd. E.

Westmount
4848 Sherbrooke St. W.

OFFICES AND SUBSIDIARIES

Agricultural Financing

Blainville
13569, Curé-Labelle Blvd.

Drummondville
571 Saint-Joseph Blvd.

Granby
40 Évangéline St.

Saint-Hyacinthe
5915 Martineau St.

Saint-Jean-sur-Richelieu
605 Pierre-Caisse St.

Sainte-Marie-de-Beauce
16 Notre-Dame St. N.

Vaudreuil
43 Cité des Jeunes

Victoriaville
1073 Jutras Blvd. E.

B2B Bank

MONTRÉAL
425 de Maisonneuve Blvd. W.
Suite 1115

TORONTO
Head offices of B2B Bank, B2B Trustco and AGF Trust
130 Adelaide Street W.
Suite 200

Head offices of B2B Bank Securities Services Inc., B2B Bank Financial Services Inc. and B2B Bank Intermediary Services Inc.
777 Bay Street
Suite 2100

Commercial Sector

Kitchener
10 Duke St. W., Suite 100

Mississauga
979 Derry Road E.

Montréal
1981 McGill College Avenue, Suite 1500

Québec
2828 Laurier Blvd., Suite 100

Thornhill
8500 Leslie St., Suite 100

Toronto
130 Adelaide Street W., Suite 300

International Services

Montréal
1981 McGill College Avenue, Suite 1485

Montréal
1981, McGill College Avenue, Suite 1900

Toronto
130, Adelaide St. W.
Mezzanine, 2nd Floor

Laurentian Bank Securities Inc.

Cornwall
55 Water St. W., Suite 385

Drummondville
645 Saint-Joseph Blvd., Suite 100

Granby
20 Place du Lac

Kamouraska
622 Elzéar St.

Laval
1699 Le Corbusier Blvd., Suite 220

Montréal – Head Office
1981 McGill College Avenue, Suite 1900

Montreal Branch
1981 McGill College , Suite 100

Québec
2505 Laurier Blvd., Suite 100

Pierrefonds
3876 St-Charles Blvd.

Saint-Jean-sur-Richelieu
100 Richelieu St., Suite 150

Sainte-Thérèse-de-Blainville
212 Labelle Blvd., Suite 102

Saguenay
1611 Talbot Blvd.
Chicoutimi Sector

Toronto
130 Adelaide St. W., Suite 200

Laurentian Trust of Canada Inc.

Montréal – Head Office
1981 McGill College Avenue

Montréal
425 de Maisonneuve Blvd. W., Suite 040
555 Chabanel St. W., Suite 520

LBC Financial Services Inc.

Montréal – Head Office
1981 McGill College Avenue, 20th Floor

Montréal
425 de Maisonneuve Blvd. W., Suite 040

LBC Trust

Montréal – Head Office
1981 McGill College Avenue
555 Chabanel Street W.
Suite 520

Private Banking

Montréal
1981 McGill College Avenue
Mezzanine, South Tower

Real Estate Sector

Calgary
1122 – 4th St. South W., Suite 450

Kitchener
10 Duke St. W., Suite 100

Montréal
1981 McGill College Avenue
Mezzanine, South Tower, Suite 210

Ottawa
1021 Cyrville Road, Unit 9

Québec
2828, Laurier Blvd., Suite 100

Thornhill
8500 Leslie Street, Suite 100

Toronto
130 Adelaide St. W., 3rd Floor

Vancouver
700 W. Georgia St., Suite 603

Small Businesses Financial Services

Alma
500 Sacré-Coeur St. W.

Chicoutimi
1611 Talbot Blvd., Suite 100

Montréal
555 Chabanel W., Suite 430

Québec
2828 Laurier Blvd., Suite 100

SME Québec

Brossard
7055, Taschereau Blvd,
4th Floor – Suite 425

Drummondville
571 St-Joseph Blvd.

Gatineau
325, Gréber Blvd. Unité L

Granby
40, Évangéline St.

Laval
1699 Le Corbusier Blvd., Suite 200

Montréal
255 Crémazie Blvd. E., Suite 1100

Montréal E.
6625 Sherbrooke St. E., Suite 203

Québec
2828, Laurier Blvd
Suite 100 – Complexe Jules Dallaire

Saguenay
1611 Talbot Blvd., Suite 100

Sherbrooke
2637 King St. W.

