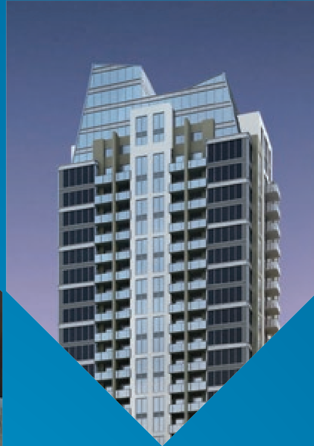

2013 ANNUAL REPORT

MAXIMIZING OUR POTENTIAL

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ABOUT LAURENTIAN BANK

Laurentian Bank of Canada is a banking institution whose activities extend across Canada. Recognized for its excellent service, proximity and simplicity, the Bank serves one and a half million clients throughout the country. Founded in 1846, it employs some 4,000 people who make it a major player in numerous market segments. The institution has $34 billion in balance sheet assets and more than $37 billion in assets under administration.

Laurentian Bank distinguishes itself through the excellence of its execution and its agility. Catering to the needs of retail clients via its extensive branch network and constantly evolving virtual offerings, the Bank has also earned a solid reputation among SMEs, larger businesses and real estate developers thanks to its growing presence across Canada and its teams in Ontario, Québec, Alberta and British Columbia. For its part, the organization's B2B Bank subsidiary is a Canadian leader in providing banking and investment products and services to financial advisors and brokers, while Laurentian Bank Securities is an integrated broker that is also widely known for its expert and effective services 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 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 "Risk Appetite and 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.

WHAT'S NEW?

- **Leasing – a new financing alternative** offered to commercial clients
- **New transactional website** with increased functionality
- **New partnerships with FADOQ and RIQ** – providing credit cards and other banking products to a large pool of potential clients
- **New specializations** to provide our commercial clients with even more expertise and added value
- **B2B Bank now in the heart of Toronto's financial district** – in a single location to build a more unified and stronger team

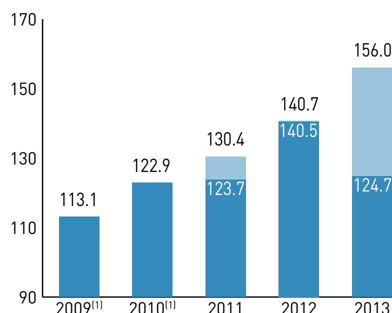
WHAT'S NEXT?

TO MAXIMIZE ITS POTENTIAL, LAURENTIAN BANK WILL:

- **Complete the integration of B2B Bank's acquisitions** to lever opportunities and realize synergies
- **Forge partnerships** to expand its client base and find efficient solutions
- Accelerate the development of commercial activities to **improve margins**
- **Expand other income** streams by diversifying its channels and products
- Continue its **pan-Canadian expansion**

PERFORMANCE AND HIGHLIGHTS 2013

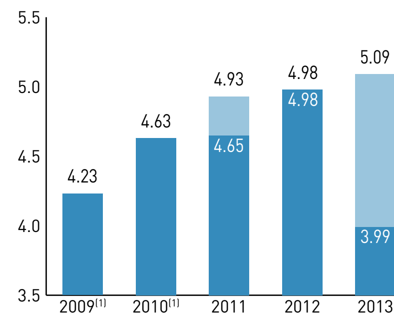
Net income
(in millions of dollars)



Net income
Adjusted net income

(1) In accordance with previous GAAP.

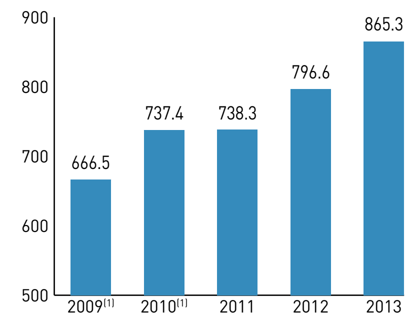
Diluted earnings per share
(in dollars)



Diluted earnings per share
Adjusted diluted earnings per share

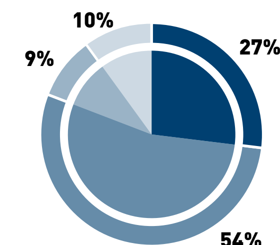
(1) In accordance with previous GAAP.

Total revenue
(in millions of dollars)



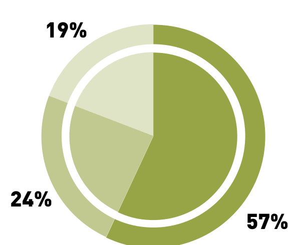
(1) In accordance with previous GAAP.

Loan portfolio mix
(as a percentage)



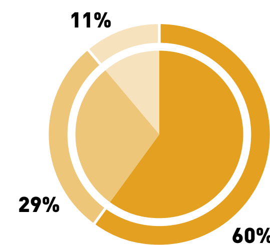
Personal loans
Residential mortgage loans
Commercial mortgage loans
Commercial and other loans (including acceptances)

Deposit portfolio mix
(as a percentage)



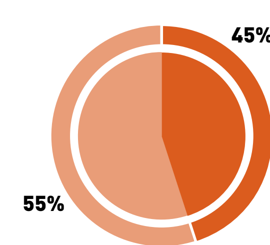
Personal term deposits
Personal notice and demand deposits
Business, banks and other deposits

Geographic distribution of loans
(as a percentage)



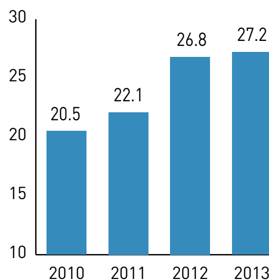
Québec
Ontario
Rest of Canada

Geographic distribution of profitability
(as a percentage)

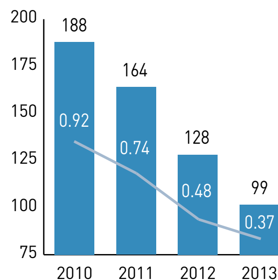


Québec
Rest of Canada

Loans and acceptances
(in billions of dollars)

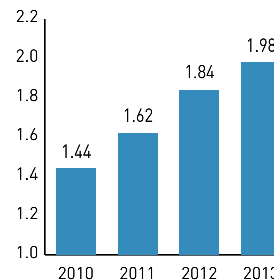


Credit quality
(in millions of dollars or as a percentage)

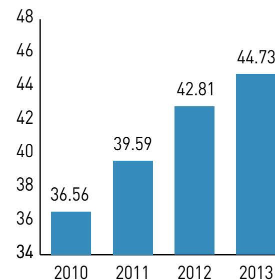


Gross impaired loans
Gross impaired loans (as a percentage of loans and acceptances)

Dividends declared per common share
(in dollars)



Book value per common share
(in dollars)



HIGHLIGHTS

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

	2013	2012	2011
Profitability			
Total revenue	**$865,337**	$796,643	$738,347
Net income	**$124,680**	$140,508	$123,717
Diluted earnings per share	**$3.99**	$4.98	$4.65
Return on common shareholders' equity	**9.1 %**	12.1 %	12.2 %
Net interest margin	**1.66 %**	1.69 %	1.82 %
Efficiency ratio	**77.1 %**	75.9 %	71.8 %
Operating leverage	**(1.7) %**	(6.1) %	n. a.
Other income (as a % of total revenue)	**34.3 %**	33.3 %	31.7 %
Effective tax rate	**21.1 %**	23.2 %	21.3 %
Per common share			
Share price			
High	**$47.15**	$48.68	$55.87
Low	**$42.41**	$40.66	$38.62
Close	**$46.55**	$44.45	$45.98
Price / earnings ratio	**11.6 x**	8.9 x	9.9 x
Book value	**$44.73**	$42.81	$39.59
Market to book value	**104 %**	104 %	116 %
Dividends declared	**$1.98**	$1.84	$1.62
Dividend yield	**4.25 %**	4.14 %	3.52 %
Dividend payout ratio	**49.6 %**	37.0 %	34.8 %
Adjusted financial measures			
Adjusted net income	**$156,032**	$140,660	$130,383
Adjusted diluted earnings per share	**$5.09**	$4.98	$4.93
Adjusted return on common shareholders' equity	**11.6 %**	12.0 %	12.9 %
Adjusted efficiency ratio	**72.7 %**	73.1 %	70.6 %
Adjusted operating leverage	**0.7 %**	(3.9) %	n.a.
Adjusted dividend payout ratio	**38.8 %**	36.9 %	32.9 %
Financial position			
Balance sheet assets	**$33,925,680**	$34,936,826	$28,963,210
Loans and acceptances	**$27,228,697**	$26,780,879	$22,087,544
Deposits	**$23,927,350**	$24,041,443	$20,016,281
Average assets	**$34,198,677**	$31,464,535	$27,768,297
Average earning assets	**$33,190,556**	$30,614,884	$27,143,591
Average common shareholders' equity	**$1,244,376**	$1,059,118	$915,369
Quality of assets			
Gross amount of impaired loans	**$99,391**	$128,023	$163,725
Allowances for loan losses against impaired loans			
Individual	**$34,266**	$47,849	$69,450
Collective	**$12,049**	$12,492	$18,557
Total	**$46,315**	$60,341	$88,007
Net impaired loans	**$53,076**	$67,682	$75,718
(as a % of loans and acceptances)	**0.19 %**	0.25 %	0.34 %
Collective allowances against other loans	**$69,275**	$57,201	$55,143
Provision for loan losses	**$36,000**	$33,000	$51,080
(as a % of average loans and acceptances)	**0.13 %**	0.14 %	0.24 %
Unrealized gains and losses on the portfolio of available-for-sale securities	**$16,442**	$23,487	$41,054
Basel III regulatory capital ratio – All-in basis			
Common Equity Tier 1	**7.6 %**	n.a.	n.a.
Other information			
Number of full-time equivalent employees	**3,987**	4,201	3,669
Number of branches	**153**	157	158
Number of automated banking machines	**422**	426	427
Number of brokerage offices	**16**	16	15
Number of commercial banking centres	**35**	38	36

MESSAGE FROM THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

Réjean Robitaille, FCPA, FCA
President and Chief Executive Officer

Despite an environment characterized by low interest rates, new regulatory constraints, and an economic context that remains uncertain, Laurentian Bank posted record adjusted results for a seventh consecutive year and exceeded the $150 million mark in adjusted net income for the first time in its history.

Continuously Improving Results

The 2013 results are consistent with those of previous years. In fact, the Bank's adjusted net income grew by 11% to reach $156 million in 2013. Of course, these solid results were not achieved by accident. They are directly attributable to the complementarity and geographic diversity of our activities, the positive impact of our acquisitions and partnerships, the quality of execution, and our highly targeted strategy. By virtue of these positive results, the Bank has been able to regularly boost the annual dividend paid on its common shares, which amounted to $1.98 in 2013; an increase of 52% over five years.

Review of Fiscal 2013

Fiscal 2013 was marked by numerous significant accomplishments. Among these were the integration of the MRS Companies and AGF Trust, the launch of our new leasing products, and the implementation of the first phase of our transactional Internet site's modernization.

Moreover, the Bank pursued its objective of expanding its sources of revenue unrelated to interest rates. These sources were highly diversified and grew by 12%. We also worked hard to rigorously and effectively control our operating costs so as to create positive adjusted operating leverage and, thus, be able to free up resources needed for investments to fuel business development. Because improving our efficiency is one of our key priorities, we have implemented various measures to further optimize our structure and operations which will translate into efficiency gains in the future.

The Bank's adjusted net income grew by 11% to reach $156 million in 2013. Of course, these solid results were not achieved by accident. They are directly attributable to the complementarity and geographic diversity of our activities, the positive impact of our acquisitions and partnerships, the quality of execution, and our highly targeted strategy.

Our foundations are solid, our balance sheet remains healthy, and our level of capitalization is very sound. A reflection of our rigorous and disciplined management, the Bank's loan portfolio is also characterized by its solidity and reliability, with a loan loss ratio that is among the lowest ever recorded at 0.13% of average loans and bankers' acceptances. We are particularly satisfied with our credit history over the past several years, which clearly testifies to the Bank's discipline and rigorous execution within a context of strong loan portfolio growth.

Given the volume of its assets, which totalled almost $34 billion at the end of fiscal 2013, Laurentian Bank ranked among the 40 largest banks in North America. That is a distinction in which we take great pride. Moreover, our institution continues to strengthen its position and presence across Canada. In fact, over the past few years, more than 50% of our profitability has been generated by our activities outside Québec.

The future is very promising for Laurentian Bank, and we are looking ahead with great optimism. However, in order to meet all the challenges that await us, we must continue to invest strategically in our development and to promote the targeted positioning that distinguishes us and fuels our strength.

Intensifying the Development of Business Services

The activities centred on the Bank's commercial clients — small and medium-sized enterprises, as well as larger companies — are at the heart of our strategy and represent a growing proportion of the Bank's revenues and profitability. In fact, net income from commercial activities increased by 139% over the past five years.

With all of our commercial activities recently grouped under a single sector, we can now offer even greater value to our clients, along with significantly enhanced offerings. In addition, this initiative will also generate new synergies and more opportunities for cross-sales.

As part of its overall growth objectives, the Bank has intensified its sales efforts with respect to higher margin products. Due to the nature of its activities, the Business Services

sector lends itself particularly well to this strategy. Therefore, we have decided to add leasing solutions to our product line-up that offer strong development potential for the Bank.

Our specialization approach in specific sectors meets one of the principal requirements of our business clients — that their banker has a full understanding of their industry and realities. This philosophy serves as the very foundation of our specialization strategy that demands we be a source of added value. In that regard, we intend to continue to reinforce our presence in certain niches, notably health professionals, manufacturing and energy and infrastructure.

Similarly, we want to further develop certain markets to enhance our geographic diversification in the real estate financing sector, where we have already earned an enviable reputation. Our knowledge and expertise of this market have also contributed to the excellent credit quality of our portfolios.

B2B Bank: A Canadian Leader in its Field

B2B Bank focused its efforts in 2013 on the integration of MRS Companies and AGF Trust — the two acquisitions made during the past couple of years. B2B Bank's proactive development strategies have seen its contribution to the Bank's adjusted net income grow by 78% over the course of the past five years.

Thanks to these acquisitions, B2B Bank has evolved from an organization already firmly rooted in the financial advisor and broker market into an indisputably leading Canadian financial institution catering to the needs of financial advisors and brokers. In fact, it is the only bank dedicated exclusively to this market today.

The two acquired enterprises, whose integration is proceeding on schedule, have already made a significant contribution to Laurentian Bank's profitability. Once their integration is fully completed, they will generate major growth opportunities. At the same time, B2B Bank will be able to maximize its leverage among the 27,000 financial advisors it conducts business with by offering them an even more comprehensive range of quality products so as to enable them, in turn, to better serve their own retail clientele.

Although B2B Bank has only been in existence for 13 years, it has succeeded in carving out an enviable leadership position for itself in Canada. It is a perfect example of the agility and quality of execution of the Bank.

Evolving with the Needs and Expectations of Consumers

Today, our retail clients expect to be served in a multitude of different ways and to have access to their financial information where and when they want. The client is ultimately the one who decides how he will do business with us. Our job is to listen and adapt to their needs, expectations and demands.

In that regard, our clients are increasingly showing their appreciation of mobile and virtual services. In response, we took a first step in 2013 with the launch of our new virtual transactional platform. Having invested considerably in our branch network over the past several years, we now want to ensure that our clients are served as well virtually as they are in our branches.

To continuously improve the support we offer our clientele throughout the entire cycle of their financial life, Laurentian Bank will continue to enhance its product and service offerings within the investment and Wealth Management markets. Our partnership with Mackenzie Financial Corporation — a Canadian leader in fund management — is part of our commitment to strengthen our position in the investment field by offering the highest quality products that meet the needs of all saver and investor profiles.

2013

Intensifying the Development of Business Services

B2B Bank: A Canadian Leader in its Field

Evolving with the Needs and Expectations of Consumers

Laurentian Bank Securities: Specialized and Integrated

We have become a brand-new Laurentian Bank — stronger and more balanced, possessing greater agility, and better equipped to meet the challenges of the future.

Laurentian Bank Securities: Specialized and Integrated

Having positioned itself as an integrated broker, Laurentian Bank Securities derives its diversified revenues from four business segments, each of which continues to grow and develop.

Laurentian Bank Securities stands out in the market thanks, in part, to the quality of its services intended specifically for small cap companies, and it remains a key player in providing fixed income products throughout Canada. For its part, the retail services division actively pursued the development of its platform in 2013, while the institutional services segment expanded its client pool and added syndication to its scope of expertise, which has already served to enhance the group's position in the market.

Investing in Our Future

Over the past several years, we have been able to build a much more solid Bank. Our portfolios have grown significantly, and our product line has diversified considerably. We are now also equipped with advanced business intelligence tools that lend us an important strategic advantage. We continue to actively seize new business opportunities and are highly proactive with respect to our development. Our four business segments are fuelled by targeted and productive strategies, while their complementarity assures the Bank's sound risk diversification. Simply, we have become a brand-new Laurentian Bank — stronger and more balanced, possessing greater agility, and better equipped to meet the challenges of the future.

In 2014, our priorities will be to finalize the integration of the MRS Companies and AGF Trust, as well as to further develop our commercial activities. We will also continue to be very disciplined in managing our expenses so as to maintain positive operating leverage. Efficiency will be at the heart of all of our actions, and in that regard, we will place even greater emphasis on technological partnerships with respect to the management of our operations, as we did with the implementation of our new transactional platform. This will not only enable us to offer solutions to our clients in a more timely fashion, but it will also help us reduce costs.

Finally, by continuing to work on diversifying our activities and by accelerating our efforts to extend our presence throughout Canada, we will be in a better position to maximize the potential of our business segments and generate sustained growth of the Bank's profitability.

Thanking Our Stakeholders

We are very proud of our workforce made up of 4,000 dedicated employees who are always highly attentive and spare no effort to satisfy the needs of the Bank's million and a half clients. Among the examples of this commitment is the outstanding work carried out to date with respect to the integration of B2B Bank's two major acquisitions. Our employees' tremendous passion and teamwork are truly remarkable.

I would also like to thank all the members of our Board of Directors and our new Chair, Isabelle Courville, who assumed that position in March 2013. Their steadfast support of the Bank's strategies is invaluable.

In conclusion, I wish to extend my gratitude to our shareholders and clients for the confidence they have shown in us over the years. We are truly privileged to have gained that trust, and we are devoted to continuing to remain worthy of it.

Réjean Robitaille, FCPA, FCA

President and Chief Executive Officer

Sustainable Growth

It is with great enthusiasm that I accepted the invitation to Chair the Bank's Board of Directors last March. It is an honour for me to lead the work of this solid group of directors assembled by my predecessor, Mr. L. Denis Desautels. I am also very proud to contribute to the pursuit of Laurentian Bank's long and fruitful history. The third oldest enterprise founded in Montréal, the Bank has been firmly rooted in Québec for 167 years, and now has established its presence across Canada.

Isabelle Courville, Eng., BCL
Chair of the Board

2013 – A Year Marked by Growth

Fiscal 2013 was one of significant accomplishments for the Bank. Notwithstanding intensifying regulations, the Bank posted excellent financial results, having boosted its adjusted net income by 11%.

Our business plan is providing us with the latitude to increase the quarterly dividend per share on two occasions over the course of the year. During fiscal 2013, the dividend paid to our shareholders rose by 8%. While preserving solid capitalization, our objective remains to continuously reward our shareholders and increase the value of their investment in the Bank.

The Bank also undertook numerous initiatives aimed at expanding the line of products offered to its different clienteles in all of its sectors of activity. In addition, we continued to reinforce our presence across the country within markets where we enjoy an enviable position.

Pursuing Development Sustainably

Maintaining a proper balance towards all stakeholders is one of the principles that leads to long-term success of any organization. In that regard, Laurentian Bank has all the assets required to pursue its development in a sustainable way and to allow our shareholders to benefit from the long-term appreciation of the value and performance of the company.

In accordance with its proven business strategies, the Bank is committed to remain relevant to its clients as it particularly focuses on its values of simplicity and proximity. Rather than striving to be everything to everyone, the organization is selecting specific markets and niches in which it holds a competitive advantage and is able to offer its clientele products and services with the highest added value.

Similarly, the Bank devotes a lot of attention to its 4,000 employees — be it in terms of their engagement, maintaining harmonious relations with our Union, the establishment of appropriate compensation practices for employees and management, or with respect to the rigorous and attentive management of its pension plans. Our institution is also dedicated to remain a responsible corporate citizen, as well as to maintain an active presence and involvement in the communities in which it operates.

All of these subjects are at the heart of the discussions among Board members and management on an ongoing basis. As such, the Bank continues to increase its profitability in the short-term, while remaining firmly focused on promoting sustained growth and performance.

Laurentian Bank has all the assets required to pursue its development in a sustainable way and to allow our shareholders to benefit from the long-term appreciation of the value and performance of the company.

Proactive Committees

I would like to thank all the members of the Board of Directors for the excellent work accomplished in 2013. I also wish to acknowledge the efforts of the three Board Committees that piloted key files for the future of the organization.

The **Audit Committee,** led by Richard Bélanger, looks after the disclosure of the Bank's quarterly and annual results. It must do so within an ever-changing regulatory context in which new measures and constraints have major impacts on our operations.

The **Human Resources and Corporate Governance Committee,** under the direction of Jean Bazin, ensures that the Bank respects the most stringent standards with respect to governance and human resources. The advisory vote on the Bank's compensation policy held at the 2013 shareholders' meeting obtained the approval of the vast majority of shareholders. This clearly underlines, in my view, the excellence of our remuneration practices.

Finally, the **Risk Management Committee,** headed by Michel Labonté, has seen its mandate evolve very rapidly as the Bank is confronted with a range of new risks that must be properly understood, evaluated and managed.

A Diversified and Balanced Board

The strong performance of the Bank has been confirmed over the past few years. Participating in the evolution and transformation of a pan-Canadian organization like ours has been a gratifying challenge for all members of the Board.

For my part, I am very proud to be able to lead such a balanced and diversified Board of Directors. In fact, at 38%, Laurentian Bank has the highest representation of women on its Board of all Canadian banks. Our Board is made up of Directors with many years of experience and some new recruits. It is a group fuelled with a wide range of ideas and expertise to effectively serve the interests of our shareholders. Working with colleagues of such calibre is truly a great privilege.

In conclusion, I would like to extend my gratitude to the management team. Its close collaboration and high level of competence is greatly appreciated by the Board. I would also like to thank our employees, proudly accomplishing our mission and continuing to earn the trust of our clients year after year by serving them with simplicity, proximity and efficiency.

Isabelle Courville, Eng., BCL

Chair of the Board

Our Management Team

Michel C. Trudeau
Executive Vice President
Capital Markets, Laurentian Bank and President and CEO of Laurentian Bank Securities

Réjean Robitaille
President and Chief Executive Officer

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

Michel C. Lauzon
Executive Vice President and Chief Financial Officer

Stéphane Therrien
Executive Vice President
Business Services

Pierre Minville
Executive Vice President and Chief Risk Officer

Gilles Godbout
Executive Vice President
Retail Services and Chief Information Officer

François Desjardins
Executive Vice President
Laurentian Bank and President and Chief Executive Officer, B2B Bank

Our strategy
to maximize our potential

OUR 3 PILLARS

OUR FOCUS, AGILE GROWTH AND EXECUTION SERVE AS THE FOUNDATION FOR THE BANK'S SELECTIVE INVESTMENT, GROWTH AND CONTINUOUS DEVELOPMENT

1 FOCUS

Our focus is clear and sharp – allowing us to know our clients, how to serve them well and how best to invest.

- Our commercial activities target specialized niches from coast to coast – to ensure that we are the best partner for our clients.
- B2B Bank targets financial advisors and brokers across Canada – the only Canadian Bank 100% focused on this market.
- Laurentian Bank Securities specializes in the small cap market.

2 AGILE GROWTH

Our culture of proximity and service as well as our lean organizational structure enable us to be opportunistic – contributing to our agile growth and development.

- Our agility is supportive of the Bank forging partnerships, whether with providers of IT solutions and business partners, in order to propel growth in our retail services.
- Our agility facilitated B2B Bank's strategic acquisitions which will enable the progressive realization of synergies.
- Our agility allows Laurentian Bank Securities to be among the top 10 players in the Canadian Fixed Income market.

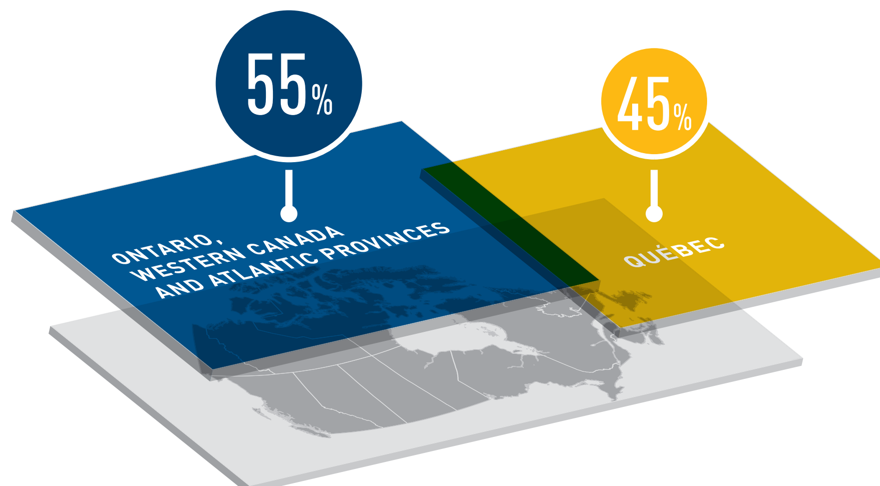
3 EXECUTION

Our effective business plan and proactive risk management are the foundation of our excellence in execution.

- Effectively executing our business plan has resulted in 7 consecutive years of improving adjusted profitability.
- Our strategies have led to 6 consecutive years of increasing dividends.
- Our proactive approach to risk management has delivered a loan loss ratio among the banking industry's lowest in 2013 and metrics that compare very favorably to the Canadian industry.

A TRUE PAN-CANADIAN PRESENCE

Geographic Distribution of Profitability



Business Services

Client-Centric Approach: Our Prime Focus

Laurentian Bank's level of activity among business clients continues to grow markedly, as evidenced by the 85% increase of loans since 2008. These activities have great development potential, and the Bank's business strategy is firmly focused on seizing opportunities by making optimum use of the Bank's distinctive strengths.

Experts Specialized in Financing

Our Business services are recognized for their rapid responsiveness and in-depth understanding of our clients' realities. In fact, these attributes are precisely what commercial clients expect of their banker — account managers who have a thorough knowledge of their industry and with whom it is easy and efficient to conduct business. In that regard, we will be concentrating even more on our strategy of developing specializations.

One of the segments in which specialization has certainly proven itself is real estate. Our comprehension of the particularities of real estate financing and our rapid execution have contributed significantly to our clients' high level of satisfaction and to the excellent quality of our loan portfolios. The specializations developed more recently in the agricultural and health sectors have also generated excellent results. Moreover, our expertise in the energy and infrastructures field is well received and in considerable demand across Canada, with $150 million in new financing arrangements having been concluded in these sectors in 2013. In addition, we also developed specializations in food processing, metals processing and aeronautics during the year just ended, and our teams are working diligently to expand these activities.

A Promising Leasing Product

The Bank added a new line of leasing solutions to its product offerings in 2013 that complement its traditional financing products and offer great development potential throughout Canada. The Bank is targeting these solutions at a number of specific markets in which it has a high level of expertise, including transportation, construction, and manufacturing.

Rigorous and Effective Management

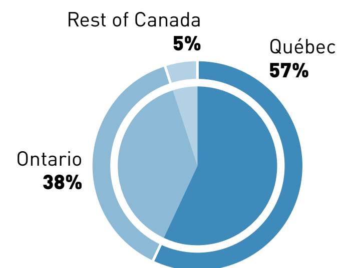
Our strategy is also built on maximizing the efficiency of our processes. That is why our organizational structure is designed to promote commercial and operational excellence. Thanks to our client relationship management system, our account managers have a global picture of their clients' files and, thus, are able to offer the most efficient services possible. Similarly, we are working on optimizing the organization's processes to offer the best possible client experience.

Finally, the geographic diversification of our activities will remain a central focus of our strategy. In fact, the Bank's solid reputation favorably positions it to expand its presence throughout Canada.

85%
growth in loans since 2008

139%
increase in net income since 2008

Geographic distribution of loans



Retail Services

Strengthening and Extending Our Presence

Retail Services made significant progress in 2013. Thanks to our sound strategies and the firm engagement of our sales forces, other income rose by 14% in 2013, representing the highest rate of growth posted in five years.

These increased revenues were derived from diversified sources, including deposit administration, credit card services, the distribution of mutual funds, and from credit insurance.

Our alliance with the Mackenzie Financial Corporation has also proven to be very beneficial, with record mutual fund sales recorded in 2013 that represented an increase of 54% over the previous year. This positive performance has served to position us more favourably with respect to investment products and Wealth Management, areas with attractive growth prospects. For their part, mortgage products remain a key part of the sector's offerings, and mortgage brokers and in-branch advisors are the pillars supporting our business development efforts.

Strategic Investments in Distribution Channels

While the Bank has devoted considerable effort to refreshing and modernizing its branch network over the past several years, it turned its focus towards the development of its virtual services in 2013. The new transactional platform designed in partnership with a specialized provider of technological solutions has received an enthusiastic welcome from our clients. Additional investments in the virtual network will be undertaken so as to assure that our clients will find it increasingly easier and more convenient to conduct business with us… wherever and whenever they choose.

From the standpoint of operational efficiency, the Bank is continuing to exercise rigorous control over its operating expenses. In addition, the automation of certain processes and the simplification of our product lines have resulted in efficiency and productivity gains.

Becoming the Principal Banker for a Growing Clientele

Thanks to the quality of our client relationship management system, we have an increasingly more precise profile of our clients and their specificities. As such, we are better able to help them achieve their financial objectives. In support of our client acquisition strategies and to become the principal banker to an increasing number of clients, we are offering an ever-growing range of investment products, banking packages, and financial and transactional products that are better adapted to meeting the needs of diverse clienteles.

Furthermore, we are pursuing the development of partnerships, such as those established with FADOQ and the Réseau des ingénieurs du Québec in fiscal 2013, that provide us with access to extensive pools of potential clients. The Bank seeks to become increasingly more proactive in forging these kinds of partnerships.

In conclusion, we focus on client satisfaction, the quality of our products, the development of our distribution channels, combined with disciplined cost control.

B2B Bank

The Canadian Leader in its Field

B2B Bank posted excellent results in 2013, attributable primarily to the financial impact of strategic acquisitions made during the past few years. B2B Bank's adjusted net income totaled $62.2 million in 2013, up 25% from 2012.

The acquisitions have increased B2B Bank's market share and have had a positive effect on its reputation as a leading provider of deposits, loans and mortgages to Canadian financial advisors and brokers. Serving the needs of an extensive network of 27,000 financial advisors and their clients, B2B Bank supports a portfolio of 900,000 individual accounts, $9.2 billion in balance sheet assets, and $28.7 billion in assets under administration. The B2B Bank brand is now well established and recognized as a Canadian market leader.

A Year of Accomplishments

In 2013, B2B Bank continued the integration of the MRS Companies, began the integration of AGF Trust which it acquired in 2012, and completed its first year of operations as a chartered bank under the B2B Bank banner.

The markets in which B2B Bank operates are undergoing profound change, due in part to the regulatory and competitive environment, as well as to shifting consumer expectations of their financial institutions. Those organizations with a distinct vision of what they can provide to their clientele will be able to successfully maintain their place in the market. B2B Bank is extremely well equipped in that regard, as its mission is very clear — to help Canadians build and manage their wealth by focusing on delivering quality banking products and services to their financial advisors. Indeed, that has always been and will always be B2B Bank's raison d'être.

New Brand Image

In 2013, considerable effort was devoted to the integration of the loan, deposit and investment account portfolios under the new brand – B2B Bank. With the integration, the suite of mortgages was expanded with the addition of non-traditional mortgage products. B2B Bank has a further opportunity for growth by making traditional and non-traditional mortgage offerings available through all of its mortgage distribution channels and providing brokers and financial advisors working with B2B Bank access to a product suite among the most comprehensive on the market in Canada.

Outlook for 2014

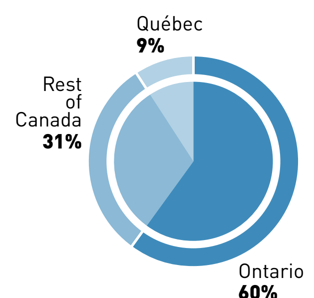
During the first half of 2014, B2B Bank will be putting the final touches on the integration of its acquisitions and planning the next phases of its organic growth. The 27,000 financial advisors and their clients that B2B Bank serves represent a significant opportunity for new sales and substantial cross-sell potential.

The companies that make up the new B2B Bank had different cultures, and each with its own specific strengths. Our challenge now lies in redefining the unique culture that has characterized B2B Bank over the years, enriched by the competencies of our new personnel. Simply put, our goal is to build a team that is more determined and engaged than ever in assuring the future success of B2B Bank.