St-Jean-sur-Richelieu
605 Pierre-Caisse St.

Repentigny
85 Brien Blvd
2nd Floor - Suite E1A

Saint-Georges-de-Beauce
11400, 1st Avenue

Ste-Marie-de-Beauce
16, Notre-Dame St.

Victoriaville
1073 Jutras Blvd. E

Ville St-Laurent
9999, Cavendish Blvd., Suite 101

CONSOLIDATED SUBSIDIARIES
ON OCTOBER 31, 2012

CORPORATE NAME	HEAD OFFICE LOCATION	CARRYING VALUE OF VOTING SHARES OWNED BY THE BANK[1] ($000)	PERCENTAGE OF VOTING SHARES OWNED BY THE BANK
B2B Bank (previously B2B Trust)	Toronto, Canada	$446 003	100%
Wholly-owned susidiaries			
B2B Bank Financial Services Inc. (previously M.R.S. Inc.)	Toronto, Canada		
B2B Bank Securities Services Inc. (previously M.R.S. Securities Services Inc.)	Toronto, Canada		
B2B Bank Intermediary Services Inc (previously M.R.S. Correspondent Corporation)	Toronto, Canada		
B2B Trustco	Toronto, Canada		
AGF Trust Company	Toronto, Canada		
LBC Investment Management Inc.	Montreal, Canada	$261 883	100%
Wholly-owned subsidiary			
V.R. Holding Insurance Company Ltd	St. James, Barbados		
Laurentian Trust of Canada Inc.	Montreal, Canada	$ 87 179	100%
LBC Trust	Montreal, Canada	$ 65 441	100%
Laurentian Bank Securities Inc.	Montreal, Canada	$ 89 933	100%
LBC Financial Services Inc.	Montreal, Canada	$ 6 618	100%

(1) THE BOOK VALUE OF SHARES WITH VOTING RIGHTS CORRESPONDS TO THE BANK'S INTEREST IN THE EQUITY OF SUBSIDIARY SHAREHOLDERS.

GLOSSARY OF FINANCIAL TERMS

Allowances for Loan Losses represent an amount deemed adequate by the Bank to absorb credit-related losses on loans and acceptances. Total allowances for loan losses consists of individual and collective allowances and are recorded on the balance sheet as a deduction from loans and acceptances.

Assets under Administration and under Management mostly refers to assets related to registered and non-registered investment accounts, clients' brokerage assets, mutual funds and mortgages administered by the Bank that are beneficially owned by clients and therefore not reported on the balance sheet of the Bank.

Assets to Capital Multiple is an OSFI-regulated capital ratio defined as total assets plus specified off-balance sheet items, divided by Total Capital.

Bankers' Acceptances (BAs) are bills of exchange or negotiable instruments drawn by a borrower for payment at maturity and accepted by a bank. BAs constitute a guarantee of payment by the Bank and can be traded in the money market. The Bank earns a "stamping fee" for providing this guarantee.

Basel II is the second of the Basel Accords, which are recommendations on banking laws and regulations issued by the Basel Committee on Banking Supervision. The purpose of Basel II is to create an international standard that banking regulators can use when creating regulations about how much capital banks need to put aside to guard against the types of financial and operational risks banks face.

Basel III is the third of the Basel Accords. It provides more stringent capital adequacy standards.

Basis Point: One one-hundredth of a percentage point.

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.

Collective Allowances are maintained to cover impairment in the existing loan portfolio that cannot yet be associated with specific loans. The Bank employs a collective allowance model based on the internal risk rating of credit facilities and on the related probability of default factors, as well as the loss given default associated with each type of facility.

Common Equity Tier 1 Capital represents, under Basel III, more permanent forms of capital, and primarily consists of common shareholder's equity and accumulated other comprehensive income, less a deduction for goodwill, software and other intangibles, pension assets, cash flow hedges and certain other deductions prescribed by OSFI.

Common Equity Tier 1 Ratio is defined as common equity Tier 1 capital divided by risk-weighted assets.

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

Derivatives are contracts whose value is "derived" from movements in interest or foreign exchange rates, or equity or commodity prices. Derivatives allow for the transfer, modification or reduction of current or expected risks from changes in rates and prices.

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

Dividend Yield represents dividends declared per common share divided by the closing common share price.

Earnings Per Share (EPS) is calculated by dividing net income after deduction of preferred dividends, by the average number of shares outstanding. Diluted EPS is calculated by adjusting the number of shares outstanding for possible conversions of financial instruments into common shares.

Effective Interest Rate represents the discount rate applied to estimated future cash payments or receipts over the expected life of the financial instrument or, when appropriate, a shorter period, to arrive at the net carrying amount of the financial asset or liability.

Efficiency Ratio is a key measure of productivity and cost control. It is defined as non-interest expenses as a percentage of total revenue.

Hedging is a risk management technique used to neutralize or manage interest rate, foreign currency, or credit exposures arising from normal banking activities by taking positions that are expected to react to market conditions in an offsetting manner.

Impaired Loans are loans for which there is no longer reasonable assurance of the timely recovery of principal or interest.

Individual Allowances reduce the carrying value of impaired loans to the amount the Bank expects to recover when there is evidence of deterioration in credit quality.

Mark-to-Market is the valuation of financial instruments that are carried at fair value at market prices as of the balance sheet date.

Net Interest Income is comprised of earnings on assets, such as loans and securities, including interest and dividend income, less interest expense paid on liabilities, such as deposits.

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

Notional Amount refers to the principal used to calculate interest and other payments under derivative contracts.

Off-Balance Sheet Financial Instruments represent a variety of financial arrangements offered to clients, which include for the Bank derivatives, credit commitments and guarantees, and other indemnifications.

Office of the Superintendant of Financial Institutions Canada (OSFI) is the primary Canadian regulator and supervisor of federally regulated deposit-taking institutions, insurance companies and federally regulated private pension plans.

Options are contractual agreements between two parties in which the writer of the option grants the buyer the right, but not the obligation, to either buy or sell, at or by a specified date, a specific amount of a financial instrument at a price agreed upon when the agreement is entered into. The writer receives a premium for selling this instrument.

Provision for Loan Losses is a charge to income that represents an amount deemed adequate by management considering the allowances for loan losses already established to absorb all incurred loan losses in its portfolio, given the composition of the portfolios, the probability of default and the economic environment.

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

Risk-weighted Assets are assets calculated by applying a regulatory risk-weight factor to on and off-balance sheet exposure. The Bank uses standardized risk-weight factors as stipulated by OSFI, based on the guidelines developed by the Bank for International Settlement (BIS).

Securities Purchased Under Reverse Repurchase Agreements and Obligations Related to Securities Sold Under Repurchase Agreements are short-term purchases of securities under agreements to resell as well as short-term sales of securities under agreements to repurchase at predetermined prices and dates. Given the low risk transfer associated with these purchases and sales, these agreements are treated as collateralized lending.

Swaps are contractual agreements between two parties to exchange a series of cash flows for a specified period of time. The various swap agreements that the Bank enters into are as follows:

- *Interest rate swaps* – counterparties generally exchange fixed and floating rate interest payments based on a predetermined notional amount in a single currency.
- *Foreign exchange swaps* – fixed rate interest payments and principal amounts are exchanged in different currencies.
- *Total return swaps* – floating payments based on changes in the value of a reference asset or group of assets, including any associated return such as dividends, are exchanged for amounts based on prevailing market funding rates.

Tier 1 BIS Capital Ratio is defined as Tier 1 capital divided by risk-weighted assets.

Tier 1 Capital represents, under Basel II, more permanent forms of capital, and primarily consists of common shareholders' equity and preferred shares, less a deduction for goodwill and excess intangible assets, securitization and certain other deductions prescribed by OSFI.

Total BIS Capital Ratio is defined as total capital divided by risk-weighted assets.

Total Capital includes Tier 1 and Tier 2 capital, net of certain deductions. Tier 2 capital is primarily comprised of subordinated debt, the eligible portion of collective allowances for loan losses, less reductions for securitization and certain other deductions prescribed by OSFI.

Value at Risk (VaR) corresponds to the potential loss the Bank may incur for a specific portfolio or a group of portfolios over a one-day period, with a confidence level of 99%.