78% increase in adjusted net income since 2008

100% dedicated to serving financial advisors and brokers

Geographic distribution of loans



LBS and Capital Markets

Growing and Diversifying Our Revenues

The strategy that has been in place for a number of years generated positive results in fiscal 2013, with all divisions of Laurentian Bank Securities and Capital Markets having played a role in boosting the sector's contribution to the Bank's adjusted net income by 27%.

Not only did revenues grow in all business segments, but they became increasingly diversified. This further testifies to the success of the sector's strategy in the face of market conditions that posed a challenge to the entire securities industry in Canada.

Expanding Our Product Line

Fixed Income transactions, for which the organization has earned particular recognition, remain at the heart of Laurentian Bank Securities and Capital Markets' activities. In 2013, the division pursued its development of commercial and NHA MBS product in order to penetrate a growing market. In so doing, it gained new clients, expanded its product line, and improved its profitability.

During the year just ended, Laurentian Bank Securities and Capital Markets also entered the structured products market, thanks to the addition of a team of specialized experts that has enabled it to better meet client needs.

Increasing Recognition

The Institutional Equity division is specialized in the analysis of small cap companies. Our analysts' financial research presently covers 80 companies within seven industry sectors. Transaction volumes and the commissions generated grew in 2013, due primarily to the acquisition of new mandates combined with excellent execution on the part of our teams.

Moreover, we reinforced the depth of our Institutional Equity division in Toronto with the hiring of new professionals to extend our presence in this geographic market where we are increasingly recognized for our distinctive expertise within the Canadian small cap niche.

Going Greener and Boosting Service Quality

By offering better performing tools and enhanced support, including access to a team of strategists and economists with an enviable reputation in Canada, our brokers can provide retail clients with the highest possible quality of service. Furthermore, given our desire to be efficient and ecologically responsible we are now offering institutional clientele electronic confirmation of transactions — an initiative that will progressively be applied to all clients.

Sights Set On Continued Growth

Laurentian Bank Securities and Capital Markets is favourably positioned in each of its business segments. The reinforcement of its presence in the Institutional Equity and Fixed Income markets in the financial centre of Toronto, the activities being conducted in Winnipeg and the pursuit of retail services development strategies are among the numerous initiatives that will pave the way for the sector's continued growth.

27%
increase in net income in 2013

$2.5
billion in assets under administration

16
offices across Canada

Social Responsibility

True to its Mission

Founded in 1846 with the mission of promoting the merits of saving among the middle class, Laurentian Bank has always stayed true to that raison d'être. Today, the Bank remains as committed as ever to helping its retail, business and institutional clientele judiciously manage their banking and financial affairs with integrity and simplicity.

Equitable Human Resources Practices

The development of its human capital is at the heart of the Bank's priorities. In that regard, the organization devotes a great deal of attention to continuously improving the employee experience with a varied range of programs aimed at offering a pleasant and efficient working environment and at engaging personnel. In addition, the Bank has adopted human resources practices that are transparent and fair.

These stringent rules of equity are also applied by the Board of Directors in the management of the compensation program for executive officers, which for the past three years, have been subject to a consultative vote conducted among Bank shareholders. A total of 97% of voting shareholders expressed their support of the program at the 2013 annual meeting.

The Bank has a large proportion of women amongst its work force and on its Board, chaired by Ms. Isabelle Courville since March 2013. More specifically, five of the 13 Directors are women, making for the largest proportion of female Board representation within the Canadian banking sector.

Community Support and Voluntary Involvement

As part of its dedication to social responsibility, the Bank lends its support to more than 200 different causes and organizations each year. In 2013, our employees and management personnel were actively involved in and contributed to numerous fundraising campaigns, including the Ride for Juvenile Diabetes, the CURE Foundation for Breast Cancer, the Cité de la Santé's 300 km pour la VIE, and the Centraide Cup soccer tournament in Montréal. The Bank also showed its innovativeness with the organization of the first edition of the Laurentian Bank Montée des sommets, which attracted more than 400 people to Mont-Sainte-Anne in the Québec City region. Thanks to this event, $50,000 was raised in aid of the Le Petit Blanchon Foundation, an organization dedicated to assisting children in difficulty.

Preserving the Environment

The Bank is also contributing to reducing its ecological footprint through a number of initiatives. For example, its head office is certified by version 2 of the BOMA BESt environmental standard. Under the banner of its commercial activities, the organization finances non-polluting energy projects and the construction of green buildings that respect LEED norms. It has also adopted a rigorous environmental risk management policy for the granting of credit to its clientele. Finally, the Bank sees to it that its annual shareholder and employee meetings are eco-responsible by ensuring that their environmental impact is as low as possible and by compensating for the greenhouse gas emissions generated by these events.

Photo: Christian Savard

Photo: François Dupont

Economic Outlook

The Canadian Economy in Transition

Carlos Leitao, Chief Economist and Strategist
Laurentian Bank Securities

The Canadian economy entered a period of transition in 2013. Household expenditures, the main source of economic growth since 2010, have become gradually constrained by the relatively high levels of household debt. The inevitable slowdown in household expenditures is not being offset by a pick-up in business investment and exports.

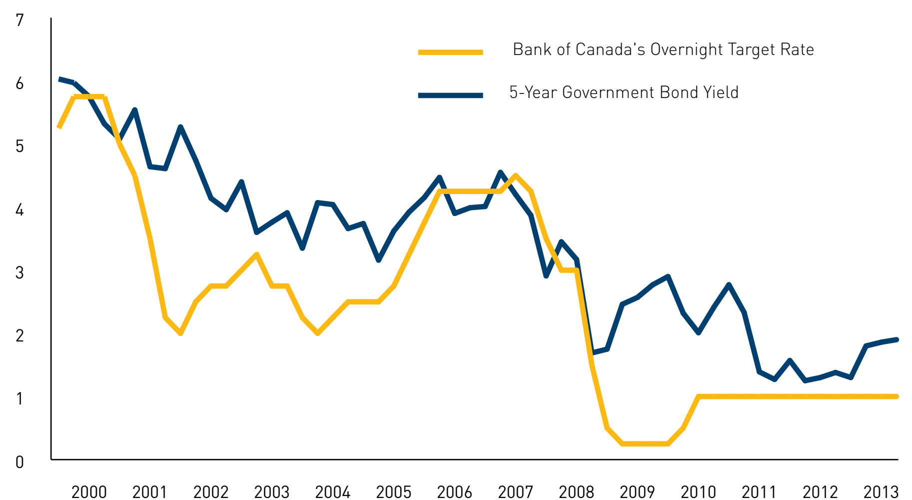
One of the surprises of 2013 on the economic front was the very low level of inflation in developed market economies, which is the direct result of a weak economy and a growing global output gap. In Canada, inflation in 2013 averaged just about 1.0%, down from 1.5% in 2012 and 2.9% in 2011.

One of the main consequences of this low inflation environment is the persistence of very low interest rates. In the spring of 2013, market interest rates (medium to long term government bond yields) moved off the ultra-low levels they had reached in the latter part of 2012 reflecting a real improvement in the private sector economy of the United States. Looking forward, the Bank does not expect market rates to rise at the same pace they did from May to September 2013 due to the absence of inflationary pressures and the firm commitment of the Federal Reserve to maintain its main policy rate at zero until after economic growth improves and the output gap starts to close.

Moreover, as low global inflation persists into 2014, central banks in the OECD area should continue to maintain a highly accommodating monetary policy stance. In Canada, expectations are that the Bank of Canada will keep the policy rate at 1.00% until well into 2015 while in the United States, the Bank does not see the Federal Reserve increasing the Fed funds rate before the end of 2015 at the earliest; it should, however, put an end to its massive asset purchase program in the first half of 2014.

In 2014, the global economic outlook is expected to gradually improve, first in the United States and then in the other developed market economies. The recovery, however, should remain relatively slow and uneven with the main risk being below-target inflation. Real GDP growth in Canada is now expected to reach 2.2%, not convincingly stronger than the 1.7% reached in both 2012 and 2013. This kind of growth is not sufficient to make a significant dent in the rate of unemployment which will remain close to 7.0%.

Interest rates in Canada
(quarterly data, end of period, in percentage)



SUMMARY OF FINANCIAL RESULTS

OVERVIEW OF FISCAL 2013

For the year ended October 31, 2013, the Bank reported record adjusted net income up 11% to $156.0 million or $5.09 diluted per share, compared with $140.7 million or $4.98 diluted per share in 2012. Adjusted return on common shareholders' equity was 11.6% for the year ended October 31, 2013, compared with 12.0% in 2012.

When including adjusting items described below, net income was $124.7 million or $3.99 diluted per share for the year ended October 31, 2013, compared with $140.5 million or $4.98 diluted per share in 2012. Return on common shareholders' equity was 9.1% for the year ended October 31, 2013, compared with 12.1% in 2012.

In fiscal 2013, the Bank delivered solid earnings throughout the year and leveraged its acquisitions, expanding the Bank's geographic reach and client base in an environment of slowing consumer loan demand and compressed margins. During the year, strong revenue growth stemming from the AGF Trust acquisition and from strategies to grow and diversify other income compensated for the effect of continuing net interest margin pressure. The continued excellent credit quality of the loan portfolio and the prolonged favourable credit conditions in Canada also contributed to these results. In a challenging and rapidly evolving business and regulatory environment, the Bank continued to execute strategies to maximize operating leverage going forward, with a constant focus on profitable growth, controlling costs and optimizing the Bank's operations. During the year, the Bank also delivered a significant portion of the expected synergies from the integration of the MRS Companies and remained focused on materializing the full potential from the AGF Trust business transaction, with several major milestones of that integration achieved in 2013.

The Bank maintained a strong financial position throughout the year and prudently managed its capital in an environment of increasingly intensified regulations. With sound liquidity and capital management, the Bank remains well positioned to pursue its ongoing investments in strategic initiatives and to meet ongoing regulatory requirements.

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HIGHLIGHTS OF 2013

- Adjusted financial measures for 2013 are as follows:
  - Record adjusted net income of $156.0 million, up 11% year-over-year
  - Adjusted return on common shareholders' equity of 11.6%
  - Adjusted diluted earnings per share of $5.09
- Reported net income of $124.7 million, return on common shareholders' equity of 9.1%, and diluted earnings per share of $3.99
- Total revenue up 9% year-over-year, reflecting improvements across all revenue streams
- Excellent credit quality as evidenced by loan losses of $36.0 million or 0.13% of average loans
- Solid growth in the commercial loan portfolio, up 17% year-over-year

TABLE 1

CONSOLIDATED RESULTS

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

	2013	2012	2011	VARIANCE 2013 / 2012
Net interest income	**$ 568,760**	$ 531,028	$ 504,485	7%
Other income	**296,577**	265,615	233,862	12
Total revenue	**865,337**	796,643	738,347	9
Gain on acquisition and amortization of net premium on purchased financial instruments	**(4,426)**	23,795	—	(119)
Provision for loan losses	**36,000**	33,000	51,080	9
Non-interest expenses	**666,968**	604,463	530,111	10
Income before income taxes	**157,943**	182,975	157,156	(14)
Income taxes	**33,263**	42,467	33,439	(22)
Net income	**124,680**	140,508	123,717	(11)
Preferred share dividends, including applicable taxes	**11,749**	12,768	12,436	(8)
Net income available to common shareholders	**$ 112,931**	$ 127,740	$ 111,281	(12)%
Average number of common shares outstanding (in thousands)				
Basic	**28,329**	25,634	23,924	
Diluted	**28,338**	25,652	23,943	
Earnings per share				
Basic	**$ 3.99**	$ 4.98	$ 4.65	(20)%
Diluted	**$ 3.99**	$ 4.98	$ 4.65	(20)%
Return on common shareholders' equity [1]	**9.1%**	12.1%	12.2%	
Efficiency ratio [1]	**77.1%**	75.9%	71.8%	
Operating leverage [1]	**(1.7)%**	(6.1)%	n. a.	
Adjusted financial measures				
Adjusted net income [1]	**$ 156,032**	$ 140,660	$ 130,383	11%
Adjusted diluted earnings per share [1]	**$ 5.09**	$ 4.98	$ 4.93	2%
Adjusted return on common shareholders' equity [1]	**11.6%**	12.0%	12.9%	
Adjusted efficiency ratio [1]	**72.7%**	73.1%	70.6%	
Adjusted operating leverage [1]	**0.7%**	(3.9)%	n. a.	

(1) 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. 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 62.

TABLE 2

IMPACT OF ADJUSTING ITEMS

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

	BUSINESS SEGMENT	2013	2012	2011
Impact on net income				
Reported net income		**$ 124,680**	$ 140,508	$ 123,717
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	**3,264**	400	—
Costs related to business combinations and other [2]				
MRS Companies transaction and integration related costs	B2B Bank	**11,655**	13,936	1,201
AGF Trust transaction and integration related costs	B2B Bank	**16,433**	2,198	—
Compensation for the termination in 2012 of a mutual fund distribution agreement	Other	**—**	—	5,465
		31,352	152	6,666
Adjusted net income [1]		**$ 156,032**	$ 140,660	$ 130,383
Impact on diluted earnings per share				
Reported diluted earnings per share		**$ 3.99**	$ 4.98	$ 4.65
Adjusting items [1]		**1.11**	—	0.28
Adjusted diluted earnings per share [1] [3]		**$ 5.09**	$ 4.98	$ 4.93

(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 year ended October 31, 2013.

2013 FINANCIAL PERFORMANCE

The following table presents management's financial objectives for 2013 and the Bank's performance for the year then ended. The Bank met its revenue growth, adjusted net income, adjusted return on common shareholders' equity and Common Equity Tier 1 capital ratio objectives for the year 2013 and successfully delivered record adjusted earnings.

Strong revenue growth stemming from the AGF Trust acquisition and the Bank's strategies to diversify its revenue base, combined with a disciplined management of expenses and continued excellent credit quality have contributed to the overall good performance and to the attainment of the revenue growth, capital and profitability objectives. However, the Bank's adjusted efficiency ratio was marginally higher than the originally targeted range, in part as a result of one-time restructuring charges in the fourth quarter of 2013. When excluding these charges totalling $6.3 million, the adjusted efficiency ratio stood at 71.9%, within the range set at the onset of the year.

TABLE 3

2013 PERFORMANCE INDICATORS

(Excluding adjusting items)

	2013 OBJECTIVES	**2013 RESULTS**
Revenue growth	› 5%	**9%**
Adjusted efficiency ratio [1]	72.5% to 69.5%	**72.7%**
Adjusted net income (in millions of dollars) [1]	$145.0 to $165.0	**$156.0**
Adjusted return on common shareholders' equity [1]	10.5% to 12.5%	**11.6%**
Common Equity Tier 1 capital ratio — All-in basis	› 7.0%	**7.6%**

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

OUTLOOK AND OBJECTIVES FOR 2014

ECONOMIC OUTLOOK – A BRIEF OVERVIEW

In 2014, the global economic outlook is expected to gradually improve in the United States and in the other developed market economies. However, as low global inflation persists, management believes that the overall economic growth, based on the gross domestic product (GDP), will remain relatively slow and reach 2.2% in Canada in 2014. It is thus anticipated that interest rates will continue to remain at low levels throughout 2014. Consumption should however slow down, constrained by the relatively high levels of household debt.

HOW WE WILL MEASURE OUR PERFORMANCE IN 2014

The following table presents the Bank's objectives for 2014.

TABLE 4

2014 FINANCIAL OBJECTIVES

(Excluding adjusting items)

	2013 RESULTS [2]	2014 OBJECTIVES [3]
Adjusted return on common shareholders' equity [1]	**11.6%**	10.5% to 12.5%
Adjusted net income (in millions of dollars) [1]	**$156.0**	$145.0 to $165.0
Adjusted efficiency ratio [1]	**72.7%**	72.5% to 69.5%
Adjusted operational leverage [1]	**0.7%**	Positive
Common Equity Tier I capital ratio — All-in basis	**7.6%**	› 7.0%

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

(2) In 2014, the comparative results of 2013 will include the impact of adopting an amended version of IAS 19, which is expected to reduce the adjusted net income presented in the table by approximately $5.3 million.

(3) These objectives for 2014 should be read concurrently with the following paragraphs on key assumptions.

Over the recent years, the Bank has continuously improved its profitability and has significantly increased the size of its operations. Management remains committed to delivering profitable growth. These improvements will be further consolidated as the Bank enters into 2014.

The persisting very low interest rate environment and consumer deleveraging pose a challenge and should temporarily constrain net interest income growth. Anticipated expense growth due to pension costs and ongoing investments in 2014 related to strategic initiatives and regulatory requirements in 2014 should also, in the short term, put pressure on expenses. To balance the impact of these expected conditions in 2014, the Bank will emphasize the distribution of higher-margin products mainly through its commercial activities and continue to focus on growing income from non-interest sensitive sources. In addition, continuous rigorous cost controls and the delivery of the remaining cost synergies from its acquired businesses should contribute to containing expenses and produce operating leverage.

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. Other factors such as those detailed in the Caution Regarding Forward-Looking Statements section at the beginning of the annual report and in the Risk Appetite and Risk Management Framework section could also cause future results to differ materially from these objectives.

Considering the environment described above, management believes the following factors will underlie its financial outlook for 2014:

- Good organic growth to continue, fuelled by higher-margin commercial businesses
- Some attrition in the investment loan portfolios, as consumers continue to deleverage
- Stable margins from the 2013 year-end level
- Strategies to grow and diversify other income to be maintained
- Loan loss provisions to progressively return to normalized levels from 2013 low levels
- Relatively stable housing market
- Stable interest rate environment
- Expenses to be tightly controlled, below the inflation rate level, despite the anticipated increase in pension costs resulting from changes in accounting standards
- Integration of MRS Companies/AGF Trust to be completed in 2014 with further cost synergies to fully materialize in the second half of 2014

These objectives exclude expected integration costs pertaining to acquisitions and amortization of acquisition-related net premium on purchased financial instruments as well as potential changes in the fair value of the acquisition-related contingent consideration.

Medium term outlook beyond 2014

In the medium term, the Bank is expecting that, even with this current rate environment, the pressure on the Bank's net interest margin should diminish and eventually reverse as the Bank continues to put more emphasis on higher-margin products growth. The recent launches of the Bank's leasing activities combined with its expanded alt-A mortgage offering through B2B Bank is directly in line with this strategy. Also, upon completion of the integration process, B2B Bank management will redirect their attention towards maximizing the revenue potential.

Furthermore, the Bank's medium term strategic vision is to:

- Grow B2B Bank as the dominant bank to Canada's financial advisor community
- Increase its footprint in commercial banking with targeted offerings such as lease financing and other banking solutions to niche segments
- Pursue the development of its virtual offering
- Advance the Bank's pan-Canadian presence
- Implement the internal ratings-based approach and optimize its regulatory capital

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

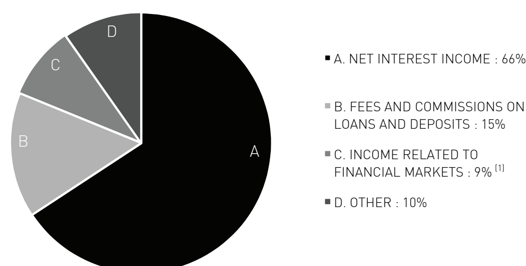
- Grow net income per share by 5% to 10% annually
- Gradually bring the efficiency ratio below 68%
- Generate positive operating leverage
- Maintain strong capital ratios that exceed regulatory requirements

ANALYSIS OF CONSOLIDATED RESULTS

Net income was $124.7 million, or $3.99 diluted per share, for the year ended October 31, 2013, compared with $140.5 million, or $4.98 diluted per share, in 2012. Adjusted net income was up 11% year-over-year to $156.0 million for the year ended October 31, 2013, compared with $140.7 million in 2012, while adjusted diluted earnings per share was $5.09, compared with $4.98 diluted per share, in 2012. The increase in net income is mainly attributable to the full-year contribution of AGF Trust.

The acquisition of AGF Trust, in the fourth quarter of 2012, contributed to the Bank's earnings growth throughout the year in 2013 compared with a single quarter of contribution in 2012. As AGF Trust systems and account integration is well underway, results for AGF Trust now form part of B2B Bank's earnings.

TOTAL REVENUE MIX
(as a percentage)



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

TOTAL REVENUE

Total revenue increased by $68.7 million or 9% to $865.3 million for the year ended October 31, 2013, compared with $796.6 million for the year ended October 31, 2012. The increase mainly results from the full-year contribution of AGF Trust, along with strong growth in other income. Net interest income increased by 7% to $568.8 million, while other income increased by 12% to $296.6 million, as detailed below.

NET INTEREST INCOME

Net interest income increased by 7% to $568.8 million for the year ended October 31, 2013, compared with $531.0 million for the same period in 2012, and is mainly explained by revenues stemming from the loan and deposit volumes purchased through the AGF Trust transaction. As further detailed in Table 6, this growth was partly offset by a decrease in net interest margin of 3 basis points year-over-year, from 1.69% in 2012 to 1.66% in 2013.

The compression in net interest margin reflects the repricing of maturing loans and deposits in the sustained very low interest rate environment and a lower volume of residential mortgage loan prepayment penalties, partly offset by the higher-yielding loans in the AGF Trust portfolios and the reduction in lower-yielding liquid assets compared to a year ago. Table 5 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 2013, interest rate swaps generated revenues of $44.3 million and partly compensated lower interest income resulting from declining interest rates. 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 51 of this MD&A.

TABLE 5

CHANGES IN NET INTEREST INCOME

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

	2013				2012			
	AVERAGE VOLUME IN %	AVERAGE VOLUME	INTEREST	AVERAGE RATE	AVERAGE VOLUME IN %	AVERAGE VOLUME	INTEREST	AVERAGE RATE
Assets								
Cash resources and securities	16.6%	$ 5,679,874	$ 59,532	1.05 %	19.4%	$ 6,106,815	$ 77,468	1.27 %
Securities purchased under reverse repurchase agreements	2.1	732,547	7,393	1.01	2.8	892,200	9,098	1.02
Loans								
Personal	22.0	7,511,222	357,691	4.76	20.6	6,487,719	309,334	4.77
Residential mortgage	42.4	14,510,649	511,426	3.52	40.2	12,637,878	490,708	3.88
Commercial mortgage	7.1	2,414,700	112,969	4.68	7.7	2,418,315	115,907	4.79
Commercial and other	7.2	2,477,812	96,800	3.91	7.0	2,194,881	89,814	4.09
Derivatives	—	—	44,338	—	—	—	59,240	—
Other assets	2.6	871,873	—	—	2.3	726,727	—	—
Total - assets	100.0%	$ 34,198,677	$1,190,149	3.48 %	100.0%	$ 31,464,535	$ 1,151,569	3.66 %
Liabilities and shareholders' equity								
Demand and notice deposits		$ 8,068,313	$ 71,491	0.89 %		$ 7,896,765	$ 70,093	0.89 %
Term deposits		15,924,290	392,112	2.46		14,082,730	375,553	2.67
Obligations related to securities sold short or under repurchase agreements		2,121,260	1,261	0.06		1,927,419	1,176	0.06
Acceptances		256,687	—	—		218,879	—	—
Other liabilities		612,514	—	—		601,739	—	—
Debt related to securitization activities		5,269,932	140,453	2.67		5,153,686	163,880	3.18
Subordinated debt		444,409	16,072	3.62		250,445	9,839	3.93
Shareholders' equity		1,501,272	—	—		1,332,872	—	—
Total - liabilities and shareholders' equity		$ 34,198,677	$ 621,389	1.82 %		$ 31,464,535	$ 620,541	1.97 %
Net interest income			$ 568,760	1.66 %			$ 531,028	1.69 %

TABLE 6

ANALYSIS OF CHANGE IN NET INTEREST INCOME

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

	2013 / 2012			2012 / 2011		
	Increase (decrease) due to change in			Increase (decrease) due to change in		
	AVERAGE VOLUME	AVERAGE RATE	NET CHANGE	AVERAGE VOLUME	AVERAGE RATE	NET CHANGE
Assets	$ 45,935	$ (6,363)	$ 39,572	$ 34,490	$ 13,578	$ 48,068
Liabilities	19,803	(21,643)	(1,840)	35,378	(56,903)	(21,525)
Net interest income	$ 65,738	$ (28,006)	$ 37,732	$ 69,868	$ (43,325)	$ 26,543

OTHER INCOME

Other income was $296.6 million for the year ended October 31, 2013, compared with $265.6 million for the same period in 2012, a solid 12% year-over-year increase reflecting improvements across all revenue streams.

Fees and commissions on loans and deposits increased by 12% to $133.8 million for fiscal 2013 from $120.0 million in 2012, mainly driven by increased deposit service charges due to pricing initiatives, as well as higher lending fees due to increased business volume and commercial loan prepayment penalties. Card service revenues also contributed to the increase as a result of higher fees and transactional volume in 2013.

Income from brokerage operations increased by 11% to $60.6 million for fiscal 2013 compared to $54.8 million in 2012, as the Bank's brokerage subsidiary capitalized on growth opportunities in the fixed income market and benefited from stronger equity markets and improved conditions for trading and retail brokerage activities compared to a year ago.

Income from investment accounts increased by 12% to $32.7 million for fiscal 2013, compared to $29.1 million earned in 2012, mainly driven by a full year contribution from B2B Bank Dealer Services.

Revenues from mutual funds improved by 25% to $22.5 million in fiscal 2013 compared with $18.0 million in 2012. During the year, the Bank continued to distribute a preferred series of LBC-Mackenzie mutual funds in its Québec branch network which contributed to record mutual fund sales and also benefitted from improved equity markets to generate growth in assets under administration.

Income from treasury and financial market operations increased by 2% to $17.9 million for fiscal 2013 from $17.5 million in 2012. This increase mainly resulted from higher income from trading activities, while foreign exchange revenues and the contribution from other treasury activities were relatively unchanged year-over-year. 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 increased by $1.4 million to $16.9 million for fiscal 2013 from $15.5 million in 2012, mainly due to higher premiums reflecting growth in the residential mortgage loan and credit card portfolios, as well as a lower level of claims.

TABLE 7

OTHER INCOME

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

	2013	2012	2011	VARIANCE 2013 / 2012
Fees and commissions on loans and deposits				
Deposit service charges	**$ 63,195**	$ 57,226	$ 53,809	10 %
Lending fees	**42,774**	37,788	38,542	13
Card service revenues	**27,822**	24,939	22,655	12
Sub-total - fees and commissions on loans and deposits	**133,791**	119,953	115,006	12
Other				
Income from brokerage operations	**60,607**	54,806	48,429	11
Income from investment accounts	**32,694**	29,079	7,253	12
Income from sales of mutual funds	**22,501**	18,026	17,308	25
Income from treasury and financial market operations	**17,877**	17,531	20,938	2
Credit insurance income	**16,881**	15,529	18,591	9
Other	**12,226**	10,691	6,337	14
Sub-total - other	**162,786**	145,662	118,856	12
Total - other income	**$ 296,577**	$ 265,615	$ 233,862	12 %

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

For the year ended October 31, 2013, the charge related to the amortization of net premium on purchased financial instruments, presented on the line-item "Gain on acquisition and amortization of net premium on purchased financial instruments", amounted to $4.4 million. For the year ended October 31, 2012, the line-item amounted to $23.8 million, which included a $24.3 million pre-tax gain ($16.4 million after income taxes) resulting from the acquisition of AGF Trust. Refer to Note 28 to the annual consolidated financial statements for additional information on this item.

PROVISION FOR LOAN LOSSES

The provision for loan losses amounted to $36.0 million for the year ended October 31, 2013, an increase of $3.0 million or 9% from $33.0 million for the year ended October 31, 2012. Loan losses on AGF Trust's personal loan and residential mortgage loan portfolios for the full year contributed to the increase in these portfolios. Provisions on residential mortgage loans also reflect the higher loan volume and additional collective provisions required on medium-sized residential real estate properties and projects to better reflect the risk profile of these loans. Notwithstanding the prudent management of the level of provisioning and the close monitoring of the loan portfolios, favourable settlements and overall improvements in the commercial mortgage loan and commercial loan portfolios contributed to a net credit in loan losses of $4.4 million over the last twelve months. The continued low level of loan losses reflects the quality of the Bank's loan portfolios and the prolonged favourable credit conditions in Canada.

The following table details the provision for loan losses from 2011 to 2013. The Risk Appetite and Risk Management Framework section in this MD&A provides further discussion with regard to the Bank's portfolios' overall credit condition.

TABLE 8

PROVISION FOR LOAN LOSSES

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

	2013	2012	2011
Personal loans	$ 31,668	$ 25,328	$ 23,341
Residential mortgage loans	8,713	3,454	113
Commercial mortgage loans	(3,640)	1,527	17,404
Commercial and other loans (including acceptances)	(741)	2,691	10,222
Total - provision for loan losses	$ 36,000	$ 33,000	$ 51,080
As a % of average loans and acceptances	0.13%	0.14%	0.24%

NON-INTEREST EXPENSES

Non-interest expenses totalled $667.0 million for the year ended October 31, 2013, compared with $604.5 million for the year ended October 31, 2012. Taking into account realized synergies from the integration of the MRS Companies, the increase in the Bank's adjusted non-interest expenses was limited to approximately 4% when excluding the additional operating expenses related to AGF Trust. T&I Costs increased by $16.2 million to $38.2 million for the year ended October 31, 2013 compared with $22.0 million for the year ended October 31, 2012.

Salaries and employee benefits increased by $30.8 million or 10% to $351.4 million compared with the year ended October 31, 2012, mainly due to the full year impact of AGF Trust employees to expenses, as well as to regular salary increases, restructuring costs of $6.3 million, and higher performance-based compensation and pension costs. These were partly offset by realized synergies from the integration of the MRS Companies and AGF Trust, lower group insurance costs and savings resulting from restructurings in the retail banking operations in 2012.

Totalling $171.3 million for the year ended October 31, 2013, premises and technology costs increased by $18.4 million compared with the year ended October 31, 2012, mainly stemming from rental and IT costs resulting from the operations at AGF Trust, as well as higher rental costs related to additional square footage of leased premises for IT project teams. Higher IT costs from ongoing business growth and amortization expenses as major IT development projects were completed, including a $1.6 million impairment charge for discontinued IT projects, also contributed to the increase.

Other non-interest expenses decreased by $2.9 million to $106.1 million for the year ended October 31, 2013, from $108.9 million for the same period of 2012. The decrease is mainly due to lower taxes for the year ended October 31, 2013, as well as realized cost synergies and overall expense control over other expenses, partly offset by the additional nine months of other non-interest expenses of AGF Trust. Expenses for the year ended October 31, 2012 included MRS Companies' outsourcing expenses prior to their integration within B2B Bank in 2012.

T&I Costs for the year ended October 31, 2013 totalled $38.2 million and mainly related to IT systems conversions costs, employee relocation costs, salaries, professional fees and other expenses for the integration of AGF Trust and the MRS Companies. The integration process is progressing according to plan and should be completed in 2014.

Table 9 illustrates the changes in non-interest expenses from 2011 to 2013.

Efficiency ratio

The adjusted efficiency ratio was 72.7% for the year ended October 31, 2013, compared with 73.1% for the year ended October 31, 2012. On the same adjusted basis and despite higher restructuring costs in 2013, operating leverage was slightly positive year-over-year, as the addition of AGF Trust and higher other income combined with continued cost control measures, aimed at slowing expense growth, more than compensated for the impact of compressing margins. The Bank continued to exercise a tight control on expenses and has taken clear steps in order to improve the efficiency ratio. However, in order to conserve momentum, the Bank continues to invest significantly in its development, for instance in emphasizing the distribution of higher-margin products and focusing on growing income from non-interest sensitive sources.

TABLE 9

NON-INTEREST EXPENSES

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

	2013	2012	2011	VARIANCE 2013 / 2012
Salaries and employee benefits				
Salaries	$ 233,574	$ 214,154	$ 192,119	
Employee benefits	67,898	64,033	55,857	
Performance-based compensation	49,909	42,416	34,654	
Sub-total - salaries and employee benefits	351,381	320,603	282,630	10%
Premises and technology				
Equipment and computer services	63,288	58,319	54,234	
Rent and property taxes	51,191	44,324	40,101	
Depreciation	49,309	43,433	39,967	
Maintenance and repairs	6,036	5,037	5,460	
Public utilities	1,552	1,485	1,461	
Other	(101)	321	(11)	
Sub-total - premises and technology	171,275	152,919	141,212	12%
Other				
Fees and commissions	24,434	25,813	24,667	
Communications and travelling expenses	22,767	20,834	19,582	
Advertising and business development	22,484	23,087	20,620	
Taxes and insurance	17,433	21,293	16,999	
Stationery and publications	7,456	6,232	5,975	
Recruitment and training	2,324	3,108	3,448	
Other	9,170	8,577	5,972	
Sub-total - other	106,068	108,944	97,263	(3)%
Costs related to business combinations and other [1]	38,244	21,997	9,006	74%
Total - non-interest expenses	$ 666,968	$ 604,463	$ 530,111	10%
As a % of total revenue (efficiency ratio) [2]	77.1%	75.9%	71.8%	
As a % of total revenue (adjusted efficiency ratio) [2]	72.7%	73.1%	70.6%	

(1) 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.

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

INCOME TAXES

For fiscal 2013, income tax expense totalled $33.3 million and the effective income tax rate was 21.1%, compared with $42.5 million and 23.2%, respectively, for fiscal 2012. Note 19 to the annual consolidated financial statements provides further information on income tax expense. As detailed in the table below, the decrease in the effective tax rate compared to a year-ago mainly reflects the relatively lower level of revenues from fully taxed domestic operations when including the gain on acquisition of AGF Trust in 2012.

TABLE 10

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)

	2013		2012	
Income taxes at statutory rates	$ 42,248	26.7%	$ 49,361	27.0%
Change resulting from:				
Income related to foreign credit insurance operations	(4,147)	(2.6)	(3,587)	(2.0)
Dividends and tax-exempt gains	(4,823)	(3.0)	(4,168)	(2.3)
Tax rate changes	—	—	(375)	(0.2)
Other	(15)	—	1,236	0.7
Income taxes, as reported in the consolidated statement of income and effective tax rate	$ 33,263	21.1%	$ 42,467	23.2%

TRANSACTIONS WITH RELATED PARTIES

The Bank provides loans to directors and officers and their related companies. As at October 31, 2013, these loans totalled $24.3 million. Loans to directors are granted under market conditions for similar risks and are initially measured at fair value. Loans to officers consist mostly of term residential mortgage loans below posted rates, as well as personal loans and personal lines of credit at market rates less a discount based on the type and amount of the loan. Loans to related entities of 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, 2013, these deposits totalled $5.5 million. The Bank also offers employees a discount on annual credit card fees. In addition, for the year ended October 31, 2013, the Bank paid a rental expense of $2.0 million to a related party. See Note 22 to the annual consolidated financial statements for additional information on related party transactions.

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. Results for 2012 were notably favourably impacted by a $24.3 million pre-tax gain ($16.4 million after income taxes) resulting from the acquisition of AGF Trust.

Excluding the adjusting items related to the Bank's acquisitions described above, 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 and 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 good results. During 2012, significant efforts were made to integrate the MRS Companies in order to optimize the benefits from the acquisition.

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 MRS Companies include the renamed B2B Bank Financial Services Inc., B2B Bank Securities Services Inc. and B2B Bank Intermediary Services Inc., which were branded as B2B Bank Dealer Services, as well as MRS Trust, which was amalgamated with B2B Trust (now B2B Bank) as of April 16, 2012.

The transaction strengthened B2B Bank as the combined entity can now offer the complete suite of financial services, including loan and deposit products, and investment account management services, to its financial advisors. 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 28 to the annual consolidated financial statements for additional information on this acquisition.

Integration and conversion costs were estimated to total $38.0 million at the acquisition date, one-third of which would relate to new IT system investments. The Bank recorded $15.9 million of such integration costs in 2013, and $36.2 million to date. These costs mainly related to professional fees, IT systems conversions, salaries, employee relocation costs and other expenses. A further $6.9 million of expenses were capitalized to date, as B2B Bank invested to develop the IT infrastructure and upgrade the acquired dealer account management system. Overall costs will slightly exceed the initial budget as a result of higher relocation project costs.

The integration of the MRS Companies is in the wind-up stage and the program is expected to be closed by the third quarter of 2014. Significant milestones of the system conversion and client integration process were achieved in 2013 and the system structure associated with B2B Bank's desired business model is now fully implemented.

After two years, the acquisition of the MRS Companies contributed to improve revenue diversification. Most of the anticipated cost synergies have been achieved and should continue to create traction for future years. Moreover, new agreements have been signed with wholesale dealers that should contribute to revenue diversification and financial strength. B2B Bank remains committed to the deployment of its strategies post integration to support future growth.

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 $246.3 million. The agreement also included a contingent consideration of a maximum of $20.0 million payable over five years if credit quality reaches certain criteria. Considering this transaction, the Bank closed a private placement of common shares for total net proceeds of $115.0 million on that same date.

The Bank acquired AGF Trust 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. 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 consolidated balance sheet. AGF Trust was amalgamated with B2B Bank effective September 1, 2013. See Note 28 to the annual consolidated financial statements for additional information on this acquisition.

At acquisition date, total integration and conversion costs were estimated at a range of $30.0 to $35.0 million. The Bank recorded $22.4 million of such costs in 2013, and $25.4 million to date. These costs mainly related to salaries, IT systems conversions, professional fees, employee relocation costs and other expenses. Costs of $5.3 million were capitalized to date as B2B Bank invested to develop its IT infrastructure and a mortgage origination system and to automate the broker deposit purchase processes. Overall the project is expected to slightly exceed the initial budget, essentially as a result of charges related to the overall relocation of B2B Bank's operations into single integrated premises.

The integration of AGF Trust has built significant momentum with some major milestones achieved in 2013, such as systems conversions for products and customer information. All products and services were also harmonized under the B2B Bank brand. As the integration proceeded, a more comprehensive range of products and services was offered to B2B Bank's clientele through a detailed plan to ensure full satisfaction of key partners. The integration of AGF Trust is now entering the homestretch and is expected to be completed in 2014.

After 15 months, the acquisition of AGF Trust contributed significantly to expanding the Bank's revenue base. Profit contribution has exceeded the original business case and is consistent with overall projections. Throughout 2013, B2B Bank's teams have maintained consistent performance levels across the organization, and the decision to move all B2B Bank employees to one new location in the near future will clearly contribute to improving mobilization and team building. With anticipated cost synergies expected to be realized by the second half of fiscal 2014, B2B Bank is well positioned to take advantage of opportunities going forward.

ANALYSIS OF QUARTERLY RESULTS

SUMMARY ANALYSIS OF RESULTS FOR THE FOURTH QUARTER OF FISCAL 2013

Net income was $27.2 million, or $0.86 diluted per share, for the fourth quarter of 2013, compared with $45.7 million, or $1.51 diluted per share, for the fourth quarter of 2012. Adjusted net income was down 3% year-over-year to $35.2 million for the fourth quarter ended October 31, 2013, compared with $36.2 million in 2012, while adjusted diluted earnings per share was $1.14, compared with $1.17 diluted per share, in 2012. Notably, net income in the fourth quarter of 2013 was adversely impacted by one-time restructuring charges of $6.3 million before income taxes ($4.6 million after income taxes), or $0.16 diluted per share, related to the optimization of certain activities. Adjusting items for the quarter are presented in the table below. Additional information can also be found in the Adjusting Items section on page 19 and the Non-GAAP Financial Measures section on page 62.

TABLE 11

IMPACT OF ADJUSTING ITEMS ON FOURTH QUARTER RESULTS

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

	BUSINESS SEGMENT	2013	2012
Impact on net income			
Reported net income		$ 27,167	$ 45,685
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	744	400
Costs related to business combinations and other [2]			
MRS Companies transaction and integration related costs	B2B Bank	2,028	4,739
AGF Trust transaction and integration related costs	B2B Bank	5,281	1,744
		8,053	(9,499)
Adjusted net income [1]		$ 35,220	$ 36,186
Impact on diluted earnings per share			
Reported diluted earnings per share		$ 0.86	$ 1.51
Adjusting items [1]		0.28	(0.34)
Adjusted diluted earnings per share [1]		$ 1.14	$ 1.17

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

(2) Also referred to as Transaction and Integration Costs (T&I Costs).

TOTAL REVENUE

Total revenue increased by $5.1 million or 2% to $215.5 million in the fourth quarter of 2013, compared with $210.4 million in the fourth quarter of 2012.

Net interest income decreased by $1.0 million to $141.4 million for the fourth quarter of 2013, from $142.4 million in the fourth quarter of 2012, essentially reflecting a reduced level of higher margin personal loans, partly offset by slightly improved margins. When compared to the fourth quarter of 2012, margins increased by 4 basis points to 1.66% for the fourth quarter of 2013. The reduction in lower-yielding liquid assets compared to a year ago and the maturing of high-coupon securitization liabilities mainly contributed to the increase. These factors more than compensated for tighter loan and deposit margins stemming from the repricing of maturing loans and deposits in the very low interest rate environment.

Other income totalled $74.1 million in the fourth quarter of 2013, compared with $68.0 million in the fourth quarter of 2012, a $6.1 million or 9% increase reflecting better performance in most revenue streams. During the quarter, fees and commissions on loans and deposits benefitted from increased activity as well as from commercial mortgage loan prepayment penalties amounting to $2.0 million. Continued solid income from sales of mutual funds as well as higher income from investment accounts also contributed to the increase year-over-year, partly offset by lower income from treasury and financial markets due to lower net realized security gains in the quarter when compared to a year earlier.

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

For the fourth quarter of 2013, the charge related to the amortization of net premium on purchased financial instruments, presented on the line-item "Gain on acquisition and amortization of net premium on purchased financial instruments", amounted to $1.0 million. For the fourth quarter of 2012, the line-item amounted to $23.8 million, which included a $24.3 million pre-tax gain ($16.4 million after income taxes) resulting from the acquisition of AGF Trust. Refer to Note 28 to the annual consolidated financial statements for additional information on this item.

PROVISION FOR LOAN LOSSES

The provision for loan losses increased by $2.0 million to $10.0 million in the fourth quarter of 2013 from $8.0 million in the fourth quarter of 2012. Albeit at a very low level, the provision for loan losses is congruent with the Bank's continued prudent approach to loan loss provisioning but nonetheless reflects the overall underlying quality of the Bank's loan portfolios. Loan losses on personal loans increased by $2.5 million compared with the fourth quarter of 2012, mainly driven by additional collective provisions on the AGF Trust portfolios. Loan losses on residential mortgage loans increased marginally by $0.4 million year-over-year. Moreover, during the fourth quarter of 2013, favourable settlements and overall improvements led to a net credit of $1.8 million in loan losses on commercial mortgages and commercial loans.

NON-INTEREST EXPENSES

Non-interest expenses increased by $5.5 million to $170.9 million for the fourth quarter of 2013, compared with $165.4 million for the fourth quarter of 2012. This mainly resulted from certain one-off charges incurred in the fourth quarter of 2013, as detailed below.

Salaries and employee benefits increased by $2.0 million or 2% to $89.1 million for the fourth quarter of 2013, compared with the fourth quarter of 2012. Salaries for the fourth quarter of 2013 include $6.3 million of restructuring charges related to the optimization of certain activities, compared with a similar but unrelated $2.5 million charge in the fourth quarter of 2012. Higher pension costs also contributed to the increase year-over-year. These were partly offset by lower performance-based compensation accruals in the fourth quarter of 2013 and savings related to group insurance programs where the Bank co-insures risk.

Premises and technology costs increased by $6.2 million or 16% to $45.3 million compared with the fourth quarter of 2012, mostly stemming from higher IT costs related to ongoing business growth, including integrated MRS Companies expenses, periodic expenses to support the delivery of certain projects and higher amortization expense related to completed IT development projects. Higher rental costs related to additional square footage of leased premises for IT development teams also contributed to the increase.

Other non-interest expenses decreased by $3.8 million to $26.5 million for the fourth quarter of 2013, from $30.3 million for the fourth quarter of 2012. The decrease is mainly attributable to lower taxes, professional service fees and advertising expenses compared with last year, as the Bank continued to exercise disciplined control over expenses in light of a slower growth environment for interest income. Expenses for the fourth quarter of 2012 also included non-recurring advertising expenses related to the conversion of B2B Trust to B2B Bank.

T&I Costs for the fourth quarter of 2013 totalled $10.0 million and mainly related to IT systems conversions costs, employee relocation costs, salaries, professional fees and other expenses, as noted above.

Efficiency ratio

The adjusted efficiency ratio was 74.7% in the fourth quarter of 2013, compared with 74.4% in the fourth quarter of 2012. Excluding $6.3 million of restructuring charges incurred in the fourth quarter of 2013, the adjusted efficiency ratio was 71.7%. On the same basis, the Bank generated over 2% positive operating leverage year-over-year, mainly due to higher other income, integration synergies, and the Bank's continued cost control initiatives. As suggested by these measures, significant efforts are made to streamline operations. However, management remains committed to ensuring growth and continues to invest in strategic initiatives in each of its business segments.

INCOME TAXES

For the quarter ended October 31, 2013, the income tax expense was $6.5 million and the effective tax rate was 19.3%. The lower tax rate, compared to the statutory rate, mainly resulted from the favourable effect of holding investments in Canadian securities that generate non-taxable dividend income and the lower taxation level on revenues from foreign insurance operations. For the quarter ended October 31, 2012, the income tax expense was $15.1 million and the effective tax rate was 24.9%. Year-over-year, the lower income tax rate for the fourth quarter ended October 31, 2013 results from a relatively higher level of non-taxable dividend income and a relatively lower level of domestic taxable income considering the gain on acquisition of AGF Trust in the quarter ended October 31, 2012.

ANALYSIS OF THE EVOLUTION OF THE QUARTERLY RESULTS

The Bank's intermediation business provides a relatively steady source of income, stemming from large volumes of loans, deposits and investment accounts not likely to experience significant fluctuations in the short term. However, treasury operations and certain activities related to financial markets, such as trading activities, may result in significant volatility. In addition, variations in market interest rates or equity markets as well as in credit conditions can influence the Bank's results. Furthermore, other transactions such as business acquisitions, specific events or regulatory developments may significantly impact revenues and expenses. Given that the second quarter usually consists of only 89 days (90 days in 2012), compared with 92 days for the other quarters, overall profitability is generally lower for that quarter, mainly as net interest income is impacted. The following table summarizes quarterly results for fiscal 2013 and 2012.

TABLE 12

QUARTERLY RESULTS

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

	2013				2012			
	Oct. 31	**July 31**	**April 30**	**Jan. 31**	Oct. 31	July 31	April 30	Jan. 31
Net interest income	**$ 141,437**	**$ 144,549**	**$ 140,430**	**$ 142,344**	$ 142,411	$ 129,664	$ 128,324	$ 130,629
Other income	**74,094**	**76,493**	**74,420**	**71,570**	67,985	64,169	70,346	63,115
Total revenue	**215,531**	**221,042**	**214,850**	**213,914**	210,396	193,833	198,670	193,744
Gain on acquisition and amortization of net premium on purchased financial instruments	**(1,006)**	**(1,140)**	**(1,224)**	**(1,056)**	23,795	—	—	—
Provision for loan losses	**10,000**	**9,000**	**9,000**	**8,000**	8,000	7,500	7,500	10,000
Non-interest expenses	**160,922**	**160,328**	**153,717**	**153,757**	156,547	141,798	143,761	140,360
Costs related to business combinations and other [2]	**9,951**	**14,600**	**6,136**	**7,557**	8,830	7,157	3,350	2,660
Income before income taxes	**33,652**	**35,974**	**44,773**	**43,544**	60,814	37,378	44,059	40,724
Income taxes	**6,485**	**7,690**	**9,634**	**9,454**	15,129	7,380	10,196	9,762
Net income	**$ 27,167**	**$ 28,284**	**$ 35,139**	**$ 34,090**	$ 45,685	$ 29,998	$ 33,863	$ 30,962
Earnings per share								
Basic	**$ 0.86**	**$ 0.91**	**$ 1.10**	**$ 1.12**	$ 1.51	$ 1.06	$ 1.22	$ 1.16
Diluted	**$ 0.86**	**$ 0.91**	**$ 1.10**	**$ 1.12**	$ 1.51	$ 1.06	$ 1.22	$ 1.16
Net interest margin [1]	**1.66%**	**1.68%**	**1.68%**	**1.63%**	1.62%	1.66%	1.73%	1.75%
Return on common shareholders' equity [1]	**7.7%**	**8.1%**	**10.3%**	**10.3%**	14.2%	10.1%	12.0%	11.5%
Segment net income (loss)								
Retail & SME-Québec	**$ 8,766**	**$ 11,024**	**$ 9,662**	**$ 11,210**	$ 9,293	$ 13,535	$ 10,658	$ 10,421
Real Estate & Commercial	**17,037**	**16,987**	**16,399**	**16,632**	16,729	15,951	16,969	14,306
B2B Bank	**5,160**	**5,983**	**9,837**	**9,914**	25,193	7,255	8,129	8,871
Laurentian Bank Securities & Capital Markets	**2,909**	**2,287**	**2,975**	**2,681**	2,692	1,176	2,779	1,875
Other	**(6,705)**	**(7,997)**	**(3,734)**	**(6,347)**	(8,222)	(7,919)	(4,672)	(4,511)
Net income	**$ 27,167**	**$ 28,284**	**$ 35,139**	**$ 34,090**	$ 45,685	$ 29,998	$ 33,863	$ 30,962
Adjusted financial measures								
Adjusted net income [1]	**$ 35,220**	**$ 39,847**	**$ 40,547**	**$ 40,418**	$ 36,186	$ 35,253	$ 36,302	$ 32,919
Adjusted diluted earnings per share [1]	**$ 1.14**	**$ 1.31**	**$ 1.29**	**$ 1.34**	$ 1.17	$ 1.27	$ 1.31	$ 1.24
Adjusted return on common shareholders' equity [1]	**10.2%**	**11.8%**	**12.1%**	**12.2%**	10.9%	12.1%	13.0%	12.4%

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

(2) Integration costs related to the acquisition of the MRS Companies and AGF Trust.

Over the past eight quarters, adjusted net income has generally trended upward, driven mainly by sustained growth in loan and deposit portfolios and other income combined with overall improvements in credit quality while net income was less stable due to the impact of the Bank's acquisitions. Furthermore, certain specific factors, as detailed below, have affected results during fiscal 2013 and 2012.

2013

- Net interest income remained relatively unchanged in 2013, reflecting slower loan growth and stabilizing interest margins.
- Other income increased throughout 2013 as all revenue streams improved mainly due to increased business activity.
- The provision for loan losses gradually increased in 2013, albeit remaining at a very low level, as additional collective provisions mainly due to purchased loans were partly offset by favourable settlements on commercial exposures in the Real Estate and Commercial business segment.
- Non-interest expenses trended higher in 2013, mainly as a result of higher expenses from acquired operations, as well as higher IT costs related to ongoing business growth, sales tax and pension costs, partly offset by realized synergies from the integration of the MRS Companies.
- Costs related to business combinations continued to be incurred in 2013, as the B2B Bank business segment nearly completed the integration of the MRS Companies and gradually turned to the execution of its integration plans for AGF Trust. These costs mainly related to IT conversion, employee relocation, salaries, professional fees and other expenses.

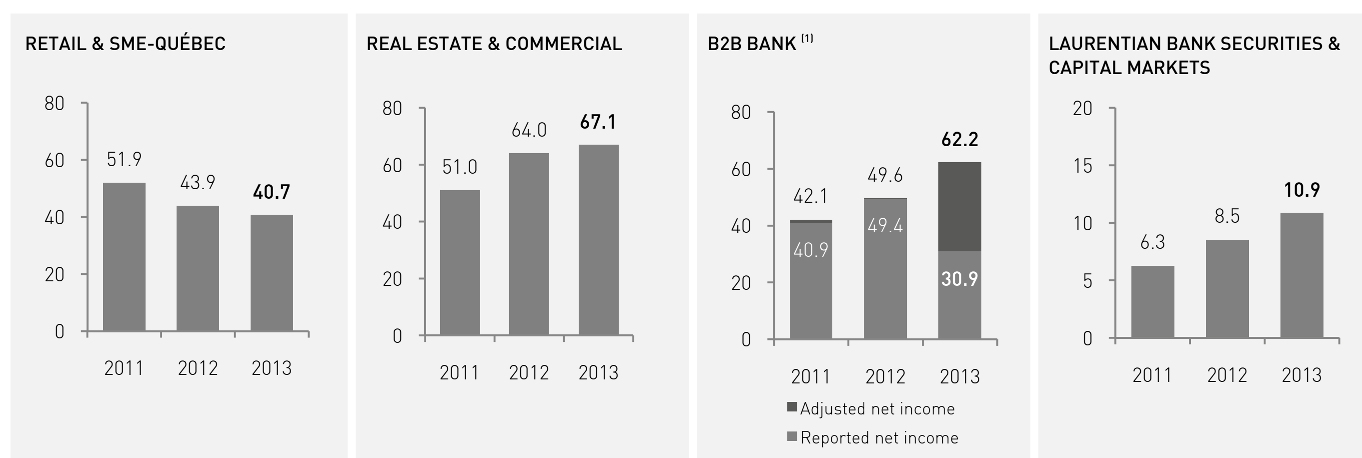
2012

- 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 provisions and operating expenses increased accordingly from that date.
- 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.

BUSINESS SEGMENTS

This section outlines the Bank's operations according to the organizational structure in effect throughout 2013. During the year, services to individuals, businesses, financial intermediaries and institutional clients were offered through the business segments presented in the graphs below.

NET INCOME BY BUSINESS SEGMENT
(in millions of Canadian dollars)



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

RETAIL & SME-QUÉBEC

The Retail & SME-Québec segment provides savings, investment and financing products, and transactional products and services offered through its direct distribution network, which includes branches, electronic networks, and a call centre.

The Retail & SME-Québec business segment's contribution to net income was $40.7 million for the year ended October 31, 2013 compared with $43.9 million for the year ended October 31, 2012.

TABLE 13

SEGMENT CONTRIBUTION

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

	2013	2012	2011
Net interest income	$ 303,375	$ 310,776	$ 321,578
Other income	153,719	135,121	132,346
Total revenue	457,094	445,897	453,924
Provision for loan losses	26,938	23,978	24,060
Non-interest expenses	381,444	366,994	363,825
Income before income taxes	48,712	54,925	66,039
Income taxes	8,050	11,018	14,148
Net income	$ 40,662	$ 43,907	$ 51,891
Efficiency ratio [1]	83.4%	82.3%	80.2%
Average loans and acceptances	$ 13,909,054	$ 13,341,941	$ 12,412,591
Average deposits	$ 9,562,799	$ 9,589,392	$ 9,146,968

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

Total revenue increased by $11.2 million from $445.9 million for the year ended October 31, 2012 to $457.1 million for the year ended October 31, 2013, as a result of strong growth in other income. Net interest income decreased by $7.4 million, as growth in loan and deposit volumes year-over-year did not fully compensate for lower margins stemming from the repricing of loans and deposits in the sustained very low interest rate environment. Other income increased by 14% from $135.1 million for the year ended October 31, 2012 to $153.7 million for the year ended October 31, 2013 reflecting improved performance in all revenue streams. Higher fees on deposits, higher income from sales of mutual funds reflecting record sales and improved equity markets compared to a year ago, as well as higher card service revenues and credit insurance income all contributed to the increase year-over-year.

Loan losses increased from $24.0 million for the year ended October 31, 2012 to $26.9 million for the year ended October 31, 2013, consistent with the higher loan volume and driven by additional collective provisions required on medium-sized residential real estate properties and projects to better reflect the risk profile of these loans. Non-interest expenses increased by $14.5 million or 4%, from $367.0 million for the year ended October 31, 2012 to $381.4 million for the year ended October 31, 2013. Higher pension costs, restructuring charges, as well as higher premises and technology costs mainly accounted for the increase, partly offset by savings resulting from restructurings in the retail banking operations in 2012.

The efficiency ratio was 83.4% for the year ended October 31, 2013, compared with 82.3% for the year ended October 31, 2012. Despite strong growth in other income and an increased focus on containing costs, the impact of the prolonged very low interest rate environment continues to weigh on the segment's efficiency ratio. However, management remains committed to ensuring continued revenue growth and significant efforts are being made to streamline operations. Notably, in October the Bank optimized certain processes and activities in order to manage the ongoing costs in serving the evolving needs of its clients.

REAL ESTATE & COMMERCIAL

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 Real Estate & Commercial business segment's contribution to net income increased by $3.1 million or 5% to $67.1 million in 2013, compared with $64.0 million in 2012.

TABLE 14

SEGMENT CONTRIBUTION

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

		2013		2012		2011
Net interest income	$	**84,466**	$	87,825	$	90,656
Other income		**37,469**		34,430		33,738
Total revenue		**121,935**		122,255		124,394
Provision for loan losses		**(5,500)**		3,002		22,677
Non-interest expenses		**35,953**		31,582		30,211
Income before taxes		**91,482**		87,671		71,506
Income taxes		**24,427**		23,716		20,469
Net income	$	**67,055**	$	63,955	$	51,037
Efficiency ratio [1]		**29.5%**		25.8%		24.3%
Average loans and acceptances	$	**3,432,231**	$	3,374,481	$	3,072,592
Average deposits	$	**451,095**	$	511,215	$	513,690

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

Total revenue was nearly unchanged at $121.9 million in 2013 compared with $122.3 million in 2012. Net interest income decreased by $3.4 million compared with 2012, as revenues resulting from volume growth, notably in the commercial loan portfolio, were more than offset by margin compression stemming from the persistently low interest rates. Other income increased by $3.0 million or 9% in 2013, mainly as a result of ongoing underwriting activity and revenues of $2.0 million from prepayments on commercial mortgage loans. Loan losses decreased by $8.5 million compared with the year ended October 31, 2012 and generated a net credit of $5.5 million in 2013, explained by overall improvements in both the commercial mortgage loan and commercial loan portfolios. This reflects the excellent credit quality of the commercial portfolios and is further evidenced by the significantly lower level of impaired loans. Non-interest expenses increased by $4.4 million compared to the year ended October 31, 2012, mainly due to higher salaries and benefits.

B2B BANK

The B2B Bank segment supplies banking and financial products to independent financial advisors across Canada.

The B2B Bank business segment's contribution to adjusted net income was $62.2 million for the year ended October 31, 2013, up $12.6 million or 25% from $49.6 million for the year ended October 31, 2012.

TABLE 15

SEGMENT CONTRIBUTION

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

		2013		2012		2011
Net interest income	$	**190,928**	$	143,593	$	117,769
Other income		**36,705**		34,590		8,967
Total revenue		**227,633**		178,183		126,736
Gain on acquisition and amortization of net premium on purchased financial instruments		**(4,426)**		23,795		—
Provision for loan losses		**14,562**		6,020		4,343
Non-interest expenses		**128,092**		106,077		64,040
Costs related to business combinations and other [1]		**38,244**		21,997		1,349
Income before taxes		**42,309**		67,884		57,004
Income taxes		**11,415**		18,436		16,149
Net income	$	**30,894**	$	49,448	$	40,855
Adjusted net income [2]	$	**62,246**	$	49,600	$	42,056
Efficiency ratio [2]		**73.1%**		71.9%		51.6%
Adjusted efficiency ratio [2]		**56.3%**		59.5%		50.5%
Average loans and acceptances	$	**9,218,339**	$	6,747,686	$	5,400,231
Average deposits	$	**12,973,188**	$	10,863,952	$	9,213,139

(1) Integration costs related to the acquisition of the MRS Companies and AGF Trust.

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

The improvement essentially stems from the addition of nine more months of AGF Trust's net income, which contributed to earnings growth throughout the year compared with a single quarter of contribution in 2012. As AGF Trust systems and account integration is well underway, results for AGF Trust now form part of B2B Bank's earnings. The segment's reported net income for the year ended October 31, 2013 was $30.9 million compared with $49.4 million a year ago, essentially as a result of the initial gain resulting from the acquisition of AGF Trust in 2012 and the higher level of integration costs.

Total revenue increased to $227.6 million for the year ended October 31, 2013 compared with $178.2 million for the year ended October 31, 2012. Net interest income increased by $47.3 million compared to last year, mostly from the additional contribution of AGF Trust to net interest income, and totalled $190.9 million for the year ended October 31, 2013. Notwithstanding the impact of the acquired businesses, margin compression given the low interest rate environment and investor deleveraging have hampered results throughout the year. Other income increased by $2.1 million to $36.7 million for the year ended October 31, 2013, mostly as a result of higher B2B Bank Dealer Services-sourced income from investment accounts.

As shown above, the charge related to amortization of net premium on purchased financial instruments, presented on the line-item "Gain on acquisition and amortization of net premium on purchased financial instruments", amounted to $4.4 million for the year ended October 31, 2013. For the year ended October 31, 2012, the line-item amounted to $23.8 million, which included a $24.3 million pre-tax gain ($16.4 million after income taxes) resulting from the acquisition of AGF Trust. Refer to Note 28 to the annual consolidated financial statements for additional information on this item.

Loan losses increased from $6.0 million for the year ended October 31, 2012 to $14.6 million for the year ended October 31, 2013, mainly as a result of loan losses related to the AGF Trust loan portfolios.

Non-interest expenses, as shown in the table above, increased by $22.0 million to $128.1 million for the year ended October 31, 2013, compared with $106.1 million for the year ended October 31, 2012. This increase includes the full year addition of AGF Trust to current operating costs. Otherwise, expenses decreased by approximately 1% year-over-year, mainly due to integration synergies from the MRS Companies. T&I Costs for the year ended October 31, 2013 totalled $38.2 million and mainly related to IT systems conversions costs, employee relocation costs, salaries, professional fees and other expenses for the integration of AGF Trust and the MRS Companies.

LAURENTIAN BANK SECURITIES & CAPITAL MARKETS

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

Laurentian Bank Securities & Capital Markets business segment's contribution to net income increased by $2.3 million or 27% to $10.9 million for the year ended October 31, 2013, compared with $8.5 million for the year ended October 31, 2012.

TABLE 16

SEGMENT CONTRIBUTION

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

	2013	2012	2011
Total revenue	**$ 67,831**	$ 59,902	$ 56,353
Non-interest expenses	**53,407**	48,439	47,902
Income before taxes	**14,424**	11,463	8,451
Income taxes	**3,572**	2,941	2,180
Net income	**$ 10,852**	$ 8,522	$ 6,271
Efficiency ratio [1]	**78.7%**	80.9%	85.0%
Clients' brokerage assets	**$ 2,465,747**	$ 2,253,599	$ 2,153,893

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

Total revenue increased to $67.8 million for the year ended October 31, 2013 compared with $59.9 million for the year ended October 31, 2012. During the year ended October 31, 2013, the business segment benefited from improved market conditions for trading and retail brokerage activities compared to a year ago and capitalized on growth opportunities in the fixed income and small-cap equity markets. Non-interest expenses increased by $5.0 million to $53.4 million for the year ended October 31, 2013, mainly due to higher headcount, performance-based compensation, commissions and transaction fees, in-line with increased market-driven income. The business segment generated positive operating leverage year-over-year, mainly as a result of higher revenues from business initiatives and better financial markets compared to a year ago.

OTHER

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

The Other sector posted a negative contribution to net income of $24.8 million for the year ended October 31, 2013 compared with a negative contribution of $25.3 million for the year ended October 31, 2012.

TABLE 17

SEGMENT CONTRIBUTION

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

	2013	2012	2011
Net interest income	$ (14,132)	$ (14,376)	$ (28,664)
Other income	4,976	4,782	5,604
Total revenue	(9,156)	(9,594)	(23,060)
Non-interest expenses	29,828	29,374	15,127
Costs related to business combinations and other [1]	—	—	7,657
Loss before income taxes	(38,984)	(38,968)	(45,844)
Income taxes recovery	(14,201)	(13,644)	(19,507)
Net loss	$ (24,783)	$ (25,324)	$ (26,337)
Adjusted net loss [2]	$ (24,783)	$ (25,324)	$ (20,872)

(1) Compensation for the termination in 2012 of a mutual fund distribution agreement.

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

Net interest income marginally improved from negative $14.4 million in 2012 to negative $14.1 million in 2013, mainly as a result of the maturing of high-coupon securitization liabilities and the reduction of lower-yielding liquid assets throughout the year, which more than offset the impact of less favourable market conditions compared to a year ago. Other income was $5.0 million in 2013 compared with $4.8 million in 2012, as treasury activities were up marginally year-over-year. Non-interest expenses were up $0.5 million or 2% to $29.8 million in 2013 compared with $29.4 million in 2012. This increase includes $1.0 million restructuring charges related to the optimization of certain processes and activities and a $1.6 million impairment charge related to discontinued IT projects during the year. Premises and technology expenses also contributed to the increase due to higher unallocated amortization expense related to completed IT projects, as well as higher rental costs stemming from additional square footage of leased premises for IT project teams. These increases were more than offset by favourable adjustments to sales taxes and lower other expenses.

ANALYSIS OF FINANCIAL CONDITION

Over the past three years, the significant increase in the size of the Bank's operations, enhanced by acquisitions in 2012, has allowed the Bank to improve its profitability and reinforce its capital. In an environment of increasingly intensified regulations, this added flexibility should allow the Bank to pursue its growth initiatives and to meet the regulatory capital requirements.

As at October 31, 2013, the Bank reported total assets of $33.9 billion, compared with $34.9 billion as at October 31, 2012, as shown in Table 18. These changes are explained in the following sections of this MD&A.

LIQUID ASSETS

Liquid assets consist of cash, deposits with other banks, securities and securities purchased under reverse repurchase agreements. As at October 31, 2013, these assets totalled $5.9 billion, a decrease of $1.4 billion compared to $7.3 billion as at October 31, 2012, due to the reduction in low-yielding replacement assets that were used to reimburse $1.6 billion of matured debt related to securitization activities during the year ended October 31, 2013. In addition, the Bank reduced the overall level of liquid assets over the past twelve months to fund its loan growth. The relatively higher level of liquidity assets in 2012 was due to the acquisition of AGF Trust, as well as the Bank's issuance of capital instruments prior to the initial Basel III implementation on January 1, 2013. As a result, liquid assets were relatively lower and decreased to 17% as a percentage of total assets, from 21% as at October 31, 2012. Overall, the Bank continues to maintain diverse funding sources, to prudently manage the level of liquid assets and to hold sufficient cash resources in order to meet its current and future financial obligations, under both normal and stressed conditions

As at October 31, 2013, securities amounted to $4.5 billion, including a portfolio of available-for-sale securities totalling $1.7 billion. Net unrealized gains, included in accumulated other comprehensive income, amounted to $9.5 million as at October 31, 2013.