SHAREHOLDER INFORMATION

HEAD OFFICE
Tour Banque Laurentienne
1981 McGill College Avenue
Montréal, Québec H3A 3K3
Tel.: 514 284-4500 ext. 5996
Fax: 514 284-3396

TELEBANKING CENTRE,
Automated Banking
and Customer Service
Tel.: (514) 252-1846
or 1-800-252-1846
Website: www.laurentianbank.ca
Swift Code: BLCM CA MM

ANNUAL MEETING
The Annual Meeting of the Common Shareholders of the Bank will be held on Tuesday, March 19, 2013, at 9:30 a.m., at the Montréal Science Center, Perspective and Passerelle Halls, 333 de la Commune St. West, Montréal (Québec) H2Y 2E2

VALUATION DAY PRICE
For capital gains purposes, the market value of Laurentian Bank common shares on Valuation day, December 22, 1971, adjusted for the stock splits of July 1983 and January 1987, was $3.72.

TRANSFER AGENT AND REGISTRAR
Computershare
Investor Services Inc.
1500 University Street, Suite 700
Montréal, Québec H3A 3S8.

OMBUDSMAN'S OFFICE
Laurentian Bank
1981 McGill College Avenue
Suite 1420
Montréal, Québec H3A 3K3
Tel.: 514 284-7192
or 1-800-479-1244

CHANGE OF ADDRESS
AND INQUIRIES
Shareholders should notify the Transfer Agent of any change of address. Inquiries or requests may be directed to the Corporate Secretary's Office at Head Office or by calling 514 284-4500 ext. 7545.

INVESTORS AND ANALYSTS
Investors and analysts may contact the Investor Relations Department at Head Office by calling 514 284-4500 ext. 7511 or 4926.

MEDIA
Journalists may contact the Public Affairs and Communications Department at Head Office by calling 514 284-4500 ext. 7511 or 8232.

DIVIDEND REINVESTMENT
AND SHARE PURCHASE PLAN
The Bank has a dividend reinvestment and share purchase plan for Canadian holders of its common and preferred shares under which they can acquire common shares of the Bank without paying commissions or administration fees. Participants acquire shares through the reinvestment of cash dividends paid on the shares they hold or through optional cash payments of a minimum amount of $500 per payment, up to an aggregate amount of $20,000 in each 12 month period ending October 31.

For more information, shareholders may contact the Bank's registrar and transfer agent, Computershare Trust Company of Canada, at 1-800-564-6253. To participate in the plan, the Bank's non-registered common and preferred shareholders must contact their financial institution or broker.

DIRECT DEPOSIT SERVICE
Shareholders of the Bank may, by advising the Transfer Agent in writing, have their dividends deposited directly into an account held at any financial institution member of the Canadian Payments Association.

This Annual Report was produced by the Public Affairs, Communications and Investor Relations Department of Laurentian Bank.

Vous pouvez recevoir une version française de ce rapport annuel en faisant parvenir votre demande par écrit à :
Banque Laurentienne
1981, avenue McGill College,
20e étage
Montréal (Québec) H3A 3K3

STOCK SYMBOL AND DIVIDEND RECORD AND PAYMENT DATES

THE COMMON AND PREFERRED SHARES INDICATED BELOW ARE LISTED ON THE TORONTO STOCK EXCHANGE.	CUSIP CODE/ STOCK SYMBOL	RECORD DATE*	DIVIDEND PAYMENT DATE*
Common shares	51925D 10 6 LB	First business day of:	
		January	February 1
		April	May 1
		July	August 1
		October	November 1
Preferred shares			
Series 9	51925D 87 4 LB.PR.D	**	March 15
Series 10	51925D 86 6 LB.PR.E	**	June 15
Series 11	51925D 84 1 LB.PR.F	**	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.

OUR **STRATEGY**

FOCUS 1

On profitable markets in Québec and in larger Canadian cities, where we hold distinctive advantages and can appropriately invest to generate growth

AGILE GROWTH 2

Promoted through our culture of proximity and service and made possible by our light organizational structure, enabling us to be opportunistic

EXECUTION 3

Excellence in execution, facilitated by our proactive approach to our business plan and to risk management

LAURENTIAN BANK

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