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

TABLE 18

BALANCE SHEET ASSETS

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

	2013	2012	2011	VARIANCE 2013 / 2012
Cash, deposits with other banks and securities	**$ 4,689,363**	$ 6,714,004	$ 5,542,925	(30)%
Securities purchased under reverse repurchase agreements	**1,218,255**	631,202	720,317	93
Loans				
Personal	**7,245,474**	7,806,067	5,774,207	(7)
Residential mortgage	**14,735,211**	14,169,095	11,869,412	4
Commercial mortgage	**2,488,826**	2,443,634	2,363,808	2
Commercial and other	**2,488,137**	2,150,953	1,900,977	16
Customers' liabilities under acceptances	**271,049**	211,130	179,140	28
	27,228,697	26,780,879	22,087,544	2
Allowances for loan losses	**(115,590)**	(117,542)	(143,150)	(2)
Total loans	**27,113,107**	26,663,337	21,944,394	2
Other assets	**904,955**	928,283	755,574	(3)
Balance sheet assets	**$ 33,925,680**	$ 34,936,826	$ 28,963,210	(3)%
Cash, deposits with other banks, securities and securities purchased under reverse repurchase as a % of balance sheet assets	**17.4%**	21.0%	21.6%	
Total net loans and acceptances as a % of balance sheet assets	**79.9%**	76.3%	75.8%	

LOAN PORTFOLIO

Total loans and bankers' acceptances, net of allowances stood at $27.1 billion as at October 31, 2013, up $0.4 billion or 2% from October 31, 2012. The increase in the Bank's loan portfolios was fuelled by the strong organic growth in the higher-margin commercial loan portfolios, as retail loans were up marginally. In an environment of slowing consumer loan demand and low interest rates, the Bank focused its efforts to capitalize on growth opportunities in niche markets. This targeted approached has contributed to the Bank successfully increasing total loans and bankers' acceptances year-over-year.

Residential mortgage loans stood at $14.7 billion as at October 31, 2013 and increased by $0.6 billion in 2013, reflecting a slower albeit resilient housing market compared to a year ago due in part to the tightening of mortgage lending rules introduced by the federal government in the second half of 2012. Nonetheless, the Bank's targeted strategy to prioritize its customers' needs and expanded distribution network have aided in maintaining growth in this loan portfolio.

Personal loans amounted to $7.2 billion and decreased by $0.6 billion or 7% since October 31, 2012. The personal loan portfolio was mainly impacted by the expected run-offs in AGF Trust's investment loans and as clients deleveraged, as well as continued run-offs in point-of-sale financing.

Commercial loans, including bankers' acceptances, increased by $397.1 million or 17% since October 31, 2012, as the Bank has been successfully developing this higher-margin activity. Commercial mortgage loans also grew by $45.2 million or 2% over the same period, despite loan sales of $94.7 million in the second quarter of 2013.

Impaired loans

Gross impaired loans decreased to $99.4 million in 2013 from $128.0 million in 2012, reflecting the continued improvements in credit quality during the year, notably in the commercial loan portfolios. This was partly offset by the increased volume in the retail portfolio, which includes the acquired loan portfolios. Net impaired loans amounted to $53.1 million as at October 31, 2013, compared to $67.7 million as at October 31, 2012. 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 Risk Appetite and Risk Management Framework section.

OTHER ASSETS

Other assets decreased by 3% to $905.0 million as at October 31, 2013 from $928.3 million as at October 31, 2012, mainly resulting from changes in the fair value of derivatives, which are principally used to hedge the Bank's exposure to market risks. This decrease was partially offset by higher level of capitalized development projects such as the the ongoing program to implement the Basel Internal Ratings Based approach to credit risk.

TABLE 19

BALANCE SHEET LIABILITIES

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

	2013	2012	2011	VARIANCE 2013 / 2012
Deposits				
Personal	**$ 19,282,042**	$ 19,369,310	$ 15,609,853	—%
Business, banks and other	**4,645,308**	4,672,133	4,406,428	(1)
	23,927,350	24,041,443	20,016,281	—
Other liabilities	**3,091,150**	2,873,563	2,725,215	8
Debt related to securitization activities	**4,974,714**	6,037,097	4,760,847	(18)
Subordinated debt	**445,473**	443,594	242,551	—
Balance sheet liabilities	**$ 32,438,687**	$ 33,395,697	$ 27,744,894	(3)%
Personal deposits as a % of total deposits	**80.6%**	80.6%	78.0%	
Total deposits as a % of balance sheet liabilities	**73.8%**	72.0%	72.1%	

DEPOSITS

The deposit portfolio was down slightly by $0.1 billion to $23.9 billion as at October 31, 2013 from $24.0 billion as at October 31, 2012. Personal deposits decreased marginally by $0.1 billion from October 31, 2012 and stood at $19.3 billion as at October 31, 2013, in line with the more modest growth in the loan portfolios, which was mainly funded by liquid assets throughout the year. Moreover, in light of future regulatory liquidity requirements, the Bank continues to focus its efforts on retail deposit gathering and maintaining its solid retail funding base. Personal deposits represented 81% of total deposits as at October 31, 2013, unchanged from a year ago. Business and other deposits, which include institutional deposits, decreased marginally since October 31, 2012 to $4.6 billion as at October 31, 2013. Nevertheless, the Bank continues to maintain diversified funding sources and to actively manage its liquidity levels. As such, the Bank took advantage of favourable market conditions and raised $200.0 million of five-year senior deposit notes in the second quarter of 2013 and also raised an additional $275.0 million of five-year senior deposit notes during the fourth quarter of 2013.

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

OTHER LIABILITIES

Other liabilities were up marginally to $3.1 billion as at October 31, 2013 from $2.9 billion as at October 31, 2012. The year-over-year increase resulted mainly from higher obligations related to marketable securities sold short.

Debt related to securitization activities decreased by a net $1.1 billion compared with October 31, 2012 and stood at $5.0 billion as at October 31, 2013, mainly as four high-coupon issuances came to maturity. Since the beginning of the year, the Bank also funded itself through the securitization of $1.2 billion of new residential mortgage loans. The Bank sold $738.5 million as part of new Canada Mortgage Bond issuances and $416.2 million as replacement assets in existing securitization structures. For additional information on the Bank's debt related to securitization activities, please refer to Notes 7 and 14 to the annual consolidated financial statements.

As at October 31, 2013, subordinated debt stood at $445.5 million, relatively unchanged from October 31, 2012. The subordinated debt is an integral part of the Bank's regulatory capital and affords its depositors additional protection.

SHAREHOLDERS' EQUITY

Shareholders' equity was $1,487.0 million as at October 31, 2013, compared with $1,541.1 million as at October 31, 2012. This decrease mainly resulted from the repurchase of the Class A Preferred Shares, Series 9, for $100 million, partly offset by internal capital generation, as well as by the issuance of 384,892 new common shares under the Shareholder Dividend Reinvestment and Share Purchase Plan and 30 000 new common shares under the Share purchase option plan. Accumulated other comprehensive income (AOCI) decreased by $28.7 million compared to a year-ago, essentially as a result of deferred gains on derivatives designated as cash flow hedges that were recognized into income. The Capital Management section provides additional information on the capital transactions of 2013 and other capital-related matters.

The Bank's book value per common share, excluding AOCI, appreciated to $44.73 as at October 31, 2013 from $42.81 as at October 31, 2012. The table below provides the details of the share capital.

TABLE 20

SHARES ISSUED AND OUTSTANDING

As at December 9, 2013 (in number of shares/options)

Preferred shares	
Series 10	4,400,000
Series 11	4,000,000
Total preferred shares	8,400,000
Common shares	28,532,569
Share purchase options	20,000

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, 2013, these items totalled $37.7 billion, up $4.7 billion or 14% compared with October 31, 2012. 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)

	2013	2012	2011
Registered and non-registered investment accounts	**$ 32,222,052**	$ 28,206,015	$ 7,616,790
Mutual funds	**2,568,101**	2,110,528	1,864,577
Clients' brokerage assets	**2,465,747**	2,253,599	2,153,893
Mortgage loans under management	**397,864**	346,436	300,134
Institutional assets	**72,475**	76,912	115,130
Other - Personal	**13,142**	14,277	25,382
Total - assets under administration and assets under management	**$ 37,739,381**	$ 33,007,767	$ 12,075,906

Assets related to registered and non-registered investment accounts increased by $4.0 billion compared with last year, essentially as B2B Bank Dealer Services enhanced its product offering and opened new investment accounts for its clients on its integrated dealer account management system. B2B Bank Dealer Services 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.

Mutual fund assets under administration increased by $457.6 million or 22% during fiscal 2013. The exclusive offering of a preferred series of LBC-Mackenzie mutual funds, combined with the Bank's efficient distribution network and good market conditions in 2013, resulted in strong volume growth over the last twelve months.

Clients' brokerage assets increased by $212.1 million or 9%, essentially as a result of stronger equity markets in 2013.

Mortgage loans under management were up $51.4 million or 15%, as increased level of commercial mortgage loans sold during fiscal 2013 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, stock prices and indices on which returns of index-linked deposits are based, as well as to meet clients' requirements and generate revenues from trading activities. These contracts and commitments constitute derivatives. The Bank does not enter into any credit default swaps.

All derivatives are recorded on the balance sheet at fair value. Derivative values are calculated using notional amounts. However, these amounts are not recorded on the balance sheet, as they do not represent the actual amounts exchanged. Likewise, notional amounts do not reflect the credit risk related to derivatives, although they serve as a reference for determining the amount of cash flows to be exchanged. The notional amounts of the Bank's derivatives totalled $17.3 billion as at October 31, 2013 with a net positive fair value of $24.6 million.

Notes 23 to 25 to the annual consolidated financial statements provide further information on the various types of derivative products and their recognition in the consolidated financial statements.

SECURITIZATION ACTIVITIES

The Bank uses special purpose entities to securitize 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 in the Canada Mortgage Bonds Program (CMB Program) developed by the Canada Mortgage and Housing Corporation (CMHC) and through a multi-seller conduit set up by a large Canadian bank. As the Bank ultimately retains certain prepayment risk, interest rate risk and credit risk (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 the balance sheet.

As at October 31, 2013 the carrying amount of residential mortgage loans securitized and legally sold as part of the CMB Program amounted to $3.5 billion ($3.6 billion as at October 31, 2012) and the carrying amount of Replacement Assets amounted to $0.7 billion ($1.5 billion as at October 31, 2012). As at October 31, 2013, the carrying amount of securitized residential mortgage loans legally sold to multi-seller conduits amounted to $0.7 billion ($0.9 billion as at October 31, 2012). The securitization liability related to these transactions amounted to $5.0 billion as at October 31, 2013 ($6.0 billion as at October 31, 2012).

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

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

CREDIT COMMITMENTS AND GUARANTEES

In the normal course of its operations, the Bank 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 27 to the annual consolidated financial statements for further information.

TABLE 22

CREDIT COMMITMENTS AND GUARANTEES

As at October 31 (in thousands of Canadian dollars)

	2013	2012	2011
Undrawn amounts under approved credit facilities [1]	**$ 3,247,808**	$ 3,158,271	$ 2,603,217
Standby letters of credit and performance guarantees	**$ 133,463**	$ 149,254	$ 146,846
Documentary letters of credit	**$ 4,482**	$ 2,384	$ 4,358

(1) Exclude personal credit facilities totalling $1.9 billion ($1.9 billion as at October 31, 2012 and $1.6 billion as at October 31, 2011) and credit card lines amounting to $1.5 billion ($1.3 billion as at October 31, 2012 and $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 the Bank's risk appetite, to support the Bank's activities while producing an acceptable return for shareholders. 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 risk profile 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, required capital is aligned with the Bank's 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.

Parallel to the capital adequacy process the Bank has implemented an Integrated Stress Testing Program to evaluate the impact on the Bank's profitability and capital levels of various economic scenarios. This exercise involves experts from various departments including Economics, Finance, Treasury and Risk Management. The results of this exercise are inputs to the capital adequacy process and help determine the appropriate level of capital.

Each year, the Risk Management Committee of the Board of Directors reviews and approves several capital-related documents, including the Capital Management and Adequacy Policy, the ICAAP, the Integrated Stress Testing Program, the Business and Financial Three-Year Plan, as well as the Capital Plan. In addition, it reviews the overall capital adequacy of the Bank on a quarterly basis. Senior management monitors regulatory capital ratios on a monthly basis through the Asset, Liability and Capital Management Committee. The Risk Management Department oversees the Bank's Capital Management Framework. This oversight includes monitoring capital limits and adequacy, as well as developing and implementing the Capital Management and Adequacy Policy, ICAAP and the Integrated Stress Testing Program. 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 the Office of the Superintendent of Financial Institutions (OSFI) originating from the Basel Committee on Banking Supervision (BCBS) regulatory risk based capital framework. As of January 2013, the Bank adopted OSFI's new Capital Adequacy Requirements Guideline (the CAR Guideline) drawn on the BCBS capital guidelines initially issued in December 2010, and commonly referred to as Basel III. Under this new framework, Tier 1 capital, the most permanent and subordinated forms of capital, must be more predominantly composed of common equity. Tier 1 capital now consists of two components: Common equity Tier 1 and Additional Tier 1, to ensure that risk exposures are backed by a high quality capital base and to provide transparency. Tier 2 capital consists of supplementary capital instruments and will continue to contribute to the overall strength of a financial institution as a going concern.

Institutions are expected to meet minimum risk-based capital requirements for exposure to credit risk, operational risk and, where they have significant trading activity, market risk. Under the CAR Guideline, minimum Common Equity Tier 1, Tier 1 and Total capital ratios were set at 3.5%, 4.5% and 8.0% respectively for 2013. These ratios include phase-in of certain regulatory adjustments between 2013 and 2019 and, as detailed below, phase-out of non-qualifying capital instruments between 2013 and 2022 (the "transitional" basis). Starting in 2014, the Guideline also provides for annual increases in minimum capital ratio requirements, which will reach 7.0%, 8.5% and 10.5% in 2019, including the effect of capital conservation buffers.

In its CAR Guideline, OSFI indicated that it expects deposit-taking institutions to attain target capital ratios without transition arrangements equal to or greater than the 2019 minimum capital ratios plus conservation buffer levels (the "all-in" basis) early in the transition period, including a minimum 7.0% Common Equity Tier 1 ratio target by the first quarter of 2013. Furthermore, certain banks in Canada have been designated by OSFI as Domestic Systemically Important Banks (or D-SIBs). Under this designation, these banks will be asked to hold a further 1% of Tier 1 Common Equity by January 1, 2016. Laurentian Bank, however, has not been so designated. The "all-in" basis includes all of the regulatory adjustments that will be required by 2019 but retains the phase-out rules for non-qualifying capital instruments. OSFI also requires that Canadian deposit-taking financial institutions maintain an Asset to Capital Multiple.

The CAR Guideline provides additional guidance regarding the treatment of non-qualifying capital instruments and specifies that certain capital instruments no longer qualify fully as regulatory capital as of January 1, 2013. The Bank's non-common capital instruments are considered non-qualifying capital instruments under Basel III and are therefore subject to a 10% phase-out per year beginning in 2013. These non-common capital instruments include Series 10 and 11 preferred shares, as well as Series 2010-1 and 2012-1 subordinated Medium Term Notes. The Bank redeemed on March 15, 2013 the Series 9 preferred shares which also were non-qualifying instruments under Basel III.

Credit and operational risk

The Bank uses 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. Currently, the Bank's capital requirements for credit risk under the Standardized Approach are not calculated on the same basis as its industry peers, as larger Canadian financial institutions predominantly use the more favourable AIRB approach. The Bank's adoption of the AIRB approach should strengthen its credit risk management, optimize regulatory capital and provide a level-playing field for credit underwriting activities. Implementation was scheduled in the 2015-2018 time frame and included two deliveries. However, as there is growing uncertainty and discussions around the world about a more risk sensitive, simple and comparable methodology, management has decided to reduce the speed of the AIRB implementation and complete the project in 2018 into one single delivery.

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

TABLE 23

REGULATORY CAPITAL

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

	2013 [1]	2012 [2]
Regulatory capital		
Common Equity Tier 1 capital (A)	**$ 1,017,659**	n.a.
Tier 1 capital (B)	**$ 1,222,863**	$ 1,460,253
Total capital (C)	**$ 1,694,167**	$ 1,974,060
Total risk-weighted assets (D) [3]	**$ 13,379,834**	$ 13,436,433
Regulatory capital ratios		
Common Equity Tier 1 capital ratio (A/D)	**7.6%**	n.a.
Tier 1 capital ratio (B/D)	**9.1%**	10.9%
Total capital ratio (C/D)	**12.7%**	14.7%

(1) The amounts are presented in accordance with Basel III as filed with OSFI, on an "all-in" basis.

(2) The amounts are presented in accordance with Basel II as filed with OSFI.

(3) Using the Standardized Approach in determining credit risk capital and to account for operational risk.

TABLE 24

RISK-WEIGHTED ASSETS

As at October 31 (in thousands of Canadian dollars)

	2013		2012 [1]	
	TOTAL	RISK-WEIGHTED ASSETS [2]	TOTAL	RISK-WEIGHTED ASSETS [2]
Exposure Class (after risk mitigation)				
Corporate	$ 5,080,098	$ 5,019,998	$ 4,717,408	$ 4,578,674
Sovereign	3,771,179	26,059	5,424,365	45,459
Bank	403,475	87,346	775,092	155,373
Retail residential mortgage loans	14,735,773	2,251,422	14,188,748	2,043,292
Other retail	3,381,816	2,090,482	4,163,205	2,604,269
Small business entities treated as other retail	1,352,177	942,617	1,294,844	915,930
Equity	313,149	313,149	348,663	348,663
Securitization	39,355	27,820	64,823	19,640
Other assets	1,088,667	565,677	853,154	671,517
	30,165,689	11,324,570	31,830,302	11,382,817
Derivatives	118,805	45,097	249,994	57,646
Credit-related commitments	666,765	623,454	643,529	602,720
Operational risk		1,386,713		1,393,250
	$ 30,951,259	$ 13,379,834	$ 32,723,825	$ 13,436,433
Balance sheet items				
Cash, deposits with other banks, securities and securities purchased under reverse repurchase agreements		$ 707,435		$ 725,449
Personal loans		2,497,457		2,996,307
Residential mortgage loans		2,753,384		2,536,591
Commercial mortgage loans, commercial loans and acceptances		4,968,253		4,569,207
Other assets		398,041		555,263
		$ 11,324,570		$ 11,382,817

(1) The amounts are presented in accordance with Basel II as filed with OSFI.

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

Impact of the adoption of changes to employee benefits accounting on regulatory capital

Effective November 1, 2013, the Bank adopted an amended version of IAS 19, *Employee Benefits*. The amendments eliminate the option to defer the recognition of gains and losses resulting from defined benefit pension plans, known as the "corridor method", which was historically used by the Bank, and requires that remeasurements be recorded in shareholders' equity. The adoption of this standard will reduce shareholder's equity by approximately $56.3 million as at November 1, 2013 and, on a *pro forma* basis, would have reduced Common Equity Tier 1 capital ratio as at October 31, 2013 by approximately 0.2% to 7.4%. In preparation for this change, the Bank has taken proactive measures to mitigate the volatility associated with these remeasurements and changes in future market-driven assumptions in order to maintain a strong capital position going forward.

SIGNIFICANT CHANGES TO CAPITAL IN 2013

Issuance of common shares under the Shareholder Dividend and Share Purchase Plan

The Bank introduced in December 2012 a 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. During the year, the Bank completed the issuance of 384,892 new common shares under the Shareholder Dividend and Share Purchase Plan, for net proceeds of $17.0 million. In addition, 30,000 new common shares were issued under the Share purchase option plan for net proceeds of $1.0 million.

Repurchase of preferred shares

On March 15, 2013, the Bank repurchased all of its Class A Preferred Shares, Series 9, for a consideration of $100.0 million.

DIVIDENDS

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

TABLE 25

SHARE DIVIDENDS AND PAYOUT RATIO

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

	2013	2012	2011
Dividends declared on preferred shares	**$ 12,411**	$ 11,775	$ 11,775
Dividends declared per common share	**$ 1.98**	$ 1.84	$ 1.62
Dividends declared on common shares	**$ 56,037**	$ 47,212	$ 38,757
Dividend payout ratio [1]	**49.6%**	37.0%	34.8%
Adjusted dividend payout ratio [1]	**38.8%**	36.9%	32.9%

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

RISK APPETITE AND RISK MANAGEMENT FRAMEWORK

The shaded areas in the following sections of this MD&A represent a discussion on risk management policies and procedures relating to credit, market, and liquidity and funding risks as required under IFRS 7, "Financial Instruments - Disclosures", which permits these specific disclosures to be included in the MD&A. Therefore, these shaded areas form an integral part of the annual consolidated financial statements for the years ended October 31, 2013 and 2012.

RISKS THAT MAY AFFECT FUTURE RESULTS

In addition to the major business risks described in the Risk management process section below, there are risks which the Bank considers to be emerging. The present section describes emerging risks that could have a significant impact on the Bank's results and cause these results to differ materially from the Bank's forward-looking statements as described at the beginning of this document. Although comprehensive controls and processes are maintained in order to mitigate these risks, by their very nature, they may significantly impact the Bank's performance.

Emerging risks

Economic climate in Canada

The Bank's operations are mainly located 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 to monitor include interest rates, inflation, capital market fluctuations, the strength of the economy and the Bank's volume of business in certain key regions. Loan losses are at very low levels reflecting a strong credit environment in Canada. Nevertheless, a downturn in the economy could lead to a rapid increase in loan losses from those levels. A prolonged deterioration in the Canadian economic climate could therefore adversely affect the Bank's activities. Recent Canadian economic trends suggest that a rapid rise in unemployment combined with the current level of Canadian household debt and corrections in the real estate market could have an incidence on the Bank's operations.

Household debt has increased steadily since 2009. This upward trend may have negative consequences because of a material increase in interest rates or if a sudden increase in unemployment impacts personal disposable income. As a result, the Bank could be impacted by a higher probability of default in some loan portfolios. Also, the Bank presents a certain concentration of loans secured by real estate (for example, residential lending, secured line of credit , real estate lending and certain parts of the commercial loan portfolios). A possible correction in the Canadian real estate market could unfavourably affect the loan portfolios.

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

Legal and regulatory developments

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

RISK MANAGEMENT FRAMEWORK

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

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

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

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

RISK APPETITE

Risk taking is a necessary part of the Bank's business. The business strategies incorporate decisions regarding the risk/reward trade-offs the Bank is willing to make and the means with which it will manage and mitigate those risks. The Bank has determined a risk appetite, which is defined in the Framework, and continuously attempts to maintain a balance between its risk tolerance and risk capacity. The Risk Management committee of 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 internal limits described that define the Bank's risk tolerance (including regulatory constraints).

INTEGRATED STRESS TESTING PROGRAM

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

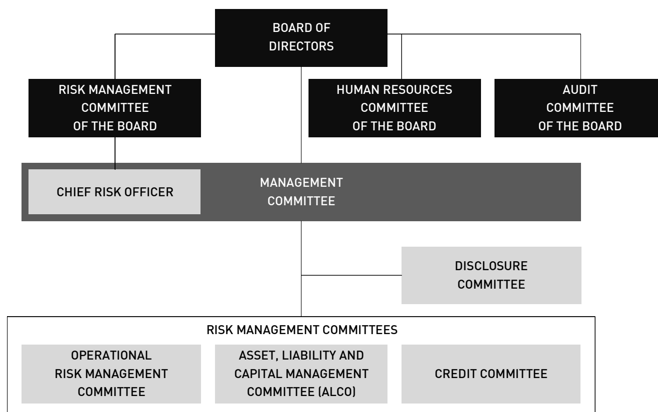
The Bank implemented in 2013 an Integrated Stress Testing Program that evaluates a range of scenarios of different severities resulting from deteriorating economic conditions. Impacts on liquidity, market and credit risks are determined and aggregated to give a view of such scenarios on the Bank's profitability and capital position.

This exercise involves experts from various departments including Economics, Finance, Treasury and Risk Management. Members of senior management are involved in the design of scenarios, while the Risk Management committee of the Board provides oversight. The results are presented as part of the strategic planning exercise and are integrated in the capital adequacy process to senior management and the Risk Management committee of the Board.

In addition to the Integrated Stress testing program, the Bank conducts risk specific scenario and sensitivity analyses to assess the risk level of different activities. These results are monitored through risk management policies.

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 Risk Management Department, keeping senior management informed about any changes in risk profile.



Roles and responsibilities of the Board of Directors' committees

The **Board of Directors** ensures that the Bank maintains an appropriate strategic management process that takes risk into consideration. Moreover, based on the certifications and consolidated reports prepared by 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 Framework has been properly implemented and periodically reviews its effectiveness. The Committee must also ensure that the Framework provides an appropriate risk management process for identifying, measuring, quantifying and managing risks, as well as implementing appropriate risk management policies.

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

Roles and responsibilities of 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 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 Risk Management Committee, assisted by the 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 developing and implementing the Capital Management and Adequacy Policy, the Code of Conduct and the Compliance Policy.

The **Operational Risk Management Committee** reviews the operational risk management policies, recommends their approval to the 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 business continuity plans and fraud prevention.

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

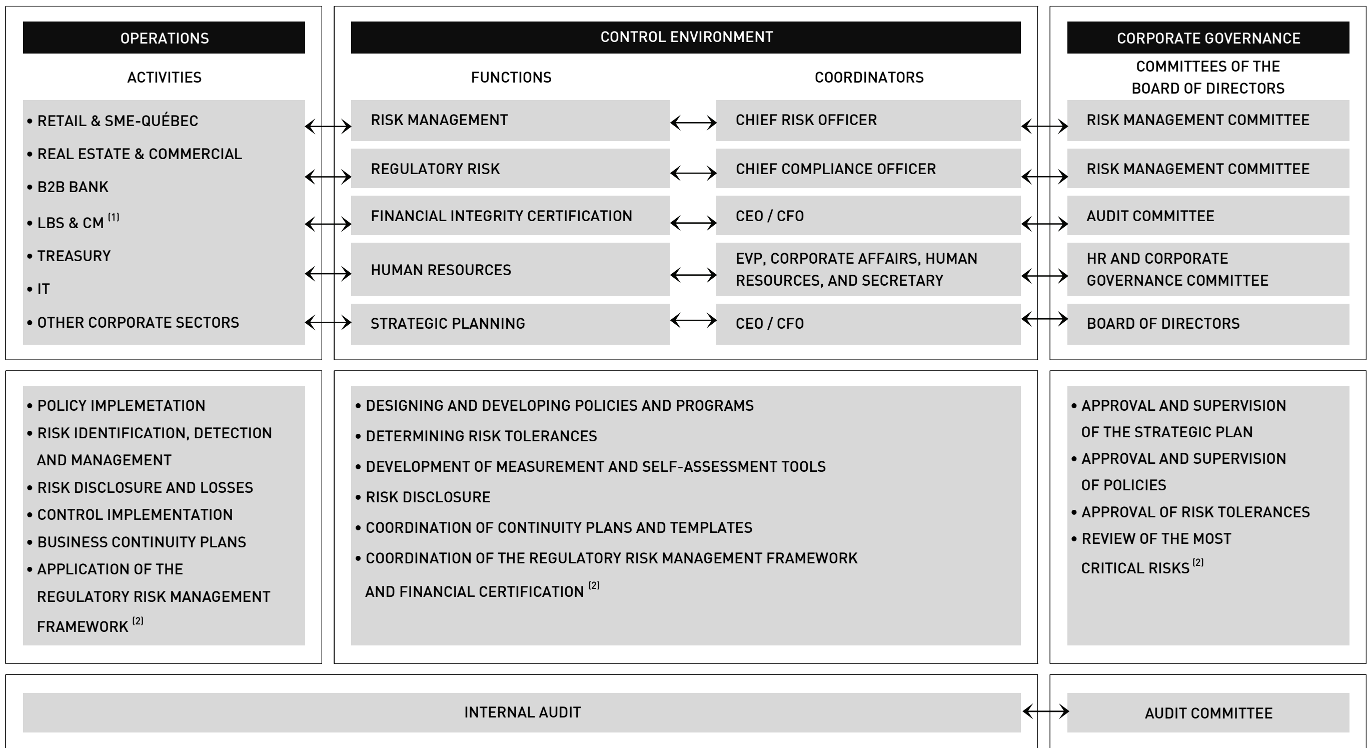
The **Asset, Liability and Capital Management Committee (ALCO)** is responsible for assuring compliance with the interest rate structural risk management limits. It recommends hedging strategies to maintain the risk level within the Board of Director's approved limits. It also supervises liquidity management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

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

GOVERNANCE FUNCTIONS SUPPORTING RISK MANAGEMENT

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

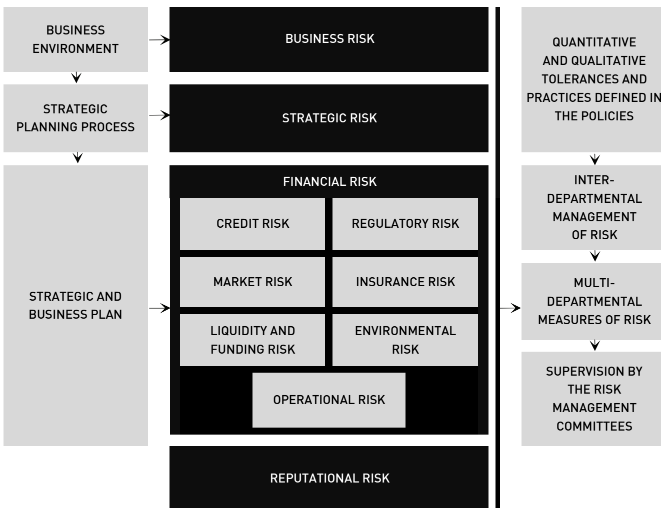
The Internal Audit Department also plays a key role, as it is responsible for implementing and maintaining a reliable and comprehensive system to adequately monitor the effectiveness of controls exercised within the different Framework functions. In addition, regulatory and statutory requirements are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



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

RISK MANAGEMENT PROCESS

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



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

BUSINESS AND STRATEGIC RISK MANAGEMENT

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

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

Senior management is responsible for managing the Bank's business and strategic risks. Each year, a strategic planning process is carried out to analyze strengths, weaknesses, threats and opportunities in order to determine the profitability and risk profiles of the Bank's different business segments. The Bank's overall strategy is established by 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 assessments. 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.

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

Loan-related credit risk

The Bank uses expert systems to support the decision-making process for most underwriting 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. Each month, the Bank's Credit Committee reviews impaired loans and performs high-level analyses on loans where payment is past due by 90 days or more. Collection processes are centralized and are based on specialized expertise.

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

Individual allowances for losses are established to adjust the carrying amount of material impaired loans to the present value of estimated expected future cash flows. 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 models based on the internal risk rating of credit facilities and on the related probability of default factors, as well as the loss given default associated with each type of facility.

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

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

The loan portfolio mix is detailed in the following pages.

Derivative-related credit risk

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

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

Exposure to credit risk

The amount that best represents the Bank's maximum exposure to credit risk as at October 31, 2013 and 2012 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.

TABLE 26

MAXIMUM EXPOSURES TO CREDIT RISK

As at October 31 (in millions of Canadian dollars)

	2013	2012
Financial assets, as stated in the consolidated balance sheet [1]	$ 33,108	$ 34,251
Credit-related commitments		
Personal credit facilities	1,908	1,852
Credit card lines	1,544	1,319
Undrawn amounts under approved credit facilities	3,248	3,158
	$ 39,808	$ 40,580

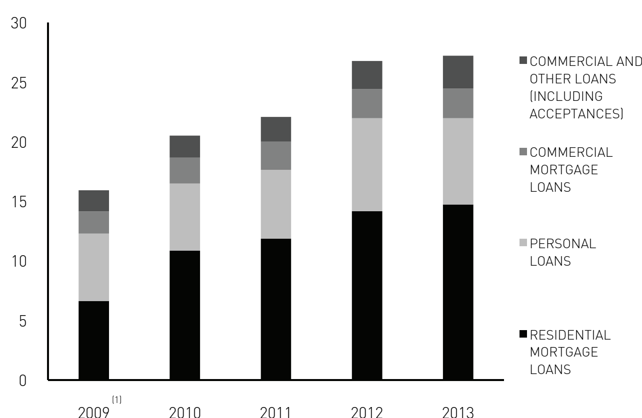
(1) Excludes equity securities.

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 loan portfolio mix as at October 31, 2013 remained relatively unchanged compared with a year ago. Residential mortgage loans mainly include retail mortgage loans secured by one- to four- unit dwellings.

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.

Personal loans

As at October 31, 2013, the personal loan portfolio totalled $7.2 billion, a decrease of $0.6 billion compared with October 31, 2012. This decrease mainly reflects the attrition in the acquired portfolios, slower demand for consumer loans as Canadians continue to deleverage and, to a lesser extent, the ongoing run-off of the point-of-sale financing portfolio.

A portion of the purchased investment loans of AGF Trust presents a higher credit risk profile that could lead to higher relative loss 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.

Residential mortgage loans

As shown in Table 27 on page 48, the residential mortgage loan portfolio increased by $0.6 billion or 4% during fiscal 2013. This slower growth rate compared to a year ago is due in part to the tightening of mortgage lending rules introduced by the federal government in the second half of 2012 and slower growth in housing prices and activity. Similar to the purchased investment loans, acquired mortgage loans carry a higher risk/return profile but nevertheless are expected to have an overall positive impact on the future return profile of this portfolio.

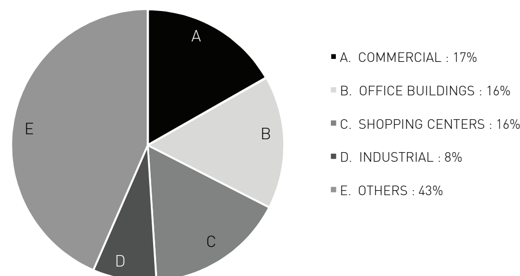
Commercial mortgage loans

Commercial mortgage loans increased by $45.2 million or 2% from fiscal 2012, totalling $2.5 billion as at October 31, 2013, despite loan sales of $94.7 million in 2013. In 2013, because of the loan sale, the proportion of fixed term loans within this portfolio decreased to 40% from 48% at the end of fiscal 2012. This mix of loans provides for a good balance between portfolio volume stability and optimization of interest margins.

In 2013, the Bank continued to grow its presence in the real estate market by capitalizing on growth opportunities in the Canadian real estate mid-market. This played a key role in improving the Bank's profitability as commercial activities provide higher margins. Going forward, the Bank will continue to leverage its solid client base and focus on serving its long-established 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, 2013, the proportion of the portfolio granted in Ontario and Western Canada represented 71% of the total commercial mortgage loan portfolio and 29% in Québec (72% in Ontario and Western Canada and 28% in Québec as at October 31, 2012). The average loan carrying value was $1.8 million as at October 31, 2013 ($1.9 million as at October 31, 2012).

COMMERCIAL MORTGAGE LOANS BY PROPERTY TYPE
(as a percentage)



Commercial loans

As at October 31, 2013, the portfolio of commercial loans, including bankers' acceptances, amounted to $2.8 billion, up $0.4 billion from $2.4 billion as at October 31, 2012. This increase results mainly from the small and medium enterprise business in Québec and, to a lesser extent, from mid-market lending across Canada. Recently, the Bank increased its focus on developing higher-margin commercial activities to grow its profitability. In 2013, targeted investments in the SME-Québec business line contributed to increase loans by $283.0 million or 21% in 2013 (by $198.7 million or 17% in 2012).

The portfolio covers a wide range of industries, with no specific industry accounting for more than 3% (3% in 2012) of the total loans and customers' liabilities under acceptances, demonstrating sound risk management of this portfolio.

See Table 27 for additional information.

TABLE 27

DISTRIBUTION OF LOANS BY CREDIT PORTFOLIO AND INDUSTRY

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

2013

	GROSS AMOUNT OF LOANS	GROSS AMOUNT OF IMPAIRED LOANS	INDIVIDUAL ALLOWANCES	COLLECTIVE ALLOWANCES AGAINST IMPAIRED LOANS	NET IMPAIRED LOANS [1]	COLLECTIVE ALLOWANCES AGAINST OTHER LOANS	PROVISION FOR LOAN LOSSES [2]
Personal	$ 7,245,474	$ 13,971	$ —	$ 7,008	$ 6,963	$ 32,953	$ 31,668
Residential mortgage	14,735,211	32,651	—	3,122	29,529	5,884	8,713
Commercial mortgage	2,488,826	14,082	9,731	254	4,097	15,764	(3,640)
	24,469,511	60,704	9,731	10,384	40,589	54,601	36,741
Commercial and other (including acceptances)							
Manufacturing	189,572	11,371	10,514	183	674	1,617	(2,007)
Transformation and natural resources	109,570	13,791	10,608	37	3,146	324	(290)
Agriculture	279,476	5,588	494	343	4,751	3,026	19
Public utilities	134,731	—	—	8	(8)	67	2
Wholesale and retail	485,881	1,381	1,127	265	(11)	2,340	487
Construction	195,911	1,925	140	207	1,578	1,828	536
Financial services	176,695	991	215	173	603	1,525	52
Real estate, renting and lease	668,859	428	—	195	233	1,715	234
Other services and government	364,984	1,161	490	2	669	21	301
Transportation and communication	107,327	401	269	63	69	556	(181)
Other	46,180	1,650	678	189	783	1,655	106
	2,759,186	38,687	24,535	1,665	12,487	14,674	(741)
Total	$ 27,228,697	$ 99,391	$ 34,266	$ 12,049	$ 53,076	$ 69,275	$ 36,000
As a % of loans and acceptances		0.37 %			0.19 %		

2012

	GROSS AMOUNT OF LOANS	GROSS AMOUNT OF IMPAIRED LOANS	INDIVIDUAL ALLOWANCES	COLLECTIVE ALLOWANCES AGAINST IMPAIRED LOANS	NET IMPAIRED LOANS [1]	COLLECTIVE ALLOWANCES AGAINST OTHER LOANS	PROVISION FOR LOAN LOSSES [2]
Personal	$ 7,806,067	$ 16,863	$ —	$ 10,081	$ 6,782	$ 24,724	$ 25,328
Residential mortgage	14,169,095	21,971	—	390	21,581	2,254	3,454
Commercial mortgage	2,443,634	36,672	14,070	—	22,602	16,406	1,527
	24,418,796	75,506	14,070	10,471	50,965	43,384	30,309
Commercial and other (including acceptances)							
Manufacturing	186,935	19,167	18,377	223	567	1,523	3,046
Transformation and natural resources	111,130	15,672	10,988	45	4,639	305	1,954
Agriculture	259,402	10,084	494	417	9,173	2,849	(178)
Public utilities	54,316	—	—	9	(9)	63	—
Wholesale and retail	423,456	1,508	1,507	322	(321)	2,203	6
Construction	174,578	1,378	315	252	811	1,721	266
Financial services	140,934	903	237	210	456	1,436	34
Real estate, renting and lease	533,953	248	153	236	(141)	1,615	(2,981)
Other services and government	326,387	1,687	475	3	1,209	20	327
Transportation and communication	109,184	722	614	77	31	524	(347)
Other	41,808	1,148	619	227	302	1,558	564
	2,362,083	52,517	33,779	2,021	16,717	13,817	2,691
Total	$ 26,780,879	$ 128,023	$ 47,849	$ 12,492	$ 67,682	$ 57,201	$ 33,000
As a % of loans and acceptances		0.48 %			0.25 %		

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

(2) Recorded in the consolidated statement of income.

Impaired loans

Gross impaired loans decreased by $28.6 million since the beginning of the year, totalling $99.4 million as at October 31, 2013. The decrease in impaired loans reflects the improvement in the commercial mortgage loan and commercial loan portfolios, as borrowers continued to benefit from favourable credit conditions, as well as the prevailing business conditions in Canada. This decrease was partially offset by an increase in impaired loans in the retail loan portfolios due to the acquired loan portfolios and higher loan volume in the residential mortgage loans. Simultaneously, the Bank continued to reduce its exposure to the higher-risk point-of-sale financing market.

Since October 31, 2012, individual allowances decreased by $13.6 million to $34.3 million as at October 31, 2013. Over the same period, collective allowances increased by $11.6 million, mainly due to the acquired retail loan portfolios. Collective allowances reflect management's estimate of losses incurred due to the deterioration in credit quality in loans which are not individually significant and for loans that have been assessed for impairment individually and found not to be impaired.

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

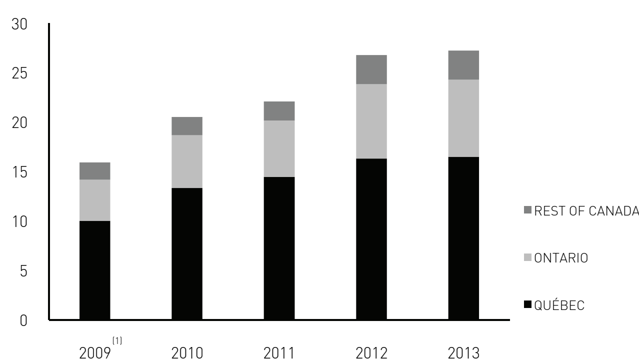
Geographic distribution of loans

The Bank operates across Canada. In Québec, it offers most of its lending products mainly through its retail branch network and commercial banking centers. Throughout Canada, the Bank extends its real estate and commercial operations through other commercial banking centers in Ontario, Alberta and British Columbia. The Bank also offers its products to a wide network of financial advisors and brokers across Canada through B2B Bank. As at October 31, 2013, the proportion of loans granted to borrowers in Québec represented 60% of total loans, while loans granted to borrowers in the rest of Canada stood at 40% (61% and 39% respectively as at October 31, 2012).

This slight change in percentages mainly reflects the impact from acquisitions, which further contributes to the Bank's geographic diversification.

GEOGRAPHIC DISTRIBUTION OF LOANS

(in billions of Canadian dollars)



(1) In accordance with previous CGAAP.

TABLE 28

GEOGRAPHIC DISTRIBUTION OF LOANS BY CREDIT PORTFOLIO

As at October 31 (in thousands of Canadian dollars)

	2013		2012	
	GROSS AMOUNT OF LOANS	**GROSS AMOUNT OF IMPAIRED LOANS**	GROSS AMOUNT OF LOANS	GROSS AMOUNT OF IMPAIRED LOANS
Québec				
Personal	**$ 2,728,801**	**$ 3,982**	$ 3,217,193	$ 4,810
Residential mortgage	**10,754,460**	**22,414**	10,463,663	17,372
Commercial mortgage	**722,090**	**1,630**	682,144	11,886
Commercial and other (including acceptances)	**2,296,708**	**29,272**	1,948,530	43,300
	16,502,059	**57,298**	16,311,530	77,368
Rest of Canada				
Personal	**4,516,673**	**9,989**	4,588,874	12,053
Residential mortgage	**3,980,751**	**10,237**	3,705,432	4,599
Commercial mortgage	**1,766,736**	**12,452**	1,761,490	24,786
Commercial and other (including acceptances)	**462,478**	**9,415**	413,553	9,217
	10,726,638	**42,093**	10,469,349	50,655
Total	**$ 27,228,697**	**$ 99,391**	$ 26,780,879	$ 128,023

Insurance and guarantees held in respect of loan portfolios

A significant proportion of the Bank's loan portfolio is insured by Canada Mortgage and Housing Corporation (CMHC), 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 overall credit risk. 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 2013, nearly 60% of residential mortgage loans secured by one to four unit dwellings were insured, essentially by CMHC, a level relatively unchanged compared to 2012. The Bank also holds guarantees in respect of the real estate property 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, 2013, the estimated average loan-to-value ratio was 65% and 52% for insured and uninsured residential mortgage loans respectively.

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

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

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

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

Loan underwriting for HELOCs 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. Finally, 8% of the Bank's personal loan portfolio consists of student loans and loans granted under the Immigrant Investor Program, which are guaranteed by the federal or provincial government.

Other guarantees held

When entering into 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; and
- If there is no default, the pledgee must return the comparable asset to the pledgor upon satisfaction of the obligation.

As at October 31, 2013, the approximate market value of collateral pledged to the Bank in connection with assets purchased under reverse repurchase agreements was $1,218.3 million ($631.2 million as at October 31, 2012). All collateral received was re-pledged as security in connection with obligations related to securities sold short.

MARKET RISK MANAGEMENT

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

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

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

Policies and standards

The primary objective of effective market risk management is to adequately measure significant market risks and ensure that these risks stay within the Bank's risk tolerance level. The Bank has thus adopted policies and limits to oversee exposure to market risks arising from its trading, investment and ALM activities. 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 risks)

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.

Limits on notional amount

The Bank sets limits that are consistent with its business plan and its risk appetite for market risk. In setting limits, the Bank takes into account market volatility, market liquidity, organizational experience and business strategies. Limits are set at the portfolio level, the business segment level, the risk factor level, as well as at the aggregate Bank level, and are monitored on a daily basis. 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, chances that real losses incurred on any given day exceed the VaR are theoretically 1%. To calculate the VaR, historical simulations that implicitly take into account correlations between various risk factors are performed. The VaR is based on 300 days of historical data. VaRs are calculated daily for all financial market activities. The Bank uses backtesting processes to compare theoretical profits and losses to the results of the VaR for trading activities. This allows validation of the VaR model's statistical hypotheses. These tests are conducted for each specific business unit and each risk factor, as well as for the entire trading portfolio. The theoretical change in profits and losses is generated using the daily price movements, and on the assumption that there is no change in the composition of the trading portfolio.

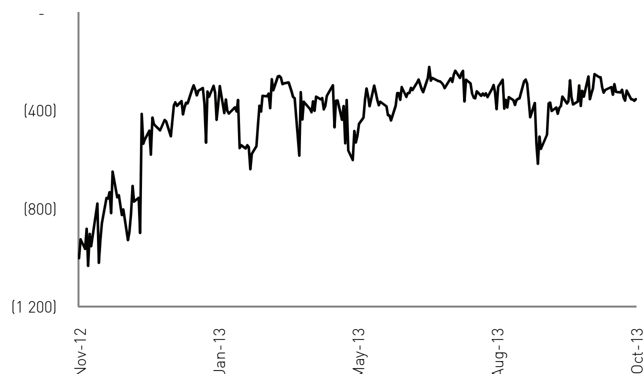
Stress testing and other sensitivity measures

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

Trading activities

Trading activities are aligned with the needs of the Bank and its customers. The market risk associated with trading activities ensues from activities for which the Bank acts as the principal or agent for its customers. These activities are primarily carried out by the Laurentian Bank Securities and Capital Markets 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 2013 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 of its capital. This risk is mainly attributable to differences in maturity dates or re-pricing dates of balance sheet and off-balance sheet items along with the options embedded in certain banking products, notably clauses on prepayment, deposit redemption and mortgage loan commitments.

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

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

Portfolio positions are reviewed periodically by the ALCO, which is responsible for monitoring the Bank's positioning with regard to anticipated interest rate movements and recommending hedging of all undesirable interest rate risk. In addition, risk monitoring reports are presented periodically to the 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. For example, as at October 31, 2013, for all portfolios, a 1% increase in interest rate would have triggered an increase of approximately $10.0 million in net interest income before taxes over the next 12 months and a $22.7 million negative impact on the economic value of common shareholders' equity. As a result of the ongoing 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 29 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, 2013 is presented in Note 24 to the annual consolidated financial statements.

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

TABLE 29

SENSITIVITY OF THE STRUCTURAL INTEREST RATE RISK

As at October 31 (in thousands of Canadian dollars)

	2013		2012	
	EFFECT ON NET INTEREST INCOME [1]	EFFECT ON THE ECONOMIC VALUE OF COMMON SHAREHOLDER'S EQUITY [2]	EFFECT ON NET INTEREST INCOME [1]	EFFECT ON THE ECONOMIC VALUE OF COMMON SHAREHOLDER'S EQUITY [2]
Change in interest rates				
Increase of 100 basis points	$ 9,984	$ (22,746)	$ 16,701	$ (19,710)
Decrease of 100 basis points	(15,768)	23,302	(14,948)	20,833
Change in interest rates				
Increase of 200 basis points	20,044	(44,426)	33,506	(38,016)
Decrease of 200 basis points	$ (66,592)	$ 35,920	$ (74,716)	$ 28,686

(1) Over the next 12 months

(2) Net of income taxes

Foreign exchange risk

Foreign exchange risk is monitored using notional limits and other sensitivity analysis for trading operations. Assets and liabilities denominated in U.S dollars amount to $219.3 million ($216.9 million as at October 31, 2012) and $223.1 million ($207.1 million as at October 31, 2012) respectively. In addition, U.S. dollar exposure related to derivatives is limited as these contracts are bought and sold mainly to meet specific customer needs. As at October 31 2013, 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 $13.8 million ($12.1 million as at October 31, 2012) and $10.4 million ($13.2 million as at October 31, 2012) respectively. Currencies other than U.S. dollars are generally bought and sold solely to meet specific customer needs. As a result, the Bank has very limited exposure to these currencies.

Equity risk

The Bank's equity positions consist primarily of Canadian publicly traded securities and, as a result, portfolio sensitivity generally correlates to Canadian stock market performance. A portion of the Bank's equity positions is used to hedge index-linked deposits. The remaining portion represents less than 5% (less than 3% as at October 31, 2012) of the total securities portfolio. A fluctuation in the Canadian stock market of 10% could have a $5.1 million impact on the Bank's shareholders' equity.

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 Asset and Liability Management 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 a minimum of 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, commercial and broker clientele, as well as well-diversified wholesale financing sources. The Bank monitors limits on funding sources at the senior management and the Board of Directors 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.

Regulatory developments concerning liquidity

In December 2010, the BCBS issued the *Basel III: International framework for liquidity risk measurement, standards and monitoring*, which outlines two new liquidity requirements in addition to other supplemental reporting metrics. This document prescribes the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) as minimum regulatory standards effective January 2015 and January 2018, respectively. Further updates regarding the LCR and liquidity risk monitoring tools were published in January 2013. In April 2013, the BCBS issued a new guideline regarding intraday liquidity management.

In November 2013, OSFI issued a comprehensive domestic liquidity adequacy guideline in draft form that reflects the aforementioned BCBS liquidity standards and monitoring tools and formalized the use of the Net Cumulative Cash Flow (NCCF) supervisory tool. This guideline will ensure that the Basel liquidity guidance is properly applied by institutions in accordance with OSFI's requirements. The guideline is to be finalized in 2014 and the application date of the chapters pertaining to LCR, NCCF and liquidity monitoring tools will be as of January 1, 2015. The date of implementation of other areas of clarity related to the intraday liquidity management and the NSFR has not yet been determined, but will not be before January 1, 2015. At this stage, it is still too early to determine their definitive impact on liquidity requirements, considering some aspects of 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 is in the process of assessing differences between the current liquidity requirements and its liquidity data and reporting systems.

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, 2013, these assets totalled $5.9 billion, a decrease of $1.4 billion compared to the relatively higher level held on October 31, 2012. This decrease is mainly due to a reduction in low-yielding replacement assets that were used to reimburse $1.6 billion of matured debt related to securitization activities during the year ended October 31, 2013. In addition, the Bank reduced the overall level of liquid assets over the past twelve months to fund its loan growth. The relatively higher level of liquidity in 2012 was due to the acquisition of AGF Trust, as well as the Bank's issuance of capital instruments prior to the initial Basel III implementation on January 1, 2013. Close to 78% 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, held-for-trading portfolios offer fixed-income and equity trading opportunities.

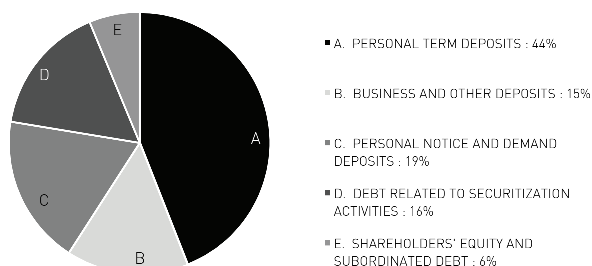
Funding

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 upcoming regulatory requirements, which recognize these deposits as the most stable funding source. This should contribute to shouldering the impact of Basel III liquidity rules, which will need to be adhered to starting in 2015, as discussed in the Liquidity and Funding Risk Management section above. As at October 31, 2013, personal 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, to a lesser extent, 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 continues to prove 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)



Personal deposits

Total personal deposits decreased slightly to $19.3 billion as at October 31, 2013, compared with $19.4 billion as at October 31, 2012. The Bank continues 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 in light of future regulatory liquidity requirements. 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 decreased marginally since October 31, 2012 to $4.6 billion as at October 31, 2013, due to the maturity and non-renewal of certain notes which more than offset the issuance of two senior deposit notes during the year. These issuances will contribute to maintain diversification of the Bank's funding sources and to the active management of its liquidity levels.

TABLE 30

DEPOSITS

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

	2013		2012	
Personal				
Notice and demand				
Branch network	$ 2,414,724	10.1%	$ 2,459,039	10.2%
Financial intermediaries	3,289,443	13.7	3,103,670	12.9
	5,704,167	23.8	5,562,709	23.1
Term				
Branch network	5,549,530	23.2	5,511,933	22.9
Financial intermediaries	8,028,345	33.6	8,294,668	34.5
	13,577,875	56.8	13,806,601	57.4
Sub-total - personal	19,282,042	80.6	19,369,310	80.5
Business, banks and other				
Notice and demand	2,477,804	10.3	2,465,118	10.3
Term	2,167,504	9.1	2,207,015	9.2
Sub-total - business, banks and other	4,645,308	19.4	4,672,133	19.5
Total - deposits	$ 23,927,350	100.0%	$ 24,041,443	100.0%

Credit ratings

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

The Bank monitors weekly the impact of a hypothetical downgrade of its credit rating on the collateral requirements. As at October 31, 2013, additional collateral that would be required in the event of a one to three notch rating downgrade would not be material.

On December 13, 2012, S&P lowered the Bank's long- and short-term counterparty credit rating to BBB/A-2 from BBB+/A-2, subordinated debt rating to BBB- from BBB and preferred shares to BB+ from BBB-. The rating action followed S&P's review of banking sector industry and economic risks in Canada. In addition, the rating outlook from S&P was changed to stable, reflecting S&P's expectation that Laurentian Bank of Canada will continue to generate sustainable and consistent earnings, supported by its solid asset quality, adequate capitalization, and predominantly retail deposit funding base. On December 9, 2013, DBRS Limited published updated rating criteria for subordinated, hybrid, preferred and contingent capital securities. As a result, DBRS Limited upgraded the rating on the Bank's preferred shares from Pfd-3 (low) to Pfd-3. During fiscal 2013, all other ratings for the Bank were confirmed and remained unchanged.

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

TABLE 31

CREDIT RATINGS [(1)]

As at December 9, 2013

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

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

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

Contractual obligations

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

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

The following table summarizes the remaining contractual maturity for the Bank's principal financial liabilities and other contractual obligations as at October 31, 2013 and 2012. Note 27 to the annual consolidated financial statements provides further information on this subject.

TABLE 32

CONTRACTUAL OBLIGATIONS

As at October 31 (in thousands of Canadian dollars)

2013

		TERM				
	DEMAND AND NOTICE	**UNDER 1 YEAR**	**1 TO 3 YEARS**	**3 TO 5 YEARS**	**OVER 5 YEARS**	**TOTAL**
Financial liabilities						
Deposits	**$ 8,181,971**	**$ 6,602,041**	**$ 7,289,729**	**$ 1,787,386**	**$ 66,223**	**$ 23,927,350**
Obligations related to securities sold short	**—**	**1,464,269**	**—**	**—**	**—**	**1,464,269**
Obligations related to securities sold under repurchase agreements	**—**	**339,602**	**—**	**—**	**—**	**339,602**
Debt related to securitization activities	**—**	**1,174,985**	**1,954,444**	**1,607,181**	**238,104**	**4,974,714**
Subordinated debt	**—**	**—**	**250,000**	**200,000**	**—**	**450,000**
Derivatives[(1)]	**—**	**6,294**	**8,785**	**2,673**	**(240)**	**17,512**
Sub-total - financial liabilities	**8,181,971**	**9,587,191**	**9,502,958**	**3,597,240**	**304,087**	**31,173,447**
Other contractual obligations						
Commitments under leases, technology services and other contracts	**—**	**89,486**	**213,852**	**141,721**	**104,029**	**549,088**
Total	**$ 8,181,971**	**$ 9,676,677**	**$ 9,716,810**	**$ 3,738,961**	**$ 408,116**	**$ 31,722,535**

2012

		TERM				
	DEMAND AND NOTICE	UNDER 1 YEAR	1 TO 3 YEARS	3 TO 5 YEARS	OVER 5 YEARS	TOTAL
Financial liabilities						
Deposits	$ 8,027,827	$ 7,426,743	$ 6,958,318	$ 1,573,758	$ 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	1,828,849	2,288,971	56,713	6,037,097
Subordinated debt	—	—	—	450,000	—	450,000
Derivatives[(1)]	—	6,353	9,481	3,266	159	19,259
Sub-total - financial liabilities	8,027,827	10,889,631	8,796,648	4,315,995	111,669	32,141,770
Other contractual obligations						
Commitments under leases, technology services and other contracts	—	72,989	131,700	142,561	90,272	437,522
Total	$ 8,027,827	$ 10,962,620	$ 8,928,348	$ 4,458,556	$ 201,941	$ 32,579,292

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

The Bank is also exposed to liquidity risk when it contracts credit commitments. As at October 31, 2013, these commitments amounted to approximately $3.2 billion ($3.2 billion as at October 31, 2012), excluding personal credit facilities and credit card lines which are unconditionnally revocable at the Bank's option.

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 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, 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 a risk control's effectiveness. When necessary, action plans are designed by the business units in order to mitigate any material unwanted 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 economically efficient product diversification. Outsourcing constitutes one of these important strategies. It facilitates access to state-of-the-art technologies, fosters economies of scale and allows for improvements to process efficiency. An outsourcing agreement will be deemed acceptable if it provides short- and long-term advantages to the Bank and involves an acceptable level of risk. 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 importance.

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 every semester 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 department.

REPUTATIONAL RISK MANAGEMENT

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

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

To protect the Bank from any impairment to its reputation and considering the importance of this risk, the 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.

ADDITIONAL RISKS

Competition

According to the Canadian Bankers Association, more than 96% of Canadians have an account with a financial institution and there is a high degree of competition in the financial services marketplace. The Bank's performance is affected by the level of competition in its different market segments. Although the core activities of the Bank are in Québec and Ontario, intense competition in the financial services industry could interfere with the Bank's capacity to reach its objectives. Several factors, including the price of products and services, their quality and variety, and also the actions taken by its competitors, could negatively impact the Bank's positioning.

Cybersecurity

Processes are in place to protect the Bank's network and operations from cyber incidents and emerging cyber threats.

Business continuity

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

Technological development

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

Ability to attract and retain key employees

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

Business infrastructure

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

Model risk

The Bank uses different models in the ongoing management of its risk that can lead to model risk. Model risk is the potential loss due to the risk of a model not performing or capturing risk as expected. It also arises from the inappropriate use of a model. The Bank has implemented an independent model validation team in 2013 to challenge the development, implementation and application of the Bank's major models.

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 annual report. 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, 2013, the President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer caused to be evaluated under their supervision the effectiveness of DC&P, in accordance with regulation MI 52-109, and based on that evaluation, concluded that they were effective and adequately designed at that date.

Also as at October 31, 2013, the President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer caused to be evaluated under their supervision the design and effectiveness of ICFR, in accordance with regulation MI 52-109, and based on that evaluation, concluded that it was effective at that date and adequately designed.

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

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

Changes to Internal Control over Financial Reporting

During the period ended October 31, 2013, there have been no changes to internal control over financial reporting that affected materially, or are reasonably likely to materially affect, internal control over financial reporting.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The significant accounting policies followed by the Bank are outlined in Notes 2 and 3 to the annual consolidated financial statements. Some of these accounting policies are deemed critical as they require management to 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 FINANCIAL ASSETS

Allowances for loan losses

The allowances for loan losses adjust the value of loans to reflect management's estimate of losses incurred in the loan portfolios. Management regularly reviews the portfolios' credit quality to ensure the adequacy of the allowances for loan losses. These allowances are dependent upon the evaluation of the amounts and dates of future cash flows, the fair value of guarantees and realization costs, and the interpretation of the impact of market and economic conditions.

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 45 of this MD&A.

Management has developed a valuation model to establish 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 a significant portion 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 23 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 annually by management such as discount rates, expected returns on plan assets, future salary levels and health-care cost escalation. 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 as at October 31, 2013, actual results that differed from the expected results as determined using the assumptions were accumulated and amortized over future periods and therefore affected actual costs for these periods. As at October 31, 2013, the net amount of the unamortized actuarial loss was $72.9 million ($94.0 million in 2012) for pension plans, and for other benefits, the net amount of the unamortized actuarial gain was less than $0.1 million (gain of $0.3 million in 2012). As of November 1, 2013, the Bank will adopt the revised IAS 19, Employee Benefits standard. See below for further information on this topic.

Discount rates stood at 4.55% as at October 31, 2013 and 4.40% as at October 31, 2012. The expected long-term rate of return on plan assets was 7.00% for fiscal 2013 (7.25% for fiscal 2012). The trend rate of the estimated annual growth of health-care costs covered, per participant, has been set at 8,0% for 2013 (8.0% for 2012). 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 33 summarizes the impact that a 0.25% increase or decrease in the key assumptions would have had on defined benefit obligations as at October 31, 2013 and related defined benefit pension plan costs for 2013.

TABLE 33

SENSITIVITY ANALYSIS

As at or for the year ended October 31, 2013 (in thousands of Canadian dollars)

	POTENTIAL IMPACT OF CHANGES OF 0.25% [1]	
	OBLIGATION	COST
Discount rate	$ 18,233	$ 1,203
Expected long-term rate of return of plan assets	n.a.	$ 1,082

(1) 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 18 to the annual consolidated financial statements.

BUSINESS COMBINATIONS

On the acquisition dates, the acquiree's assets and liabilities have been included in the consolidated balance sheet at fair value. Valuation of the identifiable assets and liabilities of the acquiree and contingent consideration upon initial recognition was based on a number of assumptions determined by management such as estimates of future cash flows and discount rates as well as contractual provisions. 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 the B2B Bank segment. Refer to Note 28 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 accrued when the Bank has a present legal and constructive obligation as a result of a past event or transaction, when it is both probable that an outflow of resources will be required to settle the obligation and the amount can be reasonably estimated. If the reliable estimate of loss involves a range of potential outcomes within which a specific amount within the range appears to be a better estimate, that amount is accrued. If no specific amount within the range appears to be a better estimate, the mid-point in the range is accrued. In addition to Bank's 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 it is not possible either to determine whether an obligation, as a result of a past event or transaction, is probable or to reliably estimate the amount of loss, in which case, no accrual can be made. The Bank and its subsidiaries are involved in various legal actions in the ordinary 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 accrued. In addition, the Bank must continuously assert its fiscal obligations in various jurisdictions, which considering evolving interpretations, may lead to different income tax consequences.

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

See Note 27 to the annual consolidated financial statements for more details.

GOODWILL, OTHER INTANGIBLE ASSETS AND OTHER ASSETS

Goodwill

As at October 31, 2013, the balance of goodwill stood at $64.1 million, unchanged compared to October 31, 2012. 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, 2013, $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 2013 or in fiscal 2012. 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. An impairment charge of $1.1 million related to discontinued IT projects was reported in fiscal 2013, while no significant charge was reported in fiscal 2012.

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. Impairment charges of $1.7 million essentially related to discontinued IT projects and to the branch network optimization were reported in fiscal 2013, while no significant charge was reported in fiscal 2012. In addition, as a result of the decision to relocate B2B Bank employees, amortization periods for certain leasehold improvements, equipment and furniture were reduced in accordance with their new estimated useful life. This led to a $3.3 million additional depreciation charge in 2013.

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 employee benefits, financial instruments, consolidation, fair value measurement and offsetting. These future accounting changes will be applicable for the Bank in various annual periods beginning on November 1, 2013 at the earliest. The Bank is also monitoring the proposed changes to the lease accounting standard which should be finalized in 2014. Additional information on the new standards and amendments to existing standards can be found in Note 4 to the annual consolidated financial statements.

As at November 1, 2013, the adoption of the new IAS 19, *Employee Benefits* standard has had a significant impact on the Bank's financial position, as the standard eliminates the option historically used by the Bank to defer the recognition of gains and losses resulting from defined benefit plans. As a result, unrecognised estimated losses amounting to $73.3 million ($53.6 million after income taxes) were recorded as an adjustment to equity as at November 1, 2013.

The adoption of the new standards on consolidation and fair value measurement on November 1, 2013 did not have any significant impact on the Bank's financial statements.

The Bank is also currently assessing the impact of the adoption of the IFRS 9, *Financial Instruments*, new standard, on its financial statements. Based on preliminary assessments, the adoption of the IFRS 9 could have a significant impact on the Bank's information systems, processes and financial position as it provides new requirements for how an entity should classify and measure financial instruments and hedge relationships. The adoption of the amendments to existing standards on offsetting should not have any significant impact on the Bank's financial statements.

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. Quarterly growth rates are calculated sequentially (i.e. current period versus the immediately preceding period).

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 financial measures

Certain analyses presented throughout this document are based on the Bank's core activities and therefore exclude the effect of certain amounts designated as Adjusting items, as detailed in the Adjusting items section on page 19 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 11, 2013, refers to the results of operations and financial condition of the Bank for the year ended October 31, 2013 and presents the views of the Bank's management. The information for the years ended October 31, 2013, 2012 and 2011 is presented on the same basis as in the annual consolidated financial statements and has been prepared in accordance with Canadian generally accepted accounting principles, which are the 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, 2013, can be found on the Bank's website at www.laurentianbank.ca and on SEDAR at www.sedar.com.

LAURENTIAN BANK OF CANADA CONSOLIDATED FINANCIAL STATEMENTS

AS AT OCTOBER 31, 2013 AND 2012

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 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
Chief Financial Officer

Montréal, Canada
December 11, 2013

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, 2013 and 2012, and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years ended October 31, 2013 and 2012, 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, 2013 and 2012, and its financial performance and its cash flows for the years ended October 31, 2013 and 2012 in accordance with International Financial Reporting Standards.

Ernst & Young LLP[1]

Montréal, Canada
December 11, 2013

[1] CPA auditor, CA public accountancy permit no. A109499

CONSOLIDATED BALANCE SHEET

As at October 31 (in thousands of Canadian dollars)	Notes	2013	2012
ASSETS			
Cash and non-interest bearing deposits with other banks		$ 82,836	$ 90,860
Interest-bearing deposits with other banks		126,002	480,183
Securities	5 and 27		
Available-for-sale		1,679,067	2,822,588
Held-to-maturity		648,874	1,446,751
Held-for-trading		2,152,584	1,873,622
		4,480,525	6,142,961
Securities purchased under reverse repurchase agreements	27	1,218,255	631,202
Loans	6, 7 and 27		
Personal		7,245,474	7,806,067
Residential mortgage		14,735,211	14,169,095
Commercial mortgage		2,488,826	2,443,634
Commercial and other		2,488,137	2,150,953
Customers' liabilities under acceptances		271,049	211,130
		27,228,697	26,780,879
Allowances for loan losses		(115,590)	(117,542)
		27,113,107	26,663,337
Other			
Premises and equipment	8	73,261	71,871
Derivatives	25	126,617	167,643
Goodwill	9	64,077	64,077
Software and other intangible assets	10	197,594	159,973
Deferred tax assets	19	1,998	4,751
Other assets	11	441,408	459,968
		904,955	928,283
		$ 33,925,680	$ 34,936,826
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits	12		
Personal		$ 19,282,042	$ 19,369,310
Business, banks and other		4,645,308	4,672,133
		23,927,350	24,041,443
Other			
Obligations related to securities sold short		1,464,269	1,349,932
Obligations related to securities sold under repurchase agreements		339,602	244,039
Acceptances		271,049	211,130
Derivatives	25	102,041	100,867
Deferred tax liabilities	19	9,845	16,128
Other liabilities	13	904,344	951,467
		3,091,150	2,873,563
Debt related to securitization activities	14	4,974,714	6,037,097
Subordinated debt	15	445,473	443,594
Shareholders' equity			
Preferred shares	16	205,204	303,249
Common shares	16	446,496	428,526
Share-based payment reserve	17	91	227
Retained earnings		829,678	774,899
Accumulated other comprehensive income		5,524	34,228
		1,486,993	1,541,129
		$ 33,925,680	$ 34,936,826

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

Isabelle Courville
Chair of the Board

Réjean Robitaille, FCPA, FCA
President and Chief Executive Officer

CONSOLIDATED STATEMENT OF INCOME

For the years ended October 31 (in thousands of Canadian dollars, except per share amounts)	Notes	2013	2012
Interest income			
Loans		$ 1,086,279	$ 1,014,861
Securities		57,204	71,320
Deposits with other banks		2,328	6,148
Other, including derivatives		44,338	59,240
		1,190,149	1,151,569
Interest expense			
Deposits		463,603	445,646
Debt related to securitization activities		140,453	163,880
Subordinated debt		16,072	9,839
Other		1,261	1,176
		621,389	620,541
Net interest income		568,760	531,028
Other income			
Fees and commissions on loans and deposits		133,791	119,953
Income from brokerage operations		60,607	54,806
Income from registered self-directed plans		32,694	29,079
Income from sales of mutual funds		22,501	18,026
Income from treasury and financial market operations		17,877	17,531
Credit insurance income		16,881	15,529
Other income		12,226	10,691
		296,577	265,615
Total revenue		865,337	796,643
Gain on acquisition and amortization of net premium on purchased financial instruments	28	(4,426)	23,795
Provision for loan losses	6	36,000	33,000
Non-interest expenses			
Salaries and employee benefits		351,381	320,603
Premises and technology		171,275	152,919
Other		106,068	108,944
Costs related to business combinations	28	38,244	21,997
		666,968	604,463
Income before income taxes		157,943	182,975
Income taxes	19	33,263	42,467
Net income		$ 124,680	$ 140,508
Preferred share dividends, including applicable taxes		11,749	12,768
Net income available to common shareholders		$ 112,931	$ 127,740
Average number of common shares outstanding (in thousands)			
Basic		28,329	25,634
Diluted		28,338	25,652
Earnings per share	20		
Basic		$ 3.99	$ 4.98
Diluted		$ 3.99	$ 4.98
Dividends declared per share			
Common share		$ 1.98	$ 1.84
Preferred share - Series 9		$ 0.75	$ 1.50
Preferred share - Series 10		$ 1.31	$ 1.31
Preferred share - Series 11		$ 0.91	$ —

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the years ended October 31 (in thousands of Canadian dollars)	2013	2012
Net income	$ 124,680	$ 140,508
Other comprehensive income, net of income taxes		
Items that may subsequently be reclassified to the statement of income		
Unrealized net gains (losses) on available-for-sale securities, net of tax of $30 ($2,972 in 2012)	87	(7,641)
Reclassification of net gains on available-for-sale securities to net income, net of tax of $1,020 ($1,047 in 2012)	(2,752)	(2,374)
Net change in value of derivatives designated as cash flow hedges, net of tax of $9,468 ($7,889 in 2012)	(26,039)	(21,347)
	(28,704)	(31,362)
Comprehensive income	$ 95,976	$ 109,146

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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended October 31, 2013

(in thousands of Canadian dollars)	Preferred shares (Note 16)	Common shares (Note 16)	Retained Earnings	AOCI reserves: Available-for-sale securities	AOCI reserves: Cash flow hedges	AOCI reserves: Total	Share-based payment reserve (Note 17)	Total share-holders equity
Balance as at October 31, 2012	$ 303,249	$ 428,526	$ 774,899	$ 12,201	$ 22,027	$ 34,228	$ 227	$ 1,541,129
Net income			124,680					124,680
Other comprehensive income (net of income taxes)								
Unrealized net gains on available-for-sale securities				87		87		87
Reclassification of net gains on available-for-sale securities to net income				(2,752)		(2,752)		(2,752)
Net change in value of derivatives designated as cash flow hedges					(26,039)	(26,039)		(26,039)
Comprehensive income			124,680	(2,665)	(26,039)	(28,704)		95,976
Issuance of share capital	(160)	17,970					(136)	17,674
Repurchase of share capital	(97,885)		(2,115)					(100,000)
Dividends								
Preferred shares, including applicable taxes			(11,749)					(11,749)
Common shares			(56,037)					(56,037)
Balance as at October 31, 2013	$ 205,204	$ 446,496	$ 829,678	$ 9,536	$ (4,012)	$ 5,524	$ 91	$ 1,486,993

For the year ended October 31, 2012

(in thousands of Canadian dollars)	Preferred shares (Note 16)	Common shares (Note 16)	Retained Earnings	AOCI reserves: Available-for-sale securities	AOCI reserves: Cash flow hedges	AOCI reserves: Total	Share-based payment reserve (Note 17)	Total share-holders' 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 losses on available-for-sale securities				(7,641)		(7,641)		(7,641)
Reclassification of net gains 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
Issuance of share capital	97,722	175,925						273,647
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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the years ended October 31 (in thousands of Canadian dollars)	Notes	2013	2012
Cash flows relating to operating activities			
Net income		$ 124,680	$ 140,508
Adjustments to determine net cash flows relating to operating activities:			
Provision for loan losses		36,000	33,000
Net gain on disposal of available-for-sale securities		(4,290)	(4,366)
Gain on sale of commercial mortgage loans	7	(3,685)	(3,194)
Deferred income taxes		5,731	11,454
Depreciation of premises and equipment		17,884	13,255
Amortization of software and other intangible assets		37,055	33,777
Gain arising on acquisition	28	—	(24,337)
Change in operating assets and liabilities :			
Loans		(578,511)	(1,322,053)
Securities at fair value through profit and loss		(278,962)	308,347
Securities purchased under reverse repurchase agreements		(587,053)	89,115
Accrued interest receivable		24,303	(2,360)
Derivative assets		41,026	73,809
Current tax assets		(98)	(20,479)
Deposits		(114,093)	535,487
Obligations related to securities sold short		114,337	(121,322)
Obligations related to securities sold under repurchase agreements		95,563	207,269
Accrued interest payable		(99,982)	37,881
Derivative liabilities		1,174	(30,344)
Current tax liabilities		(11,159)	6,940
Other, net		33,952	(225,649)
		(1,146,128)	(263,262)
Cash flows relating to financing activities			
Change in acceptances		59,919	31,990
Change in debt related to securitization activities		(1,062,383)	575,533
Net proceeds from issuance of subordinated debt		—	199,300
Redemption of subordinated debt of a subsidiary		—	(129,500)
Net proceeds from issuance of preferred shares	16	—	97,722
Repurchase of preferred shares		(100,000)	—
Repurchase of preferred shares of a subsidiary		—	(64,000)
Net proceeds from issuance of common shares	16	1,056	175,925
Dividends, including applicable income taxes		(54,514)	(59,980)
		(1,155,922)	826,990
Cash flows relating to investing activities			
Change in available-for-sale securities			
Acquisitions		(2,118,976)	(2,243,946)
Proceeds on sale and at maturity		3,259,237	2,041,805
Change in held-to-maturity securities			
Acquisitions		(421,598)	(1,436,991)
Proceeds at maturity		1,219,475	876,047
Proceeds on sale of commercial mortgage loans	7	98,407	88,356
Additions to premises and equipment and software		(96,700)	(77,321)
Change in interest-bearing deposits with other banks		354,181	642,616
Cash paid for business combinations	28	—	(445,034)
		2,294,026	(554,468)
Net change in cash and non-interest-bearing deposits with other banks		(8,024)	9,260
Cash and non-interest-bearing deposits with other banks at beginning of year		90,860	81,600
Cash and non-interest-bearing deposits with other banks at end of year		$ 82,836	$ 90,860
Supplemental disclosure about cash flows relating to operating activities:			
Interest paid during the year		$ 720,108	$ 679,022
Interest received during the year		$ 1,211,346	$ 1,159,222
Dividends received during the year		$ 7,334	$ 5,608
Income taxes paid during the year		$ 35,371	$ 39,039

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at October 31, 2013 and 2012
[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 operate as a full-service brokerage firm. Laurentian Bank is the ultimate parent of the group. The Bank is a chartered bank under Schedule 1 of the Bank Act (Canada) and has its head office in Montréal, Canada. The common shares of Laurentian Bank (stock symbol: LB) are listed on the Toronto Stock Exchange.

The consolidated financial statements (financial statements) for the year ended October 31, 2013 were approved for issuance by the Board of Directors on December 11, 2013.

2. BASIS OF PRESENTATION

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

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

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

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

2.1 BASIS OF CONSOLIDATION

The financial statements include the assets, liabilities and results of operations of the Bank and all of its subsidiaries after elimination of intercompany balances and transactions. The financial statements of the Bank's subsidiaries are prepared for the same reporting period as the Bank, using consistent accounting policies. The financial statements include the results from the dates of acquisition of AGF Trust Company as of August 1st, 2012 and MRS Trust Company, B2B Bank Financial Services Inc., B2B Bank Securities Services Inc. and B2B Bank Intermediary Services Inc. as of November 16, 2011.

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

(1) AGF Trust Company merged with B2B Bank as of September 1, 2013.
(2) MRS Trust Company merged with B2B Bank as of April 16, 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 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, post-employment 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.

Refer to Note 3 for a description of the methods used to determine the allowances for loan losses.

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.

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. For projects under development similar tests are performed at least annually.

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.

2. BASIS OF PRESENTATION [Cont'd]

Post-employment 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 and health-care cost escalation. 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 as well as contractual provisions. Changes in assumptions could have had a significant impact on the amount of goodwill, contingent consideration or gain arising on acquisition recognized. Refer to Note 28 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 temporary differences. Asset values are determined using assumptions regarding the results of operations of future fiscal years, timing of reversal of temporary differences and tax rates on the date of reversals, which may well change depending on governments' fiscal policies. Management must also assess whether it is more likely than not that deferred income tax assets will be realized and determine whether a valuation allowance is required on all or a portion of deferred income tax assets. In addition, 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. Furthermore, 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.

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

Financial instruments designated as at fair value through profit or loss

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

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

As at October 31, 2013 and 2012, the Bank had not designated any financial instrument as at fair value through profit or loss.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale, or that are not classified as loans and receivables, held-to-maturity, held-for-trading or designated as at fair value through profit or loss. Available-for-sale financial assets 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.

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.

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

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. However, when they are sold to third parties, 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 generally classified as loans and receivables.

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

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 for residential mortgage loans and other income for commercial mortgage loans upon prepayment.

Renegotiated loans

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

Foreclosed assets

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

Any future change in their fair value, but not in excess of the cumulative losses recognized subsequent to the foreclosure date, is recognized as other income in the consolidated statement of income. The revenues generated by foreclosed assets and operating expenses are included in other income and non-interest expenses. If the assets are to be held and used, they are initially measured at fair value and then accounted for in the same manner as similar assets acquired in the normal course of business.

Derecognition of financial assets

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

Securitization

The Bank regularly transfers pools of residential mortgages under securitization programs. As the Bank retains substantially all the risks and rewards related to the loans, these transactions do not result in derecognition of the mortgages from the Bank's consolidated balance sheet. 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. Refer to note 7 for further detail.

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

Impairment of financial assets

Impairment of available-for-sale financial assets

Financial assets classified in the available-for-sale category are monitored 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, the impairment loss is reversed through the consolidated statement of income. An increase in fair value in excess of impairment loss recognized previously in the consolidated statement of income is recognized in the available-for-sale reserve.

Impairment of held-to-maturity financial assets

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

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

Impairment of loans

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

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.

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

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.

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.

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

Cash flow hedges

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

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

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

Deposits

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

Indexed deposit contracts

Certain deposit obligations, such as equity-linked guaranteed investment certificates where the deposit obligation varies according to the performance of certain stock market indexes, may be subject to a guaranteed minimum redemption amount, such as the obligation to return the investor's initial investment at maturity. These obligations include an embedded derivative instrument that has to be accounted for separately. Accordingly, like all derivatives, it is recorded at fair value and changes in fair value are recognized in the consolidated statement of income under income from treasury and financial market operations. The deposit obligation, excluding the embedded derivative, is recorded at amortized cost using the effective interest method. The deposit obligation, including the embedded derivative, is reported in the consolidated balance sheet under personal deposits.

Debt related to securitization activities

Debt related to securitization activities is initially measured at fair value 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 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.

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

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.

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 initially estimated incurred loan losses are recorded in the provision for loan losses and increase the allowance for loan losses. Decreases in initially estimated incurred loan losses result in a reduction of the provision for loan losses and reduce any previously recorded allowance for loan losses, until the newly recorded allowance is exhausted. Any additional decrease in estimated incurred loan losses is recorded under gain on acquisition and amortization of net premium on purchased financial instruments and increases the carrying amount of the purchased loans.

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

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.

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 to its recoverable amount. Assets are reviewed to determine whether there is any indication of impairment. Assessing whether such indications exist is subject to management's judgment. No premises or equipment assets were impaired during the years ended October 31, 2013 and 2012.

3.4 GOODWILL, SOFTWARE 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 tested 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.

Software and other intangible assets 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.

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. Other 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. 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. Projects under development are tested for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. When the net carrying amount exceeds the estimated discounted future net cash flows, projects under development are considered impaired and are written down to their recoverable amount.

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

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

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

Short-term benefits

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

Post-employment benefits

The Bank has a number of benefit plans, including defined benefit and defined contribution pension plans, as well as other post-employment benefits. 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 10 years under the plans.

The present value of the defined benefit obligation is measured using the estimated future cash outflows at the 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, and it is both probable that an outflow of resources will be required to settle the obligation and the cost can be reliably estimated.

Contingent liabilities are not accrued but disclosed in the financial statements when the Bank cannot determine whether an obligation is probable or cannot reliably estimate the amount of loss.

The Bank regularly assesses the adequacy of its provisions and makes the necessary adjustments to incorporate new information as they become available.

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 in equity, 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 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 benefit 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. Upon exercise of the instruments, corresponding amounts in the share-based payment reserve are transferred to the share capital account.

Stock appreciation rights, restricted share units, performance share units (PSUs] and deferred share units are accounted for as cash-settled share-based payment awards. These rights and units are 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.

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

3.12 TRANSLATION OF FOREIGN CURRENCIES

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

3.13 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.

3.16 ACCOUNTING CHANGES

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 to IAS 1 are effective for annual periods beginning on or after July 1, 2012. The amendments have been adopted by the Bank retroactively as of November 1, 2012. Since the amendments pertain to disclosure requirements only, they had no impact on the Bank's results or financial position.

4. FUTURE ACCOUNTING CHANGES

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

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 is 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 was historically used by the Bank, and requires that remeasurements be presented in shareholders' equity. 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.

The adoption of this standard will result in a decrease of $34.2 million of defined benefit plan assets and an increase in defined benefit plan liabilities of $39.0 million as at November 1, 2013, as well as a decrease in equity of $53.6 million after income taxes. Also, defined benefit plan costs for the year ended October 31, 2013 will be retrospectively increased by $7.1million ($5.3 million after income taxes).

4. FUTURE ACCOUNTING CHANGES [Cont'd]

IFRS 9: *Financial Instruments*

IFRS 9, *Financial Instruments*, once completed will be replacing IAS 39 *Financial Instruments: Recognition and Measurement*. Based on the IASB plan, IFRS 9 will be completed and implemented in three separate phases. The first phase provides requirements for how an entity should classify and measure financial assets and liabilities that are currently in the scope of IAS 39. The third phase provides the new general hedge accounting model. The current version of IFRS 9, as of November 2013, is substantially completed with regards to these two phases.

The IASB is presently working the second phase of its project on a new expected credit loss impairment model, which should be finalized and issued in 2014.

The current version of IFRS 9 does not include an effective date but would be available for adoption (subject to local endorsement requirements). Based on the IASB plans, an effective date will be provided once the standard is complete with the new impairment model and finalization of any limited amendments to classification and measurement or hedge accounting requirements.

The Bank is currently assessing the impact of the adoption of this standard on its financial statements.

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 is November 1, 2013 for the Bank, and are to be applied retrospectively. The adoption of these standards should not have any significant impact on the Bank's financial statements.

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.

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 is 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. The adoption of this standard should not have any significant impact on the Bank's financial statements.

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 is November 1, 2013 for the Bank, and are to be applied retrospectively. Since the adoption of these standards pertains to presentation and disclosure requirements only, they should not have any significant impact on the Bank's financial statements.

5. SECURITIES

MATURITY SCHEDULE OF SECURITIES

Portfolio of available-for-sale securities

					2013	2012
	Within 1 year	1 to 5 years	Over 5 years	No specific maturity	Total	Total
Securities issued or guaranteed						
by Canada[1]	$ 653,349	$ 8,071	$ —	$ —	$ 661,420	$ 1,355,177
by provinces	613,494	29,475	—	—	642,969	702,611
Other debt securities	24,847	119,542	41,551	—	185,940	614,564
Asset-backed securities	5,580	26,598	964	—	33,142	21,271
Preferred shares	27	7,487	1,007	74,347	82,868	72,800
Common shares and other securities	—	—	—	72,728	72,728	56,165
	$ 1,297,297	$ 191,173	$ 43,522	$ 147,075	$ 1,679,067	$ 2,822,588

(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

			2013	2012
	Within 1 year	1 to 5 years	Total	
Securities issued or guaranteed by Canada[1]	$ 566,217	$ 54,567	$ 620,784	$ 1,412,962
Asset-backed securities	28,090	—	28,090	33,789
	$ 594,307	$ 54,567	$ 648,874	$ 1,446,751

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

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

GAINS AND LOSSES RECOGNIZED IN 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:

	2013	2012
Realized net gains	$ 4,290	$ 4,366
Write-downs for impairment recognized in income	(518)	(1,464)
	$ 3,772	$ 2,902

GAINS AND LOSSES RECOGNIZED IN COMPREHENSIVE INCOME

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

				2013
	Amortized cost	Unrealized gains	Unrealized losses	Fair value
Securities issued or guaranteed				
by Canada[1]	$ 661,167	$ 288	$ 35	$ 661,420
by provinces	642,518	485	34	642,969
Other debt securities	181,280	5,267	607	185,940
Asset-backed securities	31,943	1,235	36	33,142
Preferred shares	85,177	404	2,713	82,868
Common shares and other securities	60,540	12,806	618	72,728
	$ 1,662,625	$ 20,485	$ 4,043	$ 1,679,067

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

5. SECURITIES [Cont'd]

				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
Asset-backed securities	71,956	1,436	592	72,800
Preferred shares	51,189	5,490	514	56,165
Common shares and other securities	19,919	1,372	20	21,271
	$ 2,799,101	$ 24,751	$ 1,264	$ 2,822,588

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

Note 23 contains additional information on the determination of fair value of securities.

6. LOANS

LOANS AND IMPAIRED LOANS

						2013
				Collective allowances		
	Gross amount of loans	Gross amount of impaired loans	Individual allowances	Against impaired loans	Against other loans	Total allowances
Personal	$ 7,245,474	$ 13,971	$ —	$ 7,008	$ 32,953	$ 39,961
Residential mortgage	14,735,211	32,651	—	3,122	5,884	9,006
Commercial mortgage	2,488,826	14,082	9,731	254	15,764	25,749
Commercial and other[1]	2,759,186	38,687	24,535	1,665	14,674	40,874
	$ 27,228,697	$ 99,391	$ 34,266	$ 12,049	$ 69,275	$ 115,590

						2012
				Collective allowances		
	Gross amount of loans	Gross amount of impaired loans	Individual allowances	Against impaired loans	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

(1) Including customers' liabilities under acceptances for an amount of $271.0 million ($211.1 million as at October 31, 2012)

Foreclosed assets

Held-for-sale assets acquired in 2013 with respect to impaired loans which are managed for sale in an orderly manner amounted to $4.7 million ($4.9 million in 2012). There were no individual allowances with regards to these loans prior to foreclosure.

6. LOANS [Cont'd]

INDIVIDUAL ALLOWANCES FOR LOAN LOSSES

	Commercial mortgage loans	Commercial and other loans[1]	2013 Total individual allowances	2012 Total individual allowances
Balance at beginning of year	$ 14,070	$ 33,779	$ 47,849	$ 69,450
Provision for loan losses recorded in the consolidated statement of income	(3,290)	(1,366)	(4,656)	13,303
Write-offs[2]	(289)	(7,864)	(8,153)	(33,568)
Recoveries	3	139	142	114
Interest accrued on impaired loans	(763)	(153)	(916)	(1,450)
Balance at end of year	$ 9,731	$ 24,535	$ 34,266	$ 47,849

(1) Including customers' liabilities under acceptances

(2) No restructured loans were written off during the fiscal years ended October 31, 2013 and 2012.

COLLECTIVE ALLOWANCES FOR LOAN LOSSES

Collective allowances against impaired loans

	Personal loans	Residential mortgage loans	Commercial mortgage loans	Commercial and other loans[1]	2013 Total collective allowances	2012 Total collective allowances
Balance at beginning of year	$ 10,081	$ 390	$ —	$ 2,021	$ 12,492	$ 18,557
Provision for loan losses recorded in the consolidated statement of income	23,439	5,083	292	(232)	28,582	20,842
Write-offs[2]	(29,135)	(1,254)	—	(69)	(30,458)	(27,480)
Recoveries	3,170	(755)	—	84	2,499	1,976
Interest accrued on impaired loans	(547)	(342)	(38)	(139)	(1,066)	(1,403)
Balance at end of year	$ 7,008	$ 3,122	$ 254	$ 1,665	$ 12,049	$ 12,492

(1) Including customers' liabilities under acceptances

(2) No restructured loans were written off during the fiscal years ended October 31, 2013 and 2012.

Collective allowances against other loans

	Personal loans	Residential mortgage loans	Commercial mortgage loans	Commercial and other loans[1]	2013 Total collective allowances	2012 Total collective allowances
Balance at beginning of year	$ 24,724	$ 2,254	$ 16,406	$ 13,817	$ 57,201	$ 55,143
Allowances for loan losses resulting from the acquisition of a subsidiary (see Note 28)	—	—	—	—	—	3,203
Provision loan losses recorded in the consolidated statement of income	8,229	3,630	(642)	857	12,074	(1,145)
Balance at end of year	$ 32,953	$ 5,884	$ 15,764	$ 14,674	$ 69,275	$ 57,201

(1) Including customers' liabilities under acceptances

An allowance for undrawn amounts under approved credit facilities is also recorded in other liabilities and amounted to $7.5 million as at October 31, 2013 ($6.1 million as at October 31, 2012).

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.

		1 day– 31 days		32 days– 90 days		Over 90 days		2013 Total
Personal loans	$	90,749	$	25,051	$	5,799	$	121,599
Residential mortgages		242,398		44,159		46,952		333,509
	$	333,147	$	69,210	$	52,751	$	455,108

		1 day– 31 days		32 days– 90 days		Over 90 days		2012 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

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 specified maturity dates. To address this difference in cash flows, the CHT enters into master swap agreements with approved financial institutions (Swap Counterparties). Under the swap agreements, Swap Counterparties receive the monthly interest flows from the original NHA MBS and the Replacement Assets (see below), and in return provide the CHT with the regular interest payments required to pay out to investors under the terms of the CMB. In addition, under the swap agreement, the Swap Counterparties are responsible to reinvest the monthly principal flows from the NHA MBS on behalf of the CHT. The Swap Counterparties may only carry out this reinvestment in AAA-rated mortgage-backed securities and Canada guaranteed eligible assets (the Replacement Assets). Simultaneously, these Swap Counterparties conclude similar swap agreements with the Bank. At the swap coupon settlement date, the Bank therefore pays/receives the difference between the amount collected from the original NHA MBS, as well as from the Replacement Assets, and the amount payable to investors under the terms of the CMB.

Because the underlying cash flows associated with these interest rate swaps are captured through the on-balance sheet recognition of the underlying assets and the associated securitization liabilities, these interest rate swaps are not recognized at fair value on the consolidated balance sheet and fair value changes are not recognized in the consolidated statement of income. The underlying cash flows of the interest rate swaps are recognized on an accrual basis as described below. As at October 31, 2013, the notional amount of these swaps was $4.3 billion compared to $5.2 billion as at October 31, 2012.

7. LOAN SECURITIZATION [Cont'd]

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 sheet 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, 2013, the notional amount of these swaps was $0.7 billion compared to $0.9 billion as at October 31, 2012.

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 transactions 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 $523.4 million as at October 31, 2013 ($675.2 million as at October 31, 2012).

7. LOAN SECURITIZATION [Cont'd]

FINANCIAL ASSETS NOT QUALIFYING FOR DERECOGNITION AND ASSOCIATED FINANCIAL LIABILITIES

The following table summarizes the carrying amounts, 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.

					2013
	Within 1 year	1 to 5 years	Over 5 years	Total carrying amount	Fair value
Residential mortgage loans	$ 1,569,440	$ 2,667,479	$ 4,391	$ 4,241,310	$ 4,275,852
Replacement Assets					
Cash and deposits with other banks	12,099	—	—	12,099	12,099
Securities purchased under reverse repurchase agreements	8,410	—	—	8,410	8,410
Other securities	594,307	54,567	—	648,874	649,388
Debt related to securitization activities	$ (1,174,985)	$ (3,561,625)	$ (238,104)	$ (4,974,714)	$ (5,043,715)

		2012
	Carrying amount	Fair value
Residential mortgage loans	$ 4,442,556	$ 4,486,829
Replacement Assets		
Cash and deposits with other banks	11,894	11,894
Securities purchased under reverse repurchase agreements	63,016	63,016
Other securities	1,446,751	1,447,801
Debt related to securitization activities	$ (6,037,097)	$ (6,143,470)

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

	2013	2012
Carrying amounts of mortgages transferred during the year related to new financing	$ 738,458	$ 776,342
Carrying amounts of mortgages transferred during the year as Replacement Assets	$ 416,232	$ 767,039

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 $397.9 million at the end of fiscal 2013 ($346.5 million in 2012). 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, 2013, the Bank sold a portfolio of commercial mortgage loans with a carrying amount of $94.7 million ($85.2 million for the year ended October 31, 2012) of and recognized a $3.7 million gain in other income ($3.2 million in 2012).

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 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 28)	1,721	306	441	2,468
Write offs	(206)	—	—	(206)
As at October 31, 2012	90,975	88,591	147,292	326,858
Additions	11,308	2,352	7,292	20,952
Write offs	(30,393)	(63,067)	(100,544)	(194,004)
As at October 31, 2013	$ 71,890	$ 27,876	$ 54,040	$ 153,806
Accumulated depreciation				
As at October 31, 2011	47,412	75,781	118,687	241,880
Depreciation	4,542	3,118	5,595	13,255
Write offs	(148)	—	—	(148)
As at October 31, 2012	51,806	78,899	124,282	254,987
Depreciation	7,848	3,277	6,759	17,884
Write offs	(30,080)	(62,489)	(99,757)	(192,326)
As at October 31, 2013	$ 29,574	$ 19,687	$ 31,284	$ 80,545
Carrying amount				
As at October 31, 2012	$ 39,169	$ 9,692	$ 23,010	$ 71,871
As at October 31, 2013	$ 42,316	$ 8,189	$ 22,756	$ 73,261

Premises and equipment include $6.3 million ($0.7 million in 2012) pertaining to premises under construction yet to be amortized.

Impairment losses on premises and equipment amounted to $1.7 million in 2013 (nil in 2012).

9. GOODWILL

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

	2013	2012
Balance at beginning of year	$ 64,077	$ 29,224
Additions through business combinations (Note 28)	—	34,853
Balance at end of year	$ 64,077	$ 64,077

9. GOODWILL [Cont'd]

IMPAIRMENT TESTING OF GOODWILL

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

		2013		2012
Retail unit	$	**29,224**	$	29,224
B2B Bank	$	**34,853**	$	34,853

The Bank tests goodwill for impairment on an annual basis. No impairment losses were recognized in 2013 and 2012.

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. Cash flow projections beyond the initial three-year period are assumed to increase at a constant rate using a nominal long-term growth rate of 3%.

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 11%.

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 October 31, 2011	$	371,321	$	—	$	371,321
Additions		53,675		2,638		56,313
Additions through business combinations (Note 28)		1,891		21,597		23,488
As at October 31, 2012		426,887		24,235		451,122
Additions		**59,977**		**15,771**		**75,748**
Write offs		**(146,694)**		**—**		**(146,694)**
As at October 31, 2013		**340,170**		**40,006**		**380,176**
Accumulated amortization						
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
Amortization		**33,629**		**3,426**		**37,055**
Write offs		**(145,622)**		**—**		**(145,622)**
As at October 31, 2013	**$**	**175,893**	**$**	**6,689**	**$**	**182,582**
Carrying amount						
As at October 31, 2012	$	139,001	$	20,972	$	159,973
As at October 31, 2013	**$**	**164,277**	**$**	**33,317**	**$**	**197,594**

Software and other intangible assets include $62.6 million in 2013 ($48.6 million in 2012) pertaining to projects under development yet to be amortized.

10. SOFTWARE AND OTHER INTANGIBLE ASSETS [Cont'd]

Other intangible assets mainly consist of contractual relationships with financial intermediaries, core deposits and the ongoing program to implement the Basel Internal Ratings Based approach to credit risk.

Impairment losses on intangible assets amounted to $1.1 million in 2013 ($0.1 million in 2012).

11. OTHER ASSETS

		2013		2012
Cheques and other items in transit	$	147,231	$	123,866
Defined benefit plan assets (Note 18)		44,681		31,035
Accrued interest receivable		64,511		89,063
Accounts receivable, prepaid expenses and other items		184,985		216,004
	$	441,408	$	459,968

12. DEPOSITS

								2013
		Demand		Notice		Term		Total
Personal	$	122,589	$	5,581,578	$	13,577,875	$	19,282,042
Business, banks and other		1,285,501		1,192,303		2,167,504		4,645,308
	$	1,408,090	$	6,773,881	$	15,745,379	$	23,927,350

								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

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

		2013		2012
Accrued interest payable	$	440,448	$	540,430
Cheques and other items in transit		161,760		162,297
Defined benefit plan liabilities (Note 18)		38,780		41,577
Accounts payable, accrued expenses and other items		263,356		207,163
	$	904,344	$	951,467

14. DEBT RELATED TO SECURITIZATION ACTIVITIES

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

			2013	2012
Maturity	Rate	Nominal Value	Carrying amount	Carrying amount
Debt related to CMB transactions				
December 2012	4.58 %	802,641	—	802,608
June 2013	3.98	249,118	—	248,925
June 2013	3.63	407,499	—	407,194
September 2013	3.58	155,944	—	155,825
December 2013	2.73	301,554	301,496	301,132
March 2014	2.25	169,231	169,153	168,960
June 2014	3.18	190,541	190,430	190,263
July 2014	3.20	62,796	62,775	62,746
September 2014	2.79	231,046	230,800	230,530
December 2014	2.80	50,639	50,572	50,515
March 2015	2.98	150,264	150,079	149,951
June 2015	3.20	325,637	325,071	324,742
December 2015	2.49	55,755	55,610	55,545
December 2015	2.78	351,028	350,098	349,682
June 2016	2.80	351,108	350,209	349,886
June 2016	2.81	395,984	397,198	397,641
December 2016	1.89	315,014	314,043	313,746
December 2016	1.88	50,152	50,399	50,475
June 2017	2.10	303,903	302,920	302,663
June 2017	2.11	160,948	162,441	162,836
December 2017	1.74	51,139	50,897	50,841
December 2017	1.73	49,676	49,536	—
June 2018	1.81	249,696	248,778	—
June 2018	2.11	211,897	210,924	—
December 2018	2.42	226,073	224,866	—
			4,248,295	5,126,706
Net fair value adjustment [1]			21,703	32,657
			$ 4,269,998	$ 5,159,363
Debt related to multi-seller conduits				
Until August 2017	1.78 % [2]		704,716	877,734
			$ 4,974,714	$ 6,037,097

(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 corresponds 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.

ISSUED AND OUTSTANDING

				2013	2012
Maturity	Series	Interest rate	Special terms	Carrying amount	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	$ 200,000
November 2020	2010-1	3.70%	Redeemable at par as of November 2, 2015 [1]; rate to be revised on November 2, 2015 and set at the 90-day bankers' acceptance rate plus 1.76%	250,000	250,000
				450,000	450,000
Unamortized issuance costs				(1,488)	(1,918)
Net fair value adjustment[2]				(3,039)	(4,488)
				$ 445,473	$ 443,594

(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.

PREFERRED SHARES

Terms of preferred shares

The Non-cumulative Class A Preferred Shares, Series 9, were 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 were 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.

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 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%.

16. SHARE CAPITAL [Cont'd]

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, 2013.

Issued and outstanding

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

			2013			2012
	Number of shares		Amount	Number of shares		Amount
Class A Preferred shares						
Series 9						
Outstanding at beginning of year	4,000,000	$	97,885	4,000,000	$	97,885
Repurchase of shares	(4,000,000)		(97,885)	—		—
Outstanding at end of year	—		—	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	4,000,000		97,722	—		—
Issuance of new shares	—		—	4,000,000		100,000
Issuance costs, net of income taxes	n/a		(160)	n/a		(2,278)
Outstanding at end of year	4,000,000		97,562	4,000,000		97,722
Total preferred shares	8,400,000	$	205,204	12,400,000	$	303,249

Repurchase of preferred shares

On March 15, 2013, the Bank repurchased 4,000,000 Non-cumulative Class A Preferred Shares, Series 9 at a price of $25 per share, for an aggregate amount of $100.0 million.

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.

16. SHARE CAPITAL [Cont'd]

COMMON SHARES

Issued and outstanding

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

		2013		2012
	Number of shares	Amount	Number of shares	Amount
Common shares				
Outstanding at beginning of year	28,117,520	$ 428,526	23,925,037	$ 252,601
Issuance of shares under a public offering	—	—	1,325,100	63,009
Issuance of shares under a private placement	—	—	2,867,383	118,816
Issuance costs, net of income taxes	n/a	(2)	n/a	(5,900)
Issuance under the employee share purchase option plan	30,000	1,020	—	—
Issuance under the Shareholder Dividend Reinvestment and Share Purchase Plan	384,892	16,952	—	—
Total common shares	28,532,412	$ 446,496	28,117,520	$ 428,526

Issuance of common shares under a public offering

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

Issuance of common shares under a private placement

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 28). 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.

Dividend reinvestment and share purchase plan

On December 5, 2012 the Bank introduced its Shareholder Dividend Reinvestment and Share Purchase Plan (the Plan) to eligible Canadian shareholders. Participation in the Plan is optional. Under the terms of the Plan, dividends on common and preferred shares are reinvested to purchase additional common shares of the Bank. Shareholders also have the opportunity to make optional cash payments to acquire additional common shares. At the option of the Bank, the common shares may be issued from the Bank's treasury at an average market price with a discount up to 5%, or from the open market at market price. The Bank determined that reinvestments related to the dividend declared on August 30, 2013 would be made in Common Shares issued from treasury at a 2% discount. Accordingly, on November 1, 2013, 87,288 shares were issued.

During the year ended October 31, 2013, the Bank issued a total of 384,892 common shares (nil in 2012) under the Plan.

DECLARED DIVIDENDS

		2013		2012
	Dividend per share[1]	Dividends declared	Dividend per share[1]	Dividends declared
Class A Preferred shares				
Series 9	$ 0.750	$ 3,000	$ 1.500	$ 6,000
Series 10	1.312	5,775	1.312	5,775
Series 11	0.909	3,636	—	—
Total preferred shares		$ 12,411		$ 11,775
Common shares	$ 1,98	$ 56,037	$ 1.84	$ 47,212

(1) Non-cumulative dividends on preferred shares

16. SHARE CAPITAL [Cont'd]

On November 6, 2013, the Board of Directors declared regular dividends on the various series of preferred shares to shareholders of record on December 9, 2013.

At its meeting on December 11, 2013, the Board of Directors declared dividends of $0.51 per common share, payable on February 1st, 2014, to shareholders of record on January 2, 2014.

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.

CAPITAL MANAGEMENT

Management's objective is to maintain an adequate level of capital, in line with the Bank's risk profile, to support the Bank's activities while producing an acceptable return on 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 risk profile 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 the Bank's 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.

Parallel to the capital adequacy process the Bank has implemented a Stress Testing Program to evaluate the impact on the bank's profitability and capital levels of various economic scenarios. This exercise involves experts from various departments including Economics, Finance, Treasury and Risk Management. The results of this exercise are inputs to the capital adequacy process and help determine the appropriate level of capital.

Each year, the Risk Management Committee of the Board of Directors reviews and approves several capital-related documents, including the Capital Management and Adequacy Policy, the ICAAP, the Stress Testing Program, the Business and Financial Three-Year Plan, as well as the Capital Plan. It reviews capital adequacy on a quarterly basis. Senior management monitors regulatory capital ratios on a monthly basis through the ALCO. The Risk Management Department oversees the Bank's Capital Management Framework. This oversight includes monitoring capital limits and adequacy as well as developing and implementing the Capital Management and Adequacy Policy, ICAAP and the Stress Testing Program. 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. As of January 2013, the Bank adopted the new capital adequacy requirements drawn on the BCBS capital guidelines initially issued in December 2010, and commonly referred to as Basel III. Under this new framework, Tier 1 capital, the most permanent and subordinated forms of capital, must be more predominantly composed of common equity. Tier 1 capital now consists of two components: Common equity Tier 1 and Additional Tier 1, to ensure that risk exposures are backed by a high quality capital base and to provide transparency. Tier 2 capital consists of supplementary capital instruments and will continue to contribute to the overall strength of a financial institution as a going concern.

16. SHARE CAPITAL [Cont'd]

Under the Guideline, minimum Common Equity Tier 1, Total Tier 1 and Total capital ratios were set at 3.5%, 4.5% and 8.0% respectively for 2013. These ratios include phase-in of certain regulatory adjustments between 2013 and 2019 and phase-out of non-qualifying capital instruments between 2013 and 2022, (the "transitional" basis). Starting in 2014, the Guideline also provides for annual increases in minimum capital ratio requirements, which will reach 7.0%, 8.5% and 10.5% in 2019, including the effect of capital conservation buffers.

In its Guideline, OSFI indicated that it expects deposit-taking institutions to attain target capital ratios without transition arrangements equal to or greater than the 2019 minimum capital ratios plus conservation buffer level (the "all-in" basis) early in the transition period, including a minimum 7.0% Common Equity Tier 1 ratio target by the first quarter of 2013. The "all-in" basis includes all of the regulatory adjustments that will be required by 2019 but retains the phase-out rules for non-qualifying capital instruments. OSFI also requires that Canadian deposit-taking financial institutions maintain an Asset-to-Capital Multiple.

The Guideline provides additional guidance regarding the treatment of non-qualifying capital instruments and specifies that certain capital instruments no longer qualify fully as capital as of January 1, 2013. The Bank's non-common capital instruments are considered non-qualifying capital instruments under Basel III and are therefore subject to a 10% phase-out per year beginning in 2013. These non-common capital instruments include Series 10 and 11 preferred shares, as well as Series 2010-1 and 2012-1 subordinated Medium Term Notes. The Bank redeemed at par on March 15, 2013 the Series 9 preferred shares which were non-qualifying instruments under Basel III.

Regulatory capital

The Bank has complied with regulatory capital requirements throughout the year ended October 31, 2013. Regulatory capital is detailed below.

	Basel III		Basel II
	All-in-basis	Transitional basis	
	2013	2013	2012
Common shares	$ 446,496	$ 446,496	$ 428,526
Share-based payment reserve	91	91	227
Retained earnings	829,678	829,678	774,899
Accumulated other comprehensive income, excluding cash flow hedge reserve	9,535	9,535	n/a
Deductions from Common Equity Tier 1 capital [1]	(268,141)	n/a	n/a
Common Equity Tier 1 capital	1,017,659	1,285,800	n/a
Non-cumulative preferred shares [2]	205,204	205,204	303,249
Deductions from Tier 1 capital	n/a	(64,077)	(73,841)
Adjustment for transition to IFRS	n/a	n/a	27,193
Additional Tier 1 capital	205,204	141,127	n/a
Tier 1 capital	1,222,863	1,426,927	1,460,253
Subordinated debt [3]	399,429	399,429	443,594
Collective allowances	88,853	88,853	75,752
Deductions from Tier 2 capital	(16,978)	n/a	(5,539)
Tier 2 capital	471,304	488,282	513,807
Total capital	$ 1,694,167	$ 1,915,209	$ 1,974,060

(1). Mainly comprised of deductions for software and other intangible assets, goodwill and pension plan assets.

(2) There is currently no deduction related to the 10% phase-out per year of non-qualifying capital instruments under Basel III as the phase-out is calculated on the outstanding balance as at January 1, 2013, which included the Series 9 preferred shares redeemed by the Bank in the second quarter of 2013.

(3) Net of an amount of $46.0 million due to the 10% phase-out per year of non-qualifying capital instruments under Basel III.

17. SHARE-BASED PAYMENTS

SHARE PURCHASE OPTION PLAN

The Bank offers a share purchase option plan to members of senior management 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 initially reserved 1,600,000 common shares for the potential exercise of share purchase options, of which 124,962 were still available as at October 31, 2013 (124,962 as at October 31, 2012).

No new share options were granted in 2013 and 2012.

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

		2013		2012
	Number of options	Weighted average exercise price per option	Number of options	Weighted average exercise price per option
Outstanding at beginning of year	50,000	$ 29.47	50,000	$ 29.47
Exercised	(30,000)	29.47	—	n/a
Outstanding at end of year	20,000	$ 29.47	50,000	$ 29.47
Exercisable at end of year	20,000	$ 29.47	50,000	$ 29.47

All outstanding options as at October 31, 2013 are expiring in December 2016.

17. 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 2013 and 2012.

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
2013	**$36.51**	**185,847**	**3.92**	**178,597**
2012	$34.95	305,537	4.37	263,912

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
2013	**191,167**	**$45.07**	**December 2015**	**385,701**
2012	85,268	$43.84	December 2014	238,114

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.

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

17. SHARE-BASED PAYMENTS [Cont'd]

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
2013	**Senior management**	**51,572**	**35,503**	**$**	**45.06**	**December 2015**	**259,586**	**241,925**
	Capital markets	**27,904**	**—**	**$**	**45.07**	**n/a**	**53,272**	**53,272**
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

(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 or common shares. The deferred share units are converted when the holder steps down from the Board of Directors. In 2013, 1,558 deferred share units were redeemed and settled in cash (nil in 2012). In 2013, the Bank granted 7,094 deferred share units as compensation (6,127 in 2012). As at October 31, 2013, there were 18,839 units (13,303 in 2012) outstanding with a total value of $0.9 million ($0.6 million in 2012).

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 2013 ($0.5 million in 2012), are recognized in salaries and employee benefits. The average value of the granted shares under this plan was $44.18 in fiscal 2013 ($45.24 in 2012).

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.

		2013		2012
Expense arising from cash-settled share-based payment transactions	$	**9,474**	$	3,787
Effect of hedges		**(2,596)**		158
	$	**6,878**	$	3,945

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 as at October 31, 2013 was $29.1 million ($22.8 million as at October 31, 2012).

The intrinsic value of the total liability related to legally vested SARs, DSUs, PSUs and RSUs was $13.4 million as at October 31, 2013 ($12.3 million as at October 31, 2012).

18. POST-EMPLOYMENT BENEFITS

DESCRIPTION OF BENEFIT PLANS

The Bank has a number of funded defined benefit pension plans, which in certain cases include a defined contribution portion. The benefit plans provide pension benefits to most of the Bank's employees. The defined benefit pension plans are based on years of service and final average salary at retirement time.

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.

18. POST-EMPLOYMENT BENEFITS [Cont'd]

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, 2012 for pension plans and as at December 31, 2011 for other plans. The next required actuarial valuation for funding purposes will be as at December 31, 2013 for all funded plans. For other plans, the next required actuarial valuation will be as at December 31, 2014.

DEFINED BENEFIT PLAN OBLIGATIONS

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

				2013				2012
		Pension plans		Other plans		Pension plans		Other plans
Change in defined benefit obligation								
Defined benefit obligation at beginning of year	$	517,092	$	34,690	$	447,404	$	35,196
Current service cost		14,700		55		13,407		47
Interest cost on defined benefit obligation		22,817		1,279		23,695		1,547
Benefits paid		(25,554)		(1,210)		(26,148)		(1,286)
Employee contributions		315		—		234		—
Actuarial losses (gains)		(11,699)		212		58,500		(814)
Defined benefit obligation at end of year	$	517,671	$	35,026	$	517,092	$	34,690

DEFINED BENEFIT PLAN ASSETS

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

		2013		2012
Change in fair value of pension plan assets				
Fair value of plan assets at beginning of year	$	447,123	$	426,900
Expected return on plan assets [1]		30,303		29,721
Actuarial gains		4,719		3,709
Bank contributions		28,408		12,707
Employee contributions		315		234
Benefits paid		(25,554)		(26,148)
Fair value of plan assets at end of year	$	485,314	$	447,123

(1) The actual return on plan assets for pension plans was $35.0 million for the year ended October 31, 2013 ($33.4 million for the year ended October 31, 2012).

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

				2013				2012
		Pension plans		Other plans		Pension plans		Other plans
Fair value of plan assets	$	485,314	$	—	$	447,123	$	—
Defined benefit obligation		517,671		35,026		517,092		34,690
Funded status – plan deficit		(32,357)		(35,026)		(69,969)		(34,690)
Unamortized past service costs		397		—		461		—
Unamortized net actuarial loss (gain)		72,933		(46)		93,967		(311)
Defined benefit plan assets (liabilities) at end of year	$	40,973	$	(35,072)	$	24,459	$	(35,001)
Defined benefit plan assets included in other assets	$	44,681	$	—	$	31,035	$	—
Defined benefit plan liabilities included in other liabilities	$	3,708	$	35,072	$	6,576	$	35,001

18. POST-EMPLOYMENT BENEFITS [Cont'd]

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

	2013	2012
Asset category		
Equity securities	31 %	56 %
Debt securities	65	41
Other	4	3
Total	100 %	100 %

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

Plan assets include $0.2 million in equity securities of the Bank as at October 31, 2013, ($0.4 million as at October 31, 2012).

EXPERIENCE ADJUSTMENTS

			2013				2012
		Pension plans		Other plans		Pension plans		Other plans

	2013 Pension plans	2013 Other plans	2012 Pension plans	2012 Other plans
Experience gain (loss) adjustments on defined benefit obligation	$ 11,699	$ (212)	$ (58,500)	$ 814
Experience gain adjustments on assets	$ 4,719	$ —	$ 3,709	$ —

ELEMENTS OF DEFINED BENEFIT PLAN COSTS RECOGNIZED DURING THE YEAR

	2013 Pension plans	2013 Other plans	2012 Pension plans	2012 Other plans
Current service cost	$ 14,700	$ 55	$ 13,407	$ 47
Past service cost	64	—	64	—
Interest cost on defined benefit obligation	22,817	1,279	23,695	1,547
Expected return on plan assets	(30,303)	—	(29,721)	—
Amortization of actuarial losses (gains)	4,616	(53)	—	24
Defined benefit plan costs recognized	$ 11,894	$ 1,281	$ 7,445	$ 1,618

The Bank expects to contribute $31.1 million to its defined benefit pension plans in the year ending October 31, 2014.

SIGNIFICANT ASSUMPTIONS FOR PENSION PLANS AND OTHER PLANS

	2013	2012
Weighted average of assumptions to determine benefit obligation		
Discount rate at end of year	4.55 %	4.40 %
Rate of compensation increase	2.75 %	3.50 %

	2013	2012
Weighted average of assumptions to determine benefit expense		
Discount rate at end of year	4.40 %	5.25 %
Expected long-term rate or return on plan assets	7.00 %	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

	2013	2012
Assumed annual rate of increase in the cost of health care benefits	8.0 %	8.0 %
Level to which it should decline and at which it is assumed to subsequently stabilize	5.0 %	5.0 %
Year that the rate is assumed to stabilize	2027	2027

18. POST-EMPLOYMENT BENEFITS [Cont'd]

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, 2013.

	1% increase	1% decrease
Increase (decrease) in total of service and interest cost	$ 102	$ (87)
Increase (decrease) in defined benefit obligation	$ 2,795	$ (2,380)

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.

	2013	2012
Defined benefit pension plan	$ 11,894	$ 7,445
Defined contribution pension plan	6,851	6,128
Other plan	1,281	1,618
	$ 20,026	$ 15,191

19. INCOME TAXES

DEFERRED INCOME TAXES

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

	2013	2012
Deferred income tax assets		
Allowances for loan losses	$ 27,733	$ 25,581
Defined benefit liabilities – other plans	9,411	9,394
Provisions	8,717	5,905
Amount related to share-based payments	8,101	5,638
Premises and equipment	7,086	8,438
Deposits	2,062	5,172
Derivatives	1,468	—
Other temporary differences	3,300	3,566
	67,878	63,694
Deferred income tax liabilities		
Deferred charges	23,298	25,605
Software	22,603	15,992
Defined benefit assets - pension plans	11,000	6,648
Loans	8,225	12,304
Securitization and securities	5,704	5,872
Other intangible assets	4,406	—
Derivatives	—	8,161
Other temporary differences	489	489
	75,725	75,071
Deferred income taxes, net	$ (7,847)	$ (11,377)

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

	2013	2012
Deferred income tax assets	$ 1,998	$ 4,751
Deferred income tax liabilities	(9,845)	(16,128)
Deferred income taxes, net	$ (7,847)	$ (11,377)

19. INCOME TAXES [Cont'd]

The components of deferred income tax expense are as follows.

	2013	2012
Deferred income tax expense		
Software	$ 6,611	$ 3,869
Other intangible assets	4,538	(797)
Defined benefit assets – pension plans	4,352	1,295
Deposits	3,110	(4,425)
Premises and equipment	1,352	9,216
Loans	(4,079)	12,039
Provisions	(2,812)	1,520
Amount related to share-based payments	(2,442)	(161)
Deferred charges	(2,307)	4,314
Allowances for loan losses	(2,152)	1,102
Securitization and securities	(648)	(19,838)
Other temporary differences	208	3,320
	$ 5,731	$ 11,454

Income tax loss carry-forwards, as at October 31, 2013 were $1.3 million ($1.5 million as at October 31, 2012).

INCOME TAX EXPENSE

Significant components of income tax expense are as follows.

	2013	2012
Consolidated statement of income		
Current income taxes		
Income tax expense for the year	$ 23,659	$ 28,933
Tax rate changes	—	98
Previous years income tax expense adjustment	3,873	1,982
	27,532	31,013
Deferred income taxes		
Origination and reversal of temporary differences	10,222	14,642
Tax rate changes	—	(474)
Previous years income taxes adjustment	(4,491)	(2,714)
	5,731	11,454
	$ 33,263	$ 42,467
Consolidated statement of comprehensive income		
Income taxes related to change in unrealized gains (losses) on available-for-sale securities	$ 30	$ (2,972)
Income taxes related to reclassification of net gains on available-for-sale securities to net income	(1,020)	(1,047)
Income taxes related to net change in value of derivatives designated as cash flow hedges	(9,468)	(7,889)
	$ (10,458)	$ (11,908)
Composition of income taxes		
Current income taxes	$ (1,246)	$ (5,173)
Deferred income taxes	(9,212)	(6,735)
	$ (10,458)	$ (11,908)
Consolidated statement of changes in shareholders' equity		
Income taxes on preferred share dividends		
Current income tax expense (recovery)	$ (662)	$ 993
Income taxes on issuance of common and preferred shares		
Current income taxes	(12)	(606)
Deferred income taxes	(49)	(2,400)
	(61)	(3,006)
	$ (723)	$ (2,013)

19. INCOME TAXES [Cont'd]

RECONCILIATION WITH THE STATUTORY RATE

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

		2013			2012
		Amount			Amount	
Income taxes at statutory rates	$	42,248	26.7 %	$	49,361	27.0 %
Change resulting from:						
Income related to foreign insurance operations		(4,823)	(3.0)		(3,587)	(2.0)
Dividends and tax-exempt gains		(4,147)	(2.6)		(4,168)	(2.3)
Tax rate changes		—	—		(375)	(0.2)
Other, net		(15)	—		1,236	0.7
Income taxes as reported in the consolidated statement of income	$	33,263	21.1 %	$	42,467	23.2 %

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 and based on current tax interpretation, no deferred income tax expense and related provision have been recognized on such income. Income taxes that would be payable if all unremitted earnings were repatriated were estimated at $29.2 million as at October 31, 2013 ($24.4 million as at October 31, 2012).

20. EARNINGS PER SHARE

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

		2013		2012
Earnings per share – basic				
Net income	$	124,680	$	140,508
Preferred share dividends, including related income taxes		11,749		12,768
Net income attributable to common shares	$	112,931	$	127,740
Average number of outstanding common shares		28,329,091		25,634,194
Earnings per share – basic	$	3,99	$	4.98
Earnings per share – diluted				
Net income attributable to common shares	$	112,931	$	127,740
Average number of outstanding common shares		28,329,091		25,634,194
Dilutive share purchase options		9,330		17,428
Diluted weighted average number of outstanding common shares		28,338,421		25,651,622
Earnings per share – diluted	$	3.99	$	4.98

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.

21. 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 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 financial statements.

All transactions between business segments are 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.

					2013
	Retail & SME-Québec	Real Estate & Commercial	B2B Bank	Laurentian Bank Securities and Capital Markets	Other	Total
Net interest income	$ 303,375	$ 84,466	$ 190,928	$ 4,123	$ (14,132)	$ 568,760
Other income	153,719	37,469	36,705	63,708	4,976	296,577
Total revenue (loss)	457,094	121,935	227,633	67,831	(9,156)	865,337
Gain on acquisition and amortization of net premium on purchased financial instruments	—	—	(4,426)	—	—	(4,426)
Provision for loan losses	26,938	(5,500)	14,562	—	—	36,000
Non-interest expenses	381,444	35,953	128,092	53,407	29,828	628,724
Costs related to business combinations and other[1]	—	—	38,244	—	—	38,244
Income (loss) before income taxes	48,712	91,482	42,309	14,424	(38,984)	157,943
Income taxes (recovered)	8,050	24,427	11,415	3,572	(14,201)	33,263
Net Income (loss)	$ 40,662	$ 67,055	$ 30,894	$ 10,852	$ (24,783)	$ 124,680
Average assets[2]	$ 14,072,350	$ 3,469,381	$ 9,338,541	$ 3,073,257	$ 4,245,148	$ 34,198,677

(1) Costs related to the acquisition of the MRS Companies and AGF Trust Company (see Note 28).

(2) Assets are disclosed on an average basis, as this measure is most relevant to a financial institution.

21. SEGMENTED INFORMATION [Cont'd]

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 28).

(2) Assets are disclosed on an average basis, as this measure is most relevant to a financial institution.

22. 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.

	2013	2012
Loans [1]		
Key management personnel	$ 2,886	$ 2,333
Entities controlled by key management personnel	21,401	12,677
	$ 24,287	$ 15,010
Deposits		
Key management personnel	$ 4,888	$ 3,146
Entities controlled by key management personnel	639	65
	$ 5,527	$ 3,211

(1) No allowance for loan losses was recorded against 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 below posted rates, as well as personal loans and personal lines of credit at market rates less a discount based on the type and amount of the loan. Loans to related entities of directors and officers are granted under terms similar to those offered to arm's length parties. The interest earned on these loans amounts to $1.1 million for the year ended October 31, 2013 ($0.7 million for the year ended October 31, 2012) 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, 2013 ($0.1 million for the year ended October 31, 2012) and is recorded under interest expense in the consolidated statement of income.

22. RELATED PARTY TRANSACTIONS [Cont'd]

In addition, for the year ended October 31, 2013, the Bank paid a rental expense of $2.0 million to a related party.

The following table presents the total compensation of key management personnel.

	2013	2012
Short-term employee benefits, including salaries	$ 5,782	$ 6,401
Post-employment benefits	392	338
Share-based payments	5,190	2,492
	$ 11,364	$ 9,231

23. 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.

23. FINANCIAL INSTRUMENTS – FAIR VALUE [Cont'd]

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.

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.

23. 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.

(in millions of Canadian dollars)					2013
			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	$ 83	$ 83	$ n/a	$ n/a	$ n/a
Interest-bearing deposits with other banks	126	126	n/a	n/a	n/a
Securities					
Available-for-sale	1,679	1,679	155	1,524	—
Held-to-maturity	649	649	n/a	n/a	n/a
Held-for-trading	2,153	2,153	277	1,875	1
Securities purchased under reverse repurchase agreements	1,218	1,218	n/a	n/a	n/a
Loans	27,113	27,279	n/a	n/a	n/a
Derivatives	127	127	1	125	1
Other assets	397	397	n/a	n/a	n/a
	$ 33,545	$ 33,711	$ 433	$ 3,524	$ 2
Liabilities					
Deposits	$ 23,927	$ 24,049	$ —	$ 30	$ —
Obligations related to securities sold short	1,464	1,464	21	1,443	—
Obligations related to securities sold under repurchase agreements	340	340	n/a	n/a	n/a
Acceptances	271	271	n/a	n/a	n/a
Derivatives	102	102	1	78	23
Other liabilities	838	838	—	1	—
Debt related to securitization activities	4,975	5,044	n/a	n/a	n/a
Subordinated debt	445	455	—	43	—
	$ 32,362	$ 32,563	$ 22	$ 1,595	$ 23

(1) For financial instruments recorded at fair value only.

23. FINANCIAL INSTRUMENTS – FAIR VALUE [Cont'd]

(in millions of Canadian dollars)					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.

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, 2013 and 2012.

As at October 31, 2013, 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.

24. FINANCIAL INSTRUMENTS – RISK MANAGEMENT

The Bank is exposed to various types of risks owing to the nature of the business activities it pursues. To ensure that significant risks to which the Bank could be exposed are taken into consideration, a Risk Management Framework has been developed to provide for oversight of risk assessment and control. Risk management is conducted according to tolerance levels established by management committees and approved by the Board of Directors through its committees.

In order to manage the risks associated with financial instruments, including loan and deposit portfolios, securities and derivatives, the Bank has implemented policies prescribing how various risks are to be managed. In practice, management closely monitors various risk limits, as well as a number of other indicators. Oversight of operations is performed by groups independent of the business lines.

The 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*

The risk management policies and procedures of the Bank are disclosed in the Risk Appetite and Management Framework section of Management's Discussion and Analysis (MD&A). The relevant MD&A sections are identified in the shaded text and tables and are an integral part of these audited financial statements.

The following table details the maturity dates and average effective rates of the on- and off-balance sheet financial instruments of the Bank.

(in millions of Canadian dollars)							2013
	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	$ 2,343	$ 1,247	$ 764	$ 213	$ 50	$ 73	$ 4,690
Actual return		1.0 %	1.0 %	2.0 %	3.8 %		
Securities purchased under reverse repurchase agreements	1,218	—	—	—	—	—	1,218
Loans	10,309	1,481	4,015	10,454	123	731	27,113
Actual return		4.0 %	4.0 %	3.8 %	4.8 %		
Other assets	—	—	—	—	—	905	905
Total	13,870	2,728	4,779	10,667	173	1,709	33,926
Actual return		2.6 %	3.5 %	3.8 %	4.5 %		
Liabilities and equity							
Deposits	3,118	2,512	5,823	11,736	66	672	23,927
Actual return		1.4 %	1.9 %	2.0 %	3.4 %		
Treasury items	1,804	—	—	—	—	—	1,804
Other liabilities	—	27	60	134	1	1,066	1,288
Actual return		2.3 %	2.2 %	2.3 %	3.3 %		
Debt related to securitization activities	—	1,029	653	3,068	225	—	4,975
Actual return		0.9 %	2.9 %	2.5 %	2.5 %		
Subordinated debt and equity	—	—	—	660	—	1,272	1,932
Actual return		— %	— %	2.4 %	— %		
Total	4,922	3,568	6,536	15,598	292	3,010	33,926
Actual return		1.3 %	2.0 %	2.1 %	2.7 %		
Swaps, net	—	(8,845)	2,683	6,041	121		—
Sensitivity gap	8,948	(9,685)	926	1,110	2	(1,301)	—
Cumulative gap	$ 8,948	$ (737)	$ 189	$ 1,299	$ 1,301	$ —	$ —

(in millions of Canadian dollars)							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	$ 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	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)	—	—
Sensivity gap	8,900	(7,494)	(90)	(199)	85	(1,202)	—
Cumulative gap	$ 8,900	$ 1,406	$ 1,316	$ 1,117	$ 1,202	$ —	$ —

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.

25. 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.

25. DERIVATIVES AND HEDGING [Cont'd]

AGGREGATE NOTIONAL AMOUNTS

(in millions of Canadian dollars) — 2013

Notional amount	Period to maturity: 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	$ 3,222	$ 8,024	$ 1,370	$ 12,616	$ 10,320	$ 2,296
Exchange-traded contracts						
Futures	459	—	—	459	—	459
Options written	250	—	—	250	—	250
Foreign exchange contracts						
Over-the-counter contracts						
Foreign exchange swaps	1,114	26	—	1,140	—	1,140
Forwards	1,946	27	—	1,973	—	1,973
Options purchased	237	—	—	237	—	237
Options written	183	—	—	183	—	183
Equity- and index-linked contracts						
Options purchased	13	11	—	24	—	24
Options written	57	144	—	201	—	201
Total return swaps	207	17	—	224	2	222
	$ 7,688	$ 8,249	$ 1,370	$ 17,307	$ 10,322	$ 6,985

(1) Include notional amounts of $0.4 billion related to basis swaps at October 31, 2013.

(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.

(in millions of Canadian dollars) — 2012

Notional amount	Period to maturity: 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 as 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.

25. DERIVATIVES AND HEDGING [Cont'd]

FAIR VALUE OF DERIVATIVES

(in millions of Canadian dollars)			2013
			Fair value
	Favourable	Unfavourable	Net amount
DESIGNATED AS HEDGE CONTRACTS			
Fair value hedges			
Interest rate contracts			
Swaps	$ 33	$ (7)	$ 26
Cash flow hedges			
Interest rate contracts			
Swaps	18	(17)	1
OTHER CONTRACTS [1]			
Interest rate contracts	24	(20)	4
Swaps			
Foreign exchange contracts			
Foreign exchange swaps	7	(4)	3
Forwards	22	(21)	1
Options purchased	4	—	4
Options written	—	(4)	(4)
Equity- and index-linked contracts			
Options purchased	1	—	1
Options written	—	(23)	(23)
Total return swaps	—	—	—
Total [2]	$ 109	$ (96)	$ 13

(in millions of Canadian dollars)			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 swaps	—	—	—
Total [2]	$ 144	$ (92)	$ 52

(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.

25. DERIVATIVES AND HEDGING [Cont'd]

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 $3.6 billion as at October 31, 2013 ($4.4 billion as at October 31, 2012).

The following table presents ineffectiveness related to fair value hedges.

		2013		2012
Gains recognized on hedging instrument	$	8,292	$	2,435
Losses recognized on hedged item		(8,174)		(3,256)
Ineffectiveness recognized in net income	$	118	$	(821)

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 Bank also uses total return swaps to hedge the variability in cash flows related to the RSU and PSU plans. The notional amount of swap contracts designated as hedging instruments in cash flow hedges was $6.3 billion as at October 31, 2013 ($6.0 billion as at October 31, 2012).

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 ineffectiveness related to cash flow hedges.

		2013		2012
Ineffective gains recognized in net income	$	457	$	1,166

The remaining balance of accumulated other comprehensive income related to cash flow hedges as at October 31, 2013 is expected to be reclassified to the consolidated statement of income over the next 6 years.

25. DERIVATIVES AND HEDGING [Cont'd]

CREDIT EXPOSURE

(in millions of Canadian dollars)

	2013			2012[4]		
	Replacement cost [1]	Credit equivalent amount [2]	Risk-weighted amount [3]	Replacement cost	Credit equivalent amount	Risk-weighted amount
Interest rate contracts						
Swaps	$ 97	$ 171	$ 36	$ 117	$ 173	$ 36
Foreign exchange contracts						
Foreign exchange swaps	7	20	4	15	30	5
Forwards	22	43	26	9	17	10
Options purchased	4	6	3	2	3	1
Equity-and index-linked contracts						
Options purchased	1	3	1	1	2	—
Total return swaps	—	15	3	—	13	3
	131	258	73	144	238	55
Impact of master netting agreements	(62)	(122)	(25)	—	—	—
	$ 69	$ 136	$ 48	$ 144	$ 238	$ 55

(1) Represents favourable fair market value. 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.

(4) The amounts in 2012 are presented in accordance with 2012 regulatory requirements, as filed with OSFI.

26. INCOME RELATED TO FINANCIAL INSTRUMENTS HELD-FOR-TRADING

Financial instruments held-for-trading, including held-for-trading securities, derivatives not designated in hedge relationships, and obligations related to securities sold short are measured at fair value, with gains and losses recognized in the consolidated statement of income.

The following table 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.

	2013	2012
Net interest income	$ 23,253	$ 18,890
Other income included in:		
Income from brokerage operations	19,589	18,501
Income from treasury and financial market operations	5,600	7,743
	$ 25,189	$ 26,244

27. 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 24 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 $133.5 million as at October 31, 2013 ($149.3 million as at October 31, 2012).

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 $109.6 million as at October 31, 2013 ($36.5 million as at October 31, 2012).

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.

27. 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.

						2013
		Premises		Information technology service contracts[1]		Other
Due within one year	$	59,692	$	21,325	$	8,468
Due within 1 to 5 years		203,726		133,228		18,619
Due after 5 years		99,007		5,022		—
		362,425		159,575		27,087
Less: Future minimum sublease payments to be received		(23,333)		—		—
Total	$	339,092	$	159,575	$	27,087

(1) The Bank may terminate certain major service contracts in certain circumstances.

Payments under these commitments recognized as an expense amounted to $59.3 million for the year ended October 31, 2013 ($44.1 million for the year ended October 31, 2012).

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.

		2013		2012
Pledged assets:				
To participate in clearing and payment systems	$	250,873	$	487,651
For obligations related to securities sold under repurchase agreements and for securities borrowed		685,532		765,861
For obligations related to derivatives in a liability position		61,625		74,569
	$	998,030	$	1,328,081
Pledged assets are detailed as follows:				
Securities	$	750,368	$	1,048,266
Residential mortgage loans (unsold NHA MBS)		247,662		279,815
	$	998,030	$	1,328,081

CONTINGENT LIABILITIES

In the ordinary course of its business, 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.

Marcotte v. Banks

This class action, brought on behalf of cardholders, alleges that ten Canadian financial institutions, including the Bank, are in breach of certain provisions of the Québec Consumer Protection Act (CPA). The alleged violations include fees charged by the ten banks to their credit card holders on the conversion of foreign currency transactions into Canadian dollars. The defendant banks have jointly raised a constitutional challenge to the CPA on the basis that banks are not required to comply with provincial legislation because banking and cost of borrowing disclosure is a matter of exclusive federal jurisdiction.

In a decision released in June 2009, the trial judge found in favor of the plaintiffs concluding that the CPA is constitutionally applicable to federally regulated financial institutions. The judgment ordered the Bank to repay the mark-ups it collected, with interest, plus an additional amount of compensation. This decision was appealed by the Canadian financial institution co-defendants and the appeal was heard by the Court of Appeal of Québec in September 2011.

On August 2, 2012, the Court of Appeal of Québec allowed the defendant bank's appeals in part and overturned the trial judgment against the Bank. The judgment of the Court of Appeal confirmed the Bank's position by acknowledging its 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 has been granted.

28. 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. AGF Trust is part of the B2B Bank reportable segment; the gain associated with this transaction was allocated to this segment.

Gain on acquisition and amortization of net premium on purchased financial instruments

The allocation of the purchase price of AGF Trust 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. The gain mainly represented the favourable effect of the discount or premium to reflect the then current market rates on purchased financial instruments, partly offset by the initial estimated fair value of the contingent consideration. The portion of the gain resulting from the revaluation of the purchased financial instruments is being amortized in net income over the estimated remaining term of the purchased financial instruments and amounted to $4.4 million for the year ended October 31, 2013 ($0.5 million for the year ended October 31, 2012).

During the measurement period ended August 1, 2013, the finalization of the allocation of the purchased price did not have any impact on the fair values of the net assets acquired and on the gain on acquisition.

Contingent consideration

The contingent consideration is recognized in other liabilities and amounted to $5.9 million as at October 31, 2013 and $5.9 million as at October 31, 2012.

Costs related to business combinations

With regard to these transactions, the Bank incurred salary, information technology, employee relocation and other costs to integrate the operations of MRS Companies and AGF Trust. In addition, as a result of the decision to relocate employees, amortization periods for certain leasehold improvements, equipment and furniture were reduced in accordance with their new estimated useful lives, which led to a $3.3 million additional depreciation charge in 2013. Furthermore, acquisition-related costs were incurred in 2012. These costs were recognized directly in net income, under Costs related to business combinations.

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(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.

Statistical Review - Consolidated Balance Sheet

Unaudited, as at October 31 (in thousands of Canadian dollars)	2013	2012	2011	2010	2009 [1]	VARIANCE 2013 / 2009
ASSETS						
Cash and non-interest-bearing deposits with other banks	**$ 82,836**	$ 90,860	$ 81,600	$ 72,444	$ 61,010	36%
Interest-bearing deposits with other banks	**126,002**	480,183	285,459	99,394	239,606	(47)
Securities						
Issued or guaranteed by Canada	**1,829,200**	3,202,058	2,896,307	3,084,334	2,864,454	(36)
Issued or guaranteed by provinces and municipal corporations	**1,655,771**	1,712,085	1,396,980	1,029,726	1,157,180	43
Other securities	**995,554**	1,228,818	882,579	705,483	410,549	142
	4,480,525	6,142,961	5,175,866	4,819,543	4,432,183	1
Securities purchased under reverse repurchase agreements	**1,218,255**	631,202	720,317	994,674	536,064	127
Loans						
Personal	**7,245,474**	7,806,067	5,774,207	5,636,203	5,655,055	28
Residential mortgage	**14,735,211**	14,169,095	11,869,412	10,859,647	6,641,301	122
Commercial mortgage	**2,488,826**	2,443,634	2,363,808	2,166,375	1,863,540	34
Commercial and other	**2,488,137**	2,150,953	1,900,977	1,691,190	1,555,957	60
Customers' liabilities under acceptances	**271,049**	211,130	179,140	165,450	216,817	25
	27,228,697	26,780,879	22,087,544	20,518,865	15,932,670	71
Allowances for loan losses	**(115,590)**	(117,542)	(143,150)	(131,567)	(114,546)	1
	27,113,107	26,663,337	21,944,394	20,387,298	15,818,124	71
Other						
Premises and equipment	**73,261**	71,871	61,708	55,727	58,163	26
Other assets	**831,694**	856,412	693,866	626,245	994,971	(16)
	904,955	928,283	755,574	681,972	1,053,134	(14)
	$ 33,925,680	$ 34,936,826	$ 28,963,210	$ 27,055,325	$ 22,140,121	53%
LIABILITIES AND SHAREHOLDERS' EQUITY						
Deposits						
Personal	**$ 19,282,042**	$ 19,369,310	$ 15,609,853	$ 15,354,851	$ 15,113,978	28%
Business, banks and other	**4,645,308**	4,672,133	4,406,428	4,250,819	3,161,329	47
	23,927,350	24,041,443	20,016,281	19,605,670	18,275,307	31
Other						
Obligations related to securities sold short or under repurchase agreements	**1,803,871**	1,593,971	1,508,024	1,422,386	1,339,458	35
Acceptances	**271,049**	211,130	179,140	165,450	216,817	25
Other liabilities	**1,016,230**	1,068,462	1,038,051	1,088,717	987,313	3
	3,091,150	2,873,563	2,725,215	2,676,553	2,543,588	22
Debt related to securitization activities	**4,974,714**	6,037,097	4,760,847	3,486,634	—	n.a.
Subordinated debt	**445,473**	443,594	242,551	150,000	150,000	197
Shareholders' equity						
Preferred shares	**205,204**	303,249	205,527	205,527	210,000	(2)
Common shares	**446,496**	428,526	252,601	252,472	259,208	72
Share-based payment reserve	**91**	227	227	243	209	(56)
Retained earnings	**829,678**	774,899	694,371	621,847	665,538	25
Accumulated other comprehensive income	**5,524**	34,228	65,590	56,379	36,271	(85)
	1,486,993	1,541,129	1,218,316	1,136,468	1,171,226	27
	$ 33,925,680	$ 34,936,826	$ 28,963,210	$ 27,055,325	$ 22,140,121	53%

(1) In accordance with previous Canadian GAAP.

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)	2013	2012	2011	2010 [1]	2009 [1]	VARIANCE 2013 / 2009
Net interest income	**$ 568,760**	$ 531,028	$ 504,485	$ 496,421	$ 423,777	34%
Other income	**296,577**	265,615	233,862	241,025	242,725	22
Total revenue	**865,337**	796,643	738,347	737,446	666,502	30
Gain on acquisition and amortization of net premium on purchased financial instruments	**(4,426)**	23,795	—	—	—	n.a.
Provision for loan losses	**36,000**	33,000	51,080	68,000	56,000	(36)
Non-interest expenses						
Salaries and employee benefits	**351,381**	320,603	282,630	275,964	249,658	41
Premises and technology	**171,275**	152,919	141,212	132,540	120,054	43
Other	**106,068**	108,944	97,263	95,732	102,278	4
Costs related to business combinations and other [2]	**38,244**	21,997	9,006	—	—	n.a.
	666,968	604,463	530,111	504,236	471,990	41
Income from continuing operations before income taxes	**157,943**	182,975	157,156	165,210	138,512	14
Income taxes	**33,263**	42,467	33,439	42,269	36,848	(10)
Income from continuing operations	**124,680**	140,508	123,717	122,941	101,664	23
Income from discontinued operations, net of income taxes	**—**	—	—	—	11,469	(100)
Net income	**$ 124,680**	$ 140,508	$ 123,717	$ 122,941	$ 113,133	10%
Preferred share dividends, including applicable taxes	**11,749**	12,768	12,436	12,122	12,116	(3)%
Net income available to common shareholders	**$ 112,931**	$ 127,740	$ 111,281	$ 110,819	$ 101,017	12%
Average number of common shares outstanding (in thousands)						
Basic	**28,329**	25,634	23,924	23,921	23,858	19%
Diluted	**28,338**	25,652	23,943	23,937	23,876	19%
Earnings per share from continuing operations						
Basic	**$ 3.99**	$ 4.98	$ 4.65	$ 4.63	$ 3.75	6%
Diluted	**$ 3.99**	$ 4.98	$ 4.65	$ 4.63	$ 3.75	6%
Earnings per share						
Basic	**$ 3.99**	$ 4.98	$ 4.65	$ 4.63	$ 4.23	(6)%
Diluted	**$ 3.99**	$ 4.98	$ 4.65	$ 4.63	$ 4.23	(6)%
Common share dividends	**$ 56,037**	$ 47,212	$ 38,757	$ 34,446	$ 32,453	73%
Dividends declared per common share	**$ 1.98**	$ 1.84	$ 1.62	$ 1.44	$ 1.36	46%
Dividend payout ratio [3]	**49.6%**	37.0%	34.8%	31.1%	32.1%	55%
Book value per common share [3]	**$ 44.73**	$ 42.81	$ 39.59	$ 41.87	$ 38.68	16%
Return on common shareholders' equity [3]	**9.1%**	12.1%	12.2%	11.5%	11.4%	(20)%
Net interest margin [3]	**1.66%**	1.69%	1.82%	2.15%	2.07%	(20)%
Efficiency ratio [3]	**77.1%**	75.9%	71.8%	68.4%	70.8%	9%
Provision for loan losses (as a percentage of average loans and acceptances)	**0.13%**	0.14%	0.24%	0.40%	0.38%	(66)%
Adjusted financial measures						
Adjusted net income [3]	**$ 156,032**	$ 140,660	$ 130,383	$ 122,941	$ 113,133	38%
Adjusted diluted earnings per share [3]	**$ 5.09**	$ 4.98	$ 4.93	$ 4.63	$ 4.23	20%
Adjusted return on common shareholders' equity [3]	**11.6%**	12.0%	12.9%	11.5%	11.4%	2%
Adjusted efficiency ratio [3]	**72.7%**	73.1%	70.6%	68.4%	70.8%	3%
Average assets (in millions of dollars)	**$ 34,199**	$ 31,465	$ 27,768	$ 23,093	$ 20,484	67%
Number of full-time equivalent employees	**3,987**	4,201	3,669	3,643	3,528	13%
Number of branches	**153**	157	158	157	156	(2)%
Number of automated banking machines	**422**	426	427	413	408	3%

(1) In accordance with previous CGAAP.

(2) Integration costs related to the acquisition of the MRS Companies and AGF Trust and compensation for the termination in 2012 of a distribution agreement of mutual funds.

(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)				2013				2012
	OCT. 31	**JULY 31**	**APRIL 30**	**JAN. 31**	OCT. 31	JULY 31	APRIL 30	JAN. 31
Net interest income	**$ 141,437**	**$ 144,549**	**$ 140,430**	**$ 142,344**	$ 142,411	$ 129,664	$ 128,324	$ 130,629
Other income	**74,094**	**76,493**	**74,420**	**71,570**	67,985	64,169	70,346	63,115
Total revenue	**215,531**	**221,042**	**214,850**	**213,914**	210,396	193,833	198,670	193,744
Gain on acquisition and amortization of net premium on purchased financial instruments	**(1,006)**	**(1,140)**	**(1,224)**	**(1,056)**	23,795	—	—	—
Provision for loan losses	**10,000**	**9,000**	**9,000**	**8,000**	8,000	7,500	7,500	10,000
Non-interest expenses	**160,922**	**160,328**	**153,717**	**153,757**	156,547	141,798	143,761	140,360
Costs related to business combinations and other [2]	**9,951**	**14,600**	**6,136**	**7,557**	8,830	7,157	3,350	2,660
Income before income taxes	**33,652**	**35,974**	**44,773**	**43,544**	60,814	37,378	44,059	40,724
Income taxes	**6,485**	**7,690**	**9,634**	**9,454**	15,129	7,380	10,196	9,762
Net income	**$ 27,167**	**$ 28,284**	**$ 35,139**	**$ 34,090**	$ 45,685	$ 29,998	$ 33,863	$ 30,962
Preferred share dividends, including applicable taxes	**$ 2,637**	**$ 2,520**	**$ 4,059**	**$ 2,533**	$ 3,273	$ 3,164	$ 3,165	$ 3,166
Net income available to common shareholders	**$ 24,530**	**$ 25,764**	**$ 31,080**	**$ 31,557**	$ 42,412	$ 26,834	$ 30,698	$ 27,796
Average number of common shares outstanding (in thousands)								
Basic	**28,474**	**28,385**	**28,287**	**28,169**	28,118	25,250	25,235	23,925
Diluted	**28,481**	**28,393**	**28,297**	**28,182**	28,135	25,267	25,253	23,943
Earnings per share								
Basic	**$ 0.86**	**$ 0.91**	**$ 1.10**	**$ 1.12**	$ 1.51	$ 1.06	$ 1.22	$ 1.16
Diluted	**$ 0.86**	**$ 0.91**	**$ 1.10**	**$ 1.12**	$ 1.51	$ 1.06	$ 1.22	$ 1.16
Common share dividends	**$ 14,223**	**$ 14,181**	**$ 13,846**	**$ 13,787**	$ 13,216	$ 11,867	$ 11,363	$ 10,766
Dividends declared per common share	**$ 0.50**	**$ 0.50**	**$ 0.49**	**$ 0.49**	$ 0.47	$ 0.47	$ 0.45	$ 0.45
Book value per common share [1]	**$ 44.73**	**$ 44.36**	**$ 43.96**	**$ 43.43**	$ 42.81	$ 41.96	$ 41.37	$ 40.30
Share price - Close	**$ 46.55**	**$ 45.05**	**$ 44.21**	**$ 44.10**	$ 44.45	$ 47.55	$ 44.03	$ 46.20
Return on common shareholders' equity [1]	**7.7%**	**8.1%**	**10.3%**	**10.3%**	14.2%	10.1%	12.0%	11.5%
Net interest margin [1]	**1.66%**	**1.68%**	**1.68%**	**1.63%**	1.62%	1.66%	1.73%	1.75%
Efficiency ratio [1]	**79.3%**	**79.1%**	**74.4%**	**75.4%**	78.6%	76.8%	74.0%	73.8%
Adjusted financial measures								
Adjusted net income [1]	**$ 35,220**	**$ 39,847**	**$ 40,547**	**$ 40,418**	$ 36,186	$ 35,253	$ 36,302	$ 32,919
Adjusted diluted earnings per share [1]	**$ 1.14**	**$ 1.31**	**$ 1.29**	**$ 1.34**	$ 1.17	$ 1.27	$ 1.31	$ 1.24
Adjusted return on common shareholders' equity [1]	**10.2%**	**11.8%**	**12.1%**	**12.2%**	10.9%	12.1%	13.0%	12.4%
Adjusted efficiency ratio [1]	**74.7%**	**72.5%**	**71.5%**	**71.9%**	74.4%	73.2%	72.4%	72.4%
Average assets (in millions of dollars)	**$ 33,746**	**$ 34,208**	**$ 34,206**	**$ 34,635**	$ 34,895	$ 31,121	$ 30,108	$ 29,705
Common Equity Tier 1 capital (in millions of dollars)	**$ 1,017.7**	**$ 1,013.6**	**$ 1,018.5**	**$ 1,002.8**	n.a.	n.a.	n.a.	n.a.
Tier 1 capital [3] (in millions of dollars)	**$ 1,222.9**	**$ 1,218.7**	**$ 1,223.7**	**$ 1,275.7**	$ 1,460.3	$ 1,233.5	$ 1,245.3	$ 1,196.5
Total capital [3] (in millions of dollars)	**$ 1,694.2**	**$ 1,701.4**	**$ 1,698.4**	**$ 1,753.6**	$ 1,974.1	$ 1,535.1	$ 1,543.1	$ 1,504.3
Total risk-weighted assets [3] (in millions of dollars)	**$ 13,379.8**	**$ 13,471.8**	**$ 13,428.6**	**$ 13,286.8**	$ 13,436.4	$ 12,188.0	$ 11,935.9	$ 11,645.3
Common Equity Tier 1 capital ratio [3]	**7.6%**	**7.5%**	**7.6%**	**7.5%**	n.a.	n.a.	n.a.	n.a.
Tier 1 capital ratio [3]	**9.1%**	**9.0%**	**9.1%**	**9.6%**	10.9%	10.1%	10.4%	10.3%
Total capital ratio [3]	**12.7%**	**12.6%**	**12.6%**	**13.2%**	14.7%	12.6%	12.9%	12.9%

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

(2) Integration costs related to the acquisition of the MRS Companies and AGF Trust.

(3) Regulatory capital ratios and amounts are determined in accordance with Basel III rules (All-in basis). Prior to 2013, regulatory capital ratios and amounts were calculated in accordance with Basel II rules.

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

Réjean Robitaille has been at the helm of Laurentian Bank since December 2006. Having joined the organization close to 25 years ago, he has occupied numerous progressively responsible positions, including Senior Executive Vice President and Chief Operating Officer, Senior Executive Vice President of Retail and Commercial Financial Services, and Senior Vice President and Treasurer. Under his Presidency, the Bank has posted record results over a period of seven consecutive years.

In February 2013, Réjean Robitaille was ranked for the fifth consecutive year among the most influential individuals in Québec's financial industry. In addition, he was named Financial Personality of the Year in 2010 by *Finance et Investissement* magazine. Mr. Robitaille holds a Bachelor's degree in Business Administration from HEC Montréal, and, in 2010, he was named a Fellow of the Ordre des comptables professionnels agréés du Québec.

François Desjardins
Executive Vice President
Laurentian Bank and President and
Chief Executive Officer, B2B Bank

François Desjardins began his career at Laurentian Bank in 1991 within the branch network, occupying various positions in operations prior to joining the ranks of management. He made a particular mark as Director of the Bank's Telebanking Centre, assuming the role of Vice President in 1999. In 2004, he was appointed President and Chief Executive Officer of B2B Trust and, in 2006, became Executive Vice President of Laurentian Bank. He has also been a member of the Bank's Management Committee since that date. Having given it a clear vision from the outset, B2B Bank has posted highly positive performance under Mr. Desjardins' direction.

François Desjardins holds a Bachelor's degree in Business Administration from HEC Montréal. In June 2010, he was ranked among Canada's Top 40 Under 40™, and he was recognized as being among the most influential individuals in Québec's financial industry by *Finance et Investissement* magazine in February 2013.

Gilles Godbout
Executive Vice President
Retail Services and
Chief Information Officer

Prior to assuming his present position at the Bank, Gilles Godbout was Senior Manager of Hydro-Québec's Information Technologies sector, and he has also occupied various management positions at CGI Group. Previously, he held a number of key positions at Laurentian Bank between 1987 and 1999, including Senior Vice President of Operations and Systems, Executive Vice President of the Retail Services sector, and Chief Information Officer.

Gilles Godbout is a seasoned manager with extensive experience and expertise in operations management. He holds Bachelor's and Master's degrees in Computer Science and Operational Research from Université de Montréal, where he also completed doctoral studies in Artificial Intelligence.

Michel C. Lauzon
Executive Vice President
and Chief Financial Officer

Michel Lauzon was named Executive Vice President and Chief Financial Officer in 2009. Prior to that, he held various senior management positions within Laurentian Bank between 1988 and 1998, including Vice President and Treasurer, Vice President of Money Markets and Foreign Exchange, and Vice President of Product Management. Subsequently, he pursued his career at TAL Global Asset Management Inc., where he served as President and Chief Operating Officer as of January 2002. He was also Senior Vice President of Corporate Development and Head of Finance at Centria Commerce Inc.

Michel Lauzon possesses extensive knowledge of products and financial markets, which are growing increasingly complex. As such, he plays a key role in furthering the organization's growth and development. Mr. Lauzon holds an MBA from Concordia University and a Bachelor's degree in Economics from Université de Montréal.

Pierre Minville, CFA
Executive Vice President
and Chief Risk Officer

Pierre Minville joined Laurentian Bank in 2000 as Vice President of Finance, Administration and Regulated Products. Three years later, he assumed the position of Vice President of Mergers and Acquisitions. In 2005, he became Senior Vice President, Integrated Risk Management, and, in 2010, was appointed the organization's Chief Risk Officer. The following year, as Executive Vice President and Chief Risk Officer, he became a member of Laurentian Bank's Management Committee. His extensive experience enables him to assume the complex responsibility of integrated risk management. He also plays a key role in the development and implementation of the Bank's acquisition strategies.

Pierre Minville holds a Bachelor's degree in Business Administration from UQAM. In addition to also having earned a Master of Science (M.Sc.) in Administration from HEC Montréal, he is a Chartered Financial Analyst (CFA).

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

A lawyer by training, Lorraine Pilon joined the Bank's Legal Affairs sector in 1990. She climbed the career ladder quickly, thanks to her expertise in the banking industry and to her keen business sense. She has held the positions of Executive Vice President of Corporate Affairs and Secretary since 2003, and since 2011, has assumed the additional corporate responsibilities of human resources management. Ms. Pilon brings to the organization a vast experience of the Bank's operations and an extensive knowledge of the increasingly demanding regulatory context.

Lorraine Pilon holds an Executive MBA from Université du Québec à Montréal. Before that, she completed a Bachelor of Science degree in Administration at Mississippi University for Women and a Bachelor of Civil Law degree at McGill University.

Stéphane Therrien
Executive Vice President
Business Services

Stéphane Therrien joined Laurentian Bank in January 2012. He is also a member of the Bank's Management Committee. During the previous eighteen years, he occupied various positions at GE Capital, including Senior Vice President for Eastern Canada, prior to being named Senior Vice President and Chief of Commercial Affairs for Canada. Under his leadership, his sector posted positive growth over the past number of years. Previously, he held various management positions in the banking industry.

Stéphane Therrien has earned an enviable reputation for his extensive experience in business financing throughout Canada. His outstanding management skills and rigorous execution are major assets for the Bank. Mr. Therrien holds a Bachelor's degree in Business Administration from HEC Montréal.

Michel C. Trudeau
Executive Vice President
Capital Markets, Laurentian Bank
and President and CEO
of Laurentian Bank Securities Inc.

Michel Trudeau was named President and Chief Executive Officer of Laurentian Bank Securities Inc. (LBS) in June 2003. Since November 2009, he has also been responsible for Laurentian Bank's activities related to capital markets, and he became a member of the Bank's Management Committee in 2011. Mr. Trudeau joined LBS in 1999 as Executive Vice President of Fixed Income and was appointed Chief Operating Officer of the Institutional group in 2002. Well known within the brokerage sector, he rapidly rose through the ranks at firms in both Toronto and Montréal, having worked for more than 15 years within the Institutional and Fixed Income sectors, including 10 years at Merrill Lynch, where he successively occupied various senior management positions.

Michel Trudeau has an excellent reputation within the Fixed Income product field throughout Canada. Under his leadership, LBS has become a fully integrated brokerage firm whose recognition has continued to grow across the country. Mr. Trudeau holds a Master's degree in Finance from McGill University.

Isabelle Courville, Eng., BCL
Chair of the Board

An Engineer and a Lawyer, Isabelle Courville was President of Hydro-Québec Distribution from 2011 to 2013 and President of Hydro-Québec TransÉnergie from 2007 to 2011. From 2003 to 2006, she was President of Bell Enterprise Group and from 2001 to 2003, President and General Manager of Bell Nordiq Inc. (Télébec Northern Tel).

- *Main occupation:* Corporate Director
- *Has served on the board of directors* since March 2007
  - Chair of the Board
  - Member of the Audit Committee
  - Member of the Human Resources and Corporate Governance Committee
- *Boards of directors of publicly traded companies:* TVA Group Inc. and Canadian Pacific Railway Limited
- *Boards and committees of other corporations and organizations:* École Polytechnique de Montréal, Foundation of the Montréal Heart Institute, Institute of Corporate Director – Québec, Institute of Corporate Director and Board of Trade of Metropolitan Montréal

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 Retirement Residences
- *Boards and committees of other corporations and organizations:* Board of Governors of the U de M Développement inc.

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.

- *Main occupation:* Counsel at Dentons Canada LLP
- *Has served on the board of directors* since September 2002
  - Chair 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:* Canadian Association of Former Parliamentarians

A. Michel Lavigne, FCPA, FCA

Fellow of the Ordre des comptables professionnels agréés du Québec and member of the Canadian Institute of Chartered Accountants, Mr. Lavigne is a chartered accountant since 1973. He has worked as a chartered accountant, auditor with major private and public companies including financial institutions.

- *Main occupation:* Corporate Director
- *Has served on the board of directors* since March 2013
  - Member of the Audit Committee
- *Boards of directors of publicly traded companies:* TVA Group Inc., Quebecor Inc. and Primary Energy Recycling Corporation
- *Boards and committees of other corporations and organizations:* Quebecor Media, Videotron ltd, Corporation Sun Media, TeraXion inc., Canada Post Corporation, Propulsion Fund III L.P., ID Funds L.P.

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

Richard Bélanger, FCPA, FCA

In 2004, Richard Bélanger was made Fellow and received the Prix Émérite of the Ordre des comptables professionnels 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:* Optosecurity Inc., Toryvel Group Inc., Doryfor Inc. and Québec City Executive Terminal Inc.

Michael T. Boychuk, FCPA, FCA

Fellow of the Ordre des comptables professionnels agréés du Québec. Michael Boychuk was, from 1999 to 2009, senior Vice President and Treasurer of BCE Inc. and Bell Canada, both communications companies.

- *Main occupation:* President and CEA of Bimcor inc.
- *Has served on the board of directors* since August 2013
  - – Member of the Audit Committee
- *Boards of directors of publicly traded companies:* Mr. Boychuk 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:* The Centennial Ventures (Denver, Colorado), McGill University, Nunavut Trust (Advisory Committee), The J.W. McConnell Family Foundation (Advisory Committee)

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
  - – Member of the Human Resources and Corporate Governance 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.

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
  - – Chair 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., Manac inc. and Canadian International Organ Competition

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, Gestion du Fier Entrepreneur inc., Festival d'été de Québec and Québec YWCA

Réjean Robitaille, FCPA, FCA

Fellow of the Ordre des comptables professionnels 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, 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, Festival des arts de Saint-Sauveur and eConcordia.com

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.

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
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.
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.
5045 Jean-Talon St. E.
Suite 101, 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.

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
9 De La Seigneurie Blvd.
Suite 2

Drummondville
571 Saint-Joseph Blvd.

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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 Blvd.

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1073 Jutras Blvd. E.

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425 de Maisonneuve Blvd. W.
Suite 1115

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199 Bay St.
Suite 600 and 610

Commercial Sector

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10 Duke St. W.
Suite 100

Mississauga
979 Derry Road E.

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1981 McGill College Avenue
Suite 1500

Québec
2828 Laurier Blvd.
Suite 100

Thornhill
8500 Leslie St.
Suite 100

Toronto
130 Adelaide St. W.
Suite 300

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Montréal
1981 McGill College Avenue
Suite 1485

Montréal
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Suite 1900

Toronto
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3rd Floor

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1611 Talbot Blvd.
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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

Longueuil
1111 Saint-Charles St. W.
Suite 350

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1981 McGill College Avenue
Suite 1900

Montreal
1981 McGill College
Suite 100

3500 de Maisonneuve Blvd. W.
Suite 1975

Québec
2505 Laurier Blvd.
Suite 100

1350 LeBourgneuf Blvd.

Pierrefonds
3876 St-Charles Blvd.

Saint-Jean-sur-Richelieu
100 Richelieu St.
Suite 150

Thetford Mines
222 Frontenac Blvd. W.

Toronto
130 Adelaide St. W.
Suite 301

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1981 McGill College Avenue

Montréal
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 St. W.
Suite 520

Private Banking

Montréal
1981 McGill College Avenue
2nd Floor

Real Estate Sector

Calgary
1122 – 4th St. South W.
Suite 450

Kitchener
10 Duke St. W.
Suite 100

Montréal
1981 McGill College Avenue
Suite 1525

Ottawa
1021 Cyrville Road
Unit 9

Québec
2828 Laurier Blvd.
Suite 100

Thornhill
8500 Leslie St.
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 St. W.
Suite 430

Québec
2828 Laurier Blvd.
Suite 100

SME Québec

Brossard
7055 Taschereau Blvd.
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

Repentigny
85 Brien Blvd.
2nd Floor – Suite E1A

Saguenay
1611 Talbot Blvd.
Suite 100

Sherbrooke
2637 King St. W.

St-Jean-sur-Richelieu
605 Pierre-Caisse St.

Ste-Marie-de-Beauce
16 Notre-Dame St. N.

Trois-Rivières
4450 Des Forges Blvd.

Victoriaville
1073 Jutras Blvd. E.

Ville St-Laurent
9999 Cavendish Blvd.
Suite 101

CONSOLIDATED SUBSIDIARIES

AS AT OCTOBER 31, 2013

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	$502 060	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 (amalgamated, on September 1, 2013 with B2B Bank)	Toronto, Canada		
LBC Investment Management Inc.	Montreal, Canada	$295 668	100%
Wholly-owned subsidiary			
V.R. Holding Insurance Company Ltd	St. James, Barbados		
Laurentian Trust of Canada Inc.	Montreal, Canada	$ 95 118	100%
LBC Trust	Montreal, Canada	$ 62 363	100%
Laurentian Bank Securities Inc.	Montreal, Canada	$100 250	100%
LBC Financial Services Inc.	Montreal, Canada	$ $6 742	100%

(1) THE CARRYING VALUE OF VOTING SHARES CORRESPONDS TO THE BANK'S INTEREST IN THE SHAREHOLDERS' EQUITY OF THE SUBSIDIARY.

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 and introduces liquidity adequacy requirements.

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 Capital 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. Net impaired loans are calculated as gross impaired loans less individual allowances and collective allowances against impaired loans.

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.

Operating Leverage is the difference between total revenue and non-interest expenses growth rates.

Options are contractual agreements between two parties in which the writer of the option grants the buyer the right, but not the obligation, to either buy or sell, at or by a specified date, a specific amount of a financial instrument at a price agreed upon when the agreement is entered into. The writer receives a premium for selling this instrument.

Provision for 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 Capital 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.

Tier 1 Capital Ratio is defined as Tier 1 capital divided by risk-weighted assets.

Total Capital includes Tier 1 and Tier 2 capital, net of certain deductions. Tier 2 capital is primarily comprised of subordinated debt and the eligible portion of collective allowances for loan losses.

Total Capital Ratio is defined as total capital divided by risk-weighted assets.

Value at Risk (VaR) corresponds to the potential loss the Bank may incur for a specific portfolio or a group of portfolios over a one-day period, with a confidence level of 99%.

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 Wednesday, April 2, 2014, at 9:30 a.m., at the Monument-National, Salle Ludger-Duvernay, 1182 Saint-Laurent Blvd., Montréal, Québec H2X 2S5.

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. 4926.

MEDIA
Journalists may contact the Public Affairs and Communications Department at Head Office by calling 514 284-4500 ext. 3901.

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			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.

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Our focussed strategy, agile growth and execution are the three pillars that guide our selective investment, growth and continuous development. Our business plan allows us to diversify activities and accelerate efforts to extend our presence throughout Canada. This is our strategy for…

MAXIMIZING OUR POTENTIAL

LAURENTIAN BANK

